



Afghanistan 1391 National Budget Analysis

Review of Formulation and Allocations



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1. INTRODUCTION

Good governance is critical for any properly functioning government as it ensures delivery of services to people through state institutions. To provide better services to the people, state institutions require resources. Governments should thus collect revenue from state resources and taxes and subsequently mobilize this revenue to provide services to its citizens. The national budget is, therefore, one of the most important instruments for the government to plan and provide better services to its citizens, and for the representative bodies and civil society to monitor government performance by comparing revenue collection and expenditures with service delivery to the people.

This paper is an analysis of the 1391 budget formulation process, produced by the Afghans Coalition for Transparency and Accountability (ACTA). ACTA is a coalition of civil society organizations and associations as well as individuals at the national and community level. ACTA's mission is to promote transparency and accountability for public policies and resources by reviewing governance-related policies and strategies and using the national budget as one of the main advocacy tools for improving service delivery.

This paper aims to provide a summary of the main features of the 1391 budget proposed by the government to the Parliament. It focuses on key initiatives mentioned by the government for further development of an open and inclusive budget formulation process; broad analysis of proposed 1391 sectoral allocations; and also includes a preliminary comparative analysis of the 1390 budget execution and 1391 budget allocation. The paper also highlights the major findings about the 1391 proposed budget along with recommendations for its implementation.

The limitations of this analysis need to be kept in mind while reviewing it. First, this paper presents an overview of the *Core National Budget*, whereas the majority of assistance continues to be executed by international donors through their contractors and implementing partners. Such "off budget" assistance is not covered in this paper. Second, this paper does not reflect in detail the comparisons of 1390 expenditures with 1391 allocations, since the final accounts report for the former have not been released yet. Third, it should be noted that ACTA primarily analyzed numerical data for this report, the analysis does not focus on assessing whether the 1391 budget had been developed based on public needs in consultation with the provinces or if it aims at improving the ability of sub-national governance actors to provide better service delivery. Finally, ACTA did (or could??) not assess government revenue mobilization relative to potential revenues, which is very important for Afghanistan since the country's Revenue-to-GDP ratio is quite low by international standards.

2. EXECUTIVE SUMMARY

Afghanistan has two parallel budgets: a “**Core Budget**” comprised of all domestic revenue and the portion of donor financing managed by GIRoA; and an “**External Budget**” which is disbursed directly by donors. Overall, nearly two-thirds of international aid that flows into Afghanistan does so through “off-budget” according to the Afghanistan Reconstruction Trust Fund (ARTF). GIRoA reports that donors cover about 80% of Afghanistan’s development budget and 35% of its operating expenses. The process of formulation and allocation of the budget in Afghanistan has come a long way and has made significant changes to date. However, the proper distribution of resources among different sectors still remains a big challenge.

There have been improvements in recent years by the Government of Afghanistan in carrying out the national budget formulation and allocation process. The 1391 budget has progressed in comparison to previous years as it is now linked to commitments made at the Kabul and Bonn Conferences, such as the National Priority Programs (NPPs). Budget documents also better explain the coordination and reporting mechanisms under the Deputy Minister of Finance for Policy Affairs to ensure that ministries are properly coordinating their policies and activities within each sector and are cooperating with one another in the implementation of the NPPs.

Gender budgeting is a concern that has been highlighted in this analysis. As per this paper/analysis, the sex-disaggregated budget of the or pilot ministries is remarkably low. Provincial budgeting is a positive step that GIRoA has initiated in 1390 for the formulation of 1391 budget, but there is still much work to be done regarding the procedure to consult sub-national levels of governance in planning and prioritizing community needs in more rural parts of Afghanistan.

Although, as mentioned above, the paper/analysis was not able to compare the final expenditures of 1390 with 1391 budget allocations, the latest 1390 budget expenditure figures show that around 94% of the operating budget and 50% of the development budget had been executed. Meanwhile, the 1391 budget figures show a decrease in the operating budget and increase in the development budget. It should be noted that the development budget increased for 1391 despite the demonstrated low spending capacity of various ministries in 1390).

Finally, this paper suggests further studies to be carried out in areas such as gender budgeting and allocation of resources across sectors and provinces. The documentation of major achievements and challenges in the budget formulation and execution process is also essential to better document the current situation and also to serve as a baseline for future analysis.

3. THE 1391 NATIONAL BUDGET FORMULATION

It should be recognized that the Government of Afghanistan has made significant progress in the budget formulation and execution process compared to previous years. It still has numerous challenges however to achieve a truly transparent budget formulation process based on the stated needs and priorities of local communities, while effectively executing it through provincial and district departments. During the formulation of the 1391 budget, several initiatives were taken by the Afghan Ministry of Finance (MoF) to move towards a more inclusive and transparent national budget formulation process, which include:

- A. Linking of the National Budget to national initiatives such as the Afghanistan National Development Strategy (ANDS), National Priority Programs (NPPs) and Afghan Government Commitments.** The 1391 budget has arguably progressed compared to previous years as it is now linked to commitments made at the Kabul and Bonn Conferences, such as the NPPs. Budget documents also explain the coordination and reporting mechanisms under the Deputy Minister of Finance for Policy Affairs to ensure that ministries are properly coordinating their policies and activities within each sector and cooperating with one another in the implementation of the NPPs.

Breaking down the total 1391 budget into the **operating** and **development** budget streams, the sectors of *security* and *education* received the highest allocations amongst all sectors within the operating budget, at 57.0% and 16.9% respectively. Other sectors received merely 1.0% to 5.6% of the operating budget, with the health sector receiving only a dismal 1.5% of the 1391 operating budget.

Focusing on the 1391 development budget, the same two sectors mentioned above, security and education, received much less of the whole - at 1.2% and 9.4% respectively. This shows that while the government has taken increased responsibility for operational costs of these two sectors, the development activities are still primarily externally-funded by donors. Interestingly, the two sectors i.e. *physical infrastructure* and agriculture *rural rehabilitation*, each received less than 2.5% of the 1391 operating budget, but are receiving 44.8% and 23.0% of the development budget. This shows that while there is healthy investment in these two sectors via core and external budgets, but there are not enough resources allocated for the maintenance of these investments.

Recommendation: ACTA believes that the discrepancies between the allocations of the operating and development budgets for the sectors should be further analyzed to assess how the government is allocating resources to sectors and whether the government is planning maintenance of investments wisely.

- B. Highlighting line ministries' achievements in the 1390 budget execution process and setting of ambitious execution targets for 1391.** This is an important initiative as it

creates a baseline for monitoring the performance of all ministries and whether or not they hit their targets while executing their budgets.

C. Public Financial Management Reform. In the 1391 national budget, the Government of Afghanistan also committed itself to further improve the Public Financial Management (PFM) for better overall budget formulation. These improvements include **capacity-building** of civil servants, **awareness workshops** for civil society (especially to promote **transparency** and **accountability**), **piloting a provincial budget process** with four key ministries and also **expanding the process of program budgeting** to all line ministries (requiring these ministries to formulate their budgets based on the programs and priorities stated in ANDS). Measuring progress will be somewhat challenging as no comprehensive detailed studies exist which has documented the Government of Afghanistan’s PFM capacity since 2001 to do a trend analysis over time.

***Recommendation:** While the 1391 budget document presents several initiatives to improve budget formulation, it does not highlight specific actions for improving budget execution which is very important since almost 50% of the 1390’s development budget was not executed. It is recommended that MoF presents concrete action for improving the budget execution process at the national and sub-national levels. A PFM study should also be undertaken to provide a baseline for measuring progress and identifying challenges in years to come.*

D. Gender Responsive Budgeting (GRB). In 1391 MoF began analyzing line ministries’ budgets from a gender-based perspective. MoF selected four ministries i.e. Education, Higher Education, Public Health, and Labor and Social Affairs as pilot ministries for this endeavor. For the 1391 budget, MoF required that these ministries complete specific forms and circulars specifically developed for the purpose of gathering GRB data. MoF has likewise evaluated the Tashkeels of these pilot ministries as well as their operating and development budgets from a gender perspective.

As the operating budget mainly incorporates civil servant salaries, MoF has evaluated gender budget responsiveness of the pilot ministries based both on the amount allocated in their 1391 budgets and on their Tashkeels. The following table shows direct beneficiaries of each pilot ministry disaggregated by gender within the 1391 **operating budget**:

Gender Responsiveness in the 1391 Operating Budget Allocations

Ministries	Beneficiaries of Ordinary Budget				
	Amount in AFS 000			Percentage	
	Total Budget	Male	Female	Male	Female
Education	19,628,698	13,936,376	5,692,322	71%	29%
Higher Education	2,185,862	2,098,428	87,434	96%	4%
Public Health	2,080,505	1,622,794	457,711	78%	22%
Labor and Social Affairs	924,893	388,455	536,438	42%	58%
Total	24,819,958	18,046,053	6,773,905	73%	27%

1391 Tashkeel of Line Ministries – Separated by Gender

Ministries	Tashkeel 1391	Male %	Female %
Education	247,996	71%	29%
Higher Education	9,527	96%	4%
Public Health	18,395	78%	22%
Labor and Social Affairs	7,233	42%	58%
Total	283,151	73%	27%

MoF has also evaluated the gender responsiveness of the pilot ministries' **development budgets** by reviewing their programs, projects and direct beneficiaries, disaggregated by gender. The following table shows gender responsiveness of the pilot ministries' development budget:

Gender Responsiveness in the 1391 Development Budget Allocations

Ministries	Beneficiaries of Development Budget				
	Amount in AFS 000			Percentage	
	Total Budget	Male	Female	Male	Female
Education	6,501,528	4,426,076	2,075,452	68%	32%
Higher Education	2,813,826	1,131,130	168,620	40%	6%
Public Health	9,106,260	4,105,809	4,093,451	45%	45%
Labor and Social Affairs	851,841	370,755	206,522	44%	24%
Total	19,273,455	10,033,770	6,544,045	52%	34%

Recommendation: ACTA recommends that the Gender Units of all line ministries should be trained in the proper completion of GRB forms and the evaluation of their operating and development budgets from a gender perspective. This will assist MoF to begin requiring line ministries to prepare gender-sensitive budgets. It will also help Parliament and civil society to better understand the level of gender responsiveness of each ministries' budgets, then advocate to specific ministries not performing well in this area to recruit more female staff who should ideally better represent the needs of women during the project and program development and implementation phases.

E. Poverty Alleviation Budgeting

The Government of Afghanistan has introduced another initiative in the 1391 budget which requires line ministries to formulate their budgets in a way that focuses more on combating poverty. The budget document also explains the evaluation of ten line ministries in the 1390 budget from a poverty-reduction perspective, which later explains how these ministries' budgets have helped in reducing poverty.

Recommendation: ACTA finds this to be a good initiative which should be continued in the future also. However, the data collection mechanism and analysis needs to be better clarified.

F. Provincial Budgeting Pilot Program

Similarly, the 1391 budget document explains well the provincial budgeting pilot, which had been initiated with five Afghan government entities: the Ministries of Agriculture (MoA), Irrigation and Livestock (MAIL), Education (MoEd), Public Health (MoPH) and

Rural Rehabilitation and Development (MRRD) as well as the Independent Directorate of Local Governance (IDLG). Through this program, these bodies were required to break down their programs and projects in all 34 provinces of Afghanistan, prepare budgets in consultation with the ministries and line departments at the provincial level, and submit budget execution reports (at the provincial level) for each program. MoF has also broken all pilot ministries' operating and development budgets into separate packages at the provincial level.

***Recommendation:** ACTA believes that the actions described above have created a solid baseline for Parliament and civil society to evaluate the performance of line ministries and their provincial departments by monitoring implementation of their central and provincial budgets in future years¹. ACTA finds this to be a very important initiative that should be expanded to all ministries in the future. Besides budget formulation in consultation with the provinces as well as the submission of budget execution reports by provincial line departments, MoF should also formulate procedures and guidelines requiring line ministries to decentralize the execution of their operating budgets down to the provincial level. Aside from improving service delivery, this will aid in strengthening the legitimacy of the government at the sub-national level and empower the private sector at the provincial level.*

G. Changes in the Fiscal Year Calendar

The previous Afghan fiscal year was from 21 March to 20 March. The Finance and Budget Commission of the Wolesi Jirga (Lower House of Parliament) has recently changed the fiscal year now starting and ending in December. The intention of this change was to speed up the execution of the development budget as line ministries believe their low development budget expenditure rates is due to delays in the annual budget approval by Afghan Parliament taking place in spring rather than winter (not allowing budget units to prepare for execution during winters. Thus, the 1391 fiscal year has been truncated to nine months compared to the usual 12 months period.

4. 1391 BUDGET RESOURCE ALLOCATION

The total 1391 budget allocation including both the operating and development budgets is AFS 244.5 billion (approximately USD 4.8 billion). Despite the shortened fiscal year, the total 1391 budget is 8.0% greater than the 1390 budget (of AFS 224.7 billion).²

A. Operating Budget

The 1391 (nine month) operating budget is AFS 134.2 billion (approximately USD 2.6 billion) which is **11.0% lower** than the 1390 (12 months) operating budget (when compared to its initial 1390 allocation of AFS 150.2 billion). This decreased operating budget could be attributed to a shortened fiscal year.

¹ A key problem in budget execution is with ministries breaking budgets down to provincial levels for Parliament's budget approval, yet actual budget execution at the provincial level then does not take place.

² This is when compared to the final 1390 budget, inclusive of all additions (a total of AFS 251.9 billion). However, the 1391 budget is 3.0% lower than 1390 budget.

B. Development Budget

The 1391(nine months) development budget is AFS 110.2 billion (USD 2.2 billion), a **40.0% increase** compared to the original (12 months) 1390 allocation of AFS 74.0 billion. (However, if we compare the 1391 development budget with the final 1390 allocation at AFS 101.2 billion, it is in fact only a **9.0% increase**).

ACTA noticed that the ceiling for the 1390 operating budget did not increase but that of the 1390 development budget did increase by 36.0%.

In terms of revenues, the government has mainly two sources: **domestic** and **donor assistance**. Revenues for 1391 are estimated to be at AFS 228.3 billion (USD 4.6 billion) from which AFS 87.9 billion (USD 1.8 billion or 38.5%) is from domestic revenue and AFS 140.4 billion AFS (USD 2.8 billion or 61.4%) is from donor assistance.

1. Domestic Revenue

The (nine months) 1391 domestic revenue is estimated to be at AFS 87.9 billion (USD 1.8 billion), a **6.0% decrease** compared to the 12 months estimated revenue of 1390 (although the actual revenue of 1390 was 3% higher than the estimation).

2. Donor Assistance

The (nine months) amount of donor assistance for 1391 is estimated to be AFS 140.4 billion (USD 2.8 billion), a **30% increase** compared to the 12 months estimated donor assistance of 1390 (although the actual donors assistance for 1390 was **31.5% lower** than the estimations.)

5. COMPARISONS WITH THE 1390 BUDGET

During the course of 1390, the development budget **increased by 36%** although expenditures were quite low. If the development budget ceiling was not increased during the year, execution of development budget would have been 70.0% rather than only 50.0%. The operating budget did not change during 1390 according to the documents.

In terms of revenue, while domestic revenue seems optimistic, donor assistance is not consistently being channeled “on-budget” through government channels.

***Recommendation:** MoF should not increase the 1391 development budget, especially since no ministry has demonstrated its ability to spend more than 75.0% of its development budget (and most ministries less than 50%). While the Government of Afghanistan should deliver on its Kabul Conference commitment to reform its financial management system and budget formulation process, international donors must also deliver on their commitments by channeling more funding through the national budget.*

6. 1390 BUDGET EXPENDITURES AT A GLANCE

The total 1390 **core budget** was AFS 251.9 billion (or about 34.0% of projected GDP), which includes an **operating budget** of AFS 150.7 billion (59.8%) and a **development budget** of AFS

101.2 billion (40.2%). The tables below shows 1390 expenditures by sector for both the development and operating budgets as well as differences in expenditures for both. It is notable that only 50.0% of the overall development budget was spent as of 22nd Hoot 1390 (or 22nd March 2012).

Expenditure by Sector: 1390 Development Budget

Sectors	Budget, Allotments and Expenditure of Development Budget from 1st Hamal to 22 Hoot 1390 (Million Dollar)				
	Approved Budget 1390	Allotments 1390	Expenditure 1390	% Allotments 1390	% Expenditure 1390
Sector: Security	22.10	12.4	10.3	56.1%	46.7%
Sector: Governance, Rule of Law and Human Rights	72.95	39.0	32.9	53.5%	45.1%
Sector: Natural Resource and Infrastructure	941.43	556.0	448.3	59.1%	47.6%
Sector: Education	256.75	146.9	116.7	57.2%	45.4%
Sector: Health	165.69	116.3	102.6	70.2%	61.9%
Sector: Agriculture and Rural Development	504.96	359.1	291.9	71.1%	57.8%
Sector: Social Security	23.53	15.3	12.5	65.2%	53.1%
Sector: Economic and Private Sector Development	134.15	82.9	71.8	61.8%	53.5%
Sub Total: All Sectors	2,121.56	1,327.87	1,086.99	63%	51%
Not Allocated	57.40				
Grand Total	2,179.0	1,328	1,087	61%	50%

The further ACTA looked into development budget expenditures the more we discovered that many ministries simply could not spend the majority of their allocated development budgets.

The table below shows the top seven ministries with **less than a 10.0%** expenditure rate of their 1390 development budgets:

Ministries	Top Seven Ministries With Less than 10.0% Expenditures of the 1390 Development Budget (in Millions of Dollars)
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	Budget	Allotments	Expenditures	Allotment %	Expenditure %
Ministry of Defense	1.7	0.2	0.2	9.0%	9.0%
Oversight Commission	1.1	0.1	0.1	7.6%	7.3%
Afghan Independent Human Rights Commission	0.5	0.0	0.0	0.0%	0.0%
Office of Geology and Cartography	3.5	0.0	0.0	0.0%	0.0%
High Commission for Nuclear Power	0.0	0.0	0.0	3.1%	0.0%
Water Supply Commission	19.1	4.7	1.0	24.4%	5.2%
AISA	8.1	0.2	0.2	2.7%	2.5%

As mentioned above, none of the ministries' budgetary units were able to spend more than 75.0% of their allocated development budgets, which shows a great dearth in capacity at the sub-national level, problems with the flow of development funds from the center to provinces, or other issues that need to be further analyzed.

However, the execution of the **operating budget** is another story and has progressed nicely leading up to 22nd of Hoot 1390 (or 12th March 2012). 94.0% of the 1390 operating budget allocations were spent. ACTA notes that this high rate of operating budget expenditure is due to the fact that more than 75.0% of the 1390 operating budget was composed of salaries and wages, which were paid to the civil servants nationwide on a monthly basis. The remaining 25.0% were for operations and maintenance, allocated to the ministries to be able to cover the regular operational costs. The table below shows the operational budget expenditure by sector:

Expenditure by Sector: 1390 Operating Budget

Sectors	Budget, Allotments and Expenditure of Ordinary Budget From 1st Hamal to 22 Hoot 1390 From 21 st March 2012 to 12th March 2012 (in Millions of USD) Exchange Rate 48				
	Approved 1390 Budget	1391 Allotments	1390 Expenditure	1390 Allotment Percentages	1390 Expenditure Percentages
Security	1,887.92	1,805.16	1,764.68	96%	93%
Governance, Rule of Law and Human Rights	239.52	239.52	231.44	100%	97%
Natural Resource and Infrastructure	111.14	109.54	97.22	99%	87%
Education	549.08	549.07	540.64	100%	98%
Health	52.35	52.35	45.18	100%	86%
Agriculture and Rural Development	55.06	55.02	51.12	100%	93%
Social Security	193.78	193.77	191.89	100%	99%
Economic and Private Sector Development	168.56	163.77	151.81	97%	90%
Sub Total: All Sectors	3,257	3,168.00	3,074.00	97%	94%
Contingencies	9.0				
Grand Total	3,266	3,168.00	3,074.00	97%	94%

7. FINDINGS AND RECOMMENDATIONS

Based on the review of documents only, ACTA has come to the following conclusions:

- The Government of Afghanistan has made significant improvements in the areas of budget formulation and execution. An extensive study should be conducted to document these improvements and to highlight stakeholders' major achievements. Such documentation will serve as a baseline for future comparisons in coming years.
- MoF has taken several initiatives to develop an open and inclusive budget formulation and execution process. The role of civil society groups is so far limited to awareness-raising events. It is highly recommended that civil society should be significantly more engaged in the national budgeting process through active inclusion and participation in budget formulation and execution, in voicing the needs of communities and also by monitoring service delivery sub-nationally of the national budget.

- Low expenditure rates of the 1390 national budget – particularly of the development budget – are a recurring problem for which both MoF and the line ministries are be blamed. No study has been conducted yet however, to compare budget formulation and execution of the development budget to fully comprehend why expenditure rates of the development budget were so low. After identifying the main causes of low development expenditures, its root causes should be addressed.
- In the 1391 budget, several initiatives have been taken to decentralize the budget to pilot line ministries, down to the provincial level. However, a central mechanism to monitor the performance of budget execution at the provincial level is missing. This is essential to establish a transparent system of checks and balances between the center and provinces.
- Gender Responsive Budgeting (GRB) should rapidly expand to all ministries as initial reports of the four pilot ministries demonstrate that this awareness is seriously lacking. An assessment of the 1391 budget across all ministries should be conducted and a report on gender responsiveness of their budgets issued. This will provide clarity of the actual GRB situation as well as provide a baseline for MoF and Parliament to demand GRB from all ministries.
- Ministries are still unable to execute more than half of their development budgets in a fiscal year (but they are able to execute their operational budgets almost completely). It is then problematic that there is a 9.0% increase in the 1391 development budget and an 8.0% decrease of the operating budget, especially for a shortened fiscal year. On top of this, almost 50.0% of the 1390 development budget will be carried over to 1391 which the ministries will be responsible to execute in addition to their new 1391 development budget allocations. This seems entirely implausible and unrealistic. It is very much recommended that MoF gives ministries a realistic development budget ceiling that they can then properly execute, especially taking into account the shortened year.
- Education and health are basic needs for any community but only 16.9% of the 1391 operating budget is allocated to the education sector and a dismally low 1.5% to the health sector. It could be justified that the MoPH has numerous externally-supported partners by donors to deliver health services to communities. Transitioning the delivery of health services from external channels to the government’s national budget (i.e. “on-budget”) should begin swiftly as this is a primary responsibility of any government. This transition would also help the government to understand the costs of basic health services to the Afghan population and prepare itself for the years beyond transition in 2015 to budget for and handle this responsibility. The very low 1391 operating budget for the health sector also shows MoPH’s dependency on NGOs as implementing partners, which raises serious concerns to ACTA in terms of sustainability.
- Only 2.0% of the 1391 operating budget has been allocated to the Ministry of Public Works, the entity responsible for construction and maintenance of all ring roads – the key arteries that connect commerce and increase economic development in the country.

Since billions of dollars have been spent by the international community on the construction of these and other physical infrastructures, it is important that such ministries are provided with a budget sufficient to address their repair and maintenance.

- While the 1391 budget document presents several initiatives for improving the budget *formulation* process, it does not suggest actions for improving budget *execution*, especially when once again 50% of the development budget is not executed. ACTA recommend that MoF presents specific initiatives for improving budget execution in 1391 and beyond.
- The latest 1390 reports show that actual domestic revenue has increased by 3% compare to the estimated however actual donors assistance has decreased by 25% compare to initial estimation. While the Government of Afghanistan should deliver on its Kabul Conference commitment to reform budget planning and execution process, international donors must also deliver on their commitments by channeling more funding through the national budget.