



Independent Review of Afghanistan 1396 Draft National Budget

**Independent Review of Afghanistan 1396 National Budget Draft:
A Snapshot of Resources, Allocations, and Public Finance
Management Performance**

December 2016



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❖ Acronyms

ACTA	Afghan Coalition for Transparency and Accountability	MoLSAMD	Ministry of Labor, Social Affairs, Martyrs and the Disabled
AEITI	Afghanistan Extractive Industries Transparency Initiative	MoPH	Ministry of Public Health
AFN	Afghani (currency)	MoPH	Ministry of Public Health
AREU	Afghanistan Research and Evaluation Unit	MoPW	Ministry of Public Works
ARTF	Afghanistan Reconstruction Trust Fund	MoT	Ministry of Telecommunication
ASYCUDA	Automated Systems for Customs Data	MoTCA	Ministry of Transport and Civil Aviation
BC	Budget Circular	MRRD	Ministry of Rural Rehabilitation and Development
BRT	Business Receipts Tax	MTBF	Medium-Term Budget Framework
BU	Budget Unit	NAP 1325	National Action Plan for 1325
CASA	Central Asia-South Asia Electricity Transmission and Trade Project	NGO	Non-Government Organization
DCD	Development Cooperation Dialogue	NPA	National Procurement Authority
ECF	Extended Credit Facility	NPC	National Procurement Commission
EPD	Equality for Peace and Democracy	NPP	National Priority Program
FY	Fiscal Year	NSP	National Solidarity Program
GDP	Gross Domestic Product	O&M	Operations and Maintenance
GIRoA	Government of the Islamic Republic of Afghanistan	OBS	Open Budget Survey
GPMES	Government-wide Performance Monitoring and Evaluation System	ODA	Official Development Assistance
GRB	Gender Responsive Budgeting	PFEM	Public Finance and Expenditure Management
IARCS	Independent Administrative Reform and Civil Service Commission	PFM	Public Financial Management
IDLG	Independent Directorate for Local Governance	PFMR	Public Financial Management Roadmap
IMF	International Monetary Fund	PMT	Performance Management Team
M&E	Monitoring and Evaluation	PPU	Procurement Policy Unit
MAIL	Ministry of Agriculture, Irrigation and Livestock	SAO	Supreme Audit Office
MBAW	Making Budgets and Aid Work	SIGTAS	Standardized Integrated Tax Administration System
MoEc	Ministry of Economy	SMAF	Self-Reliance through Mutual Accountability Framework
MoEd	Ministry of Education	SMP	Staff Monitored Program
MoF	Ministry of Finance	SNGP	Sub national Governance Policy
MoFA	Ministry of Foreign Affairs	SWAP	Roadmap for Sector Wide Approaches
MoHE	Ministry of Higher Education	TASC	Technical Assistance Steering Committee
		TMAF	Tokyo Mutual Accountability Framework
		ToR	Terms of Reference
		USD	United States Dollars (currency)

❖ Acknowledgements

EPD would first and foremost like to thank the Afghan government officials and the public financial management experts without whose invaluable inputs this report would not have been possible. We would also like to thank the entire EPD team for their support throughout the project.



Through its Afghan Coalition for Transparency and Accountability (ACTA) platform, EQUALITY for Peace and Democracy (EPD) has pioneered the utilization of the national budget as a monitoring tool for monitoring government resource distribution and service delivery. EPD conducts an annual review of the National Budget, which started in 1391, to

With this annual project, EPD aims to present a simple and coherent review of the budget so that people can understand the budget and what it means for their daily lives and review the quality of services via allocated resources. This independent budget review also provides details to Afghan parliament to review and approve the national budget. The process furthermore

1.Introduction

provide further details to Parliament to review the national budget. The process gives insight to the national budget from a civil society perspective on national budget planning, execution, monitoring and reporting with special emphasis on the role of civil society and citizens in the entire process.

provides a platform for input on national budget planning from a civil society perspective. This snapshot budget review is a summary review released along with the sending of the budget to Parliament to provide a timely review of the budget and this year's developments in public financial management, reforms, and benchmarks.

1.1 Methods

The 1396 National Budget Review began with a desk review of the implementation process of key budget and Public Financial Management (PFM) reforms as outlined in policy documents and discussed in the literature. Accordingly, questionnaires were developed and divided thematically for each separate cluster of interviews for Ministry of Finance's (MoF) Budget Policy and Reform Directorate, Treasury, Aid Management Directorate, Revenue, and the

Budget Execution Directorate. All interviews were recorded with permission, transcribed, and translated into English and analyzed. All figures for Fiscal Year (FY) 1396 are taken from the National Budget Draft sent to Parliament in late November 2015. The exchange rate of USD 1 equal to 69.99 AFN was utilized based on the rate used in the draft national budget, and the percentages mentioned in the report are rounded to the nearest whole number.

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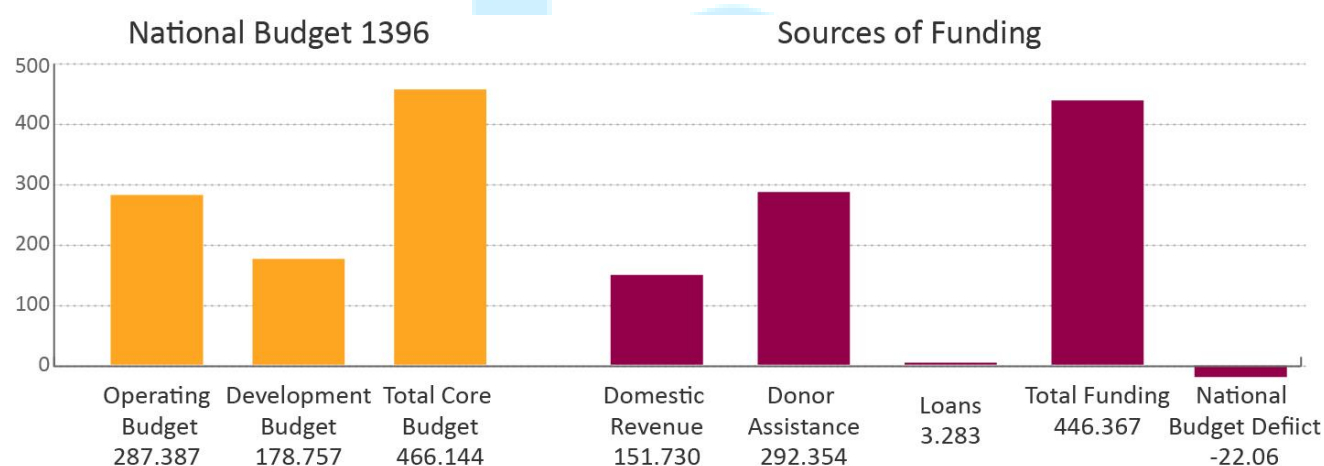
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2. 1396 National Budget at a Glance

The proposed budget for FY 1396 is AFN 466.144 billion (USD 6.659 billion), which is 4.3% higher in comparison to the 1395 budget of AFN 446.606 billion (USD 6.635 billion).¹ The national budget is funded through domestic revenue, donor's assistance, and loans. Domestic revenue for 1396 is projected at AFN 151.730 billion (USD 2.168 billion), constituting 33% of the national budget. For 1396, international donors have committed AFN 292.354 billion (USD 4.176 billion), which constitutes 63% of the overall budget for 1396. Another AFN 3.283 billion (USD 46.909 million) is in loans. However, there is a budget deficit of AFN 22.060 billion (USD 315.139 million), which amounts to 4.7% of the national budget, up slightly from a 2.3% deficit in 1395. In the 1396 budget, AFN 287.387 billion (USD 4.106 billion) 62% of the proposed national budget is allocated for the ordinary budget, and AFN 178.757 billion (USD 2.553 billion) 38% is allocated for the development budget.

Figure 2.1.1: 1396 National Budget

In AFN (billions)



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¹"National Budget Document: Fiscal year 1395," Islamic Republic of Afghanistan, Ministry of Finance, http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1395%20Budget/National%20Budget%201395_%20English%20Version%20.pdf.

2.1 Estimated Resources

Domestic Revenue

The government's revenue target for 1396 is AFN 150,000,000 billion (2. 142 USD billion). The Ministry of Finance (MoF) has estimated that

77%(116, 489, 982 AFN Billion) of domestic revenue will be generated through taxes. Of this, 13% is estimated from revenue tax.

Donor Assistance

For 1396, international donors have committed AFN 292.354billion (USD 4.176 billion), which constitutes 63% of the overall budget for 1396. Of this, AFN 137.387 billion (USD 1.962 Billion) is allocated to the ordinary budget, and AFN 154.967 billion (USD 2.214 billion) to the development budget. In the donor's share of the development budget, AFN 34.523 billion (USD 493 million) is allocated as discretionary assistance, AFN 117.161 billion (USD 1.674 billion) in nondiscretionary assistance, and AFN 3.284 billion (USD 47 million) in loans. Compared to 1395.this represents an1.7% decrease in on-budget donor commitments from the AFN 297.233billion (USD 4.436 billion) committed in 1395.²

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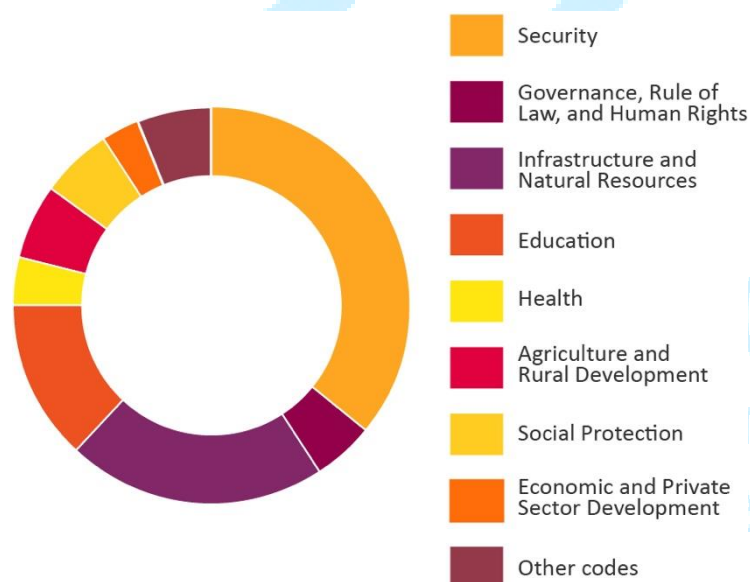
²It should be noted that the 1396 figure in USD is actually lower due to the depreciation of the AFN currency.

2.2 Estimated Allocations 1396

Figure 2.2.1: Estimated Allocations 1396 by Sector

No	Sector	In AFN (Millions)			Total %	% OB	% DB
		Ordinary budget (OB)	Development Budget (DB)	Total			
1	Security	164,664,070.0	2,637,295.6	167,301,365.6	36%	57%	1%
2	Governance, Rule of Law and Human Rights	17,530,435.0	5,043,913.4	22,574,348.4	5%	6%	3%
3	Infrastructure and Natural Resources	5,282,440.0	94,166,455.1	99,448,895.1	21%	2%	53%
4	Education	40,816,711.0	20,109,105.3	60,925,816.3	13%	14%	11%
5	Health	3,668,056.0	15,564,656.8	19,232,712.8	4%	1%	9%
6	Agriculture and Rural Development	2,468,804.8	25,922,434.7	28,391,239.5	6%	1%	15%
7	Social Protection	24,546,174.0	2,330,154.3	26,876,328.3	6%	9%	1%
8	Economic and Private Sector Development	3,323,827.0	8,993,269.6	12,317,096.6	3%	1%	5%
9	Contingency codes and other	25,086,183.3	3,990,000.0	29,076,183.3	6%	9%	2%
Total		287,386,701.1	178,757,284.9	466,143,986.0			

Figure 2.2.2: Core Budget Breakdown by Sector



Ordinary Budget

The proposed ordinary budget for 1396 is AFN 287.387 billion (USD 4.106 billion), constituting 63% of the proposed national budget. In monetary terms, the ordinary budget has decreased by AFN 11.33 billion (USD 161.880 million) from AFN 276.053 billion in 1395.³ It has a 1% lower share of the overall budget than in 1395. Based on budget codes, 61% of the ordinary budget for 1396 is allocated for wages and salaries (Code 21), 21% for goods and services (Code 22), 2% for acquisition of assets (Code 25), and 17% in contingency codes.

Development Budget

The proposed development budget for 1396 is AFN 178.757 billion (USD 2.553 billion), constituting 38% of the proposed national budget. In monetary terms, the development budget has increased by AFN 4.312 billion (USD 61.612 million) from AFN 174.374 billion in 1395,⁴ constituting a 3% increase.

AFN 120.445 billion (USD 1.721 billion) is for nondiscretionary projects, constituting 67% of the development budget. AFN 58.312 billion (USD 83.034 million) is for discretionary projects, constituting 33% of the development budget. This demonstrates that donors are providing more on-budget support to the Afghan government and more discretionary funding for the development budget.

2.3 Comparing the 1395 and 1396 Budget

Figure 2.3.1: Comparing Allocations and Budget Execution

Sector	1396 and 1395 Allocations ⁵			1394 and 1395 Budget Execution					
	In AFN (millions)			% Budget Execution OB		% Budget Execution DB		% Difference between Budget Execution and 1394 and 1395 ⁶	
	Difference between Ordinary budget (OB) and Development Budget (DB) 1396 and 1395		Difference between Total 1396 and 1395						
	OB	DB		1394 ⁷	1395 ⁸	1394	1395	OB	DB
Security	-10,919,165	1,063,626	-9,855,539	63%	71%	56%	47%	8%	-9%
Infrastructure and Natural Resources	-681,942	9,698,775	9,016,833	92%	88%	38%	34%	-4%	-4%
Education	3,374,273	-1,035,525	2,338,748	93%	91%	36%	39%	-2%	3%
Agriculture and Rural Development	385,703	-1,223,025	-837,321	90%	87%	68%	78%	-3%	10%
Health	708,523	-2,711,830	-2,003,306	91%	90%	57%	68%	-1%	11%
Social	3,244,440	547,448	3,791,889	95%	94%	35%	46%	-1%	11%

³"National Budget Document: Fiscal year 1395," Islamic Republic of Afghanistan, Ministry of Finance.

⁴ Ibid.

⁵GIRoA, 1393 National Budget Law, 2013.

⁷For the purposes of comparability, the 05-12-2015 Execution Report was utilized for 1394 execution rates.

⁸"Execution report 03-12-2016," Islamic Republic of Afghanistan, Directorate General Budget, Ministry of Finance, <http://www.budgetmof.gov.af/index.php/en/85-news/291-budget-execution-rate1>.

Protection									
Governance, Rule of Law and Human Rights	3,280,739	2,002,157	5,282,896	89%	89%	40%	38%	0%	-2%
Economic and Private Sector Development	333,475	-4,602	328,874	89%	95%	37%	50%	6%	13%
Other codes	11,606,757	1,867,400	13,474,157	-	-	-	-	-	-
Total:	11,333	10,204	21,537	72%	78%	46%	45%	6%	-1%

Figure 2.3.1 illustrates the difference in allocations from 1395 to 1396, and the budget execution rate by sector from 1394 to 1395 (through the first week of December for each year for comparative purposes). Allocations decreased in the security sector, and the sector appears to have performed better in executing their ordinary budget this year, up by 8% from the rate at the same time last year, but poorer in terms of the development budget execution, down 9% from last year and relatively weak at only 47%. There was also a decrease in allocations for health and agriculture, and increased allocations in every other sector. Though the overall execution of the ordinary budget was generally consistent with performance last year, there were only small improvements in the security and economic sectors. There was a slight decline in performance in terms of the execution of the

development budget, though there were considerable improvements in the agriculture, health, social protection, and economic sectors. Though figures will improve when accounting for the remainder of the fiscal year, performance has improved with the execution of the ordinary budget currently only at 66% overall and the development budget at only 45%. At the same time last year for the 1394 national budget, 63% of the development budget and 99% of the ordinary budget had been allocated by the first week of December, by the same time this year for the 1395 national budget, 67% of the development budget and 100% of the ordinary budget had been allocated, indicating consistent performance in terms of allocations on the ordinary budget, but little to no improvement in terms of sectoral ministry capacities and MoF allotments for the development budget.

3. Fiscal Sustainability

A key indicator of fiscal sustainability is the coverage of ordinary budget expenditures through domestic revenues. This figure has been generally stagnant since reaching its lowest level in 1393 at 44%—remaining at 44% in 1394, at 45% in the 1395 budget, and projected at 48% for 1396.⁹ The ratio of domestic revenue to GDP has also been generally stagnant, at 10% in 1394 and 1395 and projected at 9.8% in 1396. There is also little change in the ratio of grants to total revenue, at 63% in 1394, 69% in 1395, and projected at 66% for 1396.¹⁰ In 2014,

Afghanistan's the government presented an ambitious reform program at the London Conference, "Realizing Self-Reliance," which promised among other things to establish building blocks needed to begin the process to make Afghanistan's public finances sustainable—particularly by raising more domestic revenue to close the fiscal gap which was over 500 million USD in 2014.¹¹ This framework was revised into the Self-Reliance through Mutual Accountability Framework (SMAF). The second progress report on the was released in September 2016 in

⁹GIROA, Pre-Budget Document (MTBF): 1396-1399, 2016.

¹⁰ Ibid.

¹¹"Afghanistan's Roadmap to Self-Reliance," Islamic Republic of Afghanistan, September 2015.

advance of the Brussels Conference. The progress report asserts that the government has made progress in terms of economic and financial reforms.

In June 2015 an agreement was reached with the International Monetary Fund (IMF) on a Staff Monitored Program (SMP), with a plan to roll it into a three-year program for structural reform covering macroeconomic governance; the banking sector; improvements to tax, tariff, cash, and budget management; and promoting private sector development through regulatory reform. The SMP came to a close in 2016, with all structural benchmarks and quantitative targets met. Targets for revenue collection and end-year cash reserves in the Treasury account were surpassed, and the target for inflation and currency in circulation were met. In terms of structural benchmarks, the new banking law was passed, the privatization process for New Kabul Bank was initiated, additional tariff measures were enacted, and new revenue measures and a fuel fee were enacted. An agreement was reached between the GfRoa and the International Monetary Fund (IMF) on the approval of a three-year Extended Credit Facility (ECF) to cover reforms to fiscal management, banking, state-owned enterprises, and economic statistics.¹²

Another means to ensure fiscal sustainability is medium-term budget planning. Government documents indicate that the MoF has developed a Medium-Term Budget Framework (MTBF) since 1391 in line with the requirements of the Public Finance and Expenditure Management (PFEM) Law of 2005, of which the latest MTBF covers a three-year period from 1396 to 1399. The purpose of the MTBF is to provide a preliminary draft budget that assesses existing budget policies and new funding priorities of the government for the next fiscal year and medium term. The current MTBF includes macro-economic forecasts and analysis, fiscal forecast and analysis, revenue and expenditure outlook, and sector expenditure analysis. This is the seventh MTBF produced by

the MoF, and it is available in English only on the Directorate General Budget Website.

The current MTBF notes that after the Afghan economy's slow recovery from low performance in 1393 that carried through 1394 and 1395, recent fiscal performance is more optimistic. It notes low inflation but depreciation in the exchange rate. The MTBF predicts the outlook for the economy to be positive, but with a slower pace than historically over the medium-term, projecting that real Gross Domestic Product (GDP) growth will increase slightly from 3.7% estimated in 1395 to 4.1% in 1397, driven by growth in the agriculture, service, and industries sectors. It attributes slower growth over the medium term of 4-5% to Afghanistan's move from a donor-led economy to a more self-reliant economy.¹³ Real economic growth in 1394 was 0.9%, with the non-opium sector falling to negative growth, with the agriculture sector experiencing negative growth of around 14% with drops in cereal production. The framework also predicts that less snow and rain in the current year will adversely affect harvest for agricultural products. Other means to ensure fiscal sustainability such as sufficient operations and maintenance (O&M) funding, on-budget donor support and discretionary authority will be discussed as well.

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¹² "Self-Reliance Through Mutual Accountability Framework (SMAF): Progress Report," September 2016.

¹³ "Pre-Budget Document (MTBF): 1396-1399," Islamic Republic of Afghanistan, Ministry of Finance, 2016.

3.1 Domestic Revenue

After stagnation and decline in 1391, and 1392, Afghanistan's total budgetary revenue increased by nearly 22% in 2013.¹⁴ Measures introduced in 2015, including doubling the Business Receipts Tax (BRT) from 2% to 4%, increasing levies on imported fuel and gas, a 10% tax on mobile phone top-ups, and an increase in the overflight fee for commercial airliners, had an estimated positive impact on revenue of AFN 5.1 billion. More than half of the total revenue increase in 2015 was attributed to a stronger revenue mobilization effort and more efficient tax collection, as well as collection of arrears and one-off payments.¹⁵

In 1394, actual revenue collection totaled to AFN 122.027 billion, only falling slightly short of the target for the fiscal year. In 1395, total revenue is expected to increase slightly to AFN 127 billion, depending on the degree to which new measures are implemented. From the 1395 budget, revenue collection totaled AFN 131.757 billion, with the bulk of revenue from taxes on income, profits, and capital gains (AFN 37.510 billion), international trade and transactions (AFN 29.989 billion), and domestic taxes on goods and services (AFN 24.634 billion), followed by other taxes (AFN 5.908 billion) and taxes on property (AFN 589.43 million). Non-tax revenues amounted to AFN 33.127 billion.¹⁶ The strong 2015 performance continued into 2016, with domestic revenues collected in the first 8 months of 2016 30% higher than the value for the same period in the previous year.¹⁷

The revenue for 1395 constitutes 9% of revenue to GDP ratio, with projections that it will decline gradually to 8.5% then 8.2%, attributed to difficulties raising revenues over the past three years and higher growth in nominal GDP

compared to growth of revenues.¹⁸ It is projected that domestic revenue will increase to 12.3% of GDP by 2021 on account of ongoing and new administrative and nontax measures as well as Central Asia-South Asia Electricity Transmission and Trade Project (CASA) transit fees.¹⁹ Revenues for 1396 are projected to be largely from projected slight increases in all categories, including taxes on income, profits, and capital gains (AFN 41.298 billion), followed by taxes on international trade and transactions (AFN 29.589 billion) and domestic taxes on goods and services (AFN 27.241 billion), as well as other taxes (AFN 6.493 billion) and taxes on property (AFN 647.81 million), and non-tax revenues (AFN 34.139 billion).

The Ministry of Finance has been tasked with facilitating a five-year rolling program of reforms to public financial management with the objective of improving performance towards the goal of self-reliance. The five-year plan that sets out the implementation of PFM Roadmap II details major actions for each team within the MoF and other technical agencies including the National Procurement Agency and the Afghanistan Extractive Industries Transparency Initiative (AEITI) Secretariat to be implemented under a performance management system. Several reforms are already underway, including in tax and customs administrations to improve enforcement and compliance, and to reduce leakages. As a part of this reform, forty corrupt or inefficient senior staff in the revenue and customs departments were dismissed, and a human resource reform policy was approved.

¹⁴ William A. Byrd and M. Khalid Payenda, "Afghanistan's Revenue Turnaround in 2015," United States Institute for Peace, Peace Brief 201, February 2016, http://www.usip.org/sites/default/files/PB201-Afghanistans_Revenue_Turnaround_In_2015.pdf.

¹⁵ Ibid.

¹⁶ "Pre-Budget Document (MTBF): 1396-1399," Islamic Republic of Afghanistan, Ministry of Finance, 2016.

¹⁷ "Afghanistan: Overview," World Bank, <http://www.worldbank.org/en/country/afghanistan/overview>.

¹⁸ Ibid.

¹⁹ "Request for a Three-Year Arrangement Under The Extended Credit Facility—Press Release," International Monetary Fund, IMF Country Report no. 16/252, July 2016, <https://www.imf.org/external/pubs/ft/scr/2016/cr16252.pdf>.

The Automated Systems for Customs Data (ASYCUDA) system was upgraded and improved, and the Standardized Integrated Tax Administration System (SIGTAS) was rolled out in five provinces (Kabul, Kandahar, Herat, Balkh, and Nangarhar). The system is used to monitor and maintain internal revenue. The large and medium taxpayer offices were operationalized and risk-based compliance audits were introduced in all taxpayer offices in Kabul. An official from the Revenue Department explained that this system has been an improvement. Additional measures taken by the Revenue Department have included risk-based audit selection and the establishment of a client service center in Kabul with plans to establish similar systems in the provinces. Additionally, the official explained that they are currently working on an electronic payment mechanism, acknowledging that currently taxpayers are asked for illegal payments or are blackmailed by revenue officials. The official explained that an E-Payment system would reduce the risk of Revenue officials asking taxpayers for payments directly, and would enable taxpayers to pay through their computer or mobile phones.²⁰ The official highlighted an additional issue with revenue collection in the structure of the Revenue Department and provincial *Mustofiats*, whereby the *Mustofiats* are responsible for collecting revenue in the provinces, but report directly to the Administrative Department instead of the Revenue Department.²¹

According to the GIRoA, another promising revenue stream comes from mining revenues, which they expect to generate revenues of over USD 650 million by 2020²² or 2% to 3% of GDP in 2021/2022.²³ MoF anticipates that over the long-term the Afghanistan mining and extractive industries revenues will compensate the aid money to the national budget.²⁴ However, as of

late 2015, up to 10,000 deposits remain out of government control due to continue conflict and violence and a considerable level of illegal extraction. There is an unstable legal framework due to rushed development and strong internal pressure to generate revenues.²⁵ Research from 2015 found that in addition, companies have tended to use modes of extraction that can be expected to reduce the long-term revenue potential and overall development benefits for Afghanistan of the reserves contracted to them.²⁶ Besides a loss in revenue, further research also indicates that the illegal extracting of minerals represents a significant resource for armed opposition groups such as the Taliban, which threatens the stability of governance in Afghanistan.²⁷ While mining was estimated to be the Taliban's second largest source of revenue, it contributed less than 1% of state income in 2013.²⁸

3.2 Operations and Maintenance

Over the past decade, a large number of public assets have been constructed or rehabilitated, but there has been little attention to the costing and budgeting of their O&M in the long-term. Semi-structures handover procedures and weak planning for the handover of assets has furthermore strained the national budget, with inadequate resources budgeted for expenditures in the ordinary budget related to long-term O&M, and no standard mechanism within line ministries for planning and executing O&M costs. With this, the Ministry of Finance introduced reforms to the Ministry of Education and Ministry of Public Health in 1392 in an effort to address emerging O&M constraints. By 1395, this process had been rolled out to 19 ministries,

²⁰Interview with official from the Department of Revenue, conducted by EPD, 1 December 2016.

²¹ Ibid.

²²"Towards self-reliance: Strategic vision for the transformation decade," Islamic Republic of Afghanistan, 2012.

²³ World Bank, *Afghanistan in Transition: Looking Beyond 2014*, 2014.

²⁴"Pre-Budget Document (MTBF): 1396-1399," Islamic Republic of Afghanistan, Ministry of Finance, 2016.

²⁵Javed Noorani and Lien De Brouckere, "A Balancing Act for Extractive Sector Governance," AREU, May 2016, <http://www.areu.org.af/Uploads/EditionPdfs/1610E%20A%20Balancing%20Act%20for%20Extractive%20Sector%20Governance.pdf>.

²⁶Javed Noorani, "Afghanistan's Emerging Mining Oligarchy," United States Institute of Peace, January 2015.

²⁷Kowsar Gowhari and Asadullah Zemarai, "Policy Brief: Extractives for Sustainable Development in Afghanistan," Integrity Watch Afghanistan, 2015, <https://iwaweb.org/wp-content/uploads/2015/09/Policy-Brief-Extractives-for-sustainable-development-in-Afghanistan.pdf>.

²⁸"War in the Treasury of the People," Global Witness, May 2016, <https://www.globalwitness.org/en/campaigns/afghanistan/war-treasury-people-afghanistan-lapis-lazuli-and-battle-mineral-wealth/>.

which included finalizing O&M policies and regulations, developing procedures regarding private vehicles and properties, cooperating with implementing agencies to develop a complete business plan for all necessary O&M documents for public properties, and the continuous registration of public properties and monitoring reform implementation in central and provincial administrations.²⁹ An official from the Budget Policy and Reform Directorate explained that the process of implementing budget policies and procedures across MoF and the line ministries has had positive effects, and they have plans to continue the amount of ministries covered next year.³⁰

However, O&M remains a critical challenge, and several questions have been raised regarding the government's ability to cover O&M expenses in the medium- and long-term. A World Bank report noted that O&M costs continue to be severely under-funded in Afghanistan. The report explains that in 2011, the cost of maintaining civilian assets in five core sectors was estimated at USD 710 million, and was projected to increase to USD 1.1 billion by 2014. However, budget allocated for O&M in those sectors in 2011 was only USD 132 million, and total civilian recurrent spending for O&M has actually declined in nominal terms from around USD 380 million in 2011 to USD 285 million in 2014.³¹ According to a SIGAR report, Afghanistan does not currently have sufficient funding and technical capacity to maintain the more than 76,400 miles of road, of which 28,000 has been rehabilitated or improved.

It is estimated that Afghanistan will spend USD 17 million annually for O&M, leaving a projected USD 100 million annual shortfall. The report also raised questions around the national electric utility's capacity and resources to pay for O&M

of NEPS-SSEPS power projects.³² An Afghanistan Reconstruction Trust Fund (ARTF) report covering the period from November 2015 to January 2016 noted that of 78 schools visited, none of the completed ones had O&M plans or O&M funding.³³ Similarly, of 41 subprojects funded through the National Solidarity Program (NSP) that were monitored in the first quarter, only 24 had O&M plans in place.

3.3 Budget Execution

According to the commitments made at the Tokyo Mutual Accountability Framework (TMAF) in 2012, the budget execution rate would be 70% by 2015. The budget execution report of December 2016 shows that the ordinary budget had exceeded this target by 8%, though the development budget remained low at 45%, making an average of 61%—9% below the 2015 target. It is also notable that the budget allotments are considerably higher than the execution rates at 100% and 67% respectively.³⁴ According to the UNDP Making Budgets and Aid Work (MBAW) program, there are gaps in the efficient allocation of funds from Kabul to the provinces. Centrally, budget execution rates of the development budget have been less than 70% annually, which it notes as the consequence of unrealistic budget formulation, large budget carryovers from previous years, deteriorating security conditions in various parts of the country and limited government capacity to implement projects on time.³⁵

An official from the MoF Budget Execution Directorate explained that they are currently

²⁹"National Budget Document: Fiscal year 1395," Islamic Republic of Afghanistan, Ministry of Finance.

³⁰Interview with official from the Budget Policy and Reform Directorate, conducted by EPD, 22 November 2016.

³¹"Afghanistan: Systematic Country Diagnostic," World Bank Group, 1 February 2016, <http://documents.worldbank.org/curated/en/302911468190767498/pdf/103421-SCD-P152891-SecM2016-0055-IDA-SecM2016-0041-IFC-SecM2016-0029-MIGA-SecM2016-0028-OUO-9.pdf>.

³²"Report to the United States Congress," Special Inspector General for Afghanistan Reconstruction (SIGAR), 30 April 2016, <https://www.sigar.mil/pdf/quarterlyreports/2016-04-30qr-section3-economic.pdf>.

³³Ibid.

³⁴"Execution report 03-12-2016," Islamic Republic of Afghanistan, Directorate General Budget, Ministry of Finance, <http://www.budgetmof.gov.af/index.php/en/85-news/291-budget-execution-rate1>.

³⁵"Making Budgets and Aid Work (MBAW)," UNDP, 2016, http://www.af.undp.org/content/afghanistan/en/home/operations/projects/democratic_governance/mbaw.html.

undertaking review meetings with ten line ministries, based on which they will draft a policy paper and present it to the Cabinet for approval. This report will highlight key budget execution issues with MoF as well as the line ministries, including external and contractor issues, and will provide recommendations. The official explained that they are trying to speed up the process of allotments, and are looking at other means by which to simplify the budget execution process. The directorate is also recommending mechanisms for financial planning to help line ministries plan their expenditures and procurement plans. However, the official further explained that this plan has been included for a few years, but efforts are ongoing.³⁶

In November 2016, the Afghan parliament's lower house dismissed seven ministers in a new wave of interpellations (*estizah*). Officially, the MPs called those ministers to account who had not been able to spend more than 70 per cent of their ministries' development budget for the financial year of 1394 (2015). Ministers who lost the votes of confidence included those for the Ministry of Foreign Affairs (MoFA), Ministry of Public Works (MoPW), Ministry of Labor, Social Affairs, Martyrs and the Disabled (MoLSAMD), Ministry of Education (MoEd), Ministry of Transport and Civil Aviation (MoTCA), Ministry of Higher Education (MoHE), and Ministry of Telecommunication (MoT). A total of 16 ministers were scrutinized over five sessions, though the remaining nine secured votes of confidence. Though formally the use of budget execution as a performance measurement would suggest that the budget execution issue is being taken seriously, analysts suggest that the discussions during the *estizah* sessions did not constitute systematic performance evaluations of the ministers by the MPs, and that the *theestizah* motions represent a new round of the on-going power struggle within the NUG.³⁷

³⁶Interview with official from the Budget Execution Directorate, conducted by EPD, 20 November 2016.

³⁷ Thomas Ruttig, "Parliament Kicks Out Ministers Again: A multi-dimensional power struggle," Afghanistan Analysts Network, 19 November 2016, <https://www.afghanistan-analysts.org/parliament-kicks-out-ministers-again-a-multi-dimensional-power-struggle/>.

At the time of the report, the matter had been referred to the Supreme Court to interpret article 92 of the constitution related to the dismissal of ministers by the parliament, and the Supreme Court had not yet ruled and the dismissed ministers continued to work in an acting minister capacity.³⁸

3.4 Donor Assistance and Discretionary Authority

The meetings Development Cooperation Dialogues (DCDs) have been held every year since 2006 to review achievements for each donor over the past year and to discuss upcoming areas of support. One indicator in the SMAF Progress Report was for joint project reviews to be carried out to assess the progress and results of off-budget programs by the first half of 2016. MoF held 16 Development Cooperation Dialogues during which portfolio-related discussions took place, with a number of follow-up actions identified.³⁹ Another indicator was that donors and the GfRoa would establish a working group to produce a roadmap for sector-wide approaches by the first half of 2016. A working group was established to develop a holistic approach for Roadmap for Sector Wide Approaches (SWAP), and self-reported assessments by donors indicated that most have met the alignment target with the 22 NPPs. However, the SMAF progress report notes that alignment is mostly at the cluster level, and most donors are waiting for completion of the NPP consolidation process to align their off-budget assistance.⁴⁰

Additionally, MoF was issuing quarterly Aid Management Scorecards in 2015. These considered four key metrics: (1) the total overall

[analysts.org/parliament-kicks-out-ministers-again-a-multi-dimensional-power-struggle/](https://www.afghanistan-analysts.org/parliament-kicks-out-ministers-again-a-multi-dimensional-power-struggle/).

³⁸"Parliament Orders Dismissed Ministers to Stop Working," TOLONews, <http://www.tolonews.com/en/afghanistan/28824-parliament-orders-dismissed-ministers-to-stop-working>.

³⁹ "Self-Reliance Through Mutual Accountability Framework (SMAF): Progress Report," Islamic Republic of Afghanistan, September 2016.

⁴⁰ Ibid.

aid committed to Afghanistan, disaggregated by on- and off-budget assistance for the current year; (2) the proportion of off-budget aid that is reported to the Government, disaggregated by province; (3) the proportion of off-budget aid that is reported online in the Development Assistance Database; and (4) the two quality measures introduced into the official development assistance (ODA) data cycle for 2015 that assess the quality of the Government's process to request aid information, and the quality of the response received from development partners.⁴¹ However, an official from the Aid Management Directorate explained that they stopped using the scorecards last year due to limited capacity and no longer having a reporting team, and instead they are working on their website and Facebook account.⁴²

For 1396, international donors have committed AFN 292.354 billion (USD 4.176 billion), which constitutes 63% of the overall budget for 1396. Of this, AFN 137.387 billion (USD 1.962 Billion) is allocated to the ordinary budget, and AFN 154.967 billion (USD 2.214 billion) to the development budget. In the donor's share of the development budget, AFN 34.523 billion (USD 493 million) is allocated as discretionary assistance, AFN 117.161 billion (USD 1.674 billion) in non-discretionary assistance, and AFN 3.284 billion (USD 47 million) in loans. Compared to 1395, this represents a 1.7% decrease in on-budget donor commitments from the AFN 297.233 billion (USD 4.436 billion) committed in 1395.⁴³ According to the SMAF Progress Report, as of June 2016, 59% of total ODA is committed through the on-budget system, surpassing the overall target of 50%.⁴⁴

⁴¹Aid Management Directorate, Islamic Republic of Afghanistan, Directorate General Budget, Ministry of Finance, <http://www.budgetmof.gov.af/index.php/en/extensions/scorecards>.

⁴²Interview with official from the Aid Management Directorate of the Ministry of Finance, 27 November 2016.

⁴³It should be noted that the 1396 figure in USD is actually lower due to the depreciation of the AFN currency.

⁴⁴ "Self-Reliance Through Mutual Accountability Framework (SMAF): Progress Report," Islamic Republic of Afghanistan, September 2016.

The Communiqué from the Brussels Conference commits to further increasing aid effectiveness, recognizing 'the need to promote a high degree of Afghan ownership through use of country systems and joint programming, and in line with the commitments under the Global Partnership for Effective Development Cooperation.'⁴⁵ The Communiqué commits to exploring possibilities of different forms of flexible on-budget assistance, including State Building Contracts and expanding programs in support of Afghan development priorities, namely the Afghanistan Reconstruction Trust Fund (ARTF) and related incentives or reimbursement schemes. However, it notes that on-budget support will continue to be contingent on improvements to accountability and audit mechanisms.⁴⁶ Another analysis from the Brussels Conference noted concerns related to aid effectiveness among donors and continued Afghan demands for increased on-budget support in consideration of persistent under-spending and continued issues with rampant corruption. The report noted that some countries are pushing for greater conditionality on their aid disbursement and were requesting more result-oriented language in the communiqué.⁴⁷

Afghanistan's national budget is structured where government-controlled assistance is on-budget through the core budget and donor-controlled assistance is off-budget through the external budget. Despite the supposed ongoing transition of Afghanistan from a donor-dependent to self-reliant financial management, there was virtually no change in the amount of on-budget support from 1394 to 1396, increasing by a mere 2%. While 87% of the core development budget is funded through donor support, only 33% of that funding is under the discretionary authority of the government, with the remaining 67% of donor development budget support under the discretionary

⁴⁵"Communiqué on the Brussels Conference on Afghanistan," October 2016, <http://www.state.gov/r/pa/prs/ps/2016/10/262797.htm>.

⁴⁶ Ibid.

⁴⁷"The Brussels Conference on Afghanistan: Between aid and migration," Afghanistan Analysts Network, 30 September 2016, <https://www.afghanistan-analysts.org/the-brussels-conference-on-afghanistan-between-aid-and-migration/>.

authority of international donors based on agreements with each donor for specific projects while nonetheless flowing through the government-controlled budget. Though this constitutes an increase from the amount of

discretionary development funding in the 1395 national budget, it is still a small portion of the on-budget development assistance.

4. Public Finance Management and Reforms

Public financial management has been at the core of reconstruction efforts of the donor community and the Afghan government. PFM, which includes budgeting, spending, accounting and auditing, is a foundational tool for managing governance in Afghanistan. Together with the multi-year strategic plan of the MoF and the MTBF, the government's Public Financial Management Roadmap (PFMR) is the most important strategic policy instrument as it is intended to lead the government towards its stated goals of increased self-reliance and diminished donor dependency.⁴⁸ The PFMR II is the new government reform strategy covering the period from 2016 to 2020.⁴⁹ It was developed by the MoF in 2015, focusing on five strategic objectives:

1. To budget in accordance with fiscal constraints, national priorities and transparency
2. To increase national revenues to enable self-reliance and sustainability
3. To deliver budgets that are credible and aligned with national and subnational strategies
4. To plan, procure and execute the budget with systems based on programs in order to deliver services that meet resource, time and accountability objectives
5. To improve monitoring and evaluation, audit, accountability and transparency so as to reduce corruption, increase effectiveness and efficiency, and increase public confidence

The strategy has been translated in a five-year implementation plan and the reforms will be supervised by the Office of the President.⁵⁰ The Five Year rolling Fiscal Improvement Plan developed by the GIRoA is the vehicle for implementing the PFMR II, presenting a sequenced team-based plan within a Performance Management Framework. The Five Year Plan covers the full range of reforms, including developing a fiscal policy framework to guide the budget, analysis of fiscal space, and adopting a MTEF with a consolidated national budget. Additionally, it addresses cash management and commitment controls, upgraded systems for integrating procurement, contract management, and improved reporting and audit of public expenditure.⁵¹

According to the World Bank, the inaugural Five Year Plan for PFMR II has been established and the performance management cycle has commenced, which will involve the publishing of a consolidated Five Year Plan at the beginning of the year followed by a mid-year assessment of progress against plans and an annual performance assessment with a published performance report, with an updated Five Year Plan based on the previous year's performance at the beginning of the following year. MoF has created a Performance Management Team (PMT) to facilitate this process.⁵² An official from the Budget Policy and Reform Directorate explained that the second assessment will be carried out in mid-December,⁵³ though the first

⁴⁸"Public Financial Roadmap II," Islamic Republic of Afghanistan, Ministry of Finance, 2015.

⁴⁹"Action Document Afghanistan-State Building Contract," European Union, 2016, https://ec.europa.eu/europeaid/sites/devco/files/aap_financing_afghanistan_annex_1_20160906_en.pdf.

⁵⁰ Ibid.

⁵¹ "Combined Project Information Documents – Afghanistan Technical Assistance Facility," 8 June 2016, <http://documents.worldbank.org/curated/en/327091467989974321/pdf/PIDISDS-APR-Print-P157035-06-09-2016-1465497773595.pdf>.

⁵² Ibid.

⁵³ Interview with official from the Budget Policy and Reform Directorate, conducted by EPD, 22 November 2016.

assessment does not appear to be publically available.

4.1 Transparency and Accountability

Transparency and functional government accountability mechanisms are critical to effective PFM that meets basic standards of accountability to the people of Afghanistan. According to the Open Budget Survey (OBS), the government makes all of the eight key budget documents (pre-budget statement, executive's budget proposal, enacted budget, citizens budget, in-year reports, mid-year review, year-end report, and audit report) available to the public in a timeframe consistent with international standards. This reflects a net increase compared to the number that the government had published according to the Open Budget Survey 2015, which assessed budget documents that were available to the public through 30 June 2014. Data collection for the next OBS (2017) began in September 2016, but the most recent 2015 OBS still scored Afghanistan as "limited" in its index. The 2015 score for Afghanistan, 42 out of a 100, which was 17 points lower than in 2012, was attributed by the survey to the lacking publication of the Mid-Year Review and reduction in the comprehensiveness of the Executive's Budget Proposal. Since that assessment, Afghanistan has published the Mid-Year Review, and according to the April 2016 update all eight documents reviewed in the OBS are available to the public.⁵⁴

The aforementioned Citizen's Budget was introduced in 1390 as a commitment to openness and transparency, and was again produced the publication in 1395, which is available in Dari, Pashto, and English.⁵⁵ The Citizen's Budget is a simplified version of the national budget that outlines the main priorities

of the government, budget resources, allocations and expenditures, and the aims and goals in key sectors. The MoF also produced the 1395 National Budget Statement, which is a more comprehensive document outlining the strategic goals and priorities of the 1395 budget, the macroeconomic outlook, fiscal strategy and outlook, expenditure performance and outlook, expenditure analysis and outlook in each sector, the implementation of government priorities, budget reforms, municipalities, and state-owned enterprises – though this document is only available in Dari. These reports are available on the DG Budget website.

In addition, throughout 1395, the MoF also published monthly fiscal bulletins from months 2 to 9, though in 1395 these documents were only available in English, compared to 1394 when they were also published in Dari and Pashto through month 9. In 1395 MoF also published first and second quarter fiscal bulletins, though these are only available in English. The monthly reports include budget highlights, summaries of revenue and expenditures to date, revenue by province, budget execution rates, sectoral breakdowns, expenditure by province, sources and use of funds, and financing. The quarterly fiscal bulletin included similar information in more depth, as well as a macro-economic overview, social welfare expenditures, debt, and fiscal sustainability.

The MoF also has been producing budget execution reports in the form of a downloadable Excel file on a weekly basis from throughout 1395. Though these were labeled as being available only in English, the report appears to combine both Dari and English into one consolidated report. These reports are available on the DG Budget website. MoF also released three budget performance monitoring reports in the first, and third quarters of 1395, and both are available only in Dari on the MoF website. A mid-year budget performance monitoring report was also released in 1395, available from the same location in Dari. The DG Budget also published the 1396 budget planner in English

⁵⁴ "Afghanistan April 2016 Update," International Budget Partnership, April 2016, <http://www.internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/country-info/?country=af>.
⁵⁵ Directorate General Budget, Ministry of Finance, <http://www.budgetmof.gov.af/index.php/en/2012-12-06-22-51-13/national-budget>.

and Darias well as the Budget Circular instructions for 1396 (both BC1 and BC2).

The National Procurement Authority (NPA) was established in late 2014 to help foster transparency within the public procurement system of Afghanistan, shifting it from the Procurement Policy Unit (PPU) at the MoF to the Administrative Office of the President.⁵⁶ SMAF includes an indicator that the National Procurement Commission (NPC) adopts and implements service standards in accordance with the Law of Afghanistan by the second half of 2016, with the SMAF Progress Reports classifies as achieved. According to the report, the NPC adopted nine service standards, including: (1) public Procurement Regulatory Framework complying with the government's obligations to international financing institutions; (2) E-Government Procurement to be covered in a separate regulation; (3) the NPA and NPC will be regulated in a separate Rules of Procedures and decided within 28 working days of contract awards; (4) Public Private Partnership Regulation; (5) Debarment Rules of Procedures; (6) Independent Appeal and Review; (7) Contracts Implementation Monitoring; (8) establishment of the National Procurement Institute (NPI) to professionalize procurement processes; (9) publication of procurement opportunities, NPC decisions, awarded contracts and debarred companies. According to the SMAF status report, five of the nine have either been fully implemented or implementation is ongoing, and four are in progress.⁵⁷

The Supreme Audit Office (SAO) is the entity dedicated to ensuring accountability in government spending. From last year's budget review, the audits of the Qatia accounts – the end of year financial statements of the government – have still not been updated as the

last version available on the SAO's website is from 2013. In last year's EPD budget review, a PFM expert claimed that these audits have continued, but no updated information is available from the SAO. Recent data on the continuation and/or expansion of the compliance audits of line ministries is not publically available beyond the 1392 audits, which is also applies to the internal audits at line ministries supported by the SAO.⁵⁸

The Access to Information Law was signed in December 2014 by President Ghani,⁵⁹ and a Monitoring Commission on Access to Information was formed in 2015, consisting of members of civil society.⁶⁰ However, there has been little notable improvement since last year's budget review, with continued concerns regarding its implementation voiced by journalists and civil society.⁶¹ In October 2016, President Ghani issued a new decree on speeding up the implementation of access to information, supporting the law and tasking government officials with providing information.⁶² Some also have concerns that the law itself is still somewhat problematic. For example, article 15 of the law states that giving information is prohibited if it puts someone's life, property, pride or dignity at risk, with words like pride and dignity leaving room for ambiguity and subjective application of the law.⁶³

4.2 Results-Based Program Budgeting and Monitoring and Evaluation

The Program Budgeting reform was introduced in 1386, with a program-based budget becoming the official format for the budget prepared by

⁵⁶ Col. Charles Worshim III, "Operation: Procurement Reform," 3 May 2016, https://www.army.mil/article/167236/operation_procurement_eform

⁵⁷ "Self-Reliance Through Mutual Accountability Framework (SMAF): Progress Report," Islamic Republic of Afghanistan, September 2016.

⁵⁸ "ARTF Scorecard 2014: Integrated Performance and Management Framework," Afghanistan Reconstruction Trust Fund, 2015.

⁵⁹ ATN, "NAI: Access to information law main problem of journalism in Afghanistan," 28 September 2015.

⁶⁰ "Monitoring Commission on Access to information established," Integrity Watch Afghanistan, 8 September 2015.

⁶¹ "Decree issued on accelerating access to information," 16 October 2016, <http://www.pajhwok.com/en/2016/10/16/decreed-issued-accelerating-access-information>.

⁶² Ibid.

⁶³ "Access To Information Law Still Not Implemented," 15 May 2016, <http://www.tolnews.com/en/afghanistan/25300-access-to-information-law-still-not-implemented>.

Government of Afghanistan in 1390.⁶⁴ Program-based budgeting is intended to align budget allocation and planning decisions with the government's larger objectives by breaking down the expenditures needed to implement planned programmed, sub-programs, and projects. The first PFMR in 2010 set out that program budgeting would be fully implemented in 2011 in a basic form, with the intent of expanding it further.⁶⁵ The PFMR II stated that program budgeting has been unable to move to the next stage of implementation—results-based budgeting, utilizing outputs and outcomes to account for performance and national objectives.

An official from the Budget Execution Directorate of MoF explained that program budgeting has been rolled out across all budget units, but clarified that practically it has not been a successful process as only the first phase has been implemented. The official explained that the government has moved from one national development framework to another, but line ministries' strategies have not been consistently updated or extended so currently there are gaps in government policy to link program budgeting strategies to. The official felt that the program budgeting process is currently 'stuck'.⁶⁶ A Program Budgeting Roadmap was said to be in draft for inclusion in the PFMR II, but there is no updated information available on such a document.

In August 2014, MoF undertook an assessment of the monitoring and evaluation (M&E) systems in a sample of ten ministries and agencies, though the report was only released on the MoF website in June 2015. The review found that the ministries and institutions were at very different

stages in building their performance planning and M&E systems. However, the report found that across ministries, strategic plans often exist but are generally not utilized as the basis for annual planning and performance reviewing, with National Priority Programs (NPPs) not currently integrated into their planning and monitoring work and strategic plan results ill-reflected in the performance plans presented in BC2, consistent with the observations of the official from the Budget Execution Directorate interviewed for this report.

indicators, and clarity on sources of baseline and monitoring data. The assessment also found that project appraisal and selection within ministries and agencies is generally undertaken without any systematic or agreed processes or procedures and is only tenuously related to program strategies.⁶⁷ The assessment found that only a few programs had operational performance monitoring and evaluation systems in place, and data collection and reporting processes were generally weak even for reporting on the outputs specified in the BC2 submissions to MoF. Similarly, Budget Unit performance reporting capacities were found to be weak, often not following activity plans and consisting mostly of narrative descriptions without reporting on planned results and indicators. The assessment found that none of the ministries or agencies had an institution-wide performance monitoring database with results-based performance plans, baseline data, and performance achievement data.

The M&E assessment represented the first stage in the process of developing and institutionalizing a proposed new Government-wide Performance Monitoring and Evaluation System (GPMES). In last year's EPD budget review, though this was initially planned to be used by the MoF, a PFM expert stated that the President's office had recently requested to take the over responsibility. There is no newly updated information on any progress regarding

⁶⁴ Budget Policy and Reform Directorate, Directorate General Budget, Ministry of Finance, <http://www.budgetmof.gov.af/index.php/en/using-joomla/modules/budget-reform-unit>

⁶⁵ Nicole Birtsch and Ahmad SuliemanHedayat, "Gender-Responsive Budgeting in Afghanistan: A Work in Progress," Afghanistan Research and Evaluation Unit, September 2016, <http://www.areu.org.af/Uploads/EditionPdfs/GRB%20Issues%20aper%20English%20for%20ebook.pdf>.

⁶⁶ Interview with official from the Budget Execution Directorate, conducted by EPD, 20 November 2016.

⁶⁷ "Assessment of M&E Systems in Ministries and Agencies," Islamic Republic of Afghanistan, Ministry of Finance and Ministry of Economy, August 2014, [http://www.budgetmof.gov.af/images/stories/DGB/BPRD/PERU/Full%20Diagnostic%20Report%20Final%20\(3March2015\).pdf](http://www.budgetmof.gov.af/images/stories/DGB/BPRD/PERU/Full%20Diagnostic%20Report%20Final%20(3March2015).pdf).

the establishment of this system within the past year. The PFMR II mentioned that the MoF will lead performance M&E and that program monitoring of budget execution, outputs and outcomes will be a collaborative effort of the MoF and Ministry of Economy (MoEc). Since the release of the 2014 M&E assessment in 2015, no update on progress or implementation of recommendations has been issued.

The 2014 M&E assessment found that not all Budget Units (BUs) had a Performance Monitoring Framework, and where they existed they were generally weak in terms of results specification,

4.3 Provincial Budgeting

The Provincial Budgeting policy was developed in 1394, with the objectives of: (1) establishing a legal framework to determine the responsibilities of central and sub national entities in the budgeting process, as well as provincial councils' consultative role; (2) delegating proportional PFM responsibilities and authorities to provincial institutions; (3) establishing a standard framework for vertical and horizontal resource allocation to guarantee equitable service delivery; (4) ensuring allocation of adequate resources to maintenance of existing and new assets; (5) ensuring participation of provincial officials in budget preparation, execution and monitoring; (6) improving and enhancing coordination and communication between central and provincial institutions; (7) concentrating on service delivery outcomes and employment in budget formulation and execution; and (8) disseminating budgetary statistics and figures and streamlining the reporting process to stakeholders.⁶⁸

⁶⁸ "Provincial Budgeting Policy – 1394," Islamic Republic of Afghanistan, Ministry of Finance, [http://mof.gov.af/Content/Media/Documents/PBPolicy_approved \(Oct,02,2015\)English-2112015113253258553325325.pdf](http://mof.gov.af/Content/Media/Documents/PBPolicy_approved%20(Oct,02,2015)English-2112015113253258553325325.pdf).

The policy was endorsed by the Cabinet in October 2015.⁶⁹ It focused on attaining the above objectives through the following processes:

- Three-year pilot applications;
- Vertical and horizontal resource allotment using norm-based budgeting;
- Delegation of more responsibilities as decided by each line ministry, including delegated authorities over the development and operational budget;
- Changing the budget calendar to allow more time for the preparation of provincial budgets;
- Extra facilities from the budget known as "unconditional funds" that are not budgeted in the sectorial budget;
- Hiring provincial budgeting experts to assist *mustofiats* in the provinces to lead the process.⁷⁰

The Provincial Budgeting Policy was meant to complement the Sub national Governance Policy (SNGP), which was developed by the Independent Directorate for Local Governance (IDLG) in 2010. However, the lengthy document was complex, politically ambiguous, and institutionally weak, and as such the policy was generally not implemented.⁷¹ In 2015, IDLG initiated a process to revise the SNGP, but at present it appears to still be in process and has not been finalized or approved by the Cabinet.⁷² Additionally, IDLG has developed a concept of provincial strategic planning that would allow each province to generate its own comprehensive strategic vision in the areas of security, governance, and socio-economic development in line with national plans and strategies. The strategic planning will be led by the provincial governor's offices with technical

⁶⁹ Nicole Birtcsch and Ahmad Sulieman Hedayat, "Gender-Responsive Budgeting in Afghanistan: A Work in Progress," Afghanistan Research and Evaluation Unit, September 2016.

⁷⁰ Nematullah Bizhan and Ferhat Emil, "Bringing the State Closer to the People: Deconcentrating Planning and Budgeting in Afghanistan," Afghanistan Research and Evaluation Unit, July 2016, <http://www.areu.org.af/Uploads/EditionPdfs/1614E%20Bringing%20the%20State%20Closer%20to%20the%20People.pdf>.

⁷¹ Ibid.

⁷² Ibid.

assistance and support from IDLG. To ground the strategic planning in local ownership, participatory and inclusive planning is part of the concept.⁷³

In preparation of the 1395 national budget, the government included an overview of provincial allotments as an unofficial annex to the budget presented to parliament,⁷⁴ and for 1396 the DG Budget website includes a provincial breakdown of the national budget in both Dari and Pashto sent to parliament. An official interviewed from the Budget Execution Directorate of MoF explained that provincial budgeting reform has been piloted in a number of line ministries, and they are currently focusing on decentralization of procedures for developing policy and budget planning to further include districts and remote rural areas. The official felt that the number of pilot ministries needs to be expanded, and explained that the current government's approach is generally focused on top-down mechanisms, at odds with the objectives of the provincial budgeting pilot. The official clarified that in budget planning, subnational government officials and departments played no role for the 1396 national budget.⁷⁵

Similarly, the official explained that there was recently a meeting on budget execution in Kabul where provincial representatives were invited to participate via video conference, but explained that results were limited as most of the procurement procedures are still focused in Kabul. Subnational officials do some monitoring of budget execution, but have limited information on contracts and have a limited role and authority. The official was optimistic that ongoing efforts regarding the procurement law would see improvements and support provincial authorities in expediting and resolving budget execution issues at the provincial level. The

official felt that the progress made with provincial budgeting has been minimal considering the reform has been in planning for several years, and that like program budgeting, provincial budgeting reform remains 'stuck' despite recent progress made at the policy level.⁷⁶

A 2016 report from AREU assessing provincial budgeting reform and decentralization generally concluded that while the Provincial Budgeting Policy is a positive step toward effective budgeting and planning, it does not clearly establish the role of institutions and largely depends on initiative from other government entities to ensure its implementation. It furthermore fails to indicate sequencing in terms of expenditure assignments being delegated to provincial departments. Following on years of lackluster attempts at decentralization and deconcentrating budget processes, the policy is ambiguous and presents blurred institutional roles without sufficient backing by meaningful structural reforms.⁷⁷ The way forward for provincial budgeting reform remains a challenge.

4.5 Gender Responsive Budgeting

Recognizing persistent gender inequalities and their consequences, Gender Responsive Budgeting (GRB) was introduced as a budget policy reform in Afghanistan in 1390. The MoF introduced GRB as a budget policy reform in 1390 with a pilot approach. Six ministries were selected for piloting the GRB initiative—MoEd, Ministry of Public Health (MoPH), Ministry of Agriculture, Irrigation and Livestock (MAIL), Ministry of Rural Rehabilitation and Development (MRRD), MoHE, and MoLSAMD. In 2015, EPD undertook a review assessing the GRB reform, which was followed by an assessment conducted by AREU in 2016. The AREU report found similar findings to the 2015 EPD review—

⁷³ Nicole Birtcsch and Ahmad Sulieman Hedayat, "Gender-Responsive Budgeting in Afghanistan: A Work in Progress," Afghanistan Research and Evaluation Unit, September 2016.

⁷⁴ Nematullah Bizhan and Ferhat Emil, "Bringing the State Closer to the People: Deconcentrating Planning and Budgeting in Afghanistan," Afghanistan Research and Evaluation Unit, July 2016.

⁷⁵ Interview with official from the Budget Execution Directorate, conducted by EPD, 20 November 2016.

⁷⁶ Interview with official from the Budget Execution Directorate, conducted by EPD, 20 November 2016.

⁷⁷ Nematullah Bizhan and Ferhat Emil, "Bringing the State Closer to the People: Deconcentrating Planning and Budgeting in Afghanistan," Afghanistan Research and Evaluation Unit, July 2016.

that though gender equality finds frequent mention in national documents, financial allocation and the incorporation of gender equality in budget planning, execution, and performance assessment is lacking.⁷⁸ The report further notes that the majority of programs that address gender inequality and women's empowerment in Afghanistan continue to be funded off-budget.⁷⁹

MoF released the GRB Strategic Action Plan in 2015. Though the introduction of the strategic plan can be seen as a positive step, EPD's 2015 review found it to be far from an actionable, and progress to date in implementing them is limited at best. In the action plan, MoF committed to amending the BC2 to include mandatory reporting of gender-based outputs before the 1396 budget. According to the AREU report, MoF introduced an addendum to BC1 and BC2 for the GRB pilot ministries. The addendum on GRB requires the ministries to provide information about the number of female and male beneficiaries, the percentage of the budget allocated to women, and a brief description of women-targeted projects proposed for the fiscal year.⁸⁰ However, the presentation of "GRB" as a separate component defined by how much budget goes to women is fundamentally at odds with GRB, which does not promote separate budgets for gender equality, but rather incorporating gender equality into the entire budget process. Furthermore, an EPD review of the actual BC1 and BC2 submissions in the 1395 budget planning process found the completion of these sections to constitute largely a box-ticking exercise, with the strategic plan also acknowledging that the information furnished by the line ministries was not satisfactory.

As the 1396 submissions were not available for review, it is not yet possible to determine whether the reforms to the BC1 and BC2 formats constitute a meaningful effort towards reform. However, the Directorate General

Budget of the MoF did prepare a presentation on gender aspects in the 1396 draft budget in December 2016. This document similarly demonstrates a limited understanding of GRB, presenting the following as a summary of gender considerations in the 1396 budget:

- Implementation of self-reliance strategy in order to assure every citizen benefited equally from job opportunities,
- Implementation of citizen charter program to provide equal services to the people,
- Public Investment on girls' education and women literacy programs,
- Provide and create job opportunities to empower women's and prevent from marginality,
- Provide sufficient services (shelter, food, clean water, health services and education) for inside displacements families⁸¹

The presentation further mentions the consideration of gender equity in the provincial budgeting proposal and the integration of gender into BC1 and BC2 forms for provincial budgeting and an analysis from a gendered perspective reflected in the draft budget for 1396. However, it then presents this 'analysis,' through examples from MoEd and MRRD. The MoEd analysis states that female beneficiaries for the 1396 development budget are around 35-40%, and explains that increasing female student enrolment and providing materials for female students constitute the gender analysis. For MRRD, there is a rudimentary breakdown of female beneficiaries, for which irrigation is said to be 51%, rural road development 8%, regional solidarity program 50%, and citizen charter 50%, though it is unclear upon what these figures are based in the absence of effective M&E systems. The presentation acknowledges that standard tools need to be developed for BC1 and BC2 analysis, though options for tools

⁷⁸ Nicole Birtsch and Ahmad Sulieman Hedayat, "Gender-Responsive Budgeting in Afghanistan: A Work in Progress," Afghanistan Research and Evaluation Unit, September 2016.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ "Gender aspect in the draft budget 1396," Ministry of Finance, Directorate General Budget, December 2016.

to do so have already been presented in the GRB Handbook endorsed by MoF.

The GRB Strategic Action Plan also committed to developing an inter-ministerial coordination committee, raising GRB issues in the Technical Assistance Steering Committee (TASC) for mandatory monitoring of gender-based activities, strengthening Gender Units, integrating gender equality promotion objectives and evaluation into performance management, and partnering with NGOs. The DG Budget presentation from December 2016 identifies developing a Terms of Reference (ToR) for the GRB Advisory Committee as a next step.⁸²

In 2015, EPD organized a training session with officials of MoF and MoWA on GRB, after which they subsequently provided training in the pilot ministries and train their GRB representatives, a strategy which was concluded to be replicable. However, according to MoF, the participants of the EDP-organized training session had not made any efforts to push the GRB agenda forward.⁸³ In the DG Budget presentation on the 1396 national budget, it identifies in the 'way forward' that trainings will be provided on GRB to pilot ministries, though it is unclear how these will differ from those that have already been provided based on the Handbook and Training Manual prepared and endorsed by the ministry.⁸⁴

The GRB Strategic Action Plan also committed to building technical capacity for GRB, including developing a 3-year Capacity Building Plan and introducing the GRB Handbook and Training Manual, which were developed in 2015. The AREU report assessed that both the Handbook and Training Manual meet international standards and reflect best practices in the context of PFMS in Afghanistan, describing how to apply GRB in the annual budget process,

including examples, exercises, and checklists. The MoF GRB Handbook was made available online in October 2016, though it has only been published by UNDP in English,⁸⁵ though Dari and Pashto translations have been produced, and there is no reference to the Handbook in publications from MoF or the GIRoA.

Even in newly introduced policies and reforms, the principles of GRB have not been effectively embedded. For example, in the provincial budgeting policy, gender equality is listed as a cross-cutting issue for provincial administrations to consider in their budget proposals, but with no regulations and guidelines for their implementation. The AREU report on GRB found that the issue of women's agency in local planning and budgeting is referred to only once when listing the provincial Director of Women's Affairs as a member of the provincial PFM Committee.⁸⁶ Ultimately, the AREU report concluded that the application of GRB in Afghanistan still faces a number of challenges, including: an unsupportive climate for promoting gender equality; gaps in the understanding of GRB; inconsistent leadership support; a lack of conceptual framework and technical capacity regarding gender, program-based budgeting, and PFM; limited human resources and financing; a lack of sex-disaggregated data and limited access to information; a disconnect between central and subnational budgeting process; and weak involvement of the media and civil society.⁸⁷

These conclusions demonstrate limited change from the 2015 EPD review, which found that indicators used in the budget process are largely not gender-sensitive. The process of developing the national budget does not ensure the effective consideration of GRB, with insufficient mechanisms currently in place to encourage and support gender analysis and lack

⁸² Ibid.

⁸³ Nicole Birtsch and Ahmad Sulieman Hedayat, "Gender-Responsive Budgeting in Afghanistan: A Work in Progress," Afghanistan Research and Evaluation Unit, September 2016.

⁸⁴ "Gender aspect in the draft budget 1396," Ministry of Finance, Directorate General Budget, December 2016.

⁸⁵ "Gender Responsive Budgeting (GRB)," UNDP in Afghanistan, http://www.af.undp.org/content/afghanistan/en/home/library/womens_empowerment/GRB-handbook.html.

⁸⁶ Nicole Birtsch and Ahmad Sulieman Hedayat, "Gender-Responsive Budgeting in Afghanistan: A Work in Progress," Afghanistan Research and Evaluation Unit, September 2016.

⁸⁷ Ibid.

of accountability for the gender-responsiveness of the national budget. The review also found that many government officials still lacked an understanding of GRB. The analysis of the GRB pilot ministries' 1395 BC2 submissions found that gender was addressed in vague terms and generally did not reflect gender analysis of the program and its potential impacts. None of the indicators provided at the program level met the criteria for Gender-Sensitive Indicators (GSIs), and indicators did not reflect the many commitments that have been made to gender equality in each sector throughout national and sector-specific policies and strategies. Planning regarding gender equity in ministry and program staffing found projections that did not plan for narrowing the wide gender gaps.

EPD's 2015 review found that in several GRB pilot ministries' 1395 submission, portions or entire sections of BC2 regarding gender were left blank, and some provided no estimated gender breakdown of beneficiaries or percentage share of women's participation in development projects. Furthermore, in several cases the ministries also reported that they do not collect any sex-disaggregated data, which casts doubt on the accuracy of such estimations, where such figures could not be reliably estimated in the absence of gender-sensitive monitoring systems and data collection.

An official from the Budget Policy and Reform Directorate explained that there have been many problems in implementing GRB in terms of capacity and securing buy-in on the concept of GRB from government staff. The official explained their perception that Ministry officials are more interested in participating in International Women's Day celebrations than actually understanding and implementing GRB and how they can include gender considerations into programs.⁸⁸ He furthermore explained that despite the National Action Plan for 1325 (NAP 1325) being launched in 2015, it is not a current budgetary priority as costing for

it has not been completed.⁸⁹ However, this is contrary to the information presented by the DG Budget regarding gender in the 1396 national budget, which asserts that costing has been completed for 2017-2020, with total cost for 2017 projected at USD 8.213 million, with the GIRoA share budgeted in the draft ordinary budget mostly under code 22 of the ministries and a funding gap of USD 5.735 million.⁹⁰

In conclusion, there appears to have been minimal progress in terms of the institutionalization of meaningful GRB practices in the past year. Disappointingly, though the SMAF progress report and agreed SMART deliverables for 2017/18 mention NAP 1325 and increasing the percentage of female civil servants, they make no mention of GRB. This suggests that while GRB has failed to become a priority of the GIRoA, it is similarly not a priority for the international community or on the agenda for development partnerships and aid effectiveness. However, the DG Budget presentation on the 1396 draft budget identifies developing a National GRB Policy and introducing GRB for 'two or three additional ministries' as a way forward, which could provide a vehicle for addressing this gap. However, in consideration of the limited implementation of the GRB Strategic Action Plan and documents such as the Handbook and Training Manual, it seems unlikely that this commitment will have any meaningful outcomes.

4.6 Involvement of Civil Society

The OBS of 2015 found that public participation in budget processes is minimal. Afghanistan's score of 27 out of 100 indicated that the existing opportunities for civil society and the general public in the budget process were limited. In assessing the degree to which the government provides access for the public to be involved in the budget processes, the survey

⁸⁸ Interview with official from the Budget Policy and Reform Directorate

⁸⁹ Ibid.

⁹⁰ "Gender aspect in the draft budget 1396," Ministry of Finance, Directorate General Budget, December 2016.

suggested that civil society involvement had not improved.⁹¹

The MoF held workshops with civil society in 1392, 1393, and 1394. According to the GIRoA, the Civil Society Workshops were meant to promote public sector accountability and transparency as well as educate and engage civil society in budget planning, execution, and monitoring processes. It does not appear that such a workshop was held in advance of preparing the 1395 or 1396 draft national budget. However, the FY 1396 Budget Hearing took place from August 27 to September 26, involving 63 budgetary units who presented their budgetary forecasts for the coming year. According to MoF, the FY 1396 Budget Hearing was different from previous years in that in addition to the regular budget committee members, the budget hearing process was attended by representatives of civil society and the Independent Administrative Reform and Civil Service Commission (IARCSC), as well. Representatives from the civil society and IARCSC were provided with the opportunity to seek elaboration on matters of interest as well as to provide their feedback.⁹² The official from the Budget Execution Directorate furthermore noted that civil society representatives were also invited to participate in the budget execution meeting in Kabul that involved ministries, parliamentary members, and provincial representatives, though it was noted that there was limited participation from civil society.⁹³ There still appears to be considerable room for more meaningful civil society involvement in national budget planning, monitoring and evaluation.

⁹¹"Afghanistan Summary," Open Budget Survey, 2015.

⁹²"Conclusion of FY 1396 Budget Hearing," Islamic Republic of Afghanistan, Ministry of Finance, <http://www.budgetmof.gov.af/index.php/en/85-news/285-conclusion-of-budget-hearing>.

⁹³Interview with official from the Budget Execution Directorate of MoF, conducted by EPD, 20 November 2016.

5. Recommendations

In consideration of the findings of this annual budget review, EPD issues the following recommendations:

Government

Fiscal Sustainability

- Ensure the full implementation of the O&M Policy by completing the rollout and prioritizing financing for O&M
- Ensure that provincial authorities receive capacity building support through the provision of trainings through the Provincial Budgeting Policy and qualified technical assistance
- Negotiate with international donors to expand the government's discretionary authority based on realistic assumptions of the government's absorption capacity and PFM performance as a means to improve the management of resources
- Follow up on the mapping of revenue potential and monitoring of collected revenue since it was excluded from PFMR II
- Reassess and revise the Mining Law in accordance to recommendations from civil society to ensure transparency and accountability in the mining sector and the maximization of revenue potential

PFM and Reforms

Transparency and Accountability:

- Publish all ongoing reports, audits, and other documentation related to the national budget, transparency, and accountability on the relevant government websites and keep them up to date
- Continue to identify waste and fraud through the National Procurement Authority while also improving the processing of contracts to prevent delays in budget execution

- Strengthen the Supreme Audit Office's technical capacity to conduct non-financial audits that will scrutinize the outcomes of public expenditure in terms of service delivery with the aim to identify inefficiency, waste and fraud
- Ensure the enforcement of the Access to Information Law and take measures against government officials who impose restrictions for civil society, media, and citizens to access budget information

Monitoring and Evaluation:

- Implement the recommendations of the M&E Systems Assessment Report Undertaken in 2014, including following through on establishing the Government-wide Performance Monitoring and Evaluation System
- Strengthen the use of BC1 and BC2 as frameworks for M&E of line ministry budget performance, and require the development of effective performance indicators aligned with key national and sector-specific strategies

Provincial Budgeting:

- Follow up on the Subnational Governance Policy in draft by IDLG, and ensure that it aligns with the Provincial Budgeting Policy
- Improve Provincial Budgeting Reform by clarifying and expanding on the Provincial Budgeting Policy to establish the role of institutions, clarifying responsibilities, and sequencing expenditure assignments and their delegation.

Program Budgeting:

- Draft the Program Budgeting Roadmap, which was intended to be streamlined with the new PFMR II
- Clarify program budgeting concepts clearly and transparently in order for

line ministries to apply the same norms and formulas

Gender-Responsive Budgeting:

- Implement existing policies and utilize existing resources and documents such as the GRB Strategic Action Plan, GRB Handbook, and GRB Training Manual before beginning any new GRB initiatives
- Include gender-responsiveness as a criterion for evaluating the national budget in the budget approval process
- Raise awareness within the government of what resources are available regarding gender, and sources for sex-disaggregated data and gender analysis, particularly within the Ministry of Finance and Ministry of Women's Affairs, neither of whom have collated existing resources online
- Devise a roadmap for developing a Gender Budget Statement to enable GRB
- Incorporate more meaningful GRB practices and gender analysis into medium-term budget planning and the MTBF
- Revise the GRB sections of the BC1 and BC2 to include more specific directives

regarding what the submissions should contain, and to ensure that they promote meaningful GRB

- Require the Gender Unit of each ministry to approve of the BC submission before accepting it from the ministries
- Formalize the role of the Gender Unit within the line ministries in the budget planning, implementation, and evaluation process
- Revisit M&E systems to ensure that data is sex-disaggregated and systems provide information needed to conduct gender analysis and plan policies and programs that are gender-responsive

Involvement of Civil Society:

- Improve public participation in the budget process through organizing civil society workshops, consultation sessions, public hearings for CSOs or setting up committees consisting of CSOs to provide feedback to Budget Circulars
- Explore the potential role of CSOs in the new Provincial Budget Policy system in terms of monitoring implementation at the local level

International Donors

- Channel more resources through budget support options such as the ARTF or program-based allocation as a means to improve the discretionary authority of the Afghan government
- Apply a zero-tolerance policy to corruption within both the non-discretionary and discretionary budget while also supporting the streamlining of government anti-corruption initiatives
- Extend financial and technical support for the implementation of PFMR II in order to build on the progress made and address both fiscal and capacity gaps
- Ensure effective handover of infrastructure and facilities to the GIRoA, including adequate notice and ensuring government financial planning for O&M
- Include GRB as a priority in development assistance and promotion of aid effectiveness
- Donors and programs supporting GRB reform should shift focus from GRB as a general policy commitment to the actual knowledge, capacities, practices and systems that will facilitate the effective consideration of gender-differentiated needs, experiences, and impacts throughout budgets and programs at

every stage. Programs should ensure that support provided is in the form of support, rather than externally

developing policies, strategies, and systems

Civil Society Organizations

- Develop an awareness of the annual budget process, budget reforms and key issues concerning public finance management and fiscal sustainability
- Engage in the budget preparation process with the MoF as well as line ministries and the monitoring of service delivery
- Engage in the budget monitoring process through an awareness of allocations and commitments in the

national budget and national government strategy, and serve as an independent watchdog at the local level to advocate for effective and accountable implementation of the national budget

- Support a cooperative approach between CSOs and with the government instead of an adversarial attitude as a means to jointly strive towards effective budgeting and good governance

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