



Independent Review of Afghanistan 1395 Draft National Budget

A Snapshot of Resources, Allocations, and
Public Finance Management Performance

December 2015

Contents

4	Introduction	7	Fiscal Sustainability	11	Public Finance Management and Reforms	17	Recommendations
4	1.1 Methods	7	3.1 Domestic Revenues	12	4.1 Transparency and Accountability	17	Government
		9	3.2 Operations and Maintenance	12	4.2 Results-Based Budgeting and Monitoring and Evaluation	18	International Donors
4	1395 National Budget Draft at a Glance	10	3.3 Budget Execution	14	4.3 Provincial Budgeting	19	Civil Society Organizations
5	2.1 Estimated Resources	10	3.4 Donor Assistance and Discretionary Authority	15	4.4 Gender Responsive Budgeting		
5	2.2 Estimated Allocations 1395			16	4.5 Involvement of Civil Society		
6	2.3 Comparing the 1394 and 1395 Budget						

Acronyms

ACTA	Afghan Coalition for Transparency and Accountability	MoF	Ministry of Finance
AFMIS	Afghanistan Financial Management Information System	MoMP	Ministry of Mines and Petroleum
AFN	Afghani (currency)	MoPH	Ministry of Public Health
ANDS	Afghanistan National Development Strategy	MoWA	Ministry of Women's Affairs
ANSF	Afghanistan National Security Forces	MRRD	Ministry of Rural Rehabilitation and Development
ARTF	Afghanistan Reconstruction Trust Fund	MTBF	Medium-Term Budget Framework
AGO	Attorney General's Office	NAPWA	National Action Plan for the Women of Afghanistan
BU	Budget Unit	NPA	National Procurement Authority
BRT	Business Receipt Tax	NPC	National Procurement Commission
CBR	Capacity Building for Results	NPP	National Priority Plan
CSO	Civil Society Organization	O&M	Operations and Maintenance
DAD	Development Assistance Database	OBI	Open Budget Index
DCD	Development Cooperation Dialogue	OBS	Open Budget Survey
DG	Directorate General	PFEM	Public Finance and Expenditure Management
EPD	EQUALITY for Peace and Democracy	PFM	Public Financial Management
FDWG	Fiscal De-Concentration Working Group	PFMR	Public Financial Management Roadmap
FY	Fiscal Year	PPU	Procurement Policy Unit
GDP	Gross Domestic Product	SAO	Supreme Audit Office
GIRoA	Government of the Islamic Republic of Afghanistan	SBPS	State Budget Planning System
GPMS	Government-wide Performance Monitoring and Evaluation System	SDG	Sustainable Development Goal
HOO	High Office of Oversight and Anti-Corruption	SIGAR	Special Inspector General for Afghanistan Reconstruction
IDLG	Independent Directorate of Local Governance	SIGTAS	Standard Integrated Government Tax Administration System
ISAF	International Security Assistance Force	SMP	Staff Monitored Program
MAIL	Ministry of Agriculture, Irrigation and Livestock	TASC	Technical Assistance Steering Committee
M&E	Monitoring and Evaluation	TMAF	Tokyo Mutual Accountability Framework
MDG	Millennium Development Goal	USD	United States Dollars (currency)
MoEd	Ministry of Education	VAT	Value Added Tax

Acknowledgments

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

1. Introduction

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 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 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 the Afghan Parliament to review and approve the national budget. The process furthermore 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 1395 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) Treasury Directorate General (DG), Revenue DG, Budget DG, Ministry of Education (MoEd) and several national and international PFM experts. 10 people were interviewed through the consultations at the central level. All interviews were recorded, transcribed, and analyzed. All figures for Fiscal Year (FY) 1395 are taken from the National Budget Draft sent to Parliament in late November 2015. The exchange rate of USD 1 equal to 63 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.

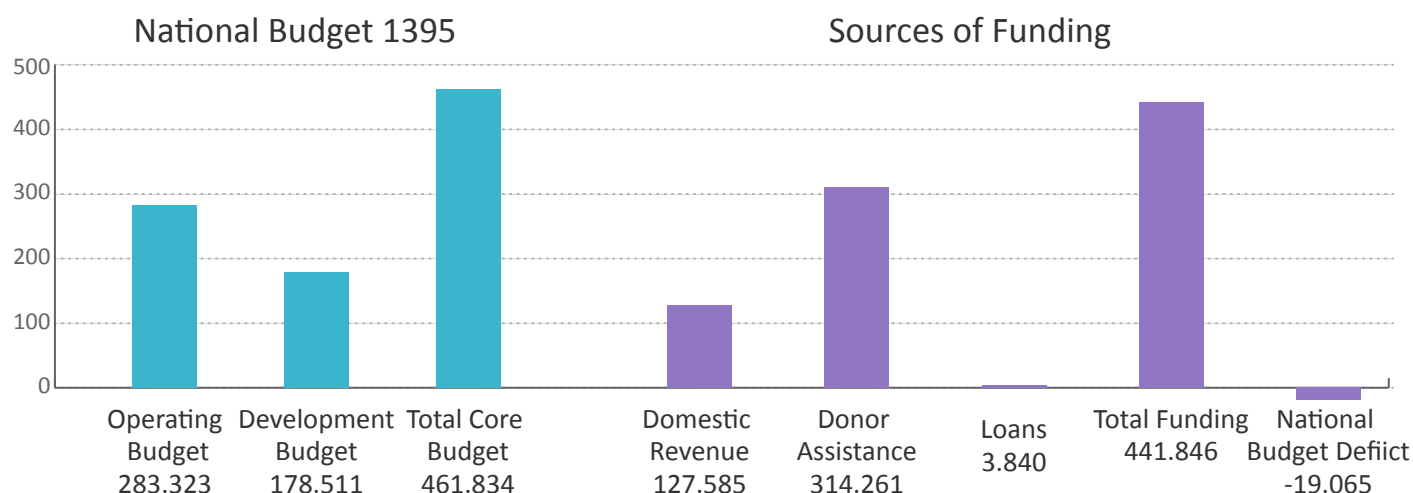
2. 1395 National Budget Draft at a Glance

The proposed budget for FY 1395 is AFN 461.834 billion (USD 7.331 billion), which is 6% higher in comparison to the 1394 budget of AFN 436.173 billion (USD 7.652 billion).¹ The national budget is funded through domestic revenue, donor's assistance, and loans. Domestic revenue for 1395 is projected at AFN 127.585 billion (USD 2.03 billion), constituting 28% of the national budget. For 1395, international donors have committed AFN

314.261 billion (USD 4.98 billion), which constitutes 68% of the overall budget for 1395. Another AFN 3.840 billion (USD 60.949 million) is in loans. However, there is a budget deficit of AFN 19.065 billion (USD 302 million), which amounts to 4.1% of the national budget, up from a 2% deficit in 1394. In the 1395 budget, AFN 283.323 billion (USD 4.50 billion) 61% of the proposed national budget is allocated for the operating budget, and AFN 178.511 billion (USD 2.83 billion) 39% is allocated for the development budget.

¹ It should be noted that the 1395 figure in USD is actually lower due to the depreciation of the AFN currency.

Figure 2.1.1: 1395 National Budget (in AFN billions)



2.1 Estimated Resources

Domestic Revenue

The government's revenue target for 1395 is AFN 127.585 billion (USD 2.03 billion). MoF has estimated that 78% of the domestic revenue will be generated through taxes. Of this, 13% is estimated from flat tax, 24% from income tax, 0.8% from capital tax, 24% from tax on goods and services, 32% from tax on business trade, and 7% from other taxable revenue. 22% of domestic revenue is estimated from domestic non-taxable revenues.

Donor Assistance

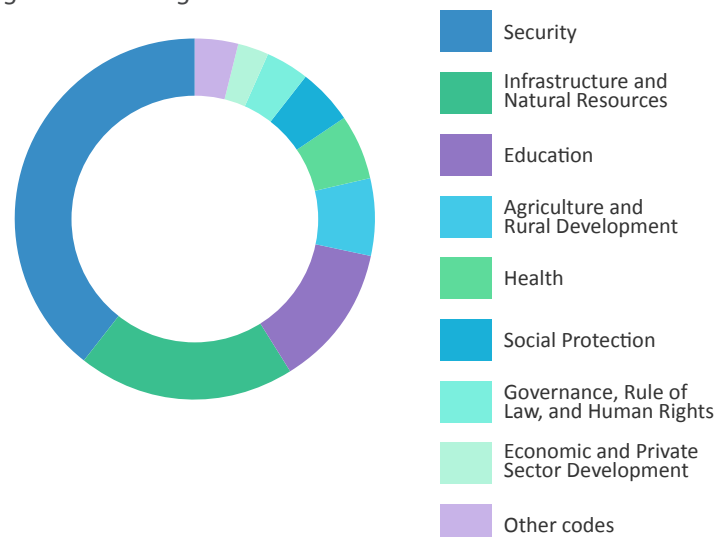
For 1395, international donors have committed AFN 314.261 billion (USD 4.98 billion), which constitutes 68% of the overall budget for 1395. Of this, AFN 155.738 billion (USD 2.472 billion) is allocated to the operating budget, and AFN 154.682 billion (USD 2.455 billion) to the developing budget. In the donor's share of the development budget, AFN 22.129 billion (USD 351 million) is allocated as discretionary assistance, AFN 132.553 billion (USD 2.104 billion) in non-discretionary assistance, and AFN 3.839 billion (USD 61 million) in loans. Compared to 1394, the donor support represents a 2% increase in on-budget donor commitments from the AFN 302.753 billion (USD 5.311 billion) committed in 1394.²

of the overall budget than in 1394. Based on budget codes, 57% of the operating budget for 1395 is allocated for wages and salaries (Code 21), 26% for goods and services (Code 22), 4% for acquisition of assets (Code 25), and 13% in contingency codes.

Development Budget

The proposed development budget for 1395 is AFN 178.511 billion (USD 2.83 billion), constituting 39% of the proposed national budget. In monetary terms, the development budget has increased by AFN 25.825 billion (USD 410 million) from 1394, constituting a 15% increase. It has a 6% higher share of the overall budget than in 1394. AFN 136.393 billion (USD 2.164 billion) is for non-discretionary projects, constituting 76% of the development budget. AFN 42.118 billion (USD 668.541 million) is for discretionary projects, constituting 24%. This amounts to a 0.8% decrease in the amount of non-discretionary funding compared to the 1394 development budget, and a 34% increase in the discretionary share 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.

Figure 2.2.1 Budget Sector Breakdown



2.2 Estimated Allocations 1395

Operating Budget

The proposed operating budget for 1395 is AFN 283.323 billion (USD 4.497 billion), constituting 61% of the proposed national budget. In monetary terms, the operating budget has decreased by AFN 163 million (USD 2.59 million) from 1394, staying generally consistent. It has a 4% lower share

² It should be noted again that the 1395 figure in USD is actually lower due to the depreciation of the AFN currency.

Figure 2.2.1: Estimated Allocations 1395 by Sector

No	Sector	In AFN (millions)			Total %	% OB	% DB
		Operating Budget (OB)	Development Budget (DB)	Total			
1	Security	181,272.235	1,691.028	182,963.263	40%	64%	1%
2	Infrastructure and Natural Resources	5,922.382	84,264.461	90,186.843	20%	2%	47%
3	Education	37,441.937	22,148.432	59,590.370	13%	13%	12%
4	Agriculture and Rural Development	2,080.101	30,388.509	32,468.610	7%	1%	17%
5	Health	2,959.532	23,464.007	26,423.540	6%	1%	13%
6	Social Protection	21,282.233	1,700.090	22,982.323	5%	8%	1%
7	Governance, Rule of Law and Human Rights	13,950.696	3,310.391	17,261.087	4%	5%	2%
8	Economic and Private Sector Development	2,990.351	10,599.553	13,589.905	3%	1%	6%
9	Other codes	15,423.926	945.000	16,368.926	4%	5%	1%
Total		283,323.395	178,511.474	461,834.870			

2.3 Comparing the 1394 and 1395 Budget

Figure 2.3.1 illustrates the difference in allocations from 1394 to 1395, and the budget execution rate by sector from 1393 to 1394 (through the third week of November for each year for comparative purposes). Allocations decreased in the security sector, and the sector appears to have performed slightly poorer in executing their operating budget this year, down by 5% from the rate at the same time last year. Also of note is that while budget execution in the security sector was 60%, expenditures for the Ministry of Defense were only at 47%. However, there was a notable improvement in the execution of the security sector development budget, up by 44% from 8% at the same time last year, though still somewhat weak at only 52% and constituting a small portion of the security sector budget. There was also a decrease in allocations for agriculture and rural development, and increased allocations in every other

sector. Though the overall execution of the operating budget was generally consistent with performance last year, there were improvements in every sector except for security. Similarly, there was a slight improvement in the execution of the development budget, and major improvements in the security, governance sectors, and social protections sectors.

Though figures will improve when accounting for the remainder of the fiscal year, performance is still generally low, with the execution of the operating budget currently only at 68% overall and the development budget at only 40%. Similar to 1394, when 94% of the development budget and 51% of the operating budget had been allocated by the third week of November, by the same time in 1393 94% of the development budget and only 56% of the development budget had been allocated, indicating little to no improvement in terms of sectoral ministry capacities and MoF allotments.

Figure 2.3.1: Comparing Allocations and Budget Execution

Sector	1395 and 1394 Allocations			1393 and 1394 Budget Execution					
	In AFN (millions)			% Budget Execution OB		% Budget Execution DB		% Difference between Budget Execution and 1393 and 1394 ¹	
	Difference between Operating Budget (OB) and Development Budget (DB) 1395 and 1394		Difference between Total 1395 and 1394						
	OB	DB		1393	1394	1393	1394	OB	DB
Security	-9,829.084	+636.224	-9,192.860	65	60	8	52	-5	+44
Infrastructure and Natural Resources	-372.868	+20,705.767	+20,332.898	70	89	33	33	+19	-
Education	+1,385.842	+1,969.769	+3,355.612	83	85	34	33	+2	-1
Agriculture and Rural Development	+172.022	-9,247.418	-9,075.396	82	86	62	64	+4	+2
Health	-60.399	+7,982.590	+7,922.192	82	84	50	44	+2	-6

Social Protection	+1,453.632	+450.899	+1,904.531	89	92	21	33	+3	+12
Governance, Rule of Law and Human Rights	+807.692	+130.365	+938.057	84	86	9	37	+2	+28
Economic and Private Sector Development	+98.299	+2,251.736	+2,350.036	78	91	33	33	+12	-
Other codes	+6,181.926	+945.000	+7,126.926	-	-	-	-	-	-
Total:	-162.938	+25,824.932	+25,661.996	69	68	36	40	-1	+4

3. Fiscal Sustainability

In an uncertain economic climate, fiscal sustainability is critical in order to maintain the progress made since 2001, especially with total government spending and off-budget donor support projected to decline from 55% of the Gross Domestic Product (GDP) in 2013 to 40% in 2018.³ In

2014, Afghanistan's 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 2014.⁴ The Senior Officials meeting took place ten months after initiating the "Realizing Self-Reliance" agenda, at which point the government gave itself a score of B+. In June 2015, an agreement was reached with the 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. According to the September 2015 update, the SMP is on track, having initiated banking sector reform with the four largest banks hoping to soon comply with international accounting and management standards and pension reform underway.

Besides domestic revenue, 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 1395 to 1397. 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, aggregate fiscal forecast and analysis, revenue and expenditure analysis, and sector expenditure analysis.

This is the sixth MTBF produced by the MoF, and it is available in English only on the Directorate General Budget Website.

The MTBF outlines the difficulties faced by the Afghan economy in 1393, and notes that the effects have carried into 1394 as well. The document predicts that the outlook for the economy from 1395 to 1397 will be positive, but with a slower pace recovering from the 1393 downturn. Real economic growth was 2.1% by the end of 1393, and the MTBF projects that GDP growth will increase slightly from 4% in 1394 to 5.1% in 1395, and the medium-term prospect is for growth around 5-6%, which is lower than historic performance, but also taken in context of Afghanistan's current transition from a donor-led economy to a more domestically driven economy.⁵ Other means to ensure fiscal sustainability such as sufficient O&M funding, on-budget donor support and discretionary authority will be discussed as well.

3.1 Domestic Revenues

In 1394, the bulk of revenue was from customs duty and fees (AFN 26.199 billion), income taxes (AFN 17.414 billion), and general taxes on goods and services (AFN 16.212 billion). Other sources included administrative fees (AFN 11.044 billion), miscellaneous revenue (AFN 9.087 billion), and fixed taxes (AFN 8.710 billion). Lesser sources of revenue included retirement contributions (AFN 3.479 billion), sales of goods and services (AFN 3.825 billion), income

3 ARTF, *Financing Strategy FY1394-1396 (2015-2017)*, 2015

4 GfRoa, *Afghanistan's Roadmap to Self-Reliance*, September 2015.

5 GfRoa, *Pre-Budget Document (MTBF): 1395-1397*, 2015.

from capital property (AFN 2.342 billion), other taxes (AFN 3.629 billion), sales tax (AFN 1.029 billion), property taxes (AFN 0.682 billion), non-tax fines and penalties (AFN 0.733 billion), extractive industry (AFN 0.445 billion), sale of land and buildings (AFN 0.022 billion).

Following the economic downturn in 1393, domestic revenue improved in 1394 with the government only falling 5% short of their target for the fiscal year on the lower end of estimates, and exceeding the target by AFN 5 billion on the upper end of estimates. According to the MTBF, in 1394 AFN 10 billion was generated from new tax measures, including an increase in Business Receipt Tax (BRT) rates, credit card top up, fuel fees, overflight revenues, and a tariff increase. However, it also noted that most of the new measures have a time constraint as – except for the overflight fee and tariff increase – they were passed by a Presidential decree during the Parliament’s recess and need to be renewed in a month’s time with the approval of the Parliament, leading to uncertainty regarding revenue collection for 1394.⁶ The MTBF estimates a 27% growth in domestic revenue for 1395, using 1393 as base revenues, but the growth in revenue will be about 6% when taking the AFN 120 billion estimate for 1394 as a base year.⁷ While the growth is promising, the government’s target of 15.9% in 2020⁸ still seems unrealistic as efforts made by the government to increase domestic revenue remain ineffective or insufficient due to a variety of factors such as the inability to collect taxes because of insecurity, capacity issues at the provincial level and compliance issues with large companies according to a senior MoF official.

However, the Senior Officials Meeting noted that as a component of the “Realizing Self-Reliance” reform, the MoF is attempting to take dramatic actions to increase revenue collection. The customs police are being transferred to the MoF, and the core modules of an integrated tax administration system are now being fully implemented in the Large and Medium Taxpayer’s Offices in Kabul, and partially implemented in the Kabul Small Taxpayers Office and in Balkh, Herat, Nangarhar, Kunduz, and Kandahar provinces. The system is used to monitor and maintain internal revenue. The revenue department has already implemented several of these reforms in 2015 to improve domestic revenue collection and compliance according to a senior MoF official and PFM expert. This includes the introduction of a risk-based compliance strategy that aims to target risky taxpayers rather than auditing everyone as well as the roll-out of the final phase of the computerized administration tax system called Standard Integrated Government Tax Administration System (SIGTAS). Preliminary steps have also been taken to map the revenue potential of different provinces. However, a systemic mapping as well as

monitoring of revenue potential versus collected revenue will unlikely be on the agenda of the government or donor agencies in the near future according to a PFM expert and senior MoF official and it isn’t mentioned in the PFMR II either.

As a means to increase revenues from taxes, a flat value-added tax (VAT) was scheduled to be implemented in 2014 in line with the IMF’s Extended Credit Facility plan for Afghanistan and was finally approved by the Parliament in May 2014.⁹ The GfRoa estimated that the proposed VAT, which is supposed to replace the existing BRT, would add around USD 700 million to government revenue beginning in 2015, with VAT revenue increasing as GDP grows¹⁰ and is estimated to possibly generate 1% to 2% of GDP by 2021/22.¹¹ However, the Parliament only approved a lower VAT of 5%, which is due to come into effect as of December 2016 unless the government amends the law and postpones the implementation¹² – which would be the second time as the VAT introduction was postponed earlier due to a lack of administration readiness.¹³ According to a PFM expert, the lowered VAT can actually lead to a negative revenue output but could nevertheless still be valuable due to the potential compliance benefit (i.e. through the VAT, the government would be able to collect a chain of information about firms and their sales).

An underdeveloped strategy with the potential to expand the tax base of the government is private sector development. A recent study on Afghanistan’s private sector showed that little progress has been made in this regard.¹⁴ The Afghan government and international donors have made commitments to encourage private sector growth through initiatives such as the Small- and Medium-Enterprises Strategy implemented in 2011 including the establishment of a SME Directorate at the Ministry of Commerce and Industries (MoCI). A New Market Development Project was also developed the same year in order to revitalize the private sector in four key urban areas. Despite these efforts, the report concludes that progress in private sector growth has been lacking, providing several explanations for this. An overarching strategic framework with a clear division of labor for developing the private sector was never developed; the government did not wholeheartedly support private sector competition; the international community applied a fragmented approach and effectively reinforced a model of aid dependency; and coordination between state and non-state actors has been limited. A drop in business confidence and new investment activity as indicated through the proxy

9 GfRoa, VAT law implementation preparations April (2014). Visited [website](#) on November 17 2014.

10 Sternlieb, “Inadequate revenue threatens Afghanistan’s stability,” *International Journal of Security and Development* Vol. 3, No. 1, 2014.

11 World Bank, *Afghanistan in Transition: Looking Beyond 2014*, 2013.

12 The Economist, “Government revenue falls below budget target,” 13 February 2015.

13 IMF, *Country report no. 15/140*, 2015.

14 SIPRI, *Afghanistan’s Private Sector: Status and Ways Forward*, 2015.

6 Ibid.

7 Ibid.

8 GfRoa, *Towards Self-reliance: Strategic Vision for the Transformation Decade*, 2012.

indicator of new firm registrations evidences this insufficient support for private sector growth. The rate of new firms registering has dropped nearly 50 percent since 2012 and remained at the same level during the first six months of 2015.¹⁵

According to the GIRA, another promising revenue stream comes from mining revenues, which they expect to generate revenues of over USD 650 million by 2020¹⁶ or 2% to 3% of GDP in 2021/2022.¹⁷ However, the revenue from the mineral sector in 1394 is disappointing, projected to come in around USD 30 million for the third year in a row, falling far short of the project USD 1.5 billion. According to the Minister of Mines and Petroleum, this figure is equivalent to only a quarter of what smugglers earn annually selling rubies and emeralds. The Minister attributed this shortfall to a failure to manage and control the mining sector, and stated that in the current situation it is very difficult to say when Afghanistan can actually expect any profits from the sector.¹⁸ Research 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.¹⁹ Estimated total lost revenues from the five mines, compared with their revenue potential, are more than \$50 million annually from just two revenue streams (royalty and surface rent).²⁰ 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.²¹

Despite investments by various donors, a recent Special Inspector General for Afghanistan Reconstruction (SIGAR) report found that the extractive industry sector is facing many difficulties in terms of management. The technical capacity of the Ministry of Mines and Petroleum (MoMP) to research, award and manage new contracts without external support has been perceived as continue to be lacking according to representatives of the US government, Afghan government and Integrity Watch Afghanistan. MoMP officials do not have the capacity to handle medium- or large-scale tenders and tenders dealt with from “start-to-finish” by the MoMP itself at the provincial level were flawed and rife with corruption.²² Corruption continues to be a persistent issue facing the government in terms of revenue collection. While analysts explain that part of the decline in customs revenue since 2011/12 can be explained

by the slowdown in economic growth and lower dutiable imports, it is also acknowledged that a considerable portion of this issue must be related to corruption, as accounts indicate that corruption in the department is both organized and pervasive.²³

The government has taken initiative to curb corruption and improve the revenue potential of the extractive industry sector with initiatives such as the revised Mineral Law in 2014 and the development of an Extractive Industry Development Framework. The law has, however, been receiving some scrutiny.²⁴ A prominent Afghan civil society watchdog called for amendments in order to achieve more transparency in contracts, clearer conflict of interest regulations, better compliance penalties, more community engagement and effective dispute resolution.²⁵ The framework, which is currently being developed, attempts to address some of the aforementioned issues in the extractive industry through implementing a vision that includes community engagement, reforms of business processes, environmental protection and better revenue management, but details have not yet been clearly outlined.²⁶

According to the September progress report on Realizing Self-Reliance, the customs and revenues departments have further undertaken a comprehensive reform consisting of leadership and administrative changes, human resource management reforms, streamlining of procedures to make them transparent and objective, and the automation of systems. MoF has taken control of customs police, introduced tracking devices for transit vehicles, piloted E-payment at Hamid Karzai International Airport in Kabul, and has formed a review committee that has visited nine provinces to review senior staff.²⁷ Other initiatives planned are the introduction of financial incentives for revenue collections as well as bonuses for security forces in accordance with the custom and tax laws.²⁸ The government also reported that it has begun to streamline the governance of anti-corruption efforts by eliminating duplication among anti-corruption agencies—mainly the Attorney General’s Office (AGO) and High Office of Oversight and Anti-Corruption (HOO) – while the AGO will be pursuing and prosecuting corrupt officials.²⁹

3.2 Operations and Maintenance

Operations and maintenance (O&M) remains a critical challenge facing the government in 1395. The 1395-1397

15 World Bank, *Afghanistan Development Update*, October 2015.

16 GIRA, *Towards Self-reliance: Strategic Vision for the Transformation Decade*, 2012.

17 World Bank, *Afghanistan in Transition: Looking Beyond 2014*, 2013.

18 Eltaf Najafizada, “The Taliban is Capturing Afghanistan’s \$1 Trillion in Mining Wealth,” *Bloomberg Business*, 21 October 2015,

19 Javed Noorani, “Afghanistan’s Emerging Mining Oligarchy,” *United States Institute of Peace*, January 2015.

20 Ibid.

21 IWA, *Policy Brief: Extractives for Sustainable Development in Afghanistan*, 2015.

22 SIGAR, *Audit report: Afghanistan’s Mineral, Oil and Gas Industries*, April 2015.

23 William Byrd, “Economic Management in Afghanistan: What Worked, What Didn’t, and Why?,” *Afghanistan Analysts Network*, 2015.

24 Javed Noorani, “Afghanistan’s Emerging Mining Oligarchy,” *United States Institute of Peace*, January 2015.

25 Ibid.

26 UKAID, PowerPoint entitled “Afghanistan: Extractive Industry Development Framework,” August 26 2015.

27 GIRA, *Afghanistan’s Roadmap to Self-Reliance*, September 2015.

28 GIRA, PowerPoint called the “1395 National Budget Draft: Head of Agency Meeting,” November 24 2015.

29 GIRA, *Afghanistan’s Roadmap to Self-Reliance*, September 2015.

MTBF acknowledged that O&M will be one of the major spending items in the budget, where most of the assets that have been created over the past 15 years have been funded and maintained by donors. Responsibility to fund these assets is gradually being transferred to the GIRA, which places considerable fiscal pressure on the budget. To address this issue, O&M has been supported through the Afghanistan Reconstruction Trust Fund (ARTF) funded O&M Facility, which was introduced in FY1392 as a pilot to incentivize improved O&M of public assets in general and in key areas including education, health, and rural and urban infrastructure by providing an incentive for improved spending. Under the O&M Facility, the four line ministries of the Education, Public Health, Public Works and Civil Aviation authority have developed O&M policies and asset registries resulting in improved O&M spending by the government from 2012 onwards.³⁰ The core implementation period of the ARTF O&M incentive facility came to an end in December 2014, where a total of USD 99.5 million was disbursed. The program noted that the facility succeeded to some degree, though only 75% of the allocated funding was actually disbursed, and as stated, deficiencies in O&M financing persist.³¹

The O&M Policy, which was drafted in accordance with the establishment of the O&M facility, planned to finish the expansion of O&M to all budgetary units by the end of 1396. This includes participation in the World Bank Incentive Program, development of an O&M policy and implementation plan, completion of an asset registry, clear costing mapping, regular financial reporting and performance reporting on O&M expenditures and a multi-year O&M expenditure budget.³² In the Roadmap to Self-Reliance progress report in September 2015, MoF acknowledged that planning remains fragmented and unrealistic and capital investment is favored over O&M.³³

In 2013, ISAF has estimated that USD 3.5 billion would be required per year in O&M for military infrastructure and equipment assets to be preserved.³⁴ These costs would cover repairs, utility costs, regular operations at Afghan National Security Forces (ANSF) bases and police stations across the country, existing and planned new procurement of equipment, repairs and a few other miscellaneous costs. ISAF's estimate for non-security O&M costs is lower at USD 1.3 billion to maintain the non-security assets. This number accounts for assets maintenance.³⁵ This continues to pose a formidable fiscal challenge, where as much as 20% of payroll and close to 60% of non-wage O&M in recent years has been found to be ineligible for reimbursement,

which indicates considerable public financial management weakness.³⁶

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 14 November 2015, which is used to allow for multi-year analysis, shows that the operating budget is 5% below target while the development budget also remains low at 39%, making an average of 56%, which is 14% below target. It also notable that the budget allotments are significantly higher than the execution rates at 93% and 55% respectively.³⁷ This is in line with last year's average execution rate of 54% while the respective execution rates of the development and operating budget are more or less the same. Similar to last year, this year's low budget execution rates could be explained by capacity issues at the line ministry and MoF level³⁸ as well as the political crisis at the time.

Another issue that was mentioned by a PFM expert related to the practice of over-budgeting, which provides line ministries leeway in resource allocations in anticipation of program problems as the transferring of funds between provinces, programs and codes still requires the approval of the MoF, Parliament and/or donor. The streamlining of the Capacity Building for Results (CBR) program and the recently approved Provincial Budgeting Policy can potentially address these issues by recruiting based on merit and improving effective budget planning, formulation and execution through systemic input from and collaboration with provincial authorities.

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. This year, the MoF announced in July that the 2015 would begin on August 2, and were expected to conclude in early September with information provided by donors to be summarized in the annual Development Cooperation Report issued by the Aid Management Directorate.³⁹ However, no update on whether the DCD took place is available, and the most recent report publicly available is from 2012.

30 World Bank, *ARTF Scorecard 2014: Integrated Performance and Management Framework*, 2015.

31 ARTF, *Mid-Year Report: December 21, 2014 to June 21, 2015*, 2015.

32 GIRA, *O&M Policy draft*, date unknown.

33 GIRA, *Afghanistan's Roadmap to Self-Reliance*, September 2015.

34 World Bank, *Afghanistan in Transition: Looking Beyond 2014*, 2013.

35 Ibid.

36 William Byrd, "Economic Management in Afghanistan: What Worked, What Didn't, and Why?," Afghanistan Analysts Network, 2015.

37 GIRA, *Execution report 14-11-2015*, 2015.

38 Marie Huber and Maurits Rade, *Independent Review of Afghanistan 1394 Draft National Budget*, 2014.

39 Budget Department, Ministry of Finance, Islamic Republic of Afghanistan.

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 1395, increasing by a mere 2%. Although the exact figures are not made public by individual donors, two PFM experts interviewed for this report confirmed that since last year the on-budget support from donors has exceeded the 50% goal as was agreed upon during the 2010 Kabul Conference. However, they also stated that it is highly unlikely that the on-budget support will increase any further unless the public financial management performance improves drastically. According to these two PFM experts, current discussions between the Afghan government and donors focus on the structuring of any additional discretionary funding while ensuring low fiduciary risks for the donors and the government's absorption capacity. Although the government prefers untied and un-earmarked donor support, the most likely options will be that donors will either funnel more money through the ARTF or allocate funding by program – which will differentiate between donors, as one PFM expert suggested.

While 87% of the core development budget is funded through donor support, only 14% of that funding is

under the discretionary authority of the government, with the remaining 86% of donor development budget support under the discretionary authority of international donors based on agreements with each donor for specific projects while nonetheless flowing through the government-controlled budget. This indicates that when also including domestic revenue financing to the development budget, the government still only has discretionary authority over 25% of the development budget. This shortcoming is likely at least partially attributable to a government and MoF that are still facing considerable capacity constraints in managing public finance. Research from EPD of October 2014 found that efforts to improve budget effectiveness such as provincial budgeting and capacity building are simply unrealistic if the GfRoA does not have sufficient discretionary authority over the national budget.⁴⁰ A PFM expert interviewed for this research mentioned that more discretionary funding – depending on how it will be structured – can be very helpful as it can improve the government's overall budget management by making the allocation of resources easier. According to the same PFM expert, the current common practice of providing tied aid diminishes the government's ability to transfer funding between provinces, programs and projects when facing economic, political or security problems.

.....
40 Maurits Rade, Chuck Thiessen and Marie Huber, *Building a Better Budget: Assessing National Budget Efficiency and Delivery in the Ministries of Education and Public Health*, 2014.

4. Public Finance Management and Reforms

Public financial management has been at the core of the post-2001 reconstruction efforts of the donor community and the different Afghan governments. PFM, which includes budgeting, spending, accounting and auditing, is a foundational tool for managing governance in Afghanistan. EPD's annual budget reviews as well as other research outputs have shown that the government has made significant improvements over the year by establishing a sophisticated state budget planning system (SBPS), strategic policy documents such as PFM Roadmap (PFMR) I and II, and proper accounting mechanisms.⁴¹

Together with the multi-year strategic plan of the MoF and the MTBF, the PFMR is the most important strategic policy instrument as it is intended to lead the government towards

.....
41 Marie Huber and Maurits Rade, *Independent Review of Afghanistan 1394 Draft National Budget*, 2014; World Bank, *Public Financial Management and Accountability Assessment*, 2013.

its stated goals of increased self-reliance and diminished donor dependency.⁴² The PFMR II was developed by the MoF in 2015 with many feedback consultation sessions with national and international stakeholders. It attempts to address the key problems such as insufficient domestic revenues, corruption, poor project planning, misalignment of aid and resource allocation with government priorities and low budget execution. To realize this, the PFMR II focuses on five strategic objectives with 19 outcomes and 33 outputs:

- To budget in accordance with fiscal constraints, national priorities and transparency
- To increase national revenues to enable self-reliance and sustainability
- To deliver budgets that are credible and aligned with

.....
42 GfRoA, *Public Financial Roadmap II*, 2015.

- national and subnational strategies
- To plan, procure and execute the budget with systems based on programs in order to deliver services that meet resource, time and accountability objectives
- To improve monitoring and evaluation, audit, accountability and transparency so as to reduce corruption, increase effectiveness and efficiency, and increase public confidence

Based on lessons learned from the PFMR I, several initiatives have been incorporated to ensure collaboration between stakeholders to jointly agree on realizing binding outcomes. These include program M&E, an integrated PFM calendar, consolidation of tax policy and planning, development of a professional PFM cadre and alignment of aid to national priorities. Donors are also requested for support in order to allocate funds to programs in the national budget rather than to development projects and for continued support for PFM reform through the PFMR II.

The PFMR II has been approved by the Minister of Finance and is ready for operationalization once the implementation plan is finalized by the MoF. Project implementation is likely to start in the first quarter of 2016 according to a PFM expert who has been closely involved in the entire process of developing the PRMR II. As the PFMR II is in line with the government national strategies, it is worth mentioning that the Ministry of Economy (MoEc) is currently in the process of restructuring the key development strategies to align them with the new Sustainable Development Goals (SDGs). In a presentation, three potential strategy options are outlined: to carry on with unfinished Millennium Development Goals (MDGs), to follow up and build upon the achievements of the NPPs, or to develop a new Afghanistan National Development Strategy (ANDS).⁴³

4.1 Transparency and Accountability

Government transparency and institutionalized accountability mechanisms are critical to effective public financial management that is accountable to the people of Afghanistan. The government has made significant improvements since the Open Budget Survey (OBS) has been tracking the progress made in Afghanistan. Compared to 2008, the government now publishes its pre-budget statement, a citizen's budget, the mid-year review and an audit report.⁴⁴ The availability of these documents are important indicators for the government's commitment to transparency and accountability, but the OBS – the world's only independent comparable measure – still scores Afghanistan as “limited” in its index which is on par with the

scores of countries in the region. Based on 109 indicators to measure budget transparency, each country is given a score between 0 and 100 on the Open Budget Index (OBI), which is a broad, comparable measure of budget transparency. The 2015 score for Afghanistan, 42 out of a 100, which is 17 points lower than in 2012, is attributed by the survey to the lacking publication of the Mid-Year Review and reduction in the comprehensiveness of the Executive's Budget Proposal. It should be noted that a PFM expert and a senior MoF official stated that the intention was there to publish the Mid-Year Review in 1394 but that the political crisis prevented the MoF from finalizing the document.

The aforementioned Citizen's Budget was introduced in 1390 as a commitment to openness and transparency, and was again produced the publication in 1394, which is available in Dari, Pashto, and English. 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 1394 National Budget Statement or pre-budget statement, which is a more comprehensive document outlining the strategic goals and priorities of the 1394 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 1394, the MoF also published monthly fiscal bulletins from months 2 to 7 in English, Dari and Pashto, as well as 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, budget execution rates, sectoral breakdowns, sources and use of funds, provincial revenue collection, provincial expenditure breakdown, and financing. The quarterly fiscal bulletin included similar information in more depth, as well as an overview of the macro-fiscal situation, debt and financing, and updates on the fiscal crisis, 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 February 2014. 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. The MoF Office of the Deputy Minister for Administration also released three budget performance monitoring reports in the first, second, and third quarters of 1394, though both are available only in Dari on the MoF website. The DG Budget published the

43 GfRoa, Powerpoint presentation called the “Sustainable Development Goals and GfRoa Priorities,” 2015.

44 Open Budget Survey, *Afghanistan Summary 2015*, 2015.

1395 budget planner in English, Dari, and Pashto as well as the Budget Circular (BC) instructions for 1395 (both BC 1 and BC 2), which included the 1395 budget calendar.

Notably, the government introduced a new oversight mechanism in late 2014 through the National Procurement Authority (NPA) to help foster transparency within the public procurement system of Afghanistan, thereby shifting it from the Procurement Policy Unit (PPU) at the MoF to the Administrative Office of the President. The NPA is working with SIGAR as well as other national and international organizations to realize this objective. The National Procurement Commission is held each week, chaired by President Ghani, at which time the NPA represents to the NPC various ministries' contracts submitted to the NPA for review and action. The creation of the NPA has also led to amendments to the procurement law such as using debarment to prevent the further award of contracts to individuals and companies,⁴⁵ as well as limiting the evaluation committee's time to process procurement requests to 30 days after the bidding opening.⁴⁶ So far, the NPA seems to be quite successful in identifying waste as is exemplified by the NPA's announcement that more than 200 million USD was saved from just one contract of the Civil Aviation Authority.⁴⁷

In addition, according to the progress report on Afghanistan's Road to Self Reliance, the government will be implementing the purchasing model of AFMIS across the finance system to shift to e-procurement, which will become compulsory for all public procurement.⁴⁸ It is also noteworthy that two of the interviewed government officials at the MoF and MoEd also said that delays in budget execution could occur due to short-term capacity issues.

The entity dedicated to ensuring accountability in government spending, the Supreme Audit Office, has also undergone certain changes. 35 new staff were also added to the Supreme Audit Office (SAO), which audited four line ministries in 2015 accounting for 60% of public expenditure, all four of which were found to be compliant with the World Bank's Incentive Program benchmarks.⁴⁹ However, the audits of the Qatia accounts – the end of year financial statements of the government – seemed to have stopped as the latest report on the SAO's website is from 2013, but a PFM expert claimed that these audits have continued nonetheless. Recent data on the continuation and/or expansion of the compliance audits of line ministries is not publicly available beyond the 1392 audits, which is also applies to the internal

audits at line ministries supported by the SAO.⁵⁰ A MoEd senior official did mention that internal audits have become common practice at their ministry.

The access to information law, signed in December 2014 by President Ghani, covers non-governmental organizations and the private sector, consisting of 6 chapters and 32 articles that should facilitate unprecedented transparency in state institutions.⁵¹ In accordance with the law, a Monitoring Commission on Access to Information was formed in June, consisting of members of civil society.⁵² However, access to information continues to be a barrier to budget transparency as well as the government has generally failed to implement it.⁵³ The Afghan National Security Council and other high-level officials have also issued decrees that restrict the media's access to information and defense officials have imposed near-total media blackouts during key events in 2015 such as the April conflicts in Helmand. IWA has also stated that the law is weak, ranking 66th among 100 international laws of a similar nature, with several civil society organizations and journalists demanding that the President amend the law in February.⁵⁴

4.2 Results-Based Program Budgeting and Monitoring and Evaluation

Program budgeting was introduced in 2010 but traditional budgeting still seems a common practice among the line ministries. The PFMR II stated that program budgeting has been unable to move to the next stage of implementation utilizing outputs and outcomes to account for performance and national objectives. A SWOT analysis of the Afghan PFM environment published in 2014 also found that program budgeting is delivering on transparency but not on service delivery and states that the new program budgeting concepts have not been adequately absorbed. The analysis also suggests that there is a lack of support for program budgeting at the Minister and Deputy Minister level in budgetary units, while institutional changes required for the next phase of program budgeting has not yet been realized.⁵⁵

Another challenge for fully implementing program budgeting was mentioned by a senior MoEd official. The official stated that the budget circulars submitted to the MoF are broken down by program but that the budget proposals used by the MoF during the budget hearings are

50 ARTF, *ARTF Scorecard 2014: Integrated Performance and Management Framework*, 2015.

51 ATN, "NAI: Access to Information Law Main Problem of Journalism in Afghanistan," 28 September 2015.

52 IWA, "Monitoring Commission on Access to Information Established," 8 September 2015.

53 Ahmad Shuja, "Afghanistan Must Make Rights a Reality," Human Rights Watch, 27 April 2015.

54 Abasin Zaheer, "Access to Information Law be Amended: Journalism," 19 February 2015.

55 GfRoa, *Public Financial Roadmap II*, 2015.

45 SIGAR, *Second Quarterly Report*, 2015.

46 Details were not on the website but this was confirmed during an interview with a senior MoEd official. [Website](#) accessed on the 3rd of December.

47 WADSAM, "National Procurement Commission saves over \$200mn in one Civil Aviation Authority contract," 28 June 2015.

48 GfRoa, *Afghanistan's Roadmap to Self-Reliance*, September 2015.

49 Ibid.

not at the program level and only discuss the budget at the ministry level. When confronted with this issue, a senior MoF official responded by saying that the MoF face time constraints and not yet have the capacity to fully implement program budgeting but that the next phase will be rolled out as per the Program Budgeting Roadmap which is still being developed by the MoF.

In August 2014, MoF undertook an assessment of the 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 the BC 2. Not all Budget Units (BUs) had a Performance Monitoring Framework, and where they existed they were generally weak in terms of results specification, 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.⁵⁶

The assessment found that only a few programs had structural and 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 BC 2 submissions to MoF, with information given of questionable credibility where donor-supported projects were the exception to this shortcoming. Quarterly and annual BU performance reports often do not clearly follow the planned operational activity plan, and generally consist only of narrative descriptions without utilizing program results and indicators. What's more, 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 assessment found mixed but generally low understanding of and commitment to institution-wide performance M&E systems among senior officials and management, and limited funding for M&E incorporated into operating costs.

The newly proposed Government-wide Performance Monitoring and Evaluation System (GPMES) mentioned in the assessment was initially planned to be used by the MoF, but the President's office recently requested to take over responsibility according to a PFM expert. This assessment

represented the first stage in the process of developing and institutionalizing the GPMES, which initially was also part of the PFM Roadmap II but was then left out from the latest version that has been approved by the Minister of Finance.⁵⁷ The 2016-2020 PFM Roadmap, which is a reform strategy for sustainability and self-reliance, mentions 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 MoEc. It also requests the donor community to maintain reporting in the Development Assistance Database (DAD) to ensure transparency while a Performance Management Team will be the central responsible for monitoring and reporting on reform implementation.

4.3 Provincial Budgeting

The GIRoA committed to establishing a Provincial Budgeting Policy in the Tokyo Conference in 2012, following previous failed attempts at provincial budgeting reform. In 2014, a draft sub-national budgeting policy was prepared, which has now been approved by the Cabinet and sent to each line ministry last month for instructions to implement next year. The policy outlines the objectives, scope and key actors, implementation strategies, legal framework, division of responsibilities, reporting, procurement, payment and M&E guidelines. It will be piloted in the MoEd, Ministry of Public Health (MoPH), Ministry of Rural Rehabilitation and Development (MRRD) and the Ministry of Agriculture, Irrigation and Livestock (MAIL)⁵⁸ over a three-year period and will be extended to other budgetary units based on the success of pilot phase implementation. The aim of the policy is to have a "transparent, predictable and equitable provincial budgeting process that allows for bottom-up participation and consultation of provincial entities during national planning and budgeting, and facilitates efficient and effective service delivery at national and sub-levels."⁵⁹ According to a PFM expert, the policy aims to be in consensus with the Subnational Governance Policy currently being developed by the Independent Directorate of Local Governance (IDLG). It is not clear whether the Subnational Governance Policy will be a revised version of the previous lengthy 2010 publication⁶⁰ or an entirely new policy.

In terms of policy implementation, technical assistance and capacity building support will be provided to the relevant central and provincial entities. Provincial institutions will be provided with budgeting authorities proportional to their capacity, and the central institutions will require technical assistance to develop processes and procedures to transfer responsibility of service delivery to provincial entities and

⁵⁷ GIRoA, *Public Financial Roadmap II*, September 2015, 2015.

⁵⁸ Pilot ministries were not mentioned in the policy but were provided by a senior MoF official.

⁵⁹ MoF, *Provincial Budget Policy*, 2015.

⁶⁰ GIRoA, *Subnational Governance Policy*, 2010.

⁵⁶ GIRoA, *Assessment of M&E Systems in Ministries and Agencies*, August 2014.

to focus on strategy, policy and monitoring. In so doing, the policy aims to address a set of key challenges within the sub-national PFM systems such as a lack of transparency and weak consultation and coordination, lack of provincial capacity in budgeting, difficulties to fund O&M, lack of a clear division of responsibilities, and a lack of effective budget execution. These will be addressed through the policy's following objectives:

- Establish a legal framework to determine the responsibilities of central and sub-national entities in the budgeting process
- Delegation of proportional public finance management responsibilities and authorities to provincial institutions to develop/expand an effective public finance management system across the country
- Establish a proper and standard framework for “vertical and horizontal resource allocation” that guarantees equitable service delivery, and contributes to poverty alleviation across the country
- Ensure allocation of adequate resources to maintenance of existing and new assets based on standards within the budget ceiling
- Ensure participation of provincial officials in budget preparation, execution and monitoring
- Improve and enhance coordination and communication between central and provincial institutions and donors to increase transparency, accountability and financial discipline, and eliminate parallel budgeting structures/ processes
- Concentrate on service delivery outcomes and employment in the budget formulation and execution processes
- Disseminate budgetary statistics and figures, and streamline reporting processes to stakeholders.

Newly established entities will further support the coordination and implementation of the Policy. The Fiscal De-concentration Working Group (FDWG) will be established at the MoF and meet monthly to discuss the progress of the policy implementation with representatives of the Provincial Budgeting Unit officials, DG Treasury, DG Budget, DG Procurement, MoEc and IDLG. A Provincial PFM Committee will also be established in each province to improve the communication and coordination between line ministries and provincial directorates. The members will consist of the *Mustofi* as head of the committee, representatives of the Governor's Office, Directorates of Economy, Women Affairs and a budgeting specialist of the *Mustofiat*.

The policy clearly outlines the structure and process of de-concentrating budgeting authority and a commitment to make the process more inclusive, but specific details in terms of the de-concentration of power in the budget

execution phase to transfer money between codes, projects and programs are missing. The policy does mention that the DG Treasury will revise existing procedures and will develop the budget execution mechanism in coordination with the DG Budget. An interview with a senior MoF official suggests that the de-concentration of authority in practice will focus on the budget planning and formulation process rather than execution. It is worth noting the clear disconnect between policy and practice in previous attempts to implement provincial budgeting. These efforts have not been successful in overcoming the issues of the complexity in provincial governance structures, the centralized nature of control as per the constitutional mandate, and a lack of discretionary budget authority in the national budget.⁶¹ It remains to be seen if the newly approved Provincial Budgeting Policy will succeed where previous attempts failed.

4.4 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, MoPH, MAIL, MRRD, Ministry of Higher Education (MoHE), and Ministry of Labour & Social Affairs, Martyrs and Disabled (MoLSAMD). In May 2015, EPD undertook a review assessing the GRB reform, looking at the structures and mechanisms in place to facilitate and support the effective implementation of GRB, and at the incorporation of GRB in the 1394 budget planning process by the GRB pilot ministries.

Though national strategies such as the National Action Plan for the Women of Afghanistan (NAPWA) are in place, the EPD review found a clear disconnect between policy and practice. Extensive commitments and indicators have been developed in each sector regarding women and gender equality, but very few actually make their way into the budget planning, implementation, or evaluation process. Additionally, 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 of accountability for the gender-responsiveness of the national budget.

The review also found that many government officials still lack an understanding of GRB. There are still serious gaps in terms of knowledge and capacities to streamline GRB throughout the entire budget process and in all

61 Maurits Rade, Chuck Thiessen and Marie Huber, *Building a Better Budget: Assessing National Budget Efficiency and Delivery in the Ministries of Education and Public Health*, 2014.

programming and budgetary decisions. Based on an analysis of the GRB pilot ministries' BC 2 submissions through a gendered lens, it became clear that program justifications in terms of how they address gender were brief and vague, 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.

In several ministries, portions or entire sections of BC 2 regarding gender were left blank. Some provided no estimated gender breakdown of beneficiaries, or percentage share of women's participation in development projects. Additionally, even where estimates were provided, 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. It is unclear how these figures could be estimated in the absence of monitoring systems and data collection regarding beneficiaries that accounts for gender. As a whole, the key findings of the review pointed to a need for continued efforts to institutionalize GRB in Afghanistan and to facilitate meaningful GRB reform.

This review also noted a generally low level of gender-preparedness across the ministries. There is a widespread lack of resources, materials, and trainings available regarding GRB. There is a lack of policy and strategy at the ministry level across a number of ministries regarding gender and GRB, and access to technical support and systems to ensure the collection of sex-disaggregated data that support GRB decision-making is lacking. Political will for implementing GRB was found to be low, corroborated by findings that much of the focus on GRB has been externally driven by donors, and much of what has been developed in terms of gender policy and strategy has been undertaken with the support of donors, consultants, and external actors.

There are considerable barriers in terms of institutional structures and frameworks for effective GRB practices. Many Gender Units are understaffed, under-financed, and have a lack of qualified and experienced staff, and few Gender Units are included or even consulted in the budget process. Additionally, there is currently no formal role for the Ministry of Women's Affairs (MoWA) in the development, implementation, or evaluation of the national budget with respect to GRB. MoF has introduced gender as a component of BC 2 for the GRB pilot ministries, which provides a general framework through which ministries should provide explanations of how each program addresses gender, output and outcome indicators that are

gender-sensitive and reflect national strategies such as the ANDS and NAPWA, the gender equity of ministry staffing, percentage share of female beneficiaries, and percentage share of female participation in development projects.

MoF also released the GRB Strategic Action Plan in 2015. Though the introduction of the strategic plan can be seen as a positive step, it is far from an actionable, accountable document and instead generally outlines vague ambitions generally aligned with present efforts such as coordinating with donors, including gender in the pre-budget statement, and instructing line ministries to consult their Gender Focal Points. In budget implementation and monitoring, MoF commits to amending the BC 2 to include mandatory reporting of gender-based outputs before the 1395 budget, 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 "in due course," and partnering with NGOs. It also commits to building technical capacity for GRB, including developing a 3-year Capacity Building Plan and introducing the GRB Handbook and Training Manual, which was developed in 2015.⁶² Though these are all positive commitments, the strategy generally lacks specificity and its potential impact remains to be seen.

The plan itself demonstrates limited understanding of GRB. For example, in summarizing the current status of the GRB reform, the document explains that GRB was manifested in the allocation of a "contingency fund for gender-related issues" in the 1388 budget, and assessed GRB being mainstreamed into program budgeting as MoEd and MoLSAMD utilizing some funds from the contingency reserve. However, this 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. The strategic plan does, however, also address the introduction of GRB into BC 1 and BC 2, though as the EPD review found the way that gender is incorporated is far from meaningful, and the strategic plan also acknowledges that the information furnished by the line ministries is not satisfactory.

4.5 Involvement of Civil Society

EPD's research of earlier this year suggests that public participation in the budget process could potentially improve service delivery, as the budget would be based on the local populations' needs and on the ground realities.⁶³

⁶² GIRoA, *Gender Responsive Budgeting Strategic Action Plan: Integrating GRB in the National Budget*, 2015.

⁶³ Maurits Rade, Chuck Thiessen and Marie Huber, *Building a Better Budget: Assessing National Budget Efficiency and Delivery in the Ministries of Education and Public Health*, 2014.

To this end, the MoF has held workshops with civil society in 1392, 1393, 1394. According to the GIRA, the Civil Society Workshops are meant to promote public sector accountability and transparency as well as educate and engage civil society in budget planning, execution, and monitoring processes. However, it does not appear that such a workshop was held in advance of preparing the 1395 draft national budget. At the Second Senior Officials Meeting held in late 2015, which aims to follow up on the new phase of partnership initiated at the Tokyo Conference Afghan, civil society representatives did attend the Meeting according to the MoF. The Co-Chairs' Statement also noted that participants in the Meeting welcomed the signing of a Memorandum of Understanding (MoU) between the government and civil society to increase their mutual cooperation and engagement.⁶⁴

64 GIRA, *Second Senior Officials Meeting Co-Chairs' Statement*, 8 September 2015.

Despite these initiatives, the OBS of 2015 shows that public participation in budget processes is minimal. Afghanistan's score of 27 out of 100 indicates that the existing opportunities for civil society and the general public in the budget process are limited. The score is slightly higher than the global average of 25. This part of the OBS assesses the degree to which the government – executive, legislature and supreme audit institution – provides access for the public to be involved in the budget processes.⁶⁵ The OBS suggests that civil society involvement has not improved, which was evidenced by a senior MoEd official who mentioned that civil society is welcome to join the meetings with provincial representatives once the budget ceiling has been set by the MoF but that the ministry never receives any requests.

65 Open Budget Survey, *Afghanistan Summary*, 2015.

Recommendations

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

Government

Fiscal Sustainability

Domestic Revenue:

- Consolidate the new revenue measures of the increased BRT, fuel fees and top up credit cards by renewing the bill which is about to expire as it was initially passed by Presidential decree
- Put the mapping of revenue potential and monitoring of revenue potential versus collected revenue on the PFM reform agenda 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
- Prevent further delays of the VAT implementation by starting implementation as per schedule by December 2016
- Strengthen capacity of the MoMP to handle medium- and large-scale tenders "start-to-finish" as a means to improve effectiveness and root out corruption
- Devise an overarching strategic framework with a clear division of labor between government entities for private sector development as a means to expand the

tax base and thereby improve self-reliance

O&M:

- Ensure the timely implementation of the O&M Policy by completing the roll-out no later than planned and prioritizing O&M

Budget Execution:

- Streamline procedures of allotments and expenditures, especially for the development budget, between central and provincial level government authorities as a means to improve the effectiveness of the budget execution process
- Ensure that provincial authorities receive capacity building support through the provision of trainings via the Provincial Budgeting Policy and qualified technical assistance via CBR for the timely execution of allocated resources

Donor Assistance and Discretionary Authority:

- Negotiate with international donors to improve 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

PFM and Reforms

Transparency and Accountability:

- Develop an Action Plan to address the issues outlined in the Open Budget Survey of 2015 related to the provision of key documents as well as public participation in the budget process
- Continue aggressively identifying 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 crack down on government officials imposing restrictions for media and citizens to access budget information

Monitoring and Evaluation:

- Follow through on establishing the Government-wide Performance Monitoring and Evaluation System
- Take appropriate measures to streamline performance monitoring, baseline data collection and M&E reporting based on the findings of the MoF assessment of ministerial M&E systems

Provincial Budgeting:

- Ensure that the newly approved Provincial Budgeting Policy is in line with the Subnational Governance Policy which is currently being drafted by the IDLG
- Provide more details regarding the de-concentration of power in the budget execution phase to allow for the transferring of money between codes, projects and/or programs, which is currently missing in the Provincial Budgeting Policy

Program Budgeting:

- Ensure that the Program Budgeting Roadmap, which is currently being drafted by the MoF, is streamlined with the new PFMR II in order to avoid further delays in the final phase of implementation
- Clarify program budgeting concepts clearly and transparently in order for line ministries to apply the same norms and formulas

Gender-Responsive Budgeting:

- 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
- 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
- Formalize the role of MoWA in the budget process
- 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
- Report on the actual GRB process in budget documents, including gender analysis, rather than only describing what GRB is and the GRB reform
- 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
- 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

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
- Gauge the interest of watchdog CSOs to be incorporated into the new Provincial Budget Policy system

International Donors

- Improve the discretionary authority of the Afghan government by funneling more money via budget support options such as the ARTF or program-based allocation as a means to improve the government's cash management and ability to transfer funds without the need to request for approval

- Continue to use the Development Assistance Database for transparency purposes and to allow for the Afghan government to incorporate Overseas Development Assistance into planning and budgeting to prevent waste or duplication
- 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
- Maintain 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, including formerly mishandled projects such as those handed over during PRT closure ahead of government planning

Civil Society Organizations

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