



# BUILDING A BETTER BUDGET

ASSESSING NATIONAL BUDGET EFFICIENCY  
AND SERVICE DELIVERY IN THE MINISTRIES OF  
EDUCATION AND PUBLIC HEALTH

# **BUILDING A BETTER BUDGET:**

ASSESSING NATIONAL BUDGET EFFICIENCY AND SERVICE  
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AND PUBLIC HEALTH

**EQUALITY FOR PEACE AND DEMOCRACY**

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# ABOUT EQUALITY FOR PEACE AND DEMOCRACY

EQUALITY for Peace and Democracy (EPD) is a nonprofit, non-governmental organization dedicated to empowering women and youth at the community and policy levels in Afghanistan. EPD was established in early 2010 by Ms. Nargis Nehan, the Executive Director of EPD. EPD works to build the capacity of women and youth in order for them to be the front face in presenting their needs in development, peace building and democratic processes of the country. EPD further aims at mass mobilization of women and youth to contribute to overcoming the challenges of instability that Afghanistan is facing. EPD establishes platforms for women and youth to come together, establish networks, build trust and confidence, and strive jointly for transforming Afghanistan into a democratic country free of all forms of violence and discrimination.

## Vision

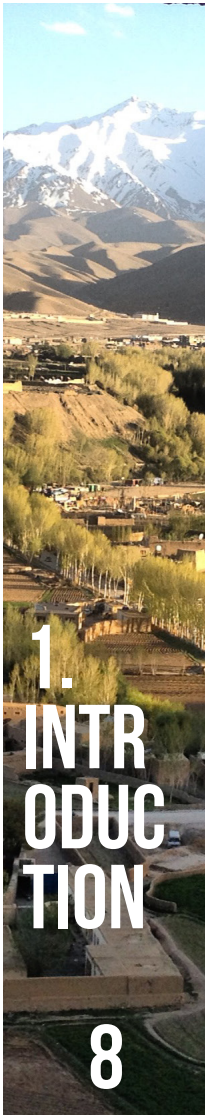
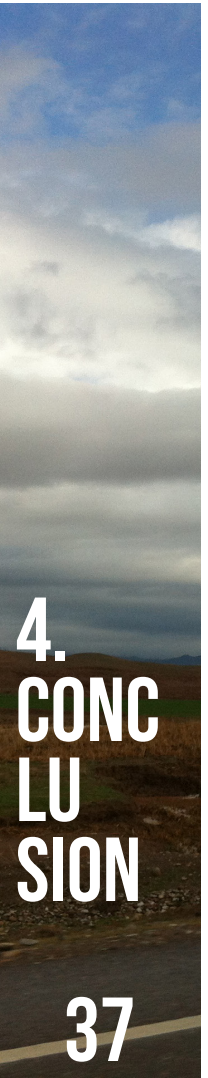
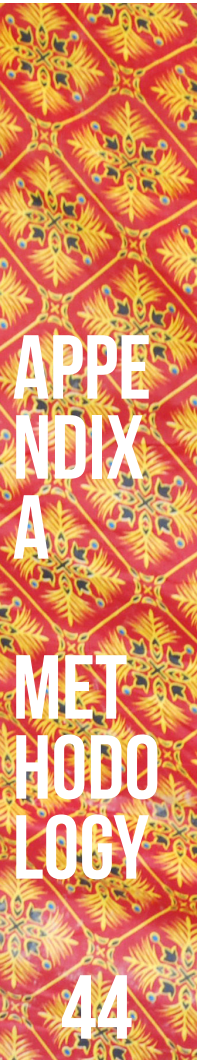
Afghanistan is a peaceful, prosperous and democratic state, where all Afghans enjoy equal rights without any form of discriminations.

## Mission

EPD's mission is to empower and strengthen women and youth at the community and policy levels for building coalitions and networks and promoting human rights, peace and good governance.

# ACKNOWLEDGEMENTS

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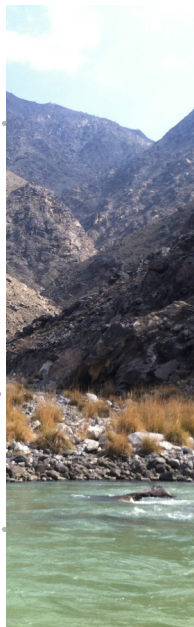
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# ACRONYMS

|         |                                                                     |      |                                                        |
|---------|---------------------------------------------------------------------|------|--------------------------------------------------------|
| ACTA    | Afghans' Coalition for Transparency and Accountability              | OECD | Organization for Economic Co-operation and Development |
| ADB     | Asian Development Bank                                              | PAA  | Provincial Administrative Assembly                     |
| AFMIS   | Afghan Financial Management Information System                      | PBGF | Performance Based Governor's Fund                      |
| ANDS    | Afghan National Development Strategy                                | PDC  | Provincial Development Committee                       |
| ARTF    | Afghan Reconstruction Trust Fund                                    | PDP  | Provincial Development Plan                            |
| ASGP    | Afghanistan Subnational Governance Programme                        | PFEM | Public Finance and Expenditure Management Law          |
| ASOP    | Afghanistan Social Outreach Programme                               | PSP  | Provincial Strategic Plan                              |
| BPHS    | Basic Package of Health Services                                    | PSU  | Project Support Unit                                   |
| CBM     | Community-Based Monitoring                                          | UN   | United Nations                                         |
| CBR     | Capacity Building for Results Facility                              | UNDP | United National Development Programme                  |
| DCC     | District Community Council                                          | US   | United States                                          |
| EPHS    | Essential Package of Hospital Services                              |      |                                                        |
| GIRoA   | Government of the Islamic Republic of Afghanistan                   |      |                                                        |
| IARCSC  | Independent Administrative Reform and Civil Service Commission      |      |                                                        |
| IDLG    | Independent Directorate of Local Governance                         |      |                                                        |
| IMF     | International Monetary Fund                                         |      |                                                        |
| IDB     | Islamic Development Bank                                            |      |                                                        |
| ISAF    | International Security Assistance Force                             |      |                                                        |
| IWA     | Integrity Watch Afghanistan                                         |      |                                                        |
| MDG     | Millennium Development Goal                                         |      |                                                        |
| M&E     | Monitoring and Evaluation                                           |      |                                                        |
| MoE     | Ministry of Education                                               |      |                                                        |
| MoF     | Ministry of Finance                                                 |      |                                                        |
| MoFA    | Ministry of Foreign Affairs                                         |      |                                                        |
| Mol     | Ministry of Interior                                                |      |                                                        |
| MoPH    | Ministry of Public Health                                           |      |                                                        |
| MRRD    | Ministry of Rural Habilitation and Development                      |      |                                                        |
| MTBF    | Medium-Term Budget Framework                                        |      |                                                        |
| MTFS    | Medium-Term Fiscal Strategy                                         |      |                                                        |
| NATO    | North Atlantic Treaty Organization                                  |      |                                                        |
| NPP     | National Priority Plan                                              |      |                                                        |
| OAACOMS | Office of Administrative Affairs & Council of Ministers Secretariat |      |                                                        |
| O&M     | Operations and Maintenance                                          |      |                                                        |



# EXECUTIVE SUMMARY



With the ongoing political and security transition entering the Transformation Decade, effective budgeting will become even more crucial with impending budget constraints as foreign aid is likely to decline. This report examines the multi-faceted ways national budgeting in Afghanistan affects the quality of education and health service delivery based on data collected from 8 provinces and extensive research, as a means of addressing deficiencies in

the budget process and informing recommendations to various stakeholders.

The research found relationships between budgeting inefficiency and service delivery ineffectiveness by triangulating thematic patterns of the interviews with national budget data and relevant literature. It can be concluded that a lack of discretionary budget in the national budget, complex procedures and a lack of capacity at the provincial level (and to a lesser extent at the central level), ubiquitous corruption, and the inability of the Government of the Islamic Republic of Afghanistan (GIROA) to facilitate an effective mechanism for provincial budgeting, represent the main deficiencies in the budget process that affect the quality of education and health service delivery in the targeted provinces.

Resource scarcity in the national budget is often mentioned in the literature as an impediment for ensuring the accessibility and quality of service delivery, which is attributed to corruption and the fact that Afghanistan is a low-income and conflict-

stricken country. Yet the issue of the GIROA's lack of discretionary authority over the national budget (for Fiscal Year (FY) 1393 (2014), 34% of the development budget is discretionary) is not often highlighted as an issue for good governance besides the international donors' pledge to increase on-budget support to 50%. The research found that efforts to improve budget effectiveness such as provincial budgeting and capacity building are simply unrealistic if the GIROA does not have sufficient discretionary authority over the national budget, especially in light of stagnant domestic revenues and the likely decline in foreign aid post-2014 with the International Security Assistance Force (ISAF) withdrawal.

Corruption in Afghanistan has been widely discussed in the literature and remains a serious concern for effective budgeting. The research suggests that resource scarcity as experienced by the central line ministries, provincial authorities and service providers can be partially attributed to bribery, embezzlement practices, cronyism, nepotism and a lack of effective accountability mechanisms (particularly with regards to auditing and Monitoring and Evaluation (M&E)), thereby making gaining access to employment opportunities and public services exclusionary. The research and other surveys indicate that such corrupt behavior has largely been normalized and is understood by a majority of the Afghan population as standard public procedure. This not only deprives provincial authorities and service providers of resources, but also threatens the legitimacy of the social contract if trust in the government's ability to manage the budget properly and provide non-exclusive public goods continues to diminish. Local populations' access to and understanding of

budget information are generally understood to be important indicators to assess whether the budget addresses the needs of a country's population and whether the government in question can be held accountable for its (in)effectiveness. The GIRoA has taken steps to improve access to budget information with the introduction of the Citizen's Budget and a pre-budget statement, while Civil Society Organizations (CSOs) such as EPD's Afghans' Coalition for Transparency and Accountability (ACTA) and Integrity Watch Afghanistan's (IWA) Community-Based Monitoring (CBM) networks are helping to ensure government transparency and accountability. The research, however, revealed that local populations (including urban populations and CSOs) are still unable to become informed due to the inaccessibility of budget information, a lack of basic legal infrastructure (access to information law) and technological infrastructure (access to internet), a capacity deficit, and sometimes ineffective and non-representative NGOs and CSOs.

The over-centralization of the budget process is another key issue in the national budget and service delivery nexus. Initiatives in support of the de-concentration of budget authority such as the development of Provincial Development Plans (PDPs) have been supported by the GIRoA and international donors as a means to improve the incorporation of the provinces' specific needs and requirements in the budget process. However, these initiatives have not translated into tangible results on the ground according to the data collected for this research and other reports. This can be attributed to a number of factors: the complex political ecology and parallel structures of provincial authorities, a lack of discretionary budget in the national budget, a reluctance of the central government to de-concentrate budget authority, and weak capacity at the provincial government level. The research indicates that initiatives that aim to foster provincial budgeting should address all of these issues in order to successfully de-concentrate budget authority and improve budget effectiveness.

The report argues that an increase of discretionary authority in the national budget, effective accountability mechanisms such as a government-wide M&E system, and a more participatory budget process could improve budget efficiency, ensure better quality service delivery and potentially restore the public's faith in the government. The recommendations can contribute to a much-needed political and public debate about the national budget

and service delivery nexus, paving the way for establishing a more inclusive budget process that improves the incorporation of localized needs.

## RECOMMENDATIONS

Three levels of actors were often referred to as key stakeholders in the interviews and literature: the GIRoA, civil society, and international donors. In consideration of the findings of this research, EPD issues the following recommendations (details of each recommendation can be found in the conclusion):

### For the Government of Afghanistan

- De-concentrate budget authority to the provincial department level and institutionalize the participation of key provincial authorities and CSOs in the budget formulation process
- Enact the Access to Information Law
- Negotiate with international donors to increase the discretionary budget in the development budget
- Institutionalize merit-based recruitment and expand programs such as the Capacity Building for Results Facility (CBR)
- Design and implement a government-wide M&E system including comprehensive data collection that includes gender-disaggregated data and improve auditing

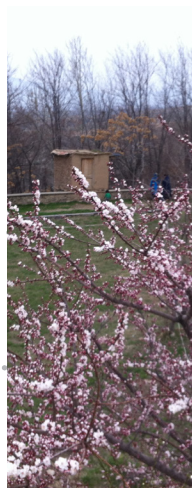
### For Civil Society

- Build citizens' capacity to access and understand budget information
- Maximize the utility of available resources to disseminate budget information
- Expand anti-corruption and service delivery monitoring and advocacy activities

### For International Donors

- Streamline donor funding to prevent duplicating subnational governance structures
- Increase "on-budget" flows up to 50% and increase discretionary funding for the development budget
- Minimize foreign technical assistance and maximize support for Afghan capacity building
- Promote merit-based recruitment by supporting programs such as CBR and support anti-corruption initiatives
- Support CSOs' and NGOs' anti-corruption and service delivery monitoring and advocacy activities

# 1. INTRODUCTION



The national budget process has undergone transformative change and made significant progress in the provision of service delivery since the fall of the Taliban regime in 1380 (2001). A trajectory of rapid statebuilding supported the establishment of a centralized budget system with public financial management at the foundation that enhanced the government's budget efficiency and increased service delivery effectiveness. With the withdrawal of the International Security Assistance Force (ISAF) troops looming, effective budgeting will become even more crucial as foreign aid – constituting 50% of Afghanistan's Gross National Income<sup>1</sup> – is likely to decline. The existence of vast mineral resources<sup>2</sup> suggests that a potential increase in domestic revenues might compensate for the loss in financial resources, but corruption, lack of effective legal frameworks, and investment and security risks<sup>3</sup> make this unlikely in the short run. In the context of impending budget constraints, ensuring the effectiveness of budgeting becomes even more crucial.

Afghanistan's budget is developed and executed in an extremely difficult and insecure context. The massive levels of aid that flowed into Afghanistan

in the post-Taliban period of development also heightened expectations among local populations to deliver. In 1392 (2013), a considerable number of Afghans named education (11%) or healthcare (13%) as the biggest problem in their community,<sup>4</sup> indicating that local populations are dissatisfied with the manner and level of service delivery and do not always receive basic health and education services. This report therefore examines how the development and execution of the national budget influences service delivery, specifically focusing on the health and education sectors. The report's analysis is confined to the on-budget activities of government ministries since the Government of the Islamic Republic of Afghanistan (GIROA) has adopted a centralized structure in its operations including the planning and execution of its annual national budget as per constitution.

There is much research that scrutinizes the budget process<sup>5</sup> and analyzes service delivery,<sup>6</sup> providing much-needed detailed information and in-depth analysis that informs policy-making. However, budgeting and service delivery are generally treated in the literature as distinct governance processes rather than interconnected processes. This research links both processes in an attempt to identify and address constraints in the budget process that might diminish the quality of service delivery. The report distinguishes itself from the policy-oriented literature

1 Hogg, Richard et al., "Afghanistan in transition: Looking beyond 2014," World Bank, 2013, 31.

2 New York Times, "US identifies vast mineral riches in Afghanistan," last modified on June 13, 2010, <http://www.nytimes.com/2010/06/14/world/asia/14minerals.html?pagewanted=all&r=0>.

3 Mining News, "1\$ Trillion mother lode of lithium and gold discovered in Afghanistan," last modified on June 16, 2010, <http://www.mining.com/1-trillion-motherlode-of-lithium-and-gold-discovered-in-afghanistan/>.

4 Keith Shaw, "A Survey of the Afghan People," The Asia Foundation, 2013.

5 Government of the Islamic Republic of Afghanistan, "Public financial management roadmap," 2010.

6 Parul Bakhshi and Francoise Jacob, "Public expenditure tracking survey," Altai Consulting, 2011.



by utilizing the recipients' perspective as the basis of the research. Such an approach moves away from purely technical and top-down understandings of the budget process and introduces a more contextualized and bottom-up understanding rooted in people's lived-experiences. This research thus aims to fill the gap in the literature between the budgeting process and service delivery and provide solutions for improving effective budgeting based on the recipients' experiences.

The primary objective of this research is to identify and better understand key issues affecting national budgeting and service delivery in the health and education sectors. To this end, the research documents the views of service delivery providers, government officials, civil society and local populations regarding their experiences with national budget development and triangulates the thematic patterns found in the interviews with national budget data and relevant literature. The main research questions are:

- What are the procedures and processes for budget formulation and execution?
- What is the perception of government officials and key informants of the national budget?
- How does the budget process (from budget formulation to budget evaluation) influence the quality of health and education service delivery?
- What are the key gaps in procedures and policies for national budgeting?
- What are potential measures to be taken that might resolve these constraints?

## 1.1 STRUCTURE

This report is structured into four chapters. Chapter 1, the introduction, embeds the research into the existing literature, introduces the research questions, and outlines the methodology, limitations and definitions. Chapter 2 provides background information on the budget process. It describes the history of state budgeting in Afghanistan, the budget's structure and process, the key actors involved, discusses the budget's priorities, policies and frameworks, and briefly reviews the current status of the health and education sector.

Chapter 3 represents the report's main analysis. The first section on capacity constraints and resource scarcity addresses how the lack of discretionary budget in the national budget, complicated procedures and capacity issues hamper the quality

of service delivery. The second section on corruption and accountability mechanisms assesses the extent to which corrupt behavior such as bribery, cronyism, nepotism and embezzlement inhibits effective budgeting and considers mechanisms that can ensure accountability. The third section interrogates the budget process from the perspective of local populations. It examines constraints for local populations to access and understand budget information and constraints for civil society to effectively represent the interests of local populations. The last section on the de-concentration of budget authority discusses how the centralized nature of the budget, the fragmented and parallel provincial governance structures and resource and capacity constraints affect service delivery.

The last chapter, the conclusion, briefly summarizes the research's key findings and provides recommendations for key stakeholders (GIROA, civil society and international donors) outlined per core theme.

## 1.2 METHODOLOGY

In order to facilitate a bottom-up perspective to budgeting, this research utilized an inductive approach embedded in the recipients' experiences. As such, the report's findings are based on collected data from interviews, national budget data and current debates in the literature. Desk research overviewed available research and commentary regarding the national budget, while a series of focus group discussions (FGDs) and key informant interviews (KIIs) with service delivery providers, government officials, civil society and local populations provide on-the-ground evidence of the challenges of the national budgeting process to provide for the population's needs. Fieldwork was conducted in eight provinces (Balkh, Bamyan, Herat, Kandahar, Kunduz, Nangarhar, Uruzgan and Kabul) to collect the data. Once the data was collected, a rigorous process with two rounds of qualitative coding discerned thematic patterns from the interviews. These patterns derived from the collected data were then triangulated with findings from the literature and national budget data, which provided the framework for this report. The details of the research methodology and the interview questionnaires can be found in Appendix A.

## 1.3 LIMITATIONS AND DEFINITIONS

There are a number of limitations in this report's

research design. Due to time, financial and security constraints, the research covers a limited amount of provinces that are by default unable to represent the diverse manifestations of budgeting and service delivery in Afghanistan's 34 provinces and 398 districts. However, the provinces were selected so as to provide evidence spanning the country's geographic and ethnic zones. The triangulation of data from such a diverse geographic sample increases the generalizability of the report's findings.

The data collected for this report is not claimed to be providing conclusive evidence, but should be rather interpreted as evidentiary proof that supports the report's analysis. There are also inherent limitations in assessing governance structures within the ever-changing and complex political landscape of Afghanistan. Overlapping subnational government structures and provincial specificities render the existing political ecologies uncertain, thereby creating a gap between what governance entails in theory and in practice. To allow for cross meta-analysis of provincial data, EPD's questionnaires refrained from adjusting questions according to the province-specific structures and instead formulated questions that would enable the triangulation of the data sets.

The issue of respondent bias is a general limitation when doing research. Certain issues such as corruption might be sensitive for the participants. For example, despite assurances of confidentiality, many government officials were reluctant to critique their work and department. This reluctance became particularly evident when conducting interviews with the Ministry of Education (MoE) at the central level in Kabul. While both the Ministry of Finance (MoF)

and Ministry of Public Health (MoPH) were generally willing to cooperate with the research, participants from the MoE were reluctant to cooperate in a timely fashion. The MoE was obstructive to the completion of the research and initially refused to provide approval letters to conduct interviews with heads of departments within the ministry. Several letters of request were sent to the ministry and the Minister was approached, but to no avail. Only with assistance from a Member of Parliament was the Minister convinced to provide a letter of approval for the research.

Furthermore, more than a decade of foreign aid flowing into Afghanistan has heightened the expectations of service delivery, which could have induced participants that are recipients of allocated budget or services to make unrealistic demands despite the fact that resources in a low-income country such as Afghanistan are scarce. Another limitation was the limited knowledge of many participants in regard to national budget formulation and execution. For example, some participants would occasionally avoid questions or resort to clichés without providing concrete evidence. To mitigate these potential biases, EPD interviewed a wide variety of actors and ensured that the data from the interviews were triangulated with national budget data and findings from the literature.

It should be noted that in this report capacity building is interpreted as the investments and efforts made to develop the capacity of individuals and organizations to attain certain abilities that will allow them to achieve the desired results. Human capital is understood as the collection of an individual's capabilities to perform agency so as to produce

## 2. BACKGROUND



socio-economic value.

The primary objective of this research is to better understand key issues for national budget formulation and execution processes affecting service delivery. It is therefore

important to first provide background information to understand the national budget process and the key actors involved.

### 2.1 HISTORY OF STATE BUDGETING IN AFGHANISTAN

Afghanistan has a long history of centralized governance that has been co-constituted by the influence of foreign powers. Several attempts have been made under different Afghan rulers to modernize the bureaucracy and improve the financial management capacity of the state. After Afghanistan gained independence in 1298 (1919), King Amanullah Khan put forward an ambitious reform agenda to lead a transition towards a bureaucratic system with a national budget that would replace the personal treasury of the ruler.<sup>7</sup> The bureaucracy incrementally grew under different Afghan monarchs in the decades thereafter, increasing from a bureaucracy of 40,000 civil servants in 1329 (1950) to 100,000 by the 1350s (1970s), but a comprehensive budgeting system was still absent. Despite several attempts by various Afghan rulers to create a modern bureaucracy, the state continued to function with a patrimonial system

of wealth accumulation<sup>8</sup> until radical reforms were implemented with the new government after the fall of the Taliban regime in 1380 (2001).

After the fall of the Taliban regime and the signing of the Bonn Agreement, large flows of foreign aid supported infrastructure and security development as well as Afghanistan's capacity to govern. The Afghan government implemented a number of governance and public financial management reforms with a national budgeting mechanism at its core. A key impetus for these reforms was to ensure donors that aid funding would be accounted for.<sup>9</sup> The government developed national programs and incorporated them in the national budget in order to promote budgeting as the main policy tool. A public financial management system – also known as the Afghan Financial Management Information System (AFMIS) – was subsequently established to centralize and institutionalize public revenue collection, budgeting and expenditure across the country.

### 2.2 BUDGET STRUCTURE

Afghanistan's national budget is the primary policy instrument of the Afghan government and documents the expected public revenue and expenditure each fiscal year beginning each year on the 1st of January.<sup>10</sup> As such, Afghanistan's national budget reveals the governments' revenue target, expected donor

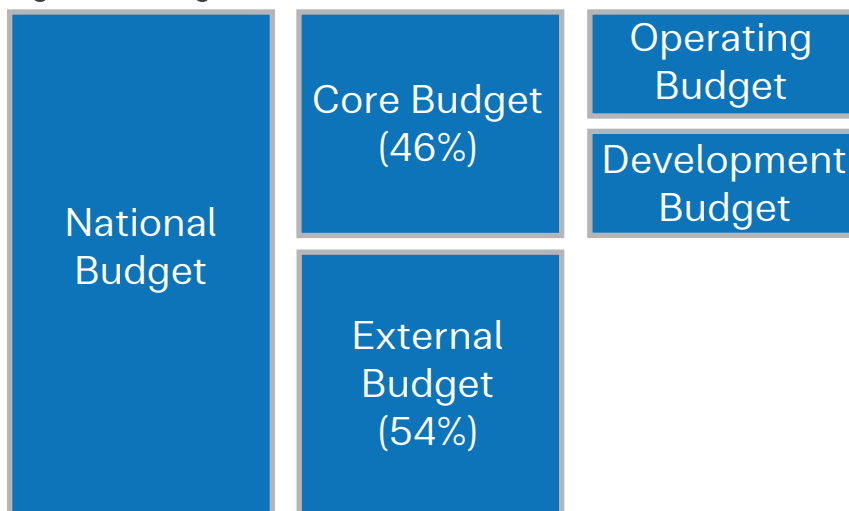
<sup>7</sup> Antonio Giustozzi, "Afghanistan: Transition without end, an analytical narrative of state-making" Crisis States Working Papers Series 40 (2008): 7.

<sup>8</sup> Giustozzi, "Afghanistan: Transition without end," 17.

<sup>9</sup> Nematullah Bizhan, "Budget transparency in Afghanistan: A pathway to building public trust in the state," International Budget Partnership, 2012, 3.

<sup>10</sup> The fiscal year changed its calendar from January 1st FY 1391 (2012) onwards.

**Figure 2.1 Budget Structure**



Source: Government of the Islamic Republic of Afghanistan, "TMAF report," 2013.

assistance, priorities in spending, its plans for the distribution of resources, and indicates the efficiency and stability of the economy.

The creation of a centralized government and budgeting system was aimed to strengthen the national coherence of governance and build a unified financial structure and process after the institutional breakdown under Taliban rule. In this framework, the provincial government authorities are an extension of the central government and its ministries. The governor of a province, who is a political appointee selected by the President, is the formal head of the provincial government but without much formal authority. Provincial line departments are accountable to their parent ministry in Kabul with limited authority to act independently, and elected bodies such as Provincial Councils lack the capacity and political clout to influence decision-making. Other subnational authorities such as the District Community Councils (DCCs), which are funded by the USAID Afghanistan Social Outreach Program (ASOP) and are run by the IDLG, are fragmented and lack formal influence in government processes. Thus, it can be argued that there is no provincial government in the sense that governance entails having the discretionary authority to raise taxes and allocate resources.<sup>11</sup>

Afghanistan's national budget is quite complex compared to most countries for a few reasons. First, budgetary structures and processes in Afghanistan

<sup>11</sup> Provincial line departments can only execute the allocated budget within the narrow framework of major codes (as will be explained later) and municipalities' ability to raise local taxes remains in a nascent phase though the UNDP Afghanistan Subnational Governance Programme (ASGP) is gradually building their capacity.

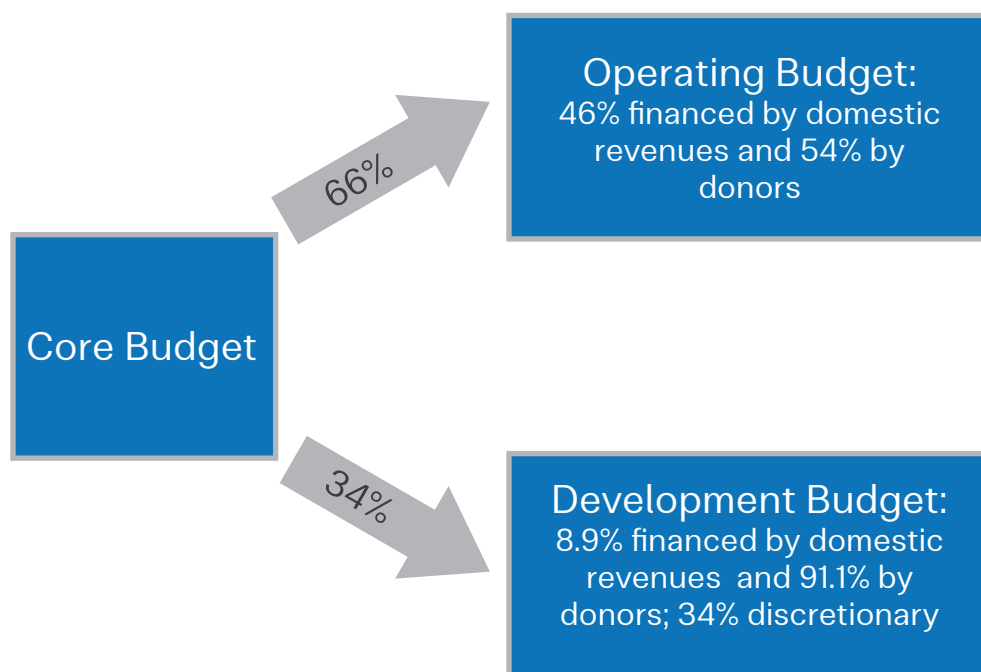
are complex due to the political instability resulting from the upheaval of decades of war and the lingering insurgency. These factors have ensured a political climate of uncertainty and insecurity and have hindered the effective development of public finance management systems. Second, funding from international donors fundamentally influences the Afghan economy and remains a vital consideration in the development of the national budget each fiscal year as international donors finance and control a large percentage of the national budget. This makes it difficult for the government to track or control substantial amounts of money flowing into the country.

Afghanistan's national budget is structured in such a way to facilitate government-controlled revenue streams flowing on-budget through the core budget (46% of the national budget in FY 1391 (2012)) that includes both domestic revenues and donor assistance, and donor-controlled revenue streams flowing off-budget through the external budget that consists of donor assistance only. The budget is thus divided into two parallel budgets that manage the incoming revenue streams and allocate the budget to the respective line ministries for service delivery as is illustrated by figure 2.1. The core budget consists of an operating budget component and development budget component that is financed by domestic revenues and donor funding that has been directed through the coffers of the government of Afghanistan. It is developed by the MoF and approved by the Afghan Cabinet and Parliament. It should be noted that a large percentage of the core budget (66% of the development budget in FY 1393 (2014), see figure 2.2) is not under the discretionary authority of the GiRoA and is based on agreements with each donor for specific projects while nonetheless flowing through the government-controlled budget.

Donor contributions to the core budget (both to the operating and development budgets) are mostly channeled through the Afghanistan Reconstruction Trust Fund (ARTF), which was created in 1381 (2002) and is administered by the World Bank on behalf of 33 major donors. These donor contributions are either discretionary or non-discretionary in nature, and the majority of funding is tied to conditions or particular project themes. Funding flowing through the ARTF for the operating budget is subject to GiRoA control, and the GiRoA can influence funding flowing



Figure 2.2 Core Budget Allocations in Fiscal Year 1393 (2014)



Source: Government of the Islamic Republic of Afghanistan, "National budget statement 1393," 2014.

through the ARTF for the development budget as the MoF co-chairs the ARTF Steering Committee that sets the strategy for the ARTF and has a seat in the ARTF Management Committee that reviews and, if appropriate, approves proposals for funding. In addition to the ARTF, a wide range of bilateral donors provide significant funding to the government's core budget through a variety of initiatives such as the Law and Order Trust Fund for Afghanistan (LOTFA), which is administrated by UNDP with the aim of strengthening the country's law enforcement and is implemented by the Ministry of Interior (MoI) and the MoF with funding from 15 foreign countries.<sup>12</sup>

Both the operating and development components of the core budget remain dependent on donor assistance as 54% of the operating budget and 91.1% of the development budget were financed by international donors based on Fiscal Year (FY) 1393 (2014),<sup>13</sup> as can be seen in figure 2.2. This shows how domestic revenue generation has remained significantly short of satisfying the requirements of both components of the core budget. The operating budget covers current expenditures such as wages and maintenance and operations and is allocated by the MoF to the central line ministries who then

distribute to the provincial line departments,<sup>14</sup> while the development budget has a much broader focus and includes all funding that is aimed at reconstruction and development.

## 2.3 BUDGET PROCESS

The budget process is complex with a wide variety of institutions being directly or indirectly involved in different phases. This is exemplified by the wide variety of government entities that play some direct role and indirect role in the budget process, which is also subject to change.<sup>15</sup>

Although many actors are involved in the budget process, the MoF and the Mustofiats (which are the 34 provincial offices of the MoF) are the leading entities. Respectively, they are in charge of developing (MoF) and executing (MoF and Mustofiats) the annual national budget.<sup>16</sup> The MoF produces the initial and final draft of the budget. It sets the budget priorities and ceilings to the line ministries (who provide the baseline costs based on a needs and resource assessment) and is responsible for ensuring the fiscal sustainability of the budget. The provincial line departments have no formal influence in budget formulation, remain fully dependent on the central line ministries and do not independently generate revenues or taxes. The Parliament only has the right to approve or reject the budget when already finalized.<sup>17</sup>

Budget formulation processes are strongly centralized at the Kabul level. Provincial authorities are supposed to be invited to give input into the discussion over government spending priorities.<sup>18</sup> Provincial Development Plans (PDPs) are meant to

<sup>12</sup> United National Development Programme, "Law and order trust fund for Afghanistan," accessed September 11, 2014, [http://www.af.undp.org/content/afghanistan/en/home/operations/projects/crisis\\_prevention\\_and\\_recovery/lotfa.html](http://www.af.undp.org/content/afghanistan/en/home/operations/projects/crisis_prevention_and_recovery/lotfa.html).

<sup>13</sup> Government of the Islamic Republic of Afghanistan, "National budget statement 1393," 2014, 19.

<sup>14</sup> Government of the Islamic Republic of Afghanistan, "Budgeting in Afghanistan: Budget Preparation. Budget manual volume 2 1390," 2011, 39.

<sup>15</sup> Paul Sisk, "Public financial management and accountability assessment," World Bank, 2013, 20.

<sup>16</sup> Sisk, "Public financial management and accountability assessment," 20-21.

<sup>17</sup> Bizhan, "Budget transparency in Afghanistan," 4.

<sup>18</sup> Government of the Islamic Republic of Afghanistan, "Draft of provincial budgeting policy," 2013.

serve as the medium to communicate provincial development needs, priorities and strategies along the lines of the ANDS, which are addressed further in the next chapter. Overall, budget formulation relies on coordination, compromise, and communication between a variety of actors who attempt to address national development priorities, other donor priorities, fiscal realities, and emerging needs on the ground in a coherent budget plan.<sup>19</sup>

The roles of these key actors are pre-defined in a formal budget cycle that outlines the different stages of the process—budget formulation, budget execution and budget evaluation.<sup>20</sup> While this report

19 Government of the Islamic Republic of Afghanistan, “National budget statement 1393,” 2014.  
 20 Government of the Islamic Republic of Afghanistan, “Budgeting in Afghanistan: Principles of budgeting. Budget manual volume 1 1390,” 2011.

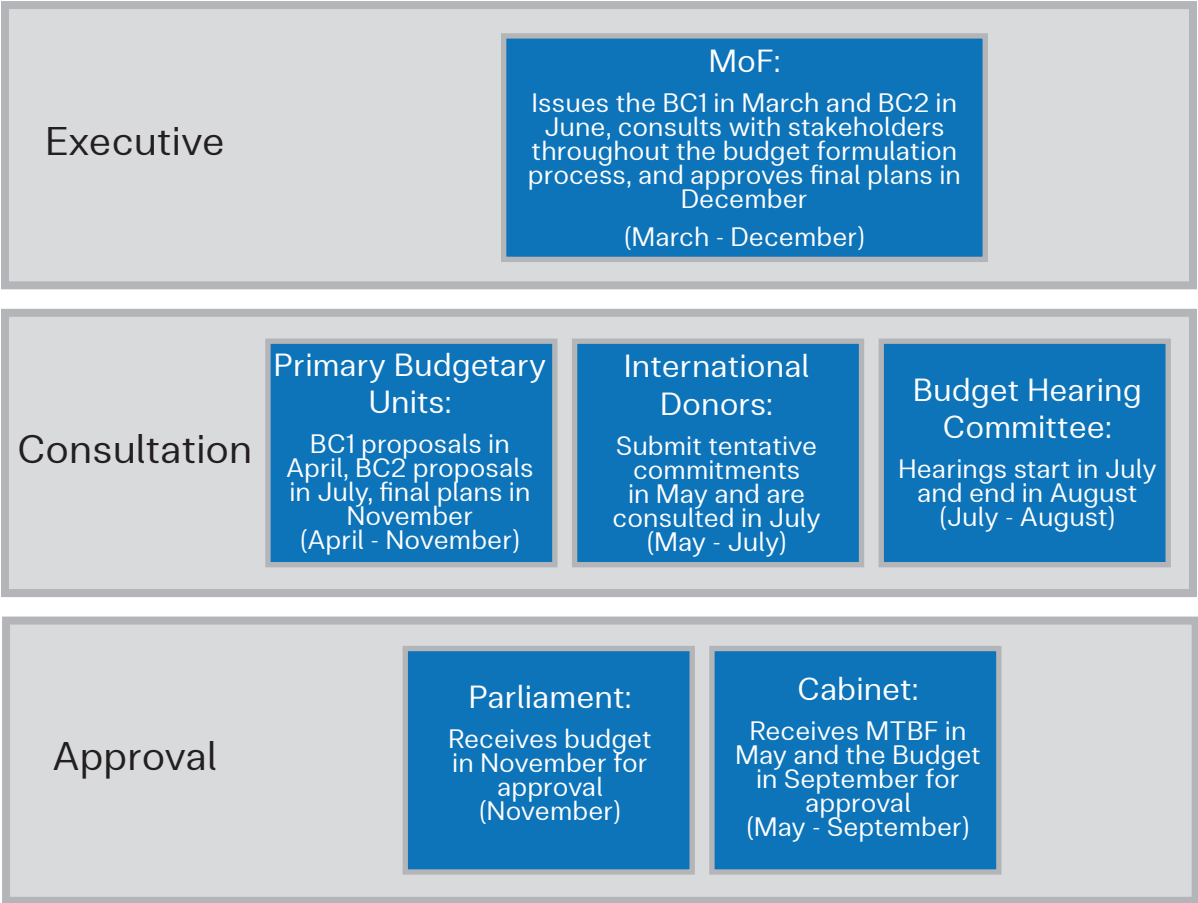
addresses all phases of the cycle, it pays special attention to budget formulation and execution, and the roles of various actors across Afghan society including civil society.

### 2.3a Budget Formulation

According to the budget calendar for the current fiscal year, the budget formulation is a process that begins in March with the MoF issuing the first budget circular to all budgetary units of the central line ministries and ends in December when the MoF reviews and approves all financial plans, as figure 2.4 illustrates.<sup>21</sup> The MoF leads a discussion between senior officials within the central government regarding the current year’s budget development process, and then forwards

21 GfRoa, “Budget preparation planner,” 2014.

Figure 2.4 Key Actors in the Budget Formulation Process 1393 (2014)



Legend  
 Primary Budgetary Unit: Central line ministries and independent directorates that submit their budget proposals to the MoF  
 BC: Budget Circular represents a budget draft outlining programming activities per central line ministry  
 Budget Hearing Committee: Committee that sets the budget ceilings for budgetary units and conduct budgeting hearings/ negotiations, which consists of representatives from the MoF, MoE, Ministry of Foreign Affairs (MoFA) and Office of Administrative Affairs & Council of Ministers Secretariat (OACOMS)  
 MTBF: Medium-term Budget Framework is a pre-budget statement that establishes budget priorities in line with available resources for the medium term

Source: Government of the Islamic Republic of Afghanistan, “Budget preparation planner,” 2014.

a timetable with guidelines for budget preparation through the MoF, to central line ministries and to other stakeholders. Concurrently, the MoF leads a process of determining the resources available for disbursement to meet budget objectives.<sup>22</sup> Central line ministries and their independent directorates are then invited to identify their programming needs for service provision. This invitation comes in the form of a budget circular, whereby central line ministries submit an outline of programming activities to the MoF. At this stage, new initiatives are also introduced by district and provincial government bodies, and by donors, which are all reviewed by central line ministries. Based on the first budget circular, the MoF prepares a three-year Medium-Term Budget Framework (MTBF), which establishes budget priorities in line with available resources as a means to ensure fiscal sustainability. Next, a second budget circular is forwarded to the central line ministries requesting more detailed budget estimates and definitive program descriptions.<sup>23</sup> These costs and detailed programming activities are used by the MoF in the formulation of the final budget document.

### 2.3b Budget Execution

The second stage, budget execution, commences after the budget has been finalized and signed off by the President after which the budget is forwarded to all the line ministries for implementation. The line ministries subsequently forward a portion of the budget to their representative bodies in the provinces while the remainder is allocated at the center by line ministries themselves. Once funds are released and forwarded to provincial Mustofiats by the MoF, they are in a position to make payments to provincial line departments. The operating budget is released in phases on a quarterly basis and the development budget in tranches as needed.<sup>24</sup>

### 2.3c Budget Evaluation

Once the budget has been spent and the services have been delivered, the third stage of budget evaluation is conducted. Program evaluation occurs at the central government level and involves formal monitoring of the budget execution, reporting procedures for department and ministry activities, and review of programming performance. The foundation of budget evaluation is the expenditure reporting carried out on

a monthly basis by the Mustofiats for the MoF and by provincial line departments for central line ministries. Based on these findings, the MoF conducts a mid-year review of the budget, formulates recommendations to make changes in the budget and prepares the final accounts at the end of each fiscal year.<sup>25</sup>

In theory and on paper, the budget process has come a long way in meeting international standards and best practices of financial management. As is stated above, there is a public financial management information system; there are evaluation mechanisms in place; multiple actors are involved in the process; and budget transparency is being strived for through reporting. Yet in practice, as the literature indicates and our interviews will show in the main analysis of the report, many challenges remain that diminish the quality of service delivery.

## 2.4 BUDGET PRIORITIES AND FRAMEWORKS

The GIRoA's spending priorities have been clear with security (44%) and education (13%) receiving the majority of operating budget resources in FY 1393 (2014), showing an increase in security spending from 1390 (2011) onwards as can be seen in figure 2.5.<sup>26</sup> Public health was slated to receive 4% of the national budget in FY 1393 (2014).<sup>27</sup>

As major components to the operating budget within the core budget, the education and public health budgets have distinct aims. In FY 1393 (2014), the MoE budget was aimed at increasing student enrollment, schools, and teachers, completing, revising and printing curriculum and textbooks, developing teachers' capacity; developing more vocational training programs; and improving literacy. Key priorities in the MoPH plans for FY 1393 (2014) included: improving child mortality rates; decreasing events of epidemic disease; decreasing malnutrition event; providing health services to addicted persons; implementing a basic vaccination program in all provinces; launching awareness campaigns on using health services and preliminary care; providing basic, secondary and tertiary health services to all Afghan people, developing learning programs for mothers, diagnosing and treating TB, and improving immunization rates.<sup>28</sup>

<sup>22</sup> Government of the Islamic Republic of Afghanistan, "Budgeting in Afghanistan: Budget Preparation. Budget manual volume 2 1390," 2011.

<sup>23</sup> Ibid.

<sup>24</sup> GIRoA, "Budget execution report 08-10-2014," 2014.

<sup>25</sup> Civil-Military Fusion Centre, "Afghanistan's national budget," 4.

<sup>26</sup> Government of the Islamic Republic of Afghanistan, "National budget statement 1392," 2013; Government of the Islamic Republic of Afghanistan, "National budget statement 1393."

<sup>27</sup> Government of the Islamic Republic of Afghanistan, "National budget statement 1393," 21.

<sup>28</sup> Ibid.

**Figure 2.5 GIRoA Budget Priorities 1390-1393 (2011-2014)**

|                                          | 1390<br>(2011) | 1391<br>(2012) | 1392<br>(2013) | 1393<br>(2014) |
|------------------------------------------|----------------|----------------|----------------|----------------|
| Security                                 | 29.6%          | 32%            | 44%            | 44%            |
| Infrastructure and Natural Resources     | 23%            | 22.8%          | 14%            | 14%            |
| Education                                | 14%            | 13.6%          | 15%            | 13%            |
| Governance, Rule of Law and Human Rights | 5.3%           | 5.1%           | 4%             | 4%             |
| Health                                   | 4.2%           | 4.8%           | 4%             | 4%             |

Source: GIRoA, National budget statements 1390-1393 (2011-2014)

Funding through the development budget has been largely guided by the Afghan National Development Strategy (ANDS). The ANDS lays out the development objectives for the Afghan government and its programming, and centralizes these objectives under three pillars: security, governance, rule-of-law, and human rights, and economic and social development. The ANDS aims to be sensitive to the crosscutting issues of counter-narcotics, anti-corruption, capacity development, gender equity, environment, and regional cooperation. Related to the ANDS is the Afghan Compact, which affirmed the international donors' commitment to assistance under the ANDS pillars.

The National Priority Programs (NPPs) are major policy frameworks approved at the 2010 Kabul Conference, and serve as a basis for transferring development and peacebuilding responsibilities from the international community to the Afghan government and civil society. The major areas of focus under the NPPs are peace and reconciliation, security, good governance, economic development, and regional and global cooperation.<sup>29</sup> As such, these focus areas are closely aligned with the ANDS.

In response to the growing realization that the Afghan government will struggle to maintain its development trajectory once international donor assistance is withdrawn or reduced in the coming years, the Afghan government has formulated a Medium-Term Fiscal Strategy (MTFS) which defines the progression towards self-sustainability in financing its programming, and addressing lingering poverty in Afghanistan.

29 Government of the Islamic Republic of Afghanistan, "National priority programs," 2014, <http://mof.gov.af/en/page/3976>.

Also, in response to the 1391 (2012) Tokyo Conference and the 1391 (2012) Chicago Summit, the Tokyo Mutual Accountability Framework (TMAF) has been established as a guide to helping Afghanistan achieve its development and governance goals through budget expenditure. The TMAF lays out how the international donors will design its aid delivery to Afghanistan over the post-1393 (2014) period to respond to projected budget shortfalls. In this, international donors are requiring local reforms such as improved election processes, rule of law, eliminating violence against women, addressing corruption, and ensuring budget transparency.<sup>30</sup> In all of this, donors continue to earmark significant portions of their funding for particular projects, which leaves very little money for discretionary use by the Afghan government.

On a broader level, Afghanistan is a signatory to A New Deal for Engagement in Fragile States.<sup>31</sup> This policy framework was signed at the 1390 (2011) Fourth High-Level Forum on Aid Effectiveness in Busan, South Korea, uniting 18 fragile states such as Afghanistan in engaging with international donors, and committing to new methodologies for ensuring legitimate politics, justice, security, economic development, and effective revenue generation and service delivery.

## 2.5 SERVICE DELIVERY

The budget process determines how the available resources are being allocated and prioritizes certain services over others as is exemplified by the budget reserved for security spending (44% of the national budget in FY 1393 (2014)).<sup>32</sup> Before discussing how the budget process influences the quality of service delivery, it is important to provide a brief overview of the relative progress that has been made in the education and health sector since 1380 (2001).

From a position of severely lacking education opportunities under Taliban rule, access to education for boys/men and girls/women has dramatically increased since 1380 (2001). School attendance has grown from 1 million children to 7 million; tens of thousands of teachers have been hired and (re)trained; thousands of schools have been built or renovated;

30 Government of the Islamic Republic of Afghanistan, "Tokyo mutual accountability framework," 2013.

31 International Dialogue of Peacebuilding and Statebuilding, "A new deal for engagement in fragile states," 2011.

32 Government of the Islamic Republic of Afghanistan, "National budget statement 1393," 30.



millions of textbooks and new curricula have been produced and distributed. Literacy programs have been established, benefitting hundreds of thousands of people across Afghanistan. Despite improvements in the standards of education, progress still has to be made and the budget process can have a significant role to play in this.<sup>33</sup>

In the health sector, crucial advances were made in the provision of basic services. The Basic Package of Health Service (BPHS) was established in 1381 (2002) to run primary health clinics. In addition, the Essential Package of Hospital Services (EPHS) was developed in 1384 (2005) to improve the access to and quality of hospitals across the country. The MoPH oversees both systems and the overall Afghan health-care system, but both the BPHS and EPHS

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33 Steve Packer et al., "Education sector analysis: Afghanistan," Adam Smith International, 2010, 4.

have been implemented primarily by NGOs and have been supported by three main donors: the European Commission, the World Bank, and the United States Agency for International Development (USAID).<sup>34</sup> Health indicators have also improved: infant mortality decreased from 165 per 1000 births in 1382 (2003) to 77 in 1389 (2010); maternal mortality rate decreased from 1600 per 100,000 births in 1382 (2003) to 372 in 1389 (2010); and access to primary health care improved from 9% coverage in 1382 (2003) to 90% in 1389 (2010).<sup>35</sup> Improvements have been considerable and should be taken into account, but there are still many challenges that can partially be attributed to shortcomings in the budget process as will be discussed in this report.

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34 Mirwais Rahimzai et al., "Afghanistan's national strategy to improve the quality of health care," *International Journal for Quality in Health Care* 25 (2013): 270-271.

35 Rahimzai, "Afghanistan's national strategy to improve the quality of health care," 272.

## 3. KEY ISSUES



# FOR BUDGET FORMULATION AND EXECUTION AFFECTING THE QUALITY OF SERVICE DELIVERY

Previous reporting on governance and development in Afghanistan has informed the analysis in this section, while the narratives of the participants' discussions provide insightful evidence of the manner in which budget formulation and execution is perceived across Afghanistan's provinces including within central power structures. Despite improvements made in service delivery, health and education indicators are still not on par with other countries in the region due to a variety of reasons such as lack of infrastructure, limited capacity, security and especially resource scarcity.<sup>36</sup> What's more, though progress has been made, Afghanistan has continuously fallen short on a number of goals and indicators set for itself through the ANDS, Millennium Development Goals (MDGs), and NPPs regarding health and education. Of concern are capacity constraints and resource scarcity, complicated procedures, government corruption, local populations' inadequate access to and understanding of budget information, and central-dominance over budget authority. This section elevates the voice of on-the-ground government officials and practitioners, and highlights and contextualizes critical perceptions of the manner in which national budgeting addresses the needs of local populations across Afghanistan's provinces.

<sup>36</sup> John Acerra et al., "Rebuilding the health care system in Afghanistan" *International Journal of Emergency Medicine* 2 (2009): 80.

## 3.1 CAPACITY CONSTRAINTS AND RESOURCE SCARCITY

This section highlights capacity and resource shortcomings in the budget process that impact service delivery as they were identified as key constraints for providing quality public goods in the health and education sector in the data collected. The interviews pointed to rejections of budget proposals,<sup>37</sup> delays in budget allotments,<sup>38</sup> a lack of discretionary budget,<sup>39</sup> complex procedures, systems and laws,<sup>40</sup> and a lack of capacity building<sup>41</sup> as priorities that need to be addressed by the government and international donors.

### 3.1a Lacking Resources

One of the key findings that emerged from the conducted interviews is that resource scarcity in

<sup>37</sup> This was mentioned in 1 Focus Group Discussion and 8 Key Information Interviews.

<sup>38</sup> This was mentioned in 3 Focus Group Discussions and 11 Key Informant Interviews.

<sup>39</sup> This was mentioned in 4 Focus Group Discussions and 10 Key Informant Interviews.

<sup>40</sup> This was mentioned in 3 Focus Group Discussions and 9 Key Informant Interviews.

<sup>41</sup> This was mentioned in 11 Focus Group Discussions and 7 Key Informant Interviews.

both the health and education sector is severe. Several bottlenecks were identified as causing resources to be lacking such as a lack of provincial line departments' involvement in budget formulation and a lack of discretionary budget in the national budget.

The effects of resource scarcity are clearly visible in both the health and education sector as hospitals and schools are not capable of providing the necessary services to those who need it. In the health sector, hospitals are overcrowded with patients,<sup>42</sup> lack qualified personnel<sup>43</sup> and are unable to acquire quality medicine and equipment.<sup>44</sup> A doctor in Kandahar mentioned that in his hospital "patients are brought in from four provinces and the hospital cannot accommodate them. 30% of the patients admitted to the hospital are left unattended and the nurses to patients ratio is 1 to 4."<sup>45</sup> In the education sector, a large number of students and teachers complained about the lack of stationery and study materials,<sup>46</sup> infrastructure,<sup>47</sup> and qualified staff.<sup>48</sup> Students in several focus group discussions mentioned that "the number of classrooms is very low, so students are taking classes in the open air or tents"<sup>49</sup> and that they "do not even have clean drinking water, chairs, or blackboards."<sup>50</sup> Underpaid staff and a lack of qualified staff were also often mentioned. This issue was aptly described during a focus group discussion with students in Kandahar expressing their frustration and eagerness to learn:

We come here to the school and there is hardly ever any professor present to teach us, and even when there are professors here, we do not learn something substantive; it has become just a routine - coming here and going back home with nothing.<sup>51</sup>

42 This was mentioned in 4 Focus Group Discussions and 2 Key Informant Interviews.

43 This was mentioned in 6 Focus Group Discussions and 1 Key Informant Interview.

44 This was mentioned in 4 Focus Group Discussions and 1 Key Informant Interview.

45 Focus Group Discussion, Hospital in Kandahar, Doctors, 19 June 2013.

46 This was mentioned in 4 Focus Group Discussions and 1 Key Informant Interview.

47 This was mentioned in 5 Focus Group Discussions and 5 Key Informant Interviews.

48 This was mentioned in 6 Focus Group Discussions and 5 Key Informant Interviews.

49 Focus Group Discussion, High School in Kandahar, Students, 17 June 2013.

50 Focus Group Discussion, High School in Nangarhar, Students, 27 June 2013.

51 Focus Group Discussion, High School in Kandahar, Students, 17 June 2013.

One of the explanations for resource scarcity noted by provincial government officials was that the provincial line departments' "budget proposals are often rejected"<sup>52</sup> by the central line ministries without an opportunity to discuss this with them or the MoF. However, it should be noted that the budget ceilings which are provided with the second budget circular by the MoF are based on the resources available and will likely be lower than the proposed budgets in the first budget circular. This report argues that the provincial line departments should be more actively involved in the budget formulation process, as will be outlined later in the chapter on over-centralization, because the budget process should facilitate engagement with sub-national authorities to enhance the incorporation of the requirements and specific needs in the provinces.

This issue of resource scarcity and the necessity for budget prioritization was also raised by several central-level government officials of the MoF. One official explained why budget proposals from provincial line departments are rejected:

We would like to accept all budget proposals made by the provincial line departments, but we do not have the resources to accommodate them all and so have to prepare the budget such that it is in alignment with national budget priorities.<sup>53</sup>

The resource scarcity has led to a competition for acquiring funding from the central pool of resources, which can be described as a "war for fund acquisition by the provinces".<sup>54</sup> Limited domestic revenues further restrain the ability to meet the budget demands of provincial line departments.<sup>55</sup> Budget proposals can thus often not be granted due the insufficiency of resources. This is exacerbated by the fact that there is a lack of discretionary budget available in the national budget as just 34% of the development budget is discretionary, which was shown in figure 2.2. In this context of restrained domestic revenues and a lack of discretionary budget, prioritization and inter-governmental collaboration between the central and provincial level becomes even more crucial to ensure effective utilization of the limited resources available.

Another explanation for resource scarcity that was mentioned in the interviews was the delays in budget

52 Key Informant Interview, Department of Education in Nangarhar, Senior Government Official, 27 June 2013.

53 Key Informant Interview, Ministry of Finance in Kabul, Senior Government Official, 26 June 2013.

54 Key Informant Interview, Ministry of Finance in Kabul, Senior Government Official, 14 September 2013.

55 This was mentioned in 3 Key Informant Interviews.

allotments. Some participants regarded delays as a budget execution issue and capacity problem at the central level,<sup>56</sup> while others argued that the Mustofiats, because of their lack of absorptive capacity,<sup>57</sup> or the Parliament, because they often postpone their approval of the budget,<sup>58</sup> are responsible for the delay. The latest budget execution report from the MoF shows that the budget allotments flow on a regular basis for the operating budget (94%) but not for the development budget (50%), whereas the expenditure rates for both the operating budget (66%) and development budget (35%) are low.<sup>59</sup> This indicates that the low execution rate of the development budget is both a central- and provincial-level issue, while the low execution rate of the operating budget can be seen as primarily a provincial-level issue as the budget allotments flow regularly. A delay in the allocation of funds for items such as basic necessities and salaries also hinders local service delivery, as the director of a hospital in Kunduz noted:

The Ministry of Finance usually sends salaries after 3-4 months. We want to receive money at the starting of year. We also didn't even have enough money for basic necessities like oil, food, and gas.<sup>60</sup>

In sum, it can be argued that resource scarcity is an issue primarily caused by a lack of discretionary budget in the development budget, low domestic resources, low budget execution rates (particularly in the development budget) and a lack of engagement with provincial line departments – corruption is another factor but will be discussed separately in a chapter later on, which could be addressed with improved collaboration between the central government and provincial line departments and an increase of the discretionary budget in the development budget.

### 3.1b Complexity and Human Capital

Capacity constraints in the budget process have been identified in the interviews as another impediment for service delivery. A process of state-building has attempted to increase the capacity of the GIRoA

to receive and effectively utilize donor funding. However, the interviews indicated that the systems put in place do not correspond to the absorptive reality on the ground, while the practice of “buying capacity” through foreign technical assistance has provided short term gains but long term constraints for Afghan capacity building.<sup>61</sup>

### *Complex Procedures, Systems and Laws*

Literature discusses the mismatch between the complexity of implemented budget procedures, systems and laws and the capacity of Afghan government officials to fully comprehend and effectively use them, particularly at the subnational level.<sup>62</sup> The provincial participants in the interviews often called for a simplification or readjustment of systems such as procurement procedures and AFMIS, which is interconnected with their capacity to use these systems and laws. Complexity in government procedures was perceived in the interviews as one of the main bottlenecks for effective service delivery.<sup>63</sup> While centralized government structures were subject to critique the most, some of the interviewees pointed to the Mustofiats for being ineffective budget entities, saying that “the procedures for getting funds out of the Mustofiat are complex and time-consuming and there is too much bureaucracy.”<sup>64</sup>

The complexity of budget procedures is particularly problematic when dealing with operations and maintenance (O&M), which often entails unforeseen expenses that cannot be anticipated in the regular budget cycle. In a 2013 report on the long-term sustainability of development projects, O&M was identified as a very problematic issue to deal with in the context of Afghanistan's highly centralized budget. In several of the same provinces targeted for this research, government officials explained that they do not have budget in terms of day-to-day maintenance or fixing issues with buildings, infrastructure, and projects.

In this report, a provincial government official explained that the process for fixing even minor issues like a broken lock or windows can take 6 months to a year.<sup>65</sup> Several government officials explained

56 Key Informant Interview, Department of Education in Kandahar, Senior Government Official, 12 June 2013; Key Informant Interview, Department of Finance in Bamyan, Senior Government Official, 8 July 2013.

57 Key Informant Interview, University in Kandahar, Lecturer, 23 June 2013; Key Informant Interview, NGO Public Health in Herat, Manager, 12 June 2013.

58 This was mentioned in 4 Key Informant Interviews.

59 Government of the Islamic Republic of Afghanistan, “Budget execution report 15-11-2014,” 2014.

60 Key Informant Interview, Hospital in Kunduz, Director, 19 June 2013.

61 Hogg et. al, “Afghanistan in transition,” 2013.

62 Bakhshi and Jacob, “Public expenditure tracking survey,” 78.

63 This was mentioned in 3 Focus Group Discussions and 13 Key Informant Interviews.

64 Key Informant Interview, High School in Kandahar, Teacher, 17 June 2013.

65 Marie S. Huber, “If You Built Your Own House, Would you Then Destroy It?: Community Involvement and the Sustainability of PRT Development Projects in Afghanistan after Transition,” Integrity Watch



that when they submit complaints or requests for maintenance issues to higher levels, the ministry does not have the resources or capacity to address the issue, and they are unable to allocate funding to fix the problem or they never receive any response at all. This can turn an easily addressed issue like a leaking roof into a major problem that leads to the collapse of an entire building.<sup>66</sup> These issues were echoed in the interviews for this research, where provincial officials repeatedly explained that their inability to bring changes to the allocated budget at the local level and lack of a discretionary fund is a major challenge.<sup>67</sup> This issue will become more and more problematic as responsibility for development projects shifts to the GIRoA.

Others identified the existing procurement law as a constraint for effective service delivery. Government officials at the provincial level complained that the procurement law was too complex and time consuming<sup>68</sup> or that “shortcomings of the procurement law result in difficulties with executing the budget”.<sup>69</sup> As has been acknowledged by several central government officials from the MoF,<sup>70</sup> it is clear that there is a mismatch between the complexity of procurement law and the capacity of provincial line departments. This begs the question whether the procurement law needs to be amended or the capacity of provincial line departments and other provincial authorities needs to be built, or both. AFMIS, for example, successfully streamlined the budget process across the different government entities,<sup>71</sup> but it requires internet infrastructure and technological expertise that is often not sufficiently available in the provinces (or to a lesser extent in the center).<sup>72</sup> A government official working in Balkh elaborated on this issue:

We have many challenges in connecting to the AFMIS system. This system is located in the treasury department of the MoF and even a minor defect in it could affect access for all 34 provinces. This system is too sophisticated for Afghanistan and will take time to get used to, but it can ensure complete transparency.<sup>73</sup>

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Afghanistan, December 2013.

66 Ibid.

67 This was mentioned in 20 Key Informant Interviews.

68 Key Informant Interview, Department of Education in Nangarhar, Senior Government Official, 27 June 2013.

69 Key Informant Interview, Ministry of Finance in Kabul, Senior Government Official, 26 June 2013.

70 This was mentioned in 3 Key Informant Interviews.

71 Bizhan, “Budget transparency in Afghanistan,” 3.

72 Key Informant Interview, Mustofiat in Balkh, Government Official, 22 June 2013.

73 Key Informant Interview, Mustofiat in Balkh, Government Official, 22

Budget planners are grappling with a distinct dilemma here: While introducing sophisticated systems such as AFMIS and the procurement law may improve transparency and accountability, its complexity also requires a substantial effort to raise the practical abilities of budget officials to operationalize and navigate through systems. In order to address these issues, a combined effort is required to simplify these systems, procedures and laws to match existing capacities and simultaneously build capacity at the provincial level and to a lesser extent at the central level, while the reliance on foreign expertise should be reduced in favor of Afghan human capital development. This will be discussed in more detail in the next section.

### *Human Capital and Capacity Building*

The history of foreign-led state-building in low-income countries has shown that capacity development is a long-term and tenuous project<sup>74</sup> and expectations should therefore be modified accordingly. 13 years after the fall of the Taliban regime, capacity building of government officials, particularly at the provincial level, is still lacking as is exemplified by the participants’ emphasis on the importance of capacity building, though programs such as the ARTF-funded Capacity Building for Results Facility (CBR) seems to be a step in the right direction and has the potential for upscaling if managed transparently.

A large number of key informant participants emphasized that a lack of professional staff in the provincial line departments and Mustofiat negatively impacts the ability of subnational government officials to ensure that province’s needs and requirements are taken into account in the budget process.<sup>75</sup> A lack of knowledge and capacity at the provincial level has led to incorrect utilization of procedures such as procurement policy.<sup>76</sup> Therefore, participants argued that the government “should encourage the development of professionals trained within the country,”<sup>77</sup> rather than relying on foreign technical assistance. The professionalization of civil servants at the provincial level could improve the incorporation of localized needs in the budget as provincial authorities would have the capacity

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June 2013.

74 Hogg et. al, “Afghanistan in transition,” 2013.

75 This was mentioned in 7 Key Informant Interviews.

76 Key Informant Interview, Ministry of Public Health in Kabul, Senior Government Official, 13 June 2013.

77 Key Informant Interview, Department of Health in Uruzgan, Senior Government Official, 30 June 2013.

to participate more actively in budget formulation. This was exemplified during one of the discussions among the participants who stressed, “professional cadres have to be employed to correctly predict future spending that is in resonance with the present conditions.”<sup>78</sup>

The introduction of systems like AFMIS were generally appreciated among the participants from both civil society and government and seen as an improvement from the past.<sup>79</sup> The importance of furthering the implementation of advanced digital technologies into the budgeting process as a means to increase the government’s capacity to collect accurate data and facilitate a more efficient bureaucracy was highlighted.<sup>80</sup> However, there was also a concern that the implementation of systems based on international best practices will not function effectively unless it takes the specific socio-economic context of Afghanistan into account. A participant expressed his concern that “we should build on the traditional financial management principles that have evolved in Afghanistan,”<sup>81</sup> encouraging a localized perspective which sees value in maximizing the potential of existing, albeit imperfect, Afghan structures. These comments indicated that current capacity levels at the provincial level, and to a lesser extent at the central level, are generally not on par with what the newly introduced systems require, which is aggravated by recruitment practices that are often not merit-based.

In terms of technology and capacity building, some government officials and civil society representatives highlighted the importance of furthering the introduction of advanced digital technologies into the budgeting process to increase the government’s capacity to collect accurate data and facilitate a more efficient bureaucracy.<sup>82</sup> A university lecturer suggested that recruitment policies should be geared towards “hiring the young generation to replace those who are not able to use modern technology.”<sup>83</sup>

Efforts to build the capacity of the Afghan government have often substituted instead of supported civil service capacity due to a heavy reliance on foreign

expertise. In a 2013 report, it was estimated that the investments in the Afghan economy through the external budget was only 10-25 percent in comparison to 70-95 percent with the core budget because of this outsourcing of contracts for technical support.<sup>84</sup> A large amount of aid still goes off-budget (54% in 2012) and a large percentage of on-budget funding is non-discretionary (66% of the development budget). The donor-led development budget has also created a so-called “second civil service” that runs parallel to GIRoA institutions,<sup>85</sup> paying higher salaries and draining the GIRoA of scarce human capital. A 2011 survey of eight GIRoA ministries and one agency found that of the 5,000 externally funded staff – generally working at senior positions – only 200 were Afghan, estimated at costing 125 million USD per year.<sup>86</sup> The issue of “buying capacity” and the financing of a “second civil service” therefore represent a serious concern.

The GIRoA and international donors initiated consultations to enhance the capacity of the civil service and institutionalize merit-based recruitment. This resulted in the ARTF funding the 5-year CBR program starting in 2012, which was developed by the MoF and the Independent Administrative Reform and Civil Service Commission (IARCSC). CBR is implemented and coordinated by Project Support Units (PSUs) at the MoF and IARCSC, but each targeted ministry leads their own CBR program. It aimed to foster merit-based recruitment of primarily the central government by hiring up to 2,400 senior-level civil servants who will constitute the executive management of central line ministries and to a lesser extent of provincial offices. CBR has been planned to be implemented in 8-10 key central line ministries that are fundamental to service delivery and economic growth as a means to improve the delivery of essential public services such as health and education and reduce the reliance on external technical assistance.<sup>87</sup> However, the latest World Bank update of August this year on the progress of implementing CBR shows that the project is behind on schedule and requires significant acceleration since just two service delivery ministries are participating as of early 2014.<sup>88</sup>

The CBR project nevertheless reflects an important effort to build the capacity of GIRoA officials and

78 Focus Group Discussion, Hospital in Kandahar, Doctors, 19 June 2013.

79 This was mentioned in 7 Focus Group Discussions and 5 Key Informant Interviews.

80 This was mentioned in 2 Focus Group Discussions and 5 Key Informant Interviews.

81 Key Informant Interview, University in Herat, Lecturer, 11 June 2013.

82 This was mentioned in 2 Focus Group Discussions and 5 Key Informant Interviews.

83 Key Informant Interview, University in Balkh, Lecturer, 7 June 2013.

84 Hogg et. al, “Afghanistan in transition,” 2013.

85 Ibid.

86 Ibid.

87 World Bank, “Capacity building for results facility,” 2011, 7.

88 World Bank, “Implementation status and results: Afghanistan capacity building for results facility (CBR),” 2014.

institutionalize a merit-based recruitment system, while the CBR status reports also indicate that the project has led to the recruitment of several provincial civil servants at one ministry. This report argues that these efforts at the provincial level should be scaled up if it is proven that the merit-based recruitment policies are effective and transparent, in order to foster their capacity to operationalize government systems and to increase the potential of provincial authorities to become more actively involved in the budget formulation process as will be discussed in more detail in the next sections.

## 3.2 CORRUPTION AND ACCOUNTABILITY MECHANISMS

Corruption in Afghanistan<sup>89</sup> is generally perceived by international donors as one of the biggest constraints for development<sup>90</sup> and the participants also expressed their concerns with corruption<sup>91</sup> as well as the lack of accountability.<sup>92</sup> Surveys have further shown that it is a primary concern for the majority of Afghans, who are often the biggest victims of corruption. In 1392 (2013), 26% of Afghans identified corruption as one of the top four problems currently facing Afghanistan as a whole, compared to 30% who named insecurity and 25% who named unemployment.<sup>93</sup> 56% named corruption as a major problem in their daily life; 68% classified it as a major problem in their provincial government; 77% said corruption is a major problem in Afghanistan as a whole.<sup>94</sup> The interviews revealed similar grievances with regards to corruption. While corruption is commonly understood as “the use of public positions for private gain,”<sup>95</sup> the interviewees addressed various forms of corrupt behavior in relation to the budget process<sup>96</sup> and offered suggestions for accountability mechanisms.<sup>97</sup>

89 Afghanistan is ranked 175 out of 177 countries according to the corruption indicators of Transparency International. Transparency International, “Corruption indicator list,” accessed August 18, 2014, <http://www.transparency.org/country>.

90 IWA, National corruption survey (2014).

91 This was mentioned in 22 Focus Group Discussions and 8 Key Informant Interviews.

92 This was mentioned in 11 Focus Group Discussions and 24 Key Informant Interviews.

93 Keith Shawe, “A survey of the Afghan people,” 2013.

94 Shawe, “A survey of the Afghan people,” 9.

95 Enrico Bisogno et al, “Corruption in Afghanistan: Bribery as reported by the victims,” United Nations Office on Drugs and Crime, 2010, 1.

96 This was mentioned in 22 Focus Group Discussions and 8 Key Informant Interviews.

97 This was mentioned in 11 Focus Group Discussions and 24 Key Informant Interviews.

In EPD's research, responses to issues related to corruption, transparency and accountability were gendered.<sup>98</sup> This might suggest that women are more willing to discuss these issues and/or are less corruptible as outsiders, as women are still generally underrepresented in Afghanistan's power structures.<sup>99</sup>

### 3.2a Corruption in the Budget Process

Interviews with the providers and recipients of service delivery revealed that institutionalized corrupt behavior manifests itself in multiple interconnected ways such as bribery, embezzlement, cronyism and nepotism, and that it is inextricably linked to the budget process. Both government and civil society respondents identified corruption as a significant hindrance to the effective provision of public services in the public health and education sectors. Perceptions of corruption were noted by a majority of respondents and were strongest amongst civil society participants. The interviews suggest that resource scarcity can be partially attributed to embezzlement practices<sup>100</sup> and can be circumvented with bribes<sup>101</sup> and having the right connections.<sup>102</sup> However, the participants' comments do not reflect the improvements made by the GIRoA based on public financial management and transparency indicators as will be discussed.

#### *Bribery, Cronyism, Nepotism and Embezzlement*

Bribery, cronyism, nepotism and embezzlement are not unique to Afghanistan but it is particularly widespread and costly. For example, a survey from 1393 (2014) revealed that an estimated total of 1.9 billion USD was paid in bribes by Afghans over a period of 12 months,<sup>103</sup> and Afghans paid 2.5 billion USD in bribes in the year 1388 (2009) which constituted 23% of the country's GDP.<sup>104</sup> The participants' comments illustrate how bribery, cronyism, nepotism and favoritism are necessary to access employment

98 41.5% of the participants in FGDs who responded to this cluster of issues were majority female; 20.2% of the participants in FGDs and KIs were female; 16.6% of the participants in FGDs were majority male; 9.8% of the participants in KIs were male; and 11.9% of the participants in FGDs were with an equal number of men and women.

99 Government of the Islamic Republic of Afghanistan, “National action plan for the women of Afghanistan,” 2007.

100 This was mentioned in 5 Focus Group Discussions and 3 Key Informant Interviews.

101 This was mentioned in 9 Focus Group Discussions and 3 Key Informant Interviews.

102 This was mentioned in 8 Focus Group Discussions and 2 Key Informant Interviews.

103 IWA, National corruption survey, 61.

104 Bisogno et al, “Corruption in Afghanistan: Bribery as reported by the victims,” 4.

opportunities or access services that should already be publically available,<sup>105</sup> thereby wasting resources and usurping capital from and denying opportunities for many Afghan citizens.

It was mentioned many times in the interviews that bribery is pervasive among service providers and government officials. Bribes and connections are often necessary tools to receive treatment in a hospital,<sup>106</sup> to get higher marks or pass an exam in school,<sup>107</sup> or to receive more funding from the central government.<sup>108</sup> In a 1393 (2014) survey, 32% of all households had paid a bribe at least once over the past 12 months in order to obtain basic services.<sup>109</sup> This not only means that scarce resources of Afghan citizens are spent unproductively; it also means that supposedly non-exclusionary public goods are rendered exclusionary. A focus group discussion with students in Balkh quite aptly summarizes the sentiment shared among the participants:

Nobody will receive services on time without using personal acquaintances or by bribing officials. As far as we know, only 5% of the people receive services lawfully, while the other 50% receive services through bribes and 45% through personal acquaintances.<sup>110</sup>

Institutionalized bribery decreases the Afghans' trust in the central government's ability to provide public goods to all citizens without exclusionary practices.<sup>111</sup> This can compromise the social contract between the government and its citizens because the latter group expects certain services to be delivered in exchange for paying taxes. However, it should be acknowledged that the social contract in Afghanistan is already quite weak due the state's dependence on foreign aid,<sup>112</sup> which disincentives the government to engage with the public. The unraveling of the Afghan social contract could in turn lead to non-violent and violent responses from citizens as the comments made in a focus group discussion stated that they "do not trust the government" and "will therefore not vote", but "demonstrate against the government to

demand better quality services."<sup>113</sup>

Cronyism, which refers to the appointment of friends and associates to positions of authority without proper regard for qualifications, is another commonly noted issue in the Afghan government with particular negative effects on the budget process and service delivery<sup>114</sup> as well as nepotism, the practice of recruitment based on family ties, personal relations or group-affiliation rather than merit. A 1393 (2014) report suggests that corrupt processes of filling government leadership positions have resulted in ethnically motivated hiring and ethnic dominance in particular government ministries.<sup>115</sup> Furthermore, in 1392 (2013) 31% of Afghans reported having encountered corruption when applying for jobs,<sup>116</sup> corroborating the experiences of many respondents in this research who asserted that hiring processes are highly corrupt.

The omnipresence of nepotism and cronyism specifically in government recruitment policies was often referred to as being detrimental to quality service delivery as it can lead to unqualified or incompetent and corrupt employees being in charge of the budget process.<sup>117</sup> In order to improve the capabilities of civil servants and to reward non-corruptive behavior some argue that the government should start implementing a merit-based system using "sticks and carrots,"<sup>118</sup> and appointing "competent people to appropriate positions because criteria for hiring a person should be based on merit and not personal relations."<sup>119</sup> Such a system would entail that "those with expertise in budgeting should be recruited to plan and execute the budget."<sup>120</sup> In short, it was generally agreed that a "meritocracy should replace corruption."<sup>121</sup> The interviews also made clear that a merit-based system of recruitment could potentially increase people's access to, and improve the quality of, service delivery because the entities that spend the budget will be less prone to corrupt behavior. These systems of reward and punishment should be

105 Focus Group Discussion, Hospital in Kunduz, Attendees of Patients, 11 June 2013.

106 This was mentioned in 3 Focus Group Discussions.

107 This was mentioned in 3 Focus Group Discussions.

108 This was mentioned in 3 Key Informant Interviews.

109 IWA, National corruption survey, 60.

110 Focus Group Discussion, High School in Balkh, Students, June 5 2013.

111 This was mentioned in 4 Focus Group Discussions and 3 Key Informant Interviews.

112 Sarajuddin Isar, "A blessing or a curse? Aid rentierism and state-building in Afghanistan," 2014.

113 Focus Group Discussion, Hospital in Kandahar, Attendees of Patients, 20 June 2013.

114 This was mentioned in 4 Focus Group Discussions and 2 Key Informant Interviews.

115 Australian Agency for International Development, "DFAT country report: Afghanistan," 2014, 10.

116 Shawe, "A survey of the Afghan people," 80.

117 This was mentioned in 4 Focus Group Discussions and 2 Key Informant Interviews.

118 This was mentioned in 4 Focus Group Discussions and 2 Key Informant Interviews.

119 Key Informant Interview, University in Balkh, Lecturer, 7 June 2013.

120 Key Informant Interview, Department of Education in Kandahar, Senior Government Official, 12 June 2013.

121 Focus Group Discussion, High School in Herat, Students, 11 June 2013.



highly visible and noticed by local populations and fellow officials, and utilize the local ‘honor’ culture to encourage compliance.

Several participants, especially non-government participants, further commented on embezzlement practices in both the education and public health sector, primarily from non-government interviewees and only one government interviewee. A commonly held view was that central government officials treat the “budget as a personal budget rather than a national budget”,<sup>122</sup> stating that “it is obvious that the Ministry of Finance works just like a company that maximizes its own profit.”<sup>123</sup> The interconnectedness of embezzlement and capacity was emphasized as well by a teacher:

The budget funds allocated to education is embezzled by more than half of the public officials and they are not professional because they were recruited on account of personal acquaintance.<sup>124</sup>

Related to this, a doctor mentioned:

The public officials have all bought their offices and so they embezzle as much money as they have spent on getting in office. The public offices function just like investment vehicles and are not seen as public offices but as stocks. They do not deliver services to the public; they just enrich themselves.<sup>125</sup>

The participants also indicated that these practices have become normalized since “no one [in government] is held responsible for their actions.”<sup>126</sup> This sentiment is substantiated by a 2010 survey in which 38% of the population said to perceive corruption as the norm<sup>127</sup> while 79% of Afghans believed that embezzlement or illegal use of money is common to highly common in a 2014 survey.<sup>128</sup>

These grievances reveal a frustration with cronyism and nepotism, a desire for merit-based recruitment, and a lack of trust in the ability of the GIRoA to provide services without syphoning of wealth. But

they also indicate a lack of understanding of the budget process and access to budget information since the MoF is increasingly performing better according to the Public Expenditure and Financial Accountability (PEFA)<sup>129</sup> and Open Budget Survey indicators,<sup>130</sup> while programs like the aforementioned CBR program at least attempt to improve merit-based recruitment policies. Besides spreading awareness about deficiencies in the GIRoA and budget process, improvements in transparency and accountability should therefore also be emphasized and disseminated by the GIRoA as well as CSOs, NGOs and subnational government officials in order to strengthen Afghanistan's social contract between the citizens and the government.

### 3.2b Accountability Mechanisms

The lack of effective accountability mechanisms has been directly or indirectly referred to by many participants as indicative of corrupt behavior in the budget process and should hence be subject to change according to them. In particular, a comprehensive monitoring and evaluation system<sup>131</sup> and compliance with existing laws<sup>132</sup> were emphasized as priorities for the government and stakeholders to focus on. Efforts have been made by the GIRoA to improve auditing and performance monitoring, but issues remain with conducting proper internal and external audits in line with international standards and performance monitoring has not been fully implemented yet as will be discussed.<sup>133</sup>

#### *M&E and Enforcement of Laws*

A monitoring and evaluation (M&E) mechanism was understood by both the participants<sup>134</sup> and by international donors<sup>135</sup> to be an appropriate tool to improve the effectiveness of the budget process and to combat corrupt behavior. Once provided with accurate information from monitoring activities, an informed evaluation of corrupt behavior and inefficiencies is more likely to be made, evidence-based solutions could be formulated, and the government can be better held accountable by

122 Focus Group Discussion, High School in Herat, Teachers, 11 June 2013.

123 Key Informant Interview, University in Nangarhar, Lecturer, 27 June 2013.

124 Focus Group Discussion, High School in Nangarhar, Teachers, 27 June 2013.

125 Focus Group Discussion, Hospital in Nangarhar, Doctors, 27 June 2013.

126 Key Informant Interview, Mustofiat in Kandahar, Government Official, 18 June 2013.

127 Bisogno et al, “Corruption in Afghanistan: Bribery as reported by the victims,” 4.

128 IWA, National corruption survey, 44.

129 Sisk, “Public financial management and accountability assessment.”

130 Bizhan, “Budget transparency in Afghanistan.”

131 This was mentioned in 7 Focus Group Discussions and 22 Key Informant Interviews.

132 This was mentioned in 4 Focus Group Discussions and 2 Key Informant Interviews.

133 Sisk, “Public financial management and accountability assessment,” 80-82.

134 This was mentioned in 7 Focus Group Discussions and 22 Key Informant Interviews.

135 Bizhan, “Budget transparency in Afghanistan,” 12.

stakeholders and the general public.<sup>136</sup>

The participants suggested a wide variety of solutions that resemble an M&E system for different contexts. A common suggestion in both the public health and education sector was to implement an M&E system that would keep track of budget execution,<sup>137</sup> and some argued for a specific bottom-up social audit that would reflect people's needs since "local communities are not involved in assessing the effectiveness of the spent budgetary units."<sup>138</sup> The call for a specific bottom-up M&E system such as the establishment of "monitoring committees"<sup>139</sup> was regularly made and was perceived by service providers.<sup>140</sup> Examples of this are EPD's Afghans' Coalition for Transparency and Accountability (ACTA) networks and the Community-Based Monitoring (CBM) networks of Integrity Watch Afghanistan (IWA). This would be in addition to existing monitoring activities of the GIRoA such as auditing and performance-based monitoring. Auditing by the GIRoA has improved as compliance reports have been conducted, but issues remain with for example performance audits as they were not conducted in the FY of 1390 (2011) and 1391 (2012)<sup>141</sup> and budget-performance monitoring is being implemented very slowly.<sup>142</sup>

Another accountability mechanism that was deemed important by the participants is the proper enforcement of laws. The interviews acknowledged the importance of a functioning rule of law, but they also identified a mismatch between legislation and law enforcement in the budget process. Though participants believed the Afghan government has developed "good laws like the financial law, procurement law, social laws and many other laws"<sup>143</sup> that are designed to prevent and resolve corrupt behavior. However, as a hospital director emphasized, the law itself "is not the problem; the problem is that the laws are broken by government officials in high

positions"<sup>144</sup> without punitive measures being taken.<sup>145</sup> Existing laws should be better enforced to root out corruption and improve budget effectiveness.

Improving the rule of law has been a key priority under the banner of the good governance agenda for the GIRoA and for international donors like UNDP and the World Bank.<sup>146</sup> This is exemplified by the initiated National Priority Plan 5 that aims "to restore the faith of Afghans in the ability of the law to protect and defend their best interests as individuals and as a nation."<sup>147</sup> The procurement law and other laws such as the new Audit Law of 2013 (1392) and the Public Finance and Expenditure Management (PFEM) law have been set up to improve the accountability and effectiveness of budgeting and public financial management. Despite substantial improvements, a report from 2013 (1392) has indicated some issues with these laws: for example, the capacity to provide public financial management oversight of the PFEM law has been limited due to a lack of capacity in each central line ministry which might take another 2 years to develop and the selection of the Auditor General in charge of audits is political as the person is being appointed by the President without a democratic check by the Parliament.<sup>148</sup>

These deficiencies in the GIRoA's accountability mechanisms and the persistence of corruption suggest a need for institutionalizing an effective government-wide M&E system that systematically monitors and evaluates the government's performance in service delivery. Current M&E-related mechanisms in place such as auditing and performance-based monitoring remain weak and do not assess the quality and effectiveness of service delivery. International case studies of implemented government-wide M&E systems in countries like South Africa and Chile have shown that an institutionalized M&E system has the potential to improve service delivery and increase budget effectiveness.<sup>149</sup> These countries' experiences with institutionalizing a M&E system also reveal lessons learned that can be applied to the Afghanistan context: a M&E system

136 Bisogno et al, "Corruption in Afghanistan: Bribery as reported by the victims," 36.

137 This was mentioned in 3 Focus Group Discussions and 13 Key Informant Interviews.

138 Key Informant Interview, Department of Health in Uruzgan, Senior Government Official, 30 June 2013.

139 Key Informant Interview, Department of Health Kunduz, Senior Government Official, 18 June 2013.

140 This was mentioned in 1 Focus Group Discussion and 3 Key Informant Interviews.

141 Sisk, "Public financial management and accountability assessment," 81.

142 Government of the Islamic Republic of Afghanistan, "Budgeting in Afghanistan: Budget performance monitoring & reporting. Budget manual volume 4 1393," 2014, 9.

143 Key Informant Interview, Hospital in Uruzgan, Director, 1 July 2013.

144 Ibid.

145 Key Informant Interview, Hospital in Uruzgan, Director, 1 July 2013.

146 Mustaq Khan, "Governance, growth and poverty reduction," United Nations Department of Economic and Social Affairs, 2009, 7.

147 Lubomira Beardsely et al, "Emergency project paper: Justice service delivery project," Afghanistan Reconstruction Trust Fund, 2012.

148 Sisk, "Public financial management and accountability assessment," 21.

149 Ronneta Engela and Tania Ajam, "Implementing a government-wide monitoring and evaluation system in South Africa," World Bank (Independent Evaluation Group), 2010; Marcela Guzman et al., "Monitoring and evaluation system: The case of Chile 1990-2014," World Bank (Independent Evaluation Group), 2014.

should try to capitalize on the potential of existing M&E and governance structures; the complexity of a M&E system should be based on the government's and civil service' capacities and the quality of information technology systems and data collection mechanisms in place; a M&E system should be gradually developed over time as capacity is built through "learning-by-doing"; the M&E system should inform decision-making processes at the policy level and be utilized as a performance assessment for (senior) civil servants.<sup>150</sup>

What thus can be ascertained from the comments is that recipients and providers of services understood that accountability mechanisms such as M&E should improve. Key concerns are the quality of internal and external audits and the effectiveness of performance-based budgeting. An institutionalized government-wide M&E system – in combination with grassroots monitoring efforts from CSOs and NGOs, as will be discussed more elaborately in the next section – could potentially enhance accountability.

### 3.3 INADEQUATE ACCESS TO AND UNDERSTANDING OF BUDGET INFORMATION FOR CITIZENS

Local populations' access to and understanding of budget information are important indicators to assess whether the budget addresses the needs of a country's population and if the government in question can be held accountable for its (in)actions. Research has shown that levels of public access and budget transparency have slightly improved in Afghanistan: the transparency indicators of the 2012 Open Budget Survey have shown progress and a citizen's budget that intelligibly summarizes the budget has been introduced as well as a pre-budget statement that sets out priorities and spending commitments.<sup>151</sup> However, many barriers still prevent local populations from being informed. Local populations are often uninformed and/or unable to comprehend the budget process due to a lack of transparency,<sup>152</sup> a capacity deficit,<sup>153</sup> and less effective

or non-representative NGOs and CSOs.<sup>154</sup>

#### 3.3a Government Transparency and Access to Information

Transparency in the budget process can be assessed in several ways. It can be based on the public's level of knowledge of budget information, the accessibility and timely publication of budget information, and generally accepted best practice criteria for financial transparency that are based on documents produced by the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD) and other institutions.<sup>155</sup> This section is primarily focused on issues related to the availability and accessibility of budget information for local populations.

For this research, local populations were asked about their ability to actually access information about budgeting processes. While some participants did not seem to have any idea where they would receive information regarding the budget process, some participants identified that there was information available on the MoF website, and occasionally through the newspaper and TV media. However, the majority of responses indicated that they felt uninformed about budgeting processes. Some participants called for more "access to sufficient information about budget planning and execution"<sup>156</sup> made available by the government for the "common man"<sup>157</sup> to ensure transparency and improve citizens' ability to be informed. The government has taken steps to accommodate these demands as mentioned earlier,<sup>158</sup> but the interviews nonetheless indicated that these efforts are particularly falling short of reaching citizens in the rural areas<sup>159</sup> or those that are illiterate or less educated.<sup>160</sup> This can be ascribed to knowledge/skill deficiencies, internet inaccessibility, and the underutilization of alternative forms of disseminating budget information."<sup>161</sup>

154 This was mentioned in 6 Focus Group Discussions and 10 Key Informant Interviews.

155 International Budget Partnership, "Methodology," accessed August 16, 2013, <http://internationalbudget.org/what-we-do/open-budget-survey/research-resources/methodology/>.

156 Key Informant Interview, Department of Health in Uruzgan, Senior Government Official, 30 June 2013.

157 Focus Group Discussion, Hospital in Nangarhar, Doctors, 27 June 2013.

158 "Strengthening Afghanistan's budget at both national and provincial levels."

159 Key Informant Interview, University in Kunduz, Lecturer, 20 June 2013.

160 Key Informant Interview, Department of Public Health in Bamyan, NGO Worker, 7 July 2013.

161 Key Informant Interview, Department of Public Health in Herat,

150 Engela and Ajam, "Implementing a government-wide monitoring and evaluation system in South Africa," 27-33; Guzman, "Monitoring and evaluation system," 42-47.

151 "Strengthening Afghanistan's budget at both national and provincial levels," accessed August 16, 2013, <http://www.adamsmithinternational.com/case-study/strengthening-afghanistans-budget-at-the-national-and-provincial-level-iii/>.

152 This was mentioned in 3 Focus Group Discussions and 5 Key Informant Interviews.

153 This was mentioned in 3 Focus Group Discussions and 2 Key Informant Interviews.

The absence of an access to information law was also mentioned as a barrier for transparency.<sup>162</sup> Many participants believed that they had the legal rights regarding the national budget, and the manner in which it is spent and financed.<sup>163</sup> At the time of the research's fieldwork, Afghanistan had not codified into law the right of access to information, which means that access to information depends entirely on the discretion of central government officials who are not legally obligated to provide it.<sup>164</sup> Though the fundamental right of access to information is recognized in Article 53 of the Constitution of Afghanistan, a law would mandate the government to facilitate publically accessible information on key government documents, processes and policies. Recently, on June 30 2014 (1393), the Lower House of the Parliament did approve a draft law called the Access to Information Law, but it still has to be approved by the Upper House and the President.<sup>165</sup> It is unclear when this law will be finalized and implemented due to the issues surrounding the 1393 (2014) Presidential elections in Afghanistan.

The interviews also identified possible solutions to increase the government's responsiveness to people's concerns. It was felt that measures are needed that take into account country-specific issues that contextualized international standards of transparency.<sup>166</sup> Participants noted that alternative means of disseminating budget information through media (TV channels, radio platforms and local newspapers),<sup>167</sup> public spaces (mosques and schools) and local community groups (NGOs, CSOs, and community structures such as shuras or CDCs), could help facilitate more widespread diffusion across the provinces – particularly to non-urban areas. This corresponds with a survey from 2013 in which radio (80%), mobile phones (57%) and television (54%) were mentioned as commonly used by Afghans to obtain information compared to the Internet (3%).<sup>168</sup> It was also mentioned that “budgeting workshops”<sup>169</sup> could provide another way of conveying budget information

to the general public, which are rarely conducted by the GIRoA.<sup>170</sup>

In general, participants tended to point to the GIRoA as the main agent for change to address these issues, but CSOs and NGOs and subnational government officials working at the provincial and district level also have a responsibility to foster the dissemination of budget information and understanding of the budget process. The GIRoA is mainly responsible to improve transparency whereas CSOs and NGOs are meant to engage local populations in accessing and understanding budget information.

### 3.3b Capacity and Representation

Civil society is considered to be well placed to advocate for reform and transparency, and monitor progress of development commitments made by the GIRoA and the international donors.<sup>171</sup> Despite this potential and donor funding for CSOs, the interviews suggested that local populations suffer from many capacity constraints to be informed<sup>172</sup> and CSOs and NGOs are also not always believed to represent communities' best interests.<sup>173</sup>

One of the capacity constraints for local populations that came to the surface in the interviews and has been widely documented is illiteracy and to a lesser extent financial illiteracy.<sup>174</sup> It is commonly known that Afghanistan has one of the world's lowest literacy rates;<sup>175</sup> the urban-rural divide<sup>176</sup> and the gender gap<sup>177</sup> are particularly of grave concern. The literacy crisis can be attributed to a variety of causes such as poverty and child labor, lacking educational facilities and teachers, cultural constraints and insecurity that prevent girls and women to access education, and the long history of wars that ruined the country's

NGO Worker, 12 June 2013.

162 Focus Group Discussion, Hospital in Nangarhar, Attendees of Patients, 27 June 2013.

163 This was mentioned in 4 Focus Group Discussions and 2 Key Informant Interviews.

164 Bizhan, “Budget transparency in Afghanistan,” 5.

165 Khaama News, “Afghan Parliament approves access to Information law,” last modified on June 30, 2014, <http://www.khaama.com/afghan-parliament-approves-access-to-information-law-6326>.

166 Bizhan, “Budget transparency in Afghanistan,” 7.

167 Key Informant Interview, Department of Education Herat, Government Official, 12 June 2013.

168 Shawe, “A survey of the Afghan people,” 12.

169 Key Informant Interview, Department of Health in Kunduz, Senior Government Official, 18 June 2013.

170 Government of the Islamic Republic of Afghanistan, “Civil society workshop July 2014,” Accessed November 18, 2014, <http://www.budgetmof.gov.af/index.php/en/workshops/civil-society-on-1393-budget>.

171 “Afghan civil society unites in common goal,” last modified on December 4, 2012, <http://www.counterpart.org/blog/afghan-civil-society-unites-in-common-goal>.

172 This was mentioned in 3 Focus Group Discussions and 2 Key Informant Interviews.

173 This was mentioned in 6 Focus Group Discussions and 10 Key Informant Interviews.

174 Key Informant Interview, University in Bamyan, Lecturer, 7 July 2013.

175 Afghanistan's overall literacy rate was 32% in 2011 according to World Bank Database. World Bank, “Literacy rate,” 2013.

176 Packer et al., “Education sector analysis,” 75.

177 Afghanistan's female literacy rate was 18% in 2011 according to World Bank Database. World Bank, “Female literacy rate,” accessed August 18, 2013; Afghanistan's male literacy rate was 45% in 2011 according to World Bank Database. World Bank, “Male literacy rate,” accessed August 18, 2013.



education infrastructure.<sup>178</sup> In addition, the interviews made apparent that significant portions of the population are unaware of how their government's budget is developed. There is very little knowledge of who actually prepares the budget, and whose voice is included or excluded, and in what manner. In some cases participants did not know what the national budget actually is. The ubiquity of illiteracy and financial illiteracy thus represent a serious threshold for the majority of Afghan citizens to comprehend the budget process and process budget information.

Another constraint that participants referred to was inadequate internet access, particularly in rural areas, which inhibits people's access to budget information since most of it is published online and therefore their capacity to comprehend the budget.<sup>179</sup> The level of access to internet in Afghanistan is one of the lowest in the world<sup>180</sup> and internet access is especially scarce in rural areas outside the more affluent urban centers.<sup>181</sup> A lack of internet access is clearly an issue that deserves the government's full attention. However, such a critique also assumes that citizens are literate and already aware of the existence of a budget process and the availability of budget information, which often is not the case.<sup>182</sup>

Besides these capacity constraints, the legitimacy of CSOs and NGOs that should represent local populations was also emphasized as a cause for lacking access to and understanding of budget information. Some mentioned that CSOs are self-interested<sup>183</sup> and "do not represent the interests of the people since they only work for their own profit."<sup>184</sup> Others argued that CSOs and NGOs are sometimes co-opted by international actors<sup>185</sup> because they tend to be funded by international donors. This issue of legitimacy can be placed in the wider context of the NGO-ization of governance and grassroots advocacy in Afghanistan.<sup>186</sup> In the absence of a strong Afghan

state, non-governmental organizations have partially been taking over governance functions – such as primary health care provision like BPHS and EPHS – which are traditionally considered to be part of the state according to the model of the Western nation state. These CSOs and NGOs provide crucial governance infrastructure in the unstable and conflict-stricken environment of Afghanistan. Yet in contrast with the elected government, NGOs and CSOs are formally not accountable to the Afghan public – although local populations are often being consulted through community consultations.

The interviews and research indicate that local populations do not have proper access to budget information and are unable to comprehend the budget due to illiteracy and financial illiteracy, a lack of internet access, and the fact that CSOs and NGOs do not always represent the interests and needs of local populations. The next section will discuss how the over-centralization of budgeting impacts service delivery.

## 3.4 OVER-CENTRALIZED BUDGETING

The highly centralized system of the budget process was mentioned as another constraint for effective service delivery as it prevents to fully incorporate the needs and requirements in the provinces, which has been widely discussed in the literature.<sup>187</sup> The GIRoA and international donors have attempted to address this issue by developing ideas to de-concentrate budget authority as with the provincial budgeting policy draft that was developed by the MoF but has not yet been signed by the Cabinet. Despite commitments to develop budgeting capacity at the provincial level, the central government still retains primary control over budget formulation and resource allocation.<sup>188</sup> Participants interviewed for this research addressed negative effects of the centralized nature of the budget process and identified constraints for de-concentrating the budget process such as a reluctance of the central

178 Packer et al., "Education sector analysis," 66-68.

179 Focus Group Discussion, Hospital in Nangarhar, Attendees of Patients, 27 June 2013.

180 Afghanistan's internet users per 100 people was 5.9% in 2009-2013 according to World Bank Database. World Bank, "Internet users," accessed August 18, 2013.

181 Key Informant Interview, University in Kunduz, Lecturer, 20 June 2013.

182 Focus Group Discussion, High School in Herat, Teachers, 11 June 2013; Key Informant Interview, Department of Education in Herat, NGO Worker, 11 June 2013.

183 This was mentioned in 2 Focus Group Discussions and 5 Key Informant Interviews.

184 Focus Group Discussion, High School in Nangarhar, Teachers, 27 June 2013.

185 Focus Group Discussion, Hospital in Nangarhar, Doctors, 27 June 2013.

186 Torunn Wimpelmann, "Leaving them to it? Women's rights in transitioning Afghanistan," Chatham House, 2014, 3.

187 Mansoor Jalal, "Aid effectiveness at the subnational level. A study of Provincial Development Committees (PDCs): Provincial coordination, planning and monitoring," Integrity Watch Afghanistan, 2013;

Douglas Salthmarshe and Abhilash Mehdi, "Local governance in Afghanistan: A view from the ground," Afghanistan Research and Evaluation Unit, 2011; Jamie Boex, "Exploring Afghanistan's subnational fiscal infrastructure: Considering the fiscal linkages between villages, districts, provinces and the center," Urban Institute Center on International Development and Governance, 2012;

Stefanie Nijssen, "Towards bottom-up budgeting: Budgetary decentralization in Afghanistan," Civil-Military Fusion Centre, 2011.

188 Salthmarshe and Mehdi, "Local governance in Afghanistan," 19.

government to devolve budget authority<sup>189</sup> and the complex and largely ineffective existing governance structure in the provinces.<sup>190</sup>

### 3.4a Lack of Decision-Making Authority and Provincial Input for Needs-Based Planning

Provincial departments are strongly guided by central line ministries. For example, a provincial Public Health department official believed that while his department was able to provide input into lower level decision-making, budgeting decisions addressing broader health issues were primarily designed at central level.<sup>191</sup> Another department official from Balkh shared that central ministry officials listened to provincial demands but, at the end of the day, their input was limited, and that final approvals were centrally dictated to a large extent.<sup>192</sup> As such, provincial level departments are allowed input, but such input is primarily reactionary, and under overall structures and priorities dictated from the central level. For example, no interviewees from the government offered up any discussion on the role of district or community level authorities and actors in budget development. Only when prodded with a direct question regarding local level influence did they comment on the role of the grassroots level.

Despite this centralized power and authority structure, provincial public health and education department officials did share that central ministry officials were willing to provide support to them during budget execution. Numerous department officials affirmed that central leaders were willing and able to meet their needs.<sup>193</sup> However, as the research moved down one level to hospital administrators and school principals, the responses changed considerably. These participants noted a massive breakdown of support from the central ministry level, and complained of little to no support, and being forced to operate with inadequate resources.<sup>194</sup>

Several government officials stated that community proposals and the stated needs of local communities were not considered, particularly when developing the national budget.<sup>195</sup> Many felt that the budget was

allocated according to whatever the government prioritized rather than on the basis of people's actual needs. An NGO worker explained, "The budget is not allocated according to the needs of the sectors, or fairly among the sectors. More budget should be focused on those sectors that are providing services to people."<sup>196</sup> Several department officials at the provincial level raised concerns that financial resources are not aimed at the immediate needs of local populations. One official explained:

We are not involved in budget planning with the Ministry of Finance, so we do not know much about how they plan it. Nevertheless, the Ministry of Finance does not, I think, take our needs into account in preparing the budget; the ministry appropriates a ridiculous amount of money into one code that exceeds the funds needed and vice versa for other codes.<sup>197</sup>

Various reasons were given for this exclusion, but a public health department official shared that only the suggestions of their employees were listened to.<sup>198</sup> Another education department official claimed that there was little, if any, flexibility in how limited money was to be spent, which did not make consultation with local communities a useful activity.<sup>199</sup> A Provincial Council Member claimed that extensive consultation with local populations was unrealistic since even elected representatives themselves struggled to have their voices heard in central processes.<sup>200</sup>

It is widely felt that the budget "should be planned on a need basis,"<sup>201</sup> rather than being based on priorities of the centralized government, in order to prevent misallocation of resources<sup>202</sup> and improve the budget's effectiveness.<sup>203</sup> Interviewees noted that provincial authorities sometimes collect data on local-level needs, but only on an ad hoc basis. Even in such instances data is still often "disregarded completely"<sup>204</sup> by the central government. The data

196 Key Informant Interview, Department of Education Herat, NGO Worker, 11 June 2013.

197 Key Informant Interview, Department of Health in Nangarhar, Senior Government Official, 26 June 2013.

198 Key Informant Interview, Department of Health in Balkh, NGO Worker, 5 June 2013.

199 Key Informant Interview, Department of Education in Kandahar, Senior Government Official, 12 June 2013.

200 Key Informant Interview, Provincial Council in Kandahar, Provincial Council Member, 19 June 2013.

201 Key Informant Interview, Mustofiat in Nangarhar, Government Official, 26 June 2013.

202 Key Informant Interview, Department of Health in Nangarhar, Senior Government Official, 26 June 2013.

203 Key Informant Interview, Hospital in Kunduz, Director, 19 June 2013.

204 Focus Group Discussion, High School in Uruzgan, Teachers, 27 June 2013; Key Informant Interview, Department of Education in

189 This was mentioned in 18 Key Informant Interviews.

190 This was mentioned in 1 Focus Group Discussion and 2 Key Informant Interviews.

191 Key Informant Interview, Department of Public Health in Kandahar, Senior Government Official, 18 June 2013.

192 Key Informant Interview, Department of Public Health in Balkh, Senior Government Official, 4 June 2013.

193 This was mentioned in 5 Key Informant Interviews.

194 This was mentioned in 3 Key Informant Interviews.

195 This was mentioned in 4 Key Informant Interviews.

collected through these assessments can actually be of great value for budget formulation because it enables the eventual finalized budget to formulate “a better forecast”<sup>205</sup> and adequately respond to the most pressing needs that have been identified by local stakeholders such as teachers, doctors, provincial government officials and others. Needs assessments can also improve the effectiveness of budget allocations as the changes in needs are better documented.

### 3.4b Initiatives on Strengthening Provincial Budgeting

With the stated aim of ensuring integration of specific provincial needs and requirements in the national budget, the GIRoA and international donors initiated several programs. However, provincial budgeting remains elusive as of yet despite commitments and wide variety of efforts aimed at institutionalizing the participation of provincial authorities.

In 1385 (2006), the MoF initiated a provincial budget reform by establishing the Provincial Budget Unit within the Budget Department of the MoF. The tasks of the unit entail, among other tasks, ensuring budget preparation and implementation guidelines and instructions that includes requirements for the integration of provincial needs, facilitating communication between central line ministries and their provincial line departments, and supporting provincial line departments in preparation of the budget submission, as per line ministries’ and MoF requirements. The Provincial Budget Unit of the MoF works with technical staff at the Independent Directorate of Local Governance (IDLG) to develop guidance on implementing the subnational financial management policy.<sup>206</sup> However, the provincial budgeting initiative only affects the development side of the core budget, not the operational side.<sup>207</sup>

The international donors have articulated their support for de-concentrating the budget process with the commitment to developing a provincial budgeting process as part of the TMAF in 1391 (2012),<sup>208</sup> which resulted in the GIRoA’s provincial

budgeting policy draft. The paper describes the de-concentration of budget authority as a mechanism to devolve discretionary budget from the central government to sub-national administrative structures. In this report, de-concentration means that secondary budgetary units in the form of provincial line departments gain responsibilities within the budget formulation under the auspices of central line ministries, which are primary budgetary units who delegate these responsibilities within the confines of the legislative framework. This will be discussed in more detail in the next section. Decentralizing, instead of de-concentrating, budget authority to the sub-national would require a constitutional change and an institutional overhaul as the budgeting system is centralized by law. Such a process of decentralization would put additional fiscal strains on the GIRoA in an already financially insecure post-1393 (2014) environment and require a capacity level at the provincial level which is not realistically attainable in the near future.

Concrete investments have been made to harmonize and institutionalize budgeting at the provincial governance level with initiatives such as the Provincial Strategic Plans (PSPs) and Provincial Development Plans (PDPs), which are supported by the UNDP Afghanistan Subnational Governance Programme (ASGP) and led by IDLG. The PSPs provide annual and five-year development plans for the province. In 1392 (2013), PSPs were finalized in seven provinces and IDLG forecasted PSPs for all provinces in 1393 (2014). In 1392 (2013), 33 of Afghanistan’s 34 provinces completed PDPs.<sup>209</sup> Furthermore, USAID funded the Economic Growth and Governance Initiative (EGGI) project to support MoF’s provincial budgeting reform program building on the earlier pilot provincial budgeting and training program from 1385 (2006) to 1388 (2009).<sup>210</sup> In 1392 (2013), ASGP also supported IDLG in the development of the earlier mentioned GIRoA provincial budgeting policy, which focuses on both central line ministries and provincial line directorates.<sup>211</sup> These initiatives aim, among other things, to streamline the efforts of provincial government bodies to set up a framework for annual budgeting,<sup>212</sup> which is an indication of GIRoA’s and the

Uruzgan, Senior Government Official, 27 June 2013.

205 Focus Group Discussion, Hospital in Nangarhar, Attendees of Patients, 27 June 2013; Focus Group Discussion, High School in Kandahar, Students, 17 June 2013.

206 Government of the Islamic Republic of Afghanistan, “Provincial budgeting unit,” last modified on December 23, 2013, <http://www.budgetmof.gov.af/index.php/en/using-joomla/modules/provincial-budgeting>.

207 Nijssen, “Towards bottom-up budgeting,” 5.

208 Boex, “Exploring Afghanistan’s subnational fiscal infrastructure,”

1-2.

209 United National Development Programme, “Afghanistan subnational governance programme: 2013 annual progress report,” 2014, 13.

210 United States Agency for International Development, “Ministry of Finance 2011 provincial budgeting pilot lessons learned report,” 2012,

4.

211 Special Inspector General for Afghanistan Reconstruction, “Governance quarterly report,” 2014, 134.

212 UNDP, Afghanistan subnational governance programme II, 15.

international donors' commitments.

The Provincial Development Committees (PDCs) were established through an Afghan government cabinet decision in December 1384 (2005) to coordinate provincial planning with sectoral ministries and are responsible for the development of the PDPs.<sup>213</sup> The Provincial Administrative Assemblies (PAAs) serve as a coordinating entity between the heads of provincial line departments and the governor and monitoring the implementation of the PDPs.<sup>214</sup> The Provincial Governor is the chair of both the PDC and PAA, which notably have no budgeting authority. As shown in the Figure 2.4, these PDCs have no formal role in the budget formulation process besides informing the central line ministries during the budget process. The PDPs were envisioned as documents that would arrange provincial development objectives according to priorities and guide development initiatives for the central government, provincial government, and donor community,<sup>215</sup> alleviate the issue of parallel structures such as the PRTs providing for development needs outside of the government,<sup>216</sup> and improve budget effectiveness. In practice, many government officials have reached consensus that the PDPs do not work, often referenced as a provincial "wish list" rather than a useful prioritization of the most critical development needs.<sup>217</sup>

In addition, the Performance-Based Government Fund (PBGF I) was a USAID program executed by The Asia Foundation with the aim of improving planning, budget and auditing capacities at the provincial level by incentivizing good governance.<sup>218</sup> In the pilot program, it specifically targeted the Provincial Governor's Office and the IDLG to build capacity. Through the program, governors and their offices were evaluated on a quarterly basis based on their use of their PBGF allocation. Governors were publicly ranked, with the top six scorers receiving a 25 percent budget increase, and the bottom six scorers receiving a 25 percent reduction in funding.<sup>219</sup> Building on PBGF I, PBGF II is currently being implemented by

The Asia Foundation and led by IDLG, with MoF as a full partner in the program. In PBGF II, performance is measured on a quarterly basis with indicators in the areas of quality of programming, accountability and transparency of fund usage, and improved budget practices.<sup>220</sup> However, the interviewees for this report did not infer that these endeavors have had notable success in aiding effective de-concentration of the budget process as experienced on the ground.

### 3.4c Provincial Budgeting Constraints

The existence of a multitude of local governance entities, as the figure 3.1 shows, would seem to suggest some sort of sovereignty at the provincial level but this distorts the actual centralized hierarchy of the budget process. The complexity of provincial governance structures, centralized nature of control as per the constitutional mandate,<sup>221</sup> and a lack of discretionary budget in the national budget (only 34% of the development is discretionary) provide substantial constraints for establishing a provincial budgeting system.<sup>222</sup>

One of the issues that hampers the establishment of a provincial budgeting system to materialize is believed to be related to the fragmented structure of subnational governance institutions as its incoherence can cause a "lack of coordination"<sup>223</sup> and "poor communications".<sup>224</sup> This sentiment is underscored by the existence of several parallel governance bodies at the provincial level. To exemplify, two subnational governance bodies that have been established and are managed by different government institutions at the centralized level. overlap The DCCs fall under the USAID-funded ASOP and is run by the IDLG, and the District Development Assemblies (DDAs) fall under the National Area-Based Development Program (NABDP) of the Ministry of Rural Rehabilitation and Development (MRRD). The government approved the District Consultative Committee Policy in 1393 (2014) to resolve this confusion and merge the various district councils such as the DCCs and DDAs into one administrative

213 The Asia Foundation, "An assessment of subnational governance," 2007, 13.

214 Ashley Jackson, "Politics and governance in Afghanistan: The case of Nangarhar," Afghanistan Research and Evaluation Unit, 2014, 17.

215 Jalal, "Aid effectiveness at the subnational level," 18-19.

216 Huber, "If You Built Your Own House, Would you Then Destroy It?," 9.

217 Ibid.

218 Nijssen, "Towards bottom-up budgeting," 6.

219 United States Agency for International Development, "Performance-based governance fund," last modified September 11, 2014,

<http://www.usaid.gov/news-information/fact-sheets/performance-based-governance-fund-pbgf>.

220 Government of the Islamic Republic of Afghanistan, "Performance based governance fund," accessed September 12, 2014, <http://www.pbgf.gov.af/>.

221 Focus Group Discussion, High School in Nangarhar, Students, 27 June 2013; Key Informant Interview, University in Kunduz, Lecturer, 20 June 2013.

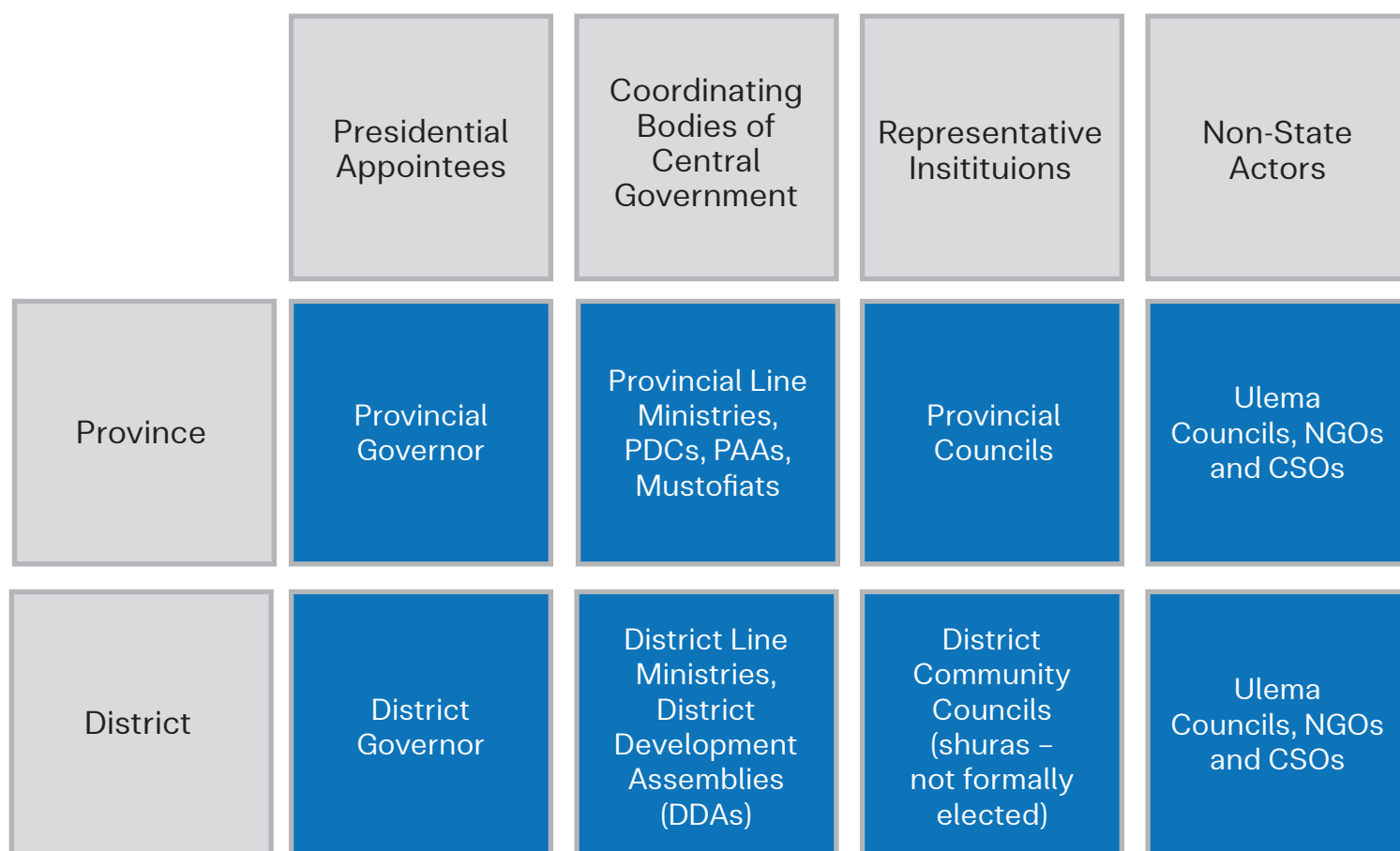
222 This was mentioned in 1 Focus Group Discussion and 2 Key Informant Interviews.

223 Key Informant Interview, University in Kunduz, Lecturer, 20 June 2013; Key Informant Interview, Department of Education Balkh, NGO Worker, 5 June 2013.

224 Key Informant Interview, High School in Nangarhar, School Principle, 26 June 2013.



Figure 3.1 Overview of Provincial Institutions



body under the control of IDLG and MRRD, as a means to ensure equitable development and facilitate effective service delivery through improved planning and resource arrangements.<sup>225</sup> The cabinet has approved the policy and an implementation framework has been developed and presented to all stakeholders.<sup>226</sup>

Some government officials also argued that provincial line departments should receive some form of “discretion with respect to bringing changes in the budget codes”<sup>227</sup> and to “transfer funds from one code to another”<sup>228</sup> to adapt the allocation of funds for each service sector when resources are scarce. Provincial line departments already have discretionary authority as secondary budgetary units to allocate the budget within the limits of the approved budget codes (i.e. code 21 for salaries and wages, code 22 for goods and services and code 25 for the acquisition of assets such as buildings and equipment).<sup>229</sup> In principle, this

allows provincial line departments to distribute the available resources as per the specific departmental needs (health, education etc.) of the districts. Changing the budget execution guidelines of the GIRoA,<sup>230</sup> by allowing provincial line departments to transfer resources between codes in the budget execution phase, would diminish the GIRoA’s ability to ensure timely and accountable resource allocation as it provides more opportunities for resource leakage and further complicates the budget process. Resource scarcity at the provincial level is indeed a substantial constraint for effective service delivery, but the solution provided by the participants is unlikely to strengthen budget effectiveness.

As has been discussed, resource scarcity can primarily be attributed to a lack of discretionary budget in the national budget – particularly in the development budget – and corruption and a lack of budget authority for provincial departments. Thus, rather than providing authority to the provincial line departments to transfer resources from one major code to another in the budget execution phase, the

225 Jackson, “Politics and governance in Afghanistan,” 28.

226 IDLG senior official, email to researcher, 30 August 2014.

227 Key Informant Interview, Department of Health in Balkh, Senior Government Official, 4 June 2013.

228 Key Informant Interview, Department of Education in Kandahar, Senior Government Official, 12 June 2013.

229 Government of the Islamic Republic of Afghanistan, “Budgeting in

Afghanistan: Principles of budget. Budget Manual Volume 2 1390,” 2011.

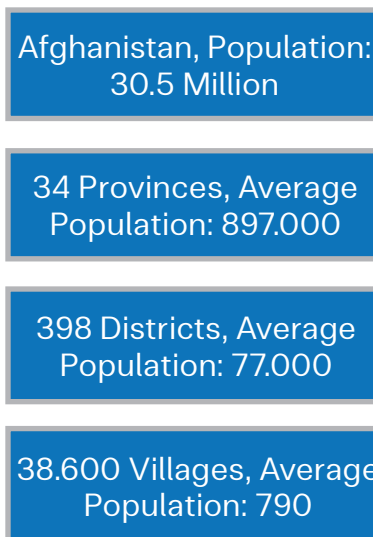
230 Government of the Islamic Republic of Afghanistan, “National budget statement 1390,” 2011.

focus on budget reforms should be on the issue of discretionary authority and the de-concentration of budget authority during budget formulation. As the GIRoA's provincial budgeting policy justifiably argues,<sup>231</sup> institutionalizing the involvement of provincial line departments in the budget formulation phase could improve effective allocation of resources as it would incorporate specific provincial needs, thereby diminishing the need to transfer resources between the major codes. The issue of a lack of discretionary budget in the national budget can only be resolved if domestic revenues increase and through negotiations with donors as they have the authority to make decisions over the non-discretionary budget.

De-concentrating budget authority from the national level to the provincial level is further impelled by the central government's practical inability to efficiently respond to the needs of Afghanistan's approximate 40,000 villages as opposed to 34 provinces, illustrated by figure 3.2. Although government's absorptive capacity is often questioned, research indicates the potential feasibility of the province functioning as a competent organizational level of government.<sup>232</sup> In addition, many participants claimed that the central government officials are reluctant to de-concentrate authority because the budget provides them with opportunities for embezzlement.<sup>233</sup> Although evidence to support these claims was not found in this research, the issue cannot be simply dismissed when considering the ubiquity of corruption in the government and with service providers as discussed earlier in chapter 3.2.

Thus, the data collected and research suggest that there is a necessity to de-concentrate budget authority to ensure better quality service delivery, but the de-concentration process should recognize and maximize the potential of existing frameworks such as PDPs as will be further discussed in the next section.

**Figure 3.2 Geographic Profile**



Source: Afghanistan's population in 2013 according to World Bank database. World Bank, "Population," accessed August 25, 2014.

### 3.4d Proposal for Changing the Budget Formulation Process

The MoF developed a provincial budgeting policy draft in 2013, which has not yet been approved by the Cabinet. The draft can be considered the first comprehensive policy framework developed by the GIRoA that outlines an integrated provincial budgeting mechanism since previous reform efforts such as the PDPs have focused on facilitating provincial input without providing opportunities for direct consultation. It aims to institutionalize the consultation of provincial level authorities in the budget formulation process as a means to ensure that local priorities are integrated in the provincial budget proposals.<sup>234</sup> The

provincial budgeting policy draft assigns budgeting responsibilities for key provincial authorities in accordance with existing regulations and legislation such as the Procurement Law and the PFEM Law. In the policy draft, provincial line departments, Provincial Governors, Provincial Councils, and Mustofiats will provide input during budget formulation to co-develop both budget circulars in a streamlined process with clearly defined responsibilities. The budget calendar is said to be adjusted accordingly by the MoF to ensure that enough time is available for the provincial authorities to develop their provincial submissions.

The proposal outlines two separate frameworks for each budget circular. In the first budget circular, the MoF sends the budget circular including timetable and provincial budgeting guidelines to the central line ministries as per the current budget formulation process. The central line ministries then send provincial budget circulars to each province with a breakdown per province, the timetable, guidelines as well as the sectoral objectives and strategic priorities aligned with the NPPs, PDPs and PSPs. The provincial line departments will subsequently incorporate the provinces' needs and requirements into their budget circular submissions and send it to the Public Finance Management (PFM) Committees, which will be established in each province as a part of this proposal. The PFM Committees will review,

<sup>231</sup> Government of the Islamic Republic of Afghanistan, "Draft of provincial budgeting policy."

<sup>232</sup> Boex, "Exploring Afghanistan's subnational fiscal infrastructure," 4.

<sup>233</sup> This was mentioned in 18 Key Informant Interviews.

<sup>234</sup> Government of the Islamic Republic of Afghanistan, "Draft of provincial budgeting policy," 4.

analyze and eventually approve the budget circular after consultation with the Provincial Councils. The recommendations from the PFM Committees are then incorporated into the provincial line departments' budget circular submissions before sending it to the central line ministries that incorporate all provincial proposals into national budget circulars and submit them to the MoF.<sup>235</sup>

The process outlined for the second budget circular is more or less the same as the first budget circular. In the second budget circular, the MoF will send the budget circulars including the timetable, provincial budgeting guidelines and this time also the budget ceilings to the central line ministries. The central line ministries then send the budget circulars with budget ceilings broken down per province, as well as the timetable and guidelines, to the provincial line departments. The provincial line departments reprioritize based on the budget ceilings and send it to the PFM Committees for review, analysis and final approval. After approval of the PFM Committees, the provincial line departments send the budget circulars to the central line ministries that will incorporate the provincial proposals into the final national budget circulars and submit them to the MoF.<sup>236</sup>

The PFM committees are meant to be established by the MoF in each province with the aim of improving the communication and coordination between central line ministries and provincial line departments, consisting of the Mustofi as head of the Committee, the Sectoral Director from the Provincial Governor's Office, Provincial Director of Economy, a provincial budgeting specialist, and the Provincial Director of the Department of Women's Affairs is invited as an observer. The MoF will issue a terms of reference for each PFM Committee. The PFM Committee is meant to ensure that local priorities are integrated in the provincial submissions, and will also assist the MoF with the monitoring and evaluation of budget execution at the provincial level. However, the details of this last responsibility are not outlined in the provincial budgeting policy. Throughout both budget circulars, the Provincial Budget Unit within the MoF can be consulted for technical assistance related to policy procedures such as program budgeting. Central line ministries are also supposed to organize budget workshops for their provincial line departments in order to build their capacity to

develop budget proposals.<sup>237</sup>

Other suggested reforms in the provincial budgeting policy draft are changes in procurement, HR, budget execution and M&E. According to the document, provincial line departments will have the delegated authority to manage contracting, procurement and expenditure of provincial projects with a total procurement value to be decided by the MoF's Procurement Policy Unit and the Provincial Budgeting Unit in consultation with stakeholders. The MoF will also be responsible for creating an M&E framework based on international standards aligned with existing M&E systems to coordinate regular reporting and periodic evaluation of the implementation of the provincial budgeting policy. This M&E system will be accompanied by a Fiscal Decentralization Working Group to be established within the MoF to ensure effective implementation, consisting of the Provincial Budgeting Unit, representatives from the Budget and Treasury Departments and the Procurement Policy Unit. They will meet on a monthly basis to discuss the progress made on the rollout of provincial budgeting policy and capacity building issues.<sup>238</sup>

The MoF's provincial budgeting policy is promising as it provides a comprehensive structure for de-concentrating authority and addresses a few key issues that have been discussed in this report such as the lack of provincial decision-making authority in budget planning and execution, the lack of provincial input for needs-based planning and the absence of proper M&E systems. The observer role of the Department of Women's Affairs on the PFM Committees is an initial step towards including gender equality as a consideration in budget planning. Incorporating budget proposals developed by provincial line departments in cooperation with other provincial authorities through the PFM committees in the process of budget planning can provide more decision-making authority for provincial-level actors and could improve needs-based planning. The suggested M&E reforms provide an opportunity to improve budget effectiveness and decrease resource leakage if made transparent and implemented properly. There are, however, also a few points where the provincial budgeting policy falls short of addressing issues identified in this report.

Though the proposal suggests involving other provincial authorities through the PFM Committees,

235 Government of the Islamic Republic of Afghanistan, "Draft of provincial budgeting policy," 18-19.

236 Government of the Islamic Republic of Afghanistan, "Draft of provincial budgeting policy," 19-20.

237 Government of the Islamic Republic of Afghanistan, "Draft of provincial budgeting policy," 21.

238 Government of the Islamic Republic of Afghanistan, "Draft of provincial budgeting policy," 23-26.

the creation of additional provincial entities will unlikely streamline provincial budgeting as it will increase the complexity of subnational governance that already exists. Instead of creating yet another body the existing coordinating mechanisms of PDCs and PAAs, which are chaired by Provincial Governors, should be adapted to perform the functions of the suggested PFM Committees since they are already in place and will require a new mandate as development projects will likely decline in the post-2014 Transformation Decade. Furthermore, CSOs are not mentioned in the provincial budgeting policy to be consulted during budget formulation, while they can

play a crucial role in providing insights in the needs of local populations. CSOs, particularly anti-corruption and service delivery monitoring and advocacy CSOs, should also be consulted in the budget formulation process, as well as the Provincial Councils who are already included in the proposal as consultation partners. A formal or observer role on the committee that provides input on provincial budgeting, such as the PFM Committee or adapted PDC or PAA, for a number of Provincial Council members and a CSO representatives would be an appropriate step to address this.



## 4. CONCLUSION

## AND RECOMMENDATIONS

The report examined the multi-faceted ways budget inefficiency hampers service delivery effectiveness, as a means to inform recommendations that address deficiencies in the budget process based on localized needs. This chapter briefly summarizes the research's key findings and provides recommendations for key stakeholders.

The research found relationships between budgeting inefficiency and service delivery ineffectiveness by triangulating thematic patterns of the interviews with budget data and the relevant literature. It can be concluded that four factors in the budget process represent the main impediments for quality education and public health service delivery in the targeted provinces: A lack of discretionary budget in the development budget (34% for FY 1393 (2014)) and low on-budget support (46% in FY 1393 (2014)); a lack of capacity at the provincial level (and to a lesser extent at the central level) as hiring externally funded staff often supersedes capacity building; the ubiquity of corruption as bribery, cronyism, nepotism and embezzlement are still rife while accountability mechanisms such as auditing is ineffective and a government-wide M&E system is absent; and the inability of key stakeholders (particularly the GIRoA) to facilitate a mechanism for provincial budgeting that incorporates the provinces' needs and requirements and resolves the issue of fragmented and parallel governance ecologies.

This report therefore proposes three broad reforms as a means to improve budget efficiency, ensure better quality service delivery, and potentially restore the public's faith in the government. First, establish a more participatory budgeting mechanism where provincial line departments, PDPs, Provincial Councils, Provincial Governors, and CSOs are fully integrated into the budget circular process as a means to incorporate the needs and interests of the respective province in the budget formulation process. Second, create effective accountability mechanisms where audits are conducted according to international standards, a government-wide M&E system is implemented, and a merit-based recruitment system is institutionalized throughout the GIRoA. Third, realize a higher discretionary budget through an increase of on-budget support to the agreed 50% and increase discretionary spending in the development budget.

It is hoped that these reforms, as outlined in the following detailed recommendations, can contribute to a much-needed political and public debate about the budgeting-service delivery nexus, paving the way for establishing a more inclusive and streamlined budget process that improves the incorporation of localized needs.

## RECOMMENDATIONS

The research provides evidentiary material that informed the formulation of realistic recommendations that could improve effectiveness of the budget process and the quality of service delivery. In consideration of the research findings, EPD issues the following recommendations directed towards three key stakeholders: the GIRoA, civil society and international donors.

### For the New Government of Afghanistan

#### *On De-concentration:*

- De-concentrate budget authority to the provincial department level and institutionalize the participation of key provincial authorities and CSOs in the budget formulation process:

De-concentrated and locally owned budgeting has the potential to improve the incorporation of province-specific needs in the budget. The government's efforts to create subnational governance mechanisms have mostly consisted of political rhetoric and have not included meaningful steps toward the de-concentrating budget authority besides the MoF provincial budgeting policy draft from 2013 that has not been signed by the Cabinet as of yet. The government should implement the MoF's provincial budgeting policy, with the caveat that the existing structures of PDCs and PAAs should be adapted and utilized instead of creating new provincial entities and that Provincial Council members and CSOs should be formally included in the policy to be consulted in budget planning.

#### *On Citizens' Access to and Understanding of the Budget:*

- Provide intelligible and accessible information to the public:

Budget information should be comprehensible and made easily available to improve transparency of the budget process. The GIRoA should make more efforts to provide budget information to the general public by improving access to internet, publishing audit reports that are comprehensible and made accessible, and by abiding to international standards of

transparency as articulated by the International Budget Partnership.

- Enact the Access to Information Law as soon as possible:

The Lower House of the Parliament already passed the Access to Information Law in late June 1393 (2014), but it has not been signed into law yet by the Upper House and the President. Such a law would constitutionally defend Afghans' right to access budget information.

#### *On Capacity and Resources:*

- Negotiate with international donors to increase the discretionary budget in the development budget:

A higher discretionary budget in the national budget would enable the MoF to determine the proper allocation of resources to the central line ministries based on province-specific needs as outlined in provincial line department budget proposals and PDPs. It would also enable the GIRoA to streamline provincial government authorities and address the existence of parallel government structures financed by different donors under the non-discretionary development budget.

#### *On Corruption and Accountability Mechanisms*

- Institutionalize merit-based recruitment and expand programs such as CBR:

Merit-based recruitment should be institutionalized as a means to improve civil service performance, reduce cronyism and nepotism and ensure budget effectiveness. Programs like CBR should therefore be expanded with a focus on provincial line departments in order to improve the quality and absorptive capacity of government officials which is a precondition for de-concentration. This can help ensure that government officials are held accountable based on the monitoring and evaluation of recruited staff. Furthermore, an expansion of the CBR program can increase the provincial government officials' ability to utilize complex procurement procedures and the AFMIS system and participate in the budget formulation process as has been outlined by this report.

- Design and implement a government-wide M&E system including comprehensive data collection that includes gender-disaggregated data and improve auditing:

A M&E system, based on international best practice and Afghanistan's country-specific characteristics, should be institutionalized as a means to assess the performance of service delivery, government processes and individual civil servants. This could foster the effectiveness of budgeting and make more efficient use of scarce resources as funding is likely to decline post-2014, domestic revenues are stagnant and revenue mobilization remains weak. Addressing the deficiencies in the GIRoA's auditing system could also improve the effectiveness of budgeting and reduce corruption. The availability of data that is complete, gender-disaggregated, and collected routinely would enable needs-based budget planning.

- Streamline the budget process by reducing the complexity of procedures:

Procedures such as the Procurement Law, PFEM Law, allotments for the development budget and AFMIS should be reevaluated to ensure that they match the capacities of provincial government officials as well as central level government officials, as a means to improve the low expenditure rates of both the operating and development budget and improve the low allotments for the development budget that are causing the budget execution rates to be low.

## For Civil Society

### *On Capacity and Resources:*

- Build local populations' capacity to access and better comprehend budget information:

CSOs and NGOs, particularly those related to anti-corruption and service delivery monitoring and advocacy activities, should make a collective effort to develop the human capital of local populations and advocate for more (financial) support from the GIRoA and international donors. These efforts should be aimed at all Afghan citizens from urban centers to rural areas, including literate and illiterate citizens, but with a focus on those who are less privy to access and understand such information: the 68% of

the population that is illiterate and 76% of the population living in rural areas.

- Maximize the utility of available resources to disseminate budget information:

CSOs and NGOs should identify and operationalize alternative means (such as local media, public spaces and community groups) of disseminating budget information among local populations. CSOs and NGOs should also continue to push the GIRoA to improve transparency of the budget and budget process based on the Budget Open Survey indicators.

### *On Corruption and Accountability Mechanisms:*

- Expand anti-corruption and service delivery monitoring and advocacy activities:

M&E should also be conducted from the position of service recipients as a means to more effectively address deficiencies in the budget execution phase of budgeting and better represent the interests of communities. Afghan networks such as EPD's ACTA and IWA's CBM initiatives have proven that grassroots monitoring can be successful in identifying government shortcomings in service delivery and hold government accountable and improve transparency.

- Explore avenues to ensure the accountability of NGOs and CSOs:

Afghan NGOs and CSOs should assess ways to utilize the scarce budget resources in an accountable manner and regain its legitimacy that has been called into question due to the issues with self-enrichment and the NGO-ization of grassroots advocacy. Organizations should institutionalize civilian oversight by regularly conducting community consultations, effectively liaising and coordinating with government bodies and officials, and fully complying with the NGO and Social Organization Laws.

## For International Donors

### *On De-concentration:*

- Streamline donor funding to prevent duplicating subnational governance structures:

Donors should streamline the external budget funding between their respective agencies to prevent facilitating parallel governance structures, which is a particular concern at the subnational governance levels. Parallel structures lead to the misallocation of resources and ineffective service delivery and further complicate the establishment of a de-concentrated budgeting system due to the complex subnational governance structure.

#### *On Capacity and Resources:*

- Increase “on-budget” flows up to 50% and increase discretionary funding for the development budget:

Donors should live up to promises and commitments made and increase “on-budget” flows up to the 50% agreed upon in the TMAF (as it is now around 46%) and increase the discretionary budget in the development budget (which is now 34%) in order to build the GiRoA’s capacity and legitimacy to govern, address the issue of resource scarcity in the development budget and provide the GiRoA with sufficient discretionary to de-concentrate budget authority. The ARTF and LOTFA trust funds have proven to be effective coordinating mechanisms to facilitate the funneling of donor money through the GiRoA, while sophisticated financial systems such as AFMIS and laws such as the PFEM Law and Procurement Law can ensure a high level of accountability for when discretionary funding would increase.

- Minimize foreign technical assistance and maximize support for Afghan capacity building:

Donors should increase support to build provincial line department officials’ capacity to effectively use the AFMIS and other budgeting systems and decrease “buying capacity” through foreign technical assistance. The funding for foreign technical assistance has created a “second civil

service” and leads to short term gains but long term constraints for Afghan capacity building as scarce resources are being invested in foreigners rather than Afghans and the extraordinary donor-paid salaries also cause a brain drain from government and civil society sectors.

#### *On Corruption and Accountability Mechanisms:*

- Promote merit-based recruitment by supporting programs such as CBR and support anti-corruption initiatives:

International donors should promote the institutionalization of merit-based recruitment by supporting programs such as CBR with a focus on provincial line departments as a means to tackle corruption and improve budget effectiveness as donor funding will decline post-2014. International donors should also support government efforts to establish accountability mechanisms that will improve government officials’ capacity and curb corrupt behavior in the budget process, and renew the TMAF indicators for fighting corruption and improving good governance.

- Support CSOs’ and NGOs’ anti-corruption and service delivery monitoring and advocacy activities:

International donors should prioritize efforts to support anti-corruption and service delivery monitoring and advocacy CSOs and NGOs as they are generally underfunded and often lack the resources to build the local populations’ capacity to understand and access budget information and hold government accountable. This is of particular importance in light of the decline in foreign aid post-2014 as effective budgeting and good governance become even more crucial.



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## APPENDIX A: METHODOLOGY

The desk review was first conducted to provide an overview of research on budget effectiveness and identify gaps in the literature, followed by the formulation of research questions and research tools. Fieldwork was conducted in eight provinces (Balkh, Bamyan, Herat, Kandahar, Kunduz, Nangarhar, Uruzgan and Kabul) to collect the data. Once the data was collected, a rigorous process with two rounds of qualitative coding discerned thematic patterns from the interviews. These patterns derived from the collected data were then triangulated with the theoretical findings from the literature, which provided the framework for this report.

Data was collected and coded from thirty-two Focus Group Discussions (FGDs) and seventy-two Key Informant Interviews (KIIs) in seven provinces (Balkh, Bamyan, Herat, Kandahar, Kunduz, Nangarhar and Uruzgan) in the period of June to September 1392 (2013). Government officials, service providers of public health and education, civil society and local populations were interviewed in order to develop a comprehensive understanding of the budget process and service delivery from the perspective of recipients. The provincial interviews were complemented by fifteen non-coded KIIs with Kabul-based government officials working at the Ministry of Education (MoE), Ministry of Public Health (MoPH) and Ministry of Finance (MoF) that were used as a means of assessing government commitments to and perspectives on effective budgeting.

Participants were selected based on their area of responsibility or position within their institution, organization or group. Government officials at the provincial level were selected based on their involvement in the budget execution process and insights on inter-governmental collaboration. Educators and doctors were selected based on their ability to assess the linkages and discrepancies between the budget planned, the budget allocated to them and the consequences of the entire budget process on service delivery. Government-affiliated NGO workers were selected because of their unique vantage point as both insiders and outsiders in the budget process and service delivery. The participants from local populations – attendees of patients, students and social activists – were selected based on their experiences being on the receiving end of education or public health services. Semi-structured interviews were conducted in either Pashto or Dari by EPD's Provincial Coordinators. The interviewers took notes during the interviews and the notes were translated into English for analysis.

Interviews and focus group discussions typically took place in urban centers, and travel to rural areas was minimized due to concerns for the physical security of both research participants and research staff. Thus, interviews, often took place in government offices in both directorates and central ministries, schools, hospitals, other places of work, and mosques. Strict ethical guidelines were followed to ensure the safety of participants and research staff. Each participant was informed of the purposes and processes of the research, and given the opportunity to provide voluntary consent. Participants were assured that all information they provided would be used anonymously and their identities kept confidential. Also, research activities were conducted in a culturally and socially sensitive manner. The unstable security situation in many of the target areas was carefully considered.

### Questionnaires

#### *Questions for FGDs with Members of Civil Society*

- How do people perceive the planned national budget?
- To what extent do you have access to information (law, decrees, decisions, etc.) about the annual budget and how do you consider it?
- Does the current legislation allow civil society and population to acquire sufficient information regarding the annual budget?
- Do you (or does your organization) have an interest to participate in budgetary discussions? Has it ever participated?
- Do you think the opinion of society is taken into consideration during budget planning?



- Have you (or your organization) ever participated in monitoring of budget execution and service delivery?
- What are the main challenges faced by civil society during their participation in budget planning and execution process?
- What do you recommend to improve budget planning?

### *Questions for FGDs with Recipients of Services of Two Targeted Ministries*

- Are you satisfied with the performance of departments that deliver public services?
- Would you like to take part in the development of national budget priorities?
- Do you think the government is providing quality and timely services to citizens? Do you think the delivery of services is affected by corruption?
- What steps do/will you undertake when services are of low quality or delivered late?
- As a recipient of public services, how do you make sure you receive effective and on-time services? Do you bribe officials or use personal acquaintances?
- What do you think are the main challenges ahead of receiving quality services?
- Please state three recommendations regarding improvement of services delivered by two of the sectors (education & health).

### *Questions about Budget Planning for KIs with Staff from MoE, MoPH and MoF*

- 
- How is the national budget in Afghanistan developed? Please talk about key processes and decision makers.
- What role does your department play in budget planning?
- How is your department involved in budget planning? Is this through your ministry or the finance ministry?
- How do you assess the performance of the finance ministry, your ministry, and its provincial department (Mastufiat) regarding budget planning?
- What steps does your department take when its proposals regarding budget planning are rejected?
- What challenges does your department face during its involvement in budget planning?
- Does your department consider local needs and community proposals in budget planning? If so, how does your department do this?
- Do you consult civil society during budget planning?
- What are some of the challenges in consulting with civil society?
- What do you recommend to improve budget preparation?

### *Questions about Budget Execution for KIs with Staff from MoE, MoPH and MoF*

- What is the role of your department in spending the money provided by the national budget?
- To what extent does your department have the right to bring changes in allocated budget funds? If so, how does your department do this? If not, why?
- How is the effectiveness of spent budgetary funds assessed and measured? Are local communities involved in this assessment?
- How does your department ensure the transparent, accountable and appropriate budget execution?
- Does your department receive frequent and quality support from your line ministry during budget execution?
- What major challenges does your department face when it comes to budgetary execution processes?
- How do you assess the performance of the finance ministry and its provincial department (Mastufiat) regarding budget execution?
- Is the budget being spent by your department resulting in quality and adequate services? Please explain why or why not.
- From your point of view, how does corruption affect the execution of the national budget?
- Do you have any particular recommendation to improve budget execution and ensuring transparency and accountability of your ministry/department?