



United Nations Development Programme Afghanistan Making Budgets and Aid Work (MBAW) First Quarter Progress Report 2010



Presentation on Paris Declaration Evaluation Survey at 4th High Level Committee on Aid Effectiveness - 10 March 2010

Project ID: 00056407
Duration: 60 months (May 2007 – April 2012)
Strategic Plan Component: Public Administration Reforms and Anti Corruption
CPAP Component: Governance, Rule of Law and Human Rights
ANDS Component: Good Governance
Total Budget: US \$ 7,541,170
Responsible Agency: UNDP/Ministry of Finance

MAKING BUDGETS & AID WORK PROJECT DONORS



GTZ



CANADA



UK-DFID



Afghanistan

List of Acronyms

ACU	Aid Coordination Unit
AFMIS	Afghanistan Financial Management Information System
ANDS	Afghanistan National Development Strategy
AWP	Annual Work Plan
BEU	Budget Execution Unit
BIRU	Budget Integration and Reform Unit
CoA	Charts of Account
CPAP	Country Programme Action Plan
DAD	Donor Assistance Database
DFID	Department for International Development (UK)
DFR	Donor Financial Review
FPU	Fiscal Policy Unit
GoA	Government of Afghanistan
HLCAE	High Level Committee on Aid Effectiveness
IFIs	International Financial Institutions
IMCs	Inter Ministerial Committees
IMF	International Monetary Fund
MBAW	Making Budgets & Aid Work
MCP	Management Capacity Programme
MIS	Management Information System
MoF	Ministry of Finance
MTBF	Medium Term Budget Framework
MTEF	Medium Term Fiscal Framework
NDF	National Development Framework
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PFEML	Public Finance & Expenditure Management Law
PRGF	Poverty Reduction Growth Facility
PRT	Provincial Reconstruction Team
SBPS	State Budget Planning System
TA	Technical Assistance
UNDP	United Nations Development Programme
UNDAF	United National Development Assistance Framework
UNAMA	United Nations Assistance Mission to Afghanistan
US	United States of America
WB	World Bank

Table of Contents

Executive Summary	5
Context	6
Implementation Progress	7
Challenges	14
Risks	14
Lessons Learned	16
Future Plans	16
Financial Section	17
Table 1: Funding Overview	17
Table 2: Expenditure Status (by activity)	18
Table 3: Expenditure Status (by donor)	19
Annexes	20
Annex I: Performance Tracking Matrix.....	20
Annex II: Risk Log.....	24
Annex III: Issue Log.....	26

Executive Summary

Policy Support: Fiscal reforms initiative recently agreed by Ministry of Finance resulted in establishment and coordination of a working group on Macroeconomic Level to improve inter-government coordination for implementing economic policies. In addition, Afghanistan received a debt relief of USD 1.6 billion from the Paris Club Donors during the first quarter of 2010 after the development of Memorandum of Economic and Financial Policy document (MEFP).

Budget calendar for 1390 budget formulation was revised recently for improved adherence to a more realistic budget process. The timetable with the action plan has been revised to accommodate all the challenges and issues faced with the 1389 budget formulation.

Budget Formulation: First quarter of the year was busy time for the project due to the national budget formulation and related discussions with the GoA officials and legislative bodies. During the second year of Afghanistan National Development Strategy implementation, the 1389 National Budget was formulated in both forms i.e. programme based and traditional mechanism during the first quarter of 2010. The National Budget was submitted in its best form comparing to last eight years to the legislative body where a thorough review and analysis of the development projects was conducted internally within the Budget Department and later by the Budget Committee chaired by H.E. Minister of Finance.

As a constitutional obligation, the national budget was submitted well in advance i.e. 45 days prior to start of the new FY to the Parliament after the cabinet endorsement. However, due to political reasons and Parliament's recess, the review and approval of the national budget was delayed.

Budget Execution for FY 1388 comparing to last year was below the target due to many political and technical reasons that include the presidential election of August 2009, rejection of designated ministers by Parliament which caused most of the ministries to lack proper leadership, more deteriorating security situation within the country and most importantly, the low capacity within the executing ministries. In addition, the delay in approval of the 1388 mid-term budget review by the parliament had hardly hampered the implementation of development projects.

However, new mechanisms for budget carry –forwards were developed in consultation with the Treasury Department that will ease the process of 1389's early budget execution. In addition, the existing execution procedures were revised to minimize the time needed for processing an allotment request to the possible extend.

Aid Alignment & Coordination: The 4th High Level Committee on Aid Effectiveness held on 10th March 2010 included discussions on Paris Declaration Evaluation and the challenges GoA faces with producing the Donor's Financial Report as part of the government and donors accountability and transparency exercise. The donor community were requested jointly by GoA and UNAMA to report on their commitments to the GoA more efficiently by using the available system i.e. DAD. In addition, the Paris Declaration Evaluation as part of the international community and aid recipient's country commitments has been started where the external consultants are hired to independently take the evaluation forward and the reports will be produced for OECD.

The MBAW project management take the opportunity to thank our government counterparts at the Budget Department and our partners with the SAB/ASI project for efficiently achieving the required results.

Context

Making Budgets & Aid Work (MBAW) project was planned to provide the essential support to the Budget Department of the Ministry of Finance to strengthen budget planning, implementation and monitoring processes and to promote its effective use as a tool for coordination of international development assistance to the government of Afghanistan through implementing various activities that build on the outputs and outcomes of the project inline with the ANDS and UNDAF.

MBAW regards the National Budget as an agent through which a number of universal development principles can be promulgated, such as, fiscal discipline and sustainability, national security, provincial and social equity, poverty reduction, increased productivity and growth of the private sector, gender equality, poppy eradication and the effective delivery of public services.

The Afghanistan National Development Strategy (ANDS) which serves as the Government Strategy for Security, Good Governance, Economic Growth and Poverty Reduction underlines the need to strengthen the crucial role of developing a national budget as the government policy making instrument essential for achieving planned national development priorities.

The project aims at strengthening the National Budget processes as a comprehensive policy and decision making mechanism for the Government of Afghanistan to be in a position to follow good macroeconomic management and promote efficient allocation of the domestic resources as well as the International Development Assistance.

In order to better link its strategic objectives and policy priorities with the annual budget and prioritize the available funds where they are most needed, in 1385 the Government of Afghanistan decided to introduce programme budgeting. The importance of programme budget implementation has also been recognized by the International Monetary Fund (IMF), with the introduction of programme budget being one of the key benchmarks for the IMF's Poverty Reduction Growth Facility (PRGF) programme. Provincial budgeting was also introduced in early 1385 as part of the budget integration and reform initiatives made by the Ministry of Finance since it is essential to ensure that provincial inputs are facilitated and included in the budget process, an issue often debated by the Parliamentarians.

Improving coordination and effectiveness of development assistance in line with the ANDS priorities and the principles of the Paris Declaration is a further aim of the project. To this end, the project continued to support improved coordination of donor activities through a number of high-level coordination mechanisms and other aid monitoring instruments.

The project constantly sought to provide technical guidance and information to the budget directorates of the line ministries as well as other institutions. However, there still are capacity constraints which require further work, particularly to ensure that capabilities and skills of the national staff are further enhanced and that the exit strategy is adhered to and a mechanism is established that will facilitate the transfer of knowledge and experience to the civil servants in the

Ministry of Finance and to other line ministries where the project is rigorously working towards this objective.

Implementation Progress

Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)

Output 1: Strengthened Budget Policy and Planning Processes linked to ANDS priorities

Budget Statement: Budget statement as part of the 1389 budget document was prepared where it provides an outlook of the Afghan government fiscal economic framework, the government's progress towards ANDS, updates on the new budget reform processes (e.g. Programme Budgeting) and ANDS sectoral analysis and their achievements up to end of FY 1388. The budget statement unfortunately was not submitted as part of the 1389 budget document submission due to time constraint to the Afghan Parliament.

Medium Term Fiscal Framework (MTFF) as an element of the 1389 budget formulation, was finalized during the last quarter of FY 1388 based on the recent macro-economic developments (i.e. increase in domestic revenues, GDP, etc.) in the country. The MTFF is approved by the council of ministers and has been sent to the legislative bodies (Parliament) for final review and approval. In addition, the MTFF will be revised after the PRGF Programme review by the IMF in the second quarter of 2010.

As part of the government fiscal policy reforms, a new Macroeconomic Coordination Working Group is planned to be established where the Terms of Reference has been drafted. The group will aim to improve coordination between the Ministry of Finance and Da Afghanistan Bank on implementing different economic policies. In addition, the WG will develop a financial programming template which will link all four sectors of the economy (i.e. Fiscal, Real, Monetary and External) and make estimations for the coming years.

Memorandum of Economic and Financial Policy document (MEFP) where it was previously handled by IMF was prepared where later Afghanistan signed a debt relief of USD 1.6 billion on 18 March 2010 with the Paris Club donors. MEFP discusses the overall economic analysis of the country and how the macroeconomic indicators will look like in the medium term. Moreover, it summaries the PRGF benchmarks being important for HIPC programme to write off previous loans on the Afghan government.

Pay and Grading (P & G): The new P & G, as a government civil service reform process, which aims to be implemented across the whole government was looked into and its revised costing for FY 1389 has been reviewed. The working groups (Public Administration Reform-PAR and P & G Budget Implementation Working Group-P & G BIG) where the

project's fiscal policy unit is a part of it met thrice during the first quarter of 2010 to monitor the progress of the reform and to provide a better calculation for the outer years.

As a lesson learned practice, the FY 1390 budget calendar was revised recently for improved adherence to a more realistic budget process. The timetable with the action plan has been revised to accommodate all the challenges and issues faced with the 1389 budget formulation. In addition, the Programme Budget handbook has been drafted into four main chapters where the first two are finalized and will be distributed for the line ministries. The new handbook will primarily introduce the budgeting concept in addition to the programme budgeting where it will further educate the LMs to properly estimate and cost their project needs.

Output 2: Strengthened Budget Formulation Processes

National Budget: During the 2nd year of ANDS implementation, the 1389 Budget Formulation process started at September last year (2009) and the national budget was approved mid January 2010 (21/01/2010) by the council of ministers. The national budget was prepared in its best form comparing to previous years.

The second round of donor's financial review that was mainly planned as part of the 1389 budget formulation helped the GoA and its budgetary units to include the predicted grants and aid based on the commitments made by the international partners.

On time budget submission to the legislatures was a challenge for the past years, however, the early revision of the budget calendar enabled the Ministry of Finance to submit the national budget for parliament's approval on time and according to the constitution. However, the budget for 1389 is now approved by the Upper House; though, it's yet to be approved by the Lower House.

The 1389 budget approval by the Budget Committee was also a participatory process where all the line ministries actively participated and the budget hearings were held early January 2010.

A thorough review of the development projects list submitted by the line ministries was also part of the formulation process efforts where it enabled the budget department to consolidate and prioritize development projects for the budget committee decision.

Moreover, the lessons learned workshops on budget formulation process for the budget department officials was held in the month of February where the 1390 budget preparation action plan was further improved and aligned with the new requirements.

It's worth mentioning that 1389 national budget data and tables were generated from the FMIS (State Budget Planning System/SBPS) which was launched late December 2009 and successfully produced the required data for the government and legislatures officials.

Programme Budgeting: A Sound Budget formulation to be used as a tool for preparing and presenting the government's priorities and plans in a manner that provides clear connection between the resources and the ANDS outcomes that GoA wants to achieve remains a top priority for the GoA.

As a starting point for achieving the above objective, programme budgeting was introduced back in 1386 and has been successfully implemented by end of FY 1388 in 19 line ministries where their 1389 budget submissions included both programme and traditional budget. First quarter of 2010 included a thorough analysis and review of the programme based budgets submitted by the line ministries. In addition, a separate template to show the overall status of the programme based budgeting implemented within the line ministries was included in 1389 budget statement.

As part of the budget integration process that aims to bring together (integrate) budgets prepared under recurrent (operating) and development procedures and to avoid difficulties for planners and decision makers to see what exactly is being achieved through the expenditure of government resources, a comprehensive strategy is needed to be developed. Therefore the budget integration guidelines (manual) has been developed and drafted after consultation with the Tashkeel office, Independent Civil Service Commission and Ministry of Economy.

As a lesson learned strategy, a new programme budget training strategy to focus more on sustainable capacity development within the government organizations is developed. The policy document now focuses more on strategic framework with policy options available and sustaining success in the long term. In addition, the training/capacity development needs assessment was conducted during the first quarter of 2010 for developing more comprehensive training materials for 1390 programme budget formulation process. Moreover, the budget circular II and its forms that aims to provide the framework for next year's programme budget formulation process has been drafted which includes new improvements and overcomes the problems faced in the last year.

Provincial Budgeting: One of the focus areas for the budget reforms processes and now a top priority for the Ministry of Finance is to implement the Provincial Budgeting that aims to equitably distribute resources among provinces and eliminate disparities that currently exist. Consequently a new policy paper on provincial budgeting and the way forward is developed with the technical support from U.S Treasury and CTAP/USAID project and approved by the project's government counterpart.

The policy document focuses on the three main objectives of the budget department for provincial budgeting i.e. (i) sustainable capacity development at the sub-national level, (ii) provincial resources allocation process and (iii) consultation and coordination with PRTs and other development partners where each of the components shows the overall road map of provincial budgeting in Afghanistan. Subsequent to the Budget Department's

approval, the paper was translated into an annual action plan for Provincial Budget Unit to be implemented during 2010.

I) Capacity Building and Development has been divided into two categories:

- a) Provincial Budgeting Intensive Training Programme that aims to cover the remaining 14 provinces and;
- b) Provincial Reconstruction Teams (PRTs) Training Programme which is a special course designed and will be conducted for PRTs that invest in development projects and will focus on training PRT officials on Afghanistan's Public Financial Management Laws and procedures.

II) Provincial Resource Allocation (PRA): is a pilot project started with technical assistance from the WB. The objective of this pilot is to develop norms or formula for resources allocation to the provinces as with current practice most of the provinces are not satisfied with resources allocation of the line ministries reasoning that resources are distributed without consideration of any criteria or norm for fair development of the country.

Ministry of Education (MoE) was piloted due to its vital role in development of the country and the capacity it has at the central and provincial levels along with the four provinces i.e. Herat, Kandahar, Helmand and Bamyan where provinces were selected based on playing crucial role in economic growth of the country, security challenges, need for improvement and delivery of enhanced educational services to areas cleared from Taliban by military operations and the good governance respectively. An evaluation will be made right after the pilot phase and if the result is successful, the PRA approach will be applied to MoE budget for FY 1390 and will be expanded to more line ministries and provinces afterward.

III) Consultation and Coordination: As stated earlier, the Budget Department focuses more now to strengthen its communication with PRTs officials and other relevant stakeholders at the sub-national levels as meanwhile most of the PRTs are directly working with community elders on investing on development projects indicated as community level priorities. One of the problems with the current practice is that these projects are not aligned with the government's strategy (ANDS) or it's not reported to the relevant department where it later causes projects duplication or lack of budgeting for the project's operations and maintenance costs when its handed over to the community. Moreover, the new mechanism will link the Provincial development plans (i.e. developed on the provincial level priorities) with the budget.

District Delivery Program (DDP): is a multi-donor program coordinated by the Government of Afghanistan designed to establish or improve the visibility of the Government by holistically engaging the governance system at the district level and to ensure that the basic level public services are available directly to communities. The DDP is an inter-ministerial program coordinated by IDLG, in partnership with the Ministry of Finance and other sectoral ministries. The program is being launched at the moment in a number of provinces and is scheduled to last until 2012, by when it is to cover 80 districts. The PBU presents MoF at the technical level where the new mechanism of funds management and budget execution are managed.

Output 3: Strengthened Budget Execution Processes

Low budget execution for the government's development activities remains a concern for the international community as well as for the government. The donor community is not willing to channel funds through the government's core budget due to the lack of capacity and not executing the committed funds during the fiscal year. The GoA committed itself once more to simplify the existing budget execution procedures back in January 2010 at the London Conference. Therefore, as part of the reform process, the following steps were taken during the 1st quarter of 2010:

Budget carry forwards: A new mechanism and budget circular for the carry forward funds for the development projects with a clear timetable was developed in consultation with the Treasury Department early Jan 2010. The mechanism describes the steps with the clear timelines for the line ministries and the Ministry of Finance to avoid any delays for early budget execution for 1389. In addition, a detailed analysis of the budget carry forwards and requests from the line ministries was conducted that enabled the Budget Department to properly allocate the limited available resources for the development activities to take place in 1389.

Budget Execution Process: As part of the reform, the existing budget execution mechanisms and forms were reviewed with the technical support from the SAB/ASI project advisors. Based on the report findings, a new mechanism has been proposed with the revised forms where it will be followed in 1389. The revised budget execution mechanism and forms has decreased the number of working days for an allotment to be processed from four to two days. Moreover, the electronic filing system has further simplified the procedures in the budget execution unit.

However, the 1388 budget execution percentage comparing to last year is much lower due to the election process, deteriorating security situation within the country and the presidential election during 1388. The top 10 priority projects review by the budget department proved to be very effective in pushing the line ministries to focus more on the projects implementation.

Charts of account: The programme budgeting implementation has direct implication on the government's financial management system for tracking the required reports. Therefore, BIRU, in consultation and support from the Treasury department, revised the 1389 CoA. The new CoA enables the FMIS to pick-up the pro-poor and donor's expenditure requirements.

Training workshops for more than 20 Budget Department senior officials were also organized during the 1st quarter of the year to discuss and finalize the 1389 proposed mechanisms and usage of new forms where it was successfully agreed.

Output 4: Strengthened Budget and Fiscal Policy Monitoring and Reporting

Fiscal bulletins: the monthly (7th, 8th and 9th) with the 3rd quarter fiscal bulletins for 1388 were produced during the 1st quarter of 2010. The bulletins outline the recent fiscal and

macroeconomic developments which has taken place during the reporting quarter. As part of the report, a detailed analysis of the GoA low budget execution is also included.

Copies of the bulletins are available on the budget department website i.e. www.budgetmof.gov.af

Technical Coordination Committee (TCC): IMF and the MoF management proposed and decided accordingly to handover the secretariat of the TCC meetings to the Fiscal Policy Unit (FPU) where MBAW/UNDP provides human resources with administrative supports and management. TCC aims to follow up and provide on-time feedbacks on the donors/IMF benchmarks set for the GoA. The 2nd coordination meeting took place early this year and updates were provided to the set benchmarks (e.g. P & G).

Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)

Output 5: Alignment of and improved coordination of External Funding in line with Paris Declaration Afghan Compact to support ANDS implementation

ANDS financing gap remains a high challenge and concern for the GoA. In addition, misalignment of external managed aid with the national priorities has caused the development projects to be unsustainable and increase the O & M costs later on the government's budget. Aid management unit is a platform where these challenges are met. Therefore, a new action plan for the Aid management unit has been drafted where it outlines actions to be taken to overcome the existing challenges. In addition, MoF senior officials are regularly briefed on policy issues related to aid management, coordination and effectiveness.

HLCAE. The High Level Committee on Aid Effectiveness co-chaired by UNAMA and Ministry of Finance has provided the opportunity for GoA to share the above concerns with the international partners and suggest policies on issues undermining the capacity of government and hindering the economic sustainability. The 4th HLCAE was convened on 10th March 2010 to discuss issues related to aid effectiveness and monitoring that included Paris Declaration Evaluation, preparation for Aid Effectiveness Agenda for Kabul conference and recommendations on Donor Assistance Database (DAD).

The continuing negotiations with the donor community (bilateral and multilateral donors) during the first quarter of the year were held to further strengthen the effectiveness of ODA. Moreover, new financing agreements were reviewed and signed by the GoA after a thorough analysis that resulted in donor's contribution to the core budget. These negotiations and agreements have been directed at further enhancing the sustainability of the impacts of ODA being provided to Afghanistan.

PDE. In addition, the Paris Declaration Evaluation based on the OECD guidelines has been started where the Aid Management Unit has proposed an external and independent consultant to handle the review. The evaluation will focus on (i) measure results towards the implementation of PD principles; (ii) measure the progress towards achieving PD principle in the context of Afghanistan; (iii) discover the factors that have been effective in

moving towards the PD principles and changes that have impact on the policy of development partners in the delivery of their aid program; and (iv) finally to identify the contribution of PD principles in the overall development results in Afghanistan.

DAD. Measures have been taken to further improve and enhance the transparency and accountability of the ODA. The DAD performances and challenges was reviewed and discussed at the HLCEA and at a follow up meeting with the donor partners that resulted to further modernize the system and make it more user friendly. In addition donor profiles and portfolios are now regularly updated and monitored.

Training and capacity building workshops were held for individual and group donors to further publicize DAD and enable the donors to update the required information on time.

Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)

Output 6: Sustainable institutional technical capacity built and retained within the public finance sector, particularly within the Ministry of Finance and Line Ministries

Project exit strategy and the phase out of UNDP staffs did not take place during the first quarter of the year seeing that (i) the Government was not able to bring on board the required civil servants and (ii) initiation of new ambitious reforms during 1389/90 for the budget department i.e. programme budgeting roll out to all line ministries by 1390, provincial budgeting/resource allocation for 34 provinces and demand for channelling of more development aids (40% of aid provided to the GoA) through the GoA system.

During the first quarter of the year, the transfer of 3 interns to the MoF payroll was a rare improvement, but the low salary scale for government employees still remain a high demotivating factor where the trained civil servants are offered higher salaries by other line ministries and development organizations. Unfortunately, 3 of the interns who were trained and were on the government payroll had resigned during the reporting period due to above challenge.

Seeing that, the project focuses more for standardizing as well as computerizing all the budgetary processes e.g. budget formulation system implementation and revision of the budget execution processes which will result into a sustainable institutional and management information system by taking the following actions:

DAD/SBPS. During the 1st quarter of the year, a follow up training was conducted for the budget department staffs that are interacting with the systems. In addition, on the job training and support was provided for the donor partners as well as for government officials to enhance the quality and accuracy of the data and reports. A joint meeting with UNAMA and donors was held to further improve the quality of the existing data in DAD, review the donors' problem with the system and receive comments for further improvement of the DAD. Therefore, a new mechanism will be developed to use the DAD

as a more comprehensive aid management and reporting tool for the GoA and the civil society.

Moreover, the 1388 mid year budget revision and 1389 national budget were generated from the systems for the first time. A further improvement was to include the provincial breakdown for the external budget and the GoA Tashkil from the line ministries. Reporting facility and data entry were also improved e.g. DFR required reports, provincial allocations reports for the legislative bodies, budget execution reports. With the support from the Treasury Department, the 1389 CoA and budget execution forms were revised and adjusted into the FMIS.

For better access to information, the budget department website (www.budgetmof.gov.af) has now been updated and a new mail server facility will be launched soon.

Challenges

Risks

Political. The GoA's development budget is externally funded by international partners; therefore the development and implementation of the MTFP is not that practical and followed where it has grounded the decisions to be more political rather than technical. However, revising the budget calendar and the development of new ANDS financing mechanism will gradually overcome the challenge.

The 1388 mid-term budget was delayed due to many political reasons by the parliament and there is also risk of 1389 budget approval delay by the parliament. In addition, the refusal of the designate ministers for the large spending development budget ministries by the parliament caused lowest budget execution comparing to 1387.

Security. Deteriorating security situation within the country have impacted on the budget execution targets for 1388 to be achieved as most of the development activities were highly hampered.

Moreover, the provincial budgeting, as part of the new budget reform processes, is not rolled out to most of the southern provinces. Though, some of the provinces were planned to be trained at the nearest safe province but is awfully costly.

Technical/Capacity. Capacity constraint in financial management was a high challenge for the GoA at the national and sub-national levels where it has caused the government and line ministries in particular not to link the budget with the ANDS and national priorities. Identifying qualified experts in financial management at the central level has proved to be hard, and at the provincial level is likely to be even more challenging.

MBAW took tough steps to build a sustainable capacity by providing on the job training for the government civil servants and finance/planning directors.

Budget Reforms. Centralized budget formulation and execution mechanism has remained a challenge for rolling out the provincial budgeting exercise at the sub-national

level. Ignorance of the provincial authorities in the budget formulation practice by the line ministries has uninspired the sub-national governance bodies to be part of the efficient and effective budget execution exercise. Therefore, as part of the budget process reform, it has been proposed to implement the new mechanisms after the cabinet approval, agreement and enforcement.

Aid Coordination. Lack of information and poor cooperation from the donors on the multi year commitments and disbursements does not support a sound budget formulation mechanism by the government as the development budgets are fully donors dependent. New mechanisms for better alignment of donors fund with the national priorities are agreed upon and improvements in the donors' financial review have minimized the risk.

Issues

Human Resource (Recruitments). The MBAW staff recruitments under UNDP contracts posed a number of issues for the project; i) the amount of time required for recruitments could not respond to project's immediate needs; ii) the UNDP contract holders, bound to UNDP security requirements, at times could not report to work; and finally iii) the nature of the core function of the Budget Department carried out by MBAW staff did not match the arrangement of holding a UNDP contract. Given these considerations, a Letter of Agreement (LoA) was initiated early this year between the MOF and UNDP that enabled the Budget Department and the project management to takeover the recruitment processes where Government contracts will be issued for all the newly recruited staffs. Though, to have a sustainable capacity and ensure on time delivery of the budget department activities, recruitments of more civil servants have been given priority, while on the job training and other advanced capacity development and transfer of knowledge/skill trainings are regularly provided.

Data quality. Aid Management Unit provides analysis and policy recommendations to improve aid effectiveness. However, due to the poor data quality from the donors, it makes it hard and time consuming for ACU to do so. Conversely, the Donor Assistance Database (DAD) has now been launched online and regular trainings are provided to the donor organizations. Further various training programmes are designed to increase the analysis capacity of the staff for better aid delivery.

Provincial Budgeting. Centralized budget formulation mechanism by line ministries and lack of knowledge at the sub-national level on programme designing and budgeting, have made it difficult to monitor the progress of the provincial budgeting and initiate further reforms. However, in partnership with the World Bank (WB), the project is piloting the new provincial budgeting reform, provincial resource allocation, and working in line with the ministries capacity at provincial levels.

Lessons Learned

Budget calendar: the delay in approval of the national budget by the parliament again made it easier said than done to start the early budget execution. Therefore, the budget calendar will be revised accordingly to accommodate the above challenge. In addition, new procedures will be developed to update the parliament before the submission of the final national budget.

Programme Budgeting: In order to implement the new budget formulation mechanism as a policy tool rather than an IFI benchmark, a new strategic document outlining the importance and need of the programme budgeting is developed. The new policy will be approved by the council of ministers and all line ministries will present the 1390 budget by programme.

Further more, communication strategy for budget department and the MBAW project as part of the budget information sharing mechanism, will be given further priority to enhance the effectiveness and efficiency of the budget formulation and execution.

Future Plans

National Budget: The 1389 budget approval process by the parliament is on-going and required supports will be provided to approve the national budget.

In addition, the 1390 budget formulation process will start by finalizing the budget calendar along its action plan with the Budget Committee and issuing of budget circular No 1.

Programme Budgeting: The new training strategy will be implemented along with the manuals during the 2nd quarter of the year. The training strategy will also include identification and assembling the programme budget training team. It is also planned to deliver programme budget awareness presentations to the GoA's senior officials.

Capacity development/building workshops will be organized to provide trainings for the line ministries on the Budget Circular No II and budget costing. Part of the trainings will focus on training of trainers. In addition, donor awareness in regards to programme budgeting will be conducted.

In addition, the programme budget steering committee will be held early 1389 to agree and finalize the roll-out plan for 1390 and budget integration guidelines will be finalized and will be submitted for cabinet endorsement.

Provincial Budgeting: the developing of norms for provincial budgeting will be done with the MoE and four selected provinces. In addition, capacity building needs assessment for provinces and awareness programmes for PRTs will be conducted.

Aid Coordination: Having Kabul Conference ahead, the Afghanistan Agenda for Action (AAA) will be prepared for the conference's endorsement.

Data quality for DAD will be enhanced by visiting the donor organizations and planning the 1st round of Donor's financial review right after Kabul conference.

Financial Section

Table 1: Funding Overview

Donor	Commitment (Currency of the Agreement)	Received (Currency of the Agreement)	Received (USD)	UNORE	Balance (Currency of the Agreement)
UK-DFID	GBP 2,500,000	1,874,997	3,275,855	1.75	625,003
CIDA	CAN \$2,000,000	2,000,000	1,950,652	0.98	-
GTZ	EURO 945,000	945,000	1,297,368	1.37	-
UNDP	USD 871,754	871,754	871,754	1	-
Total		5,691,751	7,395,629		

Table 2: Expenditure Status (by activity)

Output	Budget	1st quarter Expenditure 2010	Balance	Delivery
Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development)	340,040	100,684	239,355	30%
Aid Coordination (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	202,048	62,023	140,025	31%
Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	26,680	84,630	(57,950)	N/A
Technical Assistance and Management Cost (Project Support Costs)	223,850	157,521	66,329	70%
GMS	59,659	30,473	29,189	GMS
Total	825,277	435,332	416,946	51%

Table 3: Expenditure Status (by donor)

Donor	Output	Budget	Quarter 1 Expenditure	Balance	Delivery
UK-DFID	Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development)	340,040	100,684	239,355	30%
	Aid Coordination (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	202,048	62,023	140,025	31%
	Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	26,680	84,630	(57,950)	N/A
	Technical Assistance and Management Cost (Project Support Costs)	223,850	157,521	66,329	70%
GMS		59,659	30,473.21	29,186	GMS
Total		852,277	435,332	416,946	51%

Annexes

Annex I: Performance Tracking Matrix

Result/Goals	Performance Indicators	Baseline Info	Performance Benchmark and Targets	Implementation Progress in reporting quarter
Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	<ol style="list-style-type: none"> 1) Budget process adhered to budget calendar and medium term fiscal framework, 2) Timely conduct of Mid-Year review, budget hearings and submissions, 3) Number of ministries aligned their program structures with ANDS priorities and implemented program budget process, 4) Number of provinces participated in provincial resource allocations and prioritizing needs, 5) Number of provincial resource allocation trainings conducted, 6) Budget circulars and guidelines prepared, issued and adhered to, 7) Timely submission of national budget to the executive and legislature, 8) Budget execution rate targets achieved, 9) Number of budget 	<ol style="list-style-type: none"> 1) Medium Term Fiscal Framework (MTFF) and Medium Term Budget Framework revised in 2009 for the budget of 1389 and revised macroeconomic framework, 2) Program budgeting inline with ANDS programs (priorities) introduced in 21 line ministries by 1388, 3) Provincial budgeting introduced in 23 provinces, 4) More than 10 training workshops and orientations organized for provincial departments in 2009, 5) Budget execution rate target: 75% for 1388 (operation budget execution at 95%, development 	<ol style="list-style-type: none"> 1) Budget calendar, MTBF, MTFF and MTEF revised, 2) budget circulars issued, 3) PB and provincial budgeting handbook published, 4) More than 20 training workshops and orientations on PB conducted, 5) 5-10 training events for provinces conducted on resource allocations, 6) PB allocation criteria developed, 7) MYBR conducted with selected ministries, 8) annual budget hearings conducted with 48 budgetary units, 9) budget execution rate increased to 75%, 10) budget allotment rate increased to 90%, 11) annual expenditure reports of all appropriations produced, 12) top 10 investment projects for each large development spending 	<ol style="list-style-type: none"> 1) Budget calendar for 1390 drafted and will be finalized after getting the budget committee's endorsement. 2) Budget circulars I & II are drafted by incorporating all the lessons learned issues from 1389 budget formulation. 3) Programme budgeting handbooks are drafted and will be finalized soon.

	<p>execution reports produced and disseminated, 10) Pro-poor expenditure for selected ministries are tracked, 11) Budget execution procedures are simplified, 12) FMIS (DAD, SBPS & AFMIS) provides required reports</p>	<p>budget at 55%), 6) Budget allotment rate: 85% for 1388 (operating budget allotment at 100%, development budget at 75%, 7) Budget calendar timelines revised in 1388, 8) Ceilings provided to line ministries drawn from MTFE/MTBF, 9) Revenue forecasting model developed</p>	<p>ministries are monitored, 13) communication strategy (publicity & information sharing) for budget developed, 14) MTBF and ceilings to line ministries produced consistent with overall macroeconomic conditions</p>	
<p>Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)</p>	<p>1) % of aid captured and recorded in DAD, 2) % of donor funding channelled through the core budget, 3) Number of coordination meetings/dialogues conducted, 4) Number of DFRs conducted, 5) Number of reports on aid delivery developed and disseminated, 6) PD monitoring survey conducted, 7) PD evaluation conducted, 8) Assessment of donor TA conducted,</p>	<p>1) 80% of aid delivered to the country is recorded in DAD, 2) 20% of development assistance channelled through the core budget by end of 2009, 3) three Bi-monthly High Level Committee Meetings on Aid Effectiveness (HLCAE) 4) Two rounds of DFR conducted in 2009, 5) one DFR report produced and disseminated, 6) Two rounds of joint</p>	<p>1) 6 HLCAE meetings conducted 2) Paris Declaration monitoring survey conducted, 3) DAD upgraded and further enhanced, 4) 90% of aid information recorded in DAD, 5) two rounds of DFR conducted, 6) DFR report published, 7) Action plan for the implementation of ANDS financing mechanism implemented 8) negotiations held with targeted number of donors</p>	<p>1) HLCAE was held during the month of March was held 2) PD monitoring survey will be conducted, its ToR is finalized and the independent consultant has been hired. 3) DAD upgraded by incorporating the donors' comments. 4) Negotiations held with donors on alignment of their aid with ANDS.</p>

	<p>9) Number of donors conducted joint portfolio reviews, 10) Number of negotiation missions conducted</p>	<p>portfolio review conducted with 4 major donors, 7) A monitoring of Good Principles for international Engagement in Fragile States and Situation conducted and the report has been prepared, 8) ANDS Financing Mechanism with action plan has been drafted 9) Peer Review Mechanism has been piloted in two ministries (MoPH, MAIL), 10) Afghanistan is currently participating in the Evaluation of Paris Declaration on Aid Effectiveness.</p>		
<p>Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)</p>	<p>1) Number of new graduates/civil servants recruited and retained within MoF on Taskeel/PRR/P & G, 2) Number of formal trainings conducted, 3) number of graduated accredited by the MoF, 4) At least one</p>	<p>1) 21 young graduates were recruited on Budget Department Tashkeel by 1388, 2) Two formal training events conducted, 3) New graduates participated in provincial and program budget</p>	<p>1) 15 fresh graduates recruited under the new Pay & Grading Scheme on the Budget Department Tashkeel, 2) Capacity assessment of the BD conducted, 3) induction workshop for new civil servants conducted,</p>	<p>1) Budget Department structure revised and new recruitments under the government Tashkil started. 2) Study tours ToR are drafted and will be finalized soon. 3) Streamlining new procedures for better service delivery is conducted by revising the budget execution</p>

	<p>international study tour conducted, 5) Number of project staff phased out, 6) Capacity of civil servants/young graduate improved and are able to carry out the budget process and aid coordination, 7) Comprehensive capacity and institutional building plan developed and implemented</p>	<p>trainings, 4) Graduates are able to work independently and are assigned as focal points for relevant ministries, 5) Capacity Assessment methodology and work plan developed and approved</p>	<p>4) on-going on the job training and mentoring conducted, 5) study tour organized, 6) Streamline procedures for better service delivery (allotment procedures)</p>	<p>mechanism.</p>
--	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------

Annex II: Risk Log

RISK LOG

Project Title: Making Budgets and Aid Work (MBAW)	Award ID: 00056407	Date: 31 March 2010
----------------------------------------------------------	---------------------------	----------------------------

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Mngt response	Owner	Submitted , updated by	Last Update	Status
1	Poor Planning/Budgeting by the line ministries and ignorance of the MTFF as the GoA 's budget is dependent on donors aid	Since Starting the Project	Operational	Budget allocations are not linked to outputs and outcomes at the level of line ministries and causes low budget execution Probability = 5 Impact = 5	Gradual improvement in capacity through implementing the various capacity building interventions	Government of Afghanistan	Project Manager	Dec 31, 2009	Reducing
2	Political decisions on budget allocations and approval of the budget	Since Starting the Project	Political	Delays in the budget approval processes and allocation of resources based on political decisions causes low budget execution and not financing the national priorities Probability = 5	MTFF has been developed and the budget calendar has been revised to overcome the challenge	Government of Afghanistan	Project Manager	Dec 31, 2009	Reducing
3	Deteriorating security situation across the country	2008-2009	Security/Environmental	Impact = 5 Causing development projects not to be implemented in most of the areas that results the low budget execution	Regular reports of the budget executions are submitted to the government	Government of Afghanistan	Project Manager	Dec 31, 2009	Increasing

4	Budget Reforms	2009-2010	Organizational	<p>and hampers the provincial budgeting rollout plan</p> <p>Probability = 5</p> <p>Impact = 5 Centralized Budgeting system has hampered the performance of the provincial budgeting exercise and in addition, poor information from the donors and international partners on the multi year commitments has caused the stronger and realistic budget planning.</p>	<p>management and in-secure provinces are called for trainings at the secure provinces</p> <p>New exercise, provincial budget allocation has been started. Moreover, the donor's financial reviews are seriously planned.</p>	Government of Afghanistan	Project Manager	Dec 31, 2009	Reducing
---	----------------	-----------	----------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------	-----------------	--------------	-----------------

Annex III: Issue Log¹

ISSUES LOG						Date: 31 March 2010
Award ID: 00056407			Project: Making Budgets and Aid Work (MBAW)			
ID	Type	Date Identified	Description	Status/Priority	Status Change Date	Author
1	Problem	Jan 2010	Letter of Agreement implementation	Solved	Mar 2010	Project Manager
2	Problem	Project Inception	Data quality from donors on DAD updates	On-going		Project Manager
3	Problem	Project Inception	Centralized Budget Formulation Process is hampering the rollout of the provincial budgeting unit	On-going		Project Manager

¹ Details on Issue log can be obtained from Issues log deliverable description.