



Afghanistan

United Nations Development Programme Afghanistan

Making Budgets and Aid Work (MBAW)

Second Quarter Progress Report 2010



Afghan Government and Germany bilateral negotiations for euro 250 million held on May 3-6 2010

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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

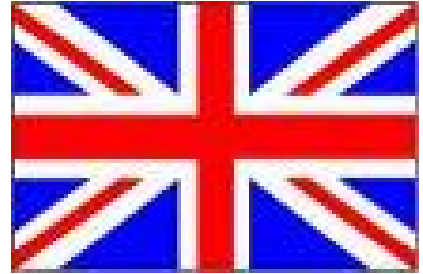
Making Budgets and Aid Work Donors



GTZ



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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
MTFF	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

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Executive Summary

Second quarter of the year started with the full preparation by the Afghan Government for the Kabul International Conference on Afghanistan. The GoA and its international partners will come together to renew their commitments to the Afghan people. In line with the London Conference Communiqué, channelling of at least 50% of development assistance through Government's core budget in the next two years will be further focused.

"Operational Guide: Criteria for Effective Off-Budget Development Finance" was developed with the technical support from MoF Minister's office and will be presented at the conference. In addition GoA committed at the London Conference to achieve the necessary reforms in strengthening the public financial management systems, reduce corruption and improve budget execution performance. Therefore, the "Public Financial Management Road Map" focusing on the above commitments was also developed led by MoF Deputy Minister for Finance.

The 1389 National Budget Execution started with delivering comprehensive trainings on the new budget execution processes, forms and procedures. There were serious debates between the legislative and executive bodies over the national budget. Ministry of Finance, therefore, incorporated the observations made by the parliamentarians into the revised budget submitted to the Parliament by early April 2010.

National Budget Formulation for 1390 started with revising the Budget Calendar by integrating the new concept "Cluster National Priority Programmes" into the budget process. Programme budgeting rollout covered the remaining 34 central government institutions to further align the government projects with the national development priorities. To further support the policy objectives of the Government, Medium Term Budget Framework (MTBF) template is developed. MTBF is an approach to budgeting that links the formulation process to government's development & policy objectives in the medium term. Reducing poverty is one of the objectives of the ANDS which requires appropriate specific budgeting. MTBF template also includes explanations on "Pro-poor" spending initiatives.

ANDS progress implementation and its alignment with the Budget Performance was a challenge. Therefore, through a consultative process, the harmonized reporting template on performance reporting is also developed.

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 are still 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

The high for the second quarter of the year was preparation for Kabul Conference. The government of Afghanistan has identified new priority areas that development projects need to focus on. Therefore, a new concept named "Clustered Bankable Programmes" was developed to present the national priority programmes at International Kabul Conference on Afghanistan on 20th July 2010. The new practice started at the time of preparing the 1390 budget that was not inline with the national budget formulation timetable. Therefore, through a consultative and coordinated process, the National Budget Calendar was revised to integrate the efforts of

developing the Cluster Bankable Programmes to the national budget process. Hence, the new priority programmes are included in the Budget Documents.

To further support the policy objectives of the Government, a more comprehensive **Medium Term Budget Framework (MTBF)** template is developed with the technical support of SAB/ASI experts. MTBF is an approach to budgeting that links the formulation process to government's development & policy objectives in the medium term. In addition, it focuses more on:

- Strengthening fiscal discipline, by creating an orderly framework for management of the annual budget over the medium term;
- Strengthening the allocation of federal resources to the government's strategic priorities;
- Improving operational efficiency, by strengthening the capacity of federal line ministries to prepare and manage their budgets effectively.

The MTBF will help ensure macroeconomic and fiscal stability and will enable the government to align resources more effectively around stated policy objectives.

In addition, the MTBF will consist of the following components:

- A clear and reliable statement of macroeconomic developments
- Medium Term fiscal strategy (Revenues included)
- Expenditure priorities
- Expenditure ceilings for individual line ministries for the medium term and
- Key dates for budgetary activities/budgetary calendar

Reducing poverty is one of the objectives of the ANDS which requires appropriate specific budgeting. Therefore, the new MTBF template also includes explanations on **"Pro-poor"** spending initiatives. Moreover, the Budget Circular No 1 (National Budget Formulation Guidelines/instructions), its forms and checklists were also revised to integrate the requirements of the Pro-poor spending of the line ministries and improving integration of the most priority poverty reduction policies within the budget proposals. This will further enable MoF to provide comprehensive data on pro-poor allocations and spending within the 1390 budget and provide information about social and pro-poor spending to the IMF (HIPC), ANDS, and MDGs.

Public Finance Management (PFM) Road Map

Afghan Government, back in January 2010 at London Conference on Afghanistan requested its development partners to increase their assistance through the central budget by 50% over the next two years. To ensure effective and efficient execution of the resources, GoA assured to undertake concrete measures for strengthening its Public Financial Management systems, fight against corruption, enhance budget performances, develop a financing strategy for development and develop its delivery capacity. Therefore, a detailed action plan has been developed to be presented at Kabul Conference with the focus on:

- Strengthening the Budget in driving effective delivery of key priority outcomes;
- Improving Budget Execution; and
- Increasing Accountability and Transparency

However, it's critical to increase the capacity of the line ministries to effectively achieve the above objectives. The success of the above goals will be measured by the following indicators set by GoA:

1. Medium-term fiscal framework (MTFF) has been strengthened to better forecast, plan and prioritize both expenditures and domestic revenues, to assist working towards fiscal sustainability.
2. Budget execution has increased by 10-20% annually over the medium-term (compared to the amount of executed budget for the previous year) through focused capacity development in planning and procurement practices at the provincial level and in line ministries.

3. Afghanistan's rating in the Open Budget Index has improved to 30% for 1390 by improving communication across Government bodies, as well as with civil society organizations, improved resources for both internal and external audit, and increased use of financial reporting through AFMIS.

The PFM Road Map development process was led by H.E. Deputy Minister for Finance, Dr. Mustafa Mastoor MoF with the technical support of the Budget Department and Fiscal Policy Unit and other relevant departments of the Ministry of Finance.

Note: The PFM Road Map is attached to the report as an annex.

Programme Budgeting

In efforts to link the budget with the policy, Programme Budgeting Reform is the instrument to achieve this objective. It links policies set out in the Afghanistan National Development Strategy (ANDS) to the operations and budgets of the government.

To implement the reform, it is vital to have the endorsement of the top government officials and attract policy makers' support. The reform replaces traditional budgeting. To achieve this, major alterations should be brought in the structure within the budgetary units to better implement this methodology. Therefore, the Programme Budgeting Strategy Paper that includes its concept, the Integration Instructions for operating and development budgets and Finance and Planning Departments with the endorsement letter was developed and submitted to the Council of Ministers for review and approval as a new PFM reform within the government's budgeting process.

The Cabinet has assigned a committee having high level representatives from Ministry of Finance, Ministry of Economy, Independent Civil Service Commission and Office of the Administrative affairs to evaluate the concept note where the assigned committee approved the instructions successfully. This now helps the General Budget Directorate to better implement the reform and the changes which integration would bring as an effective step for linking strategy with budget and improving reporting efficiency throughout the GoA budgetary units.

1390 National Budget spending planning

Budget Circular No 1 (BC1) that aims to align budgetary resources with line ministry's ANDS results frameworks for translating ANDS priorities into budgets and to improve service delivery in all sectors was finalized. The process happened during the first quarter of 1389 FY after a thorough consultative and coordinative exercise. In addition, the forms for BC1 that asks all budgetary units to provide their priorities, outputs, intended projects and indicative costs for 1390-92 was developed as well with detailed instructions for submission. The Budget Committee led by MoF Minister with the representative of Ministry of Economy, Ministry of Foreign Affairs and Office of Administrative Affairs reviewed the Budget Calendar BC1 and its supporting documents and successfully approved for onward circulation to the line ministries which is achieved as well during the reporting period.

Gender Responsive Budgeting (GRB)

One of the challenges GoA and Budget Department in particular faces is the proper allocation and reporting of resources with regards to gender. Therefore, with the technical support of Promotion of Opportunities for Women's Governance and Socio-Economic Empowerment Project (POWGSEEP/UNDP), the **Gender Responsive Budgeting** concept is introduced with the below objectives:

- Allocates the government's resources according to the different needs of male and female beneficiaries in a society;

- Reflect a gender perspective that recognizes that women and girls are not in positions of equity with men and boys and that budget should be formulated to correct this inequity;
- Target resources efficiently and effectively to meet the different needs of males and females and ensure equal distribution of resources and reduce poverty;
- Achieve outcomes that match the objectives of the government's national development strategy (ANDS) i.e. to implement the government's gender commitments as stated in the ANDS and translate them into budgetary commitments

To achieve the above objectives, a workshop was attended by all the MBAW budget experts on how to integrate GRB in the spending planning process. The effort on the integration process will continue in the coming months and the 1390 National Budget will include and reflect the gender sensitivity as a cross-cutting theme.

Fiscal Sustainability

The draft of Martyrs and Disables Pension Law was reviewed with an analysis that focuses the possible future pressures on government's budget. The review summarizes:

"The new law is not fiscally sustainable given that the additional costs to the budget are estimated to be between three and four times the current budget funding. Spending on other Government priorities would have to be reduced in order to afford the costs of the new laws.

The current budget funding for the existing laws of Afs 1.6 billion represents 2.3% of domestic revenues in 1388 and 1389. In order to ensure the fiscal sustainability of the new laws it is recommended that the costs of the new laws should not be any more than around this percentage of domestic revenues in five years time.

As a percentage of domestic revenues, it is proposed that the total costs of the new laws should not cost more than 50% more than is currently the case. Given the current laws are estimated to cost 2.3% of domestic revenues in 1388 and 1389, it is suggested that the cost of the new laws should be limited to around 3.5% of domestic revenues in five years time."

Output 2: Strengthened Budget Formulation Processes

1389 National Budget

The national budget statement as per the Afghan Constitution was submitted 60 days before the start of the new fiscal year to the legislative body. Constitutionally, the budget should be reviewed by the Upper House for 15 days and 45 days by the Lower House. However, due to inter-governmental political problems, the delay occurred in the approval process of the National Budget. In addition, the Budget Statement was rejected by the Parliament at the beginning of the 2nd quarter, 2010. Therefore, the budget was revised incorporating the parliament's comments and observations and was resubmitted back by early 2nd quarter where it got approved later.

One of the inconsistencies the National Budget Statement earlier had was the poor data or no data on provincial allocation which indeed is vital to present for the parliamentarians. Therefore, provincial allocation for all development projects were developed through B4 forms which now addresses the concerns of most stakeholders.

In addition, incorporating comments of the Parliament into the National Budget Statement obliged MoF and line ministries to revise the Programme-wise Budget in accordance to the revision which happened successfully for the 19 line ministries that are part of the pilot reform. Additionally, the unspent balance of the 1388 development budget of the line ministries were also

integrated into the 1389 budget and was made available early FY 1389 for on time and continues execution of the donors fund.

1390 Spending Planning

The Budget Calendar and Budget Circular No 1 and its instructions with the forms were approved early 2nd quarter by the budget committee.

Therefore, comprehensive trainings and capacity development workshops were provided after circulation of the above package to the line ministries for more than 500 government senior and mid-level officials from the central line ministries. The exercise included the explanation on the instructions and guidelines that greatly helps on how to prioritise and plan the development projects' needs of the line ministries. In addition, filling the forms with the proper information was also part of the efforts.

Job trainings and capacity development exercises were also conducted at the ground level with the line ministries' technical and budget staffs. This further enabled MoF and the Budget Department in particular to have early BC1 submissions. It's worth mentioning that within the reporting period, BC1 submissions have been received from all central line ministries except for Ministry of Interior Affairs. They have been reviewed by MoF and MoEc for economical analysis and alignment with the national development strategy and priorities. However, the BC1 does not include the new proposed "Cluster Bankable National Priority Programmes" which is due to be included in the BC2 process.

Facing the challenge of the low capacity within the line ministries on budgeting practices, it's also decided to start the coordination practice with the available technical assistance projects within the line ministries on developing the capacity on Public Financial Management e.g. at the Ministry of Interior Affairs, the exercise has been started with LOTFA on predicting the future commitments for the Afghan National Police.

Looking at the above efforts, it's also initiated to further align the government's spending planning efforts with the international standards. Therefore, reviewing the Classification of Functions of the Government (COFOG) and inclusion of Government Financial Statistics (GFS) exercises has been started as well where further efforts and elaborations will continue in the coming months.

Programme Budgeting

Programme budgeting, a new PFM reform, started in 1386 with the large development budget spending ministries i.e. MRRD, MoE and MoPH. Since then, the success and results of this important reform was not evaluated in depth with the Budget Department, however, ad-hoc meetings, reviews and reports had taken place and generated with the line ministries. Therefore, a thorough analysis was done with the IMF experts' early start of the quarter that resulted in introducing the reform through a policy paper approved by the council of ministers. This will further enable MoF to replace the traditional budgeting process with the Programme Budgeting and attracting top government's official support in the implementation process.

The quarter started with the rollout of the Programme Budgeting to 34 remaining line ministries out of 54 budgetary units that resulted in covering all the central government institutions in the Programme Budgeting reform. Early 2nd quarter two separate Steering Committee meetings with the participation of Deputy Ministers from both existing and new pilot ministries were conducted.

The Steering Committee discussed the way-forward for the reform implementation and agreed to continue the process and future planning.

The Finance and Planning Departments replication of responsibilities and authorities within the line ministries is a challenge with regards to the implementation of the reform. Operating or Recurrent Budgets are handled by Finance Departments while Development Budgets are managed by Planning Departments where it should be integrated into one budget under one department. Therefore, the Integration Instruction on how to bring the two departments together and overcome the doubling of tasks was developed and endorsed in consultation with the Ministry of Economy, Independent Administration Reform and Civil Service Commission and the Tashkeel Office from OOA. In addition, the new instruction was also approved by the Steering Committee members who are indeed the implementers of the plan.

Budget Circular No 1

To provide the Budget Department with the realistic estimation of required resources for implementation of the 1390 budget, the costing methodology and trainings were conducted for more than 345 civil servants with the support of Economic Growth and Governance Initiative/USAID project. This results in better estimation of the BC1 submission by the line ministries.

Capacity Development

Programme Budgeting implementation undeniably needs capacity to succeed. Therefore, Annual Programme Budgeting Training Strategy was developed to address the most needed areas of capacity development. In addition, the strategy requires a capacity need assessment of the line ministries that will be conducted at the start of the 3rd quarter.

As stated above, the reform implementation needs both political and management support from senior government officials, hence, awareness meetings supported with the presentations were conducted with the new pilot ministries' senior officials, deputy ministers and provincial directorates. The presentations also enabled the provincial authorities to better understand the government's charts of accounts while executing the funds at the provincial level.

The programme budgeting manuals includes planning, designing, budgeting, costing, executing and performance reporting. The manual was again reviewed in four volumes to incorporate the needs of Gender Responsive Budgeting (GRB), provincial budgeting, and inclusion of Pro-poor spending within the development programmes.

Provincial Budgeting

Provincial Budgeting implementation plan was developed. The plan includes the Coordination and Consultation exercise with the provincial authorities and PRTs, Norms Development/resource allocation with the Ministry of Education and its four pilot provinces and Capacity Development in Budgeting and Programming by the provincial line departments. The action plan also included the curriculum development for capacity development of the provinces.

Security remains a challenge in rolling out the reform to most provinces of the country, however, ad-hoc workshops and conferences organized by the PRTs that included representatives of the Independent Directorate of Local Governance (IDLG), provincial governors and central ministries

representatives were conducted to discuss the budget department reform plans i.e. Provincial Budgeting.

Output 3: Strengthened Budget Execution Processes

Second quarter started with delivering trainings on the 1389 budget execution processes for all the central line ministries. More than 500 government officials at different levels attended the capacity development trainings. The sessions included presentations on budget statement, revised budget execution forms and procedures, revised charts of the accounts and related matters.

In addition, the Budget Execution Manual, for the first time, is also developed and drafted. The Budget Execution Manual includes procedural explanations, processes to follow, forms and their descriptions, FAQs and case studies. Indeed, it enables all the line ministries on better budget execution and performances. Additionally, it helps the newly recruited budget and finance staff in better self capacity development and roles to follow in requesting the development budget allotments.

Budget Execution (Budget Performance)

Low budget execution still remains a high challenge for the GoA to overcome. The delivery capacity of the government agencies is also a serious concern for the international community. For that reason, bi-weekly meetings have been organized at the senior level with the government officials to review budget performances and address the above concerns. The review includes discussions on the progress, obstacles and bottlenecks that can be resolved through the meetings and expedite expenditures.

Furthermore, the identification of the top 50 national development projects also completed. The top priority 50 projects that make up 70% of the overall development budget of the government will be evaluated on weekly basis with the respective line ministries and budgetary units. The review includes justifying the poor budget performances and reports submission to the Council of Ministers for further evaluations.

To further enhance the budget performances credibility, the allotment process and internal controls are further improved within the Budget Department. During the reporting period, more than eight hundred allotment requests are approved with a total value of more than USD 457 millions. The new internal control systems have further enabled the line ministries and sectors to minimize the errors and reduce the timelines of the process to two days. In addition, review of the top 10 projects within the sectors is also initiated for better budget performances.

New initiatives with the start of GoA fiscal year also included the development of Financial and Procurement plan templates. The templates are submitted with the required information to the Budget Department by all the central line ministries by the start of the year. It enables MoF to evaluate the real performances of the line ministries against their planned expenditure. In addition, the procurement plans allows MoF to have a better cash flow in particular with the discretionary financed projects. The project staffs, on behalf of the Budget Department, are also participating in the procurement processes of the line ministries. Developing the capacity of the procurement staffs through on the job trainings by practically processing and filling required procurement forms are also included. Indeed, this has helped the line ministries in improving the procurement processes.

Note: Budget Execution Reports are attached as an annex to this report.

Output 4: Strengthened Budget and Fiscal Policy Monitoring and Reporting

Monitoring the ANDS progress and its alignment with the Budget Performance was a challenge for both Ministry of Finance and Economy as budget. Therefore, through a consultative process, the harmonized reporting template on performance reporting was developed with the support of ANDS Department at MoF and Ministry of Economy. It now enables both ministries to report inline with the ANDS results framework and link the progress with the budget performances. In other words, the new template evaluates the impacts of the budget on the key development indicators.

Within the 2nd quarter, the reporting quality on fiscal developments and trends were further strengthened and improved. The 1388 Fiscal report was finalized and published that includes the fiscal and budgetary developments during 1388, the overall macroeconomic performance, domestic revenue performance, expenditure performance, and the detailed analysis of the expenditures both by ANDS and COFOG sectors that are based on preliminary outcomes of 1388.

The full report can be accessed at:

http://www.budgetmof.gov.af/Eco_Fiscal_info/Regular_Reports/1388/Annual%20Fiscal%20Report%20June%2020_2010.pdf

¹1388 Fiscal Report Highlights

Despite the challenging security situation, **economic growth** has been very good in the 1388 fiscal year (2009/10). Real economic growth was over 22%, or nearly three times the level expected in the 1388 Budget.

1388 has also been a great year for **domestic revenue** collection. Collections reached Afs 63.6 billion (8.9 percent of GDP) in 1388, an increase of Afs 22.2 billion (54 percent) on the 1387 level of Afs 41.4 billion. Collections were also well above the projected target of Afs 51 billion at the start of the year, and the revised budget target of Afs 52.5 billion.

Grants to core budget increased from Afs 55.0 billion (9.2 percent of GDP) in 1387 to Afs 67.3 billion (9.4 percent of GDP) in 1388. Grants to the operating budget increased from Afs 28.8 billion (4.8 percent of GDP) in 1387 to Afs 32.8 billion (4.6 percent of GDP) in 1388, while grants to the development budget also increased from Afs 26.3 billion (4.4 percent of GDP) in 1387 to Afs 34.5 billion (4.8 percent of GDP) in 1388. The low execution of the development budget was the main reason that grants to core budget were below the amount estimated in the 1388 Budget.

Core budgetary expenditures were Afs 131.2 billion (18.4 percent of GDP) in 1388 compared to Afs 114.4 (19.0 percent of GDP) in 1387. The main reason for expenditures decreasing as a percentage of GDP is that economic growth grew faster than expenditures in 1388. Given core budget revenues (including grants) were Afs 130.9 billion, there was almost no need for further net financing of the budget.

Operating budget expenditures were Afs 87.2 billion (12.2 percent of GDP) compared to the revised budget of Afs 97.0 billion. The main reason for this under spending was that over Afs 5.6 billion of funds remained unallocated from the contingency reserve. Wages increased as a percentage of total operating budget expenditures from 69 percent in 1387 to 74 percent in 1388. The main reason was increases in the wage bill for the security and education sectors. There was a surplus in the operating budget of Afs 9.1 billion.

Development budget expenditures were Afs 44.0 billion (6.2 percent of GDP) compared to the revised budget of Afs 118.9 billion, meaning that only 37% of the development budget was spent. A large proportion of these unspent funds will be carried into 1389.

¹ 1388 Fiscal Report

Second quarter also included systematic reviews of the international financial institution's benchmarks through conducting technical coordination meetings. The overall coordination efforts are managed by project's fiscal policy unit. The review includes updates and progress on the benchmarks set by International Monetary Fund (IMF) for its PRGF grant covering revenue mobilizations, expenditure reforms, reforms of state-owned enterprises and banking sectors. In addition, consultations were held with IMF mission for the 7th review of the PRGF programme.

Furthermore, the operating budget sustainability analysis was conducted during the reporting period which also includes discussion on domestic revenue targets for 1389. In addition, the revenue model for Government of Afghanistan was further improved for better future estimates.

Macroeconomic Database

To further strengthen the efforts of the newly established Macroeconomic Policy Co-ordination Working Group (MPCWG), a Macroeconomic Database is developed. It aims to analyze the likely impact of any macroeconomic policy in a particular sector i.e. fiscal, monetary, real and external on other sectors of the economy. This is crucial for bringing about results that are effective and consistent with government's overall policy.

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

Afghanistan Government in January 2010 at the International Conference on Afghanistan in London committed itself to renew and reinvigorate its partnership with the international community for more effective aid. Therefore, a new operational guideline for better aid coordination and effectiveness is developed with the support of MoF Minister's office and will be presented at the Kabul conference in July 2010. The guideline covers the external managed budget challenges currently the government faces. It is in line with the aid principles defined at the Paris Declaration and further includes the capacity development within the government institutions and sustainability of the externally managed development projects.

2nd quarter also hosted the fifth High Level Committee on Aid Effectiveness (HLCAE) that took place in early June 2010. Discussions and agreements included the operational guidelines for externally managed ODA, 1st donor's financial review (DFR) to be conducted in the 3rd quarter, the Paris Declaration Evaluation and Donors Assistance Database (DAD) related issues. HLCAE is the only instrument currently co-chaired by MoF and UNAMA being used for better aid effectiveness and coordination.

In addition, the efforts on formalizing the Grants/Loan negotiation guideline continue with the technical assistance from MoF Minister's legal office. The guideline also focuses on segregation of responsibilities as well as authorities between Ministry of Finance and Ministry of Foreign Affairs in regards to signing of international agreements with donor countries. In addition, it will be used as a guiding tool for the international partners on how to interact with GoA.

For more effective aid results, portfolio reviews started with the large donors i.e. the Asian Development Bank (ADB) and the World Bank (IDA/ARTF/JSDF). The review includes the progress made against the available donor commitments, physical project's progress updates, the budget execution targets and obstacles that may hamper project's performances. The preliminary findings prove that such reviews help both the government and donor community in fulfilling their responsibilities and commitments and overcome problems that may exist in successful projects

implementations. Portfolio reviews for better alignment of aid with the GoA operational guidelines and priorities will start with other large donors in the near future as well.

On better aid reporting and alignment, introductory negotiations were held with the ISAF head quarter on the harmonization and consolidation of the data of PRTs with that of the Ministry of Finance. Indeed, the initial results i.e. transfer of PRT data to the MoF system shows success and further efforts will be continued during the coming quarters.

Besides the above tactical inputs provided with regards to the aid effectiveness and coordination, ad-hoc negotiations were also held with Japan, Germany, the World Bank, Iran, USAID, Sweden, Denmark and Canada during the 2nd quarter that helped the strengthening of aid effectiveness in Afghanistan through the constructive dialogue (coordination) with the development partners and enhancing the transparency of aid spending.

Negotiations included:

- Signing of financing agreements between GoA and its international partners with a total value of more than USD 120 million;
- Facilitating intended preparatory meeting for technical summit on economic and trade affairs with Iran;
- Signing of financing agreements for District Delivery Programme (DDP) with USAID;
- Signing of Development Cooperation Agreements with Sweden, proposing unified programmes/projects to the Government of Japan and
- Fund raising for the national priority programmes.

In addition, the National Solidarity Programme III grant negotiation held with the World Bank that resulted in successful completion of the NSP III new phase fiduciary arrangements, financing strategy and programme implementation.

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

Second quarter included Aid Management Department re-structuring. The department is reorganized into aid coordination, aid effectiveness and aid reporting units that are fully resourced and institutionalized by the Making Budgets & Aid Work project. that the units provides strategic and technical guidance and advice to the MoF high level officials in regards to aid management and handles all aid management related issues on behalf of the MOF.

To further institutionalize and transfer the ownership of what is being delivered by the project staff to the government, a new Letter of Agreement (LoA) was signed between Ministry of Finance and UNDP Afghanistan in transferring the recruitment responsibilities to the Budget Department and MBAW project. UNDP will act as an oversight body for playing an assurance role. The LoA was signed in January 2010 but came into effect with the start of the 2nd quarter. During the reporting period more than 18 national positions were filled under government contracts.

In addition, as part of the sustainable capacity development, on the job training continues for the Budget Department civil servants and line ministries in all aspects of the budgeting & planning, execution and reporting. Moreover, the project helps the General Directorate of the Budget with the recruitment of the civil service positions in order to have counterparts for all the contracted staffs within the project.

Business Plan Development: On the request of the Director General of Budget, the process of business plan development started with the overall management of the SAB/ASI project. ²*The purpose of the exercise is to set out the performance indicators and identify the challenges that exist in delivering the vision of the Budget Department. It also looks to clarify roles and reduce overlap and sets out action to enhance the capacity of the Budget Department.*

It touches on improving the core operations of the Budget Department in three areas: it looks in detail at improving the budget process, examines some of the basic administrative and business processes and sets out a performance management system which includes an assessment not just of progress on implementing key reforms but also how staffs perform in discharging their TORs.

This business plan is not a static document. In it BD have laid out its aims and objectives for the next 18 months, but the improvement of the Budget Department's performance is a continuous process. This shall revisit the plan during its lifetime and adjust where necessary".

Taking the above objectives into consideration, MBAW in different organized sessions had enormous contribution for the development and improvement of the document. Developing the performance indicators for all the departments within the Budget Department were also parts of the efforts. In addition, indentifying the challenges and problems and recommending doable actions to effectively develop and implement the business plan were also completed.

The business plan for the budget department is prepared inline with the Ministry's Strategic plan and government of Afghanistan's commitments in both London and Kabul conferences in reforming its public financial management systems, aid management, coordination and effectiveness capacity and enhancing its delivery capacity.

State Budget Planning System (SBPS) /Donor Assistance Database (DAD)

With the continuous process in developing a sustainable institutional technical capacity within the Budget Department, extra efforts are given for improving the SBPS & DAD performances.

Review of the BC1 requirements and its integration into the SBPS were part of the efforts during the 2nd quarter. In addition, the review includes efforts for generating the Medium Term Budget Framework reports and Donor's Financial Review required information through SBPS. Reviews are also underway to evaluate the DAD performances, its functionality and user interference. The detailed reviews will be started soon in the 3rd quarter of the year. Electronic filing system for the budge execution unit and enabling the system for archiving it is also developed during the reporting period.

To further enable the Budget Department for increasing access of budget related information to all stakeholders, the website www.mofbudget.gov.af is further improved by purchasing new website with mail server that includes the Dari & Pashtu languages. All the budget information is now regularly updated that includes capacity development materials.

Challenges

Risks

Political. The GoA's development budget is externally funded by international partners. The development and implementation of the Medium Term Fiscal Framework (MTFF) there is not that practical and followed where it has grounded the opportunities for decisions to be more political rather than technical. Revising the budget calendar and the development of new ANDS financing mechanism may gradually overcome the challenge.

² Draft Business plan, May 2010

The 1389 national budget approval was delayed by the parliament due to many political reasons. In order not to hamper the overall activities of the government by the start of 1389 FY, presidential decree inline with the Afghanistan Constitution was obtained for execution of both operating and development budgets as per the 1388 allocations.

Security. Deteriorating security situation within the country have impacted on the budget execution targets for 1389 to be achieved. The security situation has further caused that most of the development activities get targeted and 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.

Technical/Capacity. Capacity constraint in financial management remains 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 difficult, and at the provincial level is likely to be even more challenging.

MBAW has put extra efforts to develop sustainable capacity by providing on the job training for the government civil servants and finance/planning directorates.

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 mechanism i.e. programme/provincial budgeting 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; since the development projects are fully financed by donors. New reforms for better alignment of donors fund with the national priorities are agreed upon at the London Conference and proposed for Kabul conference and improvements in the donors' financial review have minimized the risk.

Issues

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 the proper and accurate analysis. 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 a challenge to start the early budget execution by early 1389. 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 1390 budget formulation processes have started and BC1 submission, evaluation and final reports are to be finalized.

Programme Budgeting: The new training strategy will be implemented along with the manuals during the 3rd 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 further trainings after BC2 is published.

Provincial Budgeting: the developing of norms for provincial budgeting will be done with the Ministry of Education and four selected provinces i.e. Bamyan, Helmand, Balkh and Kabul. In addition, capacity development needs assessment for provinces and awareness programmes for PRTs will be conducted.

Aid Coordination: The operational guideline that has been endorsed in Kabul conference will be implemented on the ground by Aid Management Unit.

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. Total Income and Expenditure

Donor	INCOME			EXPENDITURES			BALANCE	Remarks
	Total Commitment (approx US\$)	Total Received (approx US\$)	Total Receivable (approx US\$)	Total Cumulative Expenditures as of Dec 2009	Current Year 2010 (Cumulative) as of the Second Quarter	Total Expenditures	Total Received minus Total Expenditures	
UK-DFID	4,245,840	4,245,840	0	2,392,365	1,070,912	3,463,277	782,563	Total Grant GBP 2,500,000
CIDA	1,950,652	1,950,652	0	1,895,536	(12,456)	1,883,080	67,572	Total Grant is CAN \$4,000,000
GTZ	611,615	611,615	0	898,581	(286,966)	611,615	0	Total Grant is EURO 945,000 (The agreement was initially with MBW. Unspent funds were transferred to MBAW).
UNDP	871,754	1,291,754	(420,000)	894,385	365,340	1,259,725	32,029	
Total	7,679,861	8,099,861	(420,000)	6,080,867	1,136,830	7,217,697	882,164	

Note:

1. GTZ/SEAL project's fund reimbursed for an amount of USD 286,966 and accrued expenditure charged to UK-DFID budget.
2. USD 420,000 income for 2010 includes short term loan from UNDP.

Table 2. Expenditure by Major Outputs (2010)

Project Output	Budget (AWP 2010)	Cumulative Expenditure as of the Second Quarter	Delivery Rate*	Remarks
Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	902,900	238,305		
<i>GMS</i>	67,960	25,594		
Sub-total Output 1	970,860	263,899	27%	
Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	524,800	129,888		
<i>GMS</i>	5,925	15,208		
Sub-total Output 2	530,725	145,096	27%	
Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	30,000	157,226		
<i>GMS</i>	-	2,008		
Sub-total Output 3	30,000	159,235	N/A	
Output 4: Technical Assistance and Management Cost (Project Support Costs)	429,300	551,751		
<i>GMS</i>	32,313	16,849		
Sub-total Output 4	461,613	568,600	N/A	
Grand Total	1,993,198	1,136,830	57%	

Note: *Delivery Rate = Cumulative 2010 expenditure/2010 AWP budget

Table3. Expenditure by Donors (2010)

Donor	Project Output	Budget (AWP 2010)	2010 Cumulative Expenditure as of the Second Quarter	Delivery Rate*
UK-DFID	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	902,900	451,991	50%
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	72,795	136,879	188%
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	-	149,277	N/A
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	429,300	273,105	64%
GMS		100,273	59,659	59%
Grand Total		1,505,268	1,070,911	71%
CIDA	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	-		
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	-		
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	-		
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	-	(12,456)	
GMS				
Grand Total		-	(12,456)	N/A

Donor	Project Output	Budget (AWP 2010)	2010 Cumulative Expenditure as of the Second Quarter	Delivery Rate*
UNDP	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	-	52,619	N/A
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	446,080	13,670	3%
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	30,000	7,949	26%
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	-	291,102	N/A
GMS		-		
Grand Total		476,080	365,340	77%
GTZ	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	-	-266,305	
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	-	-20,661	
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	-		
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	-		
GMS		-		
Grand Total		-	-286,966	

*Delivery rate = 2010 cumulative expenditure/2010 AWP budget

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)	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	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 budget at 55%),	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	1) Budget Circular no 1 approved by the budget committee and published for the line ministries. 2) BC1 submissions are finalized by the line ministries and are reviewed jointly the Ministry of Economy. 3) Cluster Bankable Programme processes are integrated into the budget calendar. 4) Programme Budget steering committee for both new and existing ministries were held, the way forward and integration instructions were approved. 5) 1389 budget execution started, comprehensive trainings are delivered for the line ministries. 6) Fiscal bulletins are published for 1388 and 1 st quarter of 1389. 7) Coordination process started with PRTs. 8) MTBF template is drafted

	<p>targets achieved, 9) Number of budget 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>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>projects for each large development spending 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>that includes GRB as well as pro-poor expenditures. 9) Budget execution manual is drafted. 10) Programme budgeting and costing workshops conducted for all central line ministries.</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, 9) Number of donors</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 portfolio review conducted with 4 major donors,</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 June was held 2) PD monitoring survey will be conducted, its ToR is finalized and the independent consultant has been hired. The process continued through 2nd quarter. 3) DAD upgraded by incorporating the donors' comments. 4) Negotiations held with donors on alignment of their aid with ANDS. 5) Portfolio reviews started with large donors. 6) Financing agreements and development cooperation agreements signed with international partners for</p>

	<p>conducted joint portfolio reviews, 10) Number of negotiation missions conducted</p>	<p>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>better aid alignment and coordination.</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 international study tour conducted, 5) Number of project staff phased out,</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 trainings, 4) Graduates are able to work independently and are assigned as focal points for relevant</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, 4) on-going on the job training and mentoring conducted, 5) study tour organized,</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 mechanism. 4) Business plan for the budget department drafted. 5) On the job capacity</p>

	<p>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>ministries, 5) Capacity Assessment methodology and work plan developed and approved</p>	<p>6) Streamline procedures for better service delivery (allotment procedures)</p>	<p>development continued.</p>
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Annex II: Risk Log

Project Title: Making Budgets and Aid Work (MBAW)				Award ID: 00056407		Date: 30 June 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	Gradual improvement in capacity through implementing the various capacity building interventions	Government of Afghanistan	FPU	June 2010	Reducing
2	Political decisions on budget allocations and approval of the budget	Since Starting the Project	Political	Impact = 5 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	BPU	June 2010	Reducing
3	Deteriorating	2008-2009	Security/Environmental	Impact = 5 Causing	Regular reports of	Government	BEU	June 2010	Increasing

	security situation across the country			development projects not to be implemented in most of the areas that results the low budget execution and hampers the provincial budgeting rollout plan	the budget executions are submitted to the government management and in-secure provinces are called for trainings at the secure provinces	of Afghanistan		
4	Budget Reforms	2009-2010	Organizational	<p>Probability = 5</p> <p>Impact = 5</p> <p>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>New exercise, provincial budget allocation has been started. Moreover, the donor's financial reviews are seriously planned.</p>	Government of Afghanistan	BIRU	June 2010 Reducing

Annex III: Issue Log³

ISSUES LOG					Date: 30 June 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		AMD
3	Problem	Project Inception	Centralized Budget Formulation Process is hampering the rollout of the provincial budgeting unit	On-going		PBU
4	Problem	April 2010	Cash Flow	Solved	May 2010	Project Manager

³ Details on Issue log can be obtained from Issues log deliverable description.