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MBAW DONORS

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List of Acronyms

ACU	Aid Coordination Unit
AFMIS	Afghanistan Financial Management Information System
AMD	Aid Management Directorate
ANDS	Afghanistan National Development Strategy
AWP	Annual Work Plan
BC ₁	Budget Circular No 1
BC ₂	Budget Circular No 2
BEU	Budget Execution Unit
BIRU	Budget Integration and Reform Unit
CoA	Charts of Account
CPAP	Country Programme Action Plan
DAD	Development 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
LM	Line Ministry
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
NPP	National Priority Program
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
TCC	Technical Coordination Committee
UNDP	United Nations Development Programme
UNDAF	United Nation Development Assistance Framework
UNAMA	United Nations Assistance Mission to Afghanistan
US	United States of America
WB	World Bank

Executive Summary

During the second quarter of 2011, MBAW has conducted effective work towards the goal to strengthen policies, budget execution, align aid and develop capacity. A number of hurdles have been overcome, such as the implementation of program budgeting, which is now implemented in all budgetary units. In light of this, the Budget Reform Integration Unit has now re-aligned its activities with MBAW's overall goal to increase capacity development and institutional memory, which will be discussed below, in the Context section of this report.

In addition, the Provincial Budgeting Unit held the first Provincial Budget Symposium, which had representatives from all 34 provinces, as well as the participation of numerous GoA officials. In light of this recent effort to increase dialogue among different budgetary units, stakeholders and the Afghan public, MBAW has continued to work towards the promotion of good governance, peace and stability. This has taken place through the revision of its fiscal transparency by revising and improving Open Budget Index matrices and by making a greater number of financial and budget documents available on the Ministry of Finance's website. These wide-reaching efforts have impact on Afghanistan's progress towards greater fiscal sustainability. In terms of more specific activities, the following key results provide a glimpse of activities that have taken place during this quarter:

- The Medium Term Budget Framework was finalized
- A Pro-Poor Budget Share Identification report was initiated to focus on pro-poor funds allocation in the national budget
- 1390 National budget was revised and finalized
- Documents such as the monthly and quarterly fiscal bulletins have been uploaded to the MoF website and are available in Dari, Pashtu and English
- All components of the Paris Declaration Survey were submitted and reviewed at OECD; progress against the twelve PD indicators was recorded to be included in the OECD document
- To efficiently deliver services to the Afghan public, 7 out of 22 National Priority Programs have been drafted and are ready for endorsement at the up-coming Standing Committees and a number are in the process of being coordinated and finalized

These are but a few key results that have taken place during the quarter. Greater details and more indicators of progress can be found in the subsequent sections of this report.

I. Context

Making Budgets & Aid Work (MBAW) project provides the essential support to the Budget Department of the Ministry of Finance to strengthen budget planning, implementation and monitoring processes. In addition, the project promotes the effective use of the national budget 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 in line 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 to strengthen the National Budget processes as a comprehensive policy and decision making mechanism for the Government of Afghanistan to follow good macroeconomic management and to promote efficient allocation of domestic resources as well as International Development Assistance.

In order to better link MBAW's work with ANDS objectives, principles of ownership have become integrated into MBAW's work plan. To this end, the new MBAW Project Plan emphasizes the need to increase capacity to eventually prepare for an exit strategy by 2015. This involves continuous capacity development and retention, with the gradual cessation of reliance upon technical assistance, especially foreign technical assistance. To execute this plan, regular assessments of technical assistance are forecasted, and priority will be placed on Afghan staff to fill roles, while limited foreign technical assistance to mentoring only, and for six-month duration only. Placing the future of Afghanistan's development and, more specifically, fiscal responsibility in the hands of Afghans is paramount to achieving real ownership of Afghanistan's development agenda.

The new MBAW Project Plan involves a renewed focus on budget planning and management, to further enhance and develop the Public Financial Management Roadmap, which was endorsed at the Kabul Conference. As such, program budgeting has been implemented, and provincial budgeting norms have been developed and applied to achieve greater fiscal sustainability at the sub-national level. Policy and Strategic Development have been part and parcel of this new project plan, and involves considerable emphasis on aid coordination, effectiveness and reporting. In the near future, a symposium on aid effectiveness will explore the state of aid effectiveness in Afghanistan among experts and the public alike. National Priority Programs (NPP) are now under the purview of MBAW. Developing the 22 NPPs is fundamental to the prioritization and success of the Afghan National Development Strategy. At present, MBAW is implementing oversight and monitoring mechanisms to support the NPPs that have already been implemented, and those that are in the process of development. Coordinated support translates into effective action; MBAW is maximizing on the skills and abilities of its staff to build upon past successes, and to work towards results and impact at a national level.

II. Results and Impact

Component 1: Budget planning and management (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

Adhering to a strengthened budget policy and planning process is fundamental to MBAW's support to the Ministry of Finance. As part of the **1391 National budget planning**, budget ceiling presentation was developed and disseminated among relevant units for their comments and inputs. The presentation was delivered to the budget committee in order to propose budget ceilings and shortlist new initiatives based on the government priorities. As part of the budget planning process, **Monthly Budget Committee Meetings** were held to discuss budgetary projections for total government spending and revenue, in order to effectively link budgetary units to specific

contingency projects. As part of the budget planning process, the **Medium Term Budget Framework (MTBF) Template** was finalized after an outline was disseminated to all relevant stakeholders for input and comments. The MTBF involves a three year projection of total government spending and revenues to link government policies and priorities for budgetary resource allocation.

Improving **Budget Circulars 1 and 2** is integral to preparing a comprehensive budget for Afghanistan. Budget Circular₁ is the first step of the budget preparation process. The purpose of submitting the BC₁ is to prioritize and align next year's budget proposals in accordance with strategies and policies set with the Government of Afghanistan. Along with workshops and training sessions, Budget Manuals V₁ and V₂ were revised in order to prepare for the 1391 budget process. Budget manuals are very important tools for the line ministries (LMs) in order to prepare their next year's budget appropriately and in accordance with MoF guidelines and instructions. These were shared with all LMs, and uploaded to the Budget Department website. Each budgetary unit is asked to submit upcoming spending proposals to MoF. As a result of strengthened budget processes, BC₁ forms were disseminated to the line ministries and budget units and were received on time. For the 1391 budget, the Budget Circular has been issued. To help the budget units on instructions and forms and to get quality submissions from them, holding workshops is essential. The Budget Reform Unit championed the BC₁ process by providing analysis training material and by conducting workshops for all budget sectors. Similarly, a number of three-day workshops were arranged for the line ministries for the 1391 financial year, to assist in filling out BC₁ forms, and to gain a better understanding of the BC₁ process.

As part of the BC₁ process, Budget Circular Checklists and Guidelines were drafted and analyzed to better facilitate the BC₁ process, and relevant units were consulted in this endeavor. In addition, BC₁ reporting tables were finalized with the purpose of calculating budget ceilings, a crucial part of effective budget execution and expenditure of public funds. The tables will be entered into the State Budget Planning System (SBPS). A BC₁ Steering Committee Meeting was facilitated and organized, and all participants received information on the significance of the BC₁, the pilot phase for provincial budgeting and adherence to deadlines specified in the budget timetable. Throughout the BC₁ phase, the Budget Reform Unit provided on-the-job support to the Budget Department sector colleagues on how to analyze BC₁ submissions.

As part of a larger effort to increase awareness of the budget process for the public, four **Civil Society Organizations Workshops** were developed and finalized. The goal of the presentations was to help the general public understand the national budget and through Civil Society Organizations (CSOs), and the opportunity was provided for citizens to participate in the formulation of the national budget by providing their input.

An indicator of success for a strengthened budget process is the integration of gender and pro-poor spending into the budget process. A brochure on Gender Responsive Budgeting was prepared in consultation with the UNDP's gender support project. Further, to better allocate funds to poverty reduction in the national budget, a **Pro-Poor Budget Share Identification** report was initiated. As poverty reduction is an overarching objective of the Afghan National Development Strategy (ANDS), the report will help track ANDS progress.

Program Budgeting

Implementing program budgeting (PB) is an essential part of strengthening the national budget process. Since the start of the PB reform in Afghanistan, the Budget Reform Unit (BRU) has been playing a key role in introducing and rolling-out the reform. As a result, PB has been successfully rolled out to all LMs and the traditional budgeting system has been replaced. Workshops were

executed to refresh LMs' understanding of the PB process. PB is now being championed by the Sectors and the Budget Policy Unit and as a result, the Budget Reform Unit has successfully implemented the PB transfer, and BRU's terms of reference have been reviewed to act as a support unit to the aforementioned entities.

As a result of the implementation of PB, BRU conducted an evaluation of both the 1389 fiscal year, along with the implementation of PB reform. It was decided that workshops should be held for the LMs discussing the 1389 lessons learned. In addition, a refresher presentation of the program budget together with EGGI team embedded in each ministry was carried out.

Now that PB has been implemented, BRU's new role as the central capacity development unit is being developed to accommodate various aspects of capacity development and policy training into programs that will be delivered to the Budget Department and LMs. The training strategy and existing materials were revised to accommodate all new mandates and policy issues. As a result, a Monitoring and Evaluation (M&E) database was created to track these changes, along with a strategy to assess pre- and post-training scenarios. M&E builds transparency and accountability which helps evaluate the trainings conducted. The evaluation process includes determining participant reaction to the training program, how much participants learned and how well the participants transfer the training back on the job. The information gathered from the training evaluation is then included in the next cycle of training needs assessment.

For that purpose BRU designed a questionnaire for the trainees and held meetings with the ICT team and other units to initiate structuring the database. The database will help measure the capacity of the LMs before and after the delivery of the training sessions. In other words, it will provide insight into the efficiency of the delivery of training to the budgetary units and the budget department.

The Afghanistan Public Finance Management (PFM) roadmap clearly defines the list of reforms needed to **increase capacity of the Line Ministries**. *One of the major reforms suggests conducting standardized line ministry capacity assessments to cover PFM areas and to identify gaps in the ability of the staff to carry out their day to day work and receive direct budget support.* These assessments will support capacity development and training initiatives. The PFM roadmap also indicates that capacity development programs necessary to support the implementation of PFM reforms will be undertaken. In the London conference in 2010, the GoA and its development partners agreed to work together to increase assistance to Afghanistan through its central budget to over 50% in the next two years. Based on this decision, a focus of the Kabul conference was to discuss how to effectively utilize these resources. Overall, it was agreed to strengthen the public financial management system by reducing the risk of corruption, increasing budget execution, and developing a strategy for improvements in capacity of the GoA to deliver. In order to institutionalize the PFM, training will be expanded to include various areas integral to the PFM. A strategy has been designed with a training schedule and modules and the training of trainers has commenced. To ensure the training is appropriate and valid, evaluation sheets and questionnaires have also been developed.

BRU has developed a **needs assessment strategy paper** in order to gauge the internal capabilities and capacity of the budget department and the LMs interventions can be designed to fill the gaps where weaknesses are identified. This endeavor is in line with the Budget General Directorate's effort to expand its support, and to deliver services to the Budget Department and Units. The needs assessment addresses two objectives: to (i) identify baseline competency (capacity) levels within the LMs and the Budget Department, and to suggest a training plan to support a long-term solution; and, (ii) analyze the training needs for LMs in terms of the budget process, and to recommend training solutions.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Budget Circulars 1&2 improved and manuals revised	BCs 1&2 were revised to prepare the 1391 budget; budget units received BC1 forms and submitted the forms, completed, on time. BC1 reporting tables were finalized in preparation for calculating budget ceilings	100%
1.2 MTBF finalized	After an outline was disseminated for input from stakeholders, the MTBF was finalized	100%
1.3 Pro-poor budgeting share identification tracks ANDS progress	A Pro-Poor Budget Share Identification report was initiated to focus on pro-poor funds allocation in the national budget with two pilot ministries.	80%
14. Program Budgeting implemented	Program Budgeting strengthens the national budget process and replaces traditional budgeting.	100%

Output 2: Strengthened Budget Formulation Processes

Improving transparency and accountability in the budget formulation process is necessary in order to effectively allocate public resources in accordance with national priorities. During the second quarter, many of the units were involved in finalizing the 1390 National Budget, as per the budget implementation plan.

The **1390 National Budget** was revised based on changes proposed by parliament, including updating the text of the budget document and its financial tables, and revision of program budgeting tables. The budget document was disseminated to all LMs, DAB, and all other relevant directorates and units, and translated into Dari, Pashtu and English languages.

The **1390 Provincial Budget** was revised and updated in coordination with sectors. The Provincial Budgeting Unit (PBU) worked with USAID to help them better understand the budget process, and continued to develop a template for provincial financial overview. Meetings with World Bank, the United States Embassy, USAID and DFID were conducted to discuss the on-budget process, and with CSTC-A to discuss on-budget funding and asset transfer methodologies with budget and procurement officers. The provincial budget also went through the same process as the national budget, and was sent and re-sent to Parliament after revisions. The third draft was approved and accepted by the Office of Administrative Affairs.

In addition to preparing the national and provincial budgets, Provincial Budgeting unit staffs were occupied with developing a budget execution module at the national and sub-national level, as well as preparing a Provincial Budgeting Orientation Program. Further, outreach programs to economic faculty students took place concerning provincial budgeting issues.

Throughout the quarter, PBU facilitated discussions among many groups, from development partners to local and provincial organizations. This included discussions with the Canadian, American and Dutch Embassies to enhance their understanding of the budget process, as well as meetings with PRTs situated in Farah, Ghazni, Laghman and Faryab, Khost and Zabul provinces. These meetings took place in order to consult with the PRTs and to discuss the Afghan budget, and

to review projects implemented in their respective provinces. Several events and meetings also took place with USAID, DFID and other donors to improve the ability of PRT officials to mentor and train provincial officials. Meetings were also conducted with pilot LMs for Provincial BC1 to ensure understanding about the new approach for provincial budgeting, with the goal of easily and effectively implementing provincial budgeting.

The first Provincial Budgeting Symposium was held in May, at which 360 line provincial directors of five pilot line ministries were in attendance, including the Director of Economy, the Director of Finance (Mostofy) and a chairman of each provincial development council of the 34 provinces. In addition, twenty members of parliament both from the upper and lower houses took part. All together, 450 officials attended the symposium.

In order to better incorporate provincial input into the national budget process, a high level meeting was arranged with senior management at which the Deputy Minister of Finance outlined the objective and procedures of the budget process. The goal was to enhance service delivery at the provincial level, and to target real priorities at the community level, which continues to be a major concern for Afghanistan and the international community. In a similar vein, a steering committee meeting was held and chaired by the Minister of Finance, at which key development players attended and were briefed on the status of financial reforms in Afghanistan, particularly on the new provincial budgeting approach, and the responsibility of LMs to implement these reforms.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 1390 National Budget prepared and submitted to legislature and is approved	1390 National budget was revised and approved.	100%
1.2 Pilot LMs trained in provincial budgeting	Meetings with LMs were held to ensure employees know how to easily and effectively implement provincial budgeting BC1	100%

Output 3: Strengthened Budget and Fiscal Policy Monitoring and Reporting

At the centre of fiscal policy monitoring and reporting is the Fiscal Policy Unit (FPU). A hands-on budgetary unit that is the focal point for many endeavors related to strengthened budget and fiscal policies, FPU was active during the second quarter in macroeconomic activities, debt issues and budget transparency, among others.

FPU initiated the **1391 MTBF Template for Budget Committee Meeting** in preparation for which the project experts finalized the tables, charts and graphs for the budget committee presentation for the year 1391 on macroeconomics assumptions, revenue and expenditure projections and fiscal pressures (security, pay and grading, pensions, etc.) while estimates on donor grants to core budget were also coordinated. As a part of the MTBF itself, the data accrued is necessary for the budget committee to decide on recourse allocation for 1391.

Pay & Grading Monitoring continues to be a focus for the Ministry of Finance. During the month of June 2011, discussions continued with IARCSC. The aim was to discuss the number of teachers and civil servants that are planned to be recruited under the new pay and grading reform for fiscal year 1391. These discussions provide the Ministry of Finance with the information needed to undertake pay and grading costing for the next fiscal year's budget, as well as outer years. These costings are ready, and will be presented to the Budget Committee.

During the quarter, the **revenue model projections** were reviewed to discuss the revenue projections for the current year, and that of the upcoming year (1391). This is particularly important as it is necessary to produce an accurate revenue projection for 1391 to reflect all changes in revenue and tax policies. In addition, discussions are in progress to introduce and replace the tax model on petroleum products. This will mean that, if agreed, the current road toll tax will be replaced by the direct tax on petrol.

In addition to petrol taxation, the **TAPI Gas Pipeline Project** has been the focus of much energy and continues to occupy FPU's agenda. As part of the Afghan delegation, FPU participated in the TAPI bilateral meeting between Afghanistan and Turkmenistan held in Kabul in April 2011. FPU is extensively involved in producing scenarios to the Turkmenistan, Afghanistan, Pakistan and India (TAPI) Ministerial Committee (including H.E Minister for Finance, H.E Minister for Mines and H.E Minister of Foreign Affairs). FPU worked on macroeconomic impacts and analyses of TAPI project implementation for the Afghan economy and prepared a joint presentation which was presented to the TAPI Ministerial Committee. The objective of this presentation was to inform each of the Ministers about the pros and cons of buying the petroleum, in order to provide them with the information they need to make the right decision about the purchase. The debate focuses on whether it is better to buy gas from Turkmenistan or to agree on a transit fee for petroleum. Meetings held with Pakistan and India discussed transit fees in which FPU presented costing scenarios in which those displaced by the placement of the gas pipeline would be relocated, as well as a security costing for the 735 kilometers of pipeline to be placed in Afghanistan. The FPU representative on behalf of the Ministry of Finance participated in the 13th Technical Working Group Meeting in Delhi, where agreement on certain areas of the Gas Sales and Purchase Agreement (GSPA) was reached. Subsequently, FPU was also present at the 14th Technical Working Group meeting in Manila which took place on May 30th to finalize the GSPA.

The **Medium Term Fiscal Framework (MTFF)** was revised for the final budget statement in order to secure the approval of Parliament for the final budget statement. Work commenced in June to review and re-structure the MTFF for future fiscal year budgets.

One FPU staff also participated in **Debt Sustainability Analysis** workshop conducted by the World Bank at the Ministry of Finance. The aim of this workshop was to maintain an optimum level of debt in developing countries, discussing different scenarios and threshold levels for external debts. In line with a strategy to effectively handle debt, a **transparent fiscal outlook** is essential to a strengthened budget process. Monthly and quarterly fiscal bulletins are created on a monthly basis, and disseminated to the public in Dari, Pashtu and English. All documents are uploaded to the MoF website. The most recent, for the fourth quarter of 1389, was finalized and sent for publication, and is available electronically on the budget website. In addition, FPU wrote an article entitled "Wages, Expenditure and Growth Over Time" for the fourth quarter bulletin for 1389.

The **Open Budget Index, (OBI)**, a measurement of Afghanistan's fiscal transparency, was the focus of consultations with the Budget Policy Unit, the Debt Management Unit and the Aid Management Directorate. As a result, the OBI matrices were revised and new improvements were suggested for sectors to post future budget documents on the MoF website. Based on recommendations made during the quarter, it is expected that Afghanistan will be receiving 45% score in 2012 review against 30% committed at Kabul International conference.

Fiscal policy monitoring and reporting activities were undertaken during the reporting period. Basic concepts and ideas on how to analyze and estimate the Operating and Maintenance costs for development projects has been implemented in the last few years for both core budget and external projects. More recently, the transition to full Afghan military control in 2014 and its impacts on the Afghan economy was initiated for evaluation, with a focus on macroeconomic impacts of this transition on domestic revenue collection and Gross Domestic Product in the medium to long term.

In addition, FPU initiated an assessment of how to improve security spending projects, including the fiscal implications of current off-budget security costs. With the cooperation of the United States Army in Afghanistan, FPU is in the process of discovering security costs off-budget, which will contribute to analysis of security transition costs.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 MTBF prepared to meet fiscal requirements for budget	At the 1391 Budget Committee Meeting, all components for macroeconomic assumptions, revenue and expenditure projects were coordinated and finalized	100%
1.2 Monthly and quarterly fiscal bulletins uploaded to MoF website	Documents such as the monthly and quarterly fiscal bulletins have been uploaded to the MoF website and are available in Dari, Pashtu and English	100%

Component 2: Development strategies and policies, 1) Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy), 2) ANDS Policy, Planning and Strategic Implementation)

Output 1: Alignment of and improved coordination of External Funding in line with Paris Declaration, Kabul Communiqué to support ANDS implementation

Aid Management Unit (AMU) has focused a great deal of its efforts on better reporting on donor related contributions to aid in Afghanistan, including reporting on aid delivery. A hallmark of AMU's work during the reporting period was the presentation of the Donor Cooperation Report (DCR) to donor partners and the public. Conceptually, the DCR was produced to raise awareness about aid and its effectiveness among different stakeholders in Afghanistan who are involved in the development process in the country.

The DCR is the outcome of the first round of Development Cooperation Dialogues between MoF and AMD, and Development Partners. It is a tool that explains to Afghans and their development partners how much aid money has come to the country, what it has achieved and what are the impacts. To make the document most accessible, the DCR is in the process of being translated into Dari and Pashtu in order for the Afghan public to become aware of where and how aid resources are being spent in Afghanistan. Once the translation into local languages is complete, the document will be sent to the printing press and distributed to the public.

The Donor Assistance Database (DAD) is an important repository for aid assistance information for Afghanistan. In addition to this tool, the Aid Management Portal in the Directorate General Budget website provided additional information on aid that the DAD is not capable of providing. This vital information included Donor Financial Review Reports, Development Cooperation Reports, Paris Declaration Monitoring Survey Report 2008 (Afghanistan Chapter), Operational Guide: Criteria for Off Budget Development Assistance (2010), and Aid Management Policy.

In order to contribute to public awareness of aid in Afghanistan, the AMD newsletter will be led by ARIMU and published each quarter. This is part of the AMD work plan, and a key performance indicator. In 2011, there will be two additions, and four will be produced in 2012. A concept paper was produced and will work as an action plan to write and publish the newsletter on time.

Aid Coordination:

During the quarter, a number of negotiations, consultations and meetings took place to improve coordination with external funders, and to further advance the goals set out by the Afghan National Development Strategy. In addition, a number of financing agreements and memoranda of understanding (MOU) were signed between the MoF and donors. The most significant are highlighted here:

- The negotiation of a financing agreement for the proposed IDA Grant in the amount of USD 50 million was held at the World Bank for the "Information and Communication Technologies (ICT) Sector Development Project".
- The negotiation of IDA assistance with the World Bank took place on the second phase of the Sustainable Development of Natural Resources Program. IDA committed to providing USD 52 million, and the negotiation was finalized and approved.
- The Aid Coordination Unit represented the Ministry of Finance at the Weekly Working Group on Contract Management, in response to a proposal by The President of Afghanistan. The Working Group is in the process of finalizing recommendations to The President, and ACU is part of the team working on the final document.
- Discussions concerning an MOU on a housing program worth USD 250 million with the Ministry of Foreign Affairs and the Embassy of the UAE are underway and progressing as planned.
- Discussions to increase budget support in order to meet the 50% on-budget target agreed at the Kabul Conference are underway between USAID and the Ministry of Finance, in cooperation with other relevant budget entities. Following this internal discussion, a joint meeting was arranged between USAID, LMs and the Ministry of Finance which was chaired by the Deputy Minister of Finance, Dr. Mastoor.
- Preparatory meetings were facilitated and organized with six cluster ministries to identify priority projects to be proposed to the Government of Japan. This occurred in order to be considered in the 7th Policy Dialogue between the Government of Japan and the GoA.
- Discussion took place on the Rural Infrastructure Development Fund (RIDF) and the Rural Capacity Development Fund (RCDF). The team leader for RIDF has been recruited and a contract has been finalized and signed with the consultant for the overall implementation of the two funds.

As a key player in aid coordination for the MoF, the ACU was active in a number of activities to contribute to the sustainability of the impact of MBAW. For example, donor profiles were updated as per the information gathered from the Donor Cooperation Dialogue findings. Further, discussion has taken place with the German Ministry of Economic Cooperation and Development to provide financial support to MBAW. The MoF Circular on Financing Agreements was reviewed and is ready to be officially sent to stakeholders, i.e.: donors, LMs, etc.

The Aid Coordination Unit has **mobilized and effectively aligned development aid** with government priorities. The negotiations and consultations with donors have resulted in agreements with development partners binding both partners and the GoA to implement and execute aid in the appropriate areas of the Afghan development framework. **Ownership has been coordinated and strengthened through** negotiations and consultations with the donors, whether through official requests sent to donors, or through face-to-face communication. Further, meetings

either initiated by the ACU or requested by donors aimed to finding proactive solutions to issues which could potentially hinder assistance implementation. Maintaining an inventory to record and track activities and events that took place in ACU is a step towards the maintenance of organizational memory. The inventory helps to smooth the flow of procedures in the Budget Department in the absence of project staff, thereby enhancing the **sustainability and institutional capacity** of the MoF.

Aid Effectiveness:

An important indicator for successful aid effectiveness in Afghanistan is the **submission of the 2011 Paris Declaration Monitoring Survey Results**. The Aid Management Unit submitted the three main deliverables of the survey i.e. 1) Country Spreadsheet, 2) Government Questionnaire and 3) Country Report; to the OECD Paris Declaration (PD) Survey Desk on April 15. After review by OECD, the Country Spreadsheet, the spreadsheet that consolidates data from the donors' questionnaire, had to be revisited to incorporate corrections. Back and forth communication was maintained with UNAMA and CIDA to update and revise the spreadsheet, which was finally resubmitted to OECD by late April. The survey results have indicated Afghanistan's progress against the twelve PD indicators, and have also conducted quantitative analysis of this progress. The results of this survey will be included in the global analysis undertaken by OECD, which is also responsible to produce the country chapter for each participating country.

In addition to reporting against Paris Declaration progress, the Operational Guide also constitutes a fundamental part of the aid effectiveness agenda for Afghanistan, originally presented at Kabul Conference in 2010. During the reporting period, the **Implementation Plan for the Operational Guide** was introduced, and **key findings of the PD Evaluation – Phase II** were presented at the 7th High Level Committee on Aid Effectiveness (HLCAE). The 7th HLCAE was held at the Ministry of Finance on April 20th. As a result of the event, the importance of the HLCAE was reiterated to the donor and international community for greater engagement of the GoA and donors to improve aid effectiveness and to increase the impact of aid on Afghanistan's development. Presentations were delivered to development partners on two main achievements of Afghanistan's aid effectiveness agenda. These are briefly explained here:

The **key findings of the PD Evaluation - Phase II** were also presented at the 7th HLCAE. As a component of a larger study of the second phase evaluation of the PD on Aid Effectiveness, this second evaluation was a country-level study of the impact of the implementation of PD principles on overall development. The Synthesis Report, produced by analyzing the country reports of all the participating countries and drawing conclusions based on the analysis, was distributed to AMD/AEPU for comments. The report was produced by OECD. The key findings of the PD Evaluation were based on both the OECD country chapter and the Synthesis Report. Readers are provided with information both at the country level and at the global level regarding the impact of PD on aid and development effectiveness.

At the close of the 7th HLCAE, the Deputy Minister proposed to **set up a working group to enhance the impact of aid effectiveness principles** at the country level by following up on the findings of the surveys and reports such as the PD monitoring and evaluation surveys, the Development Cooperation Report, etc. The proposal received the full support of development partners. A concept note has been prepared incorporating relevant donors and representatives from the GoA and CSOs, to come together to rework the existing Aid Management Policy into an oversight mechanism for the implementation of aid effectiveness principles which, in the long term, will improve delivery on aid effectiveness commitments. The first meeting is scheduled to take place on July 5. The Working Group on Aid Effectiveness will be mandated to review and modify the Aid

Management Policy of Afghanistan. The terms of reference will have already been arranged prior to the meeting, and other technical aspects will be discussed once the first meeting takes place, and will be reported upon during MBAW's third quarter report. The Working Group will also finalize the Aid Effectiveness Monitoring Framework, which will serve as a monitoring tool to ensure that both the GoA and its development partners abide by Afghan aid management policies.

An internal validation process has commenced to ensure that data submitted by donors and the GoA is accurate, and relevant to the requirements of the survey. Development partners have contacted AMD to confirm their data in the survey, and by maintaining open lines of communication, concerns were resolved and survey data was updated to the approval of all parties involved. Once the validation process had completed, OECD shared the Draft Country Chapter of Afghanistan for review, comments and feedback during the month of June. The entire report will be presented at the Fourth High Level Forum in Busan, Korea, which will take place in November and December, 2011. AEPU was instrumental in reviewing the chapter, and has shared the report with government officials, donors and CSO representatives for their comments. AEPU will compile the comments, and submit the final version to OECD by July 8.

The implementation of the Operation Guide (OG): Criteria for Effective Off-budget Development Financing, was introduced to the HLCAE members as a guiding tool for the implementation of the seven OG principles, which are measured by 14 indicators that will ultimately enhance the GoA's ownership of off-budget development financing, and, hence, increase its alignment with Afghan priorities to enhance overall development effectiveness. The OG Implementation Plan received many appreciative and welcome comments from development partners; at the same time, questions and concerns were raised, and changes were requested to reduce the workload burdening many development partners and government entities. In response, the GoA indicated that the aforementioned concerns could be incorporated into each new policy; however, for the GoA to achieve maximum alignment to National Priority Programs and to achieve greater ownerships of the development process, the successful implementation of the OG is essential. OG Implementation Plan has received a final round of comments and is currently in the process of finalization for submission to the upcoming JCMB.

In addition to the aid effectiveness work undertaken during this quarter, an update of the Aid Effectiveness Benchmarks was prepared, and incorporated into the MoF's Policy Department's general progress table. The AEPU reported on the progress of Aid Effectiveness Benchmarks adopted at the Kabul Conference 2010 and provided commentary on the existing challenges and opportunities.

AEPU drafted and finalized its Work Plan for the unit to enhance aid effectiveness principles in Afghanistan for the year 1390 (2011-2012). The document is an output-oriented action plan. To effectively align the activities and the outputs within the three AMD units, greater coordination is sought and initiated from all units. The consolidated AMD work plan is to be presented to the Director General of Budget in the near future.

Key Performance Indicators developed for the unit:

As part of the performance measurement and reporting management initiative, the Key Performance Indicators (KPIs) was launched in the Budget Department. The KPIs for AMD and particularly for AEPU will be used as quantitative or qualitative measurements to gauge progress of the unit towards stated goals and objectives. The AEPU had a number of internal discussions and meetings with other AMD units to finalize its KPIs. The KPIs were set by the unit and finally approved by the MoF in the launching ceremony of KPIs on June 20. These include:

- Approval of Aid Management Policy by JCMB
- Assessment of off-budget projects based on the Operational Guide Implementation Plan

- Convening an Aid Effectiveness Symposium

The risk management strategy of the above KPIs has also been undertaken and elaborated upon, in order to mitigate any risks attached to the process of developing each indicator. A monthly and quarterly review of the indicators has been planned to ensure the unit is on the right track to achieve its objectives.

The OECD Exposure Visit Report finalized and submitted

The first exposure visit to OECD in Paris took place during the second quarter. Upon the team's return, the twelve Budget Department employees participated in a debriefing session to reflect upon lessons learned and to make recommendations for the second OECD visit. A narrative report on the outcomes of the visit was written and distributed within the AMD units replicating the background, objectives and outcomes of the visit, with some recommendations to make the second visit more successful.

To build the capacity of AMD staff, an Aid Reporting Officer accompanied the group to Paris. The result of the visit was not only a better understanding of aid management and aid effectiveness as a whole, but an understanding of aid issues in the context of Afghanistan.

To improve coordination for aid effectiveness, it was decided that an **Aid Effectiveness Symposium** was necessary to highlight the need to enhance aid effectiveness agenda in Afghanistan. This decision was made during the Fourth HLCAE in March 2010. In line with this decision and AEPUs work plan, the unit has suggested initiating an Aid Effectiveness Symposium to take place in the near future. Intra and inter-unit discussions and meetings were held in mid-May to sketch out the form and structure of the symposium. To get buy-in of the project management unit and of the DG, a concept note has been prepared for their approval. On June 26, the unit had a brainstorming session with other AMD staff to advance debates on the objectives, structure, participants and an agenda of the symposium program. Feedback and comments from the brainstorming session will be necessary to decide upon the structure, agenda and selection of the speakers and panelists of the program. The AEPUs will have another technical meeting to merge all the comments and to decide on a suitable framework for the symposium.

Awareness Raising Program on Aid Effectiveness Agenda in Afghanistan initiated.

Situated within the Directorate-General of Budget, the Aid Management Directorate is mandated to be the repository of information on aid and development assistance; it is the focal point for the dissemination of information to the public and key stakeholders. At the top of AEPUs work plan priorities, the unit has planned to initiate its public awareness enhancement programs very soon. Preliminary discussions on deliverables of the program have already been undertaken. The unit prepared a brief concept note with an action plan that was shared with other AMD staff for their review and comments. These are expected during the first week of July.

Policy Development Strategies: National Priority Program Development

The Department of Policy has been tasked with the coordination and management of the ANDS process, in order to achieve a national goal for response and efficient delivery of essential services to the people of Afghanistan. This includes the important work to be conducted under the direction of 22 National Priority Programs (NPPs), and their present role in coordinating the clusters. The NPPs developments are new additions to MBAW, and are part of a new stage of MBAW's work plan under strategy and policy development. MBAW has provided direction and oversight to ensure NPP

work is carried out to achieve ANDS objectives and priorities. Focal points have been identified in all NPPs to ensure that capacity development is on track to assist the NPPs in carrying out their vital work. Biweekly meetings are held with these focal points and cluster leading staffs.

Of the 22 NPPs, twelve are completed, and another six NPPs are at the committee stage. The NPPs are part of a comprehensive system of accountability, aid effectiveness, budgeting and monitoring and evaluation. Further, the NPPs play a vital role in linking the Afghan government with the international community's requirements for national ownership, during the current transition process. At this stage, many of the operational NPPs are progressing well, and are producing the 100-Day Reports as per the requirement of their work plans, including quantitative and qualitative reports to track progress.

The next steps for the NPPs involve financial considerations in which budgets will have to be aligned as per the requirements of the Kabul Conference, including funding for new NPP components. In terms of MBAW, the next steps for NPPs are hinged on the plan as established in the MBAW Annual Work Plan.

Target for the Year:

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Aid coordination meetings conducted	Numerous negotiations, consultations and meeting took place to improve coordination with external funders	100%
1.2 Paris Declaration Monitoring Survey Results submitted	All components of the Paris Declaration Survey were submitted and reviewed at OECD. Progress against the 12 PD indicators was recorded to be included in the OECD document.	100%
1.3 Working Group established to review and enhance impact of aid effectiveness principles	At the 7 th HLCAE meeting, the DM proposed a working group to follow up on findings of the DCR, PD evaluation, etc. A concept note has been prepared and the first working group meeting is forthcoming.	10%
1.4 Awareness raising program on aid effectiveness initiated	Public awareness-raising activities initiated (Aid Effectiveness Symposium) commenced	10%
1.1 12 NPPs designed and planned in ANDS sectors	To efficiently deliver services to the Afghan public, NPPs have been executed and a number are in the process of being coordinated and finalized	40%
1.1 100 days action plans have been presented to the Standing Committee	To track progress of NPP achievements, a number of NPPs are producing and presenting 100 Days Action Plans as per their respective work plans	100%

Component 3: Development delivery management and sustainable Capacity development within the GoA institutions

Output 1: Strengthened Budget Execution Processes and enhanced budget execution delivery

To achieve a budget execution rate of 75%, MBAW project staffs have undertaken numerous tasks to simplify budget execution procedures, to increase capacity at the provincial level, and to provide training on budget integration procedures.

In particular, to strengthen the budget execution process, a presentation was prepared on the challenges faced during the execution of the 1389 budget, along with recommendations to the Minister of Finance to present to Cabinet as instructed by H.E. the President. Similarly, a proposal was made to the Minister of Finance on the 1390 Budget to reduce the operating and development budget for better resource management due to funding shortfalls incurred during the current financial year. A budget cut has been proposed to manage available resources with government expenses. This was undertaken in response to recent instability in the financial market. The Minister of Finance presented the proposal to Cabinet, and was endorsed in principle, while the details of the proposal will be approved later by official decree.

In terms of budget execution, monthly monitoring of budget execution has started. A schedule highlighting the top fourteen ministries spending 90% of the overall national budget was prepared. The top level management of the LMs were visited and appropriate guidance and consultation was provided in expending the budget. LMs have shown commitment to instructions, and meetings are ongoing.

Before the Financial Plan for the 1390 fiscal year was submitted, numerous meetings took place between various directors and ministries to discuss budget execution and the Financial Plan. In preparation of the Financial Plan, input from all the LMs was received and comments were incorporated into the Plan itself. Monitoring guidelines and a tracking sheet were prepared and finalized for the Plan. The final versions were received, and a completed, final Financial Plan for the 1390 fiscal year was submitted to the Treasury Department.

During the quarter, **a record number of allotments were issued to LMs and budgetary units** against particular projects. 534 allotment forms have been issued, and processed with high accuracy based on policy, and accepted procedures of the MoF. This included allotments to all budgetary units, and the Infrastructure Sector.

In order to further strengthen the budget execution process, the Budget Execution Unit worked closely with LMs on the implementation of their development budget, in order to increase the budget execution rate at the end of the financial year. This is a vital part of the PFM Roadmap. The development budget execution rate for the Infrastructure Sector during the first quarter of the 1390 financial year indicates that the issued allotment rate was 10.5% of the overall budget for the sector. The actual expenditure rate was 4.5%. For the sector LMs, the overall allotment for the operating budget was 25%, while the expenditure rate of the operating budget was 15%.

The Budget Execution Unit has worked carefully to improve coordination with CSTC-A, LOTFA and other donors. Several meetings were held to discuss funding. CSTC-A, for example, provided their revised commitments for the 1390 budget for MoD and MoI. In addition, CSTC-A aligned their support with Afghanistan by channeling the development off-budget through the on-budget stream. An **Operating Budget Carryover Plan** was created to solve the problems of arrears and liabilities of LMs towards suppliers. The initial process beginning with the presidential decree for the supplemental budget and contract process has been completed. Further, a continuous

cooperation and coordination mechanism is in place between sectors and LMs. Revised 1391 BC1 submissions were submitted on time, and training sessions were delivered to LMs on financial planning. Follow-up and support was provided to LMs to submit their financial plans on time, as per requirements.

Target for the Year:

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 LMs trained in budget execution processes	Top level LMs were visited to deliver guidance and consultation to increase budget execution. As a result, LMs have committed to this endeavor.	50%

Output 2: Sustainable institutional technical capacity developed and retained within the public finance sector, particularly within the Ministry of Finance and Line Ministries

Two significant activities took place during the second quarter which will have great impact on project outputs for the future. The **Malaysia Program Budgeting Study Tour** took place to reinforce program budgeting, which is now at a crucial implementation stage in all budgetary units as a standalone budgeting system. The shift for final transition from the traditional budgeting system to program budgeting requires a complete study of the steps required for the transition; therefore, it was decided to study the budgeting mechanism of a country that is successful in the implementation of program budgeting. To this end, Malaysia was chosen as a case study. BRU coordinated and received reports providing an overview of lessons learned and recommendations for the future from different units that participated in the Study tour. An extensive report has been drafted, and is under revision from team members for their insight and recommendations.

The second significant event to take place during the second quarter was the **OECD Visit to Paris**, which took place in May. Twelve Budget Department employees left on April 30th to Paris, for an exposure visit to OECD, a key international partner of the GoA in promoting the aid effectiveness agenda. A report on the achievements of this visit is pending.

Retaining capacity is only one aspect of creating and maintaining institutional memory and a framework upon which to build the Ministry of Finance. An indicator of success for developing and retaining institutional capacity is the number of new graduates and civil services recruited and retained. An **Internship Program for the Budget Department** has been proposed for students of Kabul University. Internships for the Budget Department of MOF will provide an excellent opportunity to recruit fresh graduates out of universities who are able to offer their services and who are looking to enter the Government sector. Kabul University, as well as other private universities, is the focus of the internship program, specifically students from the Economics and Finance faculties. It is expected that the interns will be able to provide an exorbitant amount of expertise in developing new ideas, tools and methodologies to accomplish tasks. One of the major benefits of hiring interns would be that these young people who will return to MOF or another government agency as full time employees. For the recruits, this would be a great opportunity to network, build relationships as well as obtain credit hours allocated to the internship. It would also help develop their career plan for their future. A draft strategy paper discussing the strategic needs of the internship program has been produced, and the strategy will be shared with the Director General Budget and discussed internally.

To address institutional capacity needs, the **Development Assistance Database (DAD)** has been enhanced and modifications of the database have been sent to AMD for final review and approval. Verifying and monitoring data entries of budget department and donor use in the SBPS and the DAD have taken place.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Malaysia Study Tour conducted to reinforce program budgeting	As program budgeting is at a crucial stage of implementation, the Study Tour reinforced the actions needed to make the shift from traditional to program budgeting.	100%
1.2 DAD enhanced, including modifications	DAD has been enhanced to address institutional capacity needs, and monitoring and verification of data has taken place.	100%
1.3 Internship Program for budget department proposed	To address the need for institutional memory and capacity development, an internship program has been proposed, and a strategy paper is currently being reviewed	30%

III. Implementation Arrangements

To respond to pressure from the international community in regards to low budget execution, non-streamlined budget formulation system and a lack of strong financial management capacity at the national and sub-national levels, the Afghan government has centralized responsibilities in deficient areas in the Budget Department. In order to address these concerns, the following units provide leadership and ownership to government. The Fiscal Policy Unit interacts with stakeholders through the dissemination of timely and regular quarterly fiscal bulletins and monthly fiscal reports to provide updated information on public expenditure and domestic revenues. Similarly, the Aid Management Unit provides a platform where all the stakeholders (Line Ministry, Development Partners and other relevant parties) consult and meet to define priorities and promote resource mobilization and implementation. The Aid Management Directorate uses mechanisms such as the Peer Review, Development Cooperation Agreements, and Operational Guides for off-budget projects worth more than USD 5 million.

Rather than operating from any externally located office, MBAW functions from the budget department of the Ministry of Finance and operates from the physical space provided by the government, within the MoF premises. To increase the sense of ownership within the government entities, the MBAW project, in close consultation and cooperation with the Budget Department of the MoF, has developed several mechanisms related to budgeting and aid coordination, all of which the government has favorably assessed, approved and implemented.

Re-engineering of the ministries' programs and aligning them with the ANDS results framework, through performance based Program Budgeting implementation has helped to provide clear connection between budget resources and the ANDS outcomes. Performance-based program

budgeting is a tool which, when appropriately and consistently used, results in implementation of the budget process reform, the strengthening public expenditure management and the planning and improvement of financial controls. Implementation of performance-based program budgeting is also expected to motivate international partners to channel more aid through the government budget

Transferring line responsibilities from international advisors to local counterparts proved to be somewhat effective. Moderate capacity has been developed and institutional memory within the budget department is being retained because of continuing presence of trained staff. Introduction of new technologies for modernization of the budget department relieved the project from being totally dependent on international TAs as the department is gradually being dependent on systems developed rather than individuals.

Finally, MBAW is a technical assistance project to provide human, technical resource capacity and administrative support required for the Ministry of Finance relevant departments to efficiently and effectively achieve the planned government objectives in all areas through budget formulation and appropriation, budget execution and alignment of external aid with the government priorities and policy development. Through its activities, the Ministry of Finance aims to assist the government to be self reliant in financing its national priorities in the long term.

IV. Challenges/Risks/Issues

Major risks to the success of MBAW are few; however, risks stemming from an insecure environment often prevent employees from traveling to and from work. Less severe, however just as important, the execution of the national budget is hindered due to the rejection of the national budget, and the resulting time it takes to revise and resubmit the budget. Subsequent rejections of the budget, as was the case this year, further delay budget processes and therefore the expenditure of the budget. Further details on these and other risks are presented in Annex 4.

In terms of issues, MBAW project team members are working to address donor issues, funding issues and administrative issues that hinder the execution of activities. Problems related to the expectations of document preparation (translation, for example) are being addressed. Communication difficulties have also been experienced during the reporting period for some units. For further details, please consult the issues log, Annex 5.

V. Lessons Learnt

Ensuring a sound **provincial budgeting action plan** for 2011 has been a priority during this quarter. Following the Provincial Budgeting Symposium experience, it became apparent that financial and administrative support items should be prepared earlier to avoid delay of provincial workshops or events preparation. Application of a regional approach to conduct workshops at the provincial level would save time and allow for activities to be actualized on time.

A **comprehensive mechanism for coordination** is necessary to engage with all levels of programming with line ministries, with directors, managers and with those responsible for implementing activities. In order to successfully execute a second Kabul Conference, for example, a sound coordination mechanism must be instituted to ensure mutual understanding, real commitment on tasks and a thorough understanding of roles and responsibilities.

The Development Assistance Database (DAD) has been the focus of a considerable amount of work both during this quarter, and the last quarter. **Upgrading the DAD** should be undertaken prior to

the next round of data collection from donors – under the current system, data must be collected manually which slows down the data collection process. An electronic system of data collection will provide necessary information on a timely basis.

Strengthening budget execution is of prime concern for MBAW, and for the nation as a whole. Given past experience, it is clear that starting execution activities at the beginning of the year will have a significant impact on the execution rate and solve a number of issues for the line ministries.

VI. Future Plan

To achieve the results as outlined in MBAW's work plan, MBAW plans to build upon the new project plan to build capacity within the units and within the NPPs. As a result, on-the-job training is constantly being provided to ensure that project goals and activities are achieved. To this end, staffs have been provided with the opportunity to attend workshops presented by units with the Budget Department, or to attend formal training workshops outside the Ministry. In addition, to maintain institutional memory, weekly capacity development sessions have taken place for all staff within the Budget Department to listen to their peers and to share knowledge, resources and skills.

On a greater scale, to create a culture of skills and knowledge building, an internship program has been proposed to recruit and train recent graduates from Kabul University. This program will receive greater attention in the coming months, as it is a significant opportunity for the Budget Department to train new staff, and to apply economic concepts coming out of academia to the activities of the Ministry of Finance. In a similar vein, an Aid Effectiveness Symposium is in the planning stages to bring attention to a fundamental part of the development scene in Afghanistan. The Aid Management Directorate is championing this process, and will provide an opportunity for politicians, academics and the public alike to participate in a discussion that affects everyone in Afghanistan. MBAW will elicit the support of its donor partners in this endeavor, and continue to build upon these partnerships for future funding and support arrangements.

Making Budgets and Aid Work (MBAW) 56407

Financial Section:

Table 1. Total Income and Expenditure

Donor Description	INCOME					EXPENDITURES			BALANCE	Remarks
	Total Commitments (a)	Total Received (b)	Total Receivable c= (a-b)	Relocation fund from projects (d)	Total Income available =e (c+d)	Total Cumulative Expenditures as of Dec 2010 (f)	Total Expenditure from Jan to June 2011 (g)	Total Expenditures =h (f+g)	Total Income minus total expenditure (i = e - h)	Remarks
UK-DFID	4,238,713	4,238,713	-		4,238,713	3,904,310	39,836	3,944,146	294,567	
CIDA	1,950,652	1,950,652	-	777,787	2,728,439	1,960,189	768,250	2,728,439	(0)	777K Received from GEP Project
UNDP	4,358,276	4,358,276	-		4,358,276	2,362,981	989,989	3,352,970	1,005,307	
Total	10,547,641	10,547,641	-	777,787	11,325,428	8,227,480	1,798,075	10,025,555	1,299,873	

Notes:

- i) Expenditure reported for the accounting period of 2011 is provisional.
- ii) Income received in currency other than USD is approximated to USD based on UN- Operational Rate of Exchange.

Table 2. Expenditure by Major Outputs (2011)

Project Output	Budget (AWP 2011)	Total Expenditure from Jan to June 2011	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)	843,522	632,754		
<i>GMS</i>	31,906	24,663		
Sub-total Output 1	875,428	657,417	75%	
Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	894,547	431,721		
<i>GMS</i>	9,261	15,782		
Sub-total Output 2	903,807	447,503	50%	
Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	964,010	171,148		
<i>GMS</i>	3,241	2,135		
Sub-total Output 3	967,251	173,283	18%	
Output 4: Technical Assistance and Management Cost (Project Support Costs)	355,054	503,698		
<i>GMS</i>	10,650	16,174		
Sub-total Output 4	365,704	519,872	142%	
Grand Total	3,112,190	1,798,075	58%	

Table 3. Expenditure by Donors (2011)

Donor	Project Output	Budget (AWP 2011)	Total Expenditure from Jan to June 2011	Delivery Rate*
DFID	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)		29,794	
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	309,233	-1,881	
	Output 4: Technical Assistance and Management Cost (Project Support Costs)		9,135	
	GMS	25,170	2,789	
Total		334,403	39,836	12%
CIDA	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	415,136	327,672	
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	123,037	138,811	
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	43,063	30,244	
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	141,493	217,746	
	GMS	55,058	53,778	
Total		777,787	768,250	99%
UNDP-04000	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	178,387	305,082	
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	771,510	219,351	

	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	586,544	142,784	
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	213,560	276,818	
Total		1,750,000	944,035	54%
UNDP-11888	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	250,000		
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)		43,765	
	GMS		2,188	
Total		250,000	45,953	18%
Grand Total		3,112,190	1,798,075	58%

Annex 1: Detailed Reporting on Results and Impact

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

Indicators:

- *Budget calendar revised to adhere to the realistic budget process.*
- *MTBF prepared meet fiscal requirements and are distributed/communicated in a timely and effective way.*
- *Budget circulars (I & II) are improved to integrate the pro-poor budgeting, addressing cross cutting themes i.e. gender and environment, include the integration instructions and to adhere to the Budget calendar.*

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 Budget Circulars I&II improved and manuals revised	BC I/II revised to integrate the new programme budgeting instructions as well as the cross cutting themes i.e. gender and pro-poor budgeting integrated for the 3 pilot ministries within the circulars.	Budget circulars issued	BCs I&II were revised to prepare the 1391 budget; budget units received BCI forms and submitted the forms, completed, on time. BCI reporting tables were finalized in preparation for calculating budget ceilings	100%
1.2 MTBF finalized	MTBF revised to integrate the new development financing requirements for GoA.	Budget calendar, MTBF, MTEF and MTEF revised	After an outline was disseminated for input from stakeholders, the MTBF was finalized	100%
1.3 Pro-poor budgeting share identification tracks ANDS progress	BC I/II revised to integrate the new programme budgeting instructions as well as the cross cutting themes	Pro-poor budgeting implemented with two pilot ministries.	A Pro-Poor Budget Share Identification report was initiated to focus on pro-poor funds allocation in the national budget	100%
1.4 Program Budgeting implemented	Programme budgeting introduced and implemented in all 51 budgetary units.	Development programmes are aligned with ANDS results framework.	Program Budgeting strengthens the national budget process and replaces traditional budgeting.	100%

Output 2: Strengthened Budget Formulation Processes

Indicators:

- *No of ministries' program structures are aligned with ANDS through implementing programme budgeting.*
- *No of provinces participated in provincial resource allocations and prioritizing needs.*
- *No of provinces participated in provincial capacity development programmes on SNG budgeting/financing policies.*
- *No of provinces participated in provincial norms development.*
- *Budget documents (BC I/II), Budget Decree and Budget statement are prepared on timely basis and submitted to the executive and legislatures.*

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 1390 National Budget prepared and submitted to legislature	National budget submitted 60 days in advance to the legislatures.	National Budget reflects GoA development objectives and approved on time.	1390 National budget was revised and finalized.	100%
1.2 Pilot provinces trained in provincial budgeting	De-consideration of provincial budgeting focused.	More than 20 training workshops and orientations on PB conducted,	Meetings with pilot provinces were held to ensure employees know how to easily and effectively implement provincial budgeting	100%

Output 3: Strengthened Budget and Fiscal Policy Monitoring and Reporting

Indicators:

- *MTBF prepared to meet fiscal requirements and are distributed /communicated in a timely and effective way.*
- *Website updated with budget documents.*

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 MTBF prepared to meet fiscal requirements for budget	MTBF and Budget Ceilings Recommendation Paper revised considering the macroeconomic framework and approved by the cabinet.	Fiscal projections for recurrent and development financings are done.	At the 1391 Budget Committee Meeting, all components for macroeconomic assumptions, revenue and expenditure projects were coordinated and finalized	100%
1.2 Monthly and quarterly	Fiscal reports are published on	Communication strategy-	Documents such as the monthly and	100%

fiscal bulletins uploaded to MoF website	quarterly basis.	publicity and information sharing	quarterly fiscal bulletins have been uploaded to the MoF website and are available in Dari, Pashtu and English	
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Output 4: Alignment of and improved coordination of External Funding in line with Paris Declaration Afghan Compact to support ANDS implementation, Sectoral Programming is guided by priority needs in each ANDS Sector with an eye to fiscal sustainability; and donor financing secured for NPPs implementation.

Indicators:

- *Number of coordination meetings/dialogues conducted*
- *PD evaluation conducted,*
- *Mechanism developed and used for joint review of results of development cooperation and implementation of the AID Effectiveness principles (PARIS (2005) and Accra (2008)).*
- *Public awareness and interest on flow and effectiveness of development assistance enhanced.*

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 Aid coordination meetings conducted	One round of joint portfolio review conducted with 4 major donors,	Negotiations held with targeted number of donors	Numerous negotiations, consultations and meeting took place to improve coordination with external funders	100%
1.2 Paris Declaration Monitoring Survey Results submitted	Afghanistan is currently participating in the Evaluation of Paris Declaration on Aid Effectiveness.	Paris Declaration monitoring survey conducted,	All components of the Paris Declaration Survey were submitted and reviewed at OECD. Progress against the 12 PD indicators was recorded to be included in the OECD document.	100%
1.3 Working Group established to review and enhance impact of aid effectiveness principles	Coordination on aid policy developments lack.	Aid policies developed in consultation with development partners.	At the 7 th HLCAE meeting, the DM proposed a working group to follow up on findings of the DCR, PD evaluation, etc. A concept note has been prepared and the first working group meeting is forthcoming.	10%
1.4 Awareness raising		Aid effectiveness	Public awareness-raising activities	10%

program on aid effectiveness initiated		communication policies developed.	initiated (Aid Effectiveness Symposium) commenced	
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Output5: New and/or revised policies formulated and prioritization exercise undertaken for ANDS Sectors at regular intervals; and regular consultations

Indicators:

- *National priority programs (NPPs) are designed/planned/costed in ANDS sectors : Number of NPPs designed/planned and costed in number of sectors (naming sectors and NPP titles)*
- *NPP 100 Days Action Plan progress reports are produced quarterly and presented to the Standing Committee and JCMB on a quarterly basis*

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 12 NPPs designed and planned in ANDS sectors	ANDS prioritization is required.	ANDS prioritized and national programmes are developed to deliver the targets.	To efficiently deliver services to the Afghan public, NPPs have been executed and a number are in the process of being coordinated and finalized	40%
1.1 100 days action plans have been presented to the Standing Committee		Monitoring reports are delivered to enable GoA organizations to track the progress.	To track progress of NPP achievements, a number of NPPs are producing and presenting 100 Days Action Plans as per their respective work plans.	100%

Output 10: Strengthened Budget Execution Processes and enhanced budget execution delivery

Indicators:

- Number of comprehensive trainings are developed and delivered to Line Ministries.

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 LMs trained in budget execution processes	Comprehensive Trainings conducted on Budget Execution.	Communication strategy (publicity & information)	Top level LMs were visited to deliver guidance and consultation to increase	50%

		sharing) for budget execution developed	budget execution. As a result, LMs have committed to this endeavor.	
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Output 11: Sustainable institutional technical capacity developed and retained within the public finance sector, particularly within the Ministry of Finance and Line Ministries

Indicators:

- *At least one international study tour conducted,*
- *DAD/SBPS further improved.*
- *Number of new graduates/civil servants recruited and retained within MoF on Taskeel/PRR/P & G,*

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 Malaysia Study Tour conducted to reinforce program budgeting		Study tour organized	As program budgeting is at a crucial stage of implementation, the Study Tour reinforced the actions needed to make the shift from traditional to program budgeting.	100%
1.2 DAD enhanced, including modifications	DAD/SBPS further improved to include the new BCI/II changes	DAD/SBPS further improved	DAD has been enhanced to address institutional capacity needs, and monitoring and verification of data has taken place.	100%
1.3 Internship Program for budget department proposed	More than 10 young graduates were recruited on Budget Department Tashkeel by 2010	Fresh graduates recruited as interns to build PFM capacity at the national level	To address the need for institutional memory and capacity development, an internship program has been proposed, and a strategy paper is currently being reviewed	30%

Annex 2: Policy and Knowledge Products

SN.	Policy/Knowledge Products	Authors	Stakeholders Consultations	Date of Completion	Total Budget or Cost in USD
1	Provincial budgeting FAQ brochure developed.	PBU	PRTs, donors, GoA	June	
2	"How PRT's Can Support Provincial Budgeting".	PBU	PRTs, Donors, GoA	May 2011	
3	Monthly Fiscal Bulletin (11 th month of 1389)	FPU	GoA, IMF, WB	April 2011	
4	Provincial Budgeting policy paper	PBU	GoA, Donors	May 2011	
5	Monthly Fiscal Bulletin (12 th month of 1389)	FPU	GoA, IMF,	April, 2011	

Annex 3: Training and Capacity Building Outputs

SN	Training or Capacity Development Outputs/Event	Date and Location	Beneficiary Organizations	Number Trained	Impact	Total Cost or Budget in USD
1	Budget Timetable Training	April, MoF	BPU	450	Improved planning for development.	
2	Provincial BC1 workshop for central line ministries.	May, MoF	Five pilot ministries (MAIL, MRRD, MoPH, MoDd, IDLG)	250	Improved service delivery at the Sub-national level.	
3	Program Budget Study Tour in Malaysia on practical lessons to be learned from international experience.	April, Malaysia	Infrastructure Sector Manager	29	Improved programme planning.	
4	Effective Negotiation in Projects and Procurement.	24- 27 May, 2011,Austria	Khesrow Momand, Sector Budget Officer	1	Improved procurement processes for development projects.	
5	Training on Aid Effectiveness	May, Paris	MoF	13	Enhanced aid effectiveness and transparency in Afg.	

Annex 4: RISK LOG

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Management response	Owner	Submitted , updated by	Last Update	Status
1	Security prevents work from being conducted	2011	Operational	Makes it challenging for the PBU team to complete good coordination and meet the schedule	Regional approach and close coordination and continuous communication with ISAF, IJC and US treasury can help in meeting the schedule. We are also planning simultaneous events to maximize the use of all available resources.	Provincial Budgeting Unit	Jan 2011	June	Increasing
2	Approval of 1390's National Budget	2011	Political	During the reporting month, the Parliament rejected the National Budget two times. This rejection will highly affect the budget execution rate in the financial year.	Presidential decree obtained to continue with GoA recurrent costs	Budget Policy Unit	April 2011		Approved
3	Non-discretionary projects undertaken but carry-forward	2011	Organizational	There is huge deficit in discretionary funded projects and all sectors are instructed by DG budget to deduct funds	Review of the projects to consider financing for on-going projects.	Budget Policy Unit	June 2011		On-going

	funds not available			from some of the projects as the funding gap is increased due to IMF concerns with government.				
4	IMF New programme approval	2011	Political	If the IMF issue is not resolved then there will be very less physical cash to spend which will affect the target set for spending.	FPU is helping MoF to address the requirements set by IMF.	Budget Department	May 2011	On-going

Annex 5: ISSUES LOG

S/N	Type	Date Identified	Description	Status/Priority	Status Change Date	Author
1	Political	2011	Donors commit and then withdraw funds from projects	On-going High	April	Economic Sector Budget Unit
2	Technical	2011	Line ministries and budgetary units' expenditure are not occurring as per their submitted financial plan. They are well behind the plan in the expenditure of development budget.	On-going High	May/June	Budget Department
3	Technical	2011	Short term commitments by donors and non-alignment of their plans and strategies with ANDS	On-going High	April	Budget Department Sectors
4	Operational	2011	Translating Fiscal Reports to Local Languages	On-going Medium	April 2011	Fiscal Policy Unit
5	Operational	2011	Aid Effectiveness Unit has found it very difficult to get hold of some high-level government or donor agencies' officials. This often delays activities of the unit.	On-going Medium	May/June	Aid Effectiveness Policy Unit
6	Operational	April 2011	Delay in Contract with the Software Development Company (Synergy) is creating many problems for us; the company is not providing the sufficient technical support and making delays in deliverables and solutions, and our Clients are rising questions against ICT, that why the DAD enhancement is not done and why ICT is not providing quick solutions for the problems that clients are facing in the DAD/SBPS.	On-going High		ICT

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