



Afghanistan

United Nations Development Programme

Afghanistan

Making Budget and Aid Work Project (MBAWP)

Reporting Period: July – September 2011



*Provincial finance directors engaged in group-work at the Budget Circular No 1 Regional workshop in Herat, Afghanistan – October 2011*



*Ministry of Finance and the international donor community at the High Level Committee Meeting on Aid Effectiveness in Kabul, Afghanistan - October 2011*

Project ID: 00056407

Project Period: 2007-2012

Strategic Plan Component: Public Administration Reforms and Anti Corruption

CPAP Component: National Development Policies for Economic Growth and Poverty Reduction

ANDS Component: Good Governance

Total Budget: USD 27.5 million

Responsible Agency: UNDP/Ministry of Finance

# MBAW DONORS

Making Budgets and Aid Work Donors

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## List of Acronyms

AAA	Accra Agenda For Action
ACU	Aid Coordination Unit
AFMIS	Afghanistan Financial Management Information System
AMD	Aid Management Directorate
ANDS	Afghanistan National Development Strategy
ARTF	Afghanistan Reconstruction Trust Fund
BC <sub>1</sub>	Budget Circular No 1
BC <sub>2</sub>	Budget Circular No 2
BEU	Budget Execution Unit
BIRU	Budget Integration and Reform Unit
CSTC-A	Security Transition Command–Afghanistan
CoA	Charts of Account
CPAP	Country Programme Action Plan
DAD	Development Assistance Database
DFID	Department for International Development (UK)
FPU	Fiscal Policy Unit
GoA	Government of Afghanistan
HLCAE	High Level Committee on Aid Effectiveness
LM	Line Ministry
LOTFA	Law and Order Trust Fund for Afghanistan
MAIL	Ministry of Agriculture Irrigation and Livestock
MBAW	Making Budgets & Aid Work
MIS	Management Information System
MoD	Ministry of Defence
MoE	Ministry of Education
MoF	Ministry of Finance
MoPH	Ministry of Public Health
MTBF	Medium Term Budget Framework
MTEF	Medium Term Fiscal Framework
MRRD	Ministry of Rural Rehabilitation Department
NPP	National Priority Program
OBI	Open Budget Index
PD	Paris Declaration
PRGF	Poverty Reduction Growth Facility
SBPS	State Budget Planning System
UNDP	United Nations Development Programme
UNDAF	United Nation Development Assistance Framework
WG-AE	Working Group on Aid Effectiveness

## Executive Summary

Afghanistan is at a crucial stage in its struggle to rise out of poverty and conflict. The intensifying insurgency adds to the critical need for the international community to do more to help Afghans build effective institutions and promote equitable economic growth. Under the overarching framework of the Afghanistan National Development Strategy (ANDS), the Millennium Development Goals (MDGs), the United Nations Development Assistance Framework (UNDAF) and the Country Programme Action Plan (CPAP), the outcome level goal of the UNDP project 'Making Budgets and Aid Work' (MBAW) is to focus on the critical elements of governance that directly contribute to increasing stability and institutional capacity.

Significant progress has been made during the second quarter of 2011 towards strengthening the Public Financial Management system, the budget credibility and expenditure accountability, the national budget planning and formulation, the 22 National Priority Programs, the targeted use of donor funds and greater accountability for aid policy implementation. The UNDP MBAW project has significantly stepped up its capacity building efforts particularly of the budget department vis-à-vis the budget calendar and continues to further improve the need for timely and quality information on external assistance.

MBAW project has helped MoF establish clearer policies to renew donor financial commitments, ensure that budgets reflect these policies and that spending is in line with allocations. In addition, it has made concrete policy recommendations and has raised key questions for a greater fiscal sustainability, like i) how to improve the existing financial institutional structures within MoF and what appropriate tools are necessary to achieve them? ii) What incentives are needed to strengthen these structures and how can they be put in place? lii) What are the main political, technical, and capacity issues to improve aid alignment budget formulation and implementation? iv) and lastly what are the key challenges and lessons learned in introducing program and provincial budgeting? The project is in the process of addressing them in a consultative and participatory manner. This quarterly report reviews these recommendations, achievements but also identifies key challenges going forward.

Highlighted below are Key results for this quarter. Detailed reporting on project progress in line with relevant outputs are provided below.

### Key Results of this quarter

- Budget formulation and implementation strengthened through the finalization of Budget Circular No 1, Medium-Term Budget Framework and Budget Ceilings
- Deconcentration of authority and greater participation of provinces in provincial budget formulation strengthened through Provincial Budgeting Regional Workshops in 32 provinces of Afghanistan for five pilot Ministries
- Awareness on fiscal and macro-economic impacts on the Government of Afghanistan raised and strengthened by the preparation and dissemination of the 1389 Annual Fiscal Report
- National Priority Programs 1, 3 and 5 developed into full-fledged program with implementable and detailed costing/budgets that contain a three year plan with timelines, broad activities and

outcome/output indicators. They are awaiting endorsement at the upcoming standing committee meeting.

- External assistance and economic sustainability improved through the following signed grant agreements: IDA WB Grant for an amount of USD\$ 22 million for "Afghanistan New Market Development Project", the Afghanistan Reconstruction Trust Fund (ARTF) Agreement for an amount of USD\$ 50 million for "Second Education Quality Improvement Project ", the IDA Grant Agreement for an amount of USD\$ 52 million for "Second Sustainable Development of Natural Resources Project" and finally the ARTF Grant agreement for an amount of USD\$ 392,200 for "Sub -National Level Financial Management Capacity Building Project".
- Visibility and credibility of MBAW project further strengthened through the development of a communication strategy with detailed work plan to develop success stories, brochures, publications with pictures, document best practices and prepare media related material. The communication strategy is being currently reviewed by the UNDP Communication Team.

## Context

After the collapse of the Taliban in December 2011, the Transitional Islamic State of Afghanistan was created and the Bonn agreement paved the way to significant pledges of financial, political and technical support from the donor community to assist with the necessary reconstruction. The Tokyo conference in January 2002 witnesses US\$ 4.5 billion pledged towards reconstruction assistance to Afghanistan with subsequent pledges over three years gained at Berlin in April 2004 and at London in January 2006.

Paris Declaration, the UN World Summit in 2005 and the ANDS which serves as the Government Strategy for Security, Good Governance and Economic Growth, emphasized the importance of nationally owned poverty reduction strategies aimed at accelerating achievement of the MDGs. The canalizing of the donor aid through the credible national public financial management and implementation system was stressed. For national strategies to be successfully implemented, it is imperative that all available resources are aligned with the priorities set out in the strategy and aid flows are routed through their national Budget and Treasury for achieving planned national development priorities.

One of the major challenges of the Government of Afghanistan (GoA) was how to maximize use of these funds. It was also important to establish a national budget process as a transparent and accountable cycle to allocate the funds to government priorities and reduce the tendency of donors and international partners to create parallel and substitute systems of Government. The Ministry of Finance (MoF) was centrally placed to use the national budget as a tool for the coordination of international and national funds flowing for the reconstruction effort.

To help MoF address these challenges through capacity development of existing institutional mechanisms and helping increase on-budget donor commitments, the MBAW project was developed. It is an important initiative by UNDP as the project aims to strengthen the National Budget processes as a comprehensive policy and decision making mechanism for the GoA to follow good macroeconomic management and to promote efficient allocation of domestic resources as well as International

Development Assistance. The focus is also to enhance and develop the Public Financial Management Roadmap, which was endorsed at the Kabul Conference. In this respect, 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 is an important aspect of the project plan and emphasizes on aid coordination, effectiveness and reporting. The 22 National Priority Programs (NPP) are now under the purview of the MBAW project which is responsible for overseeing their implementation and setting up monitoring mechanisms of existing NPPs.

In order to better link MBAW's work with ANDS objectives, principles of ownership have been integrated into MBAW's work plan. To this end, the new MBAW project Plan emphasizes the need to increase institutional capacity to eventually prepare for an exit strategy by 2015. This involves continuous capacity development and retention of national staff, with the gradual cessation of reliance upon foreign technical assistance.

## **I. Results and Impact**

### **Component 1: Budget Planning and Management**

#### **Output 1: Strengthened budget policy and planning processes**

MTBF and MTFE revised and adjusted in line with ANDS priorities and predicted resources and applied for budget process: Following the submission of prioritized budget plans in response to BC1, MoF reviewed the prioritized budget proposals to ensure they are linked to spending and policy objectives of the Government. Budget Committee Meetings were held where recommendations on expenditure priorities and splitting of overall fiscal envelop (available resources) by budgetary units (defines budget unit ceilings) for the medium term, were made.

Budget circulars and guidelines (1&2) developed: The Budget Circular No 1 and 2 (BC1 &2) guidelines were developed for the integrated programme/recurrent budget including mainstreaming of gender budgeting into the national budget process. The BC-2 forms were shared with all Line Ministries (LMs) and Budgetary Units (BUs) to i) provide guidance on the form and content for preparing their 1391 budget submission and 1392-93 budget forecasts; ii) provide formats for the presentation of budget request (submission) for the 1391 fiscal year and budget forecasts for 1392 and 1393; iii) and provide guidance to ministries/budgetary units on integration of the operating and core development budgets;

Budget Circulars and guidelines (1&2) issued for program budget inviting budget requests from line ministries: Implementation of program budgeting (PB) is an essential part of strengthening the national budget process. A refresher presentation of the program budget together with EGGI team embedded in each ministry was carried out. With the implementation of the PB, BRU's new role as the central capacity development unit is being further developed to accommodate various aspects of capacity development and policy training into programs that will be delivered to the Budget Department and LMs.

The existing Monitoring and Evaluation (M&E) database created to track changes to assess pre- and post-training scenarios and evaluate trainings that have been conducted, was further updated with information on recent capacity development initiatives. The database also tracks the levels of improvement LM's have achieved post the trainings.

The BRU has developed a needs assessment strategy paper which has two objectives: (i) to identify baseline competency (capacity) levels within the LMs and the Budget Department, and to suggest training plans to support a long-term solution; (ii) and analyze the training needs for LMs in terms of the budget process, and recommend training solutions. In this respect, the LM Training Needs Assessment Report was prepared and finalized. It identifies the key areas where LMs need extensive trainings in the PFM areas.

Improving Budget Planning Transparency in relation to the open Budget Index (OBI): Establishing stakeholders network and regular maintenance of regular contacts with the networks through formal and informal discussions/round tables is important. The civil society can play an important role in strengthening domestic accountability, contributing to policy development and monitoring results of public expenditure. A workshop was organized for the civil society to raise their awareness on the national budget, MTBF and Citizen Budget. Initiating discussions on the budgetary issues as well as learning about their suggestions, will improve the formulation and implementation of the national budget with greater transparency.

<b>Activity Result</b>	<b>Brief Description of results/achievement</b>	<b>% of progress rate/delivery</b>
1.1 MTBF and MTFP revised and adjusted in line with ANDS priorities and predicted resources and applied for budget process	Budget Committee Meetings were held to link MTBF with ANDS priorities and to split overall fiscal envelope by available resources.	100%
1.2 Budget circulars and guidelines (1&2) developed for integrated programme/recurrent budget including mainstreaming gender budget into the national budget process	The BC 1&2 circulars finalized by relevant sectors to ensure that the priorities specified in the circulars reflect ministry/budgetary unit policies and responsibilities, and the applicable sectoral elements of the ANDS framework.	100%
1.3 Budget Circulars and guidelines (1&2) issued for both program budget inviting budget requests from line ministries	BC 1&2 guidelines shared with all LMs and BUs and constant follow up maintained to ensure budget proposals are submitted on time. Almost all LMs have submitted their budget proposals which are being reviewed by MoF	80%
1.4 Improving Budget Planning Transparency as part of the Open Budget Index (OBI)	A workshop was organized for the civil society to raise their awareness on the national budget, MTBF and Citizen Budget.	30%

## **Output 2: Strengthened budget formulation processes**

Comprehensive training workshops conducted for pilot ministries to implement program budgeting based on Budget Circular 1&2: Since Program Budgeting was recently introduced, Line Ministries require capacity development trainings to better understand the use and purpose of Program Budgeting. In July 2011, the Budget Reform Unit conducted a comprehensive training for technical staff working in all LMs and BUs who learnt to prepare the entire budget cycle starting from budget formulation, execution, and preparation of financial planning and performance reports. In addition, post training survey questionnaires were developed to assess the participants' capacity in grasping concepts.

Comprehensive training on provincial budgeting with hands on exercises conducted: The budget preparation process in Afghanistan has been very centralized. Budget appropriations and object code are made by line ministries without taking into account provincial breakdown of the budget. They lack mechanisms to develop and also justify provincial allocation of their budget. Additionally, most provincial departments are not involved in the budget preparation and remain unaware of the final budget allocation by provinces.

As a follow up to this crucial reform, the Provincial Budgeting Unit is conducting a series of Budget Circular No 1 (BC1) Regional Workshops for all 32 provinces of Afghanistan for five pilot provincial departments - Department of Education, Department of Public Health, Independent Directorate of Local Governance, Department of Agriculture Irrigation and Livestock, Department of Rural Rehabilitation and Mustofiats (financial departments in provinces). The aim of these workshops is to build capacities of these departments to implement provincial budgeting. As a result, this will help in decentralizing implementation authority to provinces and promote greater participation in provincial budget formulation and execution. Over 800 provincial staff were trained through these series of workshop and it is expected that budget preparation and execution at the provincial level will improve.

Assessing the sustainability of security sector spendings and implications: The Budget department is conducting an ongoing assessment of the security sector since it is a major driver of expenditures with fiscal implications. The findings will be incorporated in the MTFF and will be part of the overall budget analysis. Additionally, the Budget Policy Unit (BPU) issued BC2 to LMs on 21 September and with this the 1391 budget formulation has officially begun. The Security sector has actively participated in the rehearsal training conducted by BPU and BRU on the use of BC2 forms and instruction on 28 September. Based on this, trainings would be further delivered to LMs starting October 1, 2011. The sector has worked closely with LMs on the 1391 budget to make sure that they comply with forms, deadlines, ceilings and all required activities requested by MoF while developing their 1391 budget submissions. Through such trainings both LMs and BUs are expected to prepare timely and more accurate budget plans for their programs in line with the budget guidelines. These reports are entered in the State Budget Planning System and Donor Assistance Database so that donors and MoF officials can access and track changes and status of BC1 reports.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Comprehensive training workshops conducted for pilot ministries to implement program budgeting based on Budget Circular 1&2	All pilot ministries and budgetary units learn to prepare their Annual Program Budget document with realistic timeframes and based on the BC 1&2 guidelines	40%
1.2 Comprehensive training on provincial budgeting with hands on exercises conducted	Over 800 provincial staff from 5 pilot departments learnt how to prepare provincial budgets through 8 Regional Workshops conducted by the PBU	90%
1.3 Assessing the sustainability of security sector spendings and implications	The Budget department is conducting an ongoing assessment of the security sector since it is a major driver of expenditures with fiscal implications. The findings will be incorporated in the MTFF and will be part of the overall budget analysis.	40%

### Output 3: Strengthened budget and fiscal policy monitoring

Regular reporting of fiscal developments and trends introduced and published in MoF fiscal bulletin: The FPU has finalized and disseminated its annual fiscal report for the year 1389. This is expected to increase awareness of stakeholders and decision makers on fiscal and budgetary improvements during the year with particular focus on how to improve the low execution rate of development projects.

The FPU wrote an article on the execution rate of the development projects that shares interesting information like the execution rate of discretionary and non-discretionary funds. The paper also highlights key findings and makes recommendations to improve the execution rate. In addition, FPU initiated an assessment of how to improve security spending of projects, including the fiscal implications of current off-budget security costs. Such information is expected to increase donors' understanding of the economic situation of the country and how they can better align their resources with national priorities to improve fiscal sustainability.

To support the finalization of the MTBF, the Fiscal Policy Unit wrote in detail the Fiscal Strategy for MTBF 1391-93 to help develop a consistent and realistic resource framework. The strategy discussed issues relating to the macroeconomic outlook, assumptions and risks, fiscal sustainability and revenue and expenditure analysis. The FPU is also currently reviewing the MTFF to render it more effective so that this tool can be used to set out better medium term and macro-economic fiscal forecasts.

Impact Assessment of Value Added Tax (VAT) initiated: The FPU has recently initiated an analytical assessment of the VAT and its financial implications on the Government's revenue. The purpose of this study is to explore solutions like imposing VAT to generate more revenue for the government. Eventually, the MoF may develop a tax policy and implementation strategy.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Regular reporting of fiscal developments and trends introduced and published in MoF fiscal bulletin	Donor's understanding of the economic situation of the country and how they can better align their resources with national priorities to improve fiscal sustainability, imported through the preparation of fiscal reports, articles and policies	90%
1.3 Targeted policy documents developed in regards to key issues	FPU has prepared its annual Fiscal Bulletin that showcase research and policy articles on wage and reform, macro-economic impact on the country when the ISAF troops leave and increasing revenue generation by exploring the mining sectors. These articles will form the basis for future fiscal policies.	60%

## Component 2: Policy and Strategy Development (including Aid Coordination)

### Output 4: Alignment of and improved coordination of External Funding in line with Paris Declaration, Kabul Communiqué to support ANDS implementation

HLCAE meetings conducted on regular basis to discuss development issues and bottlenecks in regard to coordination and effectiveness of development assistance: Prominent donors, thinkers in international development and Ministers met at the 8th High Level Committee on Aid Effectiveness held on Sunday October 2, 2011 at the Ministry of Finance, Government of Afghanistan (GoA), to discuss the roadmap for the upcoming 4th High Level Forum on Aid Effectiveness (HLF4). The meeting was chaired by H.E. Omar Zakhilwal, Minister for Finance, whose opening words were made with a sense of urgency and a genuine drive to push development forward in the spirit of true and equal partnership. More importantly the meeting was to spur dialogue on a new role for global development co-operation, one that employs inclusive and innovative approaches for tackling contemporary development problems and that leverages the resources of donors. A new Consensus on Development Cooperation and partnership, updates on the work that has been done on aid effectiveness to date, the challenges that are currently being faced by development practitioners in Afghanistan, and importance of the upcoming HLF4 in terms of the opportunity it provides to map out a new global aid and development architecture going forward, was discussed at length.

Aid Effectiveness enhanced through policy advice and technical guidance to senior leadership: While the nature and degree of external partner involvement has been significant, MoF through the Aid Coordination Unit is focusing on encouraging leadership of donor coordination. Important donor meetings were held between the Government and external partners to discuss the national development strategy and aid commitment based on the policy briefs and issue papers prepared by the AMD unit. The following signed grant agreements are a clear indication of donors' funding support to the recurrent budget and investments in line with agreed budget priorities of the Government. The signed agreements are: IDA WB Grant for an amount of USD\$ 22 million for "Afghanistan New Market

Development Project", the Afghanistan Reconstruction Trust Fund (ARTF) Agreement for an amount of USD\$ 50 million for "Second Education Quality Improvement Project ", the IDA Grant Agreement for an amount of USD\$ 52 million for "Second Sustainable Development of Natural Resources Project" and finally the ARTF Grant agreement for an amount of USD\$ 392,200 for "Sub -National Level Financial Management Capacity Building Project".

The Aid Management Policy to improve aid delivery and alignment is drafted: The AMU developed an implementation guideline and its objectives, benefits, roles and responsibilities are briefly explained.

Objectives:

1. To better align off-budget financing to national priorities, thus increasing aid effectiveness.
2. To improve effectiveness of off-budget financing through cooperative work between GoA and DPs. This would also improve GoA and DP partnership.
3. To increase capacity and ownership of GoA in managing development results and designing, monitoring and tracking aid effectiveness of externally financed development projects/programs.

The projects that comply with the OG principles will be certified by GoA for inclusion into an "Aligned Budget". The difference between Aligned and Core budgets is important to note. "Core" refers to the financing channeled through GoA treasury plus trust funds (e.g. ARTF), whereas "Aligned" represents an amalgamation of the core budget and the value of those off-budget financed projects/programs that meet the OG criteria.

In addition, Afghanistan is aid dependent with heavy reliance on external funding both for recurrent/operating costs and development expenditure. However, the reliance on aid in the beginning stages of development of fragile and resource-poor country is a necessity. Aid can positively impact on reconstruction and development only if delivery and utilization of aid are effective. With this rationale, the AMU has drafted the Aid Management Policy which has three chapters: chapter 1) Introduction to aid flow in Afghanistan, chapter 2) Policies on Effective Aid Delivery and Utilization and chapter 3) Roles and Responsibilities. The AMU has completed two chapters and is currently working on completing the third chapter. The completed report will have action plans and capacity development strategies to improve effectiveness and aid utilization. This report should be seen as a policy chapter to the Afghanistan National Development Strategy (ANDS).

Developing and disseminating guidelines booklet for the donors on the use of gov. Systems for disbursement of their funding: Aid Management Unit (AMU) has stepped up its efforts on reporting on donor related contributions in Afghanistan, including reporting on aid delivery regularly. A hallmark of AMU's work in the last quarter period was the presentation of the Donor Cooperation Report (DCR) to donor partners and the public. To make the document more accessible to a wider audience, the AMU has translated the DCR in Pashto and Dari and officially launched the translated reports. Copies of the report are disseminated to all relevant stakeholders.

In order to increase awareness on aid coordination and effectiveness, aid related news and events, an AMD newsletter titled "Foreign Aid in Afghanistan" has been designed and finalized. It will be published on the Aid Management Web Portal in the Directorate General Budget website and PDF copies of the same will be widely circulated. The newsletter will be developed every quarter.

Strengthening bilateral discussion with the donors on their aid programs through meetings at regular intervals: Aid effectiveness principles to be adopted and implemented in Afghanistan must be adjusted

to fit an Afghanistan-specific context. The decision to form a technical Working Group on Aid Effectiveness (WG-AE) was made at the 7th High Level Committee on Aid Effectiveness in April 2011. The WG-AE would be responsible to develop a comprehensive policy for ensuring effective delivery and utilization of aid most suitable for Afghanistan, in the form of a revised version of the Afghanistan Aid Management Policy previously developed in November 2007. In this quarter, WG-AE was formed and its first meeting conducted in early July 2011 at the Ministry of Finance. The result of this meeting was the development of the Aid Management Policy document that will address aid effectiveness issues as outlined in phase II of the Paris Declaration (PD) evaluation.

<b>Activity Result</b>	<b>Brief Description of results/achievement</b>	<b>% of progress rate/delivery</b>
1.1 HLCAE meetings conducted on regular basis to discuss development issues and bottlenecks in regard to coordination and effectiveness of development assistance.	The donor community understood better the GoA's action plan and commitment for the upcoming Busan event and achieving PD benchmarks. This will help the donor community assess GoA's capacity of on aid delivery and accordingly strengthen their commitments	60%
1.2 Aid Effectiveness enhanced through policy advice and technical guidance to senior leadership. The Aid Management Policy drafted to improve aid delivery	Senior leaders in MoF are better able to position Afghanistan's development needs and seek donor commitments at high level global forums like the because of the regular policy advice and briefing papers shard with them	50%
1.3 Developing and disseminating guidelines booklet for the donors on the use of govt. Systems for disbursement of their funding	The Implementation Plan for the Operational Guide was finalized to increase donor's awareness on government systems for funds disbursement	50%
1.4 Strengthening bilateral discussion with the donors on their aid programs through meetings at regular intervals	Bilateral discussion on aid alignment and effectiveness strengthened through CG Working Groups and WG-AE seen.	40%

**Output 5: New and/or revised policies formulated and prioritization exercise undertaken for ANDS Sectors at regular intervals**

**Output 6: Sectoral Programming is guided by priority needs in each ANDS Sector with an eye to fiscal sustainability; and donor financing secured for NPPs implementation**

**Output 9: The Policy Department developed to manage and coordinate the ANDS (including NPPs) process, implementation and results**

Initiating design and planning of National Priority Programs (NPPs) and preparing concept notes for NPPs' approval: The Ministry of Labor, Social Affairs, Martyrs & Disabled (MoLSAMD) and Ministry of Economy (MoE) joint NPP program document titled 'Facilitation of Decent Work through Market-Friendly Labor Regulations and Skills Development' and the program 'Expanding Opportunities for Higher Education' under the Ministry of Higher Education was finalized reflecting the donors' recommendations.

Transition packages for provinces with information on planned interventions and provincial funding prepared by ARD Sector for Ghor, Sar-e-Pul, Takhar, Badakhshan, Samangan, Nimroz, Parwan, Paktiya and Daikundi provinces. The transition packages include information on planned interventions and the funding associated with the intervention for each of the transition provinces. This packaging will help the Government of Afghanistan and the donor community better understand and plan for further development of interventions in the transition provinces. A transition package capturing the projects and interventions of the ARD cluster ministries is prepared for MoF's review.

Mobilization of financial resources for NPPs funding and implementation: Donors meetings held to identify priority needs and assess fiscal sustainability for NPP implementation and future funding. The MoE revised and finalized the budget and strategy for NNP 2 which is now ready for endorsement. Finalizations of the NPPs are crucial for the transition process. Final revisions have been made to the program which will be presented at the donor consultation for endorsement.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Initiating design and planning of priority project/programs and preparing concept notes for NPPs approval.	NPP 1,2 and 5 developed with implementation and costing plan in with donors. They are to be endorsed at the upcoming JCMB meeting that will take place in early October 2011	70%
1.2 Mobilization of financial resources for NPPs funding and implementation.	Donors meetings held to identify priority needs and assess fiscal sustainability for NPP implementation and future funding.	40%

**Output 7: Effective monitoring system is established and implemented to measure achievement of ANDS sector strategy objectives and outputs and adjustments to policies/strategies made, based on monitoring results**

Establishment of sector strategy results framework- with goals, results and indicators: Programs by line ministries are monitored, based on annual and quarterly plans of activities, with associated budgets, outputs and indicators. This improves performance based budgeting. There is stronger coordination and more focused effort in setting up tracking and monitoring systems for the ANDS and NPPs implemented by LMs. Plans are being developed to link these systems with the development of a sustainable statistical capacity and to the sector strategy results framework. Performance Assessment

Matrix for relevant departments of Ministry of Finance is being further improved which will serve both as the basis for policy dialogue and for the monitoring of funds disbursed through the ARTF.

100 Days NPP Action Plans follow planning framework showing progress towards development of new NPPs and achievement of planned results: The ARD cluster secretariat continued collecting reports for the 4th 100 days since the Kabul Conference. In the month of September 2011, the cluster collected fourth quarter reports from MRRD, MEW and MAIL. The reports collected include all four NPPs within the cluster and their components and subcomponents. Subsequently, the cluster applied quality assurance measures on all reports collected. Initially most activities were not reported using the standard template. Currently, fourth quarter reports are received for all components. In addition to reports, the cluster also collected fifth quarter action plans from the cluster ministries.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Establishment of sector strategy results framework- with goals, results and indicators.	Performance Assessment Matrix for relevant departments of Ministry of Finance and sector strategies are being further improved which will serve both as the basis for policy dialogue and for the monitoring of funds disbursed through the ARTF.	40%
1.2 100 Days NPP Action Plans follow planning framework and showing progress towards development of new NPPs and achievement of planned results in existing NPPs.	The ARD cluster secretariat has collected 4th quarter reports from MRRD, MEW and MAIL. The reports outline progress as well as emerging challenges of the NPPs. MBAWP is meeting with LMs and BUs to address these challenges	50%

**Output 8: Strategic Communications Unit improved its ability to support the delivery of effective messaging on ANDS sector goals, objectives and achievements.**

Preparing a communication strategy with attention paid to outreach strategies for cluster ministries for NPPs: The DM Policy Unit is increasingly making MoF program information public through a series of communication material like web stories, e-newsletters and policy related articles with relevant pictures. They are aligned to the communication strategy which also focuses on outreach activities for NPPs. This has resulted in stronger awareness among donors and decision makers.

Capacitating the Communication Unit: Additionally, through regular workshops and hands on trainings the Strategic Communication department's communication skills have improved to prepare more targeted materials to raise awareness on aid issues. The communication team has designed and is helping launch the official ANDS website. The website will include detailed, up-to-date information on the ANDS, both in English and in local languages. This is expected to be an important tool for donors to learn more about the MoF's progress on the NPPs and the ANDS.

Proactive establishment of networks with national and international media by Communication Unit: The communication team based in the DM Policy Unit is regularly collecting publication materials from ministries and think-tanks/research units for preparing communication material. The communication briefs are then disseminated with relevant stakeholders to increase resource mobilization opportunities and strengthen raising of awareness. This has resulted in stronger awareness raising and transparency among stakeholders.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Preparing a communication strategy with attention paid to outreach strategies for cluster ministries for NPPs.	The communication strategy is drafted and is being reviewed. The implementation of the strategy is expected to increase awareness on ANDS, NPPs among stakeholders in an effective and transparent manner.	40%
1.2 Capacitating the Communication Unit	The Communication team is working in engaging an international Communication Advisor who will build the capacity of the national staff. Meanwhile the MBAWP is helping the national staff attend strategic communications trainings to help strengthen outreach strategies to increase visibility of results among primary stakeholders	40%
1.3 Proactive establishment of networks with national and international media by Communication Unit; collection of publication materials from ministries and think-tanks/research units for preparing communication material for use nationally and Afghan embassies abroad.	Communication team proactively gathers information from relevant sources for preparing communication briefs and for sharing on public platforms like the ANDS and the Budget MoF website. This has resulted in stronger awareness raising and transparency among stakeholders	60%

**Component 3: Budget Delivery & execution and Sustainable institutional capacity built within MoF and other Government of Afghanistan institutions**

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

**Output 11: Sustainable institutional technical capacity developed and retained within the public finance sector, particularly within the Ministry of Finance and Line Ministries**

Reports are produced by line ministries, showing variances from original plans: Social Protection Sector has monitored and analyzed the implementation of the Financial and Procurement Plan of all budgetary units in the sector (MoLSAMD, MoWA, MoRR, MoBTA, ANDMA and DoK). The analysis indicates that actual expenditures do not align with planned activities and follow up meetings were carried by the sector to help them revise their financial plans. In addition, the sector has analyzed the BC1 submissions by the relevant budget entities and has made recommendations to the budget policy directorate on the budget ceilings for both operating and development budget for the FY 1391-3. This is expected to strengthen the budget execution delivery.

Based on needs assessment for capacity development training organized: In line with the Kabul Communiqué which commits its signatories to support and address significant capacity needs that the Government faces, continuous hand-holding support and coordination is provided to LMs. A plan to increase efforts to support capacity building and a strategy framework to bolster these were also developed. Coordination efforts were shared with LMs. This has resulted in helping LMs in timely submission of their Financial Plans (FPs).

System/database for tracking allotments and contracts developed and appropriately positioned within Budget Department and in MoF relevant departments: Once the fiscal year commences, LMs and BUs are expected to follow MoF procedures for incurring and recording expenditure. For this quarter, the budget execution unit has processed 528 allotment forms ensuring accuracy and alignment with the MoF required procedure. Additionally, with the support of the budgetary units, the health sector has issued allotments within the limits laid down in the budget in pursuing its operating and development objectives. The following fund allotments for the Ministry of Public Health (MoPH) was undertaken: i) the health sector has issued allotments of USD\$ 74.3 million to date which is 45.1% of the total budget allocated to MoPH, €18 million Euro has been recently allocated by Global Fund to the Health System Strengthening (HSS) project for the fiscal year 1390 and a USAID funding of USD\$ 24 million is allocated for the Strengthening Health Activities for Rural Poor (SHARP) project for the fiscal year 1390. This has resulted in stronger financial sustainability for health sector programs linked to the NPPs.

Third quarter operating budget allotments of the government funding were issued to line ministries. Nineteen operating budget allotment, 31 adjustment forms and 10 development budget allotment were processed during September 2011 and all allotments and adjustment forms are encoded in the system. According to the September 2011 report, the Security sector has an execution rate of 51% allotment and 40% expenditure under operating budget and 8.4% allotment and 5.7% expenditure for development budget.

Contribute to the process of Capacity assessment (institutional and human) and development: As part of the exit strategy and to increase the institutional capacity development, the position of International Capacity Development Advisor was advertised. The CVs are being review and an interview date for short listed candidates will be set soon.

Donor Assistance Database (DAD) upgraded and enhanced to track aid flows effectively: The Aid Management Web Portal in the Directorate General Budget website as well as the DAD has been further updated and improved with new information on aid delivery and effectiveness. The updated information includes 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 the Aid Management Policy. In addition reports on the

'Predictability of aid for outer years', 'Commitments and Disbursements to Afghanistan (2002-2011)' and 'Breakdown of External Assistance to Afghanistan by ANDS Sectors (2002-2011)' were shared with stakeholders and will be soon uploaded on the AMD web page. This webpage has been a knowledge repository of policies, strategies, research papers, best practices and lessons learnt. Donors and the Ministries find this web portal important and refer to it for donor related information and updates.

Activity Result	Brief Description of results/achievement	% of progress rate/delivery
1.1 Reports are produced by line ministries, showing variances from original plans.	LMs have prepared their quarterly reports to update on activity results and highlight variances if any from the original plans. They are being reviewed by MoF and will be shared with donors and uploaded on the websites	55%
1.2 Based on needs assessment for capacity development training organized	The MBAWP International Reporting Officer conducted a results based management, monitoring and reporting one day workshop for all MoF budget units and reporting focal points based in LMs. The workshop along with continuous handholding support, are expected to result in more comprehensive and result oriented reports	40%
1.3 System/database for tracking allotments and contracts developed and appropriately positioned within Budget Department and MoF relevant departments	Database for tracking allotments regularly updated to show accurate number of allotments. This has helped in access of information easily and quickly for the Budget Department	65%
1.4 Contribute to the process of Capacity assessment (institutional and human) and development	As part of the exit strategy and to increase the institutional capacity development, the position of International Capacity Development Advisor was advertised. The CVs are being review and an interview date for short listed candidates will be set soon	85%
1.5 Donor Assistance Database (DAD) upgraded and enhanced to track aid flows effectively	DAD updated with aid flow information, delivery rates, donor profiles and commitments to improve wider and more accurate access of aid related information to the donor community	60%

## **II. Implementation Arrangements**

The project implementation arrangements have three main components, each managed by its respective MoF functional unit under the guidance of the corresponding MoF Deputy Minister and will share a common Project Management Unit (PMU) with one overall Programme Manager. A single Project Management Board, with representation from the MoF, UNDP, and contributing donors, will provide project oversight.

This implementation modality will allow greater synergy between the Ministry's responsibility for supporting the national strategy, developing national programs, budget policy and planning, formulation, execution, monitoring and reporting and the Ministry's coordinating responsibility for the elaboration of National Priority Programs (NPPs). Enhanced linkage between the ANDS/NPP coordinating structures and the national budget process, together with focused effort to improve the MoF's own administration and budget execution capacities, will build confidence among Afghanistan's international development partners to channel increased levels of external resources through the national budget.

Importantly, building sustainable institutional capacity within the Budget Department and LMs is key for longer term sustainability of outputs. MoF recognizes this and in collaboration with MBAW developed an exit strategy. With this rationale, the MBAW project will build on its earlier efforts to strengthen support to capacity development of relevant MoF Departments to increase program ownership through national staff with less reliance on international staff.

To strengthen management of results, monitoring and reporting and increasing MBAW's visibility, credibility and strengthening its intellectual leadership, an International Reporting Officer and National Communications Officer have been hired. Preparing high quality, results oriented progress reports is one of the most important aspects to increase visibility of the project.

## **III. Challenges/Risks/Issues**

The deteriorating security in the country continues to be a risk preventing staff to attend office which slows the progress of their work. However, key programmatic challenges are identified that require attention to improve achieving project results more effectively. Not reflected in the PD indicators, development communication—both within the government and especially with the full range of national stakeholders—has been receiving poor attention. Positive messages about the project progress have to be emphasized strongly enough and repeated often enough to have a commensurate impact on perceptions. This area requires sufficient priority from Government or donors.

Some of the key challenges the project faces are:

Poor expenditure alignment of LMs and un-realistic financial plans are slowing the budget execution rate. Although MBAWP is helping in capacity development to improve the technical skills, there needs to be more targeted capacity development interventions after conducting needs assessments and skill gap surveys. Evaluating institutional capacity and performance will help in identifying weak areas so that they can be addressed in a planned and effective manner.

Poor capacity in project/budget planning coupled with limited knowledge on budget procedures and regulations are slowing achievements of planned results. Since capacity development for change at the institutional level is a gradual process and depends on continuous hand holding support, transformation can only be observed over a period of time. In an effort to address the above challenge, the MBAWP has stepped up its efforts by providing continuous and on the job support, by setting up monitoring and reporting mechanism and by periodically reviewing the performance indicator benchmarks.

Another challenge is the limited discretionary resources preventing distribution of funds to LM priority projects. Although some projects are reflected in the budget, non-availability of physical funds is delaying implementation of projects. In addition, weak and fragmented coordination among cluster ministries are slowing the budget formulation and execution progress. The MBAWP is addressing these challenges by setting up regular meetings where results are monitored and challenges are shared so that possible solutions can be found.

Some of these challenges stem from broader issues and should not be seen in isolation. To better understand them, it is key to take into account the following issues which are repeatedly shared at important donor meetings. A stronger National development strategy with clear priorities linked to a medium-term expenditure framework and reflected in annual budgets is required. Although the ANDS is a very comprehensive document, which is based on sound poverty data analysis and on a very extensive consultation process reaching every province and major group of the population, it needs to be better prioritized and more closely linked with the MTFF and annual budget which in turn need to be anchored by a realistic resource envelope.

There is need for stronger coordinated support to strengthen institutional capacity. Technical assistance needs to be more efficient, effective and aligned with national requirements and sustainable capacity-building strategy.

Instead of multiple efforts by donors to introduce different systems and practices, *de novo*, the existing systems that are in place need to be upgraded and consolidated. The provision of additional input and resources, coupled with the modern management and governance practices, will energize the systems and practices in the country.

A well documented aid policy of the country in line with the PD and UN reiterations needs to be shared with donors and a clear Terms of Reference for donors needs to be formulated. This will set the path to route the aid flow through the national (Core) budget and use the national procurement system. Line ministries and especially MoF need to be kept in picture in all operations of programs, projects implementation and monitoring. The synergy through this will energize the systems and capacity development will take the front seat, for ensuring aid effectiveness.

For aid flowing outside national budget channels, donors often set up implementation and project management units that are not part of the government. Setting up of parallel systems makes aid monitoring tedious. The critical need for any such arrangements is to be under the leadership of and to interact closely with the government agencies concerned, rather than working in isolation. A mentoring / capacity development role for such PIUs should be built into their Terms of Reference.

The other challenge is channeling more aid through MoF's core budget. Most off-budget aid understandably tends to be much less aligned and harmonized. Thus a way forward in implementing the Paris Declaration in the case of Afghanistan is to increase the proportion of aid channeled through

the national budget, while further improving government systems and strengthening the government's strategic leadership and ownership to facilitate the shift towards more on-budget aid.

#### **IV. Lessons Learnt**

Significant progress has been made towards establishing the basis of a reliable public financial management system. The Government has implemented a centralized computerized system, the Afghanistan Financial Management Information System (AFMIS), coordinated with the Treasury Department in the Ministry of Finance. As a result, real-time reporting is possible for all expenditures of the core budget processed in Kabul, and weekly reports on budget expenditures are now sent by the Ministry of Finance to the Cabinet.

Using of country systems to improve aid management is also a lesson learnt and a good example is the ARTF. Twenty-four development partners are contributing to the ARTF, a flexible financing tool with a multi-donor mechanism that uses government systems. In addition to investment financing for reconstruction projects, the ARTF provides financing for a significant portion of the recurrent budget. Fiduciary standards for this trust fund mainly follow Government procedures and systems. In addition to the ARTF, two other multi-donor trust funds, the Law and Order Trust Fund for Afghanistan (LOTFA) and the Counter-Narcotics Trust Fund for Afghanistan (NTFA) also support the government budget.

The Donor Assistance Database (DAD) is yet another successful initiative supported and led by the Ministry of Finance. As regards the external budget, external partner disbursements are regularly recorded in the DAD. External partners have supported the Government in establishing the Development Assistance Database, which now records 90 percent of the development aid to the country in a web-based system that publishes partners' pledges and disbursements. The database has recently been restructured to capture information on provincial allocations and economic classifications of the funds. It is regularly updated through financial review meetings conducted bi-annually with all donors including the UN.

Setting up a reporting mechanism at the ministerial level to track and report on MBAW project progress can be seen as a best practice. This helps in timely reporting, sharing of accurate and comprehensive information and makes follow up and coordination with budget and aid departments easy.

An important lesson learnt is ensuring that important project initiatives, achievements and results are not just reported in the weekly, quarterly and annual reports, but more importantly also showcased through web-stories, short articles, press releases and selective photos. To reach out to a wider audience and raise awareness about the project and its activities, it is of importance that diverse communication channels such as the above are engaged and made up part of the communication strategy.

#### **V. Future Plan**

The next activities that MBAWP will be undertaking to strengthen the budget planning and execution process, ensure alignment of external assistance and institutional capacity development are:

- Working closely with the FPU to prepare revenue forecasting and tax related policy papers

- Help in the Budget ceilings preparation taking into account policy priorities and macro-economic considerations
- Support LMs in indentifying pro-poor spending and tracking of projects
- Provide technical assistance to the Budget Department especially the FPU to prepare targeted policy documents in regards to key issues like fiscal sustainability, wages, goods & services, security, pensions, etc
- Help the Budget Department to develop and publish a planning and evaluation criteria for budget formulation and circulate to all the stakeholders in the center and provinces
- In collaboration with ANDS Coordination Team develop a mechanism for improved reporting of impact of budgets on key development indicators
- Undertake comprehensive training on provincial budgeting BC 2 with hands on in exercises for pilot provincial departments
- Organize meetings for grant and Loan negotiations held with development partners to ensure alignment of aid with GoA priorities and to facilitate the on-budget support process
- Finalize the Communication and Advocacy Strategy for MRAWP to raise awareness and strengthen the intellectual leadership of UNDP In Governance
- Prepare and launch a monthly newsletter for MRAWP to highlight key achievements, success stories and best practices

## VI. Financial Information

### 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)	Reallocation fund from projects (d)	Total Income available =e (c+d)	Total Cumulative Expenditures as of Dec 2010 (f)	Total expenditure (Jan to Sep-2011) (e)	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	202,521	4,106,831	131,882	
CIDA	1,950,652	1,950,652	-	777,787	2,728,439	1,960,189	766,678	2,726,867	1,572	777K Received from GEP Project
UNDP	4,358,276	4,358,276	-		4,358,276	2,362,980	1,830,387	4,193,367	164,909	
<b>Total</b>	<b>10,547,641</b>	<b>10,547,641</b>	-	<b>777,787</b>	<b>11,325,428</b>	<b>8,227,479</b>	<b>2,799,586</b>	<b>11,027,065</b>	298,363	

#### Notes:

- i) Expenditure reported for the 3rd Quarter of 2011 is provisional.
- ii) Income received in currency other than USD is approximated to USD based on UN- Operational Rate of Exchange applied.

**Table 2. Expenditure by Major Outputs (2011)**

Project Output	Budget (AWP 2011)	Total expenditure (Jan to Sep-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	1,014,908		
<i>GMS</i>	31,906	22,939		
<b>Sub-total Output 1</b>	<b>875,428</b>	<b>1,037,847</b>	<b>119%</b>	
Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	894,547	834,152		
<i>GMS</i>	9,261	16,130		
<b>Sub-total Output 2</b>	<b>903,807</b>	<b>850,282</b>	<b>94%</b>	
Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	964,010	242,145		
<i>GMS</i>	3,241	1,985		
<b>Sub-total Output 3</b>	<b>967,251</b>	<b>244,130</b>	<b>25%</b>	
Output 4: Technical Assistance and Management Cost (Project Support Costs)	355,054	634,287		
<i>GMS</i>	10,650	33,040		
<b>Sub-total Output 4</b>	<b>365,704</b>	<b>667,327</b>	<b>182%</b>	
<b>Grand Total</b>	<b>3,112,190</b>	<b>2,799,586</b>	<b>90%</b>	



**Table 3. Expenditure by Donors (2011)**

Donor	Project Output	Budget (AWP 2011)	Total expenditure (Jan to Sep-2011)	Delivery Rate*
DFID	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)		96,934	
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)		69,376	
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	309,233	165	
	Output 4: Technical Assistance and Management Cost (Project Support Costs)		33,483	
GMS		25,170	2,563	
<b>Total</b>		<b>334,403</b>	<b>202,521</b>	<b>61%</b>
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	217,706	
GMS		55,058	52,245	
<b>Total</b>		<b>777,787</b>	<b>766,678</b>	<b>99%</b>
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	590,303	

	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	771,510	444,237	
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	586,544	211,735	
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	213,560	414,622	
<b>Total</b>		<b>1,750,000</b>	<b>1,660,896</b>	<b>95%</b>
UNDP	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)		181,728	
	Output 4: Technical Assistance and Management Cost (Project Support Costs)		(31,523)	
GMS			19,285	
<b>Total</b>		<b>250,000</b>	<b>169,490</b>	<b>68%</b>
<b>Grand Total</b>		<b>3,112,190</b>	<b>2,799,586</b>	<b>90%</b>

## I. Detailed Reporting on Results and Impact (Reporting on each output)

### 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 MTBF/MTEF and MTEF revised and adjusted in line with ANDS priorities and predicted resources and applied for budget process	MTBF revised to integrate the new development financing requirements for GoA.	Budget calendar, MTBF, MTEF and MTEF revised	Budget Committee Meetings were held to link MTBF with ANDS priorities and to split overall fiscal envelop by available resources.	100%
1.2 Budget circulars and guidelines (1&2) developed for integrated programme/recurrent budget including mainstreaming gender budget into the national budget process	BC-2 circular prepared and shared with all LMs and BUs	Budget submissions to be made within the timescales specified in this Circular, must reflect an equitable allocation of resources among provinces and districts and be gender balanced and sensitive to marginalized and vulnerable groups	The BC 1&2 circulars finalized by relevant sectors to ensure that the priorities specified in the circulars reflect ministry/budgetary unit policies and responsibilities, and the applicable sectoral elements of the ANDS framework.	100%
1.3 Budget Circulars and guidelines (1&2) issued for both program budget inviting budget requests from line	BC-2 circular prepared and shared with all LMs and BUs	Budget submissions to be made within the timescales specified in this Circular, must reflect an equitable allocation of resources	BC 1&2 guidelines shared with all LMs and BUs and constant follow up maintained to ensure budget	80%

ministries		among provinces and districts and be gender balanced and sensitive to marginalized and vulnerable groups	proposals are submitted on time. Almost all LMs have submitted their budget proposals which are being reviewed by MoF	
1.4 Establishing stakeholders network and regular maintenance of regular contacts with the networks through formal and informal discussions/round tables	NGO and Civil society meet occasionally and in an ad hoc manner	Frequency of consultation with relevant stakeholders- government, civil society and private sector and taking into consideration their views on policy revisions/prioritization for budget formulation	A workshop was organized for the civil society to raise their awareness on the national budget, MTBF and Citizen Budget.	30%

## 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.

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 Comprehensive training workshops conducted for 1390/91 pilot ministries to implement program budgeting and on Budget Circular 1&2 to provide guidance for preparation of the program budget document submission	Capacity development training conducted for staff working in budget department focusing on promoting Program budgeting vis-a-vis traditional line item budgeting	Ability of LM to develop annual program budgets that focus on expenditure estimation, monitoring and control on their organization's key outputs rather than on its consumption of resources.	All pilot ministries and budgetary units learn to prepare their Annual Program Budget document with realistic timeframes and based on the BC 1&2 guidelines	40%
1.2 Comprehensive training on provincial budgeting with hands on exercises conducted	Provincial departments have poor capacity and lack knowledge on provincial planning and budgeting	Workshops completed in all regional training centers for 34 provinces  Decentralize implementation authority to provinces	Over 800 provincial staff from 5 pilot departments learnt how to prepare provincial budgets through 8 Regional Workshops conducted by the PBU	90%
1.3 Assessing the sustainability of security sector spending and implications for other sectors	Assessments need to be carried out	MTBF and ceilings to line ministries produced consistent with overall macroeconomic conditions	The Budget department is conducting an ongoing assessment of the security sector since it is a major driver of expenditures with fiscal implications. The	20%

			findings will be incorporated in the MTFF and will be part of the overall budget analysis.	
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Output 3: Strengthened budget and fiscal policy monitoring

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 Regular reporting of fiscal developments and trends introduced and published in MoF fiscal bulletin	Annual Fiscal Report revised considering the macroeconomic framework and approved	Fiscal projections for recurrent and development financings are done.	Donor's understanding of the economic situation of the country and how they can better align their resources with national priorities to improve fiscal sustainability, imported through the preparation of fiscal reports, articles and policies	100%
1.2 Targeted policy documents developed in regards to key issues	Security, P&G and Pension costs analysis conducted considering the fiscal sustainability and financing	Targeted policy documents on fiscal sustainability developed, published and disseminated	FPU has prepared its annual Fiscal Bulletin that showcase research and policy articles on wage and reform, macro-economic impact on the country when the ISAF troops leave and increasing revenue generation by exploring the mining sectors. These articles will form the basis for future fiscal policies.	60%

Output 4: Alignment of and improved coordination of External Funding in line with Paris Declaration Afghan Compact to support Afghanistan National Development Strategy (ANDS) 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 HLCAE meetings conducted on regular basis to discuss development issues and bottlenecks in regard to coordination and effectiveness of development assistance.	One round of joint portfolio review conducted with 4 major donors	Three Bi-monthly High Level Committee Meetings held on Aid Effectiveness (HLCAE)	The donor community understood better the GoA's action plan and commitment for the upcoming Busan event and achieving PD benchmarks. This will help the donor community assess GoA's capacity of on aid delivery and accordingly strengthen their commitments	60%
1.2 Aid Effectiveness enhanced through policy advice and technical guidance to senior leadership. The Aid Management Policy drafted to improve aid delivery	Policy brief on aid effectiveness prepared for the Minister for the 8 <sup>th</sup> High Level Meeting	Aid Management Manual developed	Senior leaders in MoF are better able to position Afghanistan's development needs and seek donor commitments at high level global forums because of the regular policy advice and briefing papers shared with them	50%
1.3 Developing and disseminating guidelines booklet for the donors on the use of govt. Systems for disbursement	One DFR report produced and disseminated	Aid Management Manual developed	The Implementation Plan for the Operational Guide was finalized to increase donor's awareness on government systems for funds disbursement	50%

of their funding				
1.4 Strengthening bilateral discussion with the donors on their aid programs through meetings at regular intervals	two rounds of DCD conducted	Stronger aid coordination between MoF and donors	Bilateral discussion on aid alignment and effectiveness strengthened through CG Working Groups and WG-AE seen. The next round of DCD are to be held early next year in Jan 2012	40%

Output 5: New and/or revised policies formulated and prioritization exercise undertaken for ANDS Sectors at regular intervals

Output 6: Sector Programming is guided by priority needs in each ANDS Sector with an eye to fiscal sustainability; and donor financing secured for NPPs implementation

Output 9: The Policy Department developed to manage and coordinate the ANDS (including NPPs) process, implementation and results

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) 5) Number of NPPs received funding, amount of funding secured and funding gaps
- 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)).

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 Initiating design and planning of priority project/programs and preparing concept notes for NPPs approval.	15 out of 22 NPPs endorsed	Number of NPPs received funding, amount of funding secured and funding gaps	NPP 1,2 and 5 developed with implementation and costing plan in with donors. They are to be endorsed at the upcoming JCMB meeting that will take place in early October 2011	70%
1.2 Mobilization of financial resources for NPPs funding and implementation.	15 out of 22 NPPs endorsed	Number of NPPs received funding, amount of funding secured and funding gaps	Donors meetings held to indentify priority needs and assess fiscal sustainability for NPP implementation and future funding.	40%

Output 7: Effective monitoring system is established and implemented to measure achievement of ANDS sector strategy objectives and outputs and adjustments to policies/strategies made, based on monitoring results

Indicators:

- Quarterly monitoring of ANDS sector activities undertaken and results reported to MoF senior management
- Annual ANDS Progress Report document presented to cabinet, donors, Parliament and civil society
- ANDS Mid Term Evaluation Report document presented to donors, JCMB, Parliament and the civil society

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 Establishment of each sector strategy results framework- with goals, results and indicators.	Annual ANDS Progress Report submitted for 2010	Annual ANDS Progress Report document presented to cabinet, donors, Parliament and civil society	Performance Assessment Matrix for relevant departments of Ministry of Finance and sector strategies are being further improved which will serve both as the basis for policy dialogue and for the monitoring of funds disbursed through the ARTF.	40%

1.2 100 Days NPP Action Plans follow planning framework established showing progress towards development of new NPPs and achievement of planned results in existing NPPs.	100 days NPP action Plans and Reports submitted	NPP 100 Days Action Plan progress reports are produced quarterly and presented to the Standing Committee and JCMB on a quarterly basis	The ARD cluster secretariat has collected 4th quarter reports from MRRD, MEW and MAIL. The reports outline progress as well as emerging challenges of the NPPs. MBAWP is meeting with LMs and BUs to address these challenges	50%
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Output 8: Strategic Communications Unit improved its ability to support the delivery of effective messaging on ANDS sector goals, objectives and achievements.

Indicators:

- Transparent dissemination of information via media in major Afghan languages of the ANDS sector objectives and priorities,
- Strategic and regular communication to donors (of progress in or adjustment in ANDS policies/strategies and new NPPs with broad-based development impact

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 Preparing a communication strategy, planning to cover national and international audience, with attention paid to outreach strategies for cluster ministries for NPPs.	No communication strategy in place yet	Transparent dissemination of information via media in major Afghan languages of the ANDS sector objectives and priorities, including the NPPs, and the Cluster activities	The communication strategy is drafted and is being reviewed. The implementation of the strategy is expected to increase awareness on ANDS, NPPs among stakeholders in an effective and transparent manner.	40%
1.2 Capacitating the Communication Unit	Communication workshops conducted for national communication officers	Afghan staff, trained by international TA, taking leadership in planning strategic communication	The Communication team is working in engaging an international Communication Advisor who will build the capacity of the	40%

		and advising government ministries and agencies across the country and Afghan Embassies abroad on conduct of outreach and strategic communications	national staff. Meanwhile the MBAWP is helping the national staff attend strategic communications trainings to help strengthen outreach strategies to increase visibility of results among primary stakeholders	
1.3 Proactive establishment of networks with national and international media by Communication Unit; collection of publication materials from ministries and think-tanks/research units for preparing communication material for use nationally and Afghan embassies abroad.	DM policy Unit developed and disseminated their first quarterly newsletter based on the reports and information gathered from LMs	Regular coordinated monitoring reports on ANDS progress and results achievements presented to ministries and their directorates, parliamentarians and the civil society at national and sub-national levels	Communication team publishes monthly fiscal and budget reports on the MoF website to increase knowledge sharing and awareness	60%

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

Output 11: Sustainable institutional technical capacity developed and retained within the public finance sector, particularly within the Ministry of Finance and Line Ministries

Indicators:

- Number of comprehensive trainings are developed and delivered to Line Ministries.
- Budget allotment rate: 85% for 1389 (operating budget allotment at 100%, development budget at 75%).

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
1.1 Reports are produced by line ministries, showing variances from original plans.	Reports are shared monthly with MoF	Policies/ strategies future plans reflect adjustments required, as identified in the monitoring reports	LMs have prepared their quarterly reports to update on activity results and highlight variances if any from the original plans. They are being reviewed by MoF and will be shared with donors and uploaded on the websites	55%
1.2 Based on needs assessment for the extent of capacity developing requirements in the line ministries, organizing training in program/project planning; results based management, monitoring and reporting. Such training will be organized in coordination with MoF budget Department.	Workshops on results based reports need to take place	Policy Department staff provides strategic advice to line ministries implementing ANDS sector activities with respect to appropriate annual and quarterly planning for activities and results, monitoring of progress towards results and reporting on results	The MBAWP International Reporting Officer conducted a results based management, monitoring and reporting one day workshop for all MoF budget units and reporting focal points based in LMs. The workshop along with continuous handholding support, are expected to result in more comprehensive and result oriented reports	40%
1.3 System/database for tracking allotments and contracts developed and appropriately positioned within Budget	System database set up	System/database for tracking allotments and contracts developed and appropriately positioned within Budget Department and MoF relevant departments	Database for tracking allotments regularly updated to show accurate number of allotments. This has helped in access of information easily and quickly for the Budget Department	65%

Department and MoF relevant departments				
1.4 Contribute to the process of Capacity assessment (institutional and human) and development of a comprehensive program for capacity and institutional development	Need to hire Institutional capacity development advisor	Number of new graduates/civil servants recruited and retained within MoF on Taskeel/PRR/P & G	As part of the exit strategy and to increase the institutional capacity development, the position of International Capacity Development Advisor was advertised. The CVs are being review and an interview date for short listed candidates will be set soon	85%
1.5 Donor Assistance Database (DAD) upgraded and enhanced to track aid flows effectively	DAD enhancement started	80% of aid delivered to the country is recorded in DAD	DAD updated with aid flow information, delivery rates, donor profiles and commitments to improve wider and more accurate access of aid related information to the donor community	60%

### Policy and Knowledge Products

SN.	Policy/Knowledge Products	Authors	Stakeholders Consultations	Date of Completion	Total Budget or Cost in USD
1	Annual Fiscal Bulletin developed	FPU	Donors, GoA, UNDP	September 2011	
2	Monthly newsletter published	DM Policy Unit	Donors, GoA, UNDP	September 2011	
3	Policy Paper on execution rate of development projects	FPU	GoA, donors	September 2011	
4	Communication and Advocacy Strategy developed	MBAWP	UNDP, Donors, GoA, Media, CSOs	September 2011	
5	Fiscal strategy for finalization of MTBF prepared	FPU	GoA, donors	August 2011	

### Training and Capacity Building Outputs

Project:

Year:

SN	Training or Capacity Development Outputs/Event	Date and Location	Beneficiary Organizations	Number Trained	Impact	Total Cost or Budget in USD
1	Civil Society Workshop Organized on formulation of national budget:	August 2011, MoF	CSOs and NGOs based in Afghanistan	25	Awareness and capacity of civil society organizations enhanced on budget formulation through a workshop to improve the formulation and implementation of the national budget.	
2	Capacity Development Training on Annual Program Budgeting conducted	July 2011	LMs and BUs	-	Participants capacity and understanding on Budget Preparation, Execution, Financial Planning and Performance Reporting enhanced	
3	Provincial Budgeting BC1 workshops conducted:	August 2011-September 2011	Provincial finance directors and officers of DAIL, DoPH, DoE, DRRD, IDLG	≤ 300	Provincial budgeting, consistency between Provincial Development Plans (PDPs) and ANDS priorities and authority of the provincial departments in budget formulation strengthened	
4	On the job training provided to LMs		All LMs	-	LM's Capacity	

					strengthened on timely and accurate preparation of Financial Plans	
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Annex 4

### RISK LOG

<b>Project Title: Making Budget and Aid Work Project (MBAWP)</b>	<b>Award ID: 00056407</b>	<b>Date: 09/10/2011</b>
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#	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	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	Provincial Budgeting Unit	July 2011	September 2011	<b>increasing</b>
2	Nondiscretionary projects undertaken but carry-forward funds not	2011	Organizational	Limited discretionary resources preventing distribution of funds to LM priority projects due funding	Review of the projects to consider financing for on-going projects and meeting	Budget Policy Unit	July 2011	September 2011	<b>decreasing</b>

	available			gap because of the IMF issue	held in Washington DC to address IMF issue				
3	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	August 2011	September 2011	<b>Ongoing and almost resolved</b>

## Issue Log

S/N	Type	Date Identified	Description	Status/Priority
1	Technical	September 2011	Poor expenditure alignment of LM with submitted financial plan slowing execution rate	Ongoing-High
2	Technical	August 2011	Poor capacity in project/budget planning ,limited knowledge on budget procedures and regulations slowing achievements	Ongoing-High
3	Technical	August 2011	Limited discretionary resources preventing distribution of funds to LM priority projects	Ongoing-High
4	Technical	August 2011	Although some projects are reflected in the budget, non-availability of physical funds delaying implementation of projects	Ongoing-High
5	Operational	August 2011	Receiving online applications for MBAWP of qualified experts in the field of capacity development a challenge due to sheer volume of job advertisements/postings and lengthy contractual procedures	Ongoing-High