



## Quarterly Project Report [Second Quarter, 2008]

### United Nations Development Programme Afghanistan

#### Making Budget & Aid Work [01-April-2008 – 31-June-2008]



Photo after successfully completion of the Training of Trainers Program on Provincial Budgeting

Project ID:	00056407
Duration:	60 Months May 2007 to April 2012
Component (MYFF):	Public Administration Reforms and Anti Corruption
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Unfunded:	0.00
Implementing Partners/Responsible parties:	UNDP/Ministry of Finance

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## I. Implementation progress

### **COMPONENT 1: 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**

##### **Budget Document Dissemination and Orientation**

During the reporting period, the approved Budget Document for fiscal year (FY) 1387 was printed and distributed to all the budgetary units as the official version produced by the Ministry of Finance (MoF). In order to make this document publicly more accessible, it was also published on the Budget Department's website. This important step helped the MoF to ensure that all institutions have accurate information and that there are no discrepancies in their budget allocations.

Consequently, a budget orientation workshop was organized from April 8<sup>th</sup>-10<sup>th</sup> at the MoF for all line ministries and budgetary units. This workshop was conducted to further familiarize all budgetary units with the changes made to their initial budgetary request and to introduce the new procedures for authorizing allotments and expenditure reporting. The workshop was attended by more than 150 participants from 47 agencies, representing finance, planning and procurement departments.

##### **1388 Budget Timetable and Circular No. 1**

As part of the process to improve budget formulation, the budget timetable for FY 1388 was prepared. The budget timetable includes a detailed list of activities and important dates for the preparation of the 1388 national budget. The timetable has been provided almost eight months in advance of the budget hearings to ensure that all ministries and budgetary units are aware of key delivery dates and thus are able to plan and prepare the necessary documentation for their priority investment and ordinary budget requirements. The timetable will also help line ministries to plan and initiate discussions with the MoF and potential external donors well in advance in order to secure the required levels of funding. The timetable was issued in May 2008.

To ensure effective conduct and implementation of the timetable, the Budget Department, in close consultation with the Ministry of Economy, has developed Budget Circular No.1. The circular introduces the budget process to all line ministries and budgetary units and provides information about key milestones. In addition to key dates of delivery, the circular includes sectoral as well as ministerial budget ceilings. This is important in order for the ministries to prioritise their needs and plan within the pre-defined expenditure ceilings. The circular was issued to all budgetary units in the end of June.

##### **Macro-Economic Database**

During the reporting period, considerable progress has been made on the establishment of a comprehensive fiscal database. All data is extracted directly via AFMIS terminal station that has been setup in the unit. It is a Microsoft Access database that allows for time series and detailed revenue and expenditure analysis down to the object code level.

The database will be used for financial programming, as well as for different economic analysis such as revenue analysis and expenditure analysis. Moreover, it automatically generates output tables for all key fiscal publications produced by the project.

### **Financial Programming**

Through its Fiscal Policy Unit (FPU) the project is working on developing the Financial Programming model for Afghanistan, which links the four sectors of the economy – real, monetary, external and fiscal. The model will help the project, and the MoF in particular, to monitor macroeconomic developments while also allowing it to make its own projections for all the sectors of the economy.

A first version of the Financial Programming templates, incorporating historic data from 1381-1386, has been completed. This exercise involved close liaison with other key agencies such as the Central Statistical Office (CSO), Da Afghanistan Bank (DAB) and the Ministry of Agriculture. Some sectoral inconsistencies were found between the information provided by the respective agencies, which the FPU is trying to reconcile. Once a consistent template has been constructed the FPU will work on projections for revenue, expenditures and other macro-economic indicators. The vision is to set up a macroeconomic committee that will meet on a periodic basis (most likely once a quarter) to discuss the economic outlook using the Financial Programming Model as a basis for such discussions.

### **Medium Term Fiscal Framework (MTFF) Update**

Actual revenues and expenditures figures were incorporated for solar year 1386 in the Medium Term Fiscal Framework (MTFF), which contains fiscal policy objectives and a set of integrated medium-term macroeconomic and fiscal targets and projections. The updated MTFF will form the basis for the 1388 national budget preparations.

### **Pay and Grading Analysis**

Different analysis on the fiscal implications of the Pay and Grading (P&G) system over the medium term were prepared and presented to the senior management of the MoF. This analysis was also used as a basis for discussion and consultation with the Civil Service Commission and World Bank regarding the implementation plan of the P&G scheme. The implementation plan is yet to be finalized and approved by the GoA.

## **OUTPUT 2: STRENGTHENED BUDGET FORMULATION PROCESSES**

### **Supplemental Development Budget Preparation and Approval**

The budget formulation process has been further strengthened. As part of this process, the Budget Department has introduced the concept of 'supplemental development budget' to the annual budget formulation process with the support of MBAW project. Based on this mechanism, the part of the development budget, which remains unspent at the end of the fiscal year, is carried forward in the form of a supplement to the approved budget. During the reporting period, the project assisted line ministries and other budgetary units to reconcile their actual expenditures with the treasury accounts and reported the unspent funds in the format of a budget to the cabinet for approval. The 1387 supplemental development budget was approved on June 9<sup>th</sup>, 2008.

For the 1387 supplemental development budget, the total expenditure is planned to be Afs 39,428 million (US\$ 788.56 million). The supplemental budget provides appropriations for all the sectors, thereby increasing the total core development budget for 1387 to Afs 108,836 million (US\$ 2,176.72 million).

### **Implementation of the New Budget Mechanism**

Considerable efforts have been made to enhance the engagement and role of the Budget Committee in the implementation of the new budget mechanism. The Budget Committee, which is a gathering of high level officials of the MoF, Ministry of Foreign Affairs, Ministry of Economy and a special representative of the President, is responsible for making budget allocation decisions for approved projects in the National Budget.

During this period, two Budget Committee meetings were organized under the leadership of the MoF. The first meeting was held on May 4<sup>th</sup>, 2008 where the committee allocated a total of US\$

3.023 million for 8 approved development projects. The second committee meeting was held on May 18<sup>th</sup>, 2008, where an allocation of a total of US\$ 1.9 million were allocated to 4 approved development projects. In aggregate terms, a total allocation of US\$ 4.923 million has been approved after a comprehensive review by the committee of 12 projects.

### **1387 Programme Budget Lessons Learned Process**

During this period, a Programme Budget Steering Committee meeting was organized with the Deputy Ministers of 7 programme budget pilot ministries to discuss “Lessons learned” based on the 1387 programme budget preparation experience. These lessons will need to be taken into account for 1388 programme budget preparation. Based on the Lessons Learned Programme Budget Handbook, Action plan for ministries, as well as 1388 Programme Budget Submission forms has been revised. Brief describing 1387 Lessons Learned has been prepared, a summary is provided in Annex I of this report.

### **Programme Budget Implementation/Execution**

In early May, the Programme Budget Team had conducted meetings with all 7 pilot ministries, as well as with the Sector Managers and the Treasury Department to discuss issues related to first quarter allotment requests from the line ministries, where some of the irregularities in terms of adhering to the rules and procedures, as well as delays in submission, were observed. In order to address these issues, the Programme Budget Team has taken a number of actions:

1. *Internal Capacity Building:* In the period June 1<sup>st</sup>-6<sup>th</sup>, the Programme Budget Team delivered 2 internal 3-days workshops to Budget Department staff, including both UNDP staff and civil servants, on programme budgeting, budget integration and the latest changes in the Chart of Account (CoA) and new budget allotment procedures and forms.
2. *Capacity Building within Pilot Ministries:* The Programme Budget Team has delivered 1-day workshops, specifically tailored to each of the 7 pilot ministries, discussing issues in regard to their 1387 programme budget submissions and MoF recommendations for possible improvements in 1388.

Since many line ministries experienced problems with first quarter allotments due to new forms and procedures supporting an integrated budget approach, MoF (Programme Budget Team and Budget Department Sectors) organized workshops with each programme budget pilot ministry to discuss issues with their first quarter allotment submissions, provide suggestions for second quarter allotments, and coaching them in terms of how to fill in the new budget allotment forms.

As a result of these workshops, all pilot ministries are now able to submit correct allotment request forms within the envisaged time frame (by June 20), with the Sector Focal Points continuously providing them with support in this process.

### **1388 Programme Budget Roll-Out**

Based on the capacity assessment performed in the period January-March, a decision was made to select 9 ministries and the Independent Directorate of Local Governance (IDLG) as new programme budget pilots. The new pilots are the Ministry of Transport, the Ministry of Urban Development, the Ministry of Labor and Social Affairs, the Ministry of Interior, the Ministry of Defense, the Ministry of Commerce, the Ministry of Communication, the Ministry of Woman Affairs, the Ministry of Higher Education and IDLG. These ten pilots will prepare their 1388 budgets in programme format.

During the period June 20<sup>th</sup>-30<sup>th</sup>, MoF met with the senior management of the new pilot ministries (Ministers, Deputy Ministers and Directors for Policy and Finance) and presented and discussed the programme budget reform and role, as well as the expected tasks to be carried out by the pilot ministries in this regard.

### **Programme Budget Capacity Building**

The project has been working with the USAID funded Capacity Development Programme (CDP) on the development of the comprehensive programme budget training for the line ministries. During

May and June, training materials were developed and a group of MoF civil servants/new graduates, as well as CDP national advisers, have been trained as potential future trainers. Based on a number of rehearsals and oral exams, 12 of them have been selected to conduct a 3-day training for all 17 pilot ministries during the month of July.

### **Provincial Budgeting Orientation and Trainings**

The orientation on provincial budgeting for the Fiscal Year 1387 pilot provinces (Hilmand, Khost, Paktia, Wardak, Parwan, Takhar, Kunduz and Jawzjan) was not delivered due to lack of staff to carry out training as resources were involved in delivering training to the existing pilots. It is expected that the Orientation programme on provincial budgeting for the newly undertaken eight provinces will be conducted during August 2008.

In the meantime, training on provincial budgeting with hands on exercises to the provincial officials in 10 provinces is in progress and will be completed by end July (the schedule is attached in Annex II). It is expected that this training programme will help targeted provinces to prepare their annual plan of operations for the FY 1388. In addition, it will be used as an opportunity for the provincial budgeting team to collect the budget performance progress reports from the provinces and communicate the modalities of periodic budget performance review meetings.

In addition, on June 15<sup>th</sup> a workshop on *Concepts and Processes of the Provincial Budgeting* was presented by the focal points of provincial budgeting to the representatives from the line ministries. The workshop, attended by finance and planning directors from each of the 7 pilot ministries (the Ministry of Rural Rehabilitation and Development, the Ministry of Education, MoF, the Ministry of Public Health, the Ministry of Energy and Water, the Ministry of Public Works, and the IDLG), served to explain the provincial budget process and the flow of information (data collection and performance reporting) required by the MoF.

Besides the abovementioned capacity building activities, the following major elements were accomplished within the reporting period:

- a. Feedback on the *Handbook of Provincial Budgeting in Afghanistan* (draft) was collected from MoF and some of the line ministries and donors involved during this period. The Handbook was updated and posted in the website along with other concerned resources as mentioned in the First Quarterly Report. Both the English and Dari version have been posted and the Pashto version is currently under editing (please see [www.budgetmof.gov.af](http://www.budgetmof.gov.af) for further information). However, the Handbook needs to be further edited (English, Dari and Pashto) before the printing and circulation of the hardcopy.
- b. A Training of Trainers (TOT) programme on Provincial Budgeting 2008 was successfully completed on April the 6<sup>th</sup>. A detailed report on the training has been produced and is now available on the Budget Department's website on [www.budgetmof.gov.af](http://www.budgetmof.gov.af).
- c. After a consultation meeting, a presentation was made to the Officials of the Ministry of Public Health on April the 17<sup>th</sup> on *Provincial Budgeting in Afghanistan: Concepts and Processes* based on the Handbook.
- d. A list of the PDC Members/Provincial Directors was collected from some provinces so as to organize the an intensive training programme across the provinces. The list has been finalized and sent to the provinces duly signed by the Deputy Minister for Finance.
- e. A consultation meeting was held with DFID officials on the future programme of provincial budgeting on May 10<sup>th</sup>. The officials urged the project to conduct training in the Hilmand province as soon as possible. The project also received a follow up request from DfID, but is unfortunately not able to conduct the training before August due to lack of staff.
- f. A *Provincial Budgeting in Afghanistan: Lessons Learned* one-day session was conducted for the MoF, Ministry of Public Works and Ministry of Water and Energy. In addition to the representatives of these ministries, officials of DFID/ASI and USAID/CDP also participated in the session.

- g. The leaflet (brochure) *Provincial Budgeting in Afghanistan: What and How?* on the concept and processes of provincial budgeting was prepared for wide circulation to stakeholders.

### **OUTPUT 3: STRENGTHEN BUDGET EXECUTION PROCESSES**

Implementation of the first quarter of the 1387 National Budget corresponds with the second quarter of the MBAW project implementation. During the second quarter, the budget execution was slightly off-track compared to the estimates. The implementation was affected by the changes made to the Chart of Accounts (CoA) and other allotment procedures. Budget implementation in programme format has forced MoF to bring considerable changes to the coding of projects and to the internal control mechanisms. These changes, although they were introduced early in the process, resulted in considerable confusion among line ministries and other budgetary units in terms of correctly filling their allotment and expenditure request forms.

During this quarter, the recurrent and development budget expenditure reached 19% and 4% respectively. In real terms, total expenditure equaled US\$ 345 million or 10% of the total budget. This can be translated to US\$ 247 million of recurrent and US\$ 98 million of developmental expenditures. However, total expenditure for the same quarter of the FY 1386 (2007-08) stood at US\$ 248 million or 9.5% of the total budget. A comparison with the previous year indicates that there has been a 0.5% increase in total expenditure from FY 1386 (2007-08). Details of expenditure performance by development and operation budget for the first quarter of FY 1387 (2008-09) is provided in Annex (III) of this report.

### **OUTPUT 4: STRENGTHENED AND REFORMED BUDGET MONITORING AND REPORTING**

#### **Expenditure Planning and Monitoring**

During the reporting period, expenditure monitoring was regularly undertaken by the Budget Department to assess and review execution of the national budget. This involved implementation of the recently developed Expenditure Planning and Monitoring Tool (EPMT) and regular meetings between the budget analysts and the heads of planning and finance department's in the line ministries to verify expenditures against established targets and thus identify obstacles to expenditure that require corrective actions by the MoF. This exercise has helped the MoF to ensure that allotted budgets are being utilized efficiently by the spending agencies and that there is a sound internal control and accountability mechanism in place.

#### **MoF Fiscal Bulletins**

During the reporting period, considerable progress has been made on drafting the Fiscal Quarterly Bulletin for the final quarter of 1386. The slight delay in dissemination of this report was due to a decision by the FPU to regenerate the output tables after Treasury had fully reconciled all public finance accounts and posted late AFMIS entries from the provinces. In line with one of the principles that drive programme budgeting, the presentation of the tables contained in the bulletin has integrated the operating and development core budgets. Also, tables have been prepared according to the IMF's Government Financial Statistics (GFS) 2001 methodology. Work on the first quarter fiscal report for FY 1387 will commence on the July 10<sup>th</sup> 2008.

#### **1386 Budget Performance Report**

The project helped the Budget Department to prepare the first draft of the report on the 1386 National Budget performance (March 21<sup>st</sup>, 2007, to March 20<sup>th</sup>, 2008). The report contains a comprehensive review of the fiscal developments over the last fiscal year and takes account of donor contributions and the status of expenditures in both recurrent and developmental budgets. The report will soon be disseminated to the relevant departments for their review and comments and will be released along with the QATYA (end year account) for parliament approval by September 2008.

#### **Budget Database Design and Approval**

To improve the quality of work and provide better facilities and possibilities for the preparation, planning & execution of the national budget, the project has prepared a proposal for design and purchase of a new system to track and record budget data. A proposal has been submitted to the MoF senior management, which was approved by the Budget Committee on June 15<sup>th</sup>, 2008. A technical proposal describing the various system requirements was prepared and has been presented to the MoF procurement committee. It is expected that the new database will further enhance the capability of the current Development Assistance Database (DAD) to prepare budget tables and comprehensive reports.

## **COMPONENT 2: ALIGNMENT OF EXTERNAL ASSISTANCE AND IMPROVED AID EFFECTIVENESS TO SUPPORT AFGHANISTAN DEVELOPMENT GOALS AND STRATEGY**

### **OUTPUT 5: IMPROVED CO-ORDINATION OF EXTERNAL FUNDING IN LINE WITH THE PARIS DECLARATION, AFGHAN COMPACT AND ANDS**

Aid coordination, aid information management and aid effectiveness continues to be an important output of the project. Some of the major accomplishments of the Aid Coordination Unit in the second quarter of 2008 include:

#### **Finalization of the 2008 Survey on Monitoring the Paris Declaration**

The Aid Coordination Unit (ACU) led the Paris Declaration Monitoring Survey on Aid Effectiveness - 2008. During this period, the survey was conducted and a draft report submitted to the OECD. Moreover, in order to validate the data and the report findings, the ACU has consulted all major donors and incorporated changes to the final report re-drafted by the OECD. The report will be re-submitted to OECD on July 10<sup>th</sup>, 2008, and will be published in time for the Third High Level Forum on Aid Effectiveness in Accra, Ghana, in September 2008.

#### **1387 Donor Financial Review Report**

During the second quarter of 2008, the Aid Coordination Unit (ACU) completed the first round of the biannual Financial Reviews with all donors. This exercise helped provide updates on donor pledges, commitments and disbursements over a multi-year period until 2012.

The report on Donors' Financial Review was produced in the same quarter. The report itself has improved by introducing the analysis of (a) the external funding gap for the implementation of the ANDS; (b) donors sector allocations, and (c) distribution of the donor funds between the Core and External Budget. Based on the improved analysis, the Donor Financial Review has provided policy recommendations for the Afghan Government on how to improve aid coordination and effectiveness. The Report was published and shared at the international donors' conference in Paris on June 12<sup>th</sup>, 2008. (please see [www.budgetmof.gov.af](http://www.budgetmof.gov.af))

#### **Pre and Post Paris Conference Preparations**

The project provided significant contributions to the preparation of the Afghan Government for both the Senior Level Meeting (Paris, June 4<sup>th</sup>, 2008) and the High Level Meeting (Paris, June 12<sup>th</sup>, 2008), which resulted in pledgings of around US\$21.4 billion for the security and reconstruction of Afghanistan. Among the contribution were the drafting by ACU of the Pledging Strategy of the Government, which served as the basis for discussions and speeches of the Afghan delegation at both the aforementioned meetings. Secondly, prior the Paris Conference the ACU organized bilateral meetings with the key donors to inform them about the external funding requirements for the ANDS implementation. These meetings were chaired by the Deputy Minister for Finance. Thirdly, the ACU drafted the speeches, as well as press releases for the Minister of Finance. Finally, the ACU organized the meeting of the Working Group on Aid Effectiveness of key donors to brief them about the Government's preparation for the Paris Conference. This meeting was also chaired by the Deputy Minister for Finance.

After the Paris Donor Meeting the ACU initiated further follow up and clarification on the pledges that were announced by different states at the Paris Conference. As a result of this, the ACU

produced the Pledging Table listing the announced pledges of all donors from the Paris Conference.

Based on the conclusions of the donor meetings in Paris, the ACU participated at a number of the high level discussions and as result it drafted the Concept Paper for Establishing the Mechanism for the Implementation of the ANDS to ensure future donor alignment with the ANDS priorities. The Concept Paper served as the basis for (a) discussions at the Oversight Committee (OSC) of key ministers, (b) presentation to the Cabinet, and (c) decisions of the President about the final mechanism for the ANDS implementation.

### **GoA & Donor Negotiations**

The ACU has supported the preparation of the Afghan Delegation for the High Level Meeting on Aid Effectiveness that was organized in Thailand (first week of May). This meeting was in preparation of the Global Aid Effectiveness Meeting which scheduled for the September this year in Accra (Ghana). The ACU drafted the Briefing, Talking Points and the Speech of the Head of the Afghanistan delegation for this Conference.

During the Afghan – German negotiations that took place in Bone, Germany, the ACU prepared briefs for the Minister of Finance and actively participated in the negotiations on the 70 million EUR provided as grant to Afghanistan through the German Ministry of Economic Cooperation and Development. The negotiations were aimed at identifying the priorities of the Government of Afghanistan for sector allocations of the German bilateral aid.

The ACU has also supported the efforts of the Office of the Deputy Minister of Finance to produce required documentation for the negotiations with the World Bank on the Successor Programme for future budget support to the Government of Afghanistan. This included preparation of the Reform Programme which would be supported by the future World Bank adjustment operation and preparation of the Implementation Completion Reports for the previous PSIB operation (PSIB II and III). Preparations of both documents required number of meetings with the line ministries and consultations within the MoF, including with the Minister of Finance.

In addition to these negotiations, several briefing notes have been prepared for the Minister and Deputy Minister for Finance to facilitate the signing of grant and loan agreements with different donor agencies.

### **Capacity Building of ACU Staff**

Given that five new staff members with limited experience was recently hired for the ACU , basic training was organized to introduce these to general concepts of aid coordination and effectiveness. In this regard, a comprehensive three-month training programme was developed and submitted to the MoF senior management for approval. The training is expected to commence by mid-July 2008.

### **Upgrading of the local DAD to new 5.5 version**

New requirements and enhancements have been implemented in the local DAD. This upgrading has enabled the ACU to review and clear up the existing information in DAD, which will improve the quality of the data to the maximum extent possible. With the new changes the team will be able to decrease the information gap between the reported aid by donors and the aid flows recorded in DAD by at least 50% by the end of 2008.

## **COMPONENT 3: IMPLEMENTATION OF THE EXIT STRATEGY TO BUILD SUSTAINABLE CAPACITY WITHIN THE GOA**

Capacity building of the newly recruited 20 graduates remained an important component of the implementation of the exit strategy during the second quarter of 2008. Based on discussions with the senior management of the MoF, it was decided that each of the new graduates would be required to work for a minimum of six months in their appointed sectors in order to understand

and familiarize themselves with the routine working procedures involved in the Budget Department. They were encouraged to work closely with the Sector Managers and to attend meetings with the line ministries in order to develop working relationships and improve their grasp of issues related to budget allotment and execution.

Beside the formal and on the job training for these interns, the project facilitated their participation in all orientation and training workshops on budget formulation, integration and reform that were delivered to the finance and planning staff of the line ministries. It is worth mentioning that some of these graduates have been offered Training of Trainers (ToT) training and will be utilized to deliver programme budget trainings to the staff of the line ministries. The aim of all this training is the successful implementation of the MBAW project's exit strategy and the gradual hand-over of responsibilities from national project professionals to the civil servants.

## OUTPUT 6: SIGNIFICANT LEVELS OF TECHNICAL CAPACITY BUILT AND RETAINED WITHIN THE PUBLIC FINANCE SECTOR, PARTICULARLY WITHIN THE MINISTRY OF FINANCE AND LINE MINISTRIES

During the reporting period, the project conducted several 'learning hours'; time allocated to provision of in-house presentations, seminars, workshops and on the job trainings. Besides the 'learning hours,' project staff participated in a range of overseas training and international conferences. Below is the details of the training and international conferences:

Name/Title	Training Title	Funding Source	Duration
Khesrow Momand, Budget Officer	Seminar on Contractual Project Management/China	Republic of China	20th Feb- 24th Apr 08
Khalil-u-Rahman, Budget Officer	MPA Specialization/USA	USAID/Equality Alliance Project	10 Feb-20 May 2008
Hamid Jalil, ACU Manager	MPA Specialization/USA	USAID/Equality Alliance Project	10 Feb-20 May 2008
Najimullah Qasimi, Provincial Budget Officer	Project Management, Monitoring and Evaluation training/AIT Bangkok	MBAW/UNDP	25 May-15 June 2008
Ghulam Dastgir, Budget Officer	Joint Venture Management Seminar for Asian countries/China	Ministry of Commerce, China	22 May-10 June 2008
Ghulam Dastgir, Budget Officer	Crisis Management	NATO International school of Azerbaijan	16-22 June 2008
Hamidullah Faizi, Budget officer	Seminar on the Contractual Project Management/China	China	20th Feb- 24th Apr 08

### Project Staffing during the 2nd Quarter 2008

During the second quarter of 2008, the project, in line with its proposed outputs and activities, filled 6 national positions and completed the process recruitment for one international position. Below is the details of this recruitment:

Name	Title	Sector/Unit	Grade
Abdul Quduss Dastagir	Admin/Finance Officer	Office Management	SC8(1)
Abdul Latif Totakhail	Aid Coordination officer	Aid Coordination	SC8(1)
Hizbullah Elyas	Aid Coordination officer	Aid Coordination	SC8(1)
Habiburahman	Aid Coordination officer	Aid Coordination	SC8(1)
Jawid Omer	Aid Coordination officer	Aid Coordination	SC8(11)
Muzamil Shinwari	Budget Policy & Reporting Manager	Budget Policy & Reporting	SC10(1)

In addition to the new recruitments, two project staff members resigned from their positions.

The project is recruiting for a few other positions, which will be filled during the third quarter of 2008. These include one Programme Specialist for Aid Effectiveness, a Programme Budgeting Officer and a Provincial Budgeting Manager.

## II. Project implementation challenges

### *Updated project risks and actions*

**Incompliance of donors with Harmonized Reporting Format (HRF) requirements have complicated the process of data collection.** A number of donors do not yet provide sufficient data on aid delivery, which includes pledges, commitments and disbursements. At the same time, most of the donors provide data with significant delays hampering Government efforts to complete required analysis on time and to support the budget preparations.

Many initiatives have been taken by the ACU to meet this challenge. The preparation of the regular Donor Financial Review and the Bilateral Portfolio Reviews are two such initiatives. In addition to these, the ACU focal points have intensified their contact with donors to improve data. Finally, based on the ACU initiative, the Minister for Finance has sent a letter to all donors urging them to improve the process of data sharing.

The ACU has initiated detailed analysis of the quality of the data for each donor. Based on it, the ACU will launch bilateral meetings with all donors to ensure that the quality of data, as well as the process of sharing data with the Government, will be improved. The Aid Effectiveness Working Group will be approached for the same purpose.

**Lack of guidance from line ministries to provincial office on budget process.** It has been observed that the line ministries have not been able to provide adequate guidance to their provincial directorates for better provincial budget submissions. Neither have they provided any template/format for a regular progress reporting system that allows the inclusion of both physical and financial attainments along with the pertinent problems to be resolved. Separate training should be designed for the ministry-level officials in the future.

**Lack of dedicated provincial units in line ministries is seriously hampering planning and implementation of provincial budgeting.** There is not a sensible communication mechanism built into the line ministries and across the provinces for a regular/ periodic flow of information. There is a need to establish Provincial Planning/ Budgeting Units in the ministries to coordinate the entire provincial budgetary process.

**Implementation of program budget structure across pilot ministries is critical for successful delivery of program budget reform process.** MoPH, MoF and MoE have been requested to restructure their programme budget structure to make it more simple and straight-forward. If these ministries fail in doing so they will not be able to successfully implement a programme budget in their ministries.

The commitment of the line ministries to implement MoF instructions on budget integration, requiring shifting development budget responsibilities under the Finance Director and re-engineering internal budget and accounting procedures needs to be improved.

In addition, Cabinet endorsement of the programme budget and involving senior management in the process will be crucial for future commitment to this reform and the success of its implementation across Government.

**Inadequate internal capacity in the line ministers can hinder program budget implementation.** Pilot ministries need to ensure involvement of both operating and development staff, as well as the inclusion of the technical staff of the ministries. Also, line ministries need to increase their work on raising awareness about programme budget among line ministries and broader personnel of the pilot ministry. Otherwise line ministries will not be able to build the internal capacity necessary to fully implement the reform, especially when it comes to budget execution by programmes and activities and performance monitoring and evaluation.

### *Updated project issues and actions*

**ACU capacity is continuously affected by staff turn-over and delayed recruitments.** The staff constraints and turnover has been a long time challenges for the ACU, but the problem increased during the first and second quarter of 2008. Furthermore, most of the ACU staff are national advisers hired by the UNDP, which raises a serious concern about the sustainability of the unit.

New employees were recruited by the project management in order to ensure proper staffing. Among the new staff, three new graduates have been employed as civil servants.

Given that the ACU is a key to the provision of advice on aid delivery to the Government, and the fact that the capacity of new staff members are low, the comprehensive training programme will be organized to improve their knowledge and donor relations skills. To increase sustainability, future recruitments will include the hiring of more civil servants.

**Considerable amount of time and capacity of the ACU is devoted to improve the quality of donor data.** The ACU has an important role to play in providing analysis and policy recommendations to improve aid effectiveness. This part of the ACU activity will need to be given higher priority in the future. However, due to weak donor responses to the request to share data on aid delivery, ACU staff still spend most of their time on improving the data sharing process and the quality of the data.

The capacity for analysis of aid effectiveness has been improved with the preparation of the latest Donor Financial Review, which included key recommendations for improving aid effectiveness. The preparation of the ACU six-month work plan has included more activities in the area of aid effectiveness. Finally, the ACU Training Programme has been designed to increase the capacity of the staff of analysis of aid effectiveness. The ToR for the Programme Specialist for Aid Effectiveness, which is currently being recruited, focuses on the provision of support to these efforts.

New local staff will be hired in addition to the foreign adviser. The ACU Training Programme will improve capacity of the ACU for analysis of the aid effectiveness. Given that capacity building is key to greater aid effectiveness, within the next three months the ACU will initiate the mapping and assessing of the effectiveness of the technical assistance to (i) move the ACU closer to analysis of aid effectiveness, and (ii) to provide advice to the Government of Afghanistan.

**Current staffing level at FPU, recruited under MBAW project, does not correspond with the deliverables assigned to this unit.** The Fiscal Policy Unit (FPU) is supposed to have 8 staff members based on the initially approved structure by the MoF. There are, however, currently only 3 analysts within the unit. It would be desirable for the FPU to have at least 2 additional fiscal analysts and one additional data analyst, This would enable the FPU to operate at its optimum capacity.

Owing to the complete lack of feedback from the ministries and provinces on the provincial budgetary processes, it has been very difficult to monitor the progress of its implementation. It is very difficult to initiate further reforms based on the experience at the field levels. Additional staff is needed to bridge this gap since we have been expanding the provincial budgeting system to cover more ministries and more provinces.

### III. Financial status and utilization

#### Financial status

Table 1: Contribution overview [April 1, 2007 – March 31, 2012]

DONOR NAME	CONTRIBUTIONS		CONTRIBUTION BALANCE
	Committed	Received	
CIDA	3,902,086	1,951,043	1,951,043
DFID	5,000,000	829,186	4,170,814
GTZ	1,200,000	1,200,000	-
UNDP	154,000	154,000	
<b>TOTAL</b>	<b>10,256,086</b>	<b>4,134,229</b>	<b>6,121,857</b>

#### Financial utilization

Table 2: Quarterly expenditure by activity [Jan 1, 2008 – Jun 30, 2008]

Activity	BUDGET [2008]	QUARTERLY EXPENDITURE	BALANCE	DELIVERY (%)
Activity 1 [Strengthened Budget Policy and Planning Processes linked to ANDS priorities]	77,418	102,877	-25,459	132%
Activity 2 [Strengthened Budget Formulation Processes]	454,761	313,317	141,444	67%
Activity 3 Strengthened Budget Execution Processes]	79,558	51,617	27,941	64%
Activity 4 [Strengthened Budget Monitoring and Reporting]	77,506	30,160	47,346	39%
Activity 5 [Alignment of and improved coordination of External Funding in line with Paris Declaration Afghan Compact to support ANDS implementation]	121,309	79,576	41,733	65%
Activity 6 [Sustainable institutional technical capacity built and retained within the public finance sector, particularly within the Ministry of Finance and Line Ministries]	85,059	47,637	37,422	56%
Activity 7 [Other project costs]	442,916	607,292	-16,4376	137%
UNDP GMS (based on donor agreements)	74,365	68,473	5,892	92%
<b>Total</b>	<b>1,412,892</b>	<b>1,300,949</b>	<b>111,943</b>	<b>92%</b>

Table 3: Quarterly expenditure by donor [Jan 1, 2008 – Jun 30, 2008]

DONORS	ACTIVITY	2008 Budget	Q1/2 EXPENDITURES	BALANCE	DELIVERY RATE
	(as per approved budget)		01/01/08 - 30/06/08	as of 30/06/08	%
UNDP	ACTIVITY07	0	7920	-7920	
GMS 0%			0	0	
			7920	-7920	79%
CIDA	ACTIVITY01		19,999.00	-19999	
	ACTIVITY02		53,065.00	-53065	
	ACTIVITY03		6,641.00	-6641	
	ACTIVITY04	57,132.00	14,768.00	42364	
	ACTIVITY05	57,132.00	20,815.00	36317	
	ACTIVITY06		2,174.00	-2174	
	ACTIVITY07	80,941.00	263,403.00	-182462	
GMS 5%		10,845	21,165	-10320	
<b>Subtotal DONOR I</b>		<b>206,050.00</b>	<b>402,030.00</b>	<b>-195980</b>	<b>195%</b>
DFID	ACTIVITY01	77,420.00	82,877.00	-5457	
	ACTIVITY02	40,747.00	107,840.00	-67093	
	ACTIVITY03	79,559.00	44,976.00	34583	
	ACTIVITY04	20,373.00	15,391.00	4982	
	ACTIVITY05	64,177.00	58,757.00	5420	
	ACTIVITY06	85,059.00	22,948.00	62111	
	ACTIVITY07	361,974.00	336,385.00	25589	
GMS 5%		40,517	37,178	3339	
<b>Subtotal DONOR II</b>		<b>769,826.00</b>	<b>706,352.00</b>	<b>63474</b>	<b>92%</b>
GTZ	ACTIVITY2	414,015.00	152,412.00	261603	
	ACTIVITY06		22,517.00	-22517	
GMS 5%		23,001.00	9,718.00	13,283.00	
<b>Subtotal DONOR III</b>		<b>437,016.00</b>	<b>184,647.00</b>	<b>252,369.00</b>	<b>42%</b>
<b>Total</b>		<b>1,412,892.00</b>	<b>1,300,949.00</b>	<b>111,943.00</b>	<b>92%</b>

## Annexes

### Annex I: 1387 Programme Budget Lessons Learned

- Endorsement and support by the Cabinet –commitment and endorsement from the Minister’s level is needed to make sure reform is implemented and all miniseries’ staff cooperate
- Senior management support and involvement – to approve programme structure, help define key objectives and performance targets, lead the process of prioritization of programmes and activities for the budget submission, and be able to defend their budgets by programmes in the Budget Hearing
- Meaningful, simple and manageable programme structure
  - Programmes should be based on MAIN services delivered; in developing programmes ministries should start with their core tasks (usually performed through operating budget
  - Sub-programmes should be aligned with org. structure/departments
  - Number of programmes should be kept at manageable level – not more than 5
- PB Implementation Team membership – last year it was mostly development people who were involved in the programme budget preparation; operating budget staff were not involved – they did not provide their inputs on what can be done, they were not trained in PB, and they had no idea what is PB of their ministry;
  - Members should be – Director Finance, Director Policy, operating development budget staff, as well as key technical people who would assist in defining objectives, outputs and outcomes, as well as key elements for costing.
  - Operating and development budget integration – has not be done in most ministries; without integrated budgets there is not programme budget; two main elements:
  - Integrated procedures – to be done by MoF, and replicated to internal procedures within LMs
  - Integrated organizations – merging of the operating and development budget units, as per Instructions by MoF
- Capacity in the provinces for understanding programme budgets and implementing new systems – ministries are NOT aware what specific activities money is being spent on in provinces; they do not trust provinces have capacity to implement new structure
  - Provinces should be explained what Ministry’s programme budget is (and asked for their comments)
  - They should be invited at the beginning of year and each quarter to explain what is the budget they got, and how to use new codes and forms properly
- MoF support
  - Guidelines, instructions and training
  - Sector managers/focal points strong involvement
- M&E system – should be focus in the second and third year of PB implementation
  - Define better outputs and outcomes
  - Focus on establishing baseline
  - Develop mechanism for performance tracking
  - Performance maintaining and reporting
  - Develop clear lines of accountability for achievements

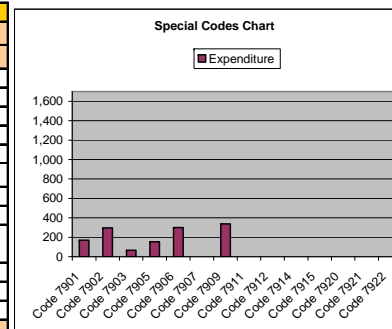
**Annex II: Intensive Training on Provincial Budgeting 2008****Organized for the Provincial Development Committee Members and Finance Officers at different 10 Provincial Headquarters**

Serial Number	Training Groups	Training Activities	Events to take place	Coordinating/Facilitating Officer
1	<b>Group 2: Northern Region:</b> <i>Faryab, Balkh and Badakshan</i>	Balkh	June IV week (22-25)	Mr. Masood Ferhamand, Provincial Budgeting and Reporting Officer
2		Badakshan	July week I	
3		Faryab	July week III	
4	<b>Group 3b: Central Region:</b> <i>Panjshir and Bamyan</i>	Bamyan	July week III	
5		Panjshir	July week I	
6	<b>Group 3a: Central Region:</b> <i>Ghazni and Logar</i>	Ghazni	June IV week	Mr. Najimullah Qashimi, Provincial Budgeting and Reporting Officer
7		Logar	July III week	
8	<b>Group 1: South and Southwest Region:</b> <i>Kandahar and Hirat</i>	Hirat	July II week	
9		Kandahar	July IV week	
10	<b>Group 4: Eastern Region:</b> <i>Nangrahar</i>	Nangrahar	July week I	Yuba Raj Bhusal, Advisor

### Annex III: Details of expenditure performance by development and operation budget for the first quarter of FY 1387 (2008-09)

Date: 5-July-08

Operating Budget Special Fund Codes	Approved Fund	Expenditure	Balance	% Expenditure
(7901) Policy Reserve (code 91)	400	169	231	42%
(7902) Disaster Contingency Fund (99)	1,000	295	705	30%
(7903) Interest on Debt	500	67.21	433	13%
(7905) Civil Service Reform - Pay and Grading	2,285	154	2,131	7%
(7906) Pensions - Martyrs and Disabled	1,200	300	900	25%
(7907) Pensions - Civilian and Military	1,740	-	1,740	0%
(7909) International Membership by Ministries	150	338	(188)	225%
(7911) Fuel Subsidy	2,000	-	2,000	0%
(7912) Contingency Fund for MoD	1,920	-	1,920	0%
(7914) Contingency Fund for Martyrs and Disabled	120	-	120	0%
(7915) Contingency Fund for Increase in Salaries Government Employees	561	-	561	0%
(7920) Contingency Fund For MoE	500	-	500	0%
(7921) Contingency Fund for Supreme Court	43	-	43	0%
(7922) Code for Maintenance of roads and Salang	650	-	650	0%
<b>Total</b>	<b>13,069</b>	<b>1,324</b>	<b>11,745</b>	<b>10%</b>



#### 1387 Progress of Expenditures and allotments in Core Budget

TYPE OF BUDGET	CURRENCY	1387 Approved Budget	Allotments - Contracts Signed		Expenditure		
			Amount	%Allotment	Amount	%Expenditure	
OPERATING BUDGET	Million Afghani	65,359	38,639	59%	12,359	19%	
	Million Dollars	1,307	773		247		
DEVELOPMENT BUDGET	Million Afghani	108,835	18,902	17%	4,879	4%	
	Million Dollars	2,176.7	378		98		
	Pending Payments for DAB and donors' confirmation						0%
	<b>Total Development Budget</b>					<b>378</b>	<b>17%</b>
<b>TOTAL AFS (million)</b>		174,195	0	57,541	33%	17,238	0%
<b>TOTAL USD (million)</b>		3,484	0	1,151		345	

