



**QUARTERLY PROJECT REPORT
First Quarter, 2007**

**United Nations Development Programme
Afghanistan
Making Budgets Work
01-Jan-2007 – 31-Mar-2007**

**Project ID:00011018
Duration: April 2004 –April 2007
Component (MYFF): 2.7. Public Administration Reform
Total Budget: USD 5,785,776
Unfunded: USD 0**

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I. PROJECT IMPLEMENTATION CHALLENGES

Project Risks and Actions:

As the project is approaching the end of its first phase, it faced many challenges in its last quarter which included:

Project sustainability:

Budget Department high skill gaps are currently largely filled by the national professionals on the project salaries under UNDP contracts. Thus, salary decrease due to the discontinuation of a hazard pay for these project service contract holders, under International Civil Service Commission decision, has led to the exodus of many project personnel at MoF to search for better-paid jobs, and consequently affecting on the delivery of target outputs. Underlying this is also the rising market rates and poaching of skilled national staff with a higher salary level brought by some donors. Currently there is an on-going discussion between the MoF and UNDP to look into the options to amend the situation.

Delayed 1386 Budget approval process:

The MBW project assisted the MoF and the Government of Afghanistan in preparing the 1386 National Budget as per the budget timetable and it was submitted it to the Cabinet and to the Parliament on time. However, the Parliament did not approve the submitted Budget due to several reasons (such as need for the increase of salaries to civil servants, more fair allocation of budgets to each province, gender balance). Currently, the project is assisting the Budget Department in reviewing and making amendments for resubmission to the Parliament. This delay can have a negative effect on budget execution rates, which was also experienced in previous years.

Project Issues and Actions:

Next Phase of the Project:

There are on-going formulation, coordination and discussions on the next phase of the MBW project. The design of the next phase is closely coordinated with the design of the next phase of DFID support to the Budget Department, which will provide support through the MBW project, TA pool mechanism and formal training. MBW project's current CIDA funding is effective until the end of April while GTZ contribution is effective until December 2007. Since major components are supported with CIDA contribution while GTZ contribution will be used to support mainly for program and provincial budgeting support, there is an urgency to launch the next phase of the project with secured funding from DFID, CIDA and others. At the same time, meetings on more coordinated support by relevant stakeholders took place to create more institutionalized, streamlined support to the Budget Department and to the MoF for a longer term. The review and approval process is expected to take place within April to finalise formalizing the project document and contribution from potential donors.

II. IMPLEMENTATION PROGRESS

Output 1: A unified national budget, founded on principles of accountability, transparency that serves as an instrument of co-operation, consultation, consensus, decision-making, and which contributes to the development of the nation state.

(1) Budget policy and planning process linked to development strategy

Multi-year Fiscal Strategy

The Medium Term Fiscal Framework, which was prepared in 2006 along with the budget with the support from the project, was approved by the Cabinet on 2 April 2007. This is a good development due to the fact that the Government is moving towards a predictable multi-year fiscal strategy. This will pave the way for the medium term budget and expenditure frameworks, in which the project intends to support MoF in its development from 1387.

Preparation of the Medium Term Budget Framework

GoA intends to approve the Medium Term Budget Framework (MTBF) by March 2008. The project team has started discussions on the operational logistic and its scope with relevant stakeholders, such as ANDS secretariat.

(2) Timely and inclusive budget formulation process

1386 Budget Preparation and Approval

The 1386 (i.e. April 2007 – March 2008) budget hearings were completed on 6 January 2007. After the budget hearings, the Budget Department conducted a thorough analysis and prepared a draft budget with the support from project budget officers for its submission to the Budget Committee. At the end of January, the Budget Committee discussed and revised this draft budget. The draft budget was then presented to the Cabinet in the first week of February. The budget was approved by the Cabinet on 5 February and submitted to the Parliament on 8 February. It is worth to mention that these key steps in the budget process were in accordance with the planned budget calendar. The Parliament was originally supposed to approve the budget by 20 March 2007, however, the approval process got delayed and finally the Parliament did not accept the draft budget. The concerns raised by the Parliament are the need for salary increase for civil servants, more equitable allocation to provinces. As of the end of March, the Budget Department is going through redrafting of the budget based on these recommendations by the Parliament. The revised budget is expected to be submitted soon and approved by the Parliament in April.

New Mechanism for Core Development Budget

One of the key achievements of the first quarter is the preparation of a “new mechanism” to improve budget execution and the overall efficiency of the core development budget. The new mechanism for the core development budget has two stages in including projects; “projects in the pipeline”, which include those projects carried over but has not started, and “approved budget” that includes projects either at the implementation state or project preparation process (including procurement process) ready for implementation. Criteria for moving a project from “Projects in the Pipeline” to “approved budget” is (i) completion of project preparation and documentation; (ii) completion of feasibility study (if required); (iii) completion of project design including time estimation; and (iv) completion of procurement process including cost estimation; (v) readiness of contracts for signature. While both “approved budget” and “projects in the pipeline” will be approved by the Cabinet and Parliament, “projects in the pipeline” do not need a separate approval process by them when they move to the “Approved Budget” during the fiscal year. Therefore, the new mechanism will encourage the

development of quality project preparation and smooth approval process for their better execution. The new mechanism has been presented to line ministries and donors through various fora and is expected to be implemented from 1386.

Program Budgeting Pilot

To further improve the policy linkage with the budget, a program-based budgeting system was introduced in three line ministries for 1386 budget with UNDP and DFID/Maxwell Stamp support. The project team has been supporting in giving orientation and support to pilot line ministries (Ministry of Education (MoE), Ministry of Public Health (MoPH) and Ministry of Rural Rehabilitation and Development (MRRD)).

As a result, three pilot ministries have developed their strategic plans aligned to the I-ANDS and have translated the strategic objectives into programs to be resourced in 1386. Budget proposals of pilot ministries were included as an Annex to the 1386 National Budget Statement. MoE has developed eight programs while MoPH and MRRD have four programs. Each program has performance indicators and the pilot ministries need to report on the program performance indicators in 1386 and to provide an explanation of the achievement of each program as measured by these indicators. Modifications to these program budgeting proposals are expected to be made based on the Parliamentary National Budget deliberations.

Provincial Budgeting Pilot

Provincial budgeting pilot exercise was introduced for the 1386 budget preparation with the support from the UNDP and DFID/Maxwell Stamp. Three provinces were selected for the pilot exercise; Balkh, Panshir, and Kandahar. Three ministries were selected for the pilot project based on their contribution to the economic development process in provinces; Ministry of Education, Ministry of Agriculture and Ministry of Rehabilitation and Rural Development.

The project teams communicated and asked pilot ministries to disaggregate its National budget ceilings by province and by program. Provincial ceilings were then communicated to the pilot ministries' directorates for activity planning. Further support and exploration of involvement of provincial stakeholders will be followed in the next quarter.

Preparation of 1387 Budget

Some preliminary work has been already started in this quarter for the preparation of the 1387 budget. A draft budget calendar for 1387 has been prepared with support from the MBW project and the Budget Department will discuss this timeline with relevant stakeholders including other departments at the Ministry of Finance, the ANDS secretariat and line ministry budgetary units.

(3) Improved Budget execution

Application of a Functional Classification for budget execution

Reporting on the execution of government budgets using a functional classification of expenditures that also allows tracking of poverty-related spending is also being piloted with the support from the project based on the technical recommendations from IMF and the World Bank. This will be supplemented with a simple program classification in key ministries.

Improved Budget Execution rate

The MBW project has continued to play an active role in improving the budget execution by line ministries in line with its budget formulation. The execution rate during the first quarter increased from 39.6 percent to above 56- 57 percent (in dollar terms it went up from USD 525 million at the beginning of the quarter to USD 750 million at the end of the same quarter). Compared with the last

year's data at the same period, it is 12% or USD 240 million higher. Some more expenditure from provinces is expected to be reflected in the financial tracking system.

The Budget Department hired sector managers and budget officers through UNDP to be focal points for all primary budgetary units at line ministries. They supported and facilitated the communications with these budgetary units for better execution.

(4) Strengthened budget monitoring and reporting

The project assisted the MoF in starting a couple of initiatives to improve budget reporting which can be publicly available to donors, government agencies and the public on the MoF website. These initiatives include creating a central database with fiscal and budget data, weekly fact-sheets, quarterly budget bulletins, and an annual performance report.

Currently there is on-going fiscal and budget database development, which will have all the data on fiscal and budgetary issues starting from 1381 in a user-friendly format. The MBW project providing support in entering data during the first quarter. The database is expected to be completed by end of April.

The quarterly budget bulletin is being designed with support from UNDP supported budget monitoring officers to incorporate most recent fiscal and budgetary developments including the execution rates and issues related to the budget process and implementation. This will be circulated to donors and posted on the MoF website.

Fact-sheets have been developed since July 2006 and they will be updated more frequently and distributed to donors through emails and posted on the Budget Department website (www.af).

Output 2: Co-ordination of all Aid Flows to Afghanistan. A Government owned and led aid co-ordination system used by all international, national and provincial partners in the reconstruction process.

During the first quarter, the Aid Coordination Unit (ACU) in the Budget Department, supported by the MBW project, prepared reports and supporting materials for the Joint Coordination and Monitoring Board (JCMB) meeting in Berlin on January 30-31 and the preparatory Afghan Development Forum (ADF) meetings in Kabul. UNDP Aid Coordination advisor/officers assisted the MoF in preparing the progress and recommendations against six priority benchmarks in the Paris Declaration and the Afghan Compact for this purpose. ACU also organised Aid Effectiveness Working Group meetings in the first quarter, and Bi-weekly Government -Donor coordination & technical sub-committee meeting. The second draft of OECD-DAC 2006 monitoring survey on the Paris Declaration was shared with donors and re-edited.

One of the major issues with aid coordination is the collection of aid information, which was sought by the Parliament during the budget presentation. In this regard, ACU started review of a harmonised reporting format, which streamlines both B4 and B6 forms in order to capture both the core and external budgets. The harmonised reporting format will be finalized in the next quarter and will be used for 1387 budget preparation.

A proposal to simplify the management of discretionary funds, in order to increase the flexibility and execution, was also presented at the Govt-Donor coordination & technical sub-committee meetings. The follow-up with relevant donors will be made in the second quarter.

Consultation on increased donor funding to core budget

Involvement of donor community on budget preparation is a key as most core development budget is funded by donors. At the same time, GoA aims to increase donors' contribution to the core budget in order to strengthen the national budget as a planning and coordination tool for reconstruction and development. During the first quarter in 2007, the project assisted Budget Department in presenting on the new budget mechanism to donors through Working Group (WG) meeting and regular updates and communication on the budget preparation and execution were also made to donors at the bi-weekly MoF – Donors Technical Coordination Sub-committee meetings. Several meetings were held with donors regarding the financing of the projects through the core budget. Separate meetings were held with ARTF donors and LOTFA.

Output 3: An Effective Grants & Loans Management/ Portfolio Management Unit. A nationally run grants and loans management and portfolio monitoring team that provides professional leadership and support to the Government, its partners and stakeholders, in all matters pertaining to the administration and performance of all grants and loans entered into by the Government of Afghanistan.

The Aid Coordination Unit is also a focal point for monitoring and putting together the external budget information in order to effectively inform the national budget process. During the first quarter, ACU sought project information and prediction of costing from donors in B6 form. Due to the year-end and start time, some donors were having difficulty in collecting and submitting information to the MoF on time. Lessons are the need for more timely planning and development of an above-mentioned harmonised reporting format to effectively inform the national budget process.

Work with donors and multilateral organizations:

The project team has also actively involved in IMF PRGF negotiations and appraisal and negotiations of two World Bank projects, which focus on public finance management and related issues.

Database and DAD issues:

A stand alone new internet connection to improve the local network service, and information management facilities was established and it is expected to be finished in the first week of April.

Restructuring of the MoF website completed during the first quarter, which is expected to improve navigation, content and usability of web based information about the budget department performance.

Restructuring and upgrading of the DAD online started in the first quarter. This is to improve the accessibility & obtaining more options for better information recording & information management as per requirement by users.

For the first time the database was redesigned with the support from the project to capture the development budget (Core and External) by province, which needed extensive amount of work.

Output 4: Capacity Development of a National Public Finance and Expenditure Management Team¹.

Young Graduate Program

Based on the exit strategy proposal, the recruitment efforts of young graduates from Kabul University Department of Economics led to the applications by 12 graduates into the Budget Department. The MoF is currently seeking the enrolment of these graduates under the government payroll with the Civil Service Commission. The project facilitated more recruitment and placement of these graduates

¹ This project output was added in order to reflect changes in the government's policy framework

for on-the-job training at various positions within the Budget Department. The MoF is also seeking donor/provider for formal training support and/or exposure on public finance management. The project is discussing with potential donors including the World Bank and DFID for possible training in Kabul and regional centers. With the launching of the next phase of the project, these graduates will get more skills and hand-over from the MBW project national professionals.

Capacity building and training

During the first quarter, the project conducted several 'learning hours' on Wednesdays. In addition to 'learning hours' the project staff had overseas training and travels, below is the details:

Mr. Abdul Jamil Hares, Sector Manager for Physical Infrastructure & Natural Resources, accompanied the Deputy Minister for Finance Mr. Shahrani on official trip to Saudi Arabia in February. The aim of this trip was to meet with the officials of Saudi Fund and Islamic Development Bank to discuss on commitments and disbursements of the two organizations fund towards some specific development projects of Government of Afghanistan.

Mr. Ahmad Shah, IT officer were invited to MIS (CISCO) Training Center to attend the "WebSec Conference 2007 " in London on 28-30 March 2007.

Mr. Abdul Jamil Hares, Sector Manager for Physical Infrastructure & Natural Resources, has been awarded a scholarship by an Italian organization through embassy of Italy in Kabul for attending to the 45th Course for Technicians and Managerial Personnel in Rome, Italy. This course started on 5 March and will end on 11 May.

Mr. Muzamil Shinwari, Budget Policy Coordination & Reporting Officer, participated in a three week training program (Consolidation of Peace for Multicultural Nations) in Malaysia. The program was sponsored by Japan International Cooperation Agency (JICA) and the Malaysian Technical Cooperation Program (MTCP).

Mr. Farid Tanai and Mr. Hamid Jalil, Aid Coordination Officers, attended the Third Roundtable on Managing for Development Results in Hanoi, Vietnam on 5-8 February. The delegation was sponsored by the World Bank. The roundtable focused on the partnership and mutual accountability, monitoring and evaluation, leadership, statistics, and planning and budgeting. During the roundtable, a country-based action plan was developed to lead aid effectiveness agenda.

Mr. Khalid Khoshbin, Sector Manager, participated in a program "Study Mission focusing gender in Philippine" on 16-24 March. The program focused on developing and proposing activities for the implementation of National Action Plan for Women in Afghanistan (NAPWA).

Efficient project management

Recruitment of national and International staff

The project, in line with its proposed outputs and activities, advertised for 11 national vacant positions (2 Budget Officers, 2 Aid Coordination Officers, Aid Coordination Manager, Budget Policy, Coordination and Reporting Manager, Provincial Budgeting and Reporting Officer, 2 Programme Budgeting and Reporting Officer and 2 Office Cleaner) of staff and 2 international advisors (program and provincial budgeting) during the first quarter. The recruitment process is still in process and expected to be completed by end of April.

III. FINANCIAL STATUS AND UTILISATION**FINANCIAL STATUS:****Table 1: Contribution Overview April 2004 – 31 March 2007**

DONOR NAME	CONTRIBUTIONS		CONTRIBUTION BALANCE
	Committed	Received	
Canada	2,575,892	2,575,892	-
Germany (GTZ)	1,211,538	641,026	570,513
USA	1,760,401	1,760,401	-
Italy	143,111	143,111	-
UNDP	94,834	94,834	-
TOTAL	5,785,776	5,215,264	570,513

Note: USA, Italy money are carried over from the previous Aid Coordination project

FINANCIAL UTILIZATION:**Table 2: Quarterly Expenditure by Activity 1 January 2007 – 31 March 2007**

Activity	BUDGET [2007]	QUARTERLY EXPENDITURE	BALANCE	DELIVERY (%)
Activity 1 [Human capital and social protection]	35,900	32,381	3,519	90%
Activity 2 [physical Infrastructure]	40,000	29,729	10,271	74%
Activity 3 [Environment for Development]	44,000	31,262	12,738	71%
Activity 4 [Grants and Loan Portfolio Monitoring]	76,000	26,869	49,131	35%
Activity 5 [Budget Coordination and Reporting]	129,801	28,493	101,308	22%
Activity 6 [DAD and IT]	20,000	15,550	4,450	78%
Activity 7 (Admin support and management)	147,375	166,184	-18,809	113%
Activity 8 (Support to ADF)	50,000	12,437	37,563	25%
Activity 9 (Provincial Budgeting)	577,251	149,347	427,904	26%
UNDP GMS	83,673	24,696	30,736	
Total	1,204,000	516,946	687,054	43%

Table 3: Quarterly Expenditure by Donor 01 January 2007 – 31 March 2007

DONORS	ACTIVITY (as per approved budget)	2007 Budget	Q1 EXPENDITURES 01/01/07 - 31/03/07	BALANCE as of 31/03/06	DELIVERY RATE %
Canada	Activity 1 [Human capital an social protection]	35,900	32,381	3,519	
	Activity 2 [physical Infrastructure]	40,000	29,729	10,271	
	Activity 3 [Environment for Development]	44,000	31,261	12,739	
	Activity 4 [Grants and Loan Portfolio Monitoring]	76,000	26,868	49,132	
	Activity 5 [Budget Coordination and Reporting]	129,801	28,493	101,308	
	Activity 6 [DAD and IT]	20,000	15,550	4,450	
	Activity 7 (Admin support and management)	147,375	166,184	-18,809	
GMS 5%		54,810	24,074	30,736	
Subtotal Canada		547,886	354,540	193,346	65%
GTZ	Activity 8 (Support to ADF)	-	12,437	-12,437	
	Activity 9 (Provincial Budgeting)	577,251	149,347	427,904	
GMS 5%		28,863	622	28,241	
Subtotal GTZ		606,114	162,406	443,708	27%
UNDP	Activity 8 (Support to ADF)	50,000	-	50,000	
Subtotal UNDP		50,000	-	50,000	0
Total		1,204,000	516,946	687,054	43%