Afghanistan: Recent Budgeting Developments

OECD-Asian Senior Budget Officials meeting
Bangkok, Thailand,
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An Efficient, Transparent, Results-Based Budget for the National Good
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Afghanistan: Country Facts

Located in between Central and South Asia and bordered with 6 countries:

- China (76 km)
- Iran (936 km)
- Pakistan (2,430 km)
- Tajikistan (1,206 km)
- Turkmenistan (744 km)
- Uzbekistan (137 km)
Afghanistan: Country Facts

<table>
<thead>
<tr>
<th>Category</th>
<th>Fact</th>
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<tbody>
<tr>
<td>Capital</td>
<td>Kabul</td>
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<tr>
<td>Official languages</td>
<td>Persian (Dari); Pashto</td>
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<tr>
<td>Government</td>
<td>Islamic Republic</td>
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<tr>
<td>President</td>
<td>Hamid Karzai</td>
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<tr>
<td>Independence (from UK)</td>
<td>August 19, 1919</td>
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<tr>
<td>Total Area</td>
<td>647,500 km²</td>
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<tr>
<td>Population (2011 estimate)</td>
<td>29,835,392</td>
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<tr>
<td>GDP (PPP) - 2011 estimate</td>
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<tr>
<td>Total</td>
<td>$30.012 billion</td>
</tr>
<tr>
<td>Per capita</td>
<td>$966</td>
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<tr>
<td>GDP (nominal) - 2011 estimate</td>
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<tr>
<td>Total</td>
<td>$17.885 billion</td>
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<td>Per capita</td>
<td>$575</td>
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<tr>
<td>Gini (2008)</td>
<td>29 (low)</td>
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<td>HDI (2011)</td>
<td>0.398 (low)</td>
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<td>Afghani (AFN)</td>
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Afghanistan: Land And Climate

- Rugged mountains
- Hindu Kush: main mountain range across Afghanistan and into Pakistan

- Climate: cold winters and hot, dry summers
The Afghan culture has been around for over two millennia

Official Religion: Islam
Afghanistan: Traditions

National Game: Buzkashi
Mostly Popular in Mazar-e-Sharif
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The PFM Roadmap

- Central platform in the Government’s reform efforts
- Timeframe: Aug 2010-July 2013

- Aid Management
- Medium-Term Fiscal Strategy
- Program Budgeting

- Provincial Budgeting
- Procurement
- Performance Monitoring
- Other Areas of Budget Execution

- Communications
- Internal Audit
- External Audit

- Strengthen the Budget in Driving Effective Delivery of Priority Outcomes
- Increase Capacity of Line Ministries
- Increase Accountability and Transparency

- Improve Budget Execution
Key Indicators to Achieve the Aims

The Medium-term Fiscal Framework (MTFF) is strengthened to better forecast, plan and prioritize both expenditures and domestic revenues, to assist working towards fiscal sustainability.

Budget execution has increased by 10-20% annually over the medium-term through focused capacity development in planning and procurement practices at the provincial level and in line ministries.

Afghanistan’s rating in the Open Budget Index (OBI) improves to 30% for 2011 from 21% by improving communication across Government bodies, as well as with civil society organizations; improving resources for both internal and external audit; and increased use of financial reporting through Afghanistan Management Information System (AFMIS).
Recent Reforms

• To improve the quality and effectiveness of the budget process and effectiveness of public finances.

• Aimed

  – ensuring Government priorities for economic development and poverty reduction are implemented through the budget

  – addressing the needs of people across all provinces

  – ensuring the gender differentiated needs of women and men are met.
Recent Reforms (cont.)

Considerable efforts have been made by MoF to implement a number of reforms:

- **Program Budgeting**
  - to link budgets to Government priorities and the results it wants to achieve.

- **Gender Responsive Budgeting**
  - to facilitate better analysis of specific needs and the adequate allocation of resources to both genders, to facilitate measurable improvements in women’s lives and status.

- **Pro-Poor Budgeting**
  - to identify, track and report on the pro-poor expenditure of ministries, in order to better integrate poverty reduction policies within their programs.

- **Provincial Budgeting.**
  - to enable provincial authorities to plan, formulate, execute, monitor and improve budgeting processes in their area of jurisdiction.
Program Budget as a Key Reform

• The most important change has been the introduction of program budgeting.

• Program budgeting presents budget requests by program, linking:
  
  * each program $\rightarrow$ policy objectives $\rightarrow$ output targets

  * budget is linked to the services to be delivered over the next years

• The end result is a budget which focuses on the delivery of defined outputs rather than a focus on financial inputs.
Provincial Budgeting: Medium-Term Plan

Stage 1: 2012 budget preparation
- Inform provinces about the budget process and their role in it;
- Give provinces more responsibility and accountability for planning spending in their provinces;
- Push central line ministries to reduce their power over provincial decisions.

Stage 2: 2012 budget executions
- Decentralize implementation authority (e.g. procurement) to provinces.

Stage 3: 2013 budget preparation
- Move towards formula-based funding for ministries of health and education;
- Include operating budget.

Stage 4: 2014 budget preparation
- Increase number of line ministries involved in provincial budgeting approach.
Achievements

• Considerable efforts have been made in recent years to improve the quality and effectiveness of the budget process.

• Mechanisms:
  – Medium-Term Budget Framework (MTBF) or ‘Pre-Budget Statement’ for setting budget priorities to be funded from the existing fiscal envelope (available resources)
    • ensures essential budget policies are sustainable;
    • identifies desirable policy changes
  – National Budget: for detailed budget costing and provincial allocation
    • ensures budget is cost effective
  – Citizen’s Guide to the Budget: for making the budget more transparent and increase the engagement of civil society.
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Overview of the Budgetary Structure
The Budget Cycle

- MoF & MoEc responsible for program evaluation.
- BUs responsible for provision of performance information on on-budget programs.
- Donors responsible for provision of performance information on off-budget programs.

BUs - Budget Units (ministries and agencies) define and cost their priorities, in line with overall Government priorities (NPPs).

MoF prepares Pre-Budget Document (the MTBF) based on:
- Budget Circular 1 (BC1) submissions from BUs
- donor committed financing (alligned with NPPs).

MoF prepares Annual Budget based on detailed budget (BC2) submissions from BUs

BUs and MoF Implement the Approved Budget

MoF & MoEc responsible for program evaluation.

BUs responsible for provision of performance information on on-budget programs.

Donors responsible for provision of performance information on off-budget programs.
The National Budget Formulation Process

1. Ministries define spending priorities
   - February

2. Ministry of Finance creates the MTBF
   - June

3. Ministries create detailed budgets
   - July

4. Parliament approves the National Budget
   - November

5. Ministry of Finance creates the Citizens’ Budget
   - December
Budget Preparation: A Two Way Process

**Top-down (MoF and Government):**
- Calculates overall available resources - MTFF
- Select policy priorities & set ceilings

**Bottom-up (Line Ministries):**
- Develop programs, service delivery targets and costings

**Bottom-up (Provincial Departments):**
- Develop activities that address specific provincial needs with the programs
Afghanistan’s approach is ‘program budgeting’, which is international best practice

- The budget process allocates financial resources to the Government strategy / policy (ANDS and National Priority Programs, PRSP)
- Money is allocated for the medium-term (3 years)
- Line ministries must define (and report against) what results will be achieved
Budget Process: Linking Strategy, Budget and Service Delivery

Budget Circular 2
instruction to prepare detailed costs and outputs, within budget ceilings

Budget Circular 1
instruction to submit estimated costs for baseline programs and any new proposed initiatives

Performance monitoring
Detailed budgets
MTBF, donor commitments and budget ceilings
Baseline program costs and new initiatives
Line Ministry results frameworks & Priorities (NPPs)

Outcomes
Programs
Program costs
Program costs (baseline and new)
Outcomes

Expenditure (Prg)
Program costs

Outputs
Activities & Outputs

Expenditure (Opt)
Detailed costs

Expenditure (Opt)
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Thank you for your kind attention.

Questions?