Budget Reforms in Afghanistan and Way Forward

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Outline

- Background
- Recent Reforms
- Current Budget structure
- Budget Process
- Challenges
- planned Reforms
- Conclusions
- Landlocked (647 KLsq kms)
- Population: 23.8 M (GR2.5%)
- 39% urban Vs 61% rural
- Literacy rate: 28.7% (12.7 F)
- HDI Rank: 173 of 178
To meet emergency / rehabilitation of immediate basic services

Compressed budget preparation calendar

No clear policy links

purely a bargaining system based on ad-hoc procedures

Very low budget execution rates
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- A new Constitution
- Enactment of PFM law, Financial Regulations
- Progress on procurement law, etc
- Fiscal Policy unit in MoF
- Fiscal and Budget Functions mostly by MoF
- Introduction MTFF and elements of MTBF
- Pilot program and provincial budgeting

- Extension of budget calendar to 9 months
- Introduce the New Mechanism
- Introduction of planning and Monitoring exercise
- Close monitoring of top 50 projects
- Improved coordination among MoF and line ministries and Donors
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- External budget
- Core budget
  - Recurrent Budget Development (investment) Budget
- MoF responsible for Aid Coordination
- Donors Assistance Database
- Structure of the budget Department in line with ANDS Sectors
External Budget 46 %

Core Budget 54 %
- Recurrent Budget (67% by DR)
- Development Budget
  - Discretionary
  - Non Discretionary
    - Trust Funds
    - Bilateral / Multi Lateral Assistance
Domestic Revenue and Operating Budget trend

- Domestic Revenue:
  - 207 million $ in 1382
  - 350 million $ in 1383
  - 468 million $ in 1384
  - 536 million $ in 1385
  - 715 million $ in 1386

- Operating Budget:
  - 458 million $ in 1382
  - 552 million $ in 1383
  - 659 million $ in 1384
  - 884 million $ in 1385
  - 1072 million $ in 1386
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MoF Present the next FYR Budget to National Assemble within the 4th Q of the current FYR

NA cannot delay the approval of the budget for more than one month

NA either can Approve or Reject the Budget

If for some reason the budget is not approved before the beginning of the new FYR the budget of the year before is applied until the approval of the new budget
Improved overall budget formulation

Transition from budget preparation by Int TA to Nationals

Introduction of Standard Budget calendar

Consultation with line ministries and donors

Better understanding of budget procedures by line ministries including procurement processes
Execution

- Orientation workshops
- Execution guideline
- Enhance coordination between line ministries and MoF
- Created a separate unit for budget execution
- Introduction of a new mechanism for DB
Monitoring

- Regular Monitoring of top 50 Projects
- Mid Year Review of the Budget
- Enhance coordination between line ministries and MoF
- Created a separate unit for budget execution
- Improved monitoring of external budget and close partnership with donors
Monthly execution reporting
Annual Budget performance reporting
Budget Bulletin
Updating the Fiscal Fact sheet
Updating web based Donors’ Assistance Database
Updating Budget website
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Major Challenges (1)

- Un predictability
- Several budgets (Large external budget, no direct government’s input)
- Inadequate information re external Budget
- Limited discretion in resource allocation
- Long Approval Process
- Low capacity
Major Challenges (2)

- Poor project preparation
- Fragmentation in projects
- No strong links with sector policies/strategies
- Poor Prioritization
- Un-realistic time and cost estimations
- Links between inputs and outputs/outcomes
- The focus is one year not for Medium term approach
Absence of Provincial input in the process

Un-clarity of Role of Parliament

Poor Monitoring of outputs/outcomes

Less developed Budget software system

IMF pressures Vs Political pressures

So many reforms at the same time

Poor budget and Low execution in the Development budget
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Key ongoing Reforms

- Program budgeting and budget integration
- Provincial budgeting
- Alignment of budget with ANDS
- Medium term Budget and Expenditure Frameworks (MTBF and MTEF)
- Role of Parliament in budget process (MOU)
- Implementation of the new mechanism
Program budget reform aims to achieve
- Integration of the operating and development budgets
- Prioritization
- Links with performance indicators, outputs/outcomes

- Introduced in Ministries of education, health and rural development in last year

- Extended to Ministries of energy and water, public works, agriculture, and finance this year

- Planned to cover all ministries by two years
Approved Budget (Authorized)

Includes those projects either in implementation stage or finished project preparation including procurement plan and read for implementation.

Approved Projects (In pipe Line)

Include those projects for which approval by donors is anticipated during the year and standard ‘project cycle’ including procurement plans are likely to be in place.
Advantages

- Realistic Budget
- Creating competition
- Improved Cash Management and Flexibility
- Attract more Direct Budget Support
- Facilitate Increased Development
Provincial Budgeting

- Improve local inputs for the national budget
- Better local ownership
- Better allocation of resources among provinces and districts
- Introduced in 3 provinces (out of 34) last year and 7 more provinces this year
- Expected to cover all provinces in two years
Planned Reforms (1)

- Finalization of sector strategies and ANDS
- Identification of Programs/projects/Activities and Costing
- Improve donor coordination and medium term commitments
- Budget ceilings based on ANDS and sector priorities
Further strengthening of MTFF

Gradual introduction of medium term frameworks (MTBF)

Budget ceilings (or % of total budget) based on sector objectives and priorities

Cabinet approval of budget ceilings

MTEF in key ministries in the near future
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Old cruise has already left the deck, the river is stormy and the visibility is a constraint for the young captain who is asked to keep regular contact with different international control rooms .....