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PROPOSED EGGI SUPPORT ON GIROA PROGRAM BUDGETING REFORM INITIATIVE

MARCH 15, 2010 – AUGUST 14, 2010

CONTRACT NO. EEM-I-00-07-00005-00

TASK ORDER NO: 4

MARCH 2010

Overview

The Economic Growth and Governance Initiative (EGGI) goal is to strengthen the Government of Islamic Republic of Afghanistan's (GIROA) capacity to develop and implement economic and regulatory policy and to improve the enabling environment for the private sector to flourish.

Support to USAID/Economic Growth Strategic Objective

EGGI directly supports USAID/Economic Growth strategic objective. USAID/Afghanistan seeks to advance Afghanistan's transition to a more stable and productive state through the promotion of democracy, rule of law and sustainable economic and social development that is responsive to citizens' needs (USAID/Afghanistan 2005-2010 Strategic Plan). USAID/Economic Growth Program's strategic objective is to ensure "A thriving licit economy led by the private sector," through a legal, regulatory, and institutional framework that minimizes constraints on business development, increases human resource capacity, and promotes privatization of state-owned enterprises. This will be further be enhanced by expanded access to financing and to information and communication technology.

EGGI directly contributes to USAID/Economic Growth's strategic objective and specifically support several USAID Program Areas and Elements. EGGI supported USAID Program Areas/Elements are: Program Area 1: Macroeconomic Foundation for Growth, Element 1.1 Fiscal Policy; Program Area 3: Financial Sector, Element 3.1 Financial Sector Enabling Environment; and Program Area 6: Private Sector Competitiveness, Element 6.1 Business Enabling Environment. EGGI will also contribute to sustainable improvement of Afghanistan's business enabling environment in order to encourage private sector growth within the formal economy.

Component 1: National & Regional Economic Policy

STRATEGIC OBJECTIVE: To improve the capacity of the GIROA to formulate effective national and regional economic policies to better support economic growth and enable private sector development.

DESIRED END STATE: Ministry of Finance and other relevant GIROA counterparts become capable of developing and implementing sound policies that promote macroeconomic stability, economic growth, private sector development and employment.

OVERVIEW: Over the last 8 years, the Ministry of Finance (MoF) has made good progress in establishing the foundations for good economic management in Afghanistan. Domestic revenue mobilization has improved from \$129 million in 2002/3 to \$800 million in 2008/9. The MoF has established strong legal foundations for public financial management through the passage of the public finance and expenditure and procurement laws of 2005. An IMF economic reform program is currently in place and initial technical capacity has been built in the areas of budget formulation, execution and revenue mobilization. This has helped deliver the conditions for growth particularly in key sectors such as agriculture, construction and service sectors such as banking and telecoms.

Despite this, however, key challenges related to high levels of poverty, widespread unemployment, and weak private sector remain. The main economic policy institutions (i.e. the MoF, the Central Bank and Office of the Chief Economic Advisor to the President (CEAP) have overlapping functions and uneven capacity. Policies and proposals may be presented to and approved by Cabinet/President without the supporting economic or financial analysis, discussion or consideration. This has made coherent policymaking on important economic issues (such as private sector development or infrastructure investment) difficult and has led to ineffective government cooperation and service delivery. Given that 70% of foreign assistance is channeled outside of the Government budget and is at best only loosely coordinated with national priorities, enhancing the credibility of economic policymaking would not only lead to more effective government, but also could bring more resources under direct Afghan control.

Component 1: Proposed Sub-Result B.1 - Support to GIROA on Program Budgeting Reform

Why is Program Budget Reform Important?

The April 2006 IMF FAD report “Afghanistan: Responding to Challenges in Public Financial Management” proposed the gradual introduction of a simple program budgeting approach to facilitate the integration of the ordinary and development budgets. This will help GIROA budgetary units better link their budgets to the Government’s strategic goals and policy priorities. In Afghanistan, the Afghanistan National Development Strategy (ANDS) and the budgetary unit’s strategic plans represent these strategic priorities. Program Budgets require each ministry to identify outputs, activities and projects needed to achieve the goals of the government and the budgetary unit. This will help promote better accountability as it provides an effective means for assessing progress towards achieving these goals.

Overview of EGGI proposed approach on program budgeting reform

USAID/ACSS support to the Ministry of Finance (MOF) consisted of training, coaching and mentoring of GIROA employees of ministries and budgetary units¹ to develop the knowledge and internal processes to develop and submit their budget request in conformance with the annual program budget instructions. It is proposed that this approach be maintained under USAID/EGGI.

The current operational strategy used by the team involves:

- **Training:** Developing and conducting formal training alongside MOF employees for all ministries and agencies implementing program budgeting;
- **Coaching:** Embedding local advisors in ministries to work with government employees as they develop their budget request in the program budget format;
- **Mentoring:** Encouraging ministry and agency management to support the reform and hold the government employees accountable for completing the task.

¹ Strictly speaking, not all budgeting units are Ministries e.g. the President’s office, the Civil Service Commission and the Independent Directorate for Local Governance

The primary objective and critical success factor for this reform initiative is that GIROA budgetary units will “graduate,” meaning that relevant finance officials will have the confidence and skills needed to fulfill the requirements of the annual budget process by producing and implementing their Program Budget without, or with minimal, outside assistance. This is in line with USAID policy on Afghanization. A ministry will achieve the status of “graduation” after mutual agreement between the Program Budget Team, the MOF Budget Department, and the affected Ministry.

Proposed EGGI activities under program budgeting reform

The EGGI team will develop training materials acceptable to the MOF and, in collaboration with the Budget department of the MOF, conduct training of GIROA employees. After the formal training, the EGGI team will embed one to two national program budget experts in the budgetary units to coach and mentor the employees through the budget development process. This will ensure that the capacity for maintaining the reform resides in GIROA long after external support ends.

EGGI Program Budget Teams will not develop the program budgets but will coach the government employees so that they develop their program budgets. The attached workplan contains the detailed activities. The list below summarizes these activities:

- Upon notification by MOF, each new budgetary unit appoints a PBIT. During the first year of support, this team consists of employees from the finance and planning departments plus a few key managers, as there is no program structure at this point. The team is usually small. The second and third year PBITs include a wider group of managers from the various (now defined) programs.
- The Program Budget Team’s direct support begins with formal training of all budgetary units’ PBITs in the late spring and early summer. (During this training, up to 800 government employees will receive training.)
- EGGI coaching and mentoring by the embedded Program Budget Teams continue through the budget preparation period, over the next 5-6 months. Tasks include:
 - Developing a program budget structure consisting of programs, subprograms, and activities that are logically connected within the rules and guidelines issued by the MoF
 - Developing an agency level strategic objective consistent with national strategies
 - Developing an appropriate operational objective for each program and subprogram
 - Developing outcome measures and output measures linked to the ministry’s programs and activity (In this way, each element of the program structure will have a number of clear and measurable indicators)
- Once the ministry management accepts the program and subprogram narratives, EGGI would help the employees cost each activity, cascading upward to build the overall program budget. EGGI embedded experts would guide ministry employees to do this work.
- Each budgetary unit presents and defends its budget request before the MoF’s Budget Committee in November and December. The EGGI teams would help government employees prepare a program budget presentation given by the budgetary unit’s senior management.
- During the budget hearings, several refinements are necessary to bring the budget proposal in line with constraints imposed by the MoF. Usually, changes relate to bringing the budget

request in line with revised ceilings and decisions made during the MoF hearings. During January, the EGGI teams would provide assistance with these changes so that the final document reflects all subsequent decisions. In February, the MoF delivers the final budgets to the Parliament.

- In February, the EGGI teams would assist budgetary unit employees as they develop the new chart of accounts coding needed to implement the Program Budgets. During March /April, the teams assist with the implementation of the budget by helping government employees with the allotment forms and procurement planning. During April and May the teams make presentations to a wider group of government employees regarding the program budget.

The MOF has requested assistance on a number of additional areas including a) support as each budgetary unit implements their program budgets; b) support for procurement planning and c) support for reorganizing finance and planning departments. It is possible that EGGI would be able to support a) and b) provided the MOF supplied the necessary training materials and guidance. However support for c) would not be possible as it is beyond the scope and remit of this project.

During subsequent years, responsibility will fall increasingly on GIROA employees; EGGI experts will operate in more of a consultant role, working with a wider group of employees that include the program and subprogram managers. The experience has been that the wider group tends to refine (change) the initial program structure in the second and third year and refine the outcomes and outputs to match realistic reporting requirements. Wider representation on the PBIT means more ownership and input into the budget preparation and results in a budget that better reflects the strategic goals of the ministry.

Expected outputs

It is expected that EGGI support on program budgeting would run over three Afghan financial years, i.e. FY 1389, 1390 and 1391. This would allow EGGI to support the implementation of the MOF target of full rollout by 1390 and the embedding of the process in the line ministries over the following year (i.e. in 1391). See table 1 below.

Table 1: Expected outputs under EGGI program budgeting support (2010/11 – 2012/3)

	1388 (2009/10)	1389 (2010/11)	1390 (2011/12)	1391 (2012/13)
# Ministries that have implemented Program Budgeting	15	19	48	48
# Ministries graduated from Program Budget Support	2	12	24	48
# of Individuals Trained in Program Budget Preparation	494	800	800	800
# of Ministries and budgetary units supported with embedded staff	14	30	22	0
Training modules developed and accepted by MOF	9	11	11	11

Blue represents activity already achieved
Yellow represents planned activity

It is estimated that 40% of the planned activity for 1389 will be complete by end of EGGI year 1 on 14th August. It is expected that the level of effort required to roll out this initiative will peak in 1389 and 1390. The level of effort is then expected to drop in the final year, i.e. 1391.

Expected actions from GIROA

Key to the success of this reform will be the active and proactive involvement of the MOF Budget Department employees including the Sector Managers and their Focal Point employees in the reform process. Further, endorsement of the GOIRA through full cabinet support will be essential to the success of this initiative. Finally, cooperation and active collaboration with other donor projects providing support to the various budgetary units will also be essential.

Recommended level of effort

This activity will fall under EGGI Component 1 (National and Regional Economic Policy). The proposed level of effort is given in table 2.

Table: 2 Proposed EGGI level of effort for program budgeting (Year 1)

EGGI Component	Advisor	SOA	EOA	Short or Long Term Advisors	Level of Effort: Year 1
Component 1 (National and Regional Economic Policy)	Program Budget team lead (Expat)	15-Mar-2010	15-Aug-2010	LT	125 days
	Senior Program budgeting advisor (expat)	15-Mar-2010	15-Aug-2010	LT	125 days
	Program Budgeting advisor (expat)	15-Mar-2010	15-Aug-2010	LT	125 days
	Program Budget Advisor (expat)	15-Mar-2010	15-Aug-2010	LT	125 days
	CCN Program Budget trainers	15-Mar-2010	15-Aug-2010	LT	5000 days (40 CCNs x 125)