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Report on Program Budget Presentations and Budget Hearings for the 1391 Budget



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OVERVIEW

The annual budget hearings process between the Budget Committee - led by Ministry of Finance (MoF)- and the budgetary units is an important part of the budget formulation in Afghanistan as required by the Public Financial Management Law and Financial Regulations. The hearings process has improved particularly for the 1391 budget processes due to various public financial management reforms started in recent years. These include program budget reform implementation across all budgetary units, medium term fiscal framework and medium term budget framework. These reforms have helped government agencies in linking financial resources with their strategic priorities, which was the basis for negotiations during the budget hearings.

EGGI program budget advisors – embedded in budgetary units – have been assisting line ministries/agencies to train and provide assistance to their staff in implementing program budgeting reform and other related reforms launched by the MoF since 2007. As a result of the support, there has been significant progress in program-based budget submissions, program structures, and the overall budget formulation and reporting by line ministries. This support has also helped line ministries in making effective presentations on their annual budget requests during budget hearings.

This report provides a review of the 1391 budget hearing process and notes the capacity of the assigned budgetary units in presenting and justifying their program budget submissions before the Budget Committee. Recommendations are provided to improve the budgetary units' participation and the overall process for conducting the budget hearings in the future.

BUDGET PRESENTATIONS

Most budgetary units made excellent presentations on their budget submissions to the Budget Committee. Almost all budgetary units presented their 1391 proposed budget with program structures and the necessary policy background, intended outputs and outcomes, and constraints in implementation of the previous year's 1390 budget. The presentations generally covered the following:

- Overall goal and objectives (including those of ANDS) of the budgetary unit for the medium term
- Achievements over the past 2-3 years
- Budget execution for the first 8-9 months of 1390 and constraints leading to lower cumulative budget execution rates (less than 30% for Q3)



- Intended outputs and outcomes for 1391-1393
- Proposed budget for 1391, 1392, 1393 with programs, sub-programs, and activities
- Tables with proposed budget and ceilings for both operating and development budgets and reasons for requesting higher budget ceilings

There has been significant progress in these presentations before the Budget Committee. Presentations show that most ministries/agencies were able to align resources and prepare their programs/projects with national and local priorities and identify intended outputs and outcomes even though some ministries still tended to propose wish lists. In the past – before budget reforms were introduced - ministries submitted their wish-list of projects with limited linkage to their overall objectives and outcomes. For the 1391 budget, ministries were able to align their budgetary resources better and link resources with final outputs and outcomes mainly because of the program budgeting framework they have established in their proposed budgets. In most cases, budget proposals by line ministries were above the MoF recommended ceilings (for operating and/or development budgets), and included multi-year expenditure programming (for 1392-1393). Considering line ministries strategic objectives/priorities cannot be implemented in a single year, a budget submission with estimates for at least two out years is important to link budgetary resources and policies over the medium term.

Many of the budget hearing presentations, however, did not include much information on the reasons for low 1390 development budget execution and how budgetary units proposed to address this issue. Many ministries cited the overall security situation, slow procurement processes, and low capacity among private sector implementing contractors as the main reasons for their low development budget execution. Some ministries were optimistic that they would implement their 1390 development budget much better in 1391 than in previous years. Ministries also failed to show the impact on outputs and outcomes for 1390 due to the low budget execution and how they could meet ANDS and other GIROA sector benchmarks within the planned timeframe for their budget submission 1391 -1393. Most ministries have made progress in linking resources and final outcomes, but there is a need to strengthen the link between performance and resource allocation.

In addition, ministries in general do not have capacity to analyze and prepare gender sensitive budgets. Some donors – especially GIZ and UNDP – in recent years hired embedded staff in in some ministries, but progress in this area has been very limited. MoF issued guidelines for Gender Responsive Budgeting (GRB) as part of the 1391 BC-2 guidelines. MoF asked all budgetary units to provide a narrative and breakdown of beneficiaries for all programs. However, a few ministries such as Ministry of Higher Education, Ministry of Labor, and Ministry of Women Affairs (MoWA) have actually developed indicators by gender. Currently, MoWA has limited capacity and resources to review the draft budgets and provide its inputs to the budget hearing process. MoWA (a member of the budget committee) sent a junior level staff representative to attend some of the 1391 budget hearings but with little dialogue with the Line Ministries/Agencies on gender sensitive budgeting issues. It is



recommended that for the 1392 budget process, the MoWA appoint a senior level representative such as the DM Admin and Finance to participate in the budget hearings and that the EGGI project provide some coaching and assistance to the MoWA to analyze the budget submissions for gender sensitive issues.



BUDGET HEARINGS

For the budget negotiations, most ministries are led by the Deputy Minister or Director General of Finance with several other directors from various departments in the ministry. In a few cases, Ministers attended the budget hearings. The Budget Committee was represented by the Deputy Minister of Economy, Deputy Minister of Finance and/or Director General of Budget, Deputy Minister of Foreign Affairs and Ministry of Women Affairs' representative. Relevant sector managers from MoF, budget policy manager, performance reporting manager, and USAID/EGGI advisors attended budget hearings.

Almost all ministries proposed higher budgets than their ceilings for the operating and/or development budget. Some ministries negotiated with the Budget Committee. When negotiations drive the budget allocation process, choices are based mostly on politics than on evidence for real need or actual budget performance/results. The Budget Committee, in most cases, accepted higher amounts for the ceilings when ministries/agencies made convincing proposals/arguments for the operating budget. In general, ministry representatives mentioned the following reasons for proposing higher budget allocations than their ceilings.



- To meet priorities and benchmarks as stated in sector strategies and ANDS
- Increase in tashkeel
- Pay and Grading reform implementation
- Higher fuel cost and purchase of vehicles
- Maintenance of vehicles and buildings

During the budget hearings, decisions were made on the operating budget in most cases, but development budget decisions – especially on projects funded by core budget discretionary resources - were postponed for further discussion within the Budget Committee and with the MoF. Some ministries were not able to reach decisions on development budget. For many ministries, their final budget allocation was very different from budget ceilings received from MoF.

Even though presentations were made on program structures, budget hearings focused on the codes of the operating budget and individual projects proposed for development expenditure not program-based discussions. One notable change from previous years was the discussions on performance and results facilitated by MoF's introduction of quarterly performance reporting for 1390. For the first time, the Budget Committee considered to some extent results, performance, and budget execution of projects when making decisions on budget allocations.

RECOMMENDATIONS FOR FURTHER IMPROVEMENT

The following are recommendations for further improvement in the budget hearing process based on the project's observation of the 1391 process:

- **Need for Hard Constraints:** Setting hard expenditure ceilings for line ministries and being able to maintain the ceilings throughout the budget negotiations process is in line with the discipline ministries and the Budget Committee should follow given the limited budgetary resources available. This will encourage ministries to make hard choices and determine their priorities for development projects and continuing operating activities. The MoF has been setting ceilings for the operating and development budgets for the past 4-5 years, but the final budget figures have usually deviated significantly from the ceilings for most line ministries. In some cases, ministries were able to get higher budgets due to tough negotiations. Over the years, this has encouraged ministries to propose significantly higher budget proposals and bargain to get their proposed higher budgets. When this happens, there is a risk that budget decisions are not based on results and performance. International experience shows that adopting a gradual approach to building financial constraints into the



budget preparation process could mean simply defaulting to a fully open-ended process. Maintaining hard constraints - with limited flexibility - helps in finalizing line ministry budgets during the budget hearings. Such practice would discourage backdoor lobbying by ministries with the Minister of Finance and Presidential Palace outside the budget hearing process.

- **Early Donor Commitments:** Giving hard constraints to line ministries requires MoF to be able to forecast total budgetary resources well. Given the majority of the development budget is financed by donors, it is difficult to forecast the available resources early on in the budget process unless donors make firm commitments at least six months before the new fiscal year starts. This requires close coordination between the Government and donors and strong commitment from donors.
- **Participation of Senior Level Government Officials at Budget Hearings:** Given the operating budget is mostly driven by tashkeel, it is easy to make decisions at budget hearings on the operating budget. However, the majority of decisions on the development budget are made outside the budget hearings process. One of the reasons for this was the lack of participation of senior representatives such as Ministers and Deputy Ministers from most ministries during the budget hearings. Only a few Ministers represented their ministries during the budget hearings. In many cases, not even Deputy Ministers attended the hearings. Similarly, from the MoF, most hearings are led either by the Deputy Minister or the Director General of Budget with the Budget Committee members. As a result of this, important decisions are made after the budget hearings process in consultations with Ministers and the presidential palace. These practices can undermine the budget hearings process.
- **Improved Performance and Monitoring:** Allocation of resources through budget hearings process based on results and performance can only be possible with effective performance reporting and monitoring. Even though quarterly reporting has been introduced to the 19 largest line ministries/agencies some with assistance from EGGI program budget advisors, limited performance reporting has been used for resource allocation. For effective resource allocations, performance reporting should be an integral part of budget formulation and should be used at all key steps of the budget formulation process. With performance data for each program, MoF and the Budget committee can make more informed decisions. Even if the performance information is not fully perfect, it adds some degree of confidence in budget decisions.
- **MoF Guidelines for Gender Budgeting:** To make this a mandatory requirement, MoF may need to consider having a separate and compulsory section in the BC1 and BC2 forms that need to be submitted for budget hearings. Only a brief presentation was made on GRB during the BC2 training programs. MoF may also consider more training programs on this issue. In addition, all line ministries should have small gender unit to have any meaningful impact on budget submissions.



- **Financial and Performance Reporting:** Even though some ministries prepare financial and performance reports, they rarely use the information internally to correct deficiencies in budget execution and service delivery. To address this, MoF could develop better mechanisms to assist ministries to use their financial and performance data to link their past performance with budget allocations.

NEXT STEPS

The key next steps are to submit this budget hearings report to USAID and the MoF. This report can facilitate a dialogue with the MoF for improving the budget hearing process in the future as part of core USAID assistance to the MoF in program budget reform implementation.

