



**Islamic Republic Of Afghanistan
Kabul Municipality**



BUDGET POLICY

BUDGET DEPARTMENT

H.E Mohammad Yonus Nawandesh

Signature: _____



Islamic Republic Of Afghanistan Kabul Municipality



Table of Contents

1.0 Policy Introduction.....	3
2.0 Policy Purpose	3
3.0 Definitions:	3
3.01 Fiscal Year:	3
3.02 Budget year:	4
3.04 Operational resources:	4
3.05 Budget.....	4
3.06 Approved budget:.....	4
3.07 Budget Committee:	4
3.08 Expenditures:	4
3.09 Allotments:.....	4
3.10 Input Indicators:	4
3.11 Output Indicators:	4
4.0 Scope:.....	4
5.0 General Guidance/Responsibilities:	4
6.0 Implement Program Budgeting.....	7
9.0 Consequences of Violations.....	8
10.0 Policy Evaluation.....	9
11. 0 Policy Enforcement.....	9



Islamic Republic Of Afghanistan

Kabul Municipality



1.0 Policy Introduction

1.01 Kabul Municipality budget process is part of an overall policy framework that guides the services and functions of the Kabul Municipality.

The budget serves a key role in the development process by allocating financial resources to the programs that should be implemented by Kabul Municipality.

1.02 Kabul Municipality's budget policy should enable to execute the Kabul Municipality's Master Plan. The KM Master Plan sets the basic vision for the development of Kabul City in refurbishing roads, building houses, execute economic development plans etc. The available budget will be the leading factor in executing all plans.

2.0 Policy Purpose

2.01 KM has significant recent success in increasing revenue generation. In order to effectively utilize these hard-won resources, KM must ensure it manages its money by carefully planning, and monitoring its spending. Implementing improvements in budgeting processes is essential to ensure that financial resources are directed to KM's organization goals.

2.02 Purpose of this budget policy is to establish a framework that achieves the goals and objectives set for Kabul Municipality. The citywide goals, governed by the activities of various departments, needs implementation of this Budget Policy (eg. The Capital Facilities Plan, which is derived from the Kabul Master Plan, has to be funded in the budget process).

2.03 Budget policy development involves several distinct steps. This policy starts with an understanding of needs and issues, describes explicit policies governing the development and management of financial resources, identifies broad goals, sets objectives with which to apply available funding, and concludes with specific funding proposals. In assessing issues and needs, this policy builds on actions taken in previous budgets, thereby providing continuity with previous programs. This allows community needs to be addressed on a multi-year basis, rather than attempting to satisfy all needs in one year. Explicit budget policy is a statement, which describe how financial resources of Kabul Municipality are obtained (various taxes, fees, rates, etc.) together with how they are allocated, managed, and controlled. Budget objectives are policy statements summarizing the actions that are to be implemented in the budget.

2.04 This budget policy results from an ongoing process of economic and financial analysis by the Department of Finance and Administration.

2.05 The periodic financial reports, which are routinely reviewed by the Mayor, Deputy Mayors, Department Heads, monitor progress against this analysis. The development of the Comprehensive Annual Financial Report is also an important part of this analysis process.

3.0 Definitions:

3.01 Fiscal Year: Fiscal year is the official Solar Year of Afghanistan, equivalent to March 21 to March 20 of the following year on the Gregorian calendar. Within this period all financial transactions of the budget unit must be accounted for.



Islamic Republic Of Afghanistan Kabul Municipality



3.02 Budget year: the next fiscal year is called the budget year

3.04 Operational resources: These are the resources, like revenue resources, charges, taxes, fines and rents, that fund the operational expenditure of the Kabul Municipality.

3.05 Budget: the document through which government or any organization presets its expenditure, revenue, taxation and financing plans for the coming year.

3.06 Approved budget: the budget approved for expenditure by legislation and stakeholders for budgetary units to be used during one year

3.07 Budget Committee: a committee assigned by the Mayor for preparation evaluation and review of the annual budget, this committee will define budget ceilings (limitations) according to revenues and allocates budget for development and operating expenditures according to the law.

3.08 Expenditures: An expense or expenditure is an outflow of money to another person or group to pay for an item or service. For example staff salaries, travel allowances, construction of roads and so on.

3.09 Allotments: an allotment is a portion of the budget allocated by the Budget Department of MoF or the Budget department of Kabul Municipality through the B27 form, that authorizes the expending entity for the expenditure. The allotment is issued by four quarters in major object codes level (21, 22 and 25) for the operating budget but for the development budget it is issued according to the contract for each project.

3.10 Input Indicators: Addresses the amount of resources used in providing a service/ delivering an activity.

3.11 Output Indicators: Describe what is produced by the activities carried out in providing a service.

3.12 Outcome (or effectiveness) Indicators: relate to service achievement resulting in tangible development changes.

3.13 Efficiency Indicators (impact): Examine the relationship between the level of resources used and the outputs/outcome achieved.

4.0 Scope:

This policy applies to all budgetary departments and district offices of Kabul Municipality.

5.0 General Guidance/Responsibilities:

5.01 The following responsibilities guide the manner in which the budget develops, allocates, manages and controls financial resources available to the Kabul Municipality. These are policy goals that Kabul Municipality seeks to achieve in its decision-making.

However, since fiscal conditions and circumstances are continually shifting and changing in response to operational needs, it may not be practical or always desirable to continually achieve



Islamic Republic Of Afghanistan Kabul Municipality



these goals. Therefore, these responsibilities are intended to guide, not govern, financial decision making and may not be fully achieved within any given budget period.

5.02 Responsibilities:

5.2.01 To improve the overall quality and accuracy of Kabul Municipality internal budget and the MoF funded budget, Kabul Municipality should implement an inclusive and broadly based budget preparation process. In accordance with the Ministry of Finance (MOF) budget calendar, Kabul Municipality (KM) should align its budget preparation process for the development budget funded through MOF, as well as the internal budget funded by KM revenues. This will bring consistency in budget preparation processes and ensure KM has a complete forecast of financial activities for smooth operation. The KM should develop both internal budget funded by KM revenue and MoF funded budget in one program budget format considering the MoF budget ceiling and KM revenue Plan.

5.2.02 Kabul Municipality shall accept ongoing service obligations in new areas of programming only when adequate funding is available.

5.2.03 Kabul Municipality budget should provide a comprehensive and transparent financial plan linking the organizations available financial recourses to its activities.

5.2.04 KM will implement program budget reform for both KM internal budget and MoF funded budget for better transparency and accountability for citizens and public awareness.

5.2.05 KM will support initiatives to renew and expand the scope of all aspects of its budget management processes, including preparation, costing, execution, tracking through FMIS and Program Budgeting implementation.

5.2.06 KM shall use a proper costing methodology for costing of its development projects, based on technical specifications and estimation of the projects.

5.2.07 KM shall request MoF or any other donor for its budget deficit according to budget law.

5.2.08 Policy and Coordination department will support Finance and Administration department during budget preparation providing projects requirements, performance indicators, plans and other related information.

5.2.09 Kabul Municipality will establish a Budget Implementation Team for preparing the next year budget for KM considering the following points.

- Costing of baseline (existing operations)
- New high priority spending initiatives
- Inflation rate for the coming year
- Percentages of salary increase
- Estimation of new employees to be hired and



Islamic Republic Of Afghanistan Kabul Municipality



- Other related factors to be taking in account during budget preparations

This team will consist of senior managers, DM Finance & DG Admin. This team will organize and conduct a yearly General Meeting. This General Meeting should be attended by the Director Generals of all departments and the Directors of all departments and District Directors.

5.2.10 Indirect administrative costs, associated with the operation of funds shall be identified and charged against the operation of those funds.

5.2.11 Kabul Municipality's role in social service funding shall continue to be supplemental (addressing special or unique local needs) to the basic responsibilities of other agencies in Kabul City.

5.2.12 Kabul Municipality shall make sure that revenue estimates for budget purposes are conservative yet realistic; this will clear the idea that how much external funding is required for the development programs which can be funded by Ministry of Finance or any other donor.

5.2.13 Grant funds or similar contractual revenue of a temporary nature will be budgeted only if they are committed at the time of the preliminary budget. Otherwise, separate appropriations will be made during the year as grants are awarded or contracts made.

5.2.14 Kabul Municipality shall maintain a Cumulative Reserve Fund to provide counter-cyclical balance, to be able that Kabul Municipality can stand unforeseen contingencies.

5.2.15 General Fund should maintain adequate fund balances or working capital to meet unexpected contingencies.

Kabul Municipality's investment practices shall be developed in accordance with Municipal Standards.

5.2.16 Operational activity of Kabul Municipality shall be funded through its revenues.

5.2.17 Long-term borrowing for capital facilities should be considered as an appropriate method of financing large facilities that benefit more than one generation of users.

5.2.18 Kabul Municipality shall develop a multi-year plan for capital improvements. The Capital Facilities Plan will be updated annually and be financially constrained for the appropriated budget period.

5.2.19 Kabul Municipality shall maintain its physical assets at an adequate level to minimize future maintenance and replacement costs. The budget will be provide for adequate maintenance and orderly replacement of capital assets.

5.2.20 Kabul Municipality shall estimate a long term budget (three years) for implementing development programs, the budget should allocate fund for the programs developed for the next fiscal year.

5.2.21 Kabul Municipality shall prioritize programs and projects based on economic analysis.



Islamic Republic Of Afghanistan Kabul Municipality



5.2.22 Kabul Municipality shall provide a budget (budget, expenditure, revenue) report to the Ministry of Finance.

5.2.23 Kabul Municipality shall consider the budget Calendar of the Islamic Republic of Afghanistan.

5.2.24 Kabul Municipality will improve its budget processes and will use its budget as a tool to translate its priorities into programs and projects and services in order to meet needs of its citizens.

5.2.25 KM budget should set a limit on the level of expenditure permitted in carrying out the organizations activities.

5.2.26 KM budget should provide a structure for releasing (allotment), recording (accounting) and monitoring (auditing) the expenditure of funds.

5.2.27 KM budget should be an instrument of accountability making managers responsible for the financial implications of the operations they authorize.

6.0 Implement Program Budgeting

6.1.01 As mentioned KM will implement program budget reform for both KM internal budget and MoF funded budget.

6.1.02 In recent years the policy of the Government of the Islamic Republic of Afghanistan (GIRoA) has been to introduce a number of budget process reforms aimed at strengthening public expenditure management and planning, and improving financial control. The most important pieces of legislation in the field have been the Public Finance and Expenditure Management Law (PFEML) and the Public Finance Expenditure Management (PFEM) regulations. These reforms have two key objectives:

- To develop expenditure priorities and budget plans over the medium term and,
- To base budget allocation decisions on the economic and social priorities of the country.

6.1.03 Program Budgeting is a tool for planning, preparing and presenting the government's budget in a manner that provides clear linkages between budget resources and policy outcomes. Program budgeting is a business process by which governmental activities are organized into programs (activities or services with similar or related goals). It follows a distinct structure and is different from traditional budgeting in four fundamental ways:

- The budget is formulated around the individual operational programs of the budget entity (e.g. municipal revenue collecting, sanitation services, road maintenance) rather than around its aggregate spending requirements;
- The budget process integrates the estimation of service costs with narratives that explain and justify the expenditures being proposed;



Islamic Republic Of Afghanistan Kabul Municipality



- The budget figures are accompanied by narrative descriptions of the aims , objectives and expected achievements of the program during the budget period (and beyond if relevant);
- The budget embeds criteria against which performance in delivering outputs and outcomes can be assessed - this process is often referred to as performance measurement.

6.1.04 Budget execution is the process by which the financial resources made available to an agency are directed and controlled toward achieving the purposes and objectives of the requesting agency.

6.1.05 KM needs to improve its spending capability. The impact of the FMIS will significantly improve KM's ability to expend funds effectively and monitor budget spending against forecasts. The FMIS will be fully operational and populated with useful data. This system will provide accurate and timely information and will provide ad hoc reports as needed by KM senior managers. FMIS will also give the Director General of Administration and the Director of the Budget Department the tools necessary to improve expenditure and cash management activities into the future. Following steps will be taken once the budget approved:

- ❖ Register/record of approved budget to FMIS system;
- ❖ Issuing of allotments by program and economic categories for operating budget and by projects for development projects.

7.0 Budget Decision Making:

Budget Decision Making is a critical phase in budget preparation cycle. The senior managers will have to decide on many important projects and will prioritize the projects based on availability of financial resources (Revenue Plan & MoF Budget Ceiling), government high prioritize and citizens requirements.

8.0 Revenue Plan:

The mechanism for managing money in any economic entity is always its budget. In principle, therefore, organizational budgets should always align with organizational objectives and income/revenue – if they do not, the entity will very quickly find itself in difficulties

KM should prepare a three year realistic and comprehensive revenue plan for better financial decision making during the budget preparation process and the model should be used for aligning the available financial resources with propose budget.

9.0 Consequences of Violations

Willful or blatant violation of this policy may result in disciplinary action.

Refer to Disciplinary policy of Kabul Municipality



Islamic Republic Of Afghanistan Kabul Municipality



10.0 Policy Evaluation

This policy should be regularly evaluated to ensure it is enabling and effectively moving Kabul Municipality towards its sustainability goal.

11. 0 Policy Enforcement

The contents of this policy are enforceable after His Excellency the Mayor's approval.