



# BUDGETING & PARLIAMENTARY BUDGETARY INSTITUTIONS IN AFGHANISTAN

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# BUDGETING AND PARLIAMENTARY BUDGETARY INSTITUTIONS IN AFGHANISTAN

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**USAID**  
FROM THE AMERICAN PEOPLE

AFGHANISTAN PARLIAMENTARY ASSISTANCE PROJECT

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## Foreword

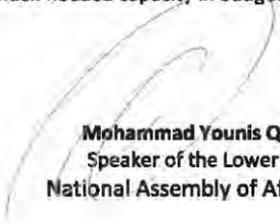


Effective legislation and oversight are fundamental to good governance and accountability in Afghanistan. The National Assembly in Afghanistan fulfils three core functions: (i) representation, (ii) law-making, and (iii) oversight. Governance goals of greater accountability, transparency, and participation are directly related to these three functions. In this context, parliamentary oversight in public finances, in particular, seeks to ensure that the Executive and its agencies remain responsive and accountable.

The USAID's Afghanistan Parliamentary Assistance Project (APAP), in addition to other objectives, seeks to strengthen the budget legislation and oversight capacity of Parliament. As part of this support, the APAP has brought out this book, which looks at ways to improve budget legislation and oversight by the Parliament of Afghanistan. This book is timely, given the fact that the legislative role in the National Budget process is less understood in Afghanistan by the Executive, citizens, NGOs, and even donors in some cases. The book aims to improve this by focusing on parliamentary budgetary institutions and processes, which help to enhance the quality of budget legislation and oversight.

In addition to parliamentary budgetary institutions and processes, this book also contains chapters on budget preparation, execution, and auditing at the Executive level, which would be useful to government officials at the Executive level involved in budget preparation activities as well as audit offices, civil society organizations, and donors.

I would like to thank USAID and the APAP staff for the publication of this book. I especially congratulate the Budget Support Team at the APAP for the active support programs being undertaken to help Parliament in the budget analysis and oversight process. I hope that this book will be useful and helpful in improving the much needed capacity in budget legislation and oversight.

  
**Mohammad Younis Qanooni**  
Speaker of the Lower House  
National Assembly of Afghanistan

## Overview

Budgetary institutions and processes can play a critical role in socio-economic development and good governance. The national budget process is the single most important tool in achieving the government objectives of security, physical and human infrastructure, governance, and strengthening the necessary institutions in the country. Effective budgeting to achieve these objectives needs the necessary budgetary institutions not only at the Executive level but also at the Legislative level. Career government officials often measure their success by how much money is spent rather than on what it is spent on and the impact of such spending on bringing about welfare improvements. As representatives of the people, parliamentarians have a right to ask such questions from the Executive branch of Government.

Despite some progress in the last several years, Afghanistan has to make more progress in building the necessary institutions and establishing processes at the National Assembly to make budgeting an effective tool for socio-economic development and good governance. This book tries to show what kind of budgetary institutions are necessary and how they can be implemented in Afghanistan in creating an effective budgeting process throughout the government system.

Chapter 1 begins with some key questions about this book. Some of the basic questions in budgeting in Afghanistan are answered. It elaborates on what consists of the National Budget? Why is the role of the National Assembly in the budget process so important? Who are the key players of National Budget process? It is important to answer these questions before embarking on a discussion about budgetary institutions and processes.

Chapter 2 discusses key budget processes in Afghanistan. It starts with the key principles and objectives of budgeting. It is

essential to understand the basic principles and objectives of budgeting before discussing institutions and processes. It is also important to know the key stages and players of the entire budgetary process in Afghanistan. The key principles are aggregate fiscal discipline, allocative efficiency, and operational efficiency. The various stages of budgeting are drafting, legislation, implementation, and auditing and reporting. The key players are the Executive (particularly, the Ministry of Finance), Parliament, and the supreme audit institution. Other players include civil society organizations, the media, and donors. This chapter also stresses the need for having a nine month fixed budget timetable for budget preparation.

Chapter 3 focuses on the legal and constitutional framework of the national budget process. This framework defines the roles played by the various agencies and bodies of Government. The legal and constitutional framework of the national budget process and the roles played by various bodies of the Government are defined in the Constitution and under the Public Finance and Management Law. In summary, the framework has given the Executive the responsibility to prepare and execute the budget. On the other hand, the Legislature has the power to legislate the budget submitted by the Executive and provide oversight over budget implementation.

Chapter 4 presents the role of Legislature in budget drafting and elaborates on the legislative powers in the budget cycle. Legislatures often contribute to budget drafting despite the fact that it is the Executive which takes the primary responsibility in this activity. Such contributions by the Legislature can be done through pre-budget consultations with line ministries and the Ministry of Finance and through a formal legislative debate on budget ceilings. Even though the former is practiced in Afghanistan, the latter has not yet been introduced. The chapter also presents the legislative powers in the budget cycle and institutions and tools necessary to use such powers. These powers and tools include amendment powers, time for scrutiny

and legislation, flexibility during implementation, committee capacity, access to budget information, and the role of the legislative budget office.

Chapter 5 provides guidance on the key legislative institutions that constitutes the legislature. These institutions include the budget committee, public accounts committee, and the legislative budget office. In Afghanistan, the budget committee has been functioning since 2005 and the budget office (established with assistance from USAID) to support the budget process has been functioning since 2007. This chapter explains the role of the public accounts committee in budget oversight and the urgent need for such a committee in Afghanistan. The chapter provides detailed information on how parliamentary budget offices work in the US, the Philippines, South Korea, and Uganda.

Chapter 6 introduces the types of audits and mechanisms for effective oversight. Broadly speaking there are two types of audits in public financial management: (i) financial audit and (ii) performance audit. The mechanism for an effective oversight includes active interaction between supreme auditors and the legislature. This chapter also talks about the role of public hearings by committees and the role of the media. Public hearings provide enhanced transparency and accountability of budget choices and its implementation. They also provide access to independent expertise on the Budget. The media plays a similar role in enhancing transparency of budget allocations and decisions by the Government.

Chapter 7 reviews budget reforms introduced in Afghanistan. These include adopting a medium term approach to budgeting, program budgeting and alignment with the ANDS, and provincial budgeting. These reforms are aimed to improve allocative and operational efficiency and effectiveness of public finances in Afghanistan.

The medium term budgeting tools aim to improve the fiscal sustainability and the alignment with Government policies such as the ANDS. The Government introduced the Medium Term Fiscal Framework (MTFF) in 2005 and has recently started the Medium Term Budget Framework (MTBF) by setting medium term sectoral and ministerial ceilings. A more effective tool would be a Medium Term Expenditure Framework (MTEF), which provides medium term Government expenditures at the program level. Key steps of a MTEF are illustrated in this chapter.

Program budgeting is introduced to link financial resources with final outcomes and outputs by grouping activities into programs with common objectives. This approach again helps in aligning the annual budgeting exercise with Government strategic objectives such as the ANDS and in establishing a monitoring mechanism.

Finally, a reform to improve provincial allocation of public resources to meet the local needs has been initiated. This is called provincial budgeting. This process involves receiving inputs from provincial officials and aligning budgetary resources with the priorities under the provincial development plans (PDPs).

Chapter 8 focuses on some cross-cutting issues such as poverty reduction strategies, controlling corruption, and gender budgeting. Effective parliamentary legislation of annual budgets and oversight are critical in achieving these objectives.

The Appendix provides an appraisal of the study visits to South Korea and the US by MPs and Government officials to study their legislative budgetary institutions and processes. The South Korean trip provided an opportunity to look at parliamentary budgetary institutions such as the budget committee and budget office at their legislature in addition to visits to the Ministry of Finance and research institutes such as Korea Development Institute and Korea Institute of Public Finance.

The US study trip included a comprehensive training program at the World Bank on budget formulation, legislation, implementation, and oversight. The delegation also visited the House Democracy Assistance Commission (HDAC), House Budget Committee, Congressional Research Service (CRS), Congressional Budget Office (CBO), Office of Management and Budget (OMB), Senate Foreign Relations Committee public hearing, and the State Department.

The report of the study visits also made recommendations to improve budgeting processes to make the national budget an effective tool for socio-economic development and good governance.

# KEY QUESTIONS

1

Why This Book?

What is The National Budget?

Why The National Assembly  
Should Have an Important Role in  
the Budget Process?

Who are the Key Players in the Budget  
Process in Afghanistan?

## 1.1. WHY THIS BOOK?

The Budget is the Government's most important socio-economic policy tool and provides a comprehensive statement of the nation's priorities. As a representative of the people, Parliament is the appropriate place to ensure that the budget best matches the nation's development needs and money is well spent.

With this as the primary objective enshrined in the Constitution, the country has established a legal basis for the National Assembly in the overall public financial management in the country. The Constitution has given the National Assembly the authority to ensure that revenue and spending measures it authorizes are fiscally sound, match the needs of the population with available resources, and that they are implemented properly and efficiently. Several Articles in the Constitution define the role of the National Assembly in legislation and oversight functions over the National Budget. Similarly, the Public Expenditure and Management Law (PEML) has been enacted but needs some amendments/revisions to elaborate the role of the National Assembly in the budget process, and its relationship with other key players in the budget process.

Despite the importance and constitutional responsibilities, the legislative role in the National Budget process is less understood in Afghanistan by the Executive, citizens, NGOs, and even donors in some cases. Largely neglected in the first stage of economic and budget reforms in Afghanistan, legislative institutions have to be strengthened in a second wave of reforms in public financial management. The reforms have to go beyond the Executive: such as the National Assembly Budget Committees, and National Assembly Budget Office and the Auditor General's Office.

This book not only describes the budget formulation, legislation, implementation, and oversight processes, which are useful for

Members of Parliament and officials in the Government especially in the MoF, but also includes how successful budgetary institutions and processes work in different parts of the world. This book can also be useful for the Government and donors in building legislative institutions necessary to achieve the governance goals of greater accountability, transparency, and participation.

## 1.2. What is the National Budget?

The National Budget of Afghanistan consists of the core and external budgets. The core budget is prepared and executed by the Government and approved by the National Assembly of Afghanistan. The core budget is prepared mainly by the MoF in consultations with line ministries and is approved by the Cabinet before it goes for formal approval by the National Assembly. The implementation of the budget is processed using public finance management systems by the line ministries and the MoF. The oversight functions of the national budget are done by the National Assembly. The size of the core budget has increased significantly in the last four to five years due to improved implementation capacities and increased need for government programs. The core budget is divided into two parts: the operation and development budgets. The operating budget consists mainly of salaries and wages, and goods and services. The core development budget consists of projects funded mainly by donors. Only about 40 percent of the total expenditure in the country goes through the core budget. Nearly 70 percent of the core budget is externally financed.

The external budget, however, is prepared and implemented by donors either through private contractors or NGOs without directly involving the Government in the process. Because of donor priorities and weak capacity in most Government ministries, the external budget has been larger than the core budget. In the past several years, on average, the external budget represents about 60 percent of expenditures.

### National Budget Structure



## 1.3. WHY THE NATIONAL ASSEMBLY SHOULD HAVE AN IMPORTANT ROLE IN THE BUDGET PROCESS?

The call for a greater role in budgeting by the National Assembly is often met with some skepticism especially from the Executive. The case for effective legislative involvement in the budget process is often not fully appreciated. Some pertinent arguments for effective legislative involvement in the budget process are as follows.

- The ‘power of the purse’ is an incontestable democratic fundamental. This also shows there is an obligation on the part of the National Assembly to ensure that the revenues and expenditures it authorizes meet the needs of the population and priorities of the country.
- Checks and balances are necessary to ensure good governance in budgeting in the medium to long term, which requires the answerability of the Executive to the National Assembly and the ability of the latter to take appropriate action in cases of fraud and poor performance.
- Those who argue against legislative involvement in the budget process presume that Government executives automatically want to govern well and in the best interest of the public. Unfortunately, too often this has proven a naïve assumption. The absence of meaningful legislative checks and balances opens the door to waste and corruption and leads down the road of poor budget outcomes.
- Open discussion on the contents of the Budget in the National Assembly enhances transparency and enables effective scrutiny.

- The National Assembly can help to ensure a balance of views and inputs into budget decisions and thus provide a platform for establishing broad based consensus with regard to difficult budget trade-offs. For example, in many countries, the business community or vested interests within the Executive, traditionally has a strong voice during the budget policy formulation process. To complement and balance this perspective, legislatures can function as an entry point into the budget process for independent think tanks, academics and civil society groups. As a result of civil society participation, some parliaments have been instrumental in pioneering important new perspectives on the budget.

## 1.4. WHO ARE THE KEY PLAYERS IN THE BUDGET PROCESS IN AFGHANISTAN?

There are three key primary players: the Executive (led by Ministry of Finance), the National Assembly, and the Control and Audit Office (CAO). There are several secondary players such as civil society organizations, the media, research and academic institutes, international institutions (such as the IMF and World Bank), and bilateral donors (such as USAID, DFID, and CIDA).

### The Executive (Ministry of Finance)

Within the Executive, the role of a Ministry of Finance is to coordinate and drive the budget process in accordance with a schedule. In Afghanistan, most of the Executive's role is played by the Ministry of Finance with guidance from the Budget Committee of the Executive, which comprises of several ministries<sup>1</sup>.

### National Assembly

As required by the Constitution of Afghanistan, the National Assembly has to approve any taxation and public spending. Therefore, the role of the National Assembly is to scrutinize and authorize revenues and expenditures, and to ensure the Budget is properly implemented.

### Control and Audit Office (CAO)

The CAO carries out audit of Government accounts in order to determine whether the Government did in fact implement that budget as passed by the Legislature. The CAO is the supreme audit institution of Afghanistan. It reports directly to the President of Afghanistan (Executive). The CAO protects public funds and takes action against errors and irregularities

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<sup>1</sup> *Ministries of Finance, Economy, and Foreign Affairs and the Office of the Administrative Affairs.*

regarding financial carelessness and the misuse of public property.

### **Civil Society Organizations**

Potential contributions to the budget process are civil society organizations, covering the full spectrum from think tanks to community-based organizations. In Afghanistan, the role of civil society organizations is yet to evolve fully to play a major role in the budget process

### **Media**

The media has an important role to play in ensuring that the central issues in budgetary debates are widely disseminated and understood.

### **International Financial Institutions and Donors**

International financial institutions and donor agencies play a powerful role in the budget process in Afghanistan, since donors currently contribute about 85 percent of expenditures in the country.

# BUDGET PROCESSES IN AFGHANISTAN

2

Principles and Objectives of Budgeting

Key Players and Stages of the  
Budget Process in Afghanistan

Budget Formulation Process and  
Key Steps

## 2.1. PRINCIPLES AND OBJECTIVES OF BUDGETING

If resources and funding were limitless, all ministries and agencies get whatever they want from the Government. In that scenario, there would be no need for a budget. But in Afghanistan, domestic resources can only meet about 15 percent of the total expenditures in the country. The remaining 85 percent of the expenditures are currently funded by donors. In reality, spending needs are inevitably beyond available funding in almost all countries. In Afghanistan, for example, the Government has not been able to secure sufficient funding for all its programs in the Afghanistan National Development Strategy (ANDS).

The Government has to make choices about the allocation of scarce resources to meet competing needs in society. Budgeting is effective in facilitating this process when it forces awareness of overall fiscal constraints, enables the prioritization of spending in line with policy objectives, and supports the efficient implementation of policies. The expenditure policy of the Government has to be broadly guided by the following three principles.

**Aggregate Fiscal Discipline:** aggregate fiscal discipline refers to the control of the key measures of fiscal performance, including total spending, total revenue and the budget balance. Many factors are important for determining the appropriate total level of aggregate spending, including available revenues, access to borrowing and acceptable levels of the deficit. Given these constraints, fiscal discipline calls for affordability of total spending, including in the medium to long term. For example, in Afghanistan, the Government has set policy to achieve fiscal sustainability by 2014 by covering the entire operating budget utilizing domestic revenues. This policy has been prepared by

the Ministry of Finance through its Medium Term Fiscal Policy (MTFF), which helps set the fiscal and budgetary aggregates prior to budget formulation. The lack of such fiscal discipline measures may lead to higher debt, higher interest rates, higher inflation and lower GDP growth rates. To safeguard fiscal discipline, the Executive and Legislative bodies have to resist the temptation to add new spending without commensurate cutbacks elsewhere in the Budget.

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### Principles of Good Budgeting

**Comprehensiveness:** the budget must cover all the fiscal operations of Government, encompassing all public expenditures and revenues, to enable full and informed debate of the tradeoffs between policy options.

**Predictability:** Spending agencies should have certainty about their allocations in the medium term to enable them to plan ahead. Stable funding flows support departmental planning and efficient and effective delivery of expected outputs.

**Contestability:** No item in the budget should have an automatic claim to funding. All policy and attached funding should be regularly reviewed and evaluated in order to ensure prioritization and optimal performance of spending agencies.

**Transparency:** All relevant information required for sound budgetary decision making should be available in an accessible format, and in a timely and systematic fashion. But information needs to be accurate, reliable and comprehensive.

**Periodicity:** The budget should cover a fixed period of time, typically one year, and the process of compiling the budget should follow a clear and reliable schedule that is agreed upon by all stake-holders and published in advance.

*Source: World Bank*

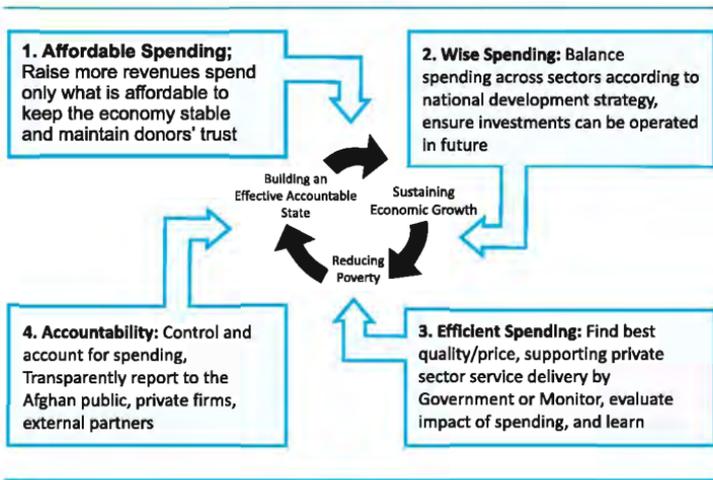
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**Allocative Efficiency:** The achievement of allocative efficiency or strategic prioritization requires Government capacity to allocate resources and select programs and projects in conformity with its objectives. In Afghanistan, the alignment of the National Budget with priorities of the ANDS is critical in achieving

Government objectives. This process is supported where the policy basis of the Budget is stated clearly on the basis of a medium term strategy. The core budget of the Government has started aligning its programs and projects with priorities of the ANDS in the past few years. But further progress is needed in improving prioritization of the budget and monitoring of outputs and service delivery. A similar exercise has to be coordinated with donors for the external budget in order to align the external budget with ANDS priorities.

Allocative efficiency is threatened where spending agencies are bailed out when they overspend, because poor budget execution can introduce substantial ad hoc realignments that distort stated priorities. Such distortions often divert resources away from the poorest and most vulnerable groups in society to cater for the interests of bureaucracies and strong interest groups. Through its oversight functions, the National Assembly can provide an important platform for public debate on the nation's priorities.

### Linkages between Public Expenditures and Government Objectives



**Operational Efficiency:** this pertains to value for money. Spending agencies should aim to eliminate waste and produce goods and services at a cost that achieves ongoing efficiency gains. Program or performance budgeting which links resources and final outputs and managerial incentives can produce results in most cases. Moreover, effective parliamentary scrutiny and accountability for results can support a mind shift in spending ministries from a mentality of compliance to one of achievement. Parliaments increasingly consider not only the allocation of money, but also what is delivered with that money. To facilitate legislative review of line ministry performance, the format of the budget needs to go beyond the traditional focus on cost and inputs. This approach needs information on strategic objectives, output targets and outcomes. In order to move towards this approach, the Government of Afghanistan has introduced program budgeting in most key ministries, where strategic priorities, outputs, and outcomes have been introduced as part of their annual budget exercise. Parliamentary scrutiny of audit findings also strengthens accountability for performance.

## 2.2. KEY PLAYERS AND STAGES OF THE BUDGET PROCESS IN AFGHANISTAN

There are many players in the budget process. The budget is the result of a process played by these players. Even though the roles differ from country to country, there are important similarities across most public budgeting systems. The following sections look at the key players of and stages in the budget process.

### The Executive (The Ministry of Finance)

Within the Executive, the role of the Ministry of Finance is to coordinate and drive the budget process in accordance with a schedule. In Afghanistan, most of the Executive's role is played by the Ministry of Finance with guidance from the Budget Committee of the Executive. The Finance Ministry is responsible for preparing macroeconomic and fiscal projections and analysis which is essential in formulating fiscal policies and drafting the budget. Similarly, the Ministry of Finance coordinates the budget implementation with line ministries and government agencies. The allotment processes and payments are done by the Ministry of Finance in accordance with budget appropriations approved by the National Assembly.

### National Assembly

As the Constitution of Afghanistan requires, the National Assembly has to approve any taxation and public spending. Therefore, the role of the National Assembly is to scrutinize and authorize revenues and expenditures, and to ensure that the Budget is properly implemented. The nature and effect of legislative engagement may vary from country to country. Some legislatures write the budget; others approve executive budget proposals without any changes. In some legislatures most of the

debate around the budget takes place on the floor of the house; elsewhere the emphasis is on discussion in committees. Some legislatures fragment decision-making power in the budget process across various committees; others have a single finance committee that dominates the process. Ultimately, the final vote takes place in the plenary.

In Afghanistan, the National Assembly either approves or rejects the budget in its entirety. But when it rejects, it gives reasons for rejection. At this point, the Executive tries to accommodate all or some concerns/requests by the National Assembly. The Executive re-submits the revised budget to the National Assembly. The Constitution did not give the National Assembly the authority to make amendments and propose alternative programs or projects as in many other countries. Most of the technical work and necessary recommendations take place in the committee meetings led by the Budget Committees of both Houses. Based on these recommendations, the plenary votes on the Budget.

### **Control and Audit Office (CAO)**

The CAO carries out audit of Government accounts in order to determine whether the Government did in fact implement that budget as passed by the Legislature. The CAO is the supreme audit institution of Afghanistan. It reports directly to the President of Afghanistan (Executive). While this basic task is similar across different systems, there are differences in the institutional design of supreme audit institutions. For example, some report directly to the Executive as in the case of Afghanistan; others are linked to the Legislature, while yet others have judicial independence.

The CAO protects public funds and takes action against errors and irregularities regarding financial carelessness and the misuse of public property. It identifies shortfalls in the Government budget and provides guidance to minimize errors, shortcomings, overpayments, and poor estimation for

construction projects; and guarantee the accuracy of aid and grants provided by donor countries. Its role is expected to reduce corruption and improve accountability and transparency of the Budget.

### **Civil Society Organizations**

Potential contribution to the budget process by civil society organizations, covering the full spectrum from think tanks to community-based organizations, is increasingly appreciated. Civil society organizations can provide independent research from a perspective that is not covered by conventional analyses. One example is the work on the impact of the Budget on vulnerable groups such as women or children that civil society groups have pioneered, sometimes in collaboration with the Legislature.

In Afghanistan, the role of civil society organizations and their potential contribution to the development of democratic institutions is yet to be fully evolved.

### **Media**

The media has an important role to play in ensuring that the central issues in budgetary debates are widely disseminated and understood. In order to play this role, journalists require full access to the Legislature and its Committees, and all relevant documentation should be made available to them.

### **International Financial Institutions and Donors**

International financial institutions and donor agencies play a powerful role in the budget process in developing countries especially in those countries that are aid dependent. When donors attach conditions, they have considerable control on the nature of their program/projects, and the legislative role may be severely diminished due to agreements between donors and the Executive. Because more than 80 percent of the funds come

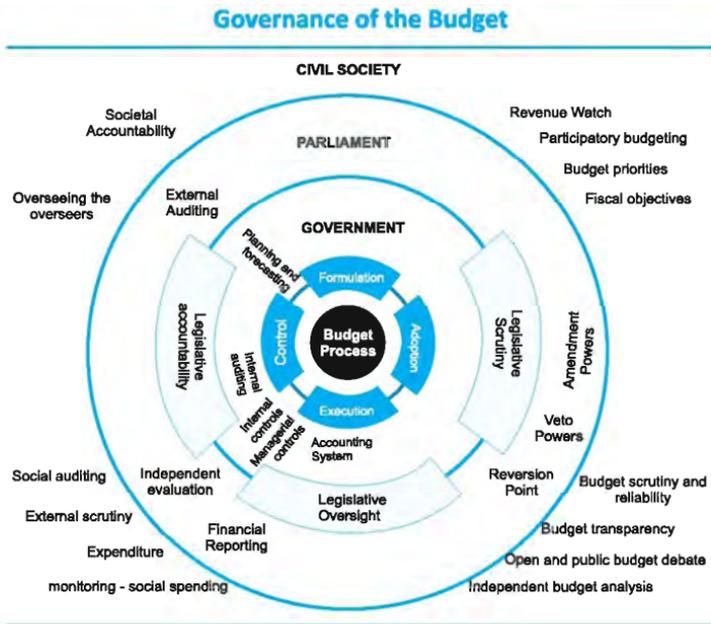
from donors and are non-discretionary in nature, there is limited flexibility to change the Budget in Afghanistan.

## Stages of the Budget Process

The budget process generally has four different stages:

- Drafting
- Legislation
- Implementation
- Auditing, Reporting, Evaluation

Even though the Budget has four stages, in real life, the budget cycles overlap. At any one point, two or three different Budgets (for different years) are at different stages of the budget process. For example, while one budget is being drafted, another budget might be in the process of being implemented, and yet another that has already been implemented might be subject to audit and evaluation.



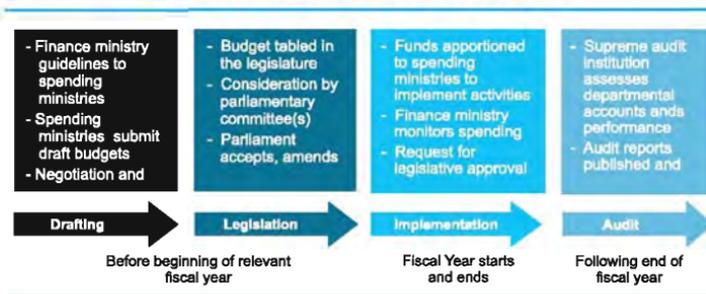
**Drafting:** this is the budget formulation stage, which takes almost a year in most countries. The IMF and the World Bank recommend a standard 9 month budget formulation stage for most developing countries. Afghanistan has adopted these recommendations and prepared for the first time, a standard 9 month budget timetable for 1386. This stage is mostly internal to the Executive (Ministry of Finance), but does not have to be a secretive affair. At this stage, the Budget Department of the Ministry of Finance is responsible for coordinating the budget drafting process within the Executive. The budget formulation process has to be shared with the Legislature from time to time and even take their inputs into consideration. The first step is to set the macroeconomic and fiscal policy framework for the budget year and estimate available revenues in order to establish the total resource envelope that will be available for spending. After this, the Ministry issues a Budget Circular with indicative ceilings. Based on the ceilings, line ministries submit their proposals. This leads up to negotiations between spending ministries and the Ministry of Finance on the allocation of available resources among different ministries. A draft Budget is prepared based on these negotiations. A consolidated Budget is then first approved by the Cabinet and sent to the National Assembly for final approval.

**Legislation:** A draft Budget is presented to the Legislature a few months before the new fiscal year starts. In Afghanistan, the Constitution requires that the draft budget be submitted at least 60 days before the new year. During this stage, the National Assembly scrutinizes the expenditure and revenue proposals of the Executive. It can approve or reject the whole Budget. First it goes to Meshrano Jirga where the Budget is reviewed. It is then sent on to the Wolesi Jirga with comments. The Budget and Finance Committee of the Lower house reviews and discusses with the Executive represented by the Ministry of Finance and makes final recommendations whether to approve or reject the Budget to the plenary session.

In extreme cases, the United Congress, (there the Congress gets extraordinary powers in budget composition), spends about 8 months and sometimes even more on deciding on the Budget. A good rule of thumb, therefore, is that the more time the Legislature has to review the draft Budget, the greater its overall potential influence.

**Implementation:** The implementation phase starts from the beginning of the fiscal year, which is March 21st in Afghanistan. The execution or implementation stage of the budget process is mainly done by the Executive. In the case in Afghanistan, the Ministry of Finance usually plays a leading role in ensuring that funds are apportioned to spending ministries in line with the approved Budget. Due to unanticipated macroeconomic or fiscal shocks or less than anticipated donor assistance, certain expenditures may be cut below voted amounts and other adjustments to approved spending may need to take place. Frequent adjustments however, undermine the credibility of the Budget. Any significant adjustments to the Budget should be captured in supplemental appropriations that are tabled in the Legislature for approval. Afghanistan in the past few years has been implementing the Mid-Year Review of the Budget, which is also approved by the National Assembly. Any adjustments have to be minimized even during the Mid-Year Review so that the Budget can be a credible exercise from the beginning till the end.

### Stages of the Annual Budget Process



**Auditing and Evaluation (CAO):** The Auditor General analyses Government accounts and financial statements. In most countries, the audit of accounts is followed by the consideration of audit findings by the Legislature. If the process is effective, any recommendations based on audit findings are reflected in future Budgets, which allows for continuous improvements in public spending. Audit reports need to be produced and tabled in the Legislature as speedily as possible to ensure their relevance and accuracy.

In Afghanistan, the financial statements are called Qatia reports which are tabled in the National Assembly within 6 months after completion of the fiscal year. In this area, more work needs to be done. The CAO needs to look beyond financial irregularities such as performance auditing where the audit office investigates value for money and quality of physical outputs produced.

Budgeting is a process rather than an event and budget cycles are ongoing and interconnected. The role of the National Assembly should not be restricted to budget approval and the review of audit findings. For instance, in a number of countries parliamentary committees (for example, the Budget Committee) asks the Government to report on the process of drafting an upcoming budget yet to be tabled and legislatures might request certain documentation that is used in the drafting process. Even though the Executive drafts the budget, the Legislature has a right to know the process and information for transparency reasons. Similarly, during budget execution, the legislature should have access to actual revenue and expenditure data on an ongoing basis. In this way, it will be able to keep track of the progress that is being made in implementing the approved budget. This provides opportunity to pick up problems at an early stage, before they result in significant deviations between the approved budget and actual revenues and spending. Legislative effectiveness in budget scrutiny is enhanced by continuous oversight.

## 2.2. BUDGET FORMULATION PROCESS AND KEY STEPS

The budget formulation process involves almost 9-10 months of technical work and extensive consultations by the Ministry of Finance with line ministries, donors, and the provinces. A budget calendar prepared by the Ministry of Finance shows the key steps of the budget formulation. During the budget formulation stage, the National Assembly does not actively participate in the process, except that the National Assembly conducts pre-budget consultations with line ministries and even with donors to exchange information and provide inputs to the budget formulation process. The Constitution gave the primary responsibility of budget formulation to the Executive. It also states that the budget proposals can only be proposed by the Executive.

In spite of this, the National Assembly should know how the Budget is formulated and drafted before it comes to it for legislation. The National Assembly should also know whether sufficient consultations have been made with line ministries and provinces and whether the budget is formulated in accordance with national priorities and goals. The following timetable shows the key processes of the budget formulation process.

### Key Principles of the Budget Preparation Process

Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.

- A budget calendar should be specified and adhered to.
- Adequate time should be allowed for the draft budget to be considered by the Legislature.

- The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained.
- A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. The amount of supporting documentation that accompanies the Budget figures is crucial. In a number of countries, the Budget document itself contains little narrative that outlines the policies underlying tax and spending proposals. Estimates should also be provided of their current and future budgetary impact and their broader economic implications. The budget documentation should also include relevant information on outputs and outcomes.
- The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.
- There should be a clear mechanism for the coordination and management of budgetary and extra-budgetary activities within the overall fiscal policy framework.

## Budget Countdown: A Standard Timetable Recommended

- T-9** ■ Finalize the Budget timetable and get Cabinet approval and circulate it to all Government agencies including the Parliament
- T-8** ■ Prepare macroeconomic and fiscal projections (revenue and aggregate expenditure projections)
- T-7** ■ Prepare medium term expenditure framework and budget ceilings and get Cabinet approval.
- T-6** ■ Issue the Budget Circular to line ministries with instructions to prepare their budget proposals. The Circular also includes the budget ceilings and a policy report which is often called the Fiscal Policy and Budget Framework report.
- T-5** ■ Budget preparation by line ministries
- T-3** ■ Budget negotiations and preparation of draft Budget by the MoF, which has to be approved by Cabinet
- T-2** ■ Present draft Budget to Parliament and Parliament deliberates
- T-1** ■ Parliament deliberations
- T** ■ Approval by Parliament

(Here T refers to the time when the new fiscal year starts, T-1 refers to one month before the new year, T-2 refers to two months before the new year, etc)

**A budget timetable prepared by the Ministry of Finance for 1389 which is broadly followed the above recommended timetable.**

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Hamal 1388 (21 Mar. – 20 Apr. 2009)	Finalize the 1389 budget calendar in consultation with the Budget Committee. Circulate it to primary budget units, the National Assembly, donors and publish it on the MoF website.
Saur 1388 (21 April - 21 May 2009)	<p>A) Issue Budget Circular One to budgetary units by 11-Sawr (May 1st), which is prepared by the Ministry of Finance and the Ministry of Economy. The Budget Circular One requests budgetary units to prepare their intended list of programs/projects and their links to ANDS priorities for the 1389-1391 period (with outputs/outcomes) and indicative costs for the medium term.</p> <p>B) A two day workshop 19-20 Sawr (9-10 May 2009) will be conducted to budgetary units to explain the 1389 budget preparation process.</p> <p>C) Line ministries will discuss their ANDS sector priorities, projects &amp; programs through Inter-Ministerial Committees (IMCs) with MoF and MoEc presence, to make sure:</p> <ul style="list-style-type: none"><li>• ANDS priorities are included,</li><li>• These priorities are contributing to the ANDS outcomes.</li></ul>
Jawza 1388 (22 May – 21 June 2009)	<p>Budgetary units according to the guidelines shall prepare their draft ANDS priorities reflected programs and projects with assistance from the Ministry of Finance and the Ministry of Economy.</p> <p>Budgetary units submit their inputs for the development budget (for 1389 to 1391) to the Ministry of Finance in response to Budget Circular One by 9 Jawza (30 May 2009)</p> <p>Ministry of Finance organizes a Donor Financial Review, to present the line ministry submissions</p>

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	<p>(based on Circular one) and ask for their commitments.</p> <p>MoF in consultation with the key stakeholders (donors) revise the MTFE/budget prioritization and framework for 1389-91, which will be incorporated in the "Medium Term Budget Framework". The report defines the broad fiscal and budgetary priorities of the Government with sector/ministry budget ceilings, by 30-Jawza (20 June).</p> <p>Negotiations between MoEc, MoF and budgetary units take place to finalize development budget ceilings for years 1389 to 1391.</p>
<p>Saratan 1388 (22 Jun. – 22 Jul. 2009)</p>	<p>MoF and MoEc completes their analysis of the submissions by the line ministries:</p> <p>Review proposed priorities in the light of which ones are the most important, is contributing to the ANDS outcomes and can be financed from the available resources?</p> <p>Organize meeting with donors on funding of the priorities and finalize Donors Financial Review Report</p>
<p>Asad 1388 (23 Jul. – 22 Aug. 2009)</p>	<p>Finalize Medium Term Budget Framework (MTBF) based on available funds, priorities and donors' commitments, and calculate budget ceilings by 22-25 Saratan (13-16 July).</p> <p>Budget Committee will review the MTBF, and after confirmation, it will go to the Cabinet for approval by 25- Saratan.</p>
<p>Sumbula 1388 (23 Aug. – 22 Sep. 2009) Holy Month of Ramadan</p>	<p>By 10-Asad (1st August), MoF will issue Budget Circular Two (Traditional Circular for all budgetary units and Program Budget Circular for program budget pilots) to budgetary units with budget ceilings, budget instructions, and required forms. The Circular also includes broad priorities set in the MTBF.</p> <p>Ministry of Finance will issue the MTBF including ministries' budgetary framework report, along with budget ceilings.</p> <p>From 15 to 24 Sunbola (6-24 September), Budget Committee will start mid-year expenditure review. The</p>

	<p>MYB Review will go to Cabinet by 6-Mezan and then to the National Assembly by 14-Mezan (6 October).</p>
<p>Mizan, Aqrab, Qaus 1388 (23 Sep. – 21 Dec. 2009)</p>	<p>Budgetary units prepare detailed projects using recommended templates for their sectors/ministries, by the MoEc and MoF. Those line ministries that are implementing program budgeting prepare programs and activities as per the guidelines by MoF. Both MoEc and MoF will work with line ministries together to: 1) develop their projects in line with the ANDS outcomes and priorities and consistent with the ceilings, 2) develop meaningful program budget documents.</p> <p>The budgetary units will submit their development budget through MoEc and operating budget directly to MoF.</p> <p>MoF with donors will take into consideration the key fiscal issues and also budgetary units will hold sessions with donors to discuss their (donors) financing priorities and fiscal issues.</p> <p>Budgetary units will submit their budgets by 23 Mezan (15 October).</p>
<p>Qaus 1388 (22 Nov. – 30 Dec. 2009)</p>	<p>MoF &amp; MoEconomy will start analysis of the line ministry submissions on 24-Mezan (16 October) and this activity will be completed by 9 Aqrab (31 October)</p> <p>MoF will organize a second round of Donors Financial Review between 10-24 Aqrab (1-15 November)</p> <p>Budget Hearings will start from 11-30 Quas (2-21 December)</p>
<p>Jaddi 1388 (22 Dec. 2009 – 19 Jan. 2010)</p>	<p>Finalize budget documents for submission to the Cabinet by 9 Jadi (30 Dec)</p> <p>Cabinet Approves the Budget by 21-Jadi (11 January 2010)</p>
<p>Dalwa/Hoot 1388 (20 Jan – 20 Mar. 2010)</p>	<p>Submit Budget to the National Assembly by 29 Jadi (19 January 2010).</p> <p>Approval of the Budget by the National Assembly, by 29 Hoot (20 March).</p>

## Key Recommendations

- An important feature of a transparent budget preparation process is the availability of a reliable and publicly available calendar along with associated procedures, to which the Executive rigorously adheres to.
- The budget calendar/timetable should be shared with the National Assembly for information as soon as it is prepared by the Executive/MoF.
- The OECD best practice guidelines suggest that a pre-budget report (fiscal policy and budget framework report) should be presented to the Legislature and published no later than one month prior to the tabling of the annual budget in Parliament.
- The OECD best practice guidelines also suggest presentation of the draft Budget to the Legislature no less than three months prior to the start of the fiscal year, and approval of the Budget prior to the start of the fiscal year.
- Where there is a role for sub-national governments (provinces and municipalities) in the budget process in Afghanistan, the budget preparation calendar for sub-national governments should allow adequate time for consultation at the local level and the timely provision of the necessary information for the central government budget process.

# LEGAL & CONSTITUTIONAL FRAMEWORK

3

Constitutional Framework of the  
National Assembly

Legal Power of the National Assembly  
in the National Budget Process

## 3. 1. CONSTITUTIONAL FRAMEWORK OF THE NATIONAL ASSEMBLY

In most countries, the Legislature is constitutionally mandated as the institution through which Governments are held accountable to the electorate. The power-of-the-purse function has been performed by Legislatures around the world as a means to expand their democratic leverage on behalf of citizens. There is a great variation, however, in the nature and effect of legislative engagement. Some Legislatures effectively write the Budget; others tend to approve Executive budget proposals without changes. In some Legislatures, most of the debate takes place in plenary, on the floor of the House; elsewhere, the emphasis is on review in Committee. Ultimately, however, the final vote of approval of the “Budget Act” takes place in the plenary. It is this process of legislative approval of the Budget that brings the rule of law to the budget process.

### The National Budget and Constitutional Obligations

The formal budgetary powers of a Legislature, usually, are often spelled out in a country’s written Constitution. The Constitution of Afghanistan has referred to the Budget in many of its articles. But powers can be based on convention, determined by ordinary legislation, or referred to in legislative rules. The following Articles of the Constitution of Afghanistan talks about the roles in the budget process.

#### Article Seventy Five

**The Government has the following duties:**

1. Prepare the budget, regulate financial affairs, and protect public wealth
2. Report to the National Assembly at the end of the fiscal year about the tasks accomplished and about the main plans for the new fiscal year.

### **Article Seventy Nine**

In case of recess of the Wolesi Jirga, the Government can adopt legislation in an emergency situation on matters other than those related to budget and financial affairs.

### **Article Ninety**

The National Assembly has the following powers:

Approval of the state budget, permission for obtaining and granting of loans.

### **Article Ninety One**

Wolesi Jirga has the following special powers:

Taking the final decision about the state's development programs and the state Budget.

### **Article Ninety Five**

Proposal for budget and financial affairs are initiated only by the Government

### **Article Ninety Seven**

The Wolesi Jirga approves or rejects the proposal of the promulgation of law including budget and financial affairs and the proposal of taking or giving loans after discussion as a whole.

### **Article Ninety Eight**

The state Budget and development plan of the Government is submitted through the Meshrano Jirga along with advisory comments to the Wolesi Jirga.

The decision of the Wolesi Jirga, irrespective of the consent of the Meshrano Jirga, is enforceable after it is signed by the President.

If for some reasons the Budget is not approved before the beginning of the new fiscal year, the Budget of the year before is applied until the approval of the new Budget.

The Government is obligated to give to the Wolesi Jirga the Budget of the new fiscal year and a brief account of the current year's budget within the forth quarter of the fiscal year.

The definite account of the previous fiscal year shall be submitted by the Government to the Wolesi Jirga within six months of the new year, in accordance with the provisions of law.

The Wolesi Jirga cannot delay the approval of the Budget for more than one month or permission to give or take loans for more than 15 days.

If during this period the Wolesi Jirga does not take any decision with regards to taking or giving of loans, the proposal will be considered as approved.

### **Article Ninety Nine**

If, during a session of the National Assembly, the annual Budget or a developmental plan or an issue related to public security, territorial integrity, and the country's independence is under discussion, the session of the Assembly cannot end before the approval of the matter.

### **Article One Hundred and Twenty Five**

The budget of the judicial branch is arranged in consultation with the Government by the Supreme Court and presented to the National Assembly by the Government as part of the state Budget.

Implementation of the budget of the judicial branch is the authority of the Supreme Court.

## Public Finance and Management Law (PFML)

The PFML and Financial Regulations, which were prepared and finalized before the commencement of the National Assembly, in many cases failed to state and describe roles played by the key players in the budget process. In some cases, both the PFML and Financial Regulations mostly discussed the internal processes of the budget preparation, execution, and reporting, and auditing within the Executive, but failed to show constitutional responsibilities of the National Assembly in the overall budget process of the country. For example, Article 59 of the PFML states that the “independent auditors” (CAO) submit the end of fiscal year audit report to the Government. But this report (which is consistent with internationally agreed principles of an independent Auditor General) should be submitted directly to the National Assembly. Similarly, Article 55 states that the MoF submits the final report on the budget to the President and the Government, but this Article should have said that the MoF, which represents the Executive, should submit the final report to the National Assembly.

## 3.2. LEGAL POWERS OF THE NATIONAL ASSEMBLY IN THE NATIONAL BUDGET PROCESS

Legislatures in presidential systems tend to play a more significant role in budget formulation and examination than those in parliamentary systems. One can see from the above that under the Articles of the Constitution, the National Assembly obtained relatively less powers for the budget formulation process. The National Assembly does not have powers to amend the Budget or introduce new budget proposals. But the National Assembly has a power to reject the whole Budget. When it rejects the Budget, it gives reasons why it rejected the Budget. At this point, the Executive and the National Assembly reach some kind of compromise on the approval process.

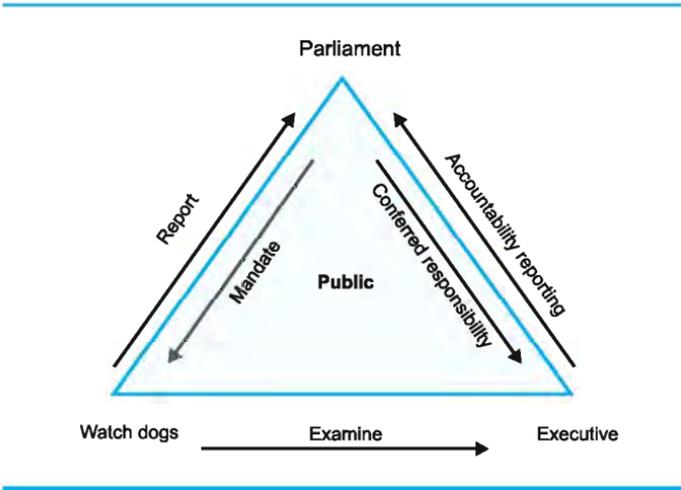
If there is a controversy and more than one interpretation on the role of the National Assembly in the budget formulation and approval process, there is much less in the oversight role. Ideally, following the implementation of the Budget, the Government accounts and financial statements are audited by a “supreme audit institution,” such as the Auditor General as in the case of Afghanistan. The audit is followed by the consideration of the audit findings – which ideally should include value for money and performance auditing as well as financial or compliance auditing-by the Legislature. If the Legislature’s role in the budget cycle is effective, legislative recommendations based on audit findings are reflected in future budgets, thus allowing continuous improvements in public financial accountability.

The exact nature of the interaction between the Legislature and the auditors partly depends on the model of the supreme audit institution and its reporting structure. But if the audit institution has to be independent, it cannot send its audit report to the

Executive body as the audit institution audits the financial statements prepared by the Executive. In most countries, a supreme audit institution sends its audit reports directly to the Legislature.

Currently, the Auditor General's audit reports go to the President's Office and Office of the Parliamentary Affairs, which is part of the Executive. Ideally the Auditor General's report on the Executive's financial statements has to be submitted to the Legislature. For an effective role in the budget process, the Auditor General's report should also include performance auditing in addition to financial auditing. Performance reporting and auditing talks about performance achieved during the fiscal year in terms of outputs/outcomes and other performance indicators in various ministries of the Government. Such reporting and auditing allows for continuous improvements in budget formulation, implementation, value for money, and financial accountability.

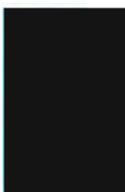
### Oversight by Parliament



## Key Recommendations

- PFML should be amended to clarify the role of the National Assembly in the budget formulation process especially in the area of oversight in relation to audit and follow up mechanisms.
- Performance reporting and auditing has to be introduced in addition to the financial audit (Qatia) of the National Budget. This improves the quality of expenditures and performance of the Budget.

# THE NATIONAL ASSEMBLY & BUDGET PROCESS



**Role of the Legislature in the Budget Drafting  
Process: International Experience**

**Legislative Power in the Budget Cycle:  
Institutions and Tools**



## 4. 1. ROLE OF THE LEGISLATURE IN THE BUDGET DRAFTING PROCESS

### International Experience

Increasingly, Legislatures are focusing on their role in public resource management. This role generally falls into two areas: steering (setting policy and direction) the budget formulation and accountability (monitoring implementation and ex post review of budget execution regarding the purpose, amounts, and compliance with laws). Many Legislatures around the world have been increasingly playing a key role in the drafting stage of the Budget. Close Executive-Legislative interaction is essential in order to optimize the role of the Legislature in the budget formulation process to improve fiscal discipline, strategic allocation of resources, and operational efficiency.

In Afghanistan, the Legislature's role in the budget formulation process is limited. Articles 75 and 95 of the Constitution authorize the Executive to draft the Budget. Even though the formal role of the Parliament in amending the Budget is nonexistent in Afghanistan, this does not mean that it cannot influence the Budget. The Executive can share the information and processes with the National Assembly during the drafting stage of the Budget. This practice can improve the transparency, accountability and avoid big surprises when the draft Budget is tabled in the National Assembly. Let us look at some of the good practices around the world before making recommendations as to which of these best practices Afghanistan should adopt.

### International Good Practices

The International Monetary Fund's Manual on Fiscal Transparency (2001) recommends regular fiscal reporting and the budget formulation process should specify fiscal rules and

objectives embedded within a credible macroeconomic framework. The “OECD Best Practices for Budget Transparency” advocates a pre-budget report to the Legislature to encourage debate on the budget aggregates. The International Budget Project (IBP) recommends that the budget includes “sufficient disaggregated information to assess the distribution of spending within ministries/departments at least including major programs backed by clear program objectives”.

### Early Release of Budget Information

Two important factors determining the Legislature’s role in the draft stage of the Budget are: (1) the timeliness and content of information released by the Executive to the Legislature, and (2) whether there are formal arrangements for legislative debate of budget ceilings in the process. Early release of information to the Legislature typically comes in the form of a pre-budget statement.

**Timeliness:** According to the OECD’s best practice guidelines for fiscal transparency, the pre-budget report should be released no later than one month prior to the budget proposal. Releasing budget information before the start of the fiscal year, and before delivery of the formal budget for approval, enables the Legislature to engage more meaningfully in the budget debate. Data (Budget Survey) show fifty-three percent of all countries release a pre-budget statement to the public. Most countries that release a pre-budget statement do so at least four months before the start of the fiscal year.

**Content of Pre-Budget Statement:** usually pre-budget statements include the Government’s macroeconomic and fiscal framework with some explanation. In addition to macroeconomic information, pre-budget statements are valuable as statements of Government policy intentions. Many countries provide an explanation that at least highlights the key priorities of the Government with budget ceilings or spending targets.

A typical pre-budget statement has the following characteristics:

- Is released publicly.
- Explains government's proposed macroeconomic and fiscal policy. Many would also be expected to include both narrative detail and quantitative estimates.
- Highlights the key government policy priorities for executive budget development. Many would also be expected to include both narrative detail and quantitative estimates (for example, ceilings or spending targets).

**Formal Legislature Debate on Ceilings:** To help set policy priorities and bind both the Executive and the Legislature to those priorities during detailed development and consideration of the Budget, many countries establish formal legislative consideration of the budget ceilings. In addition to providing information on Government policies and priorities, Legislatures engage in debates on the aggregates and ceilings.

### The Role of the Legislature and the Use of Powers

How and why some Legislatures play a greater role in the budget process can also depend on the conferred powers and on the effective role of Committees within Legislatures. Legislatures require access to timely and appropriate information from the Executive. They also require the technical capacity to use this information.

Lack of or weak Budget Committees may compromise a Legislature's ability to influence budget policy or make amendments. Strong Committees are generally characterized as having sufficient resources, skilled staff, and plenty of time to debate.

In addition to the committee structure, whether Committees hold public hearings at which executive agencies must justify their budget requests and be an important tool enabling

legislative understanding of the budget and influence over policy content are also important characteristics.

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### What Type of Budget Documentation should be available to the Parliament

**A Comprehensive Budget** includes performance data and medium term projections.

**A Pre-budget report** states explicitly the Government's long-term economic and fiscal policy objectives, and its economic assumptions and fiscal policy intentions for the medium term.

**Monthly reports** show progress in implementing the Budget, including explanations of any differences between actual and forecast amounts

**A mid-year report** provides a comprehensive update on the implementation of the Budget, including an updated forecast of budget outcome for the medium-term.

**A year-end report** should be audited by the supreme audit institution and released within six months of the end of the fiscal year.

**A pre-election report** illustrates the general state of Government finances immediately before an election.

**A long-term report** assesses the long-term sustainability of current Government policies.

*Source: OECD (2001)*

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## Recommendations for Afghanistan

- **Pre-Budget Statement and Budget Ceilings to the National Assembly:** This facilitates a meaningful budget debate by the National Assembly. Otherwise, the National Assembly has no clue about the budget process until it gets the draft Budget on its table. This also helps the National Assembly to have consultations with line ministries and provinces on sectoral and provincial priorities of the Budget. This process improves transparency and accountability of the budget process.
- **Pre-Budget Consultations with the Ministry of Finance and Line Ministries:** This helps the National Assembly in knowing broad budget priorities of the Government. The consultations also act as checks and balances before it is too late to make any major changes in the draft Budget as in the case with Afghanistan.

## 4.2. LEGISLATIVE POWERS IN THE BUDGET CYCLE: INSTITUTIONS & TOOLS

The requirement for legislative approval of budgetary measures is a democratic foundation that is enshrined in Constitutions around the world including Afghanistan. Despite this widespread formal recognition and constitutional rights, the actual budgetary role of national Legislatures apparently differs sharply across countries. The US Congress is considered the most powerful in the world. On the other hand, budgetary influence of Legislatures is marginal in many countries including developed countries such as UK and France.

Despite the Constitutional powers, most often the legislative influence on the budget process depends on legislative budget institutions and processes. Legislative power covers six important variables, namely Parliament's amendment powers, time availability for approval of the Budget, restrictions on executive flexibility during budget execution, Committee capacity, access to budget information, and an independent Budget Office.

**Amendment Powers:** The formal powers granted to amend the Budget determine the potential for legislative changes to the budget policy proposed by the Executive. Most constraints are arrangements that disallow any amendments to the Executive's proposal and merely give a Legislature the choice between approval and rejection of the Budget in its entirety. More permissive are powers that allow some amendments to the Budget as long as the aggregate totals or the deficit in the draft Budget are maintained. This enables engagement with budget priorities while protecting the Executive's role in the formulation of fiscal policy. Finally, most permissive are the unlimited powers of amendment. Here, the Legislature has full authority to cut, increase and reallocate budgetary resources. In

Afghanistan, the National Assembly was given limited powers in this respect.

**Flexibility during Implementation:** This enables the Executive to alter spending choices following the approval of the Budget by the Legislature. One mechanism is impoundment, which allows the withholding of particular funds that have been appropriated by the Legislature. Another is virement which is the ability of the Executive to reallocate or transfer funds between budget items during the execution of the Budget. Finally, some Executives can introduce new spending without legislative approval. If Executives can withhold funds, transfer between items, and initiate fresh funding without the consent of the Legislature, it has significant leeway to unilaterally alter the approved Budget, which diminishes legislative control of implementation. This flexibility is limited in Afghanistan even though some virements happen between budgetary items (codes) in line ministries.

**Time for Scrutiny:** Time is a precious resource, given a typically tight and crowded legislative calendar. Budgets take many months to put together, and a couple of weeks are insufficient to make sense of such complex sets of information. International experience suggests that the Budget should be tabled at least three months in advance of the fiscal year to enable meaningful legislative scrutiny. The timing of scrutiny partly depends on how effectively a Legislature can control its own timetable and the legislative agenda, but it may also reflect constitutional prescriptions. In this, the National Assembly in Afghanistan was given limited time, but still better than some other countries, where Legislatures get only a few weeks to review and approve their Budgets.

**Committee Capacity:** a well developed Committee system appears to be a necessary condition for effective parliamentary influence in the policy-making process. The use of an effective committee system can present several benefits. First,

Committees establish a division of labor that facilitates specialization and the development of legislative expertise. Second, Committees allow Parliaments to deal with various matters simultaneously and, hence, increase productivity. These benefits are crucial for the budget process, which requires the processing of substantial volumes of information. Moreover, Committees can play an important role in monitoring implementation. Committees with a specialized monitoring function, improve compliance. In short, a well-designed committee system enables budget scrutiny and oversight over implementation. More progress has to be achieved in this area in Afghanistan. Regular communication has to be developed between the MoF and budgetary institutions in the National Assembly such as the Budget Committee and the Budget Office.

**Access to Budget Information:** Budgetary decision making requires access to comprehensive, accurate, and timely information. Crucial for this is the breadth and depth of supporting documentation that accompanies the budget figures submitted to the Legislature. In addition, in-year revenue and expenditure updates as well as high-quality audit reports, including performance audits are crucial types of information for legislative oversight for budget implementation.

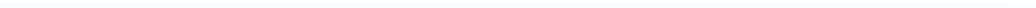
**Independent Budget Office:** Parliamentarians have to understand the contents of the Budget if they are to play a meaningful role in the process. Even when they have the legal and political space to shape budgets, technical capacity is necessary to optimally use this opportunity. Access to independent budget analysis can support parliamentarians in assessing the integrity of figures in the draft Budget, deciding whether changes might be desirable and evaluating the budgetary implications of proposed amendments. See detailed discussion on this subject in Chapter 5.

# BUDGETARY INSTITUTIONS AT THE NATIONAL ASSEMBLY



Budget and Public Accounts  
Committees

Independent Budget Office in the  
National Assembly



## 5. 1. BUDGET AND PUBLIC ACCOUNTS COMMITTEES (PACs)

A well-developed committee system is important for effective Parliamentary influence in the policy making process. Budget and Finance Committees play a critical role in budget legislation and oversight in most countries. These Committees have several benefits. First, Budget Committees establish division of labor that facilitates specialization and development of expertise. Second, these Committees allow Parliaments to deal with various matters simultaneously and hence increase productivity. Moreover, Budget Committees can play an important role in monitoring implementation.

Constitutions and Budget Laws usually give Parliaments an important role in the oversight of budget execution, the scrutiny of budget reallocations, and the ex post review of public accounts. Many Parliaments possess a powerful instrument to control budget execution and enforce accountability: the review of public accounts. The National Assembly has powers to oversee budget implementation throughout the year, review of public accounts, and recommend actions if any misuse or misappropriations of public funds have taken place.

In the majority of countries, Legislatures also establish Public Accounts Committees (PACs) in addition to Budget and Finance committees mainly to focus on budget oversight and implementation. In Afghanistan, the Budget Committee is responsible for both the legislative and oversight roles.

### **Public Accounts Committees (PACs)**

PACs are one of the instruments that Parliaments can use to monitor government procurement and spending activities utilizing public funds. These Committees, first instituted in the UK by a resolution of the House of Commons in 1861, are now

fairly common in the countries of the Commonwealth. In general, PACs are parliamentary committees of the Lower House. PACs may be institutionalized in different ways: by a country's Constitution, by the Standing Orders of the Assembly or by an Act of Parliament. To counterbalance the power of the majority in the PAC, the opposition party is generally given the chairmanship of the PAC. This practice also performs a symbolic function: it indicates the willingness of both the majority and the minority to operate within the PAC in a bipartisan manner.

### Roles and Functions of the PACs

PACs are standing committees that help Parliament oversee the activities performed by the Government. Like any standing committee, a PAC has the power to investigate and examine all the issues that are referred to it by Parliament. A PAC can also investigate specific issues such as Government accountability to Parliament regarding expenses approved by the Government, effectiveness and efficiency of Government-enacted policies and the quality of the administration.

To fulfill its role, the PAC is given additional and more specific powers such as the power to examine the public accounts, comment on the public accounts as well as the reports drafted by the Office of the Auditor General and the National Audit Office. The PAC also has the power to conduct investigations (directly or indirectly) to receive all the documentation it considers necessary as well as compel government officials within the Government structure to attend PAC meetings and respond to questions, to publicize the PAC's conclusions, to report to Parliament, and to present the PAC's recommendations to the Government.

### The Determinants of a PAC's Success

**Composition of the Committee:** This is an important determinant. Balanced representation of all major political parties in the Committee is a key for its success.

**Powers of the Committee:** The powers ordained on the Committee are important for its success. Success of the Committee depends on whether the PAC has the power to summon the Cabinet ministers before the Committee and the power to force witnesses to respond to questions.

**Success and practices of the PAC:** A third set of factors may influence the success or the effectiveness of PACs in performing their tasks.

- Keeping the records or proceedings of meetings was one of the most important ways to improve the functioning of PACs
- PAC's performance was greatly enhanced when members of the PAC came prepared or did their homework before attending the PAC meetings.
- Actual implementation of recommendations formulated by the PAC is also considered to be an important condition for its success
- Bipartisanship and the bipartisan functioning of the PAC are considered the fourth most important practice for the success of a PAC.

### Key Obstacles

A major obstacle to the good functioning of a PAC is partisanship, which can be a behavioral problem. A second and more serious problem for the effectiveness of the PAC's activity is that Governments may have little interest in Parliamentary oversight of activities. Governments may consider Parliamentary oversight as an intrusion into their sphere of influence. Similarly, Governments may think that PACs are not sufficiently informed or competent enough to formulate suggestions, criticisms and observations. This is a serious problem because it indicates poor understanding of the functions that the Executive and Legislative branches perform in Parliamentary systems.

## Recommendations

- Given that the legislative approval power of the Budget and major part of the oversight (Qatia) functions fall within the same period of time (usually between October through March), the Budget Committee of the Wolesi Jirga does not get sufficient time to do proper justification for both functions. Therefore, it is strongly recommended that a separate committee or sub-committee be created to look after the oversight of the Budget. More research and consolidations have to be done before establishing a Public Accounts Committee. Members of the Budget Committee also can visit some Public Accounts Committees in the region.
- Alternatively, a sub-committee within the Budget Committee has to be established and it can primarily focus on oversight and work closely with the audit institution.

## 5.2. INDEPENDENT BUDGET OFFICE IN THE NATIONAL ASSEMBLY

Ideally, an independent analytic budget unit or budget support service is an essential part of building budgetary institutions in Legislatures. In its basic terms, an independent analytic budget unit can provide information to put the Legislature on a more equal footing with the Executive branch. Such analytical and policy support is essential for the Legislature during budget legislation and oversight. For Afghanistan, such a Budget Office within the National Assembly is critical for an increased role of the National Assembly in the budget process. Currently, the APAP Budget Unit under USAID funding is serving the National Assembly in the budget process. Currently, it has five staff members and one international advisor.

The following are key benefits of an independent analytic budget office in the National Assembly.

**Simplifies complexity:** Budget information is frequently not made available by the Executive's Budget Office, but even when it is, it may be so complex that the National Assembly has difficulty understanding it. An independent Budget Office vested within the National Assembly with expertise to make complex budget information understandable to the National Assembly, as well as to the media, academics and the public is therefore needed.

**Promotes transparency and credibility:** Because of the knowledge and expertise found in an independent Budget Office, transparency can be promoted. By encouraging simplification and transparency, an independent office can be viewed by all stake-holders as credible.

**Promotes accountability:** The accountability of the estimates used in the budget process can be enhanced by an independent Budget Office because of the scrutiny such a unit provides to the Executive's Budget Office.

**Improves budget process:** The combination of a more simple, transparent, credible, and accountable Budget can promote a budget process that is more straightforward and easier to understand and follow.

A fully developed and independent Budget Office either within the National Assembly or supported by donors such as the current APAP Budget Office should perform the following four core functions:

1. Macroeconomic and fiscal analysis
2. Baseline budget estimates
3. Analysis of the Executive's budget proposals
4. Medium-term macroeconomic and fiscal analysis

The APAP Budget Office has developed the necessary analytical skills including the capacity to do macroeconomic and fiscal analysis and medium term policy analysis. It has been trying to further develop independent estimates of fiscal and budget estimates for Government policies.

Complementary functions that the independent Budget Office should perform include:

5. Economic analyses of bills
6. Tax analyses
7. Long-term fiscal and budgetary analyses
8. Policy briefs
9. Sectoral and poverty analyses

Currently the APAP Budget Office is not involved in tax analyses and long-term fiscal and budgetary analysis but in the medium term, these functions have to be performed for the National Assembly to make the National Assembly an independent and effective body.

### **US Congressional Budget Office (CBO)**

The oldest and biggest of these specialized budget research offices is the US Congressional Budget Office (CBO). CBO was

created primarily as a tool to check the growing power of the President as part of the Congressional Budget and Impounding Control Act of 1974.

**Duties:** Each year CBO issues three major reports designed to assist the Budget Committees and to aid Congress in its work on the Budget. These include the following

- An annual report on the economic and budget outlook for the United States, estimating spending and revenue over the next 10 years.
- A report analyzing the President's budget. CBO generally issues this independent re-estimate of the proposed Budget within a month of the release of the President's Budget proposal in early February.
- A report presenting various options for the Budget. The options include spending cuts and increases, tax cuts and increases, and suggested implications of broad policy choices.

In addition, the CBO produces reports and studies analyzing specific policy and program issues related to the Budget. The statute creating CBO requires agencies of the Executive branch to provide the CBO with the information it needs to perform its duties and functions effectively.

**Operations and staffing:** CBO carries out its responsibilities with a staff of about 235 people. The Director of CBO is appointed jointly by the Speaker of the House of Representatives and the Senate President, based on the recommendations of the Budget Committees of each House. CBO's work is carried out through seven divisions. Two of these are the Division of Tax Analysis and the Division of Budget Analysis. About 70 percent of the staff holds degrees in economics and public policy. The CBO makes its findings, methods of analysis, and assumptions widely available through the internet.

## Congressional Planning and Budget Department (CPBD) of the Philippines

The Philippine Congress created its independent Budget Office in 1990 under the secretariat of the House of Representatives and modeled it after the US CBO.

**Duties:** The CPBD has three major functions: (1) it assists the House of Representatives in formulating its agenda; (2) it provides House leaders and members with technical information, analyses, and recommendations on important social and economic policy issues; and (3) it conducts analyses on the impact of legislation and also conducts research and in-depth studies on identified policy issues.

The CPBD issues publications designed to inform House members of the implications of Government policies and legislation. Among these are policy advisories, an annual macroeconomic analysis of the Budget and an analysis of the medium term economic development plan. The CPBD gathers information to assist the House in conducting oversight, and gives technical assistance to the Speaker and the legislative Development Advisory Committee. Finally CPBD publishes occasional papers and the “Facts and Figures” publication signaling trends and providing statistics on socioeconomic conditions in the Philippines.

**Organization and staffing:** The CPBD is headed by a Director General who is assisted by an Executive Director. Three main divisions, each headed by a Service Director, report to the Director General and the Executive Director. In addition to their in-house staff, the CPBD makes regular use of consultants. Professional staff members generally hold advanced degrees in economics, finance, and public administration or policy.

## National Assembly Budget Office (NABO): Republic of Korea

The Republic of Korea's National Assembly Budget Office (NABO) was created in 2003 through an Act of the National Assembly. NABO has a twofold purpose. One, is to encourage greater discipline in public spending, and two, to allow the Legislature to play a larger role in determining how the state obtains its revenue and how that revenue is spent. Those who drafted the Act considered expanding the duties of the Budget Policy Bureau in the National Assembly Secretariat, but concluded that NABO's budget assistance was unique and it merited establishing a separate agency within the Assembly.

**Duties:** NABO provides nonpartisan, objective information and analysis to Committees and members of the National Assembly. It conducts research and analysis on the Budget and on the performance of the Government's fiscal operations, estimates, the cost of bills proposed in the Legislature, performs analyses and evaluates Government programs and medium-to long-term fiscal needs, and conducts research and analyses at the request of legislative committees or members of the National Assembly.

**Organization and staffing:** The Speaker, with the approval of the House Steering Committee, appoints the Chief of NABO. With a total of about 125 full-time staff positions (approximately 70 professional and 20 administrative), NABO is the second largest budget office perhaps in the world. Professional staff members hold advanced degrees in accounting, economics, public policy, law, and related fields. Staff members are selected solely on the basis of professional competence (not political affiliation). Like the US CBO, NABO's analyses and work products are available to all members of the Assembly, and also the public through the internet. Also similar to the CBO, NABO shares its methodologies and assumptions freely with any interested party.

## The Parliamentary Budget Office (PBO) of Uganda

The Parliamentary Budget Office (PBO) was established by an Act of Parliament in 2001. Like the US Congressional Budget and Independent Control Act of 1974, the Act not only created a budget office, it also created a centralized budget committee and made major changes in the role of the Parliament in the budget process.

**Duties:** Annual PBO reports analyze domestic revenues, foreign aid inflows, and expenditures. The PBO analyzes the monthly reports of the Uganda Revenue Authority and submits these analyses to the Budget Committee. It identifies whether revenue collections were on target, and the reasons for shortfalls.

The Budget Act also requires that ministries submit an annual policy statement to Parliament showing the funds appropriated for the ministry, the funds released, and spent. The PBO produces quarterly budget performance reports, enabling Parliament to follow the general budget performance of different sectors during the year.

The Budget Act expanded Parliament's role in the budget process; technical expertise provided by the PBO helps the National Assembly fulfill this new role. The budget process gives Parliament an opportunity to review, comment on, and propose amendments to a draft Executive Budget, and it gives the Executive time to respond by amending the draft Budget and negotiating changes with the National Assembly—all before the Budget is officially released.

**Organization:** The PBO has positions for 21 experts, 4 of which have not been filled due to budget constraints. Professional staff members are economists with expertise in macroeconomics, data analysis, fiscal policy, and tax policy.

### **Recommendations:**

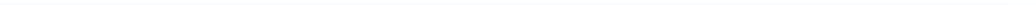
- Establish a permanent Budget Office within the National Assembly (see more discussion and recommendations in the appendix)

# BUDGETARY OVERSIGHT & SCRUTINY



The National Assembly & Budget  
Oversight

Public Hearings of the Budget and  
Role of Media



## 6. 1. THE NATIONAL ASSEMBLY & BUDGET OVERSIGHT

There is a growing recognition of the importance of audit in public financial management and the national budget process. The rationale of this section is to introduce the purpose of public audit and ways in which the Legislature engages with this process. In Afghanistan, the Control and Audit Office (CAO) audits the financial statements of the previous year's Budget prepared by the Ministry of Finance and reports whether money is spent as intended. It also identifies illegal expenditures. Its role has to be defined more clearly – especially in relation to the National Assembly - in the budget process through the Public Expenditure and Financial Management Law (PEFML) and Financial Regulations.

### A Supreme Audit Institution and Its Role in Public Finances

The Office of the Auditor General is an independent body that usually reports to the Legislature. Made up of professional auditors and financial experts, the office submits period reports on the financial statements and operations of Government entities. The auditor general model has its origins in the United States, where the Exchequer and Audit Departments Act of 1866 required all departments to produce annual appropriation accounts to be investigated by the Comptroller and Auditor General.

The International Organization of Supreme Audit Institutions (INTOSAI) has laid down fundamental standards for national audit in the Lima Declaration of Guidelines on Auditing. The following are some key excerpts:

- The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and accounting.

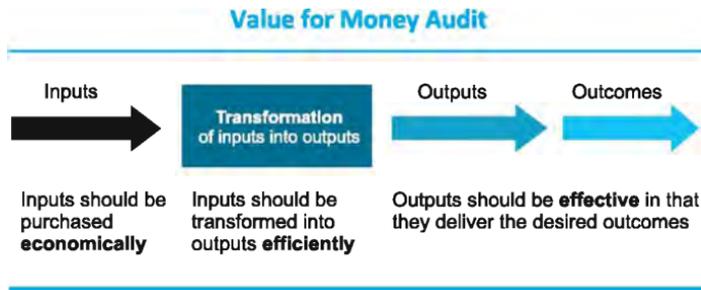
- In addition to this type of audit which retains its significance, there is another equally important type of audit – performance audit – which is oriented toward examining the performance, economy, and efficiency and effectiveness of public finances.
- Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent and are protected against outside influence.
- The independence of the members shall be guaranteed by the Constitution. In particular, the procedures for removal from office are also embodied in the Constitution and may not impair the independence of the members.
- The relationship between the Supreme Audit Institution and Parliament shall be laid down in the Constitution. The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body and this report should be published.
- All public financial operations, regardless of whether and how they are reflected in the national Budget, shall be subject to audit by Supreme Audit Institutions.

## **Types of Audits**

Auditing falls into two categories- the audit of financial transactions and audit of performance or ‘value for money’.

**Financial Audit** is the traditional focus of public sector auditing. In the auditor general model, financial audit focuses on the accounts of government ministries in order to present a judgment about the accuracy and fairness of an organization’s financial statements. Here the emphasis is on certifying the legality of spending, and to see whether government revenue and spending have been authorized and used for approved purposes, and whether ministries and agencies have conformed to all pertinent laws and regulations.

**Performance audit or value for money:** In addition to the financial audit, many audit institutions increasingly perform value for money or performance audits. This is a comparatively recent development that has emerged over the last twenty years. The term value for money captures the ‘Three Es’ of economy, efficiency, and effectiveness. Economy is concerned with minimizing the monetary cost of inputs (such as staff and buildings). Efficiency is concerned with the output (a particular good or service) achieved for a set of inputs. Effectiveness considers whether outputs delivered the desired outcomes (impact on society).



To give an example, a hospital purchases inputs such as staff, equipment and medical supplies; it transforms these inputs into outputs in the form of medical services to the community such as operations performed; the outcomes of the operations are the effects on patient health. The purpose of performance auditing would be to check for economy, efficiency and effectiveness in this process. This might entail asking, respectively, whether the relevant medical supplies, equipment and staff are purchased for the cheapest possible price; whether an adequate number of successful operations are carried out with these inputs; whether the operations improve patient health and health status of the community that the hospital services. It is sometimes summarized that the ‘Three Es’ each require spending less, spending well, and spending wisely.

## Interaction between Supreme Auditors and the Legislature

The relationship between the Legislature and the Audit Institution varies between systems. In the auditor general model, the Legislature is the principal audience of the Auditor. All audit reports are addressed to Legislature, and the latter might also request advice or comments on specific issues under consideration. While the Legislature depends on high quality audit reporting to exercise effective scrutiny, the Auditor General in turn requires an effective Legislature to ensure that line ministries take audit outcomes seriously. The power of the Auditor General is to issue independent reports, but s/he cannot force the Government to adopt any recommendations. The Legislature is the forum in which these reports receive public attention, and which creates pressure on the Government to respond to and address issues of concern.

In most cases, Legislatures use Committees to examine the reports of the public auditor on the amounts spent by Government ministries. In some Legislatures the same Committee that is responsible for approving the Budget is also tasked with considering audit reports. Another option that is closely linked to the auditor general model of public audit is to use a dedicated Public Accounts Committee for the scrutiny of audit findings.

**The Public Accounts Committee (PAC)** process has its starting point with a report from the Auditor General. After receiving an audit report, hearings are the principal mechanism by which officials from line ministries and other Government agencies answer to the Committee. The summoned officials appear in front of the Committee during the hearing. In most Public Accounts Committees, interrogation focuses not on the relevant minister but on the accounting officer. In some Legislatures, sectoral committees also play an important role in the process.

**Follow-up mechanisms:** The finalization of a report on audit findings by a Legislative Committee should not be the end of the scrutiny process. In some countries, Committee reports have to

be followed by a formal response from the Government. However, such reports only have practical value if the Government addresses the issues the PAC raises, and implements the recommendations of the Committee.

In some countries, such as Germany, the audit institution as a follow-up mechanism uses formal tracking reports produced regularly. Rather than a separate tracking report, some auditors include a chapter that reviews departmental action on previous recommendations in their annual audit report. In addition, with regard to particularly important issues, the Legislature might consider interim reporting requirements to ensure that the Government takes remedial action as speedily as possible.

### Recommendations

- Establish clear follow-up mechanisms on audit findings.
- Implement recommendations made by Parliament

## 6.2. PUBLIC HEARINGS OF THE BUDGET AND ROLE OF MEDIA

Parliamentary public hearings and debate offer an opportunity to enhance transparency and accountability of budget choices and its implementation. The budget process through public hearings also allows Parliament to benefit from access to independent expertise on the Budget. A number of Parliaments open their proceedings and Committee meetings to the media and the general public. Half of the Legislatures in a recent survey, report that Committee proceedings related to the consideration of the Budget are open to the public.

Open Committees provide a number of opportunities. Increased transparency can help to build trust in Government. Open proceedings also allow the media to report on Parliamentary debates and the legislative process. This gives individual Parliamentarians and Parliamentary Committees a channel for making their views heard. The media is likely to give more attention to budgetary debates when it has access to Parliamentary deliberations on the Budget in both the Chambers and Committees. By transforming into a platform for open discussion on the contents of the Budget, Legislatures can help broaden and deepen public debate.

On the other hand, it is true that there might be grounds for barring the public in exceptional circumstances, for instance for discussions that relate to a central intelligence agency or highly sensitive defense matters. But generally, there are few good reasons to prevent open access of the media and the general public.

### Committee Hearings on the Budget

To actively stimulate participation and to access independent expertise, Parliamentary Committees can issue calls for written submissions on the Budget and invite outside experts to give

evidence. Calls for submission can be placed in newspapers, and in the broadcasting media, or on the internet. Once written submissions have been received, Committees can select witnesses for public hearings. Public hearings provide a structured way to bring the perspectives of outside experts into Committee deliberations on the Budget. Committees can benefit from independent analysis not only when Parliamentary budget research capacity is limited or nonexistent, but also to supplement the overall level of information that is available on the Budget. In most countries, Budget Committees involved in the budget approval process draws on a broad mix of expertise, many of them supplementing evidence from politicians and Government officials with inputs from private sector institutions such as banks or large consulting firms, think tanks, academic institutes, and civil society organizations. With regard to the audit stage, hearings focus on the Auditor General, finance and line ministry officials, but also summons civil society or interest groups to appear as witnesses.

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### Recommendations for Media Access to Parliament

- Parliament should provide as a matter of administrative routine all necessary access and services to the media to facilitate their coverage of proceedings.
- Questions of eligibility for media access should be determined by the media itself. Parliaments should retain the right to suspend access for media representatives who violate Standing Orders or otherwise disrupt Parliamentary proceedings.
- Parliaments should employ public relations officers to publicize their activities, especially to the media which do not cover Parliament, and educate staff to run outreach programs to stimulate interest in parliamentary democracy. Both services should operate in an apolitical way under guidelines set by the House.
- Parliaments should provide the media with as much information as possible. Attendance and voting records, registers of Members' interests and other similar documents should be made readily available.
- The development of professional and ethical standards for journalists is a matter for the media. Integral to this is the media's responsibility to ensure that a journalist's private interests do not influence reporting.
- To assist in the information flow, Parliaments should publish as much of their material as possible through the internet.
- Guidelines for electronic coverage should ordinarily be put in place in consultation with broadcasters. Terms of availability should not be discriminatory between different media outlets.
- Parliaments should be encouraged to provide live coverage of their proceedings on a dedicated channel and online.
- Committee meetings should be open to the public except in cases where it is determined in the public interest that it is necessary to hold parts of a Committee's proceedings in private.

*Source: Commonwealth Parliamentary Association*

*[http://www.worldbank.org/wbi/governance/journalism/pdf/perth\\_conclusions.pdf](http://www.worldbank.org/wbi/governance/journalism/pdf/perth_conclusions.pdf)*

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# BUDGET REFORMS IN AFGHANISTAN

7

Medium Term Approach to Budgeting  
in Afghanistan

Program Budgeting &  
Alignment with ANDS

Provincial Budgeting and Aligning  
Resources with Provincial Needs

## 7. 1. MEDIUM TERM APPROACH TO BUDGETING IN AFGHANISTAN

In order to implement national developmental strategies such as the ANDS, it is necessary to align budgetary resources with developmental priorities in the medium term. Such an approach involves developing a multi-year perspective in strategic resource allocation for the medium term. As part of this approach, the Government has been implementing a medium term fiscal framework (MTFF) for fiscal planning and sustainability. The MTFF focuses on the operating budget components such as salaries, goods and services, interest payments, and emergency and contingency funds. The MTFF outlines the fiscal frameworks based on projections for broad fiscal aggregates that are consistent with key macroeconomic variables and fiscal targets.

In the past two years, the Government has also started prioritizing the development budget consistent with ANDS priorities. Such sectoral prioritization for all Government expenditures is also called medium term budget framework (MTBF). A more advanced form is called medium term expenditure framework (MTEF), which needs a medium term approach for all Government expenditures at a program level and can be linked to performance indicators at the program level. MTEF provides a transparent basis for accountability by the Executive branch and a necessary foundation for more detailed results-oriented budgeting. Such approaches have been very useful in many countries in achieving Government policy objectives. The following framework shows how a typical MTEF works and can be implemented in Afghanistan.

### **Key Steps of the Medium Term Expenditure Framework**

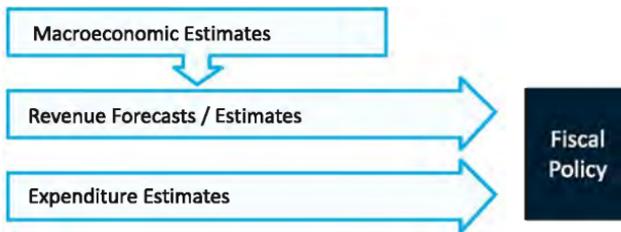
A very simplified outline of the MTEF process can be represented in three steps:

- Estimating total available public finance resources (domestic resources and external assistance) over a multi-year period, usually within a multi-year fiscal policy framework (often called ‘top-down’ multiyear projections for resource envelope). This process prepares a “top-down resource’ envelope.
- Estimating the actual cost of current government policy and programs by sector/ministry, again in multi-year context (called ‘bottom-up’ multiyear cost estimates of total needs).
- Reconciling the information in steps 1 and 2 to align policies with available resources, and using this information as a basis for improved policy and ultimately improved outcomes.

This simplified framework provides the general thrust of the MTEF concept, but it is necessary to break the process into greater detail to explore the dynamics of the process.

**Stage 1: Medium Term Fiscal Framework:** This stage involves developing the fiscal framework which will be used to make projections of revenues and expenditures for the medium term. This stage also determines the tentative aggregate budget envelope.

### Stage 1: Fiscal Policy and Aggregate Budget Envelope



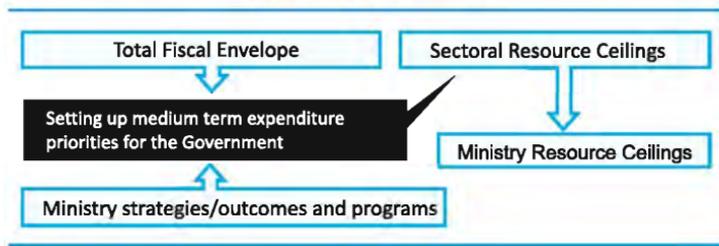
### **Stage 2: Prepare Strategies by Ministries and Cost Programs.**

This can be done in parallel with stage one. In this stage, line ministries prepare/review their strategies, outcomes and expected outputs. Once the review process is complete, they have to be costed, prioritized, and sequenced. Line ministries send these reviews and costed programs and indicative costs to the Ministry of Finance. This is also called the “bottom-up” needs approach. This information is helpful for the Ministry of Finance to develop the expenditure framework and medium term ceilings for line ministries. During this process, line ministries also develop performance indicators for monitoring.

**Stage 3: Preliminary Consultations Between the Finance Ministry and Line Ministries:** At this stage, the Ministry of Finance can call for public hearings with line ministries or seek clarifications from line ministries on their outcomes, performance indicators, and programs.

**Stage 4: Ministry level Expenditure Ceilings Developed by the Finance Ministry:** With the total fiscal projections and ministry outcomes, outputs, and programs/schemes in hand, the Ministry of Finance prepares a framework which guides expenditure ceilings for all line ministries. In setting up the framework, the Ministry of Finance looks at trade-offs and priorities of the Government. This framework becomes the basis for the budget ceilings for the upcoming budget year as well as for two more years.

### **Stage 4: Setting up Medium Term Budgeting Priorities by Ministry**



**Stage 5: Cabinet Approval of the Expenditure Framework:** The final decision on the budget ceilings for line ministries is made by the Cabinet. The expenditure ceilings are expected to be consistent with the overall Government strategy in achieving its objectives. The draft framework prepared by the Ministry of Finance, however, should be used to guide the deliberations of the Cabinet. The framework with the budget ceilings should also include an overview of the ministry strategies and broad approach of the Government in allocating resources among ministries. This document sometimes is also called the Fiscal Strategy and Budget Framework Report, which is also the draft Budget in many countries.

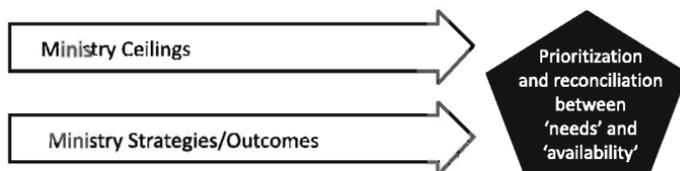
**Stage 6: Linking Policies and Resources by Line Ministries:** Having received ministry level indicative ceilings, each ministry must develop its budget proposal. The expectation is that each ministry would take the resource ceiling and allocate spending among its programs and activities to attain its objectives.

Ministries can begin to develop their budgets prior to receiving the Budget Circular with budget ceilings from the Ministry of Finance. Often such early budget development can assure that ministry budgets are carefully developed.

Different countries provide different degrees of freedom to ministries to allocate spending among alternatives. In some countries, ministries have complete freedom to allocate resources optimally among programs and are given greater discretion in their choices. In other systems, fewer degrees of freedom are offered. In this scenario, the Ministry of Finance not only prepares indicative ministry ceilings, but also prepares indicative spending targets for programs within the ministry ceilings. The second choice could be appropriate for most developing countries, where flexibility is often misused.

## Stage 6: Compromise between “Needs” and “Availability”

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**Stage 7: Budget Submissions by Line Ministries:** At this stage, line ministries submit their budget requests to the Ministry of Finance. The text should be accompanied with tables. The text should include the policies contained in the proposals and changes in policy from the previous years. Line ministries are also expected to include outcomes and output targets associated with resource levels.

**Stage 8: Budget Hearings Conducted by the Budget Committee (Executive):** Line ministries will have a final chance to request for additional resources or move resources between programs at the budget hearings. Similarly, the Budget Committee of the Executive can ask for the rationale for allocating resources to various programs and ask to re-prioritize among programs and activities and even cut resources if it is not convinced that resources will be used efficiently to meet ministry objectives.

**Stage 9: Approval of the Budget and MTEF by the Cabinet and the Parliament:** Cabinet approval is an essential part of the MTEF exercise. The MTEF has to be approved with the normal Budget which is the first year budget of the MTEF.

This process has to be completely integrated with the annual budget preparation cycle.

## Recommendations

- The MTEF process has to be fully integrated with the regular budget timetable and approved by the Cabinet and the National Assembly annually along with the National Budget.
- Budget ceilings have to be approved by the Cabinet before they are communicated to line ministries.
- MTEF can be introduced gradually.

## 7.2. PROGRAM BUDGETING AND ALIGNMENT WITH ANDS

As part of the reform agenda that has been launched by the Government of Afghanistan, program budgeting is expected to align resources with intended outputs and outcomes. The traditional line-item budget, as practiced by Afghanistan until program budgeting was introduced in some line ministries, presents expenditures by inputs and resources purchased. The line-item budget is classified by disaggregated objects of expenditure and by operating and capital expenditures. Operating expenditures include cost objects for day-to-day operations such as salaries, pensions, and health insurance costs; office supplies and printing costs; and utility costs. Capital outlays include purchase of long-lived assets such as buildings, machinery, office equipment, furniture, and vehicles. The line-item approach embodies several impediments to promoting efficient outcomes and services. It emphasizes inputs; it provides information on how much money is spent and how it is spent rather on what it is spent and what will it achieve.

On the contrary, program budgeting shifts the focus from inputs to outputs and outcomes. Therefore, it is a mechanism to implement Government policies and objectives through the annual Government budgets. With the adoption of the ANDS, the Government now requires a more standard and transparent mechanism to operationalize and subsequently measure their progress towards the achievement of these priorities and policies. With these objectives in mind, program budgeting was introduced to a few ministries for the 1386 Budget for the first time and has been extended to the majority of line ministries thus far.

Program budgeting allocates resources according to program rather line items so that common objectives are considered and funded together. A program is a group of activities that have the same policy objectives. A program therefore brings together all

expenditure (both operating and development) aimed at achieving that policy objective regardless of funding source.

### Basic Concepts

A comprehensive program budgeting system quantifies the entire results-based chain as follows.

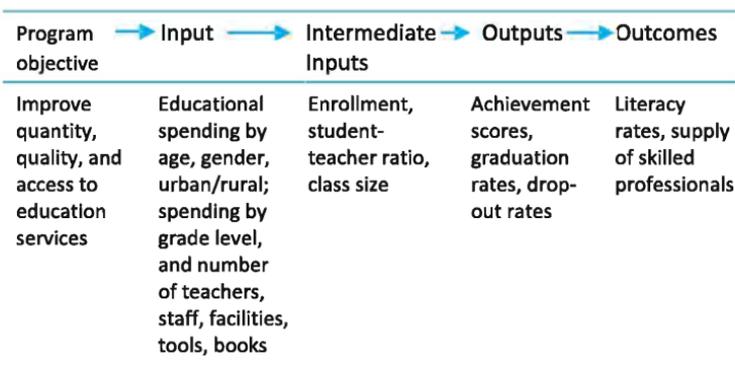
- Inputs and intermediate inputs – resources to produce outputs
- Outputs – quantity and quality of goods and services produced
- Outcome – progress in achieving program objectives

As a by-product of the information provided by the results-based chain, performance budgeting can also yield useful indicators of the efficiency and quality of Government operations. Here are a few examples of such indicators.

- Quality – measures of service such as timeliness, accessibility and accuracy
- Client satisfaction – rating of services by users
- Productivity – output by work hour
- Efficiency – cost per unit of output

In comparison with traditional line-item budgeting, program budgeting allows for more flexible use of resources and shifts the focus from inputs to results. With its program structure, program budgeting changes the focus of discussion from detailed line item to the broader objectives and performance of public programs, therefore, facilitates more informed budgetary decision making.

## Diagram



## Key Objectives in Afghanistan<sup>2</sup>

- **Enable implementation of Government policies and ANDS by creating strong links between annual budgets and ANDS outputs and outcomes.** This provides the opportunity for the ministries to allocate resources in a manner that helps achieve their expected results.
- **Integrate the operating and development budgets.** This will take into account the future running and maintenance cost of the existing investment/development projects. It also provides a comprehensive picture of all costs associated with a particular priority or service delivered by the ministry, regardless of whether they are being financed from operating or core development funds.
- **Help ministries better justify their budgets.** Ministries are in a better position to explain to the Cabinet and Parliament how their budgets are related to ANDS priorities and what are the results and benefits achieved with the money spent.
- **Enable effective prioritization and budget allocation decision-making process.** Assist the Government to more effectively allocate its resources to its most important and highest priority strategic objectives (budget planning), by providing more information on the benefits of the program as well as the cost of achieving those benefits.

<sup>2</sup> Budget statement for 1388.

## 7.3. PROVINCIAL BUDGETING AND ALIGNING RESOURCES WITH PROVINCIAL NEEDS

### Background

Afghanistan is considered a highly centralized state. The Central Government in Afghanistan is divided into two administrative levels: line ministries and provincial level Governments which include provincial departments of these line agencies, and the provincial Governments' offices and associated bodies such as provincial councils. The provincial level does not constitute a separate level of government. Provincial Governors are appointed by the President and report to the Central Government. Directors of provincial departments are appointed by and report to their respective central line ministries. Similarly, provincial treasury offices (mustaoufiats) function as deconcentrated arms of the central treasury.

As a result of these administrative arrangements, all Government revenues and expenditures at the central and provincial levels are contained in the Central Government Budget. Traditionally, all public expenditures within the Central Government are planned for and budgeted, with little or no provincial input into the budget process.

### Provincial Budgeting

The Government, in order to improve provincial allocations to meet local needs, has introduced provincial budgeting, which initiated steps to facilitate a more equitable and transparent resource allocation across provinces. Under provincial budgeting, the line ministries disaggregate their national ceilings by province and communicate the fiscal envelope to each province. Provincial Directorates are asked to prepare budget recommendations after consultation with the Provincial Development Committees (PDCs). Finally, the line ministries

collect the provincial submissions and aggregate them and prepare their budget proposals for submission to the Ministry of Finance.

### Objectives of Provincial Budgeting

The overall goal of provincial budgeting is to enable the provincial authorities to formulate, execute, monitor, and improve the budget in their area of jurisdiction. Following are its specific objectives:

1. Link the Budget to local needs;
2. Facilitate a criteria based, equitable and transparent resource allocation across the provinces leading to effective public service delivery;
3. Reduce inter/intra-provincial development disparities and eventually achieve balanced development across the country;
4. Empower provincial authorities by involving them as active stakeholders in the budgetary processes in order to better reflect provinces' development needs and priorities;
5. Ensure that resources made available to provinces are used more effectively;
6. Measure the level and quality of government services by provinces; and
7. Increase predictability of the budget execution rate in the provinces.

### Progress

Provincial budgeting reform was started as a pilot in the 1386 (2007/08) Budget covering three ministries (education, rural development, and agriculture) and three provinces – Balkh, Panshir, and Kandahar. This reform has gradually increased to a total of 18 provinces and seven ministries by 1388.

Provincial budgeting is integrated with the national budget process. The progress is uneven. Many pilot ministries were able to disaggregate their ceilings by province and by program. The Ministry of Finance had consultations with provincial departments as well as with provincial development councils (PDPs). The provincial budgeting process initiated by the ministries, prepare detailed instructions to the provincial departments. Provincial departments subsequently prepare a budget proposal within an indicative ceiling, which is discussed with and approved by the provincial development councils (PDCs) and the Provincial Governor before being submitted to the relevant line ministries. Many provinces were able to submit budget proposals based on their priorities. Even though the progress has been limited, these consultations with provincial officials and inputs taken from provinces are expected to improve gradually over time.

# THE NATIONAL ASSEMBLY & SOME CROSS-CUTTING ISSUES

8

Parliamentary Oversight of Poverty  
Reduction Strategies

The Role of National Assembly in  
Controlling Corruption

Parliamentary Oversight of Gender  
Budgeting

## 8. 1. PARLIAMENTARY OVERSIGHT OF POVERTY REDUCTION STRATEGIES

The ANDS serves as the country's Poverty Reduction Strategy Paper (PRSP). Afghanistan's poverty reduction strategies and Millennium Development Goals (MDGs) of the United Nations are core parts of the ANDS. The ANDS describes the extent and patterns of poverty that exist in the country and presents the key elements of the poverty reduction strategy in Afghanistan.

### Role of Parliament in ANDS Implementation

The National Assembly's ability to contribute to poverty reduction in Afghanistan primarily depends on aligning national budget legislation with ANDS priorities. The National Assembly's approval of ANDS-compatible budgets and ability to pass ANDS-relevant legislation is critical for poverty reduction. Consequently, the National Assembly's ability to evaluate proposed legislation with an eye to PRSP priorities takes on added importance in relation to ensuring a results-oriented, comprehensive implementation of poverty reduction strategies.

### Budget Allocations for ANDS Priorities

Because the ANDS sets the policy framework for poverty reduction efforts and spending, the annual National Budget is the single greatest tool for ANDS implementation. In light of this, time for a legislative review of the ANDS should be built-in to the budget process to avoid last minute bargaining regarding allocations.

The impact of sharing ANDS progress with the National Assembly in advance of budget negotiations is directly related

to the period of time allowed for parliamentary analysis of the ANDS. To ensure that there is adequate time for review and feedback, the National Assembly could request reports or briefings on the content of the ANDS prior to its submission as part of the budget approval process. At the same time, steps must be taken to ensure that Committees in the National Assembly have adequate staffing and technical capacities to engage closely with the more technical aspects of ANDS-specific budget analysis.

### Legislation

In many cases, non-budgetary legislation may be required to implement poverty reduction strategies. Secondary legislation, which may be complementary to poverty reduction objectives, may be also required in order to implement different parts of the ANDS. For example, a policy to pay pensions for martyrs and the disabled is a key part of the poverty reduction strategy. Legislation of such law is required to implement the pension scheme for martyrs and the disabled.

## 8.2. THE ROLE OF THE NATIONAL ASSEMBLY IN CONTROLLING CORRUPTION

Parliaments and parliamentarians have a crucial role to play in setting expectations for integrity in governing, and in striving to hold Government accountable for its actions. Corruption is a symptom of weakness in the political, social, legal, and economic systems of a country. Corruption takes a variety of forms including bribery, nepotism, patronage, theft of state assets, evasion of taxes, diversion of revenues and electoral fraud. Corruption flourishes where institutions of governance are weak, where the Government's policy and regulatory regime provide scope for it, and where oversight institutions (such as Parliament, the Judiciary, and the civil society) are marginalized or have become corrupted.

Many of these issues are relevant in Afghanistan and the National Assembly has an important role to combat corruption in the country. The following tools are available to Parliament to combat corruption.

### Parliamentary Tools to Combat Corruption

There are a variety of tools that the Parliament has at its disposal to control corruption. These include a balanced package of legislative, financial, oversight and representation initiatives.

**Legislative framework:** Criminal code, control framework for use of public funds, public service control framework, legislation for creation of programs and departments, and electoral law, and transparency legislation.

### Financial Control Framework:

- Economic policy can simplify rules and regulations, and eliminate monopoly, reduce the discretionary authority of public officials and increase transparency of public processes and institutions.
- Financial control framework for accountability to Parliament, which includes specifying how parliamentary authority for taxation, fees, and expenditures will be provided and how the Executive will account to Parliament for their use.
- Annual Budgets with disaggregated information and results to be achieved and that can be easily understood by parliamentarians.
- Timely public reporting on actual expenditures and results

### Oversight

- Questioning of the Executive in plenary and committee rooms by parliamentarians
- Committee review of policy, programs, and operations, where Executive witnesses can be called, and where penalties for contempt and perjury apply.
- Receipt and active consideration of performance reports (both financial and results)
- Review of audit reports

### Representation

- Ensuring citizens' complaints regarding the use of parliamentary authority and resources are visible to the Executive and monitoring executive response.
- Limiting of Parliamentary privilege
- Adopting transparent party and election financing practices and

## **Parliamentary Capacity Building**

- Independent of Executive parliamentary administration
- Adequate resources to support Parliament and parliamentarians in all their roles

## **Recommendations**

- Establish a dedicated oversight committee in the Parliament
- Make the Auditor General truly independent

## 8.3. PARLIAMENTARY OVERSIGHT OF GENDER BUDGETING

Gender equality is not only a democratic right, but a necessary pre-condition for sustainable development as it facilitates the utilization of all available resources in order to promote development. As the supreme law-making body, Parliament has an obligation to ensure equal treatment of all citizens. Through its oversight functions, Parliament has a mandate to demand equal treatment of citizens irrespective of sex. The National Budget, as an instrument for allocation of resources in a society, is probably the most effective mechanism that can be employed towards the attainment of objectives such as gender equality.

Parliamentarians have a key role to play in ensuring that Governments uphold the rights of all citizens. The Budget is the most important mechanism for equitable distribution of resources and can be used to attain gender equality. Parliamentarians need to be conversant with the budget process in order to effectively exercise their oversight role.

Success in reducing inequality will entail the following action by parliamentarians:

- Ensure the allocation of sufficient funds to ministries and departments involved in programs and projects addressing gender equality issues.
- Request gender disaggregated statistics to assess the impact of proposed resource allocation on all groups in society.
- Recommend reallocation of resources to expenditure items such as education and health that have a direct benefit to marginalized groups like women.

- Examine tax laws with a view to recommending amendments or the introduction of new laws that are gender sensitive.
- Analyze revenue measures, such as sales and fuel taxes, for its impact on vulnerable groups such as women.

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FOR FURTHER  
READING



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# APPENDIX

STUDY VISITS TO KOREA AND THE US ON  
BUDGETING AND PARLIAMENTARY  
BUDGETARY INSTITUTIONS

10

## 9. 1. REPORT OF STUDY VISITS TO SOUTH KOREA AND THE UNITED STATES ON BUDGETING AND PARLIAMENT BUDGETARY INSTITUTIONS

### Introduction

In order to improve the functioning of the Parliamentary budgetary institutions such as the Budget and Economic Committees and the Budget Office and enhance the budgetary processes, the Afghanistan Parliamentary Assistance Project (APAP) organized<sup>3</sup> study visits to South Korea and the United States (US) in August and September respectively. The participants for the Korea trip include MPs and APAP staff and Parliament finance staff (see complete list of participants and presentations in annex A). The participants for the US included MPs, officials from the Ministry of Finance and the Control and Audit Office (CAO), and APAP staff (see attached annex B for the complete list of participants and presentations). In accordance with the key objectives of the proposal before the visits, the APAP Budget Team chose to visit South Korea and the US because of their well developed budgetary institutions and processes at their respective Legislatures.

The visits focused mainly on learning key legislative budgetary processes and institutions. During the Korean visit, these included meetings/presentations at the National Assembly Budget Office (NABO) of Korea, a meeting with the Chairman of the Budget Committee of the National Assembly, presentations witnessed at the Korean Ministry of Finance and the Korean Institute of Public Finance. In addition to these core meetings and presentations, the delegation also witnessed presentations at the Asia Foundation and Korea Institute of Development on

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<sup>3</sup> The trip to South Korea was funded by USAID and the trip to the US was funded by the World Bank.

Korean development and its relevance to Afghanistan (see annex B for schedule of presentations). Some members of the delegation also met with other support services and research department of the Korean National Assembly.

During the visit to the US, the delegation attended a week long workshop on public financial management at the World Bank in addition to several meetings and presentations at the US Congress, the Office of the Management and Budget (OMB), Government Accountability Office (GAO), and the State Department. A more detailed program is attached (in annex B)

As part of the APAP's broader objective of institutional development of the Afghanistan National Assembly, these visits are a continuation of similar APAP sponsored study visits to Pakistan and India. In planning these visits, the APAP Budget Support Team studied parliamentary budgetary institutions in a number of countries and had collected information on the committee system and budget support units. A number of countries with specialized Budget Committees and Budget Offices have established effective Budget Committees and independent, nonpartisan Budget Offices in the past half a century. The countries that have made significant progress in this area include the United States, Australia, South Korea, the Philippines, Australia, and Mexico.

## Context

The Government of Afghanistan has completed the Afghanistan National Development Strategy (ANDS) in early 2008 and it was endorsed by the international community in the Paris Donors Conference in June 2008. The ANDS outlines the Government's strategy for achieving its medium to long term development vision, which emphasizes security, macroeconomic stability and growth, agriculture, human and infrastructure development and partnership between the Government, the civil society, and donor community. The ANDS also identified improving

governance and building institutional capacity as important objectives of the Government to implement its development goals.

As part of the strategy, the Government aimed to improve public financial management (PFM), which can be the key instrument to implement the Government's reform agenda. With support from the international community, the Government – in particular the Ministry of Finance - initiated an ambitious reform process to improve development by providing results-orientation to policy making. This reform agenda includes program and provincial budgeting initiatives, prioritization, costing, project appraisal, and improved budget calendar. The following are the key objectives:

1. Moving towards fiscal sustainability, by mobilizing domestic revenues and prioritizing expenditures;
2. Aligning budget priorities with Afghanistan National Development Strategy (ANDS) and sectoral policies of various ministries;
3. Scaling up and improving service delivery by making budgets the main tool of policy at the center and provincial levels and enhancing the effectiveness of budget execution;
4. Building PFM institutions and human resource capacity to improve PFM performance; and
5. Making the budget process more transparent, accountable and citizen-centered.

In the National Budget process, the Constitution of Afghanistan has given the National Assembly the power to authorize the National Budget and ensure its proper implementation (oversight). As such, the National Assembly can hold the Government to account for the manner in which it manages public funds. In order to perform its functions in the budget process, the National Assembly requires well established budgetary institutions and processes.

## Key Objectives of the Visits

**Need for Robust Legislative Budgetary Institutions:** The institutions of appropriate checks and balances, particularly with regard to budgetary decisions, are important pillars of sound governance systems. One of the key objectives of the APAP project is to support the National Assembly in developing such key institutions that can in turn enhance the National Assembly's capacity for delivering its constitutional responsibilities in the budget process. These institutions relate to the organization of parliamentary work and structures and procedures framing the budget process within the National Assembly. Three variables are particularly important: (1) organization of legislative committees, (2) the extent of legislative technical advisory capacity, and (3) the extent of legislative budget research capacity.

**The Current Status:** To facilitate the budget process in the National Assembly, various committees and the Afghanistan Parliamentary Assistance Project (APAP)/USAID Budget Support Team have been established in the past few years. Three committees play a key role in the budget process and economic policies of the Government. These are the Budget and Finance Committee and the National Economic Committee of the Lower House and the Budget and Finance Committee of the Upper House. Even though significant support has been provided by the APAP/USAID Budget Support Team in the past two years, their roles have been evolving on a "learning by doing" model. The Committees have weak administrative support units within the National Assembly. Most of the technical and administrative functions are supported by the APAP/USAID Budget Support Team.

**APAP Interventions and Support:** As part of this objective of institutional development, the APAP Budget Support Team has been establishing support services in the area of budget legislation, oversight, and representation. In addition to these core services, the Budget Support Team has been providing

core services, the Budget Support Team has been providing capacity improving measures such as pre-budget workshops and other technical presentations to these Committees. The APAP Budget Support Team plans to provide additional services to improve committee functioning and effectiveness through support on policy issues (for example, ANDS), provincial budgeting, independent research and analysis and capacity to make own baseline estimates on economic bills and budget proposals.

**Rationale for Exposure and Study Visits:** Despite some progress, the National Assembly's budgetary institutions still need to learn from other countries the best practices in conducting their roles effectively in the budget formulation, implementation and monitoring process. There is also a need to evaluate whether the current existing Committees, such as the Budget and Finance Committees in both Houses, have sufficient power and/or capacity to investigate and examine all the issues that are referred to it by the National Assembly.

### **Key Objectives of the Visits:**

- Learn more about budget preparation, execution, legislation, and audit, and oversight functions and processes in the visited countries.
- Look at the manner in which parliamentary budget legislation and oversight roles are implemented in the countries visited through their Committee system.
- Study the main structural and procedural issues of the Budget and Finance Committees and other related committees.
- Learn about key functions and roles of the Budget Offices and their day-to-day activities in supporting their respective Legislatures.

- Support the National Assembly in establishing and strengthening key budgetary institutions.
- Study the overall budgetary reforms at the Executive level and the relationship between the Executive and Legislative bodies
- Study the key think tanks and research institutes in the area of budgeting and public finance.

### Expected Outputs

The expected outputs of the visits are as follows:

- Summary of key meetings, structure of agencies and institutions, and description of processes made by participants;
- Participants' observations of the budgetary institutions and processes, lessons learned from presentations and meetings;
- Recommendations in strengthening Afghanistan's own Budget and Economic Committees for effective budget legislation and oversight based on participants' observations from the study visits;
- Provide recommendations in improving support to the National Assembly by the Budget Office in the overall budgetary process; and
- Suggest recommendations in strengthening the interaction between the Executive and Legislature in budget legislation and oversight.

## KOREA

### Budgetary Institutions at the Korean National Assembly

The National Assembly of South Korea has a unicameral legislature. Single-member constituencies comprise 245 of the National Assembly's seats, while the remaining 54 are allocated by proportional representation. Members serve four-year terms. The Korean National Assembly is headed by the Speaker and its main functions are to enact laws and oversee the Executive including reviewing and approving the annual Budget proposals formulated and submitted by the Executive.

The National Assembly has 4 support agencies: Secretariat, Library, National Assembly Budget Office, and National Assembly Research Service.

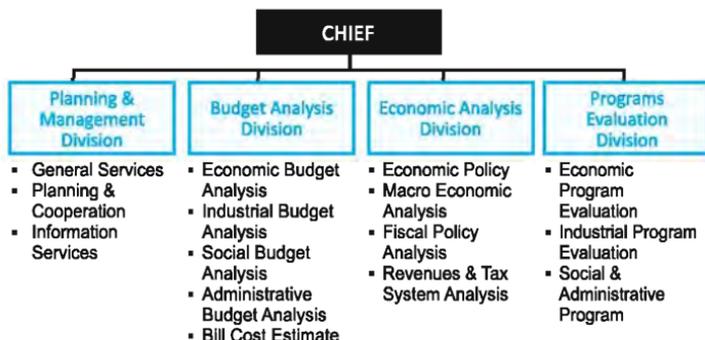
**National Assembly Budget Office:** NABO was founded in October 2003 as a nonpartisan legislative support agency focusing on budget and fiscal policies with enactment of the National Assembly Budget Office Act. NABO provides timely and expert analyses and evaluations, tailored to the Members' specific needs. Its major work is as follows:

- Producing analytical reports and issue papers
- Providing support during budget legislation and oversight
- Producing cost estimates for bills
- Providing responses to the Members' requests for research and analyses
- Providing briefings and consultations
- Conducting seminars and workshops for Members and non-members

NABO currently has about 130 employees. The Speaker of the National Assembly appoints the Chief with consent of the Steering Committee after considering recommendation made

by the Committee. The Chief appoints staff based solely on competence without regard to political affiliation.

### NABO is organized into four divisions and fifteen teams



NABO has several international advisors in the area of public finance and economics who serve two-year terms. NABO has several publications on economic and finance issues.

The staff at NABO comprises experts with advanced degrees in disciplines such as fiscal policy, economics, public administration, statistics, accounting, law, and public policy. The majority of the staff provides research and analysis on budget and major economic policies and also evaluation of the Government's major programs. NABO provides active support during review and approval of the National Budget and its oversight.

**Economic and Budget Committees:** Specialized committees on Budget and Accounts, Strategy and Finance, and the National Policy Committee play important roles in setting the national economic, fiscal, and budget policies. Of these the Special Committee of Budget and Accounts is responsible for budget legislation and oversight.

**Special Committee of Budget and Accounts:** The Committee consists of a Chairman and 50 members, who are elected every year. The Committee has 33 staff members currently of which 17 staff work as focal points for various ministries to get information on execution and performance of the Budget. During the Budget season, the Committee establishes a sub-committee with 11 members, who work closely on budget review and legislation. The first session of the National Assembly starts in May and the Committee and the National Assembly discuss the financial statements of the previous year during the first three months.

**The fiscal year starts on January 1st of every year:** The Executive body of the Government starts the budget preparation process in April. The Ministry of Strategy and Finance sends the guidelines for budget bids to spending ministries. The Constitution requires that the Executive body sends the draft budget to the National Assembly by October 2nd. The Constitution also requires that the Budget be approved by the National Assembly by Dec 2nd. During these two months, the Special Committee discusses budget allocations and makes recommendations to the National Assembly. NABO provides necessary analysis of the Budget through presentations and briefings to the Committee.

### The Budget Timetable and the Committee's Role in the Budget Process

<b>April</b>	The Ministry of Strategy and Finance sends guidelines for bids to line ministries
<b>May-June</b>	Ministries prepare their budgets
<b>July</b>	MoSF compiles the bids and prepares preliminary budget proposals
<b>August-September</b>	MoSF has bilateral budget negotiations with spending ministries
<b>October-November</b>	Authorized by the Cabinet and the President. Draft Budget goes to the National Assembly on October 2nd. The Special Committee begins deliberations of the draft Budget. The ministries (especially the Minister of Finance) are requested to testify before Committee meetings. Meetings are normally open to public.
<b>December</b>	Draft Budget is modified and approved by the Special Committee and then by the National Assembly by Dec 2.

The authoritarian nature of previous Governments limited the role of the National Assembly in the deliberation of the draft Budget. The National Assembly has been traditionally dominated by the party of the President. Insofar as the Government consulted the ruling party before presenting the draft budget to the National Assembly, amendments typically entailed relatively minor changes in the Budget even though the role of National Assembly has been increasing in the budget process. The Constitution to this day prohibits the National Assembly from increasing the total spending unless agreed to by the Government.

**Program Evaluation Division:** This Division is based in NABO but works like an audit office to evaluate Government programs. It evaluates relevance, efficiency, and effectiveness of

Government programs and projects in a profound, systematic and logical manner. It presents its reports to the National Assembly and the Government. Its work helps to improve the performance and ensures the accountability of the Federal Government by providing information on whether to expand, scale-down, stop, or change the ongoing programs and projects. The National Assembly gets reports from the Program Evaluation Division, which helps the National Assembly in the preparation and legislation of future programs.

**Ministry of Strategy and Finance:** The Ministry of Strategy and Finance (MoSF) prepares, executes, and settles accounts for the National Budget of Korea. It works closely with line ministries and the National Assembly throughout the budget cycle. To improve the quality of public expenditures and value for money, the MoSF initiated various fiscal reforms. To face the new challenges such as the need for social programs and the aging population, the MoSF launched the medium term expenditure framework as opposed to annual budgeting and performance budgeting which are more input based budgeting.

As part of this reform agenda, the MoSF started a five year Medium Term Expenditure Framework (MTEF) to align budgetary resources with national policy objectives. The MTEF has become an important tool to implement Government policies in the medium term. As part of the performance management system, the MoSF has improved the evaluation of program performance to enhance accountability and transparency.

These reforms have resulted in the increased availability of fiscal data and information to the public. The MoSF has taken inputs and opinions from Government and non-government agencies as well in improving the budget process.

## **Think Tanks and Research Institutes**

The Government of Korea and non-government agencies have established more than 20 research institutes and think tanks in the sphere of economic development, public policy, fiscal and budgetary issues, and international development and trade. They provide key inputs and independent policies supplemental to the policies of the Government. Several of them provide research and technical assistance to the budgetary process both at the Executive and Legislative levels. The delegation met two key such institutes: the Korean Development Institute and the Korea Institute of Public Finance. The Delegation also met the Asia Foundation which played a key role in its development during the first three decades after the Korean War.

**Korea Development Institute:** the Korea Development Institute (KDI), an economic policy think tank was set by the Korean Government in 1971. Its initial mandate was to provide research and economic policy advice to the Government. During the past four decades, the scope and focus of KDI researches have changed. Accordingly, in the 1970s, KDI proactively focused on policy issues related to the Five-year Economic Development Plans. Over the years, KDI has provided comprehensive research analyses and policy recommendations on the overall scope of the Korean economy, including macroeconomic outlook; money and finance; public finance and social welfare; industry, trade and labor; law and economics; and the North Korean economy.

The role of KDI has evolved in order to upgrade Korea's economic structure and institution to global standards as well as to find new dynamism of sustainable economic growth. Additionally, the non-research functions of KDI include activities of the International Development Exchange Program, which involves sharing of the unique economic development experience of Korea with various developing countries.

The KDI School made an excellent presentation to the delegation with special focus on the development process

adopted by the country immediately after the Korean War. The participants of the delegation raised interesting questions and asked about the relevance of Korean experience to Afghanistan. As opposed to the Western model of free market economy, the Korean model, in the initial years, was based on the philosophy that economic development should be achieved under Government control and leadership. Although firms were owned and managed by private companies, the Government implemented private decisions in the case of major investments. In the initial years, growth was given higher priority than redressing imbalances in income distribution and unevenness in development across geographical regions. The Korean model is also based on a huge push for export promotion and large investments in physical and human capital.

**Korea Institute of Public Finance (KIPF):** the KIPF has played a critical role in developing budgetary processes and reforms in Korea. The KIPF conducts extensive research on fiscal and budgetary policies and recommends policy alternatives. The KIPF does highly technical research and provides analytical tools to Executive and Legislative bodies in South Korea. The key functions are in the areas of tax research, fiscal research, planning and coordination, and audit.

## USA

### The World Bank Institute

The workshop was included in the program to give participants a comparative analysis of various aspects of public financial resource management including budget preparation, execution, legislation, audit, and oversight.

The first part of the presentations focused on budget preparation and the various tools to improve budget alignment with national priorities and policies. These included key steps of the budget preparation process, alignment of the budget with national policies such as the Afghanistan National Development Strategy (ANDS), medium term expenditure framework (MTEF) and performance budgeting. Given the importance of implementing the ANDS and improve the quality of budget performance, the delegation found that these presentations were quite useful.

The second part of the presentations was focused on budget execution, and internal and external audit functions. The development budget execution rate has been very low for the core budget in Afghanistan, which is about 50 percent. There is a strong need for improving execution rates to implement Government policies and developmental goals of the international community. Similarly, there is a need for better accountability mechanisms in the country through improved audit institutions.

The third part of the presentations was on the role of the Legislature in budget approval and oversight, and controlling corruption. This was the core part of the workshop, which focused on legislative budgetary institutions and processes. Special attention was given to the role of the Public Accounts Committees (PAC) in the budget oversight process.

The last parts of the presentations were devoted to the three bodies of Government – the Executive, Legislature, and the supreme audit institution. The presentations focused on reforms to improve the overall budgeting systems, budget performance, and financial accountability.

These presentations also provided an opportunity to share the best practices pertaining to the respective processes with other partners, such as Afghanistan in improving the overall budgeting systems and results in the country.

### US Congress

In the US Congress, the delegation had meetings and presentations at the US Congressional Budget Office (CBO), the House Democracy Assistance Commission (HDAC), the House Budget Committee, and the Congressional Research Service. The delegation had an opportunity to attend Senate Foreign Relations Committee hearings on Afghanistan, which was chaired by Senator John Kerry.

**The House Democracy Assistance Commission (HDAC):** The delegation met with the chairman and ranking member (Deputy Chairman). HDAC was established in 2005, and is mandated to work with emerging democracies throughout the world. Its main mission is to promote responsive, effective government and strengthen democratic institutions by assisting Legislatures in emerging democracies. Afghanistan is one of the 12 countries that the HDAC is supporting.

**The House Budget Committee:** Along with the Senate Budget Committee, the House Budget Committee plays a critical role in the budget process. The Committee chair explained how the committee works and how it gets support from the CBO (detailed process explained below).

**The Senate Foreign Relations Committee Hearings:** the delegation attended the Committee hearings on the “Afghan

Strategy”. This program was arranged for MPs and other officials to see how the Committee hearings take place in the US Congress. Senator John Kerry, Chairman of the Committee, was more than pleased to see the delegation’s presence at these hearings.

**The Congressional Budget Office:** The background for creating the CBO was found to be quite interesting. Budgetary conflict between the Legislative and Executive branches reached a high point in 1974. The tensions centered on a fundamental disagreement between the President and the Congress over the control of budgetary and spending priorities. Members of the Congress objected to then-budgetary and economic information independently of the Executive branch. Members of Congress objected to then-President Richard Nixon’s use of “impoundments” (withholding of appropriated funds) to thwart Congressional desires to fund programs that were inconsistent with his policies. The dispute led to enactment of the Congressional Budget and Impoundment Act of 1974, which was signed into law by President Nixon on July 12, 1974.

With this Act, the Legislative branch reasserted its constitutional control over the power of the purse. The CBO’s chief responsibility under the Budget Act is to help the Budget Committees with the matters under their jurisdiction—principally the Congressional Budget Resolution and its enforcement. The Budget Resolution sets total levels of spending and revenues as well as broad spending priorities.

To assist the Budget Committees in developing the Budget Resolution, the CBO prepares reports that provide budget and economic projections, an analysis of the President’s budgetary proposals, and alternative spending and revenue options for lawmakers to consider.

Each year, the CBO prepares a report on the Budget and economic outlook covering the budget planning horizon, which

in recent years has been for the next 10 years. The CBO's report on the Budget and economic outlook gives the Congress a baseline against which to measure the affects of proposed changes in spending and tax laws. The CBO's mandate includes making economic forecasts and projections; the agency constructs its baseline budget projections using its most recent economic forecast, and the Congressional Budget Resolution is usually based on the CBO's forecast.

Each year, the CBO estimates the budgetary impact of the President's proposals using CBO's economic assumptions and estimating techniques. The Budget Act requires CBO to produce a cost estimate for every bill "reported out" (approved) by a Congressional Committee. CBO's responsibilities also entail analyzing specific program and policy issues that affect the Federal Budget and the economy.

The Speaker of the House of Representatives and the President pro tempore of the Senate jointly appoint the CBO Director, after considering recommendations from the two Budget Committees. The term of the office is four years, although there is no limit on the number of terms a Director may serve. The Director appoints all CBO staff, including the Deputy Director, and all appointments are based solely on professional competence, without regard to political affiliation. Currently the CBO has about 235 staff members.

**The Office of the Management and Budget (OMB):** The OMB is part of the Executive Office of the President. OMB assists the Executive body (President) in the discharge of budget, policy, legislative, regulatory, procurement, and management responsibilities. In this respect OMB is similar to Ministry of Finance in most countries. OMB is responsible for preparing the President's annual Budget proposal, which goes to Congress, which may accept, reject, or modify any of the items in the Budget. The OMB includes a Director, two Deputy Directors and several program Associate Directors, all of whom are appointed

by the President. The Director is a member of the President's Cabinet. There are 500 career employees currently work in the OMB.

The fiscal year starts on October 1st. The draft Budget proposal from the President must be submitted to Congress by early February, about 8 months prior to the start of the fiscal year. Preparing the President's Budget requires almost one year.

### **The Budget Process in the US:**

#### ***At the Executive Level:***

- The President issues broad budget policy guidelines, often in the form of a letter from the Director of OMB to the Cabinet Secretaries and other Heads of Government agencies in the year before the draft Budget proposal goes to the Congress.
- The various departments and agencies of the Federal Government formally submit their specific recommendations to the OMB in September.
- The OMB analyzes the agency submissions and makes tentative decisions on behalf of the President, which the OMB communicates to the agencies.
- Agency Heads may ask OMB to revise its decisions and may appeal selected decisions to the President, if necessary.
- The President makes the final decisions.
- All of the decisions are usually made by late December. The agencies and OMB begin the work of translating the decisions into the budget documents, which the President sends to Congress on the first Monday of February.

#### ***At the Legislative level:***

- Congress uses the President's Budget as the basis for its own budget process, but it does not vote on the President's Budget.

- The CBO, the counterpart to OMB for Congress, analyses the President’s Budget and revises the estimates based on its own economic assumptions
- The Budget Committees of the House and Senate draft a Budget Resolution, which sets the total spending levels and divides the total spending among the Committees in Congress that have jurisdiction over various Government programs.
- Each House of Congress votes on this Resolution.
- Congress enacts appropriations laws annually. These provide the funding for most of the programs that the Federal Government conducts. These laws are drafted by the Appropriations Committees – one in the House and one in the Senate.
- After a committee drafts an appropriations law or other spending law, a majority in both the House and the Senate must pass it.
- After Congress passes a spending law, the President may approve it or veto it. If he decides to veto the law, he must veto the entire law. He does not have “line-item veto authority” – that is, the authority to select certain items for approval and certain items for veto. This usually means the President will not veto an appropriations bill unless it contains some very significant policy that he objects to very strongly.

### Analysis of the Budgetary Institutions and Processes

**The World Bank Workshop:** The workshops provided an opportunity for all three bodies of the budget process (the Executive, the Legislative, and the supreme audit institution) to learn about each other’s role in the budget process. Given that Members of the Parliament and officials do not have any formal training in budgeting, such training was essential for key agencies of the Government that are responsible for preparing

and implementing the National Budget. The trainers included international experts such as Allen Schick and Salvatore Schiavo-Campo, who have developed and implemented public finance theory and practice in the past four to five decades.

**Legislative Budgetary Institutions:** Even though there are close similarities between the US Congressional budgetary institutions and the Korean National Assembly budgetary institutions, the Korean National Assembly has very limited budgetary powers compared to the US Congress, which enjoys unlimited budgetary powers as described above. But many budgetary institutions and processes in Korea have been modeled after that of the US. In fact, the NABO works in a similar fashion to the CBO.

When it comes to the legislative powers in the Korean National Assembly, the Constitution limits the power of the National Assembly not to go beyond the total expenditure approved by the Executive. Over the years, the Korean National Assembly has gained considerable powers in public resource management. This role falls into two areas: steering (setting policy and direction) the budget formulation and accountability (monitoring implementation and ex post review of budget execution regarding the purpose, amounts, and compliance with laws) processes. The National Assembly can reallocate among sectors and budgetary agencies but within the total expenditure set by the Executive. This constitutional requirement means that fiscal discipline is maintained and that there is a limit on any pork-barrel spending by members of the National Assembly.

On the other hand, the US Congress enjoys unlimited powers. It can accept or reject the President's proposals or prepare new budget proposals. Through the Congressional Act of 1974, the Legislative branch instituted a formal process, centered on a concurrent resolution on the Budget, through which the

Congress can develop, coordinate, and enforce its own budgetary priorities independently of the President.

Constitutional powers of the Legislatures are limited in most developing countries including Afghanistan. In addition to constitutional powers, most often the legislative influence on the budget process also depends on legislative institutions. Legislative power generally covers five important variables. Namely, Parliament's role pertaining to amendment powers, time availability for approval of the Budget, Committee capacity, and restrictions on Executive flexibility during budget execution, access to budget information, and an independent Budget Office. In all five variables, the US Congress occupies the number one slot in the world. In most of these variables, the Korean National Assembly is deemed to have sufficient powers.

**Amendment Powers:** This refers to the formal powers granted to amend the Budget-determine the potential for legislative changes to the budget policy proposed by the Executive. As mentioned above, the US Congress has absolute powers to amend budget proposals from the Executive. The National Assembly in Korea can bring amendments to allocate budgetary resources among budgetary units or it can cut the total spending proposed by the Executive. But it cannot increase fiscal spending proposed by the Executive.

**Flexibility during implementation:** Similarly, the US Congress and the Korean National Assembly can limit or stop Executive power to alter spending choices following the approval of the Budget by their respective Legislatures. Both Constitutions do not allow the Executive to introduce new spending without Legislative approval during the fiscal year.

**Time for Scrutiny:** Another important variable is the time for scrutiny of the draft Budget submitted by the Executive. International experience suggests that the Budget should be tabled at least three months in advance of the fiscal year to

enable meaningful legislative scrutiny. The timing for scrutiny partly depends on how effectively a Legislature can control its own timetable and legislative agenda. The US Congress gets the President's proposal 8 months before the new fiscal year starts, which is extraordinary. No other legislature in the world gets that many months for budget scrutiny and legislation. On the other hand, the Korean National Assembly gets 2 months (as indicated in the above timetable) for its scrutiny and approval process. Given that it is a unicameral legislature, 2 months for legislative scrutiny and approval is sufficient for an effective scrutiny.

**Committee Capacity:** A well developed committee system is a necessary condition for effective legislative influence in the budget policy making process. Again, the US budget committee system in the Senate and the House are best in the world in terms of quality of their work and powers they enjoy. The committee system in the US Congress is known for their public hearings and receiving independent ideas from various quarters within the country. In addition to sufficient staff assigned to the Committees, they also get active support from the CBO. The Budget and Accounts Committee in the Korean National Assembly works effectively during the budget scrutiny. It has sufficient staff with focal points for various spending agencies to collect information. It also conducts hearings with the ministries and other research institutions on fiscal and budgetary issues. Because its members are selected on a yearly basis, it is difficult for the committee members to undertake pork-barrel spending.

**Access to Budget Information:** Budgetary decision-making requires access to comprehensive, accurate, and timely information. Crucial for this is the breadth and depth of supporting documentation that accompanies the Budget figures submitted to the Legislature. In the US, the Executive and Legislative bodies and their respective Budget Offices work closely during the budget preparation and legislation. Both the

OMB and CBO work closely on a regular basis to discuss their policy proposals and estimates. The US Congress has access to all budget documents prepared by the Executive. Similarly, all budget documents in Korea are public and should be released to the public when the Executive submits its draft Budget to the National Assembly. The National Assembly can also request all supporting documentation and related calculations and analysis. The National Assembly also conducts, through its Committees, hearings on the draft Budget and the Ministry of Strategy and Finance provides all the details of the Budget. The institutes such as the Korea Institute of Public Finance play a key role in the access to and transparency pertaining to all budget documentation.

**Independent Budget Offices:** Both the CBO and NABO are the best examples of legislative Budget Offices in the world. Budget Offices are essential given that the parliamentarians have to understand the contents of the Budget if they are to play a meaningful role in the process. Even when they have the legal and political space to shape budgets, technical capacity is necessary to optimally use this opportunity. Access to independent budget analysis can support parliamentarians in assessing the integrity of figures in the draft Budget, deciding whether changes might be desirable and evaluating the budgetary implications of proposed amendments. With about 235 staff in CBO and more than 130 staff in the NABO, these two Budget Offices are the first and the second biggest legislative Budget Offices in the world.

In addition to these strong budgetary institutions and processes, research institutes and think tanks play key role in providing independent and impartial analysis and ideas in managing public finances. This process also improves transparency and accountability of public resources.

## Participants Feedback

The participants, especially the Members of Parliament, felt that the US and Korea have excellent institutions and processes in place within their respective Legislatures for an effective budget process. The participants in the US trip appreciated the quality of the workshop at the World Bank. The participants in both trips are especially impressed by the support given by the CBO and NABO to their Legislatures on all public finance management issues. Participants felt that the limited role of the Afghan National Assembly in the budget process is mainly due to the limitations imposed by their Constitution, which does not permit the National Assembly to bring amendments to the draft Budget. The Constitution allows the National Assembly either to accept or reject the entire Budget. The members of Afghan National Assembly believe that the time given to securitize the draft Budget is also limited. The Afghan National Assembly gets only 45 days to scrutinize the Budget, but of this, the Upper House takes the first 15 days for its analysis and recommendations. The Lower House gets only 30 days for legislative scrutiny and the approval process.

During the trip to Korea, the entire team was impressed by the two research institutes that were visited – the Korea Development Institute and the Korea Institute of Public Finance. The members felt that Afghanistan needs such institutes for independent research and to improve the quality of economic policies and public financial management.

## Recommendations

1. The key for improved role of the National Assembly in the budget process is to have amendment powers for the National Assembly. Currently, the Constitution does not permit the National Assembly to amend the draft Budget or introduce new proposals or reject proposed individual programs and projects. It can either accept or reject the draft Budget with comments and recommendations. Even

though this recommendation is beyond the mandate of this study visit, it is essential for the National Assembly to have this power for any meaningful role in the National Budget process. At the very least, it should have the amendment power to change the Budget within the total expenditure ceiling approved by the Cabinet, which is the case in Korea. This ensures the sustainability concerns and allows the National Assembly to provide their inputs in a more effective manner in the Budget.

2. The National Assembly does not get any information about the budget preparation and process by the Executive until the draft Budget arrives at the National Assembly 45 days before the new fiscal year. In the US and Korea, as mentioned above, the Legislatures get more time for legislation. The Korean National Assembly gets transparent information on the budget preparation process including the budget ceilings for line ministries prepared by the Ministry of Strategy and Finance with the approval from the Cabinet. Such early information – ministerial budget ceilings – helps the National Assembly to conduct line ministry hearings and helps the Budget Committee to understand budgetary priorities better. This report recommends a pre-budget statement by the Ministry of Finance at least 2 months before the draft Budget is prepared. This pre-budget statement consists of broad sectoral/ministerial budget allocations with broad priorities of the Government. This recommendation is consistent with the international practice which is standard in many countries.
3. The current structure and organization of the Budget Committee and Economic Committee is based on recommended models from other countries. But processes for legislative scrutiny and oversight need to be improved with more regular contacts with the MoF and by receiving more structured reports and by conducting well planned meetings by the Budget and Economic Committees. This can be done with an annual calendar for these Committees and

detailed plans for its activities. This needs more active support from qualified Committee staff on a daily basis. The report recommends at least 4 full time staffers for each Committee with degrees in economics, finance, and public policy.

4. The report also recommends annual training on the budgetary institutions and processes for the Committee members and study visits to other countries to look at other models. This training can be done either by APAP Budget Team and/or by two or three short-term international experts in Kabul.
5. More structured support to the Committees is needed from the APAP Budget Team especially on economic and fiscal policies, sectoral policies, and provincial needs. This can be done by organizing weekly/monthly presentations and regular briefings to the Committees on these issues. The APAP Budget Team needs to strengthen its sector policy and provincial budgeting support to both Committees during the budget legislation and oversight. This strategy needs more staff and improved interaction with the Committees on a daily basis. The report recommends four teams within the APAP Budget Unit: economic and fiscal policy team, sectoral team, budget policy team, and provincial budgeting team.
6. The report also recommends creating a more sustainable National Assembly Budget Office which initially can be funded by a donor agency and eventually transferred to the Government in the medium term. During this time, the APAP Budget Unit can transfer skills to the new Budget Office at the National Assembly.

## ANNEX A

### List of Participants from Afghanistan for Study Visit to Korea, August 9-16, 2009

1. Mr. Baidar Zazai, Member of Parliament, ex-chairman of Budget Committee (Head of Delegation)
2. Mr. Khyal Mohammad Hussaini, Member of Parliament, Budget Committee
3. Mr. Raees Abdul Baqi Malikzadi, Member of Parliament, Budget Committee
4. Mr. Nasrullah Sadiqi Zada Nili, Member of Parliament, Budget Committee
5. Mr. Obaidullah Helali, Member of Parliament, Budget Committee
6. Mr. Tharawal, Mohammand, Manager, Financial Management, Secretariat
7. Mr. Najeebullah Mehrabi, Budget Officer and Committee Assistant
8. Mr. Raju Kalidindi, Budget Team Leader, Parliament Budget Office
9. Mr. Muhibullah Rahimi, Program Officer, Parliament Budget Office
10. Mr. Attaullah Asim, Sectoral Policy Coordinator, Parliament Budget Office
11. Mr. Noor Ahmad, Budget Officer, Parliament Budget Office
12. Mr. Venir Cuyco, Legislative Expert and Advisor
13. Mr. Khalil Wardak, Director, Operations
14. Mr. Ahmad Farhad, Translator

## **Schedule of Meetings/Presentations in Korea**

Asia Foundation on “History and Development of Korea”

Korea Institute of Public Finance on “Budget Management in Korea”

Ministry of Strategy and Finance on "Korean Budget Systems and Reforms"

Head of the Korean National Assembly Budget Office

Budget Office of the National Assembly (NABO) on “Budget Process at the National Assembly”

Korean Development Institute on “Development and Economic Reforms in Korea”

Meeting with Chairman, Budget Committee “Role of the Budget Committee”

Budget Office of the National Assembly (NABO) on “Budget Processes at the National Assembly”

## ANNEX B

### List of Participants in the Washington, DC Study Visit

1. Mr. Sediq Ahmad Osmani, Member of Parliament, Committee Chair (Head of Delegation)
2. Mr. Mohammad Akbar Wahdat, Senator and Committee Chair
3. Mr. Mohammad Yosuf Ghazanfar, MP & Deputy Committee Chair
4. Ms. Shinkai Zahine Karokhail, Member of Parliament
5. Ms. Zahera Ahmadyar Mawlaya, Member of Parliament
6. Mr. Liaqatullah Babakerkhil, Member of Parliament
7. Mr. Mohammad Yaqoub, Member of Parliament
8. Mr. Said Dauod Hashimi, Member of the Parliament
9. Prof. Mohammad Sharif Sharifi, Auditor General, Control and Audit Office
10. Mr. Mohebullah Ahangar, Auditor, Control and Audit Office
11. Mr. Zakiullah Amini, Auditor, Control and Audit Office
12. Mr. Raju Kalidindi, Budget Advisor, Parliament Budget Office
13. Mr. Muhibullah Rahimi, Budget Officer, Parliament Budget Office
14. Mr. Attaullah Asim, Sector Policy Coordinator, Parliament Budget Office
15. Mr. Mohammad Aqa Koistani, Director General of Treasury, MoF
16. Mr. Ghulam Mustafa, Aid Coordination Officer, MoF
17. Mr. Mirwais Ahmadzai, RIMU Coordinator, Ministry of Finance

18. Mr. Mohammad Rafiq Ahmadzai, Financial Management Specialist, Ministry of Finance
19. Mr. Sayed Mortaza, Procurement National Advisor, Ministry of Finance
20. Mr. Shamsuddin, Procurement Policy Analyst, Ministry of Finance
21. Mr. Mohammed Naim Dindar, Director General of Internal Audit, Ministry of Finance
22. Mr. Jamal Nasir, Project Coordinator, Ministry of Finance
23. Ms. Asifa Stanekzai, National Budget Advisor, Ministry of Finance

## WORKSHOPS

### Budgetary Institutions, Parliamentary Oversight and Government Accountability in Afghanistan

(Conducted by the World Bank Institute)  
1818 H Street, N.W., Washington, D.C.  
8-11, 14 September 2009

#### Tuesday, 8 September, MC Atrium

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9:00 – 9:15am Informal welcome and group photo opportunity with:  
  
Mr. Sanjay Pradhan (TBC), Vice President, World Bank Institute

#### Tuesday, 8 September, MC Building, Room C2-131

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9:15 – 9:20am Introduction to the workshop by Mr. Anwar Shah, Lead Economist, World Bank

9:20 – 10:15am **Session 1. Poverty Reduction Strategies & PRSP Process**  
  
Salvatore Schiavo-Campo, Consultant, World Bank

10:15 – 10:30am Coffee Break

10:30 – 11:30am **Session 2. Medium Term Expenditure Framework (MTEF)**  
  
Salvatore Schiavo-Campo, Consultant, World Bank

11:30 – 12:30pm **Session 3. Performance Budgeting**  
  
Anwar Shah, Lead Economist, World Bank

12:30 – 2:00pm Lunch at MC Dining Hall

### **Wednesday, 9 September, MC Building, Room C2-131**

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- 9:00 -9:45am                    **Session 4. Budget Formulation**  
Salvatore Schiavo-Campo, Consultant,  
World Bank
- 9:45 – 10:45am                **Session 5. Budget Execution**  
Salvatore Schiavo-Campo, Consultant,  
World Bank
- 10:45 – 11:00am                Coffee Break
- 11:45 - 12:30pm                **Session 7. Internal Audit**  
Thomas Ho Quen Hum, Manager World  
Bank Internal Audit Office
- 12:30 – 2:00pm    Lunch at MC Dining Hall

### **Thursday, 10 September, MC Building, Room C2-131**

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- 9:00 – 10:30am                **Session 8. Role of Parliament in Budget  
Formulation and Execution**  
(Covering the role of budget, finance, and  
public accounts committee)  
Rick Stapenhurst (TBC), Senior Public Mgmt.  
Specialist, World Bank  
Michell O’Brien (TBC), E T Consultant, World  
Bank
- 10:30 -10:45am                **Coffee Break**
- 10:45 -11:45pm                **Session 9. Role of Auditor General**  
Jack Titsworth, Governance and Anti-  
Corruption Specialist, World Bank
- 11:45 – 12:30pm                **Session 10. Role of Parliament in  
Combating Corruption**  
Mitchell O’Brien, ET Consultant, World Bank
- 13:30 – 2:00pm    Lunch    At MC Dining Hall

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**Friday, 11 September, MC Building, Room C2-125**

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9:00 – 10:30am	<b>Session 11. Controlling Public Expenditure</b> Allen Schick, Professor, University of Maryland
10:30 – 11:00am	Coffee Break
11:00 – 12:30pm	<b>Session 12. Managing Financial Risks</b> Allen Schick, Professor, University of Maryland
12:30 – 2:00pm	Lunch at MC Dining Hall

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**Monday, 14 September, MC Building, Room C2-125**

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12:30 – 2:00pm	Lunch at MC Dining Hall
2:00 – 2:30pm	<b>Session 15. Budget Process and Reform by MoF</b> Mr. Attaullah Asim, Sector Policy Coordinator, Parliament Budget Office
2:30 – 3:00pm	<b>Q&amp;A for Session 15</b>
3:00 – 3:30pm	<b>Session 16. Role of the Parliament in the National Budget</b> Mr. Osmani, Chairman, Budget Committee, Lower House
3:30 – 4:00pm	Q&A for Session 16
4:00 – 4:30pm	<b>Session 17. Budget Performance and Accountability</b> Professor Sharifi, Auditor General of Afghanistan
4:30 – 5:00pm	<b>Q&amp;A for Session 17</b>

## **Afghanistan delegation program at US Congress, OMB, GAO, and State Department**

### **Thursday, September 10**

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|---------------|--|
| 2:00 – 3:00pm | House Democracy Partnership members, including Chairman David Price and Rep. David Dreier.                                 |
| 3:30-4:30 pm  | House Budget Committee, including Chairman John Spratt and Vice Chair Allyson Schwartz. Meeting confirmed, 304 Cannon HOB. |

### **Friday, Sept. 11**

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| 2:30-3:30 pm | Staff of the House Budget Committee.                |
| 3:30-4:30 pm | Meeting requested at Congressional Research Service |

### **Monday, Sept 14**

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| 2:30 - 4:00 pm | Presentations by Office of Management and Budget |
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Venue: OMB Building (in front of White House)

### **Tuesday, Sept. 15**

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| 3:00 – 4:00 pm | Special Investigator General for Afghanistan Reconstruction (SIGAR), Maj. Gen. Arnold Fields, and colleagues. |
| 4:00 – 5:00 pm | Meeting requested at Department of State  |

### **Wednesday, Sept. 16**

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| 10:00 – 11:00 am | Government Accountability Office, 441 G St., NW., including Gene Dodaro, Comptroller General of the United States; Jacquie Williams Bridgers, Managing Director for International Affairs and Trade; |
|------------------|--|

and Charles Johnson, Director, International Affairs and Trade.

10:00 am - 12:00 pm

Meetings at Congressional Budget Office, Room 483 Ford HOB.

2:30 – 4:00 pm

Senate Foreign Relations Committee hearing; “Exploring Three Strategies for Afghanistan”. Sen. John Kerry, Chairman, 419 Dirksen Senate Office Building



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