Islamic Republic of Afghanistan
Ministry of Finance

Provincial Budgeting Policy

Directorate General Budget
Ministry of Finance
Islamic Republic of Afghanistan
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I. Introduction

1. To effectively accomplish national and sub-national priorities, it is the policy of government to have “transparent, predictable and equitable budgeting processes” that encourages deconcentration of the planning, formulation, execution and monitoring stages of budget within the confines of a legal framework at different levels in accordance with the Constitution and other applicable laws. Delegation of financial authorities will maintain the current basis of public financial management system, and anti-corruption efforts.

2. The focus of this policy is to utilize national budget to empower local governance in order to enable communities at the provincial level to play essential role in the development of their respective province. This objective will be achieved through “fiscal de-concentration” by delegating a portion of public financial management authorities to provincial entities. The Government of Afghanistan will simplify and streamline budgeting and procurement procedures, while also maintaining necessary control to effectively manage resources and provide reliable reports to all stakeholders.

3. Provincial budgeting is a process through which service delivery and sub-national development priorities are incorporated into the national planning and budgeting process. The provincial budgeting includes inputs from sub-national institutions into the national budget in addition to central budgetary units. The provincial councils as the representatives of people will be consulted during the budget planning and formulation processes. Actions will be taken accordingly when laws and regulations governing the mandate of provincial councils are modified in a way that affects the provincial councils’ role.

4. It is the policy of government to employ the budget as a tool to stimulate national policy within the budget ceiling. Therefore, this Policy directs provincial administrations to use their budget as a tool to achieve developmental goals, while also abiding by the accepted public financial management principles such as fiscal equity, fiscal discipline, economy, efficiency and effectiveness, and consider gender equity, anti-corruption, and poverty alleviation as cross-cutting issues in their budget proposals.

5. The Provincial Budgeting Policy will be piloted in different sectors over a three-year period, and if the result were good then will extended and implemented in the more budgetary units.

6. This Policy applies both to the ordinary and development budgets of the government, and requires the Ministry of Finance to work on creation of “unconditional funds” for the provincial administration as part of “on-budget development fund” to provide funding for projects not included in the sectorial plans.

End Result

The end result of this Policy is to have a transparent, predictable and equitable provincial budgeting process that allows for bottom-up participation and consultation of provincial entities during national planning and budgeting, and facilitates efficient and effective service delivery at national and sub-levels.
Main Outcomes

a. **Outcome 1:** Establish and improving the process of participative provincial planning and budgeting process linked to priorities of provincial services delivery. The basic result is achieved as follows: consult with provincial councils and District Councils in the process of recognition of provincial priorities.

b. **Outcome 2:** Transparent, equitable, efficient and effective budget execution and service delivery at provincial level. The main output of this result is to streamline provincial planning and budgeting calendar and processes, with distinct roles and responsibilities of stakeholders.

Implementation of the Policy

Policy implementation is the responsibility of all stakeholders involved in provincial budgeting, including the Ministry of Finance (MoF), the Ministry of Economy (MoEC), the Independent Directorate of Local Government (IDLG), line ministries and their provincial directorates, and provincial governance structures (provincial governor, provincial councils). The Ministry of Finance has responsibility for the leadership of the process.

Support and Encourage Stakeholders

a. Besides directing the financial performance of government, the Policy requires government political backup, and urges civil society to participate in the policy implementation. All stakeholders will be encouraged to progressively align their work plans with the objectives and strategies of this Policy.

b. The international donor community will cooperate by providing technical assistance, capacity-building and funding at the central and provincial levels, and is considered a key partner in the implementation of the Policy. Stakeholders shall coordinate their technical assistance and capacity-building initiatives with the Provincial Budgeting Unit at the Ministry of Finance.

Funding Sources for Policy Implementation

Implementation of this Policy requires technical assistance, capacity building & training for central and provincial entities, and provision of financial resources. Provincial institutions will be given appropriate budgeting authorities proportional to their technical capacity. Delegations of these authorities require significant investment on provincial entities and administrative support (such as information technology capacity development). Central institutions require technical assistance to develop processes and procedures for transferring the responsibility of service delivery to provincial entities, and focus on sectorial strategy, policy and monitoring. Other initiatives for policy implementation such as the establishment of Fiscal De-concentration Working Group (FDWG), Provincial Public Financial Management (PFM) Committee, and recruitment of budget specialists for Mustofiat also require financing.

The expansion and stability of the process of providing unconditional fund to provincial administrations necessitates sustainable resources.
II. Purpose, Objectives, Scope and Stakeholders

Purpose

1. The Provincial Budgeting Policy is enacted to encourage fiscal de-concentration, enabling expanded role of local governance structures in planning, budget formulation and execution, and monitoring of financial affairs, away from their current concentration in central institutions to achieve the outcomes of this Policy.

2. The Policy consolidates the government’s ongoing budget reforms in the Public Finance Management System of Afghanistan, and facilitates a transparent and accountable provincial budgeting framework.

3. The Policy aims to address the following main challenges within the sub-national public finance management system:

   a. Lack of sufficient transparency, weak consultation and coordination, and balance in the allocation of resources to the provinces

   b. Inconsistency in the capacities of ministries and their respective provincial line department to plan, budget and spend public funds to deliver services at the provincial level;

   c. Lack of provincial capacity to develop and submission of plans based on priorities and projects costing;

   d. Lack of proper and accurate mechanisms for planning and budgeting at the local level.

   e. Difficulties faced by provinces to fund their operational and maintenance (O&M) costs, leading to the destruction of existing assets, and poor service delivery;

   f. Lack of clear fiscal (public financial management) roles and responsibilities of provincial councils, provincial and district governors;

   g. Lack of proper and accurate mechanisms for monitoring and pursuing the implementation of provincial programs and projects.

   h. Execution of development budget through parallel budget systems at the provincial level, causing the government’s budget systems not to be utilized and developed.

4. Given the above-mentioned issues and challenges, this Policy requires the following in addition to delegation of authorities:

   a. Establish and improve transparent planning and budgeting process in which provincial councils have their consultative role.
b. Equitable and predictable allocation of public resources to provinces through norms-based budgeting;
c. Adequate allocation of funds to finance the O&M costs;
d. Efficient and accountable budget execution at the sub-national level; and
e. Effective monitoring of budget execution by relevant entities in accordance with applicable laws and regulations.

Objectives

The objectives of the Policy are to:

1. Establish a legislative framework to determine the responsibilities of central and sub-national entities in the budgeting process, in which provincial councils will have consultative role;
2. Delegation of proportional public finance management responsibilities and authorities to provincial institutions to develop/expand an effective public finance management system across the country.
3. Establish a proper and standard framework for “vertical and horizontal resource allocation” that guarantees equitable service delivery, and contributes to poverty alleviation across the country;
4. Ensure allocation of adequate resources to maintenance of existing and new assets based on standards within the budget ceiling;
5. Ensure participation of provincial officials in budget preparation, execution and monitoring;
6. Improve and enhance coordination and communication between central and provincial institutions and donors to increase transparency, accountability and financial discipline, and eliminate parallel budgeting structures/processes; and
7. Concentrate on service delivery outcomes and employment in the budget formulation and execution processes.
8. Disseminate budgetary statistics and figures, and streamline reporting processes to stakeholders.

Scope

a. Central and sub-national institutions

Stakeholders

a. Office of Administrative Affairs
b. National Assembly, Provincial and District\(^1\) Councils
c. Central Budgetary Units
d. Sub-national entities of Budgetary Units
e. Provincial and District Governors
f. International Financial Organizations and Donor Countries
g. Civil Society, including Non-governmental Development Organizations, Media Outlets, Academic and Research Associations.

\(^1\) Until the district councils are elected, an alternative structure will be included in the process as a stakeholder
III. Implementation Strategies

1. Introduce a transparent process whereby the ministries can determine their vertical appropriations, and distribute sectorial resources in ordinary and development budgets based on horizontal expenditure norms.

2. Provide technical assistance to ministries to prepare budgetary expenditure appropriations based on norms in line with the agreement of stakeholders.

3. Strengthen linkages between provincial budgeting, national and provincial planning and prioritization through clear mechanisms for provincial planning, as well as distinct roles and responsibilities for provincial governors and provincial councils.

4. The primary budgetary units shall specify the appropriation of provincial institutions by separating the budget of national projects and central expenditure from their budget ceiling.

5. Annual allocation of “Unconditional Funds” for provinces based on country’s financial capacity to enable provinces in order to increase their access to “discretionary funds” to bankroll sub-national priority projects. These funds:
   a. Will be given to provincial administrations as a “non-sectorial fund” (transfer of funds to finance the purpose of this Policy) to select major projects not included in the sectorial plans.
   b. “Unconditional funds” will be allocated through “potential proposals” provided by provincial directorates to the Provincial PFM Committee.
   c. The provincial decision maker shall decide in coordination with stakeholders.
   d. Appropriations will be done based on a number of standards that are founded on needs and expenditure norms, and pave the ground for accountability of costs.

6. Improved provincial budgeting requires proper provincial planning, monitoring and reporting to strengthen the technical capacity of provincial economy departments.

7. Establish a streamlined budget formulation process and calendar that ensures provincial participation in National Budget Formulation.

8. Establish clear roles and responsibilities for line ministries and provincial directorates in the provincial budgeting through the development of separate provincial budgeting guidelines for each sector.

9. Pave the way for gradual de-concentration of financial management responsibilities to provincial directorates of line ministries and central institutions by delegating minimum authorities in planning, budgeting, and reporting standards which the provincial directorates need to implement before the gradual delegation of responsibilities.

10. Develop and provide capacity-building trainings and technical assistance in public financial management based on agreement between the Ministry of Finance and stakeholders.

11. Hire provincial budgeting specialists at each Mustofiat to assist provincial directorates in budget formulation.
12. Public finance management legislative and regulatory framework will be reviewed to enhance budget planning and execution of ordinary budget, especially O&M, and development budget at the provincial level.

13. Based on agreement between MoF and stakeholders, provision of technical assistance and capacity development in effective execution of the budget to the provincial directorates.

14. Provincial Budgeting guidelines for respective provincial directorates to focus on equitable and predictable distribution of resources across provinces and improving service delivery outcomes in each sector.

15. To increase transparency and improve monitoring by stakeholders according to regulatory framework, provincial breakdowns of budget will be included as an annex to the National Budget.

16. Improve coordination with donor community in the planning stages at national and provincial level.

IV. Legislative Framework, and Development of Regulations and Guidelines

1. Expenditure of public funds should be based on broad regulatory framework and clear roles and responsibilities, requirements for authority level control. This framework includes but is not limited to all procurement activities, bank account, management of recordable transactions and accounting procedures. This framework is supported by circulars and detailed guidelines to enforce the provisions of the Law. In addition to the specific laws on PFM and procurement, audit and fight against administrative corruption, provincial budgeting shall be correspondent to local laws like: local governance law, provincial councils and etc.

2. Ministry of Finance has the responsibility of leading, reviewing and amending of PFM legislative framework in order to establish legal basis to duties and responsibilities of provincial administrations. The amended legislative framework paves the ground for good governance, particularly preventing fraud, administrative corruption, and illegal and unauthorized expenditure. The amended legislative framework paves the ground for provincial budgeting and will allow provincial officials manage provincial funds, and will be held responsible for the results. The amended regulatory framework will also specify how to prepare, prioritize, approve and monitor budgeting. Operational phases like procurement will be simplified and streamlined by amending of law and procurement procedures for public procurement in provincial level while maintaining credibility and transparency.

3. Ministry of Finance, with the assistance of Ministry of Justice, will review regulations on Operation and Maintenance of public assets according to the current requirements and due consultation with all stakeholders. Ministry of Finance will develop specific policies and guidance for O&M budgets.
4. Line Ministries, in coordination with Ministry of Finance, and based on the PFEM Law and regulations, will develop guidelines for formulating O&M budgets and disseminate to all relevant departments.

5. Design and develop guidelines according to relevant laws, Public Finance and Expenditure Management Law and regulations, Public Procurement Law and procedures, will explain the following:
   a. Develop a simple and effective budget calendar based on appropriate timing to incorporate provincial planning and budgeting inputs into national budget.
   b. Specify roles and responsibilities of stakeholders.
   c. Design and develop an integrated mechanism for all sectors.
   d. Develop a regulatory framework and delegate expenditure authorities to the provinces.
   e. Determine local priorities such as economic development, environmental services, peace building initiatives, demining and disaster preparedness to inform provincial planning processes.
   f. Assess accurate estimate budgeting for O&M expenditure based on norms and standards.
   g. Capacity development training initiatives.
   h. Implement provincial infrastructure projects, including project appraisal and project design for basic service delivery like: schools, hospitals and etc.
   i. Evaluate and improve business processes of provincial directorates including performance monitoring, in coordination with relevant central line ministries.
   j. Develop a comprehensive guideline on providing financial data to civil society organizations, and consult with them in accordance with regulatory framework of the country to increase transparency and accountability in budget process.
   k. Effective methods of using of provincial datasets and priorities to develop an effective budget for provincial directorates.
   l. Ministry of Finance in coordination with all relevant stakeholders will develop specific procedure with respect to the municipalities’ budget.

V. Improved Provincial Planning

1. Develop an integrated planning framework led by a committee, consisted of the Ministry of Economy, the Ministry of Finance and the Independent Directorate of Local Governance, to clarify the roles and responsibilities of stakeholders at provincial level, and prepare planning policy and relevant guidelines.

2. Stakeholders in local planning will agree on a transparent planning process, where the roles of the different actors are clarified, whilst also update the circumstances to develop and coordinate it based on the requirements of this policy in the relevant guidelines;
3 Based on the provisions of the constitution, Provincial Councils have consultative, verification and monitoring role. Therefore, given the Tokyo Mutual Accountability Framework, Provincial Institutions shall consult with Provincial Councils on the provincial budgeting and planning process.

4 The Ministry of Finance and Ministry of Economy will work closely with Line Ministries and Mustofis, along with provincial directorates of Line Ministries, to achieve alignment of plans and harmonization of efforts. The Ministry of Finance and Mustofis will support Line Ministries and their provincial directorates on all financial management aspects, including norms-based budgeting and implementation and costing of projects and activities.

5 In short-term, the donors are encouraged to align their off-budget funds with priorities and requirements determined in provincial planning process. In long-term, with institutionalization of provincial PFM process and capacity development, donors will be encouraged to use provincial planning systems, prioritizing and determining process, and eventually providing assistance for provincial budgeting frameworks.

6 The Stakeholders in provinces shall consider cross-cutting issues, such as gender equity, counter-narcotics, regional cooperation, anti-corruption, environment, and administrative reform and capacity-building during the provincial planning and budgeting process. Provincial directorates will indicate how their plans and specific projects achieve the objectives of cross-cutting issues.

7 To eliminate administrative corruption and prevent public resources loss, central administrations will coordinate ambiguous and non-transparent processes.

VI. Roles and Responsibilities in Provincial Budget Formulation

Provincial Budgeting Improvement

The Policy envisages specific changes to the budget formulation process which will be run by the ministry of finance, in coordination with other stakeholders especially ministry of economy and IDLG.

Ministry of Finance

1. Budget formulation

   a. Ministry of Finance will collaborate with the ministry of economy to align provincial planning and budget proposals in the span of Budget Calendar deadline.

   b. To consult with provincial authorities and to ensure that provincial authorities participate in the budget preparation process, the Ministry of Finance will revise the annual budget process timetable to allow the provincial directorates to have enough time to review and submit their budget proposals. The ministry of finance can do this process in two phases. 1. In two phase form (circular 1 and 2) or one phase form which contain the requirements of both circulars.

   c. The ministry of finance, in consultation with the ministry of economy and IDLG, explains the provincial budget formulation process in provincial budgeting procedure in detail.
d. Prepare primary provincial budget ceiling for de-centralized roles till preparation and acceptance of norms-based budgeting method.

e. Ensure that provincial budget for centralized and de-centralized role of organizations is integrated in national budgeting process.

2. Ministry of Finance is responsible for implementation and management of “unconditional fund” “Conditional fund” at provincial level. This process, which started as pilot in 1393, will be continued. Norms-based allocations of funds will be expanded to all budgetary units. Allocations of funds within the budgetary unit in overall ceilings established by the organization for provinces should be based on the special needs of each province (The share of fixed funds, share of funds the cost of providing services, the share of funds based on performance, the share of funds to fight poverty, etc.)

3. During the implementation of this policy, the ministry of finance will work on a comprehensive inter-governmental fiscal transfer system which should be limited (e.g. 40% of the budget) to transfer to de-concentrated role with consideration of balance, transparency, and accountability. And also in case of financial transfer, will try in the creation of the province as a budgetary unit.

4. Whereas the Ministry of Finance led the 1391 provincial budgeting pilot process in line ministries, from now on, future pilot programs will be led by Line Ministries to increase their capacity. The Ministry of Finance, in consultation with stakeholders, will continue its support by providing guidance and forms to Line Ministries, and coordinate capacity building programs.

5. The Ministry of Finance will appoint Provincial Budgeting Specialists in each Mustofiat to assist provincial directorates and provincial PFM committees with capacity building and different phases of budget formulation in the provinces.

**Central Budgetary Units**

1. Norm-based budgetary reforms based on required norms to specify allocation of provincial funds including allocations for pilot programs, and presenting over-all ceiling of line ministries to provinces based on standards which specifically reflect each province needs.

2. Line Ministries will separate out resources for national projects and central expenditures from the specified sectorial ceilings, and allocate the remaining funds to their provincial departments based on norms and standards.

3. During budget formulation, the first budgetary units specify the provincial ceiling in collaboration with ministry of finance.

4. Developing budget formulation process with provincial entities in accordance with MoF guidelines.

5. Primary budgetary units request their relevant provincial institutions to develop their budgetary proposals in accordance with development strategies and relevant programs, taking into account their local needs.
6. Following approval of the national budget, to ensure provincial directorates ability in budget execution, budgetary units will conduct budget workshops to the officials of their respective provincial directorates. The following issues will be discuss in the workshops: A) on allocation of annual operating and development budget B) specific mechanisms to assess the operating and development budget funds for the fiscal year, and c) information on development project proposals included in the approved budget.

7. Line Ministries will cooperate with their provincial directors on modification of provincial budget allocations and once the budget year has started, Ministry of Finance and Line Ministries will provide officials with sufficient information, notably on final budget allocations, regular and development budget forecast, and submit allocations proposals regularly to relevant provincial directorates. As much as possible, the allocations will be passed based on the financial plans. This will increase providing financial resources to requirements and priorities, and decrease authorities in central government in decision making.

8. Modification of Terms of References of planning and financial officials in line ministries and provincial directorates in order to include provincial budget formulation in coordination with stakeholders.

**Provincial Institutions**

1. Provincial institutions will align their budget and financial proposals for development projects with Provincial Development Plans;

2. Develop and follow-up relevant plans and programs for the achievement of national and sub-national outcomes of line ministries in consideration of central organization programs.

3. Prepare and present budget proposals to PFM committee for reviewing and reconciliation with provincial development plans, and on ordinary budget to assess baseline costing and new proposals. Submit relevant budget proposals to central budgetary units for incorporation into the provincial budgeting calendar timeframe.

4. Equitable budgetary resources distribution to tertiary entities and enhance coordination with tertiary units during budget formulation process.

5. Record and keep relevant documents in line with MoF guidelines.

6. Continued follow-up of budgetary proposals with provincial PFM committees and line ministries.

7. Prepare and present rationale budgetary proposals to PFM committee to receive funds to implement relevant priorities from provincial un-conditional funds
Governors

1. With consideration of PFM legal and regulatory framework, the Governor shall approve the final proposal made by PFM Committee. Governors cannot change budget proposals without justifiable justifications. The ministry of finance, in coordination with IDLG, shall develop a detailed procedure in this regard and disseminate to provinces for the purpose of regulating performance.

2. The governor will synchronize provincial budgeting process, and receive reports on the outcomes of budget formulation process.

Provincial Councils

1. Provincial councils have consultative role in provincial budgeting process.

2. Provincial councils cannot propose projects which are not included in development plans to be integrated into the budget proposals.

3. Role of Provincial Councils may change upon changing the regulatory framework of provincial councils.

Mustofis

1. With consideration of regulatory framework, Mostufis’ are responsible for managing of budget formulation process in provinces.

2. The Mostufis shall arrange their performance according to the guidelines of general directorate of budget of ministry of finance.

3. Follow up the implementation of provincial budgeting calendar timeline, and timely report the outcomes to the provincial governor and Budget Department of the ministry of finance.

4. Publishing provincial budgetary figures and statistics, and conducting consultative meetings with civil society organizations on provincial budgeting in coordination with Budget Department of the ministry of finance.

5. Provincial budget specialists will assist Mostofis and provincial directorates in budget formulation and implementation of budgetary guidelines.

Public Financial Management (PFM) Committee

1. A Provincial PFM Committee shall be established in each province led by the Ministry of Finance with the aim of improving the communication and coordination between Line Ministries and their provincial directorates. The Committee members consist of: the Mustofi as head of the Committee, representative of Provincial Governor’s Office, Provincial Director of Economy, Provincial Director of Women Affairs, and the provincial
budgeting specialist. The Ministry of Finance, in consultation with the ministry of economy and IDLG will prepare a detailed terms-of-reference for the PFM Committee.

2. In addition to resources allocation process by primary budgetary units to secondary units, the implementation strategies emphasize on allocation of a specific amount to provinces. Provincial Departments/Directorates propose the projects with priority. At provincial level, the Public Financial Management Committee reconciles the proposed projects which are approved by provincial council with the development plans and allocate the on-budget/discretionary funds to the prioritized projects. Governors as the heads of the local administrations, in accordance with the regulatory framework, are responsible for leading the budgeting process for priority projects, and Mustufiats (finance departments) as secondary units of Ministry of Finance, are responsible for administration and management of this process (just like the way the Ministry of Finance manages the budgeting process at the center under the leadership of the President) in accordance with regulatory framework and MoF guidelines.

Donors

1. Within the framework of their commitments to Government of Afghanistan, donors will cooperate in the area of technical assistances, capacity development and funding of most areas of local governance. In the process of provincial budgeting, all stakeholders share the different aspects of budgeting, including planning, budgeting, budget execution, etc. with international donor community. Maintaining communication and coordination with donors providing development assistances, and effective and efficient implementation of projects are among the main goals of Aid Management Policy (2010), which are considered by all involved parties.

2. Donors’ assistances in provincial budgeting process such as improving planning and budgeting for maintaining public assets, shall be accepted and supported by all stakeholders and involved parties.

3. Donors shall commit to channel all of their financial assistances through Afghan Government Budgeting System to improve transparency and national budget system capacity and to increase its credibility among public. Provincial Budgeting Policy is in line with the perspective of Aid Management Policy, according to which Government of Afghanistan will be dependent on development assistance of donors till 2025.

VII. Budget Execution
Provincial Budget Breakdowns

1. After the endorsement of the national budget by the President of Islamic Republic of Afghanistan, all budgetary units shall send the provincial breakdowns of their approved budget to Budget Directorate and Treasury Directorate of Ministry of Finance, through the relevant forms following the MoF guidelines, before allotment request in accordance with budget circular 2.

2. Regarding the off-budget/ non-discretionary funds, the budgetary units shall, in cooperation with donor, prepare the ground for accurate and transparent division of the funds at provincial level.

3. The transferred funds to a province for development budget cannot be amended for another province without justifiable justifications.

4. Budgetary units shall send provincial budget breakdowns of their relevant institutions that show the annual and quarterly allocations, to the relevant provincial institutions as soon as possible.

5. MoF shall send the provincial budget breakdowns to the relevant Mustofiat as soon as possible for follow up and execution.

Execution of Allocations

1. The allotment process will be initiated after the approval of budget and submission and recording of provincial budget breakdowns, in accordance with MoF guideline. After the completion of forms approval steps, General Directorate of Budget will send them to General Directorate of Treasury for recording into AFMIS.

2. General Directorates of Budget Treasury shall develop a comprehensive guideline and, after its approval by the Minister of Finance, shall send it to all institutions to regulate/ manage the allotment process of ordinary and development budgets.

Payments

1. To accelerate the process of ordinary and development budget payment, and to achieve the provincial budgeting policy goals, the General Directorate of Treasury will revise all existing procedures and, in coordination with the General Directorate of Budget, will develop the budget execution mechanism, containing the authorities and responsibilities of provincial officials in this process, and after its approval by the Minister of Finance, will send it to all relevant parties/stakeholders for implementation.
Reporting

1. The regular and development budget reports are sent by Mustofiat on monthly, quarterly and annual basis to the General Directorate of Treasury in accordance with the directorate’s accounting manual and guidelines.

2. Provincial Departments/ Directorates are obligated to send their reports to the relevant central agency on monthly, quarterly and annual basis as soon as possible, after reconciliation with Mustofiat.

3. If a donor needs payment documents per the terms and conditions of MoU or agreement, the provincial administration is obligated to send a copy of the requested documents to its relevant central agency, as the terms and conditions of the MoU or agreement dictate, so that the central agency can work with the donor in that regard.

4. Mustofiat shall discuss how different departments/ agencies spend their allocated funds, on the basis of expenditure reports, in Provincial Administrative Meetings and shall fully cooperate with them in timely expensing of the allocated funds.

VIII. Procurements of Provincial Projects

Procurement from national budget will be conducted in accordance with Public Finance and Expenditure Management Law and Public Procurement Law and rules of procedures.

1. Budgetary units are obligated to send an official letter on processing of new provincial projects procurement which is incorporated in the provincial budget breakdowns, while sending provincial budget breakdowns to the relevant provincial department/agencies.

2. If procurement from non-discretionary funds according to terms set by donor is possible at provincial level, budgetary units shall send, via an official letter, the donor terms and conditions to be considered in procurement, to the relevant directorate. The provincial administration is obligated to consider the conditions in the procurement process.

3. Upon the receipt of provincial budget breakdowns, the province cannot initiate procurement processes without having an official letter regarding the provincial projects procurement.

4. For the purpose of better coordination in procurement affairs, the provincial administration shall maintain the necessary coordination with the relevant ministry in all steps of procurement.

5. In coordination with General Directorates of Budget and Treasury of MoF, the National Procurement Authority, will prepare proposal of modification of procurement authorities, which should include delegation of authorities to governors and provincial directors.
6. Governors cannot sign contracts with value of more than the approved budget funds which are specified in the provincial budget breakdowns and sent via the directive letter from primary budgetary units to the provincial administrations.

IX. Provincial Budget Execution and Monitoring

Improve Provincial Budget Execution and Monitoring

1. For the purpose of better monitoring and following up of provincial agencies’ allocations and expenditures, MoF, in consultation with primary budgetary units, will bring and implement necessary reforms and changes to the chart of account and relevant forms.

2. For accountability and evaluation of results, Ministry of Economy (MoEC) in coordination with MoF, will develop a framework by which roles and responsibilities of stakeholders, evaluation steps, performance assessment and specific goals of provincial budget implementation monitoring will be elucidated. Provincial budget implementation monitoring will be done according to a regulatory framework that authorizes proper monitoring by national assembly, government, provincial councils and civil society. For provincial councils, Provincial Councils Regulatory Framework will apply.

3. MoF assists central and de-concentrated subnational institutions in developing a monitoring and evaluation framework in the bi-directional information flow and information system. This mutual accountability mechanism consists of bottom-up accountability, where the responsibility of service delivery and accountability to line ministries about outputs as well as top-down accountability to provincial and district governors, provincial councils and Parliament about the outputs and outcomes, is funded. In cooperation with MoF and with the assistance of donors, MoEC designs, develop and deliver capacity building, consulting and coordination programs on technical and non-technical monitoring for government institutions and people representatives at central and provincial level.

X. Policy Implementation Management and Monitoring

Management, Communication and Implementation

1. MoF is responsible for leading, managing and communicating the implementation of this policy.

2. MoF is responsible for managing and coordinating with Provincial Public Financial Management Committees.

3. MoF, MoEC and other line ministries have the following responsibilities in the implementation of this policy:
a. Preparation of quarterly implementation progress reports
b. Enactment and implementation of agreements, procedures, guidelines and other technical documents in center and provinces should accelerate the implementation process of this policy.
c. Develop and deliver specific activities to build the capacity of involved parties, especially provincial councils, in provincial planning and budgeting.

Policy Monitoring and Evaluation

1. In coordination with MoEC and other stakeholders, MoF is responsible for developing a monitoring mechanism for the implementation of this policy.

2. Regular review, especially continuous monitoring and periodic evaluation, requires a clear performance information framework.

Policy Implementation Monitoring and Evaluation Information Framework

For the purpose of regular reporting and periodic evaluation of policy implementation, Ministry of Finance is responsible for leading, monitoring, evaluating, and implementing the Provincial Budgeting Policy, and coordinating performance information frameworks within the limits of existing M&E framework. Milestones, including indicators, should rely on both internal and external evaluations based on international best practice framework. Progress in the implementation of Public Financial Management Action Plan prepared in line with Tokyo Mutual Accountability Framework, especially progress in completing the predetermined milestones/ goals including transparency in Public Expenditure and Financial Accountability (PEFA) and transparency in Public Financial Management measured by the Open Budget Index (OBI), should be evaluated.

Establish Fiscal De-concentration Working Group

For regular coordination and implementation of Provincial Budgeting Policy, a fiscal de-concentration working group, consisting of Provincial Budgeting Unit Officials, General Directorate of Treasury, Directorate of Procurement Policy, General Directorate of Budget, MoEC, and IDLG, shall be established in MoF. The Working Group shall meet regularly (monthly) to discuss the progress of the policy implementation and related capacity building programs. To implement the policy and build capacity, the Working Group shall agree on a series of criteria for evaluating the progress in policy implementation and for building capacity.

Policy Implementation Executive Monitoring

1. Policy implementation monitoring is conducted in accordance with the principle of division of powers between the executive and legislative branches of Government, while taking into consideration the directives set forth in state regulatory framework, especially in Constitution and Public Financial and Expenditure Management Law.

2. The executive branch, especially the leadership of Ministry of Finance and other line ministries, are accountable for achieving the strategy outputs and outcomes, and for delivering the desired
outputs, such as streamlined and effective expenditure according to norm through state budget, consultative provincial budgeting process and continuous O&M budgeting.

3. Based on the existing mechanisms of reporting, monitoring, and evaluation (TMAF and other mutual agreements), Government of Afghanistan and the international community are accountable to each other for effective implementation of the policy.

**Policy Implementation Monitoring**

The executive branch will be accountable to the legislative branch for accomplishing the objectives of this policy. Through the existing reporting mechanisms, National Assembly will, among other things, hold the executive branch authorities (Ministers) accountable for the public finance management impacts such as equitable resource allocation to provincial administrations. Also, MoF and other line ministries will be accountable to National Assembly to show how much the provincial budgeting and O&M budgeting have led to increase in the quality of basic services.

**Policy Implementation Monitoring Framework**

Policy outputs and outcomes monitoring clearly considers the impacts before implementation. The report on policy outputs and outcomes and their periodic evaluation shall be submitted to senior management on a regular basis. National Assembly receives regular progress reports from MoF on achieving policy goals. As an example, Monitoring Framework is illustrated below:

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**Provincial Budgeting Policy Monitoring**

**Definition:** Provincial budgeting is a transparent, predictable and equitable process that allows for bottom-up participation and consultation to provincial councils during planning and budgeting and facilitates the efficient and effective service delivery at national and sub-national level.

**Outcome:** Participatory and explainable provincial planning and budgeting, linked with provincial service delivery priorities.

**Output 1:** Provincial and District Coordinating Councils are consulted with in the process of annual planning and budgeting.

**Outcome:** Transparent, predictable, efficient and effective budget execution and service delivery in provinces.

**Output 2:** Streamlined provincial planning and budgeting calendar and processes, and with clear roles and responsibilities.

**Monitoring through all responsible agencies in accordance with legal framework**

**Executive Officials (Ministers) are responsible for outcomes**

**Agencies (Central ministries, their provincial directorates and donors also) are responsible for outputs**

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**XI. Assumptions**

The achievement of the policy objectives is dependent on the following assumptions:

1. Implementation of this policy in the current governance structure relies on consultation and coordination among government institutions.
2. Sufficient time and effort for gaining support and agreement of stakeholders in the implementation of this policy.
3. Establishment of additional structures and mechanisms are not deemed necessary, except for provincial-level PFM Committees and hiring provincial budgeting specialists for Mustofiat.
4. Policy implementers’ knowledge of concepts and terminologies contained in the policy;
5. Availability of adequate resources, including government and donors’ financial resources for implementation of the strategies of this policy.

While taking the specific objectives of this policy into consideration, the following challenges are identified:

a. Ambiguity in the roles and responsibilities of provincial councils and governors.
b. Low administrative and HR capacity
c. Difference of capacity among provinces
d. Dependency on technical assistances of donors in capacity building