PFM Roadmap: six month status report

Government of Afghanistan - Ministry of Finance

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Introduction

The overall progress of the PFM Roadmap against the plan is below satisfactory. However, the current level of progress is largely a result of a slow start in the first 100 days, with a good pace of implementation in the last 100 days.

<table>
<thead>
<tr>
<th>PFM Roadmap</th>
<th>62%</th>
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</thead>
<tbody>
<tr>
<td>1 Strengthen the budget in driving effective delivery of key priority outcomes</td>
<td>86%</td>
</tr>
<tr>
<td>2 Improved budget execution</td>
<td>77%</td>
</tr>
<tr>
<td>3 Increased transparency and accountability</td>
<td>36%</td>
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<tr>
<td>4 Reforms to improve capacity at line ministries</td>
<td>50%</td>
</tr>
</tbody>
</table>

Actions to strengthen budget formulation and improve budget execution are progressing well, although improvements in overall outcomes will take some time to materialize. The Government is taking an approach in which the budget process is built upon firm foundations, rather than quick achievements that will prove to be unsustainable in the long-run.

The poorer performing components are those which include actions to improve transparency and accountability and in reforms to improve capacity at line ministries. However, the outcome measure for transparency (the Open Budget Index score) is likely to be fulfilled early. Reforms to improve capacity are behind schedule, but are now either underway or soon to be.

This report highlights key achievements and key activities that are behind schedule in each component, as well as issues affecting progress in each component. However, some overall issues are also noted below.

Issues

- While implementation of the PFM Roadmap as a whole has been on track during the last 100 days, there has not yet been sufficient catch-up on slow progress in the first 100 days. In addition, there are specific sub-components and activities that remain far behind schedule. Improvements are being made to communication of the PFM Roadmap and of management and monitoring of its implementation. It is expected that this will allow greater progress to be made in future.
- Stability is critical to allow reforms to be implemented in a well-planned manner. New reforms or other demands upon those responsible for implementing the PFM Roadmap undermine this stability. We request that new requests for reform are kept to a minimum in order to allow existing reforms to be implemented/
- Donor funding has not yet been secured for the additional costs of implementing the PFM Roadmap, following a presentation to donors of funding needs in 2010. In addition, key support to training for line ministries has been reduced. We request that donors who are interested in supporting the PFM Roadmap approach the Ministry of Finance.
Component 1: strengthen the budget in driving effective delivery of key priority outcomes

Status

<table>
<thead>
<tr>
<th>Component 1 progress scoring</th>
<th>86%</th>
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<tbody>
<tr>
<td>1.A Aid management</td>
<td>Budget Department 55%</td>
</tr>
<tr>
<td>1.B Medium-term fiscal strategy</td>
<td>Fiscal Policy Unit 89%</td>
</tr>
<tr>
<td></td>
<td>Budget Department Ministry of Mines</td>
</tr>
<tr>
<td>1.C Increase domestic revenue; mining sector transparency; public enterprise reforms</td>
<td>SOE Department Ministry of Mines EITI Secretariat 100%</td>
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<tr>
<td></td>
<td>DABS</td>
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<tr>
<td>1.D Program budgeting</td>
<td>Budget Department 100%</td>
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The national budget is the primary tool for the implementation of Government policy. Budget formulation continues to improve year-on-year. An increasing number of important expenditure variables are being incorporated into the medium-term fiscal strategy, creating a more comprehensive tool for analysis and planning. The implementation of program budgeting (a key aspect of which is a focus upon intended results) continues, with processes and policies being defined to ensure a stable basis for planning.

The integration of donor and Government financing remains a challenging area, with multiple stakeholders working to different agendas. However, progress is being made towards agreeing principles and a monitoring framework for donor financing, which support improved integration.

Key achievements

- Aid effectiveness monitoring framework prepared.
- Donor consultations for Donor Assistance Database (DAD) improvements undertaken.
- Monitoring approach for NPPs designed and implementation underway.
- Inclusion of security and pay and grading expenditure in Medium Term Fiscal Framework.
- Extractive Industries Transparency Initiative (EITI) Secretariat established.
- Executive summaries of major natural resource contracts published.
- In the area of public enterprises, key DABS targets for increased revenue, reduced losses and improved service have been met.
- Guidelines were developed to support the Budget Committee in assessing program budget submissions.

Key activities behind schedule

- Implementation of changes to the Donor Assistance Database (DAD) is behind schedule. This is due to an extensive consultation process with donors and a decision to make significant improvements to quality.

Issues

- Further improvements to the Medium Term Fiscal Framework are impacted by a lack of information on off-budget programs. This impacts the ability of the Government to credibly analyze fiscal issues, including ongoing operating and maintenance costs. We request that more information is made available, and promptly, when requested.
Implementation of the aid effectiveness monitoring framework is likely to be impacted by delays to donor agreement to fund NPPs, which is dependent on design of the programs themselves.

Continued implementation of program budgeting to a sufficient level of quality is dependent on the capacity of budget units to formulate budgets in line with Government strategy. The intention is for the USAID-funded EGGi project to provide on-the-ground support to budget units in this area, following from support in budget formulation. However, cuts to the resources of the EGGi project create a serious risk that budget units will not receive adequate support.

Component 2: improved budget execution

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<thead>
<tr>
<th>Component 2 progress scoring</th>
<th>77%</th>
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<tbody>
<tr>
<td>2.A Provincial budgeting</td>
<td>Budget Department 78%</td>
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<tr>
<td>2.B Procurement</td>
<td>Procurement Policy Unit 70%</td>
</tr>
<tr>
<td>2.C Performance monitoring</td>
<td>Budget Department Fiscal Policy Unit 77%</td>
</tr>
<tr>
<td>2.D Other initiatives</td>
<td>Treasury Budget Department 81%</td>
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</table>

Budget execution is considered one of the most important challenges for the Government. It is expected that final budget execution numbers for 1389 will show an improvement on 1388 figures when they are compared on a like-for-like basis.

However, many of the improvements that will improve budget execution will take some time to feed through to the desired final outcome. Actions that will impact execution include those within component 2 but also within other components of the PFM Roadmap. This approach, which includes improved budget formulation and increased communication and transparency, will avoid short-term spikes in expenditure that are not matched by increased service delivery.

Key achievements

- Consultations with provinces to understand their service needs completed in 17 of the planning 18 provinces.
- Commanders Emergency Response Program (CERP) data is now incorporated into the Government-owned Development Assistance Database, offering a more complete overview of development spending in Afghanistan.
- Procurement capacity assessments completed for six of seven target ministries. Ministry of Agriculture and Ministry of Education fully certified for stand alone procurement.
- Procurement MIS training conducted in ministries.
- Improved information sharing between Treasury and Budget departments achieved to improve information on monthly inflow and outflow of funds. In addition, improved analysis of variance.
- Debt report completed within 25 days of the end of the quarter.

Key activities behind schedule

- Delegation of procurement authority to province-level has not yet taken place, as it is dependent upon the approval of the new procurement law, which is still pending.
- Provincial Development Plans (PDPs) not yet incorporated into a single IPA-sponsored website, but an alternative approach has been found using website support from Ministry of Economy and UNAMA.
- Development of norms-based provincial allocation guidelines postponed until September 2011, due to lack of technical assistance support (originally intended from World Bank)
- While a performance monitoring framework for budget implementation is in place, the implementation is behind schedule, with few good quality reports received from budget units. In 1390 the Budget Department will make greater efforts to communicate the purpose and process of performance reporting.
- Survey of available software to support payroll system not yet conducted.
- Acceptance testing of Afghanistan Clearing and Settlement System (ACSS) not yet completed due to pending point-to-point connection. Expected to be completed within next reporting period.

Issues

- Multiple lines of reporting by budget units, to Ministry of Finance, Ministry of Economy and Office of Administrative Affairs. Ministry of Finance and Ministry of Economy made great efforts to integrate reporting in 1389, but no integrated solution was agreed.
- Performance reporting is a major activity for budget units in 1390. The intention is for the USAID-funded EGGi project to provide on-the-ground support to budget units in this area, following from support in budget formulation. However, cuts to the resources of the EGGi project create a serious risk that budget units will not receive adequate support.

Component 3: increased transparency and accountability

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<th>Component 3 progress scoring</th>
<th>36%</th>
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<tbody>
<tr>
<td>3.A Communications</td>
<td>Budget Department 71%</td>
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<tr>
<td>3.C External audit</td>
<td>Control &amp; Audit Office 0%</td>
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Good public financial management is intended to allocate funds to development priorities and deliver goods and services with maximum efficiency. Based on current performance the projected score of the Afghanistan against the Open Budget Index will be above the 30% target.

Increased transparency and accountability are essential to ensure that Government spending plans are of high quality and meet the needs of the population. In addition, increased transparency can help increase efficiency and reduce misappropriation of funds.

Key achievements

- Internal ‘town hall’ meeting held to explain and discuss PFM Roadmap to internal PFM stakeholders.
- Communications strategy for PFM Roadmap developed.
- Communications strategy for program budgeting developed. This focuses on raising awareness of the importance of the budget process as a planning tool and the operation of the process itself. Implementation of this strategy will begin in the next reporting period.
- Approach developed for increasing civil society understanding of the national budget purpose, the budget process and key budget documents. Greater understanding is intended to provide a long-term foundation for better quality planning that is more responsive to public needs, and for increased efficiency and effectiveness in implementation (including reduced corruption).
Key activities behind schedule

- The external audit law has not been passed, as it does not meet INTSAI standards. This will impact future activities intended under the external audit sub-component of the PFM Roadmap.

Issues

- None

Component 4: reforms to improve capacity at line ministries

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<th>Component 4 progress scoring</th>
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<tbody>
<tr>
<td>4.A PFM reform change management</td>
<td>Deputy Minister Office</td>
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<td>4.E Budgeting capacity building</td>
<td>Budget Department</td>
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Key achievements

- A draft change management approach for the PFM Roadmap has been created and a structure for the unit drafted.
- A draft plan for program budgeting capacity building in 1390 has been created.

Key activities behind schedule

- Recruitment for staff to the proposed Change Management Unit has delayed its inception. The position requires a high level of capacity and, while potential candidate have been interviewed, no suitable person has yet been identified.
- The dedicated capacity building team within the Budget Department has not yet been created, as staff have not yet been transitioned from other roles. However, at the time of this report being written a technical adviser has been recruited to support this transition, as well as support for capacity building plans. It is anticipated that this delay will not impact the budget calendar for 1391 formulation.

Issues

- As highlighted under component 2, the Budget Department is highly dependent upon the capacity provided by the USAID-funded EGGi project, which offers budget units on-the-ground support for planning budgets and reporting performance against them. Cuts to the resources provided under this support will have a severe effect upon the ability of the Budget Department to build the capacity of budget units.