PFM Roadmap Implementation
15 May 2011

Delivery Unit
Office of Deputy Minister For Finance
Ministry of Finance
The seminar objectives

Discuss the contents of the Public Financial Management Roadmap (PFMR)

Discuss ways of maximizing the chances of successful, sustainable PFM reform in Afghanistan.

Identify what others here can do to support reforms?
Where we are now: in 2010 we identified four key areas for further improvement to PFM

1. Weak Budget and policy alignment
2. Budget execution was lower than the approved annual budgets.
3. Afghanistan’s rating in the Open Budget Index was low, 8% in 1387.
4. Reforms required capacity building

1. Improve linking budget with policy
2. Improve Budget execution by 10-20% annually
3. Improve transparency and accountability
4. Capacity Building
Where we are going: the PFM Roadmap has targets for all four areas

1. Medium-term fiscal framework (MTFF) has been strengthened, revenues strengthened policy priorities reflected in budget

2. Budget execution has increased by 10-20% annually over the medium-term (in absolute terms)

3. Afghanistan’s rating in the Open Budget Index has improved from 8% to 30% for 1390.
PFM reform will also deliver broader benefits that are critical for transition

- Fiscal responsibility
- Expenditure aligned to (service delivery) priorities
- Higher budget executions
- Increased transparency
- Improved PFM skills

- Government ownership of key national challenges
- Improved service delivery and social contract
- Increased accountability
- Stronger government institutions
Afghanistan National Development Strategy (ANDS)

Prioritization and Implementation Plan

CLUSTERS
- Governance
- Agriculture & Rural Development (ARD)
- Private Sector Development (PSD)
- Infrastructure Development (ID)
- Human Resource Development (HRD)
- Security

NATIONAL PRIORITY PROGRAMS (NPPs)
- Governance: 6 NPPs
- Agriculture & Rural Development (ARD): 4 NPPs
- Private Sector Development (PSD): 2 NPPs
- Infrastructure Development (ID): 4 NPPs
- Human Resource Development (HRD): 5 NPPs
- Security: 1 NPP

OUTPUTS/PRODUCTS
- PFM Roadmap
- 3-Year Plan
- 100-Day Action Plans
- Progress Reports to Standing Committees & JCMB
PFM Roadmap monitoring structure

**Strategic group**
Lead: Minister of Finance
Members: Deputy Ministers

- PFMR Steering Committee
- Cluster Oversight
- JCMB

**Program management group**
Lead: Deputy Minister of Finance

- PFMR Management Secretariat
- Donors

**Execution Group:**
Lead: Implementing Departments

- DG Budget
- DG Treasury
- DG Revenue
- Head of Procurement Unit
- Head of Int. & Ext. Audit
- Technical Assistance Coordinating Committee

*Strategic direction and oversight*
*Program management, change management, M&E*
*Implementation and reporting*
Achievements: 6 month monitoring report

• Master action plan developed
• Monitoring mechanism established to track the progress and identify bottlenecks.
• As an NPP, PFM Roadmap subject to quarterly reporting to donors since August 2010
• 6 month progress report was encouraging:
  – Activities to strengthen budget formulation and budget execution progressing well, but still needs to shift the focus from monitoring the process to results.
  – Headline measure for transparency (Open Budget Index score) likely to be fulfilled early
  – But due to delays with external audit there has been limited success to improve transparency and accountability,
  – Capacity building measures are behind schedule
Achievements and plans: strengthen budget in driving effective delivery

- Improved **donor financial review** process to achieve better dialogue, and prepared framework for better **co-ordination of off-budget financing**
- Created a **Medium Term Budget Framework** with hard budget ceilings approved by Cabinet
- **Extractive Industries Transparency Initiative** secretariat established
- Rolled-out **program budgeting** to all budget units in 1390 and held tough **budget hearings** demanding budget units to justify expenditure

Future plans, for 1391 Budget and beyond

- Greater **engagement with Parliament** in Budget formulation
- More **information from donors on off-budget programs** included in Medium Term Fiscal Framework eg ongoing operating & maintenance costs
Achievements and plans: improved budget execution

- **Built capacity of provincial stakeholders** to engage in the budget process and drive execution from the bottom-up
- **Procurement** capacity assessments in 6 of 7 target ministries: MAIL & Min Ed now fully certified
- Regular **budget execution review** meetings between MoF and top 14 line ministries

Future plans, for 1391 Budget and beyond

In time, greater realism in program planning will improve execution rates

- Completion of **provincial budgeting pilots** with four line ministries
- Greater support to line ministries to handle **procurement** and delegation of procurement authority to province-level
- Publication of information from financial & output **performance monitoring**
Achievements and plans: transparency and accountability

- Published draft budget statement online at the same time as it went to Parliament [http://mof.gov.af/en/Page/2194](http://mof.gov.af/en/Page/2194)
- Drafted Citizen’s Budget, ready to be disseminated once 1390 Budget approved by Parliament

Future plans, for 1391 Budget and beyond

- Greater engagement with civil society & Parliament in budget formulation
- Implement communications strategy on program budgeting
- Increased transparency of reporting, eg MoF publishing monthly reports on budget execution rates, revenue raising etc
Achievements and plans: capacity building

• Created dedicated **Capacity Development Unit** within MoF Budget Department to support line ministries
• Commenced **assessment of line ministry PFM capacity**
• Starting to implement systematic **change management approach for PFM Roadmap**

Future plans

• Line ministry capacity assessment identifies training gaps which can be addressed through **ongoing training programme**
• Measure **impact of training** delivered by MoF; refine and improve it
• Firmly establish **independent external audit** under Control & Audit Office
Funding: Costs broken down by direct link to PFM Roadmap component

- 1 - Improved budget formulation; 27%
- 2 - Improved budget execution; 49%
- 3 - Increased transparency and accountability; 12%
- 4 - Capacity building; 12%
Funding requirement for PFMR implantation per year (USD millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Additional funding requested</th>
<th>Extension of existing donor funding</th>
<th>Expected donor funding</th>
<th>Secured donor funding</th>
<th>Operating costs (from GoA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>10.50</td>
<td>11.02</td>
<td>4.23</td>
<td>9.23</td>
<td>1.50</td>
</tr>
<tr>
<td>Year 2</td>
<td>11.33</td>
<td>12.21</td>
<td>5.40</td>
<td>7.44</td>
<td>4.88</td>
</tr>
<tr>
<td>Year 3</td>
<td>12.24</td>
<td>12.24</td>
<td>3.00</td>
<td>7.44</td>
<td>4.23</td>
</tr>
<tr>
<td>Total</td>
<td>38.16</td>
<td>40.30</td>
<td>38.48</td>
<td>116.95</td>
<td></td>
</tr>
</tbody>
</table>
PFM reform requires system-wide change: we will proceed step by step to maximise chance of success.

- Engagement in budget formulation
  - Access to better information on performance across government
  - More involvement in budget formulation
  - Exert pressure from below to improve line ministries’ budget execution

- Central government agencies resolve multiple lines of reporting
  - Rules and guidelines for civil servants must support results-based budgeting

- Align spending to national priorities
  - Increase to 50% aid spent through government budget
  - Share information to enable comprehensive budget

- Align spending with national priorities
  - Improve budget execution
  - Better communication with provinces

- Increase awareness of budget process & content
  - Hold government to account for spending & performance

- Increase communication with provinces

- Budget Unites
  - MoEc & OAA, IARCSC

- Donors

- Ministries of Finance

- Provinces

- Parliament

- Civil society
"There is nothing more difficult to carry out, nor more doubtful of success, nor more perilous to conduct, than to initiate a new order of things.

For the reformer has enemies in all who profit by the old order, and only lukewarm defenders in all who profit by the new order."

Niccolo Machiavelli
PFM change management approach has been defined, applying general principles to our context

1. Where are we now?
2. Where are we going?
3. How are we going to get there?
4. How will we know when we’ve got there?

What do we need to know?
Change management: three principles for PFMR reform in Afghanistan

1. **Just do it, and learn from it** - planning is necessary but not sufficient, take a leap then learn from successes and failures

2. **Involve people who will be affected** – use 2-way communication, encourage people to ask questions and express views. Change that is locally owned is sustainable

3. **Adopt tight project management** and hold people to account for success/failure
Risks to success

• Funding not yet secured for additional costs in PFM Roadmap

• Ministry of Finance has ownership of PFM Roadmap, but reliant on other agencies for implementation

• Limited capacity across government; over-reliance on technical assistance and high turnover in national and international agencies

• Resistance to pace/scale/quantity of change across government

• Limited civil society capacity to hold Government to account

• Future demands from donors may distract from PFM Roadmap implementation
Issues for discussion ...

• How to ensure reforms are sustainable?

• What can others here do to support reform?

• Implications of the “Transition” - urgent work required now to ensure accurate macroeconomic forecasts (monetary and fiscal)

... Plans for a further meetings of this PFM Reform Group...?
Thank you

Delivery Unit
Office of Deputy Minister For Finance
Ministry of Finance
Contact: 0700289029, nematb@gmail.com
www.mof.gov.af