



Islamic Republic of Afghanistan  
Ministry of Finance  
Directorate-General Budget  
ریاست عمومی بودجه

---

**To:** All Ministries and Budgetary Units  
**Date:** 20 September 2011  
**Subject:** Budget Circular No.2 (BC2) for 1391 Budget Preparation

## 1. Purpose

In accordance with the *Public Finance and Expenditure Management Law*, the Budget Department of the Ministry of Finance (with guidance from the Budget Committee of the Cabinet) coordinates and compiles the National Budget. The Budget is prepared based on inputs of and in close collaboration with the budgetary units and Parliament. The budget needs to be approved by the Cabinet and the Parliament before its implementation.

This circular is designed to provide guidance to all ministries and budgetary units on the preparation of the integrated 1391 Budget, and to ensure a consistent presentation of budget proposals across all parts of the GoA. To achieve this, budget submissions must be made within the timescales specified in this Circular, must reflect an equitable allocation of resources among provinces and districts and be gender balanced and sensitive to marginalized and vulnerable groups.

Since last year (after the Program Budgeting is being rolled out to all ministries/budgetary units) only a single set (integrated traditional and program budgets) of Budget Circular No. 2 and associated budget submission forms are being issued to all ministries and budgetary units.

The purposes of this Budget Circular (BC2) are to:

- provide guidance to ministries/budgetary units on the form and content for preparing their 1391 budget submission and 1392-93 budget forecasts;
- provide formats for the presentation of budget request (submission) for the 1391 fiscal year and budget forecasts for 1392 and 1393);
- provide guidance to ministries/budgetary units on integration of the operating and core development budgets;
- seek ministry's/budgetary unit's detailed 1391 Budget Submissions aligned with ANDS and NPP priorities and service delivery targets.

## **2. Budget Submission Requirements**

These budget submission forms are designed for all line ministries and budgetary units to present their budgets in a program budget format, linking sector and ministerial objectives with financial resources allocated to each program, and the expected results to be achieved from those resources.

Therefore, before commencing the costing element of budget preparation, all ministries and budgetary units are required to review:

- their sector/ministerial results framework, including outcomes, outputs and indicators at the various level of the results framework;
- their own strategic objectives;
- their program structures to incorporate applicable changes, due to change in ministry strategy, results framework, or organization structure;
- Government and Ministry's policies addressing cross-cutting issues, including gender and pro-poor spending, employment creation and re-design the activities in order to better address those policies;
- the wording of the program and sub-program narratives submitted as part of the 1390 budget; and
- performance (outcome and output) measures indicators and targets.

If there have been any changes affecting the strategic objectives or the program/sub-program structures or narratives then these should be amended and agreed through the Budget Implementation Team (Internal Budget Committees) and also communicating and getting MoF approval before commencing detailed costing work.

Below are general guidelines on program structure and narratives. For more details please refer to Budget Manual volumes 1 and 2 on MOF budget department website at [www.budgetmof.gov.af](http://www.budgetmof.gov.af)

- Strategic objective - All ministries/budgetary units have already defined their strategic objectives, but these can be reviewed, amended and refined if necessary.
- Program structure and objectives - The key pillars for building program structure are the ANDS sectoral/ministerial results framework, as well as the existing organizational structure and managing (and reporting) hierarchy within the ministry.
- Narratives – Strong emphasis in these forms is given to policy-budget linkages, and particularly descriptions and explanations of how proposed budget will address any cross cutting issues, including gender, pro-poor and employment creation.
- Performance measures and targets – Performance measures and indicators, including outcomes and outputs, should be based on updated and finalized ANDS result-based framework for the ministry (ministries should make sure that their results frameworks are updated and finalized.) and in direct link with program (outcome) objectives and sub-program (outputs) results. Targets are to be provided for 1391, as well as following two years, based on what is realistically achievable with requested funds.

## **3. Budget Ceilings**

The 1391 Pre-budget Report (Medium-Term Budget Framework for the period 1391-1393) will be issued to Ministries/Budgetary Units right after the approval of the Cabinet. The Pre-Budget Report (1391-93 MTBF) contains budget ceilings for each budgetary unit.

Program level expenditure ceilings are included in the 1391-93 MTBF for 11 key sector ministries, including: Ministry of Defense; Ministry of Interior; Ministry of Justice; Ministry of Energy and Water; Ministry of Public Work; Ministry of Education; Ministry of Public Health; Ministry of Agriculture, Irrigation and Livelihood; Ministry of Rural Rehabilitation and Development; Ministry of Labor, Social Affairs, Martyrs and Disabled; Ministry of Finance.

All ministries/budgetary units must prepare their budget submission within the budget ceiling provided to them by MoF, and may not exceed the totals provided in the 1391-93 MTBF / Pre-Budget Report. This year the ceilings for 1391-93 for each budgetary unit include funded and unfunded ceilings. GoIRA has committed funding for funded ceilings, whereas the projects for unfunded ceilings are still in the process of discussion with donors.

During budget formulation budget units are to prepare project documentation for the projects specified within funded and un-funded ceilings. During negotiations with donors, the unfunded ceiling will be revised and only those projects that get donor funding will be included in the budget. Currently MoF is in the donor consultation process on donor commitments on unfunded new priority initiatives. If donor commitments are provided to MoF at a later stage of the budget preparation process, unfunded (and hence, total) ceilings will be adjusted accordingly and the respective ministry will be informed and requested to revise its budget submission. If any ministry has entered discussions with donors and has received a new funding commitment, the ministry is required to report this information to the MoF.

Ministries and Budgetary Units should not submit any new development project from discretionary resources in BC2 submissions (unless it is mandatory or legally binding, e.g. by the presidential decree). **Any budget submission in excess of the revised ceilings will be returned back to ministries for correction.**

Budget ceilings apply to the **core budget only** and cover both operating and development expenditure. You are *not* required to submit information on any **external budget** activities within the 1391 budget submission.

Budget expenditure funded ceilings are calculated based on the following criteria: previous execution rates, particularly of development projects; assessment of ministries' ability to implement budget in future; availability of funding; increase in security forces; increase in number of teachers to match increase in the number of students.

Please note that ceilings for development budget expenditure include existing commitments to fund on-going projects for 1391 only, since the MoF has not received yet any information from the donors on new projects financing. As ceilings have been adjusted based on the historical execution rates of development projects, this recognizes that projects with low execution are likely to have sufficient carry forward from 1390 to fund these projects in 1391. This will make available valuable discretionary donor funding for highest performing development projects.

Budget ceilings do not contain any possible carry forwards from 1390. **Budgetary Units should not include expenditure funded from carry forward in their budget submissions. Any carry forwards from 1390 will be added to the provided budget ceiling at the end of 1390 fiscal year.**

#### **4. Instruction for the Preparation of BC2 Submissions**

In order to provide consistent and comparable budget information to the Cabinet and Parliament, and to ensure compliance with the applicable legislation, all ministries and budgetary units are required to submit their budget proposals for 1391 in a single format.

The format for completing your ministry's/budgetary unit's 1391 Budget Submission is provided as an Excel Spreadsheet attachment to this Circular. Detailed explanations on how to fill the spreadsheets are provided in the "Read me first" sheet. Please read these instructions carefully before filling the forms. Ministries and budgetary units are required to submit both electronic and hard copy formats to their MoF focal point.

#### 4.1. Multi Year Budget Projections

In your Budget Submission your ministry/budgetary unit is required to include budget projections of the implications of your 1391 budget request for the 1392 and 1393 fiscal years. This information should be provided in the "B2 Outer Years" sheet in attached budget submission template.

You are required to provide 1392 and 1393 projections as the one-year time horizon of the annual budget process is too short to enable Government to assess whether spending decisions are affordable in the medium term. For example, most projects are multi-annual and the project started in one year will require budget in subsequent years, as well for its successful completion. Also, the capital costs of a new development project may be donor funded in 1391, while the associated operating budget costs are to be funded by Government after the project is completed. It is important for the Government to be aware of these future costs implications, so it can consider whether it will have adequate funds to meet these costs over the medium term.

#### 4.2. Program Structures and Narratives

Before you start the costing and budget estimation, you should review your ministry's/budgetary unit's Program Structures and Narratives, making sure they are in-line with required principles. For program structure and associated narratives, the following points are required to be taken into account:

- a. The work of the ministry/budgetary unit should be divided into main components (MoF recommends that no more than five such components be identified). Each of these components should be linked into an aspect of your ministry result framework and designated as a **program**.
- b. For central management and administration costs which cannot be allocated directly to any other program, '**Administration and Management**' program should be used.
- c. **Narrative description** of the objectives of each program should emphasize how it fits into the ministry's/budgetary unit's strategic plan and supports the Government policies as defined in ANDS and NPPs. The narrative should specify how the programs contribute to the ministry's cross cutting issues.
- d. Each program should be divided into a number of **sub-programs**. Each sub-program should represent a significant function within the program and should constitute one of its operational objectives. MoF recommends that each program should contain between one and four sub-programs.
- e. For each sub-program, all the **core development projects** (along with operating expenses) should be identified that contribute to its objective.
- f. For each sub-program, all **operating activities** should be identified that contribute to its objective. Similar activities should be grouped together and should show their total budget under the relevant sub-program.
- g. Appropriate **performance indicators** should be developed. The budget submission forms have been designed to give budgetary units the option to present their budget submissions at the activity level, (see h below) with one key output to be specified for each sub-program. However, Ministries are still likely to develop one output indicator and output target for each development project and operating activity within each sub-program for the internal management and monitoring and reporting purposes. This will also assist in developing costings for sub-programs.
- h. As in previous years the activities will be maintained in the program structures, budget submissions and COA to enable ministries and budgetary units track the budget and expenditures for elements of their sub-programs. It is not mandatory for all ministries and budgetary units to split their sub-programs into more detailed services (activities). Those ministries having multi component projects can use activity level for tracking budget and expenditures for different components. Other ministries

and budgetary units can simply replicate the sub-program description as an activity in the budget submission and COA.

- i. **Outcomes** do not need to be re-developed by ministries and budgetary units. Instead, you should use the relevant outcomes for your proposed programs from the ANDS ministerial/sectoral results framework and/or relevant NPP. However, these outcomes need to be relevant for and support achievement of program objectives. At the same time they need to be directly supported by the output indicators and targets defined at the sub-program level.

In case your ministry/budgetary unit revises its Program Structures and Narratives to better reflect the requirements above, the refined structure and narratives should be agreed between the Budget Implementation Team (Internal Budget Committee) and the senior management of your ministry/budgetary unit and MoF focal point. The Team can then commence the process of costing and budget estimation.

#### 4.3. Costing and Prioritization

Other important points to note in completing the BC2 submission forms are:

- a. **As in previous years**, the identification and costing of resources required is to be done at the project/activity level
- b. **All resources** used need to be identified and disaggregated by: (i) major economic categories – goods and services (code 22) and acquisition of assets (code 25) – for development projects in sheet “A2 Dev\_Projects”) and (ii) detailed object code level i.e. civilian employees (code 21100), food for employees (code 21200) or electricity (code 22500) – for operating budget in sheet “A3 Opt. Budget”
- c. **Separate baseline costs and new spending initiatives**: for development budget, these should be specified in sheet “A2 Dev\_Projects”
- d. **Any change in operating budget activities** for example increase/decrease in Tashkeel should be specified in sheet “A4 New Proposals Opt”
- e. If development project data is entered at the project level in sheet “A2 Dev\_Projects” and reference number is identified in the “Sub-program” column, the aggregation in the “B1 Program” sheet (at program and ministry level) will be carried out automatically by the spreadsheet. Operating budget data will however need to be re-entered in the sheet “B1 Program” but only at the major code (21, 22, and 25) level.

The budget proposals of **all ministries and budgetary units** will be subject to scrutiny at the time of Budget Committee discussions. This scrutiny will be concerned both with the basis for calculation of the cost of activities and prioritization of expenditure plans within the provided budget ceiling. Once your costing exercise is completed, you may therefore find it necessary to reduce the initial aggregate budget totals through a further process of prioritization to conform to the budget ceilings. This can be done by either removing some of the lower priority activities, or decreasing the budget of one or more activities by reducing the level of output for it/them. If this is the case, **your output targets will need to be amended to conform to the revised budget.**

#### 4.4. Budget Integration

For the budget preparation, budget integration requires the unified presentation of the operating and development core budgets which contribute to the achievement of the outputs specified in any given sub-program. For achieving these outputs some activities are financed from the operating budget (recurrent activities), while other activities are financed from the development budget (development projects or project components). Cost of each program needs to reflect both budget requirements – operating and development. The steps required to integrate the operating and development budgets are as follows:

- allocate those parts of the operating budget to sub-programs where **direct costs relating to the sub-program objectives** can be identified as activities (for example, the cost of employees working in departments which specifically support each sub-program);

- allocate those parts of the operating budget which relate to **general administrative and management costs** to the program entitled ‘**Management and Operations**’;
- allocate the costs of the relevant **development budget projects** to sub-programs (and programs) based on the common program/policy objectives;
- enter the required data (for example related sub-program code, 1390 Actual and 1391 budget etc) in the sheet “A2 Dev\_Projects” the spreadsheet will automatically roll up the figures to relevant sub-program and program in the “B1 Program” sheet to complete the budget submission;
- where possible, break down large multi-component projects into individual components and classify more precisely these project components under specific sub-programs and programs;
- once completed, the costs of multi-component projects should be allocated to those sub-program/program as appropriate;
- where several projects are intended to produce the same output (i.e. school buildings or new roads) they should all be included within the same activity and not shown as separate activities, contained under the same sub-program.
- specify both operating and development budgets in respect of their economic classification (see 4.2b) – in the sheet “B1 Program” as well as “A2 Dev\_Projects”. You are not required to break these costs down over detail codes. However, in the “A3 Opt. Budget” sheet detailed breakdown of operating budget by object code is required.

Note: development projects funded through the external budget should remain outside your ministry’s/budgetary unit’s program budget submission.

#### **4.4 Cross Cutting Issues**

The budget is a tool for translating the national policy announcements (Constitution, ANDS, NAPWA and others) for national development into practice, including important cross-cutting issues, such as gender equality<sup>1</sup>, Pro-Poor Spending<sup>2</sup> and employment creation<sup>3</sup>. Budgeting is no longer regarded as an exclusive exercise of the Ministry of Finance that seeks to balance income and revenue, but rather a process that ensures available resources are utilized in an efficient, effective and equitable manner to address the needs of women and men equally to achieve the national development goals. It is the shift towards program budgeting that has allowed this change in the approach to happen. For more details instructions about gender responsiveness and pro-poor spending please refer to the attached annexes.

This year special attention needs to be paid on employment creation aspects of budget programs. It is mandatory for all ministries to assess the impact of their development projects on employment and particularly to assess new jobs to be created (in the spreadsheet A2: Development Projects of BC2 forms).

The attached submission template in “B1 Program” sheet, ministries and budgetary units are required to specify the relevant cross cutting issues and provide information about how they are meeting their responsibilities.

#### **5. Provincial Pilots**

MoF supports greater discretion for provinces in budgeting and spending to achieve better planning, higher execution and greater service delivery. The main objective of the new provincial budgeting approach for 1391 budget preparation is to better integrate provincial priorities into the national budget and facilitate communication between central line ministries and their provincial departments.

---

<sup>1</sup> Specific GRB instructions are provided in the Annex 2 for the following pilots: Ministry of Education; Ministry of Higher Education; Ministry of Health; and Ministry of Labour, Social Affairs, Martyrs and Disabled.

<sup>2</sup> Specific Pro-Poor instructions are provided in the Annex 3 for the following pilots: Ministry of Education, Ministry of Public Works, Ministry of Labor Social Affairs Martyrs and Disabled.

<sup>3</sup> Other cross cutting issue: Anti corruption, Institutional reform and capacity building, Environment, Regional cooperation, Counter Narcotics.

For the preparation of 1391 budget, 5 ministries have been selected to pilot the new provincial budget approach. These are **Ministry of Education, Ministry of Public Health, Ministry of Rural Rehabilitation & Development, Ministry of Agriculture, Irrigation & Livestock and Independent Directorate for Local Governance.**

At the budget circular No 1 stage, these ministries were requested to consult the provincial line directorates and incorporate provincial priorities into the budget submissions. In this process, each provincial directorate has developed budget request within **one main National Program implemented by the Ministry (EQUIP, BPHS, NRAP, HLP and PBGF) in the total value of USD 500,000.** These requests have been submitted to the Ministry of Finance and presented to donors to acquire funding.

As part of the budget circular No 2 process, pilot ministries are to:

1. Request each of their provincial directorates to further develop their development budget requests submitted through BC1 process and fill in attached forms;
2. Request provincial directorates to provide details only for those projects they already submitted through BC1 process – **within one of the key national programs of the Ministry and up to total amount of USD 500,000;**
3. Issue detailed guidelines and instructions and conduct training for their provincial directorates to ensure understanding of those requirements – the latest by October 3;
4. Collect all provincial inputs the latest by October 30; and
5. Integrate all these inputs into a single budget circular No 2 submission and submit to Ministry of Finance, by November 2.

Detailed instructions and forms to be issued by pilot ministries to their provincial directorates are provided in Annex 4 to these instructions.

## **6. 1390 Budget Submission Assistance**

Training and instructions regarding the 1391 budget submission (including filling in the attached forms) will be provided by the Ministry Finance and particularly:

- Your ministry/budgetary unit will be invited to a workshop to be conducted soon after this Circular is issued.
- The sectoral staff (focal points) in MoF will be available as the first point of contact should you require advice or support at any stage of the budget preparation process.
- Budget manuals for more detailed instruction on program budget preparation are also available at the MoF website <http://www.budgetmof.gov.af/> in Dari and English Languages.
- MoF will also facilitate donors-BUs work to ensure projects developed as per their requirements and funding is committed.
- Technical assistance to the budget preparation process is being provided by national and international advisers deployed under the Economic Growth and Governance Initiative (EGGI) and the Strengthening Afghanistan Budgets projects.

## **7. Key Dates for BC-2 submissions**

All ministries and budgetary units must submit their budget proposal signed by the highest authority within their organization. Submissions must be put forward through the relevant MoF focal point by no later than the formal submission deadline of **2 November 2011 which coincides with 11 Aqurab 1390. Late budget submissions and those above the ceiling will not be accepted.** An electronic copy of forms that are attached to this circular will be provided to you by MoF focal points.

Below are the key dates for BC-2 submissions according to the 1390 Budget calendar.

<b>Timeline</b>	<b>Tasks#</b>
20 Sept.	MoF issues BC2, containing budget ceilings approved by Cabinet, and project development templates
1 Oct - 5 Oct	Workshop to explain BC2 budget submission requirements to BUs
5 Oct.	Provincial budget pilot ministries issue BC2 submission request to their provinces and organise workshop with provincial departments
5 Oct. - 2 Nov.	MoF sector managers assist BUs with preparation of BC2 submissions Submissions must be in accordance with budget ceilings, though supplementary requests can be made.
5 Oct - 1 Nov.	MoE assists BUs with completion of project documentation in accordance with forms supplied by MoF and MoEc. MoEc assesses adequacy of project feasibility plans and costing.
2 Nov	Deadline for BC2 budget submissions

Following MoF review of ministry/budgetary unit submissions, the Budget Committee will conduct bilateral discussions, in the form of Budget Hearings, with individual budgetary unit representatives to discuss proposals in their budget submissions. These discussions provide a final opportunity for ministries/budgetary units to defend and justify their submissions to the Budget Committee. The Budget Committee is comprised of high level representatives of the Ministries of Finance, Foreign Affairs, Economy, and the Office of Administrative Affairs of the President. The Committee will then review, in aggregate, the outcome of the Budget Hearings, and formulate a draft budget. The Committee, with assistance from MoF, will make recommendations to the Cabinet before the final budget documentation is sent to Parliament for consideration.

#### **8. Contacts for the 1391 budget preparation**

If your ministry/budgetary unit requires clarification of any section of this Circular, or needs further information or assistance, please contact your sector focal point at the Ministry of Finance.

**Dr. Mustafa Mastoor**  
**Deputy Minister for Finance**

#### **Annexes:**

- **Annex 1:** BC2 Budget Submission Templates (BC2 forms, B4 Harmonized Reporting Forms for Development Projects);
- **Annex 2:** GRB Specific Instructions (Guidelines for Reflecting Gender in BC2 Forms to Deeper Integrate GRB in Budget Process);
- **Annex 3:** Instructions for Pro-Poor Pilots (for identification of their pro-poor spending within BC2 submission process of 1391 budget) and Pro-Poor Specific Form for Pilots;
- **Annex 4:** Provincial Budget Pilot Line Ministries' Guidelines for the Preparation of Provincial Inputs to The Budget Circular No 2 Request
- **Annex5:** Schedule for Trainings

**Copy to: EGGi**