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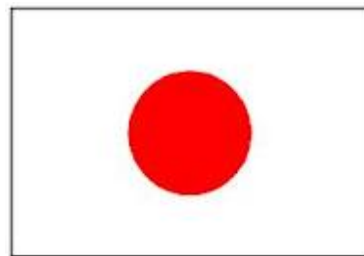
MAKING BUDGETS AND AID WORK PROJECT

THIRD QUARTER PROJECT PROGRESS REPORT 2012

DONORS



CANADA



JAPAN

PROJECT INFORMATION

Award ID:	00047111
Duration:	2007 – 2015
Strategic Plan Component:	Strengthening accountable and responsive governing institution
CPAP Component:	The state has improved ability to deliver services to foster human development and elected bodies have greater oversight capacity
ANDS Component:	Good Governance
Total Budget 2012:	USD 10,000,000
Responsible Agency:	Ministry of Finance

ACRONYMS

ACU	Aid Coordination Unit
AFMIS	Afghanistan Financial Management Information System
AMD	Aid Management Directorate
AMP	Aid Management Policy
ANDS	Afghanistan National Development Strategy
BCII	Budget Circular II
BEU	Budget Execution Unit
BIRU	Budget Integration and Reform Unit
BU	Budgetary Unit
DABS	Da Afghanistan Brishna Sherkat
DAD	Development Assistance Database
DFID	Department for International Development (UK)
FPU	Fiscal Policy Unit
GH	Golden Handshake
GoA	Government of Afghanistan
JCMB	Joint Coordination and Monitoring Board
LM	Line Ministry
MAIL	Ministry of Agriculture Irrigation and Livestock
MBAW	Making Budgets & Aid Work
MIS	Management Information System
MoE	Ministry of Education
MoF	Ministry of Finance
Mol	Ministry of Interior
MoPH	Ministry of Public Health
MRRD	Ministry of Rural Rehabilitation Department
MTBF	Medium Term Budget Framework
MTFF	Medium Term Fiscal Framework
NPPs	National Priority Programmes
NSDP	National Social Development Program
OBI	Open Budget Index
PB	Program Budgeting
PBU	Provincial Budgeting Unit
PEMPAL	Public Expenditure Management Peer Assisted Learning
PFM	Public Finance Management
SBPS	State Budget Planning System
UNDP	United Nations Development Programme
WG-AE	Working Group on Aid Effectiveness

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I. EXECUTIVE SUMMARY

MBAW has provided extensive support and technical assistance to the Ministry of Finance (MoF), Line Ministries (LMs) and sub-national institutions to prepare the first draft of 1392 National Budget. To ensure the 1392 budget is comprehensive and policy based, MBAW supported the Budget Department (BU) of the MoF to organize budget hearings in order to discuss and scrutinize budget allocations and ensure alignment with national development agendas.

The project also played a critical role in reviewing and filling the Open Budget Index (OBI) forms and documents to assess the budget transparency and accountability, thus contributing to the expected improvement of the Afghanistan OBI score in 1392.

As fiscal constraints and transparency within the transition period are becoming pressing concerns, MBAW budget team provided full support and expertise for the publication of the 4th quarter fiscal report which provides useful information on macro-economic projections and key economic indicators. They also contributed to the 6th budget committee meeting which presented the total government spending and revenue projections which helped to finalize the draft national budget for 1392.

Regarding NPP finalization, MBAW advisors finalized the NPP-I and NPP-II for Agriculture and Rural Development cluster to be submitted to MoF for final approval. Moreover, they drafted the three year implementation plan for National Energy Supply Program which should guarantee adequate energy supply in Afghanistan over the next years.

As part of the ongoing MBAW efforts to improve budget execution, 15 Public Financial Management (PFM) advisors were placed in selected LMs in order to strengthen the budget execution processes, performance and delivery management. As a result, the execution rate and the technical capacity of the LMs will be substantially improved.

Finally, MBAW arranged a peer-to-peer exchange with the Organization for Economic Development and Cooperation (OECD) including experts' discussion panels and exchanges on topics of importance for Afghanistan such as anti-corruption, budget planning best practices, conflict and stability, taxation, regional cooperation, development and aid effectiveness and parliamentary oversight. The MoF has also been approved as observer within the Public Expenditure Management Peer Assisted Learning (PemPal); an OECD network of public expenditure management professionals in various governments from Europe and Central Asia in which professionals benchmark their PFM systems against one another and pursue opportunities for 'peer' learning, increasingly understood to enhance knowledge transfer.

With the upcoming security transition scheduled for 2014, the GoA's ability to manage its own finances and fund sub-national structures (e.g., provincial and district departments) will be increasingly important. MBAW realizes the importance of this and is making significant contributions to increase the capacity of MoF to ensure it is ready for the responsibility in time for the transition.

II. RESULTS

Output 1: Improved Budget Planning and Management

A comprehensive, policy-based, budget, meets professional stands, supports the Afghanistan National Development Strategy (ANDS)

In order to establish a transparent and accountable national budget process that supports government priorities, MBAW provides support to MoF in strengthening budget policy and planning, enhancing budget formulation processes and improving fiscal reporting and transparency.

Budget Policy and Planning

Budget Ceilings

To improve budget planning, MBAW assisted the BD to finalize Budget Ceilings for the Medium Term Budget Framework (MTBF) for each Budget Unit (BU). Ceilings reflect policy priorities, macroeconomic trends and represent the maximum each LM/BU may spend in the upcoming fiscal year. Budget Circular II (BC2) was prepared and submitted for each BU including the agreed ceilings. This will result in aligning the national budget and the planning process to national development goals.

1392 Budget Hearings, Allocations by Program

With support from MBAW, budget hearings were held with all LMs to discuss budget allocations by programs for 1392. Participants included the BD, Ministry of Economy and LMs. The discussion focused on budget allocations aligned with ANDS and NPPs in order to appropriate funds to programs which focus on sustainable development. As a result, the draft budget is further aligned with the forecasted national development goals for 1392.

Pro-poor Spending Report

With TA from MBAW, forward analysis of impact of the 1392 budget proposals on poverty alleviation was prepared for approval and later included in 1392 budget. This analysis highlights the impact of the 1392 budget on poverty reduction and is thus used by the MoF as a key evidence based indicator to better formulate the future budget allocations and planning in order to contribute to poverty reduction goals.

Policy Paper to Cabinet

With TA from MBAW, a policy paper on Steady Budget was developed and submitted to Cabinet. It provided recommendations to Cabinet on how to minimize unnecessary and extraordinary expenses. As a result of this policy paper, the budget execution and selection of sustainable development projects will be improved.

Budget Formulation Processes

1392 National Budget Drafted

After the BC2 was successfully issued to BUs, MBAW organized training on Budget Submission Requirements for the participants from LMs. The presentations explained the new forms linking sector and ministerial objectives with financial resources allocated to each program, and expected results. The workshop also stressed on gender mainstreaming and sensitizing the budget to marginalized and vulnerable groups. As a result of this training, BUs were able to ensure equitable allocation of resources among provinces and districts, and inclusion of marginalized and vulnerable groups in the budget planning process.

The workshop resulted in detailed submission of budgets for 1392 by BUs within the limit of the approved budget ceilings. The submitted budgets included details of programs and sub-programs in narrative form with classification and prioritization of activities for both operating and development budgets. As a result, the 1392 national budget was drafted reflecting national priorities and standard budget process.

Program Budgeting

During Q3, MBAW assisted the LMs with their budget preparation in order to strengthen their programme budgeting capacity. In addition, MBAW supported BIRU to enhance control mechanisms and assessment capability, in order to minimize errors and further align the LMs spending with their performance indicators. Furthermore, BIRU delivered tailored training courses on the controls mechanisms to ensure that LMs better apply programme budgeting principles. As a result of these efforts, LM's budgets were aligned with ANDS indicators reflecting performance based budget allocations.

Budget Manuals

MBAW provided technical support to BIRU to revise the Budget Manuals to incorporate the recent PFM reforms introduced by MoF. Updates included ministerial log frames and sector specific priority outcomes which will serve as the basis for the formulation of PB components of BUs. As a result, LMs were provided with up-to-date guidance on budget processes to better plan and execute budget in line with the reforms requirements.

Budget Projections – 6th Budget Committee Meeting

As part of the standard budget process, MBAW supported the BD to conduct the 6th Budget Committee Meeting. The discussions included budgetary projections for total government spending and revenue with improved budget allocation based on available resources and consistent with GoA policies/priorities, which helped to finalize the draft national budget on time for 1392.

Standard Template - Carry Forwards

With TA from MBAW, a standard template was developed as a by-product of the Carry Forward Project reconciliation from the 1390 to 1391 budget. Sectors, going forward, will use this template to enter the final figures of carry forwards into the State Budget Planning System (SBPS). As a result, the BD will be able to factor in more accurately the carry forwards into the budget planning process.

Provincial Budgeting

With TA from MBAW, a BC2 workshop was conducted for the provincial education departments of the Ministry of Education in all 34 provinces. The workshop focused on a needs assessment and preparation of 1392 budget plans and priorities at the sub national level. As a major result of this training, draft budgets were received from 34 provincial education departments. BPU will review these submissions for compliance with budget ceilings, for comprehensive narrative sections, consistent priority issues, and service delivery objectives.

In addition, MBAW facilitated a meeting between the BD and World Bank's Education Quality Improvement Program (EQUIP) to discuss provincial budgeting for educational departments. The MoE provincial authority participation in the national budget process leads to two important outcomes: 1) a fair allocation of resources at the provincial level and 2) budgets that reflect local priorities; as a byproduct, benefits include a 'de-centralized' National Budget Formulation planning process that is both inclusive (owned by provincial authorities) and coordinated (components managed by a national authority, namely, MoF). Thanks to the MBAW provincial budgeting experts and their valuable contributions, the objectives of this meeting were fully met.

Lastly, MBAW provincial budgeting experts developed the Sub-National Policy Governance Matrix. The matrix includes O&M policy guidelines and options adapted for a sub-national level. Pilot ministries will use the matrix as one planning tool to re-orient provincial budgeting and O&M provisioning consistent with the 'locally managed, nationally coordinated' approach now in development.

Revenue & Expenditure Report

With TA from MBAW, the revenue and expenditure report for all municipalities and state owned enterprises (SOEs) was prepared. The report examines budget performance, profit and loss positions and legal status of SOEs. According to the municipality law, municipalities are required to report revenues and expenditures to

MoF for accounting purposes. As a result, the report identified the PFM weaknesses and challenges that municipalities are facing across Afghanistan and corrective actions to be undertaken accordingly.

Fiscal Reporting and Transparency

2012 Open Budget Index Review

The FPU vetted content of the Open Budget Index (OBI) questionnaires prior survey to assess improved budget transparency and accountability. The OBI measures budget transparency and accountability by looking at the quality of budget documentation made publicly available during the fiscal year.

As a result of the MBAW efforts, GoA's score compared to the 2010 OBI Review with respect to budget transparency and accountability is expected to significantly improve.

1392 Budget Statement Drafted

MBAW technically supported the FPU to complete the 1392 Budget Statement. The 1392 Budget Statement covers three components critical to public spending transparency and accountability

- Macroeconomic Outlook: including an overview, historic and current trends and three year projections based on macro indicators. The section also discusses nominal and real GDP projections, GDP growth, inflation and exchange rate.
- Fiscal Strategy and Outlook: including Medium and Long term fiscal strategy, domestic revenue performance and outlook, donor grants and loans.
- Expenditure Performance and Outlook: including operating expenditures analysis and forecasts, development expenditure analysis and forecasts, and fiscal pressures. The fiscal pressures ahead, and particularly in 1392, include: Golden Handshake, Pay and Grading Reforms, Pension, and Operations and Maintenance

This budget statement significantly contributes to the budget transparency requirements and helps improve the OBI ranking of the MoF.

Fiscal Bulletin Finalized

With TA from MBAW, the 4th quarter 1390 fiscal bulletin was uploaded in the budget website and hard copies were issued to departments and units. The bulletin provides data on macro-economic projections and improves the budget planning processes and transparency of public spending.

As a result of these macro-economic projections, citizens are equipped to have a better understanding of the country's economic performance and budget planning processes.

Pre-Budget Report

With technical support from MBAW, the pre-budget report for the fiscal year 1392 was reviewed and finalized. The pre-budget report contains economic indicators and financial forecasts and is expected to contribute to an improved Open Budget Index (OBI) for 2012, which would result in improved budget transparency and accountability.

Annual Fiscal Report

With TA from MBAW, the Annual Fiscal Report FY 1390 was published. The report covers Macro Economic Indicators, Revenues and Grants, Public Expenditures, Public Sector Borrowing and Government Debt. The report which is uploaded in the budget website provides key information on the fiscal status of the country, thus helping to improve transparency of the budget process and accountability of the budget towards citizens.

1. FINANCIALS

During Q3, a total of USD 168,429 was spent for this output. For more details, please refer to Annex 2.

2. RISKS

There are no risks to report this quarter.

3. ISSUES

▪ **Lack of accurate financial data from Municipalities**

According to the municipality law, municipalities are exempted from the Public Finance and Expenditure Management Law (PFEML) and are autonomous in conducting their PFM operations, which includes the collection of revenues, carrying out procurements and commitments and disbursement of funds. Nevertheless, municipalities are obliged to submit their revenue and expenditure reports to Ministry of Finance to be consolidated in the Annual Budget Report. However, Municipalities are unable to provide accurate, consistent, detailed financial reports covering activities and sub-categories of revenues and expenditures. This poses a major challenge to the quality of MoF's reporting and analysis. To mitigate this problem, the Budget Department will conduct working seminars for municipal officers on financial reporting requirements.

▪ **Donor reluctance in funding MoF for Provincial Budgeting:**

The donors' decision to channel more aid through the core budget depends on an improved disbursement rate at the provincial level and an improved budget execution rate meeting expectations for a less than eight percent gap between budget allotment and expenditures on an annual basis. MBAW has heavily invested into capacity transfer and development at provincial level to enable them to prepare and execute budgets by taking into account local priorities and needs. However, these efforts could be undermined by lack of funding which remains critical to pursue sub-national financing reforms.

MBAW sub-national budgeting experts are currently drafting a sub-national financing paper to agree on a funding mechanism within the existing PFM legislation and hopefully reach a consensus within the donors' community to allocate funds for sub-national financing initiatives.

4. FUTURE PLAN

- Preparation of 1392 Budget Documents
- Submission of Final 1392 Budget to Budget Committee
- Submission of 1392 Annual Budget Document to Cabinet
- Annual review of the Budget Manuals as per the new mandates of the Budget Department
- Finalize and reach consensus on the sub-national financing policy
- Stakeholder Analysis for Provincial Budgeting and O&M Policy Instruments
- Capacity Development workshops on provincial budgeting for all 34 provinces

OUTPUT 2: Improved Policy and Strategy Development including Aid Coordination

(External assistance aligned and aid effectiveness improved consistent with Afghanistan development goals and strategy)

In order to align external assistance with national priorities, MBAW supports MoF to improve aid effectiveness and aid coordination policy and effective implementation and monitoring of the NPPs.

Aid Effectiveness and Aid Coordination Policy

Strengthen Grant and Loan Agreements

MBAW, in close coordination with LMs, reviewed three grant agreements for compliance with aid effectiveness criteria and alignment with GoA priorities. Grant and loan agreements help improve aid coordination, predicting aid flows and directing money to those programs that directly contribute towards NPPs.

Mutual Accountability Framework

Among many documents supporting aid objectives, MAF stands out as a critical document insofar as it was signed by both the GoA and the donors, and by which both sides hold themselves accountable for their respective responsibilities i.e. ensuring financial support beyond 2014 and that donor funds are well aligned with aid effectiveness principles and spent in a fair and transparent manner for realizing national priorities. The policy experts from MBAW prepared key strategic documents and policy papers which resulted in the further alignment of the aid with key development priorities based on mutual accountability principles.

Effective Implementation and Monitoring of NPPs

Development, Improvement and prioritization of remaining NPPs

NPP-I and NPP-II were revised and submitted to MoF. The revised NPPs incorporated the changes proposed by MoWA on gender and by MCN on the Food Zone Program.

In addition, the MBAW ARD cluster advisor prepared the Strategic Vision document which lays out a clear vision of the ARD cluster in the long run and also articulates national wide goals and objectives of the overall NPP. The document attempts to foster coordination between the cluster ministries on the design and implementation of NPPs.

The MBAW Infrastructure Cluster Advisor in close coordination with Ministry of Energy and Water, finalized the three year implementation plan for National Energy Supply Program. The three-year plan awaits approval by the Deputy Minister for Energy and DABS. The program aims to ensure the generation of energy and equal distribution of power to all citizens of the country.

Four out of six remaining NPPs have been finalized to be presented at the next JCMB meeting for endorsement.

Cluster	NPP	Endorsed/Not	(√)/(x)
Security	Peace and Reintegration	√	
HRD	Higher Education	√	Women Affairs √
	Education for All	√	Health for all Afghans √
	Skills Development and Labor	√	
ID	National Regional Re-source	√	National Energy Program x
	Extractive Industries	√	Urban Development √

PSD	E-Afghanistan	✓	Trade Facilitation and SME	✓
Gov	Economic and Financial Reform	✓	Local Governance	✓
	Transparency and Accountability	×	Justice for All	×
	Efficient and Effective Government	×	Human Rights	✓
ARD	Water and Natural Re-source Management	×	Natural Rural Access Program	✓
	Comprehensive Agriculture	×	Strengthening Local Institutions	✓

GoA Action Plans for Tokyo Commitments

Contingent funding for NPPs requires GoA first to fulfil its Tokyo commitments. TA focused on drafting of action plans and indicators within the TMAF framework.

As part of the ongoing monitoring of the NPPs, MBAW supported the Policy Department of MoF to produce quantitative reports for the NPPs as managed through following programs/facilities:

- Trade & SME Support Facility
- Fiscal and Economic Reforms
- Human Rights and Civic Responsibility
- National Program for Local Governance and Law and Justice
- National Regional Resources Corridor Initiative

Each of the 120-day monitoring reports highlighted planned activities and the NPP achievements. As a result of these monitoring reports, the Policy Department was able to revise the Governance action plan and deliverables. The 120 day monitoring reports can be accessed through: www.thekabulprocess.gov.af

In addition, the M&E unit with TA from MBAW compiled all relevant policy department progress reports into one comprehensive report to define baseline and targets of ANDS, CTAP, JCMB and PAD for the period of first quarter of 1391. The consolidated report will enable to measure the achievements of ANDS sector strategy objectives and outputs. The report includes six clusters and 22 NPPs.

With TA from MBAW, the M&E Unit of MoF Policy Department finalized the quantitative and qualitative assessment reports for the PFM Road Map - 6th and 7th planning rounds. The report is a key document supporting NPP-1 gains and leveraging these with the international community as basis for channeling additional resources through the National Budget Process. Important discussions were held with Legal Advisors of the US Embassy to discuss: case management system of justice institutions, development of infrastructure for justice institutions at the provincial level and the prison tracking system. In addition, similar discussions were held with justice institutions to discuss the Tokyo Framework commitments, implementation, action plan and indicators.

During Q3, a communication strategy for the policy department was finalized and submitted to DM Policy for approval. The strategy aims to identify and achieve communication objectives, engagement of relevant stakeholders and channeling of information through proper channels. The communication team also authored a success story on Private Sector Development.

1. FINANCIALS

During Q3, a total of USD 480,312 was spent for this output. For more details, please refer to Annex 2.

2. RISKS

There are no reported risks in Q3.

3. ISSUES

- **Contrasting Viewpoints on Aid Management Policy**

AMD continues to solicit feedback on the draft Aid Management Policy to ensure the final document reflects a consensus regarding all priorities and issues identified by DPs; however, significant disagreements remain among DPs. With TA from MBAW, AMD is organizing high level meetings with DP representatives in an effort to mediate compromise(s) as necessary. The issue is hindering the planned deliverables of the project to finalize and adopt the Aid Management Policy which aims to align external funding with the national development goals and increase aid flows through the government PFM systems.

- **Busan - 'New Deal' but no detail**

At its core, the 'New Deal' for DPs commitment focuses on peace-building and state-building goals but lacks details which, based on the agreement, will come from GoA. GoA has, in principle, achieved a degree of control over the implementation of aid spending consistent with long standing ANDS and NPP objectives, and now needs to focus on following through the very issues (aid coordination) which have proven difficult in the past. To mitigate the issue, MBAW is regularly providing technical support to AMD to actively participate in New Deal global and national meetings. They are regularly meeting up with DFID and Netherlands, donor pilots for New Deal implementation in Afghanistan, to understand how PSGs can be better articulated through NPPs.

- **Funding Gaps for NPP Implementation**

Despite the international community commitment at the London Conference to channel 50 percent of development assistance through the national budget within two years, and to align 80 percent of total assistance with Afghan priorities defined by the NPPs, development assistance delivered through the budget has declined and the NPPs endorsed by the JCMB remain underfunded. The Policy and Aid Management Directorate is on a 'recovery track' to ensure these goals can be met by 2014. The GoA acknowledges that the failure of the Kabul Bank and the subsequent delay to agreement with the IMF complicated achievement of these goals. Together with GoA, LMs and donors, MBAW continue to explore options that enable funding of Afghan institutions while their capacity grows.

4. FUTURE PLANS

- Finalize and publish DCR in three languages
- Publish Newsletter for the Q2 of 1391
- Incorporate comments received from DPs on the AMP
- Evaluation of action plans and reports received from the ARD Cluster Ministries,
- Submission of NPPII to JCMB for endorsement
- Generate 120 days Quantitative Report for the remaining NPPs
- Complete preparation of consolidated progress report of NPPs
- Development of M&E database
- Develop F&Q for the Kabul Process
- Success story on Governance Cluster
- Finalization and endorsement of the Aid Management Policy at the 19th JCMB
- Improving usage of Donor Assistance Database (DAD) by donors

- Endorsement of the remaining five NPPs at the upcoming 19th JCMB
- Supporting implementation of NPP with greater engagement from UNDP

OUTPUT 3: Budget Delivery and Sustainable institutional capacity built within MoF and other Government of Afghanistan institutions

Strengthening Budget Delivery

Weekly and monthly monitoring of budget execution reports are continuously updated and made available to the public through the www.budgetmof.gov.af website. On a regular basis, MBAW coordinates with LMs providing technical guidance and consultation in improving the budget. During Q3, the BD with TA from MBAW, prepared a consolidated budget execution report for the first quarter of FY 1391 and submitted it to Parliament. As a result, budget execution processes of the LMs are strengthened.

MBAW also provided training for 309 civil servants from LMs (14% female) in simplified budget execution and integration procedures which aimed to reduce time, mistakes, and speed processing for LMs, Sectors and Budget Execution Units. Key reforms such as Program Budgeting, Performance Reporting, Financial Planning, Provincial Budgeting were presented at the trainings, which will better equip the BUs to implement these reforms and apply the lessons learnt presented in the workshop.

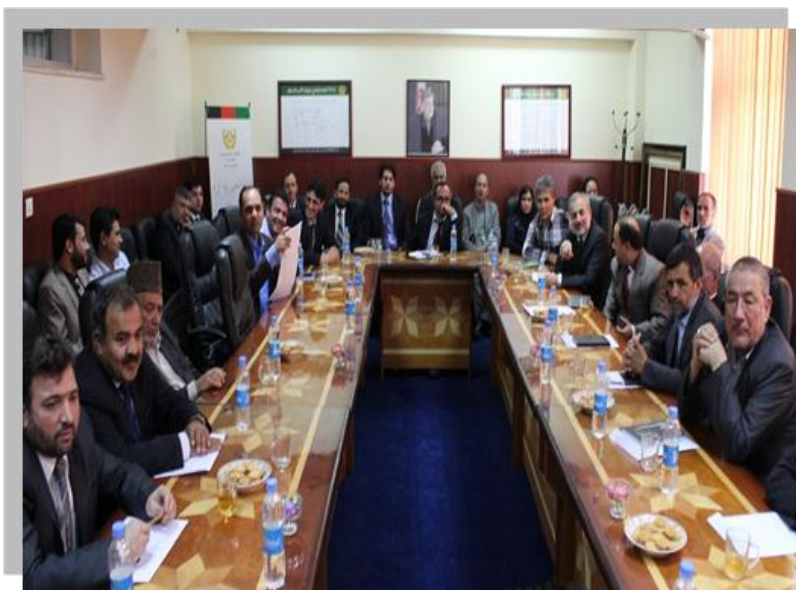


Figure 1: The PFM Advisors introduction event conducted in August 2012 at Ministry of Finance. During the event, H.E Mustafa Mastoor, Deputy Minister for Finance formally introduced PFM advisors to the line ministries. Credit: MBAW/UNDP

Fifteen PFM Advisors have been seconded to nine LMs to help develop policies/ strategies related to improve budget preparation and execution processes. Before introducing to LMs, these advisors were oriented on MoF reform agenda, UNDP methodology for conducting capacity assessments and key PFM issues previously identified by LMs. The advisors own performance will be evaluated using a set of key performance indicators as agreed with stakeholders.

Capacity Building of MoF & LMs

Development Assistance Database (DAD)

DAD will be the sole repository of information on foreign aid within the GoA. The upgrade of the DAD enables it to provide additional critical functions that improve reporting and tracking of donor aid.

MBAW provided training on DAD upgrade for staff which will result in improvement of individual capacity within the Budget team. The training focused on data entry forms, system integration with SBPS, and a new reporting module, supplemented with a manual which outlines system rules and responsibilities for Budget Department units.

Integrated Capacity Development Plan for Uruzgan Province

As part of the capacity development efforts at sub-national level, MBAW supported Provincial Budgeting Unit to draft an integrated capacity development plan in coordination with IDLG, IARCSC and GIZ. As a result of this effort, coordination and communication of capacity development activities at Uruzgan province from different ministries and organizations will be improved.



Figure 2: The delegation from Afghan Parliament, Ministry of Finance and Ministry of Economy meets with the former French Minister of Finance, Mr. Gaymard on September 24, 2012, Paris, France. Credit: MBAW/UNDP

Regional, South-South cooperation and peer exchange

MBAW's initiative with Paris-based Organization for Economic Co-operation and Development (OECD) continues to build a foundation for an independent research and analysis capacity within the MoF 1) through technical peer exchanges 2) by establishing links with European and regional counterparts, principally through working relationship with OECD, and based on this relationship, 3) to establish research partnerships with leading academic and intergovernmental institutions 'think tanks' and similar organizations.

Peer-to-Peer exchange (September 24-28, 2012) featured technical presentations and discussion on topics including anti-corruption, budget planning/management/accountability, conflict-and-stability, development-and-aid effectiveness, parliamentary oversight, regional cooperation, taxation and urban-rural linkage. The Afghan delegation included three members of the Afghan parliament with budget oversight responsibility who met with French National Assembly and Senate counterparts. As a result of this intensive exchange program, the ministerial members of the delegation will be able to use the knowledge gained to prepare and defend their positions at parliamentary hearings, while members of the parliament will be able to improve their budget oversight role on the government.

Lee Kuan Yew School of Public Policy Study Tour

The tour at the National University of Singapore focused on successful national development initiatives and results-based management strategies, approaches, and systems, highlighting examples from Singapore,

Vietnam, and the Philippines. Discussions included fiscal policy and budgeting, principles of public finance, fiscal discipline, budgeting, accounting, performance management, corruption control, managing revenues, expenditure and debt, tax administration. As a result participants will use the knowledge gained in their daily environment in order to improve PFM processes.

Strategic partnership established with OECD PFM network

The board of the Public Expenditure Management Peer Assisted Learning (PEMPAL) OECD network (www.pempal.org) officially approved MoF and GoA participation as a plenary meeting observer, a first step towards PEMPAL membership. Participation in the PemPal network of public expenditure management professionals throughout Europe and Central Asia (ECA) will enable MoF to benchmark its PFM system against other neighboring countries; and afford opportunities for peer learning and knowledge transfer.

Learning and development: trainings, workshops and Seminars

- Master of Public Administration degree programme- Consistent with the project's research and analysis focus, MBAW is working to establish a tailored Master programme on public administration with foreign universities but delivered in Kabul. Preliminary discussions have also been held with the Afghan Civil Service Institute to ensure local knowledge transfer and sustainable educational model are developed.
- O&M and Asset Management- Training stressed guidance for sound asset management in annual budgeting for sub-national accounts. 300 officials from LMs attended the trainings.
- CD methodology/framework- MBAW managers and Policy Clusters advisors learned how to 1) adopt a comprehensive and consistent approach to capacity development within MBAW and 2) to monitor and evaluate MBAW capacity development activities in a more consistent and results oriented approach.
- Results Based Management- Training for 20 Budget and Policy department officials focused on improving the reporting skills of the participants and emphasized the 'theory of change' as key component of the change process.
- M&E Capacity Development- PFM Advisors introduced with guidance and tools to monitor and evaluate capacity development efforts within their respective LMs.

1. FINANCIALS

During Q3, a total of USD 489,216 was spent for this output. For more details, please refer to Annex 2.

2. RISKS

There are no reported risks in Q3.

3. ISSUES

Duplication and overlap of capacity development efforts with other donors' projects

To mitigate this issue, the CD Advisor is currently working on a CD coordination working group within the Budget Department, as suggested into the CD plan. This CD working group, once endorsed and supported by DG Budget, should address this problem through an effective coordinated and collaborative approach.

4. FUTURE PLAN

- Conduct orientation seminar on DAD for donors
- Improve Budget Execution rate of LMs

- Organize tailored training programmes for LMs
- Identify civil servants within LMs willing to be trained as future trainers and to be identified as 'drivers of change'
- Place remaining PFM Advisors in LMs
- Conduct provincial budgeting workshops in northern and westerns regions start tailored Master programme selection and enrollment procedure
- Organize peer-to-peer exchange in Malaysia
- Organize targeted training courses for LM and MoF staff
- Monitor and report major capacity changes introduced to MoF and LMs
- Formalize collaboration with MoF HR department

III.ANNEXES

A. ANNEX 1: FINANCIAL TABLE

Donor	REVENUE					EXPENSES AND COMMITMENTS				BALANCE
	Commitment (a)	Total Received (b)	Total Receivable c=(a-b)	Carry Over (d)	Total Resources e (b+d)	Cumulative Expenses as of June 2012 (f)	Total Expenses (July - Sep 2012) (g)	Commit ments (h)	Total Expenses & Commitments i = (f + g+h)	Balance j=(e-i)
Japan	10,000,000	10,000,000	-		10,000,000	2,443,049	1,295,398	455,029	4,193,475.68	5,806,524.32
Grand Total	10,000,000	10,000,000	-	-		2,443,049	1,295,398	455,029	4,193,475.68	5,806,524.32

Note:

i) Cumulative expenses as of June 2012 is actual (column f)

ii) Expenses reported for the accounting period of July to September 2012 is provisional.

iii) Income received in currency other than USD is approximated to USD based on UN- Operational Rate of Exchange applied.

B. ANNEX 2: EXPENSES BY OUTPUT

Project Output	2012 Budget (AWP)	Expenses (July-Sep. 2012)	Cumulative expenses (Jan-Sep. 2012)	Delivery Rate	Remarks
Output 1 (Output ID 00081414) Improved Budget planning and management (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	1,313,294	157,410	643,603.52	669,691	
General Management Service (GMS) Fee (7%)	91,931	11,019	45,052	46,878	
Sub-total Output 1	1,405,225	168,429	688,656	716,569	49%
Output 2 (Output ID 00081415): National Policy and Strategy Development and Coordination of External assistance aligned with Paris Declaration and ANDS implementation improved	2,263,000	448,890	1220140.96	1,042,859	
General Management Service (GMS) Fee (7%)	158,410	31,422	85,410	73,000	
Sub-total Output 2	2,421,410	480,312	1,305,551	1,115,859	46%
Output 3 (Output ID 00081439): Improved Budget Execution and delivery management and sustainable institutional Capacity developed at MoF and Govt. institutions	5,176,500	457,211	1101969.63	4,074,530	
General Management Service (GMS) Fee (7%)	362,355	32,005	77,138	285,217	
Sub-total Output 3	5,538,855	489,216	1,179,108	4,359,748	79%
Output 4 (Output ID 00056407): Technical Assistance and Management Cost (Project Support Costs)	593,000	147,141	528161.06	64,839	
General Management Service (GMS) Fee (7%)	41,510	10,300	36,971	4,539	
Sub-total Output 4	634,510	157,441	565,132	69,378	89%
Grand Total	10,000,000	1,295,398	3,738,446	6,261,554	37%

C. ANNEX 3: EXPENSES BY DONOR

Donor	Project Output	2012 Budget (AWP)	Expenses (July-Sep. 2012)	Cumulative expenses (Jan-Sep. 2012)	Balance	Delivery Rates
Japan-00141	Output 1 (Output ID 00081414) Improved Budget planning and management (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	1,313,294	157,410	643,604	669,691	
	General Management Service (GMS) Fee (7%)	91,931	11,019	45,052	46,878	
Sub-Total		1,405,225	168,429	688,656	716,569	49%
Japan-00141	Output 2 (Output ID 00081415): National Policy and Strategy Development and Coordination of External assistance aligned with Paris Declaration and ANDS implementation improved	2,263,000	448,890	1,220,141	1,042,859	
	General Management Service (GMS) Fee (7%)	158,410	31,422	85,410	73,000	
Sub-Total		2,421,410	480,312	1,305,551	1,115,859	46%
Japan-00141	Output 3 (Output ID 00081439): Improved Budget Execution and delivery management and sustainable institutional Capacity developed at MoF and Govt. institutions	5,176,500	457,211	1,101,970	4,074,530	
	General Management Service (GMS) Fee (7%)	362,355	32,005	77,138	285,217	
Sub-Total		5,538,855	489,216	1,179,108	4,359,748	79%
Japan-00141	Output 4 (Output ID 00056407): Technical Assistance and Management Cost (Project Support Costs)	593,000	147,141	528,161	64,839	
	General Management Service (GMS) Fee (7%)	41,510	10,300	36,971	4,539	
Sub-Total		634,510	157,441	565,132	69,378	89%
Grand Total		10,000,000	1,295,398	3,738,446	6,261,554	37%

D. ANNEX 4: ACTIVITY

Output 1: Improved Budget Planning and Management

(The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)

ACTIVITY RESULT	DESCRIPTION OF RESULTS/ACHIEVEMENTS	%OF PROGRESS RATE/ DELIVERY
Activity Result 1.1: Budget Policy: planning processes linked to ANDS priorities	Budget Department MTBF. Budget ceilings established for each ministry Budget Unit for next fiscal year and serve as basis for Budget Circular II. Policy priorities and macroeconomic trends factors in establishing ceilings.	100% MTBF and MTFF finalized. MTBF for 1392-1394 approved.
	Budget Department conducted BC2 workshop for all BUs. Policies supportive of gender and marginalized and vulnerable groups stressed as budget criteria.	Completed
	1392 Budget hearings Chaired by Deputy Minister of Finance. Representatives from MoF Budget Department, Ministry of Economy and LMs attended. Revised budget submissions follow discussions/ decisions taken at hearings.	Completed
	Fiscal Policy Unit reviewed and finalized the pre-budget report for the fiscal year 1392. The report will contribute to an improved Open Budget Index (OBI)	Completed
Activity Result 1.2: Budget formulation processes strengthened	Sub-national Policy Governance Matrix developed which includes O&M policy guidelines and options adapted for a sub-national level.	Completed
Activity 1.3: Budget and fiscal policy monitoring and reporting strengthened	Fiscal Policy Unit (FPU) vetted content of Open Budget Index (OBI) questionnaires prior survey to assess improved Budget Transparency and Accountability. The OBI measures release and quality of budget documentation made publicly available during the fiscal year. FPU expects to improve GoA's score compared to the 2010 OBI Review due to the release of the draft 1390 Budget Statement and the Pre Budget Report with the planned publication of Citizens Budget and other important budget documents to follow.	80%
	FPU completed drafting the 1392 Budget Statement which covers important sections on Macroeconomic Outlook, Fiscal Strategy and Expenditure Performance. The three components are critical to the transparency and accountability public spending.	90%

	The 4 th quarter 1390 fiscal bulletin was uploaded in the budget website and hard copies were issued to departments and units. The bulletin provides data on macro-economic projections and improves the budget planning processes and transparency of public spending.	100%
	Diplomats Salary Scale FY 1391 finalized for MoFA and Administrative Affairs. The new scale for both diplomats and local staff will be effective after approval from the President's Office. Golden Handshake (GH) scheme reviewed. In accordance with President Decree no. 45, FPU revised its assumption for the accurate costing purposes on GH for 1392 budget implementation. FPU will provide economic and financial analysis and costing the reform.	90%

Output 2: Improved Policy and Strategy Development including Aid Coordination

(Alignment of external assistance and improved aid effectiveness to support Afghanistan development goals and strategy)

ACTIVITY RESULT	DESCRIPTION OF RESULTS/ACHIEVEMENTS	% OF PROGRESS RATE/DELIVERY
Activity Result 2.1 Alignment of and improved coordination of External Funding in line with Paris Declaration, Kabul Communiqué to support ANDS implementation	The MBAW is supporting the Aid Management Directorate (AMD) to take forward the New Deal commitments at the National and Global Level by actively participating in international and national working group meetings. During Q3, MBAW staff working in the AMD participated in the G7+ meetings in September 2012 in New York with the UN Peace building Support Office and the International Peace Institute Policy Forum.	50%
	MBAW helped finalize the Development Cooperation Report (DCR). The report includes: Aid Management Policy, the progress on Kabul Process to date, National Priority Programs and their status, introduction to international conferences on Afghanistan and aid effectiveness such as Kabul, London, Boon II, Busan and Tokyo conferences.	90% ongoing
	During the Q3, the AMD has drafted the newsletter for the second quarter of 1391 which is expected to be finalized and published at the end of October 2012. The MBAW provided support in selecting the topics, conducting analysis, writing the content and designing the layout of the newsletter.	80%
Activity Result 2.2: The prioritization of the ANDs sectors achieved through the formulation of the NPPs	During the third quarter, the MBAW ARD cluster revised NPP-II to incorporate the changes proposed by MoWA on gender and MCN on including an exclusive component under Food Zone Program. The final draft of the NPPII was submitted to MoF for approval and further proceedings.	The following NPPs were endorsed reducing the number of remaining NPPs to only six: 1. Local Governance
Activity Result 2.3: Sectoral Programming is guided by priority needs in each ANDS Sector with an	With assistance from MBAW, PFM Road Map-6th round Quantitative and Qualitative Assessments Reporting finalized. This will help in reflecting the progress of NPP-1 to the international community and government authorities, advocacy, trust building between	

<p>eye to fiscal sustainability; and donor financing secured for NPPs implementation</p> <p>Activity Result 2.6: The Policy Department developed enhanced capacity to facilitate preparation and implementation of the NPPs, manage and coordinate the ANDS (including NPPs) process, implementation and results</p>	<p>government and international community, paving the way for channeling the resources through the National Budget.</p>	<p>Program 2 Facilitation of Sustainable Decent Work through Skills Development and Employment Policies for Job-Rich Growth</p> <p>3. NPP5: Health for All Afghans</p> <p>4. NPP4: Urban Management Support Program</p> <p>5. NPP4: Strengthening Local Institutions Program</p>
	<p>MBAW also supported the Policy Department to finalize the 7th round planning for NPP-1; PFM Road Map. This will help to track the progress under the PFM Road Map with NPP-1 under the Kabul process.</p>	
	<p>The MBAW Infrastructure Cluster Advisor in close coordination with Ministry of Energy and Water finalized the three year implementation plan for National Energy Supply Program. The implementation plan is now awaiting approval by the Deputy Minister for Energy and DABS.</p>	
	<p>MBAW provided support to MoF's Department of Policy to prepare action plans for all clusters based on the commitments made at the Tokyo conference by the Government of Afghanistan.</p>	
<p>Activity Result 2.4: Effective monitoring system is established and implemented to measure achievement of ANDS sector strategy objectives and outputs and adjustments to policies/strategies made, based on monitoring results</p>	<p>The Monitoring and Evaluation Unit (M&E) of Policy Department with support from MBAW produced the Private Sector Development 120 days quantitative report for Trade and SME Support Facility Program.</p>	Completed
	<p>M&E unit with support from MBAW generated the Governance Cluster and Infrastructure Development Sector 120 days Quantitative Report for programs Fiscal and Economic Reforms, Human Rights and Civic Responsibility, National Program for Local Governance and Law and Justice for all under Governance cluster and National Regional Resources Corridor Initiative program under Infrastructure cluster.</p>	Completed
<p>Activity Result 2.5: Strategic Communications Unit improved its ability to support the delivery of effective messaging on ANDS sector goals, objectives and achievements.</p>	<p>During the quarter, communication strategy for policy department was finalized and submitted to DM Policy for approval. The strategy aims to identify and achieve communication objectives, engagement of relevant stakeholders and channeling of information through proper channels.</p>	Ongoing

Output 3: Strengthened Budget Execution Processes and enhanced budget execution delivery

ACTIVITY RESULT	DESCRIPTION OF RESULTS/ACHIEVEMENTS	% OF PROGRESS RATE/DELIVERY
Activity Result 3.1: Strengthened Budget Execution Processes and enhanced budget execution delivery	During the reporting period, Budget Department prepared a consolidated budget execution report for the first quarter of FY 1391 and submitted to Parliament. The report measures the performance of the LMs against the intended indicators and budget.	Completed

	MBAW Sector managers prepared Top 50 projects and discussed with the Deputy Minister for Finance. Top 50 projects is counting more than 61% of the total development projects, therefore the strictly follow up and monitoring of it, will enable the government to timely implement their projects and finally will increase the budget execution.	90%
	MBAW completed recruitment of 15 PFM Advisors who have been seconded to select LMs to help in policies/strategy development for improvement of budget execution performance and delivery management, develop capacity of LMs/institutions and help them in budget preparation and execution processes, provide direct mentoring and on the job training/coaching for LM officials and oversight activities and ensure facilitation of knowledge building and knowledge sharing. The advisors were officially introduced to LM senior officials by the Deputy Minister of Finance. A detailed inception report highlighting major areas of reform will be submitted by the advisors in the coming week.	90% The remainder PFM advisors (already recruited) are to be introduced to LMs by MoF.
Activity Result 3.2: Sustainable institutional technical capacity developed and retained within the public finance sector, particularly within the Ministry of Finance and Line Ministries	With TA from MBAW, the Provincial Budgeting Unit (PBU) finalized the integrated capacity development plan for Uruzgan province in close coordination with IDLG, IARCSC and GIZ. The effort is aimed to enhance communication and coordination on capacity building activities from different ministries and organizations at Uruzgan province.	Completed
	MBAW supported Budget Department to organize a study visit to Organization for Economic Cooperation and Development (OECD) from September 23-30, 2012. Delegation that consisted officials from Afghan Parliament, MoF and MoE actively participated in OECD networks, community of practices and research/working groups on relevant subjects of interest (aid effectiveness, PFM, anti-corruption, taxation, etc.) and thus learn from other countries experience and improve the MoF/GoA on the international scene. Secondly, visit has helped to develop collaboration and partnership with French educational institution (ENA) and French Government in view of internships and experts placement.	Completed

E. ANNEX 5: RISK LOG

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Management response	Owner	Submitted , updated	Last Update	Status
1	Donor funding to reduce after 2014 impacting stability and economic growth and infrastructure a	January 2012	Economic and Social	The WB 2012 Report shows that the GOA will continue to need donor funding after the Transition period to ensure the country is well stabilized both economically and politically and that the Government's institutional capacity is developed to implement programs. With no committed donor funding beyond 2014, will affect the GOA and the growth momentum reached because of donor support will be curtailed.	The MBAW is providing TA to the Aid Management Directorate of MoF to negotiate with donors on future funding. It does this by actively participation in the Development Cooperation Dialogues and Core Donor Consultations	Aid Management Unit	January 2012	March 2012	Ongoing

2	Challenges to Transition and Transformation . Analytical work for the Bonn Conference (Dec 2011) projected a persistent financing gap after the 2014 transition, as expenditures grow faster than revenues.	April 2012	Economic and Social	Continued funding gaps for security, challenges on Government absorptive capacity affecting budget execution rates and delivery mechanism for aid after 2014, need for progress with governance reforms and institution building and fiscal sustainability – will impact negatively the Transition phase. These could limit prospects for the private sector investment, economic growth, job creation and poverty reduction and inclusiveness.	The approach the MBAW engages to strengthen service delivery in the country, is focused on improving line ministries' capacity to execute their budget. It helps LMs through MoF's budgetary Units in the preparation of project design, program costing and expenditure analysis and monitoring. The MBAW is providing technical assistance to MoF's Performance Evaluation and Reporting Unit in establishing monitoring mechanisms in LMs and helping them in analysis of actual expenditures, identification of key issues or the provision of recommendations to remove obstacles.	MoF and Government	April 2012	June 2012	Ongoing
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3	Poor coordination and collaboration among Capacity Development Plans of Donors supporting MoF	January 2012	Organizational	Multiple and uncoordinated Capacity Development Plans will make MoF inefficient in achieving its targets. CD plans are crucial as we are approaching the Transition deadline. Dissimilar plans will mean institutional capacity will not be developed in time by 2014 when fiscal tightening is most likely to take place and foreign troops will leave the country. This will mean MoF will have to manage on its with poor donor resources in achieving in reaching its targets which require skilled national staff and sound organizational capacity.	The MBAW in close consultation with the Budget Department and Donors is ensuring that existing and future capacity development plans are well aligned and with each other	Budget Department	January 2012	March 2012	
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F. ANNEX 6: ISSUE LOG

S/N	Type	Date Identified	Description	Status/Priority
1	Organizational	September 2012	Lack of accurate financial data from Municipalities According to the municipality law, municipalities are exempted from the Public Finance and Expenditure Management Law (PFEML) and are autonomous in conducting their PFM operations, which includes revenue collection, procurements and commitments and disbursement of funds. Nevertheless, municipalities are obliged to submit their revenue and expenditure reports to Ministry of Finance to be consolidated in the Annual Budget Report. Municipalities are unable to provide accurate, consistent, detailed financial reports covering activities and sub-categories of revenues and expenditures thereby compromising overall quality of MoF data analysis.	Medium
2	Organizational	September 2012	Donor reluctance in funding MoF for Provincial Budgeting MoF is seeking donor 'buy in' for additional funding for provincial budgeting contrary to the donors' decision to channel new resources through the core budget which, in turn, is contingent upon the disbursement rate of the provinces. MBAW Project is working closely with MoF and the Provincial Budgeting Unit to find new funding to improve the budget execution rate of development and operating budget and reducing the gap between budget allotments and expenditures to eight percent or less on an annual basis.	High
3	Organizational	August 2012	Differing Viewpoints on Aid Management Policy AMD continues to solicit feedback on the draft Aid Management Policy to ensure the final document reflects a consensus regarding all priorities and issues identified by DPs; however, significant disagreements remain among DPs. With TA from MBAW, AMD is organizing high level meetings with DP representatives in an effort to mediate compromise(s) as necessary. The issue is hindering the planned deliverables of the project to finalize and adopt the Aid Management Policy which aims to align external funding with the national development goals and increase aid flows through the government PFM systems.	Medium
4	organizational	April 2012	Busan - 'New Deal' but no detail The 'New Deal' for Development Partner commitment focuses on peace-building and state-building goals but lacks detail which, based on the agreement, will come from GoA. GoA has, in principle, achieved a degree of control over the implementation of aid spending consistent with long standing ANDS and NPP objectives, and now needs to focus on follow through concerning the very issues (aid coordination) which have proven	High

			difficult in the past. Global and national meetings on details and implementation with lead agencies (UK/DFID and Netherlands) continue.	
5	Organizational	May 2012	<p>Absorptive capacity may limit development budget execution rate attainment:</p> <p>Development budget execution increased from 39 last year to only around 49 percent, an increase capped largely due to capacity constraints, unrealistic budgets, donor earmarking, and funding delays. These challenges, while being addressed as actions and targets outlined in the PFM road map, still persist mainly because 1) budget execution varies across LMs and 2) improving budget execution requires building capacity across LMs so as to effect better project preparation and management. Rate attainment will depend upon 1) 10 percent or higher improvement in 'absorption capacity' consistent with the Kabul Communiqué PFM target and 2) any similar capacity constraints or lack of suitable instruments on donors' side.</p>	Medium
6	Organizational	May 2012	<p>Funding Gaps for NPP Implementation</p> <p>Despite the international community commitment at the London Conference to channel 50 percent of development assistance through the national budget within two years, and to align 80 percent of total assistance with Afghan priorities defined by the NPPs, development assistance delivered through the budget has declined and the NPPs endorsed by the JCMB remain underfunded. The Policy and Aid Management Directorate is on a 'recovery track' to ensure these goals can be met by 2014. The GoA acknowledges that the failure of the Kabul Bank and the subsequent delay to agreement with the IMF complicated achievement of these goals. Together with GoA, LMs and donors, MBAW continue to explore options that enable funding of Afghan institutions while their capacity grows.</p>	Medium
7	Organizational	September 2012	<p>Duplication and overlap of capacity development efforts with other donors' projects</p> <p>To mitigate this issue, the CD Advisor is currently working on a CD coordination working group within the Budget Department, as suggested into the CD plan. This CD working group, once endorsed and supported by DG Budget, should address this problem through an effective coordinated and collaborative approach.</p>	Medium

G. ANNEX 7: GRANT AND LOAN

- Amendment to increase US\$ 13 million in ARTF Grant TF010024 for “Second Public Financial Management Reform Project”
- Amendment to IDA financing agreement H225 for “Afghanistan Urban Water Sector Project” to extend the closing date to June 30, 2014 and revised the budget categories
- A grant agreement for the project “Afghanistan Rural Access Project” amounting to US\$ 125 million