



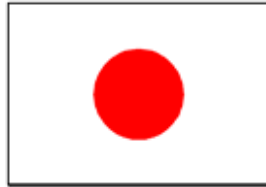
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MAKING BUDGETS AND AID WORK

2013 3rd QUARTERLY PROJECT PROGRESS REPORT



DONORS



JAPAN



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PROJECT INFORMATION

Project ID: 00047111

Duration: 2007 – 2013

ANDS Component: Good Governance

Contributing to NPP: NPP1 PFM Roadmap

CPAP Component: The state has improved ability to deliver services to foster human development and elected bodies have greater oversight capacity

UNDP Strategic Plan Component: Strengthening accountable and responsive governing Institutions:

Total Budget: \$6.4 million

Implementing Partner: Ministry of Finance

Key Responsible Parties: Policy Department and Budget Department of the Ministry of Finance and UNDP

Project Manager: Maiwand Akbari

Responsible Assistant Country Director: Masood Amer

COVER PAGE PHOTO: National Budget Hearing for the Ministry of Information and Culture, conducted by the MoF with technical assistance of the project

ACRONYMS

AMD	Aid Management Directorate
AMP	Aid Management Policy
ANDS	Afghanistan National Development Strategy
BCI	Budget Circular I
BCII	Budget Circular II
BU	Budgetary Unit
DAD	Development Assistance Database
DGB	Directorate General Budget of the Ministry of Finance
GoA	Government of Islamic Republic of Afghanistan
GRB	Gender Responsive Budgeting
JCMB	Joint Coordination and Monitoring Board
LMs	Line Ministries
MBAW	Making Budgets & Aid Work
MoE	Ministry of Education
MoEc	Ministry of Economy
MoF	Ministry of Finance
MTBF	Medium Term Budget Framework
MTFF	Medium Term Fiscal Framework
NPPs	National Priority Programmes
OBI	Open Budget Index
O&M	Operations and Maintenance
PB	Program Budgeting
PBU	Provincial Budgeting Unit
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
SBPS	State Budget Planning System
TMAF	Tokyo Mutual Accountability Framework
UNDP	United Nations Development Programme

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I. EXECUTIVE SUMMARY

The project made substantial progress over this quarter in all its three major outputs and the Public Financial Management capacity of the Ministry of Finance was assessed by the latest Public Expenditure and Financial Accountability (PEFA) report as being rather robust compared to other fragile countries. Introduced Public Financial Management reforms of the MoF, supported by the project, have been rolled out to additional Line Ministries (LMs) and the project has been assisting the pilot LMs over this quarter in further streamlining the reforms via on-the-job trainings, updating budget forms and revising manuals.

Most efforts of the project over this quarter have concentrated on the budget cycle steps such as BC II forms analysis, mid-year review and Budget Hearings with all Budgetary Units which are critical steps towards budget formulation and allocations for next year (1393).

Project component responsible for policy, aid management, coordination and effectiveness have, over this quarter, mostly focused on the Senior Official Meeting preparation, reviewing TMAF progress, and thus monitoring and evaluating progress towards the Tokyo commitments while pushing forward, via the Aid Management Policy Working Groups, consensus on the TMAF indicators and required next steps for the international community and the MoF to meet their respective commitments. Securing funding for NPPs has also been a top priority for the project because many NPPs remain unfunded which seriously undermines service delivery in the country.

Finally, the project delivered 11 capacity development events over this quarter, targeted to 654 MoF and LMs staffs and representatives, with a particular focus on tashkeel staffs. While the MoF PFM capacity is recognized as fairly 'advanced', sustainability is still a concern, as much as most LMs capacity which deserve particular project attention. The project has been investing heavily into trainings, coaching and on-the-job trainings to Budgetary Units (BUs) staff in order to improve budget execution and address major budgetary challenges. This investment is expected to pay off in the long-run, provided staff turnover within the LMs and BUs stays limited.

II. BACKGROUND

A comprehensive report for Japan, covering January 2012 to August 2013, highlighting the major achievements of the project was finalized during this quarter. In very short, the project made substantial progress in terms of public financial management and organizational capacity of the MoF and Line Ministries (LMs) and is incremental in the MoF reforms agenda. As noted in the final project external evaluation, Mr. Mohammad Mustafa Mastoor, Deputy Minister for Finance rated project performance “successful” if not even “highly successful”. “Without the project, there would not be well-functioning MoF as today. MoF’s success in the PFM reform process in the last several years can be largely (65%) attributed to this project, the rest to other Technical Assistance (TA) projects”¹.

The Public Expenditure and Financial Accountability (PEFA) report by World Bank was released over this quarter and praised the achievements of the MoF in terms of public finance management capacity. The International Monetary Fund (IMF) praised the overall progress of the MoF and “the improved predictability and consistency of budget allotment planning and facilitated better cash management processes”². Such recognition demonstrate results achieved by the project, which was also recognized at the latest Senior Official Meeting (SOM) of July, 2013, most particularly under the relevant area III ‘Integrity of Public Finance and Commercial Banking’, for which the project has had major contributions.

International commitments related to aid management and effectiveness remain a challenge for both the international community and the GoIRA/MoF and the project efforts, via the Aid Management Policy, aim to address issues and bottlenecks towards meeting the TMAF commitments. It is an ongoing work but recent statements and agreements by the international partners at the AMP working groups indicate sound progress.

The project is thus consolidating on the previous major achievements and is working towards implementing and achieving ambitious PFM reforms and commitments made by the GoIRA and international partners but it is becoming urgent to move to a new project phase based on a revised project document as the current project dates back from 2007 and would deserve a revamped focus.

¹ Mr. Mohammad Mustafa Mastoor, Deputy Minister for Finance, MoF answered the interview of the external evaluator conducted on 30th of April 2013, project independent final evaluation, June 2013.

² PEFA draft assessment report

III. RESULTS

A. **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)**

This output is still highly relevant but the PFM Roadmap, steering the MoF and outlining the PFM reforms priorities, came to an end this July. A review of the PFM Roadmap should thus be conducted in order to design a future roadmap encompassing the GoIRA needs and international expectations in terms of PFM.

1.1 Indicator:

- a) Number of budgetary units implementing Gender Responsive Budgeting**
- b) Number of BC I and BC II forms submitted to MoF and reflecting national priorities**

MBAW in collaboration with the other UNDP project; Gender Equality Project (GEP), organized Gender Responsive Budgeting (GRB) workshops (see output 3 for details) targeted to the 6 pilot BUs where GRB had been rolled out. The objective of this reform is, in the medium-term, to increase gender responsive allocations while it aims, in the short-term, to segregate data and thus to improve gender budgeting awareness among LMs.

As reported under the previous quarter, BC I forms were submitted with a very high level of accuracy and BC II forms followed the same pattern over this quarter. Thanks to the on-the-job training efforts of the project experts, LMs submitted very qualitative BC II forms. A BC II analysis checklist was also designed by the project which greatly helped the project sectors experts to perform detailed analysis of the BC II forms. As demonstrated by the improving quality of the BC II forms, the capacity of the BUs is improving and the submitted projects and costs breakdowns are becoming more realistic.

This quarter is a very critical period within the budget planning cycle as Budget Hearings were organized and Budget Ceilings recommendations were submitted to Cabinet. Every year, budget ceilings are incorporated into the Medium Term Budget Framework (MTBF) which is then submitted to Cabinet for approval. In essence, the MTBF is a pre-budget document and a tool for efficient allocation of resources based on national priorities, on the basis of which the national budget is being prepared. The MTBF was approved in July 2013 and provided the LMs with their respective financial ceilings for next year which had to be integrated into their final BC II submission.

Additionally, the project designed the 1392 mid-year review and submitted it to Parliament that approved it at the end of July. The mid-year review helps to analyze the current budget allocations and revise them accordingly. It is an important document for the Parliament to exercise its oversight role and for the LMs to assess their current needs and forecasted budget requirements.

Furthermore, the project supported the MoF in organizing the Budget Hearings over this quarter with all LMs. Budget Hearings offer LMs an opportunity to justify and argue their expected budgetary allocations and resulted in constructive negotiation with the MoF and agreements reached on the 54 BUs budget allocations for next year (1393).

Finally, the project staff made substantial contributions to the Operations and Maintenance (O&M) reform agenda via, for example, establishing dedicated teams for O&M within the 4 pilot LMs, conducting by-program and by-province costing merged into the BC II and drafting O&M nationwide policy and instructions for the 4 pilots. These efforts laid down basic preconditions for norms based budgeting of O&M budget to provinces and thus help towards further budget planning de-concentration.

1.2 Indicator:

a) Number of budget performance reports

b) Number of fiscal bulletin produced

The project experts published, in addition to the quarterly performance reports available on the MoF website, the semi-annual performance report of the 25 pilot BUs. This detailed report analyzes shortcomings and challenges behind performance reporting which range from poor internal communication inside LMs, absence of dedicated M&E units, weak absorption capacity, and more generally a weak organizational culture of performance monitoring. As a result of this semi-annual performance report, the MoF and LMs are identifying common solutions for improving the budget execution and generally addressing issues hindering stronger financial management performance of LMs.

Fiscal bulletins were also finalized and published (quarterly fiscal report for 1392 Q2, and monthly fiscal reports for months 6, 7 and 8). Furthermore, the project experts completed the final draft of the pre-budget report for 1393 which is a very important step in the budget planning cycle for the year ahead. These publications greatly contribute to a more transparent budget and thus help to improve the GoIRA score at the Open Budget Index (OBI) score. Ultimately these publications contribute to the preparation of a more realistic and thus to improve service delivery. The pre-budget report includes macroeconomic outlook, fiscal strategy and forecasts as well as revenue and expenditure analysis. As per the IMF recommendations, the pre-budget statement is now based on new macroeconomic assumptions and tax measures in order to minimize the gap between projections and actual collection. Additionally, a debt sustainability analysis was completed over this quarter, including sensitivity analysis, assessments of debt to GDP/export/revenue ratios, and testing of multiple scenarios. Findings and preliminary conclusions from this analysis suggests that Afghanistan current debt level is low and consequently has a good position to borrow on the international market in order to finance large infrastructure projects.

In terms of the sub-national budgeting policy, project experts revised the last draft of Provincial Budgeting Policy and sent out the internally approved version from the MoF to the development partners for comments which is a major step forward in the consultation and endorsement process for this policy. Over 10 meetings and presentations were also

organized and delivered to donors during this quarter, at the Head of Agencies meeting for example as well as with individual donors like DfID and USAID to present and discuss the draft policy. Feedback and comments from the international community are expected to be integrated over next quarter.

Overall, quarter 3 targets were all achieved, including the provincial budgeting policy which was finally internally approved by the MoF, thanks to the efforts and inputs of the project team. The policy is now undergoing a wide stakeholders' consultation process and is aiming to be endorsed by Cabinet by the end of this year.

1. EXPENSES FOR THE QUARTER

During Q3, a total of USD 138,692 was spent for this output. For more details, please look at Annex 2.

Below is a snapshot of where MBAWP is in relation to its annual targets after Q3

2013 Baseline	2013 Annual Targets	Q3 Planned	Q3 Actual	Comments
1.1 a) Gender responsive budgeting piloted in 4 budgetary units	a) Gender responsive budgeting introduced in additional 1 budgetary unit	X	Met last quarter but further training and assistance provided to target BUs	
b) BC I and BC II forms submitted from all Line Ministries and 60% of them reflecting policy priorities	b) BC I and BC II forms are processed on time and 65% of them reflecting national priorities	X	BC I forms reported under last quarter BC II forms submitted on time and estimated 100% of them reflecting priorities (at policy level)	Alignment assessment is on-going at deliverable level but BC II forms were assessed at the policy level under the definition of the GoIRA alignment
1.2 a) Budget Performance report published on a monthly basis	a) One Budget performance reports published on a quarterly basis	X	Met	Quarterly fiscal report for 1392 Q2, and monthly fiscal reports for months 6, 7 and 8 published
b) Fiscal bulleting published quarterly	b) Quarter fiscal bulletin published	X	Met	Q2 performance report published on the budget ,of website in

2013 Baseline	2013 Annual Targets	Q3 Planned	Q3 Actual	Comments
				addition to the semi-annual performance report of the 25 pilot BUs

B. OUTPUT 2: National Policy and Strategy Development and Coordination of External assistance aligned with Paris Declaration and ANDS implementation improved

This quarter was particularly fruitful in the aid management and aid effectiveness nexus and the project team made substantial progress with the Aid Management Policy. As previously reported under the last quarter, this output has become outdated and the TMAF is now at the forefront of this output objective statement.

2.1 Indicator:

- a) Joint Coordination Management Body (JCMB) endorsed the Aid Management Policy (AMP)**
- b) Tracking and monitoring system in place to capture ODA**

As previously reported in the last quarter, the AMP was endorsed and 4 working groups have been organized to-date. The 4th AMP implementation working group, with the participation of 25 development partners, LMs and civil society organizations, was organized and resulted into revision of major TMAF indicators. The AMP is therefore currently being pushed through the project experts and implemented, via the working groups, priority matrix, action plan and other tools designed by the project experts in order to ensure adequate M&E of the TMAF commitments related to aid effectiveness.

As part of the TMAF process, the SOM held in July, reviewed progress of the TMAF indicators and the joint statement published as a SOM follow-up noted that Afghanistan has made progress in a number of areas under the TMAF and most particularly under the relevant area III 'Integrity of Public Finance and Commercial Banking' regarding the OBI index and PEFA for which "The International Community congratulated the Afghan Government on its impressive performance on budget transparency, resulting in Afghanistan moving from a score of 21% in 2010 on the Open Budget Index to 59% in 2012, exceeding the TMAF target. Participants anticipate further progress in budget management when the new PEFA assessment is completed"³. The project contributed to the preparation of the SOM and drafted the SOM joint report in full consultation with development partners and stakeholders, presenting progress, challenges and ways forward on the TMAF indicators.

In addition, the project organized over this quarter the Development Cooperation Dialogue (DCDs) meetings with development partners. These dialogues aim to promote understanding of programmatic priorities and practices to further mutual development objectives, enable the GoA and donors to review progress against aid effectiveness indicators agreed to in the TMAF and AMP, facilitate information exchange and confirm/validate official development assistance (ODA) data recorded in the Donors Assistance Database (DAD), and assess the extent to which donor funded projects and programs are aligned with the NPPs. These dialogues are prepared and organized by the

³ Co-chair statement, TMAF SOM meeting, 3rd July 2013

project every year and are an important platform for bilateral discussions between the MoF and donors to achieve aid effectiveness objectives and discuss areas of concerns.

Furthermore, the project assisted the GoIRA to make substantial progress in the Busan New Deal process. Technical assistance was provided by the aid effectiveness and management expert on the G7+ technical meetings, included preparatory inputs for the “Afghanistan – the Pathway to Achieve Resilience and Stability Study” and the New Deal Implementation Task Force to be supported by the project experts.

Regarding the indicator b “**tracking and monitoring system in place to capture ODA**”, this is an on-going work but several initiatives were initiated and pursued over this quarter. These initiatives range from distributing donors’ self-assessment alignment questionnaires, conducting donors portfolio reviews, organizing joint assessments and development cooperation dialogues, to piloting LMs own assessment of alignment of their respective technical assistance projects. The project specifically, over this period, conducted donors portfolio reviews, and organized 23 cooperation dialogues meetings, in addition to the ongoing assessment of alignment at the deliverable level. One challenge however is the diverging understanding and definition of alignment from donors and GoA perspectives but the guidance notes and AMP working groups should help to make further progress towards the TMAF commitments of 80% alignment and 50% harmonization rules. According to the TMAF SOM report, approximately 46% of the 2012 disbursement is on-budget although the MoF presents a different figure of 36%. Both figures illustrate however that “donors are increasingly using the on-budget mechanism for aid delivery⁴”. Regarding alignment, “many donors have made progress in aligning their development aid with the NPPs. However, differences in the interpretation of the term alignment mean that it is not possible to confirm the precise degree of alignment with NPPs⁵”.

The DAD plays an important role in recording ODA and the MoF has initiated under this quarter, with the technical expertise of the project and in collaboration with Strengthening Afghanistan’s Budget Project of DFID (SAB II), the below scorecard updated on a monthly basis. It basically highlights the current percentage of ODA recorded into the DAD, being 39% by the end of September, 2013. The below scorecard also details the number of partners using the DAD (33 out of 53) as well as the committed and disbursed figures recorded into the DAD to-date.

⁴ TMAF SOM report, page 15.

⁵ Idem, page 16.

to the NPPs technical working groups focusing on NPPs implementation and financing as most NPPs remain underfunded. Moreover, assistance is required by the MoEC in order to better coordinate and monitor NPPs, which has been one of the core responsibility of the project clusters advisors since the Tokyo conference in 2012. Their role in this process has been instrumental.

To conclude, all outputs 2 targets for this quarter were met aside of the TMAF action plan and M&E system that require further consultations and discussions with donors and which is, by definition, an ongoing and living process. Recording of ODA assistance into the DAD remains low but is expected to reach 45% by the end of this year which is a commensurate improvement compared to last year which was estimated at around 30% although no recording and M&E system existed back then to adequately measure.

1. EXPENSES FOR THE QUARTER

During Q3, a total of USD 315,376 was spent for this output. For more details, please look at Annex 2.

Below is a snapshot of where MBAW is in relation to its annual targets after Q3

2013 Baseline	2013 Annual Targets	Q3 Planned	Q3 Actual	Comments
2.1 a) AMP endorsed	a) AMP Action Plan implementation initiated	X	Met - AMP already endorsed in last quarter	
b) 34% recording by August, 2013	b) Tracking and monitoring system in place to capture ODA alignment	X	39% recorded ODA into the DAD	Additional initiatives ongoing to assess alignment, as detailed in the above narrative.
2.2 a) TMAF principles endorsed at Tokyo and AMP under revision	a) TMAF action plan and M&E system designed and agreed by donors and developing partners	X	In-progress	AMP working group meetings aiming to achieve consensus
b) 16 out of 22 NPPs are endorsed	b) 20 out 22 NPPs endorsed	X	21 NPPS endorsed out of 22 as reported under last	

			quarter. NPPs Technical working groups organized to identify funding gaps and monitor implementation	
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C. OUTPUT₃: Improved Budget Execution and delivery management and sustainable Institutional capacity developed at MoF and Government Institutions

This output is still very relevant and the revamped capacity development approach of the project has been gradually focusing on the enabling environment and organizational capacity dimensions rather than individual capacity development. As such, the project emphasized over this quarter on putting into place, coherent and harmonized capacity development systems and policies across the MoF while improving the PFM technical capacity of the LMs.

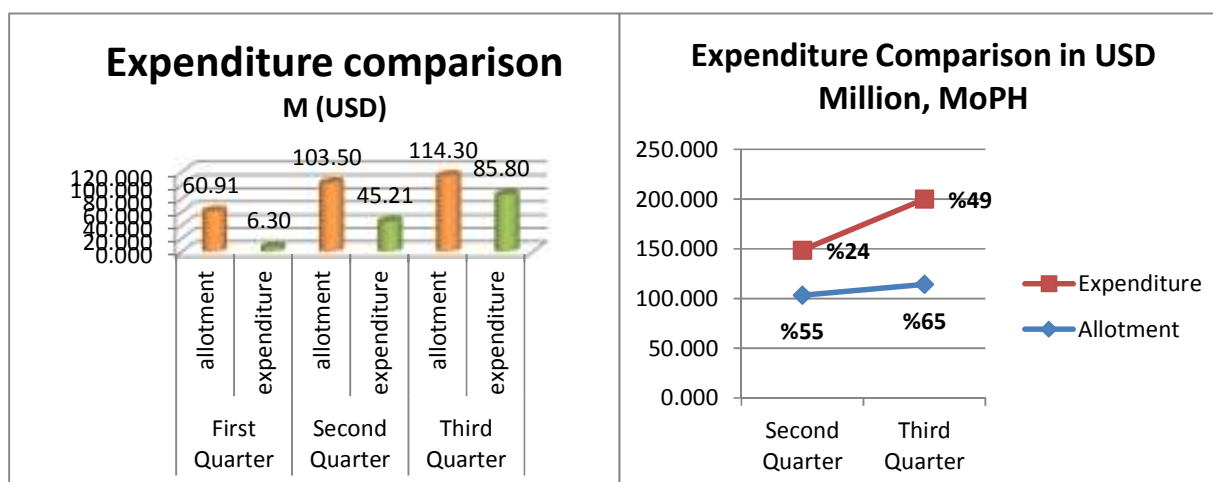
3.1 Indicators

a) Percentage increase of development budget execution rate in selected 14 LM

Budget execution rate of the development budget has drastically improved compared to last quarter (from Afg 466m by July to 895m by September) and is also substantially higher than the FY 1390 budget execution at the same time of the year. Project investments are therefore paying off and this increase in budget execution demonstrates that on-the-job training and coaching of the LMs BUs by project experts, in addition to numerous MoF activities supported by the project in order to identify bottlenecks and overcome major budget execution challenges of LMs, have resulted into tangible achievements. Budget execution as of fiscal month 9 of this year is however lower than the corresponding last year fiscal month because fiscal year lasted for 9 months only last year and budget execution is always outperforming in the last month of the fiscal year. Current analysis demonstrate nonetheless that the budget execution is likely to be better than last year because 806 million USD have already been disbursed.

Regarding the allotment forms processed by the project, a total of 2014 forms were processed over this quarter, amounting to a total of 6548 allotment forms since the beginning of the year. The volume of allotment forms have, as explained in the previous quarter, considerably increased and is creating additional human resource pressure and constrains on the MoF to timely process and check accuracy of those forms.

Taking the Ministry of Public Health (MoPH) as a best-example to illustrate the above, the below charts provide a comparative allotments and expenditures mapping between the second and third quarter 2013. Alike all other LMs, expenditure has improved, from 24 percent in second quarter to 49 percent in the third quarter. The allotment rate has also increased, from 55 percent in the second quarter to 65 percent in the third quarter.



3.2 Indicators

a) Number of training courses, coaching to LM and peer to peer exchanges organized

Given the volume of reported on-the-job trainings delivered by the project staff to tashkeels and LMs, a robust and harmonized on-the-job training policy is much required in order to have a consistent MoF approach towards on-the-job trainings and above all to monitor and evaluate results and impacts of such activities on the organizational capacity level of LMs. The zero draft on-the-job policy was drafted but is currently undergoing internal MoF consultations. Once finalized, it is expected this policy will be officially endorsed by the MoF and rolled across the MoF departments, starting with a pilot phase within the Budget Directorate of the MoF.

Furthermore, the project organized and delivered the below capacity development activities over this quarter:

<i>CD initiative</i>	<i>Target group</i>	<i>Content</i>	<i>N. of participants</i>	<i>N. of female</i>
Peer-to-peer exchange in Malaysia	Representatives of the MoF Budget Department	Budget execution and PFM reforms	30	2
Training courses	MoF staff (tashkeel)	RBM	18	
	Focal points SBPS MRRD and MaL	SBPS	10	
	MoF Budget Department SBPS focal points (from sectors)	SBPS	16	
	7 pilot SBPS LMs	SBPS	16	
	Donors	DAD	10	
	Internal MoF staff (tashkeel)	Procurement rules and procedures	5	5

	6 GRB pilot LMs (2 workshops + individual pilot LM trainings)	GRB, in collaboration with UNDP GEP project	25	
	Sub-national authorities representatives from Kapisa and Nangahar	Provincial budgeting and budget cycle (planning and execution), in collaboration with UNDP ASGP project	66	
Workshops	11 LMs	Annual Budget reforms; budget cycle, execution, reporting.	272	50
	All BUs	Budget execution and procurement	186	
Total			654	57

The number of women participating in the capacity development activities of the project is still not systematically recorded and only 57 were registered over this quarter. Despite the project attempts to monitor, record and promote participation of women, it seems necessary to adopt a different approach supported by a consistent and harmonized training policy and M&E system across all units of the MoF assisted by the project as the current participation of women to our capacity development efforts remain low.

As previously reported and insisted upon in the previous quarter reports from 2013 as well as in the Japan end of project report, capacity development activities of the project are focusing on LMs and tashkeel staffs, rather than on the learning and development of the project staff. The PFM technical capacity of the MoF, as noted in the latest PEFA assessment, is rather high and project staffs have been asked to reinforce their knowledge and skills transfer to MoF tashkeel employees. Such approach is at the core of the project capacity development efforts and there is an upward trend of tashkeels being recipients of capacity development activities, compared to previous years.

Overall, output 3 indicators and targets have been achieved. The on-the-job policy has not been endorsed yet by the MoF but numerous consultations and meetings are taking place with MoF and project staff to ensure buy in and local ownership of this critical capacity development policy aiming to better track, monitor and evaluate impact of the on-the-job training efforts of the project staff to the MoF and LM tashkeel staffs.

1. EXPENSES FOR THE QUARTER

During Q3, a total of USD 263,781 was spent for this output. For more details, please look at Annex 2.

Below is a snapshot of where MBAW is in relation to its annual targets after Q3

2013 Baseline	2013 Annual Targets	Q3 Planned	Q3 Actual	Comments
3.1 a) 1391 official execution rate is 49%	a) Overall LM execution rate improved by 10% compared to March of last year	X	Forecasts and current execution rates indicate that the overall budget execution target will be met by the end of the fiscal year	
3.2 a) 2800 people were trained over 2012 (including participants to peer to peer exchanges)	a)) 2 peer to peer exchange organized and a minimum of 16 training courses organized targeted to MoF and LM	X	654 individuals trained in PFM and budget cycle over 11 capacity development events	

IV. MONITORING AND EVALUATION

Two monitoring visits were conducted by the UNDP Country Office to the project office over this quarter but there are no major issues to be reported. Detailed findings of these visits are available upon request to the UNDP Country Office.

The project is currently working on harmonizing the capacity development policies and related M&E systems of the project and of the MoF Budget Department in order to ensure a common approach to capacity development and an efficient and consistent monitoring system of capacity events jointly organized by the project and the MoF. Once finalized and endorsed by the project counterpart, this should bring further visibility to the project and provide tools to measure and evaluate impact of the capacity development events on the MoF and LMs PFM capacities.

V. GENDER SPECIFIC RESULTS

Aside of the Gender Responsive Budgeting reform rolled out to targeted LMs and subsequent training courses organized to BUs, the project did not achieve any gender specific results over this quarter. 57 women also participated in the capacity development events of the project which faces a double challenge of low percentage of women as project staff combined with a comparatively low representation of women in the MoF compared to other LMs.

As previously mentioned, the project would also need to devise a new approach contributing towards gender mainstreaming because participation of women is limited despite our efforts. Technical assistance from UNDP country office will be sought in the planning of next year activities in order to improve this critical component of the project.

VI. ISSUES

- **Parallel and fragmented service delivery models (recorded January 2012)**

The project has been assisting the MoF in gradually acquiring technical capacities in fiscal and macro-economic forecasting and analysis and the PFM Advisors are supporting the LM with their capacity development and budget execution absorption capacities. This is an on-going issue that is at the core of the project objectives. As pointed in the latest PEFA report the PFM capacity of the MoF has largely improved but the PFM capacity of most LMs remain a big challenge.

- **Funding gaps for NPPs implementation (recorded March 2012)**

Partly due to the declining interest from donors on the NPPs, some NPPs such as the governance ones are still struggling to commit and secure funding. The project cluster experts organize and coordinate regular meetings with MoF, LM, MoEc and the development partners to address this issue but still to address the NPP funding issue the project will continue supporting MoF and development partners in their efforts.

In addition, identifying funding sources for NPPs is an on-going process which is being addressed by the project cluster experts by conducting regular meetings and consultations with development partners. The AMP working group meetings should also help to address this issue.

- **Limited fiscal resources against significant off-budget spending (recorded July 2012)**

This previously identified issue cannot be solved in the short term and is a long process. The project expert however contributed to the Self-reliance strategic contribution to the Tokyo declaration and the MoF is developing a sound fiscal forecasting and modeling capacity which is critical to tackle this issue.

- **Difficulties in collecting data for sound fiscal forecasting and modeling (recorded February 2013)**

The Fiscal Department is highly dependent upon collection and reliability of data from other government agencies such as the Central Bank but the data/statistics collection and methodology capacity in Afghanistan remains very limited. The project fiscal experts are currently designing a database for macro forecasting models and the data collected and entered should be used as a baseline to forecast and to develop sound fiscal modeling.

However collecting reliable data and statistics in Afghanistan is a serious issue and can not be tackled by the project alone.

- **Lack of coordination between the MoF, the MoEc and other LMs on the NPPs and TMAF processes (recorded February 2013)**

Despite the efforts of the cluster Advisors in transferring technical expertise and know-how to the MoEc, the capacity of the MoEc remains low and duplication high. Further assistance and support should be envisaged for the MoEc which is now playing a critical monitoring role in the implementation of the NPPs following Tokyo.

Besides, as NPPs are essential components of the TMAF commitments, project experts from the Policy, the Aid Coordination and the Budget Execution departments have, over this quarter, intensified their collaboration in order to speak from one voice at the MoF and as examples, conduct joint assessment of alignment, develop policy guidelines, identify

sources of finding for NPPs, and more generally facilitate coordination between the GoA institutions.

VII. RISKS

- **Achieving the 50% on-budget (harmonization) rule and 80% NPP alignment rule (recorded January 2012)**

Monitoring of the alignment rule is being addressed as reported above but meeting this important TMAF benchmark depends largely on the donors commitment and implementation.

The onbudget harmonization rule remains at the core of MoF priorities and project experts are supporting the MoF with national budget process streamling of procedures. Further collaboration between the Treasury and the Budget Departments of the MoF would also help.

- **Predictability of aid (recorded January 2012)**

The project, via its support to the Fiscal Department, Policy department and Budget Department of the MoF, is providing technical assistance to further link national priorities with the national budget and to build the capacity of these departments to analyse, forecast and model accurate macro-economic projections in order to better anticipate and address forthcoming challenges linked to projected fiscal constraints.

- **Funding for the new phase of the project (recorded October 2012)**

There is still no written commitment from donors to support MBAW II 2014 – 2016.

VIII. LESSONS LEARNED

One of the main lessons learnt during this reporting period is to follow-up with the members of the AMP implementation Working Group on actions and processes so as to get the required results and outcomes. Ongoing consultative and stakeholders' engagement process proved to improve working environment between the Ministry of Finance/Aid Management Directorate and the development partners. This consultative approach, although is time consuming, helps to resolve main bottlenecks and constraints in terms of aid effectiveness and above all to strengthen the role of mutual accountability between Development Partners and GfRdA. Therefore, continuous dialogues and inclusion of Development Partners and other stakeholders in policy dialogues as well as in the AMP implementation matrix, should ultimately result into improved aid effectiveness in Afghanistan.

IX. FUTURE PLANS

The project was initially supposed to end by August 2013 but the Board decided to, once more, extend the project until December 2013. Given the Japanese financial supports came to an end at the end of August, the project is now utilizing UNDP core funds. As a result, the project AWP was revised and extended to December 2013.

The project will be working on preparing for the next phase of MBAW expected to start in January 2014 and until then will be focusing on i) finalizing the budget planning process for next year (submission to Parliament and approval from Cabinet), ii) pursuing efforts on the TMAF commitments as translated under the AMP and iii) keep supporting MoF and LM with strengthening their PFM organizational capacity.

X. ANNEXES

The Interim Donor Report for the period January to September 2013 for (MBAW)

Annex 1. Financial Table

Donor Name	COMMITMENT/ PREVIOUS YEARS RECORD				CURRENT YEAR - 2013					FUTURE EXPENSES		TOTAL RECEIVABLE		
	Commitment (a)	Revenue Collected 31/12/2012 (b)	Expenses 31/12/2012 (c)	IPSAS Adjustment (d)	Opening Balance E=(b-c+d)	Contribution Revenue (f)	Other Revenue (g)	Expenses (h)	Closing Balance I=(e+f+g - h)	Commitments (Unliquidated Obligations) (j)	Undepreciated of fixed Assets and Inventory (k)	(Future Due) L=(a-b-f)	(Past Due) (m)	Available Resources N=(i - j - k-m)
Japan	10,000,000	10,000,000	6,014,333	-	3,985,667			3,735,849	249,819	47,907		-	-	201,912
UNDP (Core Fund)	2,500,000	-	-	-	-	2,500,000		1,297,397	1,202,603	41,179		-	-	1,161,424
Grand Total	12,500,000	10,000,000	6,014,333	-	3,985,667	2,500,000	-	5,033,246	1,452,422	89,086	-	-	-	1,363,335

Note:

- i) The figures provided in the above statement are provisional
- ii) Income received in currency other than USD is approximated to USD based on UN- Operational Rate of Exchange applied.

The Interim Donor Report for the period January to September 2013 for (MBAW)

Annex 2. Expenses by Output

Project Output ID and Description	2013 Budget (AWP)	Expenses (Jan-Jun-2013)	Expenses (July Sept-2013)	Cumulative Expenses (Jan-Sept 2013)	Delivery Rate
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)	691,344	431,739	138,692	570,431	83%
Sub-total Output 1	691,344	431,739	138,692	570,431	83%
Output 2 (Output ID 00081415): National Policy and Strategy Development and Coordination of External assistance aligned with Paris Declaration and ANDS implementation improved	1,843,122	974,159	315,376	1,289,535	70%
Sub-total Output 2	1,843,122	974,159	315,376	1,289,535	70%
Output 3 (Output ID 00081439): Improved Budget Execution and delivery management and sustainable institutional Capacity developed at MoF and Govt. institutions	3,283,224	2,411,942	263,781	2,675,723	81%
Sub-total Output 3	3,283,224	2,411,942	263,781	2,675,723	81%
Output 4 (Output ID 00056407): Technical Assistance and Management Cost (Project Support Costs)	667,997	221,097	276,460	497,556	74%
Sub-total Output 4	667,997	221,097	276,460	497,556	74%
Grand Total	6,485,687	4,038,937	994,309	5,033,246	78%

The Interim Donor Report for the period January to September 2013 for (MBAW)

Annex 3. Expenses by Donor

Donor Name	Project Output ID and Description	2013 Budget (AWP)	Expenses (Jan-Jun-2013)	Expenses (Jul-Sept 2013)	Cumulative Expenses (Jan-Sept-13)	Delivery Rates
Japan	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)	239,158	212,898	36,304	249,202	104%
	Output 2 (Output ID 00081415): National Policy and Strategy Development and Coordination of External assistance aligned with Paris Declaration and ANDS implementation improved	613,178	315,851	250,024	565,874	92%
	Output 3 (Output ID 00081439): Improved Budget Execution and delivery management and sustainable institutional Capacity developed at MoF and Govt. institutions	2,715,352	2,193,077	388,876	2,581,954	95%
	Output 4 (Output ID 00056407): Technical Assistance and Management Cost (Project Support Costs)	417,999	176,828	161,992	338,819	81%
Sub-Total		3,985,687	2,898,654	837,195	3,735,849	94%
UNDP (Core Fund)	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)	452,186	218,841	102,389	321,230	71%
	Output 2 (Output ID 00081415): National Policy and Strategy Development and Coordination of External assistance aligned with Paris Declaration and ANDS implementation improved	1,229,944	658,308	65,353	723,661	59%
	Output 3 (Output ID 00081439): Improved Budget Execution and delivery management and sustainable institutional Capacity developed at MoF and Govt. institutions	567,872	218,865	(125,095)	93,770	17%
	Output 4 (Output ID 00056407): Technical Assistance and Management Cost (Project Support Costs)	249,998	44,269	114,468	158,737	63%
Sub-Total		2,500,000	1,140,283	157,114	1,297,397	52%
Grand Total		6,485,687	4,038,937	994,309	5,033,246	78%