



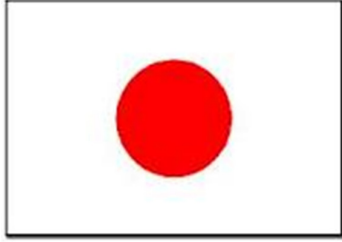
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# MAKING BUDGETS AND AID WORK

## 2013 FIRST QUARTERLY PROJECT PROGRESS REPORT



## DONORS



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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:** \$4.9 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

## ACRONYMS

AMD	Aid Management Directorate
AMP	Aid Management Policy
ANDS	Afghanistan National Development Strategy
AUAF	American University of Afghanistan
BCI	Budget Circular I
BCII	Budget Circular II
BU	Budgetary Unit
DAD	Development Assistance Database
DGB	Directorate General Budget of the Ministry of Finance
GoRA	Government of Islamic Republic of Afghanistan
JCMB	Joint Coordination and Monitoring Board
LMS	Line Ministries
MAIL	Ministry of Agriculture Irrigation and Livestock
MBAW	Making Budgets & Aid Work
MIS	Management Information System
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
PB	Program Budgeting
PBU	Provincial Budgeting Unit
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

MBAW Project has achieved most of its targets over this quarter and has made noteworthy achievements in terms of the sub-national budgeting and streamlining of the national budget process (output 1), on aid effectiveness, the New Deal and TMAF implementation (output 2) and on intensive on-the-job efforts towards capacity development which should provide solid foundations and technical expertise within the MoF and LMs to meet their budget execution targets and to pursue the PFM reforms implementation in view of improving service delivery models across Afghanistan (output 3).

One of the major achievements over this quarter has been the finalization and endorsement of the Aid Management Policy which is expected to play a major contribution towards meeting the TMAF commitments and towards improving aid effectiveness and aid management. Such policy and consensus on the way forward from the GoRA and the development partners is critical to achieve objectives of fiscal sustainability and the project has played a key role in support MoF on this initiative.

Another critical milestone achieved over this quarter was the DRAFT of the sub-national financing policy that has been at the forefront of donors and GoRA concerns and priorities as sub-national governance and financing are the cornerstones of a self-reliant and sustainable system of governance whereas public finance and national policies are intertwined to provide efficient public services to the Afghans, with a focus on gender and pro-poor.

Last but not least, the project experts delivered or supported tailored capacity development programs to over 1,400 individuals over this quarter, with an emphasis on coaching, on-the-job-training and monitoring of capacity development impact of efforts on the technical and management capacity of the MoF and LMs.

## II. 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)

Tangible progress has been made in the first quarter of 2013 under output 1 and the budget process has been further strengthened by streamlined procedures and improved coordination. Highlights over this quarter include streamlining budget forms related to sub-national allocations in view of introducing new sub-national budgetary procedures and gradually moving towards budget/fiscal de-concentration, and integrating finance departments within LMs in order to simplify budgetary processes and improve internal collaboration within LMs.

The two activity results (1.1: Strengthened Budget Policy and Planning Processes linked to national priorities, and 1.2: Strengthened Budget and Fiscal Policy Monitoring and Reporting) under this output have been largely achieved although it must be noted that it is an ongoing process and the first quarter is only the start of the budget cycle focusing primarily on budget allocations and planning.

Comparing this quarter progress against last year quarter would not provide a fair picture of the 2012 achievements because first quarter of last year was the end of the fiscal year although it is, in 2013, the beginning of the fiscal year since, starting in 2013, the fiscal year is from January – December, instead of March – February as in the past. This means that with the new fiscal year, the budget by now has been approved. It is however worth mentioning that the lapse of time between budget submission to Cabinet and approval from Parliament has been reduced from 3.5 months in the previous fiscal year to 2.5 months in the current fiscal year, hence demonstrating progress towards achieving consensus building on the national budget and above all illustrating efforts made by the project and the MoF in terms of improving budget planning and budget policies, greater transparency and accountability and moving towards a policy-based budgeting in line with the national priorities and international commitments.

In overall, technical capacity of the MoF in budget planning and management is progressively improving as most international benchmarks demonstrate. It is however an ongoing process and the forthcoming PFM Roadmap review to be conducted by the IMF should provide the MoF a clear understanding of the substantial gains achieved and the challenges ahead for which the UNDP project has greatly contributed to.

#### **Indicators 1.1: a) Number of budgetary units implementing Gender Responsive Budgeting**

#### **b) % of BC I forms submitted to MoF and reflecting national priorities**

GRB was piloted last year in four LMs (MoPH, MoE, MoHE and MoLSAMD) and the MBAW GRB focal point, in close collaboration with the Gender Equality Project of the UNDP, has

identified and undertaken groundwork for GRB to be introduced in two additional LMs: MRRD and MAIL. Given the deadline for submission of BC I form has not yet passed, GRB implementation cannot be started yet without a broad estimate of LM development projects with a GRB component, as specified under the BC I form, but these 6 pilot LMs have been fully engaged into the preparation process and will be implementing GRB over the next quarter.

Although the deadline for submission of BC I is April 2013, it is expected, given the current analysis from project sector experts and PFM Advisors, that the quality and accuracy of BC I forms is higher than last year. Compared to the previous BC I cycle, the project sector experts expect BC I submissions to be more detailed and analytical, since a lot of efforts have been invested by the project to coach and on-the-job train responsible representatives from LMs in order to build their capacity and assist them to submit BCI that are of high quality and realistic. In addition, the project sector experts and senior management of the MoF have widely communicated to the LMs the importance of BC I since their respective budget ceilings will be directly linked to their BC I submission and senior management of LMs have now taken this budgetary step more seriously as it impacts their allocated budget over the coming years.

In regards to alignment of BC I towards national priorities, the project experts have been closely working with the MoE, responsible for ensuring alignment, and the MoF made sure that priority projects received by the MoE are included into the BC I forms submission. However no percentage data can be verified yet, mostly because the analysis is not completed as the draft analysis from the MoE should be published over the next quarter.

Nevertheless BCI form and instructions were revised and simplified by the project experts and now includes specific sections on Gender Responsive Budgeting and pro-poor. The project staff incorporated comments and lessons-learnt from last year BC I submission of LMs and thus revised the BC I manual and instructions in order to make them clearer and ensure that BC I requirements and processes are well understood by LMs. This revision exercise is an ongoing work and BC I forms, manuals and instructions are being revised every years to improve quality, accuracy and timely submission of BC I.

Training sessions on BC I, targeted to LMs, also took place over 3 days at the end of March 2013, and a separate presentation was delivered on GRB. LMs are thus being asked to analyze their GRB and pro-poor contributions in order for the MoF to better map GRB and pro-poor in view of further strengthening the national budget.

## Indicators 1.2:a) Number of budget performance reports

### b) Number of fiscal bulletin produced

### c) Number of sub-national financing consultations/meetings

The Fiscal Policy Directorate supported by the project completed the third quarter fiscal bulletin for 1391 and published the 8<sup>th</sup> and 9<sup>th</sup> monthly reports for the fiscal year 1391 which contribute to the transparency commitments of the MoF and should help the Parliament, NGOs and citizens to undertake their oversight role.

These reports aim to increase transparency of the national budget and are used by the MoF to plan and design a realistic budget, taking into account fiscal forecasts and constrains, as well as national priorities.

Moreover, the project experts have been closely monitoring budget performance of LMs (see table 3 below under output 3, detailing actual budget execution figures of 14 LMs in March 2013) and will be publishing the quarterly budget performance report in the next quarter. This quarterly performance report is a key document detailing budget execution rates of LMs and is a very useful indicator of LMs performance and delivery rate of projects.

In terms of sub-national financing, over 10 consultations with IDLG, Mostofiats, Provincial Councils and regional authorities have been conducted on sub-national financing issues such as the budget statement of 1392 in order to identify and address challenges faced by sub-national authorities with PFM. The provincial budgeting policy, including a detailed implementation action plan and suggested legal framework changes, has been finalized over the first quarter and is currently going through internal MoF review. Once approved by senior management of the MoF, this revised sub-national policy will be submitted to Cabinet and consultations will be organized with development partners and key stakeholders. This policy is a key component of the project future priorities as it should help to decentralize public financing and raise sub-national interests around sustainable service delivery models. The consultations conducted are part of ongoing efforts by the MoF to develop a robust sub-national financing policy focusing on sustainable service delivery models and these consultations and dialogues aim to generate debate and consensus on the way forward between the GoRA and the development partners.

Furthermore, **sub-national budgeting forms were considerably improved over this quarter**. The revised B3 form focusing on sub-national financing requires allocations to be detailed on provincial basis and prevent transfer of funds from one province to another. It

Parliament's approval of the budget



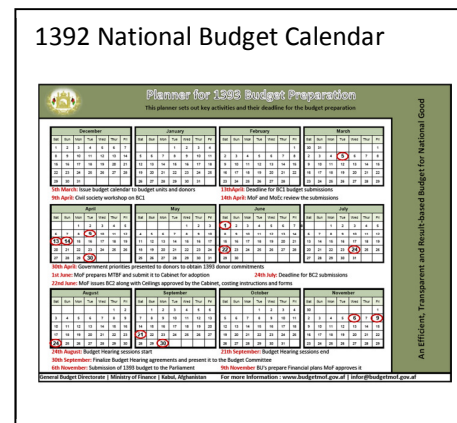
(Photo Credit: Tolonews)



is expected that revisions should ensure adequate allocation of development budget at provincial level according to their actual needs, priorities and absorption capacity.

Additional achievements under output 1 (not defined as targets under the AWP) but which are major milestones include:

- **Pro-poor spending report for the 1392 budget statement:** Although the 1392 budget statement is not yet finalized due to delays in collecting information from some LMs, the project has fully analyzed and mapped the pro-poor budget allocations of selected LMs. This work will help the MoF and the GoRA to better map pro-poor allocations and should thus help LMs to better plan and address pro-poor challenges in the country.
- **Approval of the national budget by the Parliament and publication of the 1392 national budget document in 3 languages on the MoF website:** the project contributed to finalizing and submitting a national budget that took into consideration the Parliament recommendations and thus greatly contributed to the timely approval from the Parliament (reduced from 3.5 months in the previous fiscal year to 2.5 months, as reported above). In addition, the national budget document was published shortly after approval from Parliament



(within 10 days). It details operating and development budget expenditures as well as the development projects per LM, fully aligned with the GoRA priorities and development goals. This leads to increasing budget transparency and accountability and it contributes towards fulfilling the oversight role of the Parliament in the budget process.

- **Publication of the budget calendar and Citizen’s Budget:** The budget calendar sets key deliverables and deadlines for budget preparation and was approved and published over this quarter. The citizen’s budget was also drafted and published in a very concise manner, using non- technical language that is easier to understand for most citizens and illustrated with pictures and cartoons. The citizens’ budget aims to explain the budget process as well as priorities of the approved budget by the Parliament; it contributes to strengthening transparency and accountability of the national budget cycle.
- **Integrating Planning and Finance Departments of LMs** on the operating and development budget instructions in order to improve efficiency of budget planning and execution and facilitating implementation of the Program Budgeting reform. This major change has been introduced and facilitated by the MoF under

the assistance and technical advice of the project and it aims to substantially improve the implementation of Program Budgeting in LMs.

- **Development of macroeconomic framework:** this framework will help to forecast macro variables and thus, provide stronger analytical and forecasting capacities to the MoF in view of formulating a more realistic and policy-based budget.
- **Strategic paper on mineral fiscal regime framework drafted and presented to Inter Ministerial Committee:** this document presents different scenarios, modeling and forecasts of expected revenues from the mining sector in Afghanistan. This important document helps the GoRA to plan and define a sustainable fiscal policy in the country ensuring revenue generation and is therefore key for future self-reliance of Afghanistan.

To summarize, output 1 was largely achieved and substantial progress has been made over this quarter on the sub-national budgeting and on streamlining the national budget process to become “efficient, transparent and results based for the national good”.

During Q1, a total of USD 231,771 was spent for this output. For more details, please look at Annex 2 on page 26.

**Below is a snapshot of where MBAW is in relation to its annual targets after Q1**

**Table 1 Output 1 progress**

2013 Baseline	2013 Annual Targets	Q1 Planned	Q1 Actual	Comments
1.1 a) Gender responsive budgeting piloted in 4 budgetary units	a) Gender responsive budgeting introduced in additional 1 budgetary unit	X	6 pilot LMs to implement GRB over 2013 therefore 2 additional BU will be implementing GRB on a pilot basis	MBAW is on track to achieve its annual target and will be supporting implementation of GRB into a total of 6 LM.
b) BC I forms submitted from all Line Ministries and 60% of them reflecting policy priorities	b) BC I forms are processed on time and 65% of them reflecting national priorities	X	Deadline for submitting the BC1 form is early April so quality assessment and review cannot be fully conducted	Analysis from MoE and MoF on the alignment and quality/accuracy of the BC I will be published over next quarter
1.2 a) Budget Performance report published on a monthly basis	a) One Budget performance reports published on a monthly basis	X	Budget Performance report is published quarterly.	Draft finalized and submission to Cabinet to be presented over the next quarter.

2013 Baseline	2013 Annual Targets	Q1 Planned	Q1 Actual	Comments
b) Fiscal bulleting published quarterly	b) 1st quarter fiscal bulletin published	X	Completed the third quarter fiscal bulletin for 1391 and published the 8 <sup>th</sup> and 9 <sup>th</sup> monthly reports for the fiscal year 1391	
c) No sub-national financing policy and no mechanism	c) 10 sub-national financing consultations conducted	X	14 sub-national financing consultations concluded with: World Bank, IDLG, ASGP, Governors, Mostufis, ISAF Joint Command on sub-national governance and Senior Minister on District Coordination Councils.	

## **B. OUTPUT2: National policy and strategy development and coordination of external assistance aligned with Paris Declaration and ANDS implementation improved**

All targets of output 2 have been achieved as per the work plan and further progress was made over this quarter regarding the TMAF and the New Deal. Since the Tokyo declaration, the TMAF is gradually playing a critical role into the GoRA and donors' commitments and in the framing of national policies and strategy development. Therefore, output 2 relevance and focus, in particular related to the ANDS, need to be slightly revised with stronger emphasis on the TMAF, as it is planned under the new phase of the project starting September, 2013.

With technical assistance from the project, extensive groundwork has been undertaken by both the Aid Management Department and Policy Department on the TMAF in order to monitor and review progress towards the Government's and development partners' mutual commitment to the 80% alignment and 50% harmonization rules but still a long way to go to reach these alignment and harmonization rules.

- Indicators 2.1:**
- a) Joint Coordination management Body (JCMB) endorsed the Aid Management Policy (AMP)**
  - b) Tracking and monitoring system in place to capture ODA alignment.**

The Aid Management Policy was endorsed at the February JCMB where participants acknowledged the progress made on the TMAF and also endorsed four NPPs. The project experts have been working on the AMP for several months and the official endorsement by the GoRA and the international community is the result of their hard work and perseverance. The AMP should help the MoF and the development partners to move Afghanistan towards 'self reliance' by 2025. The AMP includes an implementation matrix in order to track and monitor ODA alignment and thanks to UNDP, the GoRA has completed the prioritization of the TMAF commitments. In addition, the project aid effectiveness and management support staff drafted guidance notes on the alignment and on-budget definition and guidelines. These papers are designed to enable the Ministry of Finance to monitor and review progress towards the Government's and development partners' mutual commitments and highlight challenges faced and to be overcome by both the GoRA and the international community in meeting their Paris declaration commitments reiterated and stressed under the TMAF.

Despite the limited DAD recording of aid by the donors that is however a critical milestone in tracking and monitoring the alignment and harmonization commitments as it would provide a currently lacking baseline, efforts from the project experts were undertaken over this quarter to deliver presentations and training to donors (EU and USAID) as well as on simplifying the DAD users' interface and friendliness but effective donors take up remains low for many reasons which cannot however be solely imputed to the MoF.

**Indicators 2.2**

- a) Tokyo Mutual Accountability Framework (TMAF) action plan and M&E system in place**
- b) Number of National Priority Programs (NPPs) approved and sources of funding identified**

The project experts have made further progress on the TMAF and NPPs implementation by designing action plans, mapping and costing at deliverables level, setting indicators for NPPs monitoring and by organizing discussions and bilateral meetings with donors and LMs in order to reach a consensus on the next steps and ultimately to improve service delivery.

The February 2013 JCMB meeting endorsed the below four NPPs out of 22 while two remain under discussion:

- From the Agriculture and Rural Development Cluster:
  - Water and Natural Resource Development; and
  - Comprehensive Agriculture and Market Development
- From the Infrastructure Development Cluster:
  - National Energy Supply Program
- From the Governance Cluster:
  - Efficient and Effective Government

The project Policy expert team is working in close collaboration with the MoEc and lead LMs to ensure smooth transitioning and coordination between the government and donors stakeholders. Furthermore they are gradually transferring their know-how and expertise to the MoEc staff responsible for monitoring implementation of the NPPs. The project policy clusters advisors are the anchors of the NPP process and their contributions are essential to guarantee that donor-funded projects and activities are fully aligned at both portfolio and deliverables levels. Hence, the core focus of their work in this quarter has been on mapping and costing NPPs at deliverable levels to address funding gaps and non-alignment issues.



Additional achievements besides the above targets over this quarter include:

- **Over \$1 billion of financing and loan agreements concluded** and facilitated by the AMD supported by the project team. These agreements include for instance technical assistance to MAIL, funded by the Italian government, to develop the olive oil sector and production in Afghanistan, strengthening economic infrastructure in Helmand province supported by the British Government and several bilateral deals in the infrastructure, agriculture, energy and transport sectors.
- **First series of MoF guidance notes drafted.** These first guidance notes focus on the on budget and alignment priorities and should thus be used as a tool providing a step-by-step approach and guide to better align the programs with the NPPs. Besides developing such new practice of publishing guidance notes on key procedures and TMAF priorities, aims to define common grounds and understanding of the issues at stake and hopefully set necessary foundations for meeting TMAF commitments. It is also a good practice to generate consensus building among the GoRA and the development partners on critical issues.
- **AMP working group established** and two meetings were convened over the first quarter. These meetings help to push the AMP agenda forward and to bring donors, CSOs and Ministries around a regular discussion and exchange platform regarding aid management and effectiveness challenges in Afghanistan
- **Improvements in the New Deal process:** project experts assisted the GoRA with preparing the International Dialogue Group meeting and assisted the GoRA in refining the indicators on Peace Building and State Building Goals as the MoF is playing a lead role in monitoring the 5 focus areas under these PBSB goals and is formally representing the GoRA in the G7 Secretariat. In addition, they provided valuable comments to the New Deal Implementation Task Force ToRs that should serve as the liaison for New Deal implementation in Afghanistan. Moreover, they also drafted key strategic documents (Country Progress Report and Country Expected Results, including specific indicators on TRUST and FOCUS) which are critical steps towards the New Deal implementation and which provided the GoRA solid pillars to move the New Deal process forward

Overall, output 2 targets are on track and additional milestones on the New Deal and TMAF implementation were achieved over this quarter. This output's focus on the ANDS is however becoming obsolete in light of the recent international commitments as well as the transition and transformation requirements.

During Q1, a total of USD 439,750 was spent for this output. For more details, please look at Annex 2 on page 26.

**Below is a snapshot of where MBAW is in relation to its annual targets after Q1**

**Table 2: Output 2 progress**

2013 Baseline	2013 Annual Targets	Q1 Planned	Q1 Actual	Comments
2.1 a) AMP drafted	a) AMP endorsed	X	AMP endorsed in February JCMB	
b) No Data on ODA alignment available	b) Tracking and monitoring system in place to capture ODA alignment	X	DAD database interface simplified and made more users friendly. Training sessions also organized to donors in order to improve donors take up.	
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	TMAF action plan and M&E system referring to GoRA commitments finalized	Upcoming TMAF Senior Officials Meeting in June is expected to reach an agreement from the GoRA and development partners on the mutual TMAF indicators and targets
b) 16 out of 22 NPPs are endorsed	b) 20 out 22 NPPs endorsed	X	20 NPPS endorsed	2 remaining NPPS expected to be endorsed over next quarter



## **C. OUTPUT3: Improved Budget Execution and delivery management and sustainable Institutional capacity developed at MoF and Government Institutions**

Commensurate progress has been made under output 3, more particularly in the capacity development component of this output. Since last year's revamped capacity development strategy and approach, the project is focusing on developing the technical capacity of the civil servants from MoF and LMs and is gradually adopting within the Budget Department a consistent methodological approach to training courses delivered by its staff in order to measure the impact of these trainings and assess the functional and technical skills of the participants. Furthermore, many efforts have been centered over this quarter on providing on-the-job training and coaching to the LMs which resulted into a remarkable improvement in the accuracy and quality of financial forms submitted to the MoF under this quarter. Thanks to the project sector experts and PFM advisors, forms received were estimated as 90% accurate and without errors within this period, which is a substantial improvement compared to last year average rate of 75%.

### **3.1 Indicators 3.1 a) Percentage increase of development budget execution rate in selected 14 LM**

#### **b) Percentage accuracy of financial plans submitted by the 14 supported LM**

The 2013 first quarter execution rate is the same as the 2012 first quarter execution rate (5%) but, it must be noted that due to the change in the fiscal year, the first quarter of last year covered April-June although this current quarter January to March. Because execution rates are remarkably low in the winter period, it is nonetheless assumed that actual execution rate is substantially higher and improved compared to last year

Project budget experts and PFM Advisors have been closely working with the LMs to improve their budget execution as well as planning capacities as demonstrated under output 1. New changes have been introduced to allotment request (B27), project coding (PCS) and transfer adjustment (B23) forms. Additionally, on-the-job training was provided to LMs which should help in reducing the number of errors in allotment and payment request hampering their budget execution and service delivery.

As a direct result from the technical assistance delivered by the PFM Advisors to 13 LM and the MoF, these 13 LMs submitted 100% accurate financial plans which is an incremental improvement compared to last year average 75% accuracy rate (this percentage are based on the number of errors recorded by the MoF on the allotment forms submitted by LM).

Thanks to the day-to-day coaching and technical assistance provided by the PFM Advisors, supported by the recently introduced monitoring template and mandatory reporting under the responsibility of the Internal Budget Committees, these 13 LMs submitted to the MoF accurate plans and above all should, in the future, be able to better monitor their progress against their approved financial plans on a monthly basis using this new template.

Assistance and guidance is nonetheless still required for the other 44 Budgetary Units in order to submit qualitative financial plans as submission of financial plans is a key step in the budget cycle to match revenues with expected expenses.

**Indicators 3.2 a) number of training courses, coaching to LM and peer to peer exchanges organized**

Capacity development is progressively taking a new turn within the project as the project took serious steps to develop a consistent, harmonized and homogeneous capacity development approach within the MoF.

Over this quarter, the project finalized the organization of the forthcoming study visit in Malaysia to take place from the 8th to the 16th of June 2013. This study visit aims to study the Malaysian expertise and good-practice in budget and policy planning and will include 13 Deputy Ministers from LMs and another 16 senior officials of the MoF and LMs.

Furthermore, the project has organized/supported 21 training courses and capacity development events as detailed in the table below:

**Developing Professional Capacities**

Representatives of the Line Ministries raised their project costing skills by attending practical training delivered in Dari by the MBAW PFM Advisors. Costing was identified as a major pitfall in budget execution from LMs.



*(Photo Credit: Ahmad Ali Fakhri, MBAW - UNDP)*

Table 4: List of capacity development short term activities, targeted to LM and MoF organized over this quarter

Type	Topic	N. participants	Comments
Training course	SBPS and DAD	60	Sectors experts of the MoF trained by the MBAW ICT experts
	RBM	24	Delivered by UNDP RBM experts to selected PFM Advisors
	South Africa's budgeting system	8	In-house seminar targeted to Provincial Budgeting MoF staff

<i>Type</i>	<i>Topic</i>	<i>N. participants</i>	<i>Comments</i>
	India's Budgeting System	8	In-house seminar delivered to Provincial Budgeting MoF staff
	Project Costing	35	Delivered by the PFM Advisors targeted to the infrastructure LM
	Project Costing	40	Delivered by the PFM Advisors targeted to the non infrastructure LMs
	Budget execution and allotment process	106	Delivered to infrastructure related LM (finance departments of MoPH, MoCIT, MoM, MoA, MoPW and MoT)
	Performance reporting	400	Delivered to MoD representatives from 34 provinces
Training of Trainer course	Fundamentals in costing	15	ToT delivered to the PFM Advisors
	Project Costing advanced	18	ToT delivered to the PFM Advisors and sector managers of the MoF
On-the-job training/coaching	Financial plan and new monitoring template	52	Provided by PFM Advisors to the Finance and Planning units of LMs
	BC I and BC II	52	Provided by PFM Advisors to the Finance and Planning units of LMs
	Budget execution forms (B27, B20, B3, PCS forms)	52	Provided by PFM Advisors to the Finance and Planning units of LMs
	New allotment and payment tracking sheets	20	Provided by PFM Advisors to the Finance and Planning units of LMs
	Breaking down development budget by quarters	105	50 BUs in 19 LMs provided with on-the-job training
Workshops	1393 BC1	270	Participants from LMs
	DAD	15	2 Workshops conducted to the USAID and EU on recent DAD changes
	Lessons learnt in budget planning and execution	60	Targeted workshop to the MoHE provided by the Budget Reform Unit supported by MBAW
	NPPs coordination	35	Brainstorming session organized by the Policy Departments to MoCI, MoCIT, AISA, ACCI, ANSA, MoJ and MoF
	TMAF	40	IC comments discussed and responses were provided by the involved LM on the area 1 and area 2 of the TMAF
	MFFF	20	Presentation delivered by the MBAW fiscal experts to the MoPH
<b>TOTAL</b>		<b>1435</b>	

In addition, major capacity development reforms have been introduced:

- **Learning and development policy:** this policy was endorsed by the project counterpart and aims to introduce new fundamentals in capacity development initiatives focusing on the individual level such as co-financing and term commitment to the MoF/GoRA.

- **HR database:** project experts designed a comprehensive HR database allowing to track capacity development events and centralizing HR data of the project and DGB staff, including performance reviews, contract details, ToRs, etc.
- **Events management:** the project introduced an events management calendar which is critical for DGB to improve its communication, visibility and to ensure internal and external events of DGB are timely coordinated and organized.
- **Capacity Development Cell:** the project has been in the driving seat behind the implementation of the CD cell (an informal unit) and recent presentation to all TA projects working with the DGB. This CD Cell primary objectives are to i) Centralize and coordinate CD activities within the Budget Department, ii) Further align DGB capacity development efforts with performance, personal development and job requirements as well as with the DG Budget Units' annual targets and priorities; and iii) Provide a fair and transparent incentive program within the Budget Department.
- **OECD PemPal network:** One representative of the MoF was officially invited to participate in Public Expenditure Management Peer Assisted Learning Budget Community of Practice focusing on "Selected aspects of program budgeting and performance management". The meeting brought together 81 professionals, including 62 practitioners from 21 Public Expenditure Management (PEM) Peer Assisted Learning (PAL) countries, as well as experts from the international organizations such as World Bank, IMF and Eurasian Development Bank. Full membership of the GoRA is currently under consideration by the PemPal board members since the contribution and expertise of the MoF/GoRA was praised and considered as highly valuable by the existing member countries. As a result and upon conditional approval of the GoRA as a member of this network, the MoF will broaden its peer-to-peer exchanges, develop South-South collaborations and learn from experiences and expertise of other countries from the region in terms of PFM reforms.

To summarize, output 3 budget execution targets have not been achieved because it is the 1<sup>st</sup> quarter of the financial year and execution rates are generally very low in this first quarter hence this target should be assessed on a yearly cumulated basis, but much attention was paid over this quarter to capacity development which should provide solid foundations and technical expertise within the MoF and LMs to meet their ambitious budget execution targets and to pursue the PFM reforms implementation in view of improving service delivery models across Afghanistan.

During Q1, a total of USD 1,553,394 was spent for this output. For more details, please look at Annex 2 on page 26.

Below is a snapshot of where MBAW is in relation to its annual targets after Q1

**Table 5: Output 3 progress**

2012 Baseline	2012 Annual Targets	Q1 Planned	Q1 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	Current execution rate is similar to the first quarter of last year (5%)	Overall LM execution rate is expected to be improved by 10% by the end of 2013
b) 70% accuracy of the 14 LM financial plans	b) Finalized submission of financial plans from LMs with above 80% accuracy	X	Submission of financial plans from the 14 LM supported by the PFM Advisors 100% accurate	PFM Advisors and sectors experts from MBAW expect, given the current analysis, an average of 90% accuracy
3.2 a) 2800 people were trained over 2012 (including participants to peer to peer exchanges)	a) 1 peer to peer exchange organized and a minimum of 6 training courses organized targeted to MoF and LM	X	1 peer to peer exchange organized in Malaysia and over 1400 people from MoF and LM trained	

### III. GENDER SPECIFIC RESULTS

Project experts have been collaborating with the UNDP Gender Equality Project over this quarter to include gender mainstreaming budgeting into the BC1 form and have delivered a specific presentation on GRB to the BC1 training participants from LM. The GRB section of BC1 and the related trainings are very important as they raise awareness on GRB and ultimately should help to measure the impact of projects funded by the development budget on women.

The project has been actively working on introducing gender budgeting as part of its norm based budgeting process and budgetary units are asked to segregate men to women allocations. This process has been initiated by the project supported Budget Integration and Reform Unit of the MoF and despite the reluctance from LMs, partly due to limited internal support at MoF and lack of technical capacity at LMs, the project aims to further improve program budgeting and assist the LMs to properly implement this reform which has already been rolled out to all BUs. Next stages are to design a robust M&E framework and to develop Programs Based Appropriations but it would require extensive restructuring of MoF and LM departments towards service delivery 'silos' and therefore, a radical change in the organizational structure and culture of the Ministries.

### IV. PARTNERSHIPS

The project organized a major event over this quarter in partnership with Integrity Watch International on the OBI index. Participants included members of Parliament, NGOs, CSOs, and media organizations as well as several high level officials from the GoRA. This event was widely broadcasted on the local media and contributed to raise awareness of the national budget process and demonstrated the significant improvements in budget transparency and accountability.

The project experts also contributed to the public hearing event on the national budget organized by the Afghans Coalition for Transparency and Accountability. Representatives from the Parliament and CSOs participated at this important event which aimed to increase citizens and civil society participation and understanding of the national budget process. This hearing was also used as a platform to exchange on the recent rejection of the budget by the Parliament and provided recommendations to the second draft of the national budget in order to better integrate civil society concerns and priorities. Our project expert and MoF staff provided technical inputs to the organising NGO for the event.

**Public hearing event on the national budget**



*(Photo Credit: Mirwaise Nasery, IWA)*

## V. ISSUES

- **Uncertainty over sub-national governance and provincial budgeting arrangements (recorded January 2012)**

The project supported Provincial Budgeting Unit of the MoF to closely monitor all steps of preparation and policy development process in order to make course correction and steer the process. In addition, further consultations with stakeholders are planned in view of reaching a consensus. Contingent plans were also designed when deterioration of security situation lead to delays and/or cancellation of training program delivery (such as grouping of provinces in more secure provinces or training venue to be held in Kabul which however increase substantially the costs).

The project has finalized over this quarter the sub-national budgeting policy draft and set of supporting documents. It has also conducted consultation meetings with stakeholders as reported in this quarterly report hence this issue is being solved.

- **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.

- **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.

- **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.

- **Implementing the exit strategy without undermining MoF capacities (recorded June 2012)**

This issue is being addressed by the capacity development plan of the project and close collaboration with the World Bank Capacity Building for Result project has been initiated in order to gradually transfer project staff under this scheme to the MoF.

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

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.

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

This issue was already reported in the previous yearly report of the project and 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 MoE 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 alignment rule, Clusters Advisors will organize more frequent consultations with the MoEc in order to develop adequate indicators which can be monitored and reported against given the current limited capacity of the MoEc and LMs. In addition, cooperation between LMs and MoF on the TMAF indicators is limited and further awareness raising and assistance is required by the MoF to ensure that LMs fully support and understand the TMAF indicators, implications and requirements.

## **VI. RISKS**

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

Due to poor donors take up and data entry in the DAD database, the MoF faces huge challenges in monitoring this key TMAF commitment. As detailed in the narrative above, project experts have been working on simplifying and making the DAD users interface friendlier and a series of presentations and trainings is planned to donors over the coming months. One potential quick-fix would be for the donors to designate a focal responsible person for DAD but this is beyond the project direct influence.

- **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.

- **Busan ‘New Deal’ but no detail (recorded April 2012)**

This challenge is now over as the project experts have largely contributed to assist the GoRA with the Busan process over this quarter as explained in the above section.

- **Collapsing projects into core functional assignments (recorded September 2012)**

The project is closely monitoring and implementing its capacity development plan, supporting the project exit strategy, and is ensuring that capacity development of the MoF is sequenced with fiscal capacities and resulting absorption capacity of the MoF, while exploring the options of tashkeel/CBR transfer of core functional staff.

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

There is still no written commitment from donors to support MBAW II 2013 – 2015, however MoF and UNDP are currently working on fundraising for the new phase of the project.

- **Uncertain move to NIM modality (recorded September 2012)**

UNDP management decided to shift to NIM (nationally Implemented Modality) modality under the new project phase starting in September, 2013.

## VII. LESSONS LEARNED

- **Upstream and early involvement of the Parliament in the national budget process**

Involving the Parliament at a very early stage of the national budget making process is critical to ensure their endorsement in a timely manner. The project will concentrate in the coming months on building the capacity of the Budget Committee of the Parliament and thus improve their capacity in filling their oversight role.

- **Portfolio review of major donors to review and improve implementation of projects**

Conducting portfolio review of Major donors such as the World Bank is very useful to identify challenges, bottlenecks and current status of projects. It helps to find address most issues and thus improve budget execution rates of development projects.

- **Lessons learnt report to be published next month by BRU**

The project supported budget reform unit of the MoF has been working on a lessons learnt report regarding the implementation of budget reforms. This document highlights major challenges and suggests key recommendations to improve rollout of PFM reforms and to make further progress towards the PFM Roadmap targets.

- **Interaction with external stakeholders and development partners is key for implementing the AMP and the Provincial Budgeting Policy**

There is a need for improved cross-disciplinary interactions with internal and external stakeholders for accomplishing the expected outputs and commitments of both the AMP and the Provincial Budgeting Policy. Stakeholders consultations are essential for effective implementation of new policies as they help to resolve bottlenecks and potential barriers.

- **Need for improved coordination with the Treasury, Accounting Policy and other MoF departments.**

In the context of transfer of assets owing to PRT evolution and nationalisation, there is an urging need to reinforce internal coordination between the relevant MoF departments. The project is fully supporting this process and has been a major contributor in the set up of the TA coordination Cell within the DGB, which aims among others at strengthening coordination between the different TA projects and above all at being regarded as a pilot/best practice to be implemented across the other MoF departments.

- **Regular meetings with Budgetary Units of LMs**

Reporting formats for measuring LMs performance have been simplified by the project experts and regular meetings were formally introduced to review support required from MoF. As part of its efforts to strengthen relationships between MoF and LMs, the project has invested into introducing new mechanisms to improve coordination and collaboration between MoF and LM which are regarded as a way forward contributing to sound partnerships based on mutual accountability, effective communication, and solid collaboration.

- **On-the-job training and impact/baseline study**

Given the focus of the project on coaching, it was decided to design, in the next months, a robust M&E framework to track, map and measure the impact of these on-the-job trainings on the actual budget planning and execution delivery of LMs. The project experts will also draft a training policy in order to have a coherent and harmonized approach to training courses delivered by the MoF.

## **VIII. FUTURE PLAN**

During Q2, the project will assist the Budget Department to issue improved budget ceilings to LMs based on the macro-economic and fiscal situation of the country. The project will also work closely with Budget Department to revise the Budget Circular II and provide adequate trainings to the LM representatives on the 1393 budget process. In addition, the project plans to finalize the sub-national budgeting and financing policy internally within the MoF.

Under the Aid Management, the project will conduct Donor Coordination Dialogues (DCDs) with all donors to review their existing portfolio, alignment with NPPs and channeling funds through the government PFM channel. The project will also organize a study tour in one of the developing countries to exchange best practices in the area of policy development and alignment budgetary processes with government strategic goals.

## IX. ANNEXES

### 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			1,599,165	2,386,503			-	-	2,386,503
UNDP (Core Fund)	2,500,000				-	2,500,000		802,446	1,697,554			-	-	1,697,554
<b>Grand Total</b>	<b>12,500,000</b>	<b>10,000,000</b>	<b>6,014,333</b>	<b>-</b>	<b>3,985,667</b>	<b>2,500,000</b>	<b>-</b>	<b>2,401,611</b>	<b>4,084,057</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,084,057</b>

Note:

- i) The Opening balance for 2013 accounting period is not available due to the UNDP Certified Financial Statements for the 2012 are under the review, and verification of UN board of auditors. Therefore, all figures 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.

## ANNEX 2: EXPENSES BY OUTPUT

Project Output ID and Description	2013 Budget (AWP)	Expenses (Jan-Mar-2013)	Delivery Rate	Remarks
<b>Output 1: (00081414)</b> Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	470,152	231,771	49%	
<b>Sub-total Output 1</b>	<b>470,152</b>	<b>231,771</b>	<b>49%</b>	
<b>Output 2: (00081415)</b> Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	1,205,907	439,750	36%	
<b>Sub-total Output 2</b>	<b>1,205,907</b>	<b>439,750</b>	<b>36%</b>	
<b>Output 3: (00081439)</b> Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	2,944,753	1,553,394	53%	
<b>Sub-total Output 3</b>	<b>2,944,753</b>	<b>1,553,394</b>	<b>53%</b>	
<b>Output 4: (00056407)</b> Technical Assistance and Management Cost (Project Support Costs)	311,865	176,695	57%	
<b>Sub-total Output 4</b>	<b>311,865</b>	<b>176,695</b>	<b>57%</b>	
<b>Grand Total</b>	<b>4,932,677</b>	<b>2,401,611</b>	<b>49%</b>	

### ANNEX 3: EXPENSES BY DONOR

Donor Name	Project Output ID and Description	2013 Budget (AWP)	Expenses (Jan-Mar-2013)	Delivery Rates
Japan	<b>Output 1: (00081414)</b> Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	378,016	210,771	56%
	<b>Output 2: (00081415)</b> Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	80,036	77,486	97%
	<b>Output 3: (00081439)</b> Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	2,319,588	1,340,082	58%
	<b>Output 4: (00056407)</b> Technical Assistance and Management Cost (Project Support Costs)	-	(29,174)*	
<b>Sub-Total</b>		<b>2,777,640</b>	<b>1,599,165</b>	<b>58%</b>
UNDP	<b>Output 1: (00081414)</b> Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	92,136	21,000	23%
	<b>Output 2: (00081415)</b> Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	1,125,871	362,265	32%
	<b>Output 3: (00081439)</b> Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	625,164	213,312	34%
	<b>Output 4: (00056407)</b> Technical Assistance and Management Cost (Project Support Costs)	311,865	205,870	66%
<b>Sub-Total</b>		<b>2,155,037</b>	<b>802,446</b>	<b>37%</b>
<b>Grand Total</b>		<b>4,932,677</b>	<b>2,401,611</b>	<b>49%</b>

Note: \* The minus expense is the reflection of un-liquidated obligations closed within 2013 accounting date.

## ANNEX 4: ISSUE LOG

#	DESCRIPTION	DATE IDENTIFIED	IMPACT/PRIORITY	COUNTERMEASURE/MNGT RESPONSE	OWNER	STATUS
1	Uncertainty over sub-national governance and provincial budgeting arrangements	January 2012	High	The project has finalized over this quarter the sub-national budgeting policy draft and set of supporting documents. It has also conducted consultation meetings with stakeholders	Provincial Unit, Budget Department	Being solved
2	Parallel and fragmented service delivery models	January 2012	High	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.	Budget Department	ongoing
3	Funding gaps for NPPs implementation	March 2012	Medium	Being addressed by the project cluster experts by conducting regular meetings and consultations with development partners.	Policy Department	Being addressed
4	Limited fiscal resources against significant off-budget spending	July 2012	High	The project expert contributed to the Self-reliance strategic contribution to the Tokyo declaration and the MoF is developing a sound fiscal forecasting and modeling capacity	Budget Department	ongoing

#	DESCRIPTION	DATE IDENTIFIED	IMPACT/PRIORITY	COUNTERMEASURE/MNGT RESPONSE	OWNER	STATUS
5	Implementing the exit strategy without undermining MoF capacities	June 2012	High	Close collaboration with the World Bank CBR project has been initiated in order to gradually transfer project staff under this scheme.	PMU	ongoing
6	Difficulties in collecting data for sound fiscal forecasting and modeling	January 2013	Medium	The MBAW 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.	Fiscal policy Department	ongoing
7	Lack of coordination between the MoF, the MoEc and other LMs on the NPPs and TMAF processes	January 2013	High	Clusters Advisors to organize more frequent consultations with the MoEc in order to develop adequate indicators which can be monitored and reported against.	Policy Department	ongoing



## ANNEX 5: RISK LOG

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Management response	Owner	Submitted, updated	Last Update	Status
1	Achieving the 50% on-budget (harmonization) rule and 80% NPP alignment rule	January 2012	Socio-economic	High	MBAW experts have been working on simplifying and making the DAD users interface friendlier and a series of presentations and trainings is planned to donors over the coming weeks. One potential quick-fix would be for the donors to designate a focal responsible person for DAD but this is beyond the project direct influence.	Aid Management Unit, Budget Department	January 2012	Still valid	ongoing
2	Predictability of aid	January 2012	Socio-economic	High	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.	Aid Management Unit, Budget Department	January 2012	Still valid	ongoing
3	Busan 'New Deal' but no detail	April 2012	Socio-economic	Medium	This challenge is now over as the project experts have largely contributed to assist the GoRA with the	Aid Effectiveness Unit, Budget	April 2012	Addressed	ongoing

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Management response	Owner	Submitted, updated	Last Update	Status
					Busan process.	Department			
4	Collapsing projects into core functional assignments	September 2012	Organizational	High	The project is closely monitoring and implementing its capacity development plan, supporting the project exit strategy, and is ensuring that capacity development of the MoF is sequenced with fiscal capacities and resulting absorption capacity of the MoF, while exploring the options of tashkeel/CBR transfer of core functional staff.	Budget Department	September 2012	Still valid	ongoing
5	Funding for the new phase of the project	October 2012	Organizational	High	Still unresolved. There is still no written commitment from donors to support MBAW II.	PMU	October 2012	Still valid	ongoing
6	Uncertain move to NIM modality	September 2012	Organizational	High	UNDP management decided to swift to NIM modality under the new project phase starting in June 2013.	PMU	September 2012	No longer valid	Solved (to be implemented under MBAW phase II)
7	Limited understanding of the budget cycle from the MPs and	February 2013	Political	Medium	MBAW has been actively working on 'educating' MPs and will also focus under its new project phase, in collaboration with the UNDP	PMU and DGB	February 2012	Still valid	ongoing

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Management response	Owner	Submitted, updated	Last Update	Status
	predominance of own territorial agenda against the national good				Parliament project, on providing the Parliament oversight capacities and technical expertise in the budget cycle process.				
8	Delays in the introduction of VAT legislation which is a precondition for IMF-ECF program review	March 2013	Political	High	Fiscal MBAW experts drafted several strategic documents and fiscal modeling analysis in order to demonstrate benefits of introducing such policy. Nonetheless, intense lobbying is still required.	Fiscal Policy Department	March 2013	Still valid	ongoing