



INTEGRITY
WATCH
AFGHANISTAN



THE GAME OF NUMBERS

Analysis of the National Budget 2018

December 2017

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Authors:

Sayed Ikram Afzali

Mohammad Naser Timory

December 2017

Cover photo:

Pajhwok Afghan News

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Published by Integrity Watch Afghanistan

Kolola Poshta, Kabul, Afghanistan

Email: info@iwaweb.org

Website: www.iwaweb.org

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ABOUT INTEGRITY WATCH AFGHANISTAN

Integrity Watch is an Afghan civil society organization committed to increasing transparency, accountability, and integrity in Afghanistan. Integrity Watch was created in October 2005 and established itself as an independent civil society organization in 2006. The head office of Integrity Watch is in Kabul with provincial programmatic outreach in Balkh, Bamyan, Herat, Kabul, Kapisa, Kunduz, Nangarhar, Paktia, and Parwan provinces of Afghanistan.

Over the last decade, Integrity Watch's work focused on: Community Monitoring, Research, and Advocacy. Ever since its establishment, Integrity Watch has tried to encourage active citizenship and community mobilization through its programs. The community monitoring work included the development of community monitoring tools, mobilizing and training communities to monitor infrastructure projects, public services, courts, and extractive industries.

The research work focused on policy-oriented research measuring trends, perceptions and experiences of corruption and covering a wide range of corruption-related issues including security and justice sectors, extractive industries, public finance and budget management, and aid effectiveness. The objective is to develop new, ground-breaking empirical research in order to set the agenda, influence decision-makers, bring to the public attention non-documented and unexplored issues.

Integrity Watch has taken up a pioneering role in advocating for knowledge-based decision-making and informed public debate on corruption and integrity issues. The advocacy work includes facilitation of policy dialogue on issues related to integrity, transparency, and accountability. IWA's policy advocacy has been to examine accountability of the government and service providers to the communities they serve. The issues focused on to date are access to information, budget transparency and accountability, aid transparency and effectiveness, effective public service delivery, and anti-corruption.

LIST OF ACRONYMS

AFN	Afghani
ALBA	Assistance to Legislative Body of Afghanistan
BRT	Business Receipt Tax
DPVPI	Development Projects Vulnerable to Political Influence
GDP	Gross Domestic Product
IDLG	Independent Directorate of Local Governance
JCMB	Joint Coordination and Monitoring Board
MAIL	Ministry of Agriculture and Livelihood
MOEW	Ministry of Energy and Water
MoF	Ministry of Finance
MoF	Ministry of Finance
MOMP`	Ministry of Mines and Petroleum
MOPH	Ministry of Public Health
MOPW	Ministry of Public Works
MOUD	Ministry of Urban Development
MP	Member of Parliament
MRRD	Ministry of Rural Rehabilitation and Development
MRRD	Ministry of Rural Rehabilitation and Development
NGO	Non-Government Organization
NPC	National Procurement Commission
NRAP	National Rural Access Program
NTA	National Technical Assistant
NUG	National Unity Government
OBI	Open Budget Index
OBS	Open Budget Survey
OECD	Organization for Economic Cooperation & Development
DAC	Development Cooperation Directorate
PBP	Provincial Budgeting Policy
PEA	Political Economy Analysis
PIU	Project Implementation Unit
PPP	Provincial Procurement Policy
SAO	Supreme Audit Office
SNGP	Sub-National Governance Policy
TMAF	Tokyo Mutual Accountability Framework
UNOPS	United Nations' Organization for Project Services
VAT	Value Added Tax

ACKNOWLEDGMENTS

The authors would like to thank the report's peer reviewers Mr. Ahmad Shah Mobarez, a Ph.D. student at the University of Arkansas, and Lorenzo Delesques, chairman of Integrity Watch Afghanistan. Our gratitude also goes to members of parliament who made themselves available for the interviews and spoke courageously about the dealings in the budget process. We would like to thank the Directorate General of Budget of the Ministry of Finance for inviting us at the budget hearing committees and making themselves available for interviews. We would also like to thank Deputy Minister Finance Mr. Khalid Payenda for ensuring a discussion with the Ministry of Finance advisors to comment on the report. Last but not the least, we would like to thank Mr. Ezatullah Adib, research manager at Integrity Watch Afghanistan and our other colleagues for assisting us with this project.

Photo by: Nasir Aieen





1. EXECUTIVE SUMMARY

The Afghan government has for many years been able to spend only around half its development budget – a serious concern given the pressing need for investment in Afghan infrastructure. Rather than tackle the root causes of this problem – including lack of public participation, centralization of budgeting and procuring powers, undue political influence, low capacity of the civil servants, and lack of leadership – the government has sharply reduced development spending in its most recent budget. The government has made progress in some areas, with increased revenue collection a notable bright spot. But it should act with great urgency to put in place reforms including participatory budgeting and social audits, a register of development projects, provincial budgeting, transparency reforms, reforms to the extractive sector, and a focus on economic growth as the driver of revenue.

The Afghan government has submitted a National Budget for 1397 (2018) to Parliament which has been estimated at a total AFN 357 billion (around USD 5.2 billion), with domestic revenue of around AFN 169 billion, revenue from foreign aid of around AFN 188 billion, and a budget deficit of around AFN 6.9 billion.

The proposed budget indicates a significant reduction in comparison to the Enacted National Budget of 1396. The overall budget has seen a 17% reduction (from AFN 429 billion in 1396 to around AFN 357 billion in 1397) while the development budget has dropped 42% (from AFN 161 billion in 1396 to around AFN 93 billion in 1397). While the Ministry of Finance (MoF) claims that the reason for this massive drop is resource constraints, the reduction seems to be more due to failure of the government to appropriately budget and spend the development budget in the past years. The government has been able to spend only around 50% of its development budget in the last ten years. In the three years of the National Unity Government (NUG), the disbursement rate of the development budget has only seen a slight increase. Instead of addressing the root causes of this failure to deliver, the NUG has reduced the development budget to accommodate with its capacity and, therefore, escape public pressure and accountability that has been on the rise due to lack of implementation of development projects.

Nevertheless, domestic revenues have seen a remarkable increase under the NUG. When the NUG leaders took office in 1393 (2014), the domestic revenue was around AFN 122 billion. It is estimated that domestic revenues will reach around AFN 153 billion in 1396 (2017). The MOF claims that the increase has been due to reform of tax collection, 2.4% increase in growth rate, and 5% inflation. However, this is not completely true since the NUG has introduced several new taxes including the Business Receipt Tax and has doubled the taxes on fuel imports. In addition, a 10% fee has been added on cellphone top-up card. Custom duties on certain items and airspace fees have also increased.

There are inherent weaknesses in the budget process that lead to inability of the government to budget and spend appropriately. These weaknesses include: (1) lack of public participation, (2) centralization of budgeting and procuring powers, (3), development projects vulnerable to political influence, (4) low capacity of the civil servants, and (5) leadership deficit.

Out of around eight hundred development projects and programs in 1396 and 1397, this research did not find any evidence of public participation and feedback in the selection of those projects. Instead, there are indications that the projects are forced into the national budget against the needs of the local people. Although Principles of Public Participation in Fiscal Policy requires the government to “proactively use multiple mechanisms to reach out to engage citizens and non-state actors including traditionally excluded and vulnerable groups and individuals and voices that are seldom heard without discrimination”¹ in the budget process, some MoF advisors believe that only participation of provincial councils in the budgeting process is adequate for participatory budgeting.

The MoF has apparently been working on provincial budgeting for a decade, necessary governance infrastructure has not been put in place in the provinces due to lack of political will to delegate certain budgeting and procuring powers to governors and provincial officials. Nevertheless, there has been some improvement in terms of allocation of funds to be budgeted at provincial level. In the 1397 National Budget

1 Global Initiative for Fiscal Transparency, “Principles of Public Participation in the Fiscal Process,” GIFT, http://www.fiscaltransparency.net/pp_principles/ (accessed December 4, 2017).

Proposal, USD 1 million has been allocated under the “contingency code” for each province irrespective of its size, population, and needs.

Development projects whose amount and locations are not fixed, or programs whose individual components are not defined are particularly vulnerable to political influence during their implementation. This allows politicians to pressure a minister to allocate resources to their neighborhoods, or ministers to allocate resources to politicians as a form of patronage, after the enactment of the national budget by the parliament. This research has found that 50 percent of the projects in the 1396 National Budget and 38 percent of projects in the National Budget proposal of 1397 are prone to political influence. Although there has been some improvement in reducing vulnerability to political influence in development projects in the 1397 budget, it still leaves a lot of room for abuse. The majority of Members of Parliament (MPs) compel ministers to meet them throughout the year to pressure them to accept their projects and to give away contracts to their relatives and friends. Instead of addressing the issue, the NUG has regulated this patronage by asking MPs to meet executive officials on a specific day of the week.

The low capacity of the civil servants has been attributed to their meager salaries, poor education and lack of understanding of modern management skills. In collaboration with its international partners, the Afghan government has promoted a parallel shadow civil service system to address the capacities issues of the formal government civil servants. In 2012, some attributed the 50-percent delivery of the development budget to around 5000 “second civil servants”. In spite of increasing the number of second civil servants, formally called National Technical Assistance (NTA), to 20,000 in the 1396 National Budget, the disbursement rate of the development budget has not seen the same level of increase.

Although there is not much evidence of the effect of the high number of acting ministers on the delivery of services, there is a general consensus among the experts that acting ministers and governors as well as a weak cabinet has resulted in delays and added complications to the bureaucracy.

While lack of political will and weaknesses in the executive have resulted in a weak national budget document and a sluggish implementation, the parliament has distorted the whole budget process in their own favor. The role of the Lower House that has the authority to reject the national budget has been particularly disruptive. The Wolesi Jirga (Lower House) has rejected the last eight National Budget proposals in a row, four of them twice. This research shows that the reason the members of the parliament rejects the national budget proposals is not intended to push for systemic reforms such provincial budgeting policies. The decisions of Wolesi Jirga to reject the National Budget Proposals have generated a pattern of patronage behavior where the MPs get the chance to negotiate their benefits with the MoF and other ministries.

Although the MoF has taken some steps to reform the budget process, the report recommends the following actions to address the issues touched on above:

Addressing community needs through development projects

- **Participatory budgeting:** The MoF should ensure inclusive public consultation on selection of development projects. All line ministries should use various mechanisms such as public hearings, town-hall meetings, surveys and opinion polls, and Internet-based platforms to reach out to and engage citizens for the selection of their projects. The budget planning time-line should be adjusted to allow for public consultation in regard to any new projects.
- **Development projects register:** The government should keep a register of all projects across the country such as roads, schools, clinics, small dams, irrigation projects and others that are proposed by the public. It can also create a portal through which people can upload their project suggestions. This can be used to engage people in the process and to facilitate planning for several years in advance.
- **Provincial budgeting:** Both the National Assembly and Ministry of Finance should make provincial budgeting an immediate and high priority. The current provincial budgeting procedures are based on the old top-down budgeting approach. The only major difference with previous budget procedures is that instead of line ministries requesting their provincial directorates to develop annual plans, provincial governors and the MOF carry out this function. Therefore, provincial budgeting procedures should be redefined not only to become a more bottom-up oriented process that would include government officials at the local level but also to increase public participation. It should begin with

a very simple step such as by allocating more resources for each province to conduct planning and procurement as well as monitoring of projects at the local level engaging local communities.

- **Transparency:** National assembly members should abstain from visiting ministries and government agencies after the enactment of the national budget with a view to seeking to allocate projects to their province. Government officials should immediately announce the names and any demands placed upon them by any such members of the national assembly through the media. The government should require ministers to make minutes of such meetings public.
- **Social Audit:** The Supreme Audit Office (SAO) should establish a citizen's feedback system to receive and respond to complaints and reports received from the public about misuses. The SAO should carry out audits which engage civil society and citizen's groups as part of such audits, based on credible public complaints, and provide feedback to the public on the status of cases reported by the public. The SAO and internal audit sections of each ministry should publish their audit reports and provide channels for the citizens to report misuse.

Addressing the fiscal deficit

- **Anti-corruption driven revenue collection:** Estimates show that the government can double its USD 2.2 billion revenues if it transforms its tax collection regime with rigorous oversight from public representatives, the disclosure of information and engaging people at the local and national level, and a real-time transparent computerized system of mobile top-up card fees.
- **Economic-growth driven revenue generation:** The current Gross Domestic Product (GDP) growth rate has been predicted at 2 to 4 percent in the next four years. This growth is mainly sustained through the agriculture sector, and the government lacks a clear policy to support the urban-based industry and the services sector. Rather than adding pressure to the existing economic activities to generate domestic revenue, the government should focus on economic growth as a source of national income.
- **Broadening the tax net:** While it is important to introduce new taxes primarily aimed at urban centers, like the Value Added Tax (VAT), it should be realized that taxing the cities has its limits. The Afghan government has failed to substantially increase its tax receipts, especially in rural Afghanistan. In addition to a lack of strategic vision as to how to enlarge tax receipts, the lack of government legitimacy due to corruption and maladministration in rural Afghanistan has significantly undermined the credibility of the government when it seeks to increase tax receipts from rural Afghans. But Afghanistan won't be able to move towards self-reliance if it chooses to rely on the cities alone for the revenues.
- **The potential of the extractive sector:** For the first time, there are explicit references to the extractive sector as a potential source of national income in the national budget. The extractive sector has especial potential to generate more revenue with better governance. However, the government should be warned about the weakness within the sector especially the Ministry of Mines and Petroleum. Even with the current leadership, the government will not be able to increase its revenues from the sector unless it implements effective governance reforms, starting with ensuring transparency of contracts, publishing of production and payment data, and ensuring necessary regulatory capacity to manage medium and large contracts. There are realistic measures, and the government has committed to a number of the most important ones – but it has lagged behind in terms of implementation.
- **Turning the illicit economy into a source of revenue:** A good portion of the Afghan agriculture sector and the economy in general is based on illegal opium cultivation and the narcotics trade. The Afghan government and its international partners have spent USD 8.5 billion² to eradicate opium cultivation and its trade, with no success. While President Ashraf Ghani spoke about the possibility to legalize the narcotics economy in Afghanistan three years ago, there does not seem to be any serious discussions since then about legalizing and regulating this huge illicit economy. The experience in several countries including India, Burma, and Columbia could be replicated in Afghanistan.

2 SIGAR, "From Kabul to your hometown: useful tools for effective IG oversight," SIGAR, https://sigar.mil/pdf/speeches/SIGAR_Austin_Speech_2017-11-15.pdf (accessed December 4, 2017).

2. METHODOLOGY

This report has been written from a civil society perspective. The main focus of this research is to identify if the priorities, needs, and demands of Afghan citizens are taken into consideration in the budget process. Transparency and accountability of interactions between actors in the budget process, provincial budgeting and procurement as well as decentralization of budget authorities and public consultation on selection of the development projects are the main focus areas of this report.

This study used a mixed method. This method “advances the systematic integration, or ‘mixing,’ of quantitative and qualitative data within a single investigation or sustained program of inquiry.”³ A mixed method enables researchers to use multiple techniques of data collection. “The basic premise of this methodology is that such integration permits a more complete and synergistic utilization of data than do separate quantitative and qualitative data collection and analysis.”⁴

To understand the general trends and debates, this report has used a qualitative study of the existing literature on the national budgeting process including reports by think-tanks, independent budget analysis, and debates which have taken place in the national assembly and which have been reflected in the news.

This report has developed an analysis tool, namely, the identification of development projects which are vulnerable to political influence (DPVPI) in order to identify projects that are affected by political actors in the planning and execution of the budgeting process. For the sake of analyzing the Afghan national budget, DPVPI is defined as a project whose location (province, district, village) or amount is not determined. To apply this tool to the national budget, the research utilized basic quantitative techniques.

This report has also utilized political economy analysis (PEA) tools for understanding the relationships between the executive and the legislative branches. According to the OECD-DAC, “political economy analysis is concerned with the interaction of political and economic processes in a society; including the distribution of power and wealth between groups and individuals, and the processes that create, sustain and transform these relationships over time.”⁵ In particular, this report will examine whether political representatives use their official positions for rent-seeking opportunities during the national budgeting process.

Before the drafting of this report, the researchers have engaged with the major stakeholders to understand their perspectives on the budget process. In addition, a representative of the research team was present at a number of sessions of the budget hearings held at the Ministry of Finance in September 2016 and again in September 2017. Integrity Watch is also part of the Civil Society National Budget Advocacy Group and has engaged with USAID project called Assistance to Legislative Body of Afghanistan in this regard. The research team was also engaged with other civil society organizations including the work of Equality for Peace and Democracy in this regard.

3 Agency for Healthcare Research and Quality, “Mixed Methods,” AHRQ, https://pcmh.ahrq.gov/sites/default/files/attachments/MixedMethods_032513comp.pdf (accessed on 31 December 2016).

4 Ibid.

5 UNDP, “Political Economy Analysis,” UNDP, http://www.undp.org/content/undp/en/home/ourwork/democraticgovernance/oslo_governance_centre/analysis_and_learning/political_economyanalysis.html (accessed on 31 December 2016).

3. INTRODUCTION

The national budget is a critical instrument of public policy. It outlines the mode of extraction of taxes and the logic of distribution of resources in a country.⁶ The national budget is the point where the state and people meet. On the one hand, the state raises taxes from the citizens and on the other hand, it is through the national budget that the state delivers services to the same people. Aid to the Afghan people by donor states should be understood in a similar way since such aid, which makes 66% of the national budget, is conditioned on the expectation that the Afghan government will continue to fight terrorism and will act to prevent migration from Afghanistan to various developed countries.

The Ministry of Finance (MoF) is the central agency that coordinates the process of the draft, approval, and execution of the national budget. The MoF sends budget circulars to the budgetary units in the second quarter of each fiscal year to collect the operating expenses and development projects. In the September of each year, a budget hearing committee consisting of the Ministry of Finance, Ministry of Economy, Ministry of Foreign Affairs and Administrative Offices of the President as members along with government and non-government observers meet and evaluate if the budgetary units have considered the budget ceilings approved by the cabinet and government policies among others.

Upon completion of the budget hearing committee work, the compiled budget is submitted to the cabinet for approval. The cabinet-approved budget is presented to the Meshrano Jirga (the Upper House) in November by the Minister of Finance. Two weeks following it, the Minister of Finance presents the National Budget Proposal to the Wolesi Jirga (the Lower House) that has the authority to approve or reject the proposal as whole. Usually, the National Budget proposal is approved by the Wolesi Jirga and signed by the President in late December.

This process has been riddled with incompetence, corruption, and collusion among the executive and the legislative branches in the last one decade. On 8 November 2016, the Minister of Finance presented the National Budget for 1396 to the Upper House of the National Assembly. The Minister of Finance told the senators that the budget had been prepared considering the priorities set by the Afghanistan National Peace and Development Framework which emphasizes investment in health and agriculture, and takes into consideration the citizen charter and women's empowerment as priority areas.⁷ The House approved the budget on 28 November 2016.⁸

Following the approval of the Upper House, the Budget was presented to the Wolesi Jirga. The House rejected the National Budget on 12 December 2016 making it the eighth consecutive National Budget rejected by the Wolesi Jirga in a row. The Lower House has rejected 8 out of 8 (4 of them twice) national budget documents presented to it since 1388 (2009). Lack of a fair distribution of the budget among the provinces has been cited as the most common reason for the rejection of the national budget.⁹ The Wolesi Jirga has claimed that the draft budget did not consider "a balanced development among the provinces."¹⁰

The decisions of Wolesi Jirga to reject the National Budget have generated a pattern of patronage where the MPs get the chance to negotiate their benefits with the Ministry of Finance and other ministries. When the National Budget 1396 was rejected by the 136 out of 140 MPs, the Ministry of Finance started to negotiate the demands of the MPs. "The parliamentary election is next door and the MPs argue that they would like to run again and need to secure something for their constituency to buy their support." shared a member of

6 Florida International University, "Public Financial Management and Budgeting," FIU, <http://www2.fiu.edu/~ganapati/3003/budget.html> (accessed on 31 December 2016).

7 Ministry of Finance, "Wazir maleya budja 1396 ra be mashrano jirga peshkash kard," Ministry of Finance, <http://mof.gov.af/fa/news/58521> (accessed on 31 December 2016).

8 Afghan News Agency, "Majles sana tarhe budja 1396 ra tahad kard," Afghan News Agency, <http://bit.ly/2itoPph> (accessed on 31 December 2016).

9 Azadi Radio, "Wolesi Jirga budja saal mali 1396 ra rad kard," Radio Azadi, <http://da.azadiradio.com/a/28189206.html> (accessed on 01 January 2017).

10 Ali Shir Shaheer, "Rad-e Budja," Khaama Press, <http://khabarnama.net/blog/2016/12/21/budget-rejection-parliament-wants-review-of-96-budget/> (access 31 December 2016).

Economic Commission of the Wolesi Jirga which is in-charge of the National Budget. Last year, the Ministry of Finance and Wolesi Jirga against the relevant laws, agreed to allow each MP to have their projects of choice in the National Budget 1396. As a result, 350 projects worth of USD 70 million was forced into the National Budget. The National Budget 1396 was approved by 139 out of 140 MPs and the Minister of Finance received a certificate of excellence for his work.

The National Budget proposal 1397 was presented to the Meshrano Jirga (Upper House) in early November 2017 and approved two weeks later. Following it, the Minister of Finance presented the National Budget proposal 1397 to the Wolesi Jirga (Lower House) on November 22, amid protest by 130 MPs for the lack of inclusion of Gardandiwal ring road (Ghor-Kabul). It is yet to see more reactions of the Wolesi Jirga to the 1397 National Budget proposal. The initial indications show that the Lower House would like to continue its earlier pattern of behavior as in 1396 National Budget.

This report will explore the extent to which the development projects in the national budget have been subject to adequate consultation and whether those projects are indeed consistent with the priorities of the public. In addition, it will examine the progress or lack of it in the provincial budgeting and provincial procurement in order to determine which direction the government is taking in the delegation of power's debate. The purpose of this report is also to analyze whether development projects are vulnerable to political influence. The report will also include analysis of fiscal policy with a focus on domestic revenues and foreign aid. In order to put the current national budget into a broader perspective, the 1397 National Budget has been compared with previous years.



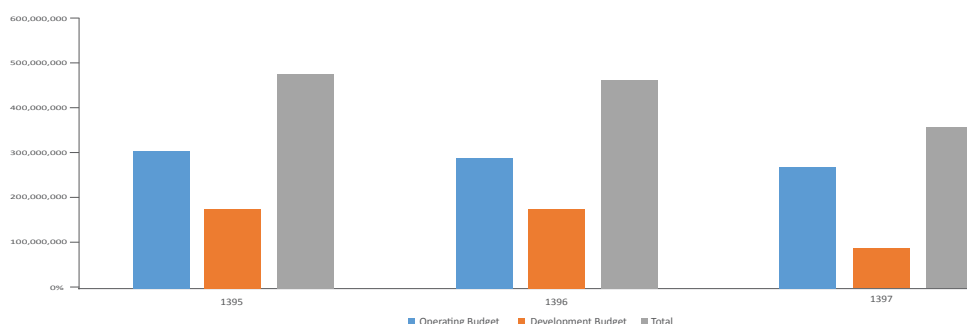
Photo by: Nasir Aieen



4. COMPARATIVE ANALYSIS OF THE NATIONAL BUDGETS

The total volume of the 1397 (2018) National Budget proposal is AFN 367 billion (17% less than the previous year's budget which was AFN 429 billion).¹¹ The operating budget has not seen a significant change from 287 in 1396 to 267 in 1397. However, the development budget has been reduced by 42% from AFN 161 billion to AFN 93 billion. In the past few years, the national budget changes did not reach a double-digit. For example, the national budget for 1396 did not see any significant change in terms of the total volume of the budget and the division between the operating and development budgets. The 1396 national budget of AFN 429 billion was 7 percent less than the 1395 national budget of AFN 465 billion. In 1396, the operating budget dropped 7 percent from AFN 289 billion to AFN 268 billion while development budget increased 8 percent from AFN 161 billion to AFN 176 billion.¹²

Figure 1: Comparison of National Budget 1395-1397



In terms of allocation of budget to sectors, the security sector consumes more than forty percent of the national budget in 1397 in spite of its development budget being fully funded by the international community. Education followed by infrastructure has been allocated 13% and 11% of the total national budget in 1397 National Budget proposal.

Table 1: Overview of sector allocations in 1397 National Budget Proposal (Figures in million AFN)

Sector	Development budget	Operational budget	Total	Percentage
Infrastructure	32,816	7,543	40,360	11
Agriculture and rural development	29,791	2,836	32,627	9
Health	9,979	3,720	13,699	4
Economic governance	4,949	3,446	8,395	2
Governance	4,137	21,487	25,625	7
Education	3,005	43,872	46,877	13
Security	1,411	144,676	146,087	41
Social Security	852	24,757	25,610	7
Contingency codes	3,670	14,736	18,407	5
Total	90,614	267,076	357,691	100

11 Ministry of Finance, "National Budget Proposal 1397," Ministry of Finance.

12 Ministry of Finance, "National Budget 1396," Ministry of Finance.

The 1397 National Budget Proposal has seen a drastic decrease of 17 percent in comparison to 1396 enacted National Budget. The reason behind this decrease is not very clear. However, the government seems to have realized that it can spend half the development budget each year. Therefore, the government has reduced the development budget in half to match its capacity. Other reasons may be that earlier development budgets were bogus; this is something the government may come up with an explanation when it presents the budget proposal for 1397 at the Wolesi Jirga.

Table 2: Comparison of 1396 and 1397 (Figures in Million AFN)

Sector	1396	1397	Difference in percentage
Security	147,676	146,087	-1
Governance	21861	25,625	17
Infrastructure	90019	40,360	-55
Education	56325	46,877	-17
Health	14406	13,699	-5
Agriculture and Rural Development	30494	32,627	6
Social Protection	26419	25,610	-3
Economic Governance	8798	8,395	-5
Contingency Codes	33411	18,407	-45
Total	429,409	357,691	-17

In the 1397 National Budget proposal, there are changes to which ministries owns more budget. With Citizen Charter embedded with the MRRD, it has become an agency that consumes 18 percent of the development budget. The ministry that has seen a decrease is the Ministry of Public Works from 17 percent in 1396 to 11 percent in 1397 National Budget proposal. In addition, Da Breshna Sherkat, in charge of electricity, has also dropped from number one in 1396 to number five in 1397.

Table 3: Ten largest consumers of development budget proposal in 1397 (Figures in million AFN)

Rank	Budgetary Unit	Figures in AFN	Percentage of Total Budget
1	Ministry of Rural Rehabilitation and Development (MRRD)	18,944	22
2	Ministry of Public Health (MOPH)	9,979	11
3	Ministry of Agriculture and Livelihood (MAIL)	9,697	11
4	Ministry of Public Works (MOPW)	9,560	11
5	Da Breshna Sherkat	7,437	9
6	Ministry of Urban Development (MOUD)	4,121	5
7	Ministry of Finance	3,367	4
8	Ministry of Energy and Water (MOEW)	3,071	4
9	Civil Aviation Authority	2,877	3
10	Kabul Municipality	1,989	2
	Total	71,046	82

Table 4: Ten Largest consumers of development budget in 1396 (Figures in million AFN)

Rank	Budgetary Unit	Total (Figures in AFN)	Percentage of Development Budget
1	Da Afghanistan Breshna Sherkat	30,185	18%
2	Ministry of Public Works	29,812	17%
3	Ministry of Public Health	14,897	9%
4	Ministry of Education	14,549	9%
5	Ministry of Rural Rehabilitation and Development	13,568	8%
6	Ministry of Energy and Water	9,718	6%
7	Ministry of Agriculture, Irrigation, and Livestock	8,965	5%
8	Kabul Municipality	5,377	3%
9	Ministry of Finance	5,252	3%
10	Civil Aviation Authority	4,032	2%
Total		136,359	80%

The four agencies at the bottom of the table have remained almost the same. The Kabul Municipality, the Civil Aviation Authority, the Ministry of Finance and Ministry of Energy consumes between 2 to 5 AFN billion in their development projects.

Table 5: Sources of national budget

FY	1395	1396	1397
Domestic revenues (Figures in billion AFN)	128	160	169
Foreign aid	314	259	188
Total	442	413	357

FY	1395	1396	1397
Domestic revenues	30%	34%	47%
Foreign aid	70%	66%	53%

In terms of the source of funding, there were not many changes between 1395 and 1396 national budgets. On the surface, there seems to be a sudden increase in the percentage of the national budget covered by the domestic revenues. While the domestic revenues covered 34 percent of the national budget in 1396, it has increased to 47 percent in 1397 National Budget Proposal. While there has been a steady increase in the government revenues, the major reason behind 13 percent spike is 21 percent decrease in the overall volume of the National Budget in 1397.

Box 1: Ministry of Finance budget reforms

The government claims that the National Budget Proposal 1397 has seen significant and transformative reforms. According to the government it is the first document that is Government Financial Statistics (GFI) compliant, meets the national priorities, replaces carry forward with “use it or lose it” policy, and has allocated the budget based on government agencies past performances as follows:

- The first ever consolidated and government financial statistics compliant budget with accurate forward estimates – certainty for multi-year project - (forward estimates are the baseline for the budget of next few years). Comprehensive, unified, top-down budget process and responsive to socio-economic conditions that is linked with the national priorities.
- Realistic, credible and more accurate outer years projections that is replacing systematic overestimation with accurate and credible rolling forward estimates that provides the basis for a credible and predictable annual budget.
- Transparent and detailed by provincial budgets, budgetary agencies, and sectors that factors in risks – fiscal pressures, pensions and donor aid decline Establish fiscal objectives and rules; flexible “use it or lose it” with no automatic carry-forwards. Performance measure based –moving from poor performance projects to good performance projects.

An analysis of National Budget Proposal 1397 shows that the GFI has not been introduced for the first time but has been in use since 2011. However, there seems to be some improvement in the use of GFI norms and standards. What seems to be concerning is the approach by at least some government officials to push for a top-down budgeting process while the international best practices including Open Budget Survey and Global Initiative for Fiscal Transparency.

The two areas in the National Budget Proposal 1397 that show improvement on the part of the government is making the national budget credible and awarding the good performers. Afghanistan national budget especially the development component has been consistently fudged in the last ten years. While there is a need for the government to acknowledge and share this with the public, it is a welcome step to fix it in the 1397 National Budget Proposal. Furthermore, the government seems to be awarding the good performers by allocating 18% of the development budget to the MRRD in 1397. This has reversed the earlier trend to allocate the largest share of the development budget to MOPW and DBS in spite of being bad performers.

5. WEAKNESSES IN MANAGING BUDGETS

There are inherent weaknesses in the budget process that lead to inability of the government to budget and spend appropriately. These weaknesses include: (1) lack of public participation, (2) centralization of budgeting and procuring powers, (3), development projects vulnerable to political influence, (4) low capacity of the civil servants, and (5) leadership deficit.

5.1. The funding deficit

Domestic revenues have seen a remarkable increase under the NUG. When the NUG leaders took office in 1393 (2014), the domestic revenue was around AFN 122 billion. It is estimated that domestic revenues will reach around AFN 153 billion in 1396 (2017). The MOF claims that the increase has been due to reform of tax collection, 2.4% increase in growth rate, and a 5% inflation. However, this is not completely true since the NUG has introduced several new taxes including the BRT and has doubled the taxes on fuel imports. In addition, a 10% fee has been added on cellphone top-up card. Custom duties on certain items and airspace fees have also increased. From 1397 to 1399, the Ministry of Finance has projected an increase of approximately AFN 10 billion in revenues each year.¹³ With the current projections in mind and not considering any other factor, it would take Afghanistan another 30 years before it would be able to self-fund a budget at the 1396 National Budget level of AFN 477 billion or 20 years if the 1397 National Budget that has reduced the development budget into half is taken into consideration.

Table 6: National revenue projections (Figures in AFN Billion)

FY	1396	1397	1398	1399	1400
Projected Revenues	160	169	177	187	199
Source: 1397 National Budget Proposal					

While there are several factors which contribute to Afghan aid dependency, corruption is the most important. With modest estimates, pervasive petty and grand corruption place an estimated USD 5 billion per annum (revenue loss and bribe) burden on Afghan economy. On the one hand, the Afghan government collects around USD 2 billion in revenues annually but loses half of its revenues as a direct result of corruption.¹⁴ On the other hand, the Afghan people are estimated to pay an estimated USD 3 billion annually in bribes in order to obtain basic service delivery by the Afghan government.¹⁵ Corruption in the collection of revenues and bribery in connection with the delivery of basic services has resulted in the Afghan government remaining highly dependent on aid while undermining the legitimacy of the Afghan government in the eyes of its citizens.

¹³ Ministry of Finance, "National Budget 1396," Ministry of Finance.

¹⁴ SIGAR, "Afghan Customs: U.S. Programs Have Had Some Successes, but Challenges Will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan," <https://www.sigar.mil/pdf/audits/SIGAR-14-47-AR.pdf> (accessed on 7 March 2016).

¹⁵ Integrity Watch Afghanistan, "National Corruption Survey 2016," Integrity Watch Afghanistan, 32, https://iwaweb.org/wp-content/uploads/2016/12/NCS__English__for-web.pdf (accessed on 31 December 2016).

Box 2: The persistent burden of Kabul Bank scandal on the Afghan people

The Kabul Bank scandal cost the Afghan people a total of USD 987.7 million out of which USD 225.4 was recovered before the NUG came into power. From October 2014 to October 2016, the NUG was able to recover a total of USD 61.8 million out of which USD 29.1 was in cash and repayment agreements of USD 32.7 million have been signed with the debtors. The NUG has not achieved much afterwards.

Although President Ghani came up with huge promises to recover the stolen assets of Kabul Bank, the NUG has not done any better than the former administration. Worst of all, the Afghan people and civil society were shocked to see the government signing a housing agreement with one of the major culprits of the Kabul Bank scandal. Under pressure, the government had to quash the deal.

According to the 1396 National Budget, the government took out a total of AFN 9.7 billion (USD 144 million) from people's treasury to repay the Kabul Bank bailout to the Central Bank. The government paid an approximately the same amount in 1395. In the 1397 National Budget Proposal, a contingency code has been created, "compensation for decrease in Central Bank deposits" and AFN 7.9 billion (USD 116 million) has been allocated under this budget line.

The NUG could barely recover one fifth of what it had to pay to the Central Bank during this time. Since the NUG was not able to recover the stolen assets of the Kabul Bank scandal to repay the Central Bank, it has been paying the loan from the revenues collected from the people. In addition, creating ambiguous budget lines such as "compensation for decrease in Central Bank deposits" is an attempt to hide the failure of the NUG to recover the stolen assets and the costs that people still have to pay for the bailout of Kabul Bank. Nevertheless, the MoF denies such accusation.

The Afghan government has also failed to substantially increase its tax receipts, especially in rural Afghanistan. In addition to a lack of strategic vision as to how to enlarge tax receipts, the lack of the government legitimacy due to corruption and maladministration in rural Afghanistan has significantly undermined the credibility of the government when it seeks to increase tax receipts from rural Afghans.

The current war and the requisite military expenditures have placed a huge burden on the Afghan national budget. In 1397 National Budget proposal, the security sector consumes 40 percent of the budget, up from 36 percent of the national budget in 1396 and similar to 1395 when the armed forces were allocated around 40 percent.¹⁶ In the National Budget, the Tashkeel of the security sector is close to half a million,¹⁷ which could be cut in half given a peacetime situation. This aside, corruption also exists here. According to Ministry of Finance, there has not been any reduction in actual military expenditure; the reduction from 40 to 36 percent is due to [less corrupted] procurement savings.¹⁸

A potential alternative source of revenue for the Afghan budget has been the vast mineral resources the country possesses. It is estimated that the country owns USD 3 trillion (at current market value) of mineral wealth.¹⁹ The Afghan government has not been able to exploit its natural resources for three major reasons. First, the Afghan armed forces that consume a huge chunk of the budget are not able to safeguard exploitation of such mineral wealth. Second, the Ministry of Mines and Petroleum, as the agency in charge of management and procurement of mines, has been evaluated as unable to conduct procurement and oversight of such mines. And finally, the Afghan government has not looked at mining as a strategic source of income. This has been evident in the fact that the MOMP has been run by a series of acting ministers for years now.

The international community has been the largest contributor to the Afghanistan budget in the last fifteen years. Current estimates show that Afghan budget will require the international community's continued assistance for a total of half a century. However, zero tolerance to corruption and fighting corruption at both the grand and lower levels as well as tapping its mineral resources could substantially – and rapidly - change Afghanistan's aid dependency situation.

16 Ministry of Finance, "Draft National Budget 1396," Ministry of Finance: 11, http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1396_Budget/1396%20National%20Budget%20%28Dari%29.pdf (accessed on 31 December).

17 Ministry of Finance, "Draft National Budget 1396," Ministry of Finance: 66, http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1396_Budget/1396%20National%20Budget%20%28Dari%29.pdf (accessed on 31 December).

18 Ministry of Finance Spoke person on Tolo News dated 24 December 2016.

19 Independence, "Afghanistan's untapped minerals worth \$3 trillion," Independence, <http://www.independence.co.uk/news/world/asia/afghanistans-untapped-minerals-worth-3-trillion-2003616.html> (accessed December 4, 2017).

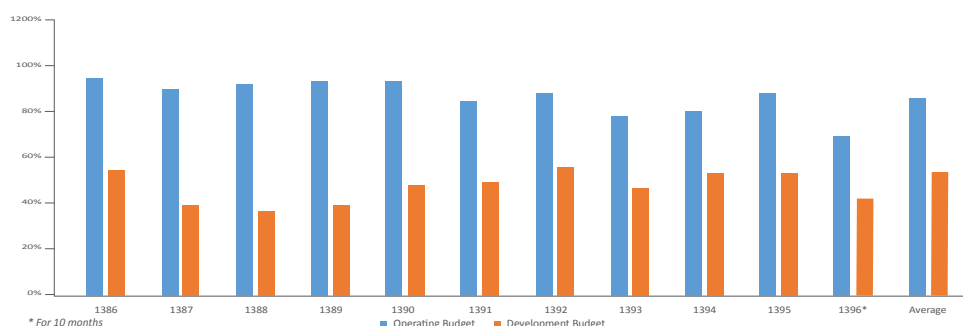
In the 1397 National Budget, the government seems to have finally realized a serious fiscal deficit it will face in the years to come. This year's budget shows a two-pronged approach to deal with the existing and future deficits. On the one hand, the government policy shows that it will create new taxes like VAT and on the other hand there is a realization to reduce leakages in expenditures. In addition, there are several references to the extractive sector as a potential source of national income.

Perhaps what is still lacking in the government policy to close the funding gap is a perspective to increase government revenues through economic growth. The current GDP growth has been predicted at 3 to 4.5 in the next four years.²⁰ While this growth is mainly sustained through agriculture sector, the government policy to support the urban-based industry and service sector at least by providing adequate sector to prevent capital flight is lacking. Furthermore, the largest factor in the existing government expenditures and meager revenue collection is pervasive corruption. A good portion of Afghan agriculture sector and generally the economy is covered by illegal opium cultivation and narcotics trade. The Afghan government and its international partners have spent USD 8.5 billion²¹ to eradicate opium cultivation and its trade. While President Ashraf Ghani spoke about the possibility to legalize the narcotics economy in Afghanistan three years back, there does not seem to be serious discussions about this huge illicit economy. The experience in several countries including India, Burma, and Columbia could be replicated in Afghanistan.

5.2. The failure of execution

Although there has been a slight improvement in recent years, the Afghan government has performed very poorly in spending its development budget. The government has spent an average of 48 percent of its development budget since 1386. The highest spending level was in 1392 when it reached 57 percent and the lowest was 37 percent in 1388. The slow pace of disbursement of the country's development budget has added to a lowering of public satisfaction with the government. Recent surveys show that Afghan satisfaction has reached its lowest level since the fall on Taliban in 2001.²² This coupled with corruption and weak accountability mechanisms could be the major reason behind international community's reluctance to channel their aid through the Afghan national budget. The Afghan government usually blames insecurity.²³ However, such a cause does not seem tenable when the facts are presented.

Figure 2: Budget disbursement rate



To begin with, what allows Non-Governmental Organizations (NGOs) to deliver services across Afghanistan while the government justifies its inability to utilize its discretionary budget due to insecurity? Second, there are government units like NRAP at MOPW that have delivered above ninety percent of their development budget in the same hostile areas as the other government agencies that claim insecurity as the reason for their inability to execute their development budgets.²⁴ Considering the above, "insecurity" is a false narrative that hides other critical factors including corruption and incompetence within the government that affect its ability to precisely understand development needs of the population and the to properly plan for it.

20 Ministry of Finance, "National Budget 1397," Ministry of Finance: 14.

21 SIGAR, "From Kabul to your hometown: useful tools for effective IG oversight," SIGAR, https://sigar.mil/pdf/speeches/SIGAR_Austin_Speech_2017-11-15.pdf (accessed December 4, 2017).

22 Asia Foundation, "A Survey of Afghan People 2016," Asian Foundation, 2016.

23 <http://bit.ly/2iRaluq> and <http://8am.af/1394/11/05/disability-ministers-in-use-development-budget/>

24 The NRAP Executive Director even claims that the program has spent a good chunk of development budget of 2017 in 2016.

During the first quarter of 1396 National Budget, the government was able to disburse only 3 percent of its development budget in the first quarter.²⁵ Half of the government agencies expenditure was zero during this time while another seven could barely spend one percent. The reason and causes for lack of expenditure have been uniform across the budgetary units; complicated overall procurement procedures and delay in the National Procurement Commission, delay in processing of transactions by Ministry of Finance, cold weather conditions and just one government agency i.e. ministry of education has reported lack of security.²⁶

Even MoF reporting highlights serious capacity issues within the government agencies. There were at least two budgetary units, namely, Wolesi Jirga and Ministry of Information and Culture that failed to submit properly annual plans but they were still allocated budgets and received approvals from the Wolesi Jirga.²⁷ However, what is important to note is what the government leadership or the parliament did to hold these many government officials to account for being unable to reach out to people and fulfill their mandates. The Ministry of Finance did report publically and the parliament summoned the executive to explain itself. However, the budget execution rate during the last three years shows that such superficial and reactionary steps by the Ministry of Finance and/or the Wolesi Jirga have had little or no impact.

Box 3: The overwhelming role of the Ministry of Finance in the National Budget

Thanks to its predominant authority in allocation and disbursement in the national budget process, the Ministry of Finance has consistently gone beyond this role to perform the functions of other government agencies in the last one decade. The MoF has carried out functions such as delivering audit training (1383), procurement capacity building (1384), and leading the Cricket Board (1390). The MoF has been a lead actor in the process of civil service reform and introduction of Capacity Building for Results (CBR) since 1390. Furthermore, with the launch of Assan Khedmat (1394), the MoF acquired a core function of the Civil Service Commission.

Although with the establishment of National Procurement Authority, procurement related projects have been transferred from the MoF, there are still projects that the MoF implements on procurement. The MoF also plays a leading role in preparing development policies and programs that are the core functions of the Ministry of Economy. It also involves in managing sports. Using its authority as the allocating and fund releasing agency, it has allocated funds to its adopted projects while other government agencies can hardly convince the MoF of allocations to their core mandate.

However, the MoF has recently taken steps to handover such projects to more relevant ministries. In 1397 National Budget Proposal, although CBR and Kandahar Cricket Stadium are there in the MOF development projects list, they have not been budgeted for this year. Asan Khedmat has been transferred to MOICT while the MOF. This is a development in the right direction. Nonetheless, there are still projects that could be better placed elsewhere such as the Extractive Industries Transparency Initiative that could be placed at the Ministry of Mines and Petroleum rather than MoF.

It is understandable that quarter one of the fiscal year falls within the winter. However, this is also quite predictable and the budgetary units should be able to prioritize tasks that are not affected by the weather. Procurement procedures are not new. In addition, independently verified reports by civil society show that the National Procurement Commission has met regularly and did not take more time than stipulated in the procurement law.²⁸ Expectedly, if the budgetary units advertised their bids in time and processed the procurement in time, the majority of them could have released project mobilization installment of their respective contracts which normally accounts for 10 to 20 percent of the total volume of the whole contract.

However, as argued in the above section, the majority of the projects that are approved within the National Budget are new to the budgetary units. Some of them are in the National Budget as a result of “fishy negotiations” between the MoF and Wolesi Jirga. Another section of the projects has not gone through the feasibility study process that usually happens through the Ministry of Economy. This report has emphasized earlier that there is no evidence that even a single project has been consulted and have reached the National

25 Ministry of Finance, “First Quarter Budget Performance of 1396,” Ministry of Finance.

26 Ibid.

27 Ibid.

28 IWA submitted access to information forms to ten ministries asking for the date of submission of their files to National Procurement Commission and the approval date. The data retrieved shows that the NPC has decided about ninety percent of the projects within the time limit.

Budget document through mechanisms like public hearing. Therefore, the underlying issues with lack of disbursement of the development budget are weak or no relation with the people.

The National Budget also faces serious accountability gaps between citizens and the government. Although the Ministry of Finance has recently prepared the Citizens' Budget and approached the civil society organizations to deliver the messages to the people, this has proved ineffective. Disclosure of information has the potential to create demand for accountability. People in villages, districts, and provinces may not be even aware of the projects in their localities. It seems there are very few people, mostly in the government, who are aware of projects in the National Budget. The Afghan citizens do not seem to have basic project information based on which they could hold the officials into account for project implementation at the local level. Therefore, lack of access to project information and a weak accountability mechanism are contributing factors to the low level of development budget spending.

In the quarter two of 1396 National Budget, the government disbursed 19 percent of its development budget by close of the quarter.²⁹ Nine of sixty budgetary units could barely make 10 percent disbursement while the majority of largest spending ministries remained within 20 percent expenditure.³⁰ The top performers are Agriculture, 43 percent, Economy 42 percent, followed by Finance 37 percent, MRRD, and Health 31 percent each. The reason behind the success of the latter five ministries is not known. Stronger leadership seems to be a determining factor in these ministries. While Ministry of Economy has a meager budget of around AFN 240 million and may not explain much, the Ministry of Finance with around AFN 3.5 billion has mainly focused on soft urban projects. The Ministry of Agriculture with around AFN 8.3 billion, the Ministry of Rural Rehabilitation and Development with around AFN 18.2 billion, the Ministry of Health with around AFN 11.5 billion are among the top ten largest spending ministries of the national budget.³¹

In quarter three, it seems that the government would be able to spend a little higher than the earlier two fiscal years. If the ninth month of a fiscal year is selected for comparison, the development budget expenditure has been 30 percent, 29 percent and 37 percent in 1394, 1395 and 1396 respectively.³² There are signs that the government would be able to spend slightly more than the earlier two fiscal years since there is a 7 percentage point difference the current fiscal year's close in September. There is also another positive factor in more expenditure this year considering the National Procurement Commission meeting more regularly recently that it used for a few months back. The National Procurement Commission (NPC) approved dozens of project worth around USD sixty million (that is roughly 1 percent of total development budget) in its most recent meeting on Monday, October 9.

Table 7: Monthly disbursement rate of development budget

Fiscal Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1394	0%	0%	2%	10%	15%	20%	24%	27%	30%	35%	40%	54%
1395	0%	0%	3%	7%	11%	17%	21%	26%	29%	33%	42%	54%
1396	0%	0%	3%	8%	12%	19%	23%	32%	37%	42%		

Source: MOF

²⁹ Ministry of Finance, "Second Quarter Budget Performance of 1396," Ministry of Finance.

³⁰ Ibid.

³¹ Ibid.

³² Ministry of Finance, "Third Quarter Budget Performance of 1396," Ministry of Finance.

To conclude the discussion on the execution of 1396 National Budget, the Afghan government's maximum capacity is to disburse up to USD 1.3 billion a year. The government has not been able to significantly go beyond that amount in the last fifteen years. The 1395 fiscal year included USD 2.6 billion in the development budget. The government could spend 54 percent and decided to carry forward the remaining USD 1.2 billion with additional new USD 1.2 billion to 1396 fiscal year making the 1396 development budget USD 2.4 billion.

While the government may claim that it is brought drastic changes in the approach to execute 1397 National Budget, a close analysis shows that the changes are on the surface. In the 1397 National Budget, the government has allocated around USD 1.5 billion and commits that it would be able to spend 90 percent of its development budget.³³ However, this is not the right approach. Instead of increasing its capacity and fighting corruption to execute the national budget at USD 2.5 billion each year, the government has reduced the development budget by half to escape parliament and public accountability.

5.3. Lack of consultation with people

There is no evidence to show that the projects in each of the national budgets have come through a consultative process. On the contrary, the evidence shows otherwise. It is important to highlight how far and through what mechanisms the development projects in each of these budgetary units are selected. To begin with, we have found no evidence that the government of Afghanistan has any policy to establish a register of potential projects from which to select projects for the national budget. Reviewing the eight hundred projects in the 1396 national budget, there is no evidence to show that even a single project has been selected through a consultative approach with the people. In actuality, the Afghan government allows power brokers including the MPs, governors, and others, to propose projects throughout the year to the central budgetary units.³⁴ In 2015, the Open Budget Survey (OBS) evaluating people's engagement in the budget process stated that "The Government of Afghanistan is weak in providing the public with opportunities to engage in the budget process."³⁵ Out of a 100, Afghanistan has scored only 27 for the public consultation in the budget process.³⁶

Over the years, the Ministry of Finance has improved significantly in releasing budget-related information into the public domain. The OBS considers eight budget documents as critical to transparency and accountability including pre-budget statements, executive budget proposals, enacted budgets, citizen budgets, in-year reports, mid-year reviews, year-end reports, and audit reports. Afghanistan used to release four out of these eight in 2008 but has increased to seven out of eight in 2015.³⁷ The country has missed on a mid-year review in 2015. However, there is evidence that the Ministry of Finance has been more often driven by the international community than by an inherent desire to increase its accountability and transparency to the people of Afghanistan. Based on a recent report, "Throughout 1395, the MoF also published monthly fiscal bulletins from months 2 to 9, though in 1395 these documents were only available in English, compared to 1394 when they were also published in Dari and Pashto through month 9."³⁸ The report goes further and even suggests that the first and second quarter fiscal bulletins were also available only in English.³⁹

Releasing information into the public domain is not enough. According to the OBS, "Evidence suggests that transparency alone is insufficient for improving governance and that public participation in budgeting can maximize the positive outcomes associated with greater budget transparency."⁴⁰

33 Ministry of Finance, "Draft National Budget Submitted to Mashrano Jirga," Ministry of Finance.

34 A process graph of NRAP accessed by the research team clearly outlines and recognizes MPs proposing them projects across the year.

35 Open Budget Survey, "Afghanistan 2015," Open Budget Partnership, 2.

36 Ibid, 1.

37 Ibid 3.

38 EPD, "Independent Review of Afghanistan 1396 Draft National Budget," EPD: 18, 2016.

39 Ibid.

40 Open Budget Survey, "Afghanistan 2015," Open Budget Partnership, 2.

Box 4: Participatory Budgeting

Participatory Budgeting is the process by which citizens deliberate and negotiate the distribution of public resources. “Participatory budgeting is a different way to manage public money, and to engage people in government. It is a democratic process in which community members directly decide how to spend part of a public budget. It enables taxpayers to work with government to make the budget decisions that affect their lives” (Participatory Budgeting Project). Broader objectives include making the national budget process more responsive, encouraging local governments to implement reforms, and to reduce the influence of elites in public policy-making.

Global Initiative for Fiscal Transparency (GIFT) requires the government to “proactively use multiple mechanisms to reach out to engage citizens and non-state actors including traditionally excluded and vulnerable groups and individuals and voices that are seldom heard without discrimination”. GIFT outlines ten principles for public participation including providing information to the citizens (accessibility and openness), inclusiveness and respect for self-expression, timeliness and depth, proportionality and sustainability, complementarity and reciprocity.

The Participatory Budgeting approach to budget decision making was initiated in 1989 by the city of Porto Alegre in South Brazil. The practice spread rapidly from Brazil to other Latin American and European cities in the nineties and remains popular today, primarily at the local and municipal level. Countries are using a variety of mechanisms to engage their citizens in the budget process. While in Indonesia the government has allocated a specific fund for each village, the City of Paris is using a website through which citizens can propose their projects. In Brazil, public hearings are used to collect people feedback.

The development projects in the national budget are presently settled on through a combination of decision-making by local political power brokers and national political elites, as well as resulting from corruption and illegitimate practices (this point is further elaborated on below). Based on international experience, development projects that are proposed by the people through public hearings in a transparent and objective process are more efficient and effective.⁴¹

When the projects in the national budget do not have the people’s buy-in and are even at times contrary to people’s priorities at the local level, the implementation of the projects faces social problems. This has been a critical factor in the lack of implementation of these projects.

The 1397 National Budget like the budgets that preceded does not acknowledge lack of consultation in the selection of projects by the people. This year’s budget read like “government budget” in a sense that it does not make references how it will change people’s lives or proposing mechanisms to collect people’s feedback in the process. Integrity Watch Afghanistan participated at several budget hearing sessions for 1397 and did not come across any discussion by the national budget hearing committee to question or even ask for an explanation on how the ministries have selected their development projects. One MoF director told this research in an interview that there is no regulations or guidelines to obligate ministries and government officials to allocate their development budget based on people’s feedback. The 1397 National Budget does not seem to have moved an inch in this direction; there is no mechanism to facilitate people’s participation in the budget process nor there is an understanding that the government should conduct an impact evaluation of its projects.

41 Integrity Watch Afghanistan, “The Role of Civil Society in Provincial Budgeting in Afghanistan,” Integrity Watch Afghanistan, 2015: 24.

5.4. Weak provincial budgeting and procuring

Afghanistan lacks everything that is necessary to delegate budget planning and execution. At this moment, the country lacks the legal framework required for provincial units to respond to people's needs and function independently from the central government. Three policy documents that could facilitate such a process are sub-national governance policy (SNGP), provincial budgeting policy (PBP) and provincial procurement policy (PPP).

Afghanistan developed its first SNGP in 2010. According to Integrity Watch,

*"The policy was produced by a committee comprised of a dozen deputy ministers from relevant agencies. The policy is a polished form of minutes of the committee meetings that do not meet the basic purpose of a policy to give a clear direction to policymakers based on which decision can be made. Like many strategies produced during Karzai's administration (anti-corruption policy, for example) the document is 450 pages long but fails to provide sufficient strategic direction."*⁴²

The report adds:

*"Given the less than clear content of the SNGP, the results from its implementation are not difficult to guess. The SNGP was prepared to fulfill some of the commitments of the government under the Joint Coordination and Monitoring Board (JCMB). Two major commitments concerning municipalities were: 1) the development of a municipality law by the end of 2010, and 2) municipal elections by 2011. Municipal elections have not been held anywhere in Afghanistan as of yet. Five years after the deadline indicated by the JCMB, Afghanistan still uses the outdated municipality law."*⁴³

The IDLG developed a new SNGP under the NUG. Although the new policy has been praised for its clarity, its approval is still pending with the cabinet.

The discussions and initial decisions on provincial budgeting started as early as 2007 in Afghanistan. Its policy and institutional setup have gone through several forms. However, what has remained constant has been the fact that there is almost no political will to decentralize any budgeting function. According to Integrity Watch,

*The first [provincial budgeting policy] took place in 2007, and the second was implemented after the evaluation of the first policy in 2011. The first pilot policy focused on three ministries (the Ministry of Rural Rehabilitation and Development; the Ministry of Agriculture, Irrigation, and Livestock; and the Ministry of Education) in three provinces (Kandahar, Balkh, and Panjshir). The 2011 policy was abruptly canceled due to a misunderstanding between senior leadership of the Ministry of Finance and the United States Agency for International Development (USAID) – the donor of the project."*⁴⁴

As a result of the Tokyo Mutual Accountability Framework (TMAF) in 2012, the Afghan government developed a third provincial budgeting policy in 2013. Currently, the MoF is implementing a fourth version of the provincial budgeting policy and still as a pilot.

The provincial budgeting policy has gone through four versions and has remained in the pilot phase even after nine years. This indicates a lack of political will to decentralize in Afghanistan in spite of the fact that there are a donor and international community pressure to do so.

42 Naser Timory, "Community Scorecard of the Kabul Municipality," Integrity Watch Afghanistan, 2016: 9.

43 Ibid.

44 Integrity Watch Afghanistan, "The Role of Civil Society in Provincial Budgeting in Afghanistan," Integrity Watch Afghanistan, 2015: 1.

Box 5: The meager share of refugees and IDPs in the National Budget

A cumulative number of over 1.5 million displaced persons were recorded as of December 2016, consisting of 372,361 documented and 650,438 undocumented returnees from Pakistan and Iran; as well as 511,762 persons displaced as a result of conflict and against the backdrop of an already existing protracted caseload of over a million internally displaced persons (IDPs). The prognosis for 2017 is that around 1.7 million Afghans will be on the move.

The National Budget 1396 allocated a total of USD 12.3 million for agencies mandated to provide emergency and settlement services to refugees and IDPs. The Ministry of Refugees and Repatriates (MORR) has allocated a sum of AFN 639 million (USD 9.5 million) and the Afghanistan National Disaster Management Authority (ANDMA) has allocated AFN 185 million (USD 2.8 million). The MORR and ANDMA consumes AFN 426 million (USD 6.4 million) in operating cost that includes salaries of their staff. The MORR and ANDMA have the ability to provide a total of USD 5.9 million for Afghan refugees and repatriates. In addition, there is AFN 335 million (USD 5 million) on the emergency code for refugees and IDPs.

In the 1397 National Budget Proposal, the allocation of resources to refugees and IDPs have been even worse. The MORR has allocated AFN 618 million (9 million) in operating budget and only AFN 22 million (323 thousand) in development budget. This is a clear indication that the NUG does not have a sense of urgency and responsiveness to include the marginalized and those affected by the ongoing conflict in the National Budget. The responsibility will therefore be shifted to the international donors, NGOs, and UN agencies to address the refugees and IDPs crisis in Afghanistan. The Afghan government must realign its priorities to meet the needs of its own people.

In the first instance, the Ministry of Finance came up with a provincial procurement policy in 2015 that was rejected by the cabinet and the National Procurement Authority was assigned to review it considering the changes in procurement legislation and institutional arrangements. The provincial procurement policy awaits cabinet approval as of December 2016. The National Unity Government is also seemingly not interested in advancing the decentralization of procurement, contrary to its campaign slogan. According to a recent report quoting a high ranking official of the Ministry of Finance, “the current government’s approach is generally focused on the top-down mechanism, at odds with the objectives of provincial budgeting.”⁴⁵

International experience shows that people’s participation in the budget process increases efficiency and transparency. South Korea is a good example where people’s engagement kicked off after civil society’s initiative to mentor government projects.⁴⁶ According to a comparative study of Afghanistan and South Korea,

*The provincial budgeting process is quite simple in terms of structure in South Korea. A participatory budgeting research group along with a support group collect local residents’ budget allocation proposals by meeting local people and civic groups, and then they discuss the proposals made by local citizens. After consulting with experts and district councils to assess the importance and budget of the projects, then they select five of the project proposals and forward these to the central ministry for final approval.*⁴⁷

Throughout this process, several mechanisms have been developed in Korea on people’s participation in the budget process,

*With the increasing collaboration between the people and the state, a variety of effective mechanisms were developed to engage the citizens in the budget process. According to Kang and Min (2013), there are six main mechanisms in Korea for the civil society’s participation in provincial budgeting: (1) formalized “Open Discussion for the Public” (ODP); (2) meetings with local government officials by central government agencies and field trips; (3) a fiscal policy advisory meeting; (4) an Assembly Experts Hearing; (5) a budget waste reporting center; and (6) public participation in audits by the Board of Audit and Inspection (BAI).*⁴⁸

It has been through such a process that South Korea has been extremely successful in developing public engagement in the budget process. “The success of S. Korea was exemplary. In 2008, Open Budget Survey, a

45 EDP, “Independent Review of Afghanistan 1396 Draft National Budget,” EPD: 22, 2016.

46 Integrity Watch Afghanistan, “The Role of Civil Society in Provincial Budgeting in Afghanistan,” Integrity Watch Afghanistan, 2015: 24.

47 Ibid.

48 Ibid.

research outfit that assesses the budget in terms of transparency, gave 66 out 100 for S. Korea. This increased to 71 in 2010 and 75 in 2012. Moreover, in 2012, Korea scored 92 out of 100 for public engagement in the budget – the highest in the world.”⁴⁹

In India, provincial budgeting started as early as the 1990s in the state of Kerala with the main objective of engaging the civil society organizations into the budget process to compensate for incomplete decentralization and fix weak accountability mechanism. More recently, the state of Odisha has started pre-budget consultation with civil society organizations.⁵⁰

In developed economies like the City of Paris, the people’s participation is very well developed. The City of Paris allocated Euro 100 million (5 percent of total development budget) to projects proposed by the people in 2016.⁵¹ From 18 January to 19 February, Parisians could propose their favorite projects through www.budgetparticipatif.paris. The City will analyze the jurisdiction and feasibility of the projects among others. Then the projects are open to citizens voting. Parisians of all age can vote. By 2020, half a billion Euro is planned to be allocated through this process to encourage citizens particularly youth participation in the budget process.⁵²

In Afghanistan, civil society started its monitoring of government service delivery as early as 2008 in the construction sector. Integrity Watch Afghanistan, for example, started its community-based monitoring of construction projects in 2008 and has monitored more than 1100 projects across the country.⁵³ In addition, there has been sustained advocacy by the Afghan civil society as well as pressure from the international community on the government of Afghanistan to engage people at the local level in the budget process and decentralize financial decision-making. However, the Afghan government has not been moved by this.

When the budget is not a bottom-up product, it does not reflect the priorities of the people. The benefit a government receives when project prioritization involves local communities is better implementation together with limited or no social hindrance. In such a consultative situation, people tend to proactively get involved to facilitate the implementation of such projects. The development projects in the national budget are selected and procured at the center and seldom get implemented at the local level. Not only the people at the local level but also the government agencies at the provincial level have hardly any say in budget planning, procurement, execution or monitoring. The prospects at present for consultation with people at local level and delegating authorities to local governmental authorities are not encouraging.

In the 1397 National Budget, while procurement has been further centralized around the National Procurement Authority and National Procurement Commission, there seem to be some signs of changes to promote provincial budgeting. The 1397 National Budget has allocated USD 1 million for each province irrespective of their size and population.

5.5. Leadership gap coupled with low capacity of civil service

The Tashkeel of the Afghan government lacks the capacity to execute the budget. The problem with the capacity building programs for civil servants was that they did not have the capacity to absorb the training materials.⁵⁴ Based on the comparison of nine years, less than half of the development budget is spent.

Even the existing rate of execution of the budget could be attributed to something called a “second civil service”. According to the World Bank, across all ministries, over 5,000 Afghan civil servants function as a “second civil service” whose pay is more than 11 times the highest rate for the civil service.”⁵⁵ In addition,

49 Ibid.

50 Ibid.

51 Paris Budget Participatif, “Le monde d’emploi du Budget Participatif,” Paris Budget Participatif, https://budgetparticipatif.paris.fr/bp/le-budget-participatif.html&sort_order=desc&sort_name=0.4680995331971767_random (accessed on 17 January 2017).

52 Ibid.

53 Integrity Watch Afghanistan, “CMB-Infrastructure,” Integrity Watch Afghanistan, <https://iwaweb.org/cbm-infrastructure/> (accessed on 31 December 2016).

54 World Bank “Afghanistan: A Synthesis Paper of Lessons from Ten Years of Aid” 2013, https://ieg.worldbankgroup.org/Data/reports/Afghanistan_Lessons_Ten_Years.pdf (accessed 31 December 2016).

55 World Bank “Afghanistan: A Synthesis Paper of Lessons from Ten Years of Aid” 2013, https://ieg.worldbankgroup.org/Data/reports/Afghanistan_Lessons_Ten_Years.pdf (accessed 31 December 2016).

there is another 25000 contracted staff who get paid through development projects.⁵⁶ An ongoing study of Integrity Watch at one of the key ministry shows that there is a wide gap in capacity between the government Tashkeel and the project implementation units (PIUs) within the ministry. The NRAP of the MoPW has been able, alas with probably the same rate of waste as government Tashkeel, to spend more than ninety percent of its development budget since 1382 when it was jointly established by the World Bank and UNOPS while the ministry's Tashkeel has failed to spend even half of its budget over these years.

The issue of lack of capacity is pervasive across the government. At least two ministries have publicly confessed that there no capacity at their agencies to fulfill their mandate. In January 2015, the then Minister of Mines stated in the parliament that the ministry lacks the capacity to conduct geological surveys, conduct procurement of mineral sites and provide oversight to exploration and extraction by private companies.⁵⁷ Most recently, a former Deputy Minister of Commerce has stated that seventy percent of the ministry's staff does not have a higher education degree.⁵⁸

The 1397 National Budget makes references to ghost civil servants and the need to reform the civil service. While the new leadership within the civil services commission shows signs of possible reform, it is yet to bear fruit. What has further hit the Afghan bureaucracy is leadership deficit at provincial and national level. The NUG has become very notorious to keep acting governors and ministers. The Ministry of Mines and Petroleum (MOMP), the Independent Local Governance Directorate, and Kabul Municipality could be illustrated as three examples. The MOMP has been led by acting ministers 28 out of 37 months and counting months, IDLG 25 out of 37 months and Kabul Municipality is 30 out of 37 months and counting. At the provincial level, the local government resources are either managed by locally strong men who lack bureaucratic experience and use government for their personal network and patronage or there are those provinces that the powerful local men have overshadowed the provincial government. In either case, the government leadership at the provincial level is very weak and is not delivering to the people.

56 Ibid.

57 Radio Azadi, "Chera wezara madan wa petroleum proja haye buzurg ra amali karda nametawanad," Radio Azadi, <http://da.azadiradio.com/a/27245062.html> (accessed on 31 December).

58 Afghan Khabar, "70 darsad karmandan wazarat tejarat tahseelat aali nadarund," Afghan Khabar, <http://bit.ly/2iBkZYG> (accessed on 31 December 2016).



6. THE DISTORTIVE ROLE OF THE NATIONAL ASSEMBLY IN THE BUDGET PROCESS

The National Assembly has consistently followed the same pattern of behavior and decision-making when the National Budget has been presented to it. A comparison of the 1392 and 1396 budgets is very illustrative. When the 1392 budget was presented to the Wolesi Jirga, it was rejected due to insufficient allocations for underdeveloped provinces and an uneven distribution among the provinces. In addition, “The MPs also contested the allocation of a high sum for the presidential office – USD 76 million – which is more than the funds for the legislature and the judiciary (USD64 million) put together.”⁵⁹ At the same time, the Qatia was presented to the Wolesi Jirga and the MPs found that eleven of the ministries could not spend more than fifty percent of their development budget. In January 2013, the Wolesi Jirga voted that eleven of the ministers who could not spend more than fifty percent of their development budget should come to the house and explain their inability.⁶⁰

The only difference in 1396 is that the MPs found that the ministers could not spend their development budget to a satisfactory level before the national budget was presented to them. On 12 November 2016, the Wolesi Jirga voted that it would impeach ministers who could not spend more than seventy percent of their development budget. In the following days, the ministers were impeached and seven of them got rejected. Two weeks later, the Wolesi Jirga rejected the National Budget 1396 for lack of an equitable distribution of the budget among provinces, carry forward projects, and an increase in contingency codes among other reasons.

The National Assembly has impeached ministers two times and rejected the national budget 8 out of 8 times in the last eight years. However, the Wolesi Jirga has never raised the fundamental issue of the lack of consultation with people in the selection of development projects, the ever-increasing tendency of the government to centralize the budget or the lack of capacity of the civil service to spend the enacted budget.

The national assembly treatment of the national budget has been political, superficial and has not reflected the needs of Afghan people. The National Assembly has not come up with any practical or innovative solutions to the budget planning and budget execution process. This has proved that the national assembly has failed to provide the necessary oversight and constructive engagement in the national budget process. In the following section, it will be argued that both the MPs and the government officials benefit from the current practices of budget planning and execution.

Table 8: Frequency of rejection of the national budget by the Wolesi Jirga

No	National Budget year	First Rejection	Second Rejection
1	1389	Yes	Yes
2	1390	Yes	Yes
3	1391	Yes	Yes
4	1392	Yes	Yes
5	1393	Yes	No
6	1394	Yes	No
7	1395	Yes	No
8	1396	Yes	No

59 Claudio Franco, Gran Hewad, Thomas Ruttig, “Tit for tat and worse—the long history of enmity between the parliament and the government,” Afghanistan Analyst Network, <https://www.afghanistan-analysts.org/tit-for-tat-and-worse-the-long-history-of-enmity-between-parliament-and-government/> (accessed on 01 January 2017).

60 Ibid.

In addition to corruption and self-interest, one of the major reasons that Wolesi Jirga has not been able to fulfill its mandate in the budget process is lack of Independent Fiscal Institution (IFI) that provides expertise and non-partisan information to the parliamentarians. While IFIs are not yet widespread globally, they are increasingly recognized as an important source of independent, nonpartisan information. IFIs take a variety of different institutional forms. Common examples include parliamentary budget offices and fiscal councils. Establishing ad hoc mechanisms through donors like Assistance to Legislative Body of Afghanistan (ALBA) has not been effective and the need for strong and formal institutions to provide non-partisan expertise is a need more than before.

7. DEVELOPMENT PROJECTS VULNERABLE TO POLITICAL INFLUENCE (DPVPI)

This section will look to address two major questions such as why the executive has not performed its obligation to consult with people and why it has not decentralized the budget to increase its spending capacity. In addition, this section will try to explore the reason why the national assembly has treated the national budget superficially and has not raised major systemic issues in the budget process. In order to understand this problem, it is important to examine the nature of political influence into the budget process using the DPVPI tool.

Development projects vulnerable to political influence (DPVPI) is defined as a lack of clarity as to location (province, district, village) and/or monetary value of individual projects in the national budget.

From a service delivery perspective, there are two kinds of projects: projects that are intended to change the lives of people and projects that are intended to establish the government presence. Service delivery projects would include the construction of schools, clinics, and roads while the construction of a governor's offices or other government agency facilities would be classified as establishing the government presence, without having any direct impact on the lives of the people.

Table 9: Development projects vulnerable to political influence

	1396 Enacted National Budget		1397 National Budget Proposal	
Development Projects	Number of Projects	Budget (In USD Million)	Number of Projects	Budget (in USD Million)
Development Projects	768	2500	850	1,323
Development Projects Vulnerable to Political Influence	383	1224	320	749
Percentage of Development Projects Vulnerable to Political Influence	50%	49%	38%	57%

Both categories of development projects are prone to political influence. The total number of the development projects in the national budget 1396 are 768, distributed across 56 budgetary units. Based on an analysis of all the projects using a DPVPI tool, 383 projects, or half of the total number of projects, are vulnerable to political influence. In monetary terms, 48 percent of the development budget amounting to USD 1.2 billion were vulnerable to political influence in 1396.

In 1397 National Budget Proposal, although there has been some improvement, the government has not changed its approach to the vulnerability of the development projects to political influence. Out of 850 projects, 320 projects are still prone to political influence based on the above criteria. While the number of projects has decreased, the percentage of projects has increased from 49 percent in 1396 to 57 percent in 1397.

Table 10: Projects prone to political influence

No	Government Agency	DPVPI	Amount (Figures in USD million)	Remarks
1	Ministry of Interior Affairs	Construction of prison buildings	3	The exact location (province) is not given.
2	IDLG	The Afghan municipalities project	2	The exact location (province) is not given.
3	Supreme Court	Construction and rehabilitation of primary and appeal courts in the provinces	0.8	The exact location (province) is not given.
4	Attorney General Office (AGO)	Construction of buildings in provinces and districts	0.8	The exact location (province) is not given.
5	Ministry of Haj	construction of mosques	6	The exact location (province) is not given.
6	Ministry of Justice	construction of provincial buildings	1.3	The exact location (province) is not given.
7	MOUD	construction of residence places for the governors	1.3	The exact location (province) is not given.
8	MOMP	Construction of buildings in provinces	1.8	The exact location (province) is not given.
9	Ministry of Information and Culture	construction of provincial buildings in four provinces	0.3	The exact location (province) is not given.
10	Ministry of Women Affairs	construction of provincial buildings the provinces	0.3	The exact location (province) is not given.
Total			19	

In regard to the category of projects that are intended to establish government presence and how political influences happen therein, table 8 is very illustrative. As seen in the table below, the lack of clarity in regard to the location and the monetary value of individual projects prepared by the line ministries and the ministry of finance and approved by the National Assembly makes them vulnerable to political subject to political influence. As seen in the table, the Ministry of Haj gets more than USD 6 million for the construction of mosques. Which provinces receive these fund is unclear and depends on the minister's discretion—usually how good or bad is the working relationship between the minister and provincial officials. A majority of the government agencies have budgets in this category.

Table 11: Programs prone to political influence

No	Government Agency	DPVPI	Amount (In USD million)	Remarks
1	Ministry of Counter Narcotics	Good Performers Initiative (GPI)	17.8	The projects within the program are not identified.
2	MAIL	The National Programs of Gardening and Livestock	30.3	The projects within the program are not identified.
3	MRRD	National Rural Access Program (NRAP)	75.7	The projects within the program are not identified.
4	MOPH	Collective Immunity Program	2.4	The projects within the program are not identified.
5	Ministry of Education	EQUIP	20	The projects within the program are not identified.
6	Ministry of Higher Education	High Education Development Program	8.6	The projects within the program are not identified.
7	MOPW	NRAP	96.6	The projects within the program are not identified.
8	MOEW	Afghanistan Irrigation Rehabilitation Program	25.8	The projects within the program are not identified.
9	Kabul Municipality	Kabul Municipality Development Program	32.6	The projects within the program are not identified.
10	IDLG	Citizen Charter	23.4	The projects within the program are not identified.
Total			333.6	

The more pervasive and destructive form of development projects vulnerable to political influence are projects that are intended to create an impact on the lives of the people. The most common form of these projects is within the large programs in the national budget. The development projects in the national budget are either part of a program or are independent. The MRRD, MAIL, MOPW, MOPH, and Ministry of Education own the majority of the programs within the national budget. The largest program of the government is rural road construction with joint responsibility of the MOPW and MRRD. The NRAP within the MOPW and the MRRD consumed USD 96 million and 76 million, respectively, in the 1396 national budget—the combined volume of which amounts to more than the Citizen Charter on an annual basis.

It is important to note that the National Assembly approves the NRAP in both ministries as a lump sum. It is then up to the ministries to decide the location (province, district, village) and amount of the projects within these programs during the year. This is the largest loophole that MPs create enabling them a full year to exert political influence into the affairs of the MRRD's and the MOPW's NRAP programs. It is sad to learn that the projects within the NRAP programs which amount to a thousand each year are not selected through a transparent and objective public hearing process. It is the MPs who suggest the ultimate projects.

Article 97 of the constitution stipulates, "The House of People shall consider the draft laws, including budgetary and financial affairs as well as the proposal for obtaining or granting loans, and, after the debate, either approve or reject as a whole."⁶¹ Based on the analysis of the national budget 1396, about fifty percent of the development budget is approved as a lump-sum, where the location and the monetary value of individual f projects are not clear. This looks like purposeful circumventing of an explicit provision of the constitution.

61 Ministry of Justice, "Constitution," Ministry of Justice, 2004: 97.

In 1397 National Budget Proposal, the programs that lacked details in 1396 has remained the same except the Citizens Charter program. The National Budget Proposal of 1397 contains all the information about the Citizen Charter from page 89 to 93. The information is so detailed that it even includes the districts and amount of money allocated to each district in the next four years. This is an important improvement in the National Budget Proposal of 1397 that could be adopted for other large programs.

In either case of development projects establishing government presence or development projects intended for service delivery, political influence does not end with the selection of the projects at a favorite location and monetary value of individual projects by the MPs and government officials.⁶² It is just a start of a vicious process. It is most likely that it will be the provincial officials that convinced the minister to construct an annex to his office, or the MP that encouraged the government official to build a school in her constituency, who will be awarded the execution contract. An MP who has secured a project this way does not allow full and independent government oversight agencies or even civil society monitoring in the process.

After the enactment of the national budget, both the ministers and MPs get extremely occupied and have to allocate a good amount of their time to allow negotiations on project selections both from their own subordinates in the provinces as well as the MPs. Projects that do not get implemented is because the negotiations for project selection fails. According to a Deputy Minister of MoF who stated a few years back, on the record, that one of the reasons for the lack of timely implementation of the national budget is, “unlimited, premature, and undue interferences from within the government”.⁶³

It seems that the government and national assembly scratch each other’s back in the budget process. Sources have confirmed that the MPs receive contracts for their relatives from the government agencies.⁶⁴

The 1397 National Budget is not addressed either of the two issues identified above. The development projects that appear in the draft National Budget (Budget Proposal) are prone to political influence because the location and the amounts allocated to each of the projects is not explicit. In addition, the 1397 National Budget is heavily covered by projects that establishes government presence than making a direct impact on the lives of people.

62 Ministry of Finance, “Wezaramaleyadarmarudbudja 1390 be khabarnegaranmalumat dad,” Ministry of Finance, <http://mof.gov.af/fa/news/532> (accessed on 01 January 2017).

63 Ministry of Finance, “Wezara maleya dar marud budja 1390 be khabarnegaran malumat dad,” Ministry of Finance, <http://mof.gov.af/fa/news/532> (accessed on 01 January 2017).

64 Conversation with an expert who had inside knowledge of MPs negotiation with ministers.



مریضان سرا یا OPD

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Postgraduate
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8. CONCLUSION

The national budgets continue to neglect the needs of Afghan people. In fact, there are no formal mechanisms to collect citizens' feedback and to provide the chance for public consultation in the national budget process. Afghanistan's public consultation score in the Open Budget Index has remained consistently low since the initiative started to cover Afghanistan eight years back. The allocation of resources to refugees and internally displaced people is exemplary in this regard. The government allocated around USD 10 million development budget in 1396 to Ministry of Refugees and Repatriates that may have to respond to more than 3 million and counting people. The allocation has remained largely the same in 1397 National Budget proposal. It is understandable that the international community through NGOs, multilateral funds, and UN agencies may reach out to the refugees and IDPs crisis in Afghanistan. But it seems the government of Afghanistan did not realize its priorities in 2016 by allocating 0.3 percent of the total National Budget of USD 6.5 billion in 1396 National Budget and now less than that in 1397 National Budget proposal.

The Afghan government revenue is increasing at a 10 percent per annum and has reached around AFN 160 billion in 1396. The NUG was able to increase the revenues in the last three years mainly through the introduction of new taxes like BRT, mobile phone top-up cards, and fuel. There are indications that the government would add more new taxes like VAT whose focus is the urban-based businesses. There seems to be a limit to extract taxes from the cities without significant economic growth. The government does not seem to expand its tax net to rural areas due to reasons of maladministration, corruption, and lack of control. In addition, the NUG does not see fighting corruption in tax collection as a driver of the increase in its revenues. With the increasing fiscal burden, the government may not be able to significantly increase its revenues if it does not address corruption in tax collection and continue to rely on its urban-based tax net.

Furthermore, the security sector continues to consume almost half of the national budget although the development part of the security agencies is covered by the international community through off-budget arrangements. The country is heavily dependent on foreign aid (more than 80 percent including off-budget) not only to keep Afghanistan's large standing armed forces but also to run the bureaucracy and provide basic services. It is further obvious that the major reason that continues to keep Afghanistan dependent on foreign aid is the current conflict and continued "need" for large armed forces. This is an area of the budget where the government and people of Afghanistan have to consciously decide how far and for how long they would have to continue the existing war and peace policy of their state that may prevent economic growth and increase in domestic revenues, and protract the aid dependency for foreseeable future.

Although the MoF has taken some steps to reform the budget process, the report recommends the following to address the above-mentioned issues:

Addressing community needs through development projects

- **Participatory budgeting:** The MoF should ensure inclusive public consultation on selection of development projects. All line ministries should use various mechanisms such as public hearings, town-hall meetings, surveys and opinion polls, and Internet-based platforms to reach out to and engage citizens for the selection of their projects. The budget planning time-line should be adjusted to allow for public consultation in regard to any new projects.
- **Development projects register:** The government should keep a register of all projects across the country such as roads, schools, clinics, small dams, irrigation projects and others that are proposed by the public. It can also create a portal through which people can upload their project suggestions. This can be used to engage people in the process and to facilitate planning for several years in advance.
- **Provincial budgeting:** Both the National Assembly and Ministry of Finance should make provincial budgeting an immediate and high priority. The current provincial budgeting procedures are based on the old top-down budgeting approach. The only major difference with previous budget procedures is that instead of line ministries requesting their provincial directorates to develop annual plans, provincial governors and the MOF carry out this function. Therefore, provincial budgeting procedures

should be redefined not only to become a more bottom-up oriented process that would include government officials at the local level but also to increase public participation. It should begin with a very simple step such as by allocating more resources for each province to conduct planning and procurement as well as monitoring of projects at the local level engaging local communities.

- **Transparency:** National assembly members should abstain from visiting ministries and government agencies after the enactment of the national budget with a view to seeking to allocate projects to their province. Government officials should immediately announce the names and any demands placed upon them by any such members of the national assembly through the media. The government should require ministers to make minutes of such meetings public.
- **Social Audit:** The Supreme Audit Office (SAO) should establish a citizen's feedback system to receive and respond to complaints and reports received from the public about misuses. The SAO should carry out audits which engage civil society and citizen's groups as part of such audits, based on credible public complaints, and provide feedback to the public on the status of cases reported by the public. The SAO and internal audit sections of each ministry should publish their audit reports and provide channels for the citizens to report misuse.

Addressing the fiscal deficit

- **Anti-corruption driven revenue collection:** Estimates show that the government can double its USD 2.2 billion revenues if it transforms its tax collection regime with rigorous oversight from public representatives, the disclosure of information and engaging people at the local and national level, and a real-time transparent computerized system of mobile top-up card fees.
- **Economic-growth driven revenue generation:** The current Gross Domestic Product (GDP) growth rate has been predicted at 2 to 4 percent in the next four years. This growth is mainly sustained through the agriculture sector, and the government lacks a clear policy to support the urban-based industry and the services sector. Rather than adding pressure to the existing economic activities to generate domestic revenue, the government should focus on economic growth as a source of national income.
- **Broadening the tax net:** While it is important to introduce new taxes primarily aimed at urban centers, like the Value Added Tax (VAT), it should be realized that taxing the cities has its limits. The Afghan government has failed to substantially increase its tax receipts, especially in rural Afghanistan. In addition to a lack of strategic vision as to how to enlarge tax receipts, the lack of government legitimacy due to corruption and maladministration in rural Afghanistan has significantly undermined the credibility of the government when it seeks to increase tax receipts from rural Afghans. But Afghanistan won't be able to move towards self-reliance if it chooses to rely on the cities alone for the revenues.
- **The potential of the extractive sector:** For the first time, there are explicit references to the extractive sector as a potential source of national income in the national budget. The extractive sector has especial potential to generate more revenue with better governance. However, the government should be warned about the weakness within the sector especially the Ministry of Mines and Petroleum. Even with the current leadership, the government will not be able to increase its revenues from the sector unless it implements effective governance reforms, starting with ensuring transparency of contracts, publishing of production and payment data, and ensuring necessary regulatory capacity to manage medium and large contracts. There are realistic measures, and the government has committed to a number of the most important ones – but it has lagged behind in terms of implementation.

- **Turning the illicit economy into a source of revenue:** A good portion of the Afghan agriculture sector and the economy in general is based on illegal opium cultivation and the narcotics trade. The Afghan government and its international partners have spent USD 8.5 billion⁶⁵ to eradicate opium cultivation and its trade, with no success. While President Ashraf Ghani spoke about the possibility to legalize the narcotics economy in Afghanistan three years ago, there does not seem to be any serious discussions since then about legalizing and regulating this huge illicit economy. The experience in several countries including India, Burma, and Columbia could be replicated in Afghanistan.

65 SIGAR, "From Kabul to your hometown: useful tools for effective IG oversight," SIGAR, https://sigar.mil/pdf/speeches/SIGAR_Austin_Speech_2017-11-15.pdf (accessed December 4, ,2017).

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INTEGRITY
WATCH
AFGHANISTAN

Kolola Poshta,
Kabul, Afghanistan

+93 (0) 780 942 942

info@iwaweb.org

www.iwaweb.org

@IntegrityWatchA

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