Afghanistan Ministry of Finance

Note on bottlenecks to budget execution

March 2015

Key points:

- Execution rates are a crude measure of government's performance, and do not help diagnose weaknesses. Execution gaps for discretionary and non-discretionary projects reflect very different problems with budgeting.
- Improving budget realism will involve budgeting more conservatively for domestic revenues, and working with donors to get more realistic annual estimates of donor project budgets.
- Over time, the budget needs to fully integrate operating and development expenditures, and to multi-year activities better through the use of a medium-term approach.
- Improving the mechanics of execution should start with better planning, since the consequences of poor activity planning cascades through the implementation chain.
- Better planning means making hard decisions: being more focused on strategic impact, being ruthless with small, inefficient projects, and deferring projects that are not ready to be implemented.
- Changes to the management of procurement represent an opportunity that should be maximized, but changes need vigorous socialization to offset the risk of procurement slow down.
- The focus of execution needs to shift from ex ante (before spending occurs) to ex post, and to empowering line ministries to execute more transaction level decisions themselves.
- However reforms should be chosen and implemented carefully, to ensure that system integrity is not lost.
- The upcoming PFMR roadmap should move the reform agenda out to line ministries, and be performance focused.
- Government's capacity to operate PFM systems needs to be put on a more sustainable footing.

1. Overview

Budget execution has become a major focus for government and donors in Afghanistan. While execution of the operating budget has improved considerably, execution of the development budget—where most donor financing is focused—has remained an issue of concern. In the 2012 Tokyo Mutual Accountability Framework, government undertook to increase budget execution to 75% by 2017. It will be challenging to reach this target, and this paper questions whether it remains a useful metric of government performance.

Policy dialogue has focused on the budget execution rate, but this is not very useful for diagnosing problems. Budget execution rates measure how much of what is budgeted has been spent, but deteriorating execution rates can be driven by weak execution capacity (at various stages of the execution cycle), over-optimistic budgeting, unforeseen shortfalls in revenue, or a combination of all three. Improving the *budget execution rate* is not necessarily the same thing as improving *implementation of the budget*. Improving implementation of the budget may not necessarily result in better outcomes, unless the budget is better *aligned to government's priorities*. This short review has identified the following broad areas for government's attention to improve execution rates, implementation, and outcomes.

First, the biggest improvements in the *budget execution rate* are likely to come from more realistic budgeting, and more realistic estimation of domestic revenues. The government's capacity to finance the discretionary budget is a function of the fiscal space it can generate from the operating budget, and what it can raise in domestic revenues, both of which have contracted over the last two years. Demands on the operating budget are growing, both because the government is assuming more responsibility for security, and because as more infrastructure is built, more budget is needed to operate and maintain it.

Capacity for implementation is certainly a factor, but a more significant factor is over-estimation of donor-financed project budgets. Within a normal government-financed budget, limited resources operate to ensure budgets are relatively realistic. When a budget is financed by donors, incentives are oriented to encourage inflated budgets. Either a concerted effort between donors and government will be needed to make these estimates more realistic, or else there should be agreement to measure the government's performance (as the PEFA assessments do) only on execution performance in relation to the government-financed part of the budget. There are two ways to encourage more realistic budget estimates for donor projects: strengthening the multi-year focus of budgeting, and making it easier for projects that are spending well to tap into additional budget during the year.

Second, improvements in upstream budget and project planning are likely to result in improvements in *budget alignment* as well as budget execution rates. Execution rates for the allotted budget are relatively high, suggesting that upstream planning and procurement processes remain quite weak. The structural fragmentation of the budget compounds poor planning, because operating and development budgets are presented as though they are completely unconnected to one another. An unfortunate result is that all important operations and maintenance expenditure is poorly factored into both operating budgets, and decisions on the creation of new assets.

The government of Afghanistan is in an unenviable and relatively unique situation, in terms of the limited control it has over discretionary resources through which to implement strategic policy. Efficient and effective use of scarce discretionary resources becomes all the more important in this context, but the budget is overloaded with small projects, many of which are not likely to be implemented. MPs play an active role in the budget process, and their expectation of visible projects to serve electorates may be work against realism in the discretionary budget. The design of the budget process needs to accommodate this consideration; there is no point having a budget process that does not work with the political grain of a country's government.

Upstream planning, activity costing and procurement are key steps in turning the budget into realistic and implementable projects. Despite significant investment to implement program budgeting, these areas remain weak. The new procurement arrangements offer an opportunity to drive improvement in both procurement integrity and efficiency (although the focus is mainly on the former). Securing these changes will probably involve some short-term loss of momentum in implementation of projects. Stakeholders' expectations and understanding of the changes will need to be managed through a very effective communications strategy. A more detailed assessment of procurement system capacity, and evaluation of the effectiveness of past efforts at capacity building, could usefully inform a strategy for improving efficiency and effectiveness of procurement. Increased use of IT solutions that are joined up with other PFM IT systems will be an important plank in any reform strategy.

Third, incrementally shifting the emphasis from ex ante control systems to ex post review systems will improve *implementation of the budget* while managing the risk of diminishing system integrity. It would not be appropriate for this review to identify specific ways in which different processes should be changed. This task belongs to the users of the system who know best how it works (or doesn't). However, five specific dimensions are identified for further focus: the value and purpose of the allotment process; delays occasioned by processes controlled within line ministries; increasing line ministry access to AFMIS; effectiveness of audit and other ex post review systems; and how system reform can be approached in a sustainable and incremental way. The new PFM Roadmap provides an opportunity to focus the next phase of reforms in a strategic way, supported by donors.

The "how" of the reform process will be as important as the "what." Reform needs to be driven from within the Ministry of Finance, in consultation with line ministries. Reform actions should be realistic, feasible, and informed by evidence. Care is needed to ensure that decisions to relax upstream controls to facilitate more spending balance the risk of losing overall integrity and accountability. Business process compliance with service standards should be systematically measured, both to establish the evidence base for identifying the processes that impose the most drag on execution for the least return in improved accountability, and to monitor what is being achieved through reforms. Building on past approaches, user groups should be developed that can provide a sounding board for any proposed reforms. Incentives within both line ministries and Ministry of Finance need to be aligned with increased staff focus on achieving reform objectives. To support a government- led effort better, donor support in the form of external technical assistance, financing for expensive reform initiatives, and salary supplementation, needs to be joined up in a more programmatic approach. The building blocks for such an approach are already in place.

2. Getting the budget right

A central assumption in the discussion of budget execution problems is that low execution rates equate to services and development foregone. Put simply, an execution gap is the difference between the amount in the budget, and the amount that gets spent. In much of the discussion of budget execution problems, it is assumed that the execution gap represents money that could not be spent because of some failing of the bureaucracy. Attention is often focused on the cumbersome downstream processes for issue of allotments and approval of payments. This section of the note argues the case for a more nuanced analysis that recognizes the importance of upstream planning processes.

The structure of Afghanistan's budget forms an important backdrop for understanding what analysis of budget execution rates reveals. Donor financing now forms an increasing proportion of spending in the development budget. Although donor financing as a proportion of budgeted expenditure decreased slightly between 1389 and 1393, in reality donors are resourcing an increasing proportion of spending. Almost 90% of development spending in 1393 was financed by development partners. The key reason for the pattern seen in Figure 1 below is that government has faced increasing challenges in implementing that part of the budget financed by government revenue.

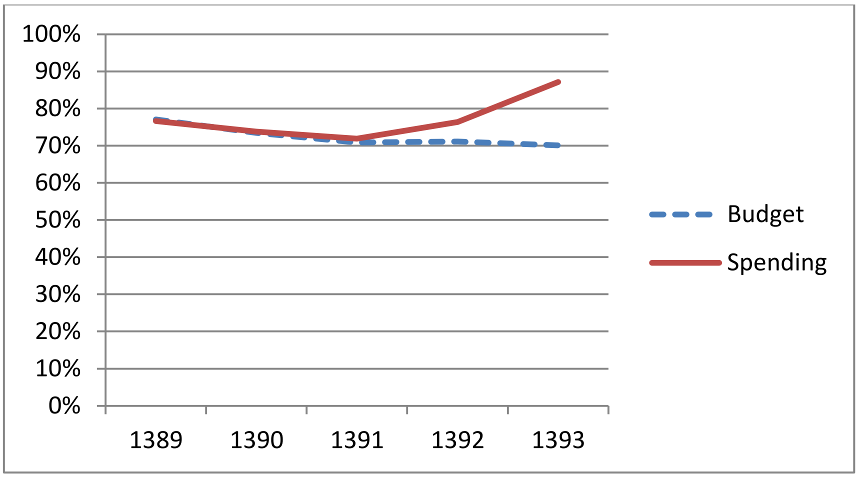


Figure 1: Donor financing now makes up 80% of the development *budget*, and 90% of development *spending*

Overall improvements in budget execution between 1389 and 1392 masked emerging problems on the government-funded side of the budget. Spending of the non-discretionary budget improved considerably over the last five years, from 39% of budget in 1389 up to 61% in 1392 and 1393 (see Figure 2). Although execution rates for government funded projects improved from 1389 to 1390, from 1391 to 1393 the discretionary execution rate of government-funded projects halved – from 47% to 21%.

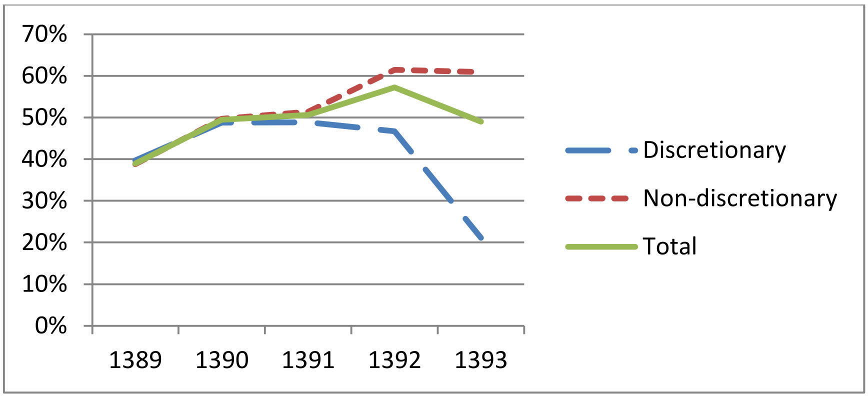


Figure 2: Execution rates for discretionary, non-discretionary and total budget 1389-1393

2.1 The discretionary budget could not be fully funded

The main reason why government was unable to finance its share of the development budget is that revenue fell short of what had been estimated in the budget. Revenue collection in Afghanistan had been increasing off a low base for some time. Figure 3 shows the shortfall in domestic revenue collection in 1392 and 1393 reversing an earlier trend for actual collections to exceed the forecast. Domestic revenue trends will be very difficult to predict until more stable trends establish themselves. An analysis of the revenue potential for different taxes would help to establish some more realistic targets, but a conservative approach to revenue forecasting is the safer approach in the medium term. Under-forecasting of revenue is much easier to accommodate in budget implementation than over-forecasting.

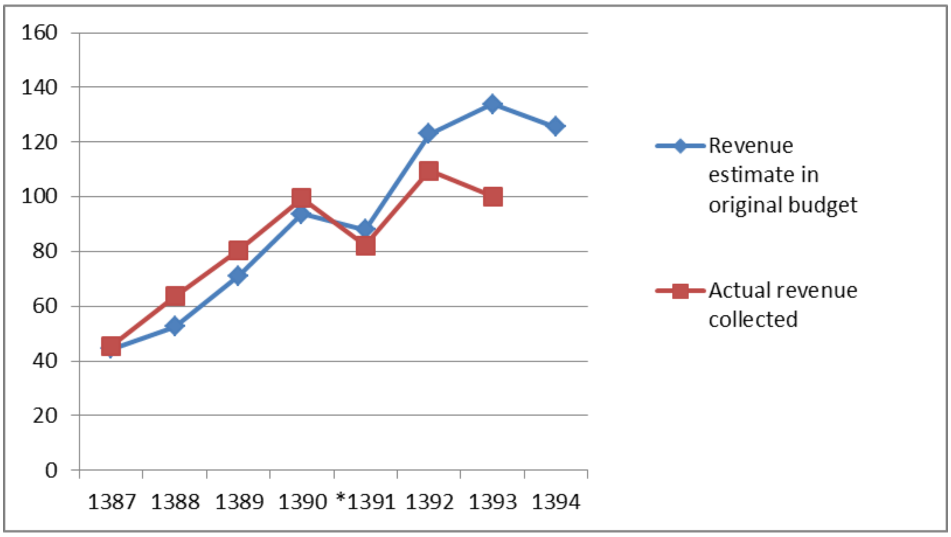


Figure 3: Original revenue estimate compared with outturn, 1387-1393 (billion Afghanis)

Source: Ministry of Finance budget documents for original estimate, Treasury Financial Statements for actual collection (*note that 1391 was a 9 month year)

At the same time, the operating budget absorbed more of what domestic revenue was raised. As government took over the security sector, the operating budget was required to absorb the increasing cost of salaries and operating costs, with the result that less domestic revenue was available to fund the discretionary development budget. Between 1390 and 1393, annual spending on the security operating budget increased around half a billion USD, and the education operating spending by USD 78 million. Overall the wage bill increased by 10%, and spending on goods and services increased by more than 50% (much of which was for repairs and maintenance, and pensions).

In 1393, lower than expected receipts of donor support for the operating budget put further pressure on under-performing domestic revenues. As shown in Figure 4, donor support for the operating budget had been under-estimated in 1391 and 1392. In 1393 this situation reversed, with donor operating grants falling short of what had been budgeted by almost 25%. Donor revenues should be among the most predictable sources of revenue.

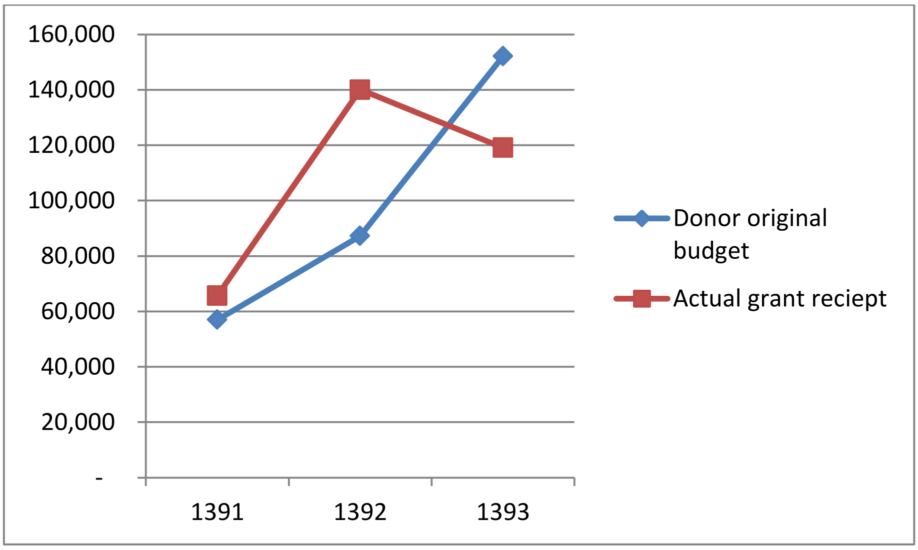


Figure 4: Donor grants to the operating budget, actual compared with budget (million Afghanis)
Source: Ministry of Finance Fiscal Policy Units

Under-spending on the discretionary side of the budget was further exacerbated in 1393, because in some cases *physical* execution did not translate into *fiscal* execution. As is described in more detail below, once a contract has been entered into, the budget to fund payments under the contract is set aside by the issue of an allotment. However, despite allotments having been issued, the 1393 cash crisis meant that some invoices presented under those allotments could not be paid. The review was told by two ministries of unpaid invoices totaling around Afs 40 million for which allotments had been issued. In this sense, the execution gap on the discretionary budget side also includes activities that had been fully implemented but did not show up as execution, because they could not be paid for from last year's budget. The review also heard unconfirmed reports of delays in the payment of invoices using donor funds, but it seems likely this was confined to a specific agency and may have been isolated.

In the short term, improving execution rates for discretionary projects will be achieved by budgeting less, and budgeting smarter. Government needs to budget domestic revenue-raising conservatively, and focus its resources on projects that are well aligned with its priorities, well-planned and ready to be implemented. Whether this is politically feasible remains to be seen. During the review several informants mentioned that the budget often undergoes significant changes in parliament, mostly driven by bargaining between MPs from different geographic locations. The political economy of the budget process in Afghanistan is discussed in more detail below.

2.2 Budgets for donor-funded (non-discretionary) projects are likely to be over-estimated

Internationally, under-execution of donor-funded development budgets is not unusual. In Kenya, for example, only 55% of the development budget was executed in 2011/12; this fell to 44.4% in 2013/13 (an election year) and rose again to 52% in 2013/14. The reasons are usually complex. They include constraints that apply equally to government-funded budgets: expected revenue does not become available because donor commitments do not materialize; complexity of procedures may lead recipient governments to draw down and use funds more slowly than first expected; preoccupation with other tasks, or concerns about the operating environment, may also contribute to poor implementation of projects.

Where government- and donor-funded projects differ significantly is in the incentives for prudent and realistic budgeting. Over-optimistic cost estimates and unrealistic implementation expectations feature in government- and donor-financed projects alike. However, governments cannot afford to have limited funds tied up in projects that are patently not ready to be implemented. Budget that is allocated to projects that are not delivering wastes limited government resources. If a ministry presents a project for a second year running after failing to implement in the first year, it may be able to convince the Ministry of Finance to allow the project to be funded in the second year. It is unlikely to be able to do so in subsequent years, if the project is still showing no signs of being implemented. This is why, across the world, programs financed with government money often ramp up spending in the last weeks of the financial year. Spending agencies want to make sure they fully use their budget, to safeguard against the “use it or lose it” incentives that dominate the resource allocation process in government-financed budgets.

Donor projects face very different incentives, almost all of which encourage over-estimation of project budgets. Money is provided for specific activities, and cannot be reallocated to different purposes if it is not spent. Two features of the Afghanistan PFM system reinforce these incentives. First, as one informant observed, project managers fear being left without budget to implement an activity that is ready to go, and would rather estimate the budget on a “just in case” basis to safeguard against this risk. Second, unspent project budgets are automatically carried forward as a matter of routine practice in Afghanistan. Automatically carrying forward unspent funds creates a powerful incentive to overstate the budget at the start of the project. When unspent funds are routinely carried forward into successive years, it is likely that the problem is compounded, since the budget is carrying not only unspent funds from the previous year, but from years before that.

2.3 Hard coding of provincial allocations

Locking in development budget allocations by province may make the over-budgeting problem worse, because it will reduce the flexibility to reallocate funds across provinces. Operating budget is already allocated by province, and more than half the operating budget is spent in provinces.[1] The situation with respect to the development budget is more complicated. Afghanistan is an especially uncertain environment for implementation of development projects, all the more so since the withdrawal of international troops has rendered the security situation in provinces more volatile.

[1] Director Budget Coordination cited 57% of operating budget being spent in provinces.

Program managers rely on being able to move budget from a project in one province, to a project in another, in response to changing security and other circumstances (issues with local landowners, interference from provincial government etc.). Starting from 1394, line ministries have been instructed to subdivide budget for each project and allocate it across provinces at the start of the year, using the B3 (high level allotment) process at the start of the year (see Figure 5). The review team was told that these allocations would be "hard-wired" into both the State Budget Planning System and the AFMIS so that allotment requests will need to align with the available budget for that specific province.

Conversely, more transparent provincial allocations may help to manage the political economy of the budget process in Parliament. The Constitution allocates responsibility for deciding the development budget to the Parliament. MPs exert considerable pressure during the budget process to include numerous small projects for their districts. Much of the development budget is allocated against large programs that deliver infrastructure and other services across the whole country. More transparent reporting to Parliament of how larger projects will deliver to specific districts may help to manage these pressures.

The increased rigidity brought about by the provincial "hard wiring" process can be managed by streamlining the process of approving requests for transfer of budget. The announcement of this initiative has caused some disquiet amongst donors, because an earlier pilot of provincial allocation against development projects in 1392 led to project implementation slowing down. After high level consultations with DM Finance it was agreed that the requirement would be waived for non-discretionary projects. To manage the risk of a rising execution gap in 1394, DG Budgets will need to be responsive to line ministry requests to move budget from one province to another. DG Budgets has developed some criteria for deciding on transfer requests. Transfers from most poor provinces (third category) will not be approved under any circumstances, nor will applications to transfer budget from a province to the center. Applications to transfer from center to province will always be approved. In between approval will be granted if a good case is made. These are sensible criteria, but they need to be operationalized in a way that ensures decisions are made efficiently. Some of the line ministries interviewed expressed concern about the amount of time it takes for an application for transfer of budget to be approved.

2.4 Improving non-discretionary budget estimates

Improving budget realism for non-discretionary projects will be harder than it looks. Despite pursuing this line of questioning in almost every interview over the two week review period, the team was no closer at the end of the review to understanding the dynamics of how annual budgets for individual donor-financed projects are decided. DG Budgets indicated that figures are provided by line ministries, and since the funding source for the projects is assured, they do not question their accuracy. The Aid Management Directorate indicated that its regular discussions with donors are at a high level, and do not consider annual allocation to individual projects. One donor interviewed expressed surprise about the amount that had been included in the annual budget as being provided by them. A line ministry interviewed said it did not understand why a particular donor project's carry over funding had been included in the budget since the project had closed and funding transferred to a new project.[2]

A sustained effort by donors and government will be needed to make project budgets more realistic. The team is of the view that effort should be focused in three directions: a) improving the fiscal year focus in implementation of aid projects; b) bringing a more robust multi-year focus to the budget, and c) clarifying and socializing how projects that are reaching or exceeding their budget can access more budget during the year.

2.5 Improving alignment of donor and government budgeting and planning systems

Donor projects do not necessarily follow the annual budget cycle of government as closely as government-financed projects do. For example:

- Donor projects can become operational at any time during the fiscal year; government projects usually become operational at the start of a fiscal year, after their inception has been approved through the budget process.
- Budget for donor projects is often committed for the project's life-span, usually of between 3-5 years. Once approval is granted, the total value of the project is available to be spent. Government projects require renewal of funding authorization on an annual basis.
- Procurement plans for donor projects are often developed at the outset of the project, and adjusted periodically. There may be a less clear connection between the development of a procurement plan, and the annual budget appropriation, than is the case for government-funded projects. This may be one of the reasons why annual government procurement plans sometimes do not fully incorporate donor projects.

Donor projects nested within Ministries may not automatically be focused on inputting into the government annual budget cycle, particularly if they are staffed independently. Some project implementation staff have only limited interaction with mainstream government processes.[3]

Because donor financing dominates the budget in Afghanistan, **management approaches for donor projects have a significant impact on the "tone" of the budget process**. Aligning donor projects more closely with the government budget cycle may mean adjusting how they work to mimic the government budget cycle more closely, even though this is not strictly required by donor procedures. In order to prepare Afghanistan's country systems for the day when their development budget will be dominated by government revenue, donor financing arrangements need to work towards making the budget behave increasingly like it is financed by government. An important dimension of this is adopting realistic annual budget estimates and procurement frameworks. To ensure a more accurate estimation of annual budgets, management of aid projects could incorporate a rolling annual budgeting, procurement, spending and reporting cycle that tracks the government cycle more closely.

[2] Two ministries managing large construction contracts also commented that other (discretionary) projects had been prematurely deleted from the budget, leaving the Ministry with no budget line to refund the contractor's security deposit for a completed project.

[3] For example, in one ministry visited by the review team, the project is run by a consulting firm based in Dubai. The ministry was responsible for the recruitment of the firm, and overseas the contract, but otherwise the project operates relatively independently.

2.6 Managing in a multi-year context

Automatic carry forward provisions in the Afghanistan budget process are relatively unusual, and have adverse unintended consequences. They encourage project managers to budget as much as possible up front, knowing that what is unspent will be rolled over to the following year. In effect, over-budgeting has many advantages, and no disadvantages. This is a result of a lack of systems to manage appropriations and projects in a multi-year context.

One of the best ways to manage a number of multi-year projects in an annual appropriation context is through a system that maintains multi-year expenditure plans, which track annual estimates for expenditure across the life of an activity. For a medium term approach to work, the forward year estimates of expenditure need to be locked in as baseline estimate. When the next budget process starts, the first forward year is rolled over for negotiation during budget preparation.

The critical element during technical hearings on the budget is to focus negotiations in three key areas: i) how much is committed by each multi-year contract but was unspent in the previous year will come due in the new budget year– the amount to be carried forward – and how much will become due in later years; ii) the extent to which expenditure plans need to be adjusted to accommodate inflation and cost drivers while still meeting existing government policy – generating either cuts or additions to the forward estimates; and iii) in the case of fixed term multi-year projects like Donor Projects (multi-year grants), how much uncommitted funds need to programmed over the remaining years before the grant lapses.

A medium term approach also helps Government be more strategic from the top down. It allows the President or Cabinet to credibly set budget priorities, while not changing existing policies. By having a fixed and rolling baseline of forward estimates of future annual appropriations, the President or the Minster for Finance can request only some ministries to bring forward budget submission based on criteria agreed by Cabinet. Importantly the budget submission brought forward only deals with new money or in the case of savings policies, cuts to existing resources contained in the forward estimate. This breaks the cycle of repeated non-compliance with ceilings (because the ceilings are set behind the scenes) and presentation of zero based budgets every year. Moreover, it reduces the work load for MoF and Cabinet, as they only need to deal with a smaller set of incremental budget submissions.

If donor financed projects are readily able to increase their budget during the year, one of the incentives to over-state the budget at the start of the year will be removed. One informant suggested that increasing budget for donor financed projects during the year is actually easier than reducing budget. If this is true, it may not be well understood amongst donors and ministry staff alike. As part of any strategy to improve the realism of donor project budget submissions, the basis for getting a mid-year increase in budget should be clarified, and well socialized.

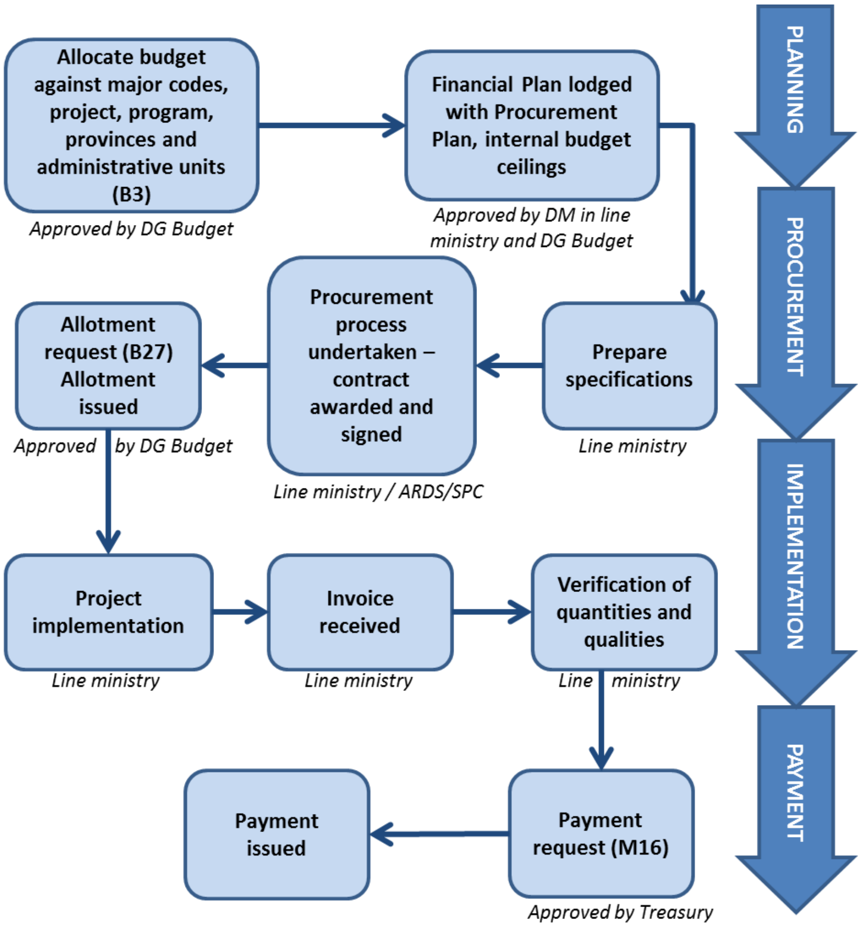


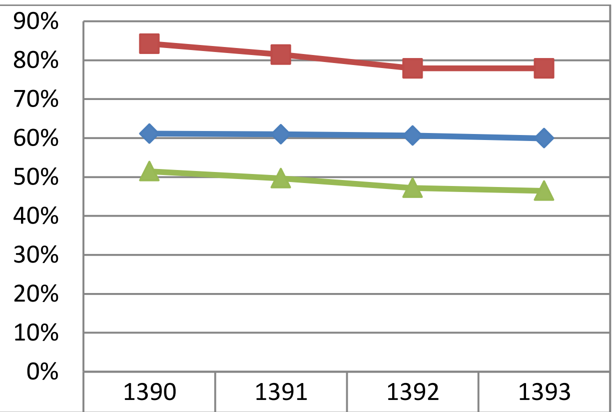
Figure 5: Key steps in the four phases of development budget execution

Figure 5 describes the main steps involved in spending funds through the development budget in Afghanistan. The diagram simplifies many steps. For example, an allotment request must be supported by a copy of the contract with any extensions signed and stamped by the authorized official on each page, a project coding sheet, no objection letter from the donor, and approval of the Special Procurement Committee if the contract is over the appropriate threshold. Requests are first reviewed by Budget Execution Directorate sector focal points, then Sector Managers decide on the request and forward documentation to the Budget Execution unit. The Budget Execution Unit reviews the allotment and verifies in the State Planning and Budgeting System, then submits to the DG Budget or Director of BEU for approval. Authorized allotments are scanned and original documents shared with Treasury so the allotment can be recorded in AFMIS. Simultaneously with allotment approval, a commitment is also recorded in AFMIS.

3. Improving planning and procurement

Although much attention has been focused on cumbersome spending approval processes, it is likely that poor planning accounts for as much if not more of the execution gap. If project planning is not well advanced before the budget execution year begins, it is unlikely that procurement can be completed efficiently as soon as the budget becomes available. If procurement is delayed because there is no clarity about what is being purchased and how much it will cost, it becomes much less likely that the project will be implemented, invoiced, and paid before the end of the fiscal year.

Comparing allotment rates with budget, and spending rates with allotment, provides some insight into how much of the problem lies upstream rather than downstream. In the Afghanistan public financial management system, allotment is a process that allocates budget against specific spending purposes. In the development budget, allotments are issued once contracts have been tendered, awarded and signed. The gap between budget and allotment thus provides a rough proxy for upstream problems (issues with planning and procurement) as compared with the gap between allotment and spending, which reflects problems in contract implementation and payment. Figure 6 shows that consistently only around 60% of the budget results in an allotment being issued, but between 78-84% of issued allotments are spent. Given the level of uncertainty in contract implementation, and the overhang of arrears in 1393, this is an encouragingly high figure. What it suggests is that some of the main factors determining the execution gap lie between the budget and the allotment, in the realm of budgetary and implementation planning, and procurement.



	1390	1391	1392	1393
How much of budget is alloted?	61%	61%	61%	60%
How much of allotment is spent?	84%	81%	78%	78%
How much of budget is spent?	51%	50%	47%	46%

Figure 6: Comparing budget, allotment and spending (total discretionary and non-discretionary)
Source: Ministry of Finance, Budget website, budget execution reports

3.1 Reconnecting operating and development budgets

Afghanistan's operating and development budgets are fragmented in a number of ways. First, the operating budget is presented by the economic classification of expenditure into major codes (salaries, goods and services, and capital expenditures) while the development budget is presented by project. Second, the operating budget is funded by a mix of domestic revenues and general budget support from donors, while the development budget is mainly financed by tied project aid.

Third, the two budgets are presented in different currencies – the operating budget in Afghanis and the development budget in USD. This makes it difficult even for the fiscally literate to see the quantitative relationship between the two budgets.

Having separate operating and development budgets undermines good budget planning, because the ongoing operation and maintenance cost of existing infrastructure is not properly balanced with proposals for new spending, nor are the recurrent cost implications of new capital infrastructure properly considered when a decision is being taken on the project. This is particularly important for Afghanistan, which has seen massive investment in reconstruction of public infrastructure over the last decade that will generate a substantial operating cost burden for the future.

Reconnecting operating and development budgets makes particular sense in the Afghan context, since the development budget is paying for substantial operating costs. Virtually the entire operating cost of running the primary and secondary health systems, for example, is financed by donors through the development budget. Many other development projects include substantial operating costs. However, the heavy reliance on donor funding also complicates budget integration. In practice, donor support for the operating budget is untied, while support for the development budget is tied.

Some line ministries have made substantial progress toward integrating operating and development budgets in practice, but reforms need to go deeper to the way budgets are formulated. In the Ministry of Agriculture and Livestock, for example, a single Finance Directorate manages preparation and execution of both budgets. However, a 2012 study of line ministry internal control systems noted that amalgamating finance and planning functions in some ministries had led to duplication rather than increased efficiency.[4] Integrating operating and development budgets requires a change of thinking more than a change in presentation of the budget. Operating and development budgets are integrated in the program format of the budget, but may not have resulted in more joined up planning and evaluation of budget priorities.

3.3 Reinforcing budget realism and efficiency

Budget planning needs to be more aligned, focused and realistic. Within the scope of this review it was not possible to identify specifically how planning could be improved. However, it seems likely that recommendations made by earlier studies remain relevant. One commissioned by the Ministry of Finance in 2012 suggested that budget submissions in response to the BC-01 budget circular were often wish lists, and not sufficiently connected to the BC-02 detailed budget submissions. It recommended that the BC-01 bottom-up submission process should be replaced with a high level workshop.[5] At least one informant confirmed his belief that budget submissions needed to be inflated to ensure that a moderately adequate budget would be awarded by the Ministry of Finance.

Inflating budget bids is common in under-developed budgeting systems, and ultimately serves to undermine technical sector influence on the prioritization process. As described above, a more

[4] (Ministry of Finance and PKF 2012) Line Ministry Public Financial Management and Internal Control Review, Final Report. September 2012 (DRAFT). Para 3.13.

[5] (Ministry of Finance and PKF 2012) Line Ministry Public Financial Management and Internal Control Review, Final Report. September 2012 (DRAFT). Para 4.16.

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sustainable medium term approach would be framed around establishing budget baselines clearly equating to a certain level of service delivery. Budget proposals would then clearly distinguish the baseline with adjustments (based on shifts in economic parameters and changes to policy) from new spending proposals.

The development budget is currently overloaded with a large number of small projects. There are over 600 projects with individual project numbers, yet 80% of resources are allocated against only 20% of projects. A large number of small projects are funded mainly from the discretionary budget, but also by smaller donors. Small projects are transaction intensive to implement. Options for reducing the volume of these small projects could include: a) bundling small projects to be implemented as programs through a smaller number of larger contracts; b) delegating implementation of smaller projects to the provincial level; and c) asking smaller donors to channel their funding either through larger donors or trust fund mechanisms. However, as remarked earlier, the political purpose served by small projects in the Afghanistan budget should be recognized and accommodated – or the political focus is likely to fall on bigger projects.

3.4 Procurement planning, transparency and integrity

Many past reviews have identified poor procurement planning as a major issue, but it is not clear how much has been achieved in addressing this problem in the last decade. As shown in Figure 7, failure to comply with procurement requirements accounts for more than half the ineligible expenditure claims under the ARTF. Poor procurement planning has two important consequences. First, the under/over estimation of project cost and implementation timelines has a direct impact on how much can actually be procured and thus on the extent to which the budget can be implemented, and how quickly. Second, it clouds the procurement context, creating an opaque environment for managing procurement. It is reported that procurement plans are not linked to budgets, and often don't include procurement under donor projects.

More evidence will be needed before a robust strategy to build procurement capacity and integrity can be developed. The last full procurement assessment using the OECD-MAPS framework was in 2007. PEFA assessments are not comprehensive, as they include only one indicator that measures procurement. Improving the systematic oversight of procurement will be important if a decision is taken to relax allotment controls since (as is described below) it seems likely that issue of allotments in the development budget is serving as a de-facto oversight of procurement integrity. Two evaluations could very usefully inform the future direction: first, an evaluation of past procurement capacity building and an assessment of capacity levels among procurement staff; and second a procurement credibility assessment (perhaps in selected ministries) to identify the credibility gap between procurement plans and procurements carried out. This could help to identify how to improve procurement planning, and help shed light on the problem.

Increasing the use of information technology would increase transparency, especially if IT systems are linked. Greater use of IT increases transparency which is a significant deterrent to deliberate non-compliance with procurement laws. It is reported that few ministries use the Procurement Management Information System (PMIS) and that is it not linked to AFMIS. AFMIS and PMIS should be linked at the budget, procurement plan and contract level and should be mandatory. In Timor Leste, the procurement module of FreeBalance (the software that runs AFMIS) was fully rolled out within 12 months.[6] Hopefully now that procurement is under the oversight of the Office of President, there will be an increased political imperative to comply with the regulatory and administrative requirements in the procurement framework.

3.5 Balancing procurement reform and implementation

The decision to shift management of procurement to the Office of the President presents both significant risks, and significant opportunities. The functions of the Special Procurement Committee (SPC) will be absorbed by a new National Procurement Commission, and the functions of the Afghanistan Reconstruction and Development Service (ARDS) in the Ministry of Economy, and the Procurement Unit in MoF, will move to the Office of the President. These changes largely involve a shift in responsibility, but they do involve more centralized operational management of large scale procurement. The move is aimed at eradicating corruption from large value procurement through a combination of more vigorous oversight, and reinvigorating and professionalizing the technical staff that will support procurement decision making. At least two of the line ministry finance staff spoken to during the review were very positive about the move, provided that "clean" staff can be appointed to the new directorate, and it has adequate technical staff to perform its evaluation function in a professional way. Some donors expressed concern about the potential for delays, but the review team was not given any evidence that procurements had slowed down.

The reforms offer the opportunity to drive improved compliance, transparency and capacity building, based on evidence, with political support from the highest level. There is room to improve on the support for line ministry procurement that has so far been provided. Line ministries did not speak highly of the procurement controllers that have been posted there by the Ministry of Finance. It is not clear what has been achieved from a decade of training. The establishment of a cadre of professional procurement staff through the CBR Project could help to professionalize procurement within line ministries in parallel with the increased professionalization under the Office of the President.

The two key risks are: a) maintaining separation of oversight and operational functions, and b) managing the risk that a temporary slow-down of procurement will lower budget execution in 2015. The review team did not find evidence that ministries are responding to the uncertainty concerning the new procedure. One ministry advised that they had recently sent through 15 contracts for review by ARDS. Nevertheless, the possibility of slow-down is a risk that needs to be mitigated. The immediate need is to do this is through a) the clarification of detail around the new procedures, b) issue of circulars (and or changes to the law if needed) to authorize procurement to continue in line with the new division of responsibilities, and c) a program to aggressively socialize the changes, reinforce the need for ministries to continue implementation of projects, and begin the process of changing the procurement culture.

[6] See Fiduciary Risk Assessment 2015, paragraph 48 & 49.

ARTF Monitoring Agent Reports provide a unique and quantitatively robust insight into the operation of the Afghanistan public financial management system. The ARTF reimburses government for eligible expenditure on salaries and operations and maintenance, following a review process. The reviews examine three broad categories of expenditure: salary expenditure, O&M including pensions, and O&M excluding pensions. The findings in relation to the last category, O&M excluding pensions, are of most relevance in shedding light on weaknesses in the PFM system. Although these findings relate to spending through the operating budget (likely to involve smaller purchases than under the development budget) they point to significant issues with procurement systems, and ensuring that the proper authorization of transactions can be validated. These findings are likely to be equally relevant to spending against the development budget.

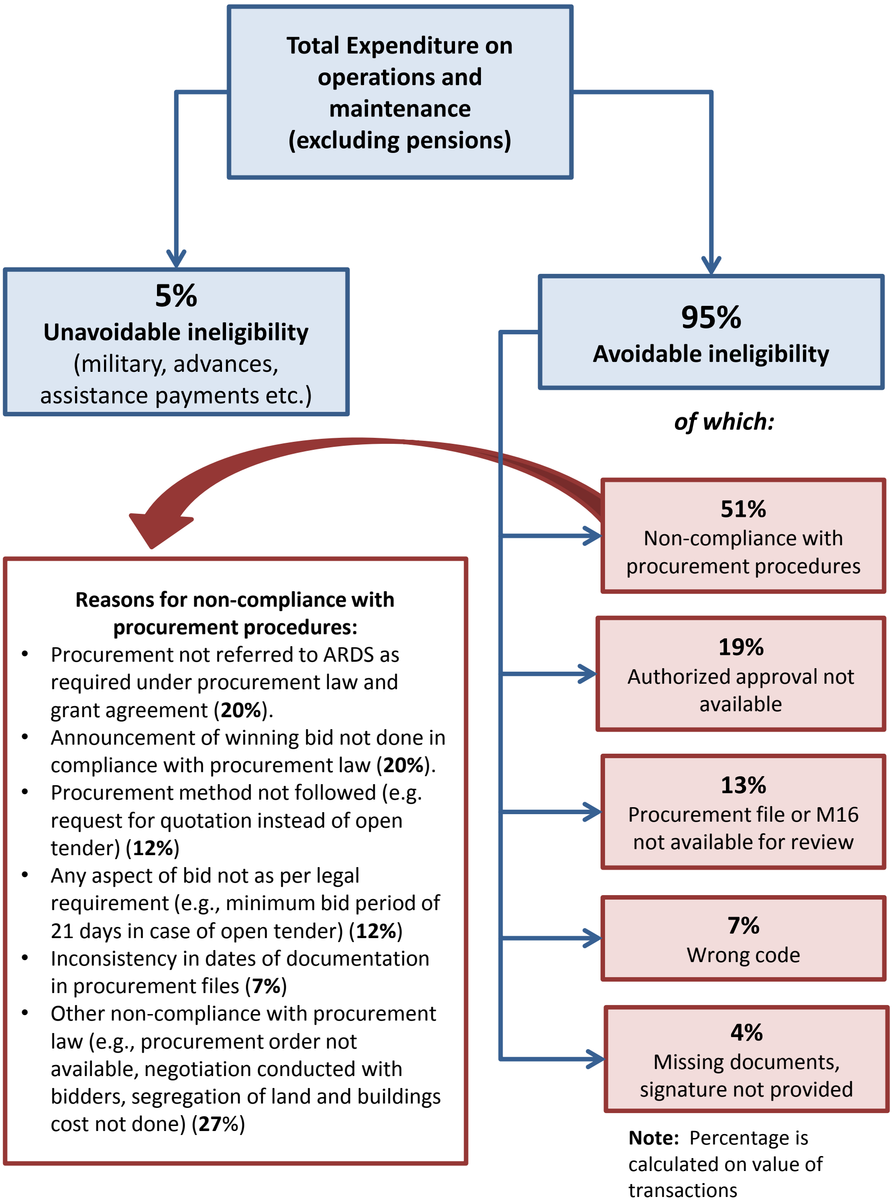

Figure 6: Reasons for ineligibility of claims for recurrent cost reimbursement under the ARTF

Source: ARTF Monitoring Report FY 1392, paras 2.16, 6.22, Table 19.

3.6 Provincial implementation

Empowering provincial level officials has the potential to increase budget execution. It was not possible within the scope of this review to examine the capacity of provincial *mustofiats* and line departments in provinces to implement projects and programs accountably. However, it was noted during the review that at least one ministry identified that increasing the proportion of the budget executed by provincial departments resulted in increased spending.

4. Shifting the focus of control from ex ante, to ex post

Public finance systems feature both ex ante controls (imposed before spending takes place) and ex post controls (imposed after spending takes place). The more ex ante controls there are in a PFM system, the slower money will move through it. The Afghanistan public financial management system is highly centralized, with Ministry of Finance performing transaction level checks at several points in the spending chain. If the system has not yet reached its absorptive limit *under current system configurations*; it is likely that point cannot be far off. There have been sharp increases in both operating and development budgets since 1391,[7] and it is hardly surprising that absorptive capacity of country systems has not been able to keep up.

As PFM systems mature, the long-term trajectory should be to increase the effectiveness of ex post controls while reducing ex ante controls that require multiple approvals before payments are made. Accounting controls at the center should be focused on big problems: ensuring appropriations are not breached, government does not run out of cash, and spending is in line with promised made to Parliament (see more detailed discussion in the Fiduciary Risk Assessment). Line ministry officials who were interviewed expressed a unanimous perspective view that there are too many controls within the Ministry of Finance. A number of external studies point out that line ministries impose a number of controls themselves, many of which are not formally written into the PFM regulations. Analysis of the time taken to process various steps indicates that the longest delays can be within line ministries. The picture is far from clear as to where changes should be made to streamline the system.

Dismantling control systems should not be undertaken lightly, as it is can be difficult to re-establish them after the fact. Proposals for reform of the system to reduce ex ante controls need to be developed by a team with a strong understanding of how the systems work – it would not be appropriate for this review to make specific recommendations on the basis of a two week study. Reform proposals need to be based on evidence, and well understood by those who have to implement them. Three important inputs are likely to prove important in deciding on reform measures:

1) <u>Monitoring process timelines</u> to establish how long different steps are taking. Although service standards exist, in many cases they are not monitored, or information about compliance variance cannot be easily generated.
2) <u>ARTF monitoring report assessments of key weaknesses in internal control systems</u>. Figure 7 above shows the relative importance of different reasons why claims for recurrent cost reimbursement under the ARTF are deemed to be ineligible.

[7] See Fiduciary Risk Assessment 2015, figure 10, page 11.

3) Systematic collection of views of different user groups – from both line ministries (who are interested in making the process simpler) and Ministry of Finance (who are interested in the integrity of control systems.

Without providing a firm view on where systems could be improved, a number of issues warrant further investigation: a) the purpose and effectiveness of the allotment process; b) delays caused by additional line ministry processes, including holding financial delegations at too high a level; c) expanding line ministry access to AFMIS; d) effectiveness of audit and other ex post mechanisms; and finally e) managing system improvement in an incremental way. These issues are discussed further in the next section.

4.1 Allotment controls should be evaluated

The value of allotment control processes needs to be balanced against the additional transaction cost they impose. It is not clear what function the allotment process is actually fulfilling.

- If allotments serve a **commitment function**, it is not clear how this can be fully effective when it takes place after procurement, at which point a legal obligation has already been created. A commitment is a "set aside" that ensures that budget is available to fund the contract payments when they fall due. If budget is not available, the commitment should be refused. However, when allotment follows the contracting process it is too late to decide not to create a legal obligation – it is already created by virtue of the contract.
- If allotments serve a **cash management function**, then having allotments issued by Budgets instead of by Treasury may undermine its effectiveness, since it is Treasury that controls cash. It was reported to the team by two ministries that allotments were issued during 1393 that could not be matched with cash, with the result that payments could not be made and were carried over as arrears into 1394.
- As discussed in the Fiduciary Risk Assessment (paragraph 45), the legal authority for issue of allotments by the Budgets Directorate-General seems to be unclear, and the recently issued Accounting Manual makes primary budget units (spending ministries) responsible for sub-allotment of funds to secondary budget units.

Perhaps because some allotments could not be funded in 1393, some ministries told the team that they have been advised that for 1394 allotments for the discretionary budget will be issued on an invoice-by-invoice basis. If this information is correct, allotments will serve neither purpose very effectively. By the time an invoice is issued, a legal commitment has clearly been made, regardless of whether it is recorded in the system or not. Similarly, the payment remains payable regardless of whether cash is available. The only option left to government at this point is to defer payment and generate arrears. This decision could just as easily be made by forwarding invoices directly to Treasury. It is not clear what is gained from having Budgets DG review the invoice before it is passed to Treasury for payment.

If the allotment process is to be retained, there is considerable room to streamline it. It was reported to the review team (although not verified through AFMIS) that allotments were routinely issued for amounts as small as USD 400. Conversely, the Director of the Budget Execution Directorate advised that ministries were being encouraged to bundle allotments – for example seeking a single allotment for all consultancies paid under the same project, rather than an allotment for each.

Allotment issue may in practice be facilitating within-year budget adjustments, and oversight by MoF to ensure ministry spending proposals are compliant with the law – for example by checking that there is a valid contact executed in accordance with the procurement law. The allotment process then becomes a process of issuing a "visa" that stops poorly procured contracts from access to budget. This is the most plausible argument we heard for retaining allotment control. It suggests that other systems that should be assuring compliance with the procurement framework are not working effectively, and so the allotment process may be operating to fill that gap. Allotments also provide a mechanism for the Ministry of Finance to manage budget adjustments that are needed because of weaknesses in the original budget, including over-optimistic estimates and allocation to provinces.

Line ministries interviewed by the review team unanimously focused their attention on the allotment process as the main obstacle to budget execution. In general, the treasury payments system did not attract the same level of comment from line ministries as did the allotment process. Officials from one line ministry made constructive suggestions about safeguarding contracting and payment processes by a) restricting contractor (and MP) access to line ministry offices; and b) ensuring that all contractor payments are made by direct deposit instead of check, to minimize opportunity for facilitation payments to be demanded.

4.2 Processes within line ministries

Ministers control financial delegations, by which staff of line ministries beneath them are permitted to sign off various transactions without referring to the Minister. Keeping financial delegations at too high a level can slow down spending and actually reduce oversight, if officials are signing so many documents that they do not have time to properly scrutinize them. There does not appear to be any guidance provided to ministers as to how they should delegate their authority, or what considerations should inform their decisions. This is an area where capacity building at a senior executive level, across ministries and facilitating peer-to-peer learning, could be valuable.

Multiple approval processes create further delay in processing allotment and payment requests within line ministries. A number of reports document multiple approval processes within line ministries. It is generally implied that these multiple checks are not needed nor legally required, and that the most plausible explanation for these addition processes is to spread risk among as a safeguard against accusations of impropriety. While these perspectives may have some merit, the team also heard explanations from one line ministry as to why teams with different roles in a project execution process needed to certify that the progress is satisfactory before a payment is made. It should not be immediately assumed that these processes are not needed, but at the same time line ministries need to re-engineer their business processes and consider if the delays occasioned are justified.

4.3 Increasing AFMIS access and transparency

Giving line ministries control over basic functions in AFMIS, subject to Treasury review, could increase the speed of transaction processing. Line ministries currently have read only access to AFMIS, and can lodge M16 payment requests through a "temp save" function that still requires hard copy documents to be physically lodged with Treasury. Countries at a similar level of development to Afghanistan have (for example Timor Leste) have successfully decentralized management of basic

AFMIS functions including allotting budget appropriations, making commitments, and preparing payment requests through the system.

Since line ministries cannot use AFMIS to manage their budgets, some have developed bespoke systems to manage their own budgets internally. Lack of a system to tightly control expenditure against budget provides a further incentive to over-budget in order to provide a cushion.

AFMIS does not record data on invoice date. This means it is difficult to measure payment delays from the time that invoice is received until payment is made, an important input both into monitoring system performance, and identifying transactions that are at a high risk of corruption.

4.4 Effectiveness of audit and other ex post systems

Internal audit is only in the early stages of development, with low-levels of compliance with international audit standards. Moreover, the independence of internal is compromised by the requirement for them to report to the supreme audit authority. Internal audit should provide early warning for management, not intelligence for the external auditor. Early attempts at internal audit have been focused on corruption busting, which again is not the function of internal audit. Internal audit does provide some political intelligence for the minister, but there was little evidence of systematic reviews contributing to continuous improvement within ministries. The accompanying fiduciary risk assessment provides a more detailed assessment of audit systems.

The external auditor undertook four line ministry audits in 1393, covering around 60% of public expenditure. The audit reports were assessed as satisfactory for compliance with the Incentive Program benchmarks.

4.5 Possible approaches to incremental reform

An incremental approach to reform minimizes the risk that unanticipated effects of change undermine system integrity. There are two ways that an incremental approach might be incorporated. The first is by trialing reforms in just one or two ministries (preferably those with highest base capacity), in order to monitor reform impact closely, and provide maximum support for effective implementation. The second is to sequence changes so that reform is tackled in “doable” chunks, and each successive reform is bedded in properly before the next.

5. Managing reform

The second phase of PFM reform needs should build on the first, but with more focus. The main vehicle for government’s PFM reforms since 2010 has been the PFM Roadmap 1. The roadmap expired in 2013 and a second roadmap is now under consideration. In this sense the timing is fortuitous for government to consider what has worked and what hasn’t. How reforms are approached will be as important in determining success as the selection of reforms. It goes without saying that reforms need to be led by government, but a key challenge is how to operationalize that vision.

5.1 Selection of reform agenda

Reform actions need to be realistic, feasible, and informed by evidence. In some cases there has been analysis, but more often undertaken by donors or external actors rather than the Ministry of Finance. Systematic measurement of how systems are performing is needed, as mentioned above.

The accompanying fiduciary risk assessment provides a rich body of material that helps show where control systems are too rigid, and where they are too weak.

The new approach to PFM reform should be more programmatic, more joined up (as between donors) and better prioritized on what is likely to make the most difference for effective use of increasingly limited government resources. For example, program budgeting has been implemented in form, but it is difficult to see that it has achieved any of the main expected objectives. Based on the issues exposed to the team during the review process, the following list of "menu" items is offered for government's consideration in developing the PFM Roadmap 2:

- **Improving revenue generation capacity**. Improving revenue generation is now a first order priority. Issues raised during the mission include improving the institutional accountability relationships (revenue staff in *mustofiats* do not report to the DM Revenue); providing adequate infrastructure in provincial *mustofiats* (including information technology); and providing sufficient managerial autonomy, including over budget, to hold revenue managers responsible for results.
- **Making the most of political will to improve the integrity and efficiency of procurement**. High level political commitment to improving procurement represents a rare opportunity, but it will require effort and focus at the operational level, across government, to translate political commitment into sustainable change.
- **Make the budget process more integrated, policy focused and medium term**. It is not possible to identify specific recommendations yet. MoF should embark on a policy process to identify a sustainable reform program, and then implement it.
- **Improve downstream review process (internal and external audit, and budget review).**
- **Shift budget execution controls from ex ante to ex post**. A number of issues have been raised above for discussion within government.
- **Putting PFM capacity within government on to a more sustainable footing (through CBR**). (discussed below).

5.1 Capacity building

A significant investment in building the capacity of the Ministry of Finance over the last decade has produced tangible results. Without assuming that work in MoF is done, the reform agenda now needs to move more assertively into line ministries. Donors have belatedly realized that need, but the advice from ministries visited suggests that support has not been entirely successful, and that coordination within line ministries and between donors is still weak. There is considerable scope now to pause, take stock, and ensure that the next PFM roadmap adopts a more strategic approach.

Different approaches to capacity support within ministries have left government vulnerable to sudden capacity deficits as projects come to an end. Within the Ministry of Finance, very different approaches to supplementing technical capacity have developed, with the result that some directorates are highly dependent on externally contracted advisers. As at late 2014, 103 national technical advisers (NTA) were engaged in the Ministry of Finance under the Making Budgets and Aid Work (MBAW) project, of whom 78 were in the General Directorate of Budget. The "dependency ratio" for the Budget Directorate General is reported to be significantly higher than that of other directorates general within the Ministry (see Figure 8).[8] Dependency ratios are also high, and highly variable, in line ministries (see Figure 9).

Government urgently needs to ensure capacity for basic functions is put on a more sustainable basis. The CBR project is a step in the right direction. The Ministry of Finance is responsible for implementing this project, and in addition is responsible for developing the CBR-funded common function civil service group of financial management across line ministries, which is housed in MoF. Immediate steps are:

a) finalize the framework for the financial management common group and submit it to the CBR Steering Committee for approval;
b) determine the type of positions to be included in the group (notably Treasury and Budget), including relevant positions in line ministries, and proceeds expeditiously with recruitment. This will require revised terms of reference to be agreed with the Tashkeelate and recruitment using agreed CBR procedures;
c) decide on the pay structure for grade 3 and lower in the group (CBR only funds the amount above the Pay & Grading salary for grades 3 and below).

At a more strategic level, the President has provided guidance about CBR reforms, including institutional arrangements, to improve project performance. MoF is to provide a formal letter to the World Bank requesting these changes, and restructuring of CBR. The government also needs to finalize the Presidential decree that will implement the agreed changes. The Ministry of Finance will need to ensure it has internalized the capacity it needs to lead the implementation of the project. Once the most immediate risk of sudden capacity loss is addressed, government should begin to better understand the long term fiscal sustainability of the wage bill, since through this and other capacity support mechanisms, real wage costs are now split between the operating and development budgets.

[8] (USAID November 2014) Assessment of Afghanistan's Public Financial Management Roadmap and Final Evaluation of the Economic Growth and Governance Initiative Project. Number of MBAW advisers on page 81,

Department	Tashkeel (minus ajeer but including CBR)*	Donor Funded TA			Dependency Ratio
		International	NTA	Total	
Budget	84	11	94	105	125%
Treasury	560	6	62	68	12%
Revenue	96	19	19	109	114%
RIMU	0	0	5	5	0%
Fiscal Policy	11	1	6	7	64%
PPU	26	0	106	106	408%
Internal Audit	152	0	13	13	9%
Customs	250	6	34	40	16%
Admin	174	0	0	0	0%
HRM	92	1	9	10	11%
Properties	102	0	0	0	0%
SOE	73	1	4	5	7%
Insurance	24	0	0	0	0%
Gender Unit	3	0	0	0	0%
PIU	22	1	7	8	36%
Minister's Office	86	1	3	4	5%
Information & Public Awareness	20	0	0	0	0%
Policy	22	3	24	27	123%
Strategy Implementation	23	0	5	5	22%
Total	2,420	50	462	512	21%

* The ajeer are service staff, e.g., cleaners, messengers, etc. CBR staff are tashkeel but receive salary supplementation.

Figure 8: Ratio of Tashkeel to technical advisers, Ministry of Finance

Source: USAid Final Evaluation of EEGI, November 2014, Table 16

Ministry / Province	Total Tashkeel	Number of TAs			Total	Dependency Ratio
		International	NTA	National Contractors		
MoEc	**950**	**0**	**20**	**17**	**37**	**4%**
MoEc Finance	16	0	0	0	0	0%
MoEc HR	35	0	1	0	1	3%
MoUDA	**864**	**0**	**4**	**400**	**404**	**47%**
MoUDA Finance	21	0	0	15	15	71%
MoUDA HR	19	0	0	3	3	16%
MAIL	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
MoE	**263,000**	**5**	**0**	**2.5**	**2,505**	**1%**
MoE Finance	258	0	0	41	41	16%
MoCIT						
MoPH	**18,500**	**20**	**450**	**20,500**	**20,970**	**113%**
MoPH Finance	80	0	0	50	50	62%
MoPH HR	160	1	0	8	9	6%
MoPW	**3,076**	**3**	**5**	**0**	**8**	**<1%**
MoPW Finance	76	0	0	0	0	0%
MoPW HR	NA	NA	NA	NA	NA	NA
MRRD	**2,125**	**8**	**0**	**2,270**	**2,278**	**107%**
MRRD Finance	39	0	0	16	16	41%
MRRD HR	38	0	2	0	2	5%
MoTCA	**2,217**	**4**	**3**	**0**	**7**	**<1%**
MoTCA Finance	30	0	0	0	0	<1%

Figure 9: Ratio of Tashkeel to technical advisers, selected line ministries

Source: USAid Final Evaluation of EEGI, November 2014, Table 14

7. Summary of Action Items

The following are not intended as recommendations. It is the review team's view that recommendations and decisions on reform actions should be taken by the Ministry of Finance, in consultation with line ministries, and incorporating the views of development partners.

Budgeting

- Forecast domestic revenues conservatively in the budget, until patterns of future revenue growth can be more reliably predicted. Budgeting for revenues that cannot be raised will lower execution rates.

- Undertake joint analysis with donors of why specific donor project budgets are consistently over-budgeted, and identify an approach to ensuring annual project budgets are realistic. This may include adapting the budgeting, procurement, and management arrangements of donor projects to ensure they follow the government's annual budget cycle more closely. More accurate estimates may be helped by having sectoral coordination meetings between all donors in a sector and line ministry and MoF staff; and by holding meetings with individual donors. Analysis of past years' budget performance should inform these meetings, so that projects which are consistently underspending their budgets are identified.

- Restrict carry forward budgets (especially discretionary projects), and make it easier for donor-financed projects that estimate more conservatively to access additional budget during the year if they are able to spend more.

- Analyze the system for deciding on transfer of budget from one budget line to another more closely, to ensure that it is a streamlined as possible. Establish anticipated timelines. Prepare guidelines for line ministries and MoF staff. Socialize the guidelines widely through workshops for line ministry finance staff.

- Consider publishing provincial allocations (including of the operating budget) more transparently in the budget (although not appropriating to the level of those allocations).

- A more robust multi-year focus is needed for the budget, and the development and operating budgets need to be integrated. More work is needed to identify the specific elements of that process. A good place to start might be considering why program budgeting has not brought this focus to the budget. A number of previous studies have considered these questions and should be reviewed to see if their recommendations remain relevant. At minimum, this multi-year process should track multi-year expenditure estimates for the life of an activity. Budget negotiations should be focused on changes to the baseline of ongoing activities.

- Introduce more top down guidance in the budget process, in line with strategic direction of government. Ministry guidance should emphasize efficiency in project preparation, minimizing the number of small projects.

Budget execution

- Institute systems to measure time lines for key budget and payment approval processes to facilitate analysis of whether service standards are being met. Introducing recording of the date of invoice receipt would allow monitoring of how long suppliers are waiting until they receive payment.

- Undertake more in depth analysis of planning processes that inform budget estimates (within line ministries, and within MoF) and develop specific proposals for improving the accuracy of activity planning and costing.

- Undertake analysis of the data set generated by the ARTF monitoring agent (or request the World Bank to undertake specific analysis) to identify with more precision areas of weakness in budget execution generally, but in procurement specifically.

Procurement

- Undertake evaluation of what has been achieved from support to procurement capacity and system development (including the placement of procurement controllers, use of IT systems, and assessment of staff capacity) as a basis for developing the next phase of support to procurement.

- Undertake a credibility analysis of procurement plans (perhaps in selected ministries), to identify with more precision where procurement planning is inaccurate (which ministries, what kind of contracts or projects) and develop a plan to improve

- Mandate the use of PMIS. Explore options to link it to AFMIS

- Evaluate options for moving to e-procurement, including using the e-procurement module of Freebalance.

- Clarify new procurement arrangements (including thresholds, and roles and responsibilities of line ministries and the new Procurement General Directorate), issue a circular, develop guidance and socialize the guidance widely and begin the process of changing procurement culture within line ministries.

Shifting from ex ante to ex post controls

- Undertake more in depth analysis of budget execution approval processes both within line ministries and within ministry of Finance. The review should focus on:
    - additional approval processes in line ministries;
    - the allotment process (including where it should be managed and when in the execution chain it should take effect);
    - allowing line ministries to undertake some transaction entry in AFMIS;
    - how line ministries manage budget execution internally, including how their bespoke systems interact with AFMIS;
    - streamlining approval processes within line ministries;
    - more efficient use of internal ministry financial delegations.

- The overall objective of the exercise would be to identify efficiencies. The same review should also look at the effectiveness of ex post processes—internal audit and external audit. The aim is to develop a plan of action to reduce controls in upstream (ex ante) processes while at the same time strengthening down stream controls. It may be most appropriate to approach this exercise starting with one line ministry, preferably one that has reasonable capacity. The review should aim to identify how upstream controls can be streamlined, and relax those controls contingent on the line ministry meeting certain benchmarks both with respect to the integrity of their planning systems, and the effectiveness of their internal control systems and ex post review mechanisms. The review current systems and development of new approaches should incorporate rigorous solicitation of views from different system users, including those processing transactions within MoF as well as those administering transactions in line ministries.

- Explore how line ministries are managing financial delegations, and develop guidance and an executive development program to help ministers in the new government make delegations in a consistent and efficient manner, and hold financial delegates appropriately accountable. This guidance should also cover the use of internal audit to reinforce line ministry control systems.

- Undertake further analysis of options for delegating increased financial responsibility to provincial directorates and execution through mustofiats, particularly for basic operations and maintenance expenditures.

Managing reform

- Focus the PFM roadmap on:
    - Improving revenue generation capacity
    - Making the most of political will to improve the integrity and efficiency of procurement
    - Make the budget process more integrated, policy focused and medium term
    - Improve downstream review process (internal and external audit, and budget review)
    - Shift budget execution controls from ex ante to ex post
    - Putting PFM capacity within government on to a more sustainable footing (through CBR)
- Activate CBR to systematically improve FM capacity within MoF and across line ministries by finalizing the framework for the FM cadre and beginning work on procurement and internal audit cadres.