

Budget Reforms in Afghanistan— A Practitioner’s Perspective¹

INTRODUCTION

Afghanistan should have been a flagship case for development success. For a long time, money was never a constraint, neither overall nor availability for building systems. Politically, the country has held everybody’s attention for more than a decade and a half. The multi-donor trust fund, the Afghanistan Reconstruction Trust Fund (ARTF²), is held up as the global model for multi-donor trust funds. And with 14 years of experience by the time this case study starts, it cannot be said that there was not enough time to judge systemic reforms. Even after 15 years, however, the Ministry of Finance (MoF) had over 400 “technical assistants” and very little indigenous capacity to prepare the budget. Budget targets were unrealistic, and disbursements remained persistently low, with development budget execution rate averaging around 50 percent. Most importantly, the government was not using the budget as a policy instrument. Instead, what was obvious was that provided donor support was actually meant to ensure accounting back to donor capitals, not turning the budget into the transmission gear for sustainable policymaking by the national leadership.

This paper shows that an alternative approach to capacity is possible, even in the toughest of environments. Accountability for performance moved from a relationship of reporting to donors to within the national government, and in particular, to the relationships between the Finance Minister and his management team and between the government and the public. International aid was involved but was utilized in a much different way— projects were filtered based on their relationship to national goals, not on their ability to secure donor funding.

References:

1. By Khalid Payenda, Senior Fellow at the Institute for State Effectiveness, former Deputy Minister of Finance, Islamic Republic of Afghanistan.
2. The ARTF was established in 2002 to provide a coordinated financing mechanism for the Government of Afghanistan’s budget and priority national investment projects. It is the largest single source of on-budget financing for Afghanistan’s development and is supported by 34 donors and administered by the World Bank. As of February 2019, paid in contributions to ARTF exceed USD 11.4 billion.

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Carrying out Afghanistan's budget reform required a major change to the terms of donor engagement—and to the willingness of Afghanistan's leadership to insist that building Afghan capacities to formulate and use a credible budget was the first purpose of the international partnership. But not all the problems lay with donors. Changing the government's culture to one of accepting accountability for its own performance required tackling embedded patterns of deal-making, patronage, and an acceptance of poor performance as the normal state of affairs.

This paper provides a practitioner's perspective of the reforms implemented during Phase I of that reform process, and of the lessons learned focusing on human and institutional aspects. While this paper provides a brief overview, it does not go into the details of the issues, the systems, and processes. A fiduciary risk assessment, "Afghanistan: A Preliminary Fiduciary and Development Risk and Cost-Effectiveness Assessment," commissioned by the government in 2015 and a relevant note on bottlenecks to budget execution provide a detailed diagnosis of the problems and appropriate policy recommendations. Afghanistan Analysts Network's publication in December 2019, "The 2018 Afghan National Budget: Confronting hard realities by accelerating reforms," and United States Institute of Peace's special report in April 2018, "Improving Afghanistan's Public Finances in 2017–2019 Raising Revenue and Reforming the Budget,"³ also give a detailed account of the issues and achievements of the reforms implemented.

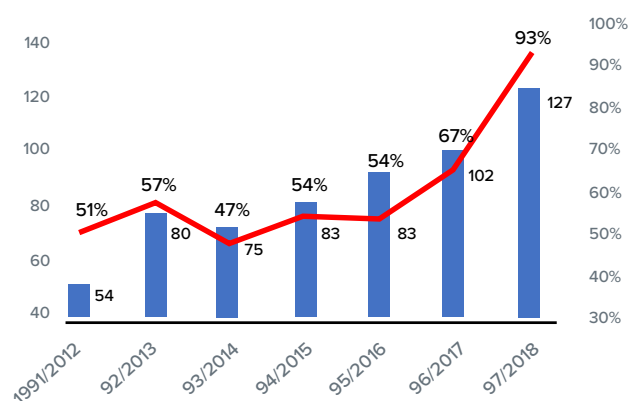
BACKGROUND

National budgets are important not only as the means to distribute goods and services to the population, but also an expression of the government and its policies. Budgets are the most important tool for the government for economic growth, as well as addressing social and equality issues. It is a contract between the government and its financiers, primarily taxpayers but also donors⁴,

as it states what the government plans to spend money on and then whether it has fulfilled those commitments. When the national budget process is broken, it not only does not fulfill its most fundamental purpose of allocation of resources but undermines government legitimacy. In aid recipient countries, a broken and non-transparent budget process encourages donors to channel resources in parallel mechanisms, further weakening state institutions.

While Afghanistan's Public Financial Management (PFM) systems had significantly improved over the past decade and a half, budgeting remained a persistent challenge with the Public Expenditure and Financial Accountability (PEFA) 2018 assessment (covering years 2014-2016,) which characterized the government current systems as having "low budget credibility, imperfect disclosure of public finances and anomalies in budget execution." Although the subsequent national development strategies tried to define and prioritize the country's needs, they were not translated into meaningful expenditures through the national budget. Instead, the budgets continued to be prepared in a bottom-up process where no guidance from the cabinet was sought on the budget priorities at the start of the process before seeking proposals for funding from the line

Figure 1: Development Budget Actual Expenditure & Execution Rate



Source: Ministry of Finance Data

Note: The Development actuals in AFN Billions show in bars (LHS scale) budget execution rate show in line (RHS scale)

References:

3. USIP Special Report, April 2018 Improving Afghanistan's Public Finances in 2017-2019: Raising Revenue and Reforming the Budget, https://www.usip.org/sites/default/files/2018-04/sr_424_byrd_farahi_final.pdf
4. ODI Working Paper 400, July 2014, Incredible budgets—Budget credibility in theory and practice, <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9103.pdf>

ministries. Furthermore, the budget execution rate⁵ remained persistently low, averaging around 50 percent.

Afghanistan's self-reliance strategy, the Afghan National Peace and Development Framework (ANPDF), presented and endorsed at the Brussels Conference on Afghanistan in 2016, laid out a roadmap for Afghanistan's economic self-reliance. The national budget, as a tool for the implementation of that vision, was at the center of the strategy. However, for the budget to effectively play that role, it required addressing the key problems in the way the budget was formulated, executed and reported. Some of these key problems with the budget are summarized below;

- i. The budget was not linked to top-level guidance and was prepared bottom-up through a process in which the Ministry of Finance would ask the budget entities for their proposals to be considered for financing by the budget. The budget committee⁶ would then review the proposals, and after a process of back and forth with the ministries, present the draft budget to the cabinet for its endorsement before submitting the it to the parliament. The fiscal space, the budget guidelines, or priorities were never discussed at the cabinet level at the start of the process.
- ii. The budget was not credible, with a large deviation between what was planned at the start of the year and the real outcome of the budget at the end of the year. A recent PEFA assessment on all the dimensions of the three indicators of budget reliability (aggregate expenditure outturn⁷, expenditure composition⁸ and revenue outturn⁹) gave the government a D, the lowest ranking possible.
- iii. The medium-term framework for expenditure was not credible. Without a medium-term picture of the government's fiscal position, knowing the total fiscal cost of projects and policies committed to in the budget was impossible to calculate, making planning ahead difficult and unsustainable. Year after year of similar bad practice meant that the budget had become distorted with an unrealistic medium-term budget outlook.
- iv. The costing of public investment projects was not consistent or in line with the way the budget was formulated. There was no basis for filtering projects that were offered for financing through the national budget. Not enough effort was given to weed out poor performing or low priority investments diluting the priorities and putting pressure on the limited resources available. Moreover, costing of new policy also needed to improve, making it easier to allocate the scarce fiscal space that was available.
- v. Very poor practices, like automatic carryovers of unspent program allocations and use of allotments as a tool for budget management, needed to be phased out. Through the automatic carryovers, unspent allocations for a particular project would be carried forward from one fiscal year to the next without considering whether there was capacity to actually spend the money. This provided no incentive to improve project performance or penalize nonperforming projects through budget cuts. And since the budget was unrealistic to a point that it could not be used for allocation of resources, allotments issuance by the MoF acted effectively as the budget. This created a rationing for allotments and made the process vulnerable to corruption and misuse

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5. While budget execution rate, the percentage of the original planned budget spent, may not be very useful for diagnosing the problems, it is a simple and important indicator of budget effectiveness to policy makers, the parliament, the public, and donors.
6. The budget committee is chaired by the Minister of Finance and includes the Minister of Foreign Affairs and Ministry of Economy as members, with the Minister of Women's Affairs as an observer.
7. Aggregate expenditure outturn was 70.3%, 73.1%, and 79.6% of the original approved budget in the fiscal years 2014, 2015, and 2016 (equivalent to solar years 1393, 1394, and 1395, respectively).
8. Variance in expenditure composition by program, administrative or functional classification was 36%, 20%, and 20% in fiscal years 2014, 2015, and 2016, respectively.
9. Variance in revenue composition was 23%, 44%, and 23% in fiscal years 2014, 2015, and 2016, respectively.

in the line ministries, with and the MoF's allotments being issued in exchange for favors and bribes.

- vi. Fixing these problems required political commitment and fiscal discipline. The budget process needed to be much more defined from the top down and then at each step of the way the decision-makers needed to maintain discipline to make sure the budget stayed on track.

A WINDOW FOR REFORMS OPENS IN 2017

A fiduciary risk assessment commissioned by President Ashraf Ghani in 2015 and a related note on bottlenecks to budget execution¹⁰ outlined the major issues with the national budget. The inaugural 5-year rolling plans introduced in the MoF in 2016 further helped bring these issues to the fore. However, the resistance by key staff meant that the budget reforms were not introduced. The absence of these reforms was visible in the poor performance of the budget directorate general in the annual assessment of the 2016 plans¹¹. An opportunity arose in mid-2017 with changes in management at the MoF. While the budget preparation for the next fiscal year (2018) was already well advanced, it still meant that some of the fundamental reforms to the budget could still be introduced. To ensure that another budget cycle was not wasted without the implementation of reforms, it was critical to sequence the budget problems (stated above and below) as they could not all be addressed at once.

Overall, the reforms to the budget could be classified into structural and substantive. The structural reforms (phase-I) consisted of the way budget is prepared and presented and were fundamental to ensuring that the budget is based on international best practices and provides the basis for an open, accountable, and credibly managed national budget. The substantive reforms (phase-II) would relate

to the contents of the budget; the projects and programs, how they are costed, their geographical distribution, and their alignment with the national priorities. The 2018 budget focused mostly on structural reforms and problems with existing policy.

FISCAL YEAR 2018 NATIONAL BUDGET PREPARATION: REFORMS PHASE-I

Ideally the reforms should have begun at the front end of the budget process, with a revised budget cycle that would kick off with presenting the fiscal space estimates and medium-term fiscal outlook to the cabinet and seek guidance on budget priorities in light of the fiscal space available. With the budget cycle for 2018 budget already started in the first quarter of 2017, without any guidance from the cabinet or linkage with the national priority programs (NPPs), it meant focusing mostly on the structural reforms to the budget rather than its content. This, however, required an incredible amount of work in the 6–8 weeks before the budget submission to the cabinet and subsequently to the parliament.

Phase-I budget reforms focused on fixing the way the budget document was prepared and presented. For the budget to be a better tool for policy discussion (and public debate) and allocation of limited resources, the current form of the budget was inadequate. The budget needed to be presented in a format that would be a basis for building further reforms on, and to enable this and disclose issues in order to address them, the old approach to budgeting needed to be overhauled. The processes and systems were fragmented—the budget was prepared using one system while the historic expenditure data was kept in a separate system owned and operated by the treasury department. To make use of the historic data in preparation of the budget, a new system was required. For this transition year Microsoft Excel was used as other systems could not be readied in such a short notice. The benefit of Excel was that the data

References:

10. Copies of the inaugural 5-year rolling plans, the Fiduciary Risk Assessment and note on bottlenecks in Budget Execution are available on the official Afghanistan Performance Management Information System: <http://apmis.mof.gov.af/Public/keydocs.aspx>
11. 2016 Annual Assessment Report of the 5-Year Rolling Fiscal Performance Improvement Plan, <http://apmis.mof.gov.af/Public/performance-reports.aspx>

exported from the treasury system (Afghanistan Financial Management Information System—AFMIS) could be used in a flexible manner. However, given the sheer size of the data the process was incredibly slow. A simple computation would require 5 computers and around 36 hours to complete.

REFORM STRATEGY: DISCLOSE, CONSTRAIN, AND FIX

Although the reform process was complex, the strategy was simple—to disclose, constrain, and fix the problems.

- Disclose detailed data for better awareness of the fiscal situation, disrupt networks benefiting from the status quo, and promote evidence-based resource allocation.
- Constrain behaviors through a tight budget. In this regard, the fiscal cliff was shown at the end of the medium-term to show the severity of the issue and concentrate attention on curbing bad budgetary behaviors.
- Fix the fragmented systems in the MoF and, over time, other Afghan budget entities for better budgeting process in the future.

In line with the old adage that “light is the best disinfectant,” the 2018 budget aimed to provide unprecedented levels of disclosure. Afghanistan has rich historical fiscal data for the past decade thanks to the AFMIS, but this data was not used in budget preparation because of the fragmentations and mismatch between the budget and treasury systems. The 2018 budget provided data to promote evidence-based resource allocation. It was possible for the first time not only to see how much money was going to each district in the provinces but also information on economic classifications, functions of the government, types of expenditure, and the money’s purpose. Information provision is also important to disrupt corrupt networks and identify areas in the budget process vulnerable to misuse. For instance, for the first time it was apparent that out of the approximately 36 mosques financed by the national budget in the past year, half of them were built in only one district of one province, exposing the undue influence of the member of parliament from that particular province in the budget process.

With a medium-term outlook, the budget presented the full

impact of existing projects in the next few years and exposed the serious fiscal sustainability issues facing the government in the medium-term. For instance, the rural roads that were committed to be built in the previous two budgets alone were costed at four times the size of the government’s discretionary development budget. It also showed that if the pension regulations were not fixed, pension costs would become completely unsustainable in the medium-term. The budget also disclosed information that caused a stir in the parliament and media; the government had contracted 22 thousand advisers and consultants on top of its half a million civil servants. To increase accessibility of the budget documents, the budget also tried to provide simplified accounts and details for better public understanding.

The disclosure of information provided the opportunity for debate, remedial action, and enforcement of discipline. Given the unsustainable situation for the rural roads committed in the budget, the cabinet issued a directive in the same meeting in which the draft budget was presented to not finance any more such roads from its discretionary budget. The policy decision to bring pension costs under control was taken within six months by the cabinet. The disclosure of the large number of contract workers (National Technical Assistants—NTAs) that sparked a discussion in the parliament exerted pressure on government institutions to constrain the number of people they hire. As a result, more than a thousand government positions were eliminated, and a freeze over additional hiring of staff was enforced until a comprehensive review of the structures of the government was completed. The review resulted in a merger of a multiple government institutions in late 2018.

When the reforms were implemented, the budget cycle was well advanced and hearings with the budget entities had already been completed using the old approach. But to introduce realism into the budget, the base estimates for existing policy needed to be reset. This enabled the Government to better assess the fiscal space available for new investments and accelerate the process of shifting resources from poor performing, low priority activities to high priority, well performing activities. This required the elimination of carry forwards of previous year’s commitments, particularly in the development portion of the budget, replacing the previous poor practice of overestimating program and project expenditure with more accurate and

credible rolling forward estimates. This change drove improvement in budget execution rates for FY 1397 (December 2017–December 2018). The budget also presented historical data on original budgets versus actual outcomes to allow for transparent analysis of the trends in public investment over time.

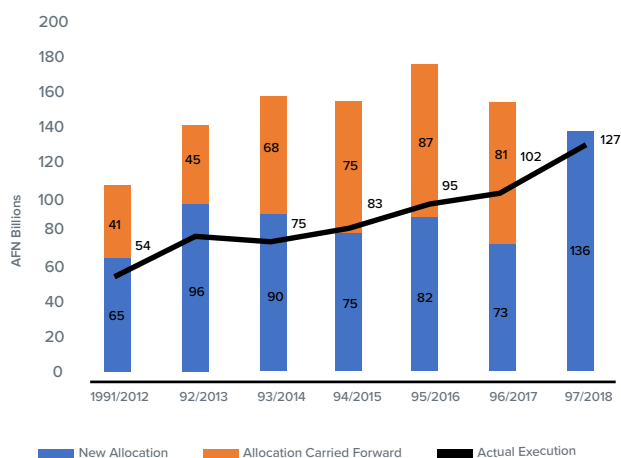


Figure 2: Development Budget and Actual Expenditure

REACTION TO THE BUDGET

Change causes disruption in the accepted norms and practices and hence is almost always resisted. Most opposition and resistance came from the shrinking of the budget (compared to the previous years) due to the removal of the automatic carry forward¹² of commitments to the next fiscal year, instead basing the budget on the actual spending and resources available. The resistance to the budget in the parliament was very intense. Despite attempts to explain the changes in the budget document to members of parliament

References:

- In one instance, a road project that had no progress in the past three years and faced security and land acquisition issues had been kept on the budget by the MoF despite the fact that the relevant minister had repeatedly asked the project to be removed due to the pressure from parliamentarians from that particular province. The introduction of the “use it or lose it” principal meant such projects got no budget. “Use it or lose it” in this context means that the money not spent by the budget entities would not be automatically carried forward to the next fiscal year.
- The list comprised of projects under different programs and were not part of the main budget document previously. The list was also informally known as the “MPs’ Projects”
- During the process of revision, the development budget was increased by AFN 17.3 billion (from AFN 93.7 billion to AFN 111.1 billion) and the operating budget was reduced by AFN 1 billion. Of the total development budget increase, AFN 13.6 billion is in the discretionary development budget and AFN 3.7 billion is in the nondiscretionary development budget. The reduction in the operating budget came from lowering the increase in the number of civil service positions by 1,043.

and their technical aides, the parliament found the budget complex and confusing. The budget was rejected in the parliament, citing 12 reasons, but most important was a list¹³ of projects that were annexed to previous budgets but were dropped because most had not gone through any filtering mechanisms to ensure their viability, geographic and sectoral distribution, or cost. The projects were included in the list over the past few years to appease the members of parliament so that they would approve the budget. However, the list had grown fiscally unsustainable over the years. Most of the rural road projects on the list had no procurement or work initiated on them due to this unsustainability. As 2018 was a parliamentary election year, it is possible that showing the projects on the budget meant and increase of votes from their constituencies.

At the end, the budget was passed by the parliament following a month of intense negotiations. While there were changes¹⁴ in the budget that was passed compared to the draft submitted to the parliament, the structure and format remained intact, with almost all the reforms surviving the parliamentary deliberation process.

WHAT WAS ACHIEVED?

The 2018 budget was the first important step in fixing the budgeting process in Afghanistan. The new reforms addressed the budget’s structural issues and laid the foundations for a credible, data-driven budget. The process provided an unprecedented level of disclosure and answered the question “where did the money go?” for the first time in the country’s history. Additionally, the budgeting process gave a full picture of sources of funds and how they were used with a realistic fiscal medium-term outlook beyond the budget year.

From a technical perspective, the national budget was presented in a single currency (the Afghani) across both development and ordinary budgets. The budget was prepared in compliance with the International Monetary Fund's (IMF's) Government Finance Statistics (GFS) standards and included legacy tables to ensure bridging and comparability with previous budgets. The budget was multidimensional, meaning it could be read by economic category, administrative code, province, funding, projects, programs, etc., and gave a full picture of sources and use of funds. However, the most important achievement was that the reformed budget demonstrated that through realistic budgeting not only could budget execution rate be increased dramatically but that more of the budget could be executed despite the enormous security challenges facing Afghanistan. (please see figure 2).

LESSONS LEARNED

The 2018 national budget marked the start of a long reform process to achieve greater fiscal transparency and discipline, providing a realistic picture of public accounts, prioritizing expenditures, and linking them with the national policies. It provided the launchpad for the phase-II reforms to be implemented in the following years to turn the national budget not only into government's most important tool for implementing its vision, but to also provide an environment for such a debate. The following are some of the lessons learned from the process that would be useful in implementing reforms in the other fragile and conflict-affected contexts:

- i. **Political commitment to reforms is crucial:** Without steadfast support from the top, reforming contentious issues such as the national budget is unlikely. Presenting a slimmer budget with reduced allocation to ministries and projects; interrupting corrupt networks that profited from the status-quo; and exposing weaknesses in the PFM systems would naturally draw unfavorable attention and criticism. This fear of drawing criticism may discourage politicians to tackle hard problems. However, the budget reforms undertaken in Afghanistan enjoyed the President and the Minister of Finance's unwavering support throughout the process. The President provided guidance on the budget, took hard decisions, and invited meetings both the upper

and lower houses of the parliament to explain why the budget reforms were critical for Afghanistan's self-reliance. The Minister of Finance led the government's efforts of ensuring a budget approval through the parliament without much watering down of the reforms.

- ii. **The need to be ready when windows of opportunity open:** Worse than not reforming and improving upon the status quo is being provided with an opportunity and not being able to seize it. By the time the opportunity to reform the budget in Afghanistan revealed itself, there was a well-developed blueprint ready. A fiduciary risk assessment was commissioned two years earlier by the government that had identified the problems and the solutions and there were ample discussions on the issues, but the reforms were not implemented due to resistance. With the leadership changes at the Ministry of Finance, the resistance vanished and with the political leadership, the donors, the government agencies, and the civil society all wanting reforms, it provided an excellent opportunity that was utilized—resulting in potentially six years of reforms achieved in only six weeks.
- iii. **Understand and address the causes of resistance to change:** Change is often met by resistance, but all resistance does not come from vested interests in the status quo. Sometimes individuals resist change because of fear of uncertainty and not fully understanding the change. Many of the technical staff at the budget directorate general did not come from academic backgrounds in public finance management, and all their relevant experience was limited to work at the budget directorate using the same systems and procedures based on fragmented advice by outside consultants. They did not fully understand the reforms, and hence resisted them. It is, therefore, important to invest in communicating effectively about the change and how will it impact the work of the people involved. This process requires patience and time but dedicating this patience and time to explain and address concerns is vital for the sustainability of reforms.
- iv. **Prioritization of reforms is important:** Not all issues can be addressed at once. Being provided with a window of opportunity to implement reforms can be very tempting, and the tendency is usually to make

wholesale changes and address as many issues as possible. Initial gains and wins are important for gathering momentum for reforms and committing to do too many things at once increases the chances for failure, hurting the whole reform process and causing a loss of confidence from the political leadership to support reforms. Selecting and sequencing reforms with consideration to their relative importance; capacity available in the institutions to deliver against the reforms; and political appetite and focus for reforms is important.

- v. **Transparency calls for tough choices:** Often times citizens and politicians prefer being unaware of issues or willful blind of the knowledge of unpleasant truths. Transparency reveals flaws that makes it harder for the civil servants and, more importantly, policymakers to support reforms due to fear of criticism by the parliament, civil society, and the media. A budget that shows a fiscal cliff two years into the future due to a sudden reduction in donor aid or revealing that, despite a large civil service, the government hires 22 thousand additional contractors to perform its services is hard to sell. Individuals or groups not happy with the reforms may use this opportunity for sabotage, but it is crucial to disclose issues transparently as it furnishes the environment conducive to debate and eventually fix the problems.

- vi. **Create an effective communications strategy:** In retrospect, one of the areas that could have been improved was preparing a communications strategy outlining how to engage with all the different stakeholders. There was almost no coverage of the budget reforms in local media, and on the national level the debate on the budget was limited. Translating dry and complex PFM reforms into meaningful information for media, non-experts, and the public in general is essential to create interest and gather support. It is important to convey in layman's terms what the reforms intend to do and how they impact citizens. Procuring expertise to lay out a comprehensive communications strategy makes implementation of reforms easier by gaining the general support.

vii. Sometimes things get worse before they get

better: To sustain reforms, it is critical that the political leadership understands that reforms are disruptive, that sometimes things get worse before they get better, and that leadership will need to display patience and confidence. In an attempt to instill fiscal discipline in government agencies and help the treasury better manage cashflows, the agencies were required to submit financial plans for the whole year at the start of the fiscal year. This was a recommendation by the IMF as well. However, the resistance to change the existing practice in the line ministries, coupled with technical issues in the treasury system, resulted in the first quarter of the year following the reformed budget showing worse disbursements than the previous years. A few staff sincerely advised abandoning reforms in favor of previous practices to get things back on track and avoid a situation where police and teachers were not paid, or critical infrastructure is not built. The political leadership was also frustrated, but luckily chose to remain patient with the reforms. This meant that the resistance to change procedures and forms subsided and the technical staff in the line ministries complied with the changes. Despite the first quarter's slow start, the budget execution picked up in the remaining three quarters of the fiscal year, resulting in an unprecedented budget execution rate for the country. Moreover, with the systems now in place, 2019 first quarter execution has already exceeded 2018's rate.

viii. Create an environment of trust among

Counterparts: As the direct counterparts and recipients of the MoF treasury and budget services, finance directors and deputy ministers in the budget entities deal with the procedures, systems, and regulations set by the MoF during the budget execution process. This places them in an excellent position to provide honest feedback and suggestions to improve the process. However, if the feedback is seen as criticism (rather than invaluable input to address issues) at the MoF, which was unfortunately the case in the past, the line ministries stop providing honest feedback due to a fear of retaliation. Creating an environment of trust where the line ministries are able to provide feedback without such fear is crucial

to successfully implementing reforms. This requires sincerely engaging with the line ministries, listening to their arguments and suggestions, and establishing an open line of communication with the leadership at the MoF when a problem arises. Having periodic meetings with the finance and administration teams in the largest spending ministries, led by the Deputy Minister of Finance was also a key factor in addressing budget execution issues.

ix. Cultivate support for reforms from civil society and donors:

Reforms are difficult and require not only know-how of what needs to be done and political support from higher ranks of the bureaucracy, but also a broader-based support from involved stakeholders, including civil society and the media. In developing countries dependent on aid, donors can play an important role in reinforcing reforms and keeping the government accountable. In case of Afghanistan, where a large portion of the budget is financed by the donors and an increasing percentage of it in the form of budget support programs that condition aid disbursement on agreed actions, disbursement of such incentive funds were used against milestones in the reform process. This created a powerful tool to drive reforms forward to ensure that the attached financing

is not lost. A roundtable discussion with think-tanks and academia, donors, the budget and economic committee of the parliament, and relevant Ministry of Finance staff was organized by a joint initiative of the European Union and Integrity Watch Afghanistan to create greater awareness on and gather support for the budgetary reforms.

x. Team-based performance management in the public sector can support a change process:

The MoF introduced the 5-year rolling plans in 2016, and while the culture of performance management was still new, it was evident that a planning process in which teams set targets at the start of the year and their performance is assessed and given feedback improved overall performance. The budget directorate’s performance among the teams had risen from the second worst team in the MoF 2016 assessment¹⁵ to the second best in 2018.

xi. Leadership style matters: Last but not least, it is important to understand the context in which reforms are to be implemented, and perhaps the most important factor in a particular context is the people. Having an understanding of the people, their capacity, and skillsets helps a leader to adapt to the situation. Leading reforms in fragile and conflict-affected contexts

Kotter 8 Steps Model of Change		Afghanistan Lessons Learned
Creating The Climate for Change	1. Create Urgency	Prioritization of Reforms is Important Transparency Calls for Tough Choices Be Ready When Windows of Opportunity Open
	2. Form a powerful coalition	Political Commitment to Reforms is Crucial Cultivate Support for Reforms From Civil Society and Donors
	3. Create a vision for change	Leadership Style Matters
Engaging and enabling the organization	4. Communicate the Vision	Create an Effective Communication Strategy
	5. Empower action	Create an Environment of Trust with Counterparts Team-Based Performance Management in Public Sector Works
	6. Create Quick Wins	Prioritization of Reforms Is Important
Implementing and sustaining change	7. Build on the Change	Understand and Address the Cause of Resistance to Change Be Ready When Windows of Opportunity Open
	8. Make it Stick	Sometimes Things Get Worse Before They Get Better

Figure 3: Afghanistan’s Lessons Learned plotted against Kotter’s Model of Change

requires more from a leader than just issuing directives. Given the complexity of reforms, leadership must adapt to serve as a coach who gets involved in the details, and at times even provides hands-on training. It further requires the leader to invest time in understanding different points of view, debating them, and reaching a decision in which the team members feel they were involved and develop a sense of ownership, even when their initial viewpoint was different. Ownership of reforms by civil servants is important for their sustainability “making them stick.”

FUTURE RECOMMENDATIONS

The first phase of budget reforms dealt with the structure and presentation of the budget, but phase II of reforms is necessary for improving the contents of the budget and turning it into a meaningful process for discussion, prioritization, and implementation of policy. Phase II reforms should focus on:

- i. Improving the accuracy and comprehensiveness of the medium-term expenditure frameworks: the forward estimates introduced in 2018 require further refining to enable creation of fiscal space against credible baselines of existing policy and to make it more difficult to “auction off¹⁶” the whole budget;
- ii. Enforcing fiscal discipline by implementing the full budget cycle by: requiring that every policy and project needing financing must go through the budget process and not through ad-hoc approval processes that affect credibility of the budget; establishing clear priorities set by the cabinet and communicated to ministries; consistently applying project costings and evaluations to all the projects proposed for financing through the

budget; and by the budget committee focusing on new policy, including savings measures;

- iii. Integration of PFM systems (budget, aid, treasury, revenue and customs systems, but also the central bank and line ministry financial systems) to remove vulnerability to corruption, fragmentation, and inefficiencies and to increase transparency;
- iv. Improve public participation and oversight by disseminating information to citizens and the elected representatives and expanding the town hall meetings piloted in the five provinces in 2018; encouraging civil society engagement; and encouraging legislature debate on budget policy.

CONCLUSION:

Reforms and cultural changes are difficult. But as this paper demonstrates, with the technical know-how, political commitment to reforms, creating a vision of change, and forming alliances for reforms, significant progress can be achieved in a short period of time. The expected fiscal tightening in Afghanistan over the next few years is both a challenge and an opportunity. The budget reforms implemented in phase-I provide a platform for the phase-II budget reforms. However, the reforms are fragile and could be reversed. To ensure sustainability and to building on the created momentum, greater fiscal discipline is required for implementing phase II reforms.

References:

15. See 2016 and 2018 Annual Assessment Report of the 5-Year Rolling Fiscal Performance Improvement Plan, <http://apmis.mof.gov.af/Public/performance-reports.aspx>
16. Auction-based budgets is defined as a form of budgeting where resources are provided on the basis of who is willing to pay the most, rather than allocated towards good policy objectives.