

PEOPLE'S TREASURE

An Analysis of the Executive Budget Proposal of Afghanistan 2020

Integrity Watch Afghanistan
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Qala-e- Fatullah, Kabul, Afghanistan
Info@integritywatah.org
Www.integritywatch.org

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Acronyms

AOP	Administrative Office of the President
ATRA	Afghanistan Telecom Regulatory Authority
DABS	Da Afghanistan Breshna Shirkat
DB	Development Budget
ECF	Extended Credit Facility
GDP	Gross Domestic Product
IBP	International Budget Partnership
IDLG	Independent Directorate of Local Governance
IMF	International Monetary Fund
KM	Kabul Municipality
LMs	Line Ministries
MAIL	Ministry of Agriculture, Irrigation and Livestock
MoD	Ministry of Defense
MoEd	Ministry of Education
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoIA	Ministry of Interior Affairs
MoHE	Ministry of Higher Education
MoPH	Ministry of Public Health
MUDL	Ministry of Urban Development and Land Authority
NDS	National Directorate of Security
NUG	National Unity Government
OB	Operating Budget
OBS	Open Budget Survey
PEFA	Public Expenditure and Financial Accountability
PFEML	Public Finance and Expenditure Management Law
SAO	Supreme Audit Office

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Executive Summary

This report is an analysis of the Afghan National Budget 2020 from a citizen's perspective. The main objectives of the report are to examine the progress on public participation, the political economy of budgeting process and the extent to which education and health as well as refugees and returnees have been prioritized. Furthermore, the report is a scorecard of the National Unity Government (NUG) in comparison to the previous administration in terms of budget execution, revenue collection, management of contingency codes and defense budget.

The total proposed National Budget for the year 2020 is AFN 428.4 billion (USD 5.53 billion). This budget figure constitutes 26% of the country's estimated GDP of AFN 1661 billion (USD 22.3 billion).¹ The Operating and Development Budget for the fiscal year 2020 is estimated at USD 3.73 billion and USD 1.8 billion, respectively.² The total estimated available resources for proposed expenditure are at AFN 416 billion (USD 5.53 billion), of which AFN 209 billion (USD 2.8 billion) (approx. 50%) is planned to come from domestic sources, and the remaining AFN 207 billion (USD 2.78 billion) from external sources including concessional borrowing. The proposed budget for the fiscal year 2020 shows an overall increase of 7.2% over the approved budget (at the start of the financial year) for the fiscal year 2019.³ However, it is only approximately 1% more than the actual budget for the fiscal year 2019 (end of the financial

year).⁴ The sectoral composition of government spending for most sectors shows an increase, except for health and education which has seen a reduction of 16.1% and 4.9%, respectively.⁵ In terms of the share of sectors in the total budget, defense, public order and safety, and general public services have been allocated the highest budget.

The report highlights the fact that the Afghan government has allocated 1.2 dollars per head of returnees and internally displaced people. In 2019, 1.2 million people either returned to Afghanistan or were displaced. Furthermore, education and health has not seen any significant increase in their operating and maintenance budget in spite of documented dire needs and the call by civil society and communities for increases. Centralization of budgetary responsibility remains an issue, with the Office of the President's Special Operation Unit implementing hundreds of projects during last year and expected to remain in the same level next year. This casts doubts on the political leadership's ability to reform and build capacities in the ministries.

In March 2018, President Ghani committed to building 6000 new schools during a period of two years. The media reported in March 2019 that 1.5% of this commitment had already been fulfilled.⁶ Based on an interview with the spokesperson for the Ministry of Rural Rehabilitation and Development in January 2019, 200 schools were completed and another

¹ Ministry of Finance, "Executive Budget Proposal 2020", MoF, https://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1399_Budget/MasterNationalBudget1399_PashtoVersion_Sent%20to%20Par_web.pdf (accessed December 28, 2019)

² Ibid (pp. 7)

³ Ibid (pp. 7)

⁴ Ibid (pp. 8)

⁵ Ibid (pp. 8)

⁶ Hasht-E-Subh, "Daily Hasht-e-Subh paper", <https://8am.af/only-1-5-percent-of-ghani-promise-applied-for-building-6000-schools/> (accessed January 5, 2020)

600 would be completed by March 2020. This means that only 800 out of 6000 schools, which is only 13.3 percent of what was committed to initially, were completed. It shows that there is a disconnect between what is promised by political leadership and the delivery of this promise by the bureaucracy.

Public participation remains a major issue in the preparation of the National Budget. According to Open Budget Survey 2017, Afghanistan scored 15 out of 100 in terms of public participation in the budget process. The Ministry of Finance has taken some steps to engage people in the budget process including holding one town hall meeting each in 8 out of the total of 34 provinces. However, the Ministry of Finance was not able to show if the people's views in these consultations were reflected in the final budget. This shows there is a very serious disconnect between holding consultations with the people and actual budgeting in the ministries. Additionally, the government has to find a solution to prevent the MPs from adding development projects to the National Budget and instead engage them in the budgeting process from the outset at constituency levels. Furthermore, the government does not consult with academia and civil society or Parliament over broader economic and fiscal policy choices.

The NUG has outperformed the previous administration in terms of budget execution. The previous administration spent AFN 269 billion development budgets between 2010-2014 while the NUG spent AFN 525 billion in a similar amount of time. Furthermore, the NUG has kept the ascending trend of revenue increases that started in the earlier administration. However, this report challenges the government's claim that the increase in the revenues is the result of preventing leakages. Furthermore, both NUG

and the previous administration failed to adhere to the standards in the Public Finance Revenue and Expenditure Law which requires keeping the contingency codes to below 3 percent.

In spite of the President Ghani's to reduce the Operating Budget and the Ministry of Finance reiterating this at every budgetary hearing session during 2020, the Operating Budget has not decreased. Again, there seems to be a disconnect between policy decisions made to reduce the Operating Budget and these decisions being carried out by the bureaucracy. This is an area that needs more research by civil society and attention from the government and donors.

Recommendations

Increase public participation

Public participation has to be significantly improved to reflect people views, needs and demands. This would also decrease the negative influence of political actors in the budget process, improve effectiveness and will help better implementation of projects through people's buy-in and ownership.

Invest in people

Although the UN and donor agencies support returnees and IDPs, the Afghan government has to demonstrate commitment to its people who are displaced due to conflict or have returned to Afghanistan due to pressure abroad. Education and health need urgent attention in particular the operation and maintenance of the schools and health facilities.

Making the budget accountable

The amount given to contingency codes is quite a bit higher than what it should be. More recently, even development projects were listed in the contingency codes. This has to be changed

immediately. Furthermore, relying on the Special Operations Unit at the cost of marginalizing the line ministries may have short term results but it undermines state-building, accountability, transparency, public confidence and reform of institutions.

Minimize budget deviation

Research shows that the Afghan budget deviates by as much as 60% after approval from Parliament. The audit report on the 2018 budget by Supreme Audit Office shows that this included even contingency codes which legally requires Parliament's approval. The National Budget should become a credible document to reference during implementation of projects.

Enhance transparency and oversight

While oversight by the Supreme Audit Office score increased to 67 out of 100 based on the 2017 Open Budget Survey, oversight by Parliament remains low with 19 out of 100 in the formulation phase and 47 out of 100 in the execution phase of the budget process. To combat corruption, the government should provide adequate resources to judiciary, oversight, regulatory and anti-corruption agencies. Also access to reliable, timely and comprehensive budget documents remains a continuing issue for civil society and media. The government should make further strides to increase budget transparency based on international standards.

Introduction

Integrity Watch Afghanistan has been involved in the National Budget process since 2007 through the Open Budget Survey in collaboration with the International Budget Partnership. During the formulation phase of the 2020 National Budget, Integrity Watch was involved in town hall meetings which were held in eight Provinces and also participated in most of the budget hearing meetings which were held at the Ministry of Finance. For the purpose of this Report, Integrity Watch Afghanistan also conducted a dozen interviews with the government officials, mostly from the Ministry of Finance, held focus group discussions with Financial Watch Afghanistan and interviewed the international partners involved in the budget process.

This Report has extensively used the draft and approved National Budget documents, the Revenue Reports by Afghanistan Revenue Department, Budget Execution Reports as well as the Ministry of Finance's (MOF) Quarterly Fiscal Bulletins, the audit reports prepared by Supreme Audit Office, the Public Expenditure and Financial Accountability 2018 (PEFA) Assessments and the Afghanistan development briefs prepared by the World Bank. In addition, we have used the Open Budget Survey (OBS) reports which were published in 2008, 2010, 2012, 2015, and 2017 as well as the Preliminary Findings of the 2020 OBS report.

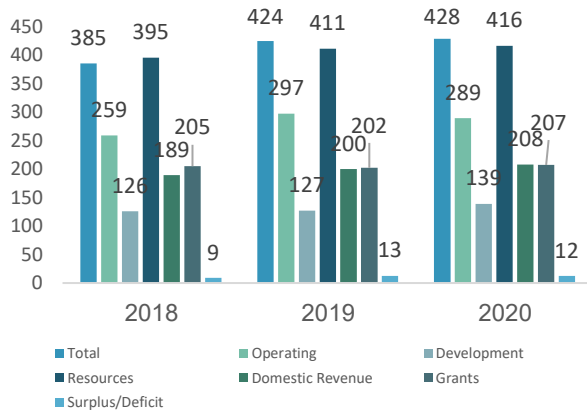
The purpose of the budget analysis is to present the perspective of the civil society to the government and to share the concerns of the civil society over the political economy and public engagement. This report has five major sections. Section 1 presents an overview of the proposed budget for the fiscal year 1399. Section 2 provides a comparative analysis of five years of the NUG with the previous administration in terms of its budgetary performance. In section 3 we conduct an analysis of health, education as well as returnees and internally displaced people (IDP) budgets. Section 4 provides an analysis of

public participation in the budgetary process during 2020 budget process. The final section provides some policy recommendations from a civil society perspective.

Overview of the Afghanistan National Budget

The total proposed national budget for the fiscal year 2020 is AFN 428.4 billion (USD 5.53 billion). This budget figure constituted 26% of the country's estimated GDP of AFN 1,661.9 billion (USD 22.3 billion).⁷ The operating and development budget for the fiscal year 2020 is estimated at 289 billion (USD 3.73 billion) and AFN 139.3 billion (USD 1.8 billion), respectively.⁸ The total resources to finance proposed expenditure are estimated at AFN 416 billion (USD 5.37 billion), of which AFN 208.9 billion (USD 2.70 billion) (approx. 50%) is planned to come from domestic sources, and the remaining AFN 207.1 billion (USD 2.67 billion) from external sources including concessional borrowing. Grants are not completely under the control of the government.⁹ Out of AFN 115.1 billion (USD 1.48 billion) grants in the development budget, approx. 31% is discretionary and 69% is non-discretionary.¹⁰ The budget deficit for the fiscal year 2020 is estimated to be AFN 12.4 billion (USD 156 million) as shown in chart 1.¹¹

Chart 1. Summary of proposed budget 2020 in comparison to two preceding years



Source: Data extracted from the Executive Budget Proposal 2020

The proposed budget for the fiscal year 2020 shows an overall increase of 7.2% over the approved budget for the fiscal year 2019.¹² However, it is approximately 1% more than the final budget for the preceding fiscal year.¹³ This marginal increase in the total budget comes from a 9.7% increase in the development budget and a 2.8% decrease in the operating budget.¹⁴ Domestic revenue is reported to have increased by 4.4%.¹⁵ Comparing the proposed budget with the final budget of the preceding fiscal year should present a more realistic picture than comparing it with the approved budget.¹⁶ The final budget incorporates real changes during the year.

The sectoral composition of government spending for most sectors shows an increase, except for health and education. The total budget for the fiscal year 2020 shows an increase of 7.2% over the approved budget of the previous year.¹⁷ Environmental protection, followed by housing and community amenities, social protection, and unclassified spending show the highest increases over the previous fiscal year.¹⁸ Health and education spending have reduced by 16.1% and 4.9%, respectively.¹⁹ In terms of the share of sectors in the total budget, defense, public order and safety, and general public services have been allocated the highest budget. Table 1 presents a summary of the budget allocated to various government sectors.

⁷ Ministry of Finance, "Executive Budget Proposal 2020", MoF, https://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1399_Budget/MasterNationalBudget1399_PashtoVersion_Sent%20to%20Par_web.pdf (accessed January 5, 2020)

⁸ Ibid (pp. 9)

⁹ Ibid (pp. 10)

¹⁰ Ibid (pp. 10)

¹¹ Ibid (pp. 9-10)

¹² Ibid (pp. 10)

¹³ Ibid (pp. 9)

¹⁴ Ibid (pp. 9)

¹⁵ Ibid (pp. 10)

¹⁶ Ibid (pp. 10)

¹⁷ Ibid (pp. 34)

¹⁸ Ibid (pp. 35)

¹⁹ Ibid (pp. 36)

Table 1: Sectoral allocation of National Budget 2020

Sectors (Values in billion)	2019 (in USD millions)	2020 (in USD millions)	% change	% Total
General Public Services	710	814	15	14.7
Defense	1,300	1,458	4.4	24.4
Public Order and Safety	814	827	1.3	15
Economic Affairs	878	982	11.7	17.7
Environmental protection	6	39	471.4	0.7
Housing and Community Amenities	103	142	30.1	2.5
Health	220	189	-16.1	3.4
Recreation, culture, and religion	43	52	12.1	0.9
Education	659	620	-4.9	11.3
Social Protection	194	245	26.7	4.5
Unclassified	232	284	20.6	5.1
Total	USD 5.2 billion	USD 5.6 billion	7.2%	100

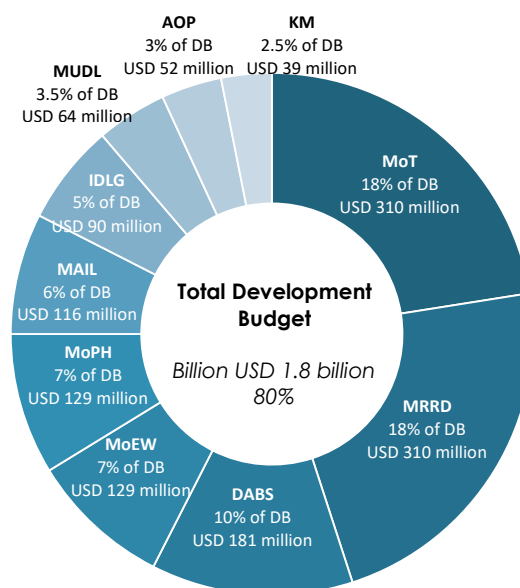
Source: Data extracted from the Executive Budget Proposal 1399

Notes:

1. Column (1) and (2) show the approved budget for 2019 and the proposed budget for 2020, respectively.
2. Column (3) shows the percentage change in the proposed budget over the approved budget in the fiscal year 2019.
3. Column (4) shows the share of sectors in the total proposed budget.

In the 2020 national budget proposal, there are some notable changes as a result of which ministries have a larger share of the development budget as shown in chart 2. With the different agencies embedded into it, the Ministry of Transport has now become an agency with the highest share of the development budget followed by the Ministry of

Rural Rehabilitation and Development with 18% of development budget allocated to each agency.²⁰ The other large agencies on the basis of the volume of the development budget are Da Afghanistan Breshna Sherkat (DABS) with 10% followed by the Ministry of Energy and Water (MoEW) and Ministry of Public Health (MoPH) with 7% each, and the Ministry of Agriculture, Irrigation and Livestock (MAIL) with 6%. The other top agencies are Independent Directorate of Local Governance (IDLG), Ministry of Urban Development and Land Authority (MUDL), Administrative Office of the President (AoP) and Kabul Municipality (KM) with 5%, 3.5%, 3% and 2.5% respectively.²¹

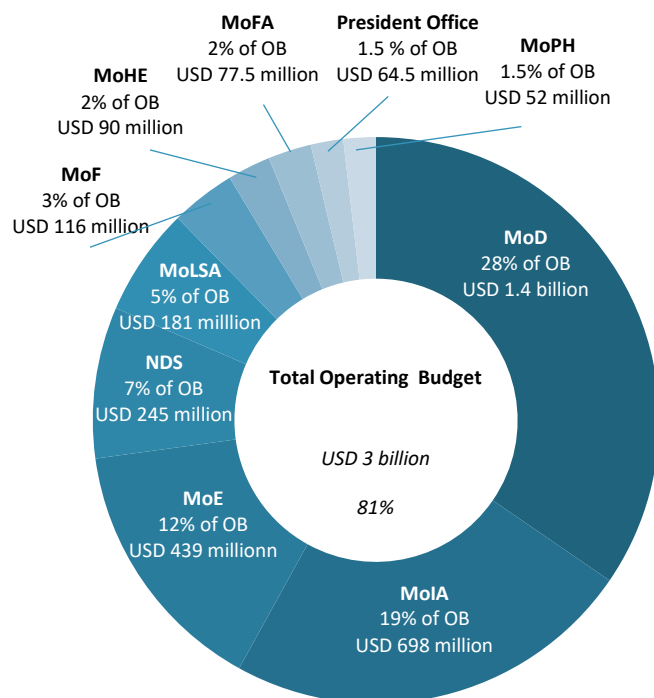
Chart 2: Top ten largest consumers of the development budget in the fiscal year 2020

Source: Data extracted from the Executive Budget Proposal 2020

²⁰ Ibid (pp. 36)

²¹ Ibid (pp. 36)

Chart 3: Top ten largest consumers of Operating Budget in the fiscal year 2020



Source: Data extracted from the Executive Budget Proposal 2020

As far as the operating budget is concerned, the top ten budgetary allocations are almost the same as those of the previous years as shown in chart 3. The Ministry of Defence gets the largest share of the operating budget with AFN 81 billion (USD 1.5 billion), followed by the Ministry of Interior Affairs with AFN 54 billion (USD 697 million), the Ministry of Education with AFN 34 billion (USD 439 billion), and the National Directorate of Security with AFN 18 billion (USD 232.5 billion). The Ministry of Labor and Ministry of Social Affairs has been allocated AFN 14 billion (USD 180 billion), amount of the operational budget respectively.²² The Ministry of Finance has been allocated AFN 9.5 billion (USD 129 billion). The other top agencies with the operating budget are the Ministry of Higher Education, Ministry of Foreign Affairs, Office of the President, and the Ministry of Public Health with AFN 6.7 billion (USD 90 billion), AFN 6.3 billion (USD 77 billion), AFN 4.6 billion (USD 64.5 billion), and AFN 4.3 billion (USD 51.6 billion)

²² Ibid (pp. 90)

respectively.²³

The total funds allocated for the agencies that have oversight and judicial role as well as anti-corruption is AFN 15.4 billion (USD 170 million) which makes 3.5% of the total budget. Please see below table for the details of allocation to these agencies. Agencies which are not independent budgetary units like Afghanistan Telecom Regulatory Authority (ATRA) or internal audit units are not calculated here.

Table 2: Budget allocated to oversight and judiciary agencies

S. No	Agency	Budget (USD million)
1	Ministry of Justice	13.3
2	Supreme Court	52.1
3	Attorney General Office	41.3
4	Supreme Audit Office	7.4
5	Independent Commission for Overseeing the Implementation of the Constitution	1.1
6	Upper House	7.3
7	Lower House	20.4
8	Electoral Complaint Commission	2.9
9	Access to Information Commission	0.7
10	Afghanistan Independent Human Rights Commission	0.8
11	Afghanistan National Standards Authority	1.9
12	Oil and Gas Regulatory Authority	0.6
13	Independent Reform and Civil Services Commission	20.6
Total		170.4

Source: Executive Budget Proposal 2020

²³ Ibid (pp. 90)

Investing in human capital – a decrease in health and education budget

Education and health are among the national priorities both in terms of human capital development and poverty reduction. However, as evident from Figures 1 and 2, the proposed budget for both the education and health sectors shows a decline from the previous year's budget. A detailed breakdown of the education and health spending in the operating and development budget is provided in Figures 1 and 2.²⁴

The Ministry of Education and the Ministry of Higher Education are the two major agencies in the education sector. These two Ministries constitute approximately 94% of the education sector spend for the fiscal year 2020.²⁵ The total budget of the two Ministries in the education sector shows a decrease of 0.25% over the approved budget of the fiscal year 2019.²⁶

The total budget of the Ministry of Education shows a decrease of 1.4% over the fiscal year 2019. This decline is driven by a 0.13% reduction in the Operating Budget and a 15.07% decrease in the Development Budget.²⁷ In the Operating Budget, wages and salaries (Code 21) show an increase of 0.07%. Goods and services (Code 22), and acquisition of assets (Code 25) show a decrease of 2.31% and 15.07%, respectively. While the budget for wages and salaries shows an increase of 0.07%, the number of employees

in the fiscal year 2020 is less than 2018 by 0.02%. The proposed budget does not provide an explanation about this contradictory increase in nominal wages. In the Ministry of Education's development budget, the budget for goods and services has more than doubled as compared to the approved budget of the fiscal year 2019, while the amount for acquisition of assets shows a decrease of 51.95%.²⁸

While the overall budget of the Ministry of Education has seen a decrease of 1.4%, one research shows that there is an urgent need for operation and maintenance of the existing schools as well as the construction of new schools. According to 276 schools surveyed in 10 provinces, 57% of schools had structural problems including roof leakages. Furthermore, while 21% of schools were reported as well maintained, another 39% were not maintained at all (Please see box 1 for more details). While there is a need for better planning and monitoring by the Ministry of Education itself, there is no indication in the draft 2020 national budget that there are more resources to better maintain these schools.

In March 2018, President Ghani committed to building 6000 new schools during a period of two years. Media reported in March 2019, that 1.5% of this commitment has been fulfilled.²⁹ Based on an interview with the spokesperson of the Ministry of Rural Rehabilitation and

²⁴ Ministry of Finance, "Executive Budget Proposal 2020", MoF, https://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1399_Budget/MasterNationalBudget1399_Pashto_Version_Sent%20to%20Par_web.pdf (accessed January 8, 2020)

²⁵ Ibid (pp. 90)

²⁶ Ibid (pp. 91)

²⁷ Ibid (pp. 92)

²⁸ Ibid (pp. 93)

²⁹ Hasht-E-Subh, "Daily Hasht-e-Subh paper", <https://8am.af/only-1-5-percent-of-ghani-promise-applied-for-building-6000-schools/> (accessed January 5, 2020)

Development in January 2019, 200 schools are completed and another 600 will be completed by March 2020 and the MRRD has budgeted for 2647 schools.

According to the World Bank, the main financier of the school projects, “The World Bank under EQRA is supporting the construction of 1,946 new school buildings. The Project also covers the provision of missing items such as latrines, water points and some additional classrooms for existing schools which are overcrowded in 700 schools.”

It seems that there is a need for more transparency in regard to the funding source for construction of 6000 schools promised by the President, availability of budget and a realistic timeline of delivery.

The total budget of the Ministry of Higher Education has increased by 5.34%. This increase is driven by a 23.13% increase in the Operating Budget and a 37.56% decrease in the Development Budget. Since the share of the Operating Budget of the Ministry of Higher Education in the total budget is more than the Development Budget, the effect of a positive trend in the Operating Budget, although small, has outweighed the effect of a negative trend in the Development Budget.

In the operating budget, wages and salaries and goods and services show an increase of 14.61% and 26.78%, respectively, while acquisition of assets has reduced by 26.49% compared to the previous fiscal year.³⁰ The increase in wages and salaries is in line with a 12.98% increase in the total number of employees in the Ministry of Higher Education. In the development budget of the Ministry of Higher Education, both goods and services and acquisition of assets show a 14.97% and 55.06% decline, respectively.³¹

³⁰ Hasht-E- Subh, “Daily Hasht-e -Subh paper”, <https://8am.af/only-1-5-percent-of-ghani-promise-applied-for-building-6000-schools/> (accessed January 5,2020)

³¹ Hasht-E- Subh, “Daily Hasht-e -Subh paper”, <https://8am.af/only-1-5-percent-of-ghani-promise-applied-for-building-6000-schools/> (accessed January 5,2020)

Box 1: Education Compromised

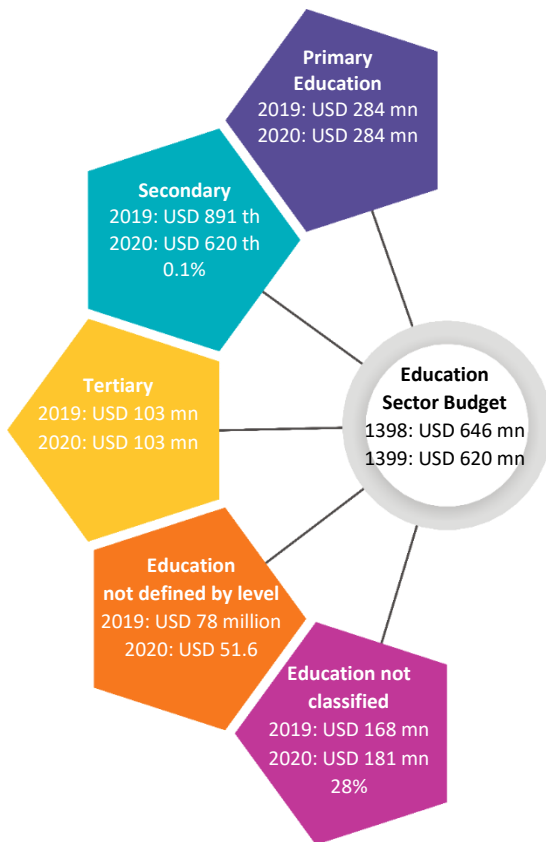
A research report that surveyed 276 schools in 10 Provinces over a period of three years (2015-2017) portrays a dismal picture of physical infrastructure in the education sector in Afghanistan. The report highlights three major issues: 1) Operation and Maintenance (O&M) of existing schools, 2) level of sufficiency of existing schools vis-à-vis students enrolled & 3) the overall availability of school buildings across the country.

The overall conclusion of the report is that, “despite billions of dollars of investment by donors, the state of physical infrastructure and quality of education remains poor.” Specifically, the report outlines that, “The state of school building maintenance is dismal in most of the Provinces, where the majority of the schools (57%) reported leaking roofs and broken doors, furniture, or windows. The survey shows that only 59 out of 276 (21%) schools surveyed in the 10 provinces were recorded as being well maintained; another 18% are being fairly maintained while 18% of the schools were found to be poorly maintained. An alarming 39% of the schools had no maintenance whatsoever.”

The report found that schools which have buildings are crowded to such an extent that they have to use tents to accommodate the admitted students. “According to the survey findings, even 3 out of 4 schools that do have dedicated buildings do not have sufficient classrooms, forcing students to study in short shifts or even in tents or the open air. Despite teaching in up to three shifts, 41% of the schools did not have adequate classroom capacity despite donor support to construct buildings for the surveyed schools.”

While the schools that have buildings face serious maintenance issues or are overcrowded, half of the schools do not have buildings in Afghanistan. “The United States alone has spent at least \$759.6 million to support primary and secondary education between 2002 and 2014. Official Development Assistance (ODA) to Afghanistan’s education sector increased from \$22.75 million in 2002 to \$449.8 million in 2013. Although about 8,000 schools were built during the last decade and a half, almost half of the 16,400 schools in Afghanistan still do not have dedicated school buildings.”

Figure 1: Education sector budget in the Executive Budget Proposal 2020



Source: Data extracted from the Executive Budget Proposal 2020

The per capita, annual spending on education amounts to AFN 1,581 (USD 20). As presented in Figure 1, approximately 44% of the proposed education budget is allocated to primary education. Tertiary or university education is the second largest recipient of education spending. Secondary education has received the least share of the education budget. As per the World Bank figures, in 2015 there were nearly 6 million children at school, while there were only 168,000 students enrolled in public universities (The World Bank, 2016). The large share of students in primary education requires an even larger share of the education budget. Education

not elsewhere classified has received 28.4% of the education budget, which is apparently for religious education. Considering the distribution of students at different levels of education and the importance of civic education, this budget distribution seems unrealistic because budget should be allocated to different levels in accordance to the needs at that level in education sector.

In the health sector, the Ministry of Public Health is the only budgetary unit. The total budget of the Ministry of Public Health has dropped by 14.09% as compared to the previous fiscal year. The Operating Budget for this Ministry shows an increase of 8.21%. This increase is a result of an increase in both code 21 (wages and salaries) and Code 22 (goods and services).³² The increase in wages and salaries is in line with a 1.02% increase in the number of employees of the Ministry of Public Health³³. The Development Budget of the Ministry of Public Health shows a 21.12% decrease over the previous year's budget. This reduction is mainly because both wages and acquisition of assets reduced sharply.³⁴

There is no indication that the Operation and Maintenance Budget for the existing health facilities has increased in the draft 2020 National Budget. One research that has inspected and interviewed communities of 184 health facilities in 8 provinces of Afghanistan highlighted serious deficiencies in the operation and maintenance of these facilities and called upon the government and international community to invest more in the sector. According to this research, 45% of health facilities have no toilets and no running water supply." Furthermore, Health facilities are not able to provide services due to the lack of means of transport. "Sixty-four percent of the facilities have no vehicles, contributing to difficulties in accessing healthcare facility." Please see Box 2 for more details.

³² Hasht-E-Subh, "Daily Hasht-e-Subh paper", <https://8am.af/only-1-5-percent-of-ghani-promise-applied-for-building-6000-schools/> (accessed January 5, 2020)

³³ Hasht-E-Subh, "Daily Hasht-e-Subh paper", <https://8am.af/only-1-5-percent-of-ghani-promise-applied-for-building-6000-schools/> (accessed January 5, 2020)

³⁴ Hasht-E-Subh, "Daily Hasht-e-Subh paper", <https://8am.af/only-1-5-percent-of-ghani-promise-applied-for-building-6000-schools/> (accessed January 5, 2020)

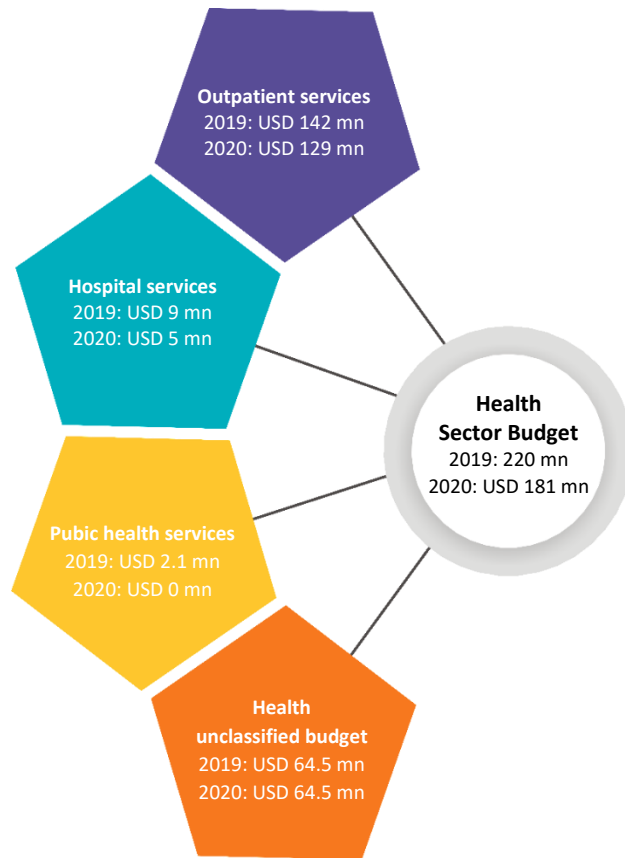
Box 2: Life Matters: The Dismal Condition of Health Facilities in Afghanistan

Research that inspected 184 health facilities in 8 provinces of Afghanistan has highlighted serious deficiencies in the operation and maintenance and has called upon the government and international community to invest more in the sector. According to the report, “Poor hygiene and sanitation conditions are found in 45% of the facilities, with no toilets in a quarter of the facilities, along with no running water supply. Water pumping and plumbing weaknesses and absence of potable water supply (the latter in 40% of the facilities) are the major areas of deficiency on the infrastructure side that breed poor health, hygiene and sanitary conditions. Lack of stable supply of electricity, a daily need, is another serious infrastructure deficiency that incapacitates the health facilities from provision of quality care delivery. Twenty percent of the facilities have no electricity supply.”

Furthermore, the health facilities are not able to provide services due to the lack of means of transport “Sixty-four percent of the facilities have no vehicles, contributing to difficulties in accessing healthcare facility. In addition, 34% of the facilities have no boundary walls and gates to provide minimum protection. Since twenty percent of the facilities have no electricity, no lighting arrangements are available to allow surveillance of night time activities around the facility sites.”

The report recommends that, “Planning for improving health care delivery will be costly but the government and the international community should not shy away from expenditure in this sector.”

Figure 2: Health Sector Budget in Executive Budget Proposal 2020



Source: Data extracted from the Executive Budget Proposal 2020

Per capita proposed budgeted public health spending amounts to 539.3 Afghani (approx. \$7). This is lower than per capita health spending in neighboring countries. For instance, in 2016, the per capita health spending in Pakistan, India, Bangladesh, and Nepal was \$39.58, \$62.72, \$34.22 and \$45.45, respectively. In the same year, the per capita health spending in Afghanistan was \$57.25. Public health is a priority area in the ANPDF, but the figures for

this sector as compared to similar countries in South Asia are a matter of concern.³⁵

What is worth noticing in both education and health budget, is the unclassified expenditure (30% in health and 28.4% in education). This share of unclassified spending in the budget is questionable and prone to corruption. The Ministry of Finance indicates that they have presented the allocation of the budget in these sectors in accordance to the classification of the functions of the government (COFOG) which is an international standard under the government finance statistics. The unclassified term according to them represents those categories which the government of Afghanistan has allocated to categories that do not exist in the sub-categories under the COFOG classification.³⁶ The unclassified amount of funds in both education and health sectors is quite large. The Ministry of Finance should reduce the amount of unclassified funds and instead present a breakdown of these funds into major programs so that it is clear where will these funds be spent.³⁷

Although education and health are the two main priorities of the government in the ANPDF, no new development projects appear in the proposed budget for the fiscal year 1399. Another point worth mentioning here is that the construction of 5 hospitals is shown under the Administrative Office of the President, but the budget for those projects does not appear in the health sector budget.³⁸ The management of health-related projects with another agency could mean either lack of capacity in the Ministry

³⁵ World Bank, "Data development indicators", World Bank, <https://data.worldbank.org/indicator/SH.XPD.CHEX.PC.CD>, (accessed January 10, 2020)

³⁶Ministry of Finance, "Interview with Asmar Amir, Director of Planning and Reform", on January 16, 2020.

³⁸ Ministry of Finance, "Executive Budget Proposal 2020", MoF, https://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1399_Budget/MasterNationalBudget1399_Pashto_Version_Sent%20to%20Par_web.pdf (accessed January 10, 2020)

of Public Health or centralization of development projects at the President's Office.

Executive branch itself remains highly centralized. In the Governance and General Services Sector, the Office of the President and Administrative Office of the President alone has 13,465 personal that constitutes 40.6% of the governance and general services sector. The offices plus the Presidential Protective Services (PPS) constitute 3.6% and 3.7% of the total operating and development budget, respectively. While the development budget of the Ministry of Education is 1.94% of the total development budget. The list of development projects associated with the Administrative Office of the President includes projects such as the reconstruction of Paghman garden, reconstruction of Darulaman Palace and historical monuments in seven provinces, and construction of 5 hospitals.³⁹ Such projects should be implemented by line ministries. The project proposals that are part of core function of a budgetary unit should be considered by the MoF. However, some of such projects are transferred to the Administrative Office of the President. It casts doubt on the validity of the budgetary process.

The small budget share for returnees and internally displaced people

In Afghanistan, people are often displaced internally because of the war that is going on in the country. As per the latest report (January 2020) of Organization for Coordination of Humanitarian Affairs (OCHA), more than 426,000 people are displaced by the internal

conflicts and almost 296,000 have been displaced in 2019 because of natural disasters.⁴⁰

In 2019, the number of returnees from Iran was 461,000, and the number of returnees from Pakistan and all other countries was 25,400 and 25,600 respectively⁴¹. Because of the large numbers of returnees and internally displaced people, there is a dire need for a proper budget allocation to help these people⁴². The National Budget 1398 allocated a total of AFN 435 million (USD 5.62 million) to the Ministry of Refugees and Repatriates (MORR) out of which amounts of AFN 26 million (USD 0.34 million) to refugees from neighboring countries to Afghanistan and AFN 111 million (USD 1.43 million) to both IDPs and returnees were allocated. Therefore, the Afghan government allocated AFN 90 (USD 1.2) per refugee and repatriate in FY 2019. It is understandable that UN and international aid agencies provided support to refugees and repatriates last year but it shows Afghan government's low priority for these needy people.

The MORR has been allocated AFN 420 million (USD 5.42 million) in the Operating Budget and AFN 175 million (USD 2.3 million) in the Development Budget for FY 2020. With such a small amount of resources, the government is clearly unable to meet the needs of internally displaced persons (IDPs), refugees and the returnees which are in quite large numbers as discussed earlier. The responsibility will, therefore, be shifted to the international donors, NGOs, and UN agencies to address this crisis in Afghanistan.

³⁹ *ibid* (pp. 119)

⁴⁰ UN Office for the Coordination of Humanitarian Affairs, "Afghanistan: Monthly Humanitarian Update (October 2019)", Reliefweb, <https://reliefweb.int/report/afghanistan/afghanistan->

[monthly-humanitarian-update-october-2019](#), accessed January 11, 2020)

⁴¹ *Ibid* (pp. 2)

⁴² *Ibid* (pp. 2)

Public participation in the selection of development projects

Afghanistan scores very low on ensuring public participation in the budget process based on Open Budget Survey 2017. Afghanistan scored 27 out of 100 for its public participation in the budget process in the Open Budget Survey in 2015 and the score dropped to half of this (15 out of 100) when the next assessment was conducted in 2017.⁴³ Earlier research showed that the selection of projects is highly vulnerable to political influence.⁴⁴

The next cycle of the Open Budget Survey will be launched in early 2020 and preliminary findings indicate that Afghanistan's score of public participation in the budget process has not improved significantly. Besides, the public participation, the two other important components of the national budget are transparency and budget oversight. These two components will be discussed in detail when the Open Budget Survey 2020 report is launched in a couple of months. According to the Open Budget Survey the government has improved frequency and timeliness of publishing the in-year reports (monthly and quarterly fiscal bulletins) in accordance with international standards, but some of the in-year reports are still published late. The government held consultation meetings with the people for the National Budget but the proper mechanism for engaging people in the budget decision making process is still not been developed? The legislature does not hold a debate prior to the tabling of the Executive Budget proposal. The legislative committee for the budget has not produced any reports on in-year budget implementation. The Supreme Audit Office is not fully independent as

the Auditor General is still appointed by the President of Islamic Republic of Afghanistan.

During preparation of the Executive Budget Proposal of 2020, the Ministry of Finance took some steps to improve its score in the public participation component of the Open Budget Survey. The Ministry of Finance organized one town hall meeting in five out of thirty-four provinces for the fiscal year 2019. For the fiscal year 2020, the Ministry of Finance organized one town hall meeting in eight out of thirty-four provinces as part of public consultation to identify the needs and expectations from the National Budget. Table 2 lists the Provinces where town hall meetings were organized, the number of participants, and the number of projects that were requested by the people. However, there is no evidence whether those projects from the town hall meetings were included in the National Budget of the fiscal year 2019 and 2020.

Table 3: Town Hall meetings for the fiscal year 2020

S.No	Province	Number of participants	Number of projects
1	Kabul	140	33
2	Balkh	82	185
3	Herat	140	149
4	Kandahar	150	111
5	Parwan	103	30
6	Badakhshan	170	111
7	Nanagrhar	163	131
8	Helmand	96	134
Total		1,044	882

Source: Data extracted from the Executive Budget Proposal 2020

⁴³International Budget Partnership, "Open Budget Survey", IBP, <https://www.internationalbudget.org/open-budget-survey/> (accessed January 9, 2020)

⁴⁴ Integrity Watch Afghanistan, "Game of Numbers", IWA, <https://iwaweb.org/wp-content/uploads/2017/12/IWA-National-Budget-English-6.pdf>, (accessed January 7, 2020)

An earlier research shows that the six channels were identified through which the development projects find their ways into the national budget. Those six channels are: 1) Provincial Development Plans, 2) Town Hall Meetings, 3) Citizens Charter Program, 4) Mainstream budget process, 5) MPs and Senators' projects, and 6) High Economic Council.⁴⁵ In the first three channels, people play their role into proposing the development projects but those projects hardly find their way into the national budget. The next three channels are highly influenced by political considerations rather than social or economic development priorities.⁴⁶

During the 2020 National Budget preparations, there was some effort by the Ministry of Finance to increase public participation. However, this paper concludes that these efforts did not materialize into real projects. The MOF held eight town hall meetings where more than one thousand people participated and proposed a total of 882 projects (please see table 3). Our questions to the government to show to what extent these projects were included in the National Budget remain unanswered.

Table 4: List of new projects included in the national budget 2020.

No	Name	Budget (USD million)
1	Construction of 22 KM road from Nadar shah kot to Ghulam Khan port	129, 198
2	Transferring of mineral/drinking water to Kabul from Panishir river	5,038,759
3	Payment of customs and tax for Shahtoot project	9,069,767
4	Supply of underground water in Kabul city	1,007,751
5	Creation of Nuclear and Analytical Laboratory of Chemical and Biological Materials	529,715

⁴⁵ Integrity Watch Afghanistan, "An Analysis of Afghan National Budget 2019" IWA, <https://iwaweb.org/wp-content/uploads/2018/12/National-Budget-SIA-Engilsh.pdf> (accessed on January 12, 2020)

⁴⁶ Integrity Watch Afghanistan, "An Analysis of Afghan National Budget 2019" IWA, <https://iwaweb.org/wp-content/uploads/2018/12/National-Budget-SIA-Engilsh.pdf> (accessed on January 12, 2020)

6	A comprehensive plan for pastures to share with local communities	1,395,348
7	Horticulture development program	2,325,581
8	Procurement of equipment for construction materials laboratory	217,317
9	Procurement of high scale/temperature laboratories for certifying high-tonnage scales	245,478
10	Central laboratory accreditation	129,198
11	Kabul City Air Quality Monitoring System	516,795
Total		20,947,367

Source: Data extracted from the Executive Budget Proposal 1399

Furthermore, the MOF claims that only 11 new projects with a total monetary value of AFN 1.6 billion have been added to the 2020 national budget.⁴⁷ This may indicate that the rest of the development budget is going to ongoing projects. However, the details regarding the selection mechanism for small projects which are selected under various programs such as national rural access program, and citizens charter program are not listed in the National Budget 2020. This makes it difficult to first identify the total number of small and major projects in the 2020 budget and then examine the selection process for these projects.

The government has to find a solution preventing the MPs from adding development projects to the national budget through engaging them from outset at their constituency. Furthermore, the government has not consulted the people in academia and civil society as well as the parliament over economic development and fiscal policy issues.

<content/uploads/2018/12/National-Budget-SIA-Engilsh.pdf> (accessed on January 12, 2020)

⁴⁷ Ministry of Finance, "Executive Budget Proposal 2020", MoF, https://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1399_Budget/MasterNationalBudget1399_PashtoVersion_Sent%20to%20Par_web.pdf (accessed on January 10, 2020)

A comparative analysis of NUG and the former administration

An examination of defense budget

During second term of President Karzai (2010-2014), on average 36% of the total national budget was spent in the security sector. During President Ghani's administration (2015-2019), on average 40% were spent in the security sector. Furthermore, AFN 520 billion (USD 6.71 billion) were spent in the security sector in the second term of President Karzai while it increased to AFN 825 billion (USD 10.7 billion) during President Ghani's administration. According to World Bank, total on-budget expenditure is equal to around USD 135 per head of Afghan nationals out of which USD 50 is spent to the security sector.

A few reasons that may explain the causes behind increase in the total expenditure in the security sector during President Ghani are that the Afghan government started to take more responsibility of financing the security sector. Furthermore, with the withdrawal of foreign forces, Afghanistan security sector has increased in size and expenditure. Also, some of the previously off-budget expenditure including salaries of armed personnel are on-budget now. In case of a peace deal and reduction in violence, it is not clear what the Afghan government strategy is to reduce the size and expenditure in the sector. This is an area that needs research by civil society and think tanks and attention from the government and international community.

Table 5: The allocation of security sector in total budget (2009-14)

Year	Year	Budget (in AFN billion)	Total Budget (in AFN billion)	Security share in total budget
2010	1389	42	197	21%
2011	1390	98.5	224	44%
2012	1391	78	244	40%
2013	1392	113	341	33%
2014	1393	189	428	44%
Total		520 (USD 6.71 billion)	1434 (USD 18.52 billion)	36%

Source: Website of the General Directorate of Budget, MoF

Table 6: The allocation of security sector in total budget (2014-2019)

Year	Year	budget (in AFN billion)	Total Budget (in AFN billion)	Security share in total budget
2015	1394	192	428	45%
2016	1395	177	444	40%
2017	1396	148	429	34%
2018	1397	147	377	39%
2019	1398	161	399	40%
Total		825 (USD 10.65 billion)	2,077 (USD 26 billion)	40%

Source: Website of the General Directorate of Budget, MoF

The share of security sector in the total budget varied during the years. It has been fluctuated between 21% to 45%. The average share of the total security expenditures as percentage of total budget was determined to be 35% during the second term of the former president. During the current administration, the average share of the security sector in total budget comes out to be 40%. The increase in the spending in the security sector maybe logical citing that the foreign troops are pulling out and that foreign aid to this sector is on decline. Therefore, the

contribution of the Afghan government should increase with time which has resulted in this huge increase of the funds that are allocated to this sector.

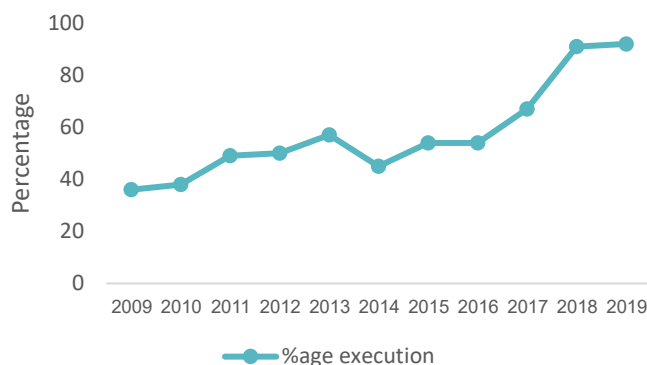
The security sector is comprised of the Ministry of Defense, Ministry of Interior Affairs, Ministry of Foreign Affairs, General Directorate of National Security Council, National Security Council and the President's Protective Services. The major share of this sector is allocated to the Ministry of Defense and Ministry of Interior Affairs. World Bank in its periodic public expenditure update stated, "Government and the international community need to agree on transition plan through which Afghanistan can take on greater responsibilities for financing of security sector expenditures but without squeezing out space for much-needed development spending."

Development budget execution

The Development Budget execution rate was persistently low during the second term of President Karzai. The expenditure rate remained consistently low with 38% in 2010 (the first year of his second term) to 45% in 2014 his final year in office.⁴⁸ The average expenditure remained below fifty percent (48%).⁴⁹ Furthermore, the total development budget for a period of five years (2009-2013) was AFN 616 billion out of which only AFN 295 billion was spent and AFN 321 billion, therefore, remained underspent. Impeachment of Ministers was a regular occurrence during the second term of President Karzai and as a result of which a couple of Ministers lost office every year following an impeachment process. It appears that the underspend during the previous administration of President Karzai was also a political tool as well as an economic issue.

⁴⁸ Supreme Audit Office, "Government audit report", SAO, <https://www.budgetmof.gov.af/index.php/en/2012-12-06-22-51-13/fiscal-bulletin>
<https://sao.gov.af/dr/حساب-قطعيه-دولت> (accessed on January 11, 2020)

Chart 4: Budget execution rate over the past ten years



Source: Data extracted from national budget and annual audit report documents (2015-19)

Development Budget expenditure rate consistently increased during the National Unity Government as shown in chart 4. During the first FY i.e. 1394 (2015) the total expenditure was AFN 82 billion up from AFN 71 billion from 1393 (2014). With the reform on improving the budget execution and improving the procurement planning, in FY 1397 (2018) the budget execution jumped to 91%.⁵⁰ It would appear that the reform of the budget not only increased the expenditure in terms of percentage of budget execution but it also increased the overall expenditure rate of the National Budget. The National Unity Government expenditure rose from AFN 102 billion before the reform to AFN 123 billion following it.⁵¹ However, the average expenditure and efficiency of the Development Budget remained low at 72%. The National Budget remained the same during the first three years of the National Unity Government and the reform came relatively late. It appears that if the National Unity Government had brought the reform in its first or second year in office (2015 or 2016) there would be AFN 30 billion more expenditures during its five years in office.⁵²

⁴⁹ *ibid* (pp. 134)

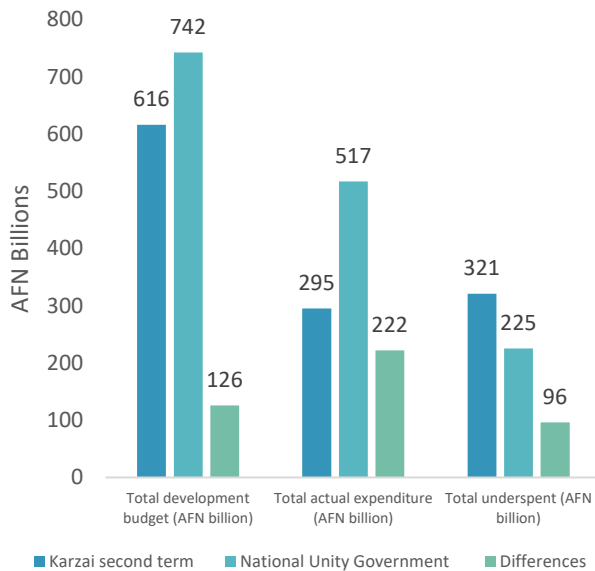
⁵⁰ *ibid* (pp. 134)

⁵¹ *ibid* (pp. 134)

⁵² *ibid* (pp. 134)

When the NUG took office, the Development Budget expenditure rose to AFN 10 billion in comparison to the final year of President Karzai’s administration. When the reform of the budget took place in FY 1397 (2018) onwards, the Development Budget rose by AFN 21 billion although the volume of the total development budget reduced by AFN 60 billion.⁵³

Chart 5: Cumulative comparison of budget execution in two administrations



Source: Data extracted from National budget and annual audit report documents (2010-2019)

Overall the National Budget scorecard of the NUG is much more impressive than the second term of President Karzai in terms of the execution of the development budget. However, the efficiency and impact of expenditure remain questionable under both administrations. The total volume of executed development budget under the NUG is higher than Karzai’s second term. The NUG budgeted AFN 742 billion over five years while the previous administration

budgeted AFN 575 billion (USD 7.42 billion). This is AFN 167 billion (USD 2.15 billion) less than the NUG. Average expenditure remained at 48% under President Karzai but it rose to an average of 72% under the NUG.⁵⁴ More impressive is the actual amount of expenditure. The NUG spent AFN 256 billion more than President Karzai in his second term as shown in chart 5. Furthermore, International observers also confirm that Afghanistan has made some improvements in its public finance management. International Monetary Fund (IMF) conducts Extended Credit Facility (ECF) of the countries to support countries’ economic programs aimed at moving toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.⁵⁵ The IMF team completed the sixth review of the extended credit facility for Afghanistan.⁵⁶ The IMF team cited the program implementation by the authorities as successful.⁵⁷ The team commended the authorities for good implementation of the reform program, despite difficult circumstances. The team also said that reform to strengthen institutions, deepen financial inclusion, boost the business climate, and fighting corruption will be needed to strengthen the economy’s resilience. The team further said that the support of international community as critical.⁵⁸

An Examination of Afghan revenue collection over the last decade

This section provides insights and analysis on Afghan’s national revenues. It focuses on two questions:

1. Did the NUG do a better job in terms of revenue collection in comparison to the previous administration?
2. What factors have contributed to the increase in revenue collection and how

⁵³ Ibid (pp. 134)

⁵⁴ Ibid (pp. 134)

⁵⁵International Monetary Fund, “Extended Credit Facility”, IMF, <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/04/Extended-Credit-Facility>, (accessed on January 15, 2020)

⁵⁶International Monetary Fund, “Sixth review of Afghanistan’s Extended Credit Facility”, MoF,

<https://www.imf.org/en/News/Articles/2019/10/11/pr19374-afghanistan-imf-staff-completes-2019-article-iv-and-sixth-ecf-review-mission> (accessed on January 15, 2020)

⁵⁷ Ibid (PP. 1)

⁵⁸ Ibid (PP. 1)

reliable is the revenue data provided by MOF during the NUG?

A comparison of NUG's five years (2015-2019) with the second term of President Karzai (2010-2014) shows that the NUG should be commended for two achievements. Firstly, it was able to keep up the pace of revenue collection that was set in 2010. Secondly, the NUG did better in comparison to the previous administration during the election years i.e. 2014 and 2018.

The total revenue collected during the first four years of second term of President Karzai was AFN 418 billion.⁵⁹ During this period there was a consistent increase in revenue. In comparison to 1388 FY, the 2010 FY saw 11 percent increase.⁶⁰ The FY years between 2011-2013 saw a 20%, 15%, and 6 percent increase in revenue collection. The data shows that there was a decline in revenue collection from FY 2011 in comparison to the preceding year⁶¹. The cumulative percentage points increase during the first four years of second term of President Karzai was 52%.

Chart 6: Increase in revenues during the two administrations



Source: data extracted annual audit report from the fiscal year 1394 to 1397

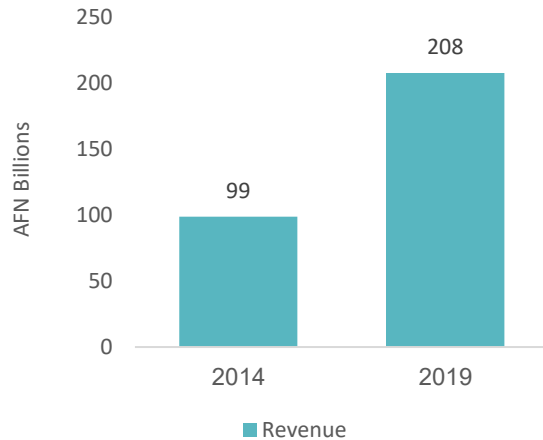
⁵⁹ Ibid (PP. 1)
⁶⁰ Ibid (PP. 1)
⁶¹ Ibid (PP. 1)
⁶² Ibid (PP. 1)

The total revenue collected during the first four years (2015-2018) of NUG was AFN 634 billion. During this period there was a consistent increase in revenues. In comparison to 1393 FY (an election year) the first year of NUG saw a 19% percentage point increase in revenues⁶². The FY between 1395-1397 had 9 percentage point increases.⁶³ The data shows that there was fluctuation in the level of revenue collection during the first four years of the NUG as shown in chart 6. The cumulative percentage points increase during the first four years of the NUG was 61% which is 9 percent more than the first four years of second term of President Karzai. While the NUG kept the pace of the former administration in terms of revenue collection and recorded a 9 percent increase, the increase in revenues however is not purely because of better performance.

The final year of the second term of President Karzai, 2014, saw a significant decrease in revenue collection. In FY 1392, President Karzai's administration collected AFN 123 billion but it dropped to AFN 99 billion which is a decrease of 24%.⁶⁴ The NUG did better in its final and election year. The total revenue collected in FY 1397 was AFN 191 billion and increased to AFN 208 billion which is a 9% percent increase.⁶⁵

Therefore, it seems that the NUG has done better in terms of revenue collection in its election year without considering other factors such as inflation, depreciation of currency and rise in fee and duties as shown in chart 7. 2014 was not only an election year but a time when the foreign forces withdrew from Afghanistan in big numbers. In terms of political instability, 2019 was also a critical year due to slowing down of economy and increased political uncertainty around elections and ongoing peace negotiations between the Taliban and the US.

⁶³ Ibid (PP.1)
⁶⁴ Ibid (PP. 1)
⁶⁵ Ibid (PP. 1)

Chart 7: Revenue collection during the election years

Source: data extracted from the website of the Directorate General Budget

The second question is about the factors which contributed to keeping the rate of increase in revenue collection under the NUG and outperforming the earlier administration. The NUG has not been transparent in this regard despite the call for publication of more data. However, independent researches and an analysis of the existing data shows that the NUG has done little to prevent leakages in the revenue collection. In other words, fighting corruption has not been a driving factor in more revenues under the NUG because there is no evidence of this in the in-year reports published by the Ministry of Finance.

Some observers of the Afghan public finance management believe that at least half of the revenue collected were due to inflation, depreciation and economic growth.⁶⁶ A USIP report notes, “These estimates, though crude, suggest that some 47 percent of total revenue can be explained by inflation, exchange rate

depreciation, and real growth of the economy.⁶⁷” According to the USIP report, “most of the apparent improvement—at least in 2019—can be attributed to the weakening of the Afghan currency against the U.S. dollar, a development that offers no sustainable path to long-term revenue growth.⁶⁸” In October 2014, when NUG took office, 1 US dollar was 57.57 Afghani. In December 2019, 1 US dollar is 78.30 Afghani. The Afghani has lost a total of 36 percent against the dollar during the NUG. The Afghan government’s increase in revenues benefits from this depreciation in two ways. First, the donors pay the Afghan government in foreign currency while the Afghan government incurs its expenses in Afghani. In 2019, the Afghan government made approximately AFN 15 billion in foreign exchanges at its central bank.

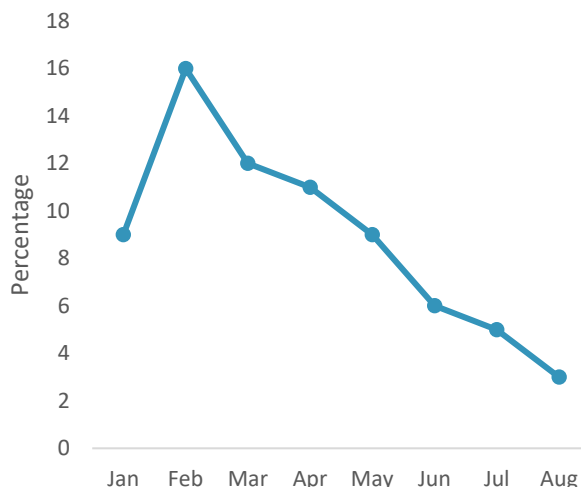
Furthermore, Afghanistan has approximately USD 7 billion in imports (31% of GDP). The goods from outside Afghanistan are mostly purchased in US dollars and they pay the same level at the Afghan customs. For example, an imported TV set paid USD 100 customs levy in 2014 and it made a contribution of AFN 5757 to the national treasury in October 2014. However, in December 2019 the same TV set also paid 100 USD in customs but its contribution to the national treasury is AFN 7830. The government has refused to publish aggregate data which would allow researchers and civil society to make judgements regarding this increase in revenues.

⁶⁶ Special Inspector General for Afghanistan Reconstruction, “SIGAR Quarterly Report, October 2018”, SIGAR, <https://www.sigar.mil/pdf/quarterlyreports/2018-10-30qr.pdf>, (accessed January 7, 2020)

⁶⁷ United Institute for Peace, “Revenue growth in Afghanistan continues strong but future uncertain”, USIP, <https://www.usip.org/sites/default/files/2017-02/PB219->

[Revenue-Growth-in-Afghanistan-Continues-Strong-but-Future-Uncertain.pdf](#), (accessed January 6, 2020)

⁶⁸ United States Institute of Peace, “Afghan government revenue, critical for peace, grows in 2019”, USIP, <https://www.usip.org/publications/2019/08/afghan-government-revenue-critical-peace-grows-2019>, (accessed January 7, 2020)

Chart 8: Monthly revenue collection in 2019 (in percentage)

Source: data extracted from SIGAR quarterly report, October 2019

Furthermore, Afghanistan has approximately USD 7 billion in imports (31% of GDP). The goods from outside Afghanistan are mostly purchased in US dollars and they pay the same level at the Afghan customs. For example, an imported TV set paid USD 100 customs levy in 2014 and it made a contribution of AFN 5757 to the national treasury in October 2014. However, in December 2019 the same TV set also paid 100 USD in customs but its contribution to the national treasury is AFN 7830. The government has refused to publish aggregate data which would allow researchers and civil society to make judgements regarding this increase in revenues.

SIGAR research for the recently closed FY 1398 (2019) shows that the revenue increase could be negative in its first eight months.⁶⁹ According to this report (as shown in the chart 8), there was a consistent increase in revenue collection over

the first eight months of FY 2019 with a cumulative percentage of 11%.⁷⁰ According to SIGAR report, a one-time transfer of gains made in foreign exchange in the Central Bank and receipts from customs (as outlined in the above paragraph) are the major contributors to the gains. It notes, 'Accounting for currency depreciation by converting customs receipts denominated in Afghani to U.S. dollars and subtracting the one-time AFN 8.9 billion (\$117.0 million) transfer of central bank profits from total revenues, effectively negated underlying growth.'⁷¹ In their view, revenue growth in the first half of 2019 was the result of an "extraneous, one-time" event (currency depreciation) rather than the domestic revenue mobilization efforts of the Afghan government.⁷² The one-off payments from Central Bank are not the sustainable sources of the revenues. The recent media report showed that besides the AFN 8.9 billion (USD 125 million) transfer from the central bank, AFN 15 billion (USD 193 million) were also transferred by the Central Bank to the Ministry of Finance.⁷³ In fiscal year 2018, AFN 4 billion (USD 51 million) were transferred from the Central Bank to the Ministry of Finance as one-off revenues.⁷⁴

Another set of questions regarding whether the increase in revenues concerns new taxes or increases in existing taxes, customs and fees as well as any broadening of the revenue net in the country. This report examines this to determine if the increase in overall revenues may have happened due to the prevention of leakages and/or fighting corruption. A 2017 Integrity Watch report challenges the accuracy of the government's claim as a contributing factor to the increase in revenues and states as, "However, this is not completely true since the

⁶⁹ Special Inspector General for Afghanistan Reconstruction, "SIGAR Quarterly Report, October 2018", SIGAR, <https://www.sigar.mil/pdf/quarterlyreports/2018-10-30qr.pdf>, (accessed January 7, 2020)

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⁷¹ Ibid (pp. 156)

⁷² Ibid (pp. 156)

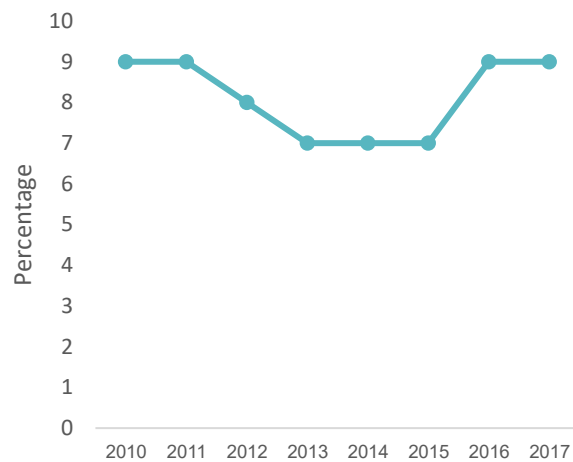
⁷³ Tolo News, "Central Bank money transfer to the Ministry of Finance", <https://tolonews.com/business/lawyers-critical-money-transfer-central-bank-mof>, (accessed January 8, 2020)

⁷⁴ Special Inspector General for Afghanistan Reconstruction, "SIGAR Quarterly Report, October 2018", SIGAR, <https://www.sigar.mil/pdf/quarterlyreports/2018-10-30qr.pdf>, (accessed January 7, 2020)

NUG has introduced several new taxes including the Business Receipt Tax and has doubled the taxes on fuel imports. In addition, a 10% fee has been added on cellphone top-up card. Custom duties on certain items and airspace fees have also been increased.⁷⁵

If we have a look at the tax revenues collection as a percentage of GDP, we can see that the ratio of tax revenues as percentage of GDP has risen over time. But that also means that the revenue collected in taxes has increased whereas the GDP has not increased significantly. Table 4 lists the tax revenues as percentage of GDP in the last ten years. The tax revenues as percentage of GDP during the second term of the former president Karzai rose by 7.94% on average. During the NUG’s term, the tax revenues as percentage of GDP grew by 8.5%. Hence, the tax revenues as percentage of GDP grew by 0.6% on average in the NUG term as shown in chart 9.

Chart 9: Revenues as percentage of GDP (2010-2019)



Source: World Bank

This section shows that there are several pieces of evidences which show that the increase in revenue collection during the NUG has not been due to the prevention of corruption. Furthermore, the investigations show that the

⁷⁵ Integrity Watch Afghanistan, “Game of Numbers”, IWA, https://iwaweb.org/wp-content/uploads/2017/12/IWA_National-Budget_English_6.pdf, (accessed January 7, 2020)

Afghan government refuses to be transparent on the reasons for a “nominal” increase in its revenues. There have been recent media reports concerning an alleged request by the Ministry of Finance to the Central Bank to transfer the currency exchange gains, to the Treasury before the close of FY 1398 in an attempt to show an increase in the revenues.

An examination of contingency codes

In this part of the analysis, we are comparing the administration of the NUG with the second term of the Karzai administration. The reason of comparing these two administrations is to describe that the use of the contingency funds has not been confined only to the NUG and that this has been a persistent problem throughout the last decade.

According to the article 32 of Public Expenditure and Management Law, the appropriation for the contingency funds should not exceed 3 percent of total expenditures.⁷⁶ Budget observers and oversight agencies have consistently warned the government about its excessive reliance on contingency codes. The Public Expenditure and Financial Accountability (PEFA) warned the government in 2018 that the three fiscal years (2014, 2015 and 2016) under its assessment did not adhere to the law regarding the use of contingency codes. It states, “The contingencies in all three years were not used for emergency purposes or for urgent and/or unpredicted reasons. They were appropriated to specific organizational codes, based on requests from the LMs and approved by the MoF.” In addition, PEFA indicated that, “The contingency share in each of the three assessed years exceeded the provision in the PFEM Law, Article 32, of

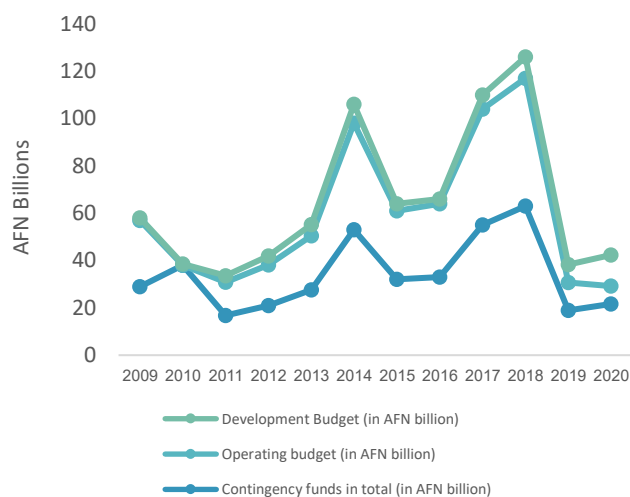
⁷⁶ World Bank, “Afghanistan Public Finance and Expenditure Management Law”, MoF, http://www1.worldbank.org/publicsector/pe/BudgetLaws/Afghanistan%20PFEML_Engl_final.pdf, (accessed January 8, 2020)

maximum appropriation of 3 percent of total expenditures.⁷⁷

This analysis shows that the use of contingency codes remained an issue before the PEFA assessment and following it. The historical data for the last ten years shows that the government has heavily relied on contingency codes and in particular contingency codes under the operating budget as shown in chart 8. Some contingency funding is necessary because of genuinely unforeseen circumstances.⁷⁸ However, the contingency funds are easily shifted to other uses and are therefore vulnerable to bargaining.⁷⁹

A comparative look at the contingency codes under the NUG and second term of President Karzai shows that the NUG has relied more heavily on contingency codes. (Chart 11 and chart 12)

Chart 10: Contingency funds in the past ten years

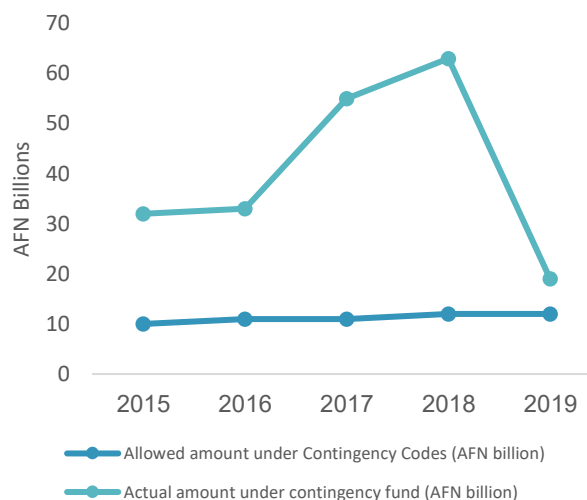


Source: data extracted from annual audit reports and national budget documents (2010-2019)

⁷⁷ World Bank, "Afghanistan Public Finance and Expenditure Management Law", MoF, http://www1.worldbank.org/publicsector/pe/BudgetLaws/Afghanistan%20PFEML_Engl_final.pdf, (accessed January 8, 2020)

⁷⁸ Afghanistan Analysts Network, "Deals done with MPs to get budget through parliament", AAN, <https://www.afghanistan-analysts.org/2018-afghan-national-budget-2-deals-done-with-mps-to-get-budget-through-parliament/>, (accessed January 8, 2020)

Chart 11: Contingency funds in National Unity Government



Source: data extracted from annual audit reports and national budget documents (2015-2019)

The total amount of expenditure under the contingency codes during the second term of President Karzai was AFN 156 billion (USD 2.01 billion) while based on the law it should have been limited to AFN 37 billion (USD 478 million) for a period of five years. During the second term of President Karzai a total of AFN 119 billion (USD 1.53 billion) was spent under the contingency codes from FY 1389 to FY 1393 (2010-2014).⁸⁰

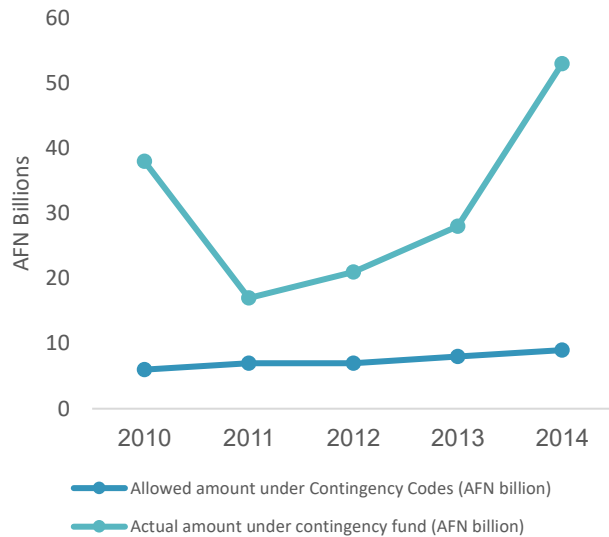
The situation in this specific component of the national budget got even worse under the NUG. The total amount of expenditure under the contingency codes during the five years of NUG was AFN 202 billion which is AFN 48 billion (USD 628 million) more than the previous administration and AFN 148 billion (USD 1.91 billion) as allowed under the law⁸¹

⁷⁹ Afghanistan Analysts Network, "Deals done with MPs to get budget through parliament", AAN, <https://www.afghanistan-analysts.org/2018-afghan-national-budget-2-deals-done-with-mps-to-get-budget-through-parliament/>, (accessed January 8, 2020)

⁸⁰ Supreme Audit Office "Government audit report," SAO, <https://sao.gov.af/dr/حساب-قطعيه-دولت>, (accessed January 15, 2020)

⁸¹ Supreme Audit Office, "Government Audit Report". SAO, <https://sao.gov.af/dr/حساب-قطعيه-دولت> (accessed January 7, 2020)

Chart 12: Contingency funds in the second term of President Karzai



Source: data extracted from the annual audit reports and national budget documents (1389-1393)

The contingency code in the national budget of Afghanistan has many sub-codes. Among them is code 91 which is known as the policy reserves funds. These funds are totally at the discretion of the president’s office.⁸² The audit report for the fiscal year 2019 showed that the funds in this line were increased from what was approved at the start of the fiscal year.⁸³ These funds although constitute a very small percentage of the total budget expenditures could have been estimated in the national budget in lines other than the contingency funds were misallocated and were not utilized for their specific purposes which are for the purposes of contingency.⁸⁴ The utilization of these funds from the code 91 is mostly made into five agencies which are: Administrative Office of the President, Office of the President, National Directorate of Security, Office of the

Chief Executive of Afghanistan, and National Security Council.⁸⁵

The funds in the code 91 were increased from the AFN 1 billion (USD 12 million) to AFN 3 billion (USD 39 million). The increase in this code was made without approval from the parliament. Below are some examples that illustrate as to how these funds were used: Training

- Based on the presidential decree No. 32, on 5/1/1397, the amount of AFN 8 million (USD 103 thousand) was consumed for procuring the bullet-proof land-cruiser.⁸⁶
- AFN 2 million (USD 26 thousand) were consumed for the travel expenses of 2nd vice president of the Islamic Republic of Afghanistan to Turkey, according to the presidential decree No. 702.⁸⁷
- As per the presidential decree No. 315, AFN 1.5 million (USD 19.4 thousand) were consumed for the travel expenses of the second vice president to Herat province.⁸⁸
- Based on the presidential decree No. 350, AFN 7 million (USD 90 thousand) were utilized for procuring bulletproof land-cruisers for Haji Almas.⁸⁹
- AFN 10 million (USD 129 thousand) were used by the CEO Dr. Abdullah for his travel expenses along with the team to London.⁹⁰

These funds, although they could have been properly estimated and allocated into their specific line, were still listed under contingency lines. These funds when listed under the contingency funds are vulnerable to misuse because the funds from these lines can be easily transferred from this line to others.

⁸² Etilaatroz, “How was budget of code 91 spent”, Etilaatroz, <https://www.etilaatroz.com/89400/how-was-budget-of-code-91-spent-in-1397/>, (accessed January 8, 2020)

⁸³ Supreme Audit Office, “Government Audit Report”. SAO, [http://old.sao.gov.af/Content/files/Final%20Qatia%20Audit%20Report%20Scan%201397%20\(1\).pdf](http://old.sao.gov.af/Content/files/Final%20Qatia%20Audit%20Report%20Scan%201397%20(1).pdf), (accessed January 7, 2020)

⁸⁴ Etilaatroz, “How was budget of code 91 spent”, Etilaatroz, <https://www.etilaatroz.com/89400/how-was-budget-of-code-91-spent-in-1397/>, (accessed January 8, 2020)

⁸⁵ Etilaatroz, “How was budget of code 91 spent”, Etilaatroz, <https://www.etilaatroz.com/89400/how-was-budget-of-code-91-spent-in-1397/>, (accessed January 8, 2020)

⁸⁶ Ibid (pp. 5)

⁸⁷ Ibid (pp. 6)

⁸⁸ Ibid (pp. 7)

⁸⁹ Ibid (pp. 7)

⁹⁰ Ibid (pp. 8)

Recommendations

Increase public participation

Public participation has to be significantly improved to reflect people views, needs and demands. This would also decrease the negative influence of political actors in the budget process, improve effectiveness and will help better implementation of projects through people's buy-in and ownership.

Invest in people

Although the UN and donor agencies support returnees and IDPs, the Afghan government has to demonstrate commitment to its people who are displaced due to conflict or have returned to Afghanistan due to pressure abroad. Education and health need urgent attention in particular the operation and maintenance of the schools and health facilities.

Making the budget accountable

The amount given to contingency codes is quite a bit higher than what it should be. More recently, even development projects were listed in the contingency codes. This has to be changed immediately. Furthermore, relying on the Special Operations Unit at the cost of marginalizing the line ministries may have short term results but it undermines state-building, accountability, transparency, public confidence and reform of institutions.

Minimize budget deviation

Research shows that the Afghan budget deviates by as much as 60% after approval from Parliament. The audit report on the 2018 budget by Supreme Audit Office shows that this included even contingency codes which legally requires Parliament's approval. The National Budget should become a credible document to reference during implementation of projects.

Enhance transparency and oversight

While oversight by the Supreme Audit Office score increased to 67 out of 100 based on the 2017 Open Budget Survey, oversight by Parliament remains low with 19 out of 100 in the formulation phase and 47 out of 100 in the execution phase of the budget process. To combat corruption, the government should provide adequate resources to judiciary, oversight, regulatory and anti-corruption agencies. Also access to reliable, timely and comprehensive budget documents remains a continuing issue for civil society and media. The government should make further strides to increase budget transparency based on international standards.

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