Summary of the Bank’s Technical Assistance Work in the Area of Subnational Governance

The Bank team has been engaging in analytical work, policy dialogue and technical assistance in the area of subnational governance since 2006. In Apr 2009, I took over as the Team Leader for this dialogue. Our team consists of Jamie Boex, Hamish Nixon and Bob Searle. This note reports on the past two years of our engagement.

The analytical work led by my predecessor Roland White during 2006-8 produced two major reports, “Service Delivery and Governance at the Subnational Level in Afghanistan” (July 2007) and “Intergovernmental Fiscal Relations and Subnational Expenditures in Afghanistan” (August 2008). Whereas the former study provided an insightful description of the governance and service delivery aspects of intergovernmental relations in Afghanistan, the latter study complemented the earlier work by focusing on fiscal aspects of Afghanistan’s intergovernmental system. The latter report noted that the Government of Afghanistan (GoA) faced three key policy challenges in the area of sub-national finance:

1. Ensuring a more equitable and transparent allocation of fiscal resources between the provinces.
2. Reforming the country’s budget authority structure and intergovernmental budget processes.
3. Developing a fiscal framework for financing municipalities.

Our subsequent work program was developed to help Government address these challenges. The work program was developed with the understanding that conditions in Afghanistan, particularly with respect to sub-national government and service delivery, were highly fluid and that considerable flexibility would need to be retained. As it turned out, we had traction on the issue on provincial allocation (issue #1 above) early on, and we continued to build consensus on the need to decentralize budget authority to provincial administration (issue #2 above). Issue #3 was pursued separately by the urban team led by Soraya Goga and a detailed diagnosis of municipal governance and finance was produced.\(^1\) This dialogue was interrupted by staff changes and needs to be resumed by the urban team. The rest of this note reports on our progress on the first two issues as well as another issue that emerged during this period, namely the grossly inadequate budget for operational and maintenance purposes and its implication for government performance.

1. More equitable and transparent allocation of fiscal resources between the provinces

The area that made the most progress during 2009-10 was technical assistance in support of a more equitable and transparent allocation of fiscal resources among the provinces. Progress in this area was facilitated by the fact that in early 2009, it was recognized that the government’s annual budget was the key instrument to achieve the policy goals contained in the Afghanistan National Development Strategy (ANDS). In this context, ensuring a more equitable and transparent allocation of fiscal resources among the provinces was an important ingredient in achieving the country’s national development objectives. In general, this change resulted in attempts at results-based convergence of budget process reforms, including program budgeting as well as provincial budgeting. The Provincial Budget Program, which had languished during 2008 and most of 2009, was being re-invigorated by early 2010. In addition, this area

has the support from two key players in the subnational governance policy arena: the Ministry of Finance (MoF) and the Independent Directorate of Local Government (IDLG). We also targeted the Ministry of Education as a pilot.

The main message which the Bank team sought to convey was that Afghanistan should shift away from discretionary provincial budget allocations as well as from input-based budget allocations. Instead, client-driven, affordable financial norms were recommended to be used. In an effort to gain support for this specific policy proposal, a workshop was held on April 2009 with MoF, selected donors, and technical assistance partners focusing on international experience regarding the horizontal allocation of financial resources, the formulation of expenditure norms and the relationship between provincial allocations and minimum service standards. This general premise was accepted during the workshop and the introduction of improved, norm-based provincial allocations was adopted as a priority reform initiative.

During discussions with the Client, the Ministry of Education was tentatively identified as the pilot ministry for improving the horizontal allocation of provincial expenditures. Subsequent to the mission, the World Bank team further elaborated the workshop presentation into a background note on provincial resource allocations and sectoral expenditure norms, including international experiences as well as implications for the reform of subnational resource allocations in Afghanistan.

In order to bring together stakeholders from the various involved ministries to achieve a common understanding on subnational finance issues, and in order to build the capacity of the involved officials to develop and implement provincial budget norms, a joint MOF-MoE Workshop on Provincial Resource Allocations was held on 5-6 September 2009. The workshop, attended by over 30 stakeholders including provincial staff of both ministries, focused on improving transparency and equity in provincial resource allocation for general education. The workshop took as its starting point the reform experiences of both the MoF and the MoE, and their current practice and policy objectives. Following this, practical workshop exercises on developing and computing norm-based provincial allocations were undertaken, supplemented by discussions on challenges to effective execution of the budget. A key finding of the workshop was that budget process reform must be matched with diagnosis and action on key execution bottlenecks to produce desired results.

During the follow-up February 2010 mission, a clear framework for implementing norm-based provincial allocations in the education budget emerged, tying the process closely to the ongoing MoF provincial budgeting reforms. Concrete proposals for introducing norm-based provincial budget allocations included:

(i) Focus on provincial allocation norms which determine the relative distribution between provinces.2
(ii) Use the current (largely input-based) allocation norms as the starting point for improving the allocations.
(iii) The current norm-based approach is too fragmented and prescriptive. The development of provincial allocation norms should therefore focus on defining norms for approximately seven budget windows, largely consistent with the major budget codes – consideration

2 While there are other norms that will have to be developed as part of results-based, program-based budget process, the implementation of provincial budget norms should focus predominantly on the relative distribution of resources between provinces, rather than on trying to establish norms for aggregate provincial funding levels.
should be given to the implications of this simplified procedure for the budget preparation process.

(iv) The process of agreeing on provincial allocation norms for General and Islamic Education for 1390 is envisioned to be a collaborative effort between the Ministry of Finance and Ministry of Education. Simulation and analysis of the proposed provincial allocation norms will be required before adopting the norms.

(v) Altering the budget formulation and presentation such that provincial expenditures can be transparently identified and assigned;

(vi) Need for more detailed education data.

These points of agreement were further expanded upon in a final technical and analytical report, *Norm-Based Provincial Budget Allocations for Education in Afghanistan: Towards Agreement on a Norm-Based Approach For 1390 (April 2010)* – see Attachment 1. This was delivered to the three ministries and shared with the Development Partners.

2. Decentralizing planning, budgeting and implementation authority to provincial levels

The Ministry of Finance was initially unwilling to contemplate significant reform of vertical budget authority, due to concerns about the ability of ministries to handle multiple reforms as well as capacity and accountability deficits at the subnational levels. The IDLG, on the other hand, advocated significant decentralization of decision powers to the subnational levels. The IDLG policy position was reflected in the Subnational Governance Policy, which was approved by the Cabinet in May 2010. Despite extensive consultations organized by the IDLG, the MoF had limited engagement in the SNG policy development process and consequently had limited buy-in for the proposed subnational finance arrangement.

On multiple occasions, the Bank team provided feedback to the IDLG on the draft Subnational Governance Policy and the proposed implementation framework – see Attachments 2 & 3. The Bank team had particular concerns about the proposed subnational finance arrangements and recognized the lack of dialogue between MoF and IDLG as a critical weakness in the policy process. It was decided that Bob Searle, a senior advisor with strong practitioner’s experience would be appointed to advise MoF and IDLG and facilitate dialogues and consensus between MoF and IDLG.

It became increasingly clear during this period that there is no consensus within government on the responsibilities and autonomy that the provincial government should have. In particular, the role of Provincial Governor is controversial. On the one hand, the Governor is clearly the political authority in the province and is the representative of the central government. On the other hand, there is concern that without effective checks and balance, empowering the provincial government may not have the desired impact on improving public services. Similarly, while the IDLG advocated for the creation of regularly elected government at the district and village level in the SNG policy, MoF does not consider them affordable. Ministry of Rural Development (MRRD) is concerned that Village Councils not threaten the identity or at least the spirit of the Community Development Councils (CDCs) created under their National Solidarity Program.

Without a government consensus, the SNG landscape was de facto being shaped by the various subnational governance programs funded by the donors. But consensus is lacking within the donor community and sometimes within the same donor country. Some donors promoted a vision of building democracy from below and supported significant investment in the CDCs and their federation into the District Development Assemblies (DDAs). Other donors were primarily driven by the Counter-Insurgency
(COIN) objective and timetable and gave significant support to the Provincial Governor and District Governor’s offices. For example, the Provincial Governor’s Offices were provided significant support by the resident ISAF and civilian partners as well as the Performance-Based Governors Fund financed by a group of bilateral donors. The COIN strategy of “clear-hold-build” in particular made the district governor’s office a focal point for recovery and reconstruction after the military cleared insurgents. The District Development Program (DDP) was created by a group of bilateral donor agencies and implemented by IDLG. We reviewed the DDP design and through an internal note advised the Country Team that DDP would not be an effective approach to accelerate development in these areas. Instead, we argued, the provincial departments need to be given more autonomy and support to accelerate implementation of their respective flagship programs in areas which become peaceful.

Recognizing that the political consensus about the roles of the Provincial Governor, the Provincial Council and the Provincial Departments is yet to settle, we decided to pursue the dialogue on deconcentration of decision authorities within the line ministries. Currently, the headquarter office of each line ministry controls the entire planning and budgeting authority. The provincial department has almost no say in the planning process. Procurement ceiling for provincial departments is set extremely low at the Minister’s discretion. Significant efficiency improvement could be achieved, if provincial departments are allowed more voice in the planning process and more autonomy in budget execution. This would be beneficial, even if the eventual political consensus is to give the provincial government only nominal autonomy. If the eventual political decision is to give provincial governments significantly more authority and fiscal autonomy, then the deconcentration effort will have allowed the line departments to build up planning and implementation skills and ready to serve in an empowered provincial government.

We decided to use the General Education sector as a case study and examine what concrete changes in the current public finance system could improve the ability of frontline managers and public servants to deliver services. Altai Consulting was commissioned to conduct a detailed analysis of the reach of government budget to the line departments at the provincial and district levels and the schools (see Attachment 4). The study focused on four budget lines: teacher salary, operations and maintenance (O&M), school construction, and textbooks.

The study confirmed the general impression that provincial and district education managers have limited voice in the ministry planning and budgeting process. The central ministry retains most of the O&M budget for the ministry, and provincial departments receive very limited O&M budget. Perhaps as a way of rationing the resource, the approval process for accessing the budget is very cumbersome. As a result, no school in the survey has successfully accessed any O&M budget from the government. They rely on community donation to cope with periodical needs. The provincial department does not have full autonomy to execute its own O&M budget. In many cases, the Provincial Governor and the Provincial Treasury are involved in the procurement decision. The study also found that the school construction cycle is extremely long due to the cumbersome process. Even for community-construction schools, the central ministry controls a number of key decisions. For example, the first disbursement often happens 6 months into the budget year, by which time the winter season starts and construction is no longer possible. Each school budget is paid in four installments and turnaround is very slow. In the case of

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3 See details in the “Research and Assessment of Provincial Operations and maintenance” (Tadbeer Consulting, Aug 2010). This study was commissioned by Richard Hogg, the Team Leader for the Afghanistan Governance Partnership Fund, as part of the effort to understand the issue of operations and maintenance.

4 This company is registered as Lhassa Consulting in our system.
textbooks, the supply from the ministry does not match the needs of the schools and the district education offices have no travel budget to distribute books.

It is clear from the study that the provincial department needs to be entrusted with more responsibilities and the budget execution process needs to be streamlined. On the other hand, the roles of the Provincial Governor and Provincial Treasury in the line department’s budget execution process should not take the form of direct participation in procurement. Treasury already exercises control through requiring supporting documentations for payment requests. The Governor could exercise oversight through the planning process and periodic budget reporting. These recommendations are shared with the Ministry of Finance, the Ministry of Education as well as our colleagues managing the Public Financial Management Capacity Building Project.

To provide incentive for reforms in the two areas elaborated above, we have proposed that the Incentive Program under the multi-donor Afghanistan Reconstruction Trust Fund (ARTF) include a theme on improving Subnational Fiscal Governance. See Annex 1 for the proposed reform program.

3. **Improving O&M budget management**

As we pursued our TA program, it became increasingly clear that the O&M budget requires a lot more attention than it has received from development partners. In addition to the inefficiencies in budget execution discussed above, there are serious allocation imbalances in the current budgeting practice: 1) Too much money spent on creating new assets and too little money spent on maintaining them; 2) Within the O&M budget, provinces are getting too small a share to perform their maintenance and service delivery responsibilities; 3) Across the provinces, the allocation of O&M budget is not sufficiently transparent or equitable. Development partners tend to focus on creation of assets and their geographic allocation preference is sometimes driven by the need to demonstrate success in the regions where there is a lot of military engagement.

The Ministry of Finance has started to explore options for addressing these problems. For example, within its discretionary budget, it is gradually increasing allocation to the O&M budget for critical line ministries. It is interested in exploring with line ministries transparent and equitable ways of allocating resource across provinces. Recently it has required four large line ministries to actively consult their provincial departments in the budget preparation process for FY1391. Its Public Financial Management Reform program is building provincial capacity for planning, budgeting, accounting, and procurement. It has also commissioned an ambitious study on “Forecasting Afghanistan’s Medium-term Operations and Maintenance Costs,” which will provide the basis for adequate budget for O&M.

Line ministries, such as the Ministry of Public Works and the Ministry of Rural Development, are also benefiting from various experimental approaches to figure out sustainable approaches to address O&M needs. The USAID pilot on Performance-based Maintenance Contract for roads and the NRAP experiment on contracting CDCs for maintaining rural roads are all interesting experiments to closely monitor and, if successful, mainstream.

We suggested a three-year program of activities with the objectives of further improving O&M allocation to provincial departments and strengthening their capacity to use it to maintain assets and provide quality services (see details in Annex 2). This program includes 1) establishing an asset inventory for key categories of assets in the pilot ministries; 2) establishing a methodology to estimate the O&M budget needs; 3) determining the most effective institutional arrangements to manage assets in each pilot ministry; and 4) building the capacity of the pilot ministries and their provincial departments in managing the O&M budget. Development partners are encouraged to provide technical assistance for
line ministries to have a robust estimate of their O&M needs and help finance the increase of O&M budget through the ARTF Recurrent Cost Window.

4. **Tiers of government**

The Afghanistan Constitution mandated four tiers of government: center, province, district and village. At each subnational tier there will be an elected council. Implementation so far has been limited at the provincial level. There are debates on whether the proposed governance structure is affordable. Our calculation of the cost of establishing the subnational government structures as proposed in the SNG Policy confirmed that it would indeed be very costly (see Attachment 5).

In the absence of District Councils and Village Councils, three large programs have experimented with alternative governance arrangements. At the village level, the National Solidarity Program (NSP) has created around 20,000 Community Development Councils (CDC) to give voice to villagers (including women) and capable of transparent and accountable management of public resource to meet the needs of the villagers. The Facilitating Partners (FPs) of the NSP facilitated secret-ballot elections of the CDCs. Each CDC aims to provide for equal number of males and females, subject to implementation realities. The primary instrument for stimulating collective action and local development of NSP is a community block grant of $200 per household with a total ceiling of $60,000. FPs facilitated participatory processes at the village level to select projects for NSP financing.

There is emerging consensus that CDCs have gained legitimacy among rural population as representative and accountable grassroots development and governance institutions and have the potential of performing the functions of Village Councils. The SNG Policy was ambiguous about the overlap between the Village Councils and the CDCs, and some suggested that Village Councils could be created purely for administrative and dispute resolution purposes while leaving CDCs to handle development functions. We advised the Government that this would be unwise; the Village Councils will not be able to compete for relevance with well funded CDCs and people’s interest in electing village councils will soon decline.

The NSP donors eventually lobbied Government to consider transforming CDCs into Village Councils. This in principle has been accepted, but an implementation plan is required. The key issue is to ensure that the diverse electoral mechanisms that NSP Facilitating Partners adopted are acceptable to the Election Commission. Reelection of CDCs at the end of the first NSP phase (typically three years) gives an opportunity to adopt an election mechanism that is formally recognized by the Election Commission and to give CDCs a revised Terms of Reference that corresponds to that of the Village Councils as defined by the Subnational Governance Policy.

The lack of a financing strategy for CDCs/Village Councils also presents a critical sustainability risk. At the time of the preparation for the Third National Solidarity Program, we presented some options for transition the current focus on one-off and large investment funding for CDCs to a recurrent and more modest annual block grant funding for Village Councils (see Attachment 6). To stimulate discussions, we presented some simulation results to the NSP management and our NSP colleagues. We achieved little traction on this topic, as donor commitment of more than $750 million for NSP3 meant the sustainability issue was no longer urgent. This discussion needs to be revived. The Country Team needs to openly debate the options and bring the sustainability issue to the forefront of dialogue with Government and donors.

At the district level, two competing forms of representation were promoted. The National Area-Based Development Program established District Development Assemblies as federation of CDCs and focused on building their capacity in district development planning. The Afghanistan Social Outreach Program
(ASOP), on the other hand, decided to revive traditional practices of collective decision making and created a council of traditional leaders for the purpose of “strengthening security and peace, improving the effectiveness and responsiveness of service delivery and building local governance.” A study commissioned by the Governance Partnership Facility found out that the two organizations often operate in the same districts. Their competing mandates and founding principles and the fact that ASOP offers members generous remunerations led to confusion and tension. There is no clear policy decision so far to address the confusion. At the moment, neither program enjoys widespread support from key stakeholders. There is concern about elite capture in ASOP Councils. While the general impression is that the DDAs appear more innocuous, their interest in development planning and coordination is waning as a result of lack of funding for their District Development Plans. It is not clear whether these two forms of representative bodies will survive their parent programs.

Stakeholders are now debating the appropriate roles for the District Councils, if indeed they will be elected as per Constitutional requirement. Given that the 3-tier subnational governance structure proposed in the Constitution and the SNG Policy is unlikely affordable for Afghanistan at least in the short run, it is worth debating options for a more streamlined governance structure. This area requires more analytical work, including comparative analysis with other countries.

5. **Next steps**

There is significant interest from MoF to move forward with the reform program on subnational finance and the reform program on O&M as outlined in the two Annexes. As there is no longer self-standing budget line dedicated to the SNG dialogue and TA, our future analytical work and policy support will be provided as part of the Afghanistan Transition and Sustainability Study and the ARTF Incentive Program.

On the issue related to desirable roles and financing options for the district councils and village councils, the Country Management Unit needs to decide whether to finance our further engagement or whether to task the NSP team to carry this dialogue forward.

**Attachments**

1. “Norm-Based Provincial Budget Allocations for Education in Afghanistan: Towards Agreement on a Norm-Based Approach For 1390 (April 2010)”
2. Feedback from the Bank team to the IDLG on the draft Subnational Governance Policy (May 2009)
3. Feedback from the Bank team to the IDLG on the proposed implementation framework (May 2010)
4. “Public Expenditure Tracking Survey in the Education Sector” (Apr 2011)
5. “Cost of Subnational Governance in Afghanistan” (Mar 2011)
6. “Sustainability of CDCs” (May 2010)
Annex 1. ARTF Incentive Program Theme #5: Improving Subnational Fiscal Governance

Issues related to governance and service-delivery at the sub-national and local levels have risen in profile and importance in Afghanistan. The Government of Afghanistan, for its part, has endorsed an ambitious Subnational Governance Policy (SNGP) which identifies key objectives for local governance reforms. However, this policy requires substantial clarification and attention if it is to form a clear road map for reform of intergovernmental institutions, and the long-term vision of Afghanistan’s subnational governance system will likely continue to evolve. Part of that evolution has been the distribution of a draft SNGP Implementation Framework that presents a very ambitious timetable for the transition to deconcentrated governance. In the immediate term, efforts are required to ensure convergence between phased practicalities of implementing the SNGP and the evolution of the budget and public financial management systems led by the Ministry of Finance and represented in the PFM road map presented at the Kabul Conference. The key objectives of the policy need to be pursued through reforms that are achievable and effective at improving subnational service delivery while supporting and strengthening gains achieved in the PFM system.

There is considerable consensus that the following areas of reform are incremental changes that can be supported under the IP.

- Central government to establish a fair and transparent resource allocation mechanism.
- Central ministries to give provincial departments more roles in planning and provide predictable budget.
- Provincial departments need more autonomy in executing budget.

I. Provincial allocation

It is widely acknowledged that provincial allocation of resources, whether the Operating Budget, Development Budget, or off-budget external support, lacks transparency and a coherent policy goal of equity. The Ministry of Finance is committed to improve transparency and have increasing portion of the budget be eventually subject to equity-based formula.

The starting point is the Operating and Maintenance (O&M) budget of line ministries that have significant provincial operation, for example, the four ministries under the Provincial Budget pilot, MoE, MoPH, MAIL, and MRRD.

There is also interest in subjecting the Salary component to equity-based formula. For example, the student-teacher ratio varies widely across provinces, making teacher reallocation a potential policy instrument. However, moving teachers from urban areas, where student-teacher ratio is low, to remote areas, where student-teacher ratio is high, is not always feasible. On the other hand, it is possible to focus new teacher recruitment in areas that have unacceptably high student-teacher ratio. This requires a degree of transparency in decision-making during budget discussions and a commitment to reduce inequity, even though provincial allocation of teacher salary budget may not be subject to a nationally uniform student-teacher ratio.

Parts of the Development Budget are also natural candidates for formula-based allocation, e.g., local infrastructure. The difficulty with the Development Budget, however, is that most of it is financed by donors and renegotiation about geographic targeting during project implementation may not be feasible. The other difficulty is related to the fact that comprehensive data on infrastructure and other project investment in the same infrastructure is often not available. For example, if existing capital stock...
of local (not network) infrastructure is geographically concentrated in some provinces, the fair thing for a new program to do is to invest in the disadvantaged areas, not to spread resource equitably among all provinces. But without knowing the capital stock in the country, or what other investment is taking place, subjecting a small portion of the new investment to a fair allocation rule may not reduce inequity.

The following is a proposed trajectory of reform over the next three years.

A. **Improving provincial allocation of frontline public servants**

Years 1-3: focus on teachers. During the budget preparation process each year, the Ministry of Education presents its strategy to improve the student/teacher ratio in the x most under-served provinces in terms of teacher/student ratio and how the budget allocated for new recruitment supports this strategy. Over the next three years, the spread between the student/teacher ratio across provinces should decrease.

B. **Improving provincial allocation of O&M budget**

Year 1-3: focus on the following ministries that are under the Provincial Budget Pilot: MoE, MoPH, MAIL, and MRRD. In Year 1, the Ministry of Education (or maybe the other three ministries, if feasible) will present a transparent formula for allocating the O&M budget to the provincial departments. In the case of Education, it may be beneficial to consider applying one formula to the entire O&M budget rather than applying one formula to multiple sub-items of the O&M budget, as was the case when we studied the FY1389 budget process. The technical approach was explained in the “Norm-based Provincial Budget Allocations for Education in Afghanistan: Technical Guidance for Agreeing to a Norm-based Approach for 1390,” which was shared with MoF, MoE and IDLG in April 2010.

In Year 2 & 3, each of the four ministries presents a transparent formula for allocating the O&M budget to the provincial departments. The data may include the asset inventory data collected during FY1390 under the MoF study of “Forecasting Afghanistan’s Medium-term Operations & Maintenance Costs.”

II. **Increasing the role of provincial departments in budget preparation and improving predictability and transparency of provincial budget**

The Ministry of Finance is leading the Provincial Budget Pilot with the aim of more actively engaging provincial departments of four pilot ministries (MoE, MoPH, MAIL, MRRD) in planning during the budget preparation process. Over the next three years, the following improvement is anticipated:

1) The roles of the provincial departments in the pilot ministries are clearly articulated in the Budget Circular;
2) Each ministry develops planning guidelines for provincial departments;
3) Adequate time is given to provincial departments for them to provide meaningful input to their respective parent ministries.
4) Improving communications between parent ministries and provincial departments throughout the budget preparation, resulting in widespread knowledge among provincial directors their budget allocation and justifications for the allocation.
5) Provincial allocation for the four ministries and their programs will be published, possibly as annexes to the approved Budget and a provincial budget At-a-Glance compiled by the MoF.
6) To improve credibility of budget, the budget allotment and execution ratio of provincial departments will be monitored. Actual allotment is expected to be close to 100% of budget, and
the execution ratio (actual spending divided by allotment) is expected to be no lower than the baseline execution ratio as of FY1389.

7) The “Provincial Budget At-a-Glance” would be made available to provincial stakeholders (Provincial Governor, Provincial Council, and Provincial Departments) as well as the MPs and the public. Justification for allocation rules will be provided in the ministry budget overview.

III. Improving autonomy and accountability of provincial departments in budget execution

Two structural constraints slow down budget execution of provincial departments: 1) The delegated procurement authority by their ministries is limited; and 2) There is informal practice of Provincial Governor and Mostoufiat interfering in procurement by the provincial departments. As a result, even relatively small transactions require cumbersome approval process beyond the control of the provincial departments. The Ministry of Finance is committed to building procurement capacity in the line ministries, including the provincial departments, under the PFM Reform Project, as well as promoting increasing delegation of procurement authority from ministries to their provincial departments and clarifying the accountability of the departments for their own budget performance.

The following progress may be anticipated for the next three years:

1) The roles of the provincial departments vis-a-vis the Provincial Governor and Provincial Moustoufiats in the budget execution process are clearly spelled out through a Cabinet Decision and communicated to all stakeholders;

2) Improved procurement capacity of provincial departments;

3) Increasing delegation of procurement authority from ministries to their provincial departments;

Transparency was necessary at all levels, with examples being:

- Line Departments, Governors, Councils being given information by the central Government authorities on budgets and execution rates at the Provincial (and eventually the District) level
- This information is being passed down to District and lower levels (maybe through Municipalities and CDCs)
- The information is getting to the people by whatever means necessary to achieve the objective – newspaper, radio open meetings etc
- The people are then having some say in what was being planned, how developments were being implemented and what was being achieved.
## Annex 2. ARTF Incentive Program Theme #6: a proposed medium-term program for improving O&M budgeting and execution

<table>
<thead>
<tr>
<th>FY1390 (Focus: Ministry of Education)</th>
<th>FY1391 (Focus: Ministry of Public Health)</th>
<th>FY1392 (Focus: Ministry of Public Works, Ministry of Rural Development)</th>
<th>FY1393 (Focus: Ministry of Water and Energy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector ministries complete an asset inventory</td>
<td>Primary and secondary schools</td>
<td>Hospitals (O&amp;M of clinics may not be big problem, considering BPHS funding)</td>
<td>Primary, secondary and tertiary road network</td>
</tr>
<tr>
<td>Sector ministries identify methodology for estimating maintenance cost of assets</td>
<td>MoE: estimate O&amp;M cost of a school based on size of school</td>
<td>MoPH: estimate O&amp;M cost of a hospital based on size and type of hospital</td>
<td>MPW: estimate maintenance cost of primary/secondary road network</td>
</tr>
<tr>
<td>Sector ministries determine institutional arrangements for maintenance of each category of assets</td>
<td>MoE consider at least two options: 1) status quo: PED meets school O&amp;M needs on a case-by-case basis; 2) A predictable amount of School Grant is provided to each school depending on size of school.</td>
<td>MoPH consider options of giving hospitals autonomy in managing its O&amp;M budget and having performance agreement.</td>
<td>MPW completes evaluation of the USAID pilot on Performance-based Maintenance Contract and decides whether to mainstream it or not.</td>
</tr>
<tr>
<td>MoF builds provincial capacity in planning, budgeting, accounting and procurement</td>
<td>4 provinces 3 municipalities</td>
<td>10 more provinces X more municipalities</td>
<td>10 more provinces Y more municipalities</td>
</tr>
</tbody>
</table>
MoF and line ministries gradually improve O&M budget allocation with a focus on predictability, adequacy, fairness and transparency for provincial departments.

MoF addresses two root causes for slow budget execution: 1) lack of delegation by ministries to provincial departments; 2) informal practice of Provincial Governor and Moustoufiats interfering in provincial departments’ execution.

Incorporate x% of increase in FY1390 O&M budget for (priority) ministries for the purpose of onward transfers to provincial departments.

GoA can decide whether this is offered to all provinces and all ministries or only a subset of them.

The baseline of actual O&M spending financed by the Operating Budget was $108 million in FY1388. Assuming a 20% increase on this basis for the remaining 9 months of this FY, the requirement is roughly 20%*3/4*108=$16 million.

At least 20% increase from the baseline of FY1388, i.e., $21m for whole government. Very rough estimate for routine school maintenance cost: $20-30m, not including major repairs.

FY1391 budget provides for a reasonable amount of increase in MoE budget for the purpose of financing school O&M purposes.

FY1391 budget provides for b% of increase in O&M budget of other priority ministries. “b” may be modest, if the ministries do not have a good basis for estimating.

FY1392 budget maintains (and further increases, if necessary) O&M budget for MoE.

FY1392 budget provides a reasonable amount of increase in MoPH budget for the purpose of more adequately financing hospital O&M purposes.

FY1392 budget provides for b% of increase in O&M budget of other priority ministries.

FY1393 budget maintains (and further increases, if necessary) O&M budget for MoPH.

FY1393 budget provides a reasonable amount of increase in MPW and MRRD budget for the purpose of more adequately financing road O&M purposes.

FY1393 budget provides for b% of increase in O&M budget of other priority ministries.

ARTF provides budget support for this program.