

AFGHANISTAN:

Public Expenditure Update



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Afghanistan Public Expenditure Snapshot



Public expenditure in Afghanistan is at high and unsustainable levels. Grants finance more than 75 percent of total expenditures. Total expenditures are equal to around US\$11 billion, while government own-revenues are around US\$2.5 billion.



Total on-budget expenditure has grown rapidly in nominal terms (by around 30 percent) over the past five years. But once the impacts of inflation and population growth are considered, growth has been negligible (real per capita expenditure has increased by around four percent over the past five years).



The security sector dominates public expenditure. Total on-budget expenditure is equal to around US\$135 for every Afghan. Of this amount, around US\$50 is absorbed by the security sector.



There has been a reorientation of on-budget public expenditure towards development spending over recent years, with development spending increasing from one-quarter to one-third of total spending over the past five years. This has allowed significant increases in infrastructure spending.



Health spending remains very low, at around US\$8 per Afghan. Allocations to health have increased over recent years, however, driven by significant increases in health expenditure through the growing development budget.



Education spending has declined over recent years, especially on basic education. Education's share of the budget has declined from 17 percent in 1390 to just 12 percent in 1397. Real per capita spending on education has decreased by around 13 percent over the past five years.

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Key messages

This note provides basic analysis of allocations and trends in on-budget public expenditure in Afghanistan since 1389.

Fiscal sustainability

Public expenditure in Afghanistan is at high and unsustainable levels. Total public expenditure is much higher than other low-income countries, primarily due to very high security expenditures. Security expenditures are equal to around 30 percent of GDP relative to a low-income country average of three percent of GDP. Grants finance more than 75 percent of total expenditures. As grants decline over time, government and the international community will need to find ways to: i) improve the efficiency and effectiveness of expenditure; and ii) support economic growth to drive revenues with which to replace declining grants.

A careful balance needs to be struck between meeting short-term basic needs and ensuring long-term growth. Overall fiscal resources are tightly constrained. It is important that sufficient resources are allocated to supporting health, education, and other poverty-reducing measures. At the same time, Afghanistan's longer-term fiscal sustainability and prospects for substantial poverty reduction depend on much faster rates of economic growth. Given the potential contribution of human capital investments to both economic growth and poverty reduction, low per capita expenditures on health and declining expenditure on education may be of concern.

Substantial public expenditure continues to be delivered off-budget. Around 66 percent of security sector expenditure and 34 percent of civilian expenditure is currently off-budget. Bringing an increasing share of expenditure on-budget offers opportunities for improved efficiency, better alignment between expenditure and policy priorities, and increased domestic economic impact of expenditures.

Aggregate trends

Overall on-budget expenditures in Afghanistan have grown rapidly in nominal terms since 1389. But taking account of inflation and population growth, real per capita spending has grown by only around four percent since 1393. Given that the growth and revenue outlook is challenging, there will be continued pressure to improve the efficiency of expenditures without the availability of substantial new resources.

Real per capita expenditures remain extremely low, with the security sector continuing to account for a large share of the budget. On-budget spending is equal to around US\$135 for every Afghan. Total budget expenditure on security is equal to around US\$50 per capita compared to just US\$21 per capita for infrastructure, US\$17 per capital for education, and US\$8 per capita for health.

Recent trends in budget allocations are broadly positive. The share of the budget dedicated to security has declined, creating space for increased expenditure on infrastructure. The development budget is increasing in real terms and as a share of total spending (from around one quarter of total spending in 1393 to one-third in 1397). Allocations to health have increased, driven by increased development spending, but from a very low base. Allocations to education, however, have continued to decline.

Recurrent budget

In general, wages and salaries dominate the recurrent budget and have therefore dominated recent expenditure growth. Wages and salaries account for around 70 percent of recurrent expenditure and around 70 percent of all expenditure growth since 1389.

By sector, the vast majority of recurrent expenditure growth since 1389 has been absorbed by defense, law and order, and education. But this reflects their existing large share of budget, rather than significant sectoral reallocations.

Recurrent budget shares by function and ministry have remained fairly constant. There has been some modest recent decline in security sector, as expenditure on general public services and social protection has grown. There has been substantial change within the security sector with growth of the General Directorate of National Security compensating for slight declines in expenditure by the Ministry of Defense and the Ministry of Interior.

Recurrent allocations to basic education have significantly declined. Recurrent expenditure of the Ministry of Education has declined substantially and consistently in real per capita terms since 1392 (by around 17 percent). While there has been only a slight decline in overall education sector expenditure as a share of the recurrent budget, this reflects growth of higher education expenditures.

Development budget

The development budget has grown as a share of total expenditure, helping to drive an **aggregate reorientation of public expenditure away from security and towards infrastructure**. Development expenditures have been gradually reoriented from agriculture and rural development to public works and DABS infrastructure over time. In social sectors, development expenditures on health have steadily increased. But development expenditure on education has declined in real per capita terms, remaining a small share of overall development expenditure (Afs 217 per capita in 1392 to Afs 142 per capita in 1396, in 1389 terms).

Weak development budget execution is explained by a relatively small number of poorly-performing ministries with very large allocations. The Ministry of Public Works had average under-expenditure of around 14 billion per annum over the past three years. The Ministry of Education also accounted for around Afs nine billion of under-expenditure per year on average.

Development budget execution has improved over recent years due to cancellation of poorly performing projects. Automatic rollovers of development budget allocations were eliminated in 2018, in favor of careful review of project performance and expenditure estimates.

Implications

Continue to strengthen budget and public investment management processes to ensure alignment between policy goals and expenditure. Afghanistan has achieved important improvements in budget formulation and public investment management processes over recent years. Recent reforms have sought to ensure rigorous assessment of discretionary projects and programs – both in terms of economic efficiency and alignment with policy goals – prior to the allocation of budgetary funds. Effective and sustained implementation of these reforms is now vital.

Work to ensure complementarity between off-budget expenditures and government programs. As total grant resources decline, it will be important for the international community to try to preserve or increase on-budget grant support, which underpins core service delivery and major government programs. Such increases in on-budget support will likely depend on improvements in government systems to provide strengthened control and protection against corruption risks. International partners may be constrained in the proportion of grants that can be provided on-budget under any conditions, however, so further progress is also required in aligning on- and off-budget resources. Improved data systems to capture off-budget programming and continued periodic reviews of off-budget portfolios will be useful.

Prioritize wage bill management. Salaries and wages will continue to account for the largest share of government expenditure. Work to ensure that pay and salaries are sustainable and facilitate efficiency in public services should be pursued as a matter of priority. Effective implementation of the new wage bill policy is a key priority.

Review and model the sustainability of social benefit payments. Explosive recent growth in social benefit payment under the Ministry for Martyrs, the Disabled, and Social Affairs poses sustainability concerns. There may be justification for reviewing the drivers of expenditure growth and identifying policy options for arresting this growth over time.

Continue work to review security sector sustainability. Security expenditures continue to account for a very large share of the budget. As Government takes on greater responsibility for security, including management of capital assets, expenditure pressures will grow. At the same time, there has been significant change in the structure of security sector spending, with the General Directorate of National Security growing at the expense of the Ministry of Defense and Ministry of Interior. A detailed review of current expenditure drivers is already underway. Opportunities for efficiency improvements can be realized. Government and the international community need to agree on transition plan through which Afghanistan can take on greater responsibilities for delivery of security sector expenditures but without squeezing out space for much-needed development spending.

Continue with recent work to review development projects and reallocate unused resources to build up fiscal space. Ongoing work to identify and reallocate resources away from poorly performing development projects has helped significantly improve development budget execution rates. This work should continue as a priority to ensure maximum fiscal space is available for new projects that support policy priorities.

1. Introduction

This report provides an overview snapshot of public expenditure in Afghanistan. The report presents analysis of: i) the overall fiscal situation and the extent of fiscal sustainability challenges; ii) aggregate budgetary allocations and expenditure trends over the proportion of public spending that is delivered on-budget; and iii) summary analysis of expenditure trends within five large key ministries (Ministry of Defense, Ministry of Interior, Ministry of Education, Ministry of Martyrs, Disabled, and Social Affairs, and Ministry of Public Health).

Analysis is based on expenditure data included in the BOOST public expenditure analysis tool. The BOOST tool is jointly maintained by the World Bank and the Afghanistan Ministry of Finance. This tool uses expenditure data directly from the government's Financial Management Information System (AFMIS), which is considered the most reliable source of expenditure information. Data from AFMIS and presented in this report, however, does not always fully reconcile with other printed documents. The analysis examines actual expenditure at year-end, rather than planned budget allocations. Data is reported using Afghan fiscal years, with the year 1397 approximately corresponding to the 2018 calendar year. Off-budget expenditure is excluded from the analysis.

This analysis is not intended to be authoritative or comprehensive. Rather, it is intended to: i) present basic high-level facts about public sector allocations and expenditure trends that may be of interest to government and the international community; and ii) identify questions and issues for future analysis, including through an ongoing program of public expenditure analysis being undertaken jointly by the Ministry of Finance and the World Bank.

The report is structured as follows:

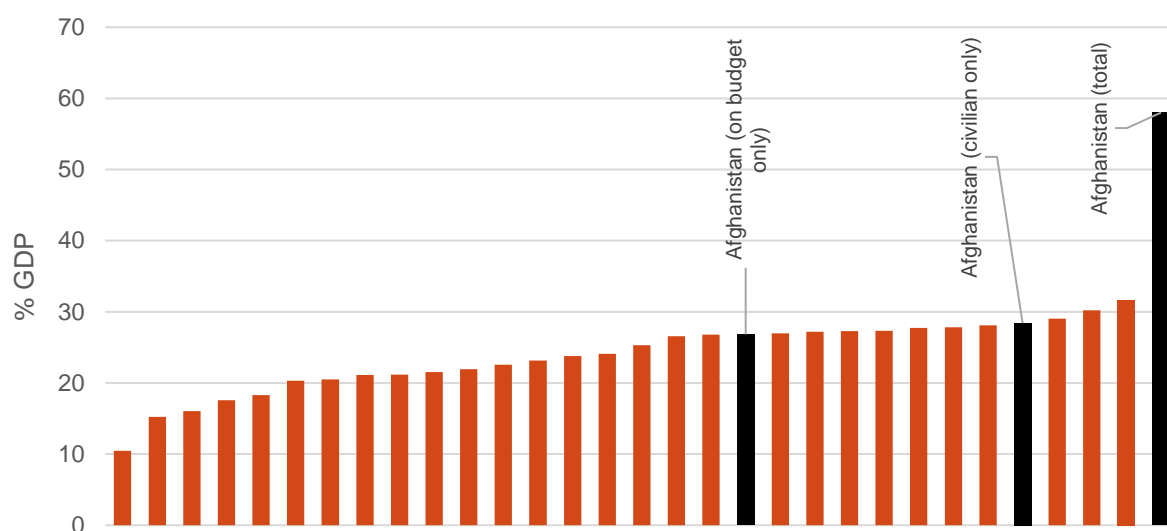
- Chapter two provides a brief overview of public expenditure levels and financing sources in Afghanistan;
- Chapter three provides an analysis of aggregate on-budget expenditure trends;
- Chapter four provides analysis of allocations and trends under the recurrent budget;
- Chapter five provides analysis of allocations and trends under the development budget;
- Chapter six provides high-level analysis of allocations and trends within five key large-spending ministries.

2. Fiscal overview

Public expenditure is very high in Afghanistan. Total public expenditure is equal to around 58 percent of GDP, far exceeding the usual level for low-income countries (or any country income group). High total expenditure reflects very substantial security sector expenditures. Security spending is equal to around 30 percent of GDP, compared to just three percent for the average low-income country.

Figure 1: Afghanistan's total public expenditure is extremely high

Total public expenditure as a share of GDP (Afghanistan and low-income countries)



Public expenditure far exceeds government revenues. Afghanistan is entirely reliant on grants to finance very high levels of public expenditure. Grants are equal to around 45 percent of GDP, compared to an average of around 10 percent for low income countries. Grants finance 75 percent of total public expenditures. Government revenues are currently equal to around US\$2.5 billion per year, while total expenditures are equal to around US\$11 billion per year. While there is scope for further revenue growth, Afghanistan is already collecting around 13 percent of GDP in own-source revenues, comparable to other South Asian countries. There is likely to be mounting pressure on public expenditures as grants decline over the medium-term.

Figure 2: Afghanistan is highly reliant on grants to finance expenditure

Total public expenditure and financing sources

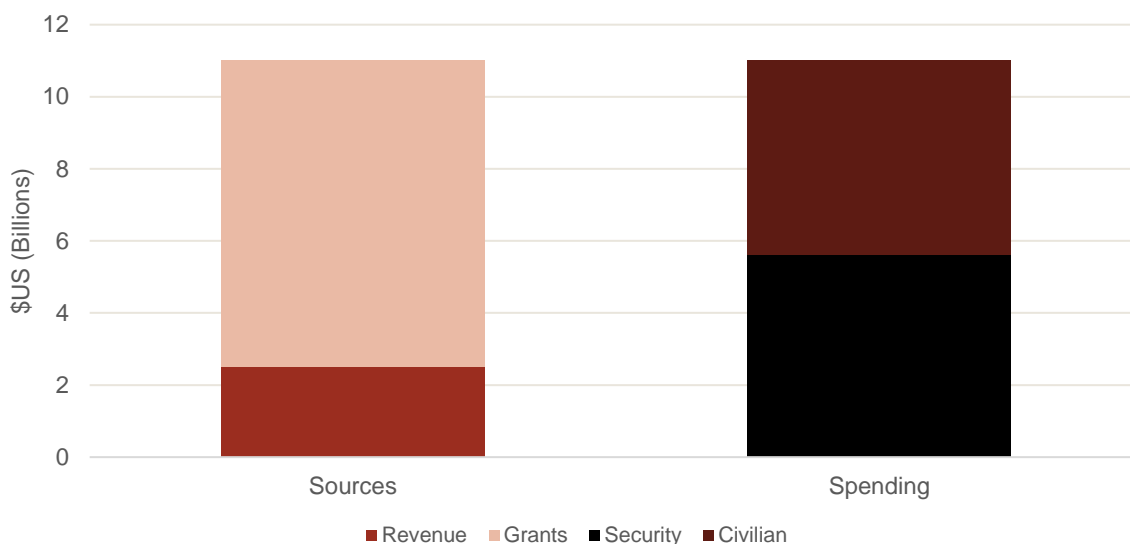
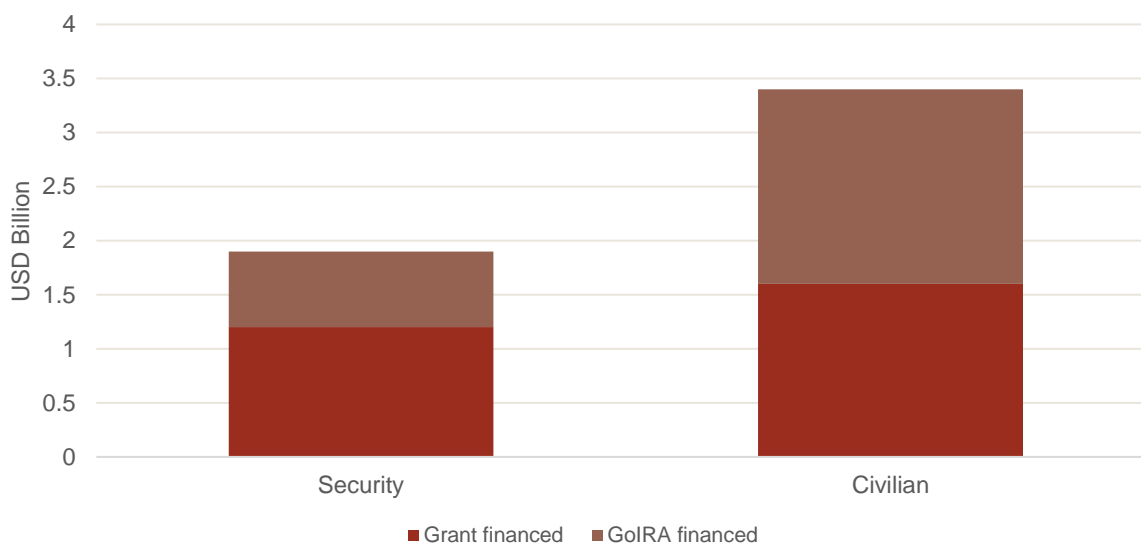


Figure 3: Grants support a large share of both civilian and security expenditure

Expenditure and financing sources – security and civilian



Off-budget expenditure remains a large proportion of public expenditure. Around 66 percent of security sector expenditure and 34 percent of civilian expenditure is currently off-budget. Large off-budget expenditures are driven by large off-budget grants. Of total grants to Afghanistan, around 75 percent of security grants and 55 percent of civilian grants are delivered off-budget. While evidence suggests that off-budget expenditure typically involves higher program delivery costs and has lower domestic economic impacts than on-budget expenditure, it can serve a useful purpose, and complement on-budget projects and programs. In Afghanistan, however, weaknesses in data on off-budget expenditure programs present significant challenges to ensuring that programs are consistently aligned with government priorities.

The analysis presented in the remainder of this report covers only on-budget expenditures. Due to absence of comprehensive data on off-budget expenditures, only those public expenditures channeled through the government development and recurrent budgets are included in this analysis. This includes recurrent and development expenditures that are financed by on-budget grants.

Figure 4: Substantial shares of civilian and security expenditure are off-budget

Total public expenditure – on- and off-budget

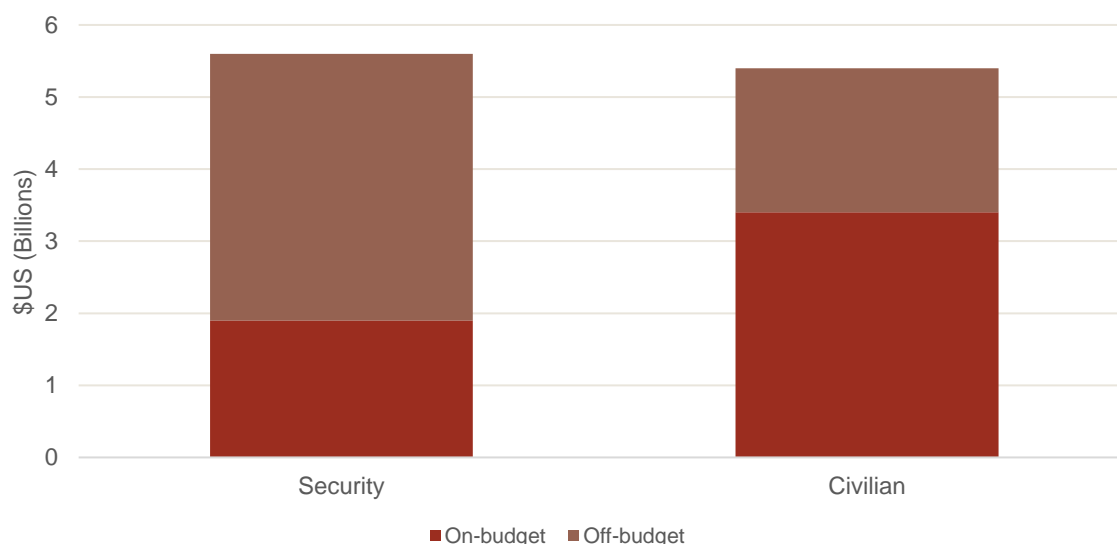
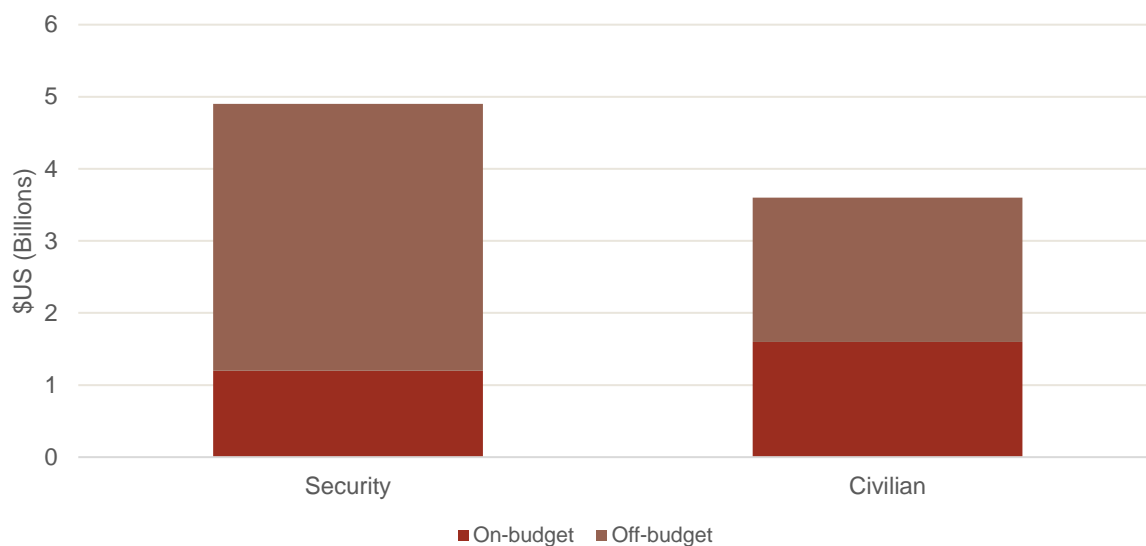


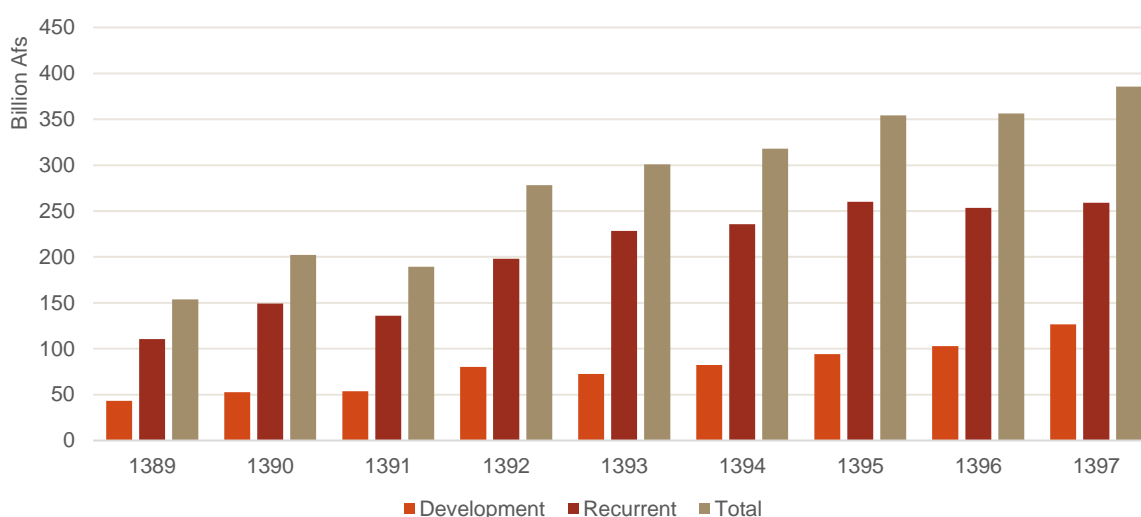
Figure 5: Substantial grants are delivered off-budget
Security and civilian grants – on- and off-budget



3. Aggregate expenditure trends

In nominal terms, on-budget public expenditure has grown rapidly in Afghanistan since 1389, increasing by around 150 percent over eight years. Over recent years there has been a slight reorientation of expenditure towards development (development expenditure as a share of total expenditure has increased from around 24 percent in 1393 to around 33 percent in 1397).

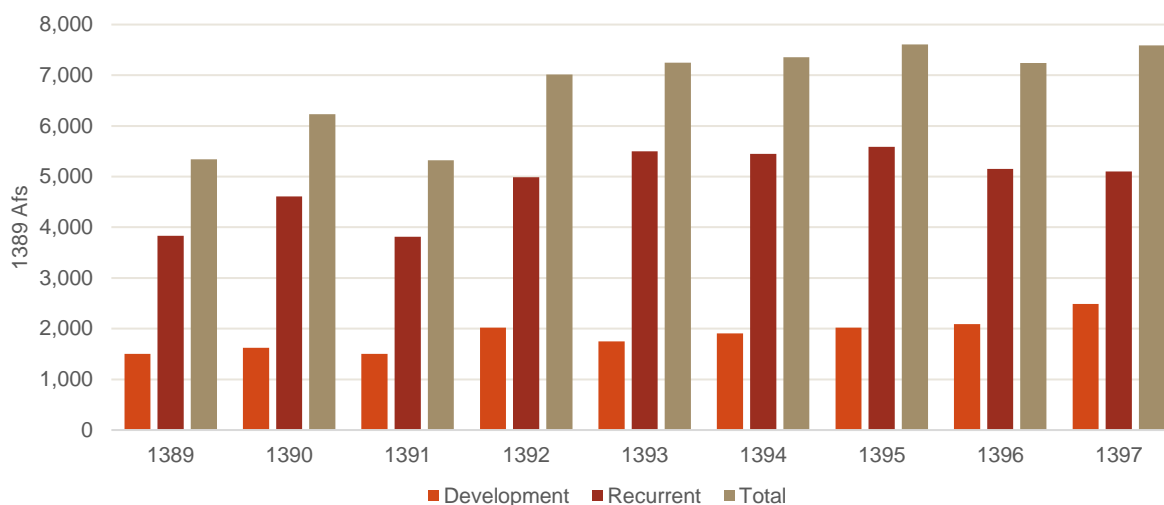
Figure 6: Nominal expenditure has substantially increased
Aggregate Nominal Expenditure by Budget Type (Billions Afs)



Over this period, however, Afghanistan has experienced steady inflation and rapid population growth. Prices increased by around 48 percent in total over the period, while the population has grown at around 2.7 percent per annum. Taking account of price and population changes, real per capita expenditure growth has been much more gradual. Total per capita expenditure has grown by only around four percent over the five years since 1393. This largely reflects stabilization of on-budget aid flows and slowing revenue growth, driven by weak economic performance. Total real per capita recurrent expenditure has declined by seven percent over the past five years (from 1393). Development expenditure increased by around 40 percent over the same period.

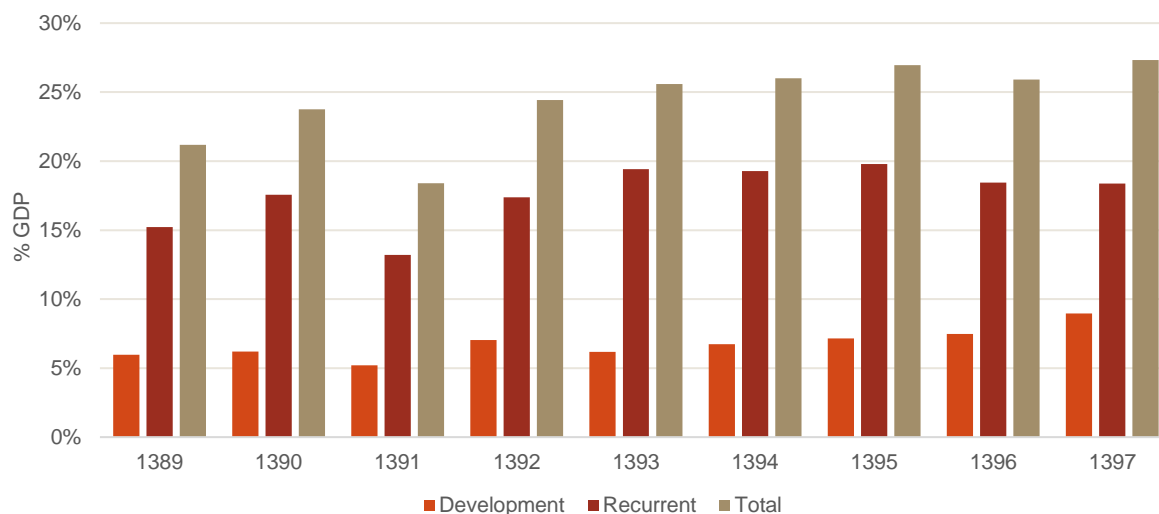
Figure 7: Real per capita expenditure has barely increased since 1392

Aggregate Real Per Capita Expenditure by Budget Type (Afs)



Expenditure has remained fairly constant as a share of GDP. Total expenditure has remained between 25-27 percent of GDP over the five years from 1393. Development expenditure has increased steadily from six percent of GDP to around nine percent of GDP while recurrent expenditure has declined slightly from around 19 percent of GDP in 1393 to around 18 percent of GDP in 1397.

Figure 8: Public expenditure has remained constant as a share of GDP
Aggregate Expenditure by Budget Type (% GDP)

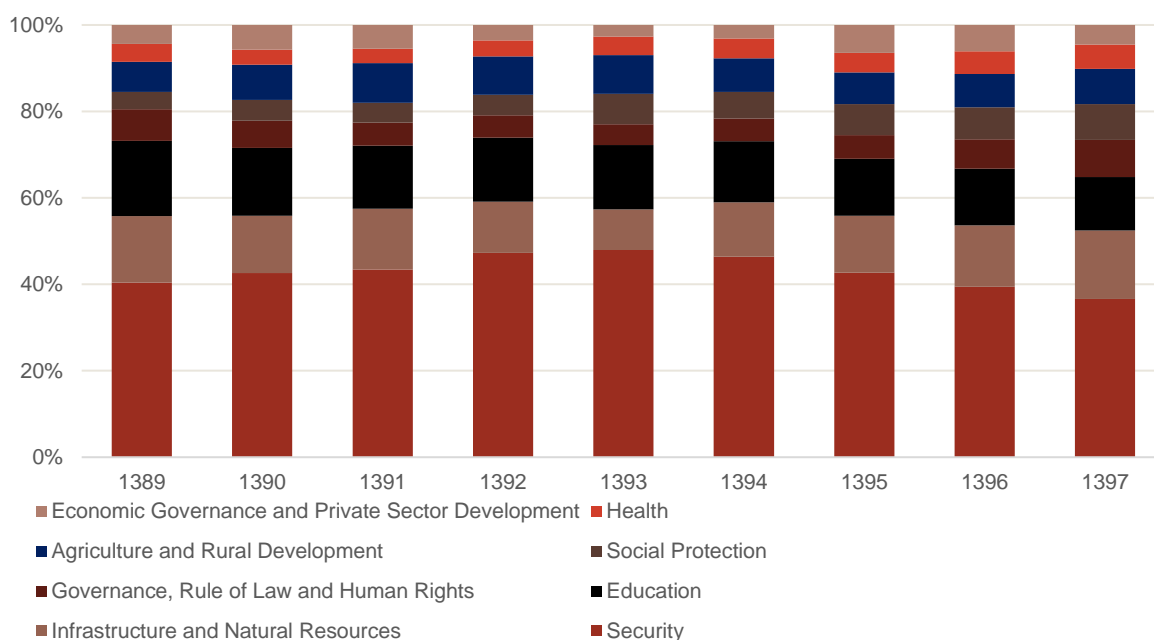


The share of the budget allocated to security remains very high but is slowly decreasing. Security expenditure has declined from around 48 percent of total expenditures in 1393 to around 37 percent in 1397. Infrastructure has expanded as a share of the budget (nine percent in 1393 to 16 percent in 1397) along with expenditures on social protection (seven percent in 1393 to eight percent in 1397). Social sector expenditures have declined slightly as a share of the budget, with health and education expenditures accounting for around 19 percent of total expenditures in 1393 compared to 18 percent in 1397. Health's share of expenditure has increased by two percentage points while education has declined by three percentage points.

Aggregate Expenditure Levels and Trends

Figure 9: A smaller share of the budget is being used for security

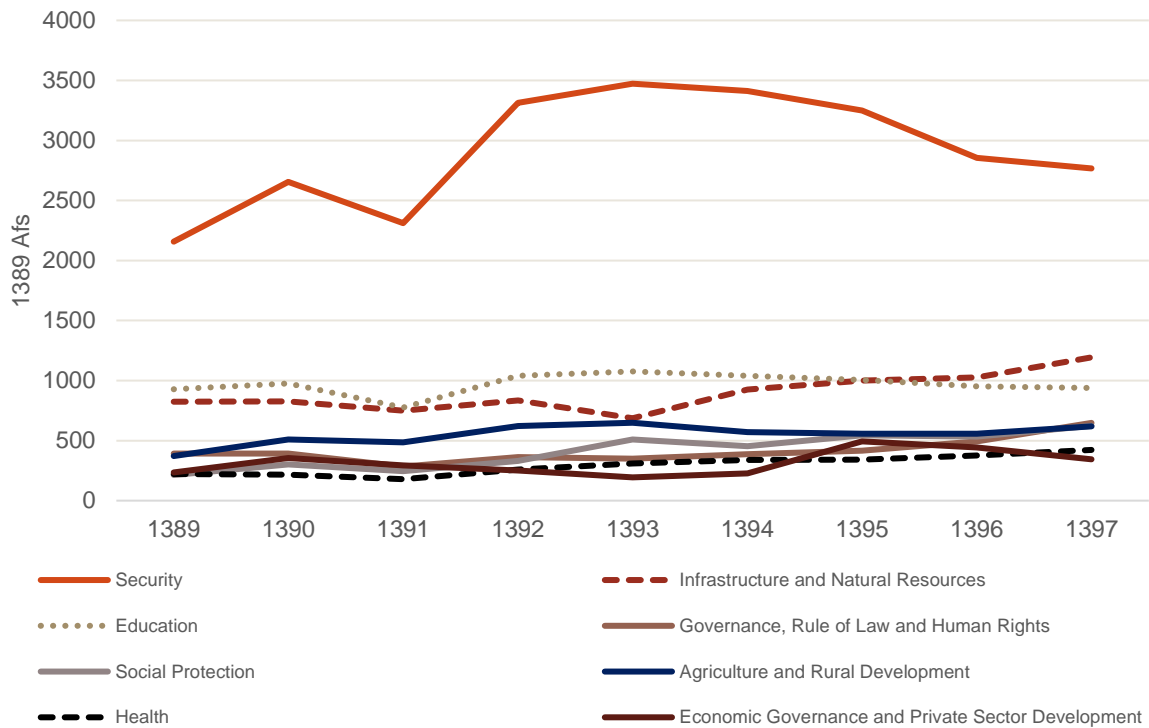
Total expenditure shares by sector



Real per capita expenditures remain extremely low for basic social services and infrastructure. Total on-budget public expenditure on security is around US\$50 per year compared to just US\$17 for education, and US\$8 for health. Real per capita expenditures on security and education have been recently declining while real per capita expenditure on infrastructure and health are gradually increasing.

Aggregate Expenditure Levels and Trends

Figure 10: Real per capital spending on infrastructure and social protection is increasing
Real per capita total spending by sector



Box 1: Is Afghanistan spending enough on health and education?

Total on-budget health expenditure in Afghanistan is around 1.5 percent of GDP or US\$8 per capita per year. Health accounts for around six percent of total government on-budget expenditure. On-budget public health expenditures fall far short of some commonly-used international benchmarks, as shown in the table below.

Source	Benchmark	Afghanistan
Abuja Declaration of 2001	15 percent of budget expenditure	6 percent of budget expenditure
2010 World Health Organization World Health Report	4-5 percent of GDP	1.5 percent of GDP
2010 World Health Organization World Health Report	US\$86 per capita total public expenditure	US\$8 per capita on-budget public expenditure

There are several reasons, however, why the application of such benchmarks may not be useful or appropriate in Afghanistan.

- Income level. Afghanistan is a low-income country and simply does not have the resources available to meet ambitious absolute health expenditure targets. Only two low-income countries currently meet the US\$86 per capita benchmark.
- High levels of off-budget health expenditures. A large proportion of public expenditure in Afghanistan is off-budget, and therefore not reported in this note. Given the large role played by international donors in supporting off-budget health programs, total public expenditure on health is likely much higher than on-budget expenditure.
- High levels of private health expenditure. A relatively large share of health costs is met by end-users in Afghanistan, especially for pharmaceuticals. Private financing of health care is not inherently problematic, as long as costs do not become a barrier to access.
- Variance in outcomes across countries. Most international evidence suggests that countries achieve wide variance in health outcomes at any given level of expenditure. Increasing health expenditure does not therefore automatically lead to improved coverage or quality and should not necessarily be considered a goal in itself.

Aggregate Expenditure Levels and Trends

Based on basic international comparisons, Afghanistan does not appear to perform very differently from other countries at similar levels of income. Afghanistan's government expenditure on health as a share of GDP is roughly comparable to other low-income countries. Afghanistan's total health expenditure (including private expenditure) also compares favorably to other countries at similar income levels.

Figure 11: Government health expenditure as % GDP

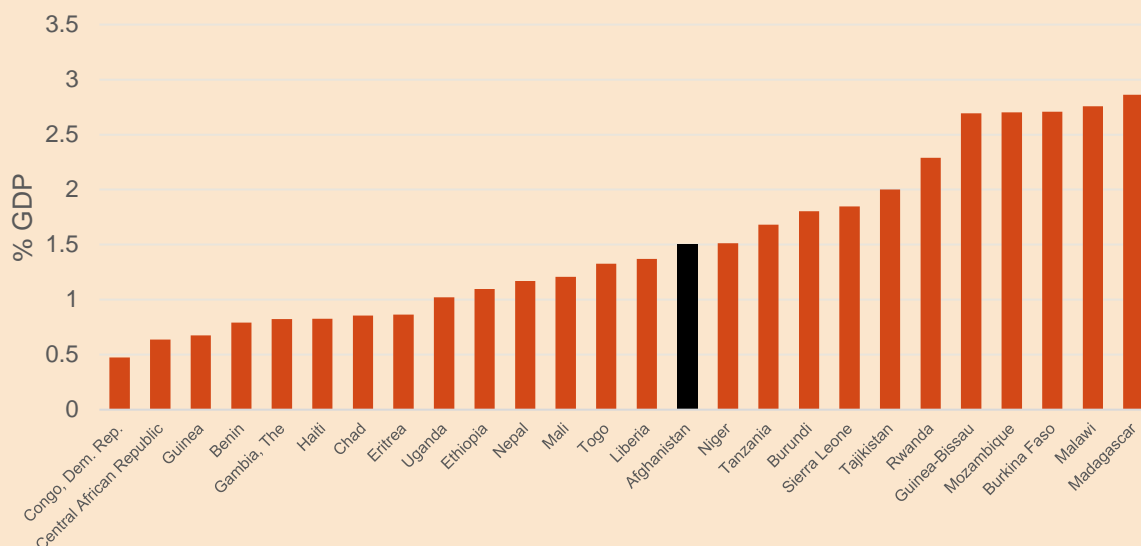
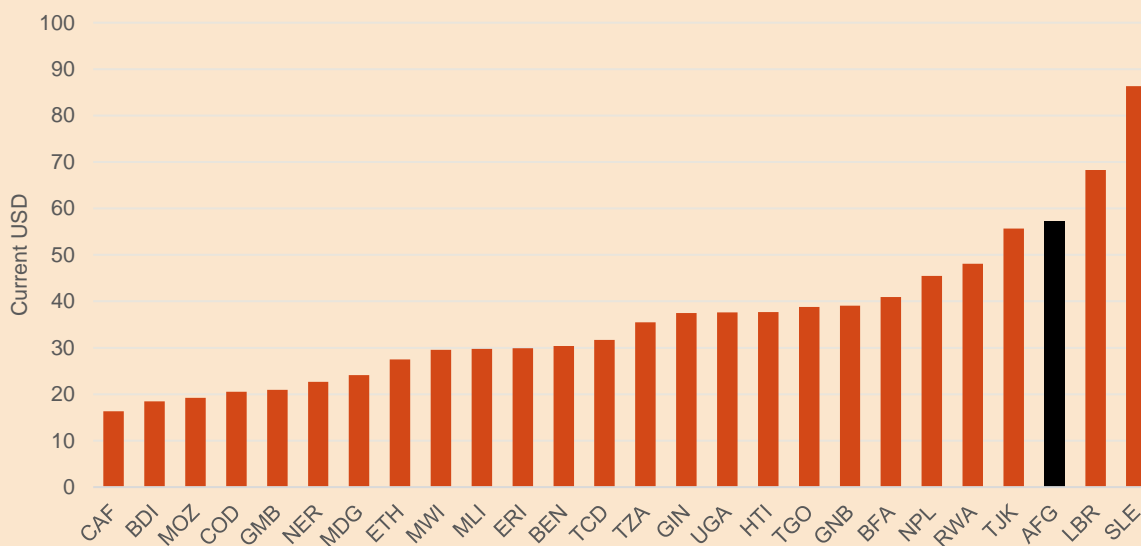
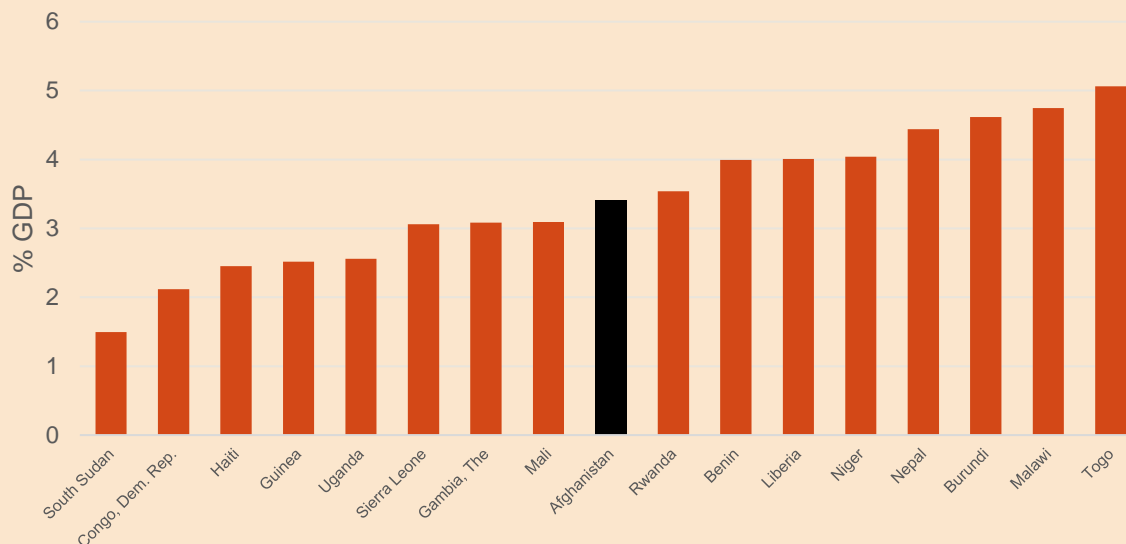


Figure 12: Total health expenditure per capita in current USD



Expenditures on education are significantly higher than on health. Total on-budget education expenditures are equal to around 3.4 percent of GDP or US\$17 per capita. Education expenditure accounts for around 12 percent of total expenditures. Total government education expenditure as a share of GDP is comparable to that observed in other low-income countries.

Figure 13: Total government education expenditure as a percentage of GDP



Overall, Afghanistan spends relatively small absolute amounts on health and education per capita, reflecting its small economy and limited resources. While health allocations as a share of the budget are small, government health expenditures as a share of GDP are comparable to other low income countries (reflecting high government expenditure as a share of GDP relative to many low-income countries). Overall health expenditure, taking into account off-budget financing and user contributions, is also comparable to other low-income countries. Government expenditure on education is comparable to that of other countries at similar levels of income.

Current levels of expenditure on health and education, however, are highly dependent on international grant support (especially off-budget support to health). Without this support, expenditures on health and education would decline well below international comparators and even further below absolute expenditure benchmarks. With a large share of health expenditure currently off-budget, efforts to improve alignment between on- and off-budget delivery are vital.

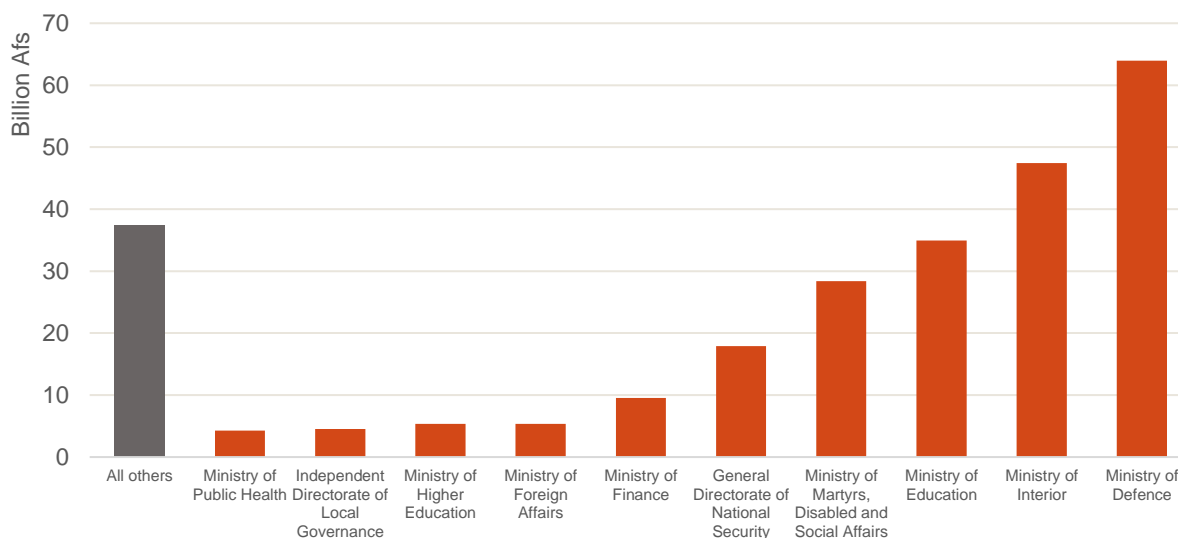
4. Recurrent allocations and expenditures

This section examines overall recurrent expenditure allocations and changes, by ministry, functional classification, and economic classification. It also provides a brief analysis of recurrent budget execution performance.

4.1. Recurrent expenditure by ministry

Recurrent expenditure is concentrated in a small group of ministries. Recurrent expenditure is dominated by security sector agencies, the Ministry of Education, and the Ministry of Finance. The three large security sector ministries (Defense, Interior, and National Directorate of National Security) account for 50 percent of recurrent expenditure. The Ministry of Public Health, Ministry of Education, and Ministry of Higher Education, on the other hand, account for only 17 percent of recurrent expenditure.

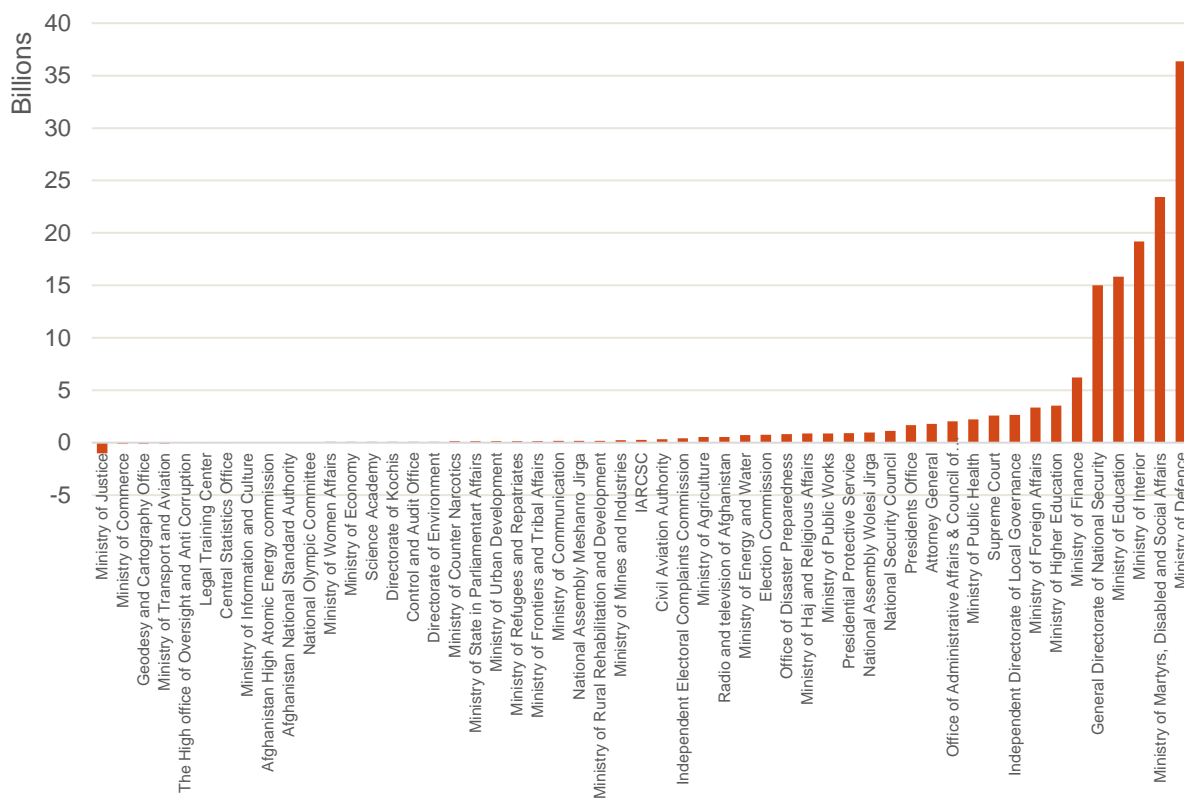
Figure 14: Recurrent expenditure is concentrated in a small number of large ministries
Total recurrent expenditure by ministry (1398)



Recurrent Allocations and Expenditures

Unsurprisingly, ministries with large recurrent budgets have absorbed a large share of total recurrent expenditure increases since 1389. The Ministry of Defense has absorbed around 25 percent of total increases in recurrent spending since 1389, with the Ministry of Interior and Ministry of Martyrs, Disabled and Social Affairs absorbing another 13 percent and 16 percent respectively. Education ministries have absorbed around 13 percent, while the Ministry of Health has absorbed around 1.5 percent.

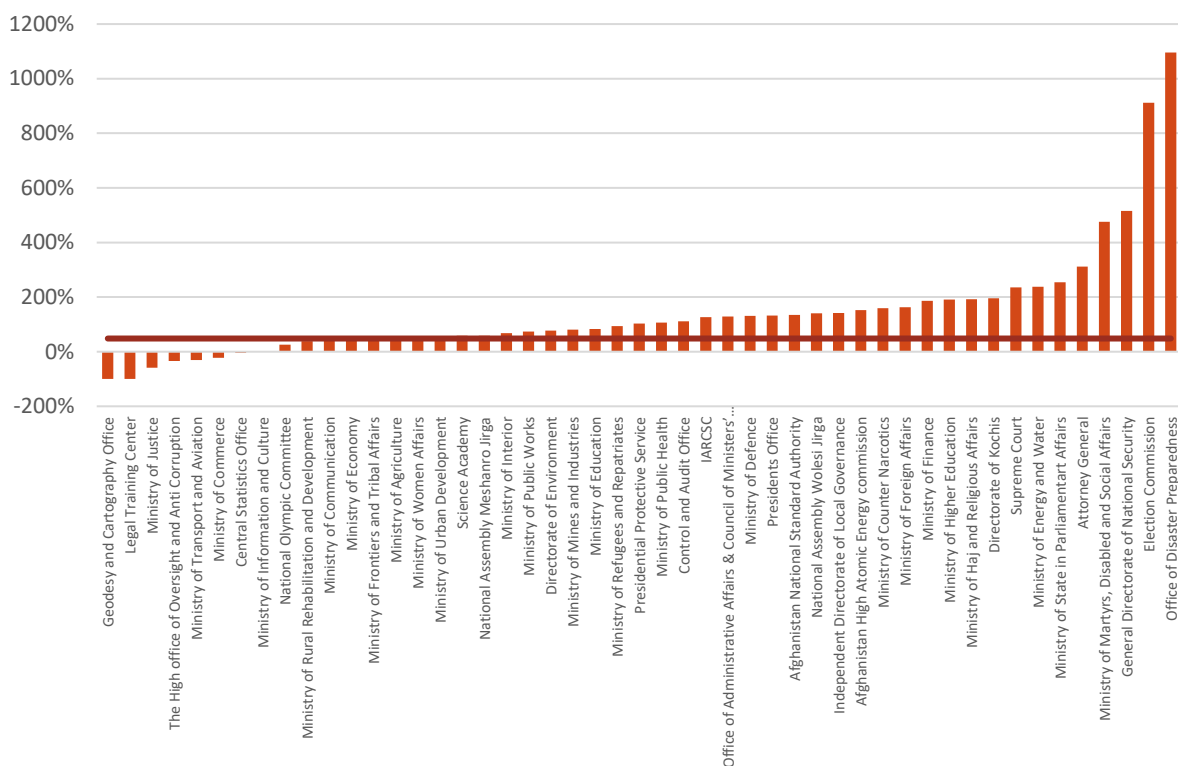
Figure 15: Recurrent expenditure growth has been concentrated in large ministries
Total increase in recurrent expenditure by ministry since 1389



In percentage terms, however, the picture is quite different. Nearly all ministries have experienced a significant increase in expenditure since 1389, generally far exceeding inflation (around 48 percent over the period). Infrastructure and social service ministries have experienced large increases in expenditure. Ministries that have experienced little or no increase include the Central Statistics Office, the Ministry of Commerce, and the Ministry of Justice.

Figure 16: Recurrent expenditure is concentrated in a small number of large ministries

Total recurrent expenditure by ministry (1398)

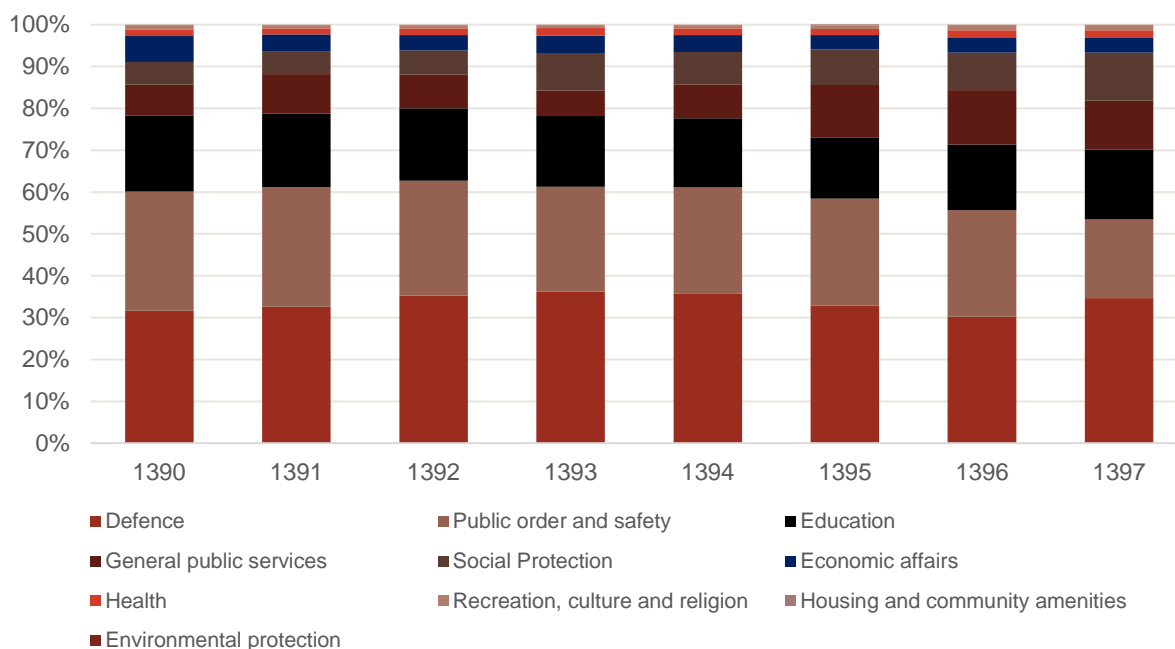


4.2. Recurrent expenditure by function

In terms of sectoral allocations, recurrent expenditure remains dominated by security and public order (56%). However, the security and public order share of the budget has been in gradual decline since 1392, when it peaked at 62 percent. The decline in security spending as a share of the budget has made way for increased expenditure on administrative activities – including under general public services and housing and community amenities. Social protection expenditures, including payments to martyrs, have also increased. The share of expenditure on social services has remained fairly constant – health expenditure has remained a small but steady share of expenditure. Recurrent expenditure on education has declined slightly to around 17 percent of total recurrent spending from 18 percent in 1389.

Recurrent Allocations and Expenditures

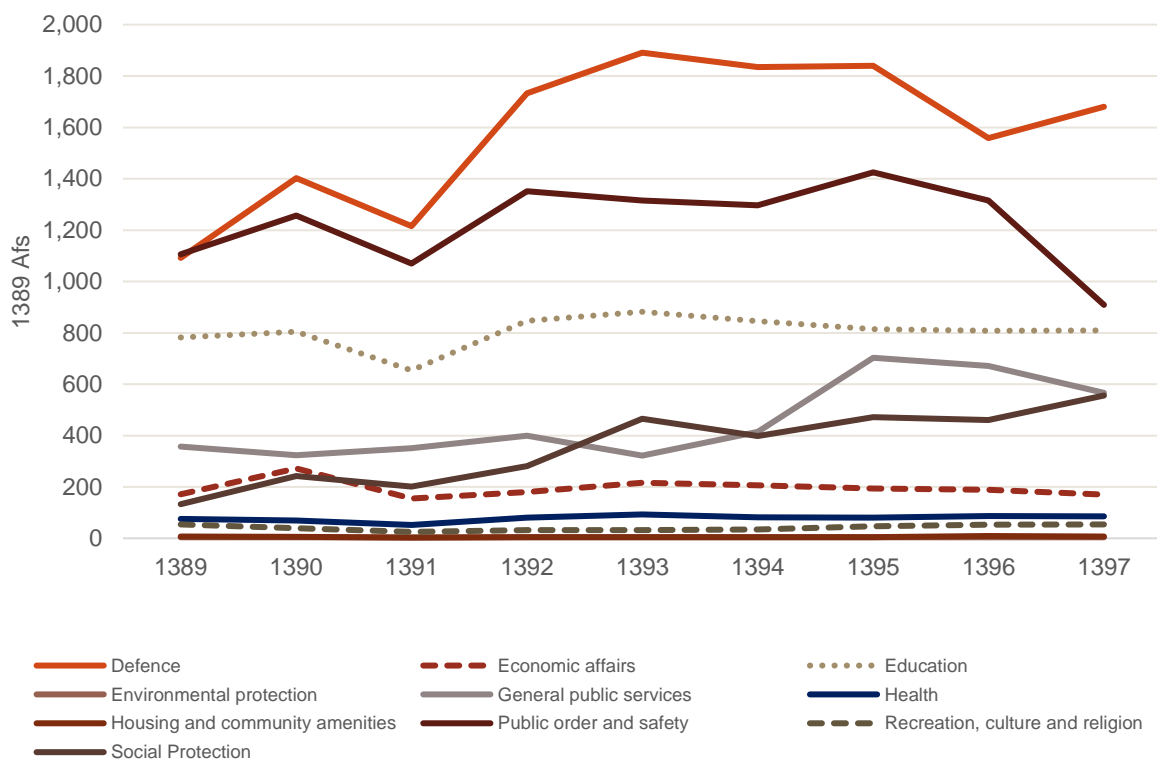
Figure 17: Recurrent expenditure is dominated by defense, public order and safety, and education
Total recurrent expenditure by function (% of total)



Broad trends in proportional allocations are reflected in real per capita recurrent expenditure trajectories. Security sector expenditures fairly consistently increased from 1389 until 1395, before declining slightly since 1396. Throughout the period, defense and public order remain the largest per capita expenditure categories. There has been a recent increase in general public expenditures, driven by increased salary payments in central government agencies. Per capita education expenditures have been steady at around AF800 for several years after peaking at AF880 in 1393. Health per capita expenditure has remained steady, but at low levels. Real per capita expenditure on general public services and social protection has been increasing significantly over recent years.

Figure 18: Real per capita spending on security and public order has recently declined

Real per capita expenditure by function

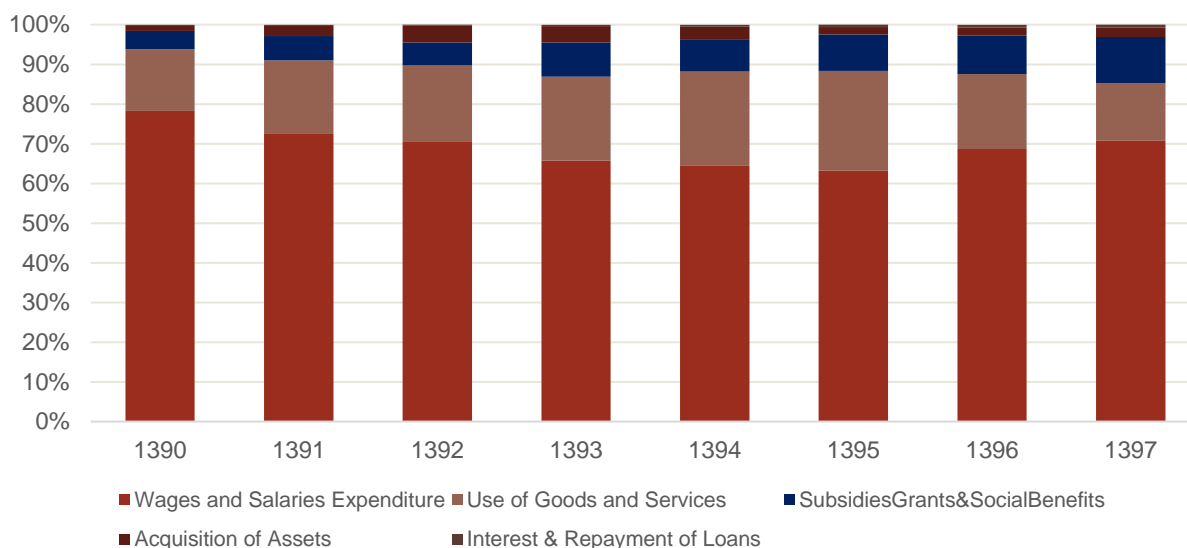


4.3. Recurrent expenditure by economic classification

Recurrent expenditure remains heavily dominated by wage and salary expenditure. While there has been a long-term trend towards improved balance between wages vs. goods and services, this trend reversed in 1396, with the share of recurrent expenditure on wages and salaries again increasing. Wage and salary expenditure currently accounts for around 71 percent of total recurrent expenditures.

Figure 19: Wages and salaries continue to dominate the recurrent budget

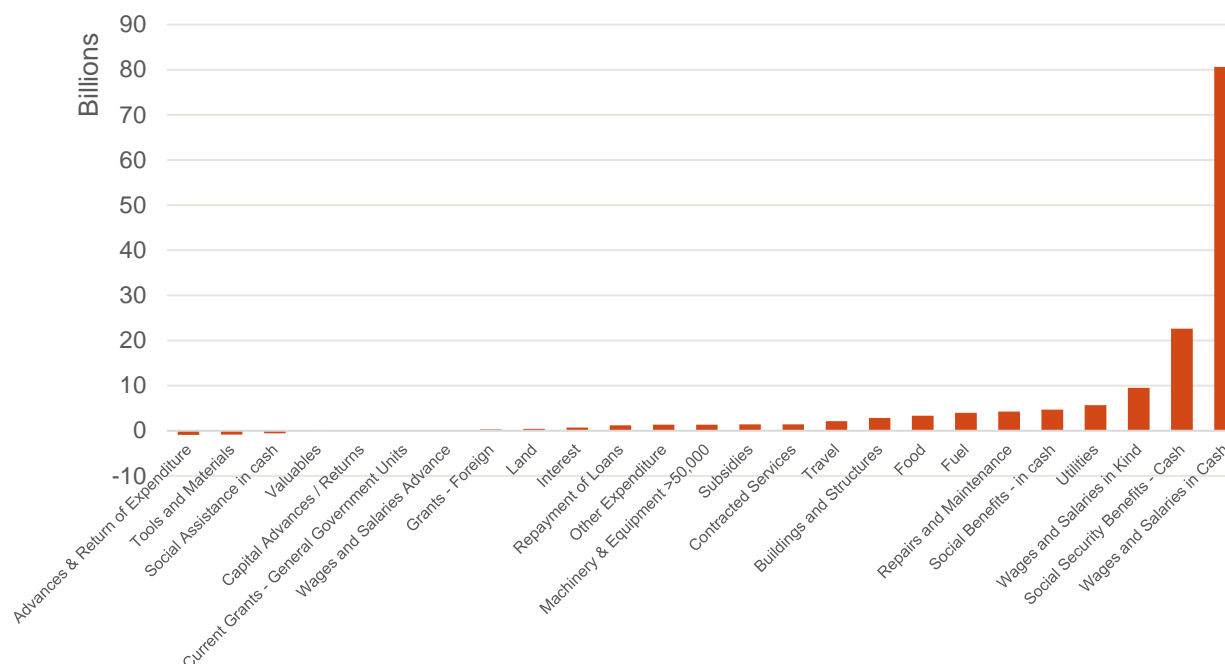
Total recurrent expenditure by economic classification (% of total)



The absolute increase in expenditure since 1389 is heavily concentrated in compensation of employees, reflecting the overall structure of the budget. Nearly three-quarters of all increased expenditure between 1389 and 1397 was absorbed by compensation and fuel costs. But these increases have not been disproportionate relative to other expenditure items, on average, with wage and salary costs representing a declining share of total expenditure over the period (despite increasing over recent years).

Recurrent Allocations and Expenditures

Figure 20: Recurrent expenditure growth has been driven by wages and salaries
Total recurrent expenditure growth by ministry (1389-1397)



Despite rapid absolute growth, compensation of employees has remained steady as a share of GDP. Expenditure on wages and salaries has remained constant at around 13 percent of GDP over the past five years. Nominal increases in wage and salary expenditure were largely driven by increases in allowances up to 1397, reflecting attempts to maintain overall compensation in the context of inflation-driven declines in real base wages and salaries. Wage and salary expenditures have remained concentrated in security agencies and the Ministry of Education. However, the share of total wage and salary expenditure absorbed by smaller ministries has gradually been increasing over time.

Recurrent Allocations and Expenditures

Figure 21: Wages and salaries have been fairly constant as a share of the economy

Total recurrent wage and salary expenditure as a share of GDP

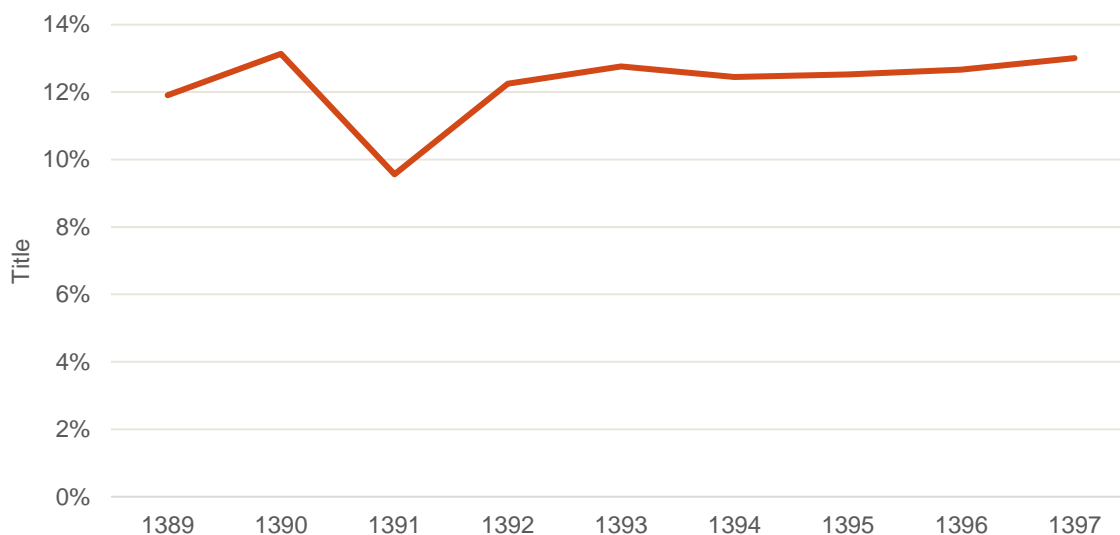


Figure 22: Expenditure growth on salaries and wages has been driven mostly by allowances

Total recurrent wage and salary expenditure by category

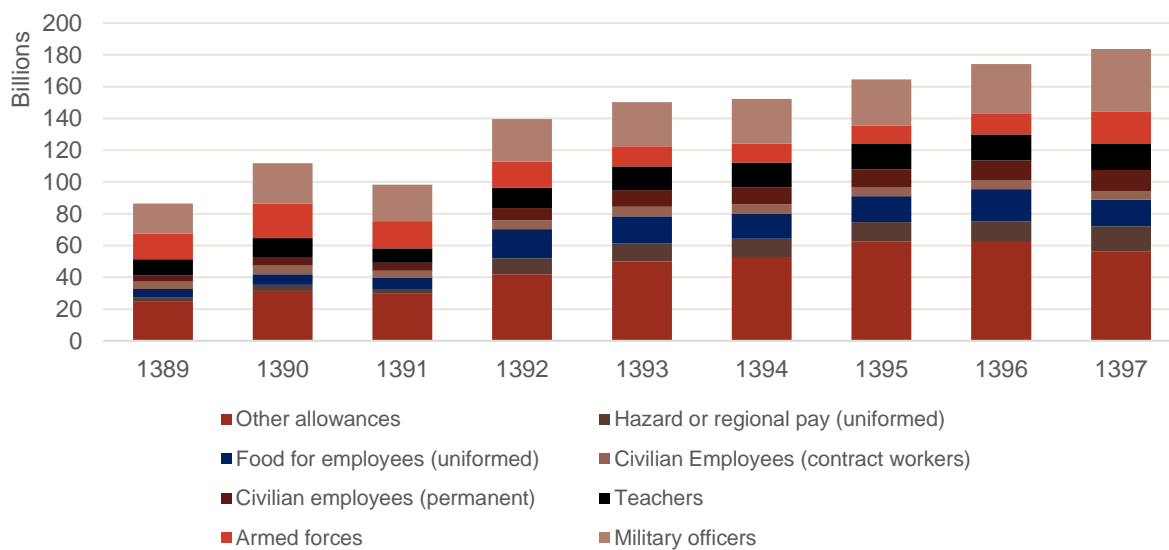
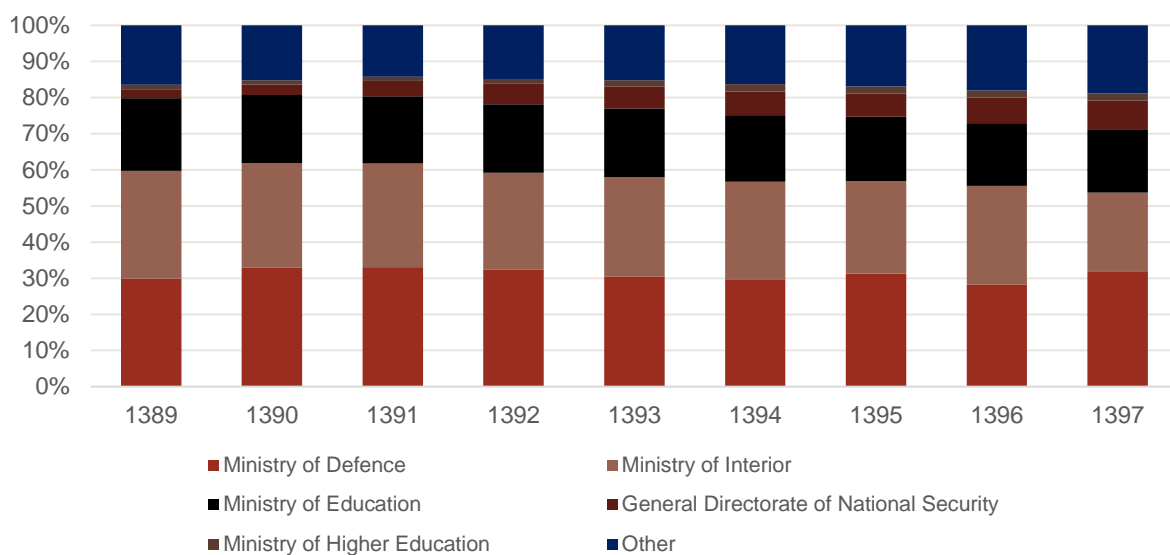


Figure 23: Expenditure growth on salaries and wages has been concentrated in security agencies

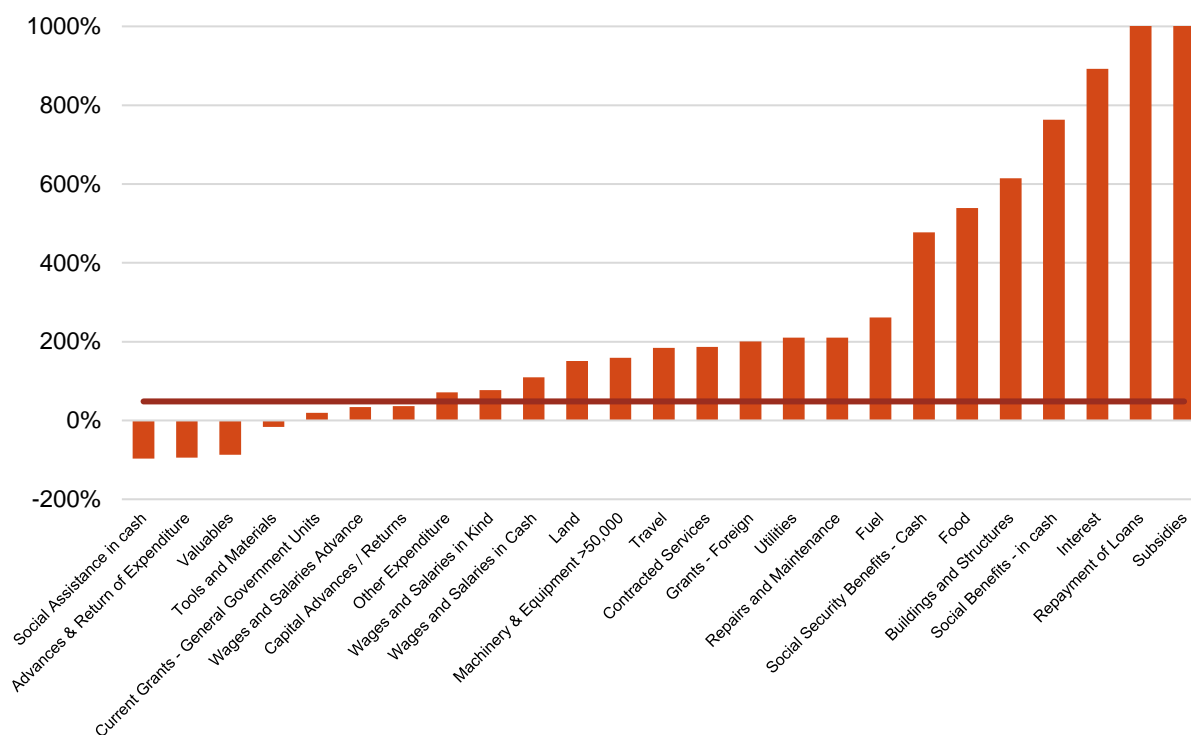
Total recurrent wage and salary expenditure by ministry



Overall, in percentage terms, the most rapid growth of recurrent expenditure has been in **subsidies, debt servicing, social benefits, fuel, and food**. Expenditure on most items has exceeded price increases, reflecting service expansions. Despite accounting for the largest proportion of absolute cost increases, wages and salaries have not increased at a particularly rapid rate relative to most other expenditure items, albeit much faster than the pace of inflation (denoted by the dark red line).

Recurrent Allocations and Expenditures

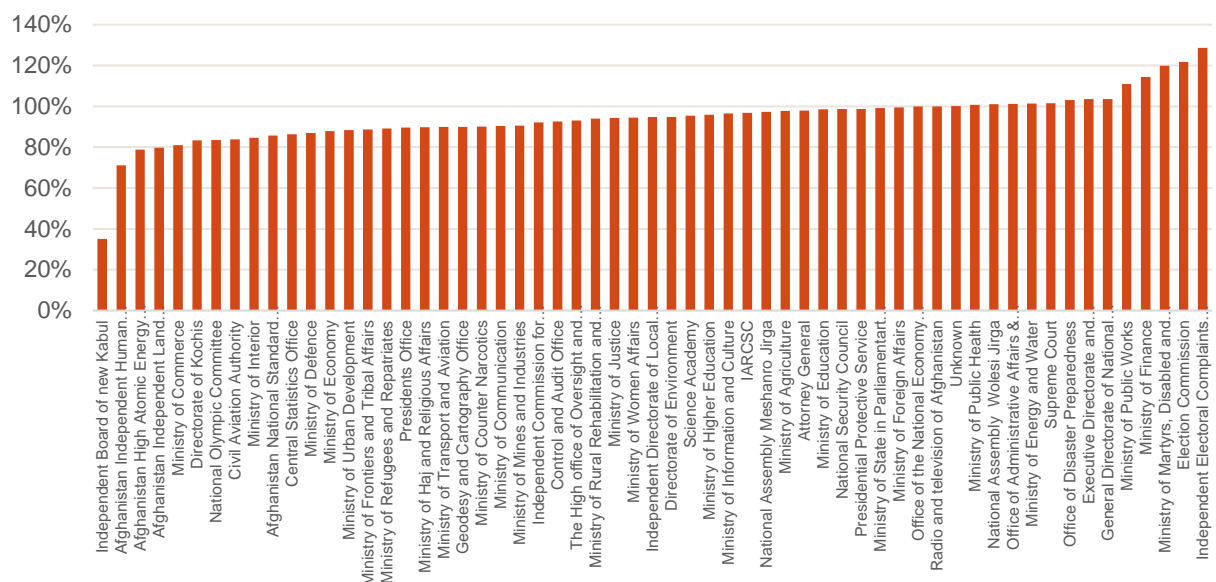
Figure 24: Recurrent expenditure has grown faster than inflation for most line items
Total recurrent expenditure by ministry (1397)



4.4. Recurrent execution performance

Overall, recurrent budget execution is strong across most ministries. The majority of ministries have an execution rate of above 90 percent. There are, however, some ministries in which execution performance has persistently been weak. Some small agencies have been unable to execute their recurrent budget, including the Human Rights Commission, the Cartography Office, and the Electoral Complaints Office. Large and persistent underspends in some of the largest ministries, including the Ministry of Defense and the Ministry of Interior (Afs 18 billion and Afs 12 billion respectively) are often driven by the inability of ministries to meet business process requirements to access grant resources for key expenditure items.

Figure 25: Recurrent budget execution is generally strong
Recurrent budget execution by ministry (3-year average to 1397)



Weaknesses in overall recurrent budget execution are driven by underspending on goods and services. Historically and in absolute terms, expenditure on goods and services has fallen farthest short of budgeted allocations. In percentage terms, the greatest underspends have been concentrated in acquisition of assets, reflecting weaknesses in procurement systems and processes. For both items, the size of underspends has been declining over time. Wages and salaries are typically significantly underspent in absolute terms (with underspends of up to Afs nine billion. But this reflects the overall large allocations to wages and salaries, with underspends very limited in percentage terms (averaging four percent over the past five years).

Recurrent Allocations and Expenditures

Figure 26: Recurrent under-spends on goods and services drive weaknesses in execution

Recurrent budget execution by economic classification

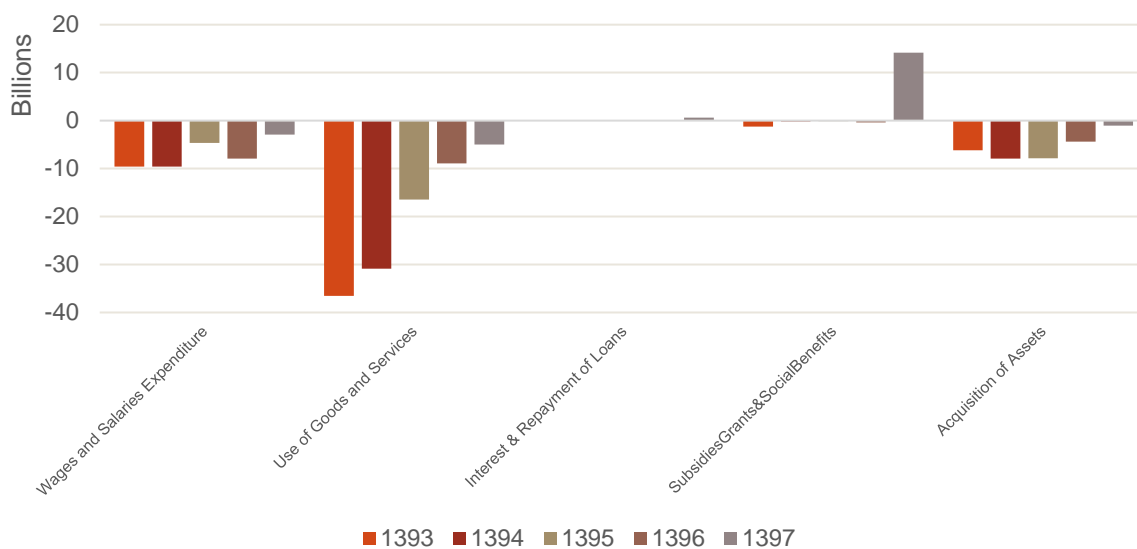
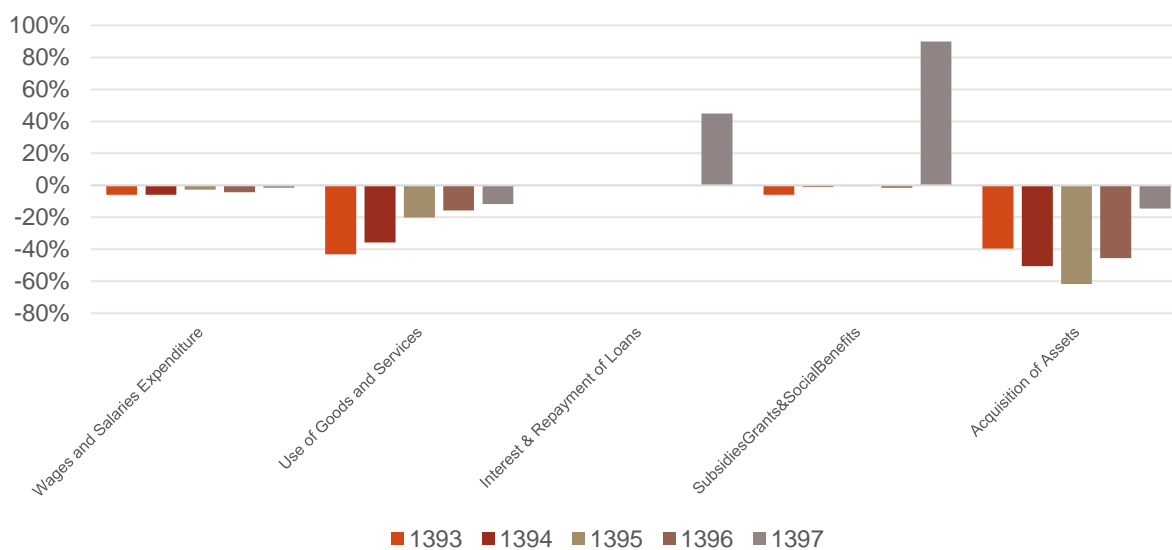


Figure 27: Recurrent under-spends on goods and services drive weaknesses in execution

Recurrent budget execution by economic classification

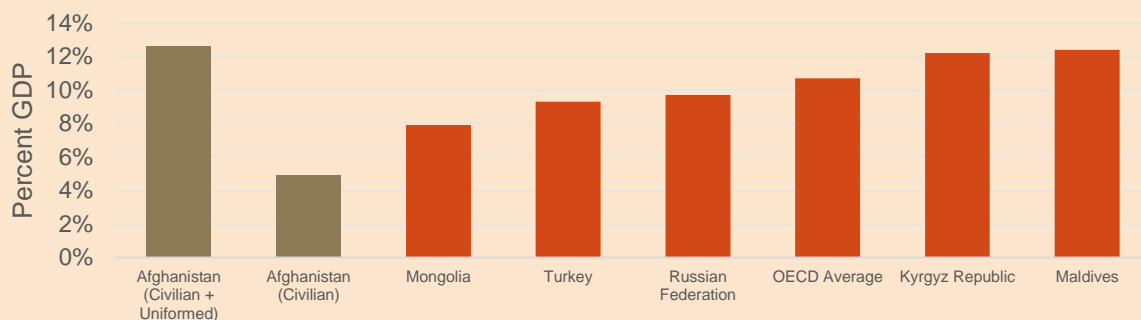


Box 2: How 'big' is the Afghanistan civil service and has it been growing?

There is no simple 'correct' size of the public sector. The functions, size, geography, administration, and policies of Government differ across countries, which make meaningful comparisons difficult without controlling for these factors. For example, the use of extensive non-government organizations to deliver basic healthcare services in Afghanistan reduces expenditure on government salaries and wages compared with countries that directly deliver these services.

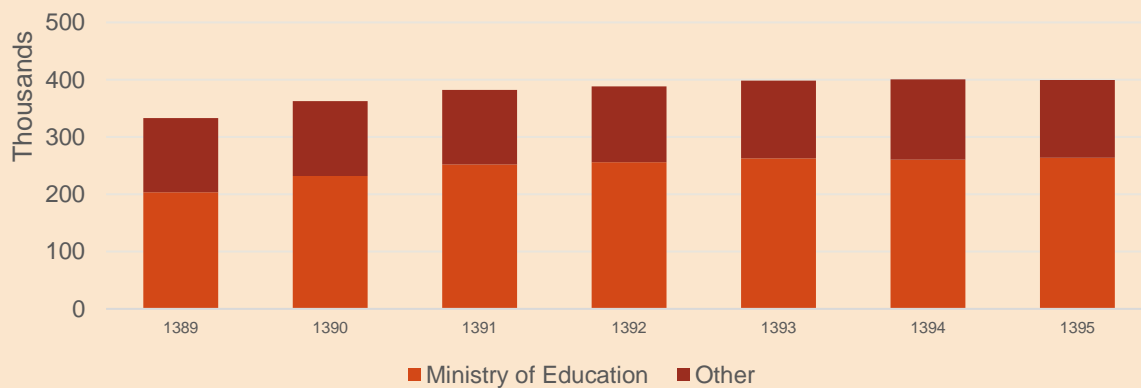
A simple comparison of wage and salary expenditure between Afghanistan and a range of comparator countries shows that wage and salary expenditure is unusually high in Afghanistan. This result, however, reflects the fact that Afghanistan is involved in an active and prolonged civil conflict. If expenditure on security agency wages and salaries is excluded, the cost of the public service appears low relative to most comparators.

Figure 28: Wages and Salaries as percentage of GDP - Afghanistan and comparators



The number of civil servants has increased significantly over recent years. The overwhelming majority of increases in civilian civil service employment reflect the hiring of new teachers through the Ministry of Education. The Ministry of Education accounts for 85 percent of the growth in civil service numbers between 2004 and 2016.

Figure 29: Total number of civil servants (civilian)



Source: World Bank, 2018, Managing the civilian wage bill.

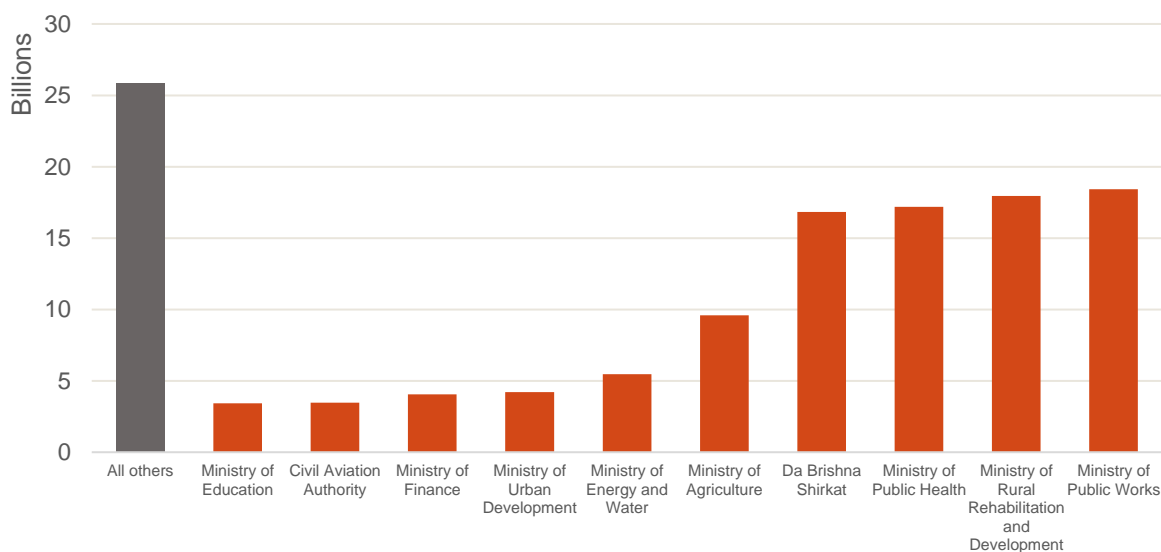
5. Development Allocations and Expenditures

This section examines overall development expenditure allocations and changes, by ministry, functional classification, and economic classification. It also provides a brief analysis of development budget execution performance.

5.1. Development expenditures by ministry

Development expenditures are concentrated within a fairly small group of ministries but spread more widely than recurrent expenditures. The Ministry of Public Works, Ministry of Rural Rehabilitation and Development, Ministry of Public Health, and DABS each account for between 13 percent and 15 percent of total development expenditures.

Figure 30: Development expenditures are concentrated in a small number of ministries
Development expenditure by ministry (1397)



Increases in development expenditures since 1389 have been spread across several ministries. The greatest increases in development expenditure has been to the Ministry of Public Health. Additional large increases in development expenditure have occurred through ministries providing economic infrastructure, including DABS, the Ministry of Agriculture, and the Ministry of Public Works. Development expenditure has slightly declined since 1389 for the Ministry of Education.

Figure 31: Increases in development expenditure have been concentrated in health and infrastructure
Change in development expenditure by ministry (1389-1397)

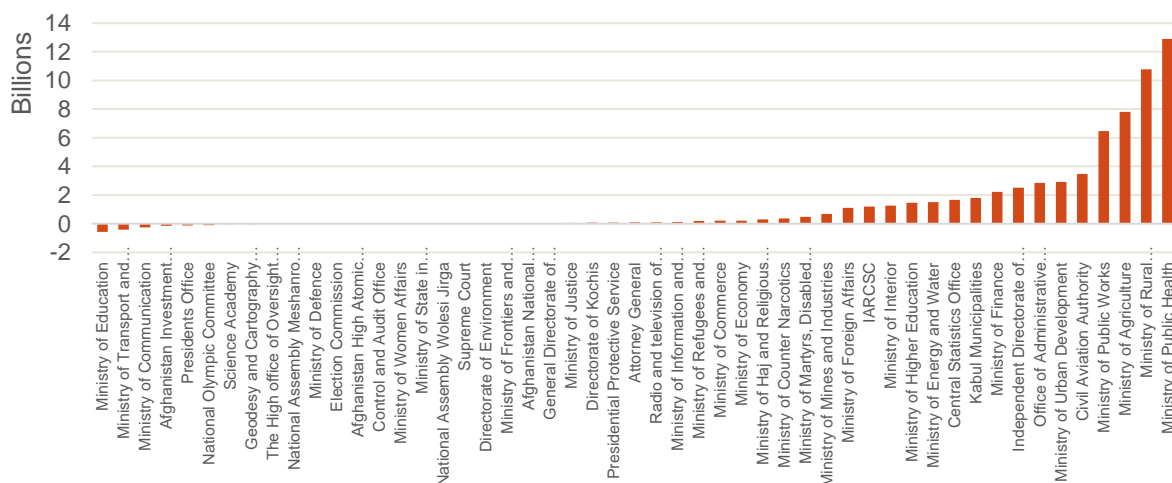
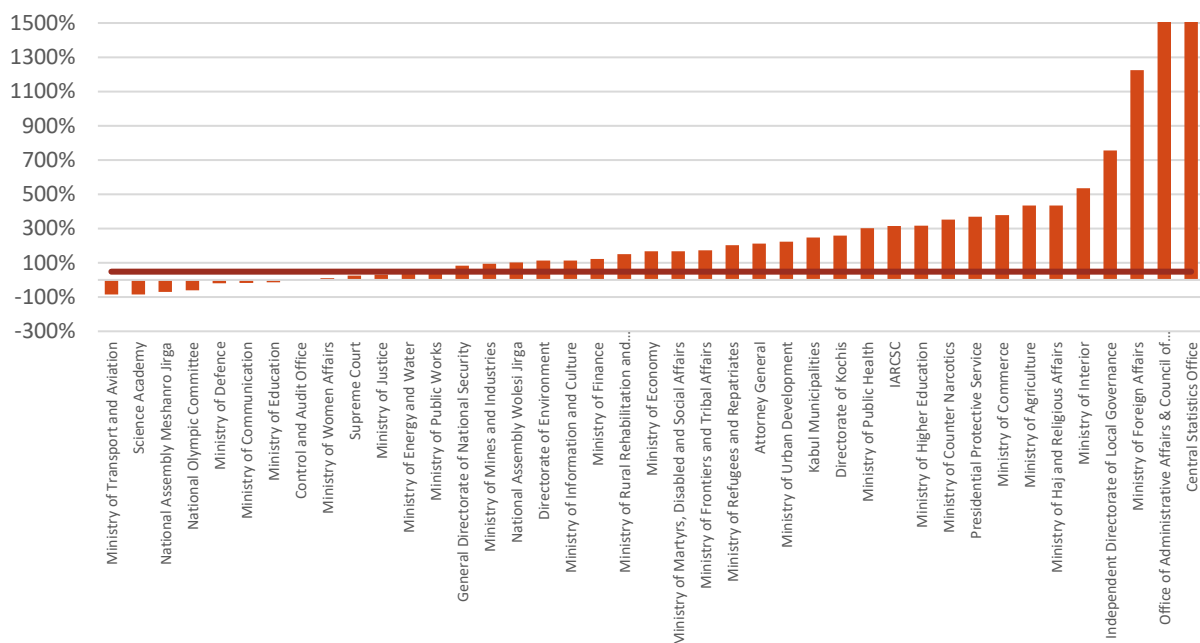
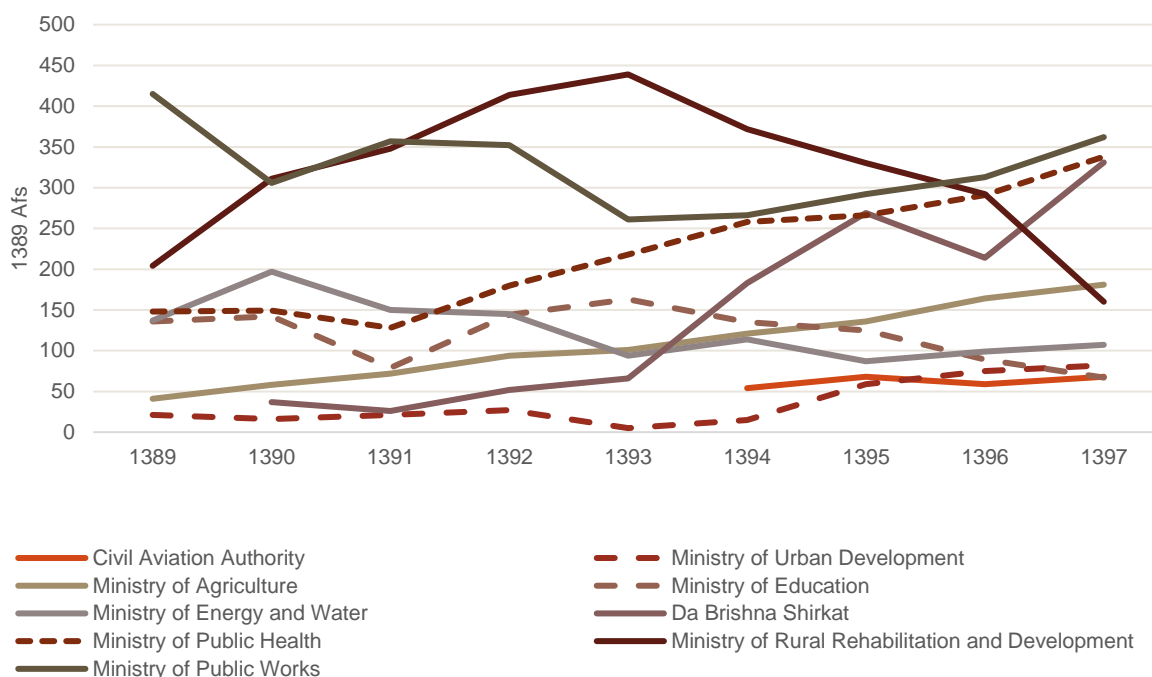


Figure 32: Development expenditure have increased for most ministries in percentage terms
Change in development expenditure in percent (1389-1397)



In terms of trends in per capita expenditure over time, the ministries with the consistently largest development expenditures have been the Ministry of Rural Rehabilitation and Development and the Ministry of Public Works. Over recent years, allocations to the Ministry of Public Health and DABS have increased rapidly. Development expenditures from Ministry of Education have declined over time in real per capita terms, from around Afs 163 per capita in 1393 to just Afs 67 per capita in 1397.

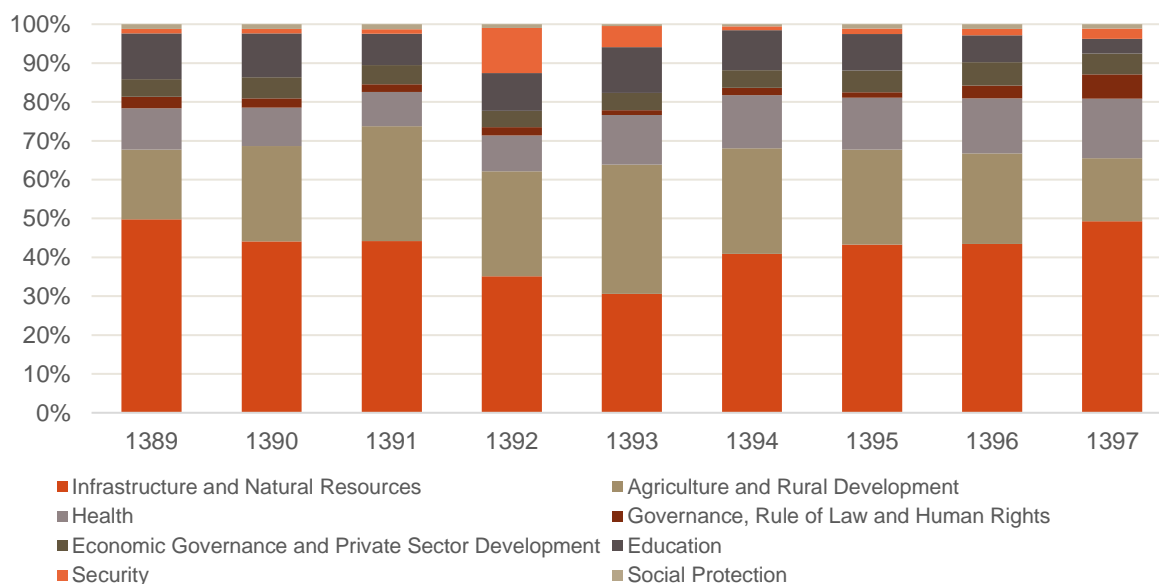
Figure 33: Real per capita development expenditures have increased through public works and health
Real per capita development expenditure by ministry (1389-1397)



5.2. Development expenditures by function

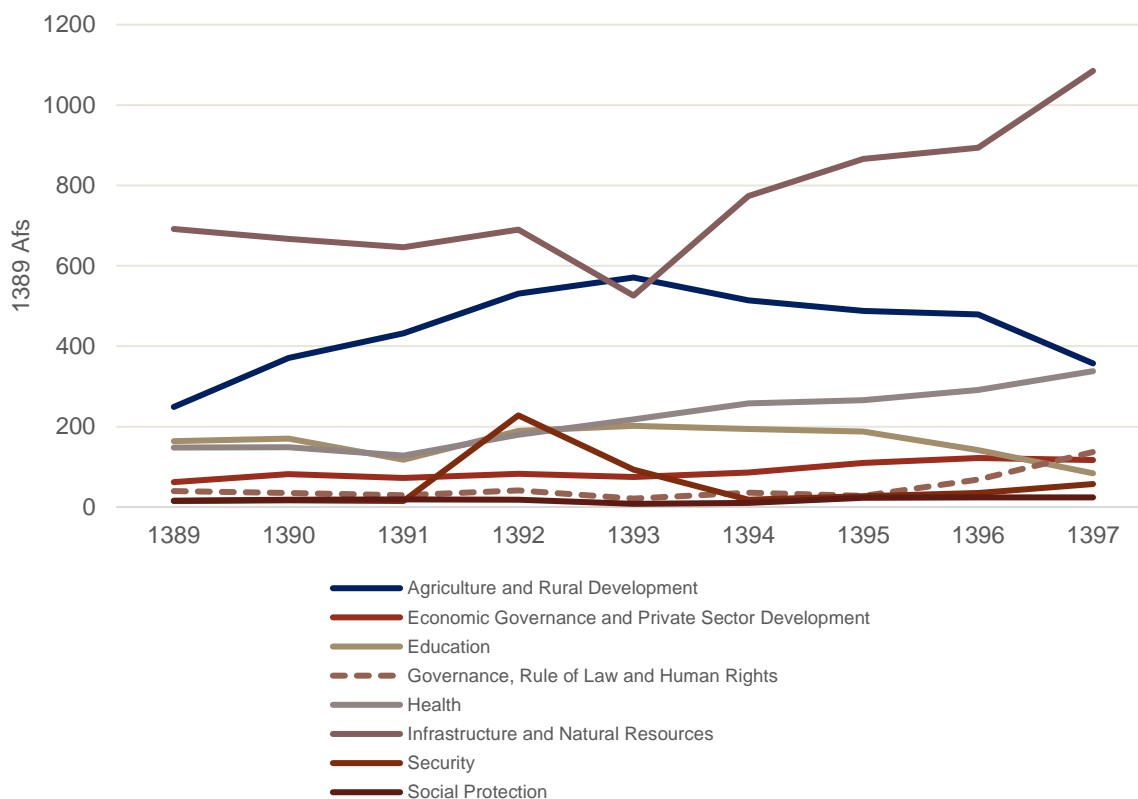
In terms of functional classifications of development expenditures, there has been a persistent trend over recent years towards increased expenditure on infrastructure and natural resources. Allocations to this category have roughly doubled over the past four years, far outstripping the broader pace of growth in development spending. Expenditure growth in infrastructure and natural resources has come largely at the cost of expenditure on agriculture and education, which have seen substantial declined in development expenditures over recent years.

Figure 34: Development expenditure is increasingly dominated by agriculture and infrastructure
Development expenditure by sector (% of total)



The broad sectoral allocation trends discussed above are reflected in real per capita expenditure trends. Real per capita expenditure on infrastructure and natural resources has increased rapidly. There has been a less-pronounced, but still significant increase in real per capita development expenditure on health. Development expenditures on education, on the other hand, have remained stagnant and actually declined in 1396 to the lowest level since 1389 (Afs 84 in 1389 terms).

Figure 35: There have been large increases in real per capita development spending on infrastructure
Real per capita development expenditure by sector



5.3. Development expenditures by economic classification

In terms of economic classifications, development expenditures have been significantly reoriented over recent years towards capital investments. The proportion of the development budget allocated to acquisition of assets has increased from 50 percent in 1393 to 66 percent in 1397.

The most rapid percentage increases in development expenditure have been for tools and materials, utilities, machinery, and travel. In absolute terms, however, the largest increases have been in expenditure have been for buildings, contracted services, and machinery. While expenditure on travel has increased rapidly in percentage terms, it accounts for only a small share of development expenditures, with total expenditure growing by only around Af\$ 410 million since 1389.

Development Allocations and Expenditures

Figure 36: Development expenditure has increasingly focused on capital investment

Development expenditure by economic classification (% of total)

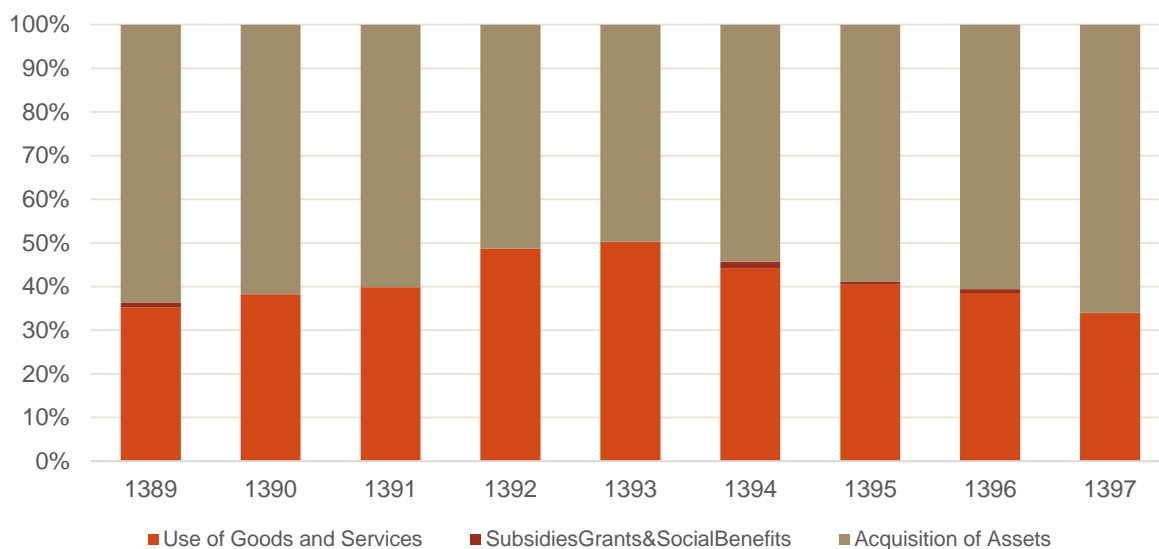


Figure 37: Development expenditure growth has focused on buildings, contracted services, and machinery

Absolute change in development expenditure by economic classification (1389 – 1397)

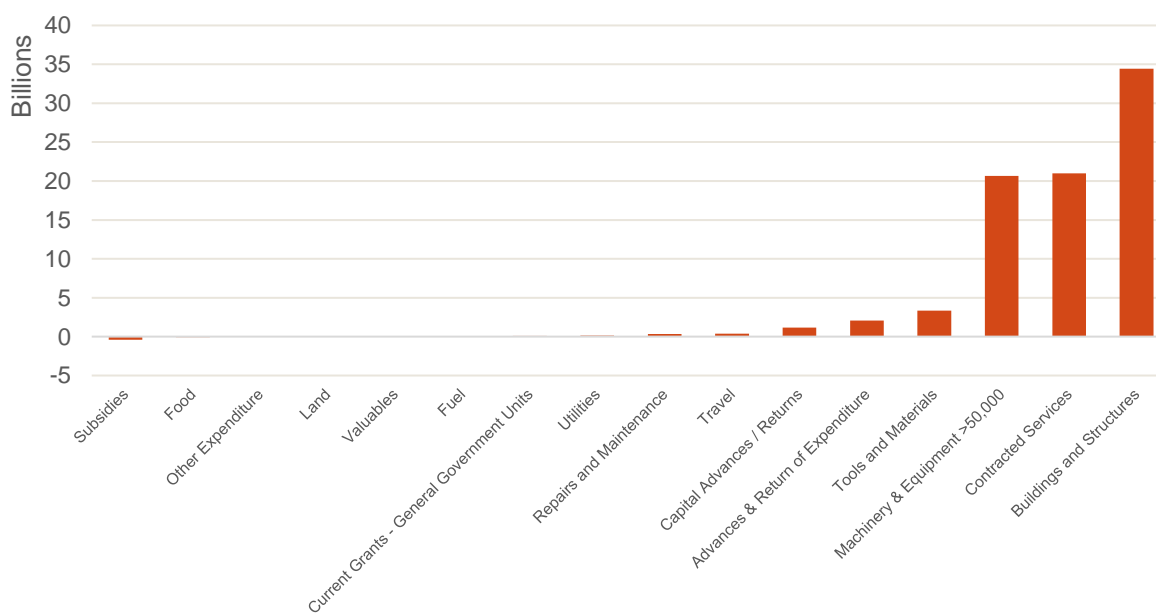
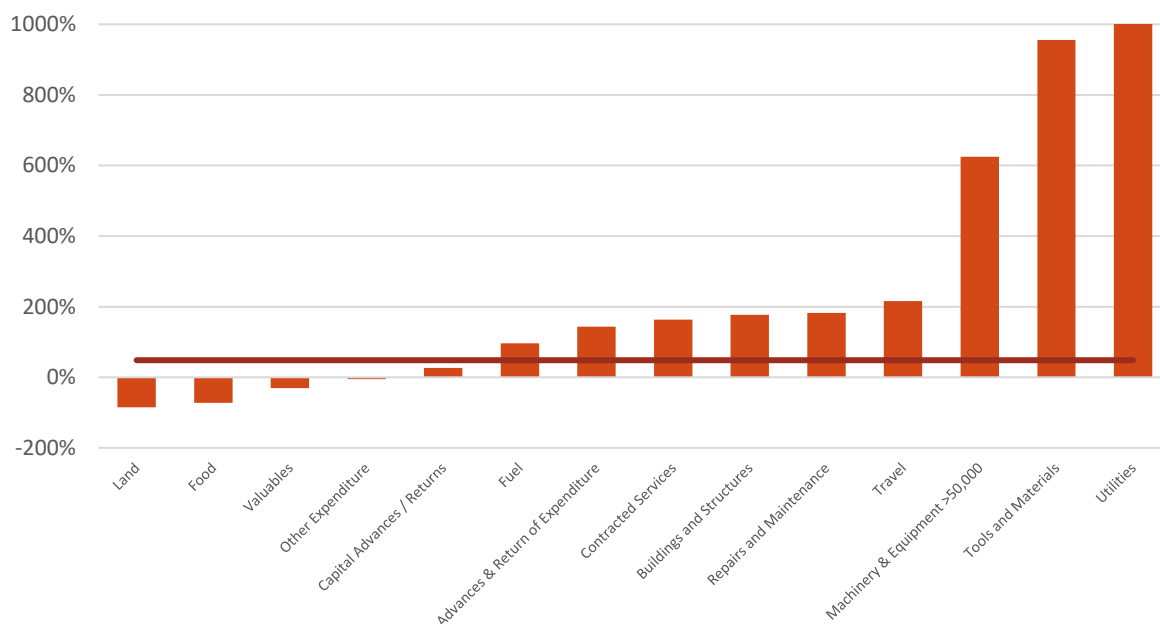


Figure 38: Development expenditure has increased fastest on utilities, tools, and machinery
Change in development expenditure by economic classification in percentage (1389-1397)



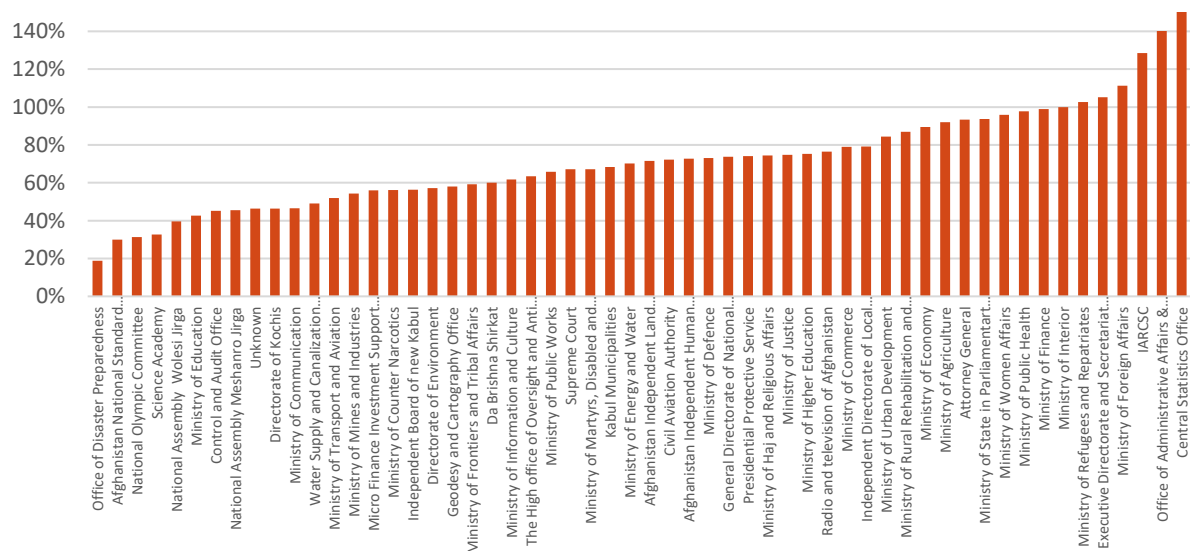
5.4. Development budget execution performance

Execution of the development budget is extremely varied across ministries. Average execution rates over the past three years ranging from the Office of Disaster Preparedness, with an execution rate of just 20 percent, to several ministries that overspent original budget allocations. There is no clear correlation between the size of development allocations and execution rates, with some very small ministries having poor execution rates and some ministries successfully executing very large development allocations (Ministry of Rural Rehabilitation and Development, for example).

In terms of total under-expenditures, weak development budget execution is explained by a relatively small number of poorly-performing ministries with very large allocations. The Ministry of Public Works had average under-expenditure of around 14 billion per annum over the past three years. The Ministry of Education also accounts for around Afs 9 billion of under-expenditure.

Development budget execution has improved significantly over recent years. Development budget execution reached 92.2 percent in 2018, rising from 67 percent in 2017. As a result, nominal development expenditures rose by 23 percent (approximately Afs 23.6 billion) in 2018 over 2017 levels. Improvements in budget execution have been supported by reforms introduced in the 2018 budget. Automatic rollovers of development budget allocations were ended, in favor of careful review of project performance and expenditure estimates.

Figure 39: Development budget execution varies strongly by ministry
Development budget execution by ministry (3-year average to 1397)



6. Large Ministry Profiles

In this section, we present brief expenditure of five key ministries - the Ministry of Defense, the Ministry of Interior, the Ministry of Education, the Ministry of Martyrs, Disabled, and Social Affairs, and the Ministry of Public Health.

6.1. Ministry of Defense

- *Ministry of Defense is the largest spending ministry, accounting for 25 percent of recurrent expenditure in 1397. Ministry of Defense expenditure increased markedly to 1392 before stabilizing in nominal terms. Allocations decreased significantly in 1396, with fuel procurement being taken off-budget, before increasing again in 1397. Expenditure is almost entirely through the recurrent budget, with only small amounts of development expenditure in 1392 and 1393.*
- *In real per capita terms and as a share of the budget, Ministry of Defense spending has been declining steadily since 1392. The pace of decline accelerated in 1396, with Ministry of Defense's share of the budget declining from 20 percent to 16 percent, as a large share of fuel procurement was taken off-budget.*
- *Wages and salaries completely dominate expenditure, reaching 91 percent of total recurrent expenditure in 1397. This reflects the large role played by off-budget grant support in financing complementary inputs.*

Figure 40: Expenditure by type

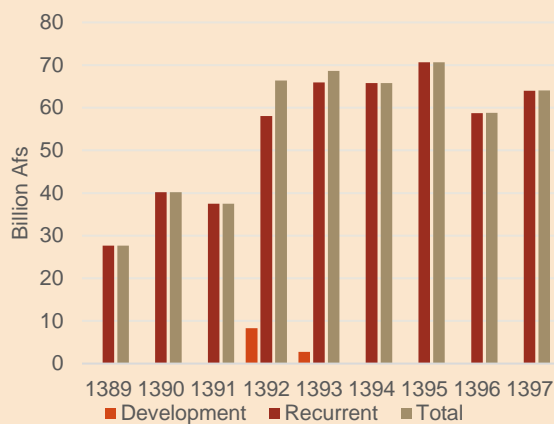


Figure 41: Real per capita expenditure by type

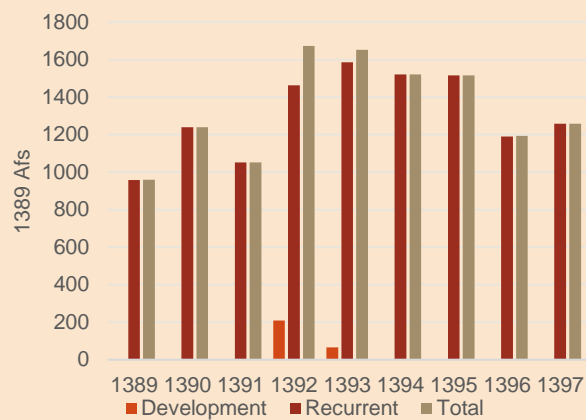


Figure 42: Share of budget by type

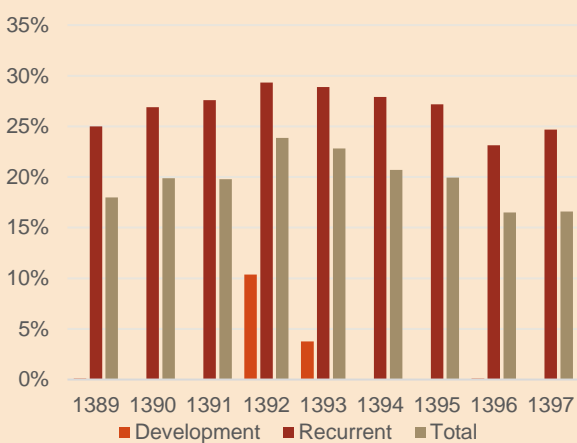
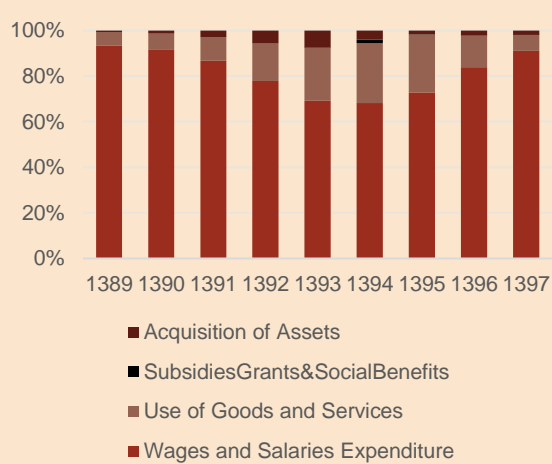


Figure 43: Expenditure by economic classification



6.2. Ministry of Interior

- *Ministry of Interior is the second largest spending ministry, accounting for around 16 percent of expenditures in 1396. Recurrent expenditures increased steadily between 1389 and 1394 but have since declined. In real per capita terms, expenditures have declined by nearly 30 percent since 1394.*
- *These declines are reflected in the Ministry of Interior share of the budget, which has fallen from 18 percent in 1389 to 13 percent in 1397.*
- *Of the increase in recurrent expenditure over the period, the majority was for wage and salary expenditures and for fuel.*
- *Of the very limited development expenditures over the period (normally around one percent of total development spending), the majority was used for contracted services and buildings and structures.*

Figure 44: Expenditure by type

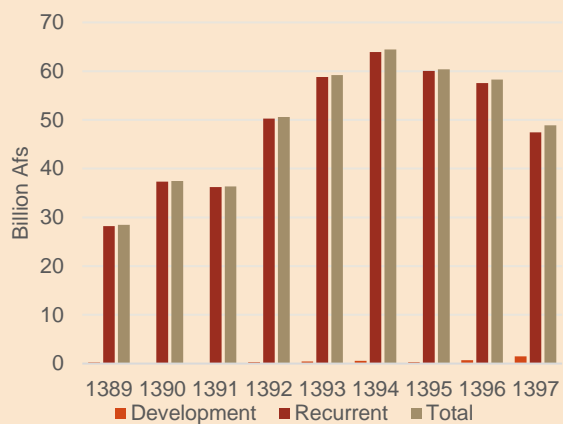


Figure 45: Real per capita expenditure by type

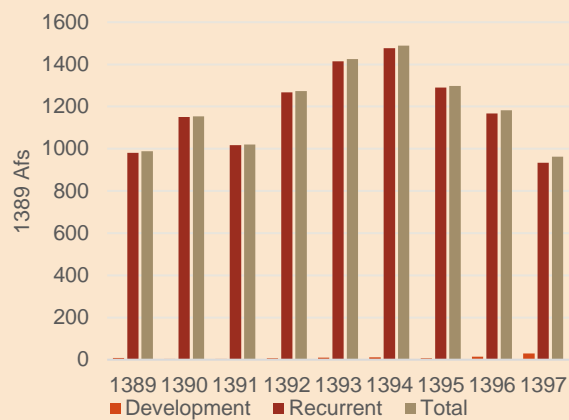


Figure 46: Share of budget by type

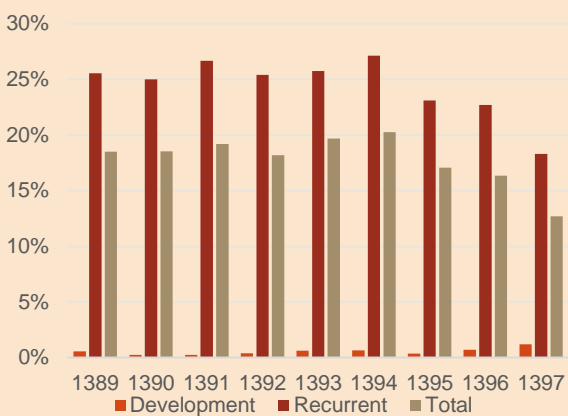
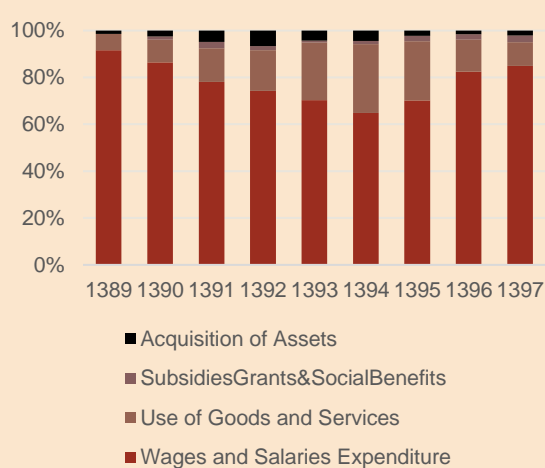


Figure 47: Expenditure by economic classification



7.1. Ministry of Education

- *The Ministry of Education accounted for around 10 percent of total expenditure in 1397. Overall expenditure levels increased steadily from 1389 to 1393, and then stabilized in nominal terms. While recurrent expenditures slightly increased, this was offset by reductions in development expenditures.*
- *In real per capita terms, both recurrent and development expenditures have been decreasing steadily from 1393. Real per capita recurrent expenditure declined by around 11 percent over three years, while development expenditures declined by 45 percent.*
- *Declining expenditure levels reflect the Ministry of Education's declining share in both the recurrent and development budgets. Education's share of the recurrent budget has been in fairly consistent decline since 1389, declining from 17 percent in 1389 to 13 percent in 1397. The trajectory of development expenditure has been volatile, but since 1393, Education's share of the development budget has declined from nine percent to three percent.*
- *The vast majority of increases in expenditure have been absorbed by salaries and wages. Total wage and salary expenditure has increased by around 140 percent or Afs 9 billion since 1389.*
- *In terms of major programs, resource allocation has been fairly consistent over time. The majority of new resources have been allocated to basic and Islamic education, retaining its share of total expenditure.*
- *The majority of development expenditures have been used for buildings and structures and contracted services.*

Figure 48: Expenditure by type

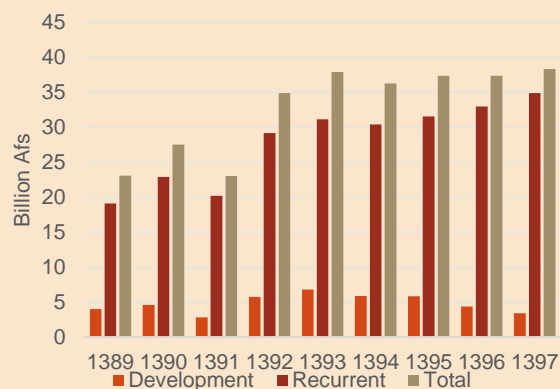


Figure 49: Real per capita expenditure by type

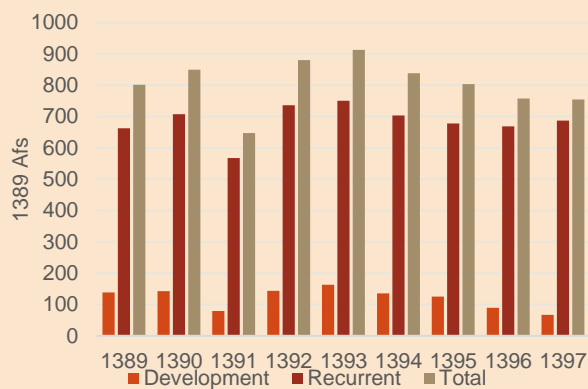


Figure 50: Share of budget by type

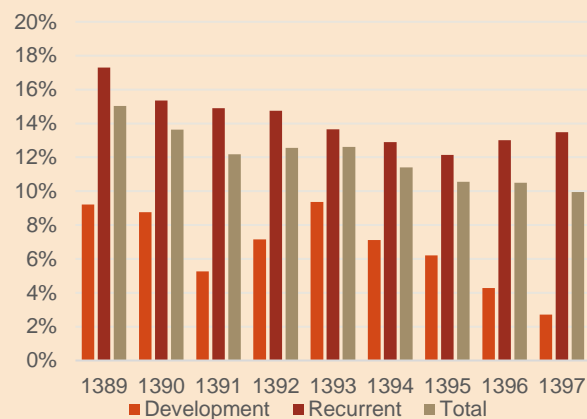


Figure 51: Expenditure by economic classification

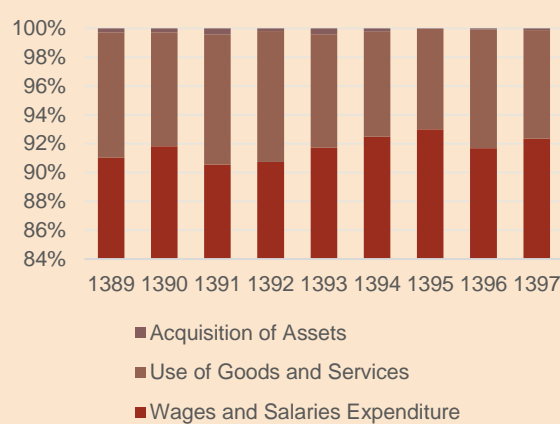
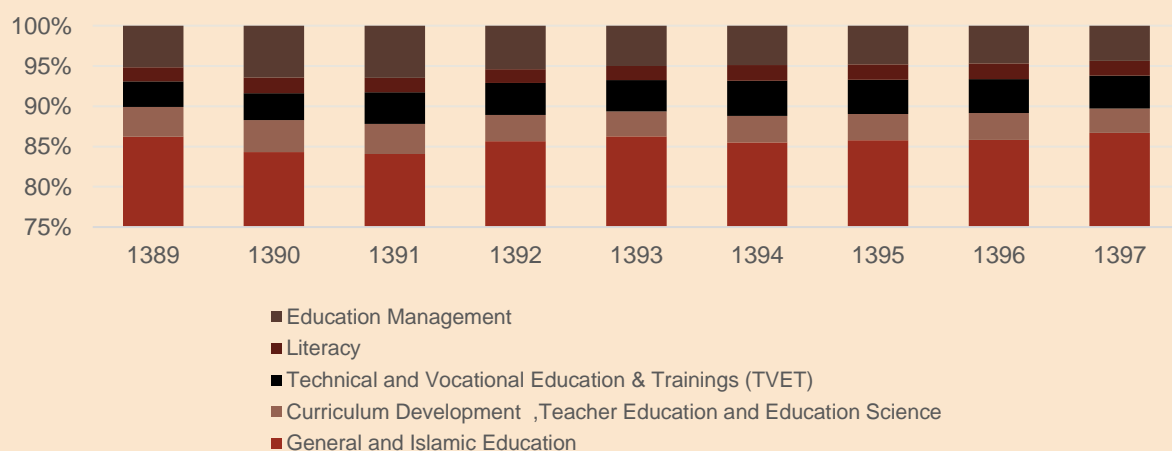


Figure 52: Recurrent expenditure by program



7.2. Ministry of Martyrs, Disabled, and Social Affairs

- *Expenditure through the Ministry of Martyrs, Disabled, and Social Affairs has expanded very rapidly, increasing from around Afs five billion in 1389 to more than Afs 29 billion in 1397.*
- *In real per capita terms, expenditure has also increased rapidly – by more than 200 percent since 1389.*
- *This growth has been reflected in the Ministry of Martyrs, Disableds, and Social Affairs share of the budget, which increased from around three percent in 1389 to eight percent by 1397. Expenditure has been overwhelming through the recurrent budget, with the MMDSA accounting for less than one percent of the development budget.*
- *Expenditure growth has been concentrated in the martyred and disabled program, which has grown from around Afs 4 billion to around Afs 15 billion, and now accounts for around 60 percent of total expenditure.*
- *In terms of economic classifications, expenditure growth has been most rapid in social benefits, with the nominal increase hugely outstripping growth in other areas (around Afs 14 billion increase, or 300 percent since 1389).*
- *Limited development expenditures have been concentrated in contracted services.*

Figure 53: Expenditure by type

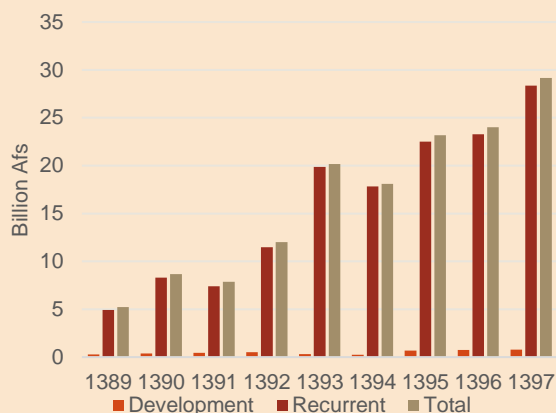


Figure 54: Real per capita expenditure by type

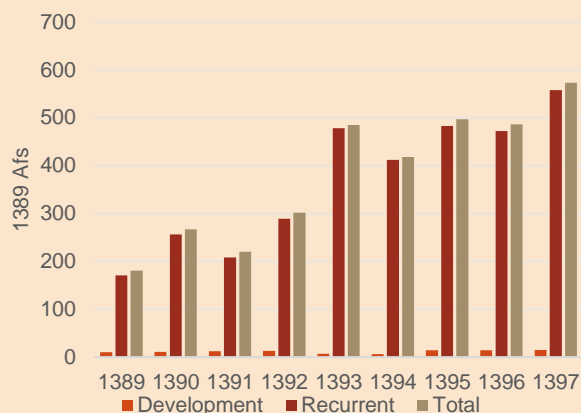


Figure 55: Share of budget by type

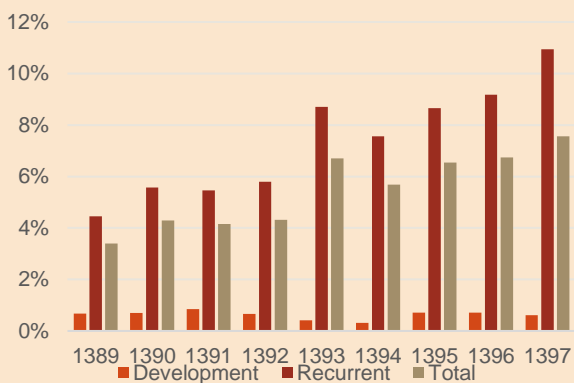


Figure 56: Expenditure by economic classification

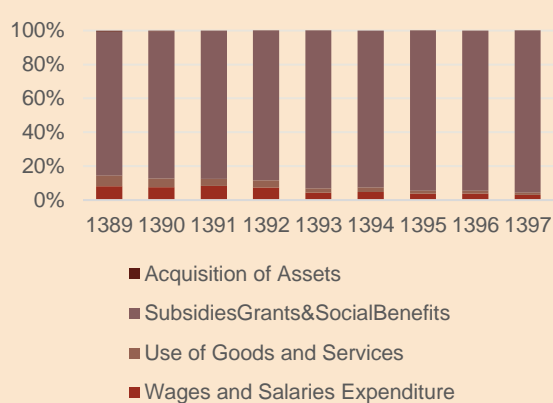
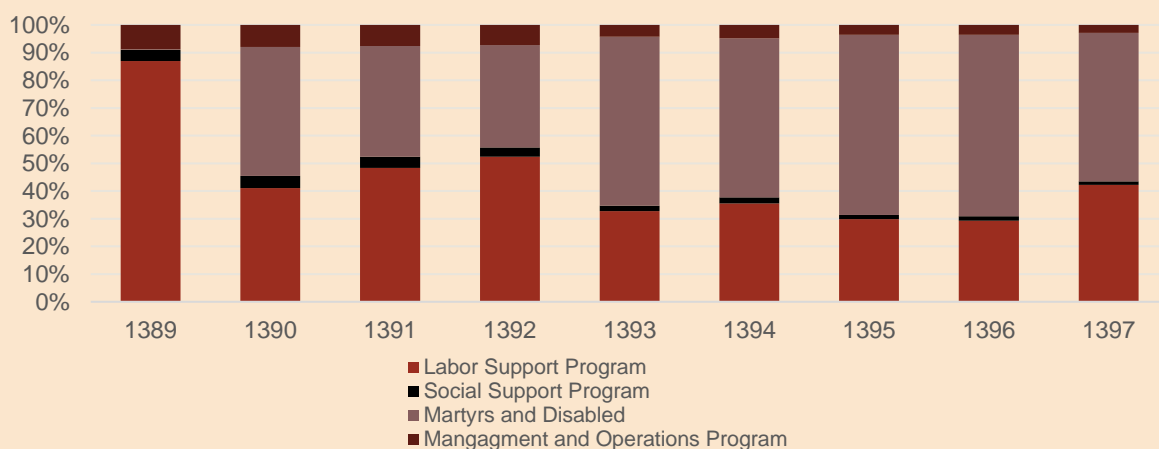


Figure 57: Recurrent expenditure by program



7.3. Ministry of Public Health

- *Expenditure through the Ministry of Public Health have expanded very rapidly, increasing from around Afs six billion in 1389 to more than Afs 21 billion in 1397.*
- *In real per capita terms, expenditure has also increased rapidly – roughly doubling since 1389. Growth has been overwhelmingly concentrated in development expenditures. Development expenditure per capita through the Ministry of Public Health has increased from Afs 148 in 1389 to Afs 338 in 1397. Recurrent expenditure per capita through the Ministry of Public Health has increased only marginally – from Afs 71 in 1389 to Afs 84 in 1397.*
- *Expenditure growth has been reflected in the Ministry of Public Health’s share of the budget, which increased from around four percent in 1389 to six percent by 1397. The Ministry of Public Health’s share of the development budget has increased from 10 percent in 1389 to 14 percent in 1397, while it’s share of the recurrent budget has remained static at around two percent.*
- *Recurrent expenditure has increasingly been utilized for operating costs, with the share of expenditure on wages and salaries consistently declining. Recurrent expenditures have been increasingly channeled through the administrative support program, which has grown from around Afs one billion to around Afs 2.6 billion.*

Figure 58: Expenditure by type

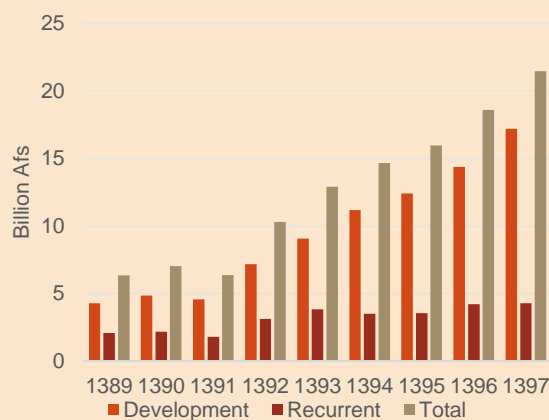


Figure 59: Real per capita expenditure by type

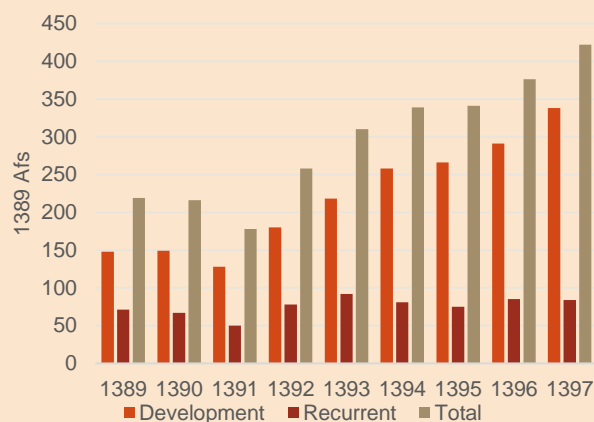


Figure 60: Share of budget by type

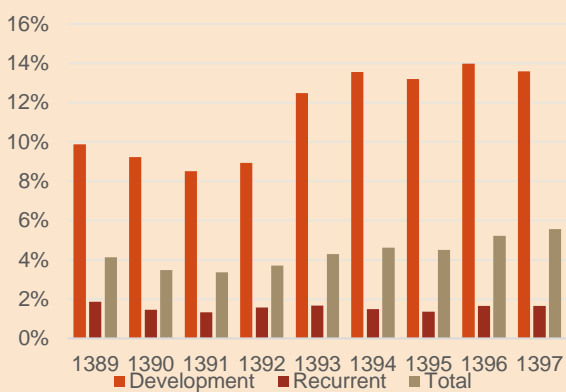


Figure 61: Expenditure by economic classification

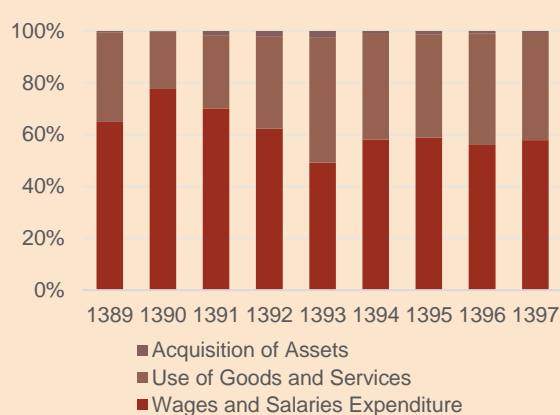


Figure 62: Recurrent expenditure by program

