



Evaluating public financial management reforms and their impact on development budget execution in Afghanistan: Challenges and future prospects

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Abstract

This paper examines the impact of public financial management (PFM) reforms on executing Afghanistan's development budget. The key reforms analyzed include the AFMIS, TSA, MTBF, PBB, Public Investment Management Framework (PIMF), budget decentralization, centralized reporting systems, development budget framework, procurement process reforms, and cash management practices reform. The study is grounded in principal-agent, New Public Management (NPM), and institutional theory and employed an ex post facto descriptive, mixed-methods research design. The findings reveal a statistically positive relationship between PFM reforms and the development budget execution rate. Nonetheless, major challenges such as political and security instability, limited institutional capacity, and corruption hinder progress. Low execution rates of the development budget are further affected by line ministries' limited absorption capacity, delayed donor disbursements, and overly optimistic budget projections.

The study emphasizes the need for capacity building, improved coordination, and stronger oversight mechanisms to achieve PFM reform objectives, such as fiscal discipline, efficient resource allocation, and enhanced service delivery. Policy recommendations are provided to address gaps in budget execution and improve the effectiveness of PFM reforms.

Keywords: Public Financial Management (PFM) Reforms, Budget Execution, Development Budget, Afghanistan.

Introduction

Reforming inefficient PFM systems is crucial in developing countries to ensure economic growth and development by maximizing the effective use of limited resources. PFM reform is crucial for economic recovery, fiscal sustainability, and poverty alleviation (Pretorius, 2009). Today, international organizations such as the World Bank (WB), International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD) encourage developing countries to reform their public sector organizations, particularly the financial sectors (IPSASB, 2017). Approximately 50 donors provide support for PFM reforms, with an average of seven donors working on each country, making coordination between organizations a critical issue. Some donors give a higher priority to the more technical aspects of PFM reforms, most notably budget execution, while others give a higher priority to governance aspects, including planning, budgeting, and external auditing (Morgner, 2013). The PFM reform program is one of several pillars of the public sector reform program (ERWC, 2007). Several theories can be used to analyze and explain the effectiveness of PFM reforms in the execution of budgets. The principal-agent theory explains the relationship between government entities and agents in budget preparation, execution, and reporting (Jensen & Meckling, 1976) ^[19]. The new public management (NPM) theory, which emphasizes efficiency, accountability, and performance-oriented approaches, aligns with PFM reforms' goals (Hood, 1991) ^[17]. According to institutional theory, institutional structures and norms have a considerable impact on public budgeting processes, including the adoption and implementation of PFM reforms (Meyer & Rowan, 1977) ^[23].

Budget execution is an essential process in the PFM cycle since it involves the budget's actual implementation, which includes carrying out planned tasks and disbursing funds. Effective budget execution is critical to meeting policy objectives and preserving budgetary discipline. Weaknesses in budget implementation can result in underspending, overspending, and resource misallocation, weakening the overall credibility of the budget process. Despite budget improvements, Afghanistan's execution rates of core budget development expenditures remain low, resulting in slower-than-expected development (Jensen & Eckardt, 2010) ^[20]. Under-execution of the development budget is one of Afghanistan's most serious credibility challenges.

A large portion of literature currently recognizes that PFM reform is a long-term endeavor, and a continuous processes of progress. Successful reform must include the local context while focusing on the reform processes. PFM reform is crucial to the effective and efficient utilization of national resources. It involves the budgeting process reform of long-term planning, annual budget formulation, execution, and supervision. Strong PFM requires strong institutions and decision-making procedures that enable policymakers to assess available resources as well as policy outcomes. PFM reform aims to improve these processes (Durevall & Erlandsson, 2004).

The Afghan government has implemented several key PFM reform initiatives, including the creation of a Treasury Single Account (TSA), the establishment of the Afghanistan Financial Management Information System (AFMIS), and the introduction of stricter auditing and reporting requirements. Over the past two decades, Afghanistan's PFM systems have improved considerably; however, issues

such as low budget credibility, limited budget transparency, and low execution rates for the development budget persist. The average execution rate of the development budget has been around 57.7%, primarily due to large discrepancies between planned and actual budgets as well as unrealistic budget targets. Budget execution, especially the under-execution of the development budget, remains a critical challenge within Afghanistan's PFM system. From 2008 to 2018, this issue was particularly severe, with only 60% of the development budget being implemented, hindering the country's development efforts and its ability to maintain financial stability (Byrd & Clark, 2017) ^[11].

The effectiveness of PFM reforms in enhancing development budget execution remains a topic of debate. While numerous studies have examined PFM reforms across various contexts, limited research has focused on how these reforms affect budget execution in post-conflict or fragile states such as Afghanistan. Existing literature often discusses broad PFM reform frameworks but fails to address Afghanistan's specific challenges, such as political and security instability, limited institutional capacity, corruption, and dependence on foreign aids. Furthermore, most studies emphasize the design and implementation of reforms rather than evaluating their effectiveness in achieving real-world budget execution outcomes. To address these gaps, the primary objective of this study is to assess the impact of PFM reforms on the execution of the development budget in Afghanistan. The study also aims to identify key challenges and potential future pathways for improving the budget execution rate and enhancing the effectiveness of PFM reforms. It evaluates the successes of these reforms, highlights issues that still need attention, and offers policy recommendations to strengthen future initiatives. The findings are expected to provide valuable insights for financial officers and policymakers working to improve budget execution in similar contexts. The analysis draws on data from the Ministry of Finance (MoF), budget offices, the Directorate of Economic Planning, as well as the World Bank's Public Expenditure and Financial Accountability (PEFA) assessments and the International Monetary Fund (IMF). The dataset covers statistical information from 2001 to 2020, providing a comprehensive basis for examining Afghanistan's budget execution and the impacts of PFM reforms.

Concept of Public Financial Management Reforms

Corruption, ineffective resource management, and administrative inefficiencies are among the issues that PFM encounters. Governments are encouraged to pursue PFM reforms to address these challenges. PFM reforms attempt to improve transparency, accountability, resource allocation, and the separation of policy and management functions. According to Njenga and Omete, (2014). Reforms are being implemented to meet budgetary problems, public pressure, donor pressure, political crises, and regional affiliation demands. Various countries have used different approaches to increase the adoption of PFM reforms. Reform refers to beneficial change. Like many other concepts in social science studies, PFM reform has different meanings for different scholars, and there is no universally accepted definition of it. Scholars from different disciplines have viewed and interpreted reforms (Quah, 1976). The most common definition is, PFM reform led by a country's own MoF, using FMIS to ensure system based payment and

budget controls on all transactions of public funds, can lead to improvements in financial and internal control systems by modifying payments, accounting, reconciliation and reporting procedures (de Renzio & Dorotinsky 2007). According to the Japan Bank of International Cooperation (JBIC, 2001), PFM reform is a continuous process of improvement.

Concept of Budget Execution (Implementation)

A budget forecasts government revenues and expenditures for the fiscal year and reflects the government's economic policies (Hogye, 2002). It performs economic, political, legal, and managerial functions, promoting fiscal discipline, ensuring public representatives, approve tax increases, restricting government powers, and guiding policy execution (Foster & Fozzard, 2000) ^[12].

Budget execution in PFM systems involves carrying out government expenditures according to the annual budget approved by the parliament. The execution chain includes commitment, verification, payment order, and payment (Premchand, A. 1973). According to OECD's principles of budgetary governance, budget execution should be actively planned, managed, and monitored (White, 2015) ^[32]. A key area in budget implementation process is to ensure the fulfillment of the financial and economic aspect of the budget (Thomas, 2000). Effective budget execution involves establishing controls to avoid misuse of funds and implementing the budget in accordance with legal requirements to prevent abuse and corruption. The budget execution cycle is divided into the following stages: 1. Authorization and allocation of funds to expenditure units; 2. Commitment 3 Acquisition and verification; 4. Payment requirement; 5. Payment order (Simson et al., n.d.). Budget implementation for public organizations can be problematic due to the need to accurately estimate economic factors for specific programs and development projects (Gachithi, E. W. 2010). According to Kiilu & Ngugi, (2014) ^[21], effective budget execution contributes to the comprehensiveness of budget operations by strengthening the linkages between yearly allocations and medium-term policy objectives.

Literature Review

This literature review examines existing research on PFM reforms, budget execution, and key elements of the PFM process, evaluating the effectiveness of reforms and the role of practitioners. Studies on PFM performance in developing countries indicate that these countries generally score higher on budget preparation than on budget execution (Andrews, 2008). For example, a study of budget implementation reforms in Nigeria found that inadequate project design and planning negatively impacted resource management, leading to numerous abandoned projects (Onyiah, Ezeamama, Ugwu, & Mgbodile, 2016). Research on government spending in 18 countries highlights that core financial management information systems and budget execution reforms are critical areas for PFM improvements (Allen, 2020). Lawson's studies on Sub-Saharan Africa indicate that PFM reforms strengthened budget institutions, enhancing financial management, resource allocation, and revenue generation. Studies also show that PFM reforms improve fiscal discipline, transparency, and accountability in budget execution. Andrews (2010) ^[4] finds that while PFM reforms enhance budget execution in many developing countries,

effectiveness is often limited by institutional capacity and political interference.

Allen and Tommasi (2001) ^[2] suggest that innovations such as Integrated Financial Management Information Systems (IFMIS) improve expenditure management and reporting accuracy. Research by Fritz, Sweet, and Verhoeven (2014) indicates that improved PFM systems increase budget execution rates in 102 countries and contribute to more credible budgets in 97 countries. Ali (2020) found a strong positive relationship between budget execution and parliamentary oversight, as well as between budget implementation and auditing practices. Gupta et al. (2020) demonstrate that comprehensive PFM reforms enhance internal controls, procurement efficiency, and expenditure management. Magani (2018) reveals a statistically significant correlation between fiscal decentralization, parliamentary oversight, public participation, and successful budget implementation. Empirical studies show varying effectiveness of PFM reforms on budget execution, with greater progress in budget execution reforms than in budget preparation (Fritz, 2012).

Overview of Key PFM Reforms Implemented to Enhance Development Budget Execution Rate in Afghanistan

Since 2001, the Afghan government has undertaken numerous PFM reforms, establishing a strong legal, institutional, and operational foundation. These efforts marked a shift from a state of emergency to a disciplined and modern PFM framework. Following the establishment of a new government in 2001 and a significant influx of international aid, comprehensive reforms were implemented to rebuild Afghanistan's PFM system. The goal was to create a transparent and accountable structure that would support effective governance and the efficient use of resources. **Early Reforms (2001–2005)** aimed to restore essential fiscal functions, including budget formulation, execution, and reporting (World Bank, 2008). During this phase, the MoF was designated as the principal fiscal authority, and foundational budgeting processes were established (SIGAR, 2021). A key focus was placed on Treasury functions, which included the introduction of commitment-based budgeting and cash-basis accounting systems. These measures were designed to improve commitment control, enhance cash management, and ensure greater transparency, accountability, and credibility in the budgeting process. **Intermediate Reforms (2006–2015)**: this phase saw the implementation of more advanced PFM tools, such as the AFMIS and the TSA. These tools centralized financial transactions and improved data transparency and accessibility (MoF, 2019). Early reforms focused on enhancing budget execution, reducing delays, and ensuring that funds were allocated as intended. In fiscal year 2007, Afghanistan introduced a budget execution improvement program and initiated provincial budgeting. In 2010, the government launched a PFM Roadmap outlining a three-year plan to strengthen budget management, execution, accountability, and program efficiency. Notable reforms during this period included: The enactment of a value-added tax law in 2014 and a new tax administration law in 2012 to increase the revenue-to-GDP ratio. The introduction of program budgeting and budget evaluation guidelines in 2012. The establishment of five regional audit branches under a new audit law and the implementation of initiatives

under the ARTF incentive program to improve financial controls within state-owned enterprises (SOEs). Recent Reforms (2016–2018) have focused on enhancing existing systems, improving budget formulation and execution, increasing budget credibility, and adopting international best practices (World Bank, 2021). In 2015, the National Unity Government launched the Financial Performance Improvement Program (FPIP) based on a fiduciary risk assessment. FPIP reforms emphasized key areas such as revenue administration, tax policy, budgeting, auditing, and accounting. Tax reform, in particular, was pivotal in maintaining PFM integrity and strengthening donor trust. To improve budget execution, the government implemented significant procurement reforms, including: certifying seven ministries for independent procurement; establishing a joint advisory committee; piloting a procurement management information system; providing training and recruiting specialists for the appeals review committee. As part of the national self-reliance strategy announced at the 2016, Brussels Conference on Afghanistan. Further reforms were introduced in 2017 and 2018. These included improved commitment control, expenditure tracking systems, and financial reporting mechanisms to enhance budget execution. The introduction of modern financial management systems has streamlined budget execution, ensuring the effective allocation of resources and mitigating corruption risks. Key accomplishments include the modernization of budgeting tools, automated payment systems, and increased use of national systems by Development Partners (DPs), reflecting growing confidence in Afghanistan's PFM framework (Ghani, 2003). These reforms represent significant progress in Afghanistan's journey toward a transparent, accountable, and efficient PFM system, despite the ongoing challenges of governance and fiscal management.

Overview of the Budget Execution in Afghanistan

After the budget is passed into law, the MoF is in charge of allocating funds to the line ministries and organizations in accordance with the authorized budget allocations. Line ministries and organizations executing their budgets and allocating funding to various initiatives and programs. They must adhere to the rules for procurement and financial management. To assurance that funds are spent effectively and that expenditures are in accordance with the approved budget, the government keeps an eye on how the budget is being carried out.

Since 2001, Afghanistan's government has struggled with poor execution of development budgets by ministries and independent directorates. For the past 20 years, Afghanistan's government has been unable to spend at least 60% of its development budget. Several reasons contribute to the sluggish execution of the developmental budget. According to World Bank (2014, 12), the low budget execution rate is due to the highly centralized nature of government ministries which slows the budget flow from the center to the provinces; the low administrative capacity of institutions, and, a decrease in economic activity due to triple transitions (security, political, economic). Although Afghanistan's PEFA ratings generally showed a moderate increase budget execution rate showed declines (World Bank 2013). Since 2001, the low execution rate of the development budget by sector ministries and independent directorates has been at the core of the Afghanistan

government's budget problem. In Afghanistan, one of the main challenges with credibility is the under-execution of the development budget. On average, barely 60% of the development budget was carried out between 2008 and 2018. The execution rate was 45 percent in 2014 and 82 percent in 2018. Bellow table illustrate the sectoral execution rate of the development budget for the years 2014 – 2018 (Year – end report).

Table 1: Execution rate of the development budget in Afghanistan, by sectors 2014–2020

Sector	2014	2015	2016	2017	2018	2019	2020
Infrastructure	46%	52%	64%	70%	90%	85%	83%
Security	99%	75%	80%	108%	83%	93%	92%
Governance	25%	50%	42%	162%	83%	90%	91%
Agriculture	95%	57%	87%	63%	87%	80%	78%
Education	43%	41%	40%	35%	72%	88%	86%
Health	93%	72%	68%	94%	91%	87%	85%
Economic Governance	51%	51%	62%	78%	74%	89%	88%
Social Protection	32%	35%	55%	55%	82%	84%	82%
Total Development Budget	45%	54%	54%	67%	82%	92%	90%

Source: Year-end and budget execution reports from Afghanistan's Ministry of Finance

The above table figures indicate that from 2014 to 2020, the development budget execution rate of several sectors in Afghanistan has improved significantly, with the infrastructure sector leading in this regard. However, the security sector noticed fluctuations, with high initial confidence but a reduction to 75% by 2015. The government demonstrated significant instability, with shifting credibility in numerous sectors. Agriculture demonstrated shifting credibility, showing inconsistency in budget management. Education consistently underperformed, with percentages ranging between 35% and 72%. Health demonstrated steady but modest credibility, but economic governance demonstrated stable credibility. Social protection increased to 82% by 2020, indicating greater budget management. The total development budget execution improved, but there are still problems with obtaining maximum budget execution rate. In 2014, only 45% of the overall development budget was executed due to financial difficulties and political unrest. The discretionary development budget was cut by around AFN 5 billion, and spending on goods and services was

reduced. The infrastructure sector also had a lower execution rate. Other factors include low capacity, security, inadequate budgetary planning, and lack of accountability. The Afghan government spent 54% of its approved budget on development in 2015, with the main issue being the natural resource mafia. Factors contributing to low budget execution include inadequate planning, insufficient capabilities, insecurity, and lack of accountability. In 2016, 54% of the development budget was executed, largely due to changes in domestic income collection, operational budget execution, and overall budget size. Factors contributing to increased revenue include the sale of state-owned assets, agricultural receipts, exchange rate depreciation, inflation, and new tax measures. In 2017, 67% of the development budget was executed, with adjustments for budget size, revenue collection, and execution rate. The MoF claims increased income due to improved administration and enforcement, a stronger system, and gains from exchange rate depreciation. In 2018, the development budget execution rate increased to 92%, with changes in budget size and revenue collection targets. However, in-year reports do not fully explain these changes, and the MoF only provides partial explanations for low execution in sectors like health and agriculture. The 2018 national budget is part of a reform process aimed at strengthening fiscal reality, prioritizing spending, boosting efficiency, and decreasing corruption. Continuity and predictability are crucial for implementing reforms. In 2019, the Afghan government's second phase aimed to improve the budget process by advancing estimates, ensuring fiscal discipline, and implementing a "disclose, constrain, and fix" strategy. This involved providing precise data, maintaining a limited budget, and implementing mechanisms for efficient budget execution (Byrd & Farahi, n.d. 2019).

Three budgeting units that had a low execution rate in the previous years were interviewed: the Ministries of Education, Kabul Municipality, and Transport have all reported low execution rates due to complex procurement processes, bureaucracy, security difficulties, late cash release, insufficient human capability, and a lack of strategic planning. The Ministry of Public Works and the Ministry of Urban Development both reported greater execution rates as a result of enhanced planning processes, public involvement mechanisms, accountability between the ministry and firms, and adequate program and project planning.

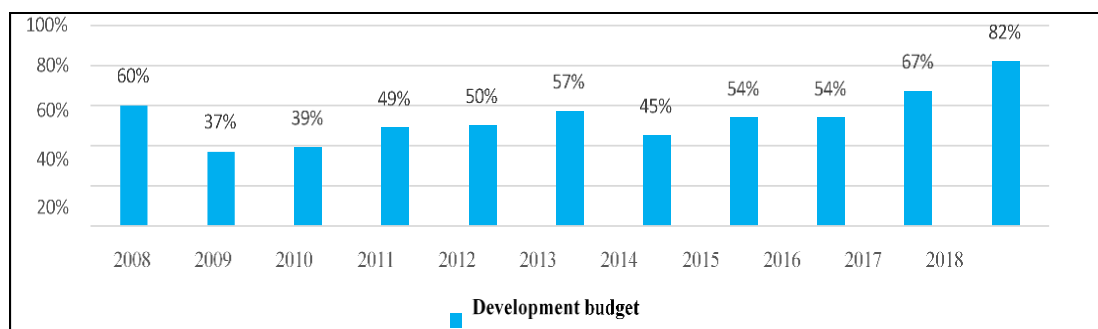


Chart 1: Execution rate of the Development Budget over (2008 - 18)

The above chart shows that development budget execution during the previous 10 years and the amount of the national budget varied over the years. Over the past ten years, Afghanistan has executed barely 60% of its development

budget on average. One of the main challenges to attaining the macroeconomic goals and a source of credibility issues is the poor execution rate of the development budget. Insufficient execution of development budget in

Afghanistan was due to the financial difficulties that surfaced in the latter part of 2014 led to a decrease in development expenditures in 2015. Development budget implementation increased from 54% in 2016 to 67% in 2017. In November 2016, Parliament decided to dismiss seven ministers who had failed to "spend more than 70 percent of their ministries' development budget." The extended political transition and the withdrawal of foreign troops from the country created uncertainty, which led to a considerable underperformance in revenue in comparison to

the goals. This was the reason for the financial troubles. A less aggressive expenditure objective and higher revenue collection contributed to the execution rate's improvement over 2016. Overall, the capital budget execution rate in 2017 is modest (67%) but varies significantly throughout sectors (health, for example, at 94% and agriculture, at 63%). This might account for overall performance and the improvement in performance in certain areas (health, for example) in 2017 but not in others (agricultural, education, both of which saw declines).

Table 2: Share of Approved and Executed Development Budget between 2015 -2020

Fiscal Year	Approved Development Budget (AFN Billions)	Actual Expenditure (AFN Billions)	Development Budget Execution Rate (In Percentage)	Variance (AFN Billions)	Key PFM Reforms Related to Budget Execution Implemented
2001	5.2	0.8	15.38%	4.4	
2002	9.5	2.5	26.32%	7	
2003	12	4.2	35%	7.8	
2004	53	19	35.85%	34	Budget Decentralization Initiatives
2005	58	22	37.93%	36	Establishment of AFMIS
2006	62	35	56.45%	27	Establishment of TSA
2007	28	17.6	62.86%	10.4	Introduction of Development Budgeting Frameworks
2008	36	23.5	65.28%	12.5	Introduction of Program-Based Budgeting
2009	45	32.4	72%	12.6	
2010	99	43	43.43%	56	Implementation of MTBF
2011	74	48	64.86%	26	
2012	111	53	47.75%	58	Development of Budget Execution Manuals
2013	68	51	75%	17	
2014	73	56.2	76.9%	16.8	
2015	152	82.08	54%%	69.92	
2016	172	92.88	54%	79.12	Reform to Cash Management Practices
2017	152	101.84	67%	50.16	Implementation of Public Investment Management Framework Introduced Reforms to Public Procurement Process
2018	132	108.24	82%	23.76	
2019	103	94.76	92%	8.24	
2020	86	77.40	90%	8.60	
Total Average Execution Rate			57.71%		

Source: MoF, budget documents.

Trend Analysis in Development Budget Execution Rate Over Time and Impact of Key PFM Reforms

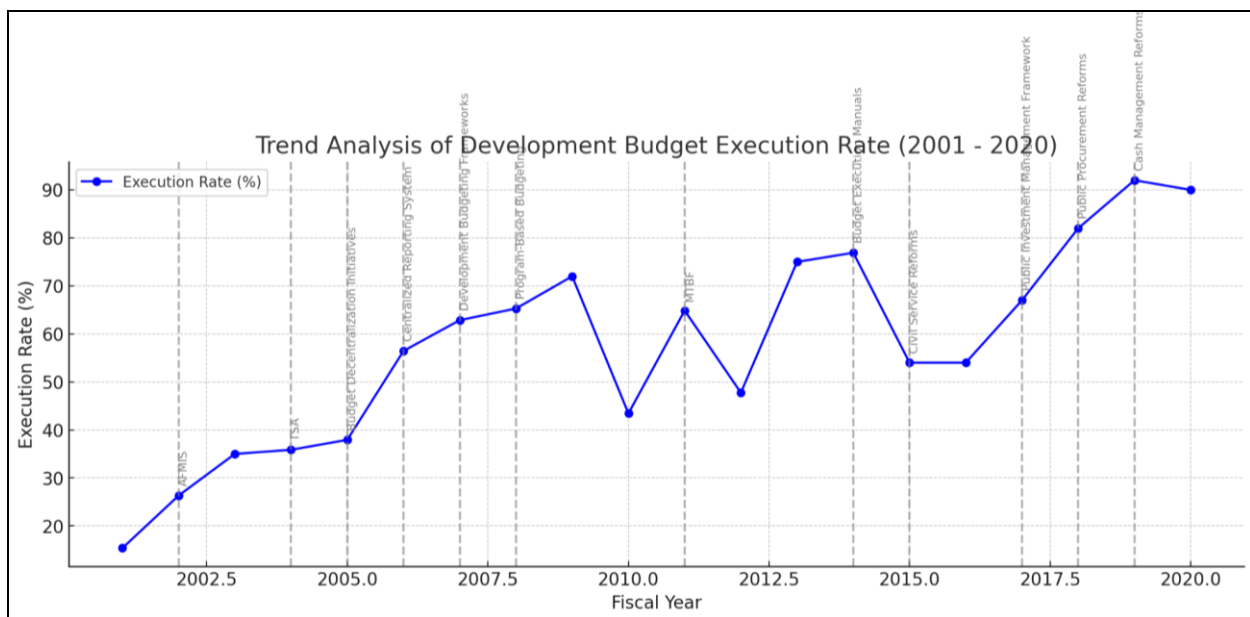


Fig 1

The trend analysis highlights variations in Afghanistan's development budget execution rate over time and the impact of key PFM reforms. The execution rate began at 15.38% in 2001 and rose to 37.93% by 2005. Initial reforms, such as the implementation of AFMIS in 2002 and the TSA in 2004, contributed to moderate improvements by fostering early PFM capacity. The introduction of a centralized reporting system in 2006 and subsequent initiatives like program-based budgeting in 2008 and budget execution manuals in 2014 significantly enhanced execution rates, reaching approximately 76.9% in 2014. From 2016 to 2020, execution rates stabilized and maintained growth, aided by reforms in public investment management (2017), procurement processes (2018), and cash management practices (2019), helping sustain rates above 80%. Major reforms, such as the centralized reporting system, program-based budgeting, and public procurement reforms, were linked to substantial improvements, indicating their positive effect on development budget execution. Recently, execution rates have stabilized around 90%, likely reflecting the cumulative impact of ongoing PFM reforms aimed at enhancing budget efficiency.

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Table 3: Descriptive Analysis of Development Budget Execution Rate Over Time and The Effect of Key PFM Reforms (2001-2020)

Phases of Analysis	Development budget execution Rate (%)	Standard deviation (%)	Characteristics
Overall (2001–2020)	Mean: 57.7	21.0	Moderate variability, range from 15.38% to 92.0%.
	Median: 59.7		
	Range: 15.38% - 92.0%		
Phase-Wise Analysis of Development Budget Execution Rates			
Initial Phase (2001–2005)	Average: 30.1	9.3	Low execution rates reflecting foundational challenges and early-stage reforms (AFMIS, TSA).
Implementation Phase (2006–2015)	Average: 61.9	11.3	Significant increase in execution rates due to comprehensive reforms (centralized reporting, program-based budgeting, MTBF).
Stabilization Phase (2016–2020)	Average: 77.0	16.2	Higher rates supported by improvements in public investment management and procurement, with greater variability.

Development budget execution rates increased considerably with each phase, particularly with the adoption of structural reforms (from 2006 onwards). The rise in development budget execution rates across time and across reform phases suggests that the reforms had a positive impact, notably during the "implementation" and "stabilization" phases.

Time series analysis: The time series graph displays variations in the development budget execution rate over time, with a general upward trend until around 2019, when it stabilizes. This tendency helps to explain why development budget execution rates have stayed steady in recent years, most likely due to cumulative reform impacts. Trends and seasonality of budget execution rates over time, particularly when any shifts correlate with specific reforms.

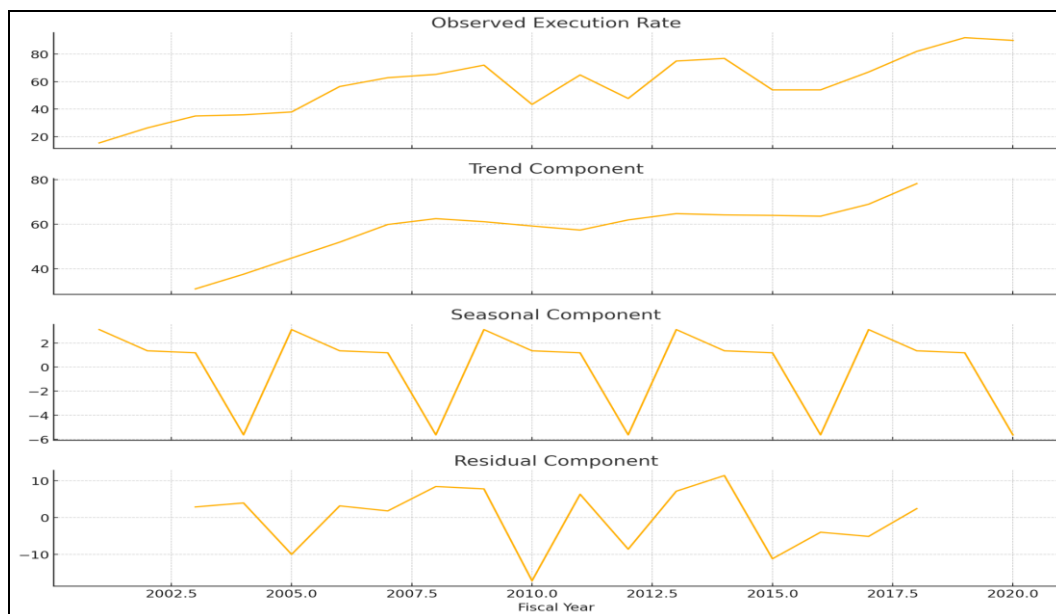


Fig 2

The chart shows that budget execution rates improved following the enactment of reforms, with fluctuations likely tied to the scope of the reforms and prevailing government conditions. The observed component displays the actual development budget execution rate over time, marked by shifts but an overall upward trend. The trend component highlights a significant increase in development budget

execution, particularly after 2004, coinciding with major PFM reforms. The seasonal component indicates minimal seasonal variation, suggesting that execution rates do not follow predictable annual patterns. The residual component captures the variance not explained by trend or seasonality, reflecting some random deviations likely due to external or unforeseen factors.

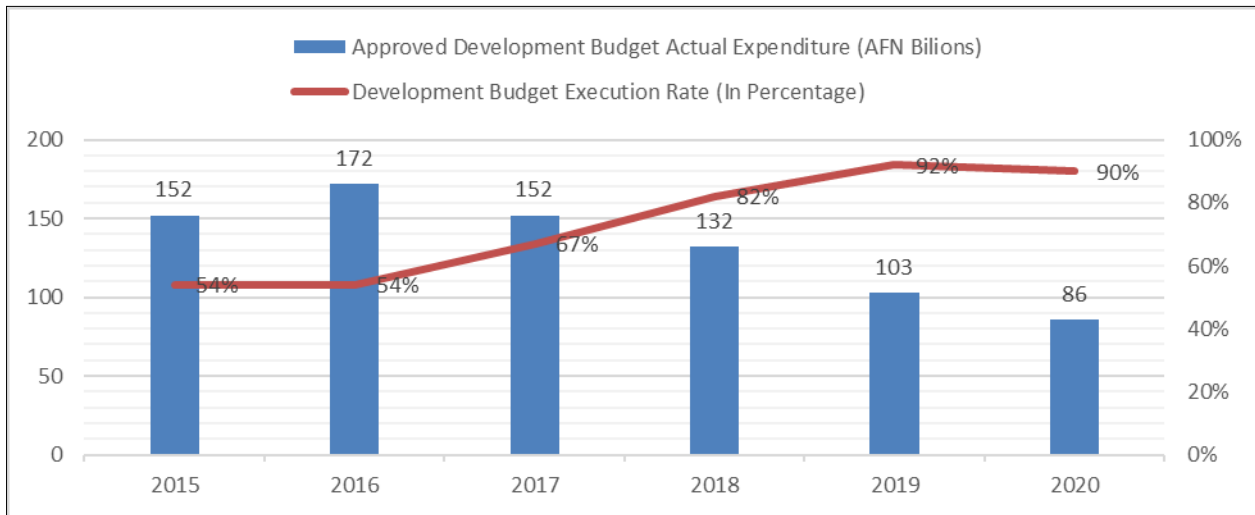


Fig 3: Share of Approved and Executed Development Budget Between 2015 to 2020

The figure illustrates a significant issue with under-execution of Afghanistan’s development budget between 2015 and 2020. During this period, national budgets were implemented at varying rates, with an average execution rate of 73%. In 2015, only about 67% of the development budget was utilized, but efforts to improve efficiency raised this rate to around 82% by 2018. Despite these improvements, development budget execution rates remained lower than those for operational budgets, primarily due to challenges in project implementation and security concerns. Over these six years, the allocated development budget declined steadily, from 152 billion AFN in 2015 to 86 billion AFN in 2020. This reduction may reflect shifts in government priorities, changes in funding sources, economic constraints, or strategic decisions to limit development spending. However, actual expenditures continued to fall short of approved budgets, with significant portions of the budget remaining unspent. These low execution rates suggest persistent issues, such as administrative bottlenecks, capacity limitations, project delays, and mismatches between budget allocations and actual needs. The gap between approved budgets and actual expenditures raises concerns about the efficiency and impact of development initiatives, potentially resulting in unmet development needs and missed opportunities for economic and social progress. Improving development budget execution will require thorough evaluations of development plans, targeted resource allocation, and stronger project management to ensure more effective use of funds.

The Key Challenges of Development Budget Execution in Afghanistan

Numerous factors have been identified in the literature as contributing to the low budget execution in developing countries, including low capacity, inefficient national systems, centralized systems, a lack of M&E, a lack of security, a lack of internationally recognized standards, and a lack of donor commitment (Mujeri & Alam, 2011; Dabla-Norris et al., 2012; Kettlewell et al., 2014). A research by equality for peace and democracy identifies four primary reasons that contribute to the poor rate of budget execution: 1. Unrealistic budget formulation, 2. Significant budget carryovers from prior years, 3. deteriorating security situations across the country, and 4. the government’s

limited ability to carry out projects and meet deadlines (EPD, 2016).

In Afghanistan low execution rates of development budget stem from several key factors. These include low absorption capacity within line ministries, cash shortages, delays in donor disbursements, overly optimistic budget projections, and incrementalism in budget formulation World Bank. (2020). Additional challenges, such as centralized planning and budgeting, lengthy decision-making processes, ineffective administrative structures, limited staff capacity, and security issues, further hinder effective budget execution by ministries (Samirullah, 2016). The primary causes for the low development budget execution rate in Afghanistan include: 1. weak project planning and execution capabilities within ministries and agencies; 2. inefficiencies in the PFM system, particularly in fund allocation, release, and payments (Byrd, W. A., 2018); 3. unrealistic budget targets; 4. lack of coordination on development projects between the government and donors (ISE, 2019); 5. security challenges (Azeem, M. & Khan, K., 2019) [8].

A report by Integrity Watch (2017) further highlights centralized planning, slow decision-making, ineffective administration, limited human resource capacity, and security concerns as major obstacles, along with delayed donor payments. Ruhani & Khan (2019) also cite factors like insufficient capacity, corruption, inadequate oversight, poor time management, and instability as reasons behind the low budget execution rate. According to Ashraf & Blum (2016), centralized planning and poor coordination between line ministries contributed significantly to the subpar implementation of budgets and programs (Saltmarshe & Medhi, 2011). One approach used from 2014 to 2017 to address low execution rates was the carryforward mechanism, which allowed unspent funds to be transferred to the next fiscal year. However, this practice often worsened implementation deficiencies. Based on USAID (2015), guide to PFM common challenges in budget execution include: organizational and institutional hurdles; cash management issues; waste, fraud, and abuse; administrative process and policy constraints; and accounting procedure challenges. Based on the search findings, specific budget execution challenges in Afghanistan include: Security Instability: Ongoing conflict and insurgency have disrupted government activities and

delayed development projects. Corruption: Violations of procurement laws, unauthorized purchases, budget over-expenditures, bid-rigging, and acceptance of inflated prices have created opportunities for corruption. Issues such as payments to ghost workers and lack of verification in payment orders further undermine the process. Limited Capacity: Poor administrative and financial management capabilities in government agencies hinder effective budget execution, as many public servants lack essential financial management skills. Dependence on Foreign Aid: Afghanistan's budget relies heavily on foreign aid, making budget execution susceptible to changes in donor priorities. Further compounding these budgeting challenges are security concerns, capacity limitations, and scarce resources across the provinces (Byrd & Farahi, n.d.).

Analyzing of the Effectiveness of PFM Reforms on the Budget Execution in Afghanistan

PFM reforms significantly improved budgeting efficiency in Afghanistan by streamlining processes and strengthening oversight. Key reforms included implementing a TSA, which consolidated all government accounts into a single Treasury account, reducing the risk of fund misallocation and enhancing expenditure control (SIGAR, 2021). The establishment of the AFMIS enabled real-time tracking of revenues and expenditures, increasing transparency and accountability in financial management (MoF, 2019). AFMIS provided a comprehensive platform for budgeting, accounting, and reporting, with over 99% of the government's budget implementation recorded through the system, enhancing the speed, accuracy, and efficiency of budget execution (Free Balance, 2011). PFM reforms also introduced program-based budgeting to link budget allocations to performance outcomes, improving the efficiency of public spending (World Bank, 2021). Additional measures strengthened the Supreme Audit Office (SAO), legislative oversight, and monitoring systems to ensure responsible financial decision-making and the proper use of public funds. To support these initiatives, government officials received training on effective budget execution, and anti-corruption measures targeted corrupt spending practices, especially in procurement. Other notable reforms included modernizing the chart of accounts, revising budget classifications, and centralizing cash management. The transition to a TSA and the deployment of an IT-based Integrated Financial Management Information System (IFMIS) improved control, monitoring, and automation in budget execution. The successful computerization of Treasury systems further streamlined essential payment and financial reporting processes, supporting more effective budget execution across Afghanistan.

Material and Methods

This study analyzed the impact of PFM reforms on development budget execution in Afghanistan using data from national budget documents, PEFA assessments, public expenditure reviews (PERs), fiscal transparency evaluations (FTEs), budget briefs, and public expenditure tracking surveys (PETS). Secondary data from independent studies by academics and experts provided additional insights into PFM reform, budget execution, and public finance. Grounded in principal-agent theory, New Public Management (NPM) theory, and institutional theory, the study employed an ex post facto, descriptive, mixed-

methods research design. Existing literature was reviewed, and findings were synthesized to assess the effects of PFM reforms on Afghanistan's development budget execution. The research questions were formulated based on a systematic literature review, following Wallace et al. (2005), which established inclusion and exclusion criteria, search strategies, and quality appraisal standards. The study aimed to answer two questions: (1) How have PFM reforms affected the development budget execution rate in Afghanistan? and (2) What are the perceived challenges and future prospects for improving budget execution? Both qualitative and quantitative methods were used for data analysis. Consistent with Basak and Govender (2015), this study met five quality criteria for validity and trustworthiness, providing a rigorous foundation of credible, relevant, and experimentally valid sources. The research questions and theoretical frameworks applied were well-structured and substantiated.

Results and Finding

The analysis of Afghanistan's development budget execution from 2001 to 2020 reveals notable fluctuations, with a general trend of budget underperformance. Execution rates varied annually, with some years showing marked fluctuations, especially during periods of political instability. Figure 1 illustrates the yearly execution rates, revealing the lowest rate of 15.38% in 2001 and a peak of 92% in 2019. On average, the execution rate was 57.71%, impacted by challenges such as political instability and security issues. The econometric analysis in Table 3 indicates a statistically positive relationship between key PFM reforms and improved development budget execution rates. However, this impact is constrained by challenges such as institutional capacity limitations, political and security instability, and dependency on foreign aid. Specific reforms such as program-based budgeting, budget decentralization, AFMIS, TSA, MTBF, cash management, PIM reforms, procurement reform, and enhanced financial reporting had positive effects on execution rates, though to varying degrees. The success of PFM reforms in improving budget execution depends on several factors, including institutional strength, public sector capacity, and broader political conditions. While PFM reforms have significant potential to enhance budget execution, their effectiveness is contingent on the local context in which they are implemented.

Conclusion

This study on PFM reforms and their impact on Afghanistan's development budget execution highlights both their potential and limitations. Despite substantial efforts, these reforms have faced challenges in achieving effective budget execution due to structural, political, security, and economic constraints. Weak institutional capacity, limited human resources, and frequent political shifts have hindered the consistent implementation of development budgets. Going forward, a reassessment of reform priorities is essential. Strengthening institutional capacity, enhancing budget flexibility, and fostering partnerships with international stakeholders could significantly improve budget execution. To realize the full potential of PFM reforms, it is crucial to address governance issues, invest in capacity-building, and adapt reforms to Afghanistan's unique context. Historically, Afghanistan's PFM reforms

have emphasized economic objectives through formal public finance institutions, possibly misaligned with broader governance needs. While challenges remain, a targeted, context-sensitive approach to PFM reform offers the potential to improve development budget execution. Future research should examine the long-term effects of PFM reforms, compare Afghanistan's experience with other conflict-affected nations, explore innovative tools like digital financial management systems and blockchain technology, and assess the socioeconomic impacts of improved budget execution on poverty reduction, service delivery, and economic stability.

Research Question

1. How have the public financial management reforms influenced development budget execution rate in Afghanistan?
2. What are the perceived challenges and future prospects associated with the low execution rate of the development budget in Afghanistan?

Recommendations

This research on how PFM reforms affect Afghanistan's development budget execution has identified a number of areas such as donor aids reliance, political instability, corruption, and institutional weaknesses that need focused attention. The following recommendations made herein are based on the study findings and conclusions that could help improve PFM reforms and budget execution in Afghanistan.

1. Research findings reveal that the primary causes of Afghanistan's low development budget execution include limited technical capacity in line ministries, cash shortages, fund disbursement delays, overly optimistic budget projections, and incremental budgeting practices. To address these issues, the following recommendations are proposed: Provide public sector employees with structured training in project management, financial analysis, and budgeting to improve budget planning and execution; The Ministry of Finance should focus on creating realistic budgets aligned with government priorities and available resources; Strengthen expenditure tracking across all levels of government and increase domestic revenue collection to ensure sustainable funding; Implement a multi-year budgeting system to improve financial stability and predictability; Enhance coordination with international donors to improve aid distribution, as well as monitoring and evaluation. These measures will help the Afghan government better monitor project performance and use budgetary funds efficiently, improving development budget execution rates.
2. To address the challenges in Afghanistan's development budget execution, such as political and security instability, limited human capacity, foreign aid dependency, corruption, and institutional capacity gaps, context-specific, to counter security and capacity challenges, the government should develop contingency plans, decentralize budget authority, invest in staff training, strengthen anti-corruption measures, and diversify financing sources. In addition, leveraging technology for budget management and creating a results-oriented framework will help select projects based on measurable outcomes. These steps can build

public trust, foster accountability, and support Afghanistan's progress in PFM reform and budget execution.

3. To improve the effectiveness of PFM reforms, the Afghan government should prioritize essential reforms that strengthen basic budget functions. Given limited resources, a gradual approach is recommended over rapid, "big-bang" reforms, which have often led to adverse effects in fragile states. Key priorities should include: ensuring budget processes link expenditures with policy and sector priorities; implementing controls, such as payroll monitoring; improving financial reporting across central government entities; Strengthen auditing processes and ensure follow-up on audit findings. As highlighted by Andrews (2010) ^[4], success of PFM depends on building foundational elements like budget preparation, maintaining a clear chart of accounts, implementing a consolidated cash management system, automating Treasury processes, tightening commitment controls, and enhancing financial reporting. These targeted steps will help achieve effective, sustainable PFM reform.

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