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## **EVALUATING THE EFFECTIVENESS OF PUBLIC FINANCIAL MANAGEMENT REFORMS ON BUDGET CREDIBILITY: A CASE STUDY OF AFGHANISTAN**

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### **ABSTRACT**

The present study evaluates the scope to which the public financial management (PFM) reforms influence the budget credibility in Afghanistan. Budget credibility is critical for fiscal discipline, service delivery, and economic stability and is defined as the government's ability to stick to its projected budget. This study analyzes how PFM reforms have improved the credibility of the budget in Afghanistan. The study identifies both successes and challenges in reform implementation as well. This study employs a qualitative approach. The study found that low budget credibility in Afghanistan is primarily due to low development budget execution rates and overestimated revenue forecasts. Moreover, the study revealed that key reforms, including the Treasury Single Account (TSA) and Afghanistan Financial Management Information System (AFMIS), have played critical roles in strengthening budget credibility in the country. The findings emphasize crucial elements that affected budget outcomes and make recommendations for upgrading PFM systems in order to sustainably improve budget credibility and maintain long-term budget credibility in the unstable situation of Afghanistan. The study ends with policy suggestions targeted at strengthening institutional capacity, boosting anti-corruption measures, improving donor cooperation, and ensuring political stability. This study may contribute to the growing body of knowledge on PFM reforms in developing countries.

**Keywords:** PFM, PFM Reforms, Budget Credibility, PEFA.

### **Research Questions:**

1. What are the main challenges of budget credibility in Afghanistan?
2. How have the PFM reforms affected budget credibility in Afghanistan?

## 1. Introduction

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 sector. The PFM reform program is one of several pillars of the public sector reform program (ERWC, 2007). 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 implementation, while others give a higher priority to governance aspects, including planning, budgeting, and external auditing (Morgner, 2013).

PFM reform can be defined as purposeful changes to budget institutions aimed at improving their quality and outcomes. A lack of budget credibility is frequently the main issue of PFM reforms for many developing countries. In recent years, there has been a substantial growth in the number of international projects that propose PFM reforms for developing countries. The Sustainable Development Goals (SDGs) emphasize the importance of credible government budgets<sup>1</sup>, as reflected in SDG indicator 16.6.1. The Public Expenditure and Financial Accountability (PEFA) framework assesses budget credibility as a key indicator of PFM performance. The IMF<sup>2</sup> also promotes fiscal credibility, which considers governments' credibility in managing public finances and adhering to long-term targets.

Maintaining budget credibility in Afghanistan has been especially difficult due to a history of political instability, corruption, and institutional shortcomings (Farahi, 2021). The government of Afghanistan's PFM reforms were launched to solve these difficulties and improve budgetary outcomes. Key initiatives included the creation of a Treasury Single Account (TSA), developing the Afghanistan Financial Management Information System (AFMIS), and installing more stringent auditing and reporting requirements. These reforms sought to promote fiscal discipline, increase transparency, and strengthen institutional capability. However, the effectiveness of these reforms in establishing and maintaining budget credibility is still being debated. The research on PFM reforms and their influence on budget credibility is insufficient, especially in post-conflict and fragile states such as Afghanistan. While there is increasing evidence that PFM reforms enhance the PFM system (Fritz 2012; IMF 2017; Williamson 2015), however, it is still unclear if these reforms ultimately raised the budget's credibility. A qualitative investigation of eight fragile countries revealed a lack of relationship between the overall improvements in PFM systems and the achievement of budget credibility (World Bank 2012).

Despite notable improvements in Afghanistan's PFM systems over the past two decades, budgeting continues to pose significant challenges. The 2018 PEFA assessment, which reviewed the years 2014-2016, described the government's PFM system as having "low budget credibility. On the other hand, the persistent security challenges, along with the political and economic instability that have long plagued Afghanistan, have received less attention for their impact on PFM reforms. Specifically, the connection between these instabilities and budget credibility has not been thoroughly explored. Therefore, this study

<sup>1</sup> Reliability of government budgets. <https://databank.worldbank.org/reports>.

<sup>2</sup> The IMF Fiscal Transparency Code, dimension 2.4 on the credibility of economic and fiscal forecasts and budgets.

examines the effects of political and economic instability on the implementation of PFM reforms and their subsequent impact on budget credibility in Afghanistan. Additionally, the implementation of PFM reforms by specific ministries and local governments in Afghanistan, as well as their impact on budget credibility across different administrative levels, remains poorly understood. Moreover, there is a lack of studies that have assessed the influence of PFM reforms on budget credibility over time in Afghanistan. Finally, there is a gap in research comparing the success of PFM reforms in Afghanistan to other fragile or post-conflict governments, which would have shed more light on the particulars of Afghanistan and the lessons that may be applied in other situations. Therefore, the primary objective of this study is to examine how PFM reforms in a post-conflict state like Afghanistan have influenced budget credibility. It evaluates the success of these reforms, points out issues that still need to be resolved, and makes policy suggestions to strengthen such initiatives in the future. The study's findings are expected to provide significant insights for other financial officers and state builders seeking to increase budget credibility in comparable situations.

### **1.2 Concept of PFM Reforms**

Reform refers to beneficial change. PFM reform is a central feature of fiscal policy. Like many other concepts in social science studies, PFM reform has different meanings to different scholars, and there is no universally accepted definition. Scholars from different disciplines have viewed and interpreted reforms (Quah, 1976). The most common definition is, that PFM reform led by a country's own Ministry of Finance, using FMIS<sup>3</sup> 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.

### **1.3 Concept of Budget Credibility**

Budget credibility is relatively a new term<sup>4</sup>. Many people are unfamiliar with it, and it is not often utilized in media or public conversation. Budget credibility is critical for efficient PFM because it ensures that government expenditure aligns with approved budgets, promoting trust and efficiency (IMF, 2014). High budget credibility shows that the government uses public funds as expected, hence enhancing trust and efficiency in PFM. Low budget credibility, on the other hand, indicates considerable differences between projected and actual expenditure, which may undermine policy execution and fiscal discipline (World Bank, 2013). Budget credibility have a substantial influence on funding for social and economic programs that benefit poor individuals, particularly in countries with low incomes (De Renzio et al, 2019). A credible budget should have minimum variations from authorized allocations, both aggregately and by composition (Mustapha, 2019). Budget credibility is a key component of fiscal discipline and financial stability, and defined as a government's ability to keep its budgetary commitments (Allen and Tommasi, 2001). International Budget Partnership (IBP), defined budget credibility as a government's ability to fulfill its revenue

<sup>3</sup> Financial Management Information Systems (FMIS) are defined as a set of automation solutions that enable governments to plan, execute, and monitor the budget by assisting in the prioritization, execution, and reporting of expenditures, as well as the custodianship and reporting of revenues (Fritz et al., 2012).

<sup>4</sup> Investigating Budget Credibility: A Toolkit for Civil Society Organizations at: <https://internationalbudget.org>

and expenditure targets for the fiscal year<sup>5</sup>. According to PEFA framework<sup>6</sup> budget credibility is defined as a whether the government budget is realistic and implemented as intended. That is measured by comparing actual revenues and expenditures with the original approved budget. Three dimensions of budget deviations can be examined for budget credibility: (1) expenditure deviations, (2) revenue deviations, and (3) deviations in spending composition<sup>7</sup>.

**Table (1): PEFA indicators for budget credibility performance**

PI - 1	Aggregate expenditure outturn compared to original approved budget
PI - 2	Composition of expenditure outturn compared to original approved budget
PI - 3	Aggregate revenue outturn compared to original approved budget
PI - 4	Stock and monitoring of expenditure payment arrears

According to the PEFA methodology, countries in which deviations between actual expenditures and budgeted expenditures were less than 5 percent in the last two or three years receive a score of A or 4. On the other end, countries in which deviations between actual and budgeted expenditures were greater than 15 percent in two or three of the last three fiscal years receive a D or 1. For evaluating government budget credibility, data from in-year reports (IYR), mid-year reports (MYR), and end-year reports (YER) are essential.

#### 1.4 Relevant International Standards on PFM Reforms and Budget Credibility

Several international standards for PFM and budgeting emphasizes the significance of government budget credibility and PFM reforms. Sustainable Development Goal 16<sup>8</sup> emphasizes budget credibility for effective, accountable, and transparent institutions. The PEFA initiative assesses PFM systems' strengths and limitations using quantitative indicators, with research showing a strong correlation between average performance and budget credibility. Moreover, the IMF's fiscal transparency code<sup>9</sup> suggest the following three elements for budget credibility 1. Independent evaluation 2. Authorization of supplementary budgets, 3. Forecast reconciliation. Furthermore, the OECD Principles of budgetary governance provide practical guidance for designing, implementing, and improving budget systems it emphasize clear, credible, and predictable fiscal policy limits, aligning budgets with government's medium-term strategic priorities, and providing a comprehensive, accurate, and reliable public finance.

## 2. Literature Review

In order to ensure that governments can effectively plan, distribute, and manage public resources, PFM reforms are essential. On the other hand maintaining fiscal discipline and economic stability depend on the credibility of the budget (Andrews, 2007). Fundamental reforms such as budget credibility should be prioritized over advanced frameworks and program budgeting (Hedger, E., Krause, P., Tavakoli, H. & Fritz, V. 2012). Fritz, Sweet, and

<sup>5</sup> Paolo de Renzio, Jason Lakin, and Chloe Cho, 2019. Budget Credibility across countries: How Deviations are Affecting Spending on Social Priorities, IBP. at <https://internationalbudget.org/publications/budget-credibility-across-countries>

<sup>6</sup> PEFA Handbook Volume 1: The PEFA Assessment Process – Planning, Managing and Using PEFA <https://www.pefa.org/resources/pefa-2016-framework>

<sup>7</sup> Paolo de Renzio and Chloe Cho, 2020. "Exploring the determinants of budget credibility" <https://internationalbudget.org/wp-content/uploads/determinants-of-budget-credibility-june-2020.pdf>

<sup>8</sup> United Nations A/RES/71/313 "Global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development". <https://unstats.un.org/sdgs/indicators/indicators-list>

<sup>9</sup> The Fiscal Transparency Code 2019: <https://www.imf.org/external/np/fad/trans/Code2019.pdf>

Verhoeven, (2014). Studies indicated that improved PFM systems lead to greater budget execution rates and credible budgets in the countries. According to Cangiano et al., (2013). Achieving budget credibility requires effective PFM systems because they offer the foundation for the creation and execution of fiscal policies. The IMF paper titled "budget credibility in theory and practice" identifies three drivers of budget non-credibility such as the inevitability of a lack of knowledge about how the future will unfold (uncertainty); the inability of the executive's head to fully control his subordinates (unruly agents); and the desire of the executive's head to gain the support of external stakeholders by publishing a budget that does not truly intend to undertake (signaling), these drivers highlighting the poor forecasting of revenue and expenditure in many countries (Simson, R., and B. Welham, 2014). Kristensen, Bowen, et al., (2019). Find that better PFM performance is associated with more credible budgets in terms of expenditure composition in fragile states, but not aggregate budget credibility. DeRenzo & Chloe Cho's (2021). studies on the determinants of budget credibility. Their findings indicate that enhancing revenue planning and forecasting, along with other PFM system quality and components, including controls during budget execution, contributed to higher credibility of the budget in aggregate and compositional terms. According to Sarr (2015), a transparent budgeting system promotes credibility and reliability of budget. Mustapha (2019) found that in nonfragile countries, stronger PFM systems enhanced budget credibility. Although its impacts on overall budget credibility are smaller, in fragile governments there is a strong and statistically significant association between PFM system quality and compositional credibility of budget. Addison (2013), found that there is a positive association between accurate budget composition and higher PFM quality, but only a minor correlation between PFM quality and aggregate expenditure deviation.

## 2.1 Overview of Budget Credibility in Afghanistan

Afghanistan's budget trends between 2005 and 2020 showed that the government had very low outturn both for revenues and expenditures. Collecting less revenues than projected and spending less than was allocated. The PEFA assessment reports show that due to a lack of actual and insufficient implementation expertise, optimistic projections, particularly for development expenditures, budget credibility was low in Afghanistan.

**Table(2): Results Matrix of Aggregate Expenditure And Revenue Outturn Compared to Original Budget Based on PEFA<sup>10</sup> Indicators Assessment (2005-2020)**

	2005	2008	2013	2018
<b>Performance Indicators</b>	PEF A Scor e	PEF A Scor e	PEF A Scor e	PEF A Scor e
PI- 1. Aggregate expenditure out-turn compared to original	C	D	C	D

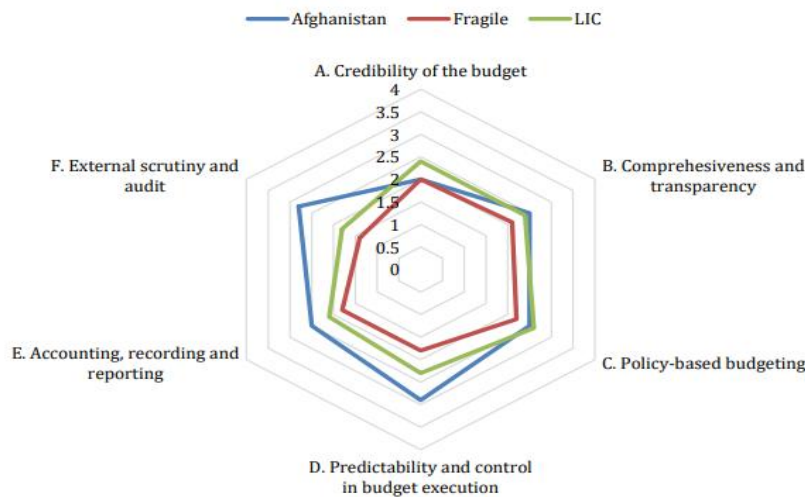
<sup>10</sup> The methodology behind the ratings system is set out in the PFM performance measurement framework, produced by the Public Expenditure Working Group (World Bank, IMF and Joint Donor PEFA Unit), available at <http://www.pefa.org/Documents.htm>.

approved budget				
PI-2. Composition of expenditure out-turn compared to original approved budget	C	D	D+	D+
PI-3. Aggregate revenue out-turn compared to original approved budget	A	A	C	D
PI-4. Stock and monitoring of expenditure payment arrears	C	D+	C+	NA

Source: PEFA assessment reports.

The figures of above table shows significant deviations between budgeted amounts and actual out-turns from 2005 to 2018. Performance indicator PI-1, PI-2 equal to D indicate that aggregate expenditure outturns exceed original budget by more than 20% in each of the last three years. Also variance in expenditure composition by functional classification was greater than 15% in each of the last three years. Such variations undermine the predictability and availability of budget allocations to key service delivery agencies. According to Renzio et al. (2019), underspending of the budget influenced areas that are critical to socioeconomic development, such as agriculture and social infrastructure, potentially adversely impacting people's well-being.

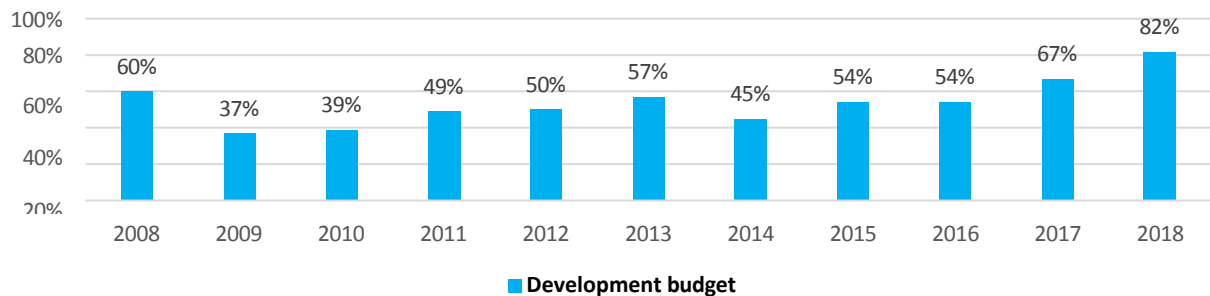
**Figure 1: Afghanistan PEFA scores**



### 1.3 Causes of low budget credibility in Afghanistan

Low budget credibility in Afghanistan is a complex issue caused by various factors. Studies indicated that one of the main reasons for this issue is the low execution rate of development budget (under-execution of the development budget), particularly in development projects. Between 2008 and 2018, only on average of 60% of the development budget was implemented in Afghanistan (Byrd & Clark, 2017).

**Chart1:ExecutionrateoftheDevelopmentBudgetover(2008 -18)**



The above chart shows that development budget execution during the previous 10 years varied considerably. Low execution rates of development budget<sup>11</sup> are caused by a combination of the low absorption capacity of line ministries, late disbursement of funds by donors and overly optimistic budget projections. Also the implementation of budgets has been inconsistent in Afghanistan due to political instability and governance challenges (SIGAR, 2021). According to World Bank 2021 analysis, although the introduction of AFMIS and TSA facilitated to strengthen fiscal discipline, Afghanistan's budget execution rates continued to be unstable due to persistent political and security issues. Additionally, the absence of modern infrastructure and technology systems, poor accounting, auditing, and reporting processes, and comprehensive financial management systems further impede budget implementation. According to De Renzio, P., & Cho, C. (2020). Poor revenue predictions and economic shocks are among the most noticeable causes of variations between budgeted and actual expenditures. Moreover, the research findings indicate that several factors contribute to low budget credibility in Afghanistan, making it challenging to evaluate and address the root causes. These factors include inadequate justifications for budget deviations, legislative interference, inefficient procurement procedures, unrealistic revenue estimates, and delays in revenue collection, lack of budget transparency, and weak accounting and reporting frameworks.

### 2.3 Key challenges of budget credibility in Afghanistan

Budget credibility in Afghanistan has experienced many challenges, particularly in context of the country's complicated political, economic, and security concerns. These are some of the key challenges of budget credibility in Afghanistan: **Economic instability**, high inflation and currency exchange rate volatility complicated budget preparation and execution, that often leading to frequent budget revisions and deviations (World Bank, 2020). **Political instability**, frequent government and political leadership changes have led to inconsistent policies and shifting priorities, disrupting both budget preparation and execution. Moreover, widespread corruption across various levels of government, coupled with poor governance structures, has historically posed significant challenges to the effective allocation and utilization of budgetary resources, which are crucial for maintaining budget credibility

<sup>11</sup>World Bank. (2020). Afghanistan Public Expenditure Review 2020: Navigating Fiscal Challenges. World Bank.

(World Bank, 2020). Another challenge to budget credibility in Afghanistan is the **persistent security concerns**, ongoing conflict and insecurity in many parts of Afghanistan have disrupted economic activities, reduced revenue collection contributed to significant deviations between projected and actual budget outcomes (IMF, 2021). Frequent attacks on infrastructure, human losses, and fluctuating control over regions have further disrupted reform efforts. The country's budgeting process is further complicated by security concerns, capacity limitations, and scarce resources in the provinces (Byrd & Farahi, n.d.). **Reliance on foreign aids** has significantly influenced Afghanistan's PFM reforms (SIGAR, 2021). The pace and scope of PFM reforms have often been driven by donor-led initiatives, which provide both financial and technical assistance (World Bank, 2018). However, Afghanistan's heavy reliance on foreign aid has hindered the sustainability of PFM reforms, as the financial management practices are frequently shaped by donor priorities and conditions. These priorities may not always align with the country's long-term development goals or national needs. According to Bhatia (2017), this external influence has sometimes led to disconnect between donor objectives and domestic needs, complicating the sustainability of reforms. Additionally, Afghanistan's dependency on foreign aid, coupled with a weak domestic revenue base, make its budget particularly vulnerable to fluctuations in donor funding and domestic revenue collection. Byrd (2019) argues that this reliance threatens the stability and predictability of the budget. The volatility and unpredictability of donor funds create uncertainty in the budgeting process, which in turn undermines efforts to maintain budget credibility; Furthermore, **institutional weaknesses and corruption** pose substantial challenges to obtaining budget credibility through PFM reforms. These concerns diminish public trust in financial management systems and make reforms less effective. Corruption causes public funds to be misallocated and embezzled, weakening the budget process's integrity. Kickbacks, bribery, and false reporting have occurred, diverting resources away from their intended aims and lowering the effectiveness of public expenditure.

### 3. Overview of the Key PFM Reforms Implemented in Afghanistan

Afghanistan's PFM system has undergone several reforms since 2001, transitioning from a state of emergency to a more disciplined framework. These reforms include developing a legal, institutional, and operational framework, implementing modern budget tools, and automating payment systems. Between 2001 and 2005, initial reforms aimed to restore essential fiscal operations such as budget formulation, execution, and reporting. The Ministry of Finance was established as the principal authority for managing fiscal policy and implemented initial budgeting processes (World Bank, 2008). Between 2006-2015, intermediate reforms focused on deploying more complex PFM tools and systems, such as the Afghanistan Financial Management Information System (AFMIS) and the Treasury Single Account (TSA) (MoF, 2019). Recent reforms (2016) have focused on improving the effectiveness of existing systems, budget formulation and execution, budget credibility, public expenditure management, and further integrating international best practices into Afghanistan's PFM framework (World Bank, 2021).

The Afghan government provided the PFM roadmap<sup>12</sup> in 2010 to strengthen PFM over a three-year period, focusing on revenue and customs administration reforms. The roadmap includes four components: strengthening the budget, improving budget execution, increasing accountability and transparency, and increasing line ministries' capacity to implement programs effectively. In addition to procurement reform, the PFM Roadmap includes external audit reform, expanding the SOE Department's financial control and legal power to state firms, and developing restructuring plans for four organizations<sup>13</sup>. Tax reforms in 2016<sup>14</sup> have been implemented to improve revenues and address potential decreased foreign aid funding. Various donor-funded projects, such as the World Bank-financed PFM reform project, DFID-funded programs promoting fiscal discipline, USAID-funded projects offering training and technical assistance in program budgeting, UNDP-launched the Making Budgets and Aid Work initiative, and AusAid-funded the Development Assistance Facility for Afghanistan (DAFA) initiative, have contributed to the enhancement of Afghanistan's PFM systems.

## 5. Material and Methods

According to Wallace et al. (2005), the evaluation procedure includes formulating the review question and conducting a systematic literature review. This approach establishes the focus and boundaries of the review and shapes all aspects of the process, such as the inclusion and exclusion criteria, search strategy, the volume of literature reviewed, quality appraisal, study design, and evidence synthesis. To evaluate the effectiveness of PFM reforms and budget credibility, the following reports and resources were used to collect and analyze data for this study: PEFA assessments which assess government's overall financial management performance, including budget credibility; Public Expenditure Reviews (PERs) reviews the efficiency and effectiveness of government expenditure; Fiscal Transparency Evaluations (FTEs) check the credibility of fiscal forecasts and budgeting; Budget briefs<sup>15</sup> are summaries of budget analysis that emphasize significant areas for advocacy and raise awareness about budget policies and funding issues; Public Expenditure Tracking Surveys (PETS)<sup>16</sup> monitor how funds flow from the government to service providers, identifying resource leaks or delays. Furthermore, existing literature of independent studies by individuals and academics which provided insight into PFM reform, budget credibility, budget implementation, monitoring, and public finance systems are used as secondary data, and the conclusions of this study were reached by compiling the key impact of PFM reforms on the budget credibility in Afghanistan. This study used both theoretical and empirical data from exploratory and observational research, as well as qualitative

<sup>12</sup>MoF (2010): "PFM Roadmap," July 14.

<sup>13</sup> Afghanistan Reconstruction and Development Services (ARDS): <http://www.ards.gov.af/>

<sup>14</sup> PFM Roadmap Progress Reports 1-7 (August 2010 to August 2012). IMF Reports

<sup>15</sup> Examples of the budget briefs produced by UNICEF teams in the East and Southern Africa Region are available at <https://www.unicef.org/esa/reports/budget-briefs>

<sup>16</sup> For guidance on how to conduct a PETS see Guidebooks from the World Bank at <http://hdl.handle.net/10986/2502> and <https://ssrn.com/abstract=3486002>

research approaches for data analysis. As a result, as stated by Basak and Govender (2015), the study met all five quality rating criteria for validity and trustworthiness. The selected data and research papers were substantial, acceptable, reliable, and experimentally valid. Additionally, this study was grounded in sound research questions and theory.

## 6. Results and Discussion

This study examined the effectiveness of Public Financial Management (PFM) reforms on budget credibility in Afghanistan. The findings reveal that these reforms have had varying impacts on budget credibility, with the primary challenge being the low execution rate of the development budget. The study identifies that the implementation of the Treasury Single Account (TSA) was a pivotal PFM reform. By consolidating government revenue streams into a single account, the TSA improved expenditure control and centralized financial resources. This reform reduced the risk of misallocation and significantly enhanced budget credibility. Additionally, the Afghanistan Financial Management Information System (AFMIS) has played a vital role in improving expenditure management. By enabling real-time tracking of financial transactions, AFMIS has led to more accurate budgeting and accounting processes. Another key finding is that the removal of non-performing projects from the budget contributed to an increase in the development budget execution rate, from 67% in 2014 to 92% in 2019.

PFM reforms have also expanded public access to financial information, fostering greater transparency and accountability. The Ministry of Finance has established online portals to disseminate budget documents, financial reports, and audit results. This enhanced transparency is crucial to budget credibility, as it ensures public funds are being utilized as intended and allows citizens to monitor government financial operations more effectively. The Supreme Audit Office (SAO) and the Afghanistan Reconstruction Trust Fund (ARTF) have strengthened financial audits within the government. Through the adoption of international auditing standards and stricter financial reporting guidelines, these bodies have contributed to improved oversight. Notably, the introduction of these reforms has led to a marked increase in budget execution rates. The percentage of budgeted expenditures spent rose from 65% in 2005 to over 80% by 2015, indicating a significant improvement in Afghanistan's budget credibility.

Despite these advancements, Afghanistan's budget credibility continues to face considerable challenges. Political instability, security concerns, corruption, and a heavy reliance on foreign aid remain significant obstacles. These factors contribute to budget deviations that erode trust in the budgeting process, resulting in Afghanistan's budget credibility being lower than the average for other low-income countries. While PFM reforms have positively impacted budget credibility in Afghanistan, persistent structural issues continue to undermine these gains. Addressing these challenges will be crucial to further enhancing the credibility of Afghanistan's budget system.

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## 7. Recommendations

Although Afghanistan has made significant progress in transforming its public financial management (PFM) systems through various reforms, substantial challenges remain in achieving sustainable budget credibility. Factors such as donor dependency, political instability, corruption, and institutional weaknesses continue to undermine the effectiveness of these reforms. Addressing these challenges requires a multidimensional approach, focusing on building institutional capacity, reducing corruption, enhancing donor cooperation, and promoting political stability. The recommendations provided are based on the findings and conclusions of the study.

1. The study found that the under-execution of the development budget was a major factor contributing to low budget credibility in Afghanistan. To enhance budget credibility, prioritizing budget execution within Afghanistan's Public Financial Management (PFM) reforms is essential. This requires identifying and addressing bottlenecks in the budget execution process, such as improving the ability of government officials to accurately forecast revenues, thereby minimizing the impact of inaccurate revenue projections. Closing gaps in technical skills, overcoming institutional barriers, and addressing political incentives are also critical for improving revenue forecasting. Further recommendations include streamlining procurement processes and implementing real-time monitoring of public sector spending, as suggested by Allen et al. (2013). Introducing or amending laws and regulations to limit budget deviations and ensure better checks and balances on executive discretion during resource reallocation is also vital. Additionally, efforts should focus on improving financial reporting and accounting practices, strengthening internal audit systems, and enhancing expenditure controls. Reform initiatives should aim to gradually but significantly strengthen core PFM functions. International experience shows that "big-bang" reforms, which attempt to rapidly overhaul PFM systems, have often resulted in negative outcomes. A more gradual approach is recommended, particularly for fragile states like Afghanistan. This gradual approach should initially focus on essential PFM building blocks, including (i) budget processes that align expenditures with policy and sectoral priorities, (ii) implementation of expenditure controls such as payroll management, (iii) ensuring adequate financial reporting by central government entities, and (iv) conducting proper financial audits and acting on audit findings. By addressing these key areas, Afghanistan can make meaningful progress in improving its budget credibility and strengthening its PFM system.
2. Study findings indicate that shortcomings in macroeconomic forecasting, which underpins fiscal projections, were another cause of low budget credibility in Afghanistan. Inaccurate estimates of GDP, inflation, interest rates, and other key factors are frequently cited as primary contributors to incorrect budget projections. Additionally, poor revenue estimates and economic shocks are common reasons for deviations between budgeted and actual expenditures. Consequently, the quality and reliability of macroeconomic forecasts forming the foundation for fiscal projections are critical to maintaining budget credibility. Weaknesses in this area can greatly widen the gap between projected and actual fiscal performance. It is, therefore, recommended that the Afghan government base its fiscal forecasts and budgets on accurate macroeconomic predictions. The budget should be anchored in a realistic macroeconomic framework, supported by reliable revenue projections.

3. Research findings indicate that political instability, poor political commitment, institutional weaknesses, corruption, and reliance on foreign aid significantly hinder the effectiveness of PFM reforms on budget credibility in Afghanistan. To enhance the effectiveness of these reforms, the following recommendations should be considered: To improve political stability, it is essential to support democratic institutions, promote free elections, strengthen legislatures, and encourage public participation in the political process. Also, political commitment is crucial for fostering PFM reforms. Establishing clear rules that limit political influence in budget formulation and execution processes will ensure that decisions are made based on sound financial principles rather than political expediency. Moreover, enhancing the capacity of financial organizations through training and development in budgeting, accounting, auditing, and reporting is vital. This improvement will promote better knowledge and implementation of PFM reforms, facilitating improved collaboration among government institutions for uniform and effective implementation. Furthermore, strengthening donor coordination and establishing a structured framework to align donor initiatives with national development plans and the PFM agenda is necessary. Standardizing donor reporting and accountability criteria will alleviate the administrative burden on government institutions. Additionally, encouraging multiyear financing commitments will enhance the stability and predictability of financial assistance. Last but not least, Afghanistan's PFM reforms are significantly impeded by corruption. It is recommended to enhance the independence of anti-corruption organizations by increasing transparency and strengthening anti-corruption legislation. Furthermore, promoting the capabilities of oversight bodies, such as legislatures and audit institutions, will enable closer monitoring of budget execution, hold leaders accountable, and prevent the initiation of infeasible projects.

### 8. Conclusion

This study evaluated the effectiveness of Public Financial Management (PFM) reforms on budget credibility in Afghanistan, revealing a complex and dynamic situation characterized by mixed outcomes. Key findings indicate that while significant progress has been made, ongoing challenges persist in establishing budget credibility. The implementation of reforms such as the Treasury Single Account (TSA), the Afghanistan Financial Management Information System (AFMIS), and independent monitoring institutions has led to improvements in budget execution rates, transparency, and control over government funds. However, challenges in budget execution, revenue mobilization, and expenditure management continue to undermine budget credibility. Additionally, external factors, including political instability, security issues, and dependence on foreign aid, have constrained the success of these reforms, creating an unpredictable environment. The study concludes that although PFM reforms have laid a foundation for improved budgeting processes, their effectiveness is contingent upon addressing underlying structural and contextual challenges. Future research should prioritize strengthening institutional capacity, enhancing revenue collection, and ensuring political commitment to fiscal discipline to achieve sustainable improvements in budget credibility. Furthermore, continued foreign aid and a stable political environment are essential for reinforcing these reforms and enabling the government to attain greater budget credibility. Future studies should include longitudinal assessments to evaluate the long-term impacts of PFM reforms across various political and economic contexts. Additionally, comparisons of Afghanistan's experiences with those of other conflict-affected and fragile states should be undertaken. Exploring innovative

approaches, such as digital financial management systems and blockchain technology, will also be beneficial. Lastly, examining the broader socioeconomic impacts of improved budget credibility, particularly concerning poverty reduction, service delivery, and economic stability, should be a key focus of future research.

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