

**Finance Circular No. 23/ 1383**

**Dated .....**

**Subject:        Procedures for Disbursing Payments under Development  
                     Budget in Provinces**

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**Background**

Afghanistan has an annual budget comprised of two main elements:

- An Operating Budget, which is transacted through Central Ministries and budget units and 34 Provincial Mustofiats, via the Treasury; and
- A Development Budget, which until now has been transacted mainly through the Special Disbursement Unit of the Treasury in Kabul.

In 1384 we anticipate moving most of the development budget transactions to the Treasury. Also, there is a growing need for the payments made under the development budget to be paid in provincial areas of Afghanistan.

Consistent with this strategy there is now a requirement for disbursing Development Budgets in provinces and we want to use procedures as consistent as practicable to the normal Treasury payments mechanisms.

Accordingly, it is proposed that Mustofiats will commence processing Development Budget payments on a trial basis, for a limited number of Development Budget grants and loans.

It is anticipated the frequency of Development Budget payments being made in provinces will increase during 1383.

**Purpose**

The purpose of this Treasury Circular is to describe the procedures to be adopted in provinces by Mustofiats and Implementing Agencies (budget users) in making payments in 1383 from funds provided by the development budget.

**Procedures in Summary**

In general, the procedures to be followed are similar to those required for the Operating Budget. In summary, the procedures are as follows

- A budget/allotment will be issued to an organisation or sub-organisation that exists in the Chart of Accounts (both budgets share the same COA);

- Advice of the budget/allotment will be provided to the Mustofiat by the Development Budget Department through Treasury;
- A separate expenditure bank account has been set up for the Development Budget (this is required to keep funds separate during 1383);
- The Implementing Agency (Ministry or budget user unit) in the province will draw down funds via an M16;
- Normal expenditures procedures and policies exist, including advance acquittal requirements (M12);
- At the end of the month the same accounting and reporting requirements are to be completed:
  - A T8 bank account reconciliation for development budget expenditure and the development budget bank account; and
  - An M23 expenditure report for development budget expenditure.

**Note: The T8 and M23 are for the Development Budget expenditure bank account is additional to the T8 and M23 prepared for the Operating Budget.**

### **Bank Accounts**

Arrangements have been made for each province to have a bank account set up for development budget expenditures. This account is only to be used for development budget expenditures – the specific coding details identifying development budget payments are discussed below.

### **Pilot Development Budget Payments Program**

One program that will be used to pilot the payments under the development budget in the provinces is the ongoing Emergency Education Rehabilitation and Development Project.

This project will be piloted in Badakhshan Province in the 2<sup>nd</sup> quarter of 1383. To this end, there was a visit to that province recently, to explain procedures in detail with Mustofiat and Provincial Education Department staff. It is anticipated this program will be extended to other provinces provided the pilot works well.

Additionally, the general scheme for provincial payments under the development budget will be covered in a workshop series during the 2<sup>nd</sup> week of June, in Kabul.

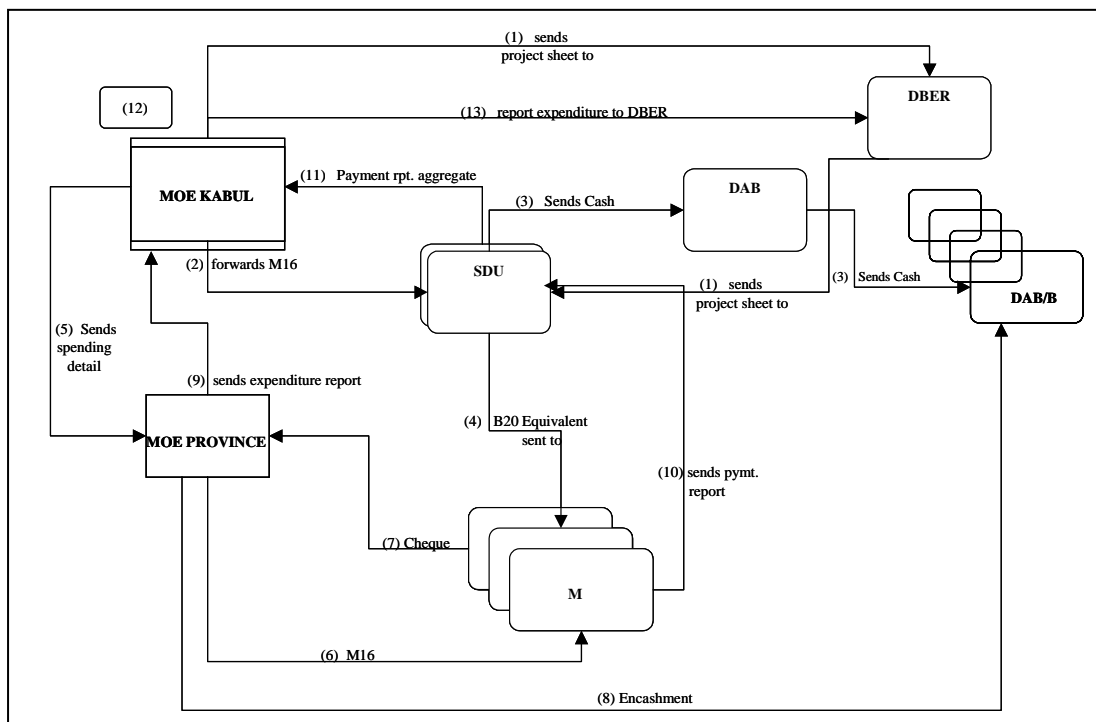
It is anticipated other development budget projects will have funds disbursed to the provinces shortly. In each case Mustofiat staff will be informed of the programs.

### **Payment Procedures**

The schematic diagram below shows the various steps in the Emergency Education Rehabilitation and Development Project procedure. These steps are described after the diagram, and the steps and diagram can be assumed to apply more generally to development budget activities in provinces:

- MOE – Ministry of Education
- DBER – Development Budget and External Relations Unit, Budget Department, MOF

- SDU – Special Disbursement Unit, Treasury, MOF
- GMU – Grant Management Unit, in MOE
- DAD – Da Afghanistan Bank



- Step 1 – After receiving budget approval MOE Kabul completes Budget and Allotment Sheet and Project Sheet with DBER. When complete, DBER sends Project Sheet to SDU, and enters budget and allotment details into AFMIS. Note that the first claim can be submitted simultaneously with the contract and project sheet. The Project Sheet will contain details of all the budgets and allotments for each Province, and the details of the authorized officers in the MOE in each Province who can draw down funds. DBER will enter the budget and allotment information into the Development Budget AFMIS.
- Step 2 – MOE Kabul sends an M16 Claim for Payment to SDU. The process of making such payments is very similar to that followed in making payments for operations and maintenance under the operating budget. MOE’s GMU will prepare a Payment Order (M16) detailing the payments requested and provide the following “certification” that must be signed by the deputy minister in MOE. This certification states:

**I certify that this disbursement is in respect of goods, services or other categories of expenditure that will be delivered, is within the limits of the funds provided for this category of expenditure by the Grant agreement, conforms with the relevant contract, and will be supported by the proper documents in conformity with and in the manner prescribed by law and regulations.**

The M16 will ask SDU to transfer funds to Provinces. The MOE will also be responsible for inserting the correct “charge codes” on the M16’s. These charge codes are taken from the Chart of Accounts maintained by

the Treasury Department and will be agreed when the Project Sheet is completed

- Step 3 – SDU will issue a funds release instruction to DAB, and DAB in-turn transfer funds to the MOF expenditure bank accounts for the development budget, which have been established in each Mustofiat.
- Step 4 – Treasury will send a budget and allotment advice to the Mustofiat, matching the information entered on the Project Sheet. This detail needs to be entered on the M21 ledger.
- Step 5 – MOE will send a budget and allotment advice to their District offices, matching the information entered on the Project Sheet. In a separate instruction to DAB, Treasury will request cash is provided to the province.
- Step 6 – The MOE District/Provincial office will send an M16 to the Mustofiat, seeking all or part of the budget and allotment they have been allocated in Step 5. The MOE will also be responsible for inserting the correct “charge codes” on the M16’s. These charge codes are taken from the Chart of Accounts maintained by the Treasury Department and will be agreed when the Project Sheet is completed
- Step 7 – The Mustofiat will issue a cheque to the MOE District/Provincial office (or bonded trustee) based on the M16 in Step 6 provided the request tallies with Treasury advice of allotments in Step 4. The expenditure will be entered to the M21 ledger.
- Step 8 – MOE (bonded trustee) will take the cheque received in Step 7 to the DAB Branch in the Province and cash it. They will then expend the cash according to the instructions from Head Office, MOE.
- Step 9 – MOE at the Provincial level will send an expenditure report to MOE Head Office according to the timetable issued by MOE Head Office.
- Step 10 – At the end of every Afghan month, the Mustofiat will prepare a bank reconciliation (T8) and payment report (M23) and send them to Treasury.
- Step 11 – Treasury will send a monthly payment report to MOE Head Office.
- Step 12 – MOE Head Office will reconcile the reports at Step 9 and 11.
- Step 13 – MOE Head Office will send an expenditure report to DBER. DBER will check the AFMIS payment record and verify the coding for the expenditure.

### **Coding Information**

The M16 shown above in Step 2 will be coded to the “Advance” payment code in AFMIS.

The M16’s shown in Step 6 will be coded to:

- The anticipated final expenditure code in the case of an advance; or
- The actual final expenditure code in the case of a payment to a supplier.

When the M23 report is received in Treasury it will be entered into AFMIS as a journal voucher, reducing the “Advance” payment code and increasing the final expenditure code.

After MOE Kabul completes the reconciliation of payment and expenditure activities in the provinces, they will provide a report to DBER in MOF who will check the correctness of the AFMIS records.

Development Budget payments are identified by use of two codes from the COA:

- The World Bank will fund the Education payments mentioned above. Accordingly they will have a FUND code of 2156. Operating Budget uses FUND code 1000.
- The code segment Grant/Loan will also be used. The actual Grant/Loan code to be used will depend upon the project, hence we are unable to indicate the precise code now. However Operating Budget use the default Grant/Loan code ‘9999999’.

Therefore, an M16 with a FUND code of 2156 and a Grant/Loan code (except ‘9999999’) is to be charged to Development Budget expenditure bank account.

### **Further Questions**

Questions should be directed, in the first instance, to the SDU of Treasury.

### **Implementation Timetable**

It is anticipated payments in the pilot province will commence shortly. Therefore these procedures shall come into force immediately.

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