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## Study of challenges to the Implementation of operational budgeting systems in public organizations A case study of Afghanistan

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### ABSTRACT

In today's world, public organizations through budgeting plan can provide convenient, cost effective, and timely services to citizens. Budgeting plan that shapes the basics of management decisions. Based on budgetary planning, public sectors define the objectives and to assess uncertainties as well as improves public services that lead to the realization of the set objectives.

The aim of current paper is to evaluate the important role of operational budgeting systems and as well as to study the challenges and difficulties of implementing operational budgeting systems in Afghanistan public sectors.

This study is based on primary and secondary data. Primary data was collected from different areas of Afghanistan through organized questionnaires and secondary data was collected from various books, international journal and websites. Public sector organizations are faced with countless obstacles for implementation the operational budgeting systems and this methodology allowed to specify the most important ones from the view of budgeting experts and financial specialists.

In sum, this paper classified the obstacles into three main categories including environmental, structural and human factors and presented solutions for the three categories of main challenges and give an outlook to possible strategies in order to overcome these difficulties and empower public managers.

**Keywords:** Operational budgeting, Obstacles, Environmental, Structural, Efficient

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### 1. INTRODUCTION

In 2001 in Afghanistan after the fall of the Taliban regime, Hamid Karzai was chosen as a provisional president for six months at the Bonn conference and later was elected as a president for two years of

transitive period. The first presidential election was held in 2001 in which eight million Afghans participated, half of them were women. At the end, Hamid Karzai was selected as a president by winning 54 percent of votes. The new government and within it mainly the Ministry of Finance, seriously worked on the reform of budgeting systems. Yet, after 10 years, in which the Afghan government adopted operational budgeting systems, hardly any achievements are seen.

The aim of this paper is to examine the key obstacles and challenges specified by budgeting experts and specialists and to analyze the various problems studied through the eyes of international financial experts, in their publications on operational budgeting.

The main questions this paper tries to answer in general are: where was Afghanistan before? Where do we stand today? Where do we want to be? How do we attain those objectives? How should we measure our progress?

## **2. OPERATIONAL BUDGETARY REFORM PROCESSES WITHIN PARLIAMENTARY SYSTEMS - A SHORT HISTORICAL PERSPECTIVE**

Budgeting practices and tools origin from representative and democratic structural reforms of governing, but they are more than just a managerial or an economic tool: from a political science point of view budgeting is a form of controlling public resources and properties. It gives representatives of parliament an appropriate tool to account for the management of revenues and to control the costs of government. Budget and budgeting through the forecasting of revenue, the estimation of expenditure, the allocation of resources, as well as implementing government's programs paves the ground to evaluate and control revenues and costs of government. The concept of budgeting simultaneously gained importance and developed alongside with the expansion of government's functions and growing complexity (see Alvani et al. 2001; Babajani 1999).

Budgeting process reforms were mainly used in the beginning of the nineteenth century to increase governmental responsiveness and accountability and enhance controlling in democratic systems as well as in kingdoms. Legislators gradually decreased their attention on taxation and turned it towards the consideration of public cost allocation. Britain was the first country to design a framework in order not just to increase financial accountability of its government, but also in order to promote financial discipline with the help of a centralized system of steering and control.

Functions of accounting and audit were distinguished and professional centralized institutions were institutionalized to exert the new budgeting tasks. In France, a similar system to that of Britain developed in the following times: The treasury department was responsible for making financial laws and regulations, for controlling, audit, evaluation, assessment and it gave direct and indirect guidance. Even though central management enhanced control, planning and steering capacities, this centralization of financial affairs in central financial department also caused many serious challenges, e.g. insufficient responsibility of line departments for the efficient use of public resources.

In the first decade of the 1920s, the USA and Britain have struggled with these difficulties and decentralized financial departments, tasks and responsibilities. Afterwards, economic stagnation in 1930 caused serious problems, and let to overall struggle to reach again budget equilibrium. Facing this problem, a dual budgeting system was established. The separation of operational, short-term costs and capital costs was classified (Brown 1982).

### **3. ESSENTIALS OF OPERATIONAL BUDGETING**

Operational budgeting is a process of planning, budgeting and evaluating current revenues and expenditures and also covers the relationship between spent money and expected results. Other frequently used terms for it are “performance budgeting” or “program budgeting”. For instance, many administrative agencies are responsible and accountable based on certain benchmarks (“performance indicators”) within the framework of a operational budgeting system. Since an operating budget is a budget concentrating on current revenues and expenditures, capital outlays are excluded because they are related to long-term and capital-intensive projects

In the following, operational budgeting will be perceived as a reform concept with several essentials:

- Concentration on current revenues and expenditures
- Reduction of the level of detail of the budget (tendency toward “one-line budget”)
- Linking spending with administrative activities and with policy outputs and outcomes (“performance” or “result”)

This kind of budget shows the relationship between the allocation of resources and performance resulting from administrative actions. It helps to be more accountable in the use of public resources, and to concentrate on important issues and challenges of public organizations.

Different operational budgeting system as one-line budgeting, zero based budgeting, program based budgeting and performance based budgeting have been implemented in order to get valuable and reliable information. The tendency toward operational budgeting systems expanded very rapidly and worldwide. Some countries as New Zealand, Australia, Canada and USA are pioneers in implementing those systems.

### **4. OPERATIONAL BUDGETING, BUDGETING STRUCTURES AND PROCEDURES IN AFGHANISTAN**

The majority of developed and developing countries, which are facing ongoing change in public sectors, needs and demands for transparency and decreasing resources, try to increase the level of efficiency and also effectiveness. During the 1950s, in general budgeting reforms had two different perspectives: in developed countries, they tried to decrease the legalistic control. Meanwhile in developing countries, budgeting was a tool to implement and develop programs aiming to bridge the huge gap of modern and traditional financial institutions and to foster fiscal accountability.

Within the first group, decreasing the level of legalistic control resulted in the creation of operational budgeting system. The terms of efficiency and effectiveness made their way and the discussion about their differentiation gained importance on the agenda. In result, the traditional approach of budgeting was replaced by operational budgeting systems.

Also in Afghanistan, operational budgeting systems were adopted in order to bring more transparency to the budgeting process. The expectations of informed citizens towards the new system was to better control and manage public expenditure and deal with the overall present corruption by increasing the level of financial accountability of government and giving a voice to the citizen.

The expansion of public functions and tasks in Afghanistan resulted in an immense increase of public expenditures alongside with public dissatisfaction with public service delivery. Over the time, legalistic

steering and control lost its importance and was replaced by planning systems of resources. This change ought to bring better understanding for decision makers and planners, as information about results, cost and performance of governmental actions are sampled and provided. One of the main reasons for implementing an operational budgeting system was to attain efficiency, effectiveness and economics of scale in public financial management at all levels of government and to answer the following questions: on what goods and services government spend its money and resources? What impact does it have on citizens' living?

However, after passing 10 years of budget reforms in Afghanistan, and implementation of operational budgeting system, there are not enough acceptable achievements to be appreciated.

“The system of budget and budgetary process in Afghanistan is still in a nascent stage as compared to other countries. It is because the politics in Afghanistan has historically consisted of power struggles, bloody cups and unstable transfer of power (...). However, the Afghanistan of the Twenty-first century has seen glimmer of hope as it is experimenting with democracy and rule of law. This has accelerated efforts for institution and nation building in the country” (Panda 2011: 3)

According to national development strategies, the Afghan government has to concentrate on the following pivotal areas: ensuring security, good governance, infrastructure, education and cultures, healthcare, agriculture and agricultural development. Safe society, economic development and developing the private sectors are focal areas.

Government also introduced finance statistics with the support of the International Monetary Fund. The major goal of government finance statistics is to develop the standard of compilation and presentation of fiscal statistics. It should provide statistics that empower policy makers and experts to study developments in the financial operations, positions and capital and asset situation of the governmental organizations.

“The Term “Budget” is mentioned although not clearly defined in the Constitution of Afghanistan. Many commonly used budgetary terms like Consolidated Fund, Public Account Fund, Revenue Account, Capital Account, Charge Expenditure, Voted Expenditure, Vote on Account, Appropriation Bill, Finance Act, and Money Bill, have also not been referred or defined in the Constitution of Afghanistan” (Panda 2011: 4)

According to analyses of reform processes in different countries, challenges and obstacles can be classified into three main categories:

- environmental factors
- structural factors
- behavioral factors

Environmental factors are such as political factors, government support of budget upon creating legal requirements of accountability of organizations. Structural factors are related to features and specifications of budgetary institutions. Behavioral Factors are individual characteristics, knowledge and education, attitudes of actors involved in the budgeting process, e.g. managers or politicians

## **5. RESEARCH DESIGN**

To obtain the main goals of my research it needs to identify the factors and obstacles that are relevant to implement the operational budgeting system in the executive organization of the state. Therefore, in the

framework of the research concept model, some hypotheses are discussed and examined:

- Obstacles and structural problems are effective in executive organizations of state in order to implement the operating budgeting system.
- Obstacles and environmental problems are effective in executive organizations of state in order to implement the operating budgeting system.
- Obstacles and behavioral problems are effective in executive organizations of state in order to implement the operating budgeting system.

The study of implementation problems of budgeting reforms in Afghanistan is based on interviews conducted with experts in public finance and budgeting specialists in government. Furthermore, document analysis was used. The experts were chosen from executive organizations (except of governmental companies) that use funds of the governmental budget, e.g. budgeting experts, managers and specialists in the ministry of finance. Therefore, one hundred people from twenty executive organizations answered questions of questionnaire.

## 6. METHODOLOGY

For collecting specialists' views in the field of challenges and obstacles of implementing operational budgeting system in executive organizations of state, interviews were conducted, based on a questionnaire. Key factors including challenges and obstacles of implementing of operational systems were identified and collected. The key factors were classified.

The questionnaire was designed with accordance to context model of the research. For obtaining more effective results for each question was used from a spectrum from 1-10.

The respondents were divided into three classes:

- Managers in government organizations
- Managers in ministries
- University lecturers

## 7. RESULTS OF RESEARCH

The following table summarizes the responses of the interviewed experts:

Number	Questions	responses (N=50)			
		Agreement	Disagreement	To- tal	HI
1	Lack of accountability norms in governmental organizations	46	4	50	Rati- fed
2	Lack of law enforcement in public sector organizations to be responsive against performances	38	12	50	
3	Lack of comparative studies as well as not using experience of others	40	10	50	

4	Lack of specific strategic and acceptable policy to implement operational budgeting system	37	13	50	
5	Lack of existing strategic planning	10	40	50	
6	Lack of financial experts to have familiarity with operational budget system	38	12	50	
7	Lack of using management data system	39	11	50	
8	Lack of clear policy in field of operational budgeting system for all institutions	35	15	50	
9	Lack of agreement and coordination between legislative and executive branches	41	9	50	
10	Lack of existence of operational auditing system	15	35	50	
11	Lack of existence of measurable indicator in budgeting	42	8	50	
12	Lack of change consistent with the accounting and reporting system	44	6	50	
13	Implementing the tradition systems to push occupations in organizations	40	10	50	
14	Lack of punishment and reward system in organization to achieve goals	39	11	50	
15	Lack of administrative strategies to implement operational budgeting	22	28	50	
16	Conditions and specifications of the political system	25	25	50	
18	Lack of proper salary and fringe benefits system	42	8	50	
19	Lack of reporting of evaluative data to higher management levels	35	15	50	
20	There is no open relationship between mission vision and macro goals.	38	12	50	

The results clearly show that the above stated hypotheses could all be confirmed. Respondents only in the following points have shown lesser degrees of disagreement:

- Lack of comparative studies with the aim of using the experiences of successful countries with less intensity are presented.
- The executive managers in public sector express their opinion regarding the lack of coordination between long term programs with less intensity.

The various items of the survey can be clustered in the following three factor-categories:

Structural Factors	1	Lack of change consistent with the accounting and reporting system
	2	Lack of using management data system
	3	Lack of existence of measurable indicators in budgeting
	4	Lack of existing strategic planning
Environmental Factors	1	Lack of operational auditing
	2	Lack of accountability norms in governmental organizations
	3	Lack of agreement and coordination between legislative and executive branches
	4	Conditions and specifications of political system
Behavioral Factors	1	Lack of reporting of evaluative data to higher management levels
	2	Lack of necessary technical training regards to budgeting
	3	Lack of proper salary and fringe benefits system
	4	Lack of punishment and reward systems in organizations to achieve goals

## 8. LIMITATIONS OF RESEARCH

Interviews conducted as well as the distribution of questionnaires were limited mostly by the unfamiliarity of managers and specialists in the field of operational budgeting systems.

### Conclusions

This research helped to indicate the factors leading to the implementation failure of operational budgeting system in the executive branches of the Afghan state and also specified the limits to increase governmental effectiveness via the strategies proposed by operational budgeting systems. In order to get a more concise analysis, a three-dimension model was used. This means that impediments were classified in three separate categories: structural, environmental and behavioral factors. Each category contributes to answering the question why the operational budgeting system implementation failed. This research tried to identify the main obstacles by using survey methods to measure approval or rejection of various statements by financial experts.

The results show an interesting congruence of the understanding of specialists and scientists about problems and impediments for implementation. Also, they mostly had the same idea about the limits of effectiveness of operational budgeting systems. Interestingly, behavioral problems of public managers scored on the top. Lack of information and knowledge amongst public managers on how to operate operational budgeting is the most important problem.

Another problem are non-coordinated multiple control systems which are not effective. Controllers are not interested in the results of operational budgeting, e.g. performance figures. A quite often seen obstacle is that managers in public organizations do not follow the regulations and prefer to serve their own interests. Furthermore, managers always must be aware of interventions of their superiors and thus cannot fulfill adequately their tasks.

Finally, some suggestions to solve the most pressing problems on the way of realizing operational budgeting system are the following:

- Choosing few pilots for implementing this method of budgeting very clearly and literally and present the output of this system to the other managers to decrease their fear and increase their motivation.
- Preparing a comprehensive training program for increasing all employees' knowledge about the systems' multiple dimensions.
- Present experiences and results of other successful countries, by providing information to increase everyone's knowledge about this system.
- Aligning the financial law and other regulations to the new budgeting system.

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