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# Budget Strategy and Outlook

## Budget Overview

The 1398 budget is prepared in regard with sustaining the previous reforms took place in FY1397 also with a focus on improvements in government fiscal planning. Our effort is to make sure enough attention is given to the improvement of the fiscal affairs according to the evaluation standards that has previously taken place, and every year we should witness improvement over the previous year. Similarly, budget of the fiscal year 1398 is prepared according to the international standards and presents a consolidated budget that includes the operating and development budgets.

Government of Afghanistan is committed to a transparent, responsive and effective management of the National Budget and has done many efforts in this regard. Transparency, realistic planning and effective expenditure of the National Budget has added in its credibility and empowers the government to take useful and timely decisions on fiscal space, given that, new investments take place in a better and more targeted manner. Moreover, the government will take some effective measures to make the existing projects more targeted via identification of poor performing projects or projects with a low priority and transfer of funds from such project to those which can better address the government policies.

In addition, in order to present a realistic picture of the future, the multi-year estimates of the budget is prepared through credible approaches.

### Budget Outlook

The outlook for Afghanistan is characterized by significant economic and fiscal risks. The 1398 budget presents a medium-term fiscal outlook that shows domestic revenue continuing to improve but a fiscal gap emerging in the next four years as current commitments from international development partners come to an end.

Total expenditure on the consolidated budget for 1398 is estimated to be AFN399 billion, representing 25 per cent of GDP. The operating budget, which is used for financing government operations including the civil services and national programs, comprises 69 per cent of the consolidated budget.

The operating budget of the fiscal year 1398 is AFN275 billion that shows a 1.7 percent increase as compared to the budget of the fiscal year 1397. Also, the development budget of the fiscal year 1398 is planned to be AFN124 billion and is prepared considering the available resources and spending capacity in line ministries. It should be mentioned that the development expenditures of the fiscal year 1397 has reached AFN127.5 billion by the end of the year which means that the development budget of 1398 has been considered realistically.

Total revenue of the fiscal year 1398 is AFN387 billion, from which AFN188 billion is the domestic revenue and AFN199 billion is provided through foreign aids. In attention to the above statistics, about (51%) of the financing resources are still financed through external aids that shows Afghanistan’s dependency on foreign aids. On the other hand, it should be mentioned that the domestic revenue is improving and an increase of 7.7 percent is expected as compared to 1397. The domestic revenue target in the year 1398 considering the upcoming political events (Parliamentary and Presidential elections) is estimated conservatively. Unlike the domestic revenue, the foreign aids is decreasing and in the FY 1398 it shows a decrease of about 11 percent as compared to FY1397 and in the mid-term this will cause an increased fiscal pressure on the financial situation.

However, we know that the government has always been striving to fit the expenditures in the planned revenue in order to keep the budget deficit low, therefore, in the fiscal year 1398 the budget deficit is about AFN12.3 billion which forms the 0.8 percent of the GDP and is set in a manageable level.

Table 1- (Budget summary and financing resources 1397- 1401)

|  |  | **1397** | **1398** | **1399** | **1400** | **1401** |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Approved Budget** | **Budget** | **Forward Estimates** | **Forward Estimates** | **Forward Estimates** |
| **Total Revenue** |  | **397,083,022,572** | **387,021,492,028** | **382,491,971,932** | **369,372,956,054** | **354,003,295,052** |
| **Domestic Revenue** |  | **173,500,000,000** | **188,005,594,664** | **208,376,441,637** | **234,446,192,482** | **259,100,144,554** |
| Pension Contribution |  |  | 5,460,902,691 | 6,128,934,917 | 6,753,620,479 | 7,235,254,924 |
| **Foreign Aids** |  | **223,583,022,572** | **199,015,897,364** | **174,115,530,295** | **134,926,763,571** | **94,903,150,497** |
| Operating |  | 106,762,039,274 | 98,843,863,664 | 82,063,544,567 | 45,591,857,305 | 45,591,857,305 |
| Development |  | **116,820,983,298** | **100,172,033,700** | **92,051,985,728** | **89,334,906,266** | **49,311,293,192** |
| Including Discretionary |  | 41,584,354,066 | 37,200,000,000 | 30,800,000,000 | 33,180,000,000 | - |
| Including Non-Discretionary and Loan |  | 75,236,629,233 | 62,972,033,700 | 61,251,985,728 | 56,154,906,266 | 49,311,293,192 |
|  |  |  |  |  |  |  |
| **Expenditures** |  | **413,206,671,388** | **399,417,934,931** | **417,692,387,873** | **425,016,777,419** | **430,014,308,604** |
| **Operating Budget** |  | **280,262,039,681** | **275,223,837,836** | **296,459,105,113** | **313,398,117,883** | **331,473,472,534** |
| Wages and Salaries |  | 183,066,108,918 | 196,746,008,824 | 208,204,149,353 | 220,696,398,315 | 233,938,182,214 |
| Purchase of Goods and Services |  | 61,134,725,721 | 52,503,309,427 | 53,394,769,804 | 55,618,320,596 | 58,073,053,420 |
| Interest Payment |  | 1,802,850,000 | 2,300,000,000 | 2,300,000,000 | 2,300,000,000 | 2,300,000,000 |
| Pension |  | 25,869,796,000 | 17,365,000,000 | 25,865,000,000 | 27,675,550,000 | 29,612,838,500 |
| Acquisition of Assets |  | 8,388,559,042 | 6,309,519,585 | 6,695,185,956 | 7,107,848,973 | 7,549,398,401 |
| **Development Budget** |  | **132,944,631,707** | **124,194,097,095** | **121,233,282,760** | **111,618,659,536** | **98,540,836,070** |
| Discretionary |  | 57,708,002,474 | 61,222,063,395 | 59,981,297,032 | 55,463,753,270 | 49,229,542,877 |
| Non-Discretionary |  | 75,236,629,233 | 62,972,033,700 | 61,251,985,728 | 56,154,906,266 | 49,311,293,192 |
| **Budget Deficit** |  | **(16,123,648,815)** | **(12,396,442,902)** | **(35,200,415,942)** | **(55,643,821,366)** | **(76,011,013,552)** |
| Financing |  | 10,000,000,000 | 2,900,000,000 | 10,000,000,000 | 10,000,000,000 | 10,000,000,000 |
| DAB Recapitalization |  | - | (7,100,000,000) | - | - | - |
| Reserved Funds |  | 10,000,000,000 | 10,000,000,000 | 10,000,000,000 | 10,000,000,000 | 10,000,000,000 |
| **Balance** |  | **(6,123,648,815)** | **(9,496,442,902)** | **(25,200,415,942)** | **(45,643,821,366)** | **(66,011,013,552)** |

### Economic Outlook

The estimated economic growth for 1398 is 3.0%, which demonstrates 0.8% increase compared to 2018. The estimated GDP for 2019 of 3 percent is mainly driven by recovery of agriculture production and because government is executing the development budget in large quantities which leads to more economic activity because of higher demand for construction and electricity, gas, water. In Afghanistan growth is mainly driven by the agriculture sector (mainly fruits and cereals) and the share of agriculture in total GDP is about 21 percent and slightly increases to 22.4 percent in 2022. Medium term economic growth is expected to reach 4.5 percent in 2022.

Table 2: Medium Term Macro Framework

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| In percentage change |  | **Historic** | **Current** | **Budget** | **Outer Years** | | |
| Unless otherwise noted |  | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
|  |  |  |  |  |  |  |  |
| **Real GDP Growth - Market Price** |  | 2.9% | 2.2% | 3.0% | 3.6% | 3.8% | 4.5% |
| **Nominal GDP Level (**Afs bn**)** |  | 1384.9 | 1485.6 | 1564.0 | 1689.3 | 1849.6 | 2037.0 |
|  |  |  |  |  |  |  |  |
| **NGDP by Sector (**Afs bn**)** |  |  |  |  |  |  |  |
| Primary (Agriculture) |  | 281.5 | 286.5 | 321.6 | 361.8 | 406.5 | 455.6 |
| Secondary (Industries) |  | 307.5 | 344.4 | 350.0 | 362.9 | 388.9 | 427.2 |
| Tertiary (Services) |  | 729.0 | 817.1 | 852.9 | 919.0 | 1002.3 | 1096.5 |
|  |  |  |  |  |  |  |  |
| **GDP Deflator** |  | 0.9% | 4.9% | 2.2% | 4.2% | 5.4% | 5.4% |
| **CPI Inflation Average** |  | 5.1% | 4.6% | 6.3% | 3.9% | 3.9% | 4.2% |
|  |  |  |  |  |  |  |  |
| **Exchange rate** |  | 68.4 | 75.9 | 76 | 77 | 78 | 79 |

Note: The currency rate given above is only an estimation of changes in Afs against USD for different years. The exchange rate of Afs against USD for FY 1398 is calculated at Afs 74.4 *versus* USD 1.

The economic growth estimates for the medium term are based on the following assumptions:

* We assume that weather conditions will remain favorable and there are no adverse shocks to rain-fed farming. Farming of the agriculture sector will recover and will increase from the nominal figure of Afs 286.5 billion in 2018 to Afs 321.6 billion in 2019 (an increase of 12.3 percent), and growth in the agricultural sector is estimated to be around 12 percent on average in the medium term, with no reason to expect a downturn.
* After a slowdown in construction because of the uncertainty negatively impacting the construction investment, this year the recovery in construction is assumed to be steady, but slower as compare to the 2012- 14 where there was donor support at higher level.

Inflation is projected at 6.4 percent on average for FY 2019, which is higher as compared to the last year inflation rate, but we assume that the downward risks are substantial. The trend for the medium term is projected at 4.3 on average.

### Inflation

Afghanistan’s economy is a consuming economy and mostly reliant on the import commodities. Any changes in the prices and volumes of imported goods will have economic impact on the economy of Afghanistan. In the medium-term inflation (average) is projected to remain stable at 4 percent. The projection is based on historical trend and is provided below.

Figure 1: Inflation

The situation will be different if donor grants will decrease over the medium term – a reduction in donor grants will depreciate Afghani against USD and subsequently will increase the domestic prices and thus inflation. An increase in domestic prices will have the most negative impact on the poorer sectors of the society because their purchasing power will be most affected. Increased prices will also have negative impact on the national budget by reducing the real value of money to purchase the same quantity of goods and services. Thus, fiscal policy and monetary policy of the Central Bank of Afghanistan will need to make every effort to maintain the stability of domestic prices to keep it in line with the projected numbers.

As second important risk stems from the election in 2019, uncertainty about security and the political strategy of a new government might negatively impact domestic demand for goods and services. Consequently, the inflation rate could be lower than the projected numbers for the medium term.

### Exchange Rate (AFS against USD)

Afghani against the US dollar is expected to depreciate from 68.9 AFN/USD in 2018 to 75.9 AFN/USD in 2019. The main reason is a reduction of the interest rate on the capital note to private banks which reduced the monetary policy of liquidly management of the central bank. There is also smuggling of the USD to the Iranian market based on the Da Afghanistan Bank arguments, after the international trade sanctions imposed by the US, Iranian traders has also offered our local traders with favorable exchange conditions in case they purchase the Iranian products or do advance payment for products that is going to purchase in future . And at the same time donor activities have fallen in general both for the on and off budget, which reduced the amount of USD in the Market.

Figure 2Exchange Rate

Note: The currency rate given above is only an estimation of changes in Afs against USD for different years. The exchange rate of Afs against USD for FY 1398 is calculated at Afs 74.4 *versus* USD 1.

The impact on the budget of a different exchange rate would largely be felt through the grants; almost 50% of overall government budget is still financed by donors and is mostly committed in US dollars. At the time of budgeting, all these amounts are included as equivalent Afghanis in the budget. However, once the year starts, the in-year fluctuations in the dollar price causes varying effects depending on the upward or downward pressure on the Afghani.

The three most crucial short term concerns regarding exchange rate deprecation are likely to be:

* Debt repayments of government debt denominated in foreign currency might increase, because, we would need to exchange more Afghanis to cover our debt payments.
* The revenue, in Afghani terms, from imports will likely see an increase, as items with foreign valuations will pay tax in Afghanis at a higher amount.
* Any counterpart payments or contracts denominated in USD, or other forex, will also create a negative expenditure pressure for the Government with falls in the currency.
* In the medium term exchange rate depreciation are likely to have the following impact:
* It might create inflation pressures that might even force the government to re-evaluate project budgets.

Similarly, overall costs for Government are likely to increase due to the inflationary channel. A fall in the value of the Afghani creates an upward pressure on prices of imported goods which will feed through to general inflation in the medium term. This means next year’s budget is likely to face higher overall prices; and the medium term expenditure plan will have to be revised upwards. This inflationary effect may or may not also feed through on the revenue side, given many taxes are levied on salaries and other areas which are more likely to be slower to adjust. In the medium term revenues from imports are likely to fall back again, as the fall in the value of the currency will lead to an increase in the effective price of imports, reducing their usage.

LOTFA and CSTC-A are likely safe in the medium term, since the foreign allocations are in foreign currency and will have effectively adjusted upwards.

### Outlook for the Domestic Economy

Historically the economic growth of Afghanistan is mainly driven by the infusion of donor aid. Between 2003 and 2014 Afghanistan was a big recipient of donor assistance and the average annual Economic growth rate because of the inflow of aid was 9.4 percent. Economic growth declined significantly afterwards from an average of 9.4 percent to 2.1 percent between 2014 and 2018, this was mainly due to the decline in donor assistance (mainly off-budget) and partly due to the political uncertainties of the time.

In the medium term, donor aid is anticipated to reduce further and the budget will be getting tighter– thus reliance on donor aid does not seem a good option and the Government shall strive to work on other options to spur growth. In the medium term, the option is to focus on budget execution by closing non-performing projects/programs and allocating their funds to well-performing projects/programs that directly reach the population and increase demand.

The growth scenario for the medium term looks more optimistic – with 3 percent real growth rate in 2019 and 4.5 percent in 2022. However, with the reallocation of resources to well performing programs the growth scenario could increase economic growth even further. According to a World Bank fiscal multiplier analysis[[1]](#footnote-1), investing in Agriculture, Human Capital, Extractives and Social Protection Sectors will have an estimated higher impact on growth relative to other sectors, given their higher multiplier. All within the assumption of increased security. A reallocation of the development funds to sectors with the highest fiscal multipliers would therefore support greater growth.

The Government expects economic growth will continue to improve over period of the forward estimates out to 2022. Improving activity in the agriculture sector, government plans in investing in infrastructure projects such as energy and regional connectivity if completed will stimulate the economy. However, it is contingent on some internal shocks that could change the growth perspective. The upcoming elections could create uncertainties for the business environment and to the government spending policies. The experience from the last election showed a decrease in the overall economic activities and brought the economic growth to a record low of 1.1 percent in 2015. Additionally, growth is also related to the security conditions of the country – a higher insecurity is related to a lower growth and vice versa.

### Outlook for the International Economy

Average economic growth for Afghanistan’s major trading partners was 4 percent in 1397 and it is projected to increase to 4.1 percent and 4.2 percent in 2017 and 2018 respectively. Among Afghanistan’s trading partners, for 1397, China and India, with 6.6 percent and 7.4 percent respectively, had the highest levels of growth while England and Saudi Arabia, with 1.6 per cent and 1.7 per cent respectively had the lowest rates of growth in 1397. China’s growth rate is projected to fall to 6.1 percent in 1398 while India will also grow at the same rate.

### Economic Outlook for the Region

India: India has emerged an important trade partner of Afghanistan. The recent establishment of air corridor between Afghanistan and India has created an opportunity for Afghanistan to export to India. The cargo service aims to improve landlocked Afghanistan's links to markets abroad and boost the growth prospects of its agricultural and carpet industries. The recent improvement in Afghanistan’s trade balance is attributed mainly to the opening up of this air corridor.

**China:** Chinese economy is undergoing a major structural change. Activity continues to shift to consumption, while investment growth rate remains well below those in recent years. Chinese economy has introduced significant cuts in overcapacity sectors. In the first quarter of 2018, China recorded its first current account deficit since 2001. China’s growth is expected to slow in the coming years, with subsequent effects on world commodity demand. However, downside risks to the outlook stem from financial sector vulnerabilities and an intensification of trade tensions amid increased protectionism in key trading partners. Afghanistan is not too reliant on China for exports; however, a continued slowdown may reduce the likelihood of future investment from China in Afghanistan’s extractive industry.

**Iran:** Iran has seen large falls in economic activity in few key sectors (including construction and manufacturing) in recent times. Delays in investment decisions while sanctions are lifted, and falls in commodity prices internationally have slowed the economy. Growth is however, likely to be significantly reduced if sanctions remained intact, with lesser access to financing options, financial services, international trade, and investment. The United States' renewal of sanctions on Iran is having an unintended knock-on effect on Afghanistan. The Afghani is taking a hit as dollar smugglers capitalize on the shortage of foreign exchange in neighboring Iran, mainly because of the US sanctions. The imposition of sanctions on Iran by the USA caused the fall in Toman value against other currencies. Thus, Afghani will continue to take the beat as dollar smugglers rush to provide much-needed foreign exchange to the neighboring Iranian economy.

**Pakistan:** In Pakistan, including export sectors, several other sectors suffered from economic slowdown. In general, prospects are likely to be positive given planned investment in energy and regional trade expansion. The Pakistani Rupee saw significant falls in value, in line with similar falls in Afghani; meaning there have been smaller impacts for Afghanistan against the rupee than other currencies. Historically, Afghanistan was reliant on Pakistan for import commodities; however, with the recent opening-up of trade routes with neighboring countries like Turkmenistan, Kazakhstan, Uzbekistan and Iran (Chabahar), the trade reliance on Pakistan has decreased. Against the initial projects, the forecast for GDP growth is at 3% in the next two years, down from 5.8% in 2018. Since the start of 2016, imports of construction materials related to large-scale Chinese infrastructure investments led to the current-account deficit to soar, while its weakening currency along with economic growth pushed inflation higher.

**Asia’s Northeast Economies:** Growth in the region is projected to moderate to 6.3 percent in 2018, and to 6.1 percent on average in 2019-20. The structural slowdown in China will offset a further pickup in the rest of the ASEAN region. Momentum in the global activity could lead to stronger-than-expected regional growth with solid exports and strong domestic demand. Overall, conditions are mostly favorable for the region in 2018, including robust global trade, moderate borrowing costs and sustained capital inflows. However, the possibility of an abrupt tightening of global financing conditions and intensified trade tensions between the two global economies could have negative impact of the health of the ASEAN economies. Countries with rapidly rising fiscal deficits are vulnerable to disruptions in financial activities. Geopolitical risks and tensions remain elevated on the Korean Peninsula. Domestically, monetary conditions have tightened somewhat and tighter prudential policies have kept credit growth in check in these economies. Several major economies have renewed their fiscal consolidation efforts in 2018 (e.g., China, Indonesia, Malaysia, and Vietnam).

## Fiscal outlook and Strategy

### Fiscal Strategy

A credible and coherent fiscal strategy is a pre-condition for the success of the Government's self-reliance vision. The Government is adopting a more structured approach to fiscal planning with the long-term goal of ensuring sustainable finances to support economic growth and development. The Government's fiscal strategy set out in the Afghanistan National Peace and Development Framework (ANPDF) includes three policy assumptions:

1. The Government will use fiscal policy as the primary tool for economic management;
2. The Government will, over time, collect enough revenue to meet operational and more of Afghanistan's development needs, gradually reducing international development assistance over the next fifteen years; and
3. The Government will balance the budget over the medium to long-term, without borrowing unsustainably. Any borrowing will be concessional and in accordance with agreements with the International Monetary Fund (IMF).

The foundation of the Government’s fiscal strategy is the pursuit of self-reliance. This means in fiscal terms achieving economic and social objectives through sustainable means: not spending too much, not accepting too much aid, and making the best use of available resources. To do this, the Government will continue its ongoing fiscal reform agenda that will enable a much greater focus on increasing fiscal space in all five dimensions:

1. Being more efficient with way government does business – including by preventing, detecting and combating corruption;
2. Raising more domestic revenue to higher levels;
3. Seeking concessional debt and innovative financing for high impact lower risk investments;
4. Using aid more responsibly and effectively; and
5. Looking into the future to prioritize policies and improve fiscal performance over time.

### Economic and Fiscal Goals

The Government has set goals in the short to medium-term, to guide the budget in identifying necessary investments.

The following three aspirational goals guide the preparation of the budget:

1. Achieve average growth of 5 per cent per year until 2020;
2. Increase development budget expenditures by 10-15 per cent each year as we expand delivery of education and health services in the medium-term; and
3. Grow domestic revenue by up to 12 per cent annually, with the overarching goal of having domestic revenues account for 14 per cent of the GDP by 2020.

### Medium Term Expenditure Framework and Forward Estimates for 1398-1401

This document presents the FY 1398 budget along with the forward estimates for the next three years. This approach will enable the government to have a futuristic vision towards the revenue outlook and adopt policy relevant decisions in light of that. The forward estimates demonstrated in this document are based on the actual performances of the previous years, with efforts to provide these estimates realistically and conservatively. This effort is taken to maintain the national budget planning reforms and root out the gap between the planned and the actual budgets.

As it’s noticed, the domestic revenue has improved in the medium term; however, donor funding will decrease considerably. Based on the forward estimates, the domestic revenues for FYs 1398 – 1401 will increase respectively to 8%, 20%, 35% and 49% as compared to the FY 1397. However, on the other hand, the decrease in the annual funding has grown and is more than the increase in the revenues proportionally. Foreign aid during the FYs 1398, 1399, 1400 and 1401 decrease respectively to 16%, 23%, 46% and 60% in contrast to the FY 1397.

Figure 3 Domestic Revenue and Foreign Aid

The expenditures during the FY 1398 demonstrate about 3% decrease as compared to the FY 1397. However, the level of expenditures in the course of 1399, 1400 and 1401 demonstrate an increase of 1%, 3% and 4% respectively. As it’s observed, for FY 1398 the government has endeavored to lessen the level of expenditures, especially for the ordinary budget. These efforts will continue for the next year as well.

Figure 4 Expenditure and Revenue Pathway

The forward estimates suggest that the fiscal gap has been growing with fiscal stress increasing annually as compared to the previous year. Its key factors are decrease in the level of donor commitment and increase in the expenditures. If the situations continue as is, the budget deficit will build up from AFN12.3 billion in FY1398 to AFN76 billion in FY 1401. Recompensing this deficit will place the government into a hard condition as it will eventually adopt a set of preventive measures in the ground. These measures could be presented either in the form of economization concepts or revenue improving concepts, or a composition of both.

Economization in expenditures is an extremely sensitive issue, where different decisions could bring out relevant outcomes. For instance, if the government starts to make economization in the development area, it might impact the development programs and encounter hurdles on the way of the development process. However, implementation of certain projects through public private partnership could prove helpful to lessen the fiscal stress. On the other hand, economization in the ordinary area, if sufficient care is given to enhancing the efficiency of the matters related to operational affairs, could be a good option. This option could also prove helpful up to a certain extent, but cannot compensate the estimated deficit in full. On this account, it would be a dire necessity that the government shall provide revenue improving concepts.

Revenue improvement could be achieved through numerous approaches. First, more attention should be devoted to the set of efforts previously instigated towards the effective revenue collection so that this process is even more fortified and the tax evasion reaches its least possible point. Additionally, as a tool, the government could also utilize the concept of increasing custom tariffs on some imported items, or the concept of increasing taxes in areas which shall not have unpleasant impacts on the national economy of the country. In addition to this, encouraging the investments in the mining sector could also be one significant option to rise the government revenue. The government has allotted certain efforts in this area; thus, it’s presumed that the revenues in the mining sector including tax revenues and non-tax revenues increase up to FY 1401. Taking this into account, we will witness a better fiscal condition in the case of realization of revenues of the mining sector and the value added tax in the years ahead.

# Fiscal Framework and Budget Reform

In the process of corrective actions and implementation of some of reforms in past years, the layout of 1398 budget is made in order to maintain the level of past reforms and its continuity to improve financial affairs and public expenditures. These reforms result in transparency, improvement in accountability and more trust in national budget in order to consider the international standards. Despite all, this isn’t the end of the work, reforms and maintenance of these affairs is a matter of continuity and work should be done on reforms every year.

According to the above discussion, in 1398 national budget document, along with the presence of operating and development budget, national budget is separately presented as well. Besides that, presentation of budget according to economic classification, government jobs, programs, geographical position and its alignment with international standards is considered as well. Also, one of the turning points about 1398 national budget is holding budget hearing meetings in an effective way that helped in preparing a more realistic budget document.

## Medium-term expenditure framework and rolling forward estimates (1398-1401)

Rolling forward estimates of the medium-term expenditure framework of 1398 and its next 3 years has been arranged and presented in a realistic manner. The decrease in the amount of foreign aid and other effective factors forecasted during the preparation of the medium-term expenditure framework has been considered. Ultimately, it has tried to present the fiscal picture of coming years on the basis of facts and other effective factors on predictions of many years is presented in financial risks section which adds to the credibility of these predictions. It should be reminded that the process of preparing the medium-term expenditure framework and the predictions of many years will be reformed and improved in the coming years. Ministry of Finance intends to collect the budget figures from miner object code levels from every ministry and will implement the indicators in low level in order to improve the quality of these predictions. This method can present a clearer picture of financial situation in medium-term.

## Transfer of Fund from contingency code to the relevant departments

One of the other important reforms is the transfer of funds from the contingency code to the relevant departments and this matter has occurred in this level for the first time. In 1398 fiscal year it has been tried that the contingency codes that have the ability to be identified and transferred are transferred to the relevant departments. In previous years the recorded funds under the contingency code due to different reasons such as implementation of some reforms, unreliability of its expense on the decided goals, unspecified amount of expense in a section or relevant department and many alike situations used to take place, these problems has been solved in the section of the contingency code that has been transferred to the departments.

## Change in the Structure of the Sectors

Another section of the reforms is the change in the structure of the sectors of the general directorate of budget. This structure was previously prepared by Afghanistan’s National Development Strategy and is now designed based on Classification of Functions of Government (COFOG). Structure of government functions is designed in inspiration by the Government Financial Statistics (GFS) but in no way means that it presents the functions of government because the arrangement of financial information according to government functions is still based on GFS standards and in the mentioned structure the names of these functions is considered. The purpose of this change is to better address the budget affairs of the departments. On the other hand the functions of the government is related to the structure of the government and changes in this seems far in the long-term, that’s why this matter will cause stability of the financial system.

Table 3 Structure of the sectors according to the government functions

| **Sectors** | **Budgetary Units** |
| --- | --- |
| 1. **Governance and Public Services** |  |
| 10 | Office of the Chief of Staff to the President |
| 13 | Administrative Office of the President |
| 21 | Ministry of State and Parliamentary Affairs |
| 23 | Ministry of Foreign Affairs |
| 62 | Independent Administrative Reforms and Civil Service |
| 88 | Executive Directorate and Secretariat of Ministers Council |
| 11 | Meshrano Jirga |
| 12 | Wolesi Jirga |
| 59 | Independent Directorate of Local Governance |
| 72 | Independent Election Commission |
| 71 | Independent Electoral Complain Commission |
| 85 | Independent Commission for Overseeing the Implementation of Constitution |
| 50 | Ministry of Justice |
| 1. **National Defense and Security** |  |
| 15 | Presidential Protective Service |
| 64 | General Directorate of National Security |
| 22 | Ministry of Defence |
| 17 | National Security Council |
| 1. **Public Order and Safety** |  |
| 26 | Ministry of Interior Affairs |
| 51 | Attorney General Office |
| 14 | Supreme Court |
| 31 | Afghanistan Central Civil Registration Authority |
| 48 | Ministry of Counter Narcotics |
| 68 | Afghanistan National Disaster Management Authority |
| 86 | Afghanistan Independent Human Rights Commission |
| 1. **Agriculture and Economic Affairs** |  |
| 35 | Ministry of Economy |
| 39 | Ministry of Agriculture, Irrigation & Livestock |
| 25 | Ministry of Commerce and Industry |
| 58 | Afghanistan National Standard Authority |
| 20 | Ministry of Finance |
| 66 | Supreme and Audit office |
| 73 | Central Statistics organization |
| 81 | Micro Finance Investment Support Facility for Afghanistan |
| 1. **Energy and Mining** |  |
| 32 | Ministry of Mines and Petroleum |
| 41 | Ministry of Energy and Water |
| 83 | Da Afghanistan Brishna Shirkat |
| 75 | Afghanistan Atomic Energy  Commission |
| 1. **Transport and Communication** |  |
| 34 | Ministry of Communication and Information Technology |
| 89 | Afghanistan Railway Authority |
| 44 | Civil Aviation Authority |
| 42 | Ministry of Public Works |
| 45 | Ministry of Transport |
| 1. **Housing and Community Amenities** |  |
| 79 | Kabul Municipality |
| 84 | Capital Region Independent Development Authority |
| 49 | Ministry of Urban development and Housing |
| 82 | Urban Water Supply and Canalization Corporation |
| 43 | Ministry of Rural Rehabilitation and Development |
| 1. **Health** |  |
| 37 | Ministry of Public Health |
| 1. **Education, Culture and Religion** |  |
| 16 | Radio and television of Afghanistan |
| 24 | Ministry of Haj & Religious Affairs |
| 36 | Ministry of Information and culture |
| 63 | General Directorate of Sports and Fitness |
| 27 | Ministry of Education |
| 28 | Ministry of Higher Education |
| 61 | Afghanistan Academy of Sciences |
| 40 | Technical and Vocational Education & Trainings Authority |
| 1. **Social and Environmental Protection** |  |
| 60 | National Environmental Protection Agency |
| 46 | Ministry of Frontiers and Tribal Affairs |
| 29 | Ministry of Refugee & Returnees |
| 38 | Ministry of women affairs |
| 47 | Ministry of Labour Social Affairs Martyrs and Disabled |
| 76 | Directorate of Kochis |
| 33 | National Authority on Supporting Disabled and Martyred Relatives |

## Gender Responsive Budgeting (GRB)

Gender equality is one of the important issues and government should reach out to it in different sections. Equal rights of men and women is enshrined in the Article No. 22 of Constitution of Afghanistan. Ministry of Finance has been working on Gender Responsive Budgeting (GRB) for several years and will continue its efforts in this direction.

Along with the inclusion of information on gender in the Budget Circular of Ministry of Finance, Gender Responsive Budgeting reform is practiced from 1390 onwards but due to absence of a policy and specific approach in terms of its results, it has been unfavorable to some extent. It is because the Draft GRB Policy has been prepared but not finalized yet. Currently, Ministry of Finance will gather the opinions of the stake holders in order to implement this policy to enrich this document even more. By finalizing and approving this policy, it is expected that all the matters related to GRB will be better organized and will proved tangible results. For now, 10 ministries are included in the pilot phase of GRB and by the approval of GRB Policy it will be gradually implemented on all the ministries.

The main purpose of GRB Policy includes the following points:

* Improvement and implementation of strategies and action plans related to gender by increasing the investment on gender equality and women empowerment
* Implementation of programs and policies of GRB in different sectors that will result in improved access to services
* Avoid all kinds of negative effects on girls and women (especially when government decides on decreasing the expenses and savings)
* Equal participation of men and women in all arenas

### Addressing the Gender issue in 1398 Budget

Lately, attention on gender has been increased especially on gender responsive budgeting. In the budget hearing meetings of 1398, gender formed an important part of discussions. In attention to the absence of the GRB policy, it is expected that its approval will help in the systematic consideration of this issue. At the moment, a number of fundamental arguments have been made as following:

* A program/plan to increase the presence of women in the ministries
* Programs to implement the Elimination of Violence Against Women (EVAW) Law, and Prohibition of Harassment of Women and Children Law
* Women Economic Empowerment National Priority Program
* Afghanistan’s 1325 Resolution
* Policy to increase women’s participation in civil services
* Women capacity building programs

In fact, these issues are fundamental and will be followed up and in long term it is considered that GRB Policy will be implemented in all the ministries and to increase its effectiveness certain actions will take place to reach out for the problems of women and girls. It must be said that the government emphasises on women empowerment in National Peace and Development Framework of Afghanistan (2017-2021) and the government has made it a priority in compliance with international human rights obligations such as human rights, security and prohibition of violence against women, access to education, higher education, health services, women economic empowerment and to adjust the rules in order to support women’s presence in the government.

### Future Plans

* Approval of GRB Policy by the Cabinet of Islamic Republic of Afghanistan
* Preparing a work plan for the implementation and replication of GRB Policy in a gradual way across all departments
* Creating a GRB cell in the general directorate of budget of Ministry of Finance to lead and organize these reforms in the related ministries
* Schedule capacity building programs in the ministries to effectively implement GRB
* Creating a coordinating mechanism and scheduling Steering Committee meetings and Technical Working Group to effectively implement GRB.

In the meantime, the gender budgeting arrangement will be one of the important implications of gender mainstreaming which will make Ministry of Finance able to provide national budget analysis from a gender perspective and based on this there will be a better understanding of the extent to which gender issues are addressed. It must be reminded that this document has been shared with all the stakeholders and in order to increase the transparency it will be accessible to the civil society and public.

In GRB Policy a Steering Committee is also taken under consideration that will lead and coordinate GRB related issues. Besides, in this policy creation of a Technical Working Committee has also been predicted that will do the required works to better implement this policy and will implement and follow up with the decisions of the Steering Committee. It must be reminded that the Terms of Reference (ToR) for the Steering Committee and the Technical Working Group is already prepared.

## Recapitalization of Central Bank (DAB)

After Kabul Bank’s crisis, the government took steps to maintain the credibility of the banking system in Afghanistan. Releasing the mentioned bank from bankruptcy and giving people refunds were the priorities that should have been addressed at that time. On this account, the Ministry of Finance signed an agreement with the central bank. Under this agreement, the Ministry of Finance committed to compensate for the decline in the central bank's capital, which was spent to handle the Kabul Bank’s problem, in a few years. This issue has been included and implemented in the national budget from 2012 onwards. For fiscal year 1398, an amount of 7.1 billion AFN has been considered for compensation of the central bank's capital which is funded from cash reserves of the treasury.

The international accounting principles require that the expense of every period must be financed by the income of the same period. Accordingly, the Ministry of Finance considers the above-mentioned funds that do not have the nature of consumption should be funded through the cash reserves of the treasury. The cash reserve of the treasury is formed from the income of the previous periods and according to accounting it is considered as government’s asset. This payment means a reduction of 7.1 billion AFN in government’s assets and the government's debt reduction is just as much, which in no way affects the government's predicted expenditures and revenues of the fiscal year 1398. With this account, it is well known that this is done in light of the accepted global accounting standards and is explained based on the government's commitment on being accountable to the public.

## Next Steps

The process of arranging projects has been an important part of the budget process in the previous years, but there has been problem with the quality of the design of Project Concept Notes (PCNs). In order to solve this problem, the Ministry of Finance in coordination with the Ministry of Economy, is determined to separate the Project Cycle from the Budget Cycle next year. This action has been taken with the aim of increasing the quality of the planning and effective evaluation of the projects, which will allow the departments to have enough time to arrange the projects. In this way, agencies can have more time in arrangement, design and review of the projects, that way the Ministry of Finance and the Ministry of Economy can take more time to evaluate development projects from a technical and effective aspect as well. Ministries can plan and arrange their new development projects without any time limit during the year. These projects will be later on evaluated by Ministry of Economy and Ministry of Finance, therefore, after the approval of Ministry of Economy/Finance it will be included in the National Budget document with consideration of the budgetary possibilities and the priority areas during the arrangement of budget.

# Consolidated Budget of 1398

Budget of fiscal year 1398 has been arranged by the end of 1397 based on true events and estimated level of expenditures which is kept at a reasonable level and on the other hand, priorities of the government is also reflected as much as possible. In the fiscal year 1398, an amount of 12.3 billion AFN is predicted as budget deficit but it is expected that through increased revenue this amount will reach a reasonable level during the fiscal year 1398.

Total budget of fiscal year 1398 is 399 billion AFN which includes 275 billion AFN that makes 69% of the total budget as Operating Budget and the remaining 124 billion AFN that makes 31% of the total budget as Development Budget. Overall, compared to the expenditure of the 1397 fiscal year, budget of 1398 shows a slight increase due to the increase in the development budget in comparison with the estimated level of expenditure.

Table 4 Consolidated Budget of 1398

|  | **Budgetary units** | **21 Wages and Salaries Expenditure** | **22 Use of Goods and Services** | **23 Interest & Repayment of Loans** | **24 Subsidies Grants & Social Benefits** | **25 Acquisition of Assets** | **Total** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 10 | Office of the Chief of staff to the president | 3,270,200,000 | 887,540,160 | - | - | 68,549,105 | 4,226,289,265 |
| 11 | National Assembly Meshanro Jirga | 428,467,575 | 109,078,900 | - | - | 21,197,620 | 558,744,095 |
| 12 | National Assembly Wolesi Jirga | 1,401,446,785 | 262,846,265 | - | - | 39,761,820 | 1,704,054,870 |
| 13 | Office of Administrative Affairs & Council of Ministers’ Secretariat | 2,659,912,715 | 1,125,790,000 | - | 3,000,000,000 | 3,983,734,130 | 10,769,436,845 |
| 14 | Supreme Court | 3,502,409,810 | 219,986,800 | - | - | 46,074,445 | 3,768,471,055 |
| 15 | Presidential Protective Service | 1,718,178,840 | 564,900,000 | - | - | 98,500,000 | 2,381,578,840 |
| 16 | Radio and television of Afghanistan | 300,993,857 | 149,407,242 | - | - | 99,212,447 | 549,613,546 |
| 17 | National Security Council | 671,128,765 | 216,964,965 | - | - | 6,817,185 | 894,910,915 |
| 20 | Ministry of Finance | 1,601,833,206 | 2,881,720,420 | - | - | 568,196,655 | 5,051,750,280 |
| 21 | Ministry of State in Parliamentary Affairs | 124,627,952 | 57,812,944 |  | - | 12,394,452 | 194,835,349 |
| 22 | Ministry of Defense | 62,996,123,977 | 12,854,208,625 | - | - | 3,000,021,407 | 78,850,354,009 |
| 23 | Ministry of Foreign Affairs | 3,633,323,000 | 2,650,000,000 | - | - | 562,508,920 | 6,845,831,920 |
| 24 | Ministry of Haj and Religious Affairs | 1,091,127,840 | 251,175,000 | - | - | 363,735,765 | 1,706,038,605 |
| 25 | Ministry of Commerce | 309,850,875 | 361,601,118 | - | - | 45,394,452 | 716,846,445 |
| 26 | Ministry of Interior | 42,875,524,612 | 9,656,715,639 | - | 365,000,000 | 1,986,829,527 | 54,884,069,778 |
| 27 | Ministry of Education | 31,964,931,465 | 2,966,716,515 | - | - | 2,771,431,017 | 37,703,078,997 |
| 28 | Ministry of Higher Education | 3,829,364,800 | 2,573,577,295 | - | - | 1,360,127,630 | 7,763,069,725 |
| 29 | Ministry of Refugees and Repatriates | 242,976,766 | 145,079,115 | - | - | 69,295,839 | 457,351,720 |
| 31 | Afghanistan Central Civil Registration Authority | 292,939,000 | 451,273,500 | - | - | 25,610,000 | 769,822,500 |
| 32 | Ministry of Mines and Industries | 389,075,000 | 225,775,000 | - | - | 91,919,175 | 706,769,175 |
| 33 | National Authority on Supporting Disabled and Martyred Relatives | 94,560,000 | 67,181,075 | - | 7,000,000,000 | 1,970,000 | 7,163,711,075 |
| 34 | Ministry of Communication | 413,700,000 | 202,150,000 | - | - | 3,681,744,600 | 4,297,594,600 |
| 35 | Ministry of Economy | 193,548,560 | 370,054,510 | - | - | 44,510,000 | 608,113,070 |
| 36 | Ministry of Information and Culture | 428,821,720 | 159,095,595 | - | - | 316,269,185 | 904,186,500 |
| 37 | Ministry of Public Health | 2,794,799,600 | 11,410,647,046 | - | - | 2,674,854,805 | 16,880,301,451 |
| 38 | Ministry of Women Affairs | 160,993,325 | 105,213,748 |  | - | 12,394,452 | 278,601,525 |
| 39 | Ministry of Agriculture | 1,150,157,905 | 6,907,281,505 | - | - | 1,454,756,635 | 9,512,196,045 |
| 40 | Technical and Vocational Education & Trainings Authority | 1,386,122,465 | 685,547,150 | - | - | 53,162,850 | 2,124,832,465 |
| 41 | Ministry of Energy and Water | 492,500,000 | 1,458,103,146 | - | - | 5,298,033,595 | 7,248,636,741 |
| 42 | Ministry of Public Works | 463,935,000 | 6,255,644,182 | - | - | 6,606,845,338 | 13,326,424,520 |
| 43 | Ministry of Rural Rehabilitation and Development | 346,952,460 | 3,865,635,653 | - | - | 15,910,312,366 | 20,122,900,479 |
| 44 | Civil Aviation Authority | 216,700,000 | 1,166,488,533 | - | - | 2,955,001,137 | 4,338,189,670 |
| 45 | Ministry of Transport and Aviation | 204,436,750 | 128,725,000 | - | - | 46,197,226 | 379,358,976 |
| 46 | Ministry of Frontiers and Tribal Affairs | 231,220,515 | 343,957,302 | - | - | 7,436,671 | 582,614,488 |
| 47 | Ministry of labor and Social Affairs | 868,083,494 | 794,200,481 | - | 7,000,000,000 | 149,142,788 | 8,811,426,763 |
| 48 | Ministry of Counter Narcotics | 145,137,780 | 120,770,845 | - | - | 107,000,000 | 372,908,625 |
| 49 | Ministry of Urban Development Affairs & Land Management | 656,906,350 | 1,262,205,905 | - | - | 4,621,084,620 | 6,540,196,875 |
| 50 | Ministry of Justice | 592,970,000 | 262,170,800 | - | - | 170,420,695 | 1,025,561,495 |
| 51 | Attorney General | 2,375,694,905 | 338,645,530 | - | - | 118,220,190 | 2,832,560,625 |
| 52 | National Authority of Examinations | 92,590,000 | 76,830,000 |  | - | 985,000 | 170,405,000 |
| 53 | Authority on Regulation of Fuel and Gas of Afghanistan | 59,100,000 | 602,935,825 | - | - | - | 662,035,825 |
| 58 | Afghanistan National Standard Authority | 63,173,960 | 62,373,260 | - | - | 746,630 | 126,293,850 |
| 59 | Independent Directorate of Local Governance | 1,911,950,995 | 2,122,350,770 | - | - | 3,538,291,110 | 7,572,592,875 |
| 60 | Directorate of Environment | 166,311,423 | 84,025,000 | - | - | 66,551,400 | 316,887,823 |
| 61 | Science Academy | 222,000,581 | 45,301,541 | - | - | 1,859,168 | 269,161,290 |
| 62 | IARCSC | 363,957,500 | 546,028,000 | - | - | 25,619,145 | 935,604,645 |
| 63 | National Olympic Committee | 83,725,000 | 194,064,720 | - | - | 97,090,226 | 374,879,946 |
| 64 | General Directorate of National Security | 14,530,696,000 | 3,372,239,000 | - | - | 314,759,000 | 18,217,694,000 |
| 66 | Control and Audit Office | 122,639,395 | 352,564,395 | - | - | 10,194,000 | 485,397,790 |
| 68 | Office of Disaster Preparedness | 80,496,170 | 57,706,225 | - | - | 3,098,613 | 141,301,008 |
| 71 | Independent Electoral Complaints Commission | 195,014,240 | 73,781,425 | - | - | 49,578,005 | 318,373,670 |
| 72 | Election Commission | 320,052,445 | 129,900,815 | - | - | 404,717 | 450,357,977 |
| 73 | Central Statistics Office | 162,984,010 | 306,116,313 | - | - | 29,549,405 | 498,649,728 |
| 75 | Afghanistan High Atomic Energy commission | 35,460,000 | 10,638,000 | - | - | 2,955,000 | 49,053,000 |
| 76 | Directorate of Kochis | 80,829,100 | 77,180,235 | - | - | 36,535,560 | 194,544,895 |
| 79 | Kabul Municipalities | - | 20,000,000 | - | - | 2,856,840,000 | 2,876,840,000 |
| 81 | Micro Finance Investment Support Facility for Afghanistan | - | 328,900,000 | - | - | - | 328,900,000 |
| 82 | Water Supply and Canalization Corporation | - | - | - | - | 451,000,000 | 451,000,000 |
| 83 | Da Afghanistan Brishna Shirkat | - | - | - | - | 13,801,500,000 | 13,801,500,000 |
| 84 | Capital Region Independent Development Authority | 7,927,280 | 39,400,000 | - | - | 914,992,000 | 962,319,280 |
| 85 | Independent Commission for Overseeing the Implementation of Constitution | 54,518,302 | 23,978,940 | - | - | - | 78,497,243 |
| 86 | Afghanistan Independent Human Rights Commission | - | 40,542,600 | - | - | 20,200,000 | 60,742,600 |
| 88 | Executive Directorate and Secretariat of Ministers Council | 254,121,135 | 528,569,400 | - | - | 24,788,510 | 807,479,045 |
| 89 | Railway Authority (New Independent Agency from MoPW) | 34,550,000 | 2,069,900,000 |  | - | 174,440,000 | 2,278,890,000 |
| **98** | **Contingency codes** | **280,000,000** | **10,223,256,287** | **2,300,000,000** | **-** | **849,083,232** | **19,135,299,519** |
|  | **Total** | **195,643,775,205** | **95,904,470,260** | **2,300,000,000** | **17,365,000,000** | **82,721,729,465** | **399,417,934,931** |

## Operating Budget

As compared to FY 1397 budget, the FY 1398 budget indicates a cut of 1.7%. This cut is more in the non-salary expenditure codes. The salaries and wages code of the ordinary budget in FY 1398 has increased due to the following reasons:

* Transference of the salary expenditures from some contingency codes to the concerned entities;
* Inclusion of the approved Tashkeel in the mid-year review of the FY 1397 (e.g. increase of 4,000 positions in the National Directorate of Security);
* Provision of coupon to relatives of the security forces martyrs;
* Increase in the food cost of the students;
* Difference of the educational and super-skill document allowances;
* Difference of the steps;
* Payment of cadre, academic and specialized benefits to doctors which was processed from the contingency code last year;
* New positions in the newly established entities.

## Development Budget

The FY 1398 budget is planned to be about 2.7% less than the expenditures of the FY 1397. This is mainly due to the conservative estimation of the non-discretionary funds that will be increased in the course of the fiscal year as the budget annex considering the spending abiity of the entities and donors’ commitment.

### New Key Development Activities in FY 1398 Budget

In FY 1398, a total of about 46 new development projects are included, most of which were considered following inclusive assessments by the Ministry of Economy or the Ministry of Finance Deputy Ministry for Policy and on the basis of the standard concept note. Changes in the approach of projects assessment may result in these projects effective implementation and achievement of the objectives contrary to the projects of the previous year.

Table 5 1398 New Projects List

| **No.** | **Organization** | **Title** | **Donor** | **1398 Budget** |
| --- | --- | --- | --- | --- |
| **Total** | | | | **3,370,072,948** |
|  | **Ministry of National Defense** | |  | **10,000,000** |
| 1 | AFG/590213 | Establish infrastructure and systems for the Directorate of Finance of the Ministry of Defense | Government of Afghanistan | 10,000,000 |
|  | **Independent Directorate of Local Governance** | |  | **38,720,000** |
| 2 | AFG/590213 | Employment creation project | World Bank | 3,720,000 |
| 3 | AFG/590214 | Establish development institutions in 7 zones | Government of Afghanistan | 35,000,000 |
|  | **Ministry of Communication & Information Technology** | |  | **45,000,000** |
| 4 | AFG/340117 | Government resources planning and management system, | Government of Afghanistan | 10,000,000 |
| 5 | AFG/340118 | Infrastructure for electronic certifications | Government of Afghanistan | 10,000,000 |
| 6 | AFG/340119 | Establish traffic system for the post items | Government of Afghanistan | 25,000,000 |
|  | **Kabul Municipality** |  |  | **20,000,000** |
| 7 | AFG/790099 | Sura-e-Shamali and Deh Afghanan Flyover Design and Survey | Government of Afghanistan | 20,000,000 |
|  | **Capital Region Independent Development Authority** | |  | **50,000,000** |
| 8 | AFG/840029 | Establishment of 4 transportation terminals in entrance & exit points of the Kabul City | Government of Afghanistan | 50,000,000 |
|  | **Ministry of Water and Energy** | |  | **80,000,000** |
| 9 | AFG/410780 | Feasibility studies and design of water dams in five river zones of the country | Government of Afghanistan | 75,000,000 |
| 10 | AFG/410781 | Establish water stream from Kaj Darahi Kishn Abad up to Faj village of Andarab district | Government of Afghanistan | 5,000,000 |
|  | **Ministry of Urban Development Affairs & Land Management** | |  | **596,000,000** |
| 11 | AFG/490512 | China Aided Project | Government of Afghanistan | 26,000,000 |
| 12 | AFG/490513 | Construct admin complex of the Ministries of Mining and Public Works in Khwaja Rawashi Ghaznawi town | Government of Afghanistan | 550,000,000 |
| 13 | AFG/490517 | Building design and studies in the new parliament complex |  | 20,000,000 |
|  | **Directorate General of National Radio & Television** | |  | **40,000,000** |
| 14 | AFG/160022 | Purchase technical equipment for the studios | Government of Afghanistan | 40,000,000 |
|  | **Ministry of Higher Education** | |  | **480,000,000** |
| 15 | AFG/280321 | Purchase equipment for universities and hostels | Government of Afghanistan | 80,000,000 |
| 16 | AFG/280322 | Universities and higher education institutes enhancement and development program | Government of Afghanistan | 400,000,000 |
|  | **Ministry of Information and Culture** | |  | **36,000,000** |
| 17 | AFG/360287 | Enhance publications | Government of Afghanistan | 20,000,000 |
| 18 | AFG/360288 | Enhance culture | Government of Afghanistan | 10,000,000 |
| 19 | AFG/360289 | Capacity building for technical and professional staff | Government of Afghanistan | 6,000,000 |
|  | **Technical and Vocational Educations and Trainings Authority** | |  | **20,000,000** |
| 20 | AFG/400008 | Complete the remaining work of the 300 bed hostel of femal administration institute and building of 30 classroom institute of administration and management of computer in Herat | Government of Afghanistan | 20,000,000 |
|  | **Ministry of Public Health** | |  | **564,599,000** |
| 21 | AFG/370881 | Enhance the national authority on accreditation of health cares | Government of Afghanistan | 10,000,000 |
| 22 | AFG/370882 | Deliver health services to repatriations | European Union | 484,199,000 |
| 23 | AFG/370883 | Support the council of nurses and midwives of Afghanistan | Government of Afghanistan | 10,000,000 |
| 24 | AFG/370886 | Public awareness on Congo disease | Government of Afghanistan | 20,000,000 |
| 25 | AFG/370885 | Survey, design and construct the emergency and teromotology hospital in Herat | Government of Afghanistan | 40,400,000 |
|  | **Ministry of Agriculture, Irrigation and Livestock** | |  | **96,300,000** |
| 26 | AFG/390765 | Expand investment and marketing of agricultural products | Government of Afghanistan | 26,300,000 |
| 27 | AFG/390766 | Establish household nurseries in Paktia, Paktika an Khost provinces | Government of Afghanistan | 50,000,000 |
| 28 | AFG/390767 | Nomad's Development project( Agriculture) | Government of Afghanistan | 20,000,000 |
|  | **Ministry of Rural Rehabilitation and Development** | |  | **793,600,000** |
| 29 | AFG/430488 | Nomad's Development Project | Government of Afghanistan | 30,000,000 |
| 30 | AFG/430489 | Agriculture development international fund for rural development of Afghanistan | International Organization on Agricultural Development | 762,600,000 |
| 31 | AFG/390713 | Agriculture in urban and urban vicinity regions and in family economy | Kuwait | 1,000,000 |
|  | **Ministry of Public Works** | |  | **45,000,000** |
| 32 | AFG/420570 | Survey, design and construct 300m bridge in Kandahar and 1 km bridge in Darqad district of Takhar | Government of Afghanistan | 30,000,000 |
| 33 | AFG/420571 | Ring road from Dogh Aabi up to Karkar-e-Puli Madan | Government of Afghanistan | 5,000,000 |
| 34 | AFG/420572 | Construct road (phase 1 and 2) from Nawabad of Kama district up to Sankarsarai | Government of Afghanistan | 10,000,000 |
|  | **Ministry of Works, Social Affairs, Martyrs and Disabled** | |  | **37,315,948** |
| 35 | AFG/470249 | Dispatching of labor to abroad and employment opportunities inside the country | World Bank | 37,315,948 |
|  | **Ministry of Women Affairs** | |  | **42,000,000** |
| 36 | AFG/380143 | Enhance the process of implementation of national and international commitments and gender equity and capacity building and women campaign and printing and publishing of brochures | Government of Afghanistan | 42,000,000 |
|  | **Ministry of Economy** | |  | **59,480,000** |
| 37 | AFG/350075 | Employment opportunities program | World Bank | 5,000,000 |
| 38 | AFG/350077 | Fundamental enhancement of the basic duties of Ministry of Economy (planning and assessment, economic analysis, sustainable development goals and transparency and accountability of the NGOs) | Government of Afghanistan | 54,480,000 |
|  | **Directorate General of Kochis** | |  | **20,000,000** |
| 39 | AFG/760015 | Capacity building, research and policy making | Government of Afghanistan | 20,000,000 |
|  | **Afghanistan National Standard Authority** | |  | **36,058,000** |
| 40 | AFG/580045 | Procurement of tentative carpet laboratory equipment | Government of Afghanistan | 16,750,000 |
| 41 | AFG/580046 | Establish central database system for the organization | Government of Afghanistan | 3,015,000 |
| 42 | AFG/580047 | Procurement and activation of the electricity and fuel laboratories of the center | Government of Afghanistan | 16,293,000 |
|  | **National Statistics Organization** | |  | **210,000,000** |
| 43 | AFG/730015 | Kabul population survey project | Government of Afghanistan | 70,000,000 |
| 44 | AFG/730016 | Education survey project | Government of Afghanistan | 70,000,000 |
| 45 | AFG/730017 | Project on verification of the area under cultivation | Government of Afghanistan | 70,000,000 |
|  | **Supreme Audit Office** | |  | **50,000,000** |
| 46 | AFG/660026 | Framework contract of hiring reliable international companies to audit the state-owned enterprises | Government of Afghanistan | 50,000,000 |

## 1398 Mid-Year Review Budget

The fiscal year 1398 provides realistic estimates in which the spending ability of the organizations is taken into account. More attention is paid to the precise budget planning, in which the gap between planned and actual budgets should be at the least minimal. On the other hand, making the expenditures target-oriented is an important issue for which the government is always observant. This issue is considered to the possible extent in the 1398 budget, but it is a continuous process and is necessary to be considered as one of the objectives in the mid-year review of the budget for 1398. In the mid-year review for 1398 budget, transferring funds from poorly implemented projects to projects that are performing better with a view to the available funding resources will be considered. This may reduce the budget of some organizations if their spending is not satisfactory. This is precisely based on the rule of "use it or lose it" which is accepted globally.

## Receipts and Aid (Revenue)

This section provides details on receipts or revenue and aid (international development assistance). This year the Government has provided significantly more details on own-source domestic revenue as well as providing estimates for the current year, the budget year and three forward years. This is a significantly higher level of disclosure than in previous years and brings Afghanistan into line with good international practice.

In this section, the Government also presents estimates of future support from our international partners for 1398 and three additional years. These estimates are based on current commitments and for the first time present a detailed and consolidated picture of the resources available to Afghanistan over the next four years. The forward estimates go beyond the end of donor commitments made in Warsaw and Brussels and have not attempted to pre-empt future discussions about support for Afghanistan by international partners. Only current commitments are included.

## Revenue Outlook (1396-1401)

The revenue forecasting assumption includes:

* Revenue forecasting for the current year’s budget and the years ahead is carried out on the basis of an individual revenue line and is developed through certain assumption of macro economy such as GDP, GDP deflator, GDP by secondary sectors, domestic inflation, international inflation, imports growth, productivity, revenue measures, etc.
* Revenue estimations from TAPI project and other revenues resulting from transfers are considered in the revenue forecasting of the coming years.

### Domestic Revenue Outlook

The outlook for domestic revenue is positive over the medium term. Estimated domestic revenue for 1397 (2018) is at around AFN173.5 billion, though we expect more collection over the budget forecast. This is driven by an increase in the collection efficiency and an increase in the exchange rate which affects the custom value on the imported goods and reforms in tax administration in general. Following are the assumptions used for the revenue forecast on object level where appropriate.

Table 6 Revenue Forecasts Assumptions

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **1396** | **1397** | **1398** | **1399** | **1400** | **1401** |
| **Indices** |  |  |  |  |  |  |
| Average CPI | 5% | 3% | 4% | 4% | 4% | 4% |
| Average CPI plus ERC | 13% | 6% | 6% | 5% | 5% | 5% |
| Deflator | 1% | 5% | 2% | 4% | 5% | 5% |
| Deflator plus ERC | 11% | 3% | 3% | 3% | 2% | 2% |
| EOP CPI | 3% | 8% | 3% | 4% | 4% | 4% |
| EOP CPI plus ERC | 12% | 7% | 6% | 5% | 5% | 5% |
| ERC | 8% | 0% | 0% | 0% | 0% | 0% |
| Food CPI | 7% | 5% | 8% | 5% | 7% | 7% |
| Food CPI plus ERC | 14% | 7% | 8% | 6% | 6% | 8% |
| M2 | 6% | 8% | 8% | 8% | 8% | 7% |
| NGDP | 5% | 5% | 8% | 9% | 10% | 10% |
| NGDP Agriculture | 5% | 4% | 7% | 9% | 10% | 10% |
| NGDP Manufacturing | 1% | 2% | 4% | 7% | 10% | 10% |
| NGDP Services | 5% | 4% | 8% | 9% | 9% | 9% |
| Non-Food CPI | 3% | 3% | 3% | 2% | 3% | 3% |
| Non-Food CPI plus ERC | 12% | 4% | 4% | 4% | 3% | 4% |
| Population | 2% | 2% | 2% | 2% | 2% | 2% |
| Population and CPI | 7% | 5% | 6% | 6% | 6% | 6% |
| Zero | 0% | 0% | 0% | 0% | 0% | 0% |
| **Efficiency Dividend** | -2% | -2% | -2% | -2% | -2% | -2% |
| **Nominal GDP Forecasts 'm** | 1,384,905 | 1,485,622 | 1,563,993 | 1,689,330 | 1,849,552 | 2,036,954 |

Tax revenue (incl. tax on income, property, tax on goods and services, tax on trade, and others) is the major contributor to domestic collections, estimated to be around AFN173.5 billion in 1397. Non-tax revenue is the next biggest contributor estimated to be around AFN56 billion this year.

It’s forecasted that the revenues in 2019 and the years to come will increase to AFN188 billion by reason of reforms and improved tax administration. In forward estimates, it’s forecasted that the tax revenues will increase from AFN127.1 billion in 1398 to AFN140 billion, AFN157.6 billion and AFN174 billion in 1399, 1400 and 1401 respectively. On the other hand, forward estimates for the non-tax revenues will increase from AFN60.8 billion in 1398 to AFN68 billion, AFN76.7 billion and AFN84 billion in 1399, 1400 and 1401 respectively.

The period 1397 – 1402 demonstrate steady and strong revenue growth outlook. The forecast shows domestic revenues are expected to increase from actual AFN165.1 billion (without one-off) in 1396 to budgeted target of AFN173.5 billion in 1397, AFN188.0 billion, AFN208 billion, and AFN234 billion in 1398, 1399, and 1400 respectively. The main revenue categories include tax revenue, non-taxes, and custom duties, which are grown by their respective macroeconomic assumptions (i.e. GDP, inflation, GDP deflator, import growth, efficiency, and so on). The above revenue figures includes the social contribution from the employees, which is expected to transfer to the pension separate account if the amendments in the pension law is approved from the cabinet and parliament where the revenue target will be lower by an equal amount.

Total domestic revenue is expected to increase AFN259 billion by the end of FY 1401. Reforms and improvement in tax administration by the government were the major causes of the improved revenue collection. The government is committed to upholding its revenue-enhancing measures and reforms over the following years. In addition to this, in the case of implementation of the value added tax and improvement of the mining sector, it’s expected that there will be a positive impact on the domestic revenue during the year 1400 and the coming years where there will be more revenue collections through this gateway in addition to the current level of the estimates.

Figure 5 Main Categories of Domestic Revenue

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### Value Added Tax Forecast

The Government is committed to policy changes and improved administration to increase domestic revenue. The WTO Agreement requires the Government of Afghanistan to eliminate fixed taxes on imports as well as the implementation of VAT on imports before January 01, 2021. This could result in huge revenues losses and also the country infrastructure may fall short to administered VAT properly; therefore, government has reached an agreement with the IMF to start implementation of the VAT by the January of 2021. Based on Government and IMF calculations, a VAT with a rate of 10 per cent is expected to yield an additional 1.9 percent of GDP.

## Revenue Outlook for Foreign Aid – 1398 to 1401

### Operating Budget Aids

During FY 1398, the ordinary budget aid will be totally over Afs. 98 billion indicating about 6% decrease in contrast to FY 1397 which is caused by shrinkage in level of the donor commitments for the security sector; based on commitment of the Afghan government with the international community, it shall gradually increase its share in the budget for security forces. In addition to the commitments of the CSTC-A, the NATFO has also committed a sum of Afs. 24.5 million For 1398 to pay out the salaries of the Security Council staff.

Table 7 Ordinary Budget Aid

|  | **1398** | **1399** | **1400** | **1401** |
| --- | --- | --- | --- | --- |
| **Figures in Million AFS.** | **Budget** | **Forecast** | **Forecast** | **Forecast** |
| **Grants** | 136,044 | 112,864 | 76,791 | 45,591 |
| **Ordinary aids** | 98,844 | 82,064 | 45,591 | 45,591 |
| ARTF |  |  |  |  |
| ARTF (incentive fund) |  |  |  |  |
| ARTF (police incentive fund) |  |  |  |  |
| LOTFA | 28,000 | 25,484 | 14,158 | 14,158 |
| CSTC-A | 70,819 | 56,579 | 31,433 | 31,433 |
| CSTC-A (Ministry of Defense) | 60,520 | *42,559* | *23,644* | *23,644* |
| CSTC-A (Ministry of Interior Affairs) | 10,299 | *14,020* | *7,789* | *7,789* |
| NATFO | 25 |  |  |  |
| SPAD |  |  |  |  |
| New Development Policy |  |  |  |  |
| European Union (Governance building contract) |  |  |  |  |

### 

### Discretionary Grants in Development Budget – 1398 to 1401

The discretionary grants will amount to over AFN37 billion in 1398 indicating about 14% reductions as compared to FY 1397. These aids will amount up to AFN49 billion in the years ahead up to FY 1401 decreasing around 57% compared to FY 1397. It’s noteworthy that all these aids are subject to the government commitments towards implementation of the fiscal and structural reforms which could be affected seriously in the case of negligence.

Table 8 Discretionary Grants in Development Budget

|  | **1398** | **1399** | **1400** | **1401** |
| --- | --- | --- | --- | --- |
| **Figures in Million AFS.** | **Budget** | **Forecast** | **Forecast** | **Forecast** |
| **Development Discretionary Grants** | **37,200** | **30,800** | **31,200** | **-** |
| ARTF (incentive fund) |  |  |  |  |
| ARTF (police incentive fund) | **29,760** | 23,100 | 23,400 |  |
| World Bank | **-** | - |  |  |
| New Development Policy |  |  |  |  |
| SMAF |  |  |  |  |
| European Union (Refugees & Repatriation Fund) |  |  |  |  |
| European Union (Governance building contract) | **7,440** | 7,700 | 7,800 |  |

### Non-Discretionary Grants Including Loans

Aid in non-discretionary budget is also planned about 16% less than FY 1397 in FY 1398. Since the Ministry of Finance can increase the off-budget funds during the year following the cabinet approval, funds for off-budget are considered in a conservative manner in FY 1398 budget.

The total sum of loans in FY 1398 amounts to over AFN574 million which is to fund the infrastructure projects.

Table 9 Non-Discretionary Grants Including Loans in FY 1398 Development Budget

|  |  |
| --- | --- |
| **Off-Budget Donors** | **1398 Budget** |
| **Total Off-Budget Aids** | **62,398,033,700** |
| Vaccination and Immunization Union | 452,538,000 |
| European Union | 484,199,000 |
| Australia | 62,064,000 |
| Germany | 744,000,000 |
| Italy | 240,636,000 |
| Asian Development Bank | 14,924,393,729 |
| World Bank | 14,451,944,658 |
| International Office of Anti-Narcotics Law Enforcement | 161,710,871 |
| International Financial Facilities | 585,676,800 |
| Kazakhstan Government | 22,410,244 |
| Denmark | 18,600,000 |
| International Organization on Agricultural Development | 1,525,200,000 |
| UNESCO | 6,913,174 |
| ARTF | 21,505,895,198 |
| Peace and Reconciliation Trust Fund | 17,426,699 |
| SAARC | 27,400,000 |
| TDF | 1,421,609,000 |
| France | 4,869,156 |
| UNHCR | 17,342,000 |
| US Aids | 777,852,000 |
| Kuwait | 1,000,000 |
| India | 2,507,504,171 |
| China | 33,500,000 |
| CASA-1000 | 744,000,000 |
| World Bank International Development Assistance | 1,396,159,000 |
| Global Fund | 263,190,000 |
| **Loans** | **574,000,000** |
| Italy | 199,000,000 |
| IDB | 25,000,000 |
| Saudi Development Fund | 350,000,000 |
| **Total Off-Budget Aids and Loans** | **62,972,033,700** |

Table 10 Grants by Government Finance statistics (GFS)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Grants** | **1396** | **1397** | **1397** | **1398** | **1399** | **1400** | **1401** |
|  | **Expenditure** | **Budget** | **Actual to date** | **Budget Year** | **Forecast** | **Forecast** | **Forecast** |
| **Total** | 185,938,382,080 | 190,372,711,688 | 105,595,126,218 | 198,441,897,365 | 173,553,871,296 | 134,410,037,291 | 94,448,431,374 |
| 1 Foreign Government's Assistance | 56,435,417,044 | 68,580,433,220 | 42,908,289,302 | 74,452,947,235 | 59,768,726,845 | 34,171,253,997 | 33,737,760,072 |
| 0 19100 Foreign Governments’ Ordinary assistance | 53,331,710,657 | 62,866,015,886 | 39,141,143,905 | 70,819,363,664 | 56,579,414,567 | 31,434,007,305 | 31,434,007,305 |
| 0 19101 Foreign Governments’ Investment Assistance | 3,103,706,387 | 5,714,417,334 | 3,767,145,397 | 3,633,583,571 | 3,189,312,278 | 2,737,246,692 | 2,303,752,767 |
| 2 Assistance from international Organization | 129,502,965,036 | 121,792,278,468 | 62,686,836,916 | 123,988,950,130 | 113,785,144,451 | 100,238,783,294 | 60,710,671,302 |
| 0 19200 Current assistance of international organizations | 35,512,981,877 | 69,444,185,306 | 19,271,152,784 | 28,024,500,000 | 25,484,130,000 | 14,157,850,000 | 14,157,850,000 |
| 0 19201 International Assistance - Immovable | 93,989,983,159 | 52,348,093,162 | 43,415,684,132 | 95,964,450,130 | 88,301,014,451 | 86,080,933,294 | 46,552,821,302 |

# GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION

The COFOG expenditure classification is independent of the government organizational structure, and demonstrates the allocation of resources among sectors without regard to the administrative agency under which the expenditure falls. The COFOG classification is important both for budget policy analysis and international comparisons, as it adheres to accepted international standards for fiscal reporting. The classification has shown to be useful to a wide variety of analytic applications. For example, statistics on health, education, social protection, and environmental protection, can be used to study the effectiveness of government programs in these areas, and the alignment of expenditures with articulated priorities of government.

The COFOG presented in the Budget statements includes three levels of detail. It is composed of 10 major functions referred to as first level divisions, such as Health (Division 07) and social protection (Division 10). Within each division, there are several groups, or three-digit categories, such as hospital services (Group 073). Within each group, there are one or more classes, or four-digit categories, such as nursing and convalescent home services (Class 0734). The prefix “7” has been added to align the COFOG codes with other GFSM classification codes.

## SUMMARY OF OUTLAYS BY FUNCTION

National defense comprises the major area of expenditure (25% of total or Afs 100 bln) that indicates the deteriorating security situation of the country, followed by Economic Affairs (17% of the total or Afs 67 bln). Public order and safety ranks third among the expenditure categories and comprises of wages and salaries of Police in the Ministry of Interior Affairs (16% of total or Afs 63 bln). Education and Health together acquires 17% of the total budget with AFS 50 bln and Afs 17 bln respectively.

### GENERAL PUBLIC SERVICES

The General Public Services function comprises expenditure for the Executive and Legislative organs, financial and fiscal affairs, external affairs, and general services. The major portion of expenditure is assigned to expenditures on: Executive and Legislative Organs (75% of total or Afs 40 bln) followed by General services category which comprises of 23% of the total function’s budget.

### DEFENSE

The Defence function comprises expenditure for administration of military defence affairs and services, and operation of land, sea and air defence forces. The major portion of expenditure is assigned to expenditures on Military Defence (78% of total or Afs 78.8 bln), followed by Defence not elsewhere classified (n.e.c.) (21% of total or Afs 21.4 bln). Defence n.e.c. comprises expenditures on administration, operation or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans and programs relating to defence; preparation and enforcement of legislation; and technical documentation and statistics on defence.

### PUBLIC ORDER AND SAFETY

The Public order and Safety function comprises expenditure for administration of police affairs and services, including maintenance of arrest records and statistics related to police work, road traffic regulation and control and prevention of smuggling. The greatest portion of planned expenditure is related to Police services (87% of total or Afs 55 bln), followed by Law Courts (12.4% of total or Afs 7.8 bln). The latter is related to administration, operation, or support of civil and criminal law courts and the judicial system.

### ECONOMIC AFFAIRS

The Economic Affairs function involves expenditure for general economic, commercial, and labour affairs. Budget funds allocated under this classification comprise the major area of planned expenditure in the 1398 Budget - 17% of the total budget – and encompass expenditures on agriculture, fuel and energy, transport, industry and infrastructure. The largest portion of budget funds classified under this function relate to Transport infrastructure (35% of total or Afs 23 bln), followed by planned expenditure on Agriculture, Forestry and fishing and Fuel and Energy. These three categories together make up to 80% of the function.

### ENVIRONMENTAL PROTECTION

The Environmental protection function comprises expenditure for waste management, pollution abatement, and pollution abatement.

### HOUSING AND COMMUNITY AMENITIES

The Housing and Community Amenities function comprises expenditure for housing development, administration of community development affairs, and administration of water supply affairs, street lighting and housing. The greatest portion of planned expenditure is related to community Development (56% of total or 4,626 million AFs), followed by Housing development (33% of total or Afs 2.7 bln). Housing Development relates to administration of housing development affairs and services, including grants, loans, or subsidies to support the expansion, purchase of land, improvement, or maintenance of the housing stock.

### HEALTH

The Health function includes expenditure on services provided to individual persons and services provided on a collective basis, including: medical products, pharmaceuticals, appliances, and equipment; outpatient services including dental; hospital services; support for public health services, such as blood collection, immunization, disease detection and information services; and research and development.

### RECREATION, CULTURE, AND RELIGION

The Recreation, Culture, and Religion function includes government expenditure on services provided to individuals and the community for formulation and enforcement of legislation and standards for providing recreational and cultural services; and development of recreational, cultural, and religious affairs and services.

### EDUCATION

Government expenditure on the Education function includes expenditure on services provided to individual pupils and the community for formulation and administration of government policy; setting and enforcement of standards; regulation, licensing, and supervision of educational establishments; and applied research and experimental development into education affairs and services.

The largest allocation of expenditure under this function relates to Pre-primary and Primary Education which amounts to 45% of the total, or Afs 22 bln. The second biggest category is Education n.e.c. This classification relates to education expenditure that cannot be assigned to the more specific classifications listed under Pre-primary and Primary Education, Secondary Education, Tertiary Education, and Postsecondary No Tertiary Education. Expenditure under this classification relates to administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall educational policies, plans, programs, and budgets; preparation and enforcement of legislation and standards for the provision of education, including licensing of educational establishments; production and dissemination of general information, technical documentation, and statistics on education.

### SOCIAL PROTECTION

Government expenditure on social protection includes expenditure on services and transfers provided

to individual persons and households for: sickness and disability; old age; survivors of a deceased person; cash benefits and benefits-in- kind to households with dependent children; cash and benefits to persons who are capable of work and available for work but are unable to find suitable employment; benefits to help households meet the cost of housing (recipients of these benefits are means-tested); and cash and benefits to persons who are socially excluded or at risk of social exclusion (such as persons who are destitute, low-income earners, immigrants, indigenous people, refugees, substance abusers, victims of criminal violence, etc.).

Table 11 Government Expenditure by Functional Classification for FY (1398-1401)

| **Expenditure by Function** | **1396** | **1397** | **1397** | **1398** | **1399** | **1400** | **1401** |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Expenditure** | **Approved Budget** | **Actual Budget To Date** | **Budget** | **FE1** | **FE2** | **FE3** |
| **Total** | **356,453,442,148** | **377,190,202,974** | **280,716,512,933** | **399,417,934,931** | **417,797,327,878** | **425,126,911,410** | **430,129,904,158** |
| 1 **General public services** | 45,372,408,502 | 43,669,123,597 | 32,880,099,032 | 54,771,925,766 | 57,315,011,246 | 57,183,646,825 | 56,410,400,328 |
| 11 Executive and legislative organs, financial and fiscal affairs, external affairs | 41,911,381,522 | 28,241,629,143 | 27,183,248,796 | 40,951,853,025 | 43,579,281,442 | 44,151,043,977 | 44,400,446,354 |
| 13 General services | 2,730,763,037 | 14,706,874,577 | 4,758,474,507 | 12,768,169,771 | 12,626,081,331 | 11,862,686,542 | 10,776,667,873 |
| 14 Basic research | 229,601,239 | 237,280,899 | 169,721,329 | 271,464,751 | 286,012,201 | 300,620,004 | 315,724,205 |
| 16 General public services n.e.c. | 500,662,704 | 483,338,978 | 768,654,400 | 780,438,219 | 823,636,272 | 869,296,302 | 917,561,896 |
| **2 Defense** | 76,660,019,638 | 80,483,201,715 | 67,124,789,978 | 100,304,831,009 | 105,975,901,820 | 111,945,244,562 | 118,247,310,205 |
| 21 Military defense | 58,798,112,045 | 62,218,042,773 | **47,538,509,841** | 78,840,354,009 | 83,338,775,660 | 88,095,219,929 | 93,126,939,173 |
| 25 Defense n.e.c. | 17,861,907,593 | 18,265,158,942 | 19,586,280,137 | 21,464,477,000 | 22,637,126,160 | 23,850,024,633 | 25,120,371,032 |
| **3 Public order and safety** | 66,517,206,154 | 65,855,837,713 | 43,819,650,071 | 63,330,645,804 | 66,810,990,922 | 70,448,280,654 | 74,264,809,551 |
| 31 Police services | 57,163,593,443 | 56,032,940,899 | 37,433,869,825 | 55,332,800,025 | 58,379,021,269 | 61,576,916,210 | 64,937,431,700 |
| 32 Fire-protection services | 768,335,517 | 144,060,016 | 437,027,275 | 143,452,800 | 150,919,726 | 158,790,001 | 167,086,107 |
| 33 Law courts | 6,985,145,770 | 7,216,106,051 | 5,948,752,971 | 7,854,392,979 | 8,281,049,927 | 8,712,574,442 | 9,160,291,743 |
| 34 Prisons | 1,600,131,424 | 2,462,730,747 |  |  |  |  |  |
| **4 Economic affairs** | 67,259,690,942 | 60,127,060,003 | 55,147,344,772 | 67,850,533,538 | 66,904,211,645 | 62,511,036,021 | 56,322,970,568 |
| 41 General economic, commercial and labor affairs | 2,939,083,525 | 3,920,051,810 | 2,700,344,539 | 3,329,110,324 | 3,373,145,432 | 3,319,734,568 | 3,217,729,362 |
| 42 Agriculture, forestry, fishing and hunting | 15,996,260,340 | 15,593,741,380 | 11,199,244,893 | 15,775,667,030 | 15,604,428,094 | 14,667,673,716 | 13,333,568,307 |
| 43 Fuel and energy | 11,511,300,584 | 8,722,993,422 | 7,711,499,966 | 15,384,957,612 | 15,064,388,752 | 13,878,039,369 | 12,238,349,143 |
| 44 Mining, manufacturing and construction | 634,310,669 | 580,008,279 | 434,886,944 | 1,063,209,754 | 1,072,436,522 | 1,046,816,883 | 1,003,615,876 |
| 45 Transport | 28,412,211,766 | 25,685,076,640 | 22,766,800,779 | 23,733,944,389 | 23,345,394,544 | 21,708,805,857 | 19,420,810,399 |
| 46 Communication | 1,805,269,346 | 2,303,647,472 | 1,391,949,991 | 4,361,945,000 | 4,315,300,623 | 4,058,260,853 | 3,692,000,564 |
| 47 Other industries | 5,266,720,095 | 2,308,740,796 | 8,571,398,077 | 3,721,148,980 | 3,641,153,495 | 3,349,878,002 | 2,947,915,518 |
| 48 R&D Economic affairs | 694,534,617 | 1,012,800,204 | 371,219,583 | 480,550,448 | 487,964,183 | 481,826,773 | 468,981,399 |
| **5 Environmental protection** | 1,372,874,195 | 661,946,416 | 440,392,660 | 491,207,391 | 499,136,726 | 493,658,250 | 481,556,529 |
| 51 Waste management |  | 6,700,000 |  | 20,000,000 | 19,570,000 | 18,004,400 | 15,843,872 |
| 53 Pollution abatement | 26,136,400 | 6,790,771 | 4,535,319 | 7,155,034 | 7,543,429 | 7,953,572 | 8,386,713 |
| 54 Protection of biodiversity and landscape | 1,257,668,303 | 505,315,241 | 366,859,588 | 322,580,879 | 327,695,526 | 323,895,675 | 315,689,262 |
| 56 Environmental protection n.e.c. | 89,069,492 | 143,140,404 | 68,997,753 | 141,471,478 | 144,327,771 | 143,804,602 | 141,636,682 |
| **6 Housing and community amenities** | 7,915,388,018 | 8,314,306,464 | 4,744,871,500 | 8,279,333,663 | 8,131,911,781 | 7,538,639,808 | 6,712,444,195 |
| 61 Housing development | 2,166,971,397 | 1,485,395,341 | 1,248,740,199 | 354,729,816 | 348,616,589 | 323,543,637 | 288,570,761 |
| 62 Community development | 4,615,246,871 | 3,323,116,984 | 1,753,175,011 | 4,626,011,358 | 4,534,107,438 | 4,185,792,891 | 3,703,295,356 |
| 63 Water supply | 180,747,035 | 620,236,340 | 301,817,585 | 536,133,912 | 524,676,768 | 482,844,139 | 425,099,073 |
| 66 Housing and community amenities n.e.c. | 952,422,715 | 2,885,557,799 | 1,441,138,705 | 2,762,458,577 | 2,724,510,985 | 2,546,459,142 | 2,295,479,005 |
| **7 Health** | 18,760,338,027 | 15,038,486,413 | 15,371,886,940 | 17,365,523,313 | 17,307,577,454 | 16,513,590,303 | 15,340,669,693 |
| 72 Outpatient services | 12,448,710,005 | 9,572,368,659 | 10,810,583,994 | 11,268,758,940 | 11,131,433,419 | 10,433,573,070 | 9,444,464,686 |
| 73 Hospital services | 798,886,513 | 762,385,351 | 717,698,053 | 726,989,325 | 711,359,054 | 654,450,330 | 575,916,291 |
| 74 Public health services | 162,103,054 | 227,468,013 | 142,254,308 | 164,592,705 | 167,945,354 | 167,582,144 | 165,409,644 |
| 76 Health n.e.c. | 5,350,638,455 | 4,476,264,390 | 3,701,350,585 | 5,205,182,344 | 5,296,839,627 | 5,257,984,759 | 5,154,879,073 |
| **8 Recreation, culture and religion** | 3,065,973,412 | 3,108,177,534 | 2,102,630,636 | 3,272,592,679 | 3,389,499,243 | 3,467,761,551 | 3,529,801,974 |
| 81 Recreational and sporting services | 395,153,084 | 378,280,961 | 196,709,058 | 379,128,478 | 390,284,946 | 396,640,547 | 400,820,420 |
| 82 Cultural services | 348,248,556 | 329,864,262 | 173,974,175 | 356,751,341 | 359,003,113 | 348,665,871 | 331,952,858 |
| 83 Broadcasting and publishing services | 749,396,293 | 691,735,478 | 553,715,878 | 708,564,858 | 737,063,996 | 759,884,900 | 780,661,458 |
| 84 Religious and other community services | 1,568,324,468 | 1,691,927,934 | 1,171,293,411 | 1,826,593,002 | 1,901,625,621 | 1,961,170,390 | 2,015,135,378 |
| 85 R&D Recreation, culture and religion | 4,851,011 | 16,368,899 | 6,938,114 | 1,555,000 | 1,521,567 | 1,399,842 | 1,231,861 |
| **9 Education** | 46,303,337,459 | 51,470,183,116 | 35,339,299,462 | 50,656,109,859 | 53,507,438,410 | 55,754,852,042 | 57,973,621,937 |
| 91 Pre-primary and primary education | 21,353,307,288 | 24,054,234,316 | 17,369,057,423 | 22,278,327,491 | 23,492,191,617 | 24,710,223,420 | 25,969,790,446 |
| 92 Secondary education | 71,871,147 | 87,379,768 | 65,476,308 | 69,185,727 | 73,215,567 | 77,463,341 | 81,953,056 |
| 93 Post-secondary non-tertiary education | 254,582,168 | 207,692,944 | 124,364,920 | 191,586,108 | 200,131,572 | 207,300,088 | 214,041,308 |
| 94 Tertiary education | 7,228,154,063 | 7,782,527,664 | 5,232,257,241 | 8,238,678,220 | 8,491,032,690 | 8,615,250,346 | 8,681,456,480 |
| 95 Education not definable by level | 3,875,181,366 | 4,574,194,513 | 2,426,045,874 | 6,389,488,805 | 6,998,795,939 | 7,098,456,660 | 7,145,827,725 |
| 96 Subsidiary services to education | 56,098,865 | 31,475,220 | 27,592,508 | 29,621,794 | 31,134,582 | 32,727,556 | 34,405,104 |
| 97 R&D Education | 952,804,272 | 566,094,888 | 388,348,631 | 582,873,104 | 615,967,870 | 650,830,997 | 687,648,825 |
| 98 Education n.e.c. | 12,511,338,290 | 14,166,583,803 | 9,706,156,557 | 12,876,348,610 | 13,604,968,574 | 14,362,599,635 | 15,158,498,994 |
| **10 Social Protection** | 23,226,205,801 | 24,794,714,855 | 23,745,547,882 | 15,083,175,626 | 21,535,343,603 | 22,975,001,369 | 24,508,127,479 |
| 101 Sickness and Disability |  | 3,067,876,454 | 1,037,531,087 |  |  |  |  |
| 102 Old age | 5,904,542,137 | 19,467,061,513 | 9,384,232,633 | 5,942,973,404 | 8,439,315,993 | 9,015,190,696 | 9,628,939,130 |
| 103 Survivors | 2,160,086,690 |  | 1,014,151,566 |  |  |  |  |
| 104 Family and children | 391,706,699 | 448,700,898 | 326,042,527 | 7,550,137,454 | 11,429,178,309 | 12,217,932,482 | 13,060,873,974 |
| 105 Unemployment | 13,612,869 | 16,028,904 | 6,719,623 | 31,537 | 33,405 | 35,385 | 37,482 |
| 107 Social Exclusion N.E.C. | 257,598,028 | 162,825,871 | 76,004,333 | 137,039,892 | 137,044,898 | 131,637,339 | 123,455,135 |
| 108 R&D Social Protection | 10,963,458 |  | 6,061,211 |  |  |  |  |
| 109 Social protection n.e.c. | 14,487,695,920 | 1,632,221,215 | 11,894,804,902 | 1,452,993,338 | 1,529,770,997 | 1,610,205,467 | 1,694,821,759 |
| **99 Un Allocated** |  | 23,667,165,148 |  | 18,012,056,283 | 16,420,305,030 | 16,295,200,024 | 16,338,191,700 |
| 999 Un Allocated |  | 23,667,165,148 |  | 18,012,056,283 | 16,420,305,030 | 16,295,200,024 | 16,338,191,700 |
| **Note:** *This table will be updated based on the approved budget.* | | | | | | | |

# Fiscal Risks and Contingent Liabilities and Assets

## General Fiscal Risks

The forward estimates in the 1398 Budget incorporate assumptions and judgments based on the best information available at the time of publication. A range of factors may influence actual budget outcomes. The disclosure of these factors increases the transparency of fiscal projections.

* Events that could affect fiscal outcomes include:
* changes in economic and other parameters, particularly global economic developments;
* matters not included in fiscal forecasts due to uncertainty over timing, magnitude or likelihood; and
* The realization of contingent liabilities or assets.

## Security

The on-going conflict in Afghanistan presents several risks to the budget. Any escalation in the conflict may have an adverse impact on growth and reduce revenue. Alternatively, a decline in the conflict may allow economic activity to increase leading to improved revenue. The conflict may also increase the cost of investment through the destruction of infrastructure or increased security costs.

A large proportion of funding for security is provided outside the national budget through the Resolute Support Mission, which is an international mission subject to the policies of foreign governments which are outside the direct control of the Government of Afghanistan. Should there be a major reduction in funding under Resolute Support, it would have a direct and significant impact on the capacity of the Afghan Security forces. The Government and international partners have agreed on the goal that by 2024, Afghanistan will meet security costs from domestic revenues. The achievement of this goal is subject to a range of factors that might put significant pressure on the national budget and the Government’s ability to meet demands for recurrent funding.

## IDPs & Refugees Repatriation

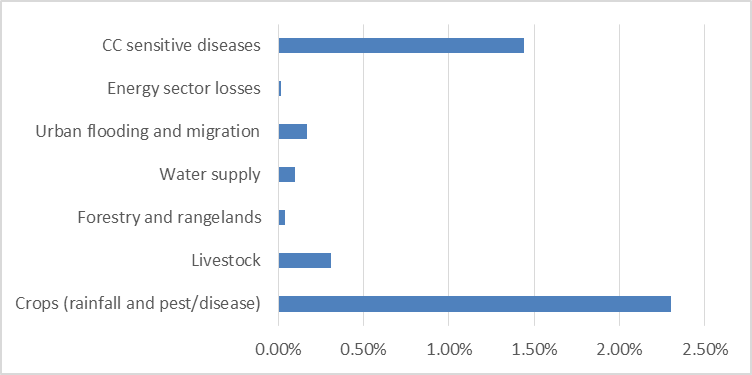
One of the outcomes of war destructions and political instability from past decades is the migration and displacement of people from their core neighborhoods. In addition to that, natural incidents such as floods, landslides and particularly drought are counted for being the core reasons of displacement of people. According to the reports of the United Nations High Commission for Refugees (UNHCR), Afghan refugees still rank second largest population in the world in terms of numbers and, in total, Afghan refugees account for 13% of the world’s total immigrant population. This shows that the immigration issues need serious attention from government and other organizations that work in this field. Even though the statistics of UNHCR shows that from March of 2002 to September of 2018, 5.2 million of Afghan refugees have repatriated to Afghanistan but according to the statistics of Ministry of Refugees Affairs more than 6 million Afghans are still living in migration, the majority of them are resident in Iran and Pakistan. In 2018 it is expected that 700,000 of people will repatriate to Afghanistan, of this 600,000 will return from Iran and 100,000 will return from Pakistan. In next year, majority of the repatriates will be from Iran because according to the economic sanctions of the United States of America the economic situation of Iran is likely to get worse; this would possibly force many immigrants to return back to Afghanistan. Also, change in the political leadership and new politics in Pakistan in one hand and the relatively poor security and livelihood conditions on the other hand can possibly become the reason for a number of immigrants to repatriate from Pakistan to Afghanistan. On the whole, this problem does not seem to be solved soon. On the other hand, lack of exact statistics and enough information on the number of registered refugees makes the predictions harder to handle this issue.

If the conflict ceases in the country and effective drought management programs are made and natural incidents are handled in a useful way, it is likely that the number of repatriates increase and conversely the number of internally displaced Afghans may reduce because if the situation is favorable a number of people might return back to their homes and continue with their normal lives.

## Climate change and Fiscal Risks

Climate change (CC) poses significant risks to Asian countries, and particularly in Afghanistan, in the form of rising mean annual temperatures and varying spatial patterns in spring rainfall and snowmelt. This is leading to increased frequency of both droughts and floods in different regions of the country due to its diverse topography. Afghanistan’s higher exposure and sensitivity to CC is expected to severely impact rural livelihoods, food security and the overall economy. Afghanistan has recently conducted a CC Public Expenditure Review and Indicative CC Financing Framework (CPEIR+), which considers the potential impact of CC on economic growth, the existing expenditure related to CC and some indicative scenarios of future CC expenditure. Figure 1 provides a snapshot of the major sources of losses and damages from CC on Afghanistan’s GDP growth by 2050, from the Afghan CPEIR report. It indicates that the impacts on agriculture and human health would cause highest reductions to economic growth due to CC.

Figure 6 Sources of Loss and Damage (Reduction in GDP growth by 2050)

  
*Source: The Implication of Climate Change for Planning and Finance in Afghanistan: CPEIR and Indicative CCFF, 2017*

Therefore, this depicts the cost of not accounting for the future impacts of CC on the economy. Given the moderate growth projections estimated for the country, this becomes further important for the Afghan government in its development strategy. This shows the critical linkage between preserving future growth and welfare outcomes and the projected CC impacts on various sectors of the economy.

The overall fiscal risks arising from the climate change is not quantifiable at the moment and have not been considered in the multi-year estimates, however, any fiscal pressures emerging from the climate change including but not limited to droughts, earthquakes, landslides, avalanches and floods must be financed from the current available sources.

In order to pro-actively respond to the climate change losses and damages and to avoid huge fiscal risks, a concerted action from multiple stakeholders, spearheaded by the national government, is required to mobilize resources and capacities, as well as facilitate institutional reforms to address these issues. The inclusion of a CC dimension in the planning and design of large scale development programs is widely resorted to, in pursuit of improving community resilience and adaptive capacity.

**Drought – A recent Climate Change Shock:** Drought has drastically affected major parts of the country, with two out of every three provinces expected to become severely food insecure and in need of assistance.

Below average snowfall and precipitation (deficit of 70%) has caused water points, fountains and rivers run low on water or completely dry up.

Lack of water had significantly affected the winter agriculture season and its harvest and is expected to continue through 2019 spring and summer seasons. Apart from low agriculture productivity, the lack of harvest has also affected people with livestock and pastoralists like Kuchies as pasturelands have dried up or overgrazed. Concurrently the agriculture labor opportunities and wages have significantly reduced due to migration of rural workers. These factors coupled together leads to food insecurity and reduced income for majority of people in the affected.

The latest figures indicate that about 1.9 million people across the country have been affected by severe drought conditions in 20 provinces namely; Balkh, Faryab, Jawzjan, Samangan, Daikundi, Sarepul, Badakhshan, Baghlan, Kunduz, Takhar, Nuristan, Badghis, Farah, Ghor, Herat, Helmand, Kandahar, Nimroz, Uruzgan and Zabul. The Government needs to work on a drought-response package with the assistance of donor community to support in areas like food and nutrition, water supply and sanitation, emergency shelters and non-food items. The government, although being very low on resources, is committed to invest in these areas to serve affected Afghan population. The overall drought response requirements in 2019 and years to come are un-quantified to date but even after big donor assistances the Government needs to budget for drought response which will have huge pressure on the already limited resource envelop.

## State-Owned Enterprises

Regardless of the recent developments in the country, state-owned enterprises and companies have continued their activities at different levels. These enterprises are operating in the areas of energy, mining, security, manufacturing, tourism, transportation, water, trade, telecommunications, insurance and industry. There are a total of 35 state-owned enterprises, 16 state-owned companies and 3 state-owned commercial banks including New Kabul Bank, in Afghanistan. The activities of state-owned enterprises, state-owned companies and state-owned commercial banks are regulated per the concerned laws and by-laws.

### Information on Financial Position

The financial position of each of the enterprises varies. However, in general, they can be classified into three categories:

1. Profitable enterprises;
2. Enterprises that can only cover their expenses through their revenues;
3. Enterprises that have non-essential revenues or doesn’t function at all.

Of the above, almost 10 enterprises are profitable, whereas, the rest are included into the two categories of (B) and (C). In addition to the fact that some enterprises do not have enough revenues, they bring about opportunity costs to the government. If required, decisions are not made about destiny of these enterprise, the subsequent costs to re-establish them will be much greater, as investment in these sectors may put serious financial pressure on the government.

A number of state-owned enterprises, due to their low capacity, cannot submit their balance sheets in a timely manner. This has made it impossible to provide the necessary information and comprehensive financial analysis on a timely basis. Considering this, the continued functioning of these enterprises, while there is no image about their financial situation, could face serious financial risks. On the other hand, this has made the financial risks in this sector immeasurable and uncertain.

### Measures to Improve State-Owned Enterprises & Companies

Some state-owned companies and commercial banks, do not share their balance sheets as well as other financial information in a required manner with the Directorate General of State-owned Enterprises. This problem is mostly resulting from a legal gap; at this time, the Directorate General of State-Owned Enterprises has finalized and processed the draft law on state-owned companies. By enforcing this law, state-owned companies and state-owned commercial banks will be required to report to the Directorate General of Enterprises, and all barriers that have previously restricted the monitoring of these companies will be lifted accordingly.

Despite the fact that the government has supported the state-owned enterprises and companies in different areas including debt guarantee, incentives for tax expenditures, subsidies and recollection of the capitals, the analytical data from accumulated potential liabilities have not been collected in a systematic manner. The government promoted the directorate of state-owned enterprises to directorate general of state-owned enterprises and companies, according to the financial performance improvement plan, in 1397. However, the process of capacity building and establishment of an effective oversight system that could guarantee the productivity of the state-owned enterprises and companies require time and all-inclusive support such as human resources, technical assistance and improvement or drafting of the laws.

At this time, the draft law on enterprises is being processed and, based on the proposed recommendations, it is expected that the enterprises would have a better functioning in the market and will be able to upgrade their revenue to the utmost. It’s noteworthy that approval and implementation of this law would also require time; also, it shouldn’t be expected that all the existing challenges will be addressed upon approval of this law.

The law on governmental companies is also under work; this law will have a considerable importance in establishment of a legal framework to thoroughly oversee the activities of these companies. But overall, an effective over-sight would remain a challenge and a concern in the medium-term.

## Pensions

The Government is accruing significant pension liabilities relating to civil servants that are not fully accounted for in the Medium-Term Expenditure Framework and forward estimates. The current system for civil service pensions provides for an income upon retirement based on years of service and final salary.

The formula for calculating pensions is:

* After 10 years of service, an employee is entitled to a pension of 40 per cent of their average salary from the last 3 years.
* There is then a provision of an additional 2 per cent per year for each year of additional service.
* Voluntary retirement with a civil pension can be taken from the age of 63, mandatory retirement is at age 65.

For the military the formula is different.

* The pension entitlement accrues 2.35 per cent of an employee’s salary for each year of service from the first year.
* Military personnel may retire between the age of 52 and 70 years of age depending rank and years of service.

Currently, the Government makes a contribution equal to eight per cent of an employee’s salary each year towards their pension and deducts eight per cent a year from the employee as a contribution. For the military, the government contributes 11 per cent per year and employees contribute five per cent from their salary. The Government’s contribution for both civil servants and military personnel is currently 100 per cent unfunded. This means that the Government does not make any provision for pension liabilities when they accrue and simply meets the pension payments in each year from recurrent resources. In addition, the Government currently does not save the employee contributions deducted each year, they are treated as receipts and used to meet recurrent payments in each fiscal year.

As a result, the Government is accruing a large and growing unfunded liability. The Government does not have accurate projections of the current and future unfunded pension liability.

### **Parametric Reforms of the Pension Schemes of Public** **Sector**

Good pension systems are consist of the following principles:

(i) Providing adequate benefits (ii) affordable (iii) financially sustainable and (iv) administratively efficient (v) without causing economic and labor market distortions. ‘Good’ pension systems also cover a large, or at least steadily increasing, share of the labor force.

In contrast, the two existing pension schemes cover only around 7.5% of the labor force, which includes those who are in relatively privileged positions possessing stabile public sector jobs and does not likely belong to the 55% of the population who live below the poverty line. These narrow coverage pension schemes are on increasingly unaffordable and financially unsustainable paths, but even before their maturation, i.e. before the share of beneficiaries to contributors (system dependency ratio) starts to rapidly increase, they spend 0.5% - 0.6% of the GDP in a country where domestic revenue collection is at 12.3% of the GDP. As a result, the existing pension schemes (combined with the Martyrs and Disabled benefit scheme) are already affecting the execution of the social expenditures to the poor and vulnerable. Meanwhile, even without calculating the recent ad hoc increases to benefits burdening the pension budget such as the special early retirement arrangements for classes of employees and increased allowances for education attainment levels, annual pension expenditures increase 14-16% annually in a 5% inflation environment. The pension system is a long-term financial construct, it should not be judged based on its less threatening annual balance figures at current low system and demographic dependency levels; instead consider that without urgent reforms, nominal pension expenditures will double in 5 years, triple in 8 years, quadruple in 10 years and will be 5 times as much later on, just like it was in 2018.

The issues with the pension system are further exacerbated by implementation issues. While the introduction of the pension MIS in Kabul and its expansion to the provinces with direct pension benefit payments to bank accounts and periodic biometric verification for proof of life has reduced and is continuing to reduce error, fraud and corruption, the status quo of pension administrations continues to be far from the provisions of the pension laws and regulations. In other words, the existing pension schemes are contributory schemes under which employees (i.e. civil servants and security forces personnel) and employers (i.e. the government) are obliged to pay wage proportional contributions. These contributions are used to pay current pension benefits and to generate pension reserves to pay for future pension liabilities. However, the contribution collection and the reserves accumulation features of the pension system are not operational in Afghanistan; an institution for Public Pension Fund, that would separate the implementation of the long-term construct pension system from the annual budget operations, does not exist. In fact, the payroll deductions for pension contributions (currently administered as budget revenue) only exist as an accounting entry without actual flows of funds and the government does not make payments in accordance with its wage proportional pension contribution obligation (or even less) under the pension laws and regulations. There is no system for alleviating the shocks of future fiscal shocks arriving through the rapid accumulation of pension liabilities.

Therefore, in April 2018 the Cabinet decided about a set of parametric pension reform measures with the primary objectives of improving the financial sustainability and affordability of the pension system. The reform measures of the defined benefits schemes includes; (i) a moderation in the accrual rate (i.e. what amount of pension will they earn in their one year of service), (ii) an increase in the employee’s contribution rate, (ii) lengthening of the averaging period of wages prior to retirement for the calculation of the reference wage, (iii) determining an age limit for the pension benefits of an alive person. The changes in the benefit formula would affect those retiring after the enactment of the reforms.

A benefit adequacy improvement reform feature is approved to be introduced along with the financial sustainability enhancement features, i.e. an automatic pension indexation. It will eventually maintain the purchase value of the pension benefits during the retired period of the life cycle; pensions will be increased automatically by 1.5% annually for 10 years after which indexation to inflation (changes in the consumer price index) will commence.

The Cabinet also approved that a distinct Public Pension Fund is to be established to separate the finances of the pension system from the annual budget implementation cycle, i.e. to collect employee’s contributions, to transfer the current financing needs to the Pension Department for current pension benefit payments, and to manage the reserves of the pension systems. These measures are currently being embedded in the applicable laws and regulations for enactment. Simultaneously, further reform preparation measures are in place to set the governance arrangements of the Public Pension Fund and to design investment management practices, likely with the use of SUKUK instruments, government would prevent a fiscal cash flow shock when it will start paying its full contribution obligation to the Public Pension Fund as an employer.

## Public Private Partnership (PPPs)

Afghan Government adopted Public Private Partnership (PPP) on top of the macroeconomic policy with an aim to deliver services and build physical infrastructures, attract private sector entrepreneurship skills, use public properties and assets efficiently and to exploit capitals existing in the private sector and banks in an effective manner. Afghan Government has achieved the following in order to realize the above mentioned targets:

Public Private Partnership Law has been approved by the cabinet and issued based on a presidential decree, published in the official gazette 1228 and enacted accordingly. MoF has started its legal and administrative framework in accordance with the PPP law and is processing partnership projects.

The Law, policy, standard partnership documents that include prior competency assessment notice, Request for proposal, partnership contract models, standard forms and check lists, document evaluating proper project implementation and prioritization through partnership and working guidelines have been developed and finalized for administrations use.

The partnership administrative framework has been established in accordance with the PPP law containing establishment of Central Unit in the Ministry of Finance and project units within line ministries. General Directorate of PPP was established as a central unit in mid-2017 leading all partnership activities in country.

MoF has conducted more than 40 national and 6 international programs for the purposes of capacity building and awareness covering government officials and employees, entrepreneurs, university lecturers, academicians, civil society members, media and other stakeholders. 30 government employees received Partnership Certification Program which is an internationally known program and received certificates of its first module.

The PPP five year plan is developed in coordination with all respective parties strengthening PPP communication with stakeholders in general. Also, a list of PPP potential projects including projects of various afghan government ministries and entities as of primary sectors, services, and agriculture, energy and transport sectors.

The High Economic Council confirmed 17 projects scheme (Water network construction in Kabul districts 12 and 22, Janah and Jamhoriat Hospitals, electronic jawaz sair distribution, solid waste scheme in Kabul, precious stones bazaar, producing electricity from Sheberghan Gas, Kajaki dam second phase, Kandahar solar power, construction of 5 slaughterhouses in Herat, Mazar, Kunduz and Kabul, Baghdara power dam, Surobi second phase, Naghlo and Hesar Shahi solar power, diagnostic equipment installation scheme in Shaikh Zaid and Wazir Akbar Khan).

The HEC has approved feasibility study and financial model of 13 PPP projects which in accordance with the PPP law accounts for second phase of partnership projects. Projects with approved feasibility study and financial model include Kajaki 100 MW power dam, production of 90 MW power from Sheberghan Gas (by Ghazanfar Group and Bayat Power), five slaughterhouses in Herat, Kunduz, Mazar and Kabul, Baghdara Power dam, Surobi second phase, Naghlo and Hesar Shahi Solar power, installation of diagnostic equipment in Shaik Zaid and Wazir Akbar Khan hospitals, Janah and Jamhoriat hospitals and production of 30 MW solar energy in Kandahar.

National Procurement Commission has awarded contracts of five energy projects (second phase of the Kajaki Power dam, Kandahar Solar, Sheberghan gas) in accordance with the PPP Law.

Respective departments and PPP have practically started implementation of five projects approved by the NPC, contracts of which have been signed by the government and private sector partners.

### Government direct and likely commitments and risks to PPP projects

PPP projects having in view their nature are normally long term projects which at circumstances may take decades. As one of the two main partners (government and private sector), the government significantly contributes in recognition, preparation, procurement, implementation and oversight of the PPP projects and pledges commitments that will make government take on responsibilities and fiscal risks both in short and long term including direct and likely commitments. Direct commitments are commitments the time and amount of which will be included in the PPP contracts like Viability Gap Fund, Letter of Credit, custom exemption and etc. that clearly direct responsibilities towards the government in a specific time. Indirect state commitments include all types of state guarantees related to project risk deduction involving performance guarantee of ministries, agencies, state enterprises and corporations, security guarantees, project implementing companies loan guarantee (Partial Risk Guarantee), guarantee against unexpected political and non-political incidents and all other types of guarantees and commitments. Following is the government commitments for every project signed:

#### Sheberghan Gas Power Plant Project

A 40 Megawatt gas power plant will be constructed in Jawzjan. The project duration of contract is five years and in relation to that, government holds the following direct and likely commitments:

1. **Direct Commitments:**

* Letter of credit and deposit account totaling to 15,300,000 USD for the purposes of guaranteeing DABS payments to project implementing company.

1. **Indirect Commitments:**

* Compensation in the case of contract dismissal due to DABS negligence and occurrence of unexpected political incident;
* Compensation when the power purchasing contract is dismissed due to occurrence of unexpected political incident;

#### Mazar-e-Sharif Gas Power Plant Project

A 50 Megawatt Gas Power Plan will be constructed in Balkh province and government’s direct and likely commitments to this project include:

* + - 1. **Direct Commitments:**

Guaranteeing transitional payments in the shape of letter of credit amounting to USD 5 million until long term payment guarantees are provided;

* + - 1. **Likely commitments:**
* Guaranteeing payments by the end of contract in the shape of letter of credit amounting to USD 10 million which will be provided by IDA (Section of World Bank), if that is not provided by the mentioned entity, the Afghan government shall hold that guarantee;
* Compensation if the power purchasing contract is dismissed due to occurrence of unexpected political incident;
* Compensation when an unexpected incident occurs;

#### Kandahar Solar Power Project:

The Kandahar Solar Power Project will be established in this province with a capacity of 30 Megawatts of electricity and government’s direct and likely commitments to that include the following:

**Direct Commitments:**

Provide Viability Fund in accordance with agreed timeframe amounting to USD 14 million to two implementing companies for the purposes of filling project financial gap;

**Likely commitments:**

The GIRoA has responsibility to compensate project implementing companies where an unexpected political and non-political incident occurs;

#### Kajaki Power Plant second phase:

The Kajaki Power Plant second phase with a capacity of 100 Megawatt solar power production will be constructed in Helmand and government’s direct and likely commitments to that include the following:

1. **Likely commitments:**

* State Sovereign Guarantee to secure DABS payments and commitments till the end of contract;
* Compensation when contract is dismissed due to an unexpected political incident;
* Compensation when an unexpected incident occurs;

# Budget Execution Rules

This section sets out guidelines for the implementation of the budget.

## Legal framework for implementation of the budget

1. Under article (37) of the Public Expenditure and Financial Management Law, all budgetary units are required to execute funds in accordance with the budget execution guidelines which is approved by the Parliament. In the case of any conflict with other prevailing laws, except the Constitution, the Budget Execution guidelines will still apply.

## Administrative requirements for implementation of the national budget

### General Provisions

1. The fiscal year for 1398 starts from first day of JADI 1397 and continues until the last day of QAWS 1398.
2. After approval by the Cabinet, Parliament and Presidential decree, the budget is considered final and all budgetary units are required to align their spending plans and execution in accordance with the approved budget. No overspending is allowed from the budget unless prior approval of the MoF.
3. Budgetary units should prepare their procurement and financial plans in accordance with directions provided by the MOF in a circular prior to the beginning of the fiscal year in line with the approved budget. Financial plans should be prepared by month, by expenditure code and by province for both operating and development budgets and must be submitted to the Ministry of Finance.
4. Under Clause (3) Article (12) of the Procurement Law, no procurement shall be initiated unless public funds (budget) have been allocated in accordance with the Public Financial and Expenditure Management Law. However, after the approval of the 1398 budget by Cabinet, budgetary units can commence their procurement procedures in order to save time. The signing of contracts can be done only after the approval of the budget by Parliament and endorsement by President.
5. In order to speed up the process of the implementation of the construction projects, the procurement processing of the contracts up to Afs. 100 million shall take place in accordance with the procurement law by the budgetary units.
6. Under article (42) of the Constitution and article (2) of the PFML law, no entity, high-ranking officials and/or budgetary unit can possess and/or use domestic revenue, neither can anyone setup public or private bank accounts (provincial or central) for the purpose of collecting domestic revenue without the prior approval of Ministry of Finance. Similarly, the Afghan administrations abroad are required to transfer revenues, on quarterly basis, to the special account specified by MoF and the expenditures must be made by issuing allotments.
7. Budgetary units which have been established, amended and disqualified in 1398 budget as compared to 1397 budget shall not be deemed as independent budgetary units in accordance with article 90 of the Constitution until legally processed and shall regulate their performances like before.
8. Taxes, custom duties, toll fees and other monetary and financial requirements resulting from importing and exporting of oil products and its derivatives such as petrol, diesel, gas, raw oil, etc shall be paid in accordance with the relevant laws except in circumstances when exempted on the basis of agreement and/or law.
9. Budget Execution Guidelines approved by parliament as part of the Budget is considered as law and execution against it is considered as violation of law.
10. For Ministry of Public Works, Ministry of Finance, Ministry of Work and Social Affairs, National Security Council, National Authority on Disabled and Relatives of Martyrs and Office of Administrative Affairs, under the ordinary budget table in addition to their operational expenditures, other expenditure items are also considered. These funds are expendable only for the purposes specified under the ordinary budget table; these funds shall never be spent for other purposes.
11. In order to encourage tax payers to comply with the tax law and facilitate on time collection of tax revenue, tax payers who have not paid penalties from 1381 to 1396 shall:

* In the case of the original tax, pay their obligation including 10% of the additional tax (tax penalty) during the first quarter of FY 1398, and will be exempted from the remaining tax penalties.
* In the case of the original tax, pay their obligation including 20% of the additional tax (tax penalty) during the second quarter of FY 1398, and will be exempted from the remaining tax penalties.
* This exemption is valid only for the first 6 months of the FY 1398.

### Variations and transfers

1. Transfers from one code to another can only be approved by the Ministry of Finance. Contracts and all other purchases should be arranged within the limits of the approved budget and the budget codes. No budgetary unit can sign a contract for goods and services that is above the limit of the approved budget in the operating budget. In the multi-year development discretionary projects, if the contract above the approved ceilings, prior written approval of the Ministry of Finance is required.
2. 1398 Operating budget is calculated on codes-basis. Budgetary units are required to align their expenditures within the codes ceilings.. Arrears from previous years are not payable from 1398 budget, unless prior approval of the Ministry of Finance. All budgetary units are required to execute procurements, provision of goods and services and payments for the year from the budget of the same year.
3. In the 1398 Budget the following sub-codes are not transferable to other sub-codes:

* Salaries,
* Food allowance,
* Cost for electricity,
* Water,
* Cleaning,
* Communication fees,
* Vehicle maintenance,
* Ikramia (allowance) for relatives of the security forces martyrs,
* And building maintenance costs.

1. Transfers or adjustments within ring-fenced codes must be approved by the Ministry of Finance. Over time compensation is also among the ring-fenced codes and budgetary units are required to process overtimes in accordance with the regulation and within the approved budget. Transfers from any code to overtime compensation is not allowed.
2. The donor financed operating budget in the Ministry of Interior and the Ministry of Defense is adjustable or transferrable to other codes only if the donor has agreed to it. Transfers from other codes to ring-fenced codes are allowed under the donor’s funding. Due to the security situation, Ministry of Defense, Ministry of Interior and General Directorate of National Security are treated exceptions to the 5% adjustments between codes which has been stipulated in Article 47 of the PFM law.
3. Transfer from other codes to the operative codes are not allowed. The operative expenditures are only executable for following ministries and budgetary units:

* Ministry of Defense
* Ministry of Interior
* General Directorate of National Security
* National Security Council

1. In order to ensure the timely implementation of the Budget, the Ministry of Finance is authorized to allow transfers between economic codes in the operating budget, without Budget Committee’s approval. However, code 21 expenditures (Wages and Salaries) cannot be transferred to any other codes.
2. In case of any increase in revenue collection during the fiscal year above the budget projections, the Ministry of Finance has the authority to use the additional revenue to finance any deficit in the development budget.
3. Ministries/agencies that have Operations and Maintenance (O&M) expenditures should communicate the approved provincial allocation funds to the related provincial departments at the beginning of the fiscal year and transfer it to the provincial departments in accordance with the financial plan so that work may be done at the provincial level. These funds are not transferable from one province to the other during the fiscal year, unless approved by the Ministry of Finance.

### Project Management and Contracting

1. For any type of overtime in contracts prior to commencement, written agreements from the relevant donors and in the case of work under the discretionary budget, a written agreement of the Ministry of Finance are required. Overtime exceeding 15% in projects under the discretionary budget shall not be approved.
2. Projects with no progress for two years will be reviewed by the Budget Committee and will be taken out unless the relevant budgetary unit provides proper justifications on why the progress has not been made.
3. Under the non-discretionary budget, Ministries and budgetary units need to have the written agreement of the relevant donors before extending a contract to a third party. Verbal commitments are not sufficient. During the course of the year, if a donor withdraws from its commitment, the executing Ministry or budgetary unit must inform the Ministry of Finance within 10 working days.
4. All contracts and payments within Afghanistan must be made in Afghanis. However, payments made outside the country are exempted. No contracts must be paid in both currencies at the same time.
5. All Ministries and budgetary units are required to submit their quarterly budget performance reports to the Ministry of Finance and the Ministry of economy no later than two weeks after the end of each quarter. The Ministry of Finance will prepare and send a consolidated performance report to the Finance Commission of the Parliament (Wolesi Jirga) within one month of the end of each quarter.
6. All Budget allotments, (with exception to the contingency codes) will be addressed through a separate Ministry of Finance Circular.
7. All budgetary units are required to clear their advance balances before the end of fiscal year. Advances will be audited by the Supreme Audit Office (SAO) and any budgetary unit which has failed to clear its advances before the end of the year will not be eligible for advances next year. Advance payment in contracts and Letter of Credit (LC) are exempted.
8. According to article 96 of the constitution, if a law or regulation includes the imposition of new taxes or a reduction of state incomes, any source of compensation must be in the text of the proposal. Any law or regulation that includes a salary increment / or increase in any other allowances of civil servants and military staff which is not already included in the budget (including the forward estimates) unless stated in the law the allowances or new spending are applicable from the beginning of the next fiscal year.
9. For better utilization of the Operation and Maintenance funds (O&M), Ministry of Public Works (MoPW) must sign all contracts and execute funds annually. 65% of the total O&M related to the ministry is allocated to basic operation and maintenance, 20% to on-going operation and maintenance and 15% to rehabilitation of roads in emergency situations.
10. All contracts (Construction and non-construction) should be based on fixed price and not on estimated work progress. Starting and ending dates of contracts shall also be clearly stated.
11. All contracts including construction, water supply, etc which have possibility of an open tendor, must not be contracted through single source.
12. National Procurement Authority (NPA) cannot keep contracts with them for more than 21 days (based on procurement law).
13. Financing decision of the discretionary projects is the authority of the Afghan government, and donors have the authority to make decisions in respect to financing the non-discretionary. In case any non-discretionary project is secured or discarded or in case of increase/decrease of its fund during the fiscal year, Ministry of Finance is authorized to execute budget annex after approval of office of the president and send it to the National Assembly within 7 working days for their information.
14. Supplementary additions and operating budget deductions in the non-discretionary budget is executable provided it has proper justification, approval of the Ministry of Finance based on the written agreement of the donor shall be executed during the fiscal years and this information must be shared within 7 working days with the Parliament.
15. Subprojects in the National Rural Access Program (NRAP) and other projects in the Ministry of Public Works (MoPW) and Ministry of Rural Rehabilitation and Development (MoRRD) is not amendable after approval of the Parliament.
16. All professors in Ministry of Higher Education, Science Academy or any other educational institutes serving in other budgetary units, State-owned enterprises and etc, are not illegible to acquire Cadre-allowances.
17. All ministries and budgetary units receive funds from National budget and are therefore accountable for their execution to the Wolosi Jirga. In case of any issues, ministries/budgetary units must write to the Ministry of Finance for rectification.
18. Taxes on salaries and contracts will be levied based on Income Tax Law. International Agreements are exceptions.
19. All ministries including Ministry of Foreign Affairs must avoid hiring contracted staff. No contracted staff is allowed to be employed outside the country. Appointing employees in embassies and diplomatic offices within the approved tashkeel is under foreign minister’s authority, provided non increments are given in the salaries and/or other incentives. Ministry of Foreign Affairs is responsible to set norms and standards for salary scales of locally hired workers outside country, in collaboration with Ministry of Finance.
20. Infrastructure sector’s line ministries should consider infrastructure sharing issue in all construction contracts during the project design phase. In particular the issues of Fiber optic, electricity transmission cables, canalization and water supply system need to be shared and coordinated among Ministry of Public Work, Municipalities, Ministry of Communication and Information Technology, Water Supply and Canalization Company and Brishna Company during the design and construction phase of roads and streets and make a joint effort for its implementation. Also National Procurement Authority is required to consider this issue during approval of new contracts.
21. Only ministers and executives of the budgetary units are not responsible for budget execution. Deputies, project managers, and relevant directors are also held responsible.
22. Drafting of laws, regulations and policies that have a direct fiscal/financial implication on the national budget must be approved by the Cabinet; prior to cabinet, approval of the Ministry of Finance is must. Unless otherwise, the Ministry of Finance will not be responsible to its implementation.
23. In non-discretionary projects, Ministry of Finance, can opt for Letter of Credits (LC), based on GoA agreement with Donors. Only the planned executable amount for the year must be included as the budget.
24. Final deadline to submit FY 1398’s M16s in the center and Mustufiats for the ordinary budget is 20th of QAWS and for development budget 28th of QAWS. The budgetary units are assigned to communicate the issue with their secondary departments.

### Staffing

1. Ministries and agencies are required to align their Tashkeel (organizational structure) differentiated by national and sub national levels based on the budget ceiling assigned by the Parliament to each ministry and strictly avoid any increase in Tashkeel in the course of the fiscal year. Approved Tashkeel levels which appear in the budget document are final.
2. No governmental staff (lower or higher ranking) can simultaneously receive salaries from two organizations during official working hours.
3. Salaries of discretionary development projects must be in accordance with the salary scale in National Technical Assistance (NTA) and must not in any case exceed AFS 250,000. All organizations with NTA employees are assigned to reduce the level of this section to at least 15%. The Ministry of Finance shall oversee this process to implement the reduction of the NTA expenses.
4. All civil servants who are promoted to retirement shall not be rehired by the government entities. In exceptional cases, the written agreement of the Ministry of Finance and the ICARCS should be obtained.

# New Policy Initiatives 2019

## Overview

Afghanistan’s fiscal resources are limited, so budget outcomes must follow national priorities. Afghanistan’s broader development objectives are defined in the Afghanistan National Peace and Development Framework (ANPDF 2017-2021) - a five-year strategic plan for achieving self-reliance and improving welfare of Afghans. New policy priorities need to directly contribute to government’s growth agenda, revenue generation, service delivery and poverty reduction as outlined in the ANPDF and detailed in the National Priority Programs (NPPs).

### What are new policy initiatives?

New policy initiatives are policies, programs or projects that will start in 1398 (or later) as well as decisions that significantly change the scope and/or costs of previously approved programs.

The definition of new policy includes:

* Changes to taxes and other measures which increase government receipts;
* New spending initiatives;
* Initiatives undertaken to reduce former unproductive government expenditure;
* Changes the profile of expenditure in existing programs to reflect more realistic spending assumptions;
* Implementation of the medium-term expenditure framework with forward estimates for revenue and expenditure for the budget and three forward years, including the end of program project commitments of the Government and of donors.

Although these are being disclosed to the people of Afghanistan in the budget for the first time, they are not changes in government policy and are not reported separately in this section.

For the 1397 Budget, only major policy initiatives will be described. In the future, the Government will include all new policy initiatives.

Changes to revenue/receipts and expenditure (both positive and negative) are discussed in separate sections. Each section is listed by sector. Where a Ministry or Agency does not appear, either in revenue or expenditure, no major policy initiatives are being announced by the Government. A Ministry/Agency may appear in one section, but not the other.

### Layout and recommendations to increase revenue

As apparent, Afghanistan has been reliant on donor assistance throughout years which financed major part of the national budget; however, donor assistance particularly to the national budget will decrease through time forcing afghan government to search new ways towards self-reliance. Among others, one could be enhancing and introducing new revenue fountains through analysis of available sources of revenue within the capital and provinces and identifying revenue channels.

Most important measures increasing domestic revenue include:

* Paying incentive to members of staff aimed at professional service delivery and corruption prevention and similarly to avoid collection of revenue in the shape of physical money, MoF in coordination with the DAB will assess possibility of establishing bank branches and will accordingly create a comprehensive mechanism and will revise and amend respective laws as required;
* Enhancing public awareness programs and including Tax subject into the university curriculum to promote culture of taxes;
* Adopt necessary measures to better collect non-tax revenue through meetings with ministers and officials of government agencies;
* MoM in cooperation with the security sector shall adopt measures to avoid illegal and unprofessional extraction and smuggling of mines, transfer royalty and other tax and custom duties to the government account and if possible, strengthen and invest on enterprises active in the field of mines;
* MoF in understanding with the MoM shall establish Single Mine Account to collect its revenue within the capital and provinces aimed at prevention of disperse revenue collection;
* Establish Tax Intelligence Agency to avoid tax scape (access to asset registration forms), expanding number of tax payers and preventing tax concealment;
* Establish provincial revenue committee within the office of the provincial governor participated by the Head of the Provincial Council, NDS Director, Police Headquarters Head of Security, Provincial Directors of the MoFA, Justice, Economy, Communication, Transportation as well as Revenue Managers and Officers of Mustofiats;
* Further simplification of tax evaluation and clearance process within the capital and provinces;
* Ministries and independent agencies shall evaluate type and amount of their fees taking into consideration economic and social situation every three years;
* Analyze and evaluate ministries and independent agencies revenue resources for the purposes of identifying areas in which revenues are wasted and developing policies to avoid its wastage and also to improve quality of ministries and independent agencies valuable instruments;
* Establish unified mechanism to timely collect and transfer non-tax revenue of government foreign units (Embassies, Consulates, Transport and Commercial Attaches),
* Implement electronic system of presenting manifests and tax payers access to Online Tax Forms (Fast Track Filing) in other agencies;
* Beginning the process of tax accountants to provide tax payers with tax services (tax payers access to tax services by representatives or agents as legal sources;
* Adopt measures necessary for implementation of value added tax in coordination with customs and other respective agencies;

Perform hazard based compliance in new five second grade provinces to establish hazard based compliance committee, extension and implementation of hazard based evaluation process;

### Reforms in the 1398 Budget

**Linking policy to the budget**: With rolling forward estimates the Government has put in place a forward-looking budget where decisions are taken for the medium-term, not only for the budget year. Forward estimates represent a comprehensive estimate of the current cost of existing Government policy within existing budget constraints. New policies are funded either through savings in existing portfolio or available fiscal space is given to new policies that are government priority with clear results to improve the welfare of Afghans.

Where the NPPs have fully developed implementation plans, the existing portfolio of ministries was reviewed to align with NPP objectives. Over the next few years the Government will concentrate on reviewing base assumptions on existing policies and removing poor performing or low priority activities. This will mean a rolling program of savings measures to complement the introduction of new programs in line with the ANPDF objectives.

**Further defining National Priority Programs in 2018:** The government promised to implement the ANPDF, to improve the lives of Afghans, our economy, and bring about a peaceful and prosperous Afghanistan. Turning strategy into action requires prioritizing spending on interventions that help us reach these peace and development goals, by ensuring Line Ministries have proper policy guidance through National Priority Programs. Our NPPs are outcome focused thematic programs that guide ministries towards collective problem solving on the critical policy issues and development goals. NPP budgets are developed based on consideration of fiscal space with realistic forward cost estimates, in line with the PFM reform process. NPPs play a key role in improving the alignment between policy and budgeting, ensuring new budget proposals are aligned with the relevant NPPs. Developing them has not been easy, but we have made significant progress in the highest priority areas.

All NPPs share a number of common principles. Investment proposals under an NPP umbrella must:

* Be national in scope, with careful attention to ensuring geographical balance and gender responsiveness
* Reduce poverty, generate growth and improve welfare of Afghans
* Follow the government’s new rules on incorporating accurate forward cost estimates for operations and maintenance
* Have strong rationale and implement a coordinated approach to problem solving

|  |  |
| --- | --- |
| Completed NPPs that have been rolled out and are being implemented. | NPPs completed in 2018, with components at various stages of planning and implementation |
| 1. Citizens’ Charter (rolled out May 2017) 2. Women’s Economic Empowerment (launched March 2017) 3. National Infrastructure Plan (2016) 4. Justice Sector Reform Plan (Approved 2017) 5. Comprehensive Agriculture Development (Approved October 2016) 6. Urban NPP (Approved July 2016) | 1. Private Sector Development 2. National Minerals and Resource DP 3. Effective Governance 4. Human Capital |

**Public Investment Reforms:** This year new priorities could only be screened for strategic fit to ANPDF objectives and ministry readiness based on quality of PCN submissions. In the coming years new submissions need to be analysed rigorously for financial and economic costs and benefits. Afghanistan’s fiscal resources are going to continue to remain constrained – so trade-offs between alternatives need to be clear before making multi-year commitments.

**Project cycle separation from budget cycle:** This year project preparation process has been separated from the budget cycle. Line Ministry projects teams can work on designing new projects throughout the year with possible entry of new projects into the National budget either during mid-year review or the annual budget process.

New costing templates and methods were introduced to do realistic life cycle costing for capital projects. In addition, the Project Concept Note has been strengthened to ensure project ideas are sufficiently developed before approval decision can be made. New policies must have a strong rationale of problem solving, a clear and proven theory of change, and realistic multi-year costings.

### Infrastructure Portfolio Review

As a part of the ongoing Government budget reform process for improved public investment management, an Infrastructure Portfolio Review (IPR) was conducted in 1397. The IPR showed that a large number of infrastructure projects have been significantly delayed for many years. These projects will be subject to a semi-annual review by the Budget Committee to assess costings, project planning, and revise budget estimates. This is a special measure that highlights the importance of making more progress on infrastructure to improve national development outcomes.

The Ministry of Finance conducted detailed portfolio reviews for the nine largest infrastructure ministries, as detailed in the National Infrastructure Plan (2016-2021) on implementation status, identifying critical constraints, with recommended project actions to improve delivery, alignment, and resulting development impact. This includes: Ministry of Public Works (MPW), Ministry of Energy and Water (MEW), Da Afghanistan Breshna Sherkat (DABS), Ministry of Urban Development and Housing (MUDH) Ministry of Agriculture, Irrigation and Livestock (MAIL), Afghanistan Civil Aviation Authority (ACAA), Ministry of Mines and Petroleum (MMP), Ministry of Information, Communications and Technology (MICT).

**Portfolio Expenditure:** The National Infrastructure Program expenditure in 2017 was $632 million, which was 20 percent higher than the 2015 expenditure of $527 million. Transport and energy sectors being the dominant sectors by budget allocation and expenditure, accounting for approximately 76% and 72% respectively. In 2018 the infrastructure development budget allocation is $644 million, which accounted for 42% of the total development budget, and it is the first year that the carry forward of unused allocations from the previous years was discontinued, and the budget allocation by project is the expected financial requirements for the year.

**Portfolio Overview:** The infrastructure portfolio has a large percentage of projects which have had time extensions due to implementation delays, which has been a systemic problem for both discretionary and non-discretionary funded projects. Across the portfolio, bottlenecks have occurred at all implementation stages due to: project management capacity constraints in preparation and approval of bid documents; poor procurement processes; and poor oversight during the implementation phase.

**Review Process:** The IPR was undertaken as a two-part process, an initial desk study, followed by Ministry of Finance consultations with Line Ministries. The IPR involved a detailed assessment of the current status of projects and the formulation of a criteria to identify potential problems.

|  |  |  |
| --- | --- | --- |
| Satisfactory Projects (Green) | At Risk Projects (Yellow) | Potential Problem Projects (Red) |
| * Projects that are making satisfactory progress and disbursement. | * Projects of 2-4 years duration (on budget) with contract balances >75%; * Projects of 2-4 years duration with no contract awards. | * Projects > 6 years duration (on budget), and contract balances > 25% * Projects of 5-6 year duration and contract balances >50% * Projects of 4 year or more duration with no contract awards |
| 128 Projects (46%) | 57 Projects (20%) | 96 Projects (34%) |

Note: In some cases project AFG codes were used for multiple projects or were continued for new projects when the old ones closed.

On this basis the current portfolio of the 281 projects includes: 96 potential problem projects (34% of portfolio); 57 at risk projects (20%); and 128 projects classified as satisfactory (46%). The portfolio has a high-risk profile given approximately 54% of projects are potential problem or at-risk projects. The risk profile varies across ministries, for MPW it is 54% of the projects, DABS 73%, MEW 75%, AACA 52%, MAIL 39%, MUDH 44%, Kabul Municipality 29%, MICT 46%, and MMP 27%. The ministries accounting for over 72% of on-budget infrastructure disbursements in 2017 (MPW, DABS and MEW) are characterized with high percentages of potential problem and at-risk projects.

**Project Implementation Status:** Based on the consultation process with the ministries, the analysis of project implementation status indicated that currently of the 281 projects: 211 (75%) are projects in implementation stages; 27 (10%) are in physical and financial closing phase; 30 (11%) have no contract awards; and 13 (4%) are in preparatory stages under survey, design or feasibility study. Of the 75% (211 projects) in implementation stages: 137 (49% of the portfolio) are ongoing; 16 (6%) require an extension in closing date; 9 (3%) security is an issue and implementation is currently not feasible; 16 (5%) have unresolved problems, and 33 (12%) are under procurement. The projects in each of these categories are assessed in Section 4 with recommended actions.

**Recommendations:** Findings of the review were highlighted in the Budget Committee hearings with line ministries to bring implementation of these projects back on track and to monitor closely. Specific resolution actions for each project has also been proposed to help line ministries resolve the implementation bottlenecks.

Since fiscal space this year is limited, the 30 projects that have not awarded contracts yet need to be prioritized instead of starting new projects. Other recommendations include.

* For existing projects identified with implementation issues, decisions are required on project extensions, procurement, security issues, unresolved problems, closure if required, de-scoping and reallocation of funds.
* For projects currently under survey, design and feasibility or with no contract awards, these projects to be assessed for alignment and priority, with only those identified as priority projects to be submitted for project concept note assessment and further processing.
* Requests for extension in project closing date to be based on project performance criteria. Poorly performing projects, with delays and slippages in procurement and implementation to be reviewed, for priority, remedial action, and if necessary closure, prior to an approval of an extension. For non-discretionary (development partner (DP)) funded projects this will also require DP approval.
* Review projects that have a large operating cost component, and are being used to finance core ministry departmental staff and operational expenses. These staff costs to be identified and agreement reached on allocation of incremental funding to the ministry’s operating budget to cover such costs.
* Prepare, for the existing discretionary projects, the project cost and project balance (in terms of existing committed balances (under contract) and uncommitted balances).
* Prepare project forward funding commitments (future contingent liabilities) for all ministry discretionary funded projects to estimate ongoing commitments, and for MOF to estimate fiscal resources already committed, and those available for new project commitments.

**BOX 1: Infrastructure Portfolio in Numbers**

Under these nine ministries there are 281 projects. MPW, MEW and MAIL dominate in number of projects (accounting for 28%, 29% and 14% respectively) followed by MUDH, DABS and AACA (11%, 9% and 7% respectively). Of the total number of projects, 199 are discretionary funded and 82 are non-discretionary funded. In recent years the number of discretionary funded projects has rapidly increased, financed with program budget support. In 1396, non-discretionary projects accounted for 72% of contract balances (129.70 billion AFs) and 63% of expenditure (27.40 billion AFs), and discretionary projects 28% of contract balances (49.26 billion AFs) and 37% of expenditure (16.0 billion AFs).

* Develop and implement a results based PPMS for efficient project management and implementation, and effective assessment of overall project performance.

# Organization staffing (Tashkeel)

## Structural review and decentralization:

State population has increased significantly within past 14 years due to improved social and economic services. The need to revise the government’s structure of functions has not been addressed as it should have throughout the last decade. The government’s structural revision includes improved governance by reorganizing government’s central and provincial structure.

The government has observations to study likelihood of some of the government’s functions integration on the central level to ensure possibility of establishing organizational boundaries. This organizational boundary will later be used to expand and strengthen Tashkeel across provinces and districts.

The government understands that majority of people live in the remote areas while current administrative structure does not support flexibility of delivering balanced development and governance services. For the purposes of increased participation of citizens through better governance and development services, there is a need to integrate budgetary units with common functions and efficiency to be obtained in service delivery. Additionally, integration of parallel agencies in the capital proves to be effective with respect to the establishment of administrative structure boundary that could be used for enhancement of current and new structures. This may be reflected upon introduction of new provinces on the basis of standard population estimates and isolation of current major provinces to new provinces. The task is led by IDLG and Central Office of Information and Statistics to revise provincial structure based on standard population estimates.

This section provides information on the recruitment that includes staff within Tashkeel and staff framed under National Technical Assistance (NTA).

## Tashkeel:

The total tashkeel for the 1398 adds up to a total of 891,544 (military and civil service) that shows an increase of 11,397 (1.3%) compared to last year’s Tashkeel (start of the year). The military staff accounts for the majority of the increase with the total military personnel increase from 462,002 in 1397 to 470,800 in 1398. This fact is justifiable because of the deteriorating security situation of the country.

Previously, the Tashkeel numbers increased by 22,197 in 1397 and by 8,190 in 1396 compared to start of the year Tashkeel in 1396 and 1395 respectively.

Figure 7(Military and Civil service)

The total expenditures on Wages and salaries for 1397 has increased by AFS 43.9 bn (USD 643 million). Historically, the average increase in this economic code has been close to 10% with the largest increase in the FY 1397 of 13% as compared to FY 1396. The total expenditure planned for 1397 amounts to AFS 196 bn which makes about 47% of the total National Budget. With the same rate going forward the total expenditures on wages and salaries will amount to AFS 261 bn by 1401 which questions the overall sustainability of the operating budget in the medium term. The Government plans to reduce operating budget through efficiency measures and freezing Tashkeel to control recurrent expenditures and creating more fiscal space for the development budget.

Table 12 (The top 10 Ministries with largest Tashkeel Numbers)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **#** | **Budgetary Units** | **1395** | **1396** | **1397** | **1398** |
| 1 | Ministry of Education | 263,961 | 263,961 | 271,899 | 263,886 |
| 2 | Ministry of Defense | 202,886 | 204,449 | 208,113 | 240,484 |
| 3 | Ministry of Interior | 202,696 | 208,354 | 208,354 | 178,781 |
| 4 | General Directorate of National Security | 40,741 | 40,741 | 42,941 | 46,941 |
| 5 | Ministry Health | 18,395 | 18,403 | 18,403 | 18,342 |
| 6 | Ministry of Higher Education | 12,844 | 13,444 | 13,844 | 13,844 |
| 7 | Ministry of Finance | 8,607 | 8,120 | 9,707 | 9,707 |
| 8 | Ministry of Agriculture | 8,388 | 8,388 | 8,384 | 8,388 |
| 9 | Ministry of Hajj and Religious Affairs | 8,329 | 8,371 | 8,371 | 8,371 |
| 10 | Independent Directorate of Local Governance | 7,450 | 7,514 | 7,624 | 7,642 |

## National Technical Assistance (NTA):

Historically, the total number of NTAs funded by the budget shows an increasing trend. The total NTAs increased from 12,676 in 1394 to total of 20,141 (an increase of 59%). The Government as part of its measures to decrease NTA levels reduced the total numbers by about 5% in 1397 as compared to 1396. The Government will continue to drop NTA levels to a considerable level in 1398. In order to maintain the efficiency of ministry core functions and mitigate the risk of poor service delivery, the Government will phase out the NTAs in all line ministries by gradually accommodating key NTA positions in its tashkeel and keeping a minimum number of NTA in the structures.

Figure 8 NTA Staffs

Table 13 The top 10 Ministries with largest Number of NTAs for 1397

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **#** | **Budgetary units** | **1394** | **1395** | **1396** | **1397** |
| 1 | Ministry of Public Health | 3,628 | 4,021 | 4,865 | 4,021 |
| 2 | Ministry of Rural Rehabilitation and Development | 2,620 | 2,738 | 2,838 | 2,963 |
| 3 | Ministry of Urban Development and Land Management | 73 | 55 | 1,985 | 1,845 |
| 4 | Ministry of Agriculture, irrigation and livestock | 1,200 | 1,264 | 1,384 | 1,563 |
| 5 | Afghanistan Central Civil Registration Authority | 109 | 92 | 957 | 1,429 |
| 6 | Ministry of Public Works | 564 | 0 | 760 | 1,049 |
| 7 | Ministry of Energy and Water | 311 | 329 | 965 | 980 |
| 8 | Ministry of Finance | 75 | 318 | 470 | 882 |
| 9 | Ministry of labor and social affairs | 8 | 400 | 685 | 818 |
| 10 | Ministry of Education | 3,472 | 3,473 | 2,990 | 800 |

# Fiscal Operations in the Provinces

## Overview

This section sets out the allocation of national resources by province. The equitable and effective distribution of resources across the country based on the needs of the people and the greatest benefit to the country is a central tenant of the Government’s self-reliance agenda. The road to peace and stability needs to be paved by a clear commitment to providing all Afghans with basic services and national infrastructure.

To increase accountability and transparency the Government is publishing detailed formation about budget allocations to provinces. This statement is presented in two parts:

1. Expenditure by Province – this section presents Government expenditure by province for the budget year 1394 till FY 1397.
2. Citizen’s Charter – this section presents Citizen’s Charter activities including estimate of needed resources for FYs (1396, 1397, 1398, 1399, and 1400).

## Government’s Expenditure from the year 1394-1397 on Provincial Level

Government manages and follows up the provincial expenditure through Afghanistan’s Financial Management Information System (AFMIS), that where the money comes from and where and how it is spent.

In total, 55% of government’s expenditure is allocated to provinces and the remaining 45% expenditure is spent by the central ministries and the budget units that can’t be attributed to a specific ministry from geographical perspective and governmental goals. This part of the expenditure includes equipment, operating expenditure and also national investments. Given the high level of urbanization in Afghanistan in recent years particularly the growth of the population of Kabul and other urban centers, shows the increase in sustainable population growth rate relative to the provincial expenditure, that by increasing budget over the last 8 years the indirect allocation of resources to the center is not compatible. Kabul’s population has increased from 3.6 million people in the year 1389 to 4.8 million people in the year 1397. Meanwhile per capita cost in Kabul remained relatively sustainable where as it has rapidly increased in other provinces. During this course, Kabul from 10 ministries with the most per capita cost has fallen to the 29th province.

Table 14Government’s Expenditure according to Provinces

| Provinces | 1394 | 1395 | 1396 | 1397 |
| --- | --- | --- | --- | --- |
| 01 Kabul | 20,132 | 22,314 | 25,334 | 18,427 |
| 06 Nangarhar | 15,657 | 17,188 | 17,001 | 17,487 |
| 27 Kandahar | 14,444 | 15,417 | 15,221 | 16,059 |
| 21 Balkh | 15,172 | 15,584 | 15,994 | 16,724 |
| 32 Herat | 14,329 | 14,991 | 14,859 | 18,960 |
| 13 Paktia | 11,864 | 11,710 | 11,607 | 11,909 |
| 30 Helmand | 13,376 | 12,691 | 10,573 | 9,842 |
| 17 Badakhshan | 5,904 | 7,732 | 6,922 | 7,611 |
| 19 Kunduz | 6,115 | 6,631 | 5,970 | 4,875 |
| 09 Baghlan | 5,630 | 7,921 | 7,829 | 6,674 |
| 18 Takhar | 4,478 | 4,782 | 5,120 | 5,322 |
| 03 Parwan | 4,183 | 5,007 | 4,977 | 8,317 |
| 28 Jozjan | 4,465 | 3,909 | 5,373 | 5,448 |
| 10 Bamyan | 3,409 | 3,187 | 4,016 | 3,869 |
| 11 Ghazni | 5,188 | 4,611 | 4,366 | 3,970 |
| 29 Faryab | 3,830 | 4,624 | 5,154 | 5,608 |
| 15 Kunar | 3,185 | 2,914 | 3,648 | 3,676 |
| 14 Khost | 3,239 | 4,085 | 3,274 | 3,581 |
| 33 Farah | 3,054 | 3,064 | 3,273 | 2,748 |
| 04 Wardak | 3,265 | 3,324 | 3,813 | 3,732 |
| 02 Kapisa | 3,280 | 2,895 | 3,119 | 3,630 |
| 12 Paktika | 2,560 | 3,150 | 3,376 | 3,894 |
| 34 Nimroz | 2,645 | 2,249 | 2,982 | 2,086 |
| 05 Logar | 2,641 | 2,738 | 3,160 | 3,313 |
| 07 Laghman | 2,897 | 2,958 | 2,878 | 3,700 |
| 22 Sar pol | 2,679 | 2,950 | 2,890 | 2,899 |
| 23 Ghor | 3,074 | 3,503 | 3,254 | 2,941 |
| 20 Samangan | 2,419 | 2,616 | 2,395 | 3,189 |
| 24 Daikundi | 1,969 | 2,268 | 2,668 | 2,812 |
| 26 Zabul | 2,069 | 1,883 | 2,217 | 1,959 |
| 31 Badghis | 2,263 | 2,205 | 2,767 | 3,235 |
| 25 Uruzgan | 2,716 | 2,027 | 1,897 | 1,882 |
| 16 Nooristan | 1,783 | 1,922 | 1,937 | 2,000 |
| 08 Panjsher | 1,691 | 1,892 | 1,816 | 2,010 |

### Provincial Expenditure Analysis

The first option for evaluating the provincial expenditures is in comparison with the real annual nominal costs. The following graph shows the provincial expenditure of the year 1397, it must be said that the prediction of expenditures by the end of the year 1397 is considered as an estimation which can be changed.

Five provinces with the most nominal expenditure are Kabul, Nangarhar, Kandahar, Balkh and Herat which has formed 37% of provincial expenditure and 20% of total budget and are the provinces that make the most of population of the country i.e. 39% of the total population.

Also, five provinces with the least nominal expenditure are Panjsher, Nooristan, Uruzgan, Zabul and Daikundi which has formed 5% of total provincial expenditure and approximately 3% of total budget. These five provinces form only five percent of total population of the country.

Figure 9Government’s Expenditure by Provinces

Analysis for the evaluation of the government’s per capita cost can also be done on provincial level. This analysis shows how much is spent on each person in a province. In some cases, this method is a better way to understand the equitable allocation of resources.

Under the conditions of per capita costs, provinces such as Paktia, Nimroz, Nooristan, Kandahar and Panjsher are identified with the highest government expenditures. Compare to other provinces, Paktia has the most expenditure in the last eight years and also the allocated per capita cost of this province in the year 1397 reaches to AFN20162 which is equal to 295$.

Five provinces with the least per capita expenditure are Ghazni, Kabul, Ghor, Faryab, and Badghiz. The lowest level of per capita expenditure is in Ghazni, government has calculated AFN3019 which is equal to 44$ per person in the year 1397. Highest level of per capita expenditure in Paktia province is approximately six times more than the lowest level of per capita expenditure of the government in Ghazni province. This analysis shows the level of inequality of the distribution of financial resources but the government will handle it in the upcoming years.

The top five provinces and the lower five provinces in per capita expenditure of the government, in attention to their relative proportions, are completely sustainable as compared to other provinces. Rest of the majority have seen more significant/considerable level of government expenditure in the provinces. Part of them are increasing with the increase of the large projects in one year while the security situation in present means that some of the provinces are moving between secure and unsecure situations.

Figure 10Per Capita Government Expenditure by Provinces

**Town Hall Meetings**

Town Hall Meetings is the government’s approach to establish linkage with the people and seek the public feedback on the government performances. Finding out information on public challenges and requirements directly through the their representatives made up of different classes of the community and collecting constructive recommendations on methodology of service delivery and finally establishment of a favorable connection between the public and the government to alleviate the distance in between them makes the objectives of the Town Hall Meetings.

Town Hall Meetings with the public is an open, free and democratic process enabling the government to make decisions in consultation with the public and utilize the government financial resources on the key development areas to bring out the utmost efficiency.

The government endeavors to collect the public requirements using a set of tools and address these requirements through development of suitable policies. However, the lessons learnt indicate that development of most of the policies, projects on the basis of facts, figures and information received from different sources do not reflect the public requirements a hundred percent and has been influenced by feedbacks from experts dwelling in the center.

Accordingly, the Ministry of Finance intended to collect information directly from the public through conduction of Town Hall Meetings in five provinces to address the public needs through this measure.

Following consultations with the concerned entities, the Ministry of Finance proposed to convene Town Hall Meetings in five provinces, namely Kabul, Balkh, Herat, Kandahar and Nangarhar. Selection of participants was also carried out in agreement with the relevant organizations from amongst the development councils of districts and active youth throughout the cities. The delegation of the Ministry of Finance held the leadership responsibilities of these meetings, co-hosted by representatives of IDLG, Ministry of Economy and Deputy Ministry for Policy of MoF as the central members, and Deputy Governor, Mustofi and Director of Economy as the provincial members.

#### Implementation Methodology

Recommendations from Participants were documented by the relevant team and later categorized according to their nature; these recommendations were then sent to their respective ministries /departments along with the list of requirements through an official letter requesting them to consider these requirements as prioritized public recommendations in their med-term (1398-1401) budgetary proposals.

The number of recommendations and participants in five Town Hall Meetings is as follows:

Table 15Requirements by Province

| **No.** | **Province** | **Number of Participants** | **Number of Requirements** |
| --- | --- | --- | --- |
| 1 | Kabul | 90 | 108 |
| 2 | Balkh | 140 | 210 |
| 3 | Herat | 130 | 109 |
| 4 | Kandahar | 125 | 111 |
| 5 | Nangarhar | 120 | 219 |
| **Total** | | **605** | **757** |

All government departments are requested to consider at least two or three public needs in their fiscal year 1398 budget plans, and include those projects that could not be funded due to financial constraints in their budgets for the years 1399-1401.

For proposals that already exist in the budget plans of the entities as ongoing projects, they are asked to provide the following information: (i) specify the completion period of the project (ii) the implementation problems (iii) Funding constraints.

#### Funding Options

A considerable number of suggestions from Town Hall Meetings are considered in 1398 budget, and the rest can be funded in the following cases:

1. Available resources (discretionary) – These resources include the budget ceiling which have already been confirmed in the budget hearing sessions;
2. Unconditional funds – This is the contingency fund allocated Afs 70 million annually for every province.

The funding option for every project is selected by the relevant entity. Once the projects list is received from all entities through official letter or email, the MoF shares the public recommendations list developed by the concerned entities, with all the provinces through the IDLG.

## Citizen’s Charter

The Citizen’s Charter (CC) aims to realize the Government’s self-reliance vision, set out in the ANPDF, through a partnership between the Afghan state and its thousands of communities.

Building the National Solidarity Program, it works through a unified community-level budget and financial system, with mechanisms that ensure participation, equitable allocation of resources, transparency and accountability. Citizen’s Charter will improve basic services in education, health, basic rural infrastructure (including drinking water, roads, irrigation, and renewable energy), sanitation and waste removal, and agricultural extension services in rural and urban Afghanistan.

The Citizens‟ Charter is an inter-ministerial effort to make the delivery of services, in rural and urban areas, more effective and citizen-centric. Six ministries – the Ministry of Finance, Ministry of Rural Rehabilitation and Development, Independent Directorate for Local Governance, the Ministry of Agriculture, Irrigation and Livestock, the Ministry of Education, and the Ministry of Public Health – are the key stakeholders in this national priority program.

It will also contribute to breaking the cycle of fragility and violence, using and estimated 38,000 Community Development Councils (CDCs) as the entry point for both governance and development activities at the micro-level. The Citizens‟ Charter links rural communities, districts, provinces, and the central government and enables the Government to better respond to the needs of the people. At least 25 million citizens, half of them women, will benefit from the Charter

The Citizen’s Charter will be implemented in three phases over ten years at a cost of around AFN52.3 billion or USD 750 million funded by the Government of Afghanistan, the international community, and the World Bank.

Table 16 Citizen Charter Expenditures by Province and District – Figures in USD

| **Province** | **District** | **Number of Communities** | | | **1396** | **1397** | **1398** | **1399** | **1400** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **District** | **Province** | **Total** | **2017** | **2018** | **2019** | **2020** | **2021** |
| Uruzgan | Tirinkot | 201 | 421 | 16,267,935 | 1,190,721 | 1,568,131 | 2,241,387 | 9,949,995 | 1,317,703 |
| Ghor | 220 | 10,215,700 | 273,435 | 485,933 | 616,937 | 8,476,700 | 362,695 |
| Zabul | Trang and Jeldak | 130 | 325 | 6,036,550 | 764,669 | 890,138 | 1,344,423 | 2,246,939 | 790,381 |
| Qalat | 195 | 9,054,825 | 647,276 | 797,352 | 1,173,666 | 5,746,537 | 689,994 |
| Kandahar | Panjwayi | 212 | 646 | 9,844,220 | 263,492 | 2,102,344 | 1,922,087 | 4,426,310 | 1,129,988 |
| Spin Boldak | 363 | 16,855,905 | 451,167 | 2,771,337 | 2,618,075 | 9,476,169 | 1,539,156 |
| Shige | 71 | 3,296,885 | 88,245 | 1,347,148 | 1,166,163 | 9,745 | 685,583 |
| Helmand | Garamsir | 171 | 687 | 7,940,385 | 212,533 | 377,703 | 479,528 | 6,588,708 | 281,913 |
| Nava Barakzai | 218 | 10,122,830 | 270,949 | 2,394,105 | 2,165,183 | 4,019,691 | 1,272,902 |
| Lashkargah | 161 | 13,030,535 | 348,777 | 1,518,985 | 1,517,435 | 1,753,243 | 7,892,094 |
| Nadali | 137 | 6,361,595 | 170,275 | 387,106 | 452,836 | 5,085,157 | 266,221 |
| Nimroz | Charbourjak | 59 | 207 | 2,739,665 | 140,223 | 1,545,361 | 956,081 | 50,000 | 48,000 |
| Chakhansoor | 66 | 3,064,710 | 82,030 | 2,987,358 | 650,000 | 75,600 | 45,000 |
| Gank | 82 | 3,807,670 | 1,074,927 | 1,477,213 | 1,174,830 | 45,000 | 35,700 |
| Farah | Parchaman | 179 | 327 | 8,311,865 | 222,476 | 395,373 | 501,962 | 1,896,952 | 5,295,102 |
| Farah Center - Farah | 148 | 11,978,380 | 3,528,488 | 9,582,353 | 550,000 | 50,000 | 35,000 |
| Ghor | Tulak | 102 | 508 | 4,736,370 | 389,277 | 1,199,483 | 1,290,764 | 1,098,010 | 758,835 |
| Shahrak | 120 | 5,572,200 | 244,208 | 1,089,972 | 1,083,934 | 2,516,847 | 637,240 |
| Lal and Sarjangal | 286 | 13,280,410 | 807,110 | 1,499,146 | 1,873,682 | 1,998,941 | 7,101,531 |
| Herat | Obah | 140 | 668 | 6,500,900 | 575,899 | 1,596,424 | 1,764,871 | 1,526,144 | 1,037,561 |
| Pashtun Zarghon | 158 | 7,336,730 | 522,393 | 1,572,327 | 1,701,823 | 2,539,691 | 1,000,495 |
| Zindajan | 76 | 3,529,060 | 520,844 | 1,054,485 | 1,279,853 | 478,000 | 195,878 |
| Farsi | 80 | 3,714,800 | 347,858 | 289,524 | 517,831 | 2,255,156 | 304,431 |
| Karukh | 154 | 7,150,990 | 787,113 | 2,064,733 | 2,316,939 | 620,084 | 1,362,120 |
| Kohsan | 60 | 2,786,100 | 432,545 | 472,010 | 734,892 | 714,612 | 432,040 |
| Badghis | Muquor | 124 | 249 | 5,757,940 | 496,995 | 3,593,028 | 1,567,917 | 65,000 | 35,000 |
| Jawand | 125 | 5,804,375 | 155,361 | 1,665,736 | 1,479,522 | 1,633,952 | 869,805 |
| Faryab | Qorghan | 69 | 321 | 3,204,015 | 186,578 | 1,226,202 | 1,147,792 | 450,000 | 193,443 |
| Maiman | 92 | 4,272,020 | 849,225 | 1,977,100 | 1,310,994 | 89,700 | 45,000 |
| Khan Charbagh | 19 | 882,265 | 128,848 | 186,418 | 256,133 | 160,287 | 150,579 |
| Pulchiragh | 68 | 3,157,580 | 84,516 | 424,662 | 413,674 | 1,991,531 | 243,197 |
| Andkhoy | 73 | 3,389,755 | 246,556 | 1,324,111 | 1,276,064 | 250,000 | 293,024 |
| Balkh | Marmal | 29 | 306 | 1,346,615 | 68,864 | 481,748 | 447,337 | 85,678 | 262,988 |
| Khulm | 95 | 4,411,325 | 317,577 | 1,543,542 | 1,512,038 | 149,247 | 888,921 |
| Balkh | 118 | 5,479,330 | 542,219 | 3,318,450 | 1,529,660 | 54,000 | 35,000 |
| Charkint | 64 | 2,971,840 | 265,512 | 1,272,186 | 1,249,279 | 110,000 | 74,862 |
| Saripul | Gosfandi | 87 | 264 | 4,039,845 | 108,131 | 1,441,256 | 1,258,776 | 491,653 | 740,029 |
| Serpul Center - Saripul | 177 | 8,218,995 | 219,991 | 1,154,126 | 1,116,381 | 1,072,182 | 4,656,316 |
| Jawzjan | Faizabad | 72 | 208 | 3,343,320 | 89,488 | 1,582,765 | 1,358,596 | 260,000 | 52,471 |
| Center of Jawzjan - Sheberghan | 136 | 6,315,160 | 169,032 | 2,584,977 | 2,237,453 | 8,308 | 1,315,390 |
| Bamiyan | Waras | 190 | 289 | 8,822,650 | 1,923,556 | 4,060,212 | 2,763,882 | 40,000 | 35,000 |
| Punjab | 99 | 4,597,065 | 257,887 | 2,867,665 | 1,340,914 | 75,600 | 55,000 |
| Daikundi | Miramor | 165 | 311 | 7,661,775 | 1,621,116 | 1,270,656 | 2,349,377 | 1,039,437 | 1,381,189 |
| Gaty | 88 | 4,086,280 | 898,540 | 1,440,019 | 1,652,721 | 50,000 | 45,000 |
| Daikundi | 58 | 2,693,230 | 752,236 | 1,247,884 | 640,110 | 50,000 | 3,000 |
| Baghlan | Da Salah | 47 | 455 | 2,182,445 | 58,416 | 549,234 | 493,675 | 790,890 | 290,230 |
| Puli Hesar | 37 | 1,718,095 | 45,987 | 433,218 | 389,323 | 620,685 | 228,881 |
| Guzargahi Noor | 35 | 1,625,225 | 43,501 | 862,963 | 603,761 | 70,000 | 45,000 |
| Pali Khumri | 99 | 8,012,565 | 214,465 | 2,669,426 | 2,342,974 | 1,408,274 | 1,377,425 |
| Baghlan Jadid | 237 | 11,005,095 | 734,102 | 5,612,140 | 4,548,153 | 65,700 | 45,000 |
| Kunduz | Ali Abad | 74 | 304 | 3,436,190 | 286,311 | 388,898 | 548,564 | 1,889,918 | 322,498 |
| Kunduz - Kunduz Center | 230 | 18,615,050 | 2,275,160 | 4,068,655 | 5,153,936 | 4,087,320 | 3,029,979 |
| Samangan | Hazrat Sultan | 60 | 189 | 2,786,100 | 881,816 | 846,539 | 977,745 | 50,000 | 30,000 |
| Roydo Aab | 72 | 3,343,320 | 997,767 | 1,140,473 | 1,080,080 | 75,000 | 50,000 |
| Khuram wa Sarbagh | 57 | 2,646,795 | 611,747 | 1,182,404 | 757,144 | 55,500 | 40,000 |
| Takhar | Baharak | 110 | 875 | 5,107,850 | 136,717 | 515,764 | 530,098 | 3,613,628 | 311,643 |
| Jah Aab | 128 | 5,943,680 | 159,089 | 335,156 | 401,542 | 4,811,828 | 236,065 |
| Khwaja Ghaar | 91 | 4,225,585 | 113,103 | 235,303 | 283,057 | 3,427,714 | 166,408 |
| Dashti Qala | 65 | 3,018,275 | 80,788 | 568,433 | 527,449 | 1,531,520 | 310,085 |
| Namak Aab | 43 | 1,996,705 | 53,444 | 122,496 | 142,940 | 1,593,791 | 84,034 |
| Hazar Smooch | 32 | 1,485,920 | 39,772 | 102,552 | 115,630 | 1,159,988 | 67,978 |
| Taloqan | 330 | 26,708,550 | 714,885 | 1,270,454 | 1,612,958 | 12,162,003 | 10,948,252 |
| Warasj | 76 | 3,529,060 | 94,459 | 215,778 | 252,048 | 2,818,596 | 148,178 |
| Badakhshan | Ishkashim | 45 | 648 | 2,089,575 | 55,930 | 278,055 | 271,341 | 1,324,730 | 159,520 |
| Wakhan | 60 | 2,786,100 | 74,573 | 163,314 | 193,267 | 2,241,325 | 113,621 |
| Yawan | 81 | 3,761,235 | 100,674 | 178,912 | 227,145 | 3,120,967 | 133,538 |
| Badakhshan Center - Feyzabad | 166 | 7,708,210 | 206,319 | 366,659 | 465,507 | 6,396,056 | 273,670 |
| Kiraan wa Manjan | 36 | 1,671,660 | 44,744 | 135,394 | 146,351 | 1,259,132 | 86,039 |
| Daraym | 114 | 5,293,590 | 141,689 | 510,178 | 529,600 | 3,800,773 | 311,350 |
| Tishkan | 60 | 2,786,100 | 74,573 | 283,166 | 290,639 | 1,966,856 | 170,866 |
| Shari Buzurg | 86 | 3,993,410 | 106,888 | 430,766 | 436,809 | 2,762,149 | 256,798 |
| Kapisa | Kapisa | 255 | 255 | 11,840,925 | 1,202,999 | 4,013,485 | 4,238,053 | 1,345,000 | 1,041,389 |
| Panjshir | Shatal | 16 | 77 | 742,960 | 244,424 | 119,860 | 278,397 | 91,500 | 8,780 |
| Aabshar | 19 | 882,265 | 289,125 | 240,670 | 272,470 | 45,000 | 35,000 |
| Anaba | 42 | 1,950,270 | 194,345 | 482,791 | 550,129 | 399,587 | 323,418 |
| Parwan | Siyagard Gorband | 184 | 242 | 8,544,040 | 1,418,400 | 3,180,293 | 3,670,347 | 225,000 | 50,000 |
| Sheikh Ali | 58 | 2,693,230 | 327,565 | 963,865 | 1,049,203 | 153,000 | 199,596 |
| Nuristan | Duab | 59 | 179 | 2,739,665 | 94,131 | 703,842 | 648,301 | 912,257 | 381,134 |
| Nuristan | 61 | 2,832,535 | 75,816 | 599,355 | 548,533 | 1,286,351 | 322,480 |
| Wama | 59 | 2,739,665 | 96,492 | 955,532 | 854,701 | 330,464 | 502,475 |
| Kunar | Chuki | 89 | 297 | 4,132,715 | 223,888 | 538,928 | 619,738 | 2,385,820 | 364,341 |
| Darahi Pich | 93 | 4,318,455 | 322,846 | 1,592,044 | 1,555,723 | 100,000 | 747,843 |
| Narang | 62 | 2,878,970 | 393,872 | 673,857 | 867,460 | 433,805 | 509,976 |
| Kunar Center - Asadabad | 53 | 2,461,055 | 301,864 | 826,723 | 916,903 | 120,000 | 295,565 |
| Laghman | Qarghaee | 154 | 374 | 12,463,990 | 1,443,695 | 3,369,673 | 3,910,548 | 1,441,078 | 2,298,996 |
| Center of Laghman - Mehtrelam | 220 | 10,215,700 | 307,082 | 1,819,168 | 2,006,196 | 346,456 | 5,736,798 |
| Kabul | Bagrami | 99 | 298 | 4,597,065 | 295,536 | 1,214,304 | 1,226,647 | 1,139,436 | 721,141 |
| Charasyab | 51 | 2,368,185 | 76,567 | 879,703 | 776,907 | 178,267 | 456,741 |
| Khaki Jabar | 30 | 1,393,050 | 37,287 | 729,083 | 571,680 | 20,000 | 35,000 |
| Guldra | 49 | 2,275,315 | 370,698 | 1,046,737 | 745,580 | 62,300 | 50,000 |
| Mosayee | 69 | 3,204,015 | 111,137 | 1,245,718 | 1,102,356 | 96,733 | 648,071 |
| Logar | Khushee | 77 | 312 | 3,575,495 | 471,919 | 803,694 | 1,036,352 | 654,262 | 609,267 |
| Logar Center – Puli Alam | 235 | 10,912,225 | 1,021,720 | 2,155,788 | 2,581,518 | 3,635,534 | 1,517,665 |
| Wardak | Jalriz | 85 | 342 | 3,946,975 | 342,838 | 1,561,491 | 1,547,143 | 55,000 | 440,503 |
| Maidan Shar | 52 | 2,414,620 | 64,630 | 565,098 | 511,613 | 972,504 | 300,775 |
| Hisi Awali Behsood | 205 | 9,519,175 | 1,110,708 | 1,844,488 | 2,400,904 | 2,751,593 | 1,411,482 |
| Ghazni | Bahrami Shaheed | 167 | 348 | 7,754,645 | 207,562 | 1,337,740 | 1,255,457 | 4,215,809 | 738,078 |
| Ghazni | 181 | 14,649,235 | 392,103 | 790,945 | 961,149 | 11,939,982 | 565,056 |
| Paktika | Jaghori | 317 | 930 | 14,719,895 | 689,114 | 3,305,584 | 3,245,432 | 5,571,787 | 1,907,977 |
| Khwaja Omari | 40 | 1,857,400 | 139,957 | 452,753 | 481,539 | 500,056 | 283,095 |
| Nawar | 320 | 14,859,200 | 510,150 | 1,242,611 | 10,424,004 | 1,845,268 | 837,167 |
| Janny Khel | 54 | 2,507,490 | 176,911 | 394,035 | 463,857 | 1,199,986 | 272,700 |
| Sar Rawza | 39 | 1,810,965 | 48,473 | 86,143 | 109,366 | 1,502,688 | 64,296 |
| Paktika Center - Sharana | 98 | 4,550,630 | 801,794 | 973,136 | 1,442,014 | 485,931 | 847,755 |
| Yahya Khel | 62 | 2,878,970 | 732,497 | 1,534,795 | 416,678 | 110,000 | 85,000 |
| Khost | Khost-Khost Center | 228 | 437 | 10,587,180 | 729,382 | 1,386,821 | 5,719,277 | 1,740,944 | 1,010,756 |
| Gorboz | 67 | 3,111,145 | 159,482 | 643,689 | 652,524 | 1,271,833 | 383,616 |
| Nadir Shah Kot | 62 | 2,878,970 | 141,396 | 513,515 | 532,073 | 1,379,183 | 312,803 |
| Mandozy | 80 | 3,714,800 | 143,417 | 687,796 | 675,307 | 1,811,270 | 397,010 |
| Nangarhar | Behsood | 124 | 943 | 2,751,790 | 73,655 | 130,895 | 166,184 | 2,283,358 | 97,699 |
| Kouz Kunar | 97 | 7,850,695 | 275,266 | 710,858 | 801,161 | 5,592,410 | 471,000 |
| Chaparhar | 91 | 3,642,075 | 97,484 | 352,530 | 365,607 | 2,611,514 | 214,939 |
| Khogyani | 208 | 16,834,480 | 450,594 | 800,771 | 11,016,652 | 1,426,036 | 597,686 |
| Shinwar | 89 | 4,132,715 | 110,617 | 196,582 | 3,249,579 | 429,211 | 146,727 |
| Durbaba | 44 | 2,043,140 | 279,228 | 587,528 | 704,183 | 58,213 | 413,987 |
| Darahi Noor | 63 | 2,925,405 | 230,144 | 593,462 | 669,126 | 1,039,297 | 393,377 |
| Surkhroad | 149 | 12,059,315 | 2,053,974 | 2,501,710 | 3,701,196 | 1,626,516 | 2,175,919 |
| Kama | 78 | 6,312,930 | 1,415,805 | 1,203,737 | 2,128,207 | 314,017 | 1,251,164 |
| Paktia | Shwak | 19 | 380 | 882,265 | 67,216 | 104,684 | 139,657 | 488,604 | 82,104 |
| Mirzaka | 51 | 2,368,185 | 152,501 | 355,484 | 412,704 | 1,204,869 | 242,627 |
| Chamkani | 129 | 5,990,115 | 320,208 | 926,329 | 1,012,729 | 3,135,470 | 595,380 |
| Sayed Karam | 60 | 2,786,100 | 298,518 | 341,457 | 519,938 | 1,044,715 | 581,472 |
| Ahmad Abad | 76 | 3,529,060 | 233,076 | 844,353 | 1,377,023 | 560,000 | 514,609 |
| Zadran | 45 | 2,089,575 | 291,379 | 378,750 | 544,436 | 554,938 | 320,072 |
| **34** | **124** | **13,622** | **13,622** | **699,189,910** | **54,147,567** | **155,100,000** | **170,000,000** | **220,000,000** | **99,942,343** |

Table 17 Local Councils

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **City** | **Number of Local Councils** | **Total** | **1396** | **Actual Expenses** | **Expenditure Forecast until Year-end** | **1398** | **1399** | **1400** |
| Kandahar | 300 | 33,000,000 | 1,190,572 | 6,100,815 | 3,874,000 | 11,573,000 | 7,657,000 | 2,604,613 |
| Jalalabad | 200 | 22,000,000 | 1,668,149 | 1,777,451 | 2,372,000 | 6,335,000 | 7,600,000 | 2,247,400 |
| Herat | 200 | 22,000,000 | 2,755,925 | 4,419,608 | 2,044,000 | 7,332,000 | 5,448,467 | - |
| Mazar | 150 | 16,500,000 | 2,381,143 | 4,234,416 | 2,366,000 | 6,683,000 | 835,441 |  |
| Kabul |  | 30,270,780 | 4,417,853 | 4,941,645 | 2,940,000 | 8,474,855 | 6,438,327 | 3,058,100 |
| **Total** | **850** | **123,770,780** | **12,413,642** | **21,473,935** | **13,596,000** | **40,397,855** | **27,979,235** | **7,910,113** |

Table 18Quarter Report by Loans Department – Third Quarter of FY 1397

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Figures in Million AFS** | **Amount Committed** | **Start of Period** | | **Utilized Loan in this Period** | **Reimbursement of Loan in Period** | | **Loan Exemption** | | **Admin Costs including the Original Loan** | | **Currency Changes** | **Original Loan Balance in the end of the Period** | **Remaining Loan** |
| **International Loan Granting Organizations** | **Remaining Loan** | **Original Loan Balance** | **Reimbursement of the Original Loan** | **Admin Costs** | **Original Loan** | **Admin Costs** | **In-period** | **Total Admin Costs** |
| IDA | 32,144.90 | 25,557.60 | 25,557.60 | 0 | 0.5 | 23.6 | 66.2 | 0 | 0 | 0 | -1,436.60 | 26,927.60 | 26,927.60 |
| ADB | 56,000.00 | 47,866.00 | 45,593.20 | 0 | 191.1 | 97.8 | 64.1 | 0 | 0 | 2,272.70 | -2,562.80 | 47,900.90 | 50,173.60 |
| IDB | 10,379.60 | 3,381.60 | 3,381.60 | 0 | 93.7 | 18.5 | 0 | 0 | 0 | 0 | -190.1 | 3,478.00 | 3,478.00 |
| Saudi Development Fund | 7,287.50 | 4,438.90 | 4,438.90 | 62.8 | 0 | 0 | 0 | 0 | 0 | 128.9 | -249.5 | 4,751.20 | 4,751.20 |
| Russian Federation | 68,046.40 | 64,286.00 | 64,286.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -3,760.40 | 68,046.40 | 68,046.40 |
| OPEC | 135.1 | 120.6 | 120.6 | 0 | 2.4 | 0 | 0 | 0 | 0 | 0 | -9.41 | 127.6 | 127.6 |
| Kuwait Fund | 1,726.20 | 1,629.50 | 1,629.50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -96.7 | 1,726.20 | 1,726.20 |
| IMF | 17,083.70 | 4,967.70 | 4,967.70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -279.2 | 5,246.90 | 5,246.90 |
| Bulgaria | 3,840.50 | 480.3 | 480.3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -28.1 | 508.4 | 508.4 |
| Italy | 10,681.30 | 108.1 | 108.1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -6.1 | 114.2 | 114.2 |
| Total Liquid Loan | ***207,325.30*** | ***152,836.20*** | ***150,563.50*** | ***62.8*** | ***287.6*** | ***140*** | ***130.3*** | ***0*** | ***0*** | ***2,401.60*** | ***-8,619.10*** | ***158,827.50*** | ***161,100.20*** |
| Non-liquid Loan |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Iran | 824.2 | 727 | 620.9 | 0 | 0 | 0 | 0 | 0 | 0 | 76.3 | -42.5 | 620.9 | 769.6 |
| Total Non-liquid Loans | 824.2 | 727 | 620.9 | 0 | 0 | 0 | 0 | 0 | 0 | 76.3 | -42.5 | 620.9 | 769.6 |
| Non-negotiable domestic loans papers | **41,352.50** | **15,070.40** | **15,070.40** | 0 | 3994 | 0 | 0 | 0 | 0 | 0 | 0 | **11,076.40** | **11,076.40** |
|
| Total Loans (Liquid, Non-liquid and Domestic) | ***249,502.00*** | ***168,633.60*** | ***166,254.80*** | ***62.8*** | ***4,281.60*** | ***140*** | ***130.3*** | ***0*** | ***0*** | ***2,477.90*** | ***-8,661.60*** | ***170,524.70*** | ***172,946.10*** |
|

1. [↑](#footnote-ref-1)