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Fiscal Strategy Paper

Medium Term Fiscal Framework

Macroeconomics and Fiscal Policy General Directorate
MINISTRY OF FINANCE, AFGHANISTAN

Preface

The Fiscal Strategy Paper (FSP), which is published once a year, outlines the country's fiscal policy and medium-term macro-fiscal framework in the context of prevailing macroeconomic policies and outlook of the Afghan economy. It covers recent economic developments and outlook of macroeconomic performance, the recent fiscal policy performance, the medium-term fiscal framework, the forward estimates, the risks to the framework, and the strategies for directing government spending to achieve goals of enhanced fiscal and macroeconomic performance.

The Fiscal Strategy Paper is intended for all the professionals engaged with Afghanistan's economy in the capacity of policy makers and economic analysts.

This document was prepared by the staff [1] of Macroeconomics and Fiscal Policy General Directorate. The overall guidance was provided by Abdul Rahman Rahimi (Acting General Director for Macroeconomics and Fiscal Policy) and Zakirullah Abdulrahimzai (Senior Economist). The authors are grateful for the cooperation, comments and suggestions received from the Government officials with respect to sharing of the data and statistics.

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Contents

Acronyms

ADB	Asian Development Bank
AFMIS	Afghanistan Financial Management Information System
ANPDF	Afghanistan National Peace and Development Framework
ARTF	Afghanistan Reconstruction Trust Fund
ASAP	Afghanistan Self-reliance Accelerators Package
CASA 1000	Central Asia-South Asia Power Project
Covid-19	Coronavirus Disease of 2019
COFOG	Classification of the Functions of Government
CSTC-A	Combined Security Transition Command - Afghanistan
GDP	Gross Domestic Product
IARCSC	Independent Administrative Reform and Civil Service Commission
IMF	International Monetary Fund
LMAs	Line Ministries and Agencies
LOTFA	Law and Order Trust Fund for Afghanistan
MFM	Macroeconomics and Fiscal Model
NATFO	National Army Trust Fund Office
PFM	Public Financial Management
PIM	Public Investment Management
PPP	Public Private Partnership
SOE	State Owned Enterprise
SRBC	State and Resilience Building Contract
TAPI	Turkmenistan-Afghanistan-Pakistan-India Pipeline
VAT	Value-Added Tax
WTO	World Trade Organization

Chapter 1: Introduction

The Fiscal Strategy Paper (FSP) 2021 provides the strategic direction of the Government's overall revenue and expenditure management. The main goal of the Government of Afghanistan is to pursue a prudent fiscal policy stance with a view to ensuring macroeconomic stability and conducive environment for implementing the development plans. The content of the Fiscal Strategy Paper 2021 is largely informed by the Article 7 of the Public Expenditures Management Law. The Fiscal Strategy Paper serves as the basis for the preparation of annual estimates of the revenue and expenditure for the Budget 2021. The main aim of the paper is to identify the broad strategic priorities and policy goals that will guide the Afghan Government in preparing its budget for fiscal year 2021. This strategy paper is adopted against the backdrop of low level of socioeconomic development, declining level of aid, extraordinary security situation, Covid-19 outbreak, and the emerging risks to the regional economies with declining growth rates.

The paper covers the following areas:

- overview of recent economic developments in the economy;
- fiscal performance and management;
- the medium term framework and forward estimates;
- risks to the economic and fiscal outlook; and
- Government spending priorities.

Despite the significant level of challenges, the Afghan economy is estimated to have grown by 3.9 percent in 2019, compared to 2.7 percent in 2018. Rapid growth in agriculture was attributed to easing of drought conditions and higher precipitation and snowfall during the winter season of 2018-2019. In last six years, economic growth rate substantially lagged population growth rate. This have caused the poverty level to deteriorate and the real per capita income to decline. Extraordinary security situation and the declining business confidence further added to the woes and negatively impacted the livelihood of the people, particularly in the rural areas. Lower level of economic growth coupled with demographic pressure have constrained the government to reduce unemployment and absorb the people in the labor market. Food inflation accelerated by 4 percentage points, whereas non-food inflation declined by 1 percentage point in 2019. Inflation rate will increase due to Covid-19 beyond the initial projection of inflation for 2020. Exchange rate appreciated against Pakistani Rupee and Iranian Toman and depreciated against US Dollar, and other major currencies such as Pound, Euro, and Swiss Franc in 2019. Depreciation against the US Dollar occurred because of the change in US monetary policy stance coupled with political uncertainty in Afghanistan and the increasing demand for foreign exchange in Iran. On the external side, in 2019, imports declined by 1 percent whereas exports increased by 5 percent. Foreign reserves stood at USD 7.71 billion or more than one year of imports cover at the end of 2019. The 5 percent improvement in trade balance position reflects an expansion in Afghanistan's connection to the world/regional markets.

The Afghan economy experienced expansionary fiscal policy for more than a decade, which was largely held together through donor grants to the economy. However, multiple transitions in 2014 brought a substantial change in the course of the Afghan economy. Since then, the focus is on sustainability of domestic revenue and managing the expenditures once financed by foreign aid/grants. To work toward its long term economic development goal, the Afghan government, through tax administration and tax regime reforms, successfully increased the share of domestic revenue significantly. This is all achieved against the headwinds of political uncertainty and sub-par economic growth. Improvement in fiscal performance happened as a result of the continuation of reforms initiated by the Ministry of Finance in 2018. Efforts to control and manage expenditures resulted in 93 percent execution rate in 2019. On revenue side, the Afghanistan Revenue Department has been able to surpass the mid-year target and realize 9 percent more revenue in 2019 as compared to 2018. The implementation of VAT, issuance of Sukuk, and limited concessional loans in the coming years will augment fiscal resources and partially offset the impact of declining aid.

The Medium Term Fiscal Framework is created based on a number of key policy assumptions for revenue, expenditures, development support and borrowing. Revenue performance is projected to improve further over the coming years. Donor aid is expected to reduce over the medium term and as a result, the resources available to budget will be tightened. To ensure fiscal sustainability, the government plans to increase the contribution of domestic revenue in the national budget. As part of its revenue enhancing measures the government aims to introduce the Value-added Tax (VAT) in 2022 which is expected to yield additional revenue of 1.1 percent of GDP. Due to the Covid-19 outbreak, the revenue to GDP ratio is expected to fall to a low of 13.2 percent in 2020. Forecasts of the Macro-Fiscal General Directorate shows 18 percent decline in expected revenue collection in 2020 from the budgeted target level as a result of the Covid-19 outbreak. However, this downfall in revenue collection is expected to recover over the coming years.

The forward estimates have been calculated for the four forward years (1400-1403) considering the costing of continuing current policy. These estimates summarize the allocations and projections of expenditures proposed by the government for each ministry to meet the planned priorities. The difference between the estimated resource envelope and total expenses generates fiscal space. The fiscal space over the four forward years has been generated under the assumption that the government would need to undertake expenditure consolidation measures and direct expenditure to priority sectors. Taking this assumption into account, fiscal space of Afs 895.8 million is predicted to be available to finance new projects and activities in the year 1400. The projections for years 1401-1403 shows fiscal space of Afs 35.7 billion, Afs 55.7 billion, and Afs 69.9 billion, respectively.

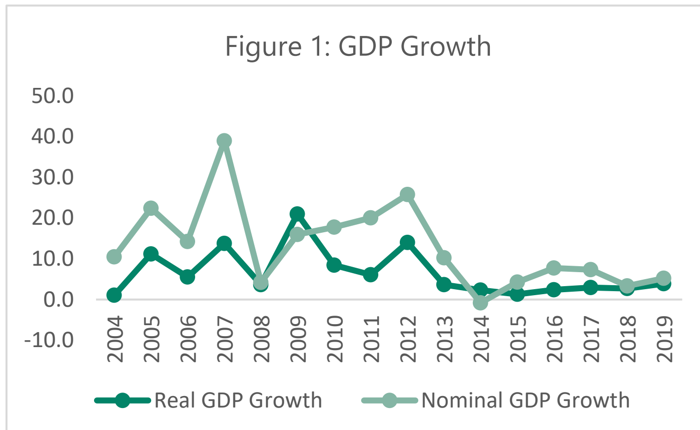
The economic and fiscal outlook is exposed to a range of risks. The continuation of the recent pandemic and the ensuing lockdown have already made a significant dent on the revenue collection performance and general economic activities have been dampened. Continued political uncertainty, declining donor support, inadequate agriculture system, currency depreciation, inefficient state-owned enterprises, and unsustainable pension system can test fiscal and macroeconomic outlook of the Afghan economy.

Afghanistan is working its way towards realizing its development agenda enshrined in the Afghanistan National Peace and Development Framework. ANPDF guide the spending options of the government of Afghanistan. To envisage the development plan, the Ministry of Finance recently designed an investment package "Afghanistan Self-reliance Accelerator Package" (ASAP) worth USD 8.7 billion. This package is intended to put Afghanistan on a path to sustainable growth and self-reliance. The objective of the Afghan government is to channelize private and public capital through this package to critical sectors, such as agriculture and irrigation, energy and power, urban housing, development of commercial areas and industrial parks in order to generate sufficient increase in the productive capacity and generate growth. The World Bank has also proposed a package on a range of broad-based economic initiatives to help consolidate and sustain peace following the political settlement with the government opponents. ANPDF defines the medium term development foundation of the Afghan economy. ASAP and Post-settlement economic initiatives are designed with the intention of supporting initiative for short term impact and sustainable growth in Afghanistan. Putting together ASAP and Post-settlement economic initiative comprehensively cover some critical areas ranging from infrastructure projects to investment in human capital and social transfers.

Chapter 2: Recent Developments in the Economy and Economic Outlook

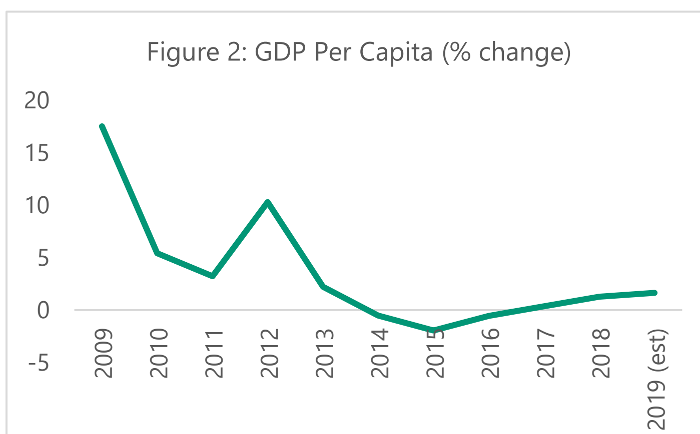
2.1 Overview of Recent Economic Developments

Despite the significant level of challenges, the Afghan economy is estimated to have grown by 3.9 percent in 2019, compared to 2.7 percent in 2018. Rapid growth in agriculture was attributed to easing of drought conditions and higher precipitation and snowfall during the winter season of 2018-2019. The impact of strong agricultural performance was offset by continued slow service and industry growth due to weak confidence in the context of political uncertainty and increasing insecurity. Growth in agriculture sector was mainly driven by production of cereals. Higher precipitation, in the planting season of 2019, also resulted in growth in fruit, industrial crop production and wheat cultivation. Industry sector expanded by a modest two percent in 2019. Improvement in agriculture income caused 1.8 percent growth in the service sector; however, its impact was offset by overall weak confidence.



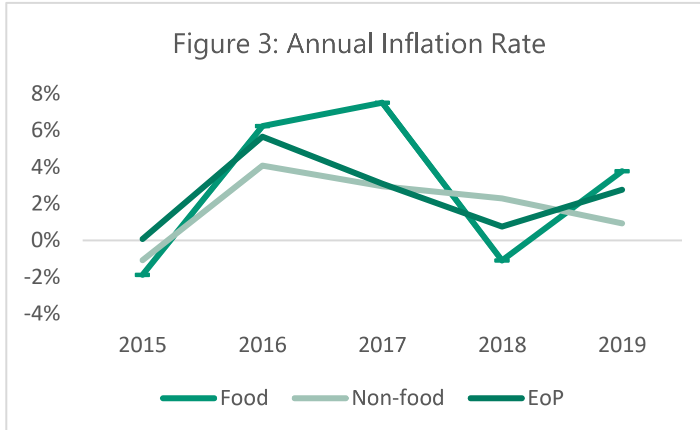
Source: Macro-Fiscal Model (MFM) 2020

In the last six years, economic growth rate substantially lagged population growth rate. This have caused the poverty level to deteriorate and the real per capita income to decline. Extraordinary security situation and the declining business confidence further added to the woes and negatively impacted the livelihood of the people, particularly in the rural areas. The continued displacement crisis and returnees from Pakistan and Iran also added significantly in the number of poor people. Lower level of economic growth coupled with demographic pressure have constrained the government to reduce unemployment and absorb the people in the labor market.

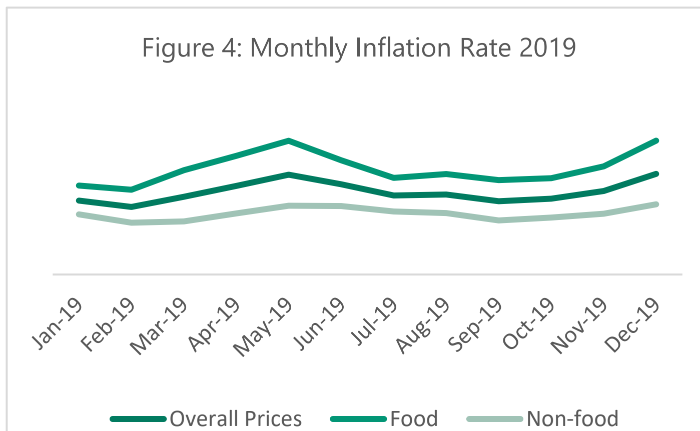


Source: World Economic Outlook 2020

End-of-period inflation in 2019 was 2.8 percent, compared to 0.8 percent last year. Rising global prices led to increase in the cereal prices. Food inflation accelerated by 4 percentage points, whereas non-food inflation declined by 1 percentage point in 2019. Compared to 2018, lowered vegetable exports to Pakistan because of import revaluation decelerated vegetable prices. Monthly inflation rates showed that food-inflation reached its peak in May.



Source: Macro-Fiscal Model (MFM) 2020



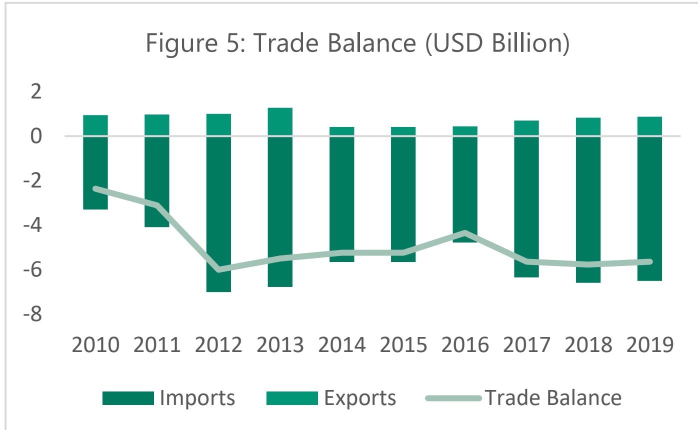
Source: Macro-Fiscal Model (MFM) 2020

Afghanistan reflects the price of imported goods in the basket of basic commodities because it is highly reliant on imports. Da Afghanistan Bank has made efforts to maintain low and stable price growth to avoid undesirable effects on the purchasing power of poor and on unpredictability for investment decisions. Immediate medium term risks include, the anticipated reduction in the donor grants that could depreciate the Afghani, causing inflation in imports.

The initial projections showed a stable inflation of 3.3 percent in 2020 but due to border closure as a result of Covid-19, inflation level will increase beyond the projected level. In the context of Covid-19 pandemic, inflation level could reach 5.1 percent in 2020. As landlocked country, one of Afghanistan's main food supply lines is through Pakistan, which in mid-March shut its borders as part of measures to contain its own COVID-19 outbreak. As result, food prices soared over short period. For instance, the price of wheat increased by 72 percent in a single day, prompting the government to replace wheat imports lost as result of border closures with Pakistan with purchases from Central Asia.

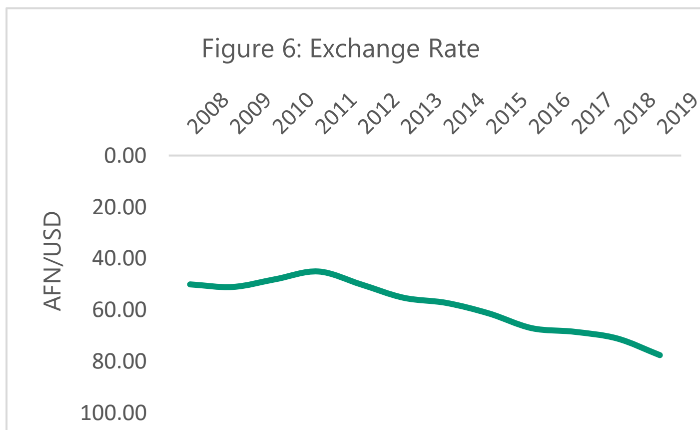
Afghanistan's exports increased from USD 0.82 billion in 2018 to USD 0.86 billion in 2019. Imports for the same period decreased from USD 6.6 billion to USD 6.5 billion. Imports decreased by 1 percent and exports increased by 5 percent between 2018 and 2019. Petroleum imports went up in 2019. However, the imports of machinery, food and base metals decreased. The exports of carpets, fruits, and medicinal plants observed increase in 2019. The 5 percent improvement in the trade balance position reflects an expansion in Afghanistan's connection to world markets due to the recent opening-up of the air corridors with India, Turkey, Gulf States and Central Asian markets.

The trade deficit was 38 percent of GDP in 2019, which showed slight improvement from its level of 40 percent in 2018. The current account remained in surplus at end-2019, reflecting aid inflows. Capital account and financial account flows remained modest. Foreign exchange reserves stood at USD 7.71 billion, or more than one year of merchandise imports cover at the end of 2019. Total exports remain limited and are concentrated in a narrow range of commodities (dried fruits, nuts, and textiles) with a value equal to around 8 percent of GDP. The recent reduction in imports was mainly because of the Afghani depreciation. Establishing air corridors with India, Turkey and UAE reflected a growth of 5 percent in exports.



Source: Macro-Fiscal Model (MFM) 2020

During 2019, Afghani depreciated relatively against the Great Britain Pound, Euro, Swiss Franc, United States Dollar, United Arab Emirate Dirham and Saudi Riyal, while it appreciated against Pakistani Rupee and Iranian Toman. The Afghani depreciated against the US dollar by 9 percent in 2019.Domestically, interest reduction on capital notes to private banks also played a negative role. Outflow of US dollar to neighboring countries may have also played some role in Afghani depreciation. The outflow may have been driven by efforts of investors to relocate their savings in the context of political uncertainty. Uncertain political environment makes deposit costlier for investors in Afghani. The global strengthening of dollar is so far a much more significant factor in this context. Tight monetary policy in the US enticed the investors to move their savings into the US, in order to take advantage of higher US interest rate. This led to the appreciation in the US dollar.



Source: Macro-Fiscal Model (MFM) 2020

The government, however, cannot enjoy the gains the weaker exchange rate offers in terms of both exchange earnings and improving the balance of payment because of the constraints on the supply side of the economy. Dependence on imported items and the behavior of international prices relative to local prices determine the extent of Afghani depreciation's impact on inflation and small and medium size firms' profitability.

2.2 Domestic Macroeconomic Outlook

In the medium-term (2020-2025), macroeconomic policies will aim at restoring macroeconomic stability in order to achieve the macroeconomic and fiscal objectives, thereby laying the foundation for sustainable economic growth and poverty reduction. Fiscal policy will focus on increasing domestic revenue through improved tax administration and finding new sources of revenue. At the same time, improving the management of public expenditures and debt to ensure fiscal and debt sustainability will remain a key priority of Government in the future. Financial sector reforms will be geared towards ensuring financial stability and promoting financial intermediation and financial inclusion to improve access to finance.

Domestic Macroeconomic Outlook						
Indicator	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Real GDP Growth	-5.0%	3.6%	3.7%	3.9%	4.0%	4.1%
Inflation	5.1%	4.3%	4.1%	4.5%	5.7%	4.7%
Exchange Rate	77	77	78	79	80	80
Domestic Revenue/Budget	37.0%	43.9%	50.1%	55.5%	59.6%	64.3%
Revenue minus Grants/GDP	13.2%	13.5%	14.6%	15.2%	16.0%	16.2%
Grants/Revenue	148.1%	116.3%	95.6%	81.5%	71.7%	62.8%

Source: Macro-Fiscal Model (MFM) 2020

Over the medium-term, growth is projected to hover around 4 percent provided a strong rebound in agricultural output, steady recovery in industrial activity and robust performance in the services sector. Increasing growth rate in the medium term also depends on the improved security situation and the continuation of foreign aid. However, growth prospects can also be subject to significant downside risks such as political instability, unexpected cuts in foreign aid and adverse regional developments. Projections of Macro-Fiscal General Directorate show that real economic growth will go into negative territory (-5 percent) in 2020 due to outbreak of COVID-19. Domestic revenue will decrease significantly and inflation may rise to more than 5 percent.

The government anticipates to improve its trade balance performance and narrow down the massive deficit between exports and imports. This objective will be achieved on the back of implementing its Growth Strategy, designed for the medium term. The share of domestic revenue in national budget is also expected to increase gradually on the back of this strategy in the medium term.

2.3 Economic Outlook for the United States, Neighboring Countries, and Major Trading Partners

Since the COVID-19 outbreak was first diagnosed, it has spread to over 190 countries and all U.S. states. The pandemic is having a noticeable impact on global economic growth. Estimates so far indicate the virus could trim global economic growth by as much as 2.0 percent per month if current conditions persist. Global trade could also fall significantly, depending on the depth and extent of the global economic downturn. The full impact will not be known until the effects of the pandemic peak. Early estimates predicted that, should the virus become a global pandemic, most major economies will lose at least 2.4 percent of the value of their gross domestic product (GDP) over 2020.

Global and Regional Economic Growth Outlook (%)

Real GDP growth	2019	2020 Est	2021 proj.	2022 proj.	2023 proj.	2024 proj.
World Output	3	3.4	3.6	3.6	3.6	3.6
Advanced Economies	1.7	1.7	1.6	1.6	1.5	1.6
US	2.4	2.1	1.7	1.6	1.6	1.6
UK	1.2	1.4	1.5	1.5	1.5	1.5
Japan	0.9	0.5	0.5	0.5	0.5	0.5
Emerging and Developing economies	3.9	4.6	4.8	4.8	4.8	4.8
China, People's Republic of	6.1	5.8	5.9	5.7	5.6	5.5
Turkey	0.2	3	3	3	3.5	3.5
United Arab Emirates	1.6	2.5	2.7	2.3	2.4	2.5
India	6.1	7	7.4	7.4	7.4	7.3
Iran	-9.5	0	1	1	1	1.1
Kazakhstan	3.8	3.9	3.7	3.3	5.3	3.5
Pakistan	3.3	2.4	3	4.5	5	5
Tajikistan	5	4.5	4.5	4.5	4	4

Source: IMF, 2020

Among Afghanistan's trading partners, China, India, Kazakhstan and Pakistan achieved 4.8 percent economic growth in 2019. Iran fell into the negative territory of -9.5 economic growth because of the new waves of economic sanctions. Economic growth rates of Uzbekistan and Turkmenistan also declined modestly. The Emerging and Developing economies' growth rate improved slightly from 3.7 percent in 2018 to 3.9 percent in 2019. Economic growth of the US economy declined from 2.9 percent in 2018 to 2.4 percent in 2019 because of the trade war between China and the United States.

The United States of America: Before Covid-19 outbreak, optimistic forecasts were provided about the US economy. It was expected that both unemployment and inflation would remain low.

But, because of the outbreak of Covid-19, the new projections show that GDP growth rate could fall by 50 percent, whereas unemployment could be as high as 30 percent. The US GDP growth is estimated to be 1.9 percent in 2021 and 1.8 percent in 2022. The unemployment rate will average 3.5 percent in 2020. It will bump up to 3.6 percent in 2021 and 3.7 percent in 2022. That's lower than the Fed's 6.7 percent target. Inflation will average 1.9 percent in 2020. It will rise to 2.0 percent in 2021 and 2022. The core inflation rate strips out the volatile gas and food prices. The core inflation rate will average 1.9 percent in 2020, 2.0 percent in 2021, and 2.0 percent as well in 2022. The core rate is right at the Fed's 2 percent target inflation rate. A more severe implications of Covid-19 for the US economy may even impact the US aid portfolio to Afghanistan.

India: Finance, real estate and professional services were estimated to be hardest hit by the coronavirus (COVID-19) epidemic in India between April and June 2020 compared to the same period in 2019. According to Asian Development Bank’s estimation, Covid-19 could take 2.3 percent of India’s GDP. Afghanistan and India are poised to become important trade partners. The recent establishment of an air corridor between Afghanistan and India has created an opportunity for Afghanistan and India to enhance their bilateral and economic relations. 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 between the two countries. However, the lockdown of the Indian economy due to outbreak of COVID-19 could cause disruption of the trade relations between Afghanistan and India beyond 2020.

China: China's GDP growth could fall as low as to five percent in 2020. In the first quarter of 2020, the second largest economy recorded the first contraction in decades due to Covid-19. From among the sectors, transportation, trade and communication services were the hard-hit industries. Unemployment rate rose to 6.2 percent in February 2020. Retail price and value of exports declined by 20.5 percent and 15.9 percent, respectively. Afghanistan is currently not so much connected with Chinese economy, but as China is a major stakeholder in the Afghan mining sector, a considerable change in its economic growth can affect Afghan economy. It can particularly influence their future investment in the extractive industry.

Iran: The prospects for economic growth in Iran remains bleak. The IMF in its latest World Economic Outlook predicts Iran’s economy will contract in the following years because of the re-imposition of US sanctions against Iran. The disruption in Iranian exports will increase demand for US dollar in order to finance imports and savings; this will widen the gap between the official and parallel rates. According to the World Bank, this will negatively affect the Iranian currency, and the inflation will go up substantially. Given the expected reduction of Iran’s economic regional and global connectivity, it will divert most of its attention to occupy markets in Afghanistan. Geopolitical tensions in the Gulf and Covid-19 drag down the annual growth further. The spread of the virus overshadowed almost all aspects of the Iranian economy, ranging from production to trade.

Pakistan: Pakistan now faces a balance of payment crisis as the economy heads towards a major recession with a 1.5 percent contraction forecast in the current financial year ending in June, compared with a pre-COVID-19 forecast of nearly 3 percent growth. Pakistan's economic growth is projected to shrink to 2.6 percent in 2020 from 3.3 percent in 2019, while inflation will remain around 11.5 percent for 2020. Public debt is already high in Pakistan and the pandemic is expected to slash growth and tax revenues, and further increase the level of public debt. Pakistan agreed a USD 6 billion bailout from the International Monetary Fund last year and secured another USD 1.4 billion in rapid financing from the IMF at zero interest. Lower economic growth in Pakistan could be attributed to the weakening industrial and manufacturing sectors. The slump in Pakistan's economic growth will be caused by halting economic activity, collapsing trade and the stress in the financial and banking sectors.

2.4 Trade Outlook

The outbreak of Covid-19 has inflicted supply and demand shocks on the global economy, which has resulted in the collapse of the international trade. This, plus the protectionist actions on the part of some countries turned the prospect for international trade bleak. Initially, the growth in global trade was forecasted to improve in 2020 to 1.9 percent from 1.4 percent in 2019. Covid-19 significantly suppressed industrial activities across the globe. In addition, policy uncertainty, external financing conditions, monetary accommodations in advanced economies and new growth estimates induced by the virus will negatively impact the outlook of the global trade. According to World Trade Organization, global trade is expected to fall by between 13 percent and 32 percent as the Covid-19 pandemic disrupts normal economic activities around the world. Value chain disruption was already an issue when COVID-19 was mostly confined to China. It remains a salient factor now that the disease has become more widespread. Trade is likely to fall more steeply in sectors characterized by complex value chain linkages, particularly in electronics and automotive products. Estimates of the expected recovery in 2021 are equally uncertain, with outcomes depending largely on the duration of the outbreak and the effectiveness of the policy responses.

After accession to WTO, Afghanistan embarked upon a number of initiatives to link the economy with the world and increase the share of its engagement in international trade. Afghanistan adopted a multi-faceted approach for connecting the economy with the region and the world, i.e. Chabahar port (sea), Air Corridors (Air), Lapis Lazuli Corridor (Land), and Central Asia (Railway). In the past, Afghanistan was traditionally engaged in trade relations with South Asian countries, but considering the suitable location of Afghanistan, the government decided to search for new routes to diversify the flow of the trade of goods and services. This includes maintaining or increasing the existing volume of trade with South Asia, but also increasing the level of economic engagement with Central Asia and beyond.

The development of trade with Central Asia could increase exports along with the opening of new railway linking China to Afghanistan via Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan. Recently, the government opened the Lapis Lazuli Transit and Transport Route with a view to enhance regional economic integration and trade-based connectivity between Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey. This corridor will also expand the range of economic opportunities for the citizens of the involved countries. This project is vital to Afghan economy, as more than 80 percent of goods from Afghanistan to Europe will be transited through it.

Chapter 3: Fiscal Performance and Management

The Afghan economy experienced expansionary fiscal policy for more than a decade, which was largely held together with donor grants to the economy. Real economic growth was around 9 percent during that period, but it declined to around 2 percent due to fiscal crisis in 2014. As result of the partial withdraw of International Security Forces from the country in 2014, foreign aid declined; leading to constrain in economic activities. Deteriorating security situation after withdrawal of international forces resulted in lower economic investments and activities, and weakened revenue collection.

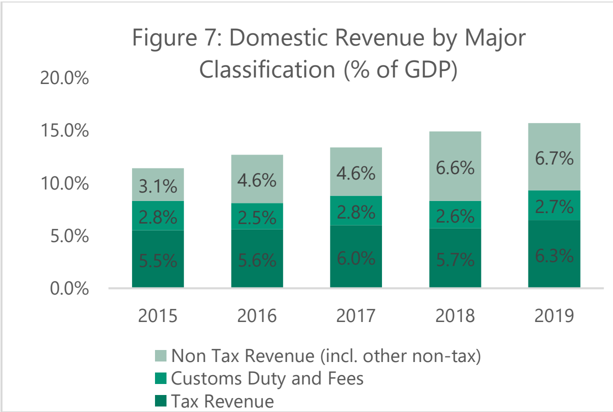
Fiscal policy in Afghanistan is heavily influenced by both 2014 fiscal crisis, and large donor support to government. In 2014, the country saw a downturn in revenue, as a result of events surrounding the elections, and security transition. Since then, reforms have been introduced and fiscal policy has been tied to ensure fiscal recovery from the downturn and build sustainable domestic revenue sources. At the same time, the government has aimed to phase out donor support to key operating expenditures and ensuring that domestic revenue grow faster to cover operational expenditures in the long term.

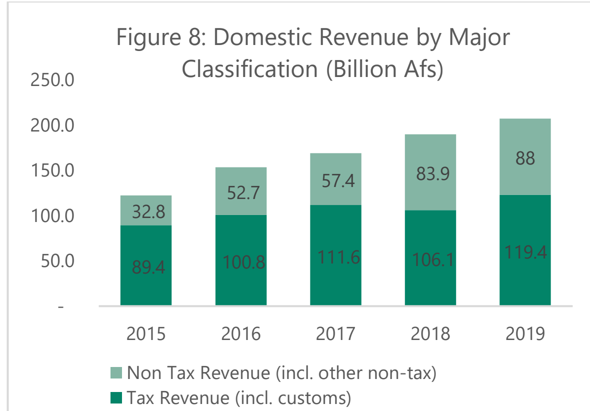
As Afghanistan does not mainly borrow and has limited reserve funds, the fiscal policy is pro-cyclical, with falls in expenditure occurring alongside falls in economic activity. The government is committed to formulating fiscal policy in a way that can ensure catering for the fiscal gap, which may emerge from donor assistance. The government will adopt a more robust fiscal strategy approach with the long-term goal to support economic growth and development.

3.1 Domestic Revenue Performance

Afghanistan's revenue collection performance improved significantly since the security transition in 2014. Improved cash position and revenue collection extended till 2019. There is no doubt that the government is much better situated now than it was immediately before the fiscal crisis five years ago. Domestic revenue is estimated to have grown from three percent of GDP in the fiscal year 2002 to 15.7 percent of GDP in 2019, which equals with the average of low-income countries. In 2019, domestic revenues experienced strong performance despite political uncertainty caused by presidential elections. The collection reached 15.7 percent of GDP in 2019, compared to 14.9 percent of GDP in 2018. During the last five years, revenue performance surpassed the budget targets despite widespread political uncertainty.

As the figures below show, revenue collection in Afghanistan was predominantly driven by an increase in non-tax revenue collection which shows higher growth compared with tax revenue. Main tax components (tax revenue and customs) also improved, but at a slower rate.





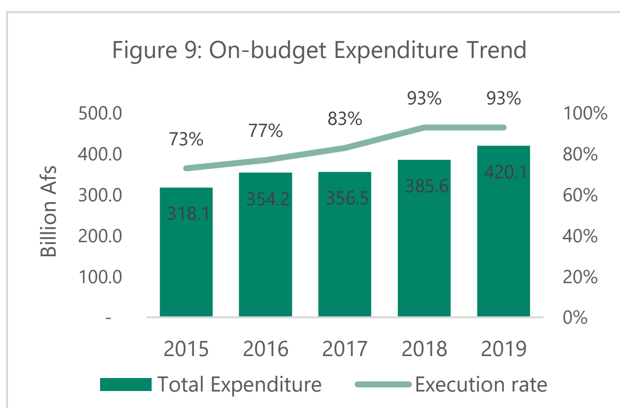
Source: AFMIS, Ministry of Finance

Over the past five years, tax administration reforms and improvements in the tax regime played an important role in enhancing revenue collection performance. However, declining donor grants and exhaustion in tax administration will affect the progress in revenue collection performance.

Fiscal space is much needed for development, and increasing domestic revenue collections is important for Afghanistan as it transitions towards self-reliance. Both tax and non-tax revenue contribute to fiscal space. Tax revenue is compulsory and sustainable, while non-tax revenue is less sustainable in particular when relying on one-offs such as in 2019, transfers from Da Afghanistan Bank and other agencies. Other components contributing to non-tax revenue are fees charged on government services that represent 45 percent of non-tax revenue collection over the past five years. However, such fees can promote performance and public service delivery, but it also creates risks on fees collection and changing behavior of public agencies with negative social impacts. The country's next phase of consolidating fiscal space should focus on broadening the tax base and core-tax revenue collection, rather than expanding collections from non-tax revenue.

3.2 On-Budget Expenditure Performance

Expenditures continued to increase during the last five years from Afs 318.1 billion in 2015 to Afs 420.1 billion in 2019. This shows an increase of Afs 102 billion in the past five years. During this period, budget execution improved substantially and reached 93 percent in 2019.



Source: AFMIS, Ministry of Finance

Expenditures based on Functional Classification – Recurrent and Development

Spending on National Defense continued to increase mostly over the past five years due to unstable security situation in the country. Defense expenditures accounted for more than 20 percent of the total expenditures each year. It continued to increase from Afs 79.5 billion in 2015 to Afs 90.6 billion in 2019, in which 99 percent are recurrent expenditures. Spending on economic affairs accounted for 19 percent of total expenditures. Development expenditure constituted 85 percent of spending on economic affairs. Expenditure on Public Order and Safety accounted for 15 percent of total expenditures. Similar to Defense, 98 percent of its spending are recurrent in nature. The table below show expenditures based on Classification of the Functions of Government (COFOG) during the past five years.

Expenditures by COFOG 1 (billion Afs)	2015	2016	2017	2018	2019
01 General public services	**22.4**	**39.3**	**42.6**	**42.4**	**72.7**
Recurrent	17.9	32.8	33.0	28.8	54.3
Development	4.5	6.6	9.6	13.6	18.4
02 Defense	**79.5**	**85.9**	**77.1**	**85.6**	**90.6**
Recurrent	79.4	85.7	76.8	85.4	90.3
Development	0.1	0.2	0.3	0.2	0.3
03 Public order and safety	**57.2**	**67.3**	**66.1**	**48.2**	**61.5**
Recurrent	56.1	66.3	64.8	46.2	60.8
Development	1.1	0.9	1.3	2.0	0.6
04 Economic affairs	**62.8**	**67.6**	**67.7**	**74.9**	**97.7**
Recurrent	8.9	9.1	9.3	8.7	7.7
Development	53.9	58.6	58.4	66.2	90.0
05 Environmental protection	**0.3**	**0.9**	**1.4**	**0.7**	**1.4**
Recurrent	0.2	0.2	0.2	0.2	0.3
Development	0.2	0.7	1.2	0.5	1.2
06 Housing and community amenities	**2.2**	**4.0**	**6.9**	**7.0**	**7.9**
Recurrent	0.2	0.3	0.5	0.4	1.0
Development	1.9	3.7	6.5	6.6	6.9
07 Health	**14.7**	**16.2**	**18.8**	**21.7**	**20.5**
Recurrent	3.6	3.8	4.3	4.4	4.7
Development	11.2	12.5	14.5	17.3	15.8
08 Recreation, culture and religion	**2.1**	**2.8**	**3.6**	**3.5**	**3.7**
Recurrent	1.5	2.2	2.6	2.8	2.9
Development	0.6	0.6	1.0	0.8	0.7
09 Education	**44.8**	**46.4**	**46.4**	**45.1**	**47.6**
Recurrent	36.6	37.9	39.8	41.1	43.3
Development	8.2	8.5	6.6	4.0	4.2
10 Social Protection	**17.4**	**22.8**	**24.8**	**29.0**	**18.0**
Recurrent	17.2	22.0	22.7	28.3	17.2
Development	0.2	0.8	2.1	0.7	0.8
Not Identified	**14.5**	**0.9**	**1.1**	**27.5**	**(1.4)**
Recurrent	14.0	(0.0)	(0.4)	13.0	(1.4)
Development	0.5	1.0	1.5	14.5	-
Total Expenditure	**318.1**	**354.2**	**356.5**	**385.6**	**420.1**

Source: AFMIS, Ministry of Finance

3.3 Donor Support and Grants

Donor support has a significant impact on the Afghan economy. During the last five years, significant portion of the core budget expenditures were funded through donor aid. During the last five years, the cost of security sector remained very high which was mainly funded through the use of LOTFA and CSTC-A. The use of ARTF to support operating spending such as civilian wage continued to remain high in operating budget.

Non-discretionary grants in development budget have increased from Afs 56.3 billion in 2015 to 66.5 billion in 2019. This increase was a result of donor's commitments in the development budget aiming to finance the infrastructure projects.

Continued donor grants and commitments will help Afghanistan to reduce current levels of uncertainty, supporting increased confidence and investment. Afghanistan will continue to depend on donor grants to finance its development agenda. Continued donor aid in security and development is critical to preserve development gains achieved over the last seventeen years.

(In million Afs)	**1394**	**1395**	**1396**	**1397**	**1398**
Operating Grants	**122,818.1**	**197,566.7**	**118,392.9**	**127,910.3**	**101,669.4**
Recurrent Operating	*60.0*	*54,579.8*	*124.7*	*-*	*132.7*
ARTF	*27,351.5*	*28,858.1*	*34,163.6*	*27,490.2*	*12,805.6*
Lotfa	*27,513.7*	*27,351.3*	*27,193.9*	*25,011.6*	*23,450.6*
CSTCA Mod Fund	*46,688.7*	*64,193.3*	*44,249.1*	*51,943.6*	*45,263.8*
CSTCA Moi Fund	*21,036.4*	*22,495.8*	*4,604.0*	*7,569.6*	*11,292.6*
NATFO	*61.2*	*88.4*	*34.0*	*79.9*	*22.4*
SPAD British	*106.5*	*-*	*8,023.5*	*8,237.2*	*8,701.7*
Other Donor	*-*	*-*	*-*	*7,578.3*	*-*
Development Grants	**56,309.1**	**62,141.9**	**62,040.7**	**88,238.0**	**88,996.4**
DISCRETIONARY	**-**	**-**	**7,031.3**	**22,528.5**	**22,528.5**
NON-DISCRETIONARY	**56,309.1**	**62,141.9**	**55,009.4**	**65,709.5**	**66,467.9**
ARTF	23,967.0	25,979.3	26,599.5	24,653.4	24,653.4
WORLD BANK	8,203.2	6,844.5	2,436.1	8,439.4	8,439.4
GLOBAL FINANCING FACILITY	-	-	-	382.7	382.7
ASIAN DEVELOPMENT BANK	8,903.7	15,703.6	16,624.9	22,563.1	22,563.1
LOTFA, UNS & OTHER UN AGENCIES	91.1	16.9	146.6	388.5	388.5
UK & EUROPEAN COMMISSION	47.7	28.5	2.9	-	2,082.8

US & USAID	9,853.9	7,636.1	2,883.0	2,082.8	3,227.2
MULTI DONOR GRANTS	2,932.3	4,824.9	3,803.9	3,227.2	1,524.8
OTHER GRANTS	232.2	499.9	1,671.9	1,524.8	2,382.1
JAPAN NON-PROJECT GRANTS	2,078.0	608.3	840.6	2,382.1	65.6
ADB LOANS	-	-	-	-	-
OTHER MULTI DONOR LOANS	-	-	-	65.6	758.4
TOTAL	**179,127.1**	**259,708.6**	**180,433.6**	**216,148.3**	**190,665.8**

Source: AFMIS, Ministry of Finance

Grants are expected to decline gradually over the medium term both for on-budget and off-budget expenditures. Based on World Bank projection, it is expected to decline from USD 8.2 billion in 2020 to USD 6.9 billion by 2024. Security grants are expected to decline from USD 4.9 billion to USD 4 billion per year. Similarly, civilian grants are expected to decline from USD 3.4 billion in 2020 to USD 2.7 billion in 2024 (World Bank 2020). Clear commitments are needed to attract support from international organizations for reducing current levels of uncertainty, and to build the confidence in the economy.

3.4 Fiscal Balances over 2015-19

Overall fiscal balance including grants during the last five fiscal years shows deficit, except in 2018 which shows surplus. In 2019 fiscal deficit reached Afs 22.1 billion (1.7 percent of GDP) compared with a surplus of Afs 10.3 billion in 2018. In 2018 the government received higher revenue collection and grants which resulted into surplus in fiscal balance, while in 2019 the grants decline by 11.8 percent, and lower growth in revenue collection resulted in higher fiscal deficit. The implementation of VAT is expected to add additional estimated revenue of 1.1 percent of GDP over the coming years, partially offsetting decline in grants. As grants will continue to decline over the coming years, fiscal deficits are expected to be financed by domestic borrowing (Sukuk), sales of non-financial assets, and external concessional loans.

3.5 Fiscal Performance in 2019

The 2019 budget was prepared taking into consideration the continuity of reforms of the budgetary process initiated in 2018 with main focus on bringing improvements in government fiscal planning. The 2019 budget was prepared according to the international standards and presented by consolidating operating and development budgets. In 2019, approved budget was initially Afs 399 billion (30 percent of GDP) out of which 69 percent was set for operating budget (Afs 275 billion) and remaining Afs 124 billion as development budget. The budget was revised during the mid-year review, and finalized at Afs 451 billion. The revised budget increased by Afs 52 billion compared with initial budget. But the expenditure outturn was Afs 420.1 billion, which shows 8.3 percent growth compared with the last year. The overall budget execution rate in 2019 continued to be more than 90 percent. The increasing level of accuracy in the budget formulation can be attributed to some unprecedented reforms for expenditure management introduced by the government.

Fiscal Indicators (In million Afs)	**2019**		
	Initial Budget	**Outturn Budget**	**Outturn Expenditure**
Total Budget Expenditure	**399,418**	**451,576**	**420,182**
Operating Expenditure	275,224	302,205	281,164
Development Expenditure	124,194	149,371	139,018
Discretionary Expenditure	61,222	65,342	60,863
Non-Discretionary Expenditure	62,972	84,029	78,155

Source: AFMIS, Ministry of Finance

In 2019, domestic revenue were initially budgeted at Afs 188 billion, but the targets were increased during the mid-year budget review to Afs 209 billion. Actual revenue outturn reached to Afs 207.3 billion, which shows 9 percent growth over 2018 collection. The collection reached to 15.7 percent of GDP in 2019, up from 14.9 percent of GDP in 2018, which was recorded as the highest collection. Higher collection was mainly driven by non-tax revenue component with large amount of one-off revenue of Afs 26 billion. Out of which Afs 24 billion was collected from Da Afghanistan Bank (DAB) as dividends. Non-tax revenue including other revenues and social contribution increased by 5 percent compared with collection in 2018, reaching Afs 88 billion, while tax revenue collection including custom duty amounted to Afs 119.4 billion,. Low revenue growth in tax revenue was caused by underperformance of Large Taxpayer Office (LTO) and Small Taxpayer Office (STO); both missed their annual targets. Revenue from custom duty and import taxes amounted Afs 35.5 billion, which shows an increase of Afs 2.2 billion compared with 2018.

Domestic Revenue (In million Afs)	**2019**		
	Target	**Outturn**	**Difference**
Revenue (Excluding grants)	**208,999**	**207,397**	**(1,602)**
Tax Revenue	90,565	83,805	**(6,760)**
Customs Duty and taxes imports	39,499	35,573	**(3,926)**
Non Tax Revenue	48,066	43,546	**(4,520)**
Miscellaneous	15,735	12,314	**(3,421)**
Sale of Land and Buildings	9,017	26,601	**17,584**
Social Contributions	6,117	5,558	**(559)**
Grants	**202,834**	**189,095**	**(13,740)**

Source: AFMIS, Ministry of Finance

3.6 Revenue Mobilization and Expenditure Control

Since 2002, the Afghan government achieved outstanding growth in domestic revenue mobilization through bringing reforms in taxation policies, implementing effective tax administration system in customs houses and revenue collection agencies, and enforcement of measures to collect non-tax revenue through fees and charges. A penalty amnesty program allowed taxpayers to resolve longstanding arrears by paying principal owed while forgiving 95 percent of associated penalties. Domestic revenue mobilization was also supported by increasing non-tax revenue rates such as passport fees, overflight fees, mobile telephone charges. This component of revenue also includes revenue collected from state-owned enterprises and corporations.

Revenue mobilization has been impressive since 2014 when the country experienced huge decline in revenue collection during the presidential elections. The performance continued to improve during the last five years and in 2019 domestic revenue share equal to around 15.7 percent of GDP. Inflation and economic growth have been very low and therefore had very less impact in augmenting nominal domestic revenue in Afghanis.

The government has aimed to control overall spending. Security expenditures has remained at unsustainable levels. Reduction in security expenditure during the last two years drove decline in overall recurrent spending. Reduced security expenditures reflected reduced allocations for goods and services in the Ministry of Defense and Ministry of Interior. Decline in security expenditures largely offset growth in civilian spending, especially in the discretionary development budget.

3.7 Wage Bill Policy Implementation

The Ministry of Finance developed the civilian wage bill management policy in order to harmonize the pay structure, retain the highly skilled employees, and deal with the unsustainable nature of the wage bill in the long run.

Two implementation tasks are planned during (2019-2023):

a) In the context of Afghanistan's ongoing transition to self-reliance, controlling expenditure on wages and salaries is a priority. To support proposed compensation increases, fiscal space will be created through cost saving measures. These measures include NTA rationalization (tracked by time-bound benchmarks); Super Skill Scale and discarding ad hoc allowance phase out and implementing the HRMIS. The implementation of these measures will be led directly by Line Ministries and Agencies (LMAs) under the guidance of the High-Level Pay Committee. LMAs must provide evidence of the implementation of these measures prior to accessing the new compensation arrangements. The Technical Pay Committee will review LMA evidence and the High Level Pay Committee will approve LMA access to new compensation arrangements.

b) Professional cadre groups also will be established by IARCSC; entry to which will require testing and identification in the new HRMIS system. The Technical Pay Committee will consult with relevant entities to propose cadre allowances as a multiple of the existing Pay and Grading Scale. Competency-based allowances will be established under the new compensation arrangements to supplement the wages of the professional staff that are not part of cadres. Non-professional staff (Grade 7 & 8) will be eligible for unconditional adjustment of salaries. The technical committee will recommend the level of adjustment based on the relative pay of higher grades and the availability of fiscal space. The High Level Pay Committee will approve recommendations, which will be submitted for implementation in the budget process.

Chapter 4: Medium-Term Fiscal Framework

The Medium Term Fiscal Framework sets out the estimated resources (domestic revenue with total grants) and expenditure for the current budget of 2020, planned budget of 2021 and the forecast of revenues and expenditures for the next four years. The framework is created on a number of key policy assumptions for domestic revenue, expenditure, donor support, and borrowing.

Medium Term Fiscal Framework Afs Millions Preliminary	**Historic** **2019**	**Current Budget** **2020**	**Proposed Budget** **2021**	**Outer Years** **2022**	 **2023**	 **2024**	 **2025**
TOTAL REVENUE AND GRANTS	**398,062.8**	**439,349.7**	**417,748.0**	**439,075.2**	**458,076.1**	**472,888.6**	**492,775.9**
Domestic Revenue	207,396.9	177,075.7	193,167.8	224,442.8	252,450.2	275,417.4	302,580.0
o/w new tax measures		26,861.0					
Tax Revenue	119,378.7	103,864.4	134,201.6	156,532.5	174,143.2	189,069.1	207,263.5
Taxes on Income and Profits	45,036.6	38,446.7	49,727.4	56,171.6	63,838.9	69,878.0	77,541.3
Taxes on Property	547.1	471.5	609.8	692.4	786.1	852.1	923.6
Taxes on Goods and Services	34,790.3	31,366.8	40,570.2	57,502.4	68,252.4	78,024.7	89,256.8
of which Value added Tax	-	-	-	9,316.0	11,020.0	13,138.0	15,692.0
Taxes on Trade	35,573.5	30,504.5	39,316.9	37,469.5	35,718.2	34,058.2	32,485.2
Other Taxes	3,431.3	3,075.0	3,977.3	4,696.7	5,547.6	6,256.1	7,056.6
Non-Tax Revenue	61,417.2	71,066.4	56,191.9	64,763.6	74,737.9	82,484.0	91,132.7
Total Grants 1	190,665.8	262,274.0	224,580.3	214,632.5	205,625.8	197,471.2	190,195.9
Operational	101,669.4	104,163.0	94,953.0	93,053.9	91,192.9	89,369.0	87,581.6
Development	88,996.4	158,111.1	129,627.3	121,578.5	114,433.0	108,102.2	102,614.3
TOTAL EXPENDITURE	**420,182.7**	**478,844.1**	**449,017.1**	**466,969.7**	**475,553.8**	**481,097.9**	**486,213.2**
Operating Expenditures	281,164.2	308,731.9	287,668.8	298,074.4	308,633.8	319,587.4	330,626.4
(21) Employees Compensation	197,467.2	201,817.4	208,436.7	218,042.0	227,221.6	236,459.4	243,553.2
(22) Goods and Services	40,028.3	47,107.6	40,724.3	40,929.5	41,338.8	41,752.2	43,004.8
(23) Interest Expenses	2,203.4	857.3	760.8	634.0	494.7	373.2	319.9
(24) Pension, Subsidies and Transfers	35,686.7	22,300.0	19,500.0	21,450.0	23,595.0	25,954.5	28,550.0
(25) Capital Expenditures	5,778.6	5,578.8	5,957.9	5,907.9	5,907.9	5,907.9	5,966.9
Contingencies	-	11,439.1	12,289.2	11,111.0	10,075.8	9,140.2	9,231.6
Amendments in the budget due to Covid-1	-	19,631.7	-	-	-	-	-
Development Expenditures	**139,018.5**	**170,112.1**	**161,348.3**	**168,895.3**	**166,920.0**	**161,510.4**	**155,586.9**
Foreword Estimates	**139,018.5**	**170,112.1**	**129,183.4**	**105,279.7**	**93,755.2**	**83,363.0**	**75,026.7**
Discretionary	60,863.5	75,786.6	69,904.6	62,914.1	56,622.7	50,960.5	45,864.4
Non-Discretionary	78,155.0	94,325.6	59,278.8	42,365.6	37,132.5	32,402.5	29,162.2
New Development Policies	**-**	**-**	**32,164.9**	**63,615.5**	**73,164.8**	**78,147.4**	**80,560.2**
Discretionary			6,828.5	27,314.1	39,480.8	46,800.5	52,348.0
Non-Discretionary			25,336.4	36,301.4	33,684.0	31,346.9	28,212.2
Sale of Assets	26,600.9	2,144.9	2,774.3	3,146.7	3,569.1	3,864.2	4,183.8
Overall Balance	(22,120.0)	(39,494.3)	(31,269.1)	(27,894.4)	(17,477.8)	(8,209.3)	6,562.6
Primary Balance	(19,916.6)	(38,637.0)	(30,508.3)	(27,260.4)	(16,983.1)	(7,836.1)	6,882.5
NET FINANCING	(33,042.8)	37,424.1	24,189.4	10,358.7	(2,854.4)	(10,214.8)	(17,147.9)
Bank Account	(26,300.0)	18,396.6	6,394.2	3,540.1	(652.0)	(7,982.6)	(14,913.8)
TSA - Requirements	(10,000.0)	(10,000.0)	(10,000.0)	(10,000.0)	(10,000.0)	(10,000.0)	(10,000.0)
Loans	806.7	21,021.0	19,902.4	8,991.2	-	-	-
External	806.7	21,021.0	19,902.4	8,991.2	-	-	-
IMF		17,171.0	-	-	-	-	-
ECF		3,850.0	19,902.4	8,991.2	-	-	-
Domestic	-	-	-	-	-	-	-
Principal Repayments	7,549.5	1,993.4	2,107.2	2,172.6	2,202.4	2,232.2	2,234.2
External	449.5	1,993.4	2,107.2	2,172.6	2,202.4	2,232.2	2,234.2
Domestic	7,100.0	-	-	-	-	-	-

Source: MFPD Staff Forecasts

1. The grants numbers in red indicate that there is no formal commitment for funds from the donors yet.

Key Assumptions

The framework has been built under the following key policy assumptions:

- The Government will only borrow on concessional basis for specific projects.
- The macro-framework provides the basis for forecasting individual revenue lines.
- The Government would need to maintain the overall budget deficit (including grants) close to zero, and decrease the operating budget deficit (excluding grants) over the medium term as fiscal policy anchor. To do this, the Government should boost domestic resources to move towards fiscal sustainability.
- Impacts of Covid-19 on revenue performance and aid reduction will create fiscal deficit in outer years. To cover this deficit and ensure that the current and new policies are affordable in coming years, the government needs to consider savings and reforms in expenditure.
- New development policies that are identified as the priority projects for the forward years are expected to create a deficit in the budget. The available fiscal space can be used to finance substantial portion of these policies.
- Outer-years forecasts are kept relatively conservative, which are based on expected donor commitments and resource availability in future years.
- Aid is assumed to decline from the current level, as the Brussel commitments will be only until 2020. Increasing or decreasing this amount (either security spending or LOTFA/CSTC-A contribution) will affect the fiscal space.

Revenue Forecast Assumptions

- We have assumed a medium term Covid-19 effect on revenue collection performance.
- The revenue forecasts are based on each particular revenue lines, developed by particular macroeconomic assumptions such as GDP growth, GDP deflator, GDP by sub-sector, inflation, imports growth, new revenue measures and efficiency.
- The revenue forecasts include VAT projections, which is expected to be introduced in 2022.
- Revenue estimates from TAPI, CASA-1000 and other transitory revenues are not incorporated; these will be incorporated when there is more certainty on their start dates.

4.1 Revenue Projection (1399-1404)

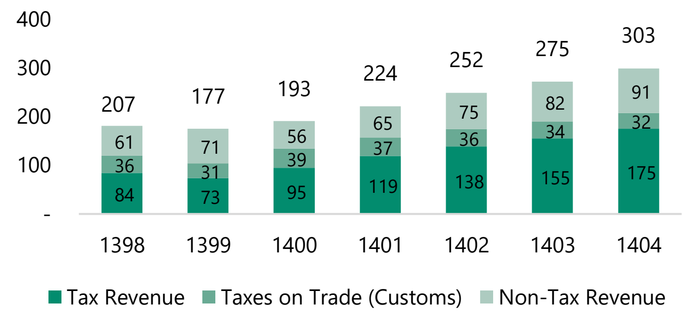
The revenue collections have shown improvements over the past few years, which is a remarkable achievement for the government. Further improvements in the revenue collection would help the Government to come closer toward its main goal of self-reliance in terms of its own resources.

There has been a significant increase in ratio of revenues as a proportion of GDP over the recent years. The revenue to GDP ratio rose up from the lowest at 11.4 percent in 1394, to 12.6 percent in 1395, 13.5 percent in 1396, 14.9 percent in 1397 and 15.7 percent in 1398.

Due to the Covid-19 outbreak, the revenue to GDP ratio is expected to fall to a low of 13.2 percent in 1399. This downfall in the revenue collections is expected to recover over the coming years. Revenue collections are also affected by the political uncertainties emanating from the potential peace deal with Taliban movement.

The outlook for domestic revenue shows a recovery stage of the revenue collections after the Covid-19 pandemic. Based on the forecasts, domestic revenues are expected to fall to Afs 177 billion in 1399 and rise up again to Afs 193.1 billion in 1400. Domestic revenues for 1401, 1402, 1403 and 1404 are expected at Afs 224.4 billion, Afs 252.4 billion, Afs 275.4 billion, and Afs 302.6 billion, respectively.

Figure 10: Revenue Outlook
(Afs Billion)



Source: Macro-Fiscal Model (MFM) 2020

The main revenue categories include tax revenue, non-tax revenue, and trade taxes, which are grown by their respective macroeconomic assumptions (i.e. GDP, inflation, GDP Deflator, import growth, efficiency and so on). The tax revenue (excluding taxes on trade) is one of the largest contributors to the overall domestic revenue collection, and will project to be around Afs 73.3 billion in 1399, and are expected to increase to Afs 94.9 billion in 1400. By 1404, the tax revenue will reach to Afs 174.8 billion. The tax forecasts also include VAT projections, which is expected to be introduced in 1401.

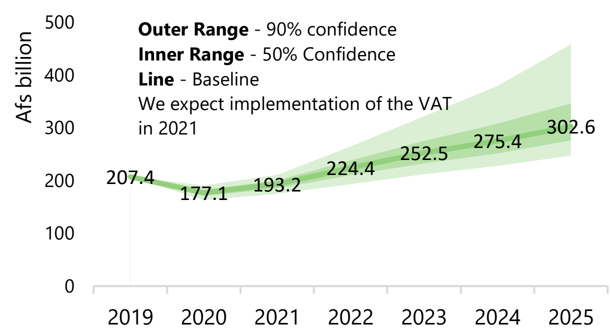
Improvements in tax administration and introduction of reforms by the Government will increase revenue collections. The Government is committed to continuing its revenue-enhancing measures and reforms over the coming years.

4.2 Revenue Sensitivity Analysis

Revenue forecast over projection period is contingent based on risks and changes in the macroeconomic assumptions (like GDP, Export, and Inflation). The sensitivity analysis of revenue forecast to changes in economic parameters is set out in Figure 11.

The inner range for the sensitivity analysis shows 50 percent confidence while the outer range assumes 90 percent confidence that the revenue projections will not deviate from these intervals.

Figure 11: Revenue Forecast Scenarios due to Macro Uncertainty



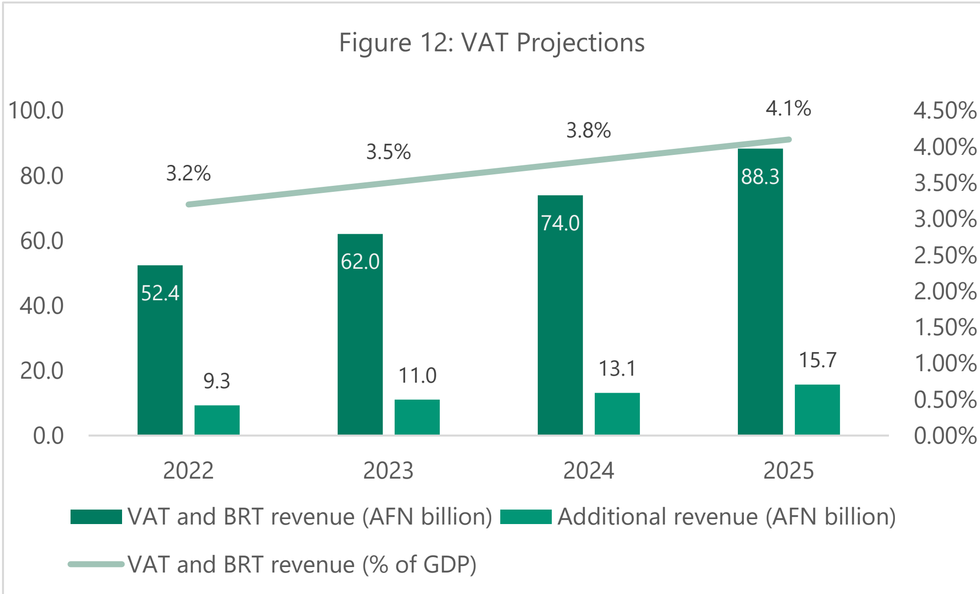
Source: Macro-Fiscal Model (MFM) 2020

4.3 Value-Added Tax (VAT)

The government is committed to mobilizing additional internal resources either through policy changes or through improvement in the tax administration. A detailed strategic plan for the implementation of the VAT will be introduced by the Government. Although it was expected to start in 2021 but due to the ongoing Covid-19 pandemic, the starting date for VAT implementation is postponed to 2022.

Based on Government and IMF calculations, a VAT with a rate of 10 percent is expected to yield additional revenue of 1.1 percent of GDP. This additional revenue can be achieved after the rolling out of VAT in 2022.

The World Bank analysis on the impacts of VAT on revenue collection shows that the implementation of VAT will increase tax revenue by Afs 9.3 billion or 0.56 percent of GDP in 2022. The VAT revenue is expected to increase in the long-term due to an improved tax base and efficiency in tax administration. Over time, the economic growth and inflation will improve the tax base, which will increase the potential revenue to 0.73 percent of GDP in 2025. The proposed 10 percent VAT will be applicable on majority of goods and services. Whereas, basic materials and basic food items will be exempted from VAT.



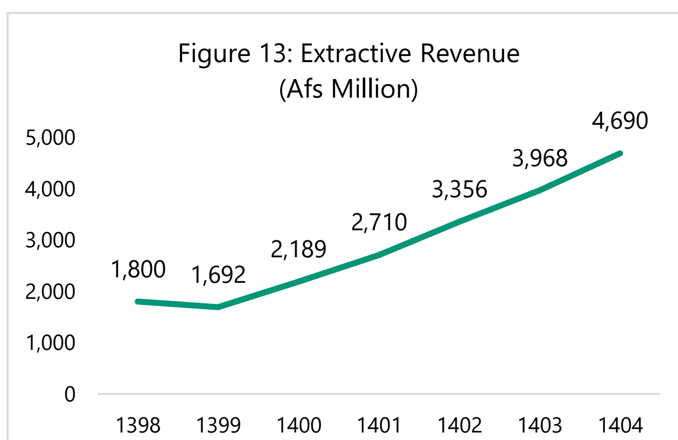
Source: World Bank Projections – Revenue Impacts of VAT

The difference between the World Bank estimates and previous estimates by the IMF is due to methodological differences where the World Bank have assumed different years of data, higher deductible domestic input VAT and difference in estimating the correction for items that are zero-rated.

The VAT is supposed to put an additional burden of less than one percent on households' income. This will affect the richer households more than the poorer households will. The bottom 20 percent households' loses 0.27 percent of their income whereas; the richest 10 percent of households' purchasing power will decrease by 0.82 percent, which is still considered as modest. On average, the purchasing power is expected to decline by 0.41 percent of households' current income.

4.4 Mining Revenue

The forecast assumptions for mining revenue remain conservative. The Government's policies and objective around the management of the mining sector are in the process of being revised, as a result, it is difficult to set a timeline for the beginning of operations of most projects. There is therefore expected to be limited revenues collected from the extractive sector in the near future. Once large projects begin these will be incorporated into future estimates.



Source: Macro-Fiscal Model (MFM) 2020

4.5 Revenue Mobilization and Expenditure Control Measures

The government can leverage two options in order to enlarge the resource envelope available to finance public expenditures.

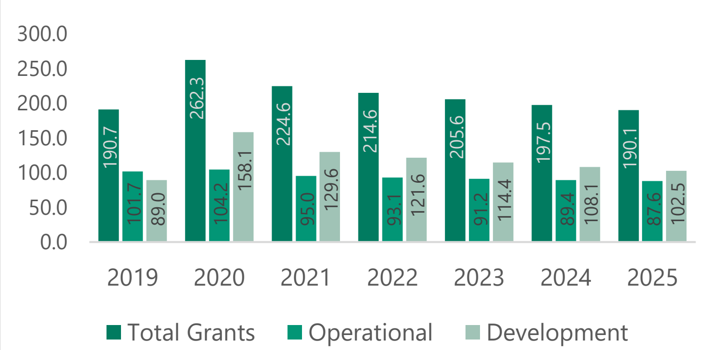
In the medium-term, the expected implementation of the VAT can yield additional revenue of one percent of GDP. A 10 percent rate will be applicable to the majority of goods and services. Under the VAT law, the VAT will be levied at the gross margin of only large companies, defined as companies with a yearly turnover of Afs 150 million (USD 1.97 million) or above, whereas taxpayers below the threshold will continue to pay the BRT. VAT will be levied on all imports. Moreover, potential extractive projects, which were included in the Growth Agenda, could add additional revenue of two percent of GDP per year in the medium term. Private sector resource mobilization through establishing public-private partnerships (PPP) could also play an important role in revenue enhancement for the current financing needs. This can happen if the security situation significantly improve. In addition, issuance of sharia-complaint domestic debt instrument (Sukuk certificates) is also planned which will finance two percent of GDP per year in the medium term. Transitory revenue schemes such as TAPI, CASA-1000 and other development projects are also expected over the coming years, which will help the government to become self-reliant in its resources.

Improvement in the security landscape can significantly reduce expenditures because large chunk of security spending will be cut and directed to other sectors. Reducing existing off-budget programs by half could reduce total expenditure by additional five percent of GDP without negative impact on outcomes. Furthermore, improvements in recurrent expenditures by 10 percent would allow to reduce expenditures by one percent of GDP, without negative impact on the services.

4.6 Donor Support and Grants

The government of Afghanistan is highly reliant on foreign aid; however, a reduction in aid is expected over the medium term that will reduce the available resources to the budget. The government may discuss new commitments with donor communities after the existing commitments end in 1399.

Figure 14: Operational and Development Grants (Afs Billion)



Source: Macro-Fiscal Model (MFM) 2020

The non-discretionary development grants are based on existing commitments and expected expenditure, which is assumed to reduce in favor of funds moving to ARTF and other discretionary development options. The outer years' estimate assumes a 'matching grant' for estimated expenditure, which will be either paid via cash or in-kind by third parties.

Discretionary and Non-Discretionary Grants

Grants Afs Millions	Historic	Current Budget	Proposed Budget	Outer Years			
Preliminary	2019	2020	2021	2022	2023	2024	2025
Total Grants	**190,665.8**	**262,274.0**	**224,580.3**	**214,632.5**	**205,625.8**	**197,471.2**	**190,195.9**
Operational	**101,669.4**	**104,163.0**	**94,953.0**	**93,053.9**	**91,192.9**	**89,369.0**	**87,581.6**
Security	101,669.4	104,163.0	94,953.0	93,053.9	91,192.9	89,369.0	87,581.6
Development	**88,996.4**	**158,111.1**	**129,627.3**	**121,578.5**	**114,433.0**	**108,102.2**	**102,614.3**
Discretionary	22,528.5	55,311.1	45,012.1	42,911.5	43,616.4	44,352.8	45,239.8
Non-Discretionary	66,467.9	102,800.0	84,615.2	78,667.0	70,816.5	63,749.4	57,374.5

Source: Macro-Fiscal Model (MFM) 2020

4.7 Types of Donor Grants

The Resolute Support Mission (RSM) is providing large off-budget support to the security sector, which covers spending on goods and services, and other areas. Whereas, the on-budget support is provided through LOTFA, CSTC-A and others. Operating expenditure are supported through ARTF IP, LOTFA, and CSTC-A funds. While the funds from ARTF IP Plus, SRBC EU and the Government contribution to discretionary development funds are spent on discretionary development spending.

State and Resilience Building Contract (SRBC) is criteria and performance-based funds that are released upon satisfactory achievements of the SRBC criteria by the Government. This is EU's on-budget support program. Development Policy Grants (DPG) are disbursed upon the satisfactory performance of the Government in certain pre-determined areas.

Fund	Discretionary/Non-Discretionary
LOTFA	No discretion, must be used largely for salaries in the security sector. All salaries captured under this policy are predetermined to be spent in MTFF.
CSTC-A	Limited discretion, must be used for salaries and other expenditures including fuel, in the security sector. All salaries captured under this policy are predetermined to be spent in MTFF.
ARTF O&M	Discretion over how it is used, providing it is used on O&M. Falls under the discretionary development budget. Estimated value included under

	discretionary envelope in MTFF (i.e. not all development grants are counted as earmarked).
ARTF Incentive Program	Discretion over which projects it can be used for, however, it must fall under development. Estimated value included under discretionary envelope in MTFF (i.e. not all development grants are counted as earmarked).
NATFO	No discretion, must be used in security sector, primarily training and development expenditure.
EU (SRBC)	Discretion over how it is used, it is on-budget support subject to fulfilment of performance criteria, including fixed and variable components.
World Bank (DPG)	Discretion over which projects it can be used for, however, it must fall under development. Estimated value included under discretionary envelope in MTFF (i.e. not all development grants are counted as earmarked).
ARTF (Operations)	Discretion, however, must be used within the operation budget.
Donor Project Support	No discretion, support for specific development projects must be used on those project areas it has been agreed. This falls under earmarked codes in the MTFF.

4.8 Fiscal Sustainability Analysis

The government aims to increase the portion of budget covered by domestic revenue over the medium term as an approach towards its main goal of fiscal sustainability.

Fiscal Sustainability Indicators	2019	2020	2021	2022	2023	2024	2025
Domestic Revenue/Budget	49.4%	37.0%	43.9%	50.1%	55.5%	59.6%	64.3%
Employee Compensation/Domestic Revenue	95.2%	114.0%	107.9%	97.1%	90.0%	85.9%	80.5%
Spending minus Development Grants/Revenue	159.7%	181.1%	160.9%	145.6%	134.7%	128.6%	121.7%
Revenue minus Grants/GDP	15.7%	13.2%	13.5%	14.6%	15.2%	16.0%	16.2%
Grants/Revenue	91.9%	148.1%	116.3%	95.6%	81.5%	71.7%	62.9%
Improvement Index	100.0	65.6	80.7	99.1	115.7	129.6	145.4

Source: Macro-Fiscal Model (MFM) 2020

The key aim of the Ministry of Finance is to ensure fiscal sustainability. However, due to huge expenditure pressures and lower revenue growth as a percent of GDP, there has been difficulty in achieving a self-sustaining level of expenditure. The government has aimed to ensure that domestic revenue should cover operating expenditure and gradually take over the development budget as well. Domestic revenues for the fiscal year 2019 covered 49.4 percent of the core budget but it is expected to fall to a low of 37.0 percent in 2020 due to the Covid-19 pandemic. Similarly, the domestic revenue to GDP ratio is also expected to fall to 13.2 percent in 2020 from 15.7 percent in 2019. Improvements in revenue performance and savings in expenditure are required to partially cover the revenue losses due to Covid-19 outbreak and to maintain path towards fiscal sustainability.

4.9 Debt Sustainability Analysis

The PFM law sets out rules under which the Government must control borrowing. The Government is required to ensure that the borrowing undertaken through the fiscal year is used for development purpose. This includes building infrastructure, creating industrial parks and other alike activities that will improve investment. Currently Afghanistan is not in the dire crisis like many other countries and debt can still be considered as a financing strategy to fund investment projects in vital sectors of the economy.

Most of the debt indicators are well within acceptable bounds compared to international standards. The Debt to GDP ratio is currently at 6.8 percent but it is expected to increase in future years due to a substantial decline in GDP level after the spread of Covid-19. This ratio remains stable given the international threshold of 30 percent debt to GDP proposed by HIPC (Heavily Indebted Poor Countries) initiative.

DSA Table	2019	2020	2021	2022	2023	2024
Baseline Debt/GDP	6.8%	10.0%	11.2%	11.4%	10.7%	10.0%
Growth Shock Debt/GDP	6.8%	10.5%	12.5%	13.6%	13.8%	14.1%
Portion Loans below Min. Grant Element [1]	0.0%	4.5%	10.3%	0.0%	0.0%	0.0%
External Debt Service/Exports	0.5%	1.6%	3.1%	1.8%	2.2%	1.6%
External Debt Service/Reserves	0.1%	0.5%	0.5%	0.4%	0.3%	0.3%
Total Debt Service/Revenues exc rollover	0.3%	2.6%	2.4%	1.8%	1.4%	1.2%
1/ Threshold for the minimum Grant element is	35%					

Source: Macro-Fiscal Model (MFM) 2020

Since most of Afghanistan's current debt stock is on concessional basis, it remains well within the safe thresholds for most repayment indicators and will continue to do so into the medium term. Shocks to the baseline, for example, on the exchange rate depreciation, aid slowdown, and lower GDP growth cause some concern for debt over time. A great portion of the debt is in foreign currency; hence, a slight change in the exchange rate will have a huge impact on debt profile. However, the low debt stock means even this is only a small concern.

Recently, upon request from the Afghan government, the IMF Executive Board approved emergency loan assistance of USD 223 million under the Rapid Credit Facility (RCF). This assistance will allow the Afghan government to address challenges arising from the spread of Covid-19 pandemic. The IMF executive board has also approved the immediate debt service relief for 6 months for 25 LICs including Afghanistan. The program deploys resources from the Catastrophe Containment and Relief Trust (CCRT) to cover scheduled IMF repayments from beneficiary countries over the next six months.

In April, the G20 nations endorsed the Debt Service Suspension Initiative (DSSI) in response to a call by the World Bank and the IMF to grant debt-service suspension to the poorest countries to ensure these nations are supported in their efforts to protect lives and alleviate the economic and financial crises resulting from the COVID-19 pandemic.

Chapter 5: Forward Estimates

The forward estimates present the budget for the fiscal year 1399 and the costing of continuing current policy for four forward years (1400-1403) with the objective to:

1. Summarize the budget year's allocations and forward estimates of expenditures proposed by the government for each ministry to meet planned key priorities.
2. Summarize the differences between the estimated resource envelope and total expenses, which will generate fiscal space.

The forward estimates totaled together give the costing estimate of delivering services at the current level in outer years. The resource envelope minus the total cost of the forward estimates gives the available resources for new policies and programs. These resources are allocated by Cabinet or with the recommendation of Cabinet.

5.1 Methodology for Forward Estimates

The forward estimates are calculated based on a set of indexes that are used to estimate the "cost of continuing current policy" for each budgetary unit. At the moment the baseline does not reflect an accurate cost of operating services, however this will be improved over time through a process of rolling public expenditure reviews of Ministries. This then provides a guaranteed funding for Ministries, minus any efficiency savings.

For the operating budget, the estimations are calculated through growing the codes 21, 22, 23, 24, and 25 by indices including inflation, population and others as appropriate. For the discretionary development budget, we calculate what the cost of the ongoing projects are in the budget and outer years. This is based on the multi-year costing provided by Ministries, where available, otherwise discretionary development funds are held constant. This should show a falling figure over time as projects slowly move to completion, generating additional space in the future for new policy.

The forward estimates for years 1400 to 1403 are projected based on the information provided by the Ministries and budgetary units. This is a new method and therefore many challenges are faced in preparing the estimates.

Values of the Forward Estimates (Afs Million)

Forward Estimate - Operating	Historic	Current Budget	Outer Years			
Codes 21, 22, 24, 25 Operating	**1398**	**1399**	**1400**	**1401**	**1402**	**1403**
Governance and Pubic Service	26,913.14	24,090.62	22,199.37	22,432.22	23,120.60	23,813.62
Office of the Chief of Staff to the President	3,269.01	4,579.75	1,355.00	1,393.69	1,430.24	1,467.04
High Council for Peace	-	-	500.00	-	-	-
Administrative Office of the President	5,657.86	3,361.49	3,968.51	4,126.03	4,273.38	4,421.69
Ministry of State & Paliamentary Affiars	173.26	169.77	157.00	163.86	170.26	176.69
Ministry of Foreign Affairs	6,045.45	6,212.07	6,400.85	6,611.43	6,809.48	7,008.88
Indepdendant Administrative Reforms and Civil Service	573.42	572.95	506.35	526.23	544.82	563.54
Executive Directorate and Secretariat of Ministers Council	936.10	515.53	-	-	-	-
Meshrano Jirga	542.59	549.61	594.75	617.14	638.10	659.21
Wolesi Jirga	1,526.67	1,607.49	1,640.64	1,707.92	1,770.80	1,834.08
Independent Directorate of Local Governance	4,263.90	4,096.71	4,418.37	4,537.55	4,650.26	4,763.76
Independent Election Commission	2,386.56	308.45	315.36	325.69	335.42	345.21
Independent Electoral Complaints Commission	597.91	224.12	426.35	440.04	452.92	465.87
Independent Commission for Overseeing the Implementation of Constitu	79.81	85.37	87.52	90.63	93.54	96.48
Ministrt of Justice	860.60	957.32	978.65	1,015.49	1,049.99	1,084.72
State Ministry for Peace	-	850.00	850.01	876.50	901.39	926.46
National Defense and Security Sector	89,600.55	102,500.99	106,998.62	111,240.46	115,206.15	119,197.67
Presidential Protective Service	2,030.68	2,362.00	2,435.32	2,534.99	2,628.06	2,721.72
General Directorate of National Security	19,351.96	18,697.54	19,143.32	19,889.37	20,587.34	21,289.89
Ministry of Defence	67,042.40	80,502.44	81,177.88	84,391.54	87,395.87	90,419.77
National Security Council	1,175.50	939.01	4,242.09	4,424.56	4,594.87	4,766.28
Public Order and Safety Sector	59,397.40	61,124.31	55,813.95	58,274.81	60,568.22	62,876.24
Ministry of Interior Affairs	51,346.19	53,750.80	47,855.30	49,995.59	51,990.07	53,997.25
Attorney General Office	2,823.70	3,173.80	3,460.42	3,591.19	3,713.05	3,835.69
Supreme Court	3,803.38	3,960.64	4,098.23	4,282.30	4,453.95	4,626.70
Afghanistan Central Civil Registeration Authority	400.98	-	-	-	-	-
Ministry of Counter Narcotics	184.87	-	-	-	-	-
Afghanistan National Disaster Management Authority	801.25	180.27	330.00	335.03	339.75	344.49
Afghanistan Independent Human Rights Commission	37.02	58.80	70.00	70.70	71.41	72.12
Agriculture and Economic Affairs Sector	32,651.52	12,092.84	12,944.43	13,798.03	14,695.75	15,661.04
Ministry of Economy	308.32	305.34	293.44	303.81	313.55	323.34
Ministry of Agriculture, Irrigation & Livestock	1,285.63	1,312.87	1,327.45	1,383.27	1,435.40	1,487.87
Ministry of Commerece and Industry	631.17	552.93	561.08	579.68	597.17	614.77
Afghanistan National Standard Authority	87.14	110.53	109.80	113.36	116.72	120.10
Ministry of Finance	29,951.65	8,619.88	9,524.70	10,256.73	11,040.42	11,890.92
Supreme and Audit office	174.04	243.57	243.57	252.73	261.30	269.93
Central Statistics organization	213.56	947.72	884.40	908.45	931.19	954.09
Micro Finance Investment Support Facility for Afghanistan	-	-	-	-	-	-
Energy and Mining Sector	1,539.10	1,363.56	1,536.44	1,595.56	1,650.90	1,706.60
Ministry of Mines and petrolum	688.97	538.14	597.14	620.13	641.65	663.31
Ministry of Energy and Water	794.70	700.98	766.61	796.66	824.77	853.08
Da Afghanistan Brishna Shirkat	-	-	-	-	-	-
Afghanistan Atomic Energy Comission	55.42	76.27	74.28	76.87	79.31	81.76
Oil & Gas Regulatory Authority	-	48.18	15.00	15.34	15.66	15.98
Energy regulatory Authority	-	-	83.42	86.56	89.51	92.47
Transport and Communication Sector	2,625.28	1,984.64	2,039.01	2,112.88	2,182.15	2,251.87
Ministry of Communication and Information Technology	622.54	609.73	606.65	627.87	647.77	667.81
Afghanistan Railway Authority	90.64	113.63	124.31	128.51	132.45	136.42
Civil Aviation Authority	335.12	328.66	350.14	362.79	374.65	386.60
Ministry of Public Works	1,300.73	641.06	658.66	683.51	706.78	730.21
Ministry. of Trasport	276.25	291.56	299.25	310.22	320.49	330.84
Housing and Community Amenities Sector	2,182.05	1,772.89	2,024.60	2,100.37	2,171.28	2,242.66
Kabul Municipality	-	-	-	-	-	-
Capital Region Independent Development Authority	429.47	68.31	232.68	242.02	250.76	259.55
Ministry of Urban development and Housing	565.47	1,216.20	1,251.11	1,299.65	1,345.05	1,390.76
Urban Water Supply and Canalization Corporation	153.61	-	-	-	-	-
Afghanistan Independent Land Authority	505.67	-	-	-	-	-
Ministry of Rural Rehabilitation and Development	527.83	488.39	540.81	558.69	575.47	592.36
Health Sector	4,503.22	4,723.50	5,167.98	5,339.05	5,499.92	5,661.89
Ministry of Public Health	4,503.22	4,723.50	5,167.98	5,339.05	5,499.92	5,661.89
Education, Culture and Religion Sector	46,062.67	47,704.30	49,198.88	51,284.40	53,231.98	55,192.15
Radio and television of Afghanistan	537.02	485.14	497.63	515.56	532.37	549.30
Ministry of Haj & Relagious Affairs	1,429.68	1,643.66	1,878.50	1,947.56	2,012.28	2,077.44
Ministry of Information and culture	707.73	588.14	611.10	633.74	654.95	676.30
General Directorate of Sports and Fitness	274.85	303.59	396.39	403.66	410.68	417.74
Ministry of Education	36,688.45	35,506.58	36,401.32	38,024.07	39,537.67	41,060.96
Ministry of Higher Education	6,179.06	6,976.09	7,157.06	7,416.77	7,660.33	7,905.52
Afghanistan Academy of Sciences	245.88	310.38	319.86	332.90	345.09	357.36
Technical & vocational Ed Dept	-	1,836.62	1,876.96	1,948.50	2,015.50	2,082.94
Access to Information Commission	-	54.09	60.07	61.63	63.11	64.60
Social and Environmental Protection Sector	16,274.23	16,646.11	16,695.52	18,151.62	19,736.35	21,470.26
National Environmental Protection Agency	255.03	292.74	288.10	297.79	306.89	316.05
Ministry of Frontiers and Tribal Affairs	440.66	543.64	551.00	565.99	580.18	594.48
Ministry of Refugee &Returnes	360.35	413.01	415.00	429.93	443.93	458.02
Ministry of women affairs	299.89	239.48	237.25	245.96	254.12	262.34
Ministry of Labor Social Affairs	14,918.31	1,305.02	1,318.53	1,363.90	1,406.52	1,449.43
Independent Directorate of Coordination of Kochies Affairs	(0.0)	162.28	158.64	163.57	168.21	172.88
State Ministry for Martyrs and Disabled	-	13,689.95	13,727.00	15,084.47	16,576.49	18,217.06
Contingency Codes	-	15,096.4	13,050.0	11,745.0	10,570.5	9,513.5
New amendments in the budget due to Covid-19	-	19,631.72	-	-	-	-
Total	**281,164.2**	**308,731.9**	**287,668.8**	**298,074.4**	**308,633.8**	**319,587.4**

Forward Estimate - Development Expenditure	Historic	Current Budget	Outer Years			
Discretionary Expenditure	**1398**	**1399**	**1400**	**1401**	**1402**	**1403**
Governance and Pubic Service	10,182.98	6,477.53	9,524.35	8,571.92	7,714.73	6,943.25
Office of the Chief of Staff to the President	-	-	-	-	-	-
Administrative Office of the President	7,864.72	4,672.96	8,000.00	7,200.00	6,480.00	5,832.00
Ministry of State & Paliamentary Affiars	14.42	20.00	10.00	9.00	8.10	7.29
Ministry of Foreign Affairs	1,268.22	896.35	896.35	806.72	726.05	653.44
Indepdendant Administrative Reforms and Civil Service	41.72	45.00	36.00	32.40	29.16	26.24
Executive Directorate and Secretariat of Ministers Council	250.05	236.96	-	-	-	-
Meshrano Jirga	7.22	7.50	6.00	5.40	4.86	4.37
Wolesi Jirga	20.53	30.81	24.64	22.18	19.96	17.97
Independent Directorate of Local Governance	593.22	485.00	485.00	436.50	392.85	353.57
Independent Election Commission	-	-	-	-	-	-
Independent Electoral Complaints Commission	-	-	-	-	-	-
Independent Commission for Overseeing the Implementation of Constitu	-	-	-	-	-	-
Ministrt of Justice	122.86	82.95	66.36	59.72	53.75	48.37
State Ministry for Peace	-	-	-	-	-	-
National Defense and Security Sector	306.01	688.44	505.00	454.50	409.05	368.15
Presidential Protective Service	136.07	275.00	220.00	198.00	178.20	160.38
General Directorate of National Security	132.66	364.00	250.00	225.00	202.50	182.25
Ministry of Defence	37.28	49.44	35.00	31.50	28.35	25.52
National Security Council	-	-	-	-	-	-
Public Order and Safety Sector	984.48	461.18	445.50	400.95	360.86	324.77
Ministry of Interior Affairs	399.26	431.68	431.50	388.35	349.51	314.56
Attorney General Office	102.45	12.00	-	-	-	-
Supreme Court	12.55	12.00	9.60	8.64	7.78	7.00
Afghanistan Central Civil Registeration Authority	413.95	-	-	-	-	-
Ministry of Counter Narcotics	46.39	-	-	-	-	-
Afghanistan National Disaster Management Authority	-	-	-	-	-	-
Afghanistan Independent Human Rights Commission	9.89	5.50	4.40	3.96	3.57	3.21
Agriculture and Economic Affairs Sector	4,419.73	5,429.27	6,380.00	5,742.00	5,167.80	4,651.02
Ministry of Economy	207.43	151.64	160.00	144.00	129.60	116.64
Ministry of Agriculture, Irrigation & Livestock	1,656.68	2,791.00	3,700.00	3,330.00	2,997.00	2,697.30
Ministry of Commerece and Industry	179.74	393.10	550.00	495.00	445.50	400.95
Afghanistan National Standard Authority	33.23	50.74	60.00	54.00	48.60	43.74
Ministry of Finance	1,865.44	1,137.79	1,100.00	990.00	891.00	801.90
Supreme and Audit office	9.40	5.00	10.00	9.00	8.10	7.29
Central Statistics organization	467.81	900.00	800.00	720.00	648.00	583.20
Micro Finance Investment Support Facility for Afghanistan	-	-	-	-	-	-
Energy and Mining Sector	8,244.49	7,074.00	9,100.40	8,190.36	7,371.32	6,634.19
Ministry of Mines and petrolum	568.10	698.00	610.40	549.36	494.42	444.98
Ministry of Energy and Water	6,642.70	5,985.00	7,000.00	6,300.00	5,670.00	5,103.00
Da Afghanistan Brishna Shirkat	1,033.70	350.00	1,450.00	1,305.00	1,174.50	1,057.05
Afghanistan Atomic Energy Comission	-	41.00	40.00	36.00	32.40	29.16
Oil & Gas Regulatory Authority	-	-	-	-	-	-
Transport and Communication Sector	16,079.22	16,576.87	17,520.00	15,768.00	14,191.20	12,772.08
Ministry of Communication and Information Technology	1,149.70	600.00	280.00	252.00	226.80	204.12
Afghanistan Railway Authority	2,981.99	4,226.00	4,200.00	3,780.00	3,402.00	3,061.80
Civil Aviation Authority	3,937.95	4,900.00	6,000.00	5,400.00	4,860.00	4,374.00
Ministry of Public Works	7,935.47	6,800.87	7,000.00	6,300.00	5,670.00	5,103.00
Ministry. of Trasport	74.11	50.00	40.00	36.00	32.40	29.16
Housing and Community Amenities Sector	12,524.18	15,379.15	14,719.32	13,247.39	11,922.65	10,730.39
Kabul Municipality	437.59	724.15	579.32	521.39	469.25	422.33
Capital Region Independent Development Authority	999.86	1,900.00	1,400.00	1,260.00	1,134.00	1,020.60
Ministry of Urban development and Housing	4,132.06	4,475.00	4,600.00	4,140.00	3,726.00	3,353.40
Urban Water Supply and Canalization Corporation	669.93	700.00	560.00	504.00	453.60	408.24
Afghanistan Independent Land Authority	251.45	-	-	-	-	-
Ministry of Rural Rehabilitation and Development	6,033.29	7,580.00	7,580.00	6,822.00	6,139.80	5,525.82
Health Sector	4,369.73	5,554.27	5,000.00	4,500.00	4,050.00	3,645.00
Ministry of Public Health	4,369.73	5,554.27	5,000.00	4,500.00	4,050.00	3,645.00
Education, Culture and Religion Sector	2,864.34	2,940.66	2,823.73	2,541.36	2,287.22	2,058.50
Radio and television of Afghanistan	140.20	173.00	200.00	180.00	162.00	145.80
Ministry of Haj & Relagious Affairs	293.98	188.00	150.40	135.36	121.82	109.64
Ministry of Information and culture	104.82	203.00	100.00	90.00	81.00	72.90
General Directorate of Sports and Fitness	58.92	65.00	52.00	46.80	42.12	37.91
Ministry of Education	1,654.97	1,510.87	1,708.70	1,537.83	1,384.05	1,245.64
Ministry of Higher Education	596.58	685.00	500.00	450.00	405.00	364.50
Afghanistan Academy of Sciences	14.88	15.79	12.63	11.37	10.23	9.21
Technical & vocational Ed Dept	-	100.00	100.00	90.00	81.00	72.90
Access to Information Commission	-	-	-	-	-	-
Social and Environmental Protection Sector	977.29	744.50	1,006.30	905.67	815.10	733.59
National Environmental Protection Agency	68.42	128.50	513.50	462.15	415.94	374.34
Ministry of Frontiers and Tribal Affairs	43.23	51.00	40.80	36.72	33.05	29.74
Ministry of Refugee &Returnes	497.61	160.00	140.00	126.00	113.40	102.06
Ministry of women affairs	37.69	35.00	30.00	27.00	24.30	21.87
Ministry of Labor Social Affairs	281.11	250.00	200.00	180.00	162.00	145.80
Independent Directorate of Coordination of Kochies Affairs	49.24	40.00	32.00	28.80	25.92	23.33
State Ministry for Martyrs and Disabled	-	80.00	50.00	45.00	40.50	36.45
Contingency Codes	-	2,780.0	2,880.0	2,592.0	2,332.8	2,099.5
New amendments in the budget due to Covid-19	-	11,763.80	-	-	-	-
Total	**60,863.5**	**75,786.6**	**69,904.6**	**62,914.1**	**56,622.7**	**50,960.5**

Forward Estimate - Development Expenditure	Historic	Current Budget	Outer Years			
Non-discretionary Expenditure	**1398**	**1399**	**1400**	**1401**	**1402**	**1403**
Governance and Pubic Service	3,855.52	7,053.26	5,643.48	3,419.75	3,081.07	2,573.21
Office of the Chief of Staff to the President	-	-	-	-	-	-
Administrative Office of the President	94.63	166.26	129.05	92.84	86.09	71.98
Ministry of State & Paliamentary Affiars	-	-	-	-	-	-
Ministry of Foreign Affairs	16.69	192.50	150.05	108.58	101.34	84.96
Indepdendant Administrative Reforms and Civil Service	996.22	1,000.00	1,000.00	87.84	-	-
Executive Directorate and Secretariat of Ministers Council	-	-	-	-	-	-
Meshrano Jirga	-	-	-	-	-	-
Wolesi Jirga	-	-	-	-	-	-
Independent Directorate of Local Governance	2,747.98	5,694.50	4,364.38	3,130.49	2,893.64	2,416.26
Independent Election Commission	-	-	-	-	-	-
Independent Electoral Complaints Commission	-	-	-	-	-	-
Independent Commission for Overseeing the Implementation of Constitu	-	-	-	-	-	-
Ministrt of Justice	-	-	-	-	-	-
State Ministry for Peace	-	-	-	-	-	-
National Defense and Security Sector	-	-	-	-	-	-
Presidential Protective Service	-	-	-	-	-	-
General Directorate of National Security	-	-	-	-	-	-
Ministry of Defence	-	-	-	-	-	-
National Security Council	-	-	-	-	-	-
Public Order and Safety Sector	61.46	15.90	25.50	9.13	8.62	7.26
Ministry of Interior Affairs	-	0.50	0.50	0.29	0.27	0.23
Attorney General Office	-	-	-	-	-	-
Supreme Court	-	-	-	-	-	-
Afghanistan Central Civil Registeration Authority	-	-	-	-	-	-
Ministry of Counter Narcotics	61.46	-	-	-	-	-
Afghanistan National Disaster Management Authority	-	15.40	25.00	8.84	8.35	7.03
Afghanistan Independent Human Rights Commission	-	-	-	-	-	-
Agriculture and Economic Affairs Sector	7,718.87	7,962.71	5,507.65	3,574.03	2,796.14	2,162.13
Ministry of Economy	135.41	268.69	180.00	101.69	65.58	45.09
Ministry of Agriculture, Irrigation & Livestock	5,752.56	5,892.10	4,000.00	2,740.97	2,215.58	1,741.84
Ministry of Commerece and Industry	-	-	-	-	-	-
Afghanistan National Standard Authority	-	-	-	-	-	-
Ministry of Finance	1,549.14	1,249.51	900.00	457.02	280.83	186.30
Supreme and Audit office	96.52	321.42	227.65	141.69	108.94	83.47
Central Statistics organization	-	-	-	-	-	-
Micro Finance Investment Support Facility for Afghanistan	185.23	231.00	200.00	132.66	125.20	105.42
Energy and Mining Sector	23,606.15	17,819.88	14,867.59	12,613.99	10,732.56	10,517.42
Ministry of Mines and petrolum	13.00	230.00	180.00	129.54	120.78	1,497.41
Ministry of Energy and Water	2,936.63	3,604.48	2,800.00	2,380.00	2,023.00	1,719.55
Da Afghanistan Brishna Shirkat	20,656.51	13,985.40	11,887.59	10,104.45	8,588.78	7,300.47
Afghanistan Atomic Energy Comission	-	-	-	-	-	-
Oil & Gas Regulatory Authority	-	-	-	-	-	-
Transport and Communication Sector	12,293.22	10,353.53	7,230.50	5,622.01	5,164.73	4,308.78
Ministry of Communication and Information Technology	92.76	300.00	80.00	-	-	-
Afghanistan Railway Authority	29.01	100.50	100.50	-	-	-
Civil Aviation Authority	33.50	100.00	50.00	50.00	50.00	50.00
Ministry of Public Works	12,137.95	9,853.03	7,000.00	5,572.01	5,114.73	4,258.78
Ministry. of Trasport	-	-	-	-	-	-
Housing and Community Amenities Sector	17,037.93	22,344.19	15,800.00	11,571.79	10,381.95	8,646.35
Kabul Municipality	1,983.22	2,929.08	1,400.00	1,260.00	1,134.00	1,020.60
Capital Region Independent Development Authority	-	-	-	-	-	-
Ministry of Urban development and Housing	228.41	1,208.47	400.00	686.15	643.04	539.95
Urban Water Supply and Canalization Corporation	-	-	-	-	-	-
Afghanistan Independent Land Authority	223.25	-	-	-	-	-
Ministry of Rural Rehabilitation and Development	14,603.05	18,206.64	14,000.00	9,625.64	8,604.91	7,085.80
Health Sector	11,413.56	6,000.80	7,024.02	3,218.99	2,923.36	2,423.36
Ministry of Public Health	11,413.56	6,000.80	7,024.02	3,218.99	2,923.36	2,423.36
Education, Culture and Religion Sector	2,077.63	1,901.29	1,435.00	874.59	731.95	585.17
Radio and television of Afghanistan	-	-	-	-	-	-
Ministry of Haj & Relagious Affairs	-	0.50	5.00	-	-	-
Ministry of Information and culture	142.13	95.50	30.00	-	-	-
General Directorate of Sports and Fitness	-	-	-	-	-	-
Ministry of Education	973.21	1,014.69	700.00	466.59	373.28	291.96
Ministry of Higher Education	962.29	690.50	600.00	350.57	304.47	247.58
Afghanistan Academy of Sciences	-	0.10	-	-	-	-
Technical & vocational Ed Dept	-	100.00	100.00	57.43	54.20	45.64
Access to Information Commission	-	-	-	-	-	-
Social and Environmental Protection Sector	164.37	119.47	142.00	18.56	13.64	10.19
National Environmental Protection Agency	7.66	-	-	-	-	-
Ministry of Frontiers and Tribal Affairs	17.05	-	-	-	-	-
Ministry of Refugee &Returnes	34.15	36.00	45.00	14.93	10.77	7.96
Ministry of women affairs	3.90	8.00	7.00	3.63	2.87	2.23
Ministry of Labor Social Affairs	101.61	75.47	90.00	-	-	-
Independent Directorate of Coordination of Kochies Affairs	-	-	-	-	-	-
State Ministry for Martyrs and Disabled	-	-	-	-	-	-
Contingency Codes	-	1,603.1	1,603.1	1,442.8	1,298.5	1,168.6
New amendments in the budget due to Covid-19	-	19,068.39	-	-	-	-
Total	**78,155.0**	**94,325.6**	**59,278.8**	**42,365.6**	**37,132.5**	**32,402.5**

5.2 Fiscal Space

Fiscal space is budgetary room that allows a government to provide resources for public purposes without undermining fiscal sustainability. Therefore, fiscal space analysis is conducted within the context of a medium-term expenditure framework that has a comprehensive perspective on the government's expenditure priorities.

The budget for 1399 shows a deficit of Afs 39.5 billion, this is due to the Covid-19 pandemic which has largely affected the revenue collection performance. In year 1400, fiscal space of Afs 895.8 million is predicted to be available to finance new projects and activities. The estimates for years 1401-1403 shows a fiscal space of Afs 35.7 billion, Afs 55.7 billion and Afs 69.9 billion, respectively. To achieve these target estimates, the government would need to undertake expenditure consolidation measures and direct expenditure priorities to those sectors which has the potential to contribute to the economic growth and increase the revenue collections above the current estimates.

Fiscal Space	**Historic**	**Current Budget**	**Proposed Budget**	**Outer Years**		
Afs Million	**1398**	**1399**	**1400**	**1401**	**1402**	**1403**
Total Resources	**398,062.8**	**439,349.7**	**417,748.0**	**439,075.2**	**458,076.1**	**472,888.6**
Domestic Revenue (Including VAT)	207,396.9	177,075.7	193,167.8	224,442.8	252,450.2	275,417.4
Grants	190,665.8	262,274.0	224,580.3	214,632.5	205,625.8	197,471.2
Operational	101,669.4	104,163.0	94,953.0	93,053.9	91,192.9	89,369.0
Development	88,996.4	158,111.1	129,627.3	121,578.5	114,433.0	108,102.2
Discretionary	22,528.5	55,311.1	45,012.1	42,911.5	43,616.4	44,352.8
Non- Discretionary	66,467.9	102,800.0	84,615.2	78,667.0	70,816.5	63,749.4
Expenditures	**420,182.7**	**478,844.1**	**416,852.2**	**403,354.1**	**402,389.0**	**402,950.4**
Operating	281,164.2	308,731.9	287,668.8	298,074.4	308,633.8	319,587.4
Development	139,018.5	170,112.1	129,183.4	105,279.7	93,755.2	83,363.0
Discretionary	60,863.5	75,786.6	69,904.6	62,914.1	56,622.7	50,960.5
Non- Discretionary	78,155.0	94,325.6	59,278.8	42,365.6	37,132.5	32,402.5
Fiscal Space	**(22,119.9)**	**(39,494.3)**	**895.8**	**35,721.1**	**55,687.0**	**69,938.1**
New Development Policies	**-**	**-**	**32,164.9**	**63,615.5**	**73,164.8**	**78,147.4**
Discretionary	-	-	6,828.5	27,314.1	39,480.8	46,800.5
Non- Discretionary	-	-	25,336.4	36,301.4	33,684.0	31,346.9
Deficit/Surplus	**(22,119.9)**	**(39,494.3)**	**(31,269.1)**	**(27,894.4)**	**(17,477.8)**	**(8,209.3)**

Source: MFPD and Budget Projections

The available fiscal space can be used to finance new projects and activities. This is sensitive to both policy decisions by the Government (including on tax rates, contributions to security etc.) and on the macro-economic environment. In year 1400, the new development policies which are identified as the priority projects are expected to be around Afs 32.2 billion. To finance these projects, the government would need an additional amount of Afs 31.3 billion.

5.3 Priority Projects and Programs Identified by the PIM Unit

The priority areas to which the available resources should be allocated are identified by the Public Investment Management (PIM) unit. Based on the Growth agenda, sectors and sub-sectors that have the potential to contribute to economic growth, employment creation, poverty reduction, and promotion of private sector's investments should be selected for investment. The below are main priority areas identified for investments:

- Agriculture & Irrigation
- Extractive Industry
- Infrastructure and Regional Integration
- Domestic Manufacturing.
- Information and Communication Technology (ICT)
- Human Capital Development

The selection of these projects are classified in to projects with one stage process and projects with three stage process. One stage process is for small projects which shall begin with the preparation of a standardized Project Concept Note (PCN). Small projects shall be exempted from delivering the pre-feasibility and feasibility studies and must qualify in the first stage to be classified as executable projects. Three Stage process is used for large projects which shall begin with the preparation of a standardized PCN and require pre-feasibility and feasibility studies. Large projects shall have no exemptions and must qualify in all the three stage-gates, to be classified as executable project.

Around 93 projects and programs that are aligned with the above listed priority areas are identified and approved by the Public Investment Management (PIM) Unit (see the list in the next three pages). From the list of 93 executable projects, 62 projects comes under the one stage projects and 31 projects fall in the three stage process.

A recent analysis by the World Bank on the short-term macroeconomic and job effects of public and private investment provides guidance on how to allocate discretionary development spending among the prioritized projects to attain direct job and growth effects. The analysis focused on efficient investments of the available resources in public administration, defense, education, health, agriculture, construction and electricity sectors.

Incremental effects for increase in investment of USD 1 million (ca. AFN 76.6 million)		
Sector	**GDP**	**Jobs (remuneration)**
Agriculture	2.03	0.75
Public administration, health, education	2.28	1.00
Construction	4.81	1.82
Electricity	7.48	2.92

Source: World Bank – Macroeconomic effects of public and private investment reallocation in Afghanistan. The analysis provides first- and second-order effects, but cannot be used to inform long-term investment decisions as it does not include long-term productivity changes.

Based on this analysis, in the short-term, investments in public sector such as public administration, health, education and agriculture have relatively similar incremental effects in terms of GDP. For each additional USD 1 million invested in these respective sectors, the incremental increase in GDP will be around USD 2 to 2.3 million. In comparison, investments in construction and electricity sectors have the highest incremental effects among public sector investments both in terms of GDP and job effects. As result, investments in construction and electricity sectors will have greater short-term and direct economic impact. However, while doing so, it would be important to also keep in mind the long-term goal of building productivity and human capital across the economy, through sustained significant investment in health and education.[1]

List of priority projects identified by the PIM unit:

Consolidated List of Projects (PIM) 2019												
No	**Implementing Organization**	**Project Title**	**Total Pojects**	**Project Type**	**PIM - Decision**	**Capital Value - USD Million**	**Cash Flow Year 1**	**Cash Flow Year 2**	**Cash Flow Year 3**	**Cash Flow Year 4**	**Project Evaluation Stage**	**Location**
1	**MAIL**	Irrigation & Power generation of Mirza Kalai	12	construction	executable	18.00	10.80	7.20	-	-	Three Stage	Paktia
2		Feasibility study of Electric Power of Kateh Sang Daikundi Province		construction	executable	1.22	0.73	0.49	-	-	Three Stage	Daikundi
3		Designing & Extension of 110 kv single circuit from Sari Pul to Sangcharuk with 60 km & design and installation of substation of Sangcharuk 110/20 kv with capacity of 32 MVA		construction	executable	11.00	1.10	4.95	2.20	2.75	Three Stage	Sari Pul
4		Designing & Extension of 110 kv single circuit from SubStation Dam Qul to Almar & Qaisar with 60 km & design and installation of substations of Almar (110/20 kv) & Qaisar (110/20kv) each with the capacity of 20 MVA		construction	executable	15.00	1.50	6.75	3.00	3.75	Three Stage	Faryab Provicne
5		Designing & Extension of transitional lane 110 kv single circuit from Shirkhan Port to Qalfah Zal with 60 km & design and installation of substations of Almar (110/20 kv) Ql-e-Zal with capicity of 2*10MVA		construction	executable	6.50	0.65	2.93	1.30	1.63	Three Stage	Kundz
6		Designing & Extension of transitional lane 220 kv double circuit Kajkee to central Arzgan (Trinkot) with 80 km & design and installation of substations of Almar (220/20 kv) Trinkot with capicity of 2*16MVA		construction	executable	22.00	2.20	9.90	4.40	5.50	Three Stage	Arzgan
7		Designing & Extension of transitional lane 110 kv single circuit from Shir Khan Port Mazar line to Aqcha Substation with 26 km & design and installation of substations of Aqcha (110/20 kv) with capicity of 2*16MVA		construction	executable	7.00	0.70	3.15	1.40	1.75	Three Stage	Jozjan
8		Construction of Damn by provincein Northern river Areas.		construction	executable	4.17	0.83	2.09	1.25	-	Three Stage	Balkh, Samangan, Faryab, SariPul, Jozjan
9		Construction of Damn by Province in Panj Amar river.		construction	executable	10.73	2.15	5.37	3.22	-	Three Stage	Takhar, Kundz, Badakhshan, Baghlan, Bamyan
10		Construction of Damn by Province in Helmand river.		construction	executable	17.42	3.48	8.71	5.23	-	Three Stage	Zabul, Qandahar, Helmand, Arzgan, Daikundi
11		Construction of Damn by Province in Kabul River.		construction	executable	15.46	3.09	7.73	4.64	-	Three Stage	Loger, Kapisa, Ghazni, Laghman, Khost, Nangerhar, Kuner, Maidan Wardak, Paktia, Nooristan, Kabul, Parwan, Paktika, Panjshir
12		Construction of Damn by Province in Haririod Merghab River.		construction	executable	5.80	1.16	2.90	1.74	-	Three Stage	Badghis, Ghour, Herat, Farah
13	**MOMP**	Project monitoring and evaluation of oil and gas projects	2	Survey Sevices	executable	6.27	1.25	1.88	2.51	0.63	One Stage	Jozjan
14		Drilling five extractive wells in Yateem Taq		Infrastructure , Construction	executable	50.00	10.00	15.00	20.00	5.00	Three Stage	Jozjan
15	**DABS**	220 kV transmission line from Hashemi to Subway Station to Paul Hashemi	8	Infrastructure , Electricity Sub Station	executable	31.90	6.38	9.57	12.76	3.19	Three Stage St	Herat
16		220n kv transmission line from Shendand to Farah		Infrastructure , Electricity Sub Station	executable	31.90	6.38	9.57	12.76	3.19	Three Stage St	Herat to Farah
17		Extended Development Project of 4 Line B in Chetmala Stations, Jebel Al-Saraj, Tapi Ahmed Big & Naghlo Substation.		Infrastructure , Electricity Sub Station	executable	10.00	2.00	3.00	4.00	1.00	Three Stage	Kabul, Parwan, Kapisa
18		Project Strenghtening 500 Substation Arghande		Infrastructure , Electricity Sub Station	executable	30.00	6.00	9.00	12.00	3.00	Three Stage	Kabul
19		Transmission line of 50 kv from Surkhan Uzbakistan to Alwan Plain		Infrastructure , Electricity Sub Station	executable	70.00	14.00	21.00	28.00	7.00	Three Stage	Baghlan
20		Major Equipment Procurement Project		Logistics	executable	10.00	6.00	4.00	-	-	Three Stage	For all provinces
21		SubStation 220 kv Farah Province		Infrastructure , Electricity Sub Station	executable	15.90	3.18	7.95	4.77	-	Three Stage St	Farah Province
22		SubStation 220 kv Herat Province Sheendand		Infrastructure , Electricity Sub Station	executable	15.90	3.18	7.95	4.77	-	Three Stage St	Herat Province District Shendand
23	**CRIDA**	Extension of Chama-e- Hozori Kabul	3	Infrastructure	PPP Ability executable	3.50	2.10	1.40	-	-	One Stage	Kabul
24		Cable Car Project		Services	executable	0.96	0.58	0.38	-	-	One Stage	Kabul
25		Development plan of Complex Hazar Zina		construction	executable	0.82	0.49	0.33	-	-	Three Stage	Qandahar

26		Standardizing crops, promoting new horticulture and vegetable technology in 26 provinces		Agriculture	executable	0.33	0.33	-	-	-	One Stage	Different provinces
27		production, processing, packaging and marketing of marketing of Jujube in Farah Province		Agriculture	PPP Ability executable	5.40	1.08	1.35	1.89	0.81	Three Stage	Farah Province
28		Five-year plan for medical plants to be shared with local communities		Agriculture	executable	39.94	7.99	9.99	13.98	5.99	One Stage	Different provinces
29		Construction of agricultural machinery testing and training center		Agriculture	executable	0.50	0.50	-	-	-	One Stage	Different provinces
30	**MAIL**	construction of canopy for tractors andl mechanical workshop for Agricultural management in parwan provence	9	construction	worth implacable	0.03	0.03	-	-	-	One Stage	Parwan
31		The national design of dates commercial orchards in Afghanistan		Agricultural	worth implacable (PPP)	15.12	1.51	4.53	6.05	3.02	Three Stage	34 provence
32		constration of grenn house and small pool		Agricultural	worth implacable	1.47	0.88	0.59	-	-	One Stage	different provence
33		Allobukharai producation, procesing, packaging and marketing in Ghazni provence		Agricultural	worth implacable (PPP)	10.29	1.03	3.09	4.12	2.06	Three Stage	Ghazni
34		Horticulture Research Development Project		Agricultural	worth implacable	2.96	0.59	0.89	1.03	0.44	One Stage	34 provence
35	**CSO**	survey to collact agricultural items statistics	1	survey	worth implacable	0.68	0.68	-	-	-	One Stage	34 provence
36		MIS system Project		Services	worth implacable	0.22	0.22	-	-	-	One Stage	kabul
37		laboratory supply temperature measurment project and high tonage balance		Services	worth implacable	0.27	0.27	-	-	-	One Stage	34 provence
38		Accreditation o central laboratories of Ansa		Services	worth implacable	0.25	0.25	-	-	-	One Stage	34 provence
39	**NSA**	providing and procuring equipment for construction materails lab	7	Services	worth implacable	1.00	1.00	-	-	-	One Stage	34 provence
40		editing, pubishing and translating of natinal mechanical		Services	worth implacable	0.30	0.30	-	-	-	One Stage	kabul
41		water supply and power/ electricity cods		Services	worth implacable	0.50	0.50	-	-	-	One Stage	kabul
42		providing and procuring for food testing equipment for food testing labs		Services	worth implacable	0.75	0.75	-	-	-	One Stage	kabul
43		constartion of center jameh arezo		construction	worth implacable	0.23	0.23	-	-	-	One Stage	Ghazni
44		constartion of CHC building in Waghaz		construction	worth implacable	0.23	0.23	-	-	-	One Stage	Ghazni
45		constartion of CHC building in Charghi Nawar		construction	worth implacable	0.23	0.23	-	-	-	One Stage	Ghazni
46		constartion of CHC building in jahmeh Rashidan		construction	worth implacable	0.23	0.23	-	-	-	One Stage	Ghazni
47		constartion of Distract Hospital building in qarabagh		construction	worth implacable	0.58	0.58	-	-	-	One Stage	Ghazni
48		constartion of Distract Hospital building in Maqar		construction	worth implacable	0.58	0.58	-	-	-	One Stage	Ghazni
49		Laboratoray supply and temperature measurement project and high tonnage balance project		construction	worth implacable	0.25	0.15	0.10	-	-	One Stage	Faryab
50	**MoPH**	Establishment of seven drug treatment centers in Nimroz, Nuristan, Uruzgan, Zabul, Daikundi, Bamyan and Panjshir provinces	17	Construction	Executable	2.59	0.52	1.16	0.91	-	One Stage	Nimroz, Nuristan, Uruzgan, Zabul, Daikundi, Bamyan and Panjshir provinces
51		Standard DH Construction building in Bergmetal District		Construction	Executable	0.58	0.35	0.23	-	-	One Stage	Noorstan
52		Development of Tony Coate DH Hospital		Construction	Executable	0.32	0.32	-	-	-	One Stage	Kabul
53		Standard DH Construction building in Charl Asyab District		Construction	Executable	0.52	0.31	0.21	-	-	One Stage	Kabul
54		Standard DH Construction building in Kamdesh District		Construction	Executable	0.52	0.31	0.21	-	-	One Stage	Noorstan
55		Standard DH Construction building in Mandol District		Construction	Executable	0.60	0.36	0.24	-	-	One Stage	Noorstan
56		Standard DH Construction building in Noorgram District		Construction	Executable	0.52	0.31	0.21	-	-	One Stage	Noorstan
57		Construction of CHC clinic in Bakwah district		Construction	Executable	0.21	0.21	-	-	-	One Stage	Farah
58		Construction of BHC Clinic in Kariz jalal Village		Construction	Executable	0.14	0.14	-	-	-	One Stage	Farah
59		Construction of BHC Clinic in Lash Jwine District		Construction	Executable	0.14	0.14	-	-	-	One Stage	Farah

60	**MoIC**	Major repairs tomb of Khwaja Mohammad Ghazi in Herat province	3	Construction	Executable	0.06	0.06	-	-	-	One Stage	Herat
61		Major repairs tomb of Zarghona ana in Kandahar province		Construction	Executable	0.11	0.11	-	-	-	One Stage	Kandahar
62		Major repairs of Eidgah Mosque in Sar-e Pol Province		Construction	Executable	0.10	0.10	-	-	-	One Stage	Sare Pol
63	**MoE**	Construction and repair of renovation 24Darul hefaz and Darul Alom	2	Construction	Executable	3.00	0.90	1.35	0.75	-	One Stage	All Province
64		Purchased 32 items of dormitory equipment for 3,000 students		Construction	Executable	0.43	0.43	-	-	-	One Stage	All Province
65	**ASA**	Landscaping and setting up of agricultural research farm irrigation networks	1	Construction	Executable	0.07	0.07	-	-	-	One Stage	Kabul
66	**TVETA**	Construction of 16 class Building for the Multicultural Institute in central Daikundi province	7	Construction	Executable	0.51	0.30	0.20	-	-	One Stage	Daikundi
67		Construction of 16 class Building for the Multicultural Institute in central Laghman province		Construction	Executable	0.46	0.27	0.18	-	-	One Stage	Laghman
68		Construction of 16 class Building for the Multicultural Institute in central Zabul province		Construction	Executable	0.49	0.29	0.49	-	-	One Stage	Zabul
69		Construction of 16 class Building for the Multicultural Institute in centralBalkh province		Construction	Executable	0.40	0.24	0.40	-	-	One Stage	Balkh
70		Construction of 16 class Building for the Multicultural Institute in central Badakhshan province		Construction	Executable	0.44	0.26	0.44	-	-	One Stage	Badakhshan
71		Construction of 16 class Building for the Multicultural Institute in central Maidan wardak province		Construction	Executable	0.45	0.27	0.45	-	-	One Stage	Wardak
72		Construction of 16 class Building for the Multicultural Institute in central Jazjan province		Construction	Executable	0.49	0.29	0.49	-	-	One Stage	Jawzjan
73	**MoT**	Five electronic gates in Kabul province	2	construction	executable	3.69	3.69	-	-	-	One Stage	Kabul
74		One-stop shops construction in Herat, Balkh and Kandahar Province		service	executable	0.10	0.10	-	-	-	One Stage	Kandahar
75	**National Road authority**	Road construction from Shahr Feroz ko - Ghor Province - (74) KM - (North and South corridor part II)	5	construction	executable	26.96	1.35	6.74	12.13	6.74	Three Stage	Ghor
76		Road construction of Dolena District Ghor Province - (124 km)		construction	executable	43.80	2.19	10.95	19.71	10.95	Three Stage	Ghor
77		Road construction of Thiourea Ghor District - Parchman District - (227 km)		construction	executable	76.43	3.82	19.11	34.39	19.11	Three Stage	Farah and Nemroz
78		Road construction from Dolina district of Ghor to Shahrak Ghor (50) km (East and West corridor)		construction	executable	16.01	0.80	4.00	7.20	4.00	Three Stage	Ghor
79		Road Construction from Shahrak Ghor to Chasht Sharif (83) km (East and West corridor)		construction	executable	31.61	1.58	7.90	14.22	7.90	Three Stage	Ghor and Herat
80	**MCIT**	Backup System for (DR Site)	1	service	executable	4.00	2.40	1.60	-	-	One Stage	Kabul
81	**ARA**	Detail, Design and construction of Andkhoy Shabirghan Railway	1	Survey	executable	1.25	0.75	0.50	-	-	three Stage	Balkh and Faryab
82	**IARCSC**	Construction of Administrative Building and Examinations Center in Konar Province	2	construction	executable	0.33	0.20	0.13	-	-	One Stage	Konar
83		Construction of Administrative Building and Examinations Center in Kapisa Province		construction	executable	0.32	0.19	0.13	-	-	One Stage	Kapisa
84	**ICOIC**	Launching the National Survey	1	Survey	executable	0.38	0.38	-	-	-	One Stage	15 Provinces
85	**MOBTA**	Construction of the surrounding wall of Pir Mohammad Kakar High school	3	construction	executable	0.08	0.05	0.03	-	-	One Stage	Kandahar
86		The water distribution system in Pir Mohammad Kakar High School		construction	executable	0.09	0.09	-	-	-	One Stage	Kandahar
88	**IGDK**	Construction of High School hostel Complex in Herat	1	construction	executable	4.16	0.83	1.25	1.45	0.62	One Stage	Herat
89	**MOLSA**	Construction of kindergartens in 10 Provinces (Logar, Daykondi, Ghazni, Urozgan, Jozjan, Panjsher, Ghor, Khost, Sar-e- Pol and Kapisa)	2	construction	executable	2.90	1.74	1.16	-	-	One Stage	10 Provinces
90		Construction of orphanage complex in (5) province (Nanghrahar, Herat, Kundoz, Helmand and Kandahar)		construction	executable	1.45	0.87	0.58	-	-	One Stage	(Nanghrahar, Herat, Kundoz, Helmand and Kandahar)
91	**NEPA**	Implement ESIA on projects to generate revenue & protect the environment	3	service	executable	0.10	0.06	0.04	-	-	One Stage	All Provinces
92		Plastic Reduction		service	executable	0.32	0.19	0.13	-	-	One Stage	5 Provinces
93		Kabul Air Quality Monitoring System		service	executable	5.00	3.00	2.00	-	-	One Stage	Kabul
					Total	**725.90**	**140.95**	**236.22**	**247.78**	**100.03**		

Chapter 6: Risks to the Economic and Fiscal Outlook

This section sets out the risks to the economy, including an assessment of the scale of the risk, the likely outcomes of the risk and potential mitigation strategies.

6.1 Risk Matrix

The table sets out the key risks to the Government's macroeconomic forecasts.

Endogenous Risks: Risks that the government can control.			
Risks	**Likelihood**	**Impact**	**Details**
Macroeconomic: Lower donor support will impact economic activity (and will potentially increase unemployment).	**MEDIUM**	**HIGH**	Afghanistan is reliant on grants support and as per agreement with international partners grants will be reducing and Afghanistan should be increasing reliance on its domestic revenue resources over the medium-to long-run.
Macroeconomic: Security problems cause reduced economic activity in the provinces.	**MEDIUM**	**MEDIUM**	At the beginning of 2018, President Ashraf Ghani proposed peace talks "without precondition" to the Taliban after 16 years of war. Violence continues to affect the economic activity in the country.
Macroeconomic: Continued security uncertainty reduces FDI	**MEDIUM**	**MEDIUM**	Continuation of economic and security uncertainty will likely suppress this further, political uncertainty is another aspect which affects foreign direct investment.
Macroeconomic: Inflation and reduction in the dollar inflows cause a depreciation in the value of the Afghani.	**MEDIUM**	**HIGH**	Afghanistan has the added pressure of difficulties from reducing dollar inflow, and increased demand for foreign currency.
Exogenous Risks: Risks which fall largely outside influence of government policy.			
Risk	**Likelihood**	**Impact**	**Details**
Macroeconomic: Natural disasters	**MEDIUM**	**MEDIUM**	Afghanistan is prone to earthquakes, flooding, drought, landslide, and avalanches. Over three decades of conflict, coupled with environmental degradation, and insufficient investment in disaster risk reduction strategies, have contributed to increasing vulnerability of the afghan people to cope with sudden shock of natural disaster.

Macroeconomic: Low rainfall and inadequate irrigation systems reduces agriculture growth.	**LOW**	**MEDIUM**	Bad weather or drought have significant impact on the agriculture production, as large part of cultivated lands in Afghanistan are dependent on the amount of rainfall/snowfall.
Macroeconomic: Spread of Covid-19 Pandemic.	**MEDIUM**	**HIGH**	The potential spread of pandemic into the coming fiscal year will negatively affect the macro-environment as businesses respond to new regulation; the transaction costs of trading basic commodities raises; trade volume declines; and border movements are restricted.

The table below sets out the key risks to the Government's fiscal forecasts.

Endogenous Risks: Risks that the government can control.			
Risks	**Likelihood**	**Impact**	**Details**
Fiscal: Introduction of the new wage policy will impact expenditure.	**HIGH**	**LOW**	The introduction and implementation of the new wage policy will put pressure on government expenditure.
Fiscal: Efforts to increase execution rates impact the cash availability, and potentially cause liquidity concerns.	**MEDIUM**	**MEDIUM**	Efforts by the Government to continue regular high-level cash management meetings and monitor cash and expenditure throughout the year will help mitigate this.
Fiscal: Exchange rate depreciation increases the cost for Government imports.	**MEDIUM**	**MEDIUM**	The exchange rate has fallen dramatically over the past few years. Exchange rate depreciation over the coming fiscal year could result into higher prices locally, putting pressure on Government expenditures.
Fiscal: Reduced retail activity causes underperformance in BRT collection as well as reduced overall growth.	**LOW**	**MEDIUM**	Retail activity is particularly vulnerable to changes in donor presence, and changes in consumer confidence. Falls in confidence could lead to cut backs on consumables, further potential spread of covid-19 pandemic could significantly reduce retail activity.

Fiscal: State Owned Enterprises	**MEDIUM**	**LOW**	Majority of SOE's can only cover their expenses through their revenues or doesn't function at all, thus bringing opportunity cost to the government.
Fiscal: O&M costs are calculated higher than anticipated.	**LOW**	**MEDIUM**	The costs of particularly donor-determined projects create pressure for the budget in the medium term. This will be a particular issue once we come to assessing the baseline costs of providing services through rolling assessments of Ministries.
Fiscal: Pension payments exceeds pension collections in the medium term.	**MEDIUM**	**MEDIUM**	In 2019, Pension payments have reached to 26.3 billion Afghanis and it is anticipated that Afghanistan will face crisis due to the expanding expenditures resulting from pension payments in the upcoming years in case sustainable solutions are not implemented.
Fiscal: Mismatches between revenue collection and expenditure could cause a cash shortfall.	**MEDIUM**	**HIGH**	A key difficulty for the Government remains the low available cash; this has led to a fiscal crisis in previous years.
Fiscal: Low imports will decrease revenue collection from import taxes.	**MEDIUM**	**MEDIUM**	The poor state of infrastructure, a legal and business framework which is still under development and continued insecurity act as the de facto trade barriers.
Exogenous Risks: Risks which fall largely outside influence of government policy.			
Risks	**Likelihood**	**Impact**	**Details**
Fiscal: Aid reduction	**MEDIUM**	**HIGH**	Reduced aid support, either because of disbursements not made, or conditionality not met by the Government could drastically cut back expenditures.
Fiscal: Covid-19 Pandemic Spread	**MEDIUM**	**HIGH**	The spread of Covid-19 pandemic to coming fiscal year could impact revenue and expenditure substantially. Non-tax and corporate tax collections could take hard hit as transaction costs are increased and restrictions on economic activities are extended.

6.2 Risks Impact Analysis

Covid-19 Pandemic

The COVID-19 outbreak has had severe impact on key macro-fiscal indicators in 2020. The real GDP level is expected to contract by 5 percent whereas the prices of consumer commodities have spiked due to the supply constraints and closures. Afghanistan will observe decline in revenues and increase in expenses to meet the new emergencies with consequent overall deterioration in the fiscal position. The fiscal deficit is expected to rise to Afs 39.5 billion in 2020.

The spread of the pandemic-related measures to the coming fiscal year could subdue overall economic and trade transactions posing major downside risks to the overall macroeconomic and fiscal outlook. Domestic travel restrictions, cancelation of festivals and other events, workplace closures and social distancing practices would reduce trade opportunities, adversely impacting development and consumption. Afghanistan's agricultural exports to the three main trading partners (Pakistan, Iran and India) may be greatly affected by border crossing closures. In addition, dry fruit exports via air corridors to other countries, including China and the Middle East, may see a dramatic decline.

Security Condition

Security condition plays vital role in domestic revenue mobilization. Fragile security situation would undermine confidence and further slow growth. Private sector plays major role in revenue generation. However, unfortunately, due to worsening security situation, the private sector confidence has been low which have resulted in overall low investments. Uncertainty in security situation would significantly affect economic activity and ultimately results in reduced revenue collection and economic growth.

Aid Slowdown

Afghanistan budget is currently highly reliant on grants. International grants continued to finance almost half of our on-budget expenditures. As per agreement with international partners Afghanistan needs to achieve significant self-reliance by year 2024. Current aid pledge expires at the end of 2020 with some major donors signaling intentions to significantly reduce support. This context of uncertainty has fundamental implication for the economy, with growth and investment constrained by weak confidence. Aid reduction will impact revenue on a significant level, dramatically slowing collection as result of how interlinked aid is with the rest of our formal economy.

Agriculture growth

Afghanistan's agriculture sector is mainly reliant on level of precipitation. Agriculture is vital to Afghanistan's economy. Afghanistan's higher exposure and sensitivity to climate change is expected to severely impact rural livelihoods, food security and the overall economy. The overall fiscal risk 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 drought, earthquakes, landslides, avalanches, and floods must be financed from the current available sources. Cabinet of Afghanistan is expected to approve dry land agricultural policy to increase the resilience of agriculture-based livelihood activities against climate change and strengthen management of water rights.

Pension Expenditure

The pension expenditure has been gradually increasing over time putting pressure on the government overall expenditures. In 2019, pension payments reached to Afs 26.3 billion and it is anticipated that Afghanistan will face crisis due to the expanding expenditures resulting from pension payments in the upcoming years. The Cabinet have approved to establish a distinct Public Pension Fund to separate the finances of the pension system from the annual budget implementation cycle, i.e. to collect employee and employer 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. Additionally, further reform measures are in place to design investment management practices for the Public Pension Fund, likely with the use of government issued Sukuk instruments that would prevent a fiscal cash flow shock when the government will start paying its full contribution obligation to the Public Pension Fund as an employer.

State-Owned Enterprises (SOEs)

Afghanistan has multiple SOEs operating in the areas of energy, mining, 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. The activities of state-owned enterprises, state-owned companies and state-owned commercial banks are regulated as per the concerned laws and by-laws. 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 categories (B) and (C). In addition to the fact that some enterprises do not have enough revenues, they bring about opportunity costs to the government. A number of state-owned enterprises, due to their low capacity, cannot submit their financial statements in a timely manner. Considering this, the continued functioning of these enterprises, while there is no understanding about their financial situation, could pose serious fiscal risks to the government.

Public-Private Partnerships (PPPs)

Government of Afghanistan have implemented public-private partnerships (PPP) on the top of macroeconomic policy with an aim to deliver services and develop infrastructure projects, attract private sector entrepreneurship skills, use public properties and assets efficiently and to exploit capital existing in the private sector and banks in effective manner.

Below are the details of major public-private partnership projects that could impose contingent liabilities on the Government of Afghanistan:

1. Sheberghan Gas Power Project

Bayat Power will implement a gas to energy project in Jawzjan province of Afghanistan for which contract period is 5 years and 9 months.

Following are contingent liabilities to the project during the contract period:

- Termination compensation of category (A), to the project company in the event of the termination of the power purchase agreement due to failure of Da Breshna Sherkat and occurrence of political events.
- Compensation category (B), to the project company in the event of the termination of the power purchase agreement.

2. Kandahar 30 MW Solar Payment Security

77 and Zolaristan companies have entered into power purchase agreement with GoIRA for installment and generation of 30 MW solar power for 20 years in Kandahar province.

Following are contingent liabilities to the project during the contract period:

- Compensation due to occurrence of political and non-political force majeure events.

3. Mazar IPP Payment Security

Mazar independent power plant will be established in Balkh province, the GoIRA signed a power purchase agreement with the project company for 20 years.

Following are contingent liabilities to the project during the contract period:

- Compensation category (A), due to the failure of Da Afghanistan Breshna Sherkat and the occurrence of political force majeure events.
- Compensation category (B), due to the failure of Project Company and the occurrence of political force majeure events.

4. Kajaki Hydro Power Project

77 construction company will install a turbine which will expand the capacity of the project by 100 MW, the project company will operate the facility for 20 years and will transfer it to GoIRA at the end of the contract.

Following are contingent liabilities to the project during the contract period:

- GoIRA will provide a severing guarantee to secure the payment and performance obligation of purchaser (Da Afghanistan Breshna Sherkat) under power purchase agreement. This guarantee will be provided by the World Bank on behalf of the GoIRA.

Chapter 7: Government Spending Priorities

Afghanistan has made extraordinary progress since the international community has come to the country in 2001. The international community has been helping the country to rebuild its institutions, infrastructure and economy. Significant advancements have been made in the fields of education, health, public and basic services. GDP per capita increased from USD 180 in 2002 to almost USD 521 in 2018 (World Bank 2020). The economy grew by an average of 9 percent over 2003-2013 due to the large aid inflows and improvements in the agricultural sector, but the growth rate declined to 2.3 percent after the security transition in 2014 and 1.3 percent in 2015, and somehow improved in 2016 and 2017.

Afghanistan still faces many challenges. More than half of population lived below the poverty line in 2018 which likely to have worsened during 2019. The economy is expected to contract by up to 5 percent in 2020 due to the negative impacts of the COVID-19 virus. Lockdown measures to control the spread of the virus are worsening economic vulnerability of already poor households. Increase in general price level, contraction in per capita income, return of thousands migrant workers to the country, closure of borders and higher unemployment rate due to the COVID-19 are the factors that will cause higher poverty rate in the short and medium term. Afghanistan ranked 170 out of 189 countries in human development index in 2019. Only about third of its population is connected to the power grid. The main highway network is still under developed. Domestic resources are scarce and not used effectively. Foreign aid to Afghanistan is expected to decline in near future while the country remains unable to fund its development. As a result, Afghanistan is expected to face an increasing financing gap in the medium and long term.

The government has been trying to find new approaches to development financing and to reach self-reliance. Afghanistan National Peace and Development Framework (ANPDF) was the first plan developed by the government in collaboration with international partners, private sector and civil society to reach this goal. The ANPDF is a five-year strategic plan (2017-2021) which provides guidance to the government and other stakeholders to lay the foundations for the future prosperity. It sets out an economic, political and security outlook that provides a context for the Government's approach to development. The ANPDF articulates government's immediate and long-term development priorities, highlights key reforms, and outlines priority investments needed to achieve development goals in the critical areas.

Recently, the Ministry of Finance developed "Afghanistan Self-reliance Accelerator Package" (ASAP). The package presents priority programs that can move the country from dependency on aid money to a sustainable growth. The first phase of ASAP is comprised of an USD 8.7 billion investment package across three key sectors, agriculture, power transmission and housing to help accelerate the process of achieving economic self-reliance. Both GoIRA and private sector investment will fund the package.

The World Bank has also proposed a package on a range of possible economic initiatives to help consolidate and sustain peace following political settlement with the Taliban. It was decided in the Geneva Ministerial Conference on Afghanistan in November 2018 that the international community has to develop a specific actions program, consistent with fundamental values and existing frameworks, in support of broad-based program of economic initiatives which would advance: a post-settlement return of Afghan capital; increased Afghan and foreign investment; job creation; and enhanced regional economic integration. The objectives of the Post-Settlement Economic Initiatives include:

- Articulation of potential economic benefits of peace to all parties;
- Supporting a common understanding of potential priorities following a political settlement;
- Providing an input to planning processes.

ASAP and Post-settlement economic initiatives both support the goals of ANPDF through specific programs. ASAP is mostly emphasizing on hard infrastructure projects and is much more ambitious. Post-Settlement Peace Initiative Package combines investment in human capital and social transfers along with almost the same infrastructure projects as given in the ASAP but somehow less ambitious in aims.

7.1 Afghanistan National Peace and Development Framework

The Afghanistan National Peace and Development Framework (ANPDF) is a roadmap towards accomplishing self-reliance over the 2017-2021 period. This document was developed through consultations between the government and its partners, including civil society, private sector and international partners. The Framework presents long-term development narrative for Afghanistan by providing clear guidance to government, and other stakeholders. The ANPDF's goal of self-reliance is to be achieved by creating a broad-based economy that generates employment, ends corruption and violence, and establishes the rule of Law.

The ANPDF describes the short-term and long-term development priorities of GoIRA, identifies key reforms, and outlines the priority investments required in crucial areas to achieve development goals. It sets the economic, political and security context for the government's strategy to development, which is based around agriculture, extractive industries and trade.

Afghanistan's GDP rises and falls with the performance of its agriculture, which is a source of jobs for at least 40 percent of the population and makes up a significant share of our current exports. Inherently a volatile sector, growth in Afghan agriculture is hampered by under-investment in water resource development, poor quality inputs such as seed and fertilizer, natural resource degradation, and weak systems for domestic and export marketing. Increasing agricultural productivity requires significant multi-sectoral investments in irrigation resources, water management, improved planting materials, and best practices. Value chains must be developed to provide producers with greater incentives to invest. Increased wheat and cereal production, and expanding the depleted livestock herd, will provide food security for the country. Improved urban-rural linkages that provide inputs to buy, process and store farm products will lead to enhanced urban and transformative rural development.

Extractive industries such as mining and hydrocarbon development will play an increasingly important role as drivers of economic growth. Their sustainable development through transparent tendering and effective monitoring is of particular importance to Afghanistan. Recent reports highlight the urgency of a strong state presence in this sector to stop smuggling and other forms of illicit expansion. The mining sector has vast potentials to generate revenue. However, a weak regulatory environment, slow investment approvals, and corruption have thus far impeded development in this sector and have prevented ongoing exploitation of smaller and medium-sized mines from delivering significant revenues.

This framework envisages a fiscal strategy that will guide budgetary allocations to support policy priorities and ensure the sustainable management of public investment. The government need a strong domestic tax base to help support its move away from donor assistance as a means of driving growth. In recent years, we have witnessed relatively mild shocks such as the security and political transition cause a budget crisis and lead to austerity measures at the precise moment when Afghanistan needed more public investment.

The ANPDF underlines economic growth as a requirement for development, which might be difficult to accomplish without a functional peace agreement and sustained donor engagement and funding. To build a competitive economy, Afghanistan needs to advance regional integration, improve governance, and transform its productive sectors to effect growth-inducing reforms and investments. The Afghan government is required to adopt pro-active policies and support programs, particularly for labor-intensive agricultural cash crops and processed goods. WTO-allowed procedures should be used to prevent Afghan producers from being driven out of the market by cheaper imported products. The plan also identifies the need to support returnees and the internally displaced through initiatives which realize their potential human capital contribution.

In addition, the ANPDF put emphasis on larger government ownership of the development process, a more equal government-donor partnership, and a bigger share of international aid provided as discretionary budget assistance. The main tools for implementation of the strategy are the national budget and ten National Priority Programs (NPPs). Each prioritized sector have to produce an investment pipeline aligned to outcomes proposed by the Cabinet and in line with available resources. As part of the annual budget process, a detailed sectoral vision for each NPP, along with a ranked set of interventions, quantified outputs and a reviewed budget, have to be included in investment proposals which needs to be presented by each ministry to the Cabinet and the High Economic Council. Most NPPs may take longer than five years to reach their full development. By starting the feasibility and design work, the government can gain a sense of required financial and organizational resources, provide a framework for sequencing, and set priorities based on informed assessments of costs. This provide line ministries with the tools they need to prepare detailed designs and costings.

The ANPDF is frank regarding the continued role of donor financing in delivering government priorities. With continued constraints to the availability of domestic fiscal resources, international assistance will play a key role in ANPDF implementation. The ANPDF outlines a clear strategy for working with donor agencies and the international community, with a strong emphasis on mutual accountability.

Effective implementation of the programs remains heavily contingent on security and domestic and international political developments. Political factors have previously constrained the pace of implementation of government programs in Afghanistan and political instability could undermine achievement of the ANPDF objectives.

7.2 Self-Reliance Accelerator Package

The self-reliance package is GoIRA's tactical approach to infrastructure development that aims to quickly track the process towards self-reliance. The first phase of the package proposes investment of USD 8.7 billion to accelerate achieving economic self-reliance. The projects within the package are planned to improve economic development, increase living standards of Afghans, create employment and promote regional stability and peace. The projects in the First Phase of the Package are spread across three sectors: (i) Agriculture and Irrigation, (ii) Electricity Transmission and Distribution, and (iii) Urban Housing and Development of Commercial and Industrial Properties.

The projects for the Package are selected and prioritized on the basis of key criteria that Ministry of Finance has recently developed. Effective implementation of the package would raise government revenue, generate employment, and increase economic growth. The benefits of the package and economic self-reliance goal cannot be achieved only through foreign aid. The government needs to find new sources to finance this series of stimulative measures and other development expenditures i.e. public borrowing and PPP arrangements.

The projects in the three sectors were selected because they are financially viable and provide a short-term economic stimulus, while facilitating longer-term economic growth.

Agriculture and Irrigation

Agriculture was selected as one of the main growth sectors presented at the Geneva Conference on Afghanistan in 2018. Agriculture and agribusiness present substantial opportunities for growth, job creation, and developing Afghanistan's export market. The sector currently employs approximately 44 percent of the total workforce in the country.

Projects selected in agriculture sector for the Package benefit Afghanistan's economic and financial situation in two ways:

(i) Expands the variety of cash-crops that are tailored to Afghanistan's arid climate.
(ii) Improves irrigation systems.

Nine projects have been selected in agriculture sector, which requires investment of USD 3.46 billion.

Electricity Transmission and Distribution

Only 28 percent of Afghan households have access to electricity. Improving access to electricity throughout Afghanistan is central to economic development. This will decrease the costs of doing business, remove barriers to private sector development, and promote better living standards for Afghan citizens. As part of this package, Da Afghanistan Breshna Sherkat (DABS), is aiming to invest USD 1.29 billion in three types of projects to expand electricity supply over the coming years:

(i) Transmission lines,
(ii) Substations and
(iii) Network distribution

This investment will lead to a 37 percent increase in energy availability in Afghanistan.

Urban Housing and Developing Commercial and Industrial Properties

Afghanistan is experiencing rapid urbanization, which necessitates the expansion of urban housing stock and investment in urban business infrastructure. As more internal migration from rural areas to urban areas takes place, GoIRA needs to ensure that adequate services are provided to individuals, while businesses are provided with business centers and industrial parks that can leverage the benefits of agglomeration economies.

Through this package, the Ministry of Urban Development and Land (MUDL) is aiming to invest USD 1.66 billion for 17 projects. The investment package in this sector covers two types of projects:

(i) Projects with rental return, and
(ii) Projects with sales return.

7.3 Post-Settlement Economic Initiatives

The Post-Settlement Economic Initiatives is a document developed by the World Bank, which reflect a series of potential actionable economic programs and projects that could be pursued by the donor community following any political settlement to help resolve the development challenges such as poverty, exclusion, lack of opportunities, aid dependency, weak human capital, and poor governance. These initiatives support and are additional to ongoing reform, project, and program activities. The initiatives are organized under four key themes:

(i) Protecting and investing in people;
(ii) Improving rural livelihoods;
(iii) Attracting and securing private investment; and
(iv) Strengthening international linkages.

These key themes are aligned with the priorities identified in the Geneva Ministerial Conference on Afghanistan in November 2018.

Protecting and Investing in People

Afghanistan has made substantial progress in education and access to health since 2001. Despite these improvements, many children, especially girls, remain out of school, only 43 percent of children and youth under the age of 24 actively attend school. There would be considerable potential inside a stable Afghanistan to boost access to services, and reverse recent declines caused by instability. Increased resources would be required for key government programs along with continued measures to strengthen the government institutions that provide such services.

Improving Rural Livelihoods

Agriculture has traditionally dominated Afghanistan's economy and contributed for a large part to its growth. This sector has expanded steadily up to 2012. Major gains from improved security following any political settlement are likely to arise from accelerated and expanded implementation of existing government and donor-financed programs. These include efforts to develop agri-business parks, expand access to irrigated land, improve farmer capacity, and strengthen institutional systems for the management of water and land rights.

Attracting and Securing Private Investment

Major gains have been made since 2001 in setting an enabling business environment. A legal and regulatory framework has been developed, respecting investors' rights, enables contracting practices, and protects property rights. On the other hand, substantial challenges remain. Afghanistan is still ranked 167th out of 190 countries and business growth remains constrained by limited access to credit. Afghanistan has been unable to attract large-scale international investment in the extractives sector, despite vast proven natural resource deposits. Sustained peace could provide enormous opportunities for increased investment.

Strengthening International Linkages

Afghanistan is now a member of the World Trade Organization, a signatory to a range of regional trade facilitation agreements, and a recipient of very substantial international aid flows. Political settlement and improved security may provide a window of opportunity for Afghanistan to deepen its engagements and take full advantage of any preferential trade or investment relationships.

The full set of proposed economic initiatives would require financing of around USD 5.2 billion to 2024. Costs could be met through: i) new grant resources from any source (bilateral, multilateral, regional); or ii) redirecting current government or development partner expenditures. Implementation of proposed initiatives is expected to (i) increase access to health care and education; (ii) increase employment opportunities; (iii) attract private sector investment; and (iv) provide social safety net and increase resilience.

The Post-Settlement Economic Initiatives report was produced last year to guide overall thinking on how the international community could consolidate and sustain peace following a political settlement. The programs proposed in the document have never been fully financed, and do not constitute a specific investment plan for development partners. The contents of this report provides program options, rather than a specific plan or strategy.

Afghanistan is a country suffering from conflict, fragility, and insecurity. All these plans and/or documents begin with a wish for peace and reduction in conflict. Political instability, weak governance, poverty and security are the key challenges. The ANPDF's approach to development is built around agriculture development, private sector development, extractive industries, energy, infrastructure, and trade. The ASAP prioritize the planned investment in agriculture and irrigation, urban development and housing, and in electricity transmission and distribution sectors. These projects are designed to spur economic development, raise living standards and provide new jobs for Afghanistan's growing labor force and to achieve self-reliance in long term. The prioritized post-settlement economic initiatives are organized under key four themes; investing in people, improving rural livelihoods, attracting domestic and foreign investment and strengthening international linkages. These initiatives could be implemented to help consolidate and sustain any political settlement and supporting long-term economic growth.

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