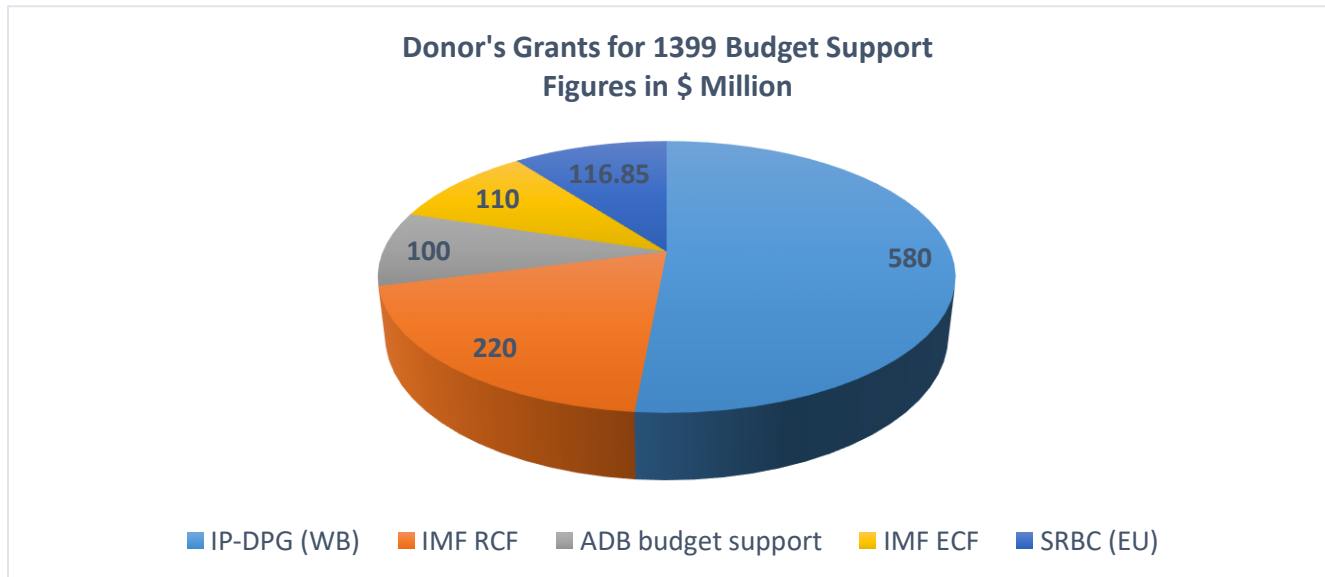


Islamic Republic of Afghanistan

Ministry of Finance

Achievements of the Office of Deputy Minister of Finance in 2020

2020 was a challenging fiscal year worldwide, particularly in Afghanistan, where Gross Domestic Product (GDP) contracted by 5%. The applied countermeasures for COVID-19 resulted in full lockdown, business closures, and consequently reduced the domestic revenue by Afs 31 billion and increased the government expenditure by Afs 36 billion. In other words, the total fiscal pressure on the Afghan government from its discretionary resources was Afs 67 billion. To overcome the mentioned burden, the Ministry of Finance sought the support of international development partners to assist Afghanistan in this challenging time. The below pie chart illustrates the donor's generous financing support through either discretionary resources and budget support.

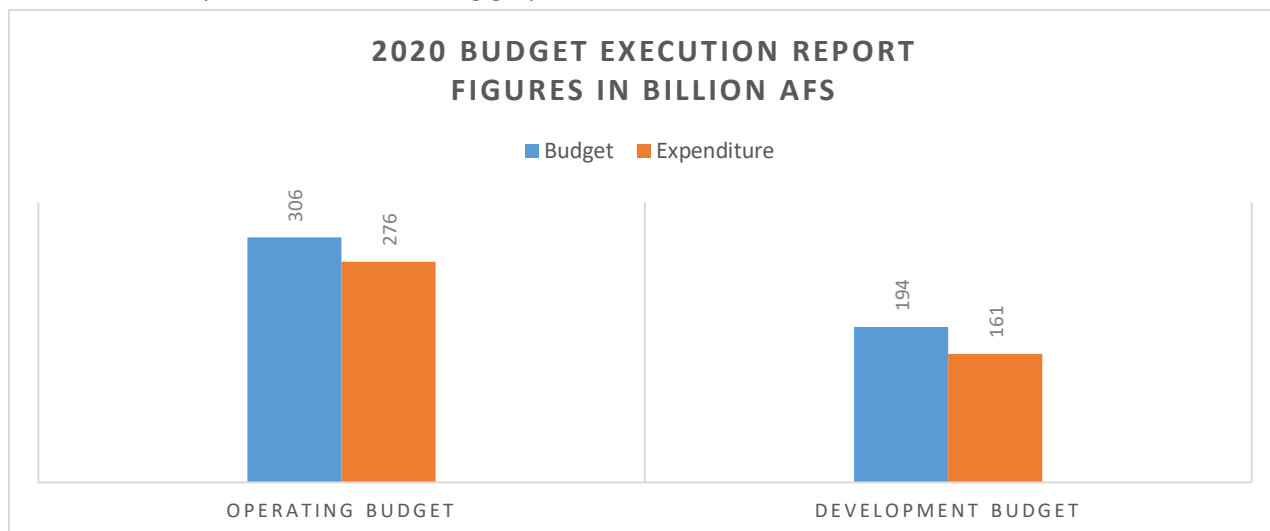


Covid-19 Impact on the National Budget, Adjustment, and Mid Term Budget Review

In Western Afghanistan, Herat Province, the first case of Covid-19 was detected on February 24, 2020, while Afghanistan's national budget was approved in early January 2020. Therefore, the Ministry of Finance needed to undertake a massive readjustment of its already approved budget to a new reality, health, social protection, and macrocosmic stability. The fiscal adjustments were made in two phases initially. The first adjustment was AFS 6.6 billion, and the second one was AFS 21 billion. During the mid-term budget review, a third adjustment was made, which was worth Afs 15 billion. These adjustments were made from the discretionary resources. However, the non-discretionary donor's aid was added to the mentioned financing.

Budget Execution:

Despite the Covid-19, the Government spent Afs 437 billion of the national budget in FY 1399. The operating budget and development budget execution rate was 90% and 83%, respectively. The detailed execution is explained in the following graphs.



1400 National budget

The Ministry of Finance has already prepared the national budget for the fiscal year 1400 and submitted it to the Parliament for approval. To undertake this budget exercise, the Ministry of Finance's senior officials traveled to half of the country, 17 provinces to consult with the residents, civil society, private sector, and academia to incorporate their opinions and needs in the national budget.

Based on the mentioned consultations, the Ministry of Finance allocated Afs 3 billion for small-sized projects at provincial levels. These resources to be given to all 34 provinces based on population size, poverty rate, and development status. These projects will be identified by the people and will be implemented at the provincial level.

In the development budget, the main priority is given to water management, such as the construction of small, medium, and large dams and irrigation canals, and job creation programs, transport, energy, health, and education infrastructures, modernization of customs, digitization of the government systems and processes.

Treasury Reserve Fund

Despite the unforeseen Covid-19 Pandemic response cost and revenue shortfall, the Ministry of Finance managed to promptly pay the Government's operating expenses, including salaries of the civil servants, the security sector personnel. Furthermore, the Government was able to timely pay for contractors of the development projects and programs they implemented during the fiscal year. The Government maintained Afs 30.2 billion balance in the Treasury Single Account at the end of the fiscal year 1399, while the IMF requirement was only Afs 10 billion as the treasury reserve.

2020 Reforms implemented through Incentive Program of the World Bank

The Government of Afghanistan implemented the following ten reforms as part of the Incentive Program with the WB/ARTF, which improved transparency and accountability in the Government and enabled the business environment for the private sector to attract Foreign Direct Investment. It also enhanced Afghanistan's ranking in the Doing Business Index Report (DBI).

1. E-Payments & Mobile Money
2. Civil Service Reform including new policy for Customs and Procurement Cadres
3. Business Environment Reform (Connecting the Revenue Administration System(SIGTAS) with the ACBR's system of the Ministry of Commerce
4. Land Reform, including new law for land's survey, development of Cadastral procedures, and the land's bank specification.
5. Extractives industries, including hydrocarbon regulation
6. Power Utility Reform
7. Contingency fund reform
8. Public Investment Management
9. O&M
10. Audit law

Rapid Credit Facility (RCF) Program with the International Monetary Fund

The Ministry of Finance successfully negotiated and finalized the RCF program with the IMF for macro-economic stability and fiscal sustainability through which the IMF board of directors approved USD 220 million credit as the budget support disbursed in 2020.

Extended Credit Facility Program (ECF) with the IMF

The Ministry of Finance productively negotiated and finalized the ECF program with the IMF for the upcoming 3.5 years for fiscal sustainability and Macro-Economic Stability. Ministry of Finance is going to receive USD 370 million through this program. Out of the mentioned figure, USD 110 million transferred to the Treasury Single Account of the Ministry of Finance in 2020.

As part of the program, the Government of Afghanistan and the IMF agreed to implement the following reforms:

1. The National Procurement Authority (NPA) will revise the procurement regulations required for all public procurements, starting November 1, 2020, collecting beneficial ownership information in bidding

documents and online publication of beneficial ownership information of all entities contracting with the Government within 30 days of contract signing.

2. The Ministry of Finance to sign a contract with advisors to support the merger of Bank-e-Millie Afghan and New Kabul Bank. The advisory support scope will cover financial and operational due diligence, integration of technology and business processes, and other relevant issues.
3. The Government to submit to Parliament the draft 2021 budget that contains the deficit of 2.2 percent of GDP and is broadly in line with the macroeconomic framework agreed under the ECF.
4. Afghanistan's Revenue Department adopted targeted and graduated methodologies to increase timely filing and payment compliance rates for the large taxpayers to increase the large taxpayer revenue stream's reliability.
5. Enact amendments to the Da Afghanistan Bank law submitted to Parliament in 2017.

Pension Fund, Reform and payment to pensioners

The Ministry of Finance paid the remuneration of all 145,791 pensioners during the fiscal year despite the covid-19 pandemic extra expenditure. The biometric process was started to identify the eligible pensioners and the biometric of 50,528 pensioners were completed during the fiscal year. As it was one of the critical milestones toward transparency and accountability in the payment process.

Ministry of Finance also established the Customer Service Center, pension's call center (145) and also digitized all pensioners' documents, developed the digital system to improve service delivery. It is considered a significant step toward transparency and accountability. The pension fund was also established in FY 1399 to use the fund efficiently and transparently. It will create an opportunity to invest the pension fund in the local banks, which will reduce financial pressure on the Government.

Geneva Conference:

The Government of Afghanistan together with the Government of Finland and UNAMA organized the Geneva Conference on 23-24 November 2020. The Government presented the Afghanistan National Peace and Development Framework 2 (ANPDF2) and Afghanistan Partnership Framework (APF), which was agreed upon and endorsed by the Development partners. The donors' have pledged USD3.3 billion annually for the coming four years (2021-2024).

Development Cooperation Dialogue (DCD) 2020:

The Ministry of Finance conducted DCD-2020 with the International Development Partners to discuss strategic issues relating to each donor's portfolio in Afghanistan by highlighting achievements, challenges and opportunities. Furthermore, efforts were made to ensure alignment with government priorities and fulfill commitments made for aid effectiveness, particularly those agreed under the Geneva Mutual Accountability Framework (GMAF) and other mechanisms. The Development Cooperation Report will be published soon.

German Government to Government Negotiation

Negotiations on development cooperation between the Government of the Islamic Republic of Afghanistan and the Federal Republic of Germany were held virtually on September 30, 2020. In which the German Federal Ministry for Economic Cooperation and Development (BMZ) committed to invest EUR 240 million for financial and technical cooperation in 2020. In addition, the German Foreign Office supported Afghanistan up to EUR 180 million for stabilization purposes and EUR 19.4 million for humanitarian assistance in 2020.

CAREC Ministerial Conference and National Focal Point Meeting

The Afghanistan Ministry of Finance chaired the CAREC National Focal Point Meetings and Ministerial Conference in 2020 to bring 11 CAREC member countries together to strengthen regional cooperation, regional connectivity, and integration, and restore the economy post-covid-19 in the region. The Ministerial Conference also endorsed the CAREC Result Framework and CAREC 2030 Tourism and Gender strategy.