

جمهوری اسلامی افغانستان
وزارت مالیه



د افغانستان اسلامي جمهوریت
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Islamic Republic of Afghanistan
Ministry of Finance

Macro-Fiscal Policy Department - MFPD

FY-1400 Revenue Analysis

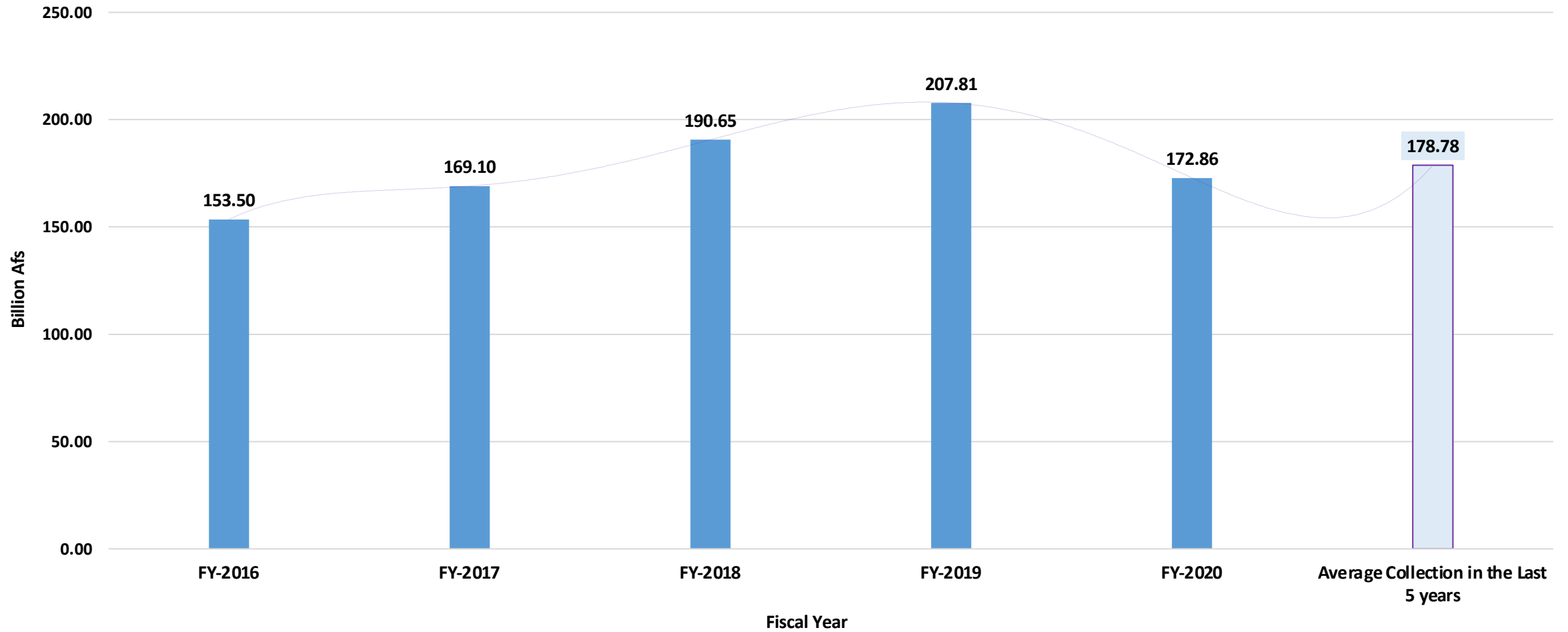
February 10, 2021

Key Points About the Domestic Revenue of Afghanistan

- Historically, less than 50% of the national budget is financed through domestic revenues, however, there has been a considerable increase in the collection of the domestic revenue in the last few years, but still, there are more to be done for sustaining the improvements in domestic revenue in our journey toward self-reliance.
- In 2019, despite the uncertainties associated with the presidential election and high insecurity, the Ministry of Finance was able to collect around Afs 207.8 Billion in domestic revenues including Afs 26 billion DAB transfer and other one-off revenues.
- In 2020, fiscal performances were dramatically impacted by the COVID-19 pandemic that caused public expenditures to increase by Afs 30+ billion and domestic revenue to fall by 16% (actual Afs 172.8) compared to the initial target of Afs 208 billion.
- For 2021, we have estimated Afs 216.5 billion target for domestic revenues. With a 3.6% economic growth projected in 2021, structural reforms in ARD/ACD, and strong political intention toward domestic revenues mobilization, the GoA will be able to reach that target.

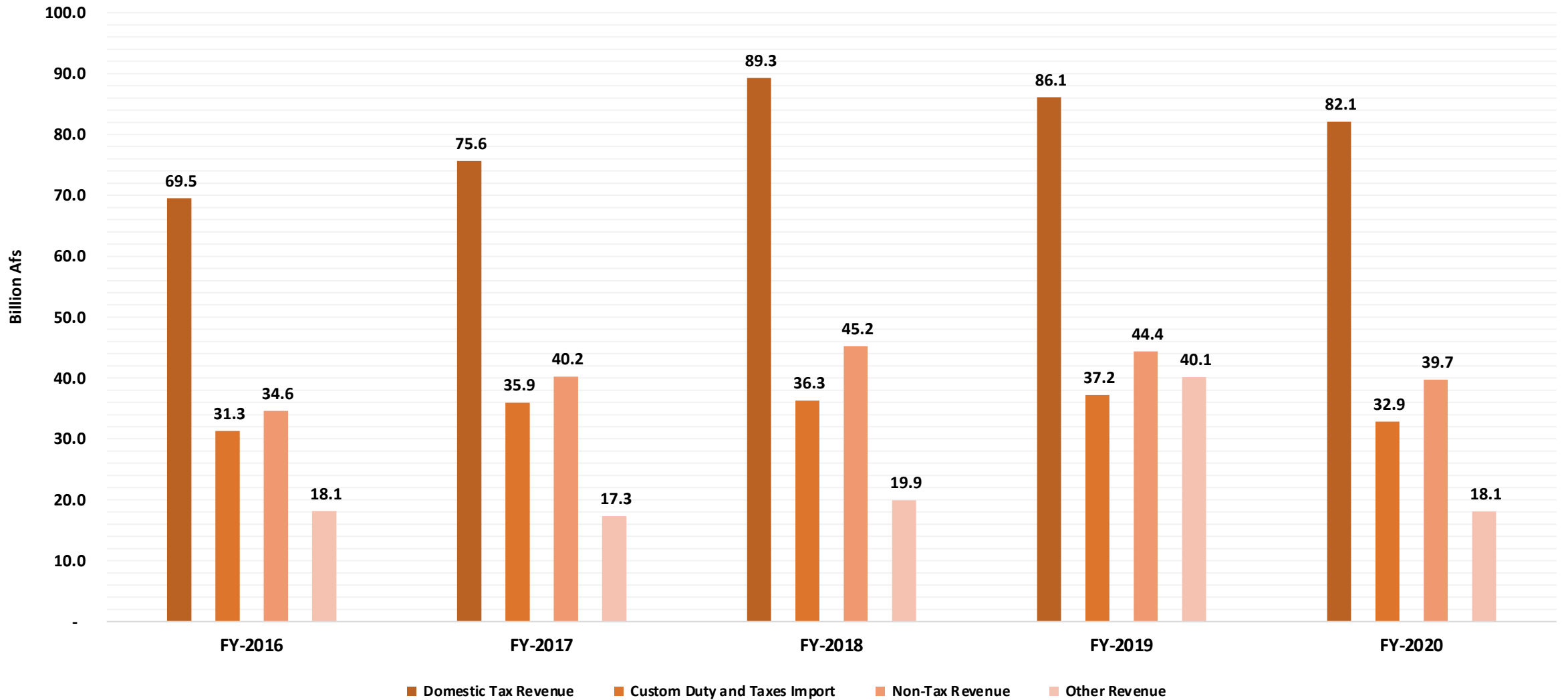
Historical Actual Domestic Revenue Collection FY-2016-20

Actual Revenue Collection in the last five years (Including One-Offs)

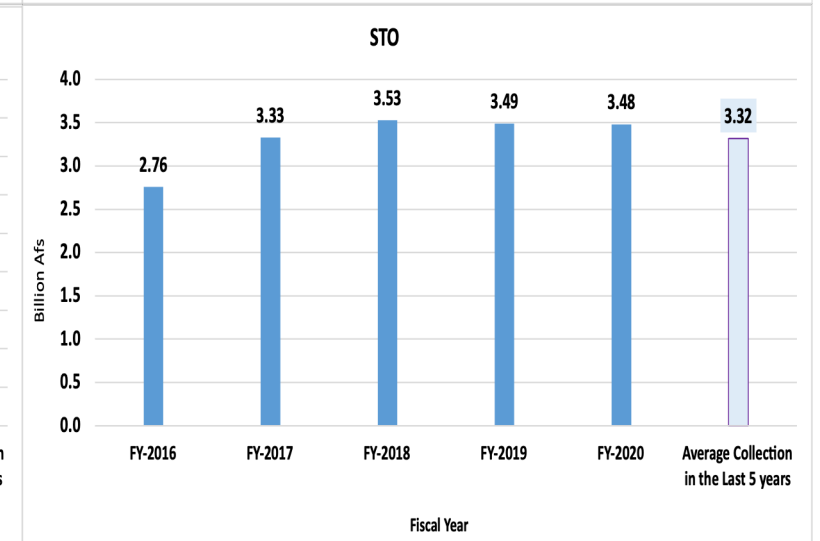
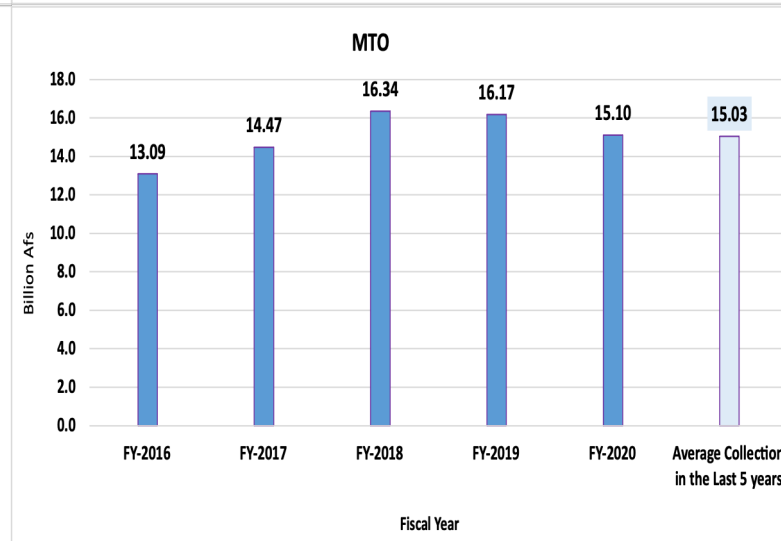
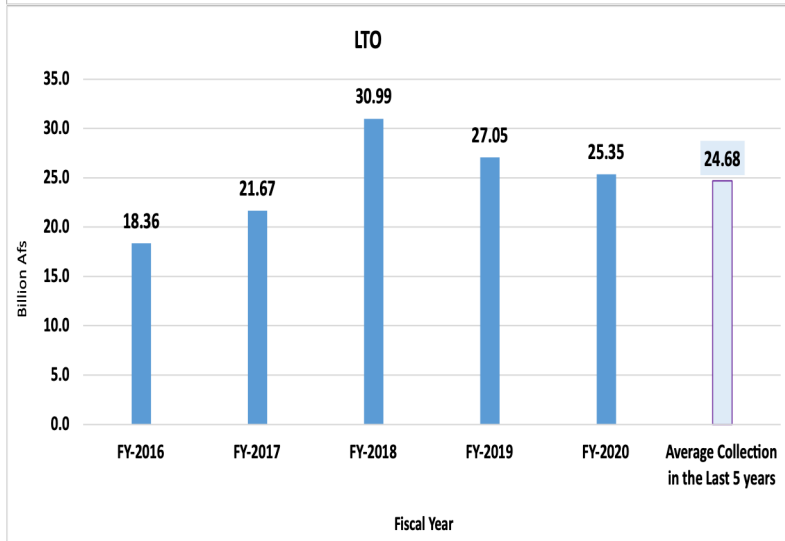
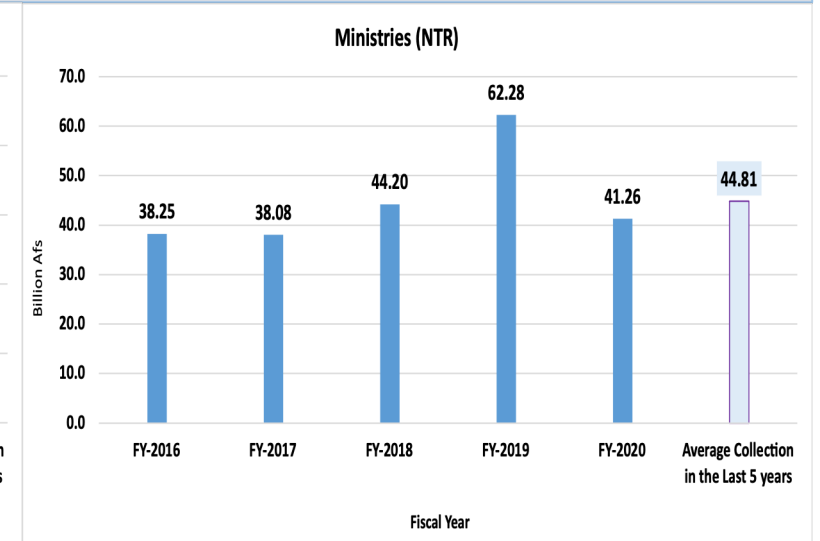
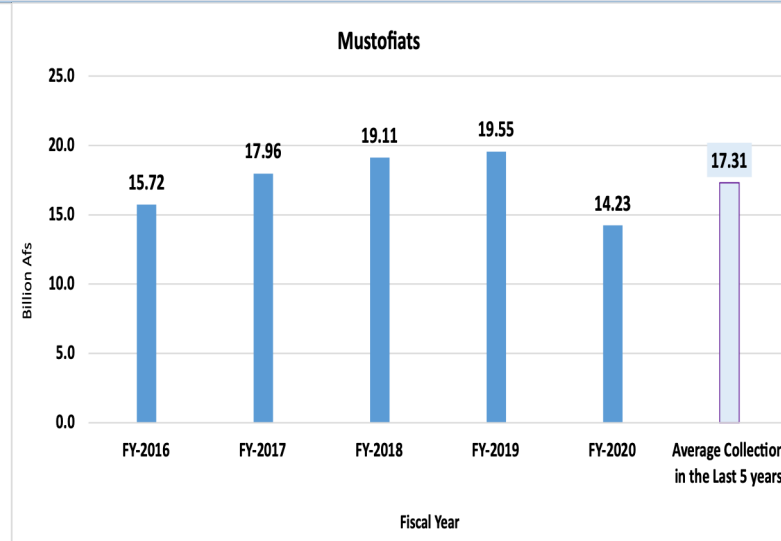
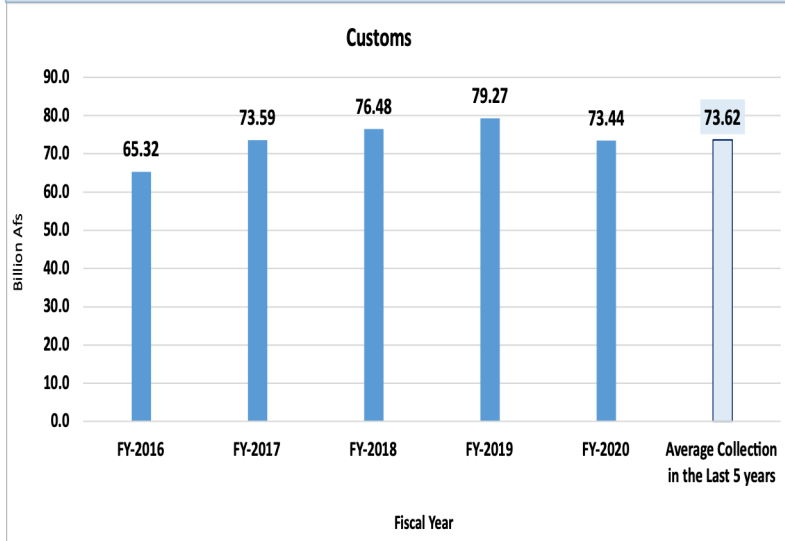


Revenue Trends by Major Code for Understanding its Composition

Revenue Collection Trend by Major Code Classification (FY-2016-20) (Including One-Offs)



Collection by Agencies for Understanding Historical Performances FY-2016-20



FY-2021's Revenue Targets and Its Comparison with FY-20/19

Agency (ACD + ARD)	Comparison of 2021's targets with the actual revenue collection in 2019 (Baseline year)				
In Billions AFN	Actual - 2019	Actual - 2020	Targets - 2021	% Diff – 2021 vs 2019	Main Reasons
Customs Department (ACD)	79.27	73.44	101.37	27.8	Investment in modernization of systems, high potential for improvements by controlling leakages.
Revenue Department (ARD)	128.54	99.42	115.13	-10.4	No confirmed one-offs, deduction of social contributions
• Provincial Mustofiats	19.55	14.23	19.28	-1.3	Deduction of social contributions
• Central Ministries	62.28	41.26	42.69	-31.4	Deduction of One-offs
• Large Taxpayer Office (LTO)	27.05	25.35	30.14	11.4	LTO centralization and addition of other companies
• Medium Taxpayer Office (MTO)	16.17	15.10	16.47	1.8	Economic expansion and reforms
• Small Taxpayers Office (STO)	3.49	3.48	3.99	14.3	Potential for expanding the coverage of STO
• Audit department	-	-	2.57	N/A	Newly established
Total	207.81	172.29	216.50	4.1%	

FY-2021's Revenue Target Methodology & Assumptions



Descriptions:

- FY-2019 is considered as the baseline year for this projection in terms of revenue composition.
- There are no considerable new measures applied, VAT has been delayed and social contribution will be deposited into the independent pension fund account.
- One-off revenues are not considered in this projection, however, a total of Afs 7.7 Billion is expected from 4G license issuance, and there might also be some transfer from DAB e.g., Afs 8-10 Billion according to ARD officials.
 - **Note:** DAB announced Afs 28 Billion shortfalls in their net profit in 2020 compared to the previous year, but from the previous year (2019) they only transferred Afs 12.7 Billion to MoF!
- GDP growth is projected to be 3.6%; Inflation is expected to be moderate about 4.3%, and Population growth will be 2% in 2021.
- Efficiency differs depending on the nature of the variables and its sensitivity to shocks and economic events. Currently, we are not using general equilibrium to reflect all the inter-sectoral & inter-temporal economic behaviors.

FY-2021's Revenue Target Methodology & Assumptions ...

- Considering a 3.6% expected economic growth in 2021, we projected Afs 216.5 billion target for the domestic revenue in 2021 which shows a total of 20% & 4.1% increase compared to the actual revenue performance in 2020 & 2019, respectively.
- Normalization in Covid-19 related countermeasures in 2021, expected gradual recovery from the pandemic, and the negotiated Covid-19 vaccination programs will further mitigate the socio-economic impacts of the pandemic and thus contribute to domestic revenues.
- Ongoing international trade, implementation of trade facilitation agreements with trade partners, and open borders in 2021 that were fully/partially closed in 2020 due to the pandemic will play a major role in mobilizing customs' revenues,
- Structural reforms implemented in ARD and ACD including promoting of DG ARD & ACD positions to above grade level, and the USD 50 million investment in customs modernization and installation of the digital scanner, and scales are factors that should immediately improve revenue performances.

FY-2021's Revenue Target Methodology & Assumptions ...

- Recruitment of ARD and ACD personnel through a transparent recruitment mechanism of IARCSC are those factors that already proved to be very effective for revenue improvements, **Transparent recruitment means transparent revenue collection!**
- Establishment of the high revenue board at the Administrative Office of the President (AOP), and strong political intention for domestic revenue mobilization by the President,
- Implementation of reforms associated with the ECF program of the IMF, IP programs of the World Bank, and Afghanistan Partnership Framework (APF) of the Geneva donors conference,
- Establishment of the independent audit department at the ARD that will increase the processing volume of more than 7,000 pending tax files of M/STO that will consequently increase the revenues,
- Probable/anticipated success in the ongoing peace negotiations with the Taliban.

2021's Revenue Realization Plan

Agencies	Targets		Quarter 1			Quarter 2			Quarter 3			Quarter 4		
Million Afs	Annual	Other	Jadi	Dalwa	Hout	Hamal	Sawar	Jawza	Saratan	Asad	Sunbula	Mezan	Aqrab	Qaws
• Customs	101,369	Monthly	8,447	8,447	8,447	8,447	8,447	8,447	8,447	8,447	8,447	8,447	8,447	8,447
	47%	Quarterly	25,342			25,342			25,342			25,342		
• Ministries	42,687	Monthly	1,743	1,987	2,385	3,449	4,703	4,390	2,219	2,919	2,647	4,711	5,361	6,173
	20%	Quarterly	6,114			12,542			7,785			16,246		
• Mustofiats	19,282	Monthly	1,233	1,515	1,720	1,622	1,215	1,488	1,347	1,289	1,794	1,679	2,012	2,369
	9%	Quarterly	4,468			4,324			4,430			6,060		
• LTO	30,141	Monthly	2,440	1,649	2,506	2,642	1,807	2,409	2,455	1,876	2,565	3,448	2,491	3,854
	14%	Quarterly	6,595			6,859			6,896			9,792		
• MTO	16,467	Monthly	1,333	901	1,369	1,443	987	1,316	1,341	1,025	1,401	1,883	1,361	2,105
	8%	Quarterly	3,603			3,747			3,767			5,349		
• STO	3,987	Monthly	323	218	331	350	239	319	325	248	339	456	329	510
	2%	Quarterly	872			907			912			1,295		
• Audit Dept	2,567	Monthly	208	140	213	225	154	205	209	160	218	294	212	328
	1%	Quarterly	562			584			587			834		
Grant Total	216,500	Monthly	15,158	13,275	17,417	16,665	16,851	18,278	16,111	16,036	18,803	21,610	21,006	25,290
	100%	Quarterly	45,850			51,794			50,950			67,906		

2021's Revenue Performance

Agency	Comparison of Actual Revenue Performance with Targets in FY-1400				
In Billions AFN	Annual – Target	YTD – Target	YTD – Actual	Difference	% Difference
Customs Department (ACD)	101.37	14.67	10.66	-4.01	-27.34%
Revenue Department (ARD)	115.13	12.86	9.73	-3.14	-24.38%
•Provincial Mustofiats	19.28	2.59	1.46	-1.13	-43.71%
•Central Ministries	42.69	3.54	2.73	-0.80	-22.74%
•Large Taxpayer Office (LTO)	30.14	3.82	3.74	-0.08	-2.12%
•Medium Taxpayer Office (MTO)	16.47	2.09	1.24	-0.84	-40.40%
•Small Taxpayers Office (STO)	3.99	0.51	0.55	0.05	9.69%
•Audit department	2.57	0.33	0		
•Unclassified			0		
Total	216.50	27.53	20.39	-7.15	-25.96%

Recommendations for Improvements

- Significant efforts should be made to control leakages in customs revenue collection by:
 - Automation of systems and process simplification in a prudent way,
 - Exchange of cross-border customs information with major trading partners of Afghanistan using trade facilitation agreements and other best practices,
 - Implementation of job rotation plans on random basis on central and provincial levels,
 - Strengthening custom intelligence and the legal framework for better targeting corrupt official, and taking legal actions in a transparent and timely manner,
 - Imposing high tariffs on those importing goods, that are locally produced with no supply constraints/limitations,
 - Enhancing service delivery by MoF's central departments to ARD/ACD.
- Different types of Non-Tax Revenue should be re-assessed and adjusted with pro-poor considerations:
 - Administrative fees including driving license fees, visa fees, transit fees, weapon licenses, etc.
 - Incomes from the capital property including rent on agriculture and non-agriculture land, government housing, etc.
 - Reassessment of royalties, fines, and penalty in mines and extractive industry,
 - Reassessing fines and penalties on the legal and natural persons.
 - **Note:** MFPD included NTR analysis of MoIA and MoFA in its FY-1400 plan, and will work jointly with ARD, fees that do not impact poor will be increased e.g., Driving license fees, etc.

Recommendations for Improvements ...

- Profitability assessment of Non-profitable SOCs/SOEs, state owned banks, and requiring them to develop medium-term development/commercialization/marketing strategies if profitable.
- Expanding the tax base by broadening the coverage of the economy while keeping the tax system efficient and effective, that can include:
 - Imposing taxes on income earned by national players and actors/actresses,
 - Enforcing tax law by direct involvement and coordination of security forces in central and provincial levels,
 - Imposing taxes on other taxable activities that are outside the current tax base of Afghanistan,
- Controlling leakages in the telecommunication sector specifically the 10% top-up cards revenue and enforcing all telecommunication companies by law to get connected with Real-Time Data Management System (RTDMS) of ATRA.
- Collecting government arrears that are pending with state agencies and the private sector for a long-time, e.g., Roshan telecommunication company, Public Protection company, etc.

Recommendations for Improvements ...

- Accelerating VAT implementation and at the same time upgrading the qualification criteria for large tax-payers by obliging them to comply with international financial reporting standards.
- Strengthening the accounting and audit system of the country by regulating the private/public accounting profession in Afghanistan through an independent regulatory body e.g., CPA Afghanistan.
 - **Note:** CPA Afghanistan should become an independent revenue generating body by granting membership and accreditation services to firms/individuals engaged in audit and accounting profession in Afghanistan.
- Connecting ARD systems with NPA/AFMIS contract management system for getting timely contractual information to avoid tax evasion in withholding taxes in government contracts.
- Implementation of customs cadre considering competency-based tests and interview to attract competent and qualified personnel in ARD/ACD
- Establishment of one stop-shop systems in central departments and provinces and establishing VIP tax service solution by providing different types of paid memberships to tax-payers.
- Developing Tax payment mobile applications that are linked with banks and other financial institutions.

Thank You