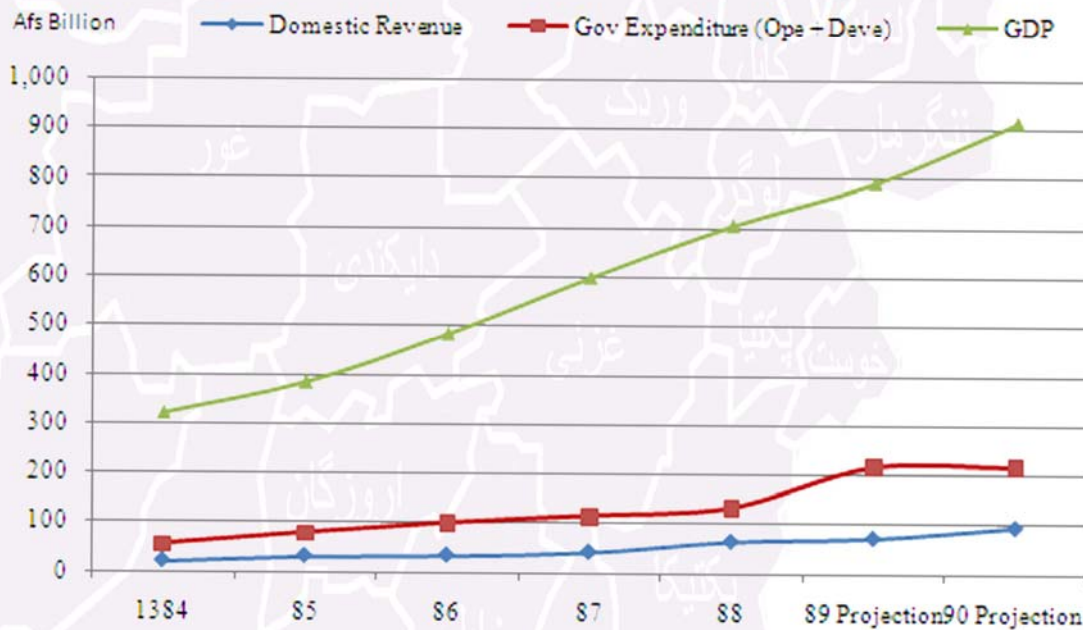




Islamic Republic Of Afghanistan Ministry Of Finance

1390 Citizens Budget



Citizens' Guide to the 1390 National Budget

What is the Citizens' Guide?

This guide explains, in simple and easily understood language, the 1390 Budget Statement presented to Parliament by the Minister of Finance on 5 February 2011. The guide is designed to help the general public understand the budget by explaining what revenues the Government proposes to collect and how they will be spent for the 1390 fiscal year, running from 22 March 2011 to 21 March 2012.

This guide is being produced for the first time in Afghanistan, as part of the Government's commitment to openness and transparency.

What is the National Budget?

The National Budget is a public account of how the Government proposes to collect and spend revenues over a one year period. As there are never sufficient funds to fulfil all requests and demands, the budget sets out expenditure priorities in accordance with Government priorities. The budget must be approved by Parliament before it can take effect. Essential features of the national budget are:

- At the beginning of each year, the Minister of Finance announces Government spending plans for the next year in the National Budget.
- The budget describes how the Government proposes to raise money and how that money will be spent on the delivery of services.
- The money is allocated to ministries and agencies, who determine the allocation of funds between provinces and districts.

Who is Responsible for the National Budget?

Article 63 of the Public Finance & Expenditure Management Law states that the Ministry of Finance is responsible for the organisation, management and implementation of the budget.

Afghanistan National Development Strategy (ANDS)

- The ANDS is the Government's strategy for poverty reduction, improving security, economic growth and improving the quality of life of all citizens in Afghanistan. It was approved by President Karzai and the Cabinet in April 2008.
- As the National Budget is the central tool for implementing Government policies, the 1390 budget continues to allocate financial resources in accordance with the ANDS priorities.
- *A selection of key 1389 Government achievements is listed at the end of this document.*

Economic Outlook

- The Government's goal is to facilitate sustainable economic development, job creation, an efficient allocation of resources and the fair distribution of wealth.
- While the security situation has hampered the Government's efforts to promote economic growth by creating hurdles for the private sector, we estimate real economic growth will be 7.4% in

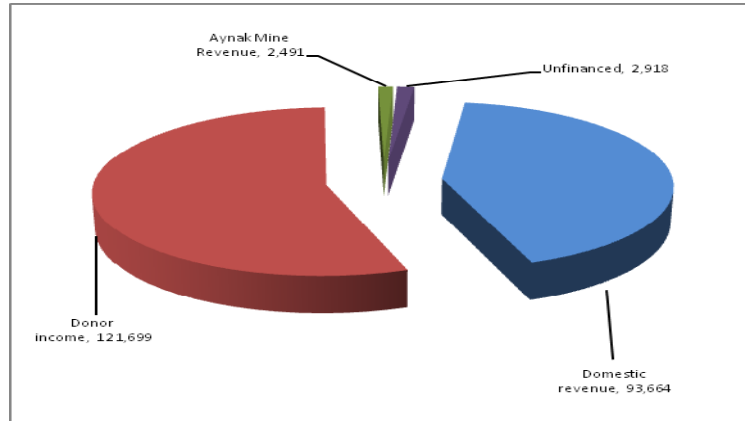
1390. Previously, the real economic growth was 20.4% in 1388 and in 1389 it went down to 8.5%. Average inflation¹ is forecast at 7.8%, with the rate falling to around 5% by year end.

- Assuming the security situation improves and the mining sector begins to play its role in economic development, real economic growth should remain stable in the medium term.

1390 National Budget

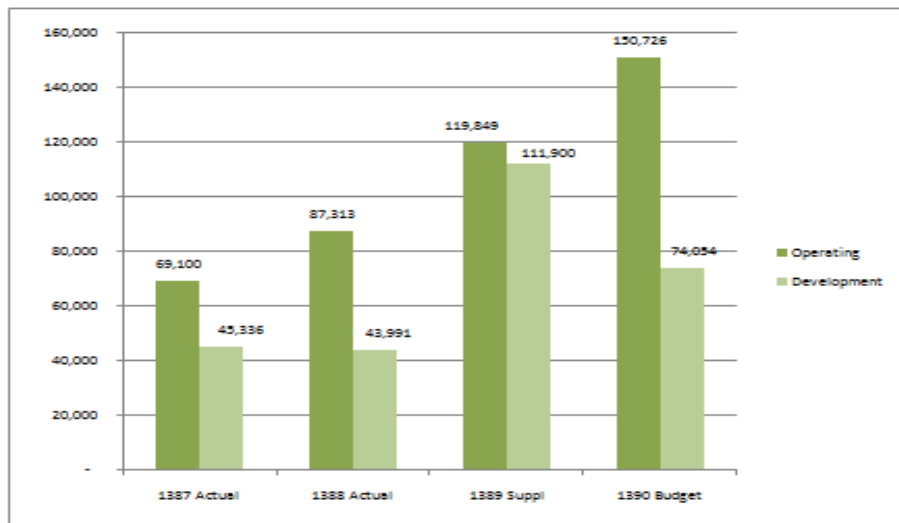
1390 revenue figures are summarised below:

1390 Revenues – Afs million



The following graph shows the growth in operating and development budgets between 1387 and 1390:

Operating² & Development³ Budgets 1387 – 1390 – Afs million



¹ The rate at which the general level of prices for goods and services is rising.

² The part of national budget used to finance day to day recurrent expenditures e.g salaries.

³ The part of budget used to finance one time, investment type expenditures such as construction of roads and schools.

Domestic Revenue⁴

- Raising sufficient domestic revenues to finance expenditure is a significant objective of the Government. Domestic revenues fund Government priorities, facilitate implementation of the ANDS, finance public services and reduce dependence on donors. However, in the medium term, improved revenue collection will be mainly used to replace security sector expenditures currently funded by donors.
- Rising from a low base, domestic revenues have increased significantly in recent years and are now forecast at Afs 93.6 billion for 1390. Actual 1387 and 1388 revenues amounted to Afs 41 billion and Afs 63 billion respectively.
- The rapid increase in domestic revenues can be attributed to both strong and sustained economic growth and a series of tax reforms initiated by the Ministry of Finance. The Government is working to increase revenues from the mining sector, though this will not happen quickly. For 1390, the Government expects to receive Afs 2.5 billion under the terms of the Aynak copper mine contract. The main fiscal objective of the Government is to achieve fiscal sustainability which means that slowly and gradually the government is able to finance all its recurrent expenditures from its revenue sources.
- In 1389 and 1390 only around 61% could have been covered. However beyond 1390, it is expected that more than 72% of the recurrent expenditures will be financed by domestic revenues. Afghanistan will be fiscally sustainable once all the operating expenditures are totally covered by the domestic revenues and it is expected that by 1394 the country will achieve such a state.

Donor Funding

- At present, the majority of assistance provided by the international community is not directed through the Government's core budget.
- Within the 1390 core budget, donor grants will finance Afs 66.7 billion (44.4%) of the Afs 150.7 billion operating budget. In the medium term, up to 1392, given the increased costs arising from continued recruitment to the Afghan National Army and Afghan National Police, the Government expects to rely on donors for up to 30% of the operating budget.
- The core development budget is financed almost entirely by donor grants. In 1390, donor funding will amount to Afs 54.9 billion (74.2%) of the Afs 74.1 billion total development budget. Another Afs 2.98 billion (4%) is yet to be financed.

Operating⁵ Budget

- The Operating Budget is mainly used to finance day to day recurrent expenditures, including civil servant wages and the goods and services used for service delivery.
- The 1390 Operating Budget amounts to Afs 150.7 billion, representing an increase of Afs 29.9 billion or 28% compared to 1389.
- The Operating Budget increase is mainly explained by the continued increase in security sector personnel and the ongoing reform of civil service which is aimed at strengthening the civil service by attracting and retaining competitive people in the civil service. Overall, wages account for 75% of the operating budget.
- Afghan National Army numbers are expected to increase by 42,000 and Afghan National Police numbers by 12,000 in 1390. Security is a major Government priority and the continued increase

⁴ Taxes and fees collected by Government and used to finance daily expenditure.

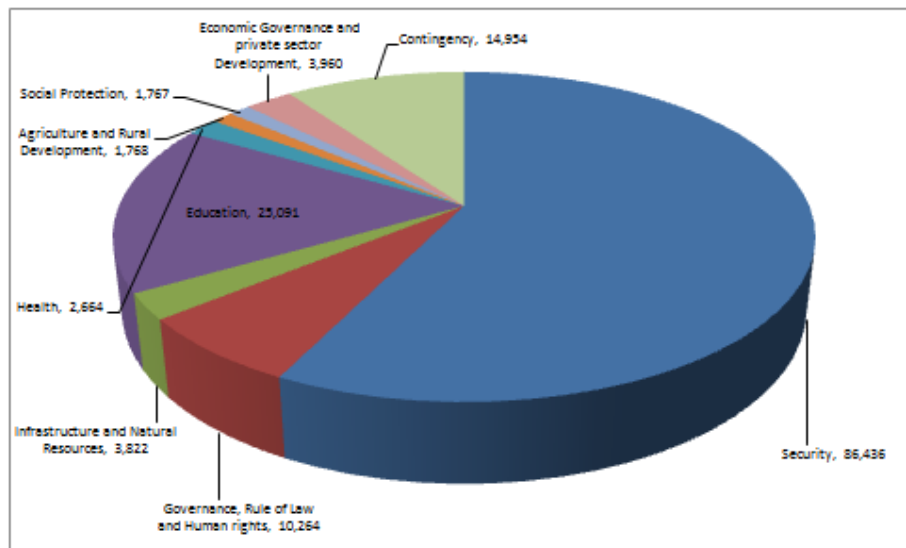
⁵ See footnote 2

in security sector personnel now means that the security sector accounts for 57.3% (Afs 86.4 billion) of the total operating budget.

- Education accounts for 16.6% (Afs 25.1 billion) of the operating budget.

The following chart shows the operating budget by sector:

1390 Operating Budget by Sector – Afs million



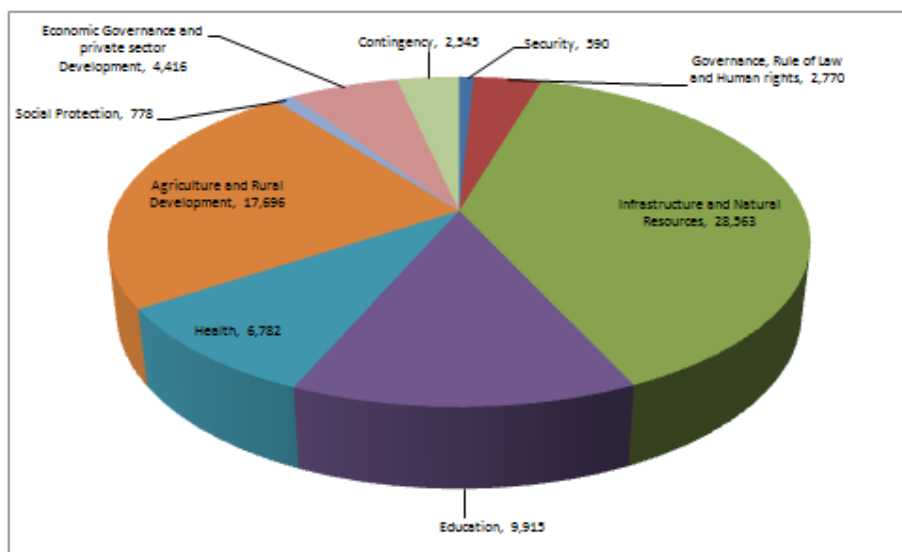
Development⁶ Budget

- The 1390 Development Budget amounts to Afs 74.1 billion, which is 35% lower than the 1389 budget. The decrease reflects a history of low implementation rates by ministries and agencies. For the first 9 months of 1389, the rate was less than 50%. Strenuous efforts have been made to set a more realistic budget for 1390 that will ultimately result in better implementation of the projects and higher execution rates throughout the year. The Government expects improved implementation rates to result in increased donor funding in future years
- 38.4% (Afs 28.5 billion) of the development budget is allocated to building and improving the country's infrastructure. Investing in infrastructure improves the quality of life of our citizens and has the added benefit of creating jobs.
- Rural communities are the heart and soul of our nation and 24% (Afs 17.7 billion) of the development budget is allocated to the agriculture and rural development sector.
- In support of the Government's goal to bring education to all Afghans, 13.3% of the development budget will be spent on education, including the construction of education facilities, training of teachers, curriculum development and distribution of textbooks.

⁶ See footnote 3

The following chart shows the development budget by sector:

1390 Development Budget by Sector – Afs million



Selection of Key Achievements 1389

Education

- Number of general education students increased from 7.0 million in 1388 to 7.4 million in 1389.
- Increase in number of general education schools from 11,812 in 1388 to 12,390 in 1389.
- Increase in number of teachers from 161,749 in 1388 to 170,000 in 1389.
- Printed curriculum for 93 text books and teachers' guides for classes 7, 8 and 9.
- Increase in number of students in teacher education centres from 33,000 in 1387 to 50,000 in 1389, of which 40% are female.
- 500,000 adults enrolled in literacy courses, of which 58% are female.



Health

- Number of graduated midwives, including community midwives, increased from 939 to 1,780 in 1388-1389.
- Number of centres providing immunization services increased to 1,210 and number of vaccinators increased to 2,500.

Agriculture & Rural Development

- Distributed 6 million fruit and non fruit tree saplings across the country.
- Distributed 19,000 tonnes of improved wheat seed and 56,000 tonnes of fertilizer.



- Established 7,000 hectares of new orchards.
- 485 potato storages constructed.
- Supplied 1.3 million doses of animal vaccines.
- 47 water points constructed in drought affected areas of the north, benefiting 7,000 people.
- 682 schools provided with access to safe water.
- 145 rural energy projects implemented, providing energy to 28,462 families.
- 19,629 Jereebes of canals constructed and rehabilitated.

Social Protection

- 8,200 men and women, including those with disabilities, provided with vocational training.
- 9 vocational training centres reactivated (9 provinces).

Governance, Rule of Law & Human Rights

- Reconstruction of detention centres in several provinces.
- Free legal aid provided to 1,856 indigent people.
- Constructed 8 mosques, 5 Hajj buildings and 3 Hajj camps.
- Support to 30,000 Hajj pilgrims.

Infrastructure & Natural Resources

- Construction of 220 KV transmission lines from Hairatan to Pul e Khumri and Kabul.
- 655 irrigation schemes rehabilitated, benefiting 686,414 hectares of agricultural land.
- Signed agreement on construction of gas pipeline from Turkmenistan to Afghanistan, Pakistan and India.
- Rehabilitation of Mazar-e-Sharif airport.
- Completed construction of 210 km road from Ankhoy to Qaisar.
- Construction of 75 km railway from Hairatan to Mazar-e-Sharif



Security

- Number of Afghan National Police increased from 96,800 in 1388 to 122,000 in 1389.
- Afghan National Army numbers increased from 120,000 in 1388 to 150,000 in 1389.
- Established regional training centres for the Afghan National Army.

Economic Governance & Private Sector Development

- 281,000 Government employees now paid direct to their bank accounts.
- Shirkhan border free zone established in Kunduz province.

Spending Pressures, Risks & Uncertainties

The Government is facing various spending pressures, such as the growth in security forces numbers, the transfer of security sector spending currently funded by donors, the reform of civil service and the introduction of new pension regulations for civil servants, military, martyrs and disabled. Another uncertainty is the maintenance and operating costs associated with the huge infrastructure investment of recent years - e.g. maintenance of roads, fuel for generators and doctors' salaries. These pressures will postpone the date when operating expenditures can be financed from domestic revenues. It is therefore essential that the Government continues its efforts to increase domestic revenues.