

**The 1354 State Budget of Afghanistan --
Elements and Comments**

by

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The 1354 State Budget of Afghanistan

I. Summary and Comments

By almost any criterion, Afghanistan's 1354 (1975/76) State Budget is the country's most ambitious budget ever. Total expenditures are projected to increase by 67 percent from the estimated level of 1353 (1974/75),^{1/} with development expenditures projected to rise by 130 percent and ordinary expenditures by 32 percent.

Ordinary Expenditures of Government Ministries and Agencies are budgeted to increase by afs 847 million or 20 percent this year, compared to a 6 percent increase budgeted last year. Over half of the increase is allocated to the Ministries of Defense and Interior (Police), 19 percent to the Ministry of Education, 6 percent to the Ministry of Foreign Affairs, and 5 percent to the Ministry of Public Health. The allocation to these Ministries accounts for over 80 percent of the increase budgeted for all ministries and agencies.

External Debt Servicing will amount to approximately \$26 million in 1354 (1975/76), down from about \$41 million in 1353 (1974/75). The decrease is a result of the debt service relief provided by the USSR. Debt servicing will amount to only about 12 percent of projected export earnings in 1354 (1975/76).

Other Ordinary Expenditures (subsidies and grants) were up by 45 percent last year and are projected to increase by a further 188 percent this year (1975/76). Accounting for 11 percent of total ordinary expenditures in 1971/72, Other Ordinary Expenditures have grown so that they are projected at 35 percent of total ordinary expenditures in 1975/76. Most of the increase in Other Ordinary Expenditures in 1975/76 is to provide additional benefits to government civil servants and to subsidize government institutions which will in turn yield major benefits to civil servants.

Total Development Expenditures (GOA budgetary plus project assistance) are projected by the Budget to increase by afs 5260 million, or 130 percent over the estimated actual of 1974/75. Funds allocated to the mines, industries and energy sector are two and a half times the level approved last year.

^{1/} All estimates of 1353 expenditures and receipts were supplied by the Ministry of Finance during the second week of May 1975.

and the allocation to this sector accounts for 41.5 percent of total development expenditures, compared to 30.7 percent last year. The proportion of development funds allocated to agriculture is down sharply, from 32.9 to 24.5 percent, although the absolute amount is 40 percent larger than the level approved last year. Down slightly are the proportions approved for social services (from 16.0 to 14.5 percent) and for transportation and communications (from 18.9 to 15.3 percent). As is the case for the other major sectors, however, the absolute amounts approved for these latter two sectors are higher than they were last year, by 69 and 50 percent respectively.

The Financing of Development Expenditures is projected as follows: 25 percent from the surplus is domestic revenues; 9 percent from domestic borrowing; 11 percent from commodity assistance; and 56 percent from project assistance.

Total Resources available to the Government are placed at afs 19.2 billion by the 1354 State Budget. Sixty-eight percent of the resources is to be generated internally (64 percent domestic revenue and 4 percent domestic borrowing); and 32 percent is to be of foreign origin (27 percent project assistance and 5 percent commodity assistance).

Project Assistance is placed at \$114 million by the Budget in 1354, up from an estimated actual of \$40 million in 1353. While there are a relatively large number of donors, the USSR is expected to be the largest, providing 37 percent of total project assistance and as much as the combined amounts of the next three largest donors, the IBRD, FRG, and U.S.A.

Commodity Assistance is placed at \$23 million, with the FRG providing over 50 percent of the total.

Domestic Revenue rose by an estimated 36 percent last year and is projected to increase by a further 27 percent or afs 2.60 billion in 1354. Afs 0.85 billion of this increase is a result of a higher export price for natural gas. The sale of urea is expected to add about afs 0.5 billion to the overall increase of afs 2.60 billion; and increased revenue from monopolies is expected to contribute about afs 0.4 billion. Direct tax receipts are projected to rise by almost afs 0.6 billion as a consequence of: improved assessment and collection; more complete and accurate tax registers; an increase in business license fees; the institution of progressive land taxes according to size of

holdings; completion of land surveys in some provinces; the reimposition of the livestock tax; and an increase in the efficiency of government enterprises.

The foregoing constitute the bulk of the anticipated increases in domestic revenue. Growth of the economy and improved collections are expected to increase the yield of most major sources of domestic revenue. Budgeted receipts and expenditures for 1354 (1975/76) are summarized in Table I below and are compared with receipts and expenditures of prior years.

Comments

Aside from the overall magnitude of the 1354 State Budget being projected at a substantially higher level than is likely to materialize, it would seem that there are at least five important conclusions that one can reach when making an analysis of the Budget. These conclusions will be listed and then discussed. The conclusions are:

1. The Government is very anxious to begin making an economic impact upon the people which can be perceived by the people;
2. Overall, the GOA will have adequate funds to finance the level of developmental activity that is likely to materialize in 1975/76;
3. With respect to groups of people, the Budget seems to favor the military and police, the civil servants and the urban population generally.
4. In his Jeshyn Day speech of August 23, 1973, the President stated that, "The Republican State of Afghanistan attaches great importance to heavy industries, such as extraction of mines...chemical industries and electric power...and industrialization of the country is our long-cherished wish." The priorities still obtain.
5. A very high priority is placed on lower-level education.

The Government was displeased that developmental activity in 1974/75 was no greater than it was and this year's Budget projects a very sharp increase in development expenditures. While there is likely to be a substantial short-fall

TABLE 1 Summary of 1354 State Budget*
(afs million)

	Actual			1353		Budget
	1350	1351	1352	Budget	Est.	1354
Expenditures	<u>8727</u>	<u>9943</u>	<u>10102</u>	<u>12296</u>	<u>11510</u>	<u>19176</u>
1. Ordinary	<u>5450</u>	<u>5656</u>	<u>6531</u>	<u>7311</u>	<u>7450</u>	<u>9855</u>
a. Ordinary Gov't	3707	3900	4285	4323	4400	5170
b. Ext. Debt Service	1151	1035	1411	1849	1840	1200
c. Subsidies, Grants	592	721	835	1139	1210	3485
2. Development	<u>3277</u>	<u>4287</u>	<u>3571</u>	<u>4985</u>	<u>4060</u>	<u>9321</u>
a. Budgetary	1917	2387	1986	2800	2250	4145
b. Project Ass't	1360	1900	1585	2185	1810	5176
Resources	<u>8727</u>	<u>9943</u>	<u>10102</u>	<u>12296</u>	<u>11510</u>	<u>19176</u>
1. Domestic	<u>6438</u>	<u>6793</u>	<u>7895</u>	<u>9062</u>	<u>9034</u>	<u>12952</u>
a. Revenue	5821	6111	7017	8262	9555	12152
b. Borrowing	549	750	792	800	-521	800
c. Statistical Des.	68	-68	86	-	-	-
2. Foreign	<u>2289</u>	<u>3150</u>	<u>2207</u>	<u>3234</u>	<u>2476</u>	<u>6224</u>
a. Commodity Ass't	929	1250	622	1049	666	1048
b. Project Ass't	1360	1900	1585	2185	1810	5176

* Sources: 1353 and 1354 State Budget Documents and the Ministry of Finance.

from the projected level, development expenditures should nevertheless be substantially above last year's level.

While it seems clear that there has been a marked increase in the fiscal effort under the present Government (domestic revenue rose by 15 percent in 1973/74 and by an estimated 36 percent in 1974/75), it would nevertheless appear that the domestic revenue projected in the 1354 State Budget may be overstated by as much as a billion afghanis. Budgeted ordinary expenditures also appear to be overstated, by perhaps afs 0.75 billion or more (the subsidy needed for sugar and petroleum products was computed before the domestic prices of sugar, diesel, and gasoline were increased; furthermore, the forecasted price of imported sugar seems high). Reducing domestic revenue by afs 1 billion from the level projected in the Budget and ordinary expenditures by afs 0.75 billion leaves afs 2.05 billion as the current budget surplus. Adding domestic borrowing of afs 0.80 billion to this and, say, afs 0.90 billion of commodity assistance (annual State Budgets typically overstate commodity assistance), give GOA budgetary development resources^{1/} of afs 3.75 billion for 1354 (1975/76), or 67 percent more than the estimated actual of last year. Over the last few years, the ratio between the GOA's budgetary development expenditures and project assistance has been about 1.25:1 -- i.e., for every afs 100 million of project assistance, the GOA spent afs 125 million out of its own budget for development. The 1354 State Budget shows this ratio to be 0.80:1 in 1975/76 -- a consequence of some traditional donors financing a larger proportion of project costs and of new donors (the oil-producing countries) financing a very high proportion of project costs. Using a ratio of 1:1, GOA budgetary development resources of afs 3.75 billion would make possible total development expenditures of afs 7.5 billion. While this is only 80 percent of the level projected in the Budget, it is 85 percent more than the estimated level for last year. Using a ratio of 0.80:1 would of course give a larger projected potential for development expenditures. What this would seem to mean, as was the case for 1974/75^{2/}, is that there will be adequate funds to finance the development effort in 1975/76. Individual projects will suffer because of bureaucratic delays and because of a poor allocation. But inadequate financing due to lack of GOA funds at the macro level should not be a bottleneck to development in 1975/76.

1/ The amounts that the USAID will reimburse the GOA under the Fixed Amount Reimbursement procedure presumably should also be included in GOA budgetary resources.

2/ The Finance Ministry's latest estimate of borrowing from the central bank in 1353 is a negative afs 521 million.

As noted, a sharply higher ordinary budget was approved for the military and the police. The increase, which absorbs over half of the total increase approved for all ministries and agencies, is three-fourths again as large as the increase approved by the State Budget of last year and 350 percent greater than the increase approved the year before. Furthermore, the development budget of the Ministry of Defense, approved for a 50 percent increase over last year's level, includes outlays of afs 175 million for a hospital and a clinic. This afs 175 million is 80 percent as much as the total development budget of the Ministry of Public Health. The sharp increase of 58 percent in the ordinary budget of the Ministry of Foreign Affairs may also be related to improving the security and stability of the country.

When the present Government came to power after the July 1973 coup, its indictment of the performance of the economy under prior Governments was harsh. Prices are now sharply higher than at the time of the coup, however. While Afghanistan has no satisfactory cost-of-living index, it does maintain a weighted national price index composed of 24 commodities. During 1353, the index rose by 20 percent. Most (96 percent) of the increase was due to the rise in cereal prices resulting from domestic supply constraints, not from higher world prices. Meat prices also rose but vegetable and fruit prices were down. Price increases of other foods (tea, sugar, salt, eggs) and of nonfood items (e.g., soap, wood, electricity, petro, cotton textiles) contributed less than five percent to the increase in the general price index. For the period September 1973 - March 1975, the general price index rose by 48 percent. The index is not adjusted for seasonal price movements, however, so this increase is misleading. From September 1973 to September 1974, the index rose by 11 percent. There seems to be some consensus that real capita income grew by less than 2 percent in 1353 (1974/75).

Most adversely affected by the price increases are the urban people and least affected are the country's subsistence farmers who are essentially outside the market. With the real income of the civil servants shrinking rather than growing from the already low level of mid-1973, additional benefits to this group seemed especially appropriate and the 1354 State Budget provides for such benefits.^{1/}

^{1/} For a number of years, foreign advisors have recommended an increase in the civil servant pay.

While the retail price of sugar was increased by 25 percent at the beginning of 1954, sugar is still highly subsidized and the benefits of the subsidy will accrue disproportionately, and heavily so, to the urban population^{1/}. The Budget also shows that the Government intends for a large portion of its development activities -- construction of hospitals, power plants, water supplies, industrial plants -- to be located in the country's larger cities.

The development budget of the mines, industries and energy sector is 154 percent greater than last year's. Last year's budget allocated 30.7 percent of total development expenditures to this sector, whereas this year's budget allocates 41.5 percent.

The new Government has stressed many times that it places a high priority on primary education. The Budget seems to authenticate this. The development budget of afs 149 million approved for primary education is 263 percent larger than the afs 41 million approved last year. The ordinary budget for primary education was approved for an 18 percent increase, from afs 437.6 million to afs 517.9 million.

After increasing by only afs 6 and 8 million respectively in each of the prior two years, the ordinary budget of the Ministry of Public Health was approved for a 22 percent, or afs 43 million, increase in 1954. The relative increase is fairly high compared to most ministries and agencies and larger absolute increases were approved for only four Ministries -- Defense, Education, Interior (Police), and Foreign Affairs. On these comparisons, it would seem that public health is given a high priority, ranking perhaps third behind security and education. The development outlay approved for the Ministry of Public Health is, however, slightly lower (2 percent) than it was last year, while the development budgets of most ministries are sharply higher. Furthermore, the GOA contribution is only 67 percent as much as it was last year, with donor contributions higher. From this it would seem that foreigners place a higher priority on the development of public health than does the GOA and one is left with some doubts about the priority that the GOA places on public health. There are other interpretations, however. One interpretation is that the increased

^{1/} It may well be, however, that the financing of the subsidy is largely borne by the urban population.

ordinary and (practically) unchanged development budgets are a reflection of the intention of the Ministry of Public Health to more efficiently utilize physical facilities through an intensified effort to improve the operational aspects of public health services.

The GOA contribution to the 1354 budget of the Rural Development Department was approved at afs 127.5 million, up by 113 percent from the afs 60 million approved for the prior year. The GOA contribution to the HAVA development budget for the upper Helmand (excluding allocations to the Kajakai floodgate project) was approved for only an 11 percent increase. HAVA's budget was approved, however, before there were any indications that the USAID would be supporting projects in the Valley in 1354. The Minister of Planning has assured the Mission that if additional funds are needed to support U.S. projects in the upper Helmand, such funds will be forthcoming.

We close this section by noting that the 1354 State Budget contains an estimate of actual revenue for 1353, with the estimate of domestic revenue being practically the same as the amount projected a year earlier in the 1353 State Budget. Since the appearance of the 1354 State Budget, the estimate for domestic revenue in 1353 has been revised sharply upward.

II. Government Resources

The 1354 State Budget projects a record increase in the resources available to the Government for 1975/76. This is true of resources from both domestic and foreign sources. The magnitudes of change, as shown directly below^{1/} are large. Thus, total resources are projected to increase by 67 percent.

TABLE 2 Absolute and Relative Changes in Resources Available to the GOA, Estimates for 1352-53 (1973/74-1974/75) and 1353-54 (1974/75-1975/76).

<u>Resources</u>	<u>Absolute Changes</u> (afs millions)		<u>Relative Changes</u> %	
	<u>1352-53</u>	<u>1353-54</u>	<u>1352-53</u>	<u>1353-54</u>
Domestic Resources	<u>1140</u> *	<u>3918</u>	<u>14</u>	<u>43</u>
- Domestic Revenue	2539	2597	36	27
- Borrowing	-1313	1321	-	-
Foreign Resources	<u>269</u>	<u>3746</u>	<u>12</u>	<u>151</u>
- Commodity Ass't	44	382	7	57
- Project Ass't	225	3366	14	186
Total Resources	<u>1409</u>	<u>7656</u>	<u>14</u>	<u>67</u>

* There is a statistical discrepancy of afs 86 million recorded in 1352.

^{1/} This may be misleading. The 1353 State Budget approved borrowing from the central bank of afs 800 million. Rather than borrowing, the GOA ran a surplus in its budget and bank credit to the central government decreased by an estimated afs 521 million during the year. This "reduced" resources available to the Government by afs 1321 million in 1353.

(afs 7666 million) in 1354 (1975/76) over the estimated actual^{1/} of 1353 (1974/75). This compares to a 14 percent increase in 1353 (1974/75). After increasing by 36 percent in 1353 (1974/75), domestic revenue is projected to increase by a further 27 percent in 1354 (1975/76). Project assistance is projected to increase by 186 percent.

Substantial increases in resources are wanted to finance the expected sharply higher Government expenditures. The new Government is eager to make an economic impact on the people which the people can perceive. The GOA was displeased that development expenditures were no higher than they were in 1353 (1974/75). There consequently seems to have been no timidity in including increased development expenditures in this year's Budget. There may be another factor contributing to the high projections for expenditures. The Budget Department of the Ministry of Finance introduced a new budgetary schedule which requires expenditures to be broken down into numerous categories and subcategories with detailed allocations for each. Once a budget is approved, funds cannot be transferred from one category to another without the authorization of the Ministry of Finance. Anticipating the red tape associated with a request for a transfer, it has been suggested that ministries tended to overallocate to the many categories so as to minimize the likelihood of having to transfer funds.

Domestic Revenue. Consecutive year growth rates, 1971/72-1974/75, in domestic revenues and the rate projected by the 1354 Budget for 1975/76 are: 5, 15, 36, and 27 percent respectively. The projected growth for 1975/76 is of course very optimistic; and while the attainment of such growth is conceivable, the probability of attainment would seem to be very low. Contributing to the growth rates in 1973/74 and 1974/75 was the Government's drive to collect back taxes, a process initiated by the new Government after it came into power following the July 1973 coup.^{2/} This source of revenue may be near exhaustion. One can nevertheless conclude that if the will exists to collect the revenue, it can be collected. One can question, however, whether such a course of action would yield a higher and better use of resources than if the resources were retained by the private sector, especially the private business sector.

The Budget projects domestic revenue increasing by afs 2597 million in 1354 (1975/76). Table 3 following shows the source of increase according to major category:

1/ The estimates of actual expenditures and receipts for 1353 are the Finance Ministry's latest estimates. Most of the estimates are probably fair.

2/ The process was actually^{started} under the prior government but with less determination.

TABLE 3 Domestic Revenues, Estimates for 1353 (1974/75), Budget Projections for 1354 (1975/76) and Changes in Revenue

Revenue Code	Revenue Source	afs millions			Percent Change
		Estimate 1974/75	Budget 1975/76	Change	
100	Direct Taxes	1092	1687	595	54
200	Indirect Taxes	5522	5520	-2	0
300	Sale of State Property & Services	1645	2654	1009	61
600	Gov't Enterprises	397	1350	953	240
	Other	<u>899</u>	<u>941</u>	<u>42</u>	<u>5</u>
	Total	9555	12152	2597	27

* Source: Ministry of Finance and the 1354 State Budget

The largest increase, amounting to afs 1009 million, is expected to come from the "Sale of State Property and Services" which will be mainly a result of increased revenue from the sale (export) of natural gas to the USSR. Revenue from the latter was afs 1175 million in 1974/75 and is expected to increase by afs 850 million to afs 2025 million in 1975/76. That this will happen is relatively certain since an agreement has been reached with the USSR on both price (\$16.10/1000 cubic meters) and quantity (2.8 billion cubic meters). Increased telephone charges, increased sales of citrus from state farms, increased exports of minerals and improved administrative procedures covering disposal of Government property account for most of the remaining improvement expected in Account 300. The revenue projected for this account is realistic.

Revenues from Government Enterprises are projected to yield the next largest increase -- afs 953 million. In the past, the Government Monopoly has generated most of the net revenue attributable to Government Enterprises, from the domestic sale of imported sugar and petro products. With the rising world sugar prices^{1/} over the past three years and a domestic sales price for sugar that

^{1/} Average c.i.f. prices were \$92, \$225, \$272, and \$535 per MT for 1971/72 - 1974/75 respectively. For the last two contracts recently signed by the GOA, \$1,140/MT was paid for 5,000 MT (from USSR delivered to a border port) and \$885/MT was paid for 11,000 MT (this latter contract was with a German firm operating in Iran).

has not increased proportionately, the Sugar Monopoly's contribution to Government revenue has been declining and the Sugar Monopoly will have to be subsidized in 1354 (1975/76). In 1975/76, the Petroleum Monopoly will have to pay approximately 2.5 times as much per unit for gasoline and diesel fuel as it has been paying for the past several years.^{1/} The operations of the Petroleum Monopoly should nevertheless more than cover costs, but the net revenue will not be nearly enough to off-set the loss on the sugar operation.^{2/} Thus the afs 700 million revenue that the 1354 Budget shows for the Government Monopoly is a fiction. The internal and external sale of domestically manufactured fertilizer is projected to yield revenues of afs 500 million. This would seem to be an overly conservative estimate.

1/ Afghanistan has been paying an average price of about \$42/MT for gasoline and diesel fuel for the past several years. The country will be able to obtain, under an old contract, 30,000 MT of gasoline at \$23/MT (1.93 cents/liter) from Iran in 1975 but will pay \$97/MT (7.11 cents/liter) for diesel fuel from this source. The trade protocol with the USSR calls for the importation of 85,000 MT each of gasoline and diesel fuel, the former priced at \$130/MT (10.92 cents/liter) and the latter at \$110/MT (8.06 cents/liter) at a border port.

2/ A study made by the Ministry of Planning indicated that with the new import prices and at the old retail prices of gasoline and diesel (afs 8 and 6 per liter respectively), the Monopoly would do some better than break even on its petroleum operations. Sales of diesel are projected at about 170 million liters and sales of gasoline at about 140 million liters. The added price of afs 2 per liter on diesel should increase net income by roughly afs 340 million and the added afs 0.5/liter on gasoline by about afs 70 million. Net income of the Monopoly from its petroleum operations could accordingly reach afs 500 million in 1354. The losses from sugar may be over a billion afghanis however. For example, if the c.i.f. import cost of sugar averages \$750/MT during 1975/76, this will be approximately afs 45,000/MT. Consumers pay afs 30/kg. Distribution, administration, other costs including import duties amount to about afs 5/kg. A subsidy of afs 20,000/MT would be needed. For 52,000 MT, the sugar imports expected in 1975/76, the subsidy would be afs 1.04 billion. The Budget is on a cash basis and a substantial change in year-end inventories would play havoc with the above estimates.

The next largest increase - afs 595 million - is projected from direct taxes. Receipts from these taxes have been growing very rapidly and, according to the 1354 Budget, are to be accelerated in 1975/76. The annual rates of growth, 1972/73 - 1974/75, and the rate projected by the Budget for 1975/76 are 31, 43, 33, and 54 percent respectively. Over the period 1971/72 - 1974/75, receipts from these taxes contributed 7, 9, 12, and 11 percent respectively to annual domestic revenue and are projected to yield 14 percent in 1975/76. The yields from direct taxes since 1971/72 are shown below in Table 4.

TABLE 4 Direct Tax Receipts (afs millions)

Code	Item	Actual			1974/75		Budget
		1971/72	1972/73	1973/74	Budget	Est.	1975/76
100	Direct Taxes	426	573	818	1257	1092	1087
110	Individual Income	216	230	363	392	470	552
120	Corporate Income	138	165	789	275	430	450
130	Real Property	70	78	84	350	90	360
140	Livestock	-	-	-	100	-	100
150	Govt Enterprise	-	89	78	120	80	160
190	Other	4	11	4	20	22	35

The inclusion of a multiple increase in land tax revenues is by now institutionalized into the annual budget making process. To a lesser extent, the same is true of the (reimposition of the) livestock tax. This tradition is continued in the 1354 State Budget which projects a quadrupling of land tax revenues (from afs 90 million to afs 360 million) and an increase in revenue from livestock taxes of afs 100 million. The fact that these two sources of increased revenue have been so resistant, non-responsive to budget projections in the past, leaves one skeptical that they will respond in 1975/76. A reason given for the failure of the Budget projection on revenues from land and livestock taxes in 1353 (1974/75) was that the Government did not have the time to set up the mechanism needed for implementation. While this may have been true, there seems to have been little work done over the past year to develop such a mechanism. Yet, one's skepticism should be tempered, for over a number of years the annual State Budget projected sizeable increases in receipts from individual and corporate income taxes to no avail. Recently, however, the yields have been rising very sharply as is shown in Table 4 above.

1/ Cadastral surveys did continue however.

One nevertheless has to conclude that it is highly unlikely that the increase in the revenue projected for 1975/76 from direct taxes will be realized and that a substantial short-fall of at least afs 300 million can be expected. Furthermore, it is not clear that the attainment of the projection would be desirable. The increase projected for revenues from individual income taxes is in large part a tax on businesses.^{1/} And if the livestock tax and the increased tax on land cannot be collected with some degree of uniformity,^{2/} then it would seem that the tapping of these sources of additional revenue had better be postponed until they can be administered with some degree of equity.

In an attempt to hold down domestic prices in 1353 (1974/75), the GOA reduced import duties on some scarce essential consumption goods and subsidized the consumption of sugar. To replace the revenue lost from lower import duties and to finance the subsidization of sugar, the GOA imposed export taxes on some

<u>1/ Thus:</u>		<u>Revenue (afs million)</u>	
<u>Account</u>	<u>Revenue Source</u>	<u>1353</u> <u>Estimate</u>	<u>1354</u> <u>Budget</u>
111	Private Traders	245	280
112	Fixed Business Tax	60	80
113	Salaries	45	50
114	Shares	1	1
115	Written Declaration	34	40
116	Transfer	15	15
117	Private Contractors	35	45
118	House Rent	-	1
119	Transport	<u>35</u>	<u>40</u>
110	Total Individual Income	470	552

2/ Finance officials note that good surveys exist for some provinces and that the progressive land tax could be implemented in these provinces and done so equitably. As the cadastral surveys of additional provinces are completed, progressive land taxation would then be introduced into these provinces.

commodities (cotton, oilseeds, walnuts, raisins) in an attempt to absorb some of the windfall profits that would have accrued to exporters arising from high world commodity prices. These receipts were intended to be used mainly to subsidize sugar consumption.^{1/} The retail price of sugar was maintained even though the import price doubled. The export tax on cotton was the equivalent to the receipts in excess of afs 51,472 per MT for multi-lateral exports and to the receipts in excess of afs 46,222 per MT for bi-lateral exports. The tax on oilseeds was the equivalent to 10 percent of the proceeds in excess of afs 14,000 per MT; on walnuts, 5 percent of the proceeds in excess of afs 28,000 per MT; and on raisins, 10 percent of the excess of afs 30,000 per MT for uncleaned raisins and afs 35,000 per MT for cleaned raisins.^{2/} These taxes are retained for 1354 but their yield should fall sharply since commodity prices are substantially lower. Vegetable oil and plain cotton goods were allowed to enter the country duty free in 1353. With the sharply higher domestic cotton production in 1353 (1974/75) and the projected increase for 1354 (1975/76), the tax on vegetable oil imports has been fully reinstated and the tax on cotton goods partially reinstated. Receipts from indirect taxes are projected to stay at about the same level in 1354 as that which materialized in 1353, when revenue from indirect taxes (Account 200) rose by 56 percent. The projection for 1354 would seem to be a reasonable one.

Afs 42 million of additional revenue is expected from other accounts.

It is highly unlikely that the domestic revenue projected in the budget will materialize. The greatest shortfall, perhaps not less than afs 800 million, will be in the Government Enterprises Account. The next largest shortfall is likely to be in the Direct Taxes Account. Domestic revenue is likely to be at least afs 1 billion less than the amount projected by the Budget.

Domestic Borrowing. At the time the Budget was being put together, there was little more rationale for the proposed borrowing figure of afs 800 million than that it was the figure which was used in last year's Budget. Present projections by the visiting IMF Article XIV Consultation team suggest, however,

1/ Finance officials say, however, that none of these funds were transferred to the Sugar Monopoly in 1353; that the Sugar Monopoly itself financed the subsidy to consumers by drawing down its cash balance and by transferring no revenue to the Government's Incoming Account.

2/ Beginning with 1354, the latter reportedly was changed to a tax of 15 percent on the export value in excess of afs 30,000 per MT.

that afs 800 million of borrowing is not an inappropriate level and will provide the basis for an expansion in the money supply of something close to the 9 percent of 1353.

Commodity Assistance. Commodity assistance is expected to amount to afs 1045 million (\$23 million):

	<u>\$ millions</u>	
FRG	13	DM 30 million
USSR	6	Rbls 4.7 million
Japan	3	Yen 107 million
Other	<u>1- 2</u>	
Total	23	

Commodity assistance is exceptionally difficult to forecast and the annual State Budgets almost always overestimate revenue from this source. The estimate for 1354 appears to be a fair one, however, but somewhat on the high side. Projected commodity assistance of afs 1045 million for 1354 is 57 percent greater than the estimated actual of afs 666 million for 1353.

Project Assistance. The Budget forecast for project assistance in 1354 is \$114.27 million, up from an estimated \$40 million in 1353. Project Assistance is discussed in some detail in a later section.

III. Ordinary Expenditures

Traditionally, ordinary expenditures of the Government are divided into: (a) Ordinary Expenditures of Government Ministries and Agencies; (b) External Debt Servicing; and (c) Other Ordinary Expenditures, the latter composed mainly of subsidies to civil servants, exporters,^{1/} and Government institutions. This classification is followed here.

Ordinary expenditures account for approximately three-fourths of the Government's total budgetary expenditures. The former are scheduled for a sharp increase in 1975/76 even though external debt servicing will fall substantially. Indexes of ordinary expenditures are shown below with 1971/72 = 100:

Indexes of Ordinary Expenditures (1971/72 = 100)

	Actual			1974/75		Budget
	1971/72	1972/73	1973/74	Budget	Est	1975/76
Government ordinary	100	105	116	117	119	139
External debt service	100	90	123	161	160	104
Other ordinary	100	122	141	192	204	589
Total ordinary	100	104	120	134	137	181

Ordinary Expenditures of Government Ministries/Agencies. After a rather stringent Ordinary Budget for Government Ministries/Agencies in 1353 (1974/75) when an expansion of 6 percent was approved, a generous 20 percent increase was approved for 1354 (1975/76).^{2/} The Ministry of Foreign Affairs was granted the largest relative increase -- 58 percent. The absolute increase for this Ministry ranked fourth, following Defense, Education, and Interior (police). The overall increase in the Ordinary Budget of Government Ministries and Agencies was afs 847 million. Of this, as is shown in Table 5 below, afs 309 million or 36.5 percent went to the Ministry of Defense; afs 160 million or

^{1/} A misnomer but a traditional classification. The export subsidy is the difference between the surrender rate paid to exporters on export proceeds earned on cotton, karakul, and wool, and the official rate.

^{2/} These percentage changes are based on the approved budget figures, not on actual expenditures. At least in the past, new budget figures have been based on the budget figures of the prior year more than on estimates of actual expenditures, and it may be that changes in budgeted amounts reflect the intentions of the GOA better than changes in actual amounts. The percentage change, 1352 to 1353, for (estimated) actual ordinary expenditures by government ministries and agencies amounted to 2.7 percent.

TABLE 5 Ordinary Budgets of Government Ministries and Agencies,
1353 and 1354*

<u>Ministry/Agency</u>	<u>Budget - afs Millions</u>			<u>Percentage of Total Increase for All Ministries/Agencies</u>
	<u>1353</u>	<u>1354</u>	<u>Increase</u>	
1. Defense	1600	1909	309	36.5
2. Education	940	1100	160	18.9
3. Interior (Police)	430	552	122	14.4
4. Foreign Affairs	90	142	52	6.1
5. Public Health	200	243	43	5.1
6. Finance	97	134	37	4.4
7. Public Works	95	131	36	4.3
8. Info-Culture	75	95	20	2.4
9. Kabul University	202	216	14	1.7
10. Air Authority	60	73	13	1.5
11. Other	<u>534</u>	<u>575</u>	<u>41</u>	<u>4.8</u>
Total	4323	5170	847	100.0

* Source: 1353 and 1354 State Budgets

18.9 percent was allocated to the Ministry of Education; and afs 122 million (14.4 percent) to the Ministry of Interior (police). Thus these three Ministries were allocated 70 percent of the total increase and these three Ministries plus Foreign Affairs were allocated 76 percent of the increase. Ministries/Agencies are ranked on the basis of absolute increase in their budgets in Table 5.

Defense and Internal Security. The new Government provided for a modest increase in the budget for defense and internal security last year (1974/75) but approved a sharp increase this year, with this year's budgeted increase being three-fourths again as large as last year's and 380 percent greater than the increase budgeted the prior year. The increase in the ordinary budget for defense of afs 309 million for 1354 (1975/76) is larger than the absolute amounts of the ordinary budgets of all ministries/agencies except those of the Ministries of Education and Interior (Police). Yet, the ordinary budgets for defense and security have been moving downward relative to total ordinary expenditures and domestic revenue, and have remained at about a constant proportion of total expenditures (ordinary plus development including project assistance). And under the highly unlikely outcome of total revenue/expenditures projected for 1354 materializing, defense and security expenditures will fall further relative to total ordinary expenditures and domestic revenue.

Thus:

Ordinary Expenditures for Defense and Internal Security as a Percent of:	Percent					
	1350	1351	1352	1353		Budget 1354
				Budget	Est	
Total Ordinary Expenditures	30	31	29	28	28	25
Domestic Revenue	28	28	27	25	22	20
Total Expenditures	19	17	19	17	18	13

Education. After growing at 10 percent annually since 1350 (1971/72), ordinary expenditures of the Ministry of Education are budgeted to increase by 17 percent in 1354. Kabul University, however, is budgeted for only a 7 percent increase,^{1/} following no increase in the prior year. These developments would seem to agree with the GOA's stated policy of increased emphasis on lower-level education and a retrenchment in higher education. Nevertheless, as is shown below, ordinary expenditures by the Ministry of Education are not becoming relatively more important when compared to total ordinary expenditures, domestic revenues, and total expenditures. The decline shown for 1354 (1975/76) is not likely to

^{1/} A budget of afs 202 million was approved for 1353; the Ministry of Finance estimates that expenditures were afs 210 million.

materialize, however, because the funds allocated to the Ministry of Education are likely to be utilized whereas the Budget estimates for total ordinary expenditures, domestic revenues and total expenditures are higher than will materialize.

Ordinary Expenditures by the Ministry of Education as a Percent of:	PERCENT					
	Actual			1353		Budget
	1350	1351	1352	Budget	Est	1354
Total Ordinary Expenditures	13	14	13	13	13	11
Domestic Revenues	12	13	12	11	10	9
Total Expenditures	8	8	9	8	8	6

There is additional evidence that the GOA places a high priority on primary education. The size of the ordinary budgets approved for primary education has been growing very rapidly over the past few years; the growth in ordinary expenditures by the Ministry of Education has been rapid; but the growth in ordinary expenditures by Kabul University has been slow:

	Ordinary Budgets				
	1971/72	1972/73	1973/74	1974/75	1975/76
A. Primary Education					
Budget (afs millions)	241	263	340	438	518
Index--1971/72=100	100	109	141	182	215
*Source: Ministry of Education					
B. Ministry of Education					
Budget (afs millions)	700*	773*	872*	937*	1100
Index--1971/72=100	100	110	125	134	157
* actual expenditures					
C. Kabul University					
Budget (afs millions)	176*	197*	211*	210*	216
Index--1971/72=100	100	111	120	119	123
*actual expenditures					

Public Health. After growing at 7 percent annually since 1350 (1971/72), ordinary expenditures by the Ministry of Public Health are budgeted for a 22 percent increase in 1354 (1975/76). While a sharp increase, it is not as large

an increase, in relative terms, as the increase projected for total ordinary expenditures, domestic revenues, and total expenditures. As noted above, however, the projections for the latter three items are high.

Foreign Debt Service. Foreign debt servicing, which has been growing at 17 percent annually since 1350 (1971/72), will fall by a sharp 35 percent in 1354 (1975/75), and will amount to only about 12 percent of projected export earnings. The decrease in service payments from afs 1.84 billion in 1353 to afs 1.20 billion in 1354 (1975/76) is due to USSR debt relief.¹ The relief totals 100 million roubles (about \$135 million), is to be spread over a six-year period and become effective in 1975.

Other Ordinary Expenditures. This class of expenditures (subsidies, grants) has been growing at a very rapid rate of 27 percent annually since 1350 (1971/72) and is projected to increase by 188 percent in 1354 (1975/76) over the estimated actual of 1353 (1974/75). The account is projected at afs 3465 million in 1354, up from an estimated afs 1210 million in 1353. The very sharp increase would clearly seem to be a concession to civil servants. It is also directed at the urban population. There are afs 200 million to subsidize wheat consumption by the civil servants; afs 182 million to pay for an increase in civil servants' lunch allowance; afs 300 million for the Government's contribution to civil servants' pensions; afs 1200 million to subsidize sugar consumption; and afs 167 million to purchase 170 new buses for Kabul. The account contains afs 585 million of unallocated reserves (see notes to Table A-5 for a more complete listing of allocations).

The growing relative importance of "Other Ordinary Expenditures" is illustrated below. Such expenditures amounted to 11 percent of total ordinary expenditures in 1350 (1971/72) but are budgeted at 35 percent in 1354 (1975/76).

<u>Ordinary Expenditures</u>	<u>% of Total Ordinary Expenditures</u>				
	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>	<u>Est 1974/75</u>	<u>Budget 1975/76</u>
By Ministries/Agencies	68	69	66	59	52
For External Debt Service	21	18	22	25	12
For Other Ordinary	<u>11</u>	<u>13</u>	<u>13</u>	<u>16</u>	<u>35</u>
Total	100	100	100	100	100

1. These two figures refer to GOA budgetary debt servicing converted at afs 45.3/US\$. The estimates of total external debt servicing for 1353 and 1354 are \$45.0 and \$31.5 million respectively.

The Budget estimate of Other Ordinary Expenditures for 1354 (1975/76) would appear to be high, however. The estimate of the subsidy required for sugar and petro products is afs 1.2 billion. This estimate was made before increased domestic prices were approved for sugar, diesel, and gasoline. The estimated import price of sugar also appears high in view of the recent sharp drop in world sugar prices. A subsidy of afs 1 billion should cover the losses incurred by the Government in its sugar operations. The petroleum operations should generate net revenue of perhaps as much as afs 500 million. The projected subsidy of afs 1.2 billion would consequently appear to substantially overstate the subsidy needed.

IV. The Development Budget

A development budget of afs 9.32 billion was approved for 1354 (1975/76), up by 130 percent from the estimated actual of 1353 (1974/75). Excluding reserves, 71 percent of the development budget is allocated to four ministries/agencies -- the Ministry of Mines and Industries, 29 percent; the Ministry of Agriculture and Irrigation, 16 percent; the Afghan Electric Authority, 14 percent; and the Ministry of Public Works, 12 percent. Almost 85 percent of the approved development budget is for ongoing projects. Expenditures for new projects are concentrated in industries and energy and most new projects are surveys and feasibility studies. Over 80 percent of new project costs will be borne by project assistance, according to the Budget, and 54 percent of ongoing projects.

Sectoral Allocation. The proportion of development expenditures allocated to the mines, industries and energy sector is up sharply, from 30.7 percent in 1353 (1974/75) to 41.5 percent in 1354 (1975/76). There are small declines in the proportions allocated to social services (from 16.0 to 14.5 percent) and to transportation and communications (from 18.9 to 15.3 percent) and a sharp decline in the proportion going to the agriculture and irrigation sector. The proportion allocated to the latter sector decreased from 32.9 percent in 1353 to 24.6 percent this year. The absolute amounts approved for each of the four sectors increased, however. The increase for the mines, industries and energy sector was a large 154 percent. The increase for social services was 69 percent and for transportation and communications, 50 percent. The 40 percent increase for agriculture and irrigation was the smallest relative increase of the four sectors. The sectoral allocation of the development budget is shown in Table 6 following.

Budgetary Development Expenditures of the GOA. The extent to which the GOA is willing to commit its own resources to finance particular development activities may provide a better indication of the Government's priorities than the extent to which activities are financed by project assistance. In Table 7 below, GOA budgetary development expenditures (i. e., development expenditures exclusive of project assistance) which were approved for various ministries/agencies in 1354 are compared with the same such expenditures for 1353. All ministries/agencies with a total development budget of over afs 200 million are included in the table, plus one, the Rural Development Department, with less. On the criterion of relative increases in approved budgetary development

Table 6 Sectoral Allocation of Development Budget *

	Budget Allocations		% of Total	
	(afs millions)			
	<u>1974/75</u>	<u>1975/76</u>	<u>1974/75</u>	<u>1975/76</u>
1. Agriculture & Irrigation	<u>1641</u>	<u>2291</u>	<u>32.9</u>	<u>24.6</u>
- agriculture	650	1070	13.6	11.5
- irrigation	961	1221	19.3	13.1
2. Mines, Industries, Energy	<u>1528</u>	<u>3874</u>	<u>30.7</u>	<u>41.5</u>
- mines	695	1656	13.9	18.1
- industry	481	945	9.6	10.1
- energy	352	1243	7.1	13.3
3. Social Services	<u>799</u>	<u>1354</u>	<u>16.0</u>	<u>11.5</u>
- education	157	292	3.1	3.1
- public health	168	460	3.4	4.9
- other	474	602	9.5	6.5
4. Transport, Communications	<u>945</u>	<u>1422</u>	<u>18.9</u>	<u>15.3</u>
- land transportation	556	1194	11.2	12.8
- communications	277	147	5.6	1.6
- tourism & air transport	112	81	2.2	0.9
5. Total	<u>4912</u>	<u>8941</u>	<u>98.5</u>	<u>95.9</u>
6. Reserves	73	380	1.5	4.1
7. Grand Total	<u>4985</u>	<u>9321</u>	<u>100.0</u>	<u>100.0</u>

* Source: 1353 and 1354 State Budgets.

expenditures, primary education and rural development have the highest priorities. Approved 1354 budgetary development expenditures for primary education are 286 percent of such expenditures for last year. The corresponding figure for rural development is 213 percent (see Table 7). The Ministry of Public Health is at the bottom of the ranked list. The Ministry of Agriculture and Irrigation and HAVA also make a poor showing on the criterion of relative increases in approved budgetary development expenditures. It should be noted, however, that HAVA's budget was already approved (by the Ministry of Planning) before there was any indication that the U.S. would be financing projects in the Valley in 1354. The Minister of Planning has assured the USAID that if additional funds are needed to support the U.S. projects, the funds will be forthcoming.

Project assistance is heavily concentrated in mines, industries and energy. While a relatively high proportion of the GOA's budgetary development expenditures is also allocated to mines and industries, the GOA's development budget is more heavily concentrated in agriculture and public works than is project assistance. Thus:

	<u>% of Total Project Ass't</u>	<u>% of Total GOA Bud- getary Development Expenditures</u>
Ministry of Mines and Industries	35	21
The Afghan Electric Authority	21	4
Ministry of Agriculture & Irrig + HAVA	12	28
Ministry of Public Works	7	19

Project Assistance: The Donors and Their Projects. The Budget forecast for project assistance in 1354 (1975/76) is \$114.27 million, up from an estimated actual of \$40 million in 1353. While the list of significant donors is growing, the USSR is expected to be the biggest supplier of project assistance (\$42.0 million, 36.8 percent of the total), providing almost as much assistance as the next three largest donors (IBRD, FRG, and US) combined. The Budget shows 17 percent of total project assistance as being grant assistance and 83 percent as being loan. Of the four major donors -- the USSR, IBRD, FRG, and the U.S. -- U.S. project assistance is expected to contain the largest grant component, amounting to 30 percent of total U.S. project assistance. The grant component

Table 7 GO 1 Budgetary Development Expenditures Approved for Ministries/ Agencies in 1353 (1974/75) and 1354 (1975/76) and Percent That 1354 Approvals are of 1353.*

Ministry/Agency	(1)	(2)	(3)
	Expenditures (afs Millions)		Column (2) ÷ Column (1) x 100
	1353	1354	
Rural Development Department	60.0	127.5	213 %
Ministry of Mines & Industries	448.5	776.7	173
Ministry of Public Works	449.1	727.9	162
Ministry of Education	107.6	163.9	152
Primary Program	(27.5)	(78.7)	(286)
Secondary Program	(51.0)	(38.9)	(76)
Voc. & Teacher Training	(25.8)	(21.3)	(83)
Ministry of Defense	90.0	130.1	145
Afghan Electric Authority	117.9	165.9	141
Ministry of Agri & Irr	798.4	888.6	111
HAVA ^{a/}	103.6	114.5	111
Herat Livestock	20.0	18.4	92
Ministry of Public Health	147.1	98.8	67

* Source: 1353 and 1354 State Budgets. The list includes all ministries/agencies with total development budgets of over afs 200 million plus the Rural Development Department.

^{a/} Excludes allocations to lower Helmand and to Kajakai floodgate projects.

(21 percent) of German assistance is the next largest, followed by the USSR with only one percent of its project assistance composed of grants. The World Bank is expected to provide no grant project assistance. All World Bank loans to Afghanistan are IDA loans, however, with highly concessional terms -- 50-year maturity, 10-year grace, and 0.75 percent interest. The UN is expected to provide the largest amount of grant assistance, followed by Iran, the U.S., the FRG, and then India (see Table A-3).

It is worth noting that project assistance is always overstated in the annual State Budgets, generally substantially.^{1/} This year, 1354, will be no exception, not because the assistance would not be available if projects were prepared for implementation, but because projects cannot be identified, developed, and implemented in sufficient quantities to absorb the assistance which would be forthcoming if this could be done.

Donor Areas of Concentration. The 1354 Development Budget shows the areas of donor concentration as follows:

- The USSR continues to concentrate its assistance in the exploration and exploitation of natural gas and petroleum (\$24 million for gas and oil exploration, construction of a gas desulfurizing plant and continued work on the urea and thermo-electric plant). Of less importance are: geological and mines surveys (\$5.8 million); assistance to the military (\$4.2 million for hospital, clinic, and other construction); roads and bridges (\$3.0 million); electricity distribution (\$2.6 million); and agriculture and irrigation (\$1.1 million). Assistance is also provided in urban housing, telecommunications, and agro-industry.

1/ For example:

	<u>Budget Estimates</u>		<u>Estimates of Actual *</u>	
1353	afs	2,185 million	afs	1,810 million
1352		2,251		1,585
1351		1,997		1,900
1350		2,589		1,360

* Source: Ministry of Finance

- The IBRD may consider financing two thermal electric generators for Kabul (\$8.0 million) according to the Budget. Assistance of \$6.6 million is projected for the Herat slaughterhouse; \$3.0 million for agricultural credit; \$2 million for an irrigation project; and \$1 million each for highway maintenance and air transportation/communications.

- The FRG continues with electricity transmission (Kabul, \$4.0 million); telecommunications (\$2.5 million); regional development (Paktia, \$2.5 million); potable water (\$1.5 million) and assistance to the Vaccine and Serum Institute (\$1.6 million in cooperation with UNICEF).

- The USA will, according to the Budget, provide \$1.0 million of development assistance to HAVA; contribute \$200,000 to the School of Public Health; disburse \$8.2 million for Kajakai power and transmission; and jointly assist (with UNICEF) primary education in the amount of \$1.6 million. It will contribute \$1.1 million to rural development.

- Iraq is supposed to finance a cotton textile plant in Herat.

- The UN continues to operate with a broad-based program.

- Iran is financing feasibility studies including studies for a national railroad and a road from Deshu to the Iranian border.

- The ADB will assist in irrigation, in the construction of roads (not shown in Budget) and the Kajakai flood gates.

- Saudi Arabia will finance feasibility studies mainly in irrigation, including a study to begin developing an irrigation system for the Harirud Basin.

The above donors account for over 95 percent of the project assistance shown in the 1354 development budget.

Financing Development. Over the past four years, an average of one-third of total development expenditures was financed from domestic resources and

two-thirds from foreign assistance.^{1/} The same proportions are projected in 1975/76 by the 1354 State Budget. Table 8 below shows the sources for financing development expenditures and the relative contribution of each source.

Table 8. Financing Development Expenditures

	Percent of Total Financing					
	Actual			1974/75		Budget
	1971/72	1972/73	1973/74	Budget	Est	1975/76
A. Domestic	<u>30</u>	<u>27</u>	<u>38</u>	<u>35</u>	<u>39</u>	<u>33</u>
1. Current Budget Surplus	11	11	14	19	52	25
2. Borrowing	17	17	22	16	-13	9
3. Statistical Discrepancy	2	-2	2	-	-	-
B. Foreign Assistance	<u>70</u>	<u>73</u>	<u>62</u>	<u>65</u>	<u>61</u>	<u>67</u>
1. Commodity ass't	28	29	17	21	16	11
2. Project Ass't	42	44	44	44	45	56
C. Total Development Exp	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
1. Budgetary	58	56	56	56	55	44
2. Project Ass't	42	44	44	44	45	56

Table 8 shows that domestic financing of development expenditure has been growing relative to foreign assistance. It shows a sharp increase in the relative contribution of the current budget surplus (i.e., domestic revenue less ordinary

^{1/} When project assistance is valued at afs 45.3/\$. The GOA converts the foreign exchange value of project assistance to afghanis at afs 45.3/US\$, the rate that the GOA pays the Central Bank for foreign exchange for most foreign exchange purchases for official transactions of the GOA. If project assistance were valued at the free exchange rate, foreign assistance would be greater than two-thirds.

expenditures)^{1/} The relative contribution of project assistance^{2/} is rising slightly while the contribution of commodity assistance is falling. These short-run trends would seem to bode well for development in Afghanistan. Clearly the financial ability of the Government to meet developmental costs is improving. The fiscal effort is increasing.^{3/} And relatively more reliance is being placed upon Afghanistan's own resources for development.^{4/}

Over the past few years, the ratio of: (a) GOA development expenditures out of its own budget to (b) project assistance, has averaged about 1.25:1. That is, the GOA spent, on the average, afs 125 million out of its own budget for every afs 100 million of project assistance (again, converted to afghanis at afs 45.3/\$US). The ratios of GOA budgetary development expenditures to project assistance, 1350 (1971/72) - 1353 (1974/75) were: 1.41:1, 1.26:1, 1.25:1 and 1.24:1. The 1354 State Budget shows the ratio dropping to 0.80:1 in 1975/76.

In the past, the inability of the Government to finance its share of project costs has been a bottleneck to project progress. Consequently, a number of traditional donors are now providing an element of local currency financing for their projects. Furthermore, the new donors (oil producing countries) are financing up to 100 percent of project costs. This development whereby donors are funding a larger portion of total project costs plus the fact that the GOA's current surplus is trending upward should do much to mitigate the past bottleneck

1/ A figure of 19 percent was budgeted for 1353 (1974/75) but 52 materialized because the GOA did not spend as much on development as it had intended and wanted to spend.

2/ The figure of 56 percent shown for 1975/76 will not materialize since project assistance is such a grossly inflated Budget projection.

3/ While there is no necessary relation between fiscal effort and development, the extent of the former is some indication of the commitment to development.

4/ For what it is worth, in the past a number of foreign advisors/observers have contended that the single most important constraint to Afghan development was the inadequate budget of the Government, a reflection of the Government's inability or unwillingness to "mobilize" domestic resources for development.

of a chronic shortage of local currency finance for development projects. Given the fiscal effort that it seems one can expect of the Government in 1354, the GOA should easily have afs 3.5 billion (from its current surplus, internal borrowing and commodity assistance) for development out of its own budget in 1975/76. At a ratio of 1:1, GOA budgetary development expenditures to project assistance, the afs 3.5 billion would support afs 3.5 billion of project assistance and afs 7.0 billion of total development expenditures. While afs 7.0 billion is only 75 percent of the amount projected for 1975/76, it is 72 percent more than the estimated actual of 1974/75.

It would thus seem that changed donor policy and increased GOA fiscal effort have done much to mitigate the development problem of inadequate local currency finance. There will continue to be bureaucratic delays in channeling the funds to projects, however, even when the funds are available.

Geographical Distribution of Projects. The new Government has indicated that its development effort is to be diffused over a wider population than has been the case in the past. The 1354 State Budget does seem to indicate that there was some effort in this direction although there is still concentration. Thus, the Budget's new industrial projects tend to be located in the country's larger cities but not all in Kabul. The same is generally true of potable water, energy and telecommunications projects. With some notable exceptions, the outlays on roads are concentrated on improving existing highways connecting major cities. The movement towards dispersion of hospitals and basic health centers is pronounced, however. Similarly, the development expenditures of the Ministry of Education seem to be distributed over a larger geographical area. The development effort of the Ministry of Agriculture also appears to be spread over a large part of the country although there are clearly areas of concentration. While the Budget may not be too reliable an indicator of the effort towards dispersion (because development expenditures will fall short of the projected level, many of the new projects are surveys or feasibility studies which will yield benefits only after several years and some projects included in the budget will not materialize while some not shown will materialize), the picture seems to be one which shows the GOA making some effort to obtain the diffusion that it states it wants.

Annex of Tables

TABLE A-1 -- Summary of Total GOA Resources --
Domestic Revenue, Domestic Borrowing and Foreign
Assistance*

(afs millions)

Code	Item	Actual			1353		Budget
		<u>1350</u>	<u>1351</u>	<u>1352</u>	<u>Budget</u>	<u>Est.</u>	<u>1354</u>
100	Direct Taxes	428	573	818	1257	1092	1687
200	Indirect Taxes	2976	2937	3540	3328	5520	5522
300	Sale of Property, Service	882	1049	1090	1351	1645	2654
400	Licenses, Fees, Fines	200	216	272	328	310	386
500	Use of State Property	227	164	197	190	210	225
600	Govt. Enterprises	933	928	736	1342	397	1350
700	Misc. Revenue	101	85	201	320	215	219
800	Non-Revenue Income	74	159	163	146	164	111
	Total, 100-800	<u>5821</u>	<u>6111</u>	<u>7017</u>	<u>8262</u>	<u>9555</u>	<u>12152</u>
900	Loans, Foreign Ass't	<u>2828</u>	<u>3900</u>	<u>2999</u>	<u>4034</u>	<u>1955</u>	<u>7024</u>
910	Domestic Borrowing	549	750	792	800	-521	800
920&930	Commodity Ass't	929	1250	622	1049	666	1048
921&931	Project Ass't	1360	1900	1585	2185	1810	5176
	Statistical Discrepancy	<u>68</u>	<u>-68</u>	<u>86</u>	<u>-</u>	<u>-</u>	<u>-</u>
	GRAND TOTAL	<u>8727</u>	<u>9943</u>	<u>10102</u>	<u>12296</u>	<u>11510</u>	<u>19176</u>

* Source: Ministry of Finance and 1353 and 1354 State Budgets

Table A-2 -- Domestic Revenue by Components
(afs millions)

Code	Item	Actual			1953		Budget
		1950	1951	1952	Budget	Est	1954
<u>100</u>	<u>Direct Taxes</u>	<u>428</u>	<u>573</u>	<u>818</u>	<u>1257</u>	<u>1092</u>	<u>1687</u>
110	Individual Income	216	230	363	392	470	552
120	Corporate Income	138	165	289	275	430	480
130	Real Property	70	78	84	350	90	360
140	Livestock	-	-	-	100	-	100
150	Gov't Enterprises	-	89	78	120	80	160
190	Other	4	11	4	20	22	35
<u>200</u>	<u>Indirect Taxes</u>	<u>2976</u>	<u>2937</u>	<u>3540</u>	<u>3328</u>	<u>5522</u>	<u>5520</u>
210	Import Duties	1609	1702	1999	1915	2700	3150
220	Export Duties	202	223	209	180	270	300
230	Consumption Taxes	20	19	50	100	57	100
240	Comm'l Transactions	722	522	612	560	1657	1200
250	Monopoly (tobacco)	34	45	58	60	75	80
260	Fixed Duty on Imports	268	266	498	400	630	680
270	Fixed Duty on Exports	25	27	8	-	25	-
290	Other	96	102	106	113	108	10
<u>300</u>	<u>Sale of Property, Service</u>	<u>882</u>	<u>1049</u>	<u>1090</u>	<u>1351</u>	<u>1645</u>	<u>2654</u>
310	Land, Buildings	28	12	7	8	26	25
320	Natural Resources (Gas)	587	727	690	900	1175	2025
340	Minerals, Ag. Products	74	74	105	223	155	221
350	Auction	35	50	68	50	65	100
360	Printing	7	5	28	5	12	14
370	Communications	119	142	150	150	165	220
380	Health Services	8	9	9	11	13	15
390	Other	14	30	33	14	34	35
<u>400</u>	<u>Licenses, Fees, Fines</u>	<u>200</u>	<u>216</u>	<u>272</u>	<u>328</u>	<u>310</u>	<u>386</u>
410	Vehicle Licenses	-	-	5	25	10	20
420	Identity Cards	20	38	27	53	31	40
430	Court Charges	67	80	75	85	85	100
440	Fines, Penalties	5	7	15	8	12	15
450	Customs Fines	19	21	30	20	24	30
460	Marriage Licenses	1	1	1	2	1	1
470	Traffic Fines, Comm.	56	51	85	100	100	120
480	Business Licenses	23	5	12	15	22	40
490	Other	9	13	21	20	25	20

Table A-2 (cont'd)

Code	Item	Actual			1353		Budget
		1350	1351	1352	Budget	Est.	1354
500	<u>Use of State Property</u>	<u>227</u>	<u>164</u>	<u>197</u>	<u>190</u>	<u>210</u>	<u>225</u>
510	Real Estate Rental	19	13	22	20	28	25
520	Moveable Prop. Rental	8	6	15	9	4	10
550	Private Investment	141	83	81	80	86	90
560	Tolls	59	62	79	81	92	100
600	<u>Gov't Enterprise</u>	<u>933</u>	<u>928</u>	<u>736</u>	<u>1342</u>	<u>397</u>	<u>1350</u>
610	Monopolies	912	904	692	1210	342	700
620	Cooperatives	-	-	1	-	-	-
630	Slaughterhouse	-	-	-	10	-	-
640	Factories	-	1	1	-	3	500
650	Public Institutions	-	-	-	-	-	-
660	Prison Industries	-	-	-	-	-	-
670	Food Procurement	-	-	-	-	-	-
690	Other	21	23	42	122	52	150
700	<u>Misc. Revenue</u>	<u>101</u>	<u>85</u>	<u>201</u>	<u>320</u>	<u>215</u>	<u>219</u>
710	Back Revenue	73	67	159	300	170	179
720	Domestic Aid, Relief	-	-	-	-	5	-
790	Other	28	18	42	20	40	40
800	<u>Non-Revenue Income</u>	<u>74</u>	<u>159</u>	<u>163</u>	<u>146</u>	<u>164</u>	<u>111</u>
810	Refunds	5	17	52	15	64	15
820	Employee Loans	10	10	12	9	15	15
830	Repayment of Advances	58	132	79	120	84	80
890	Other	1	-	20	1	1	1
	Total, Domestic Revenue (100-800)	<u>5821</u>	<u>6111</u>	<u>7017</u>	<u>8262</u>	<u>9555</u>	<u>12152</u>
900	<u>Loans, Foreign Ass't</u>	<u>2838</u>	<u>3900</u>	<u>2999</u>	<u>4034</u>	<u>1955</u>	<u>7024</u>
910	Domestic Borrowing	549	750	792	800	-521	800
920&930	Commodity Ass't	929	1250	622	1049	666	1048
921&931	Project Ass't	1360	1900	1585	2185	1810	5176
	Statistical Discrepancy	<u>68</u>	<u>-68</u>	<u>86</u>	<u>-</u>	<u>-</u>	<u>-</u>
	GRAND TOTAL	<u>8727</u>	<u>9943</u>	<u>10102</u>	<u>12296</u>	<u>11510</u>	<u>19176</u>

* Source: Ministry of Finance and 1353 and 1354 State Budgets

Table A-3: PROJECTED PROJECT ASSISTANCE, 1354 *

Donor	Million Dollars			%
	<u>Loan</u>	<u>Grant</u>	<u>Total</u>	
1. USSR	41.42	0.58	42.00	36.8
2. IBRD	21.64	-	21.64	18.9
3. FRG	9.37	2.50	11.87	10.4
4. USA	8.18	3.30	11.48	10.1
5. Iraq	7.00	-	7.00	6.1
6. UN	-	5.33	5.33	4.7
7. Iran	-	4.37	4.37	3.8
8. ADB	2.80	-	2.80	2.5
9. Saudi Arabia	1.88	0.80	2.68	2.3
10. India	-	1.20	1.20	1.0
11. Czechoslovakia	1.10	-	1.16	1.0
12. PRC	0.76	-	0.76	0.7
13. Sweden	-	0.66	0.66	0.6
14. Kuwait	0.20	0.30	0.50	0.4
15. Switzerland	-	0.27	0.27	0.2
16. UK	-	0.20	0.20	0.2
17. Bulgaria	0.16	-	0.16	0.1
18. France	-	0.11	0.11	0.1
19. Denmark	<u>0.10</u>	<u>-</u>	<u>0.10</u>	<u>0.1</u>
TOTAL	94.66	19.61	114.27	100.0

* Source: 1354 State Budget

TABLE A-4 Ordinary Expenditures by Function*
(afs millions)

Function	1350	1351	1352	1353		Budget
				Budget	Est.	1354
1. Administration	<u>499</u>	<u>517</u>	<u>540</u>	<u>435</u>	<u>444</u>	<u>541</u>
2. Defense, security	<u>1621</u>	<u>1731</u>	<u>1885</u>	<u>2030</u>	<u>2061</u>	<u>2461</u>
- Defense	1359	1460	1545	1600	1660	1909
- Internal security	262	271	340	430	401	552
3. Social Services	<u>1114</u>	<u>1230</u>	<u>1412</u>	<u>1417</u>	<u>1439</u>	<u>1654</u>
- Ministry of Education	700	773	872	940	937	1100
- Kabul University	176	196	211	202	210	216
- Public Health	165	186	192	200	202	243
- Info & Culture	73	75	137	75	90	95
4. Economic Services	<u>473</u>	<u>422</u>	<u>448</u>	<u>441</u>	<u>456</u>	<u>514</u>
Total Ministries	<u>3707</u>	<u>3900</u>	<u>4285</u>	<u>4323</u>	<u>4400</u>	<u>5170</u>
5. Debt Service, Subsidies	<u>1743</u>	<u>1756</u>	<u>2246</u>	<u>2988</u>	<u>3050</u>	<u>4685</u>
- Foreign Debt service	1151	1035	1411	1849	1840	1200
- Exchange subsidies	390	360	380	550	550	633
- Other subsidies, grants	202	361	455	589	660	2582
Total Ordinary	<u>5450</u>	<u>5656</u>	<u>6531</u>	<u>7311</u>	<u>7450</u>	<u>9855</u>

* Source: Ministry of Finance and 1353 and 1354 State Budget.

TABLE A-5 -- Ordinary Expenditures*
(afs millions)

Government Ordinary	Actual			1953		Budget
	1950	1951	1952	Budget	Est.	1954
Office of President	42	46	30	11	10	12
Wolesi Jerga	28	27	11	0.5	0.4	0
Senate	8	5	4	0.5	0.2	0
Supreme Court	63	69	64	65	56	69
Prime Ministry	43	39	54	42	37	43
Defense	1359	1460	1545	1600	1660	1909
Foreign Affairs	81	94	98	90	105	142
Interior, Civil	59	66	63	42	42	54
Interior, Police	262	271	340	430	401	552
Finance	89	87	121	97	110	134
Education	700	773	872	940	937	1100
Public Health	165	186	192	200	202	243
Justice	34	35	42	40	38	43
Communications	61	78	91	100	95	114
Commerce	15	15	17	21	18	25
Public Works	116	108	109	95	110	131
Agri & Irrig	76	76	72	80	70	84
Mines & Industries	133	60	77	65	82	64
Info & Culture	73	75	137	75	90	95
Planning	31	25	25	22	21	12 ^a
Tribal Affairs	21	24	27	25	25	32
University	176	196	211	202	210	216
Air Authority	65	77	74	60	65	73
Cartography	-	-	-	11	8	12
Gen Transport	7	8	8	9	8	11
Total - A	3707	3900	4285	4323	4400	5170
Foreign Debt Service	1151	1035	1411	1849	1840	1200
Other Ordinary						
Export Subsidies	390	360	380	550	550	633
Contribution to USAID	72	72	72	36	36	36
Subsidies to Civil Servants, Institutions, Reserves	130	289	382	553	424	2816 ^b
Total - C	592	721	835	1139	1210	3485
Total Ordinary	5450	5656	6531	7311	7450	9855

* Source: Ministries of Finance and Planning and 1354 State Budget

Notes to table:

a/ Reduction due to transfer of contribution to UN from Planning Ministry to "Other Ordinary".

b/ Composed of:

- afs 1200 million, to subsidize sugar consumption
- afs 200 million, wheat subsidy to civil servants
- afs 182 million, for increase in civil servants' lunch allowance from afs 4 to afs 10. Also allocates afs 6 per lunch for office boys, janitors.
- afs 167 million to purchase 170 buses for Kabul (National Bus Enterprise). This is being financed by FRG commodity assistance
- afs 585 million, reserves
- afs 30 million, loans to civil servants
- afs 452 million, for contribution to domestic and international institutions. Includes afs 300 million for pensions, afs 40 million as Ministry of Public Health contribution to UNICEF, malaria eradication program and kindergarten program; afs 13 million to the UN; afs 6 million contribution to insurance for civil servants; afs 50 million to subsidize Bakhtar Airlines; afs 10 million to subsidize ACUK; afs 10 million to subsidize the Afghan Film Institute, and afs 23 million miscellaneous, including PAS.

TABLE A-6 -- Summary, Development Expenditures -- Budgetary Project Assistance, Total Development Expenditures and Foreign Exchange Expenditures from GOA Budget, 1354 *

<u>Ministry/Agency</u>	<u>GOA Budget (Afs million)</u>	<u>Project Ass't (\$ million)</u>	<u>Total Development ^{a/} (afs million)</u>
1. Agriculture & Irrigation	888.6	12.34	1,447.4
- O (Ongoing projects)	880.6	11.04	1,380.5
- N (New projects)	8.0	1.30	66.9
2. Paktia	80.0	2.50	193.3
- O	80.0	2.50	193.3
- N	-	-	-
3. HAVA	150.5	1.60	223.0
- O	149.5	1.00	191.8
- N	1.0	0.60	28.2
4. Herat Livestock	18.4	6.60	317.4
- O	18.4	6.60	317.4
- N	-	-	-
5. Rural Development	127.5	1.08	176.2
- O	127.5	1.08	176.2
- N	-	-	-
6. Land Survey	35.5	0.10	40.1
- O	35.5	-	35.5
- N	0.1	0.10	4.6
7. Ag Dev. Bank	-	3.00	135.9
- O	-	3.00	135.9
- N	-	-	-

* Source: 1354 State Budget

^{a/} Project Assistance converted at afs 45.3/\$

TABLE A-6 (cont'd)

<u>Ministry Agency</u>	<u>GOA Budget (Afs million)</u>	<u>Project Ass't (\$ million)</u>	<u>Total Development (afs million)</u>
8. Mines & Industries	776.7	40.31	2,602.5
- O	717.8	31.09	2,126.3
- N	58.9	9.21	476.2
9. Afghan Elec. Auth.	165.9	23.62	1,235.8
- O	165.1	15.28	857.1
- N	0.8	8.34	378.6
10. Food Procurement Dept	0.6	0.17	8.3
- O	0.1	0.07	3.3
- N	0.5	0.10	5.0
11. Education	163.9	2.56	279.8
- O	138.9	2.56	254.8
- N	25.0	-	25.0
12. Kabul University	72.8	-	72.8
- O	7.0	-	7.0
- N	65.8	-	65.8
13. Public Health	98.8	2.59	216.0
- O	98.0	2.59	216.0
- N	-	-	-
14. Housing, Town Planning	50.0	0.40	68.1
- O	50.0	0.40	68.1
- N	-	-	-
15. Presidency, Drinking Water	114.5	1.50	182.5
- O	77.0	1.50	145.0
- N	37.5	-	37.5
16. Info & Culture	59.0	-	55.0
- O	7.0	-	7.0
- N	52.0	-	52.0

TABLE A-6(cont'd)

<u>Ministry/Agency</u>	<u>GOA Budget (Afs million)</u>	<u>Project Ass't (\$ million)</u>	<u>Total Development (afs million)</u>
17. Defense	130.1	4.16	318.4
- O	120.1	3.05	258.0
- N	10.0	1.11	60.3
18. Justice	10.8	-	10.8
- O	10.8	-	10.8
- N	-	-	-
19. Interior	9.1	-	9.1
- O	9.1	-	9.1
- N	-	-	-
20. Central Statistics	12.7	-	12.7
- O	12.7	-	12.7
- N	-	-	-
21. Kabul Municipality	16.0	-	16.0
- O	16.0	-	16.0
- N	-	-	-
22. Public Works	727.9	7.96	1,068.3
- O	714.9	4.01	896.3
- N	13.0	3.95	191.9
23. Communications	27.3	2.64	146.9
- O	24.3	2.10	119.3
- N	3.0	0.54	27.6
24. Air Authority	28.1	1.17	81.0
- O	28.1	1.17	81.0
- N	-	-	-
Total	3,764.8	114.27	8,941.2
- O (ongoing projects)	3,489.2	89.11	7,526.0
- N (new projects)	275.7	25.16	1,415.2
Reserves	380.3	-	380.3
GRAND TOTAL	4,145.1	114.27	9,321.5