

د افغانستان اسلامي انتقالی دولت

دولت انتقالی اسلامی افغانستان

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**Transitional Government of Afghanistan
Ministry of Finance**



GENERAL FUNDING ISSUES
(e.g. IFIs; World Bank; trust funds)

Ashraf Ghani, Finance Minister



Current Status of the Budget and Donor Assistance Requirements.

A preliminary report on first quarter budget results and financing needs for remainder of fiscal year is included in the next section and was distributed to some in advance of this meeting.

Accomplishments:

It is important to first note some important recent accomplishments:

- The operating budget was approved near the beginning of the year and contains important measures focusing on fiscal discipline.
- After some initial delays, the payroll and expenditure process is now beginning to pick up momentum, while expenditures remain well within the budget envelope.
- The Ministry of Finance has now produced preliminary financial reports, and these will improve steadily.

Embarking on fundamental institutional reform

Despite many immediate problems that need to be addressed, it is important that these do not distract from the longer-term and more vital objectives of reforming the Finance Ministry and building institutional strengths that will last far beyond the term of the current Minister.

The agenda for this reform is still taking shape, but it is clear that there will be a number of elements:

- I will build a team that brings many strengths together: effective use of foreign advisors, introduction of capable, reform-oriented Afghans, and developing the existing staff to perform at a higher level.
- I am committed to rooting out corruption throughout the financial system. This is a serious problem that will not be resolved without friction. Your support and that of all the donor community will be important to my success.
- Key reforms for the Finance Ministry include: (i) strengthening the revenue system, especially customs (ii) modernizing the payment system and improving transparent accounting and reporting processes, not only to improve donor confidence, but more importantly, to provide the government with timely and accurate information on its financial condition, and (iii) improving the customer orientation of the Ministry, both with taxpayers and with other ministries which are dependent on the Finance Ministry to achieve their objectives.
- I will also use my position to support other developments needed for our economic development such as: (iv) establishing an effective commercial banking system (v) developing economic analysis and forecasting capabilities and (vi) creating an enabling environment for investment.

Addressing immediate problems

I have served as Finance Minister for two weeks. While a major long term reform agenda for the Ministry of Finance and other central financial institutions is now taking shape, there are pressing short-term challenges that require my attention.

- The payroll process needs further attention to ensure that payments are received by employees when due.
- Immediate improvements are needed to computerize the payment and reporting process in order to ensure that donors funds can be properly tracked.
- Unifying the financial system (getting compliance from all provinces) also needs to be addressed immediately, even if the final solution will take some months to complete.

Avoiding a financing crisis

- With less than one third of the donor financing needed for the budget identified, it is critical to find the remaining sources that will avoid a financial crisis. Removing this as a distraction will allow me to spend more management time on long-term reform.
- Deficit financing and borrowing are not options: President Karzai has decided that it is politically inexpedient to borrow when Afghanistan has received so little from the Tokyo pledges. We must also first clear the arrears to Multi-lateral Development Banks.

Development budget

- We are pleased at the support the NDF has received, and the programs that are being implemented based on its strategies. WB has \$100 m grants moving towards implementation: public works, community development, education, emergency infrastructure. ADB has \$50 m grants forthcoming, in support to a highway, education and health. The first tranche of EC money (70m euros) includes budgetary support as well as funding for rural development and starting major infrastructure projects. Others have chosen the modality of direct implementation- Germany, Japan and US.
- To the ordinary Afghan, the key indicators are simple- the provision of jobs, investment in agriculture, and the reconstruction of power supply, roads, bridges and buildings. Action builds hope, but inaction leads to the evaporation of hope, and to anger and frustration. There is a growing perception that reconstruction has not started, while the military campaign is ongoing.
- We are grateful for humanitarian assistance. However, we are currently treating the symptoms, but not the structural causes of poverty. Key is now to start in earnest the process of reconstruction: major highways –a key promise of President Karzai to the nation.
- Donors generously pledged over US\$5 billion at Tokyo, or close to \$1.8b for 2002. Of this pledge, about \$550m has been disbursed this year from the Tokyo funds, mainly for humanitarian assistance. This means that some two-thirds of this year's pledge remains to be translated into programmes on the ground. Faster delivery of support for reconstruction and the creation of opportunity is more urgent than ever.

Trust Fund Mechanisms

- The Afghanistan Interim Administration Fund (AIAF) has been a critical vehicle to finance the early period of the Afghan administration and we now look forward to using the Afghanistan Reconstruction Trust Fund (ARTF) as an important part of our budget support. We are particularly grateful to donors that have shown flexibility and responded to our requests for operating budget support through the ARTF, especially the Netherlands, UK and EC.

- We are also happy to receive direct (bilateral) budget support, as we have already. This source of financing is especially desirable because it is flexible (can be used for all budgetary purposes), there are no losses to administrative fees, and no need to deal with fund administrators and
- But we realize that in the near term donors will want to use the trust fund mechanism, and we will need to deal not only with the ARTF but also the Law and Order Trust Fund for Afghanistan (LOTFA) and Military trust funds. This proliferation of funds presents administrative challenges, and we are developing principles that will help coordinate and simplify the use of these funds. These principles might include:
 - Common procedures for payment of civilian, military and police salaries should be used.
 - Trust funds should follow Afghan law and use the existing central mechanisms, rather than developing and using "parallel" mechanisms.
 - Activities and programs to be supported by trust fund must be consistent with and approved by Afghan authorities. The Afghan Finance Ministry should participate in discussions about the administration of the funds.
 - Funding appeals must be consolidated; funds cannot compete with one another and the Transitional Government of Afghanistan in seeking the support of donors.



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