The Main Sources of Raising Domestic Revenue in Afghanistan

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ABSTRACT

The governmental treasuries historically derived income from conventional sources available to administrations, augmented by extraordinary channels. Revenue emanated from taxation, administrative proceeds, public property income, and debt escalation—established conduits directing a segment of the national income to public authorities. This study retrospectively scrutinized the primary sources of Domestic Revenue Mobilization in Afghanistan, utilizing both primary and secondary data. Primary data was acquired from current Revenue Department employees at the Ministry of Finance (MoF), employing a survey research method through questionnaires. Secondary data, sourced from the World Bank, International Monetary Fund websites, journals, articles, and books, contributed to a comprehensive analysis. The findings indicated that Afghan government revenues historically emanated predominantly from customs duties on international movement of goods and services, and domestic taxation. Notably, natural resources, exemplified by foreign investments in copper mines, emerged as a pivotal revenue stream. It was essential to underscored that foreign assistance programs exhibited shortcomings in management, necessitating heightened supervision.

Keywords- Revenue, sources, taxation, MOF (Ministry of Finance) of Afghanistan.

I. INTRODUCTION

Afghanistan, plagued by prolonged conflict, weak governance, and pervasive corruption, holds the unfortunate distinction of being the world's most impoverished nation, heavily reliant on foreign aid. Schwankl, C. J. (2015). This distressing reality persists despite international assistance, leaving a substantial portion of the Afghan populace grappling with acute shortages in vital essentials, including housing, clean water, electricity, healthcare, education, and employment opportunities Billaud, J. (2015).

A 2020 report by the Asian Development Bank (ADB) underscores the severity of the situation, revealing

that approximately 49.40% of Afghans live below the national poverty line (ADB, 2020). Paradoxically, Afghanistan possesses untapped wealth in natural resources—lithium, copper, petroleum, coal, marble, gold, natural gas, talc, barites, sulfur, lead, zinc, iron ore, and salt—lying dormant across vast expanses of land suitable for diverse agricultural endeavors (ADB report). Regrettably, a weak infrastructure and persistent conflict, including a prolonged insurgency, complicate the extraction and utilization of these resources, hindering comprehensive national development. Le Billon, P. (2013).

In response to these challenges, the Afghan government faces the imperative of diversifying revenue

sources to autonomously deliver essential services Rocha, N. (2017). Primary revenue streams, encompassing customs duty, international movement of goods, domestic taxes, agriculture, and livestock, emerge as critical avenues for mobilization Schneider, A. (2012). Elevating internal revenue stands as a pivotal goal in the Afghan government's financial policy, demanding sustained growth to support essential measures Schneider, A. (2012). Achieving this objective necessitates improved administration and management of customs duty Schneider, A. (2012)

Encouragingly, significant progress has been achieved towards enhanced revenue collection, indicating reduced dependence on external grants and donations Odeyemi, I., & Nixon, J. (2013). A substantial informal economy, notably in urban sectors like agriculture, presents an opportunity for the central government to monitor, implement tax and compliance rules, and leverage it as a potential revenue source Chen, M. A., et al (2002). Effectively overseeing and regulating the critical factors of time, cost, and quality preservation is of paramount importance. The successful management and control of these factors require diligent attention and strategic planning to ensure optimal outcomes in the execution of projects or processes. Lalzai, F., & Mohammad, K. (2023)

II. LITERATURE REVIEW

Bird and Zolt (2005) conducted a comprehensive examination of the role of taxation in developing countries. Their research underscores the significance of domestic revenue mobilization for sustainable development, enabling governments to fund essential public services and infrastructure projects. The authors advocate for the implementation of efficient, equitable, and transparent tax systems. The methodology employed involved a comparative analysis of diverse tax policies and administrative measures across different countries (Bird & Zolt, 2005).

In a study by Prichard et al. (2014), the focus shifts to the relationship between domestic revenue mobilization and poverty reduction. The authors argue that augmenting domestic revenue can contribute to enhanced social welfare programs, particularly in healthcare and education, pivotal for alleviating poverty. The research methodology employed a quantitative analysis using statistical methods (Prichard et al., 2014).

Examining strategies for raising domestic revenue, the International Monetary Fund (IMF) conducted a study in 2011 on tax policy reforms in developing countries. The authors advocate for broadening tax bases, improving tax administration, and curbing tax evasion to bolster domestic revenue. They emphasize the necessity of international cooperation to combat tax evasion and establish a fair and transparent global tax system. The research methodology encompassed a mixed methods approach, incorporating both quantitative and qualitative methods (IMF, 2011).

Martinez-Vazquez et al. (2018) delved into the relationship between domestic revenue mobilization and economic growth. Their study reveals that countries with higher levels of domestic revenue tend to experience elevated economic growth rates. The authors argue that increased domestic revenue empowers governments to invest in critical areas like infrastructure, education, and healthcare, fostering economic development. The research methodology involved time series analysis to scrutinize the correlation between domestic revenue mobilization and economic growth over a specified period (Martinez-Vazquez et al., 2018).

III. RESEARCH METHODOLOGY

Data Collection: Various sources were accessed to explore the sources of rising government revenue in Afghanistan, involving the analysis of both secondary and primary data.

Primary Sources of Data: The research targeted all workers in revenue-related offices, including the Ministry of Mines, MoF, Da Afghanistan Bank, Central Statistics Organization, and others. Primary data were gathered through questionnaires distributed personally to fifty employees from MoF, deemed a reasonable and sufficient sample for analysis.

Secondary Data Sources: Internet: Data from the World Bank, International Monetary Fund websites, articles, international papers, and electronic reports on government revenue were gathered online for a comprehensive, chronologically referenced dataset. Books: Extracting present and past data, the study utilized Central Statistics Organization's annual books and Da Afghanistan Bank's bulletins.

Data Collection Methods: Adopting a survey research method with questionnaires for efficient, cost-effective, and uniform data collection from Ministry of Finance employees, providing insights and complementing quantitative analysis.

Analysis Tools: Questionnaires were chosen over interviewed due to efficiency, speed, and non-sensitivity, considering time and cost constraints. Jamali, A (2023).

Sampling Design: Surveyed fifty Ministry of Finance employees through non-probability convenience sampling, aligning with Roscoe's rule of thumb and addressing time and resource constraints. Lalzai, F. (2023)

Objective of the Study:
The primary objectives of this study were as follows:

1. To identify the primary sources of domestic revenue in Afghanistan.
2. To analyze the trends and patterns associated with domestic revenue generation in Afghanistan.

3. To assess the effectiveness of existing revenue-generating policies and practices in Afghanistan.
4. To explore potential strategies aimed at enhancing domestic revenue in Afghanistan.

Hypotheses of the study:

Aligned with the outlined objectives, this study examines the following hypotheses:

1. The principal drivers of escalating domestic revenue in Afghanistan are anticipated to encompass taxes, customs duties, and non-tax revenues derived from natural resources.
2. A correlation may exist between economic growth and a concurrent rise in domestic revenue within the context of Afghanistan.
3. Implementation of government policies and reforms targeted at enhancing tax collection efficiency and mitigating corruption has the potential to result in an upswing in domestic revenue.
4. External factors, including international aid and investment, might exert influence on the magnitude of domestic revenue in Afghanistan.

IV. RESULT AND DISCUSSION

Table-1

No.	Response	No	Percentage (%)
1	It is unfair/ beyond the ability of taxpayer	28	56
2	Poor and tiresome collection procedure	15	30
3	Lack of specified policy direction	6	12
4	Multiple taxation	1	2
	Total	50	100

The table -1 study identified several challenges in Afghanistan's tax collection system. A majority of respondents (56%) expressed dissatisfaction, perceiving the tax as unfair and not reflective of their ability to pay. Additionally, 30% highlighted the burdensome and intricate procedures of tax collection as a significant issue. A smaller but notable portion (12%) cited the absence of a defined policy direction as a concern. Lastly, a minority (2%) identified the issue of multiple taxations affecting the tax collection system.

Table-2

No.	Response	No	Percentage (%)
1	Tax Revenue	23	46
2	Customs Revenue	15	30
3	Non Tax Revenue	10	20
4	Other Revenue	2	4
	Total	50	100

The table-2 showed that the primary contributors to domestic revenue in Afghanistan encompass taxes and customs duties, followed by non-tax and other sources. According to the data presented in the table and pie chart, among 50 respondents, 46% identified tax revenue, 30% customs revenue, 20% non-tax revenue, and 4% other revenues as annual contributors to the public treasury, shaping the landscape of domestic revenue in Afghanistan.

Table-3

No.	Response	No	Percentage (%)
1	Security	31	62
2	Corruption	12	24
3	Unemployment	7	14
	Total	50	100

The table-3 examined the threats and challenges confronting the sustainable economy of Afghanistan reveals that a majority of respondents (62%) identified security problems as the primary impediment, dissuading traders and businessmen from making investments. Subsequently, a significant portion of respondents (24%) highlighted corruption as a major challenge, emphasizing concerns about mismanagement of funds and authorities prioritizing personal interests over public welfare. In addition, a minority of respondents (14%) expressed unemployment as a significant threat, impacting the nation's ability to leverage its intellectual capital and skills for the betterment of the economy and overall stability of the country.

Table-4

No.	Response	No	Percentage (%)
1	Construction / Fundamental Projects	36	72
2	Training Programs	8	16
3	Agriculture Programs	6	12
	Total	50	100

Table-4 was the analysis of foreign assistance/aid preferences for Afghanistan's development, as depicted in the table, underscores that a substantial majority of respondents (72%) emphasize the significance of construction/fundamental projects. These projects, including the construction of canals, motorways, dams, etc., are perceived as pivotal for the country's progress. In contrast, a smaller proportion of respondents (16%) advocate for aid programs focused on training,

recognizing knowledge and education as fundamental elements for development. Additionally, a minority of respondents (12%) advocate for foreign aid programs in the agriculture sector, capitalizing on Afghanistan's geographical suitability for diverse crop cultivation and livestock farming.

Evaluation of the tax authority's performance since 2014 was conducted based on various parameters, as outlined below:

Table-5

s.n	Parameters	Excellent		Good		Fair		Poor	
		No	%	No	%	No	%	No	%
1	Reduction of tax payers complain	8	16	10	20	20	40	12	24
2	Service Delivery	8	16	10	20	20	40	12	24
3	Tax collection efficiency	14	20	18	28	12	34	6	18
4	Law enforcement	12	24	15	30	14	28	9	18
5	Awareness Creation	6	12	9	18	8	16	27	54

Table-5 showed and indicated that respondents predominantly rated the reduction of tax payers' complaints and service delivery by the tax authority as fair (40%) and poor (24%). Concerning tax collection efficiency, responses ranged from excellent (20%) to poor (18%). Similarly, the authority's performance in law enforcement was perceived as excellent (24%), good (30%), fair (28%), and poor (18%). However, in awareness creation, a significant 54% of respondents rated it as poor.

The majority of respondents assessed the tax authority's efforts from excellent to fair in most parameters, signaling a lack of effectiveness and unsatisfactory service provision for taxpayers. Notably, the poor rating (54%) for awareness creation could be considered a root cause of various issues.

Regarding the joint responsibility for tax payer turnover and poor tax compliance, 54% of respondents attributed it to both the tax authority and the city administration. Additional comments from five respondents emphasized the inadequate roles played by both the tax authority and the central government in improving tax administration, reducing complaints, creating awareness, and providing essential information regarding taxes and other governmental activities.

Table-6

No.	Response	No	Percentage (%)
1	Copper	20	40
2	Coal	16	32
3	Petroleum and Natural Gas	14	28
	Total	50	100

Table-6 showed and introduced the preeminent natural resource identified by a majority of respondents (40%) is the Aynak Copper mine situated in Logar Province. Additionally, (32%) of respondents recognized the (Hajigak) ore mine as another pivotal natural resource in Afghanistan. Furthermore, (28%) of respondents highlighted the significance of the Amu Darya Oil Basin as a crucial natural resource, emphasizing that effective government planning for mine exploration could significantly contribute to positive impacts on domestic revenue and foster economic stability and development in the country.

V.   CONCLUSION

The government should focus on implementing more effective tax collection measures, reducing corruption, and leveraging international aid and investment to support sustainable economic growth. Additionally, the research may suggest the importance of diversifying revenue sources and promoting transparency and accountability in financial management to ensure long-term fiscal stability for Afghanistan. However, policy implication could include recommendations for the Afghan government to prioritize tax reforms, strengthen anti-corruption measures, and attract foreign investment to support economic development. It may also suggest the need for improved financial management practices and greater transparency, in government spending to ensure that domestic revenue contuses to rise and contribute to the country's overall economic stability and growth.

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