The Tax Collection and Anti-Corruption Strategy to Reform Afghanistan's Legal Code

Arash Sahebe

PhD in Management

Limkokwing University of Creative Technology

Abstract

Afghanistan has made considerable progress in domestic revenue mobilization (DRM) over the past two decades. Afghan government has collected a total of only $10 million in total government revenue in 2020. It collected $2.4 billion, or about 12 percent of the gross domestic product (GDP) in 2016. The government has focused its efforts on the simplest taxes to collect, namely, import duties, a tax referred to as the business receipts tax (BRT), and simple income taxes for both individuals and companies and for which a very simplified tax was developed for small businesses that could be paid in place of the corporate income tax (CIT) and the BRT. The Afghans implemented a new, partially rationalized duty schedule, with fewer rates and a schedule following the Harmonized System of codes for classifying traded goods to enhance transparency and fairness for the sake of import duties. On the administrative side, the Afghan government had to build both tax and customs administrations almost from scratch – developing their staff and equipping them with the tools to do their jobs which included skills, procedures, equipment, facilities, and information technology (IT). The international donor agencies took pragmatic steps in this regard by providing training, materials, and technical assistance to rebuild the Afghan Revenue Department (ARD), design new procedures, construct or refurbish facilities, implement IT-based solutions, and extend ARD's reach to all of the country's provinces. Experts from different countries helped the Afghan government draft new laws and regulations, prepare manuals, and train staff to implement them. Although a considerable progress has been made, Afghanistan still faces many challenges -- to strengthen its tax and customs administrations, root out corruption, and facilitate taxpayer compliance. The long desired value added tax (VAT) has been enacted into law and is planned for implementation starting in 2020.

Keywords: Revenue Mobilization, Harmonized System, Transparency, Information Technology, Corruption, Compliance, Implementation.

1.0 Introduction

Three large companies owe roughly 15 billion Afs in back-taxes to the Afghan government according to MoF. Gul The MoF's treasury department confirmed that a number of heavyweight taxpayers are involved in legal disputes with the ministry. A special commission comprising representatives from the finance ministry, the Ministry of Justice (MoJ) and the Attorney General's Office has been formed to address the disputes. Approximately 500 large businesses are registered with the Afghan government and are supposed to pay taxes to the MoF, 10 percent of those companies are said to be evading taxes to varying extents.

At the same time, the Ministry of Finance (MoF) is pursuing legal action against some of the firms who are refusing to pay taxes due, with others, which may simply lack the capacity to pay right away, the ministry is facilitating installment-based payment plans. MoF faces great difficulties in collecting revenues efficiently which has been confirmed by independent economic analysts and they say legal issues, as well as inadequate monitoring of companies' activities and the lack of a system for fining those that fail to pay their taxes are primary areas of concern. Different commentators have also confirmed that corruption is another big factor hampering proper revenue collection.

The disease of corruption exists in everywhere. The goals that need to be accomplished before the emergence of problems in tax payments are ignored because of corruption, so the government needs to focus on the issue and take necessary steps so that taxes are collected professionally. Experts commented and made an estimate that the number of Afs that would go into the government's budget if it taxes were more effectively collected in the billions. Everyone blames Ministry of Finance (MoF) for mismanagement and waste.

The Government revenues could rise by 30 percent if taxes were properly collected according to MoF Treasury Department. An Afghanistan peace deal, currently under discussion between the Taliban and U.S., will depend in the long term on more than political and military agreements. A sustained peace will also require that the Afghan government can generate growing revenue to help pay its soldiers, deliver services and reduce its dependence on foreign aid.

Like other countries, Afghanistan's government revenue is an important fiscal indicator and determinant of macroeconomic stability; in Afghanistan, it will also be critical to stabilizing the country should a peace agreement materialize. The Money and Exchange Market in Kabul, Afghanistan, March 17, 2012. (Bryan Denton/The New York Times). Afghanistan's revenue picture today is decidedly mixed. It is reported on the other side, total revenues have grown significantly since the fiscal crisis of 2014, an expansion—and improved cash position—that has extended into 2019.

There is no any doubt that the government is better situated now than it was immediately before the crisis five years ago. On the other hand, it is noticed that most of the apparent improvement—at least in 2019—can be attributed to the weakening of the Afghan currency against the U.S. dollar, a development that offers no sustainable path to long-term revenue growth.

Economists commented for those concerned about the prospects for a lasting peace, a closer look at the numbers is warranted. Since the fiscal crisis around the 2014 presidential election, Afghanistan's total revenue has recovered strongly and has grown rapidly—by about 22 percent in 2015, 20 percent in 2016, 15 percent in 2017, and 12 percent in 2018.

During the year 2018, total revenue was almost 90 percent higher than in 2014 in nominal Afghan currency (Afghanis), and rose to 13.4 percent of gross domestic product last year from its nadir of 8.5 percent in 2014. And this constitutes a rare bright spot in Afghanistan's otherwise bleak fiscal and economic landscape. Even so, government revenue did not surpass its 2011-12 peaks of 11.7 percent of GDP until 2017. In brief, a half-decade of progress on the revenue front was lost because of the economic shock triggered by the drawdown of U.S. and international troops from 2011 to 2014, the lingering effect of the 2014 fiscal crisis, and the political uncertainty that has plagued Afghanistan's current National Unity Government during much of its tenure.

1.1 Problem Statement

In Afghanistan, what are the tax obligations of citizens, residents and investors? This question is much harder to answer today than it was 18 months ago. Next, the 2009 Income Tax Law, a remarkably well-written and detailed piece of legislation, had gone a long way in establishing a path towards clarity, stability and integrity for taxpayers and officials alike. In fact, it was one area, where 'rule of law' in Afghanistan seemed to be starting to take hold. And since late 2015, however, the new tax laws were passed and they have created uncertainty and chaos.

1.2 Research Objectives

It is a debatable topic to discuss about tax collection as a source of revenue. It is tried to find out factors which have their impact on tax collection of the government. Research objectives are mentioned below:

1.To assess political situation of the country has any impact on the level of tax collection

2. To find out the effects of policies on the level of tax collection

3. To analyze and elaborate the impact of systems on tax collection, corruption on tax revenues, tax compliance and also economic development

4. To analyze the impact of security on effective tax collection

1.3 Research questions

The research questions are as follows:

1. What are the prevailing corruption trends in Afghanistan?

2. What is the impact of these trends on domestic resource mobilization?

 3. Are regulatory frameworks and preventative measures effective in addressing corruption?

4. What instruments of revenue collection could help Afghanistan's Customs and Revenue Department generate enough revenue to meet the country's budgetary needs?

2. 0 Literature Review

Corruption has engulfed the whole government administration system in Afghanistan since long back. The common practice of criminalizing commercial complaints is commonly used to settle business disputes or to extort money from wealthy international investors. But unfortunately, the government does not implement criminal penalties for official corruption effectively, and officials are reported to frequently engage in corrupt practices with impunity. There are some reports of low-profile corruption cases successfully tried and of lower-level officials removed for corruption.

Tax is a compulsory levy imposed on individuals and companies by government which serves as source of income to the government to perform various legitimate function of the state (Olaoye, Ashaolu and Adewoye, 2009). The main purpose of taxation in the performance of expected roles of the citizens by the government is very germane. Taxes the major source of revenue to government as it assists in infrastructure development at all levels of government and this is the reason for the existence of government. A as a result, Ojo (2003) very rightly posits that tax is a tool for civilization.

The awareness of fairness in collecting tax is very important. The deployment of efficient tax collection mechanism is expected to achieve set goals for the society. Similarly, governments around the world need tax revenue to assist them in fulfilling their societal obligations (Fagbemi, Uadiale and Noah 2010). However, this great opportunity of revenue generation has not been exploited to the maximum by most governments around the world (Akintoye and Dada, 2013) especially the developing nations like Afghanistan. This might possibly be as a result of the taxation system; tax laws; tax administration and policy challenges; overdependence on other revenue sources such as grants and aids from the foreign nations; systemic corruption as it relates to tax payment procedure.

Very commonly there is a misconception among the general public regarding collection of tax. Despite the benefits of tax revenue to a country's economy, some citizens consider tax as undesirable levy imposed on them by government and accuse the government of not utilizing the tax revenue in a manner that achieves efficiency, economy and effectiveness of spending (Ekoja and Saratu, 2014).

The government should come forward to take initiative in this regard. Compliance to tax laws typically means the true reporting of the taxable income, appropriate computation of the tax payable, filling of the returns and timely payment of tax liability (Franzoni, 1999). It may be mentioned here that if tax payers feel that their interests are served by the government, their willingness to pay tax may grow. In developing countries such as Afghanistan characterized by government insensitivity to the plight and aspirations of the citizens, fiscal recklessness, corruption, low standard of living and infrastructural decay, the willingness to pay tax is at the lowest ebb. However, these studies do not state the impact of tax compliance on revenue growth, which is the main focus of this work.

There is a common practice of taking bribes specially in the underdeveloped countries and Afghanistan is not an exception of that. A culture of patronage and pervasive corruption continues to stifle the development of a truly professional police force. The MoI is in the process of completing an anti-corruption strategy and action plan. Realigning the ANP to enforce rule of law remains a critical requirement. However, the continued gaps in the MoI advisory team, particularly the absence of civilian police expertise, continues to hamper efforts.

War, poverty and political unrest has compelled Afghanis to indulge in corruption. Anti-corruption watchdog Integrity Watch Afghanistan reported Afghans paid an estimated $3 billion in bribes in 2016, registering an almost 50 percent increase compared to 2014 [total Afghan PPP GDP is about $60,000,000,000]. The findings are part of a biennial national corruption survey. According to the survey, "Respondents who dealt with the courts reported they were asked for bribes an astounding 55 percent of the time." Results were not much better when they dealt with prosecutors, or municipal government.

The amount of bribes estimated is much higher than the Afghan government revenue estimates for 2016, analysts says as describing corruption as the third biggest problem Afghans face, following current insecurity and unemployment and poverty. The survey determined corruption is a major factor in fueling the Taliban insurgency and called for President Asharf Ghani's government to introduce promised reforms. The unprecedented devastating levels of corruption undermines the state legitimacy and erodes public trust termed as an inactive nation by the economists.

The corruption was widespread across the justice system, particularly in connection with the prosecution of criminal cases and in arranging release from prison according to prisoners and local NGOs. For instance, there were multiple reports that judges would not release prisoners who had served their sentences without payment from family members. Also, some other reports that officials received unauthorized payments in exchange for reducing prison sentences, halting investigations, or dismissing charges outright and so on.

Already there are so many researches has already been taken place on corruption on tax collection in Afghanistan. National-level survey data offered a mixed picture of corruption in the justice sector. The World Justice Project's 2017 Rule of Law survey found moderate improvements in perceptions of government accountability. Nonetheless, experts polled for the report cited corrupt prosecutors as the biggest problem in criminal investigative services and corruption as the largest problem in criminal courts.

Respondents to the poll increasingly believed that high-ranking government officials would be investigated for embezzlement, but they also named judges, magistrates, parliamentarians, and local government officials as most likely to be involved in corrupt practices. Respondents also reported widespread bribe taking by government officials and agencies, police, and hospitals which makes Afghanistan a country of disarray.

3 .0 Research Methodology

This study aims to find out the factors which are affecting on effective tax collection in Afghanistan. To find out the result of the study, in this research quantitative research methodology is used. Dependent variable is tax collection and independent variables are security corruption, political situation and administration system as considered most effective factors effecting on dependent variables as conceptual framework.

Finally, after finding appropriate accurate data, researcher will use both secondary data (mostly World Bank reports, Central Statistic Organization Reports and Ministry of Finance Reports and other Journals) and primary data through questionnaires. The sample of 100 employees working in financial institutions, Ministry of Finance (MoF) Employees working in the finance field are selected for the study. The statistical measure of central tendencies, measures of dispersions, regression and correlation would be used to find out relationships among different variables.

The data is analyzed through application of SPSS software. Relations among variables and the significance of relations are analyzed using regression and correlations. In the same way principle component method is used for factor analysis in this research.

3.1 Data Collection Method

The technique of collecting and measuring information related to the subject or variables used in the study for the purpose of responding proper answer to research questions and test which one of the hypotheses is accurate and evaluate and analyze result. This is a common and important part of the study, which is used for all types of studies.

Here, the analysis is possible only if the data is available. Most important to use from methods which data are collected efficiently and accurately related to the subject. Inaccurate data collection negatively impact on the result of data, questions are not provided accurate answers, time and money would be wasted for a wrong purpose, results may mislead the users and if the policy makers use this as standard then the result would be compromised. There are two types of data which can used for the research.

The primary data are those which are collected from the source of information, through personal interviews, using from surveys and using from questionnaires having specific subjects, purpose and then the data are analyzed. In this method directly the researcher is connected and data which are required for the organization is collected.

The secondary data are that information which is available in the international journals, books, internet, in organizations. This data can be used for comparison as well whenever the historic information is needed. In this research both primary and secondary data are used to find out the results. Primary data is collected through questionnaire, but secondary data are collected from Afghanistan national Budget, Central Static Organization report. International Monetary Fund analysis of the countries and international journals published about the subject.

3.1.1 Sample Size and Data Collection

In this research, the sample is a proportion of large population which is considered as subset of whole that has the same features of large population. Here, random sample method is used to have representatives of different groups from population.

4.0 Findings

Unfortunately, the greatest failure in terms of measured levels of corruption and the number of USG-funded interventions in this region is Afghanistan. By far, Afghanistan received the largest number of USG-funded anticorruption programs 2007-2013; however, every one of Afghanistan's corruption scores has declined since 2007; the CPI declined a dramatic 17 points since 2005, and Afghanistan is currently tied with Somalia and North Korea as having the highest level of perceived corruption in the world. Afghanistan's Control of Corruption and Ease of Doing Business scores have also declined significantly since these indexes were first measured (2004 and 2007, respectively).

It may be mentioned here that as measured by Transparency International, the perception of corruption is in Afghanistan quite dire, declining sharply since 2005 (score of 25) to the abysmal 2012 score of 8. The World Bank's Control of Corruption and Ease of Doing Business also consistently rank Afghanistan as the lowest and thus most corrupt country in the region. The World Bank has only measured 4 reforms in Afghanistan since 2010 that affect the ease of doing business. Levels of corruption in Afghanistan appear to be accelerating more rapidly than efforts to combat it.

However, the magnitude and importance of Afghanistan's opium economy are virtually unprecedented and unique in global experience — it has been roughly estimated as equivalent to 36% of licit (i.e. non-drug) GDP in 2004/05, or if drugs are also included in the denominator, 27% of total drug-inclusive GDP. Actually, the sheer size and illicit nature of the opium economy mean that not surprisingly, it infiltrates and seriously affects Afghanistan's economy, state, society, and politics which generates large amounts of effective demand in the economy, provides incomes and employment including in rural areas (even though most of the final "value"

from Afghan opium accrues outside the country), and supports the balance of payments and indirectly (through Customs duties on drug-financed imports) government revenues.

The economy is totally disarray in Afghanistan as the opium economy by all accounts is a massive source of corruption and undermines public institutions especially in (but not limited to) the security and justice sectors. There are worrying signs of infiltration by the drug industry into higher levels of government and into the emergent politics of the country. Thus it is widely considered to be one of the greatest threats to state-building, reconstruction, and development in Afghanistan.

There is an increase number of revenue collection from domestic sources has been a particularly successful undertaking of the National Unity Government, especially in light of the continuing conflict. Total revenue collection in 1395 (2016) was 147 billion Afghanis (Afs) compared to 122.4 billion Afs in 1394 (2015), an increase of 20 percent. The Ministry exceeded its revenue collection goal for 2017 by 16.6 billion Afs increasing the revenue by nearly 14% since 2016.

There are so many reasons for the increased revenue collection, including standard fiscal fluctuations such as inflation, exchange rate depreciation, and real growth of the economy, but also direct efforts by the Ministry of Finance to implement reforms, increase public awareness and customer services for taxpayers, and implement systems of transparency to stop leakages due to corruption.

The Afghan Government instructed the Afghanistan Revenue Department (ARD), housed within the Ministry of Finance, is responsible for the administration and collection of tax and non-tax revenue for the Afghan government, and has implemented the revenue and tax collection reforms. These efforts include a wide range of reforms and restructuring within the ARD, particularly the roll out of SIGTAS, fast-track filing and e-forms, legal revisions, and the segmentation of taxpayers offices into Large, Medium and Small.

4.1 Reforms of Afghaan Tax Administration

The quick revenue increased mostly is due to a number of administrative reforms in the Afghanistan Revenue Department (ARD). These helped jump-start revenue increase, while more time-consuming reforms were underway. Some of those specific efforts include:

- Increasing the Business Receipt Taxes (BRT) from 2 per cent to 4 per cent yielding 4.4 billion Afghanis in additional revenue;
- Increasing fuel fees from 1 Afghani per liter to 2 Afghani per liter;
- Introducing a 10% tax on mobile phone pre-paid top-ups;
- Increasing the fees for over flight from 400 dollars (27,000 Afghanis) to 500 dollars (34,000 Afghanis) for additional revenue of 2 billion Afghanis in 1394 (2015).
- Increases in tariff rates for selected imports such as beverages, gas, tea, soup, cigarettes, carpets, steel, IT equipment, furniture, vehicles.

One of the most notable barrier to paying taxes was simply the complexity and opaqueness of the tax-paying process. Subsequently, to address this, the ARD launched a fast-track filing system for the Large Tax Payers office in August 2017 in order to expedite filing and cut out three in-person visits that were previously required to file taxes. This system is a modified version of an official e-filing system, which is pending until the endorsement of an e-governance law in the country. Similarly, e-forms have been launched for all medium and small taxpayers, which can be accessed and downloaded from the ARD website. And to utilize the system, taxpayers must acquire a Tax Identification Number (TIN) to file Corporate Income Tax, Personal Income Tax, Withholding Taxes, Fixed Taxes, Business Receipt Tax and other taxes. The procedure for issuing the tax clearance certificate, which is needed for the renewal of business licenses, has also been simplified and tax clearance can be obtained much quicker than in previous years.

After reviewing thoroughly tax records, it became apparent that many taxpayers, predominantly businesses, had not paid taxes for years. There was also a lack of clarity and public awareness on penalties for late payments, late filings, and tax concealment, thus many businesses had accumulated a backlog of high penalties. And the Ministry of Finance (MoF) addressed this issue in consultation with Parliament and reached a solution to implement a temporary amnesty on penalties, which was introduced in last year's budget.

Under the amnesty initiative, all backlogged tax penalties were exempted to 95%, so tax payers who had outstanding liabilities and accumulated penalties could clear them by paying just 5% of accumulated penalties, in addition to the principal amount of tax originally owed. This initiative is still ongoing and taxpayers have 9 months in total starting with the current fiscal year to take advantage of this amnesty.

4.2 Legislative Reforms and Policy

Some policies and legislative reforms addressed to encourage taxpayers and simplify the process for them:

- The late payment penalty was 0.10% per day, which has now been reduced to 0.05 % per day, a 50% cut in the penalty.
- The Tax Administration law and Income Tax law have both been amended. These legislative amendments include among others the creation of a Tax Disputes Resolution Board, an independent body of government and private sector experts to hear complaints

and appeals from taxpayers before having to go to the courts. Both Revision of law have been submitted to Parliament and will soon be enacted.

- Last year upon the initiative of the Ministry of Finance, the Ministry of Justice in coordination with the Supreme Court, established a Tax-specific code, which allows for the establishment of special courts to resolve tax-related issues. The code was enacted last year and the special court has now been operating for the last six months. To date, 13 cases have been referred to the special court, of which 4 cases have been decided and 9 are in process.
- The Value Added Tax law, which replaces the Business Receipt Tax, has been approved and will start implementation in December 2020.

The above mentioned reforms were specifically benchmarked in agreements with donors to the Afghanistan Reconstruction Trust Fund via the World Bank. Upon achievement of these benchmarks, the Ministry of Finance received 65 million dollar grant from donors to the Afghanistan Reconstruction Trust Fund (ARTF).

4.3 Tax Payer Customer Services and Increasing Public Awareness

As the Afghan government had not made efforts previously to engage citizens in the tax-paying process and their tax-paying obligations, the ARD undertook a massive national public awareness campaign, via TV and radio commercials, social media, and face-to-face meetings with the Afghan Chamber of Commerce, private sector and civil society, and business, in addition to revamping and updating the ARD website.

During last the two years, the ARD celebrated the first week of the fiscal year as Tax Awareness week, reaching an estimated 12,000 taxpayers directly across the country through public engagement initiatives including distribution of promotional materials, seminars, sports events, university lectures, and increased media appearances by provincial directors.

Due to the number of tax-paying citizens increases, the ARD has taken steps to improve customer services. The Large, Medium and Small Taxpayers Offices all include customer service centers. A complaints and questions hotline was established, so taxpayers can get their questions answered by calling '1000.' Fast-track filing services were launched for the Large Taxpayers Office in 2017, and in 2018, similar services will be launched for the Medium and Small Taxpayers offices, as well as customer service centers for small taxpayers in the provinces.

All efforts has been given to clarify and communicate personal income tax obligations. Those citizens who make less than 5,000 Afs a month are totally exempt from paying taxes. Those who make between 5,000 to 12,500 Afs a month are required to pay only 2% tax. Income between 12,500 Afs to 100,000 Afs triggers 10% tax, plus 150 Afs fixed amount. The fixed amount increases to 8,900 Afs and the tax increases to 20% as monthly income exceeds 100,000 Afs. Mostly the large taxpayers pay taxes via bank transfer, while medium and small taxpayers, and taxpayers throughout the provinces, make a manual deposit at a branch of Da Afghanistan Bank in Kabul or in the provinces.

Subsequently, similar arrangements exists for small businesses and small commercial shops. Previously, small shopkeepers were exempt from paying taxes if their income was less than 60,000 Afs a year, but now that threshold has been increased to 150,000 Afs. Other factors are considered as well, including risks, and amount of expenses. Shopkeepers are provided information on how to appeal against the ARD assessment if they feel they have been unfairly taxed. An Automatic Tax Calculator App has been introduced for the small taxpayer, so that they can easily estimate their tax liabilities to avoid any misuse of the taxpayer's low awareness level.

4.4 Creating incentives and reducing corruption

The another reason for the increase in revenue over the past four years has been due simply to stopping the hemorrhaging of revenue due to corruption. Several changes in human resources and technical systems at all levels of the ARD and Customs department have resulted in plugging these leakages.

As instructed by Afghan Government, SIGTAS (Standard Integrated Government Tax Administration System) automated tax collection system is now being implemented within the ARD at all points where taxes are collected in Kabul, as well as in Herat, Balkh, Kandahar, Kunduz and Nangarhar. Further automation and process simplification continues, creating more resistance to corruption.

Reports/datas from an HR review of the 2,400 staff working in the ARD across the country exposed corrupt factors and low performing employees working in the department—142 internal staffing changes have been made with their aim of reducing opportunities for corruption and increasing administrative efficiency. Extremely low civil servant salaries in the ARD were further exacerbating corruption—civil servant salaries were raised for staff in the last year which yielded positive results in staff performance, and a proposal has been put forth to do the same in the ARD and throughout the taxpayers offices.

Currently, it is noticed that the ARD has also worked hard to incentivize paying taxes and create a culture of fulfilling taxpaying obligations. Last year, the ARD awarded those tax payers in the who complied with processes on time and accurately—awardees included AWCC, one of the largest telecoms providers in Afghanistan, and the airline Kam Air. And for the year 2018, the ceremony will be hosted in the Office of the President and will include taxpayers from the provinces.

4.5 Tax reform and Next Steps

The outcomes of these reform efforts at ARD were recognized in 2016, when the department was awarded as the second highest-performing fiscal directorate in the Afghan government, just behind the National Procurement Authority which ranked first place.

 Still much work to be done to ensure that systems are fluid and accessible to all, that system automation and fast-track filing services are expanded, and that as the tax base increases, customer services also increases and improves. This will be the focus in 2018.

The overall construction on the new taxpayer center in Kabul started 4 months ago and is expected to be completed before the end of the year. By 2020, two further centers for Medium and Small Taxpayers will be constructed in Kabul. Small taxpayers offices are planned to be established in district centers around the country within two years, with the first 5 completed in various districts of Kabul city by the end of this year. These types of centers will operate in a professional environment to provide one window services to the taxpayers and will reduce interaction between the employees and the taxpayers, thus will significantly reduce the opportunities for corruption.

 This legislative reforms will continue as well. In accordance with the government's agreements with the International Monetary Fund and the World Bank, the Value Added Tax law is now approved and slated to start implementation in 21 December 2020, with a standard rate of 10%. VAT is a key fiscal sustainability measure foreseen in Afghanistan's IMF Extended Credit Facility and in Afghanistan's EU State-Building Contract. Given the scale, complexity and nature of introducing VAT, ARD has developed a VAT implementation plan and a national Large Taxpayers office reform plan to ensure a smooth transition in implementing collection of this new tax. In addition, VAT communication and VAT transition plans have been developed and shared on the ARD website. Based on government and IMF calculations, a 10% VAT is expected to yield an additional revenue of 2 per cent of GDP.

 Moreover, a fully functional e-filing system will be implemented as soon as the e-governance law is approved. Recently, the taxpayers service center for Medium Taxpayers in Kabul was upgraded with technological equipment to manage the queue system and to send automatic notifications to taxpayers.

5. Conclusion

It is positive news that the Afghan Government has done well to maintain robust growth in revenues over the first eight months of this year and has continued to demonstrate sound macroeconomic management. For the sake of experimentation however, the next few years will test whether these achievements can be sustained in the face not just of insecurity and insurgent violence, but also political uncertainty during the approaching election cycle. The sustaining steady revenue increases (even if at a slower pace than during 2015-16), effective macroeconomic management and stable international support will be crucial for navigating the next several years.

But still there are bright spots – which should not be overlooked – but the Afghan economy is still weak and also with high rate of unemployment. Government and donor agencies can take some pro-active measures which would modestly improve the prospects for economic growth, but expectations here have to remain realistic.

It may be mentioned here that Afghanistan's Customs and Revenue Department is one of the country's most vital departments, with branches in 34 provinces of Afghanistan. The majority of the government's revenue is collected through this Department, and thus it is crucially important that positive change is introduced within the Department to promote the sustainable development of the country.

The focus on customer relationships and bringing facilities to taxpayers, the easier it will be for the Government to collect revenue and build a positive public image to the Afghan people. Introducing online tax payment options and better facilitating the tax collection process would minimize opportunities for corruption, ultimately helping the Department bring greater transparency to its routine operations.

The upcoming new tax regime aimed at weaning Afghanistan off international aid has boosted government revenues but drawn complaints from some private businesses that it hits them unfairly, dampening hopes of economic recovery after decades of war. According to Afghanistan finance ministry, it is expected to raise almost $2.5 billion revenues in the year to March, 2017, $500 million above target, an important achievement as cash for aid and foreign armed forces begins to slow.

And the increase in a country plagued by corruption and tax evasion is down to better tax collection rather than a stronger economy, though, and firms say they are being targeted by over-zealous officials whose demands on time and money are preventing them from investing in expansion for the future. Also, with Islamist insurgents controlling large swathes of territory and appealing to young men to join their ranks, creating jobs is crucial to Afghanistan's battle against militancy.

In fact, absolute levels are not high by international standards, compliance imposes a heavy burden for a sector where many had been used to paying no tax at all. Businesses, many of which learned of the new rules months after they became law, complain of arbitrary and overbearing tax inspectors and say the system is slow, inefficient and open to abuse with some officials demanding bribes for quick clearance.

References

Afghanistan Public Policy Research Organization. 2017. Re-conceptualizing Corruption in Afghanistan: An Institution of Bad Governance. Project Report, May 2017.

Arib, Edris. 2018. Policy, SDGs and Fighting Corruption for the People: A Civil Society Report on Afghanistan's Sustainable Development Goals. Transparency International.

Asia Foundation. 2017. A Survey of the Afghan People: Afghanistan in 2017.

Bertelsmann Foundation. 2018. Transformation Index: Afghanistan Country Report.

Bizhan, Dr Nematullah. 2018. Aid and Statebuilding, Part II: Afghanistan and Iraq, Third World Quarterly 39:5 pp 1014-1031

Bjelica, Jelena. 2019. Afghanistan's AntiCorruption Institutions: Too many and with too few results, Afghanistan Analysts Network, May 20 2019.

Byrd, William; Farahi, Shah Zaman. 2018. Improving Afghanistan's Public Finances in 2017– 2019: Raising Revenue and Reforming the Budget. United States Institutes of Peace, Special Report 424. Bojicic-Dzelilovic, Vesna; Kostovicova, Denisa; Escobar, Mariana;

Bjelica, Jelena. 2015. Organised Crime and International Aid Subversion: Evidence from Colombia and Afghanistan, Third World Quarterly, 36:10, 1887-1905

Congressional Research Service. 2019. Afghanistan: Background and U.S. Policy in Brief.

CSIS. 2019. Backgrounder: Islamic State Khorasan, Center for Strategic and International Studies, 9 November 2018.

DEVCO. 2019. Afghanistan.

DFID. 2019. Afghanistan. https://devtracker.dfid.gov.uk/countries/AF

Disch, Arne; Natvig, Kirsten. 2019. Addressing corruption risks in multi-partner funds, U4 AntiCorruption Resource Centre, Chr. Michelsen Institute.

Donati, Jessica; Shalizi, Hamid. 2015. UN Investigation finds corruption in Afghan police oversight division, Reuters, 19 April 2015.

EU Delegation to Afghanistan. 2018. Fourth Annual EU Anti-Corruption Conference.

Felbab-Brown, Vanda. 2017. How Predatory Crime and Corruption in Afghanistan Underpin the Taliban Insurgency, Brookings Institution, 18 April 2017.

Fund for Peace. 2019. Fragile States Index 2019.

Geneva Conference on Afghanistan: Joint Communiqué. 2018. Securing Afghanistan's Future: Peace, Self-Reliance and Connectivity.

Garred, Michelle. 2017. Towards a CorruptionSensitive Conflict Analysis, CDA, December 13, 2017.

Goldstein, Joseph. 2014. E.U. Confirms Wide Fraud in Afghan Presidential Runoff Election, The New York Times, 16 December 2014.

Integrity Watch. 2018. National Corruption Survey 2018.

Integrity Watch. 2018. Corruption and Justice Delivery in Kunduz Province of Afghanistan.

International Crisis Group. 2011. Aid and Conflict in Afghanistan.

International Crisis Group. 2019. Interpreting U.S. Talks with the Taliban.

Johnson, Thomas H. 2018. The Illusion of Afghanistan's Electoral Representative Democracy: The Cases of Afghan Presidential and National Legislative Elections, Small Wars & Insurgencies, 29:1, pp 1-37

Johnston, Michael; Johnsøn, Jesper. 2014. Doing the wrong things for the right reasons? "Do no harm" as a principle of reform. U4 Brief December 2013:4.

Johnsøn, Jesper. 2016. Anti-Corruption Efforts in Afghanistan, in Anti-Corruption Strategies in Fragile States pp. 175-209. Cheltenham, Edward Elgar Pub.

MacGinty, Roger. 2010. Warlords and the Liberal Peace: Statebuilding in Afghanistan, Conflict, Security and Development 10:4, pp. 577–598

Mashal, Mujib; Shah Taimoor; Rahim, Najim. 2018. 30,000 Afghan Police Officers, on Front Line of War, Are Denied Pay, New York Times, 6 June 6, 2018.

Mashal, Mujib; Rahim, Najim. 2018. A New Push Is on for Afghan Schools, but the Numbers Are Grim, New York Times, 1 April 2018.

McDevitt, Andy. 2016. Afghanistan: Overview of Corruption and Anti-Corruption with a Focus on Development Assistance. U4 Anti-Corruption Resource Centre

MEC: Independent Joint Anti-Corruption Monitoring and Evaluation Committee. 2017. Ministry-wide Vulnerability to Corruption Assessment of the Ministry of Education.

MEC. 2016. Vulnerability to Corruption Assessment in the Afghan Ministry of Public Health.

Mehran, Weeda. 2018. Neopatrimonialism in Afghanistan: Former Warlords, New Democratic Bureaucrats?, Journal of Peacebuilding & Development, 13:2, pp. 91-105

Murtazashvili, Jennifer. 2015. Gaming the State: Consequences of Contracting Out State Building in Afghanistan, Central Asian Survey, 34:1, pp. 78- 92.

OECD. 2018. States of Fragility 2018. OECD. 2019. Afghanistan.

OCCRP: Organised Crime and Corruption Project. 2018. Corruption Plagues Afghanistan's Education System.

OECD. 2016. Recommendation of the Council for Development Co-operation Actors on Managing the Risk of Corruption.

Palrecha, Nandita; Tourangbam, Monish. 2018. India's Development Aid to Afghanistan: Does Afghanistan Need What India Gives? The Diplomat, 24 November 2018.

Rasmussen, Sune Engel. 2017. UN Concerned by Controversial Us Plan to Revive Afghan Militias, The Guardian, 19 November 2017.

Rubin, Barnett. 2019. Everyone Wants a Piece of Afghanistan. Foreign Policy.

Samim, Mohammad. 2016. Afghanistan's Addiction to Foreign Aid, The Diplomat, 19 May 2016

Schetter, Condrad; Glassner, Rainer. 2012. The Peripheralization of the Center: "Warlordism" in Afghanistan, The Middle East Institute, 19 April 2012.

Schmeidl, Susanne. 2016. The Contradictions of Democracy in Afghanistan: Elites, Elections and 'People's Rule' Post-2001, Conflict, Security & Development, 16:6, pp. 575-594

SIGAR. 2018. AUDIT REPORT: Afghanistan Reconstruction Trust Fund: The World Bank Needs to Improve How it Monitors Implementation, Shares Information, and Determines the Impact of Donor Contributions.

SIGAR. 2018b. AUDIT REPORT: Afghanistan's Anti-Corruption Efforts: The Afghan Government Has Begun to Implement an Anti-Corruption Strategy, but Significant Problems Must Be Addressed.

SIGAR. 2018c. Child Sexual Assault in Afghanistan: Implementation of Leahy Laws and Reports of Assault by Afghan Security Forces.

SIGAR. 2019. 2019 High Risk List.

Swenson, Geoffrey. 2017. Why U.S. efforts to promote the rule of law in Afghanistan failed. International Security, 42:1, pp. 114-151

Theros, Marika; Rangelov Iavor. 2013. Unjust Disorder? Impunity and Insecurity in Post-2001 Afghanistan. European Council on Foreign Relations Background Paper.

Times of India. 2019. India's Development Aid to Afghanistan Exceeds $3bn.

de Toledo Gomes, Aureo. 2017. Statebuilding and the Politics of Budgeting in Afghanistan, Journal of Intervention and Statebuilding 11:4, pp. 511-528 UNAMA. 2019. Afghanistan's Fight Against Corruption: Groundwork for Peace and Prosperity.

UNAMA. 2018. Afghanistan's Fight against Corruption: From Strategies to Implementation.

UNAMA. 2017. Afghanistan's Fight against Corruption: The Other Battlefield.

UNODC. 2018. Afghanistan Opium Survey 2017: Cultivation and Production.

USAID. 2019. Foreign Aid Explorer.

US Embassy Kabul. 2017. U.S.-Afghan Statement on the Bilateral Compact Executive Committee Meeting.

Wheatland, Ben. 2015. Afghanistan: Corruption as a Driver of Conflict. U4 Helpdesk Answer. World Bank. 2019. Ease of Doing Business 2019.

World Bank. 2019b. The World Bank in Afghanistan.

World Bank. 2017. Worldwide Governance Indicators.

World Bank. 2017b. A New Strategy to Support Growth and Stability in Afghanistan.

Zürcher, Christoph. 2019. The Folly of 'Aid for Stabilization', Third World Quarterly.