

**Islamic Republic of Afghanistan: Request for an Extension of the Three-Year Arrangement Under the Extended Credit Facility**

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**International Monetary Fund  
Washington, D.C.**

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

**Request for an Extension of the Three-Year Arrangement  
Under the Extended Credit Facility**

Prepared by the Middle East and Central Asia Department  
(In consultation with other Departments)

Approved by Adnan Mazarei (MCD) and Dhaneshwar Ghura (SPR)

June 1, 2010

1. In the attached letter, the authorities request a three-month extension of the arrangement under the Extended Credit Facility (ECF), to September 25, 2010. The arrangement, for SDR 81 million (50 percent of quota), was approved on June 26, 2006. At the time of the fifth review on April 22, 2009, the Board extended the arrangement until March 31, 2010 and rephased remaining disbursements to allow for a seventh review. At the sixth review on January 13, 2010, the arrangement was extended until June 25, 2010.<sup>1</sup>
2. The requested extension will provide time for proceeding with discussions on a successor arrangement. The discussions began in April and are expected to be concluded in July. The authorities intend to frame the new homegrown program within a wider development agenda that they will announce at a donor conference in Kabul on July 20. The extension will also provide time for the completion of the seventh review and allow the final disbursement to be made. The staff report on the 2010 Article IV Consultations, the seventh review, and the request for a new arrangement could be submitted to the Board in August.
3. The ECF-supported program is on track. All but one of the quantitative performance criteria for end-March 2010 were met. The revenue target was exceeded by a large margin, yielding an increase in the tax-to-GDP ratio from 6.9 percent in 2008/09 to 8.9 percent in 2009/10. However, the performance criterion on currency in circulation was missed because of exceptionally high money demand that resulted from strong economic growth and large inflows of funds from coalition forces. Despite delays, most structural reforms are expected to be implemented by July. One structural benchmark (a protocol for border controls) and one of the four financial reviews of state-owned enterprises will be included as structural benchmarks in the new program. These measures have been held back because of difficulties in securing technical assistance and delays in cabinet appointments for the new government.

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<sup>1</sup> The extensions were needed to allow for the completion of pending reforms.

4. Based on the above, the staff supports the authorities' request for the extension of the arrangement until September 25, 2010. The authorities reiterated their commitment to maintain macroeconomic stability, move towards fiscal sustainability, and advance the reform agenda despite an extremely challenging security situation. The attached decision is proposed for adoption by the Executive Board on a lapse-of-time basis.

**APPENDIX I: LETTER OF INTENT**

Kabul, May 30, 2010

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington DC 20431

Dear Mr. Strauss-Kahn:

On June 26, 2006, the IMF's Executive Board approved a three-year arrangement for the Islamic Republic of Afghanistan under the Poverty Reduction and Growth Facility, now the Extended Credit Facility (ECF). Since then, the Board has extended the arrangement twice, most recently to June 25, 2010.

We remain committed to implementing the Fund-supported program. Implementation of the structural benchmarks has been somewhat delayed, but we expect to complete most by end-July. Adoption of the business model of border controls has lagged due to delays in appointments to the key ministries involved in the effort and the complexity of the issues. The comprehensive financial review of the state fuel company has also lagged, due to difficulties in obtaining technical assistance.

We are currently engaged in discussions with Fund staff on a new economic program that can be supported by the ECF. We remain committed to maintaining macroeconomic stability, moving toward fiscal sustainability, and advancing the reform agenda. We intend to embed these objectives in the new program. We envisage that the two delayed measures noted above will become structural benchmarks under a new arrangement.

We are also working on the details of a comprehensive framework for security, development, and governance, which we intend to unveil at the Kabul Conference on July 20. We envisage that the successor program will be an integral part of this framework, and we are therefore synchronizing preparations for the two initiatives. On behalf of the government of Afghanistan, we request that the ECF arrangement be extended until September 25, 2010. The extension would provide time for the completion of the seventh review and allow the final disbursement to be made.

Sincerely yours,

/s/  
Omar Zakhilwal  
Minister of Finance

/s/  
Abdul Qadeer Fitrat  
Governor, Da Afghanistan Bank