

CRISES, VULNERABILITY & POVERTY IN SOUTH ASIA

Peoples' Struggles for Justice and Dignity

Country Report 2013

AFGHANISTAN

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1. INTRODUCTION:

1.1 Population and Geography: Afghanistan officially the Islamic Republic of Afghanistan, is a landlocked country forming part of South Asia, Central Asia and to some extent Western Asia. With a population of around 26.5 million, it has an area of 647,500 km² (250,001 sq mi), making it the 42nd most populous and 41st largest nation in the world. It is bordered by Pakistan in the south and the east, Iran in the west, Turkmenistan, Uzbekistan and Tajikistan in the north, and China in the far northeast.

The population of Afghanistan for the year 2011-12, is estimated around 26^{1.5} million, of which 51 percent are male and 49 percent are females. Distribution of population between urban, rural areas shows that out of settled population of 19.1 millions are living in the rural areas and 5.9 millions are living in urban areas. In addition to these around 1.5 millions are leading a nomadic way of life. The most striking feature of the Afghan population is its very young age structure. Some 46.1 percent (11.5 millions) are under 15 years of age, where elderly of 65 is around 3.7 percent. The proportion under 15 is among the very highest in the world and significantly higher than that of neighboring countries. Based on 2003/2005 household listing data growth rate of Afghan population was calculated as 2.03 percent annum population growth due to rural urban migration is higher in urban areas.

1.2 Political System and Administration: The politics of Afghanistan consists of the Council of Ministers and the National Assembly, with a president serving as the head of state and commander-in-chief of the military. The Islamic Republic of Afghanistan is divided into 34 provinces. The president is head of state and head of government. Legislative power is vested in the bicameral National Assembly. The 102²-member Meshrano Jirga (House of Elders) is made up of one representative from each of the 34 provincial councils; one representative from each of the 34 local district councils; and 34 members appointed by the president. Two seats each are reserved for representatives of the Kuchi nomads and for disabled representatives. At least 17 seats are reserved for women. The members chosen by the provincial councils and the district councils serve four-year terms, while the members appointed by the president serve five-year terms. The 249-seat Wolesi Jirga is directly elected. There are 34 multi-member constituencies with between 2 and 33 members each. Ten seats are reserved for Kuchis, including at least three women, and 65 additional seats are reserved for women, giving a total of at least 68 women. The term of the Wolesi Jirga is five years. The electoral system uses single non-transferable votes. Candidates who receive the most votes in each province win seats. If the number of women elected is below a certain threshold, however, the difference is made up with the female candidates who received the most votes. The president and two vice presidents are directly elected for a five-year term; if no candidate receives 50% or more of the vote in the first round of voting, a second round is held between the two candidates with the most votes. The president may be elected for two terms only. On occasion, the government may also convene a Loya Jirga to amend and interpret the constitution, declare war, and adopt decisions on the most critical national issues.

Soon after the fall of the Taliban, the United Nations hosted a conference in Bonn of leaders representing various Afghan factions. The Bonn Conference established a process for political reconstruction and provided for a transitional government. In June 2002 a traditional assembly of tribal leaders, or Loya Jirga (Grand Council), chose Pashtun tribal leader Hamid Karzai as president of the transitional government.

In January 2004, a Loya Jirga was convened and approved a new constitution for Afghanistan, which provided for a presidential system and a bicameral legislature. The Constitution also reserved about one-

¹ Afghanistan Statistical Yearbook 2011/2012

² <http://www.parl.gc.ca/About/Library/VirtualLibrary/ResearchPublications-e.asp#system>

quarter of the seats in the Wolesi Jirga (House of Representatives) for women. When presidential elections were held on 9 October 2004, Karzai won by a wide margin, becoming the first democratically elected president of Afghanistan. Elections were held for the Wolesi Jirga in September 2005. Important political milestones mandated, and number of international conferences in the international arena starting from Bonn Agreement to the most recent Tokyo conference sets the social and economical benchmarks for country development and transformation milestones. The Government has demonstrated its commitment to political, economic, and social reform and to developing a free and competitive economic system and private sector-driven growth. It has initiated important steps to reduce the political influence of the country's warlords and to create a strong, cohesive national army. The authorities have shown strong ownership of the reconstruction effort, working closely with funding agencies on rebuilding critical physical infrastructure and on transforming Soviet-style public sector institutions into those that promote market-led development. Despite enormous challenges associated with macroeconomic planning and management of the reconstruction effort (e.g., the Government's limited technical and revenue-generating capacities, numerous aid sources and implementing agencies, deficient statistical information, weak service delivery systems, and manifold laws and regulations requiring revision).

1.3 National Poverty Line: The poverty line consists of two³ components – the food poverty line and an allowance to account for basic non food needs. Whereas the poverty line is the benchmark for assessing whether an individual can attain a minimum required level of wellbeing. In other terms, if the per capita level of real expenditure is less than the poverty line, the individual will be deemed to be poor. The percentage of Afghans that is not able to meet their basic needs is 36 percent. Even higher poverty incidences are found among the Kuchi population (54 percent) and in South, West- Central and East regions of the country (more than 44 percent).⁴The national average poverty line is 1,255 Afs per person per month, representing the typical cost of attaining 2,100 calories per person per day and of meeting some basic non-food needs. The poverty gap ratio is a considerable 8 percent. Poverty among the Kuchi's is not only more widespread, poor Kuchi's are also significantly poorer than the rural and urban poor. The total consumption shortfall is about 28.4 billion Afs., approximately 570 million USD. Factors that significantly correlate with poverty are household size and number of children in the household, sex of the household head, the head's educational attainment, employment status and industry of work, child labor, seasonal migration, net primary and secondary enrolment, access to land, and access to basic services like safe drinking water, improved sanitation and electricity. Although the national Gini index of 29 is low in international perspective, substantial inequality exists in shares of consumption: the richest quintile of the population has a share of 39 percent of total consumption, the poorest quintile has only 9 percent. According to NRVA 2007/08 data, the estimated median per capita consumption level at the national level is 2,440 kilocalories per day.

Table A1.3: Country Poverty and Social Indicators			
Indicator		Period	
		Value (Year and Source)	Value (Latest Year and Source)
A.	Population Indicators		

³ Afghanistan Statistical yearbook 2011/2012

⁴ National Risk and Vulnerability Assessment (NRVA) 2008

	1. Total Population (million)	23.2 (2004 CSO)	24.1 (2006 CSO)
B. Social Indicators			
	1. Total Fertility Rate (births/woman)	6.8 (2005 HDR)	6.3 (2006 CSO)
	2. Maternal Mortality Rate (per 100,000 live births)	1900 (2000 UNICEF)	1600 (2005 UNICEF)
	3. Infant Mortality Rate (below 1 year/1,000 live births)	165 (2001 JHU)	135 (2006 JHU)
	4. Life Expectancy at Birth (years)	43 (2003 UNICEF)	46.4 (2004 ADB)
	a. Female	44 (2003 CSO)	45 (2005 CSO)
	b. Male	45 (2003 CSO)	47 (2005 CSO)
	5. Adult Literacy (%)	36% (2000 UNICEF/CIA)	28.1 (2004 ADB)
	a. Female	12% (1990 UNICEF)	14% (2004 UNICEF)
	b. Male	40% (1990 UNICEF)	43% (2004 CSO)
	6. Primary School Gross Enrollment (%)	33% (1998 UNESCO)	54% (2003 UNICEF/MICS)
	7. Secondary School Gross Enrollment (%)	—	—
	8. Child Malnutrition (% below age 5)	39% (2004 CSO)	53% (2006 CSO)
	9. Population Below Poverty Line (%)	70% (2001 HDR)	53% (2007 CIA)
	10. Population with Access to Safe Water (%)	33% (2003 CSO)	33% (2004 CSO)
	11. Population with Access to Sanitation (%)	8% (2002 UNICEF)	67% (2003 CSO)
	12. Public Education Expenditure (% of GDP)	—	1.6% (2002 CSO)
	13. Human Development Index Rank	—	—
	14. Gender-Related Development Index Rank	—	—
C. Poverty Indicators			
	1. Poverty Incidence	—	—
	2. Percent of Poor to Total Population	—	—
	a. Region A	—	—
	b. Region B	—	—
	3. Poverty Gap	—	—
	4. Poverty Severity Index	—	—
	5. Inequality (Theil L Index)	—	—
	6. Human Poverty Index Rank	—	59.30 (2004 HDR)

— = not available, CIA = Central Intelligence Agency, CSO = Central Statistics Office, GDP = gross domestic product, HDR = Human Development Report, JHU = John Hopkins University, MICS = Multiple Indicator Cluster Survey, UNESCO = United Nations Education, Scientific and Cultural Organization, UNICEF = United Nations Children's Fund.

Sources: United Nations Development Programme. 2004. *Human Development Report 2004*. New York; Government of the Islamic Republic of Afghanistan. 2006. *Afghanistan Statistical Yearbook 2005*, Kabul; United States Central Intelligence Agency. 2007. *CIA Fact Book 2007*. Washington, DC; and Johns Hopkins University. 2007. *Afghanistan Health Survey in 2006*. Washington, DC.

1.4 State of the Economy: It is difficult to paint an accurate picture of Afghanistan's economy. Most economic activity takes place in the informal sector, and is thus not captured by economic statistics. Although formal or legal data collection is extraordinarily difficult in such conflict conditions GDP estimates by economic activity in Afghanistan has been compiled. Since 2002, the GDP estimates are compiled broadly follows the concept, definitions and classifications of the SNA 1993, as far as the basic data availability permit. The Central Statistics Office (CSO) currently compiles the GDP estimates by economic activities at current and constant prices and by expenditures categories at current prices. Afghanistan Statistical Yearbook published by Afghan CSO provides that Afghanistan Economical activities

are classified into three sectors such as Agriculture, Industry and Services based on government, ANDS and MDGs requirements. To this end the average GDP per capita has moved up from US \$201 at the beginning of the Transitional Government of Afghanistan, to nearly US \$ 715 in 2011-2012

The agriculture value added is estimated at Afs 241,743 million or about 26.74% of GDP in 2011/2012.⁵The industrial sector production compared to the previous year's increased by 9.8% in 2011/2012 with a value added of 193,371 million Afs. Due to the importance of the sector in the economy (between 20-30 percent of GDP depending on harvest), changes in agriculture output have a large influence on GDP growth (Figure 1). Wheat accounts for three-fourths of aggregated agriculture output and is the most important licit crop in Afghanistan. However, more than 70 percent of the wheat production is rain-fed and, hence, highly weather dependent. The good weather conditions at the turn of the year, for instance, resulted in a growth of 27 percent over last year's harvest. This brought the sector close to the record harvest levels of 2009, (which came close to self-sufficiency in cereals) and improved economic growth prospects in 2012. This demonstrates that further investment in irrigation systems, among other interventions, has the potential to significantly stabilize Afghanistan's growth path and reduce food insecurity.

The value added by the services sector was AFs 436,399 million which grew by 12.2% in 2011/2012. While the rate of the growth in agriculture and industry decelerated during the latter part of the past 10 years, services sector confidently continued to the growth. And thus dominating economic activities and replacing the trend from agriculture and industry. Telecommunication, transport, and public services were the most dynamic subsectors. The Ministry of Communications and Technology reported a 21 percent increase in ICT service subscriptions over the past year. The demand for transportation and distribution was fuelled by continuously high donor aid inflows and security-related trade. The strong performing telecommunication sector continued to expand with release of the first two 3G licenses.[The government-owned, corporatized Afghan Telecom drastically reduced its wholesale prices for Internet bandwidth in 2012 from US\$900 to US\$300 which led to further decline in end-consumer prices for Internet service and nearly doubled Internet usage. However, with end-consumer prices between US\$200 and US\$500 for high-speed Internet packages, such services remain unaffordable for the majority of the population, even those who have access to electricity and information technology.

The officially recorded export of goods was about US 376 million during 2011/2012. Goods export revenue per capita in Afghanistan was around US\$ 14.2 in 2011/2012. The officially recorded import of goods in 2011/2012 was US\$ 6390 million. Total imports in 2011/2012 compared to 2010/2011 increase by 24 %.

Table A1.2: Country Economic Indicators						
Item	Fiscal Year					
	2003	2004	2005	2006	2007	
A. Income and Growth						
1. Nominal GDP (excluding opium production, \$ million)	4,592	5,947	6,489	7,723	9,596	
2. GDP per Capita (\$, current)	186	218	252	264	323	
3. GDP Growth (% , in constant prices)	15.1	9.4	16.1	8.2	11.5	

⁵ Afghanistan Economic Update October 2012, The world Bank.

	a. Agriculture	16.9	(17.1)	6.7	(21.1)	-	
	b. Industry	11.9	32.4	23.9	21.3	-	
	c. Services	13.8	34.6	14.6	18.5	-	
B. Saving and Investment (current and market prices, % of GDP)							
1.	Gross Domestic investment	33.0	46.1	44.6	46.5	37.0	
2.	Gross Domestic Savings	22.7	41.2	41.8	35.6	37.8	
C. Money and Inflation (annual % change)							
1.	Consumer Prices (end of period)	10.3	14.9	9.4	4.8	20.7	
	Consumer Prices (period average)	24.1	13.2	12.3	5.1	13	
2.	Currency in circulation	-	34.6	14.6	13.3	17.0	
3.	Exchange Rate (AF/\$, average)	49	47.8	49.7	49.9	49.8	
D. Government Finance (% of GDP)							
1.	Revenue and Grants	11.4	13.9	17.6	16.8	18.1	
2.	Operating Expenditure	9.8	10.3	10	11.3	10.6	
3.	Operating Budget Balance (including grants)	(0.8)	0.4	1.6	1.2	1.2	
E. Balance of Payments							
1.	Merchandise Trade Balance (% of GDP)	(56.0)	(63.7)	(66.8)	(63.8)	(62.5)	
2.	Current Account Balance (% of GDP)						
	Including grants	(10)	(4.4)	(2.8)	(4.9)	(0.9)	
	Excluding grants	(64.0)	(65.2)	(75.2)	(70.0)	(66.9)	
3.	Merchandise Export (\$) Growth (as % of GDP)	46.7	(13.2)	9.2	0.9	1.3	
4.	Merchandise Import (\$) Growth (as % of GDP)	74.6	16.1	20.5	10.1	16.2	
F. External Payments Indicators							
1.	Gross Official Reserves (\$ million)	820	1,283	1,662	2,064	2,335	
	In months of imports	2.2	3.0	3.2	3.6	4.2	
2.	External Debt Service (% of GDP) ^a	14.0	12.8	184.0	155.0	21.0	
3.	Total External Debt (% of GDP) ^b	14.0	12.8	184.2	155.0	21.0	

AF = afghani (currency), GDP = gross domestic product, HIPC = Highly Indebted Poor Country (Initiative), MDRI = Multilateral Debt Relief Initiative

^a After HIPC and MDRI relief as well as debt relief beyond HIPC relief from Paris Club creditors including obligations to IMF

^b Gross official reserve relative to external debt service due.

Source: IMF. 2008. *Country Report No. 08/72, Islamic Republic of Afghanistan: Selected Issues and Statistical Appendix*. Washington, DC. Debt figures from IMF. 2008. *IMF Country Report No. 08/229, Islamic Republic of Afghanistan: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criterion—Staff Report*. Washington, DC.

2. BROAD POLICY REGIME, FORMULATION PROCESSES AND THEIR TRANSMISSION MECHANISM/ROUTES

2.1 Broad Economic Policy Regime: The Government's overall vision is expressed in Afghanistan National Development Strategy (ANDS). ANDS is to consolidate peace and stability through just and institutions, and to reduce poverty and achieve prosperity through broad based and equitable economic growth. The ANDS features three mutually supporting pillars: (i) security; (ii) governance, rule of law, and human rights; and (iii) economic and

social development. The ANDS indicates that progress across all fronts is needed to reduce poverty and promote prosperity.

⁶The economic and social development pillar includes the following sectors: agriculture and rural development; education, culture, youth, and media; energy, water, and irrigation; health and nutrition; mining; private sector development; refugees, returnees, and internally displaced persons; social protection; transport; information and communications technology; and urban development. The ANDS also identifies anticorruption activities, capacity development, counter-narcotics, environment, gender equity, and regional cooperation as important crosscutting concerns. Rural development, and particularly the links between jobs, production, and markets, is also seen as crucial to reducing widespread poverty. The ANDS process included the preparation of ministry and agency strategies and provincial development plans as well as the elaboration of prioritized and coasted sectoral strategies. The ANDS process was also informed by sub national and other consultations. The Afghanistan Compact, an international agreement between the Government of Afghanistan and its development partners, and the Government's Afghanistan National Development Strategy (ANDS) are both grounded in the Millennium Development Goals. Both include a series of benchmarks and targets to monitor overall progress.

Afghanistan National Development Financial Envelope							
(\$ million)							
	FY	FY	FY	FY	FY	Total	Total
	2008	2009	2010	2011	2012	(\$)	(%)
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(%)
Core and External Budget Funding							
Domestic Revenue	887	1,104	1,351	1,611	1,911	6,864	21.8
Total Assistance from Donors	6,513	4,960	4,814	4,398	3,908	24,593	78.2
Total Funding	7,400	6,064	6,165	6,009	5,819	31,457	100.0
Budgeted Core and External							
Expenditure							
Security	3,219	2,585	2,679	2,790	2,906	14,179	28.3
Infrastructure	1,781	3,093	3,681	4,180	4,451	17,185	34.3
Agriculture and Rural Development	829	921	916	909	912	4,486	9.0
Education and Culture	742	893	980	1,077	1,181	4,872	9.7
Good Governance and Rule of Law	374	558	640	685	728	2,985	6.0
Health and Nutrition	325	465	530	563	595	2,478	5.0
Economic Governance and PSD	237	215	230	244	260	1,186	2.4
Social Protection	192	359	194	421	449	1,815	3.6
Others (Sub-Codes)	205	198	185	170	157	915	1.8
Total Expenditure	7,903	9,286	10,236	11,038	11,637	50,100	100.0

A Joint Coordination Monitoring Board (JCMB), comprising members of the Government and its development partners, meets up to four times a year to provide oversight to the implementation of the Afghanistan Compact and the ANDS, including decisions on any additional or corrective action required to achieve overall targets. The Afghanistan National Development Strategy was approved as a full Poverty Reduction Strategy Paper by the executive boards of the World Bank and

⁶ Afghanistan National Development Strategy (ANDS).

the International Monetary Fund in June 2008. Whether peace and stability are restored and progress toward political normalcy and economic renewal continues depends largely on the ability of the Kabul authorities to reconstruct an economy devastated by more than two decades of conflict and natural disaster, and to overcome a myriad of security and drug-related difficulties. It also depends on the international community's abiding agreement to provide continuing commitments, technical assistance and financial support for country wide programs, in order to address security and social transformation requirements in particular post 2014, a deadline for the evacuation of International security forces from Afghanistan. The impending withdrawal of international forces in 2014 has renewed fears about the country's transition.

2.2 Kabul Process: A path to an Economically Sustainable, Socially vibrant and stable Afghanistan: The⁷ Kabul Process invigorates the short development history of Afghanistan. National Priority Programs: The Government Economic Development Strategy is embedded with the NPPs. When the concept was originally conceived in late 2009 they focused exclusively on economic growth and job creation. Subsequently, additional NPP were developed to address critical social and governance objectives. The NPPs address a broad range of priorities, including but not limited to improvement of the Afghan business climate, promotion of responsible extractive industries, encouraging efficient and effective land use, strengthening the financial sector, improving service delivery for current and effective land use, strengthening the financial sector, improving service delivery for current and ensuring access to capital for legitimate investors, and most importantly promoting improved security and the rule of law nationwide.

By articulating and National Priority Programs (NPP) as integral to the Afghan National Development Strategy (ANDS), the Afghan government and concerned nations forged a new partnership to carry Afghanistan into its future. These NPP, borne from earlier ideas and more precise dialogue with donors at the preceding London Conference, bring order, effectiveness, and assessment to Afghan strategies, aid management, and action to improve utilization of resources and achieve medium to long-term sustainability. Importantly, the NPP focus national priorities with limited resources and capabilities, 3-year implementation plans, costing and budget, identification of likely constraints and approaches to resolve them. This approach builds on the rationalized policy frameworks of underlying sectors with three main components – a) reforms needed, b) institution building and c) service delivery. The twenty-two Afghan NPP promote socio-economic, governance, and security advances with mutual accountability, specified activities, and measurable goals. Within the socio-economic, governance, and security dynamics, each NPP connects to other NPP in identifiable clusters that create a network of shared strength and work. Clusters improve coordination, program delivery and prioritization. For example, Private Sector and Infrastructure Development clusters bring together relevant ministries to craft the clear policy and regulatory environment required to attract investment. In addition to the two above, which provide vital strategic economic thrust, four other clusters support the overarching strategy: Human Resource Development, Agriculture and Rural Development, Governance, and Security.

3. QUICK REVIEW OF POLICIES LEADING TO MULTIPLE CRISIS

3.1 Risks to macroeconomic stability

Compared with many other post-conflict countries, Afghanistan has kept its macroeconomic environment relatively stable. In 2001 it faced weak or nonexistent institutions, low domestic revenue, volatile aid flows, and high import needs (due to lack of domestic output). In this light, Afghanistan has shown a remarkably solid macroeconomic performance over the last decade. Avoiding very high inflation is a prerequisite for a sound economy that offers good growth and employment prospects, and inflation,

⁷ The Kabul process official website “www.kabulprocess.gov.af”

though volatile, has been relatively moderate. Soon after 2001 Afghanistan ended the hyperinflation of the 1990s, pushing through a highly successful currency reform, and then made good progress in taking inflation lower despite global food and energy price shocks and supply blockages in neighboring countries, which inevitably exacerbated its own price volatility. Still, macroeconomic stability relied heavily on abundant aid flows. And commonly for a country undergoing reconstruction and recovery, its large material needs skewed the trade balance heavily toward imports. After an initial sharp increase in imports, the trade gap has stayed more or less constant with imports about four times exports, giving a huge trade deficit of 64 percent of GDP in 2005/06– 2010/11. In 2010/11 the current account deficit (excluding grants) was estimated at 40 percent of GDP, and was financed—as in previous years—by grants confirming Afghanistan’s aid dependency and raising concerns about the impact of aid falls on the current account balance.

3.2 Economic Policies that will Aggregate Crisis and or require Fiscal Reforms:

The Fiscal Policies implemented by the Government over the past years, have mainly focused on addressing security issues, improving service deliver, providing facilities for infrastructure investment, reducing poverty, unemployment, and facilitating growth opportunities for the private sector. The government has also worked towards strengthening fiscal sustainability and macroeconomics stability. The main objective of the government’s fiscal strategy over the medium term is to ensure that domestic revenues are adequate enough to finance operation budget. This is the government’s measure of fiscal sustainability. Therefore as domestic revenues improve the government aims to gradually takeover funding of donor grants for the operating budget. The government’s main budgetary objective is to allocate fiscal resource in line with ANDS, this way it will be assured that resources are allocated to those sectors that play vital roles in durable economic growth. Over the past years, based on the governments strong commitment and efforts the total collection of domestic revenues significantly improved. These improvements in domestic revenues were attributed to the certain sets of well defined reforms, including expanding the tax bases, improving tax compliance, and enhancing the capacity of tax administration staff, in addition to strong and sustained real economic growth to make further progress towards fiscal sustainability, the government will need to take more responsibility for finding the operating budget. It is very important that the government concentrate on mobilizing more domestic revenues by introducing new tax measures, improving tax effectiveness of tax administration and service delivery in non tax revenues areas.

The operating budget for 2011/2012 budget is Afs 154.1 billion more than 34.2 billion in 2010/2011 budgets. Contribution of the operating budget to the gross domestic product has increased from 16 percent in 2010/2011 to 17 percent in 2011/20012. The development budget for 2011/2012 is estimated to 101.2 billion or 8.9 percent less than the supplementary development budget of 2010/2011. This is mainly because of efforts to make a more realistic budget given the low execution rates by most of the line ministries. Afghanistan’s reconstruction is not possible without the strong support of international community. In 2011/2012 the international aid amounted to 9.206 US\$ billion and international loans amounted to US\$ 0.048 Billion. So far the total of US\$ 6.011 Billion from aid and US\$ 0.048 Billion from loans has been disbursed. Donor grants cover important part of national budget of Afghanistan. In 2011/2012 grants will contribute 44.3 percent to operating budget and would finance almost the entire development budget more than 74 percent.

Afghanistan’s trade balance is heavily skewed towards imports, reflecting the large aid flows for the country’s reconstruction and recovery efforts, and dependency on food and oil imports. Over the last five years Afghanistan’s import and export values have declined relative to GDP (Figure 2). In 2011/12,

import values, estimated at US\$10.6 billion, amounted to more than three times those of exports (US\$2.9 billion). While imports grew strongly at 7.4 percent in 2011/12, export growth has been sluggish at 2.3 percent, a trend that is likely going to continue in 2012. The Afghan export base has relatively few tradable products and these are heavily concentrated in a few markets. Not surprisingly, exports contribute only marginally to economic growth. Nevertheless, the country is distinguished by its openness to trade and, with few products taxed above 15 percent, has one of the lowest tariff regimes in the region. A recent Trade diagnostic study (World Bank, 2012) concluded that Afghanistan could benefit far more from its international trade opportunities than it does at present. The country is underperforming in exports, with an unusually narrow export base concentrated in just a few markets. Exports contributed 16 percent of GDP in 2011, whereas a country of Afghanistan's income level should expect to be exporting closer to 30 percent of GDP. Carpet and fruits account of close to three-quarters of total exports. The composition of exports has changed over the last five years. With dry fruit and seeds becoming the largest official Afghan export, now mounting to around 51 percent of total exports, surpassing carpets, which dropped to 38 percent of exports from its earlier 60 percent share.

The trade balance has been in deficit through the period 2007/2008. It has increased from US\$ 2475 million to USD 6014 million in 2011/2012. The inflation rate measured by the overall consumer price index (CPI) for the country was 8.4% in 2011/2012, whereas it was compared to 13.7% in 2010/2011. The maximum inflation in different provinces of the countries ranges from 4.9% to 12.3%. The main causes of inflation comprise of transit problems on Afghanistan and Pakistan border, Drought effectiveness on domestic products and increase of petroleum and Gas prices.

Financial Markets and Banking Institutions: Given the nascent stage of financial markets in Afghanistan, the Da Afghanistan Bank (DAB) relies mainly on open market operations as an instrument of, and money growth as a target for, monetary policy. In response to the double-digit inflation of fiscal 2012, DAB curbed money growth to 16 percent y-o-y. Currency in circulation grew by 12 percent but remained below the indicative ceiling agreed with the IMF. DAB continued tightening its stance in the second quarter of 2012 and reduced money growth further by 1.5 % between March and June 2012 (y- o-y). Increasing demand for credit by the government accounted for most of the money growth; demand for credit by the private sector has been declining since the beginning of the year. The banking sector in Afghanistan is still recovering from the Kabul Bank crisis that hit in September 2010. Prior to the crisis, the banking sector experienced strong growth (from a very low base), reaching US\$4.1 billion in total assets and over US\$3.6 billion in total deposits. While still small and nascent, the crisis has stalled development of the sector. Growth of bank deposits slowed from an annual average of 79.7 percent between 2005 and 2010 to an average of 6.5 percent over the past two years. Growth of commercial loans, which were nearly doubling annually in the years before the crisis, has plummeted to -15 percent since 2011. Subsequently Afghanistan's banking performance, already the lowest in the region, fell even further behind other SAR countries

Sector-wide audits revealed considerable weaknesses at all levels of banking governance and operations. Following the Kabul Bank crisis, all major banks were subjected to forensic or special audits. The results indicate systemic fragility and vulnerability in all areas of banking governance and operations, including skills, internal controls, accounting, credit analysis, and compliance with regulations (in particular with regard to related parties lending and single obligor limit). While sobering, some of these symptoms can be attributed to the early development stage of the sector, and the generally volatile business environment in Afghanistan which recently prompted one of the few international banks, Standard Chartered, to cease operations

Afghanistan's external position remains weak. The structural trade deficit accounts for most of the current account gap of 42.3 percent of GDP in 2011/12, only slightly lower than the 44.4 percent of the previous year. Lower wheat imports are expected to reduce the current account deficit this year, but slow export growth is likely going to keep the trade deficit high for some time to come. Remittance inflows, believed to be large, are mostly informal and not fully captured by the balance of payments statistics. Foreign direct investment, stagnating at around US\$315 million (less than 2 percent of GDP), contributed little to the overall balance of payments. However, large inflows of grants financed the current account deficit and left the overall balance of payments, as in previous years, with a surplus that contributed to a further accumulation of international reserves. By the end of March 2011, the reserve position stood at US\$6.2 billion, equivalent to 6.9 months of imports. GDP by expenditure at current price was estimated by using an indirect method of carrying over the GDP from production side. Private consumption (final consumption expenditure of household) is imputed as residual item, including changes in stock and data discrepancies. The total final consumption expenditure (private and government) was around 958,865 million Afs which is 6% more than GDP in 2011/2012. This shows that Afghanistan has negative gross domestic savings. All the deficits during the past ten years have been financed by donors. Table 00 shows the main economic indicators for Afghanistan.

The Afghani continues to depreciate. Following trends in 2011, the afghani further depreciated by 4.7 percent against the US dollar (nominally), and 3.8 percent against the euro between January and August 2012. The lack of high-frequency balance-of-payments statistics makes it difficult to see the impact of internal factors in nominal exchange rate fluctuations, but the most recent depreciation seems to be mostly guided by lower foreign capital inflows related to the reduction of international military troops. Generally the Afghani is believed to be overvalued and is expected to further depreciate as aid declines over the next decade.

3.2 Progress towards Fiscal Reforms:

Afghanistan will continue to depend heavily on donor financing and has few options to create fiscal space for new programs. With a growing fiscal gap, attaining fiscal sustainability²³ will be an increasing challenge. Other countries may be in position to issue bonds or access financial markets in order to close their financing gap over time, but the Afghan government, with few financial instruments at its disposal, has limited options and scope to create more fiscal space.

Concessional lending is another possible avenue to raise finance, and may be a way to increase investment in infrastructure. However, the country remains at high risk of debt distress, even after the recent debt-relief efforts under the Heavily Indebted Poor Countries (HIPC) completion point. The joint IMF–World Bank Debt Sustainability Analysis in 2011 found that debt-burden indicators would deteriorate rapidly if the country's large financing needs were met with loans, even on concessional terms. After debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative, the external debt burden was lightened substantially and external public and publicly guaranteed debt was US\$ 1.17 billion, or 8.1 percent of GDP, in March 2010.²⁴ Still, during the transition years, the government will need to safeguard investment to sustain real GDP growth.

⁸ Central Bank Statistics

The draft VAT law was submitted to the Ministry of Justice for legal review and is expected to be submitted to the Council of Ministers before the end of the calendar year. In a further attempt to increase revenue collection, the authorities decided to levy a surcharge on fuel imports which is expected to increase revenues by US\$60 million annually. The surcharge will be exclusively earmarked for the maintenance of Afghanistan's road system.

Fiscal Reform Measures during Transition: The authorities made progress with setting up a “resource corridor” National Priority Program which will provide a means to leverage these sectors for broader growth and development. Negotiations on the principal terms for the Hajigak tender were concluded in August 2012 and expressions of interest were received for the five copper, gold and lithium tenders launched earlier this year. However, the current legislative and regulatory environment is unfavorable for investment and contracts are unlikely to be signed unless a new mineral law, with respective regulations, provides sufficient certainty and protection for private investors. A proposal for a new mineral law, including provisions enabling the contract and tenders to proceed, was rejected in July 2012 by the Council of Ministers and is currently being revised. At the same time, progress in developing the Aynak mine continues to lag behind schedule, and the developer has recently withdrawn most of its foreign staff due to deterioration in security. Meanwhile, commodity markets have suffered sharp declines in the last six months, with iron ore prices dropping 40 percent and copper by 10 percent. Unless addressed rapidly, these developments cumulatively could result in worsening near- and medium-term prospects for the sector.

President issues “anti-corruption decree”: The President issued an anti-corruption decree on July 26 that responded partly to the Tokyo Mutual Accountability Framework (TMAF) which was one of the principal outcomes of the Tokyo Conference. Since the decree was issued, its implementation has been closely tracked by the Office of Administrative Affairs; the office has instituted weekly meetings of deputy ministers to track progress in implementation across government. The decree covers similar terrain as the TMAF but is broader and more extensive with tighter timelines for ministries and agencies. It includes, for instance, finalization of an implementation plan for civil service reform and preparation of a similar plan for all state-owned enterprises. Over the next few months, ministries will be expected to meet the deadlines contained in the document

4. ASSESSMENT ON RAMIFICATION AND IMPACT OF CRISIS

High, sustainable and quality economic growth is the major driving force for poverty reduction and employment creation. Recent high growth performance has been supported by the government's prudent fiscal and monetary policies and a stable exchange rate. However, Afghanistan's high growth rate has thus far not contributed sufficiently to poverty reduction and employment creation, and it has been driven to a large degree by the influx of foreign aid—a situation which carries its own macroeconomic risks.

The impact of Transition on Economy: Afghanistan is a highly aid-dependent country. Such aid dependency is almost uniquely high internationally, and has important implications for the macroeconomic environment and socioeconomic indicators. After a decade of internationally supported reconstruction efforts and security assistance, the country now faces a transition involving withdrawal of most international military forces by end-2014. International experience shows that such withdrawals often prompt declines in aid. Given Afghanistan's high aid dependency and relatively narrow economic

⁹ Afghanistan In Transition looking beyond 2014, The World Bank.

base, this raises important questions about the transition's economic effects. The impact of transition might be uneven across provinces. Aid has not been evenly spread across the country. Because of the choices made by donors, and the predominant role of stabilization and military spending, the conflict-affected provinces have had significantly higher per-capita aid than the more peaceful (and often poorer) provinces. As a result, the slowdown in aid is likely to be felt more acutely in the conflict-affected areas and in urban centers, most likely through a loss of wage-labor opportunities as military bases and provincial reconstruction teams (PRTs) close. At present, with seven out of 30 PRTs closed, the available analysis and data do not suggest any significant impact, or, it might be too small to influence (available) economic aggregates. Nevertheless, there are considerable political economy risks that deserve continuous attention. A gradual fall in aid might be beneficial in the long term as it would reduce distortions in the economy caused by the extraordinarily high levels of aid in the past. A rapid decline could, however, lead to major macroeconomic instability and serious socioeconomic consequences. Future aid flows need to be carefully programmed to allow the economy to adjust to new opportunities for growth from mining (especially), agriculture, and services. Transition may have a substantial balance of payment effect. Projections of exchange-rate behavior show a depreciation of the exchange rate. By 2025 the Afghani is projected to have lost nearly 20 percent of its 2010 value. This may be surprising given the expected capital inflows associated with the mining expansion. However, the decline in aid outflows will outweigh the expected capital inflows from mining, particularly in the years soon after 2014, since mining activities are expected to begin only in 2016/2017. In January 2010 Afghanistan reached the completion point for the Heavily Indebted Poor Country Initiative and thus received debt relief under that and the Multilateral Debt Relief Initiative. The debt relief brought down public external debt from US\$ 11.9 billion in 2006 to US\$ 1.2 billion by end-March 2011. Correspondingly, the debt-to-GDP ratio declined from 19.8 percent in 2008/09 to 8.1 percent in 2010/11. Debt service was equivalent to 1.8 percent of exports of goods and services. Nevertheless, as reflected in the Debt Sustainability Analysis (IMF and IDA 2011), Afghanistan will continue to be unable to incur significant debt, which would put the country at high risk of debt distress, due to both insufficient fiscal space to absorb higher debt service and the general vulnerability of the macroeconomic framework to changes in the security situation and external price shocks. The government has indeed incurred very little debt since 2008, underscoring the importance of substantial and long-term grant financing.

Demographics and Socioeconomic Characteristic of Poverty: One¹⁰ of the major constraints to Afghanistan's economic development has been the low level of human capital of its population. Poorer households are larger. Demographic factors are some of the strongest correlates of poverty in Afghanistan. A household's demographic feature such as household size can directly affect its wellbeing. The relative difference in household size between poor and non poor households is slightly greater in urban areas.

Poorer households have more dependents. Like household size, household composition also differs by poverty status. The key result is that poorer households tend to have higher dependency ratios. The average dependency ratio in Afghanistan is 151 percent. In poor households though, the dependency ratio is 167 percent; or 25 percentage points higher than the ratio for non poor households. In urban areas, the difference between poor and non poor households is even more pronounced. The urban poor households have a dependency ratio of 161 percent compared to 120 percent for urban, non poor households. Poverty by educational level of the household head: Education is closely linked to the poverty level of household in Afghanistan. It is typically expected that education will increase a person's employment opportunity and earnings. The NRVA 2007/08 reveals that both literacy and education level

¹⁰ NRVA, 2008

of household heads tend correlate with lower level of poverty. The poverty rate among households whose head does not have any education is as high as 35 percent. The poverty rate falls steadily as the head becomes more educated; the rate drops to 23 percent among households whose head has high school education. The pattern also manifests itself when considering literacy; 35 percent of households with an illiterate head are poor, compared to 27 percent of households with a literate head.

5. ASSESSMENT ON THE EFFECTS OF GLOBALIZATION ON INFORMAL ECONOMY WITH SPECIAL FOCUS ON WOMEN WORKERS

The Afghan labor market is characterized by a strong urban-rural divide. According to NRVA data and considering the national labor market as a whole, 66.5 percent of individuals in the working age population (aged 16 and above) participate in the labor market, 62.5 percent of individuals in the working age population are engaged in some form of employment during the month preceding the date of interview²⁵, whereas 7.85 percent of the labor force can be broadly considered as unemployed²⁶. Interesting differences in labor market functioning emerge when disaggregating the picture by area of residence. In particular, the urban labor market shows significantly lower participation and employment rates, mainly due to the lower participation of women, youth and elderly in urban labor markets. The relatively low level of open unemployment is counterbalanced by the severity of underemployment, especially in rural areas. More than 48 percent of employed individuals work on average for less than 35 hours per week and could be broadly considered as “underemployed”²⁷. Underemployment is naturally correlated with the urban-rural divide in labor market participation (and employment) patterns. In particular, - higher participation in rural areas is associated with a substantially higher underemployment rate and, possibly, with a relatively higher prevalence of poor quality jobs. Underemployment and participation to the labor market are positively correlated, suggesting that the poor quality of employment opportunities pushes more household members to work, or look for employment just to make ends meet.

The impact of transition on employment is very difficult to assess as labor statistics are scarce. Most data come from only three sources: the National Risk and Vulnerability Assessment (NRVA 2007–08), a national labor survey from 2005, and a survey on urban labor markets conducted in 2007 by the Ministry of Labor and Social Affairs, Martyrs and Disabled. All have major limitations and are inconclusive on the relationship between aid and employment. Poor data are worsened by the general lack of systemic employment information among donors.

Table 16: Labor market indicators

	Rural	Urban	National
Participation rate	71.46	48.84	66.53
Employment -population ratio	67.59	44.11	62.47
Unemployment rate	7.35	10.47	7.85
Underemployment rate	53.06	21.51	48.16

Source: 2007/08 NRVA

According to the NRVA, 66.5 percent of those in the working-age population (age 16 and above) participated in the labor market. Only around 6.8 percent of the population could be considered unemployed in 2009 based on the conventional definition of the term. However, the relatively low level of open unemployment is counterbalanced by the severity of underemployment: more than 48 percent of

those employed work fewer than 35 hours a week on average. Underemployment is particularly widespread in rural areas and among the self-employed, including day laborers and family workers, who make up about 77 percent of the workforce.

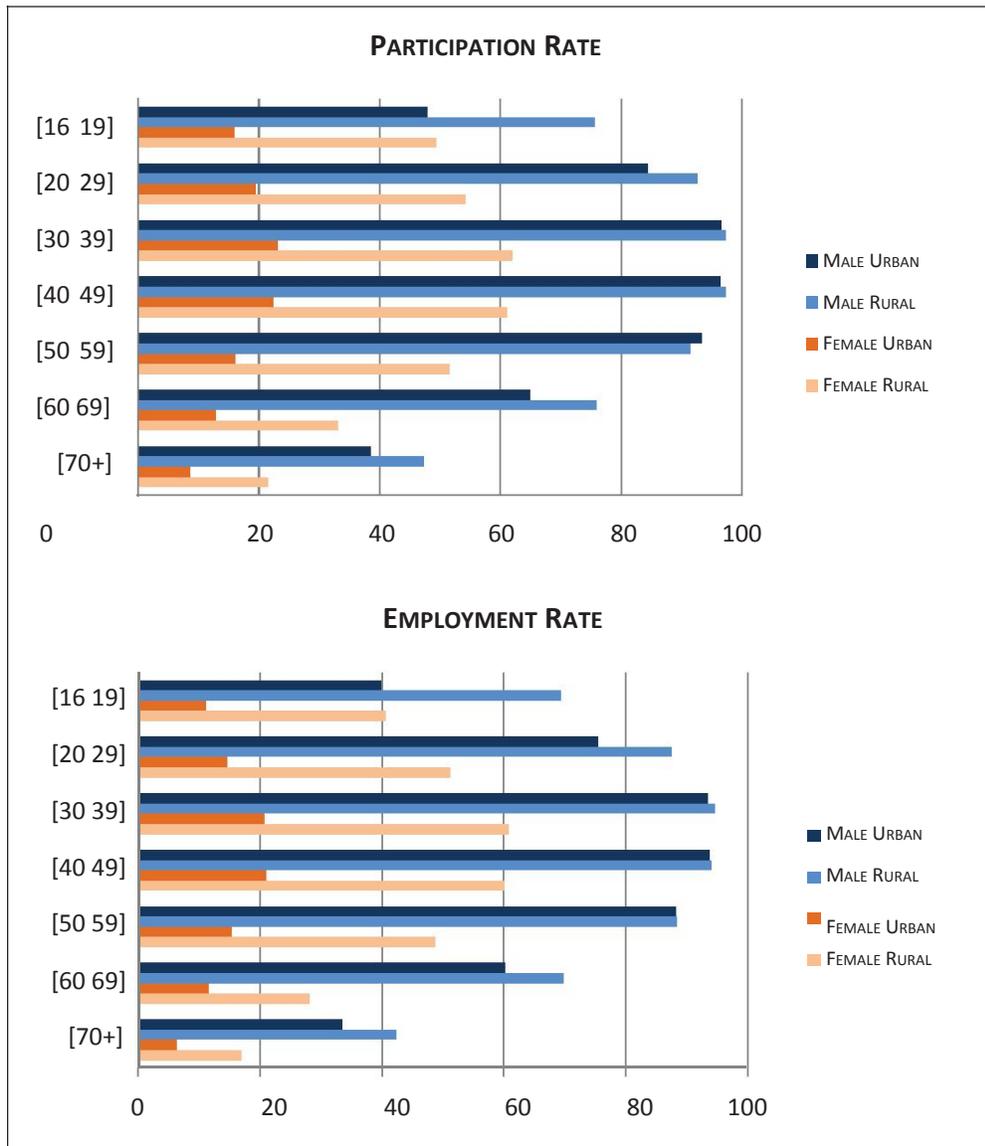
Employment patterns vary greatly across provinces, though two main patterns emerge. First, regardless of any apparent relationship with the size of the labor force, unemployment rates in conflict provinces are lower than in non-conflict provinces and, in the majority of them, lower than the national average. Second, only four conflict provinces show both low unemployment and underemployment rates. Conflict provinces seem to exhibit marginally higher underemployment than non-conflict provinces. A likely explanation for these patterns is that job opportunities created by PRTs, including workfare programs, might have helped change the status of workers previously categorized as unemployed, but many of these jobs are likely to be casual and short-term in nature. Employment and poverty are unevenly distributed across the country, and both are somewhat sensitive to inflows of aid, as beneficiaries tend to live in conflict-affected provinces and better-off households. Thus the largest impact of declining aid on employment and (to a lesser extent) poverty is likely to be felt in conflict-affected provinces, leading to a loss in household income and fewer opportunities for casual labor and generally lower wages. But the overall impact of declining donor assistance on household welfare is limited by the current focus on security in public spending.

According to the National Risk and Vulnerability Assessment 2008, 66.5 percent of those in the working-age population (age 16 and above) participated in the labor market. Only around 6.8 percent of the population could be considered unemployed in 2009 based on the conventional definition of the term. However, the relatively low level of open unemployment is counterbalanced by the severity of underemployment: more than 48 percent of those employed work fewer than 35 hours a week on average. Underemployment is particularly widespread in rural areas and among the self-employed, including day laborers and family workers, who make up about 77 percent of the workforce. It is unclear how many jobs aid has created, partly because the data are widely scattered and difficult to interpret. Because most aid-financed activities are tendered out, information on recruitment and salaries is held by the winning contractor, who has no obligation to give it to the contracting donor. On the donors' part, efforts to survey employment across contracts face multiple classification problems as many of the jobs are short term, lasting no longer than the contract.

A study by the Peace Dividend Trust (2011), which surveyed 146 local businesses who won aid-financed contracts in 2006–2011, found that the average length of a contract was six months, and that more than half the jobs lasted less. But it also found that efforts to improve local sourcing led businesses to retain some workers they employed: 58 percent of businesses who won an aid-financed contract ended the assignment with more employees than they started with. The study's authors conclude that the contracts, which had a total value of US\$ 1.1 billion, created roughly the equivalent of 118,000 jobs for six months. The Ministry of Finance reported that, in 2010, some 6,647 people working outside the civil service in non-security ministries received salaries or salary top-ups financed by donors. The International Security Assistance Force registers 60,000–80,000 Afghans directly employed through military-related contracting agencies. However, information on the length of employment is not available, and there may possibly be errors due to double counting. USAID, depending on the source, estimates 31,600–60,000 jobs created through its own contracts, but it is unclear if these numbers include second-round effects (jobs created indirectly through aid money). US-CENTCOM reports that U.S.-financed contracts employed 34,200–78,500 Afghans, including contracts issued by USAID and military agencies. NGOs are believed to employ around 16,600 Afghans. So there is much uncertainty even over direct employment through aid contracts. Taking employment numbers reported by aid

agencies, the number of jobs created is around 410,000. Using the methodology applied by the Peace Dividend Trust (2011), estimates for jobs lasting six months and financed through off-budget aid range roughly between 312,000 and 620,000, depending on local content assumptions.

Figure 7: Participation and Employment rates by age, gender and area of residence



Source: 2007/08 NRVA

6. GROWING MILITARIZATION AND ITS EFFECT ON DEMOCRATIZATION

Total military and civilian aid in 2010/11 was US\$ 15.7 billion—about the same as GDP, reflecting sharp increases since 2005. Foreign aid disbursements (security-related and civilian) were equivalent to nearly 100 percent of GDP in 2010/11. Foreign aid has been on the rise since 2002, growing from US\$ 404 million in 2002/03 to more than US\$ 15.7 billion in 2010/11. Aid typically translates into demand for domestic services and construction through local procurement of goods and services by donor and military agencies.

During the transition, the ANSF will receive a generous package of new military equipment (valued by NATO at US\$ 1.4 billion) mainly comprising armored vehicles (22,000) and some 44 jets and helicopters with high operating costs. To put these costs into perspective, the fuel costs for a one-hour flight in a military jet stand close to US\$ 7,000. So a considerable component of the US\$ 3.5 billion per year will be related to fuel

Spending “on” Afghanistan does not equal spending “in” Afghanistan. Cumulative U.S. spending for the Afghanistan mission is estimated to be as high as US\$ 444 billion. The U.S. Department of Defense appropriated US\$ 118.6 billion alone in 2011. The sheer size of U.S. spending on Afghanistan has led many to assume that military withdrawal will have a very negative impact on the economy. However, military spending by the United States (and other countries) finances the salaries of military personnel, investments in weapons equipment and systems, sustainment, logistics and research of international forces, and operations contracted and paid for outside the country. Although it indirectly benefits Afghanistan’s economy by supporting security, the direct positive impact on poorer households appears to be limited. The impact of its withdrawal is therefore likely to be muted.

Most aid (both civilian aid and security assistance), including the amount contracted in-country, has a low domestic economic content, limiting its impact on the economy. Much either never comes in or flows directly out through contracting international providers of goods and services, imports, and the expatriation of profits. A study by the Peace Dividend Trust (2008) suggests that the domestic content from trust funds and budget support is around 70–80 percent, and only 35–50 percent and 10–20 percent respectively for local and international contracts, resulting in an overall local impact from donor aid of 38 percent. In other words, only 38 cents of every aid dollar spent in Afghanistan actually reaches the economy through direct salary payments, household transfers, or purchase of local goods and services. This study, however, did not consider security spending. It is estimated that the domestic content of aggregated aid flows is only about 14–25 percent (table 2.3): US\$ 2.2–US\$ 4 billion of aid may have stayed in the country in 2010/11. To calculate this figure, the methodology applied by the Peace Dividend Trust (2008) was modified and used a combination of data collection, focus group interviews, and assumptions.

7. CASE STUDIES ON VULNERABILITY AND POVERTY AND PRO-PEOPLE CIVIL SOCIETY MOVEMENT

7.1 Food Sovereignty: International prices of food commodities began to increase substantially in the fall of 2007 and continued to rapidly increase through the first half of 2008, peaking around May–July 2008.¹¹ During this period, Afghanistan experienced several shocks that led to a disruption of its food supply network, causing prices to soar throughout the country. Due to drought and early snow melt, the 2008 wheat harvest of 1.5 million metric tons was the worst since the 2000 harvest (Persaud, 2010). (The harvest period typically falls in the summer months: May–August.) The price impact of the large shortfall in wheat production was magnified by export bans in Pakistan and rising international

¹¹ Poverty and Food security in Afghanistan

food prices. In February 2008 the Afghan government eliminated import tariffs on wheat and wheat flour (tariffs had been set at 2.5%), but due to export bans in Pakistan, Iran and Kazakhstan, there was little effect on prices. Between fall 2007 and summer 2008, the prices of domestic wheat and wheat flour increased by over 100%. Total inflation was largely driven by the surge in food prices. During the NRVA survey time frame (August 2007-September 2008), the urban food CPI increased by nearly 60%, while the non-food CPI increased by only 10%. The calculations using the NRVA district price survey data similarly indicate a 60 percent weighted average increase in food prices in urban areas during this period (with the overall increase at 40%).

Food insecurity and poor nutrition affect a large part of Afghan population.¹ Afghanistan has one of the highest stunting rates in the world. More than half (54%) of Afghan children under age five are stunted (chronically malnourished) and over a third (34%) are underweight.² More than two-thirds (72%) of children also suffer from iodine and iron deficiency. These poor nutritional outcomes are closely linked to poor access and utilization of food in Afghanistan. According to the NRVA 2007/2008, nearly a third of Afghan population (29 percent) suffers from calorie deficiency—population whose calorie consumption is less than 2,100 calories per capita. Twenty percent of the population consumes a diet that lacks adequate dietary diversity, thus affecting the balance and diversity of micronutrient intake. The problem of food insecurity compounds in leaner seasons, for example in spring, when 33 percent of the population suffers from calorie deficiency and 24 percent from poor diet.

Food security¹² is a major concern for a significant part of Afghan population. High volatility in local production of staple food and increasing and volatile food prices only add to the challenge by reducing the population's ability to sustain a stable, adequate and good quality diet there are many provinces where high prevalence of poverty (ranging from 60 to 80 percent) has coincided with high levels of calorie deficiency (ranging from 50-80 percent). This inter-relatedness of poverty and food security is confirmed by the fact that more than two thirds of the poor (69 percent) are food insecure in at least one of the three dimensions—calorie intake, protein intake, and dietary diversity. In contrast, only 26 percent of non-poor experience some form of food insecurity. Further analysis of price effects on different types of households (using UQR) shows that there are large differences in the behavioral response of households to rising wheat flour price based on their food security status (eg. whether food secure or insecure).

The findings have several implications for policy. First, given large differences in food security outcomes at the sub-national level (for example, across provinces), better targeting is crucial to increase the effectiveness of food security programs. For example, provinces that are poor in overall terms may or may not be equally poor in terms of calorie intake and the diversity of diet. In fact, many provinces that performs well on calorie intake. Second, the empirical evidence highlights that if policy makers focus exclusively on changes in caloric intake in the event of a price shock, they may miss an important component of the big picture. While poorer households do not cut back on calories, it is likely that they reduce dietary quality by making adjustment in their consumption patterns, for example, by increasing the consumption of staple food (for example, wheat). Therefore, the government's on-going efforts to ensure adequate supply of staple food during the time of crisis can only address part of the challenge. But the high degree of micro-nutrient deficiency among children in general and high potential for this problem to compound during the time of food crisis (through increased consumption of low quality diet by the poor) suggest that complementary efforts are also equally crucial to address micro-nutrient deficiency (such as

¹² (Poverty and Food security in Afghanistan, february 2012)

through the fortification of staples and vitamin distributions). Finally, given that poor nutrition and food insecurity affects a sizeable proportion of Afghan population year-round but more so during bad times (e.g. lean months of spring season or during food price shocks), there is genuine need for a scaled-up and well-targeted safety nets program in Afghanistan.

Table 2: Cereal Production in Afghanistan, 2004–08 (thousands of tons)

	2004	2005	2006	2007	2008	2004–08 (Av.)
Total Cereal Production	3,057	5,243	4,447	5,443	3,860	4,410
Total Demand	5,717	5,866	6,018	6,175	6,500	6,055
Demand-Supply Gap	2,660	623	1,571	732	2,640	1,645
Self-Sufficiency Rate (%)	53	89	74	88	59	73
Wheat Production	2,293	4,266	3,363	4,343	2,767	3,406
Wheat as percent of Total Cereal Production	75	81	76	80	72	77

Source: World Bank (2010)⁹

Food insecurity affects a sizable proportion of Afghan population. According to the NRVA 2007/2008, nearly a third (29 percent) of Afghan population cannot meet its daily calorie requirement of 2100 calories. The problem of calorie deficiency compounds in bad times (for example, during the spring season) when an additional four percent of the population becomes calorie deficient. Lower quality of diet is another key dimension of food insecurity in Afghanistan. Twenty percent of the population consumes a diet that lacks adequate dietary diversity, implying a lower quality diet with relatively limited potential for micronutrient intake. Protein deficiency is also significant as 17 percent of the population consumes less than the threshold of 50 grams of protein per day. Like calorie deficiency, protein deficiency and poor diet vary across seasons, affecting a much larger proportion of the population during the spring and summer seasons. Food insecurity is higher in rural areas. Food insecurity appears to be more pronounced in rural parts where about 80 percent of the country’s population resides. Dietary diversity is also considerably lower in rural areas. Twenty-one percent of the rural population is affected by poor dietary diversity compared to 14 percent of their urban counterparts. The only exception is protein deficiency which affects an equal proportion of population in both rural and urban parts of Afghanistan. Still, given the high percentage of rural population in Afghanistan, the absolute number of people affected by protein deficiency as well as other dimensions of poor food security is much larger in rural areas.

Food security outcomes are closely associated with terrain characteristics. The prevalence of food insecurity is generally higher in mountains and plateaus of Afghanistan. People residing in mountainous regions of Afghanistan experience much higher calorie and protein deficiency

compared to those living in lowlands. Similarly, the population in the plateaus also experience higher food insecurity outcomes vis-à-vis their counterparts who live in the plains. The terrain characteristics affect food security outcomes by impacting access to markets, transportation costs, and livelihood opportunities. The diversity of farming systems in Afghanistan, largely shaped by the geographic characteristics of the country has its further effect. These diverse farming systems have a direct bearing on household access to food. Highland mixed is the dominant farming system in the central mountains and foothills where principal sources of livelihoods are mixed farming (livestock, horticulture, cereal) and seasonal migration. Sparse (mountain) farming system in the northeast implies high dependence on livestock and the associated dairy products. The same is the case with sparse (arid) farming regions. In pastoral regions, livestock, irrigated cropping and migration are the principal sources of livelihoods. Another dimension that interacts with the altitudes and terrain type is the cropping intensity; with low lying regions (particularly those with better access to water) producing two crops in a year compared to altitudinous areas where shorter growing season permits only one major crop.

8. SPECIFIC SUGGESTIONS

Alternatives to counter ongoing crisis prone poverty and deprivation enhancing policies and programs, Means to strengthen social security and justice system including required steps for demilitarization, Required new direction to the civil society movement and strategic approach to be followed to pressurize governments to change dominant policy regime with added pressures on the dominant global economic regime to change its policy course grounded on neo-liberalism.

Agriculture sector is the key to long-term, stable growth in Afghanistan because it is the only sector which has sufficient scale and growth-linkages in the economy to ensure a sustainable growth. Natural resources, on the other hand, will help Afghanistan achieve its fiscal sustainability and improve its balance-of-payments position. Natural resource “curse” should not discourage seeking such a strategy, because there are many ways to avoid it. Furthermore, diversification of the production structure should be conceived as a process of “self-discovery” – discovery of the economy’s cost structure. The government should engage in a strategic collaboration with the private sector to discover the potential activities in the country which are likely to be competitive. For this to be successful, the government must provide adequate inducements for entrepreneurs to engage in new activities, by increasing the private return to investments as close as possible to their social value.

Acquiring high-quality institutions should be an ultimate objective of the government, because not only do they dissipate the adverse effects of external shocks on the economy, they also help contain the conflict triggered by social fragmentation and constrain the corruption and the rent-seeking behaviour encouraged by natural resource rents. Institutions should be developed based on local knowledge, experiences and capabilities, but learning from the institutional arrangements prevailing in other countries can always help. Moreover, institutional reinforcements must be supported by measures to achieve social cohesion and political consensus in order for them to be efficient. Finally, financial development must be carried out effectively in order to enable the private sector to play its crucial role in the development and diversification of the economy. The Central Bank must further strengthen its prudential regulation and effective financial supervision. The authorities must develop an adequate legal framework for the financial sector and ensure better contract enforcement in the banking sector in Afghanistan

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