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The Civil Transition in Afghanistan: The Metrics of Crisis?

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CENTER FOR STRATEGIC &
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Introduction

Creating an effective transition for the ANSF is only one of the major challenges that Afghanistan, the US, and Afghanistan's other allies face during 2014-2015 and beyond. The five other key challenges include:

- Going from an uncertain election to effective leadership and political cohesion and unity.
- Creating an effective and popular structure governance, with suitable reforms, from the local to central government, reducing corruption to acceptable levels, and making suitable progress in planning, budgeting, and budget execution.
- Coping with the coming major cuts in outside aid and military spending in Afghanistan, adapting to a largely self-financed economy, developing renewal world economic development plans, carrying out the reforms pledged at the Tokyo Conference, and reducing the many barriers to doing business.
- Establishing relations with Pakistan and other neighbors that will limit outside pressures and threats, and insurgent sanctuaries on Afghanistan's border.
- Persuading the US, other donors, NGCO, and nations will to provide advisors to furnish the needed aid effort through at least 2018, and probably well beyond.

Nevertheless, Afghanistan cannot succeed unless the ANSF meets the wide range of security challenges which are the subject of this briefing. Many of these challenges are ones that all governments face in shaping an effective security response to major extremist and insurgent threats. Others are unique to Afghanistan.

It should be clear from this list and the briefing that follows that the ANSF faces problems that make a successful Transition a high risk effort even if the ANSF is the *only* factor considered in supporting an effective Transition. This risk is highlighted in much of the data that follow, and in virtually all of the narratives describing the current state of the ANSF.

At the same time, the briefing shows that there are positive as well as negative trends. The ANSF may be able to succeed if it receive suitable outside support, and particularly if it has a substantial advisory and enable presence from the US, if other key ISAF states like Germany and Italy provide a presence in in key areas, and if the donors provide the funds necessary for the ANSF to develop, operate, and mature.

A Long List of Key Uncertainties

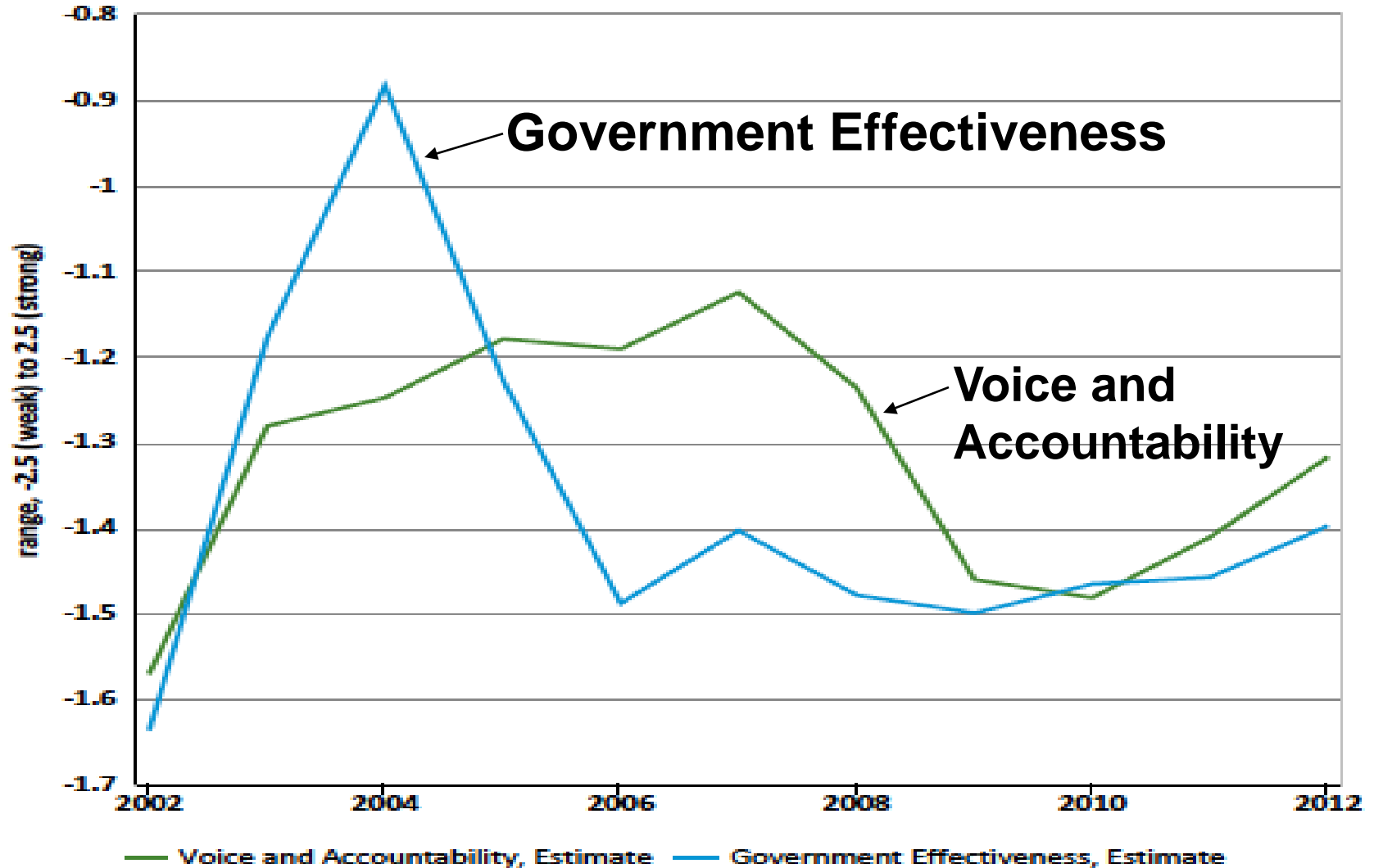
- When will a new President take office?
- Can the new President win popular support... and lead?
- How long will it take to form a functional government at all levels – national, provincial, district?
- How will the mix of power brokers change?
- What security challenges will emerge and when? How will the MoD and MoI function and respond?
- Who will take charge of budgeting, economic planning, and use of international aid?
- What will be mix of corruption versus relative honesty?
- What will be the mix of capabilities – e.g., war-fighting versus security? How will Afghan leaders reshape the rule of law?
- How will layered defense actually interact with governance?
- Accommodation? Search for peace?
- Role of neighboring powers?

The Afghan Government Can Be as Serious a “Threat” as the Insurgents: The *Other* Challenges of Transition

- Creating political unity and reasons to be loyal to government
- Creating a new structure of governance and balance between factions
- Effective revenue collection, budget planning and expenditure, and limits to corruption
- Fully replacing NATO/ISAF with the ANSF and “layered defense”
- Creating a new structure of security forces, advisors, and aid funds, to include addressing the presence of US and other nations’ personnel
- Acting on the Tokyo Conference: Creating effective flow and use of aid, economic reform, and limits to corruption and waste
- Stabilizing a market economy driven by military spending and moving towards development: Brain drain and capital flight
- Coping with weather and other challenges to agricultural structure and with pressures to increase the narco-economy
- Dealing with neighbors: Pakistan, Iran, Central Asian nations, India, China, and Russia

World Bank Rankings of Governance Shows Very Uncertain Trends

Afghanistan



Economic Progress Before Transition (2003-2012): “Best (Unreal) Case” Projections

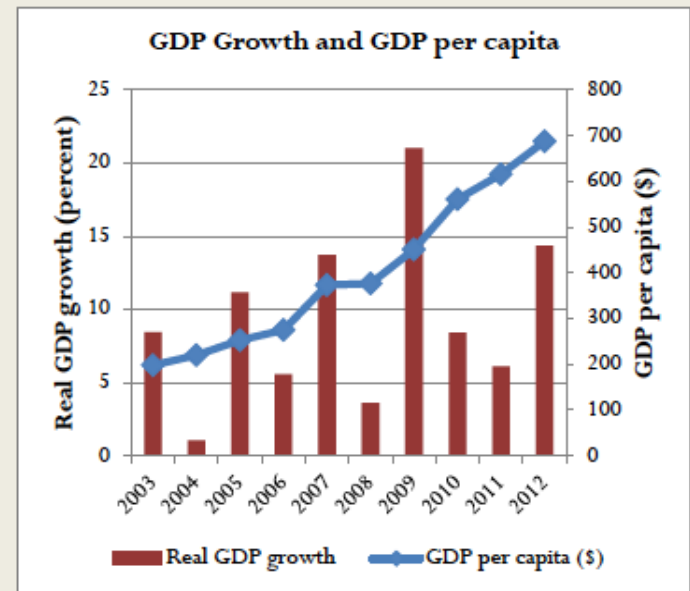
Significant progress from very low base

- **Economic Progress:**

- GDP growth averaged 9.4 percent during 2003-12
- GDP per-capita from \$186 in 2002 to \$688 in 2012
- Domestic revenues up from 3% of GDP in 2002 to 11.6% of GDP in 2011
- Public financial management improvements enabled increases in on-budget expenditures from \$346 million in 2002 to \$4.9 billion in 2012

- **Social Progress:**

- School enrollment up from 1 million (few girls) in 2001 to 9.2 million (3.6 million girls) in 2013
- Access to improved water source up from 22 percent to 50 percent of population
- Life expectancy up significantly over the same period
- Maternal mortality more than halved



Note: Unusually favorable rains drive much of growth

The Post-Election Challenges of Transition

- Creating political unity and reasons to be loyal to government
- Creating a new structure of governance and balance between factions
- Effective revenue collection, budget planning and expenditure, and limits to corruption
- Fully replacing NATO/ISAF with the ANSF and “layered defense”
- Creating a new structure of security forces, advisors, and aid funds, to include addressing the presence of US and other nations’ personnel
- Acting on the Tokyo Conference: Creating effective flow and use of aid, economic reform, and limits to corruption and waste
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Economic Challenges

- “New Silk Road” is dead, and “Ring Road” is uncertain; mineral wealth is no miracle solution to economic challenges. Very little real growth other than aid and military spending driven – cyclical impact of rainfall.
- Still at war and highly aid dependent.
- Unclear who will plan and manage aid and revenues in government.
- No clear aid structure, revenue flows, outside plans and focus.
- The goal of 50% Afghan control ignores the roll back of aid/NGO presence; government ability to use and manage is insufficient.
- Failure of UNAMA, uncertain role of World Bank.
- Service sector may leave, export capital, collapse.
- Major barriers to private development.
- **At least some risk of major recession and collapse of the market-driven sector.**

Key Military Challenges

- Responding to the changing threat in a Political-Military War.
- Transitioning from “their way” to “our way:” new chain of command, supply and sustainment, role of NCOs, O&M, etc.
- Top Down Leadership: New President, MoI, MoD.
- Evolution of effective overall command structure.
- Funding and management of resource; effective flow of money.
- Redefining force structure and force plans.
- Reshaping C3I/BM, IS&R.
- Role of ANA vs. ANP and ALP, rule of law.
- Promotion, enlistment, pay, medical, food, housing, security, retirement.
- Leave and recovery, AWOL and attrition.
- National, regional, ethnic, and sectarian politicization.
- Training cycle: Shifting from “force generation” to “force effectiveness.”
- Reshaping role of US and other “partners,” advisors, “enablers.”

The President's Transition “Plan” of May 27, 2014

The Obama Transition “Plan:” May 27, 2014

... Our objectives are clear: Disrupting threats posed by al Qaeda; supporting Afghan security forces; and giving the Afghan people the opportunity to succeed as they stand on their own.

Here’s how we will pursue those objectives. First, America’s combat mission will be over by the end of this year. Starting next year, Afghans will be fully responsible for securing their country. American personnel will be in an advisory role. We will no longer patrol Afghan cities or towns, mountains or valleys. That is a task for the Afghan people.

Second, I’ve made it clear that we’re open to cooperating with Afghans on two narrow missions after 2014: training Afghan forces and supporting counterterrorism operations against the remnants of al Qaeda.

Today, I want to be clear about how the United States is prepared to advance those missions. At the beginning of 2015, we will have approximately 98,000 U.S. -- let me start that over, just because I want to make sure we don’t get this written wrong. At the beginning of 2015, we will have approximately 9,800 U.S. service members in different parts of the country, together with our NATO allies and other partners. By the end of 2015, we will have reduced that presence by roughly half, and we will have consolidated our troops in Kabul and on Bagram Airfield. One year later, by the end of 2016, our military will draw down to a normal embassy presence in Kabul, with a security assistance component, just as we’ve done in Iraq.

Now, even as our troops come home, the international community will continue to support Afghans as they build their country for years to come. But our relationship will not be defined by war -- it will be shaped by our financial and development assistance, as well as our diplomatic support. Our commitment to Afghanistan is rooted in the strategic partnership that we agreed to in 2012. And this plan remains consistent with discussions we’ve had with our NATO allies. Just as our allies have been with us every step of the way in Afghanistan, we expect that our allies will be with us going forward.

Third, we will only sustain this military presence after 2014 if the Afghan government signs the Bilateral Security Agreement that our two governments have already negotiated. This Agreement is essential to give our troops the authorities they need to fulfill their mission, while respecting Afghan sovereignty. The two final Afghan candidates in the run-off election for President have each indicated that they would sign this agreement promptly after taking office. So I’m hopeful that we can get this done.

The White House Transition “Fact” Sheet: May 27, 2014

- I

Afghans Taking the Security Lead

At the 2010 NATO Summit in Lisbon, Afghanistan and International Security Assistance Force (ISAF) nations agreed to transfer full responsibility for Afghanistan’s security to the Afghan National Security Forces (ANSF) by the end of 2014. This transition process has allowed the international community to responsibly draw down our forces in Afghanistan, while preserving hard-won gains and setting the stage to achieve our core objectives — disrupting threats posed by al-Qa’ida; supporting Afghan Security Forces; and giving the Afghan people the opportunity to succeed as they stand on their own.

At the 2012 NATO Summit in Chicago, Afghanistan and ISAF nations reaffirmed this framework for transition and agreed on a milestone in mid-2013 when the ISAF mission would begin to shift from combat to support. Last June, the Afghans reached that milestone as the ANSF assumed the lead for security across the whole of Afghanistan and our coalition forces shifted their focus to the training, advising, and assisting of Afghan forces.

Today, Afghan forces provide security for their people and plan and lead the fight against the insurgency. The most recent example of this transition was the effective security provided by the ANSF to enable the April presidential and provincial elections. The ANSF will maintain its current surge strength of 352,000 to reinforce this progress and provide for a secure environment in Afghanistan.

Commitment to the U.S.-Afghanistan Partnership

In May 2012, the President signed a Strategic Partnership Agreement between the United States and Afghanistan that defined a future in which Afghans are responsible for the security of their nation. The two countries pledged to build an equal partnership between two sovereign states premised on mutual respect and shared interests. U.S. commitments to support Afghanistan’s social and economic development, security, and institutions and to promote regional cooperation are matched by Afghan commitments to strengthen accountability, transparency, and oversight and to protect the human rights of all Afghans — men and women. The Strategic Partnership Agreement includes mutual commitments in the areas of: protecting and promoting shared democratic values; advancing long-term security; reinforcing regional security and cooperation; social and economic development; and strengthening Afghan institutions and governance.

The United States continues to support a sovereign, stable, unified, and democratic Afghanistan and will continue our partnership based on the principles of mutual respect and mutual accountability. We remain fully supportive of our partners in the Afghan security forces, and we continue to proudly work side-by-side with the many Afghans who work to ensure the stability and prosperity of their fellow citizens.

International Support for Afghanistan

The United States’ support is part of an international effort to assist Afghanistan as it enters the “Transformation Decade” of 2015-2024. At the 2012 NATO Summit in Chicago, Afghanistan and NATO reaffirmed its commitment to further develop an enduring partnership that would last beyond the transition of full security responsibility for Afghanistan from ISAF to Afghan forces by the end of 2014. This commitment is a clear message to the Afghan people that they will not stand alone as they take responsibility for their security. At the 2012 Tokyo Conference, Afghanistan and the international community also committed to support the sustainable growth and development of Afghanistan. The international community pledged financial support, through 2017, at or near levels of the past decade, to respond to Afghanistan’s projected budget shortfalls.

Adapted from White House Briefing Room, May 27, 2014, <http://www.whitehouse.gov/the-press-office/2014/05/27/fact-sheet-bringing-us-war-afghanistan-responsible-end>.

The White House Transition “Fact” Sheet: May 27, 2014

- II

Political Transition

As the Afghans took control for their security, they also worked to usher in a historic transfer of power in Afghanistan. We congratulate the millions of Afghans who voted in the presidential elections in April, and we look forward to the inauguration of their next president later this summer. The United States affirms its support for a fair, credible, and Afghan-led election process and does not support any candidate in the elections -- the choice of who leads Afghanistan is for Afghans alone.

The United States also believes that an Afghan-led peace and reconciliation process is the surest way to end violence and ensure lasting stability for Afghanistan and the region. As the President has said, the United States will support initiatives that bring Afghans together with other Afghans to discuss the future of their country. The United States and the Afghan government have called upon the Taliban to join a political process. We have been clear that the outcomes of any peace and reconciliation process must be for the Taliban and other armed opposition groups to end violence, break ties with al-Qa’ida, and accept Afghanistan’s constitution, including its protections for the rights of all Afghan citizens, both men and women.

We believe that a stable and prosperous Afghanistan can only be possible in a stable and prosperous region. We endorse Afghanistan’s vision for building strong, sustainable bilateral and multilateral relationships with its neighbors and regional partners. We encourage Afghanistan’s further economic integration into the region and support the principles of good-neighborly relations, which include non-interference and respect for sovereignty.

Economic Transition

- Afghanistan has experienced rapid economic growth and remarkable improvements in key social indicators:
- Afghanistan’s gross domestic product has grown an average of 9.4 percent per year from 2003 to 2012.
- In the last decade, life expectancy at birth has increased by 20 years to over 62 years.
- In 2002, an estimated 900,000 boys were in school and virtually no girls. Now there are 8 million students enrolled in school, more than a third of whom are girls.
- In 2002, only 6 percent of Afghans had access to reliable electricity. Today, 28 percent of the population has access to reliable electricity, including more than 2 million people in Kabul who now benefit from electric power 24 hours a day.

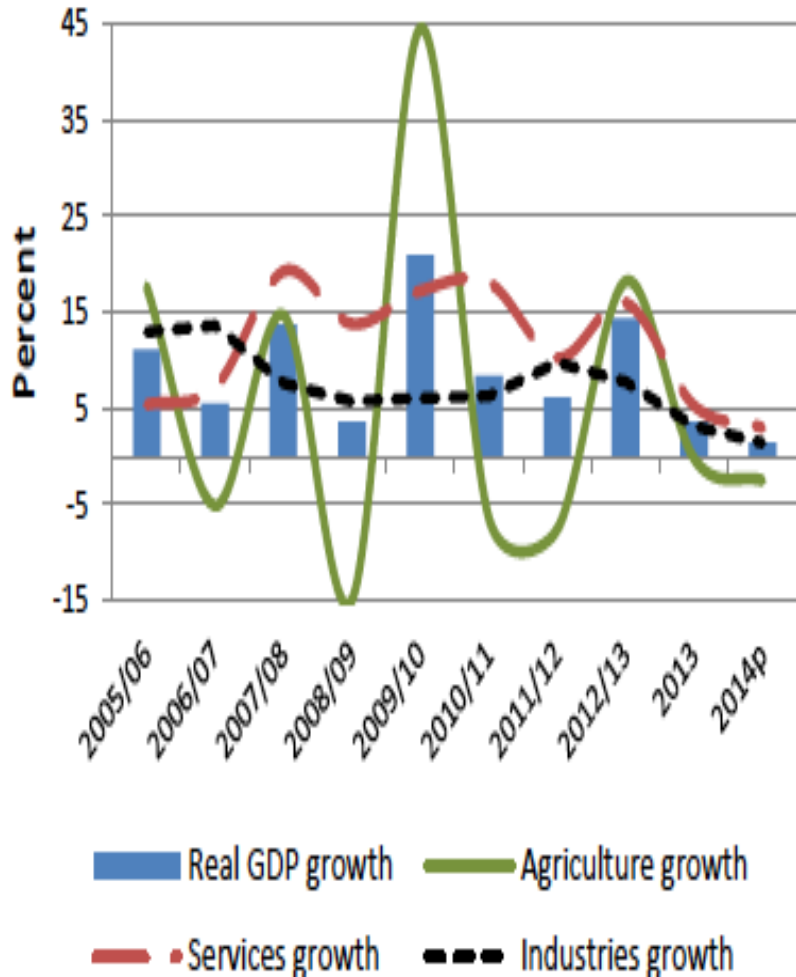
However, challenges remain, and Afghanistan will require continued international assistance to sustain its gains and further meet its development goals. In January 2013, the President reaffirmed the conclusions of the Tokyo Conference, including that the U.S. commitment to align 80 percent of our aid with Afghan priorities and channel at least 50 percent of development assistance through the national budget of the Afghan government as part of the Tokyo Mutual Accountability Framework.

Transition Years of 2013- 2014 are Already a Warning

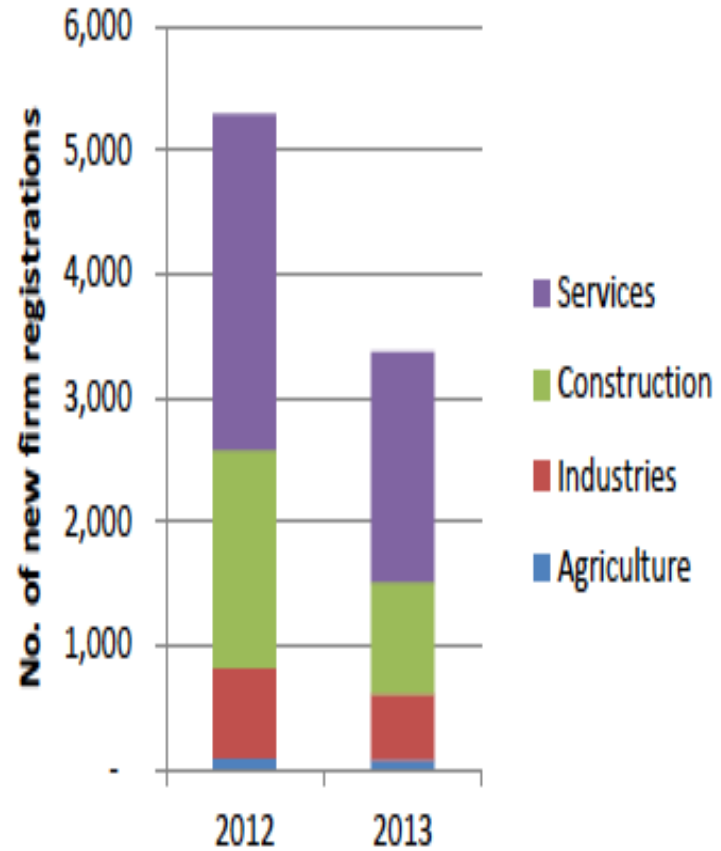
Growth Sharply Declined in 2013-2014



Growth declined in 2013 and further in 2014...

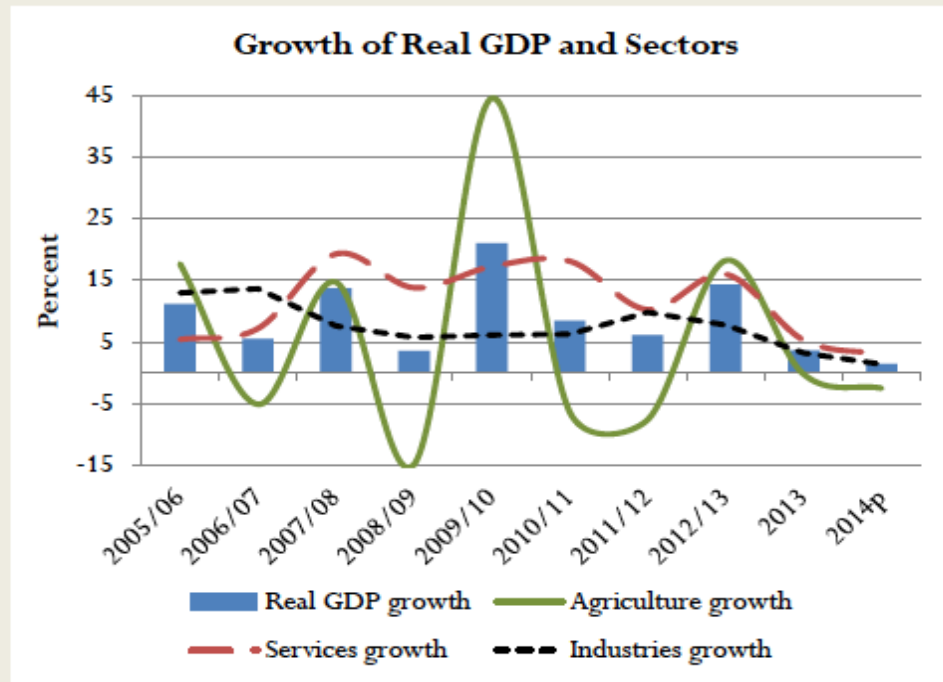


...due to lower growth and investment in non-agriculture sectors.



Sharp Slowdown in Economic Growth in 2013-14, driven by uncertainty, confidence crisis, and poor rains

- Uncertainty since 2013 over the political and security transition, compounded by the protracted elections impasse in 2014, has led to a slump in investor confidence
- Growth, down sharply to 3.7% in 2013, has fallen further to 1.5% (proj.) in 2014, from average of 9.4 percent per year during 2003-12



GDP Growth Has Already Presented

Figure 1: Growth of real GDP and output sectors

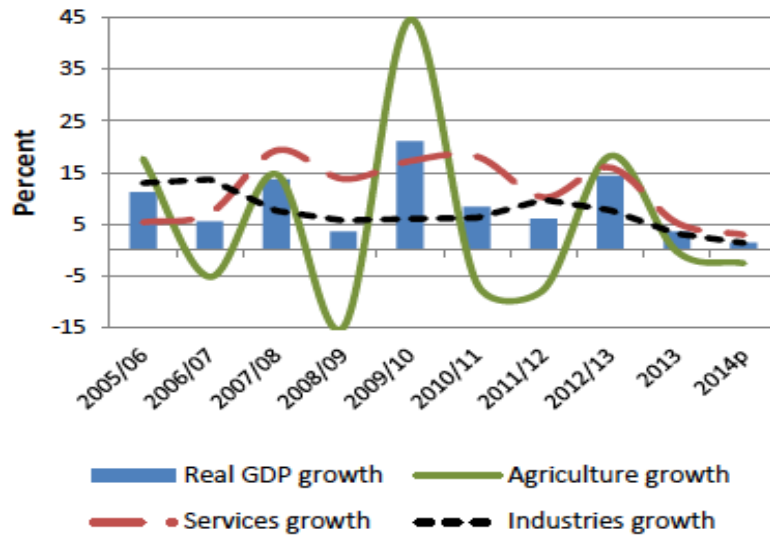
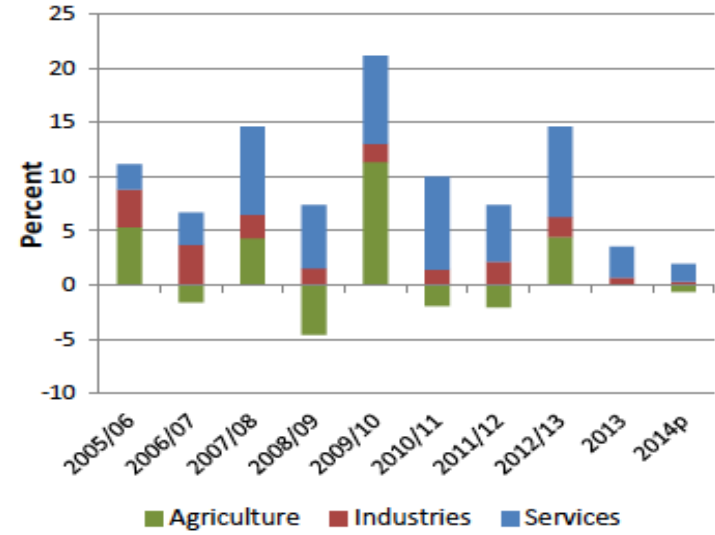


Figure 2: Sector contributions to GDP growth



Economic growth fell sharply in 2013 as uncertainty over the political and security transition led to a considerable slowdown in the nonagricultural sectors. Real (non-opium) GDP growth is estimated to have fallen sharply from 14.4 percent in 2012 to 3.7 percent in 2013. With uncertainty leading to a slump in investor and consumer confidence, growth weakened significantly across the board in the non-agricultural sectors, including manufacturing, construction and services.

Growth in the services sector, which accounts for about half of GDP, fell from 16 percent in 2012 to 5.3 percent in 2013, driven by a sharp slowdown in wholesale and retail trade and government services.

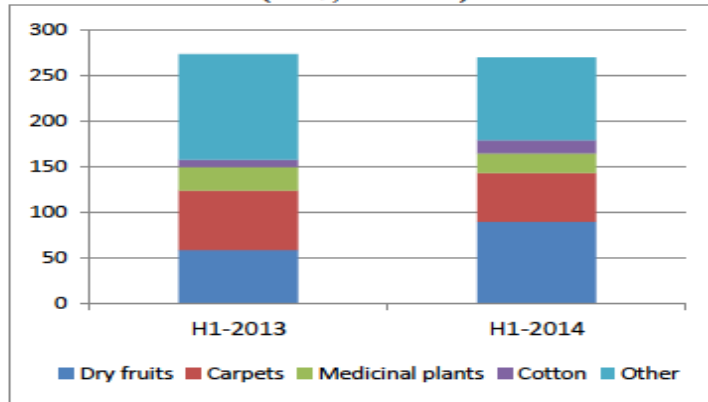
Transport and communications, which accounts for half of the services sector, also experienced weaker growth, but fared somewhat better from the continued repatriation of international forces and increased number of broadband subscribers. Evidence on roads and building constructed suggests that the construction sector also experienced slower growth in 2013. Meanwhile, manufacturing growth declined from 7.3 percent in 2012 to 2 percent in 2013, driven in large part by the food and beverages sector.

Agriculture production was robust in 2013 but did not exceed the record levels of 2012. Total agriculture value added in 2013 was about flat (declining very slightly by 0.2 percent) from the record levels of 2012. Given favorable weather conditions, the cereals sector (which accounts for 43 percent of agriculture value added) grew by 2.3 percent in 2013, reaching the highest level achieved over

the past decade. The fruits sector also grew by 2.3 percent, but livestock and other products declined by 1.7 percent and 4.5 percent respectively. Agriculture accounts for about a quarter of GDP and also has strong links to the rest of the economy, so that the robust agricultural output in 2013 would normally have buoyed overall GDP growth. However, with total agriculture production flat from the bumper level of 2012, it was not sufficient to counterbalance the overall slowdown in GDP growth in 2013

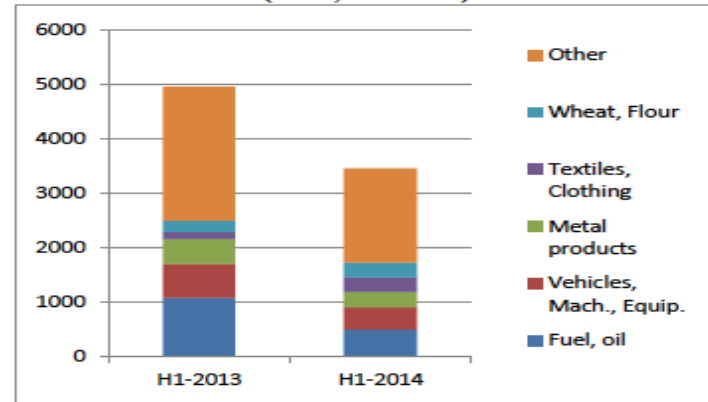
Massive Trade Gap has Helped Lead to Serious Cut in Imports in 2013-2014

Figure 11: Official Exports, H1-2013-14 (US\$, millions)



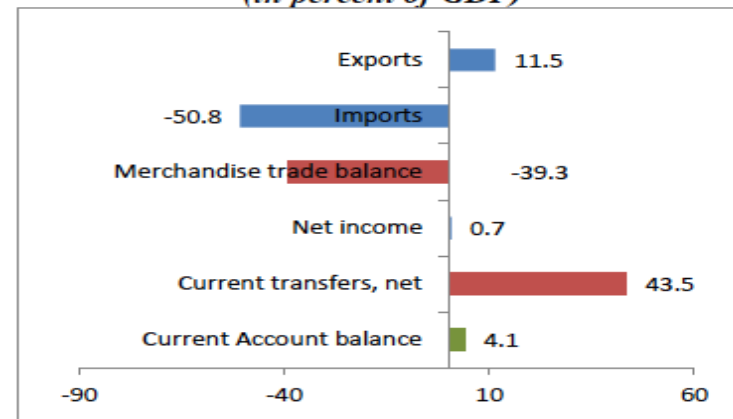
Source: CSO and ACD

Figure 12: Official Imports, H1, 2013-14 (US\$, millions)



17. The trade deficit remains large, but is expected to narrow slightly. Total imports (including both official and smuggling) are estimated to decline from \$10.9 billion in 2013 to \$10.6 billion in 2014, as a result of weakening demand in the economy. Total exports are estimated at \$2.4 billion in 2014, compared to \$2.6 billion last year. Because of an exceptionally high level of unofficial trade in Afghanistan, official recorded exports are estimated to represent only one-fifth of total exports. The historically large trade deficit is expected to narrow slightly from 40.8 percent of GDP in 2013 to 39.2 percent in 2014. As in previous years, the trade deficit is estimated to be fully financed by large aid inflows, so that the current account is estimated at 4.1 percent of GDP in 2014 (Figure 13).

Figure 13: Current account balance for 2014 (in percent of GDP)



Source: Staff estimates

New Firm Registrations Have Dropped Sharply

Figure 3: New firm registrations, 2004-13

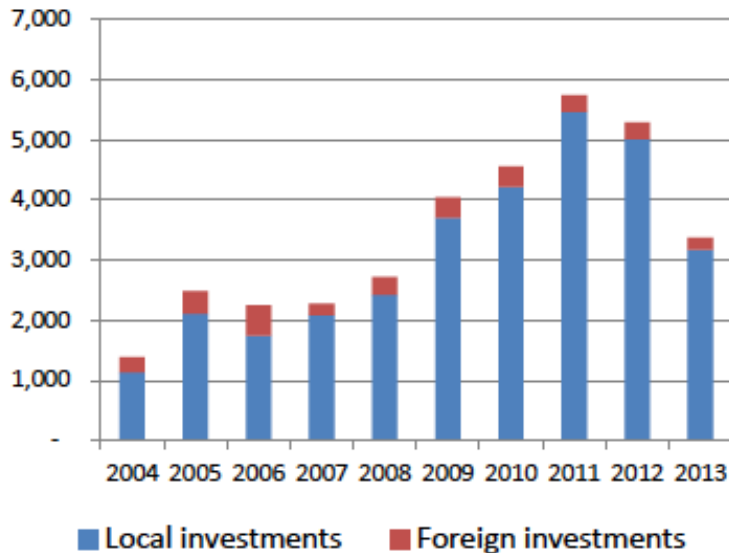
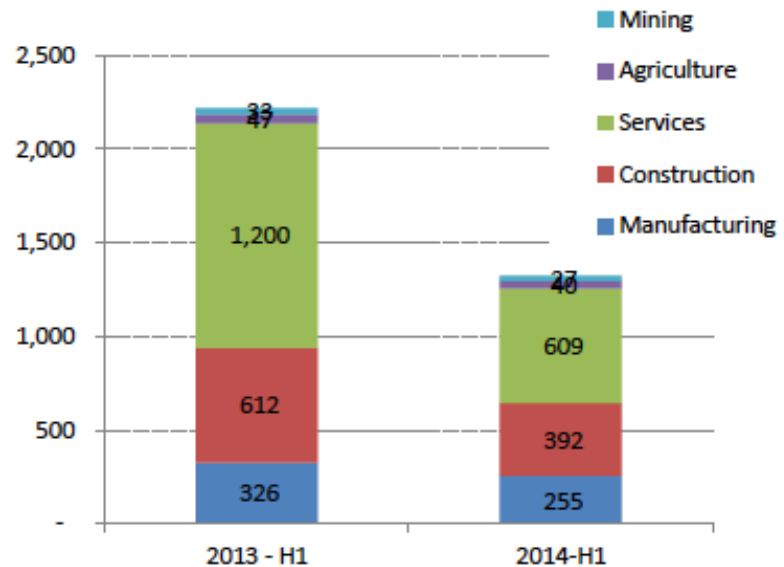


Figure 4: New firm registrations, H1, 2013-14



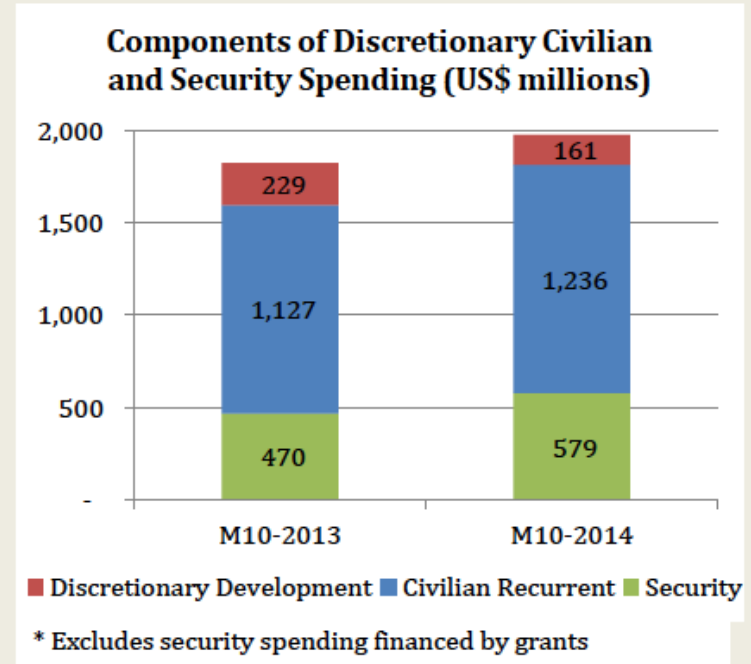
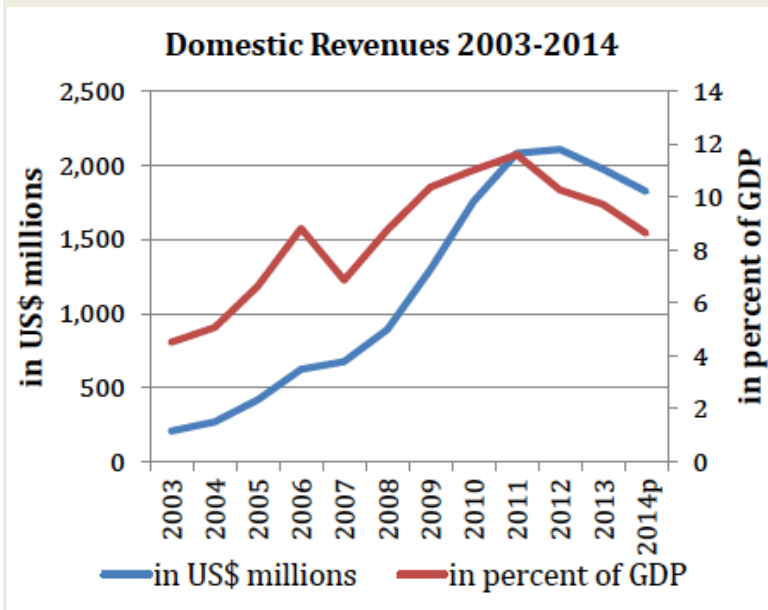
The protracted political uncertainty has taken a further toll on Afghanistan’s economy in 2014. A number of available short term indicators on new firm registrations, imports, and fiscal and monetary trends indicate that the economic slowdown deepened during the first half (H1) of 2014.

Private investment across all nonagricultural sectors appears to have dropped considerably in the first half of 2014 due to the increased uncertainty. Initial reports on the agriculture sector point toward another rich harvest in 2014, although overall agricultural production is expected to decline modestly. Economic growth could decline further to 1.5 percent in 2014.

New investment activity dropped further across the board in the first half of 2014. The number of new firm registrations had already fallen in 2013 to its lowest level in five years, with a reduction in both local and foreign new fixed investments (Figure 3). This downtrend worsened during the first half of 2014, when only half as many new firms were registered compared to the same period of the previous year (Figure 3).

Fiscal crisis underway, with declining revenues leading to an unfinanced fiscal gap, depleted cash, and arrears in 2014

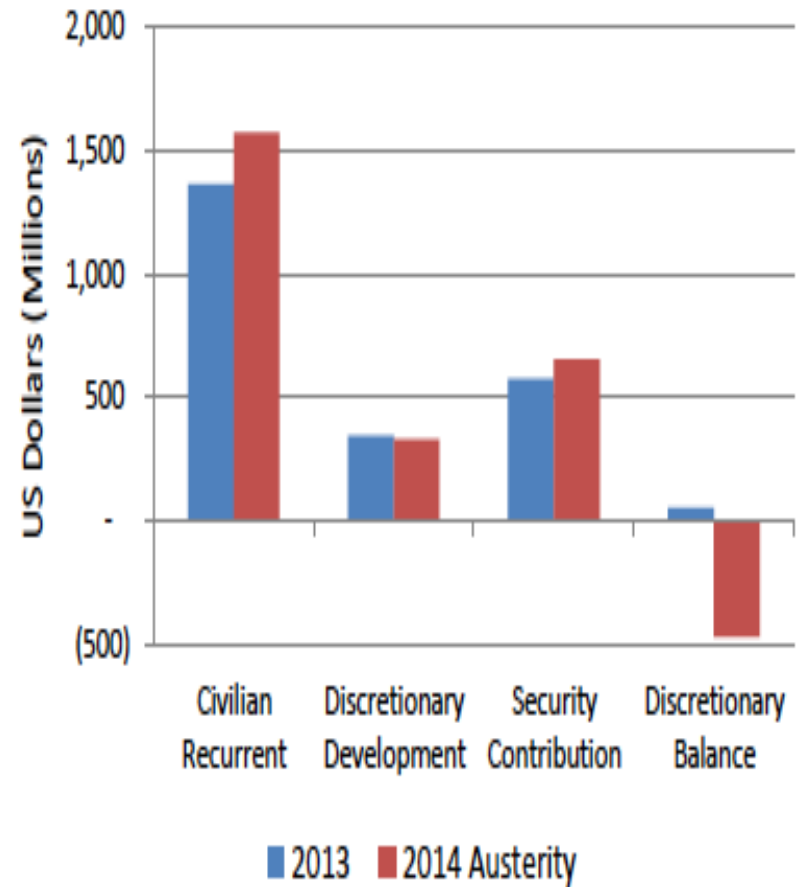
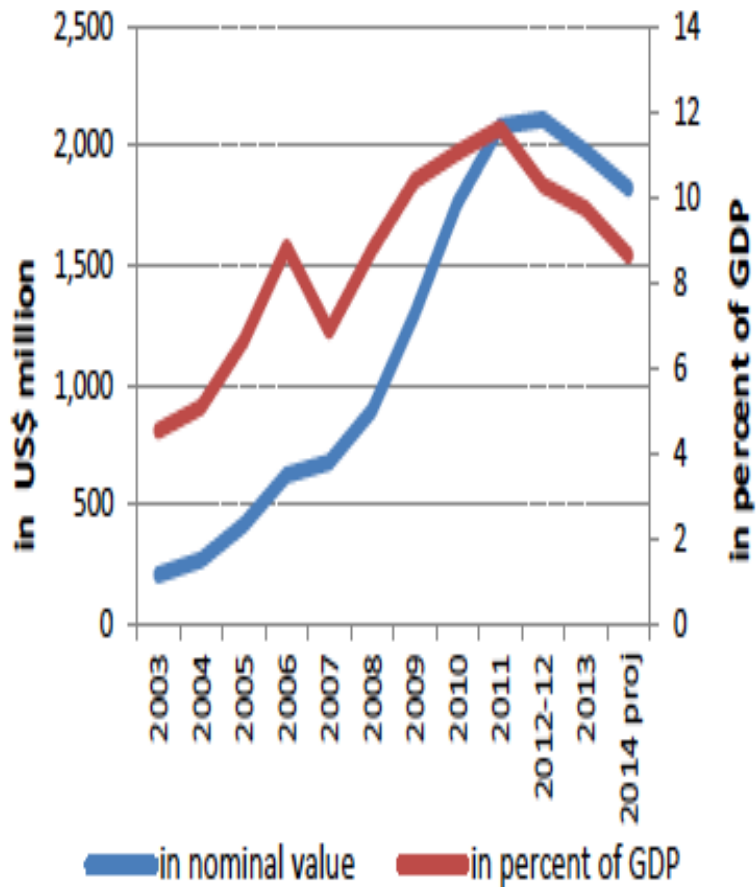
- Revenues projected at 8.7% of GDP in 2014, down from 11.6% in 2011 (due to the economic slowdown plus weaknesses in enforcement)
- In first 10 months of 2014, a large unfinanced fiscal gap led to depleted cash balances and accumulating arrears
- Expenditures were higher due to security and mandated social spending



The Growing Fiscal Gap in 2013-2014

Domestic revenues have been declining since 2011...

...while an unfinanced fiscal gap looms large in 2014.



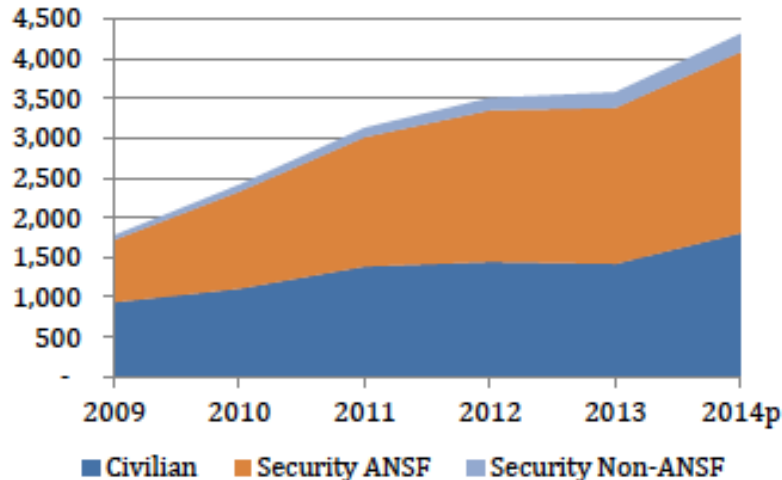
FY2015 Budget Unrealistically High

- Even with urgent donor financing, the unfinanced fiscal gap in 2014 is expected to leave residual arrears and depleted cash reserves
- The draft 2015 budget combines an ambitious increase in revenues with certain expenditure restraints to close the unfinanced fiscal gap
 - Repaying arrears and rebuilding cash reserves will require identifying additional fiscal space
 - It will be important to ensure that revenue projections are credible and backed by adequate measures
 - Expenditure restraints should be prioritized to avoid stifling economic recovery and compromising development outcomes
- **The centerpiece of restoring fiscal stability is improving revenues**
 - Without a significant increase in revenues, Afghanistan cannot restore fiscal stability, given its considerable expenditure needs
- **Immediate, credible, and bold measures are needed, including for example:**
 - expediting custom action plan implementation, including HR measures, enforcement powers for ACD, improving inspection and post-clearance audit procedures, and countrywide rollout of ASYCUDA valuation module
 - expediting VAT implementation with 10% rate and approving Tax Admin Law
 - conducting effective and risk-based audits to improve taxpayer compliance
- **In the medium term, extractive industries can be a source of considerable revenues, but will require progress on the regulatory and legislative framework**

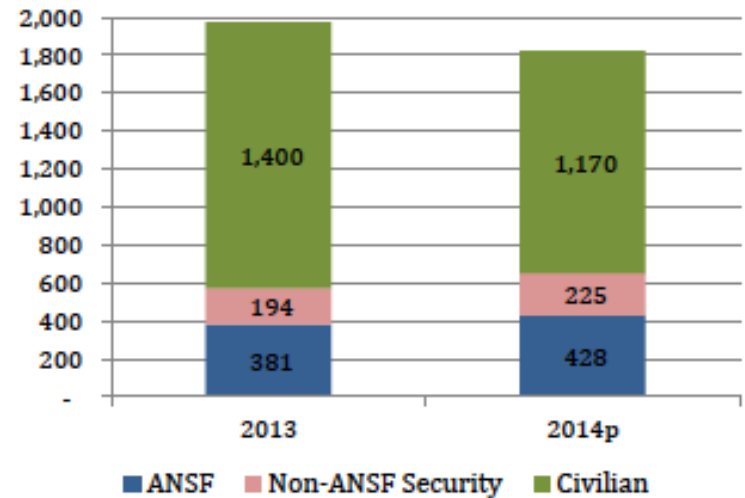
Security Costs May Be Too High

- Risks from security expenditure pressures exacerbated by a number of factors:
 - Uncertain revenue prospects and rising revenue contribution to security
 - Rising non-ANSF security spending, which need to be fully financed by revenues
 - Potential mismatch between security needs and Chicago financing scenarios (e.g. troop levels), with residual financing needs falling on revenues

On-budget security and civilian operating expenditures (in US\$ millions)



Revenue contribution to civilian and security purposes (in US\$ millions)



The Challenge of Coping Without a Credible Plan and Budget, and Public Support

The first section in this report focuses on the lack of adequate leadership planning, budgeting, and public support.

It lists the areas where the US government – as well as the Afghan government and other powers – have failed to provide leadership, planning, and transparency, and create the institutions necessary for success.

It warns that past failures to sustain successful transitions have been the rule and not the exception.

It shows the need for leadership that can win congressional and popular US support, and that goes far beyond empty rhetoric about terrorism. That provides a clear strategic justification for US action, and provides a credible path forward

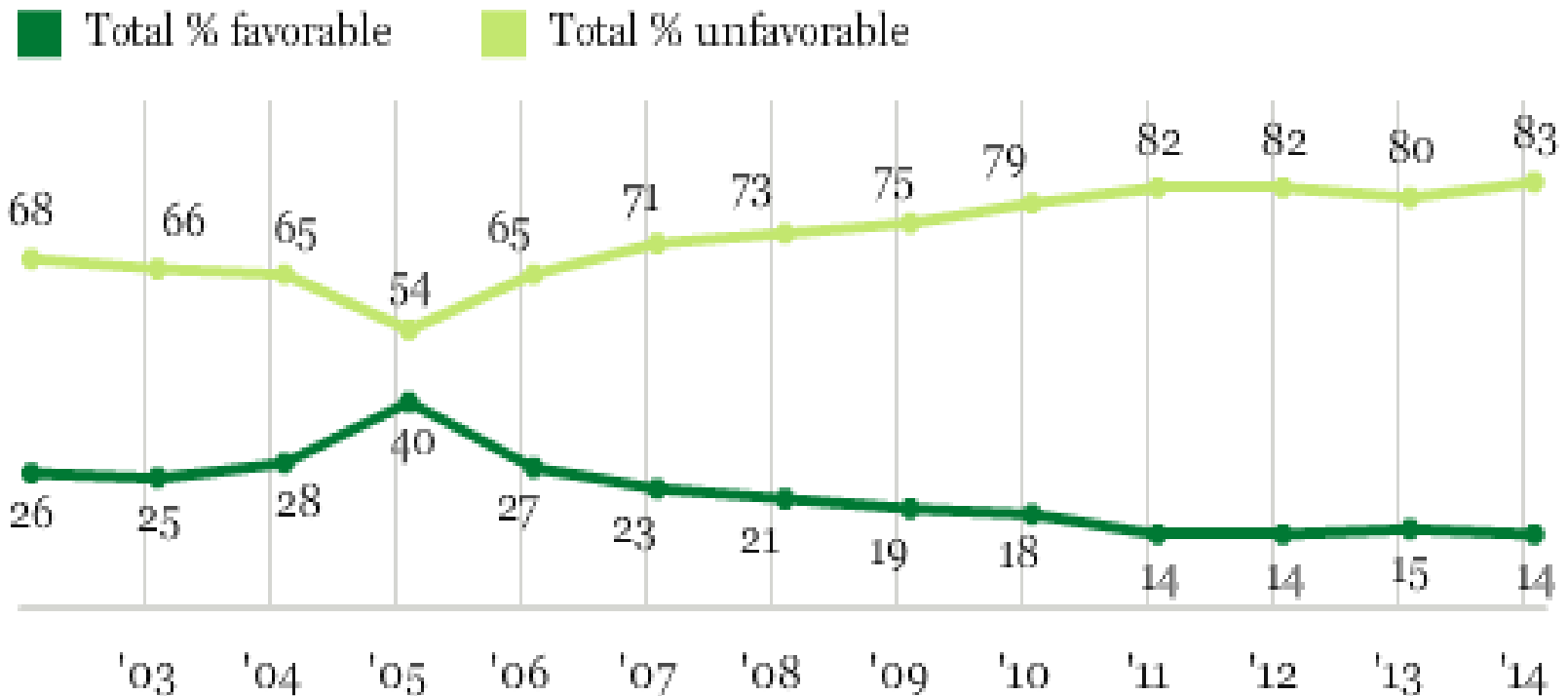
It shows the rate at which US spending has already been cut, and the lacking of any meaningful budget panning and details in the President’s FY2015 budget request.

The BSA is Only One Aspect of Transition

- Leadership and transparency to win public and Congressional support
- Integrated civil-military plan for post-2014 US presence and aid
 - A clear US and allied plan for an on-going advisory presence and aid funding of ANSF
 - A clear US and allied plan for governance and economic assistance and aid funding.
- A clear plan for setting conditions for Afghan reforms and other actions
- A plan for US relations with – and aid to – Pakistan and Central Asia nations, as well as other key transit and neighboring states
- US leadership in creating replacements for ISAF, NTM-A, UNSCOM
- Follow-ons to Tokyo and Chicago conferences

Loss of US Public Support - I

Next, I'd like your overall opinion of some foreign countries. What is your overall opinion of Afghanistan? Is it very favorable, mostly favorable, mostly unfavorable, or very unfavorable?



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Loss of US Public Support - II

Thinking now about U.S. military action in Afghanistan that began in October 2001, do you think the United States made a mistake in sending military forces to Afghanistan, or not?

■ % Yes, made a mistake ■ % No, did not



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Loss of US Public Support - III

Negative Views of U.S. Efforts in Iraq, Afghanistan

In achieving its goals in Iraq/Afghanistan, U.S. has ...

■ Mostly failed ■ Mostly succeeded

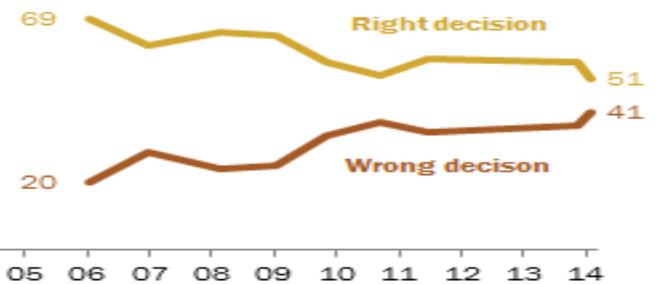


Survey conducted Jan. 15-19, 2014.
Don't know responses not shown.

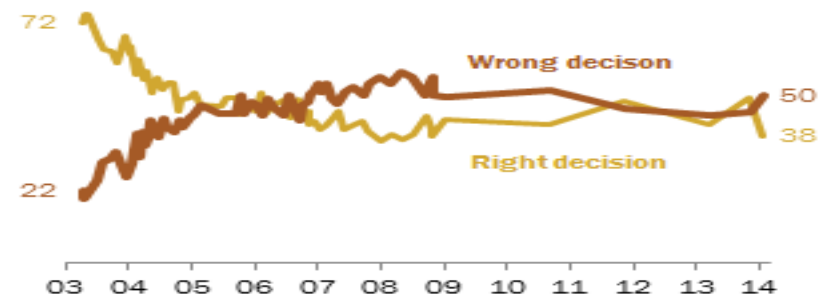
PEW RESEARCH CENTER/USA TODAY

Views of Decisions to Use Military Force in Afghanistan, Iraq

Decision to use military force in Afghanistan ...



Decision to use military force in Iraq ...



Survey conducted Jan. 15-19, 2014.

PEW RESEARCH CENTER/USA TODAY

Overview of Recent US Polls - I

NBC News/Wall Street Journal Poll conducted by Hart Research Associates (D) and Public Opinion Strategies (R). June 11-15, 2014. N=1,000 adults nationwide. Margin of error \pm 3.1.

"When it comes to Afghanistan, do you think the war was worth it or not worth it?"

	Worth it %	Not worth it %	Depends (vol.) %	Unsure %
6/11-15/14	27	65	2	6
1/12-15/13	40	51	2	7

ABC News/Washington Post Poll. May 29-June 1, 2014. N=1,002 adults nationwide. Margin of error \pm 3.5.

"Obama has said he will reduce U.S. troop levels in Afghanistan to 9,800 by the end of this year, half of that next year and near zero by 2016. Do you support or oppose this troop-reduction plan?"

	Support %	Oppose %	Unsure %
5/29 - 6/1/14	77	19	4

CBS News Poll. March 20-23, 2014. N=1,097 adults nationwide. Margin of error \pm 3.

"Most U.S. troops are expected to leave Afghanistan by the end of 2014. From what you know, how likely do you think it is that Afghanistan will be a stable country after U.S. troops leave: very likely, somewhat likely, not very likely or not at all likely?"

	Very likely %	Somewhat likely %	Not very likely %	Not at all likely %	Unsure %
3/20-23/14	5	24	38	30	3

Gallup Poll. Feb. 6-9, 2014. N=1,023 adults nationwide. Margin of error \pm 4.

"Looking back, do you think the United States made a mistake sending troops to fight in Afghanistan in 2001?"

	Yes %	No %	Unsure %
2/6-9/14	49	48	3
3/7-10/13	44	51	5

CNN/ORC Poll. Sept. 6-8, 2013. N=1,022 adults nationwide. Margin of error \pm 3.

"In view of the developments since we first sent our troops to Afghanistan, do you think the United States made a mistake in sending troops to Afghanistan, or not?"

	Yes %	No %	Unsure %
--	----------	---------	-------------

Overview of Recent US Polls - II

Pew Research Center/USA Today. Jan. 15-19, 2014. N=739 adults nationwide. Margin of error \pm 4.2. 5/2/11: Co-sponsored by The Washington Post.

"Do you think the U.S. made the right decision or the wrong decision in using military force in Afghanistan?"

	Right decision %	Wrong decision %	Unsure %
1/15-19/14	51	41	8
10/30 - 11/6/13	56	37	8

CBS News Poll. March 20-23, 2014. N=1,097 adults nationwide. Margin of error \pm 3.

"Most U.S. troops are expected to leave Afghanistan by the end of 2014. From what you know, how likely do you think it is that Afghanistan will be a stable country after U.S. troops leave: very likely, somewhat likely, not very likely or not at all likely?"

	Very likely %	Somewhat likely %	Not very likely %	Not at all likely %	Unsure %
3/20-23/14	5	24	38	30	3

Gallup Poll. Feb. 6-9, 2014. N=1,023 adults nationwide. Margin of error \pm 4.

"Looking back, do you think the United States made a mistake sending troops to fight in Afghanistan in 2001?"

	Yes %	No %	Unsure %
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3/7-10/13	44	51	5

Pew Research Center/USA Today. Jan. 15-19, 2014. N=739 adults nationwide. Margin of error \pm 4.2. 5/2/11: Co-sponsored by The Washington Post.

"Do you think the U.S. made the right decision or the wrong decision in using military force in Afghanistan?"

	Right decision %	Wrong decision %	Unsure %
1/15-19/14	51	41	8
10/30 - 11/6/13	56	37	8
6/15-19/11	57	35	8
8/25 - 9/6/10	52	38	10
1/7-11/09	64	25	11
2/20-24/08	65	24	11
12/6-10/06	61	29	10
1/4-8/06	69	20	11

"Overall, do you think the United States has mostly succeeded or mostly failed in achieving its goals in Afghanistan?"

	Mostly succeeded %	Mostly failed %	Unsure/Refused %
1/15-19/14	38	52	10

Overview of Recent US Polls - III

CBS News Poll. March 20-23, 2014. N=1,097 adults nationwide. Margin of error \pm 3.

"Most U.S. troops are expected to leave Afghanistan by the end of 2014. From what you know, how likely do you think it is that Afghanistan will be a stable country after U.S. troops leave: very likely, somewhat likely, not very likely or not at all likely?"

	Very likely	Somewhat likely	Not very likely	Not at all likely	Unsure
	%	%	%	%	%
3/20-23/14	5	24	38	30	3

CBS News Poll. March 20-23, 2014. N=1,097 adults nationwide. Margin of error \pm 3.

"Most U.S. troops are expected to leave Afghanistan by the end of 2014. From what you know, how likely do you think it is that Afghanistan will be a stable country after U.S. troops leave: very likely, somewhat likely, not very likely or not at all likely?"

	Very likely	Somewhat likely	Not very likely	Not at all likely	Unsure
	%	%	%	%	%
3/20-23/14	5	24	38	30	3

"All in all, considering the costs to the United States versus the benefits to the United States, do you think the war in Afghanistan has been worth fighting, or not?"

10/09: "All in all, considering the costs to the United States versus the benefits to the United States, do you think the war in Afghanistan was / has been worth fighting, or not?" -- "was" and "has been" each asked of half the sample.

9/09 & earlier: "All in all, considering the costs to the United States versus the benefits to the United States, do you think the war in Afghanistan WAS worth fighting, or not?"

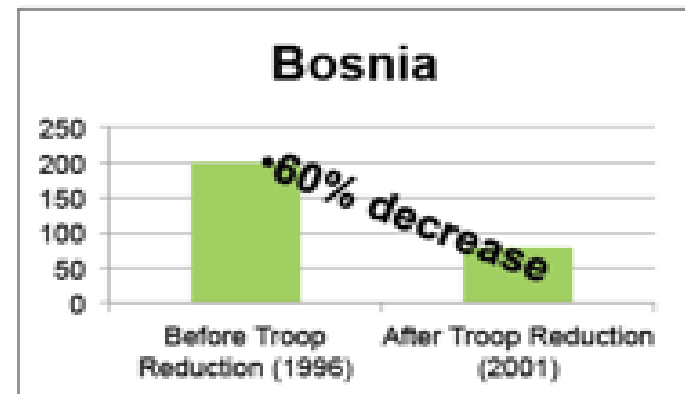
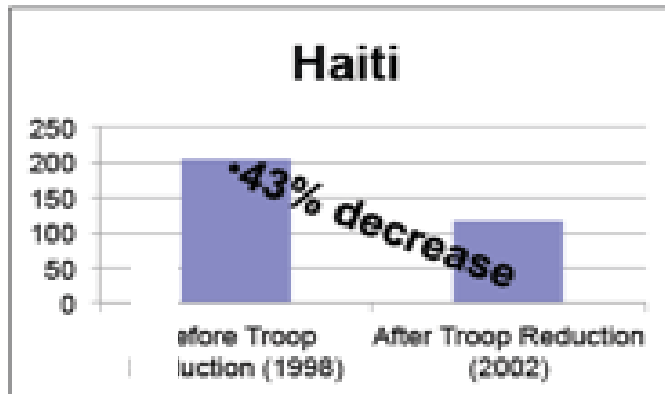
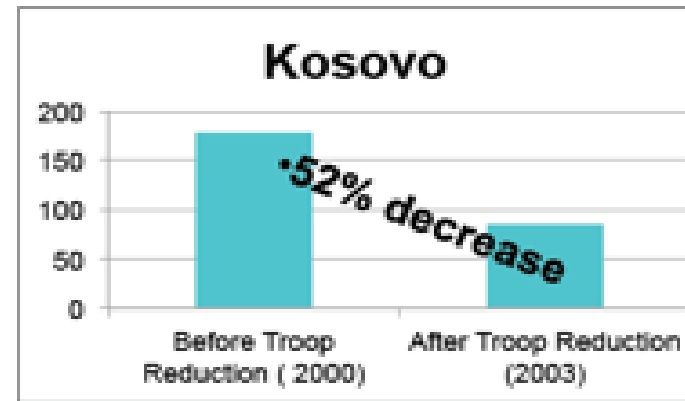
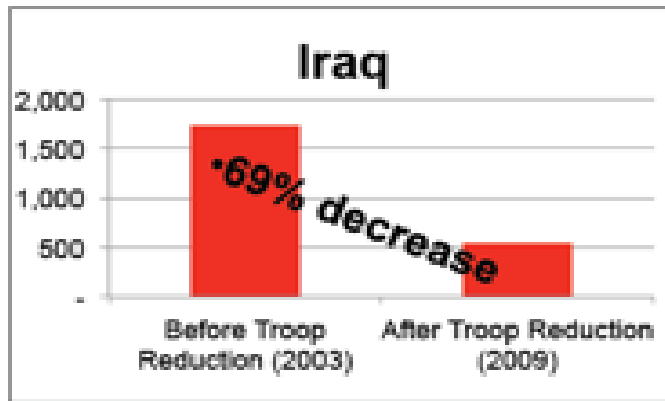
	Worth fighting	Not worth fighting	Unsure
	%	%	%
12/12-15/13	30	66	4

Source: <http://www.pollingreport.com/afghan.htm>

The Potential Crisis in Aid

History is a Warning: Declare Victory and Leave?

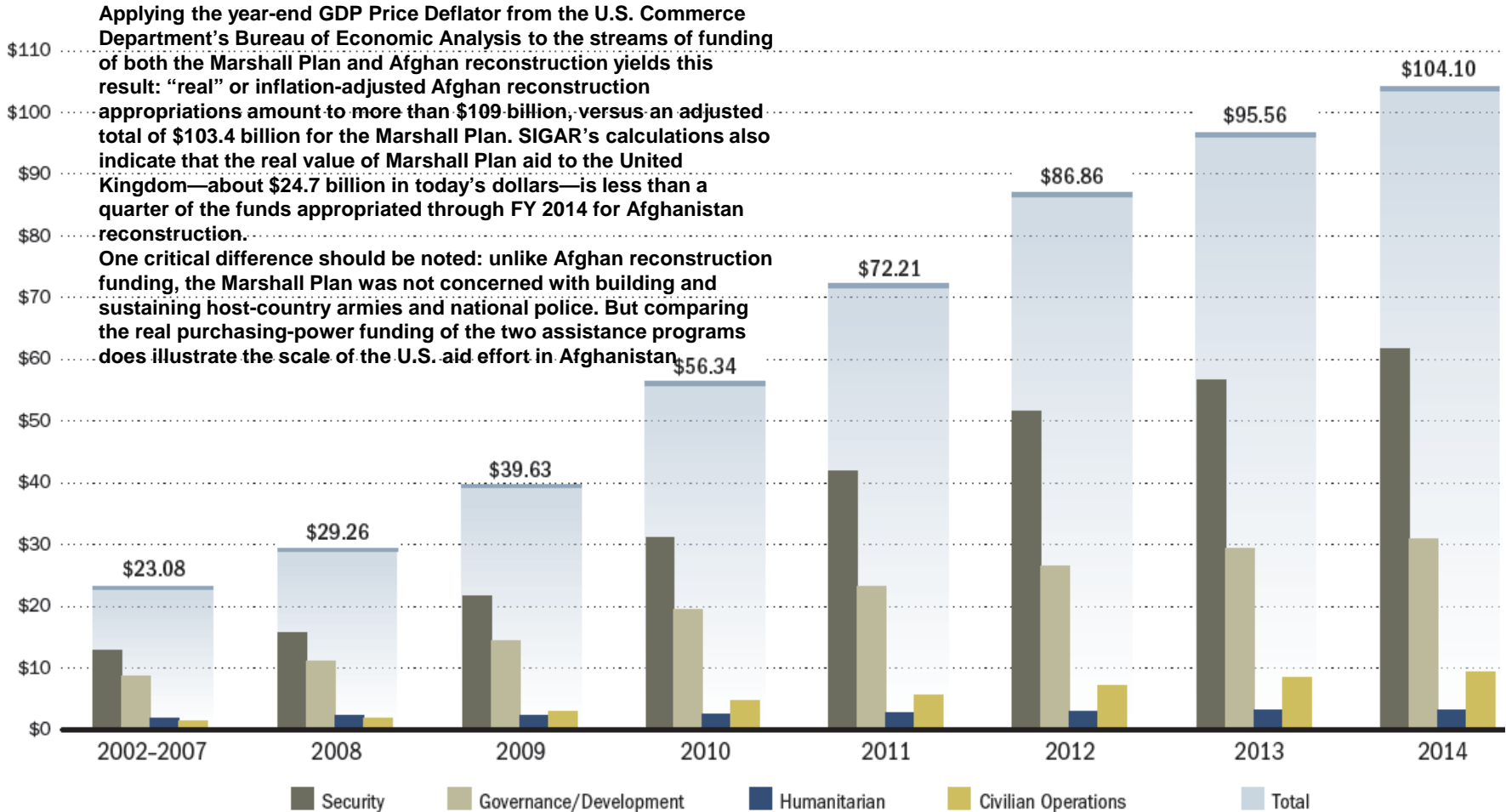
Development Assistance Levels Before and After Troop Reductions



Following the withdrawal or significant reduction in troop levels, Iraq, Kosovo, Haiti, and Bosnia saw significant decreases in development assistance levels.

Massive Past Impact: \$104 billion in US Aid – Largely Security Aid – as of June 30, 2014 – versus \$103.4 B for Entire Marshall Plan

CUMULATIVE APPROPRIATIONS BY FUNDING CATEGORY, AS OF JUNE 30, 2014 (\$ BILLIONS)



US Aid: DoD vs. USAID and State



ASFF: Afghanistan Security Forces Fund

CERP: Commander's Emergency Response Program

AIF: Afghanistan Infrastructure Fund

TFBSO: Task Force for Business and Stability Operations

DOD CN: DOD Drug Interdiction and Counter-Drug Activities

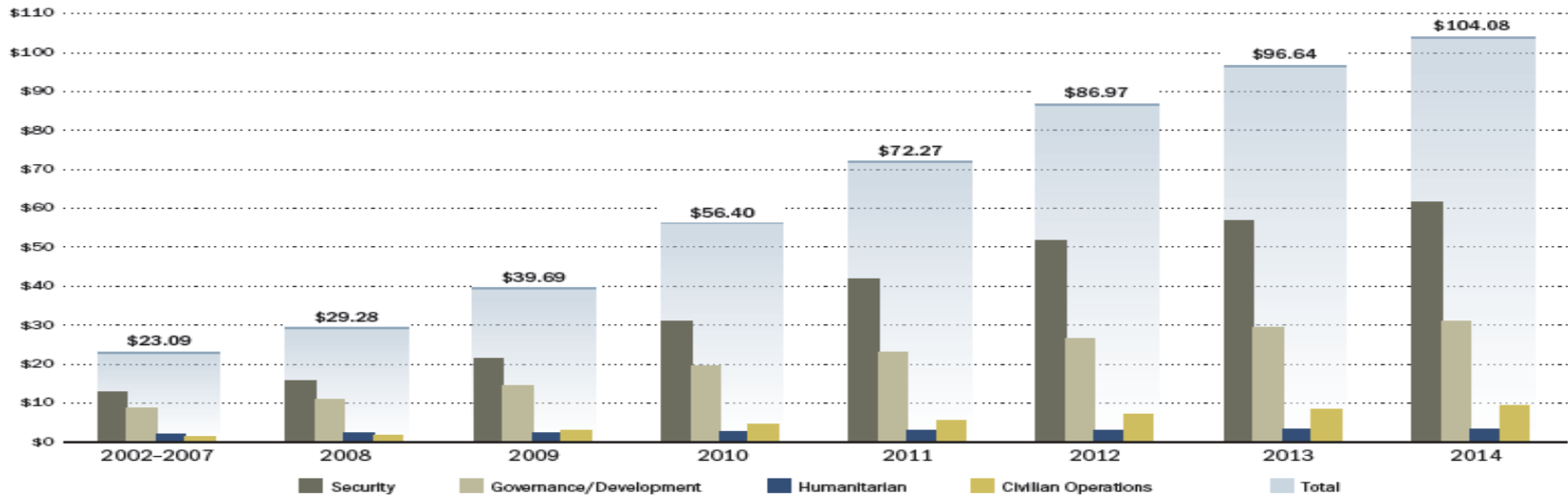
ESF: Economic Support Fund

INCLE: International Narcotics Control and Law Enforcement

Other: Other Funding

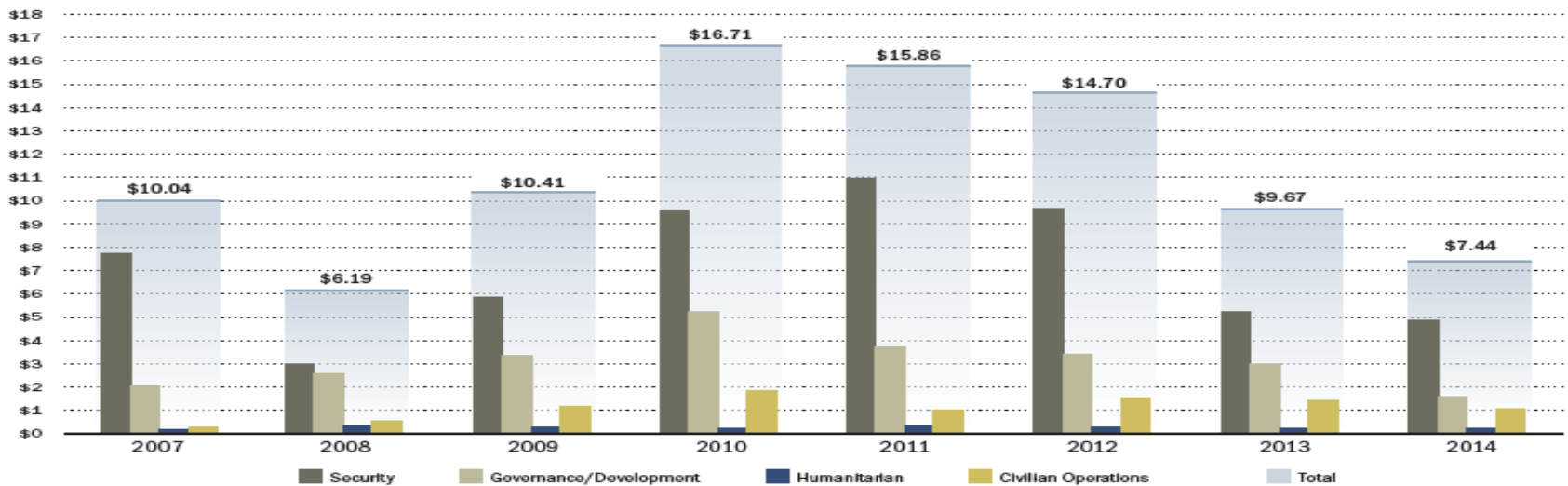
Boom and Bust? US Aid: Cumulative and Annual

CUMULATIVE APPROPRIATIONS BY FUNDING CATEGORY, AS OF SEPTEMBER 30, 2014 (\$ BILLIONS)



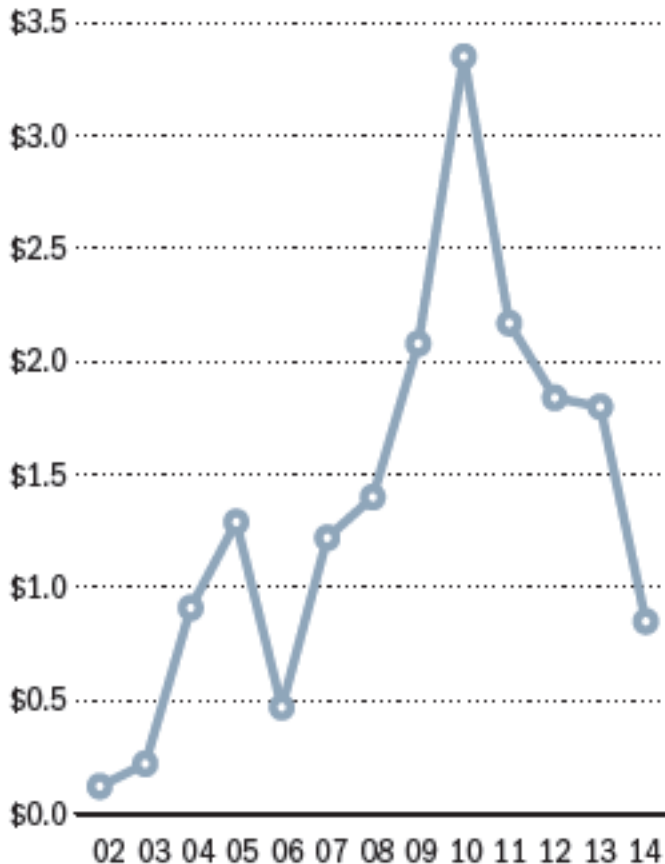
APPROPRIATIONS BY FISCAL YEAR, AMOUNT, AND CATEGORY (\$ BILLIONS)

response to SIGAR data call, 7/16/2014.

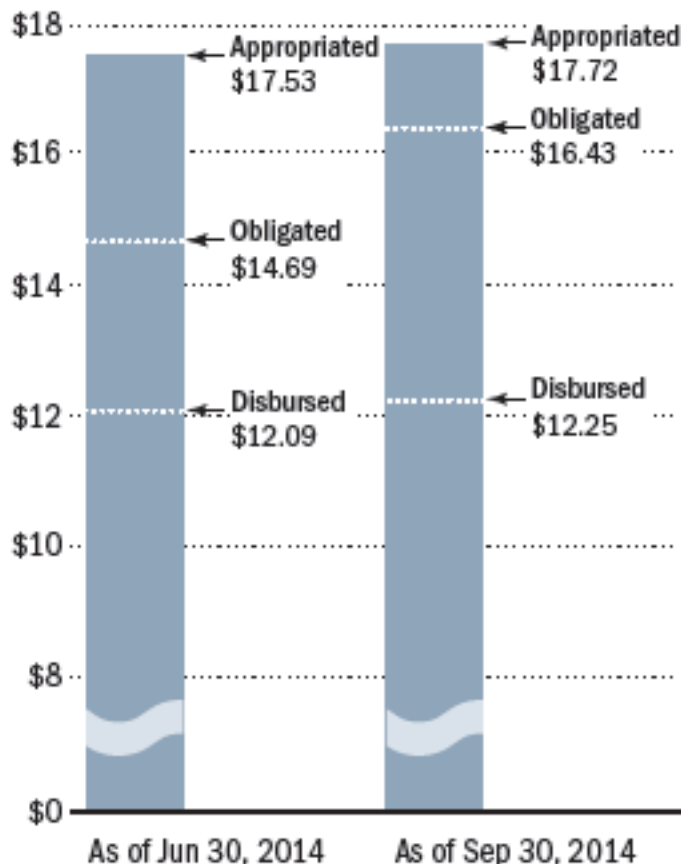


Clear “Bust” in ESF Funding

ESF APPROPRIATIONS BY FISCAL YEAR
(\$ BILLIONS)



ESF FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



Note: Numbers have been rounded. FY 2011 figure includes \$101 million that was transferred to the ESF from the Afghanistan Infrastructure Fund (AIF). FY 2013 figure includes \$179.5 million that was transferred to the ESF from the AIF.

“Economic Support Fund (ESF) programs advance U.S. interests by helping countries meet short- and long-term political, economic, and security needs. ESF programs support counterterrorism; bolster national economies; and assist in the development of effective, accessible, independent legal systems for a more transparent and accountable government.”

US Aid Funding in FY2013-FY2015 Shows Some Stability

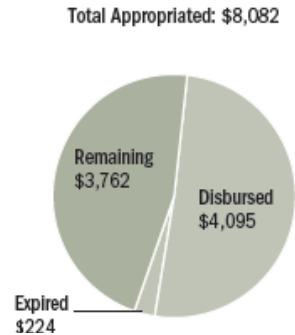
FY 2013 AMOUNTS APPROPRIATED, OBLIGATED, AND DISBURSED (\$ MILLIONS)				
	Appropriated	Obligated	Disbursed	Remaining
ASFF	\$4,946	\$4,946	\$3,621	\$1,325
CERP	200	42	36	6
AIF	146	137	37	100
TFBSO	138	136	103	33
DOD CN	256	256	256	0
ESF	1,803	1,748	1	1,747
INCLE	594	594	42	552
Total 7 Major Funds	\$8,082	\$7,858	\$4,095	\$3,762

Note: Numbers have been rounded. Amount remaining reflects the total disbursement potential of the seven major reconstruction funds after deducting approximately \$224 million that expired before being obligated. Obligated and disbursed DOD CN funds reflect amounts transferred to the military services and defense agencies to be spent for Afghanistan.

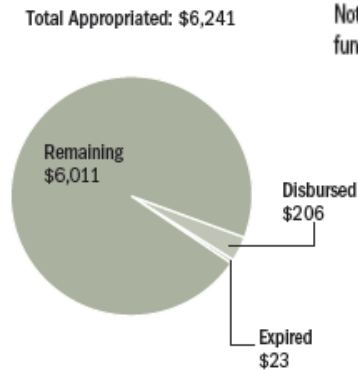
FY 2014 AMOUNTS APPROPRIATED, OBLIGATED, AND DISBURSED (\$ MILLIONS)				
	Appropriated	Obligated	Disbursed	Remaining
ASFF	\$4,727	\$302	\$162	\$4,565
CERP	30	7	2	4
AIF	199	0	0	199
TFBSO	122	109	39	83
DOD CN	86	1	1	85
ESF	852	0	0	852
INCLE	225	3	3	222
Total 7 Major Funds	\$6,241	\$420	\$206	\$6,011

Note: Numbers have been rounded. Amount remaining reflects the total disbursement potential of the seven major reconstruction funds after deducting approximately \$23 million that expired before being obligated. Obligated and disbursed DOD CN funds reflect amounts transferred to the military services and defense agencies to be spent for Afghanistan.

FY 2013 AMOUNT REMAINING TO BE DISBURSED (\$ MILLIONS)



FY 2014 AMOUNT REMAINING TO BE DISBURSED (\$ MILLIONS)



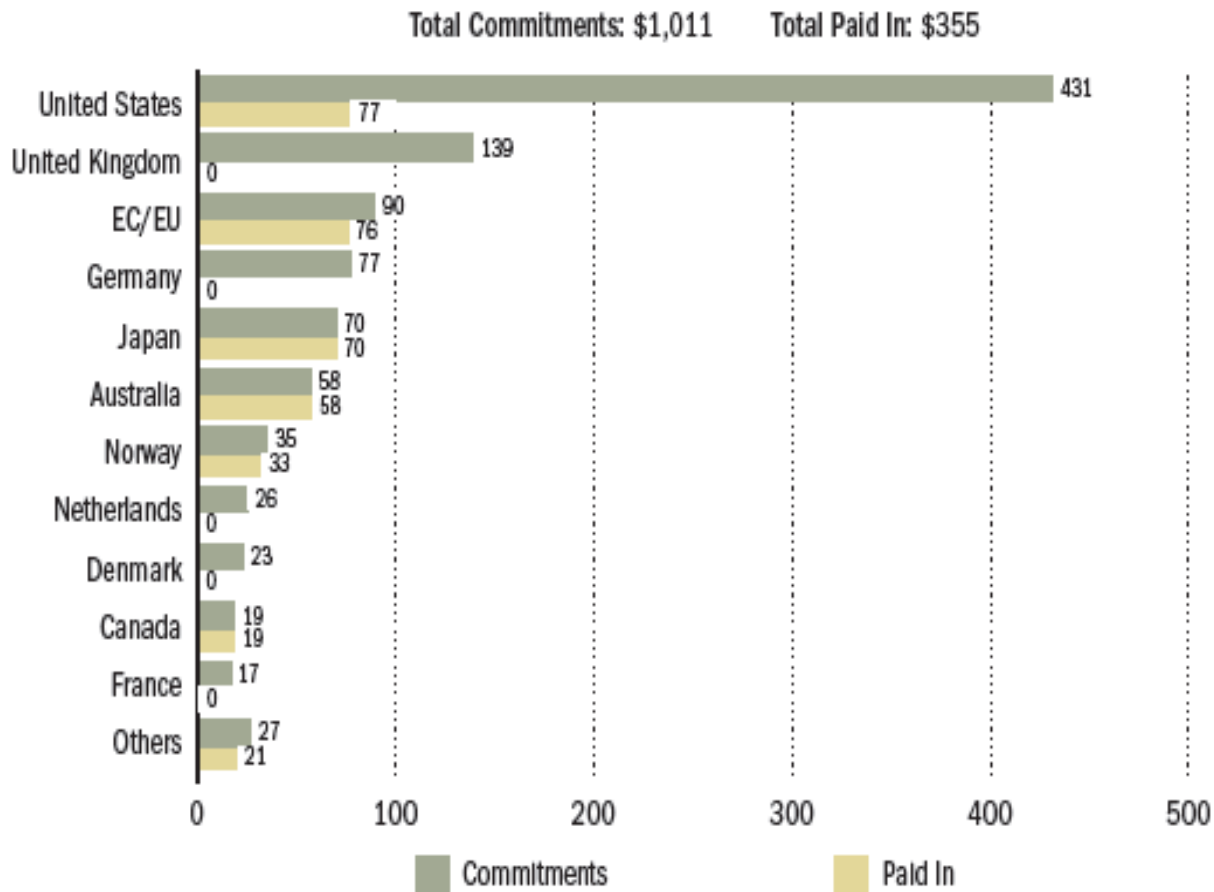
FY 2014 APPROPRIATIONS COMPARED TO THE FY 2015 BUDGET REQUEST (\$ MILLIONS)

	FY 2014	FY 2015 Req
ASFF	\$4,726	\$4,109
CERP	30	15
AIF	199	0
TFBSO	64	5
DOD CN	86	148
ESF	852	1,225
INCLE	225	325
TOTAL	\$6,182	\$5,827

Note: Numbers have been rounded. TFBSO amount excludes funding used for the task force's operational costs.

Limited Additional Foreign Economic Aid Funding in 2014: Aid Needs International Coordination that UNAMA Has Not Provided

ARTF CONTRIBUTIONS FOR FY 1393 BY DONOR, AS OF SEPTEMBER 22, 2014 (\$ MILLIONS)



Contributions to the Afghanistan Reconstruction Trust Fund

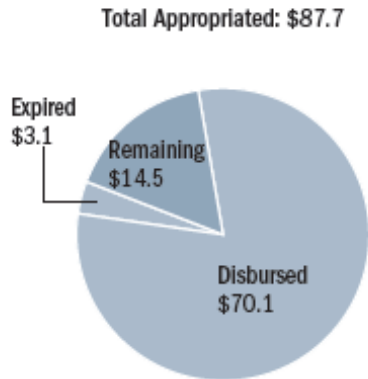
The largest share of international contributions to the Afghan operational and development budgets comes through the ARTF.

From 2002 to September 22, 2014, the World Bank reported that 33 donors had pledged nearly \$7.92 billion, of which more than \$7.26 billion had been paid in.

According to the World Bank, donors had pledged more than \$1.01 billion to the ARTF for Afghan fiscal year 1393, which runs from December 21, 2013 to December 20, 2014.

US Aid Still to Be Disbursed: October 21, 2014

CUMULATIVE AMOUNT REMAINING TO BE DISBURSED (\$ BILLIONS)



CUMULATIVE AMOUNTS APPROPRIATED, OBLIGATED, AND DISBURSED FY 2002–2014 (\$ BILLIONS)

	Appropriated	Obligated	Disbursed	Remaining
ASFF	\$57.33	\$51.77	\$48.94	\$7.26
CERP	3.67	2.28	2.26	\$0.02
AIF	1.04	0.75	0.30	\$0.65
TFBSO	0.81	0.77	0.60	\$0.19
DOD CN	2.70	2.62	2.62	\$0.09
ESF	17.72	16.43	12.25	\$5.04
INCLE	4.44	4.16	3.15	\$1.23
Total 7 Major Funds	\$87.72	\$78.78	\$70.11	\$14.47
Other Reconstruction Funds	7.36			
Civilian Operations	9.00			
Total	\$104.08			

As of September 30, 2014, approximately \$14.5 billion of appropriated funds remained for possible disbursement. These funds will be used to complete on-going, large-scale infrastructure projects, such as those funded by the AIF and ESF; train, equip, and sustain the ANSF; combat narcotics production and trafficking; and advance the rule of law, strengthen the justice sector, and promote human rights.

Approximately 40% of the funding in the pipeline has yet to be obligated. About \$8.7 billion of the \$14.5 billion remaining has been obligated.

The President's FY 2015 budget request, if appropriated, would add another \$5.8 billion for the seven major reconstruction funds. Amounts requested for four of these funds—ASFF, DOD CN, ESF, and INCLE— account for over 99% of the FY 2015 request. Only \$20 million was requested for CERP and TFBSO combined. No additional funding was requested for the AIF.

- DOD **ASFF:** Afghanistan Security Forces Fund
- CERP:** Commander's Emergency Response Program
- AIF:** Afghanistan Infrastructure Fund
- TFBSO:** Task Force for Business and Stability Operations
- DOD CN:** DOD Drug Interdiction and Counter-Drug Activities
- USAID **ESF:** Economic Support Fund
- State **INCLE:** International Narcotics Control and Law Enforcement

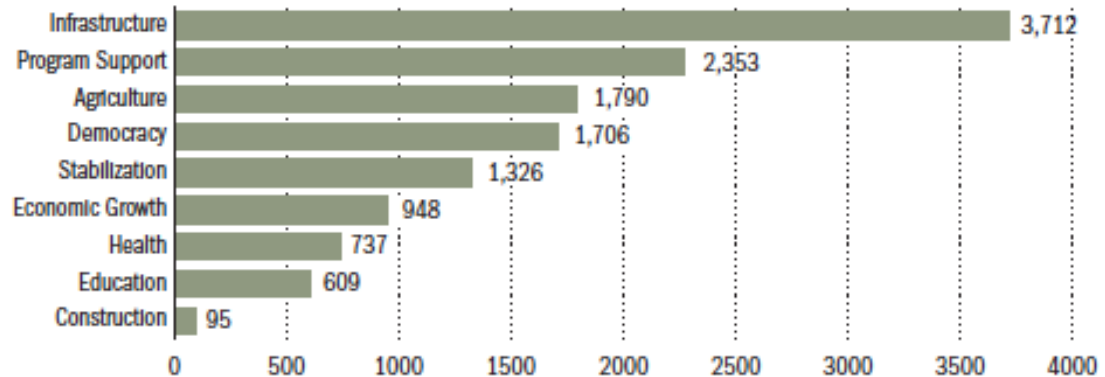
US Development Investment as of 9/30/2014

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF JUNE 30, 2014 (\$ BILLIONS)

Fund	Managing Agency	Appropriated
ESF	USAID	\$17.5
CERP	DOD	3.7
TFBSO	DOD	0.8
AIF	STATE/DOD	1.2
Total		\$23.2

Notes: ESF = Economic Support Fund; CERP = Commander's Emergency Response Program; TFBSO = Task Force for Business and Stability Operations; AIF = Afghanistan Infrastructure Fund.

USAID DEVELOPMENT ASSISTANCE, AS OF SEPTEMBER 30, 2014 (\$ MILLIONS)



Note: Numbers rounded. Program Support projects include staffing, salaries, performance metrics, results tracking, technical assistance to ministries, and funding to the ARTF. Agriculture Programs include Alternative Development.

State FY2015 Budget Request Down to \$2.1 Billion with no Clear Plan for Transition

- **\$2.6 billion of the State Department FY2015 budget request is allocated to Afghanistan under conditions where State cautions that “the Administration has not yet determined the size and scope of any post-2014 US presence.”**
- **State indicates that the United States will sustain “our diplomatic platform and security operations in Kabul, Mazar-e-Sharif, and Herat, while assuming selective reductions in personnel in preparation for transition.”**
- **The budget prioritizes technical assistance and channels more aid through Afghan institutions, while holding the Government of Afghanistan accountable for undertaking concrete reforms and improving efficiency and sustainability.**
- **FY2015 funds will sustain gains in health and education, economic self-sufficiency through improved agricultural production, good governance, rule of law, and women’s rights as laid out in the strategic Partnership agreement.**

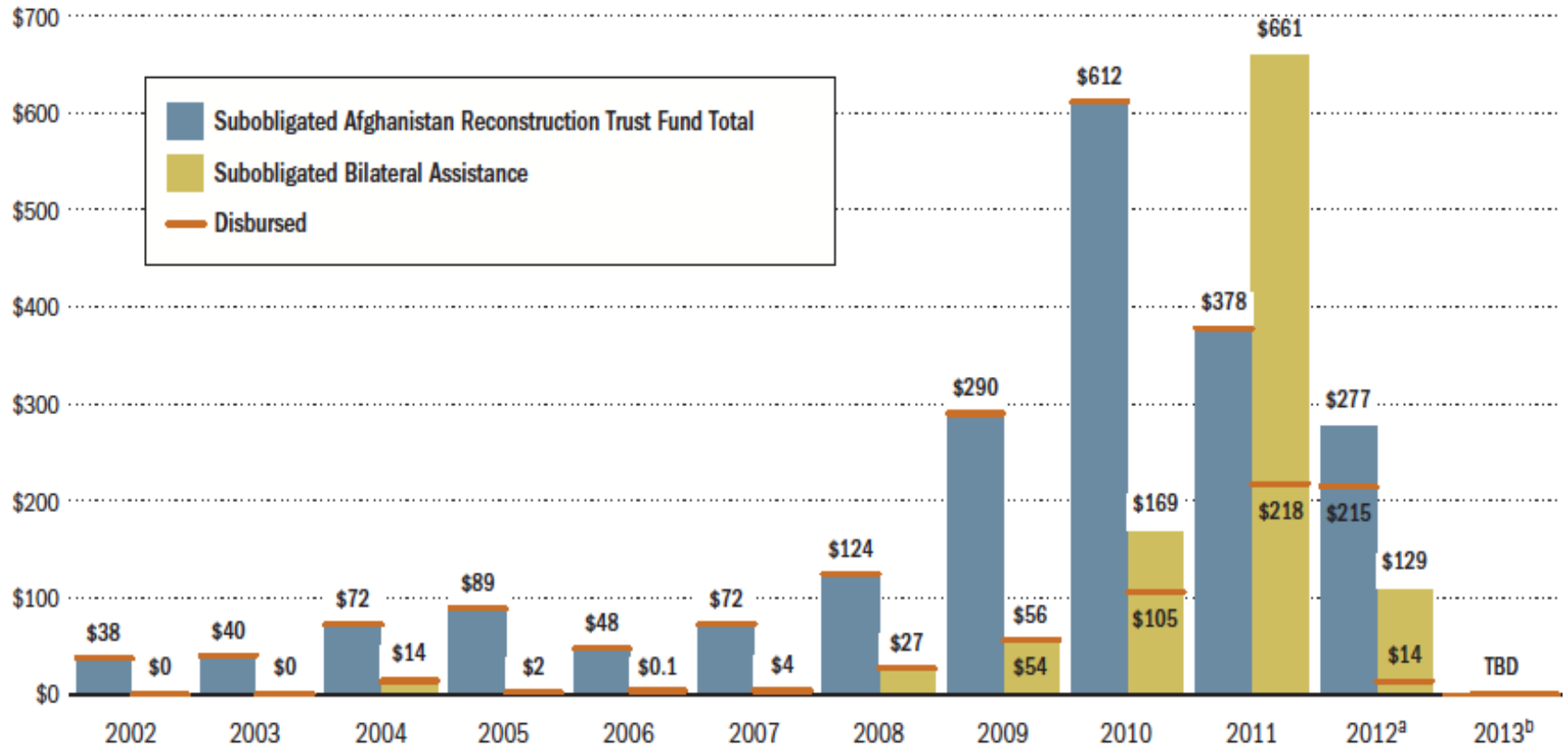
President Makes OCO Budget Recommendation for State and DoD on June 27, 2014 - II

- sustaining the fight against transnational terrorists who seek to undermine the United States and its allies;
- providing warfighters with the intelligence, surveillance, and reconnaissance (ISR) support that has proven essential for mission success in Afghanistan and around the region;
- providing support to Coalition allies in Afghanistan and the surrounding region;
- disposing of unexploded ordnance in Afghanistan and continuing to support Coalition and partner efforts to counter improvised explosive devices;
- returning thousands of cargo containers and pieces of equipment from Afghanistan to their home stations;
- replenishing or replacing expended munitions and ammunition as well as combat-damaged equipment, including helicopters, ground vehicles, and unmanned aerial systems; and
- supporting a portion of temporary Army and Marine Corps end strength that currently supports OEF, but will not be required under the defense strategy articulated in the 2014 Quadrennial Defense Review.

Although the FY 2015 OCO request reflects a transition as the United States concludes combat operations in Afghanistan partway into the fiscal year, most costs will not decline precipitously. For example, DOD will still incur significant costs to transport personnel, supplies, and equipment back to their home stations. Funding to sustain the ANSF will continue to be needed to ensure that Afghan forces can provide sufficient security. There will be continued costs to repair and replace equipment and munitions as DOD resets the force over the next few years.

USAID Subobligated and Disbursed as of 6/30/2014

USAID ON-BUDGET ASSISTANCE SUBOBLIGATED AND DISBURSED, FY 2002-FY 2013, AS OF JUNE 30, 2014 (\$ MILLIONS)



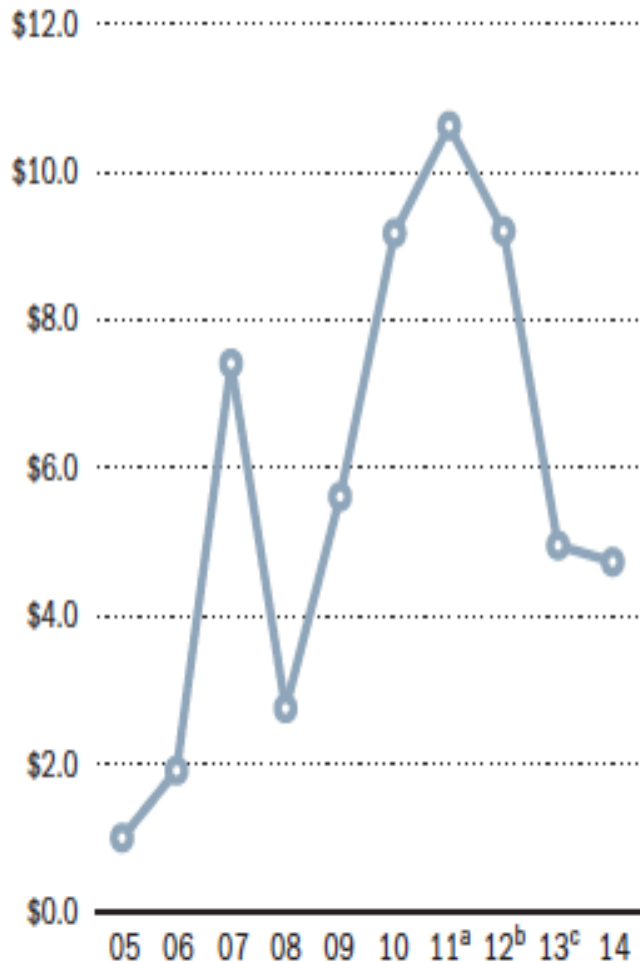
Notes: Numbers have been rounded. Subobligation is funding for project-level agreements.

^a Most FY 2012 USAID funding for on-budget assistance had not been disbursed as of June 30, 2014.

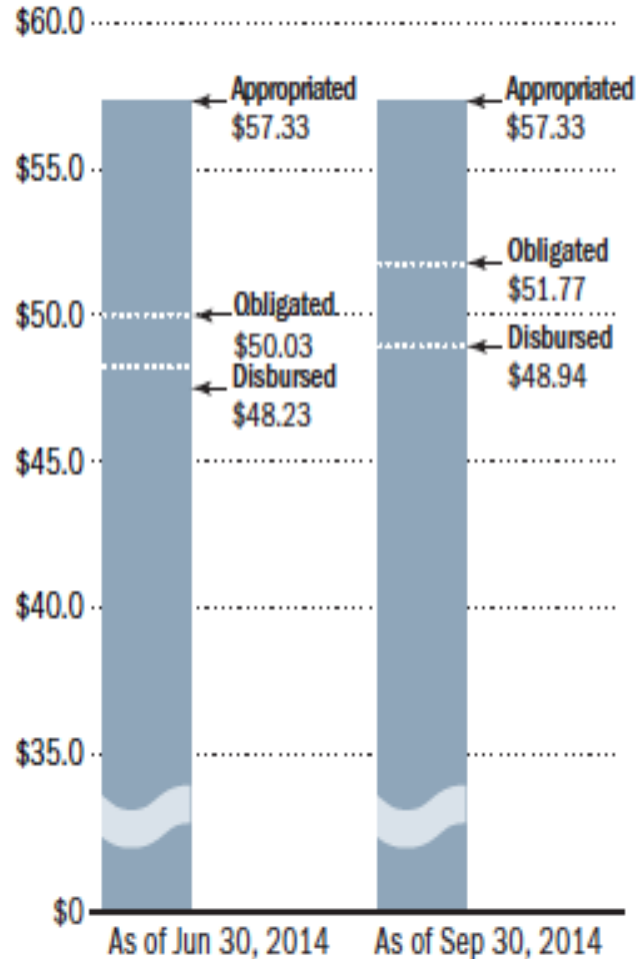
^b Spending in 2013 was done from prior fiscal-year funds. Subobligations and disbursements for FY 2013 are not yet known.

Erratic History and Major Cuts in ASFF Funding

ASFF APPROPRIATED FUNDS BY FISCAL YEAR
(\$ BILLIONS)



ASFF FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



“Afghanistan Security Forces Fund (ASFF) provides the ANSF with equipment, supplies, services, training, and funding, as well as facility and infrastructure repair, renovation, and construction.

The primary organization responsible for building the ANSF is the North Atlantic Treaty Organization Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan. A financial and activity plan must be approved by the Afghanistan Resources Oversight Council (AROC) before ASFF funds may be obligated.

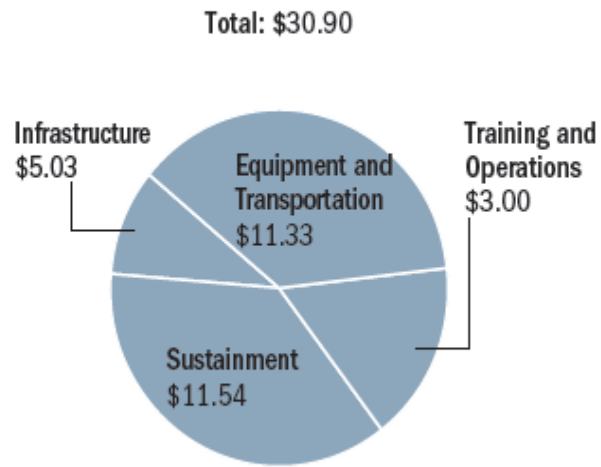
The Consolidated Appropriations Act, 2014, appropriated nearly \$4.73 billion for the ASFF for FY 2014, increasing total cumulative funding to nearly \$57.33 billion.

As of September 30, 2014, more than \$51.77 billion of total ASFF funding had been obligated, of which nearly \$48.94 billion had been disbursed.

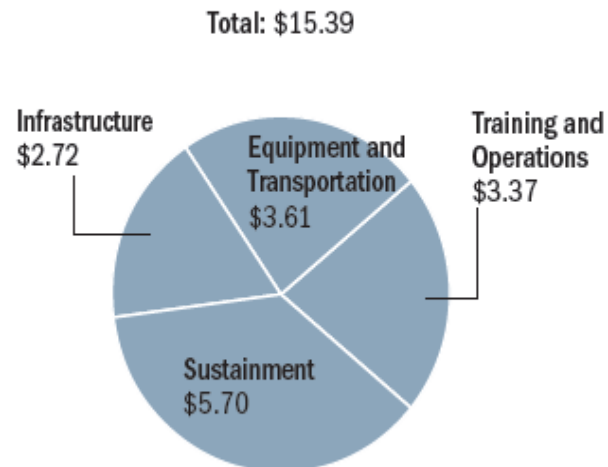
DOD reported that cumulative obligations increased by more than \$1.74 billion over the quarter, and cumulative disbursements increased by nearly \$712.11 million.

ASFF Disbursements for the ANA & ANP by Category

**ASFF DISBURSEMENTS FOR THE ANA
BY SUB-ACTIVITY GROUP,
FY 2005-MAR 31, 2014 (\$ BILLIONS)**



**ASFF DISBURSEMENTS FOR THE ANP
BY SUB-ACTIVITY GROUP,
FY 2005-MAR 31, 2014 (\$ BILLIONS)**



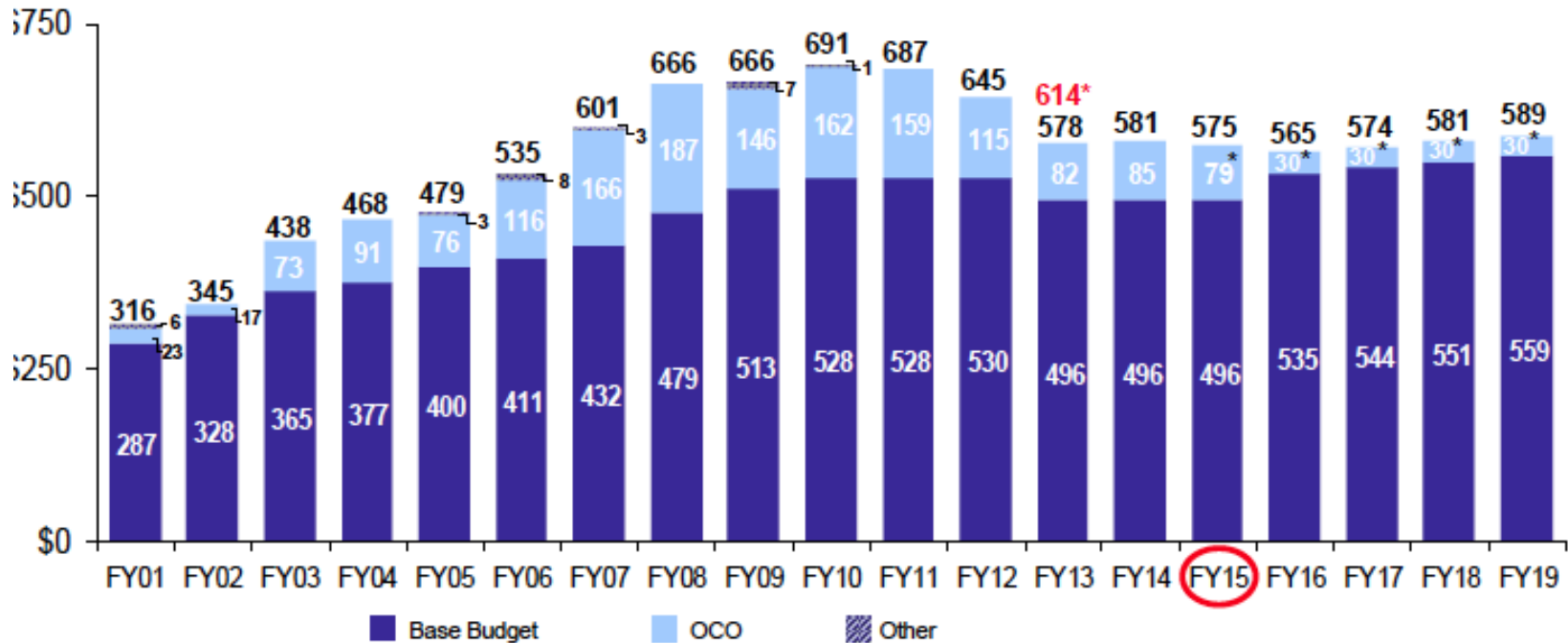
Note: Numbers have been rounded.

Source: DOD, response to SIGAR data call, 4/15/2014.

DoD Placeholder OCO Budget in Original FY 2015 Budget Request

(Current Dollars in Billions)

\$75B in FY2015 to \$30B in FY2016



* Reflects FY13 Enacted level excluding Sequestration

* Placeholders only

**Focus Only On Base Budget For Remainder Of Briefing
No FY 2015 OCO Budget Yet**

President Makes OCO Budget Recommendation for State and DoD on June 27, 2014 - I

Reduces Totals with No Break Out for Afghanistan: \$58.6 billion for DOD OCO activities, which is \$20.9 billion less than the \$79.4 billion placeholder for DOD OCO in the FY 2015 Budget. It would also provide \$1.4 billion for State/OIP OCO activities, which is in addition to the \$5.9 billion for State/OIP included in the FY 2015 Budget. Overall, these amendments would decrease the total OCO funding requested for FY 2015 by \$19.5 billion.

The United States' goals in Afghanistan beyond 2014 are to continue to support the Afghan National Security Forces, support economic development and governance efforts, and pursue U.S. counterterrorism goals against al Qaeda and its affiliated groups. As you announced in May, the United States will conclude combat operations in Afghanistan by the end of this calendar year. The United States will draw down to approximately 9,800 U.S. servicemembers in Afghanistan by early 2015, which, together with NATO allies and other partners, will allow the United States to continue advising key Afghan forces and to sustain counterterrorism operations. By the end of 2015 the United States will have reduced that presence by roughly half and consolidated its military and diplomatic presence to Kabul and Bagram Airfield. By the end of 2016, DOD will draw down to a more conventional embassy-based security assistance presence in Kabul.

In support of OEF and related follow-on activities, DOD OCO funding would support several key efforts, including:

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In support of OEF and related follow-on activities, DOD OCO funding would support several key efforts, including:

- concluding the combat mission in Afghanistan at the end of 2014 and positioning U.S. military and intelligence forces in Afghanistan for their post-2014 mission;
- drawing down to approximately 9,800 U.S. servicemembers in the country by early 2015 from an average of 38,000 in FY 2014;
- continuing to support the Afghan National Security Forces (ANSF) as they assume full responsibility for security in Afghanistan after December 2014;

**Progress in Some Areas of
Human Development, *But*
Progress is Often
Exaggerated and Lags
Other Poorest Countries in
the Region**

The Uncertain State of Progress

- **UN Human development data reflect progress, but also serious limits to that progress, and input data are very uncertain.**
- **World Bank estimates poverty increasing.**
- **Far too much US, NGO, and other reporting accepts “best case” estimates and polls without validating data or methodology.**
- **Progress in life expectancy, education, medical services raises massive questions about quality of data.**
- **Critical near term challenges in revenues, job creation, electric power, agriculture, and roads.**
- **No major near-term development options before 2020.**
- **More than a decade of war has gone on with no meaningful estimates of the effectiveness of aid and only suspect accounting.**
- **Military and aid spending has often been driving factors in increase in corruption and distorting economy to dependence on outside spending.**

The Human Development Challenge

Early Childhood Development

ECD is very weak in Afghanistan and the country has one of the highest levels of stunting: 1 in 2 children under the age of 5 is stunted.

Giving all children a strong start in life through nutrition, care and stimulation and expanding access to pre school.

→ establish a robust ECD and nutrition program in Afghanistan

Access and learning in Schools

8 million students are enrolled in schools (female students make only 37% of this number) and an estimated 4 million children are out of school in Afghanistan.

Improving conditions for access and learning for all by building strong and accountable education system.

→ enhance focus on quality of learning through doing regular learning assessments

→ continue to enhance access and equity as demand for education increases

Access and Quality Health Care

Only 57 percent of the population have access to health services. Afghanistan has some of the highest infant and maternal mortality rates: under 5 mortality rate is 97 per 1,000 births and maternal mortality is 327 per 100,000 births.

Improve conditions for access to affordable, quality health services by building strong and accountable health system.

→ improve indicators on infant, U5 and maternal mortality and continue to provide basic health care services

Employability and Skills

Out of 200 thousand high-school graduates each year, only 60,000 of them are enrolled at universities and 30,000 of them are enrolled in TVET. The remaining directly enter the labor market as unskilled workers.

Promoting employability and productivity of the workforce through skills-building and facilitating labor market transition.

→ link TVET and higher education to market needs to improve skills and employability of graduates

Exaggerated and Un-validated State Department and USAID Claims of Success – I

Afghanistan has made real progress in many areas, although more as a result of improved security and massive in-country spending and subsidies to its budget than through development or successful aid.

Dealing with Transition requires realism as to Afghanistan's real situation and needs. After more than a decade of war in Afghanistan and Iraq, the State Department and USAID has never developed credible measures of the effectiveness of aid, or of how much spending actually reaches Afghanistan and the needed aid effort.

Claims are made without any public explanation or transparency as to the uncertainties in the data and controversies over the claims being made. Best case data for trends in Afghanistan are taken out of context, and credit is taken for developments unrelated to aid or only affected by it to a limited degree. World Bank economic update reports in 2011 and 2012 that state aid has only a marginal impact on most Afghans and the Afghan economy are ignored. The impact of civil efforts on an ongoing war and any assessment of needs and priorities of Transition is ignored.

Key issues in developing honest estimates of progress and the ability to sustain it include:

- ***Economic growth and increases in GDP/GNI per capita; Five-Fold Increase in Per Capita GDP*** : Claims take credit for the impact of favorable rains which are a driving force in the Afghan GDP and stopped in 2012. GDP per capita data ignore gross uncertainties in population estimates and PPP estimates of trends in economy. No assessment of impact of narcotics share of economy, macro-economic impact of corruption and capital outflows.
- ***Agriculture***: Extremely high impact assessments for programs limited in scope, implied gains in output that are largely a matter of favorable rains. No estimate of uncertainty in the data
- ***Education***: Uncertainties in population, existence of ghost or ineffective schools and teachers, quality of Afghani government reporting, tendency to exaggerate time and years of schooling, uncertain reporting on education by sex.

Exaggerated and Un-validated State Department and USAID Claims of Success –II

- ***Democracy and governance:*** Estimates only cover output of aid programs. Have stopped reporting on effectiveness of governance by district. Ignore ISAF and NGO estimates of scale of corruption. Do not explicitly assess shortfalls in government personnel in the field and its impact. Ignore far more negative World Bank assessments.
- ***Infrastructure:*** Take credit for construction, but do not address corruption, effectiveness, or sustainability – already a critical problem with roads.
- ***Stabilization:*** Ignore UNAMA assessments of trends in civilian killed and wounded, do not map areas of relative success.
- ***Dramatic Growth in Afghan Government Revenue Collection:*** some reporting ignores recent negative trends, serious shortfalls in projections. Failure to assess corruption and government’s ability use revenues effectively. No public assessment of current and projected gaps between revenues and needed post-Transition expenditures.
- ***Exceptional Advances for Women:*** Real gains and their sustainability are overstated. No mapping of critical problem areas, and areas where legal protection does not exist in real world. Failure to note regressive aspect of Afghan law.
- ***New Silk Road, Promoting Regional Connections:*** Exaggeration of current and future economic impact, problems in sustaining current roads, political and security problems with Pakistan.
- ***Electric power:*** Generation capacity is tied estimates of consumers where credibility of data are unclear. Failure to create real world prices and sustainable problems is understated.
- ***Medical services and life expectancy:*** Use of controversial best case data. No attempt to resolve widely differing estimates of life expectancy.

Most attempts at overviews are now dated, but for examples, see USAID in Afghanistan: Partnership, Progress, and Perseverance, <http://www.usaid.gov/afghanistan/news-information/press-releases/usaaid-afghanistan-partnership-progress-perseverance>; USAID: Top Ten Achievements in Afghanistan, <http://www.usaid.gov/sites/default/files/documents/1871/Top%2010%20Accomplishments.pdf>; US Embassy, Kabul, USAID’s Major accomplishments Since 2001, <http://kabul.usembassy.gov/usaidd50.html>.

If You Don't Have Real Education Numbers, Fake a High Estimate

SIGAR July 2014 Report to Congress (That ignores major uncertainties in population data, “ghost” schools, teachers, and corruption.)

The number of students attending school in Afghanistan is often cited as evidence of Afghanistan’s progress in education. For example, in a *Washington Post* op-ed published on May 30, 2014, Dr. Rajiv Shah, the Administrator of USAID wrote, “Education is another bright spot [in Afghanistan.] Three million girls and 5 million boys are enrolled in school.” However, the reliability of EMIS—the only database at the MOE tracking education metrics—cannot be confirmed. Data is not available on time, and indicators such as net enrollment ratios, repetition rate, and dropout rate are unavailable. Insecurity limits visits to schools. In the most recent EMIS Statistical Analytical Report from FY 1390, the MOE admitted that only 1,000 schools (7% of all general education schools) were visited for data verification in FY 1390.

Additionally, schools may be tempted to inflate their attendance figures because access to funding (such as EQUIP II School Grants) can be linked to enrollment levels. This quarter, SIGAR learned that USAID’s definitions of enrollment used in EMIS last quarter were double counting the number of students enrolled in Afghanistan. The previous definition of total enrollment added three figures: enrolled, present, and absent students. However, as USAID clarified this quarter, the number of enrolled students is actually the sum of present and absent students. Thus, the total enrollment figures reported last quarter counted each student twice.

...SIGAR is concerned about the accuracy of the data provided on Afghanistan’s educational system.

According to the most recent data available from the Ministry of Education’s (MOE) Education Management Information System (EMIS), Afghanistan had a total of 14,166 primary, lower-secondary, and upper-secondary schools in FY 1391 (March 21, 2012–December 20, 2012).

This quarter, USAID provided two inconsistent sets of MOE data for the number of students enrolled in 1391. Data generated from EMIS shows approximately 7.62 million students were enrolled in primary, lower-secondary, and upper-secondary schools in FY 1391. Of the enrolled students, 6.26 million were categorized as present, while 1.36 million students were considered absent.

Another unspecified MOE source showed higher enrollment numbers—7.78 million students (an additional 160,000 students over EMIS data) enrolled in primary, lower-secondary, and upper secondary schools in FY 1391, with 6.86 million students present and approximately 922,000 students absent.

USAID also provided a third MOE source containing Afghanistan’s total enrollment in general education for FY 1392—8.2 million students enrolled. This number was not broken down into the numbers of students present and absent. The number of days of attendance required for a student to be counted as “present” for the entire year was not known as this report went to press.

According to USAID, the MOE includes absent students in the enrollment total until three years have elapsed, because absent students are considered to have the potential to return to school. However, a MOE Education Joint Sector Review from September 2013 recommended the MOE revise its regulations and no longer consider permanently absent students to be counted as enrolled.

If You Don't Have Real Mortality Numbers, Use a High Estimate

USAID's Afghanistan Mortality Survey (AMS) results are frequently used as evidence that U.S. intervention efforts have contributed to remarkable improvements in Afghanistan's health system.

In a *Washington Post* op-ed published on May 30, 2014, Dr. Rajiv Shah, the Administrator of USAID, cited Afghanistan's "largest increase in life expectancy" to highlight Afghanistan's progress in health.

However, there is an enormous gap between USAID estimates and the estimates of other institutions.... Most institutions estimate a two- to five-year increase in life expectancy over six years, while the mortality survey finds a 20-year increase for the same time period. Reasons why USAID's estimates differ from those of other institutions could include factors such as AMS inability to survey completely in insecure southern provinces, and Afghan cultural reluctance to speak about female and infant mortality with strangers

USAID LIFE EXPECTANCY FINDINGS COMPARED TO OTHER LIFE EXPECTANCY MODELS (YEARS)

	USAID (Afghanistan Mortality Survey)	CIA World Factbook	World Bank (World Development Indicators)	UN Population Division (World Population Prospects)	U.S. Census Bureau (International Database)	World Health Organization (Global Health Observatory)
Estimated Life Expectancy Increase from 2004-2010 (6 years)	20	2.2	3.0	2.6	2	5
Estimated Life Expectancy Increase from 1990-2010 (20 years)	--	Data not available	11.0	12.0	7	11
Estimated Life Expectancy in 2010	62	44.7	59.6	58.4	49	60
Estimated Life Expectancy in 2004	42	42.5	56.6	55.8	47	55
Estimated Life Expectancy in 1990	--	Data not available	48.6	46.4	42	49

Notes: Numbers have been rounded. Data as of 6/17/2014. WHO calculations based on data available from the years 1990, 2000, and 2012.

World Bank Warnings As Early as November 2011 - I

The extremely high level of current annual aid (estimated at \$15.7 billion in 2010) is roughly the same dollar amount as Afghanistan's GDP and cannot be sustained. Aid has funded the delivery of essential services including education and health, infrastructure investments, and government administration. There have been substantial improvements in the lives of Afghans over the last 10 years as a result of this effort. But these inflows, most outside the Afghan budget, have been so high that inevitable waste and corruption, aid dependency and use of parallel systems to circumvent limited Government absorptive capacity have impeded aid delivery and the building of a more effective Afghan state.

The level of public spending -- both on and off budget -- that has been financed by such high aid flows will be fiscally unsustainable for Afghanistan once donor funds decline. Lesser amounts, matched by more effective aid delivery could, in the end, lead to some more positive outcomes. The key issue is how to manage this change and mitigate the adverse impacts, and put aid and spending on a more sustainable path for the longer-term. International experience and Afghanistan's history after the Soviet military withdrawal in 1989 demonstrate that violent fluctuations in aid, especially abrupt aid cutoffs, are extremely damaging and destabilizing.

Large financial inflows outside the Afghan budget and fragmented aid in a situation of weak governance have been major sources of rents, patronage, and political power. This has inadvertently exacerbated grievances and conflicts as the relative strength of elite groups in Afghan society shifted. As aid declines, reliance on the opium economy and other illicit activities could increase. Ensuring that increasingly constrained public funds are well used reinforces the need to maintain and improve upon the significant progress made by the Finance Ministry in establishing public financial management systems and a robust Afghan budget process.

The impact of declining aid on economic growth may be less than expected. Why? Because most international spending "on" Afghanistan is not spent "in" Afghanistan, and much of what is spent in Afghanistan leaves the economy through imports, expatriated profits and outward remittances. Nevertheless, projections suggest that, under even favorable assumptions, real GDP growth may fall from 9% a year over the past decade to 5-6% during 2011-18. Given Afghanistan's annual population growth of 2.8%, this would mean only limited improvement in average per capita income, continuing high rates of underemployment and little progress in reducing poverty. Only growth at the very maximum of the range of plausible scenarios would enable Afghanistan to achieve meaningful reductions in poverty and higher average per capita incomes. For example, with real GDP growth of 6% a year, average per capita income – currently one of the world's lowest at \$528 dollars – would take 22 years or about a generation to double.

Economic growth is much slower under less favorable scenarios. The growth projections are based on a set of assumptions (scenarios) related mainly to security, sources of growth, aid levels, and changes in investment climate. If the assumptions in the less favorable scenarios come to pass — for example, if agriculture performance is poor, if major mining investments (Aynak for copper and Hajigak for iron ore) do not materialize, or if aid declines precipitously over the period – then growth could drop to 3-4%. Deteriorating security and governance would lead to further economic decline. The underdeveloped financial sector and low rates of financial intermediation leave little scope for helping Afghan businesses adjust to slowing growth. Conversely, the decline could be partly mitigated by reducing aid in a gradual, planned manner and by increasing the amount of aid that is actually spent within Afghanistan that would result if more aid channeled through the Afghan budget.

World Bank Warnings As Early as November 2011 - II

Underemployment will increase because the activities affected by declining financial inflows (services, construction) are relatively labor-intensive. Unemployment and especially underemployment in Afghanistan—respectively estimated at 8% and 48%—are already high, even with today’s rapid economic growth. Roughly 6–10% of the working population has benefited from aid-financed job opportunities, most of these in short-term employment. Declining aid, therefore, can be expected to exacerbate underemployment levels (with fewer casual labor opportunities and lower pay for skilled employees).

The impact of the decline will affect some groups more than others. 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 will be felt more acutely in the conflict-affected areas and in urban centers. If aid declines gradually so that it can be partly offset by growth of the security, mining, and civilian public sectors, the impact could be softened and spread over time. This would allow labor markets more time to adjust.

The direct poverty impact of declining international spending might be limited if aid becomes more equally distributed across provinces and the composition shifts toward development programs rather than short-run stabilization activities. Aid disproportionately devoted to the more conflict-affected provinces has had only a modest impact on poverty. Households in the conflict-affected provinces were less poor on average to begin with, so this concentration of aid inadvertently increased inequality amongst provinces and between groups. National programs delivered through the Government, such as NSP [National Solidarity Program], have benefitted Afghans more equitably.

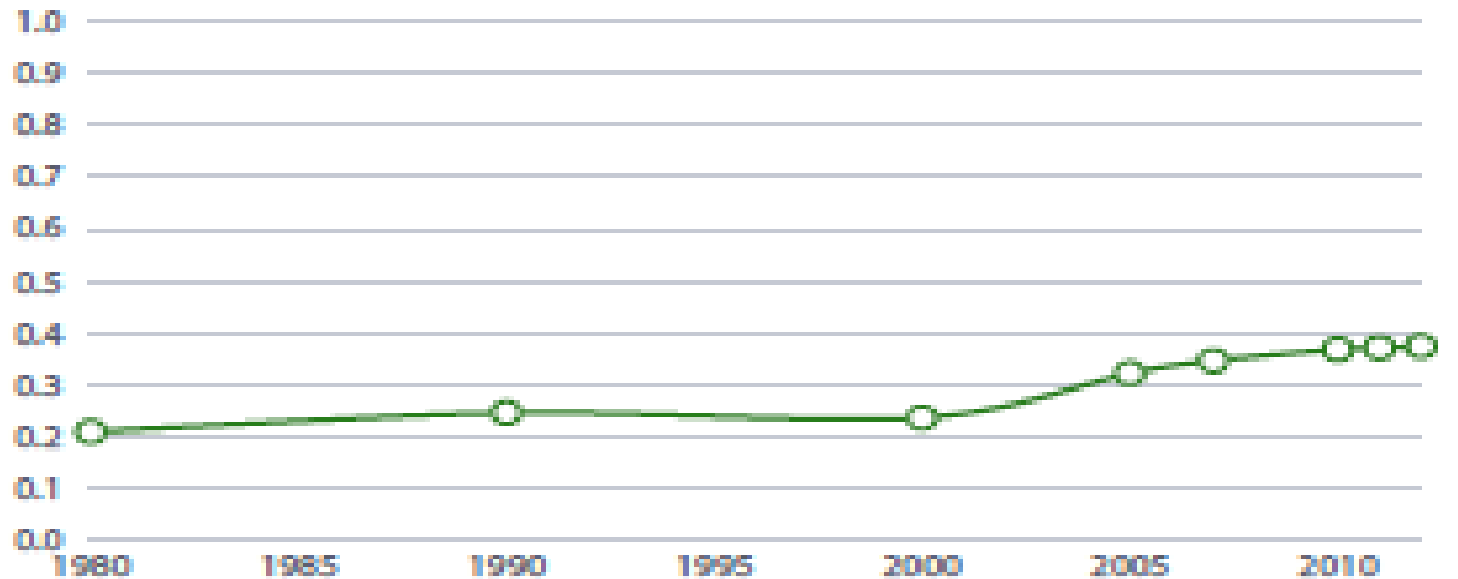
The worst impact of transition will be on the fiscal situation with a projected financing gap of 25% of GDP by 2021/22. Even assuming ambitious targets for robust growth in domestic revenue are met (with a projected rise from 10% of GDP to more than 17% of GDP a decade from now), there will be an unmanageable fiscal gap. This gap arises primarily as a result of operations and maintenance (O&M) spending and the wage bill for security that together will be 17.5% of GDP by 2021. The civilian wage bill will increase to 9%, the non-security operation and maintenance (O&M) expenditure to 4%, other operating spending to 2.5%, and the core development budget to 10% of GDP.

Source: World Bank, *Transition in Afghanistan: Looking Beyond 2014, Executive Summary*, November 2011, pp. 1-2.

UN Human Development Indicator Ranking

(175th in the World in 2013)

Trends 1980 - Present



+ Health

Life expectancy at birth (years)

49.1

+ Education

Mean years of schooling (of adults) (years)

3.1

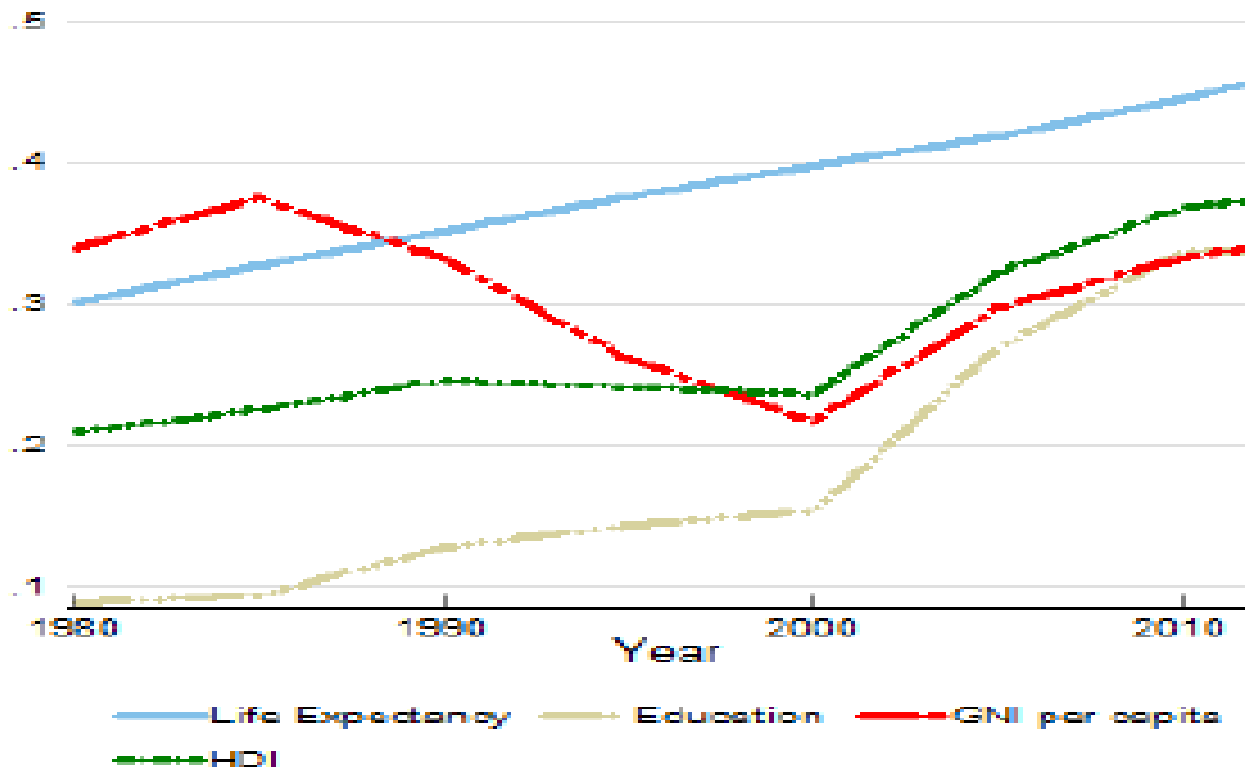
+ Income

GNI per capita in PPP terms (constant 2005 international \$) (Constant 2005 international \$)

1,000

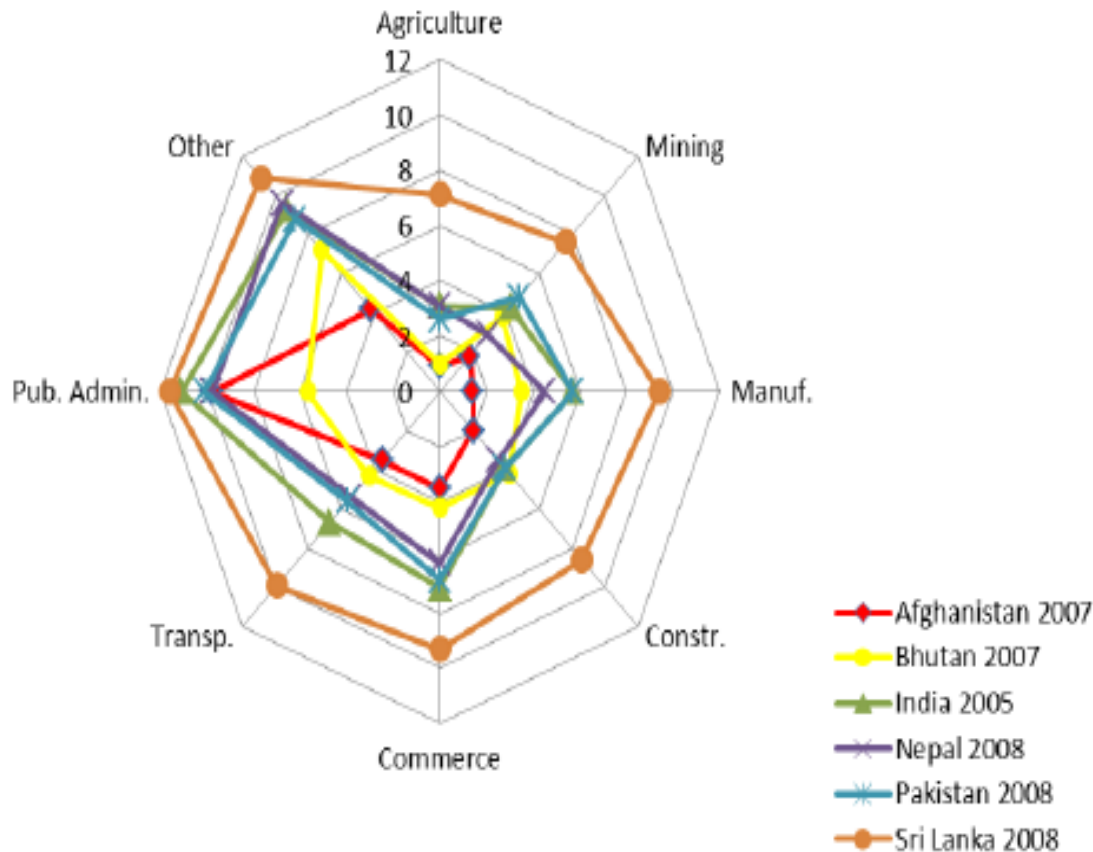
Inequality-adjusted HDI value

UN Human Development Progress by Category: 1980-2012



	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2005 PPP\$)	HDI value
1980	39.2	2.3	0.8	1,002	0.209
1985	40.8	1.7	1.2	1,271	0.225
1990	42.3	2.5	1.5	0,948	0.246
1995	43.8	2.5	1.8	0,589	0.241
2000	45.3	2.5	2.1	0,435	0.236
2005	46.6	6.6	2.5	0,750	0.322
2010	48.3	8.1	3.1	0,953	0.368
2011	48.7	8.1	3.1	0,979	0.371
2012	49.1	8.1	3.1	1,000	0.374

Still Very Low Education Levels Compared to Other Countries



Source: World Bank 2011 "More and Better Jobs in South Asia"

Decades of conflict have had a long-lasting impact on the human capital stock of the country.

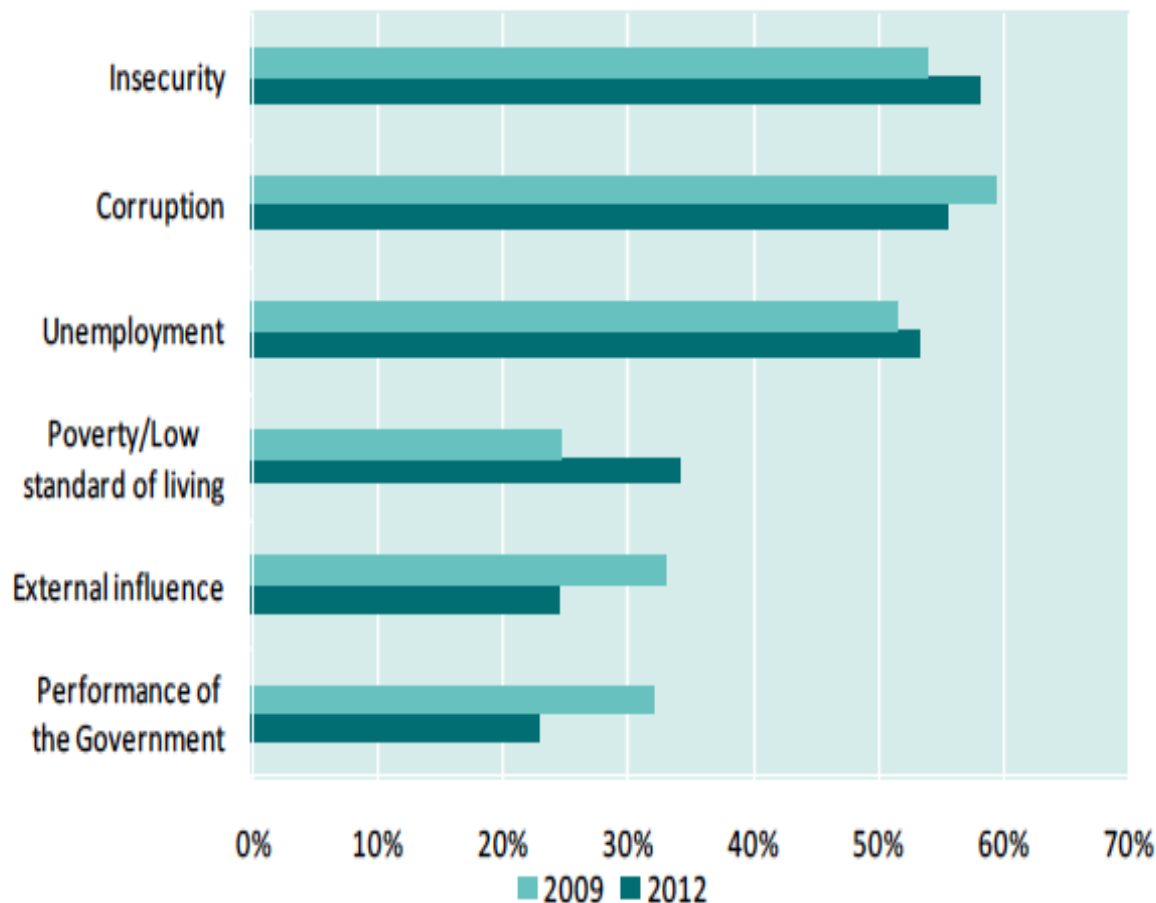
Despite significant improvements in school enrollment rates and education achievement in younger (urban) cohorts, the education gap remains substantial by international standards, also taking into account country's level of development.

In each sector of the economy, the education level of the Afghan labor force is the lowest among South Asia countries.

Particularly challenging are education gaps in sectors crucial for future economic growth and development such as agriculture, mining, construction, commerce and manufacturing.

Afghan Perceptions of Key Challenges

Percentage of adult population considering selected issues to be the most important for their country, Afghanistan (2009 and 2012)



Source: General population survey 2009 and general population survey 2012

Since 2009 Afghanistan has made some tangible progress in reducing the level of corruption in the public sector.

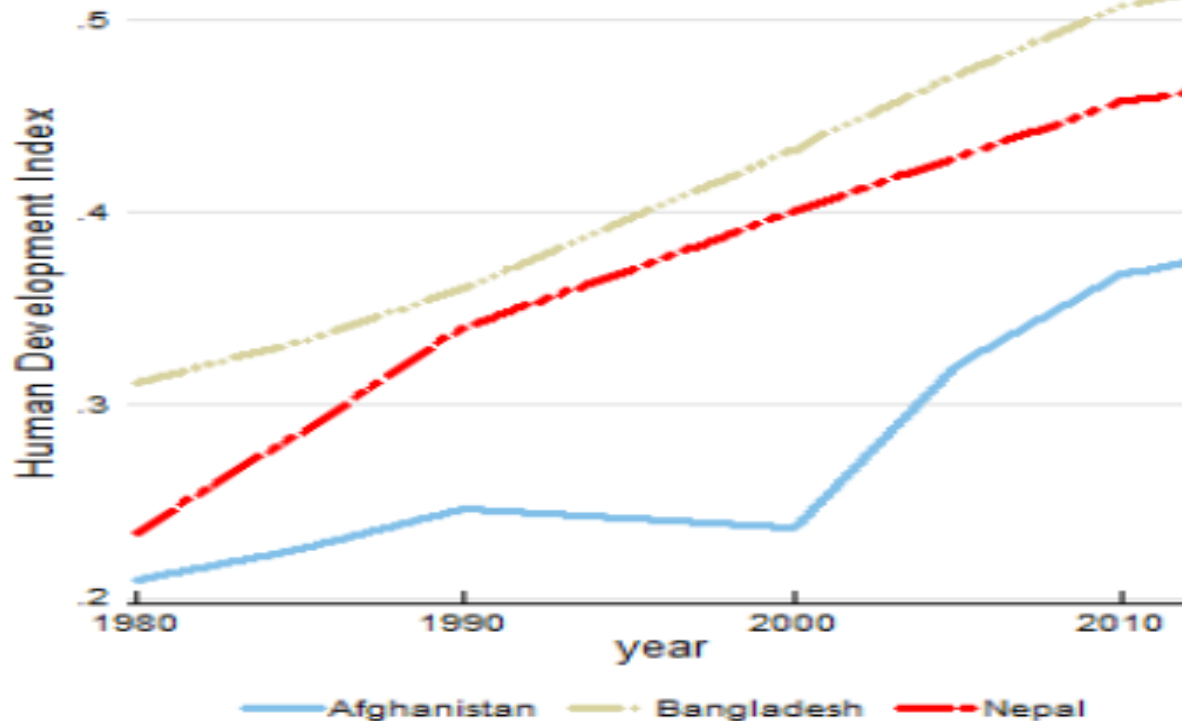
While 59 per cent of the adult population had to pay at least one bribe to a public official in 2009, 50 per cent had to do so in 2012, and whereas 52 per cent of the population paid a bribe to a police officer in 2009, 42 per cent did so in 2012.

However, worrying trends have also emerged in the past three years: the frequency of bribery has increased from 4.7 bribes to 5.6 bribes per bribe-payer and the average cost of a bribe has risen from US\$ 158 to US\$ 214, a 29 per cent increase in real terms.

Education has emerged as one of the sectors most vulnerable to corruption, with the percentage of those paying a bribe to a teacher jumping from 16 per cent in 2009 to 51 per cent in 2012.

In general, there has been no major change in the level of corruption observed in the judiciary, customs service and local authorities, which remained high in 2012, as in 2009.

UN Human Development Progress Lags by Comparison With Other Poor States: 1980-2012 (175th out of 187 Rated Countries)



	HDI value	HDI rank	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (PPP US\$)
Afghanistan	0.374	175	49.1	8.1	3.1	1,000
Nepal	0.463	157	69.1	8.9	3.2	1,137
Pakistan	0.515	146	65.7	7.3	4.9	2,566
South Asia	0.558	—	66.2	10.2	4.7	3,343
Low HDI	0.466	—	59.1	8.5	4.2	1,633

The Challenge of the Quality of Governance

The third section of this report focuses on the critical challenges in governance that will follow even the most successful outcome of the election in producing a clear result, popular acceptance, and support by Afghanistan's key power brokers and factions.

The post election period will be a race to establish a new pattern of effective governance, and deal with critical challenges in governance at every level, planning, budget execution, and dealing with the economy in addition to security.

US reporting on progress in governance and the economy has never had real credibility. As the previous budget summary shows, there is no evidence of a credible US government economic risk assessment, aid plan, effort to advance the reform goals set at the Tokyo governance, or deal with the problems of a system where the president controls most appointments and funds down to the District level.

Afghanistan is one of the most corrupt and incompetent governments in the world.

It must now adjust to radical cuts in the outside spending that supported its budget and the market and urban sector portions of its economy.

– problems disguised by a lack of meaningful current reporting, and dishonest modeling that ignore the impact of corruption, real-world narcotics economics, and capital flight.

Revenues may be partially protected by the carry over in aid funds, but past projections seem exaggerated, to ignore corruption and waste, sometimes be based on unrealistic forecasts of development.

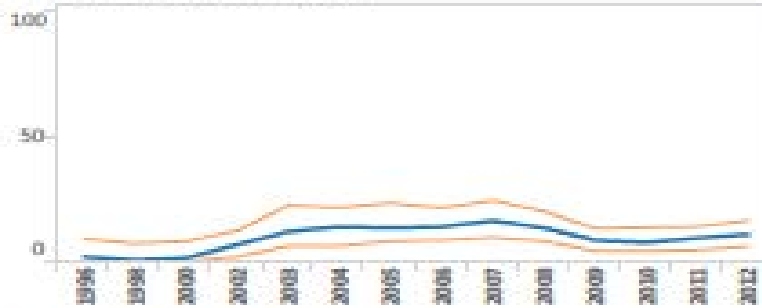
The ability of government's to spend money has never been a measure of effectiveness in showing what that spending accomplishes, but Afghanistan lags badly even in the ability to spend at a time many NGOs are leaving, PRTs will be gone, and it is supposed to manage a far larger share of aid funds.

Again, a Long List of Key Uncertainties

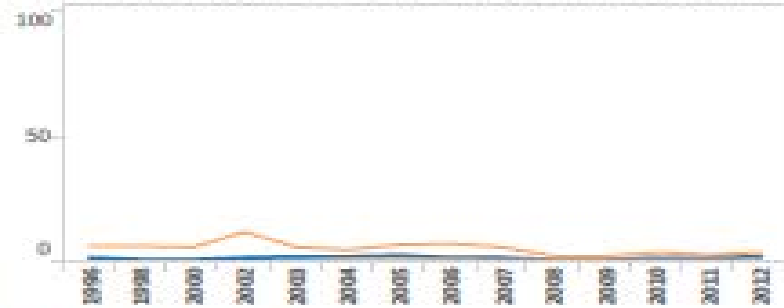
- **When will a new President take office?**
- **Can the new President win popular support... and lead?**
- **How long will it take to form a functional government at all levels – national, provincial, district?**
- **How will the mix of power brokers change?**
- **What security challenges will emerge and when? How will the MoD and Mol function and respond?**
- **Who will take charge of budgeting, economic planning, and use of international aid?**
- **What will be mix of corruption versus relative honesty?**
- **What will be the mix of capabilities – e.g., war-fighting versus security? How will Afghan leaders reshape the rule of law?**
- **How will layered defense actually interact with governance?**
- **Accommodation? Search for peace?**
- **Role of neighboring powers?**

World Bank Worldwide Governance Indicators: Approaching the World's Worst

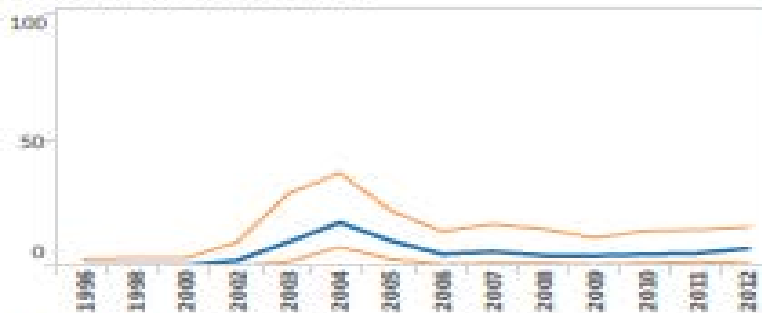
Voice and Accountability



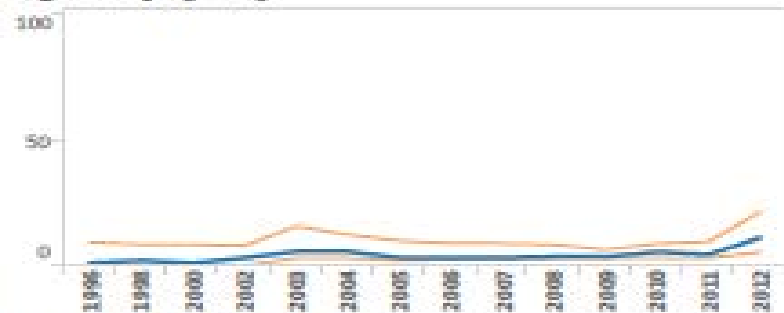
Political Stability and Absence of Violence/Terrorism



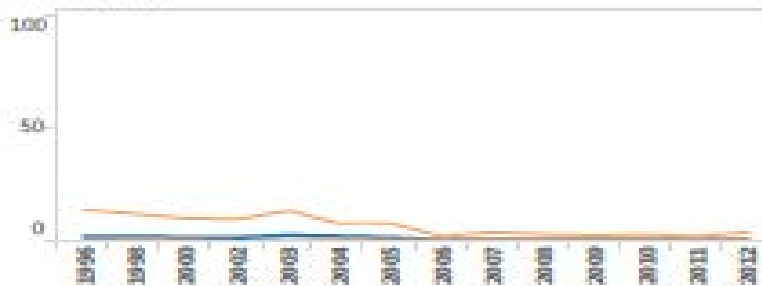
Government Effectiveness



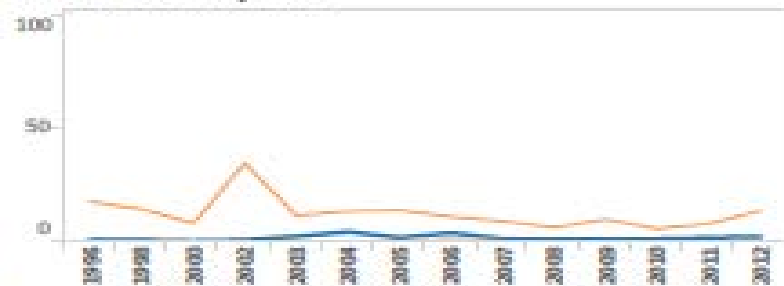
Regulatory Quality



Rule of Law



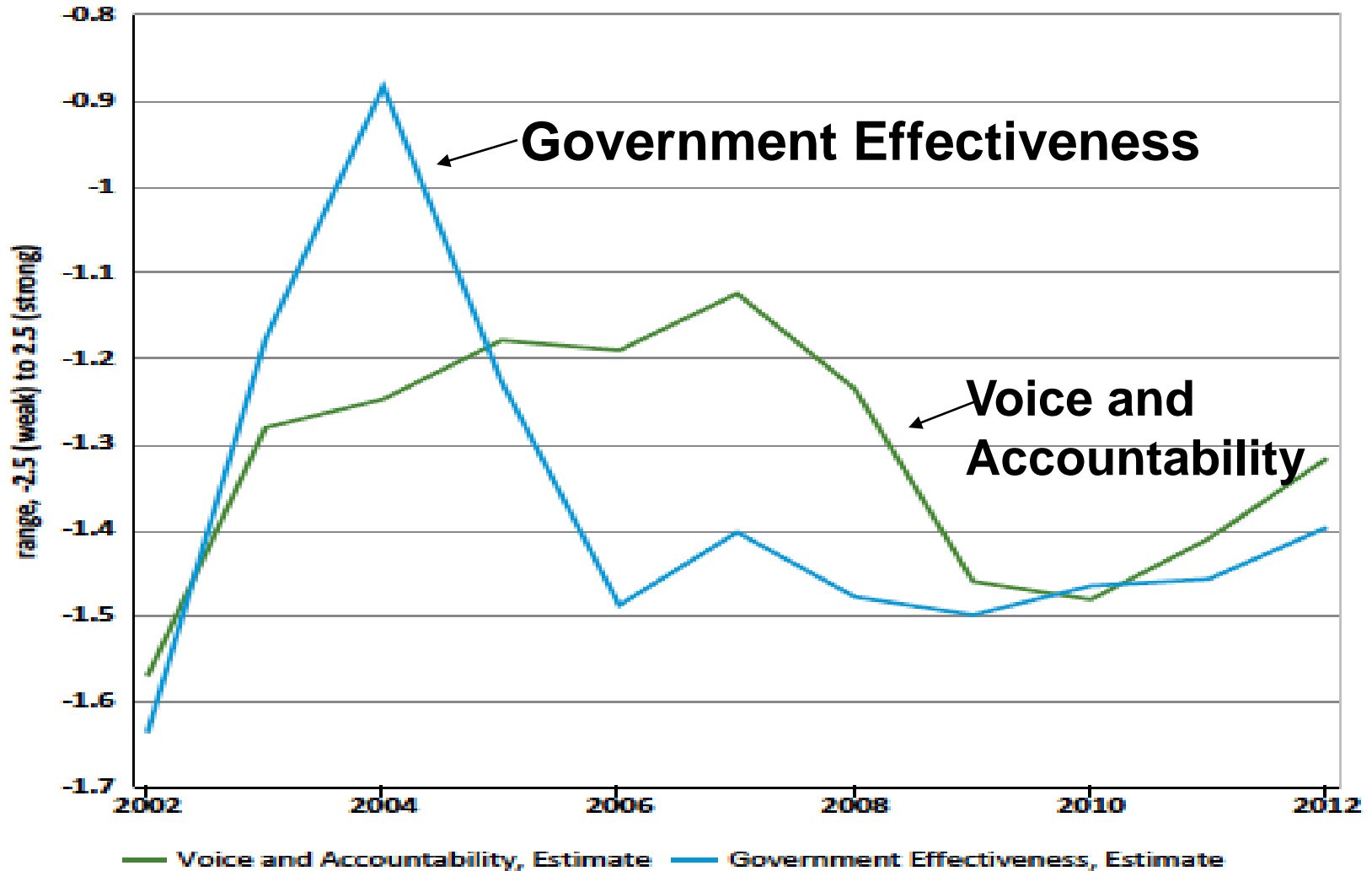
Control of Corruption



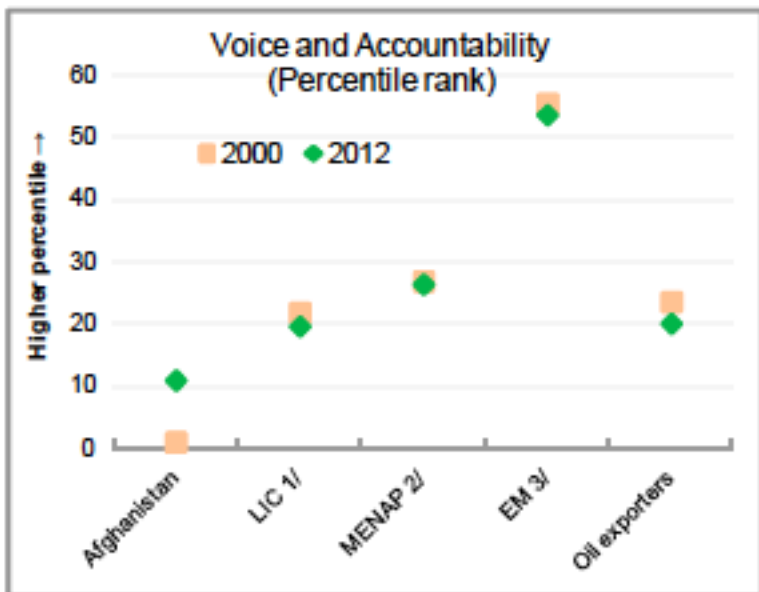
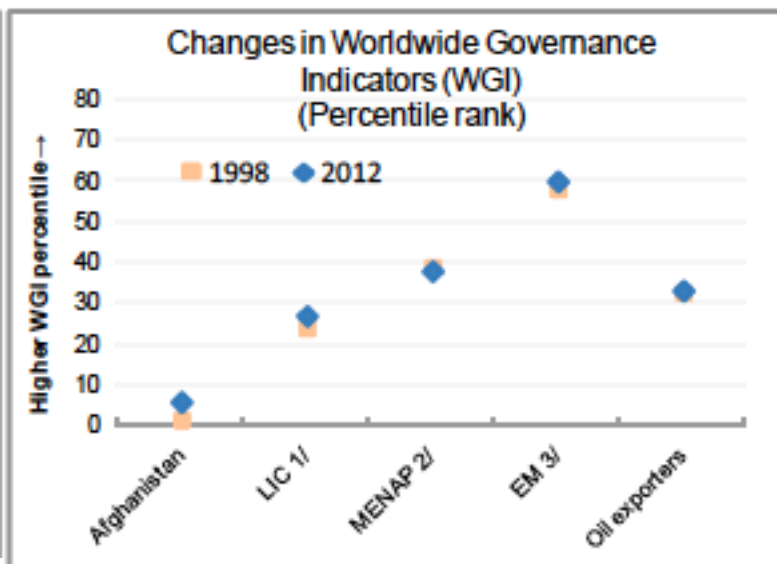
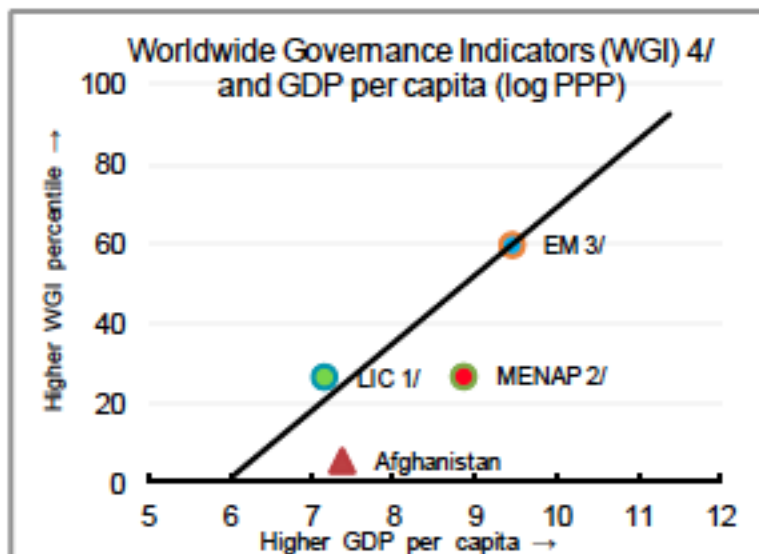
The inner, thicker blue line shows the selected country's percentile rank on each of the six aggregate governance indicators. The outer, thinner red lines show the indicate margins of error.

World Bank Rankings of Governance Shows Very Uncertain Trends

Afghanistan



IMF Estimate of Governance Problems



Sources: World Bank Doing Business Report (2014); World Bank Worldwide Governance Indicators; World Bank Business Environment and Enterprise Performance Survey; and IMF staff calculations.

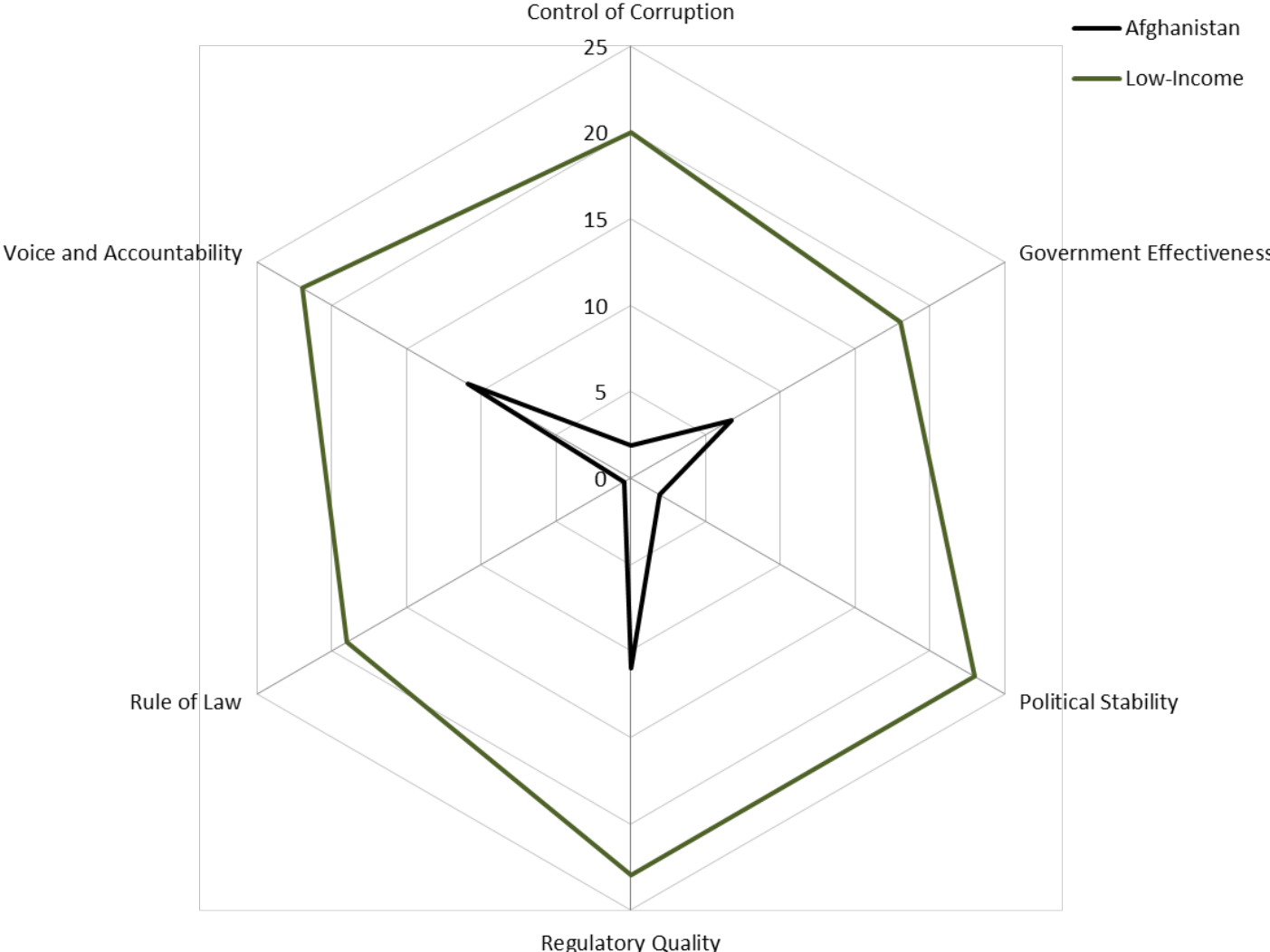
1/ Low income countries;

2/ Middle East, North Africa, and Pakistan;

3/ Emerging market economies;

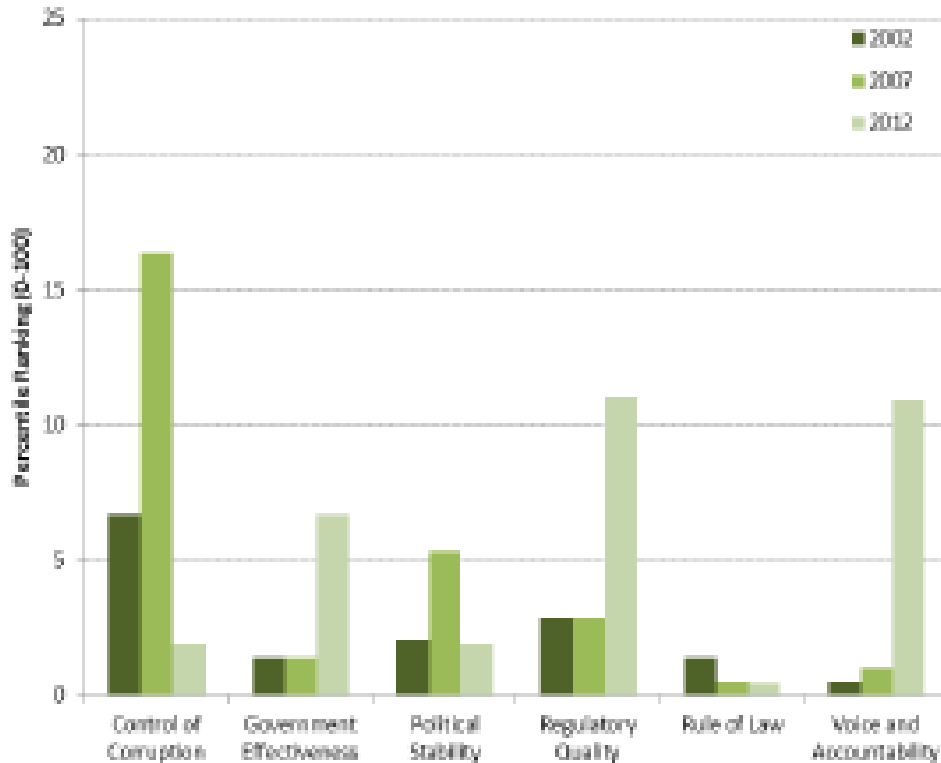
4/ Worldwide Governance Indicators include government effectiveness, regulatory quality, rule of law, and control of corruption; trend line is based on cross-country regression.

Poor Governance Compared to South Asia Average



Nassif, Claudia; Joya, Omar; Lofgren, Hans; Gable, Susanna; Redaelli, Silvia; Jordan, Luke; Jaffrin, Guillemette Sidonie. 2014. *Full report*. Vol. 2 of *Afghanistan - Pathways to inclusive growth*. Washington, DC : World Bank Group, Report No: ACS8228, Islamic State of Afghanistan, Pathways to Inclusive Growth, Full Report, March 2014, SASEP, SOUTH ASIA p. 64. 5

Declining Quality of Governance in Critical Areas: 2007-2012



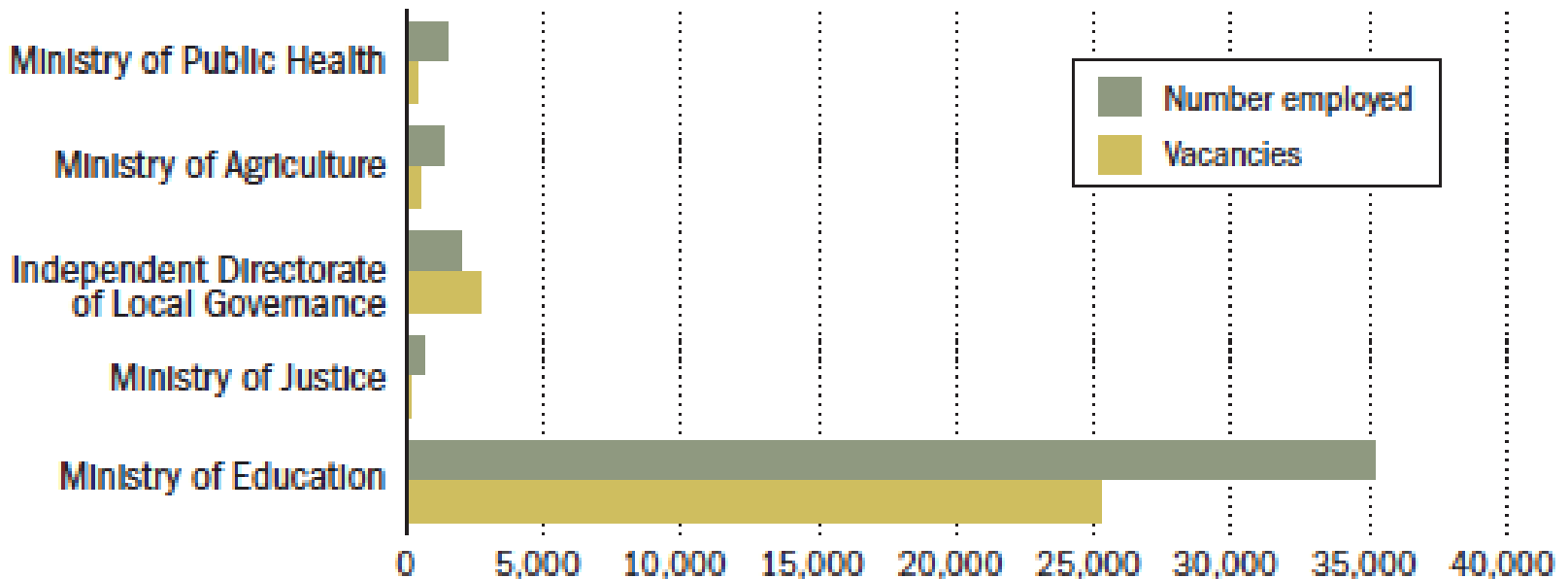
the governance situation appears to have regressed in important areas... While ratings improved for government effectiveness, voice and accountability, and regulatory quality due to the government's laudable progress with PFM reforms, investment climate improvements and government transparency initiatives, control of corruption, rule of law and political stability have fallen back to lower levels.

For a country with such a low starting point as Afghanistan, it can be expected to experience slippage in governance achievements over time. However, there is an urgent need associated with Afghanistan's governance situation: not only is better governance necessary to reduce violence and conflict in the country, but better governance will be absolutely critical for securing the country's financing needs.

Afghanistan will remain aid-dependent for years to come, and although donors have committed sufficient funds to sustain development throughout 2016, the flow of funds is by no means guaranteed. It is, rather, subject to – among other conditions – improvements in governance. Accelerating governance reforms, therefore, is not just a development option for Afghanistan, but is essential for the country to survive.

SIGAR Estimate of Shortfall in Governance in the Field

CIVIL SERVANT STAFFING FOR 14 PROVINCES OUTSIDE OF KABUL



The data is for 14 of Afghanistan's 34 provinces (Daykundi, Farah, Ghazni, Helmand, Kandahar, Khowst, Logar, Wardak, Nimroz, Nuristan, Uruzgan, Paktiya, Paktika, and Zabul). Kabul was not included because several of the cells show zero for number of employed civil servants. The amounts for the Independent Directorate of Local Governance include personnel who work for provincial municipalities.

DOD's latest district assessment report, completed in February 2014, found that ...of the 47 districts where the Coalition provided oversight and support to VSO, 53% had "adequate" or "effective" governance. The remaining 47% had "poor" or "ineffective" governance. All districts in the report showed the same status for governance over the past year, except for one that improved from "adequate" to "effective."... At the same time, DOD noted that it found much of the quarterly VSO survey data to be untrustworthy because of fraudulent or fabricated data

Source: USAID, ODG, response to SIGAR data call, 3/31/2014.

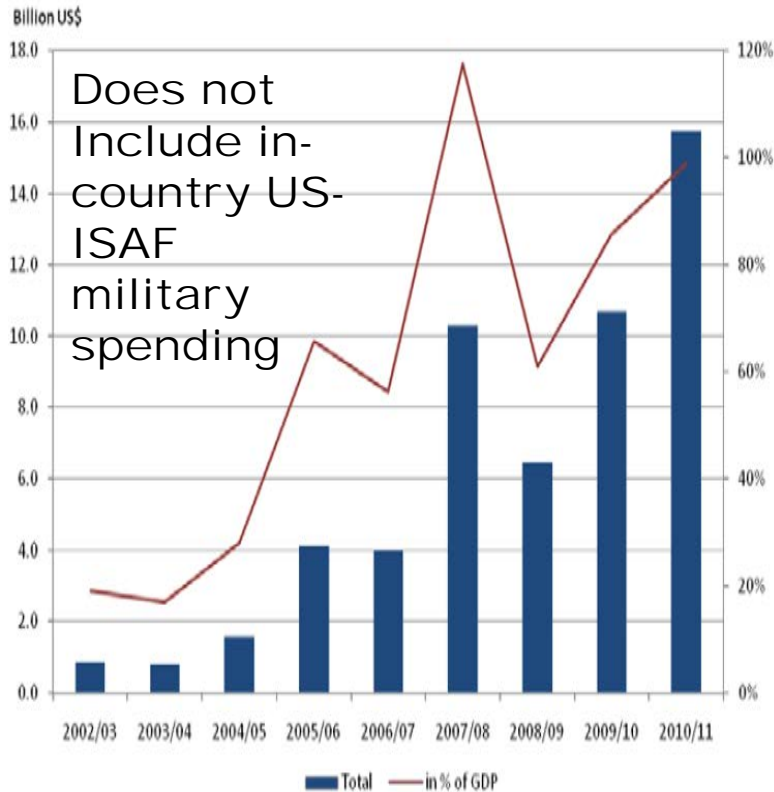
The Financing of Governance Challenge

Budget Execution Has Been a Major Problem

- **Operating expenditures:**
 - **Increased during the first six months of 2013, as more spending moved on-budget. Yet execution rates remain low, particularly for the development budget.**
 - **Increased to Afs 82.1 billion in the first six months in 2013, compared to Afs 75.4 billion over the same period in 2012.**
- **Development expenditures declined to Afs 23.7 billion in the first half of 2013, compared to Afs 27 billion in the first half of 2012.**
- **Low budget execution continues to be a problem in Afghanistan, particularly affecting development expenditures in 2013.**
- **Budget execution was only 36.4% of the operating budget and 17% of the development budget in the first half of 2013, compared to 50% and 24%, respectively, in the first half of 2012 .**
- **Among ministries with development budgets of more than \$50 million, only three (ministries of health, finance, and rural development) have executed more than 20% through the first half of 2013.**

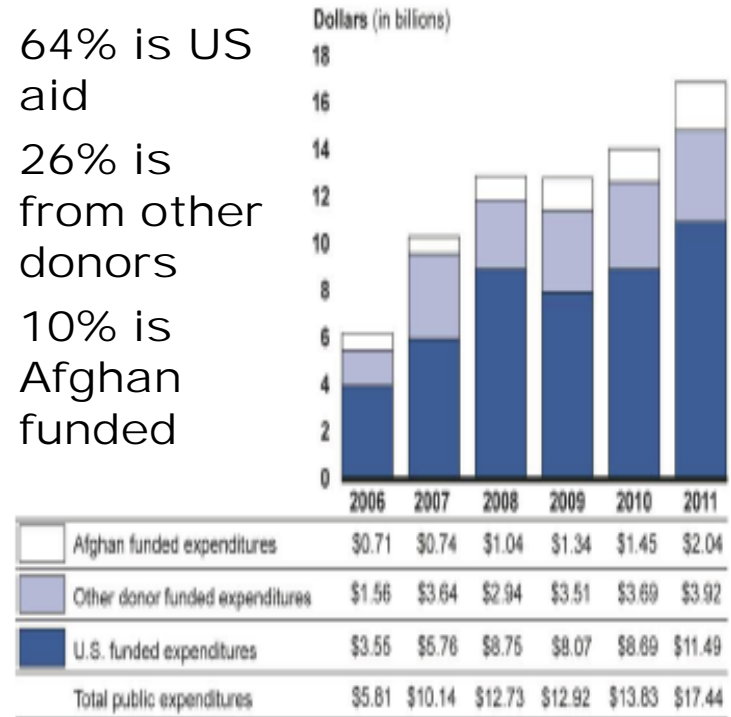
A Budget and Economy Driven by Aid, Military Spending, and Narcotics

Outside Aid Spending Drives GDP After 2003/2004



Only 10% of Afghan Budget is Self-Funded

- 64% is US aid
- 26% is from other donors
- 10% is Afghan funded



US Aid to Afghan Budget: FY2002- FY2015

As of September 30, 2014, approximately \$104.1 billion had been appropriated for Afghanistan relief and reconstruction since 2002, and approximately \$14.5 billion remained in the funding pipeline for potential Disbursement.

On September 19, 2014, President Obama signed the Continuing Appropriations Resolution, 2015, funding the government through December 11, 2014, at the FY 2014 enacted levels.

While Afghanistan reconstruction funding levels for FY 2015 cannot be determined until a full-year appropriations bill is passed, the FY 2015 budget request would add another \$5.8 billion to six of the seven major reconstruction funds if enacted.

DOD is not requesting additional funding for the Afghanistan Infrastructure Fund (AIF) for FY 2015.

The United States provides on-budget assistance to Afghanistan through direct payments to Afghan government entities and through contributions to multinational trust funds.

Since 2002, the United States has provided more than \$7.7 billion in on-budget assistance.

This includes about \$4.1 billion to Afghan government ministries and institutions, and nearly \$3.6 billion to three multinational trust funds—the World Bank’s Afghanistan Reconstruction Trust Fund (ARTF), the United Nations Development Programme’s Law and Order Trust Fund for Afghanistan (LOTFA), and the Asian Development Bank’s Afghanistan Infrastructure Trust Fund (AIF). s

U.S. ON-BUDGET ASSISTANCE TO AFGHANISTAN, SINCE 2002 (\$ MILLIONS)

Government-To-Government

DOD	\$2,905
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State	92
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USAID	1,152
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Multilateral Trust Funds

LOTFA	\$1,446
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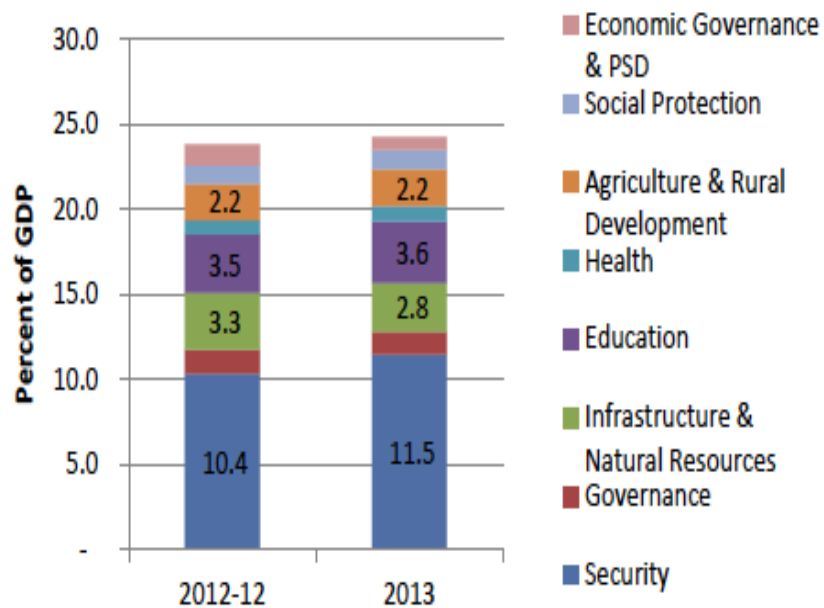
ARTF	2,039
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AITF	105
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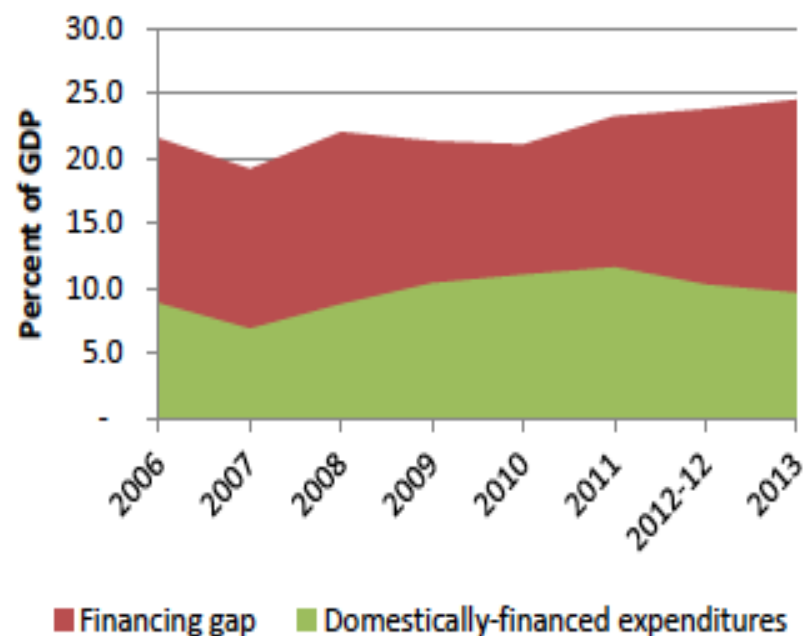
Note: Government-To-Government figures reflect amounts the United States has committed in on-budget assistance, excluding commitments to multilateral trust funds. Multilateral trust fund figures reflect amounts the United States has paid in to each trust fund.

World Bank Estimate of Growing Financing Gap

Core Government Expenditures as % of GDP



Financing Gap in domestic Revenues as % of GDP



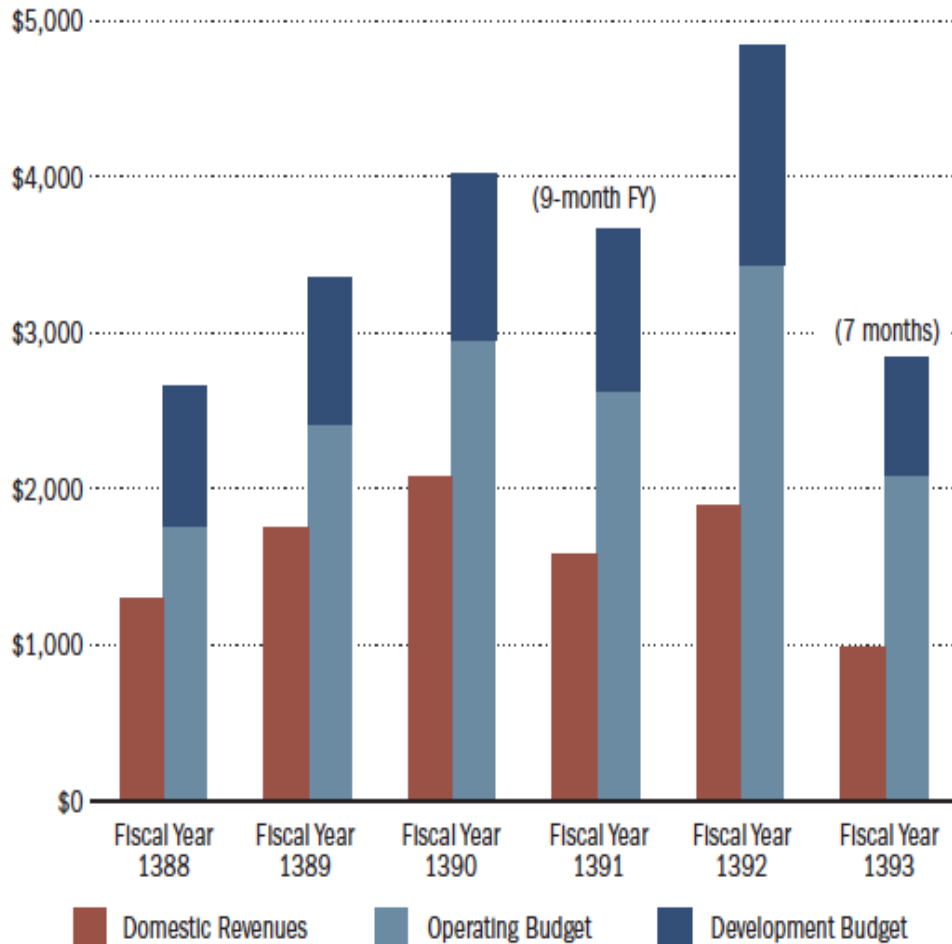
Transition Financing Critically Dependent on No Increase in Security Costs

	2013Bgt*	2013Act	2014Bgt
Recurrent budget	3,775	3,575	5,008
Discretionary development	874	342	895
Non-discretionary development	2,159	1,107	1,746
Total core budget	6,809	5,025	7,649
Domestic revenues	2,488	1,974	2,489
Foreign grants	4,022	3,307	4,738
External loans/credits	54	25	49
Total financing	6,565	5,307	7,277

* 2013Bgt figures are initial budgeted figures.

SIGAR Estimate of Growing Financing Gap for Operations

AFGHANISTAN'S DOMESTIC REVENUES COMPARED TO OPERATING AND DEVELOPMENT BUDGET EXPENDITURES (\$ MILLIONS)



Revenue collection continues to decline against budget projections. In the first seven months of FY 1393, total domestic revenues—tax and non-tax revenues, and customs duties—missed MOF targets by \$274 million (-22%) so far, and decreased by approximately \$39.46 million from the same period in FY 1392 (-3.8%).

The World Bank estimated a budgetary shortfall of around \$500 million in FY 1393 (December 21, 2013–December 20, 2014), and reported that Afghanistan is headed for a fiscal crisis. Government cash balances are low and it is behind in operations and maintenance as well as discretionary development spending.

Afghanistan is suffering from acute budgetary shortfalls in FY 1393, threatening to affect payments of civil servant salaries, pensions, and operating and development spending.

However, should revised government revenue targets not be reached and donor grants not paid, the World Bank warns that the fiscal gap will grow. Afghan officials have largely attributed this gap to donor failure to release on-budget development aid, and the protracted presidential election that depressed consumer spending and led to an overall decline in imports—major sources of government tax and customs revenue.

State said continuing drawdown of international forces, whose presence traditionally helped bolster imports, is compounding Afghanistan's revenue shortfalls. The fiscal gap—currently filled by donors—is large and growing

World Bank: Fiscal Challenges to Transition

Afghanistan's aid dependence is predominantly a fiscal issue. While most civilian and military aid has been delivered in the form of development projects outside of the government's budget system, on-budget aid is an important financing source. While domestic revenues increased to an impressive 11.4 percent of GDP in 2011, Afghanistan can today only finance about 40 percent of its total expenditures on its own.

Moreover, expenditures are expected to increase, as the government will assume more financial responsibilities over the military apparatus and the operation and maintenance of public assets which were built outside of the budget and have not yet been factored into the budget. Finally, Afghanistan will need to continue to invest in expanding public service delivery and physical infrastructure in order to safeguard the gains of the reconstruction process and further support the growth process. Public investment will continue to play a dominant role in Afghanistan's economy, at least until the security situation and the investment climate improves.

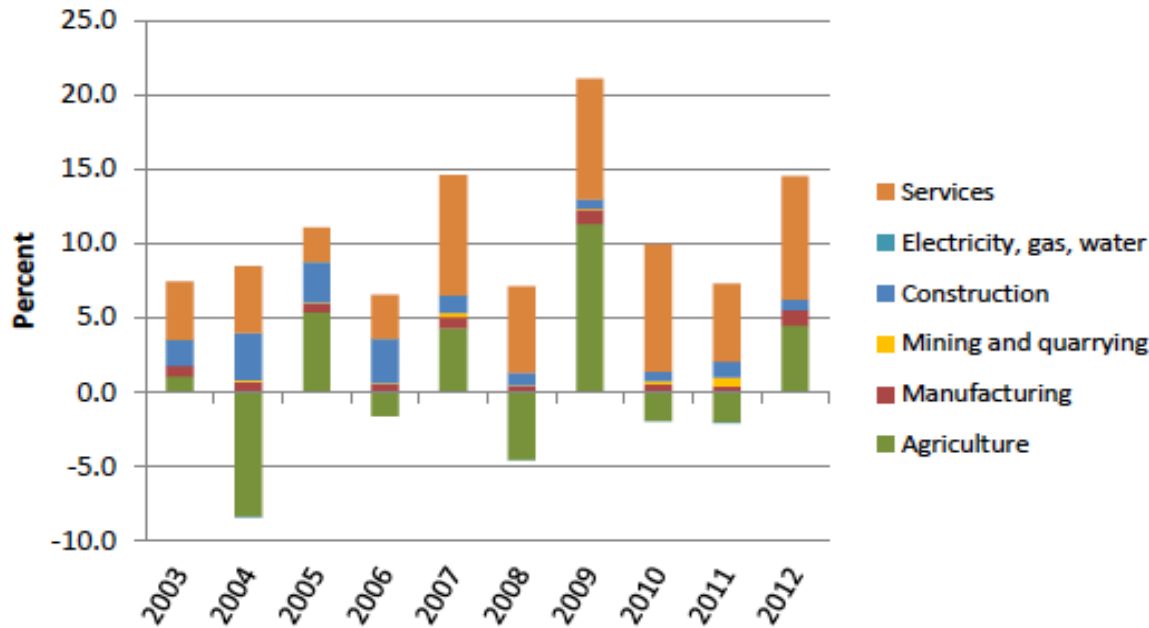
Current projections see a financing gap of 20 percent of GDP in 2025, on the assumption that the government manages to increase domestic revenue to 17 percent. This renders government operations unsustainable without additional external financing. Continued, strong donor engagement in Afghanistan will therefore be of paramount importance to Afghanistan's future development, if not its survival as a state.

Macroeconomic stability has relied heavily on large aid flows. Afghanistan's export base is currently very small and the country receives little foreign direct investment. At the same time, the country is highly dependent on food and oil imports. Consequently, the balance of payment showed a persistently high deficit in the current accounts. So far, the high level of aid have helped to keep the overall balance of payments in surplus and even contributed to a sizable accumulation of international reserves over the years. However, with aid declining, an alternative source of financing will be required to balance payments for imports.

The implications of the transition process, therefore, give urgency to Afghanistan's need for a growth model that provides not only high numbers of jobs but also high levels of fiscal income and foreign exchange earnings to finance Afghanistan's development process. aged in wage-earning employment. At the same time, the fertility rate is very high, at 5.1 percent in 2011/12. Increasing the share of female labor market participation will key to reducing fertility and reducing demographic pressures in the future.

Agriculture, together with services, is still the largest contributor to economic growth. In spite of the structural shift in Afghanistan’s economy, agriculture remains one of the largest contributors to economic growth. In 2012, for instance, it contributed over half of the 14.4 percent of GDP growth, thanks to favorable weather conditions and an exceptionally rich harvest. Depending on the harvest in any given year, agriculture accounts for one-fourth to one-third of GDP.

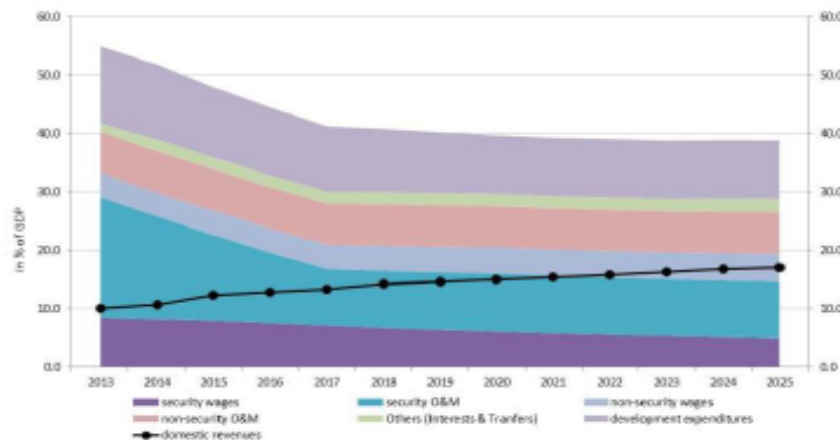
Figure 1.8: Sector Contributions to Real GDP Growth (percentage points)



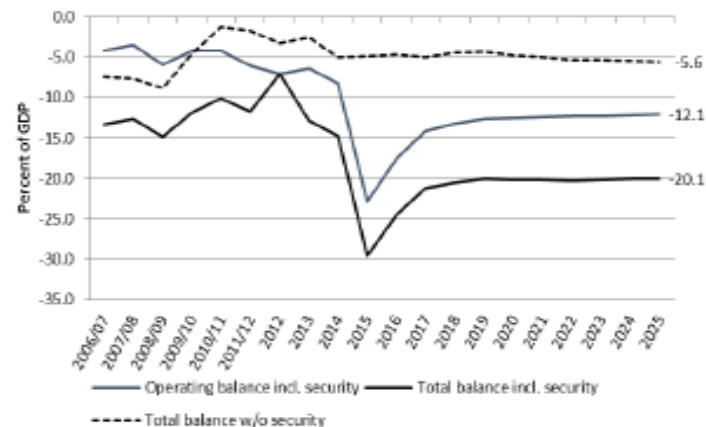
Source: World Bank staff calculations based on CSO data

Afghanistan’s economy is dominated by agriculture in more than one dimension. Aside from its direct contribution to GDP, agricultural production feeds into the economic growth process through its impact on aggregate demand and significance in manufacturing. In 2011/12, 49 percent of all households derived their income from agriculture; for 30 percent of all households agriculture constitutes the main income source. Not surprisingly, private aggregate demand is highly correlated with agricultural production (Figure 1.9). Moreover, 96 percent of the manufacturing sector depends on agricultural products for inputs (food and beverages, textiles, and leathers).

Massive Near-Term (Transition) Financing Gaps



Source: World Bank



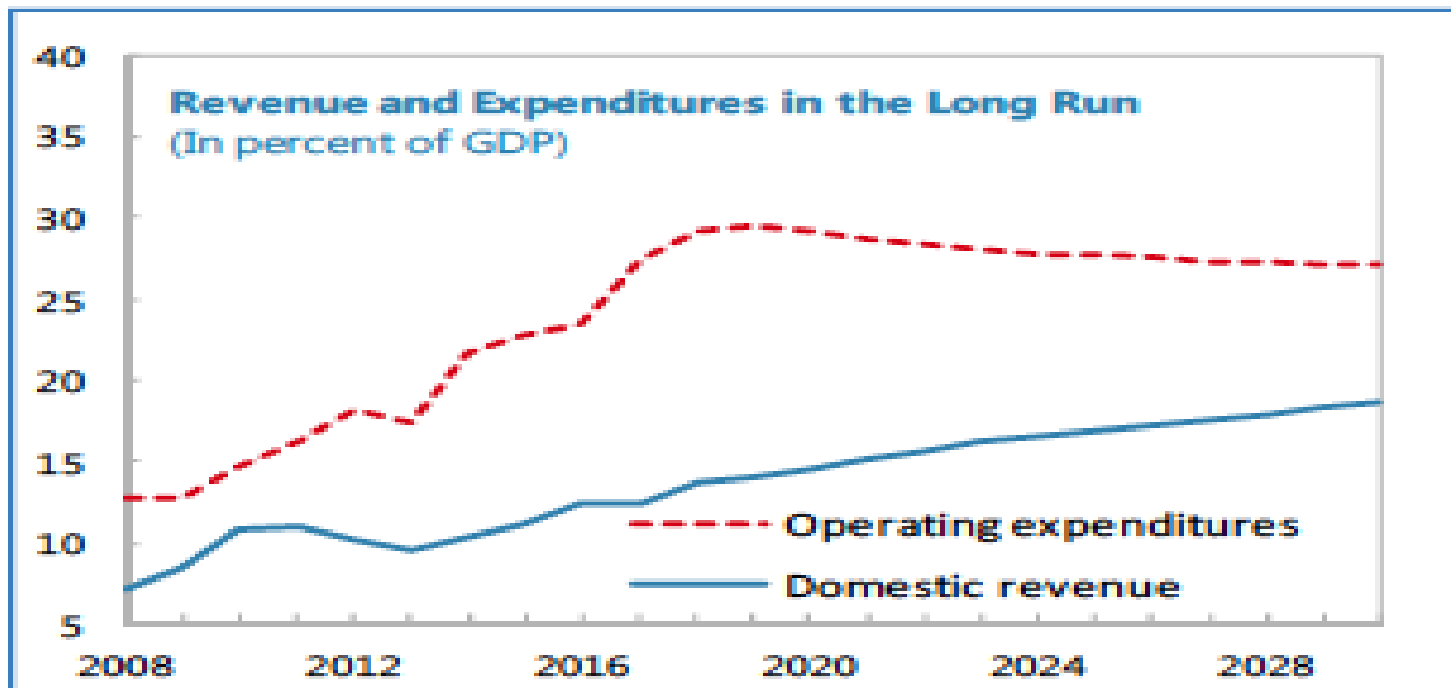
Note: Operating balance = dom. revenue minus operating expenditures. The spike in 2015 is a theoretical construct that assumes the government will take on all off-budget liabilities.

Much of civilian and military aid has been delivered outside of the budget through external, budget contributions. Of the US\$15.7 billion in aid to Afghanistan in 2010/11, only a small portion, roughly 11 percent, was delivered on-budget. Nevertheless, on-budget aid is an important financing source. While domestic revenues significantly increased between from 3 percent in 2002 to 11.4 percent in 2012, they have been insufficient to sustain the government's operation and investment. In 2012, domestic revenues only financed 40 percent of total expenditures; the remainder was financed by foreign grants. The fiscal sustainability ratio, which measures domestic revenue over operating expenditures, was only 60 percent in 2012, which means that Afghanistan can currently not even fully meet the recurrent costs of its public service provision. This renders the operations of the government unsustainable without additional external financing.

The analysis projects revenues to reach more than 17 percent of GDP by 2025 (from current levels of 11 percent), assuming good performance in revenue collection and continued development of extractive industries. However, on-budget expenditures are expected to grow much faster, largely as a result of rising security spending for both operations and maintenance (O&M) and wages for the army and police, which were historically funded by donors outside of the budget.... But it will also be driven by non-security spending, which will increase due to additional O&M liabilities associated with the handover of donor-built assets and with a rising government payroll as civil service reforms unfold.

Security spending is projected to be more than 15.2 percent of GDP in 2021 (about as much as total projected domestic revenue in that year), the civilian wage bill 4.8 percent, and the civilian nonwage O&M bill 7.2 percent. Depending on how many of the O&M liabilities the government takes on, total government spending could assume between 38 percent and 54 percent of GDP by 2025. This would result in a total financing gap of 20 percent of GDP in 2025, and even higher levels in the intermediate years

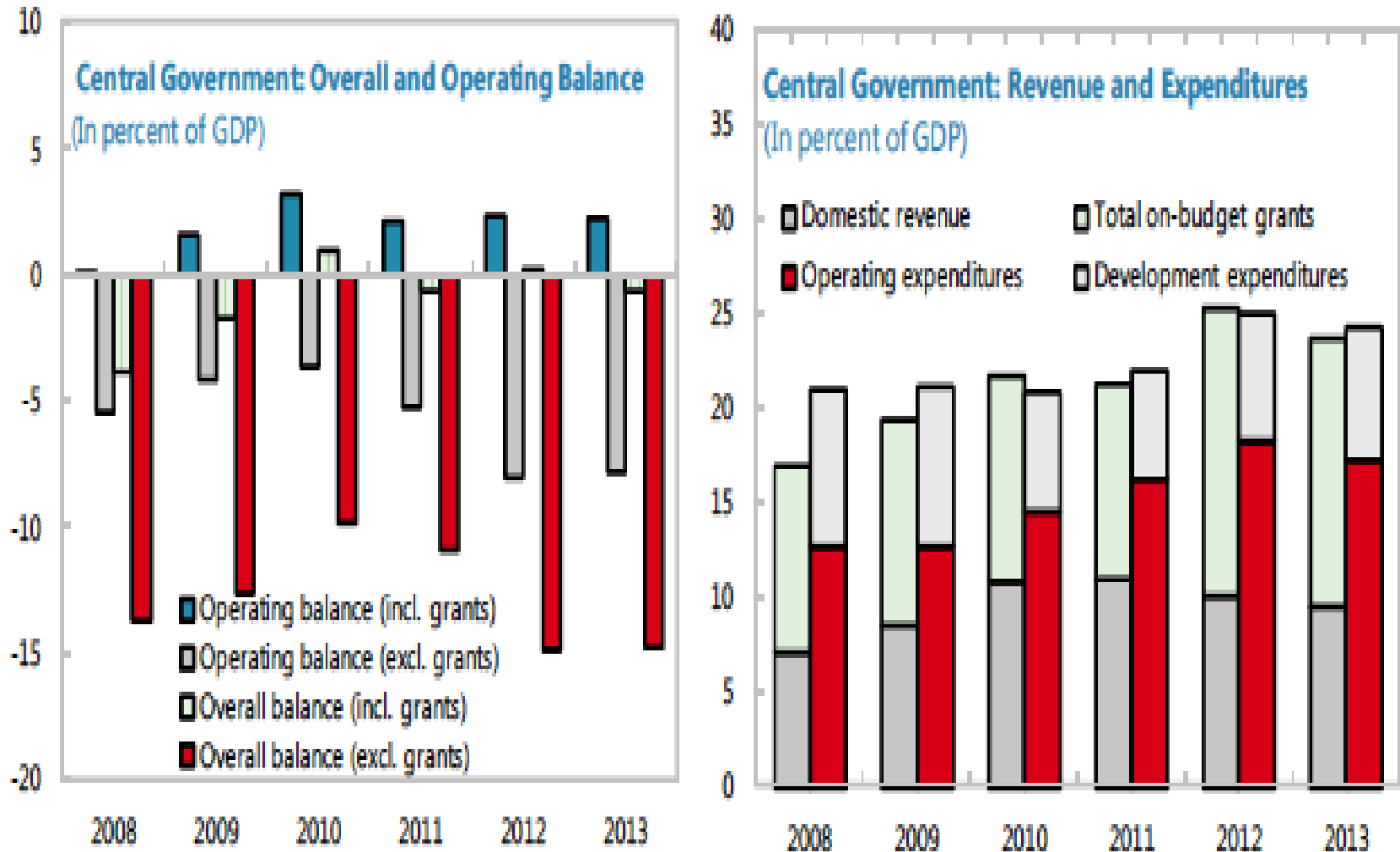
IMF Estimate of Continued Massive Dependence on Outside Aid Through 2028



Afghanistan needs to move toward fiscal sustainability to reduce its dependence on donor support.

This will entail revenue mobilization, and better expenditure management including better prioritization and service delivery to assure security and development. Domestic revenues have stagnated due to the economic slowdown, faltering efforts, and leakages, and are expected to rise only slowly, while operating budget expenditures, which were at 15 percent of GDP in 2010 are projected to increase to over 29 percent of GDP by 2018 as part of the security transition. The combination of these factors generates large fiscal vulnerabilities. Afghanistan has one of the lowest domestic revenue collections in the world, with an average of about 9 percent of GDP in 2006–13 compared to about 21 percent in low-income countries. Factors behind this poor performance include a very low starting point, low compliance, opposition to new taxes, and a limited set of taxes.

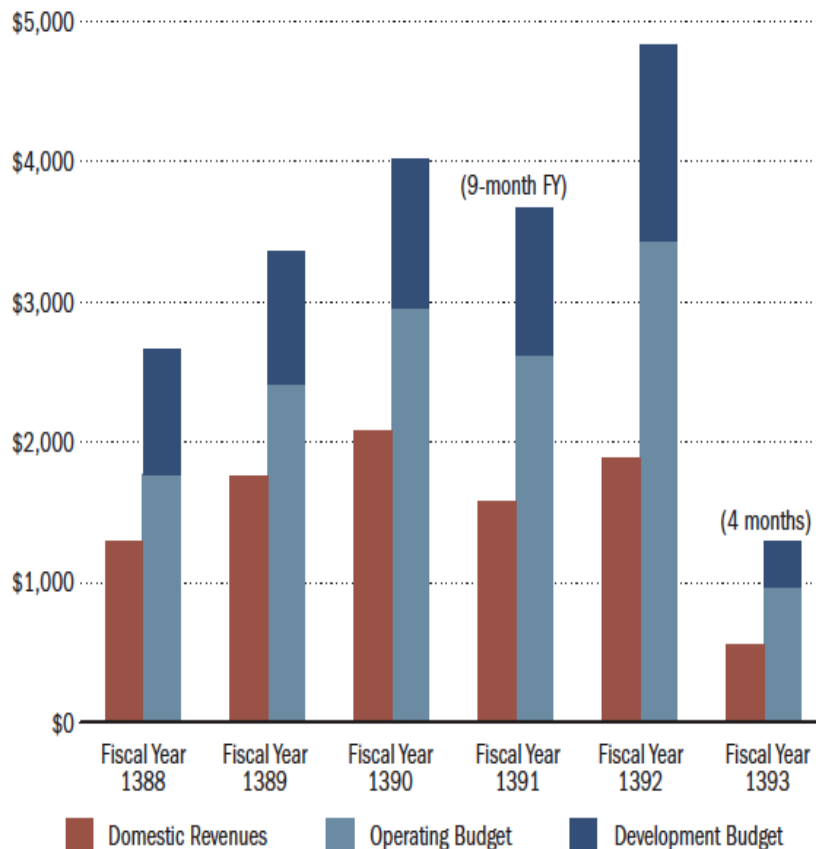
IMF Estimate of Impact of Domestic Revenue Limits and Dependence on Outside Funding



Source: ISLAMIC REPUBLIC OF AFGHANISTAN. 2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ISLAMIC REPUBLIC OF AFGHANISTAN, <http://www.imf.org/external/pubs/ft/scr/2014/cr14128.pdf>, p. 34.

Growing Gap Between Government Revenues and Expenditures: FY1338-FY1339

AFGHANISTAN'S DOMESTIC REVENUES COMPARED TO OPERATING AND DEVELOPMENT BUDGET EXPENDITURES (\$ MILLIONS)



Afghanistan's fiscal sustainability ratio—domestic revenues versus operating expenses—declined to approximately 57% in the first four months of FY 1393, compared to 60% and 65% in the previous two fiscal years.

...the actual purchasing-power value of the revenue growth is less than it appears. The gap between the government's domestic revenues—derived primarily from taxes and custom duties—and integrated budget (operating budget and development budget) expenditures is large

...The IMF estimated Afghanistan's financing gap, comprising on and off-budget needs, at \$7.7 billion (33% of GDP) on average, annually through 2018. This will limit Afghanistan's ability to pay for discretionary services without significant donor support and is likely to delay its progress to self-reliance

...Revenues as a percentage of GDP have also declined. The World Bank calculated domestic revenues at 9.6% of GDP in calendar year 2013— compared to 10.3% in 2012 and 11% in 2011—as a result of continued government weakness in revenue enforcement as well as the economic slowdown, generally

SIGAR estimate of Afghan Need for Future Donor Aid

Aid has since fallen, but international donors who supplied more than 60% of the country's national budget in 2013 still covered a "financing gap" equivalent to 7.7% of the country's GDP.¹⁶ Much of the reconstruction effort, however, is "off-budget," representing donor-funded programs and projects that the Afghan government does not control or fund.

As donors honor commitments to place more Afghan aid on-budget or simply transfer projects to Afghan control, the pressure on the budget will increase. The IMF and the World Bank "conservatively" estimate

that Afghan maintenance of such donor-supplied capital stock—roads, buildings, utility infrastructure, equipment, and such—will cost 15% of Afghanistan's GDP.¹⁷ Supporting such costs on the Afghan budget without donor support would require more than doubling the government's revenue share of GDP, a major challenge.

The Afghan government has estimated its annual development-aid need at \$3.9 billion a year between 2013 and 2020.¹⁸ At various international conferences, the United States and other donors have pledged continuing aid through the "Decade of Transformation" ending in 2025, at which time Afghanistan is expected to achieve financial self-sufficiency. Afghanistan in turn has promised to achieve agreed-upon benchmarks under the Tokyo Mutual Accountability Framework (TMAF) as a condition for further donor assistance.

The ANSF's current authorized size is 352,000. To lessen the cost of sustaining it, the North Atlantic Treaty Organization (NATO) plans to reduce the force to 228,500 by 2017, if security conditions permit. The estimated cost of sustaining this smaller force is \$4.1 billion annually. NATO expects that the Afghan government would pay at least \$500 million annually beginning in 2015.

However, according to the latest Department of Defense (DOD)- commissioned independent assessment by the Center for Naval Analyses (CNA), "in the likely 2015–2018 security environment, the ANSF will require a total security force of about 373,400 personnel." CNA cautions that "a force of lesser size than 373,000 would, in our assessment, increase the risk of instability of Afghanistan and make success less likely for the U.S. policy goal." The CNA estimates that a 373,000-strong ANSF would cost roughly \$5–6 billion per year to sustain.

SIGAR on Declining Fiscal Sustainability in 2014

Afghanistan's fiscal sustainability ratio—domestic revenues versus operating expenses—declined to approximately 57% in the first four months of FY 1393, compared to 60% and 65% in the previous two fiscal years.

Afghan government expenditures are expected to continue rising, which will require continued donor financing and improved domestic-revenue mobilization, according to the World Bank.

Afghanistan is suffering from acute budgetary shortfalls threatening to affect payments of civil servant salaries, pensions, and operating and development spending.

In the first seven months of Afghan FY 1393 (December 21, 2013–December 20, 2014), domestic revenues missed Ministry of Finance (MOF) budget targets by 22% and decreased by about 3.8% from the same period last year.

At the same time, Afghan government expenditures are expected to continue rising—to 30.5% of GDP in 2016 versus 27.3% in 2014, according to World Bank projections. This will limit Afghanistan's ability to pay for discretionary services without significant donor support and improved revenue mobilization.

The MOF is in discussion with donors for additional monies to cover the budget shortfall for remainder of FY 1393.

Longer Term (FY2018) Revenue Projections Uncertain

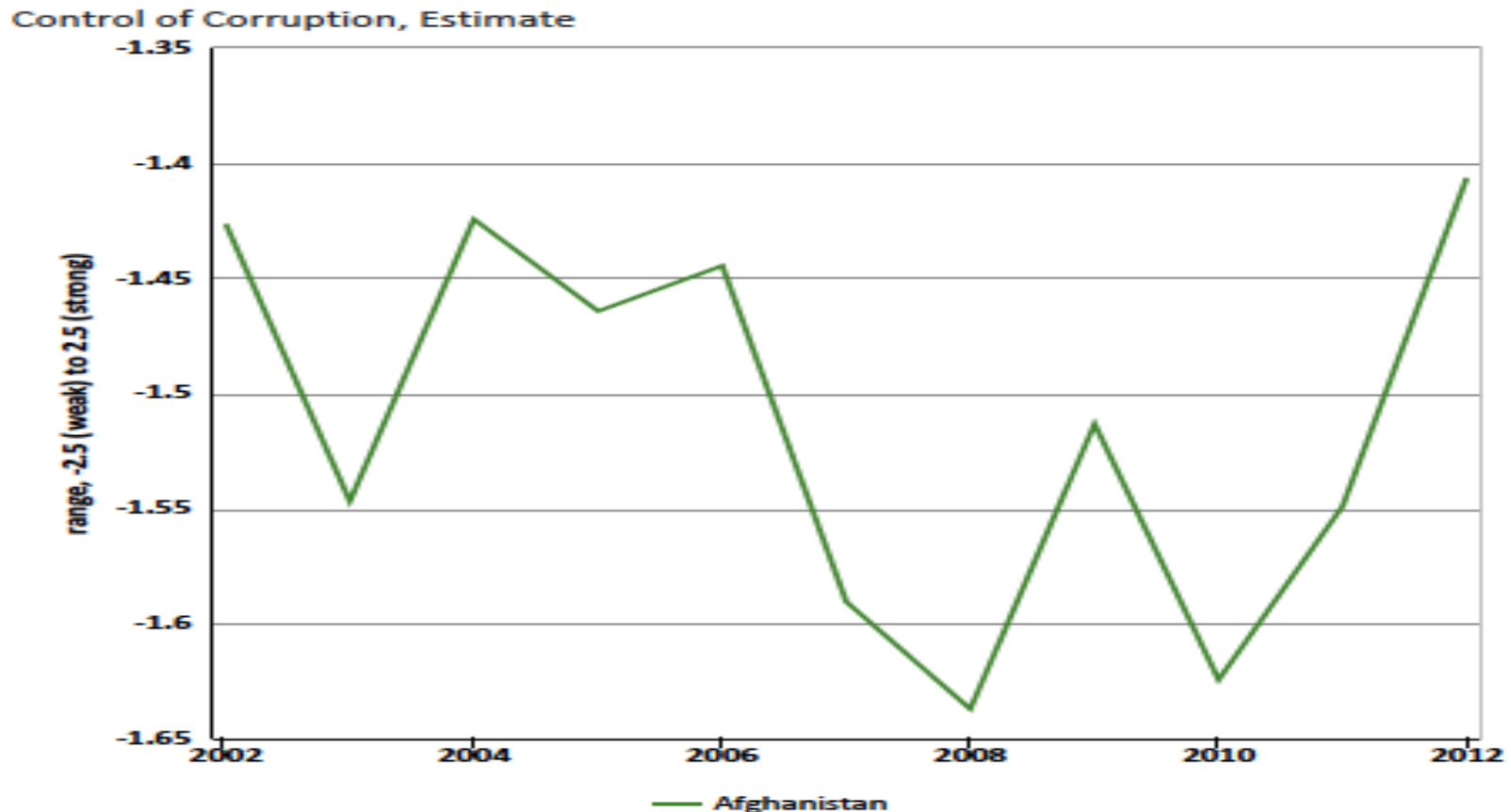
- **Even with improved performance, revenues may only rise to 12.8% of GDP in 2018 (lower than prior projection of 14% of GDP for 2018)**
- Increasing on-budget assistance even more important, but will require improving the government's absorptive capacity
- Expenditure prioritization even more important to avoid compromising progress on development outcomes

- **Smooth political and security transition** paramount in reducing uncertainty
- Addressing weaknesses in **financial sector, investment climate, and land tenure system** can help to restore investor confidence
- **Agriculture, mining, and services** expected to serve as the key growth drivers in the post-transition period once confidence is restored
- **Reforms** to stimulate higher agricultural productivity and expansion of mining could raise average growth to 7% during 2015-2025.

The Challenge of Corruption

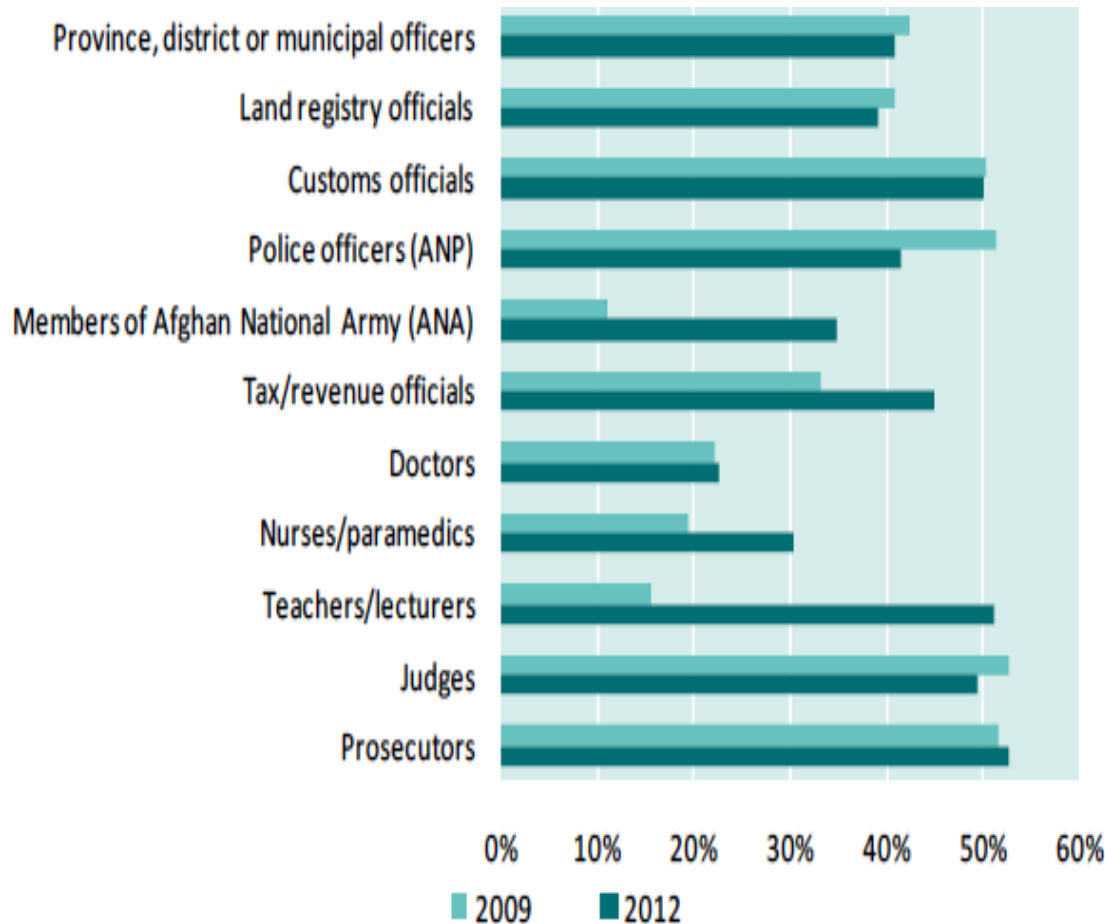
The Challenge of Corruption

- **175th most corrupt country out of 177 ranked by Transparency International. Budget openness is minimal.**
- **Bad rating on World Bank’s “Control of corruption index” bad. Improvement is driven by aid donors.**



Who Takes Bribes: The ANA Got Worse

Prevalence of bribery, by public official receiving the bribe, Afghanistan (2009 and 2012)



Source: General population survey 2009 and general population survey 2012

The likelihood of bribes being paid to a particular type of public official depends on how frequently citizens interact with them.

But since different types of official have different types of exposure to citizens, it is important to estimate the probability of a certain type of official receiving a bribe when he or she is contacted, independently from the frequency of interaction. This is measured by means of the prevalence of bribery in relation to each type of public official.

According to this indicator, four types of official (prosecutors, teachers, judges and customs officials) are the most likely to receive bribes when dealing with citizens.

While there has been little change in prevalence rates since 2009 in relation to prosecutors, judges and customs officials, the vulnerability to bribery of teachers has increased dramatically in the past three years.

Other officials particularly vulnerable to bribery in Afghanistan are tax/revenue officials and police officers, while there has also been a notable increase in the vulnerability of members of the Afghan National Army

State Department Reports Growing Afghan Government Corruption in 2013 – I

The law provides criminal penalties for official corruption. The government did not implement the law effectively, and there were reports that officials frequently engaged in corrupt practices with impunity. There were some reports of low-profile corruption cases successfully tried at the provincial level. The government made several commitments to combat corruption, including President Karzai's 2012 decree, but little progress had been made towards implementation at year's end. At the beginning of the year, the Attorney General's Office created a monitoring department, as required by the decree, and it began accepting referred cases. There was no progress on the cases reported as of year's end.

On June 30, a new law organizing the judiciary weakened the Control and Monitoring Department of the Supreme Court. The department had been considered effective in dealing with corruption within the judiciary in the districts and provinces. The new law eliminated the department's authority to conduct investigations, make arrests, and prosecute violators as well as some of its key positions.

Reports indicated corruption was endemic throughout society, and flows of money from the military, international donors, and the drug trade continued to exacerbate the problem. Reports indicated that many Afghans believed the government had not been effective in combating corruption. Corruption and uneven governance continued to play a significant role in allowing the Taliban to maintain its foothold in the east-central part of the country (the five provinces surrounding Kabul) and maintain influence in some parts of the southern provinces.

Prisoners and local NGOs reported that corruption was widespread across the justice system, particularly in connection with the prosecution of criminal cases and "buying" release from prison. There were also reports of money being paid to reduce prison sentences, halt an investigation, or have charges dismissed outright. The practice of criminalizing civil complaints was commonly used to settle business disputes or extort money from wealthy international investors.

During the year reports indicated a rise in incidents of "land grabbing" by both private and public actors. The most common type occurred when businesses illegally obtained property deeds from corrupt officials and sold the deeds to unsuspecting "homeowners," who would then get caught in criminal prosecutions. Other reports indicated that government officials grabbed land without compensation in order to swap the land for contracts or political favors. Occasionally, provincial governments illegally confiscated land without due process or compensation to build public facilities.

State Department Reports Growing Afghan Government Corruption in 2013 – II

There were reports that the Attorney General's Office was unwilling or unable to pursue corrupt officials and that high-level officials who were arrested on corruption-related charges were released subsequent to political pressure. In addition there was anecdotal evidence that accusations of corruption on the part of others were used by corrupt officials to damage their opponents' reputations or to deflect attention from their own misdeeds. There were also reports that the Attorney General's Office compelled international contractors to settle claims made by Afghan subcontractors, regardless of the merits of the commercial disputes involved, and detained foreign employees of the contractors as leverage in the disputes (see section 1.d.).

Provincial police benefited financially from corruption at police checkpoints and from the narcotics industry. It was reported that ANP officers paid higher-level Ministry of Interior officials for their positions and to secure promotions. The justice system rarely pursued corruption cases, especially if they involved police, although authorities arrested and detained a provincial chief of police on drug trafficking charges. During the year the minister of interior also removed more than 40 police officers on charges of corruption, poor performance, and abuse of power, reportedly following a 10-month investigation.

In addition to official impunity issues, low salaries exacerbated government corruption. The international community worked with the national and provincial governance structures to address the problem of low salaries, but implementation of grade reform remained slow.

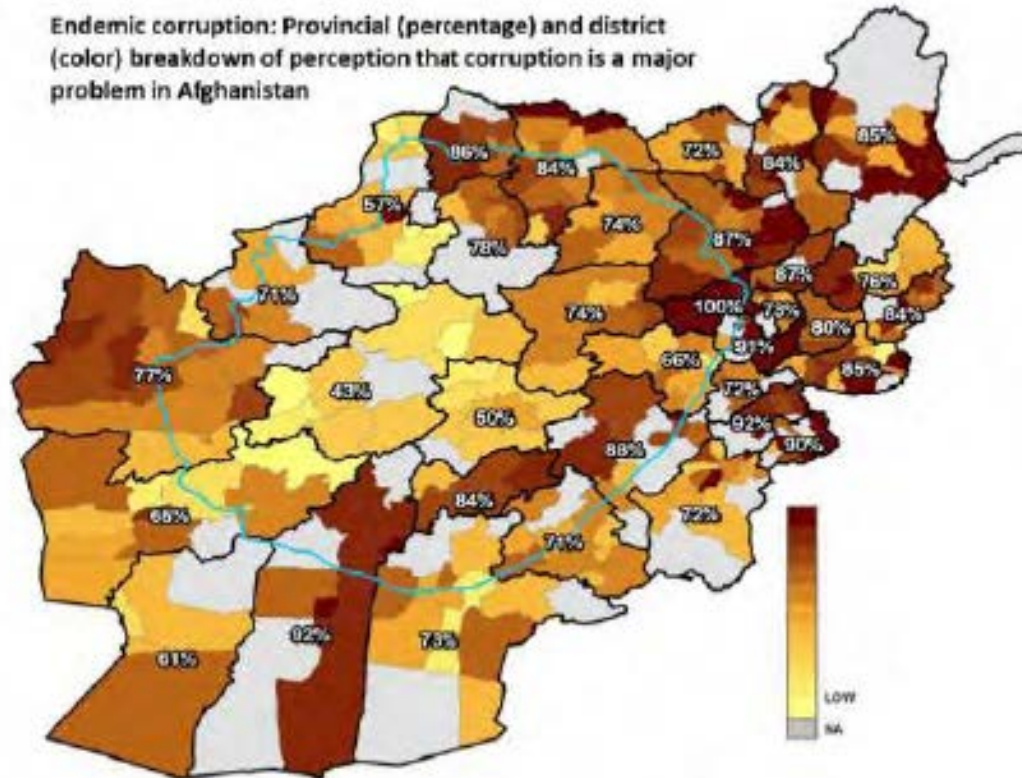
Credible sources reported that local police in many areas extorted a "tax" and inflicted violence at police checkpoints for nonpayment. Truck drivers complained that they had to pay bribes to security forces, insurgents, and bandits to allow their trucks to pass.

Police also reportedly extorted bribes from civilians in exchange for release from prison or to avoid arrest. Citizens also paid bribes to corrections and detention officials for the release of prisoners who had not been discharged at the end of their sentences.

- See more at: <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>

The Regionalization and Rising Scale of Corruption as of 2014

Endemic corruption: Provincial (percentage) and district (color) breakdown of perception that corruption is a major problem in Afghanistan



Do the following groups abuse their power?



Since 2003, levels of distrust and corruption have increased to the point where corruption is endemic across Afghanistan.

In a survey of the population that was reported in October 2013, 80 percent of Afghans described corruption as a major problem, with 73 percent reporting that corruption was “a part of daily life” and 65 percent saying it was worse than the year before. Almost two-thirds (62 percent) of those polled felt GIRoA, as a whole, was corrupt to some degree. When asked why, the most common reasons cited were that GIRoA was a generally weak government and officials took bribes.

In the same poll, Afghans were questioned about various governance bodies and whether they abused their authority and power. More than half of respondents felt that every level of government and every office abused its power. Notably, President Karzai, who was viewed as corrupt by “only” 38 percent of respondents, experienced a rise in the number of people who felt he abused his authority, to the highest level since an August 2011 poll.

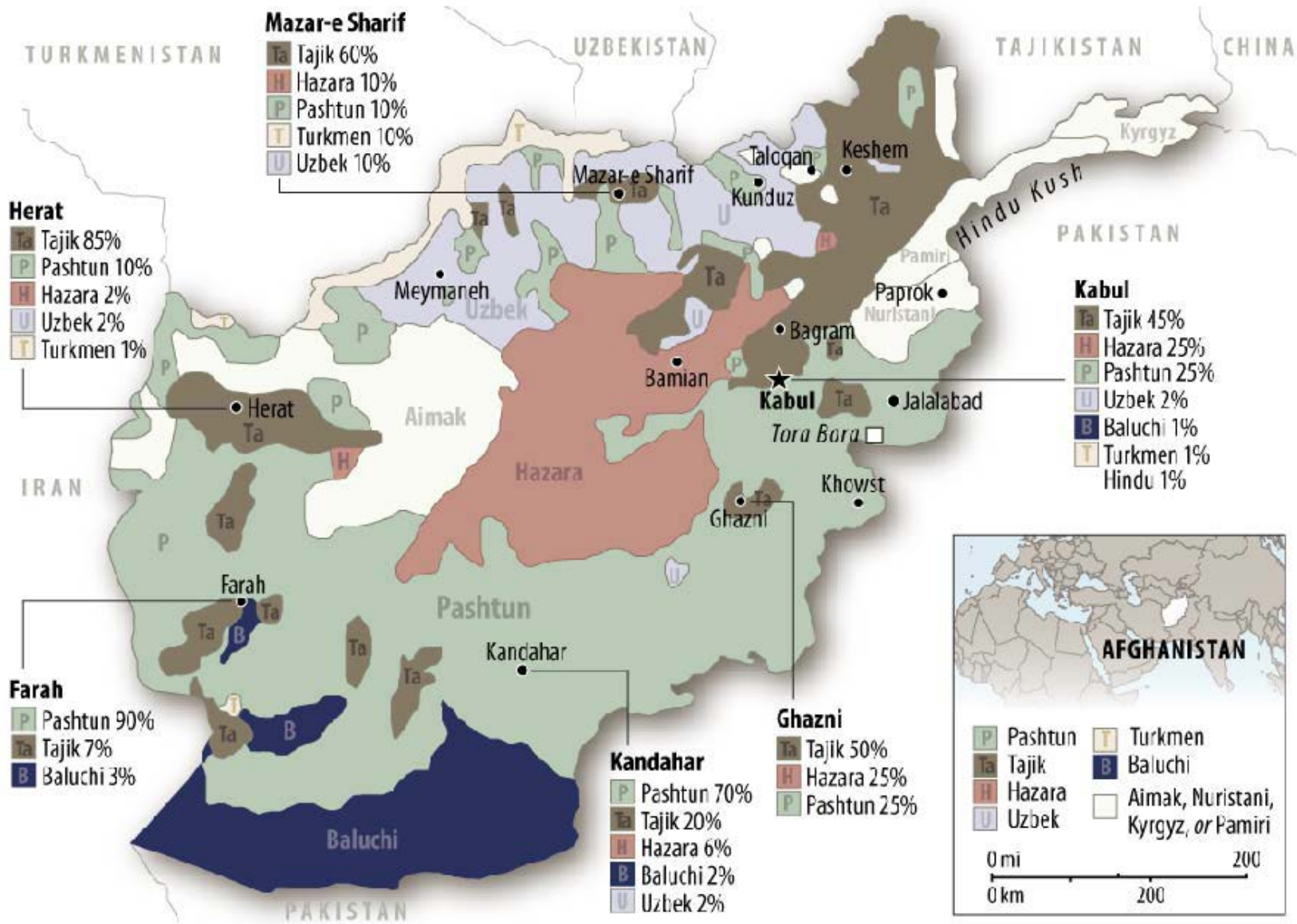
The Challenge of Demographics

Transition must deal with serious ethnic, regional, and sectarian divisions among the population and critical population pressure in terms of total population, pressure on the land and water, urbanization and demand for jobs.

- Population estimates are very uncertain and many of the statistics commonly used have no reliable source or level of accuracy.
- The UN and US Census Bureau agree, however, that Afghanistan is under extreme population pressure for a very poor country with limited arable land and water and uncertain rainfall. (p. 46) 7.5-8.2 million in 1950 to 13.2 to 15.0 million at time of Soviet invasion to 27+ to 32+ million in 2014.
- Ethnic and sectarian differences are a problem, compounded by competition between power brokers and officials.
- An extremely young population creates a high dependency ratio and will put major pressure on the land, water, and job creation for at least a decade.
- Population pressure, water, and economic incentives have led to a sharp rise in urbanization, much uncounted or underestimated, and in the form of slums, poverty, and subsistence.
- The rate of young men reaching job age alone seems to exceed creation of real jobs.
- Agriculture employs 79% of population for only 20% of GDP?
- Services employ 15.7% of population for 54.4% of GDP? After Transition and coming cuts in aid and military spending?

Afghanistan's Divisive Demographics

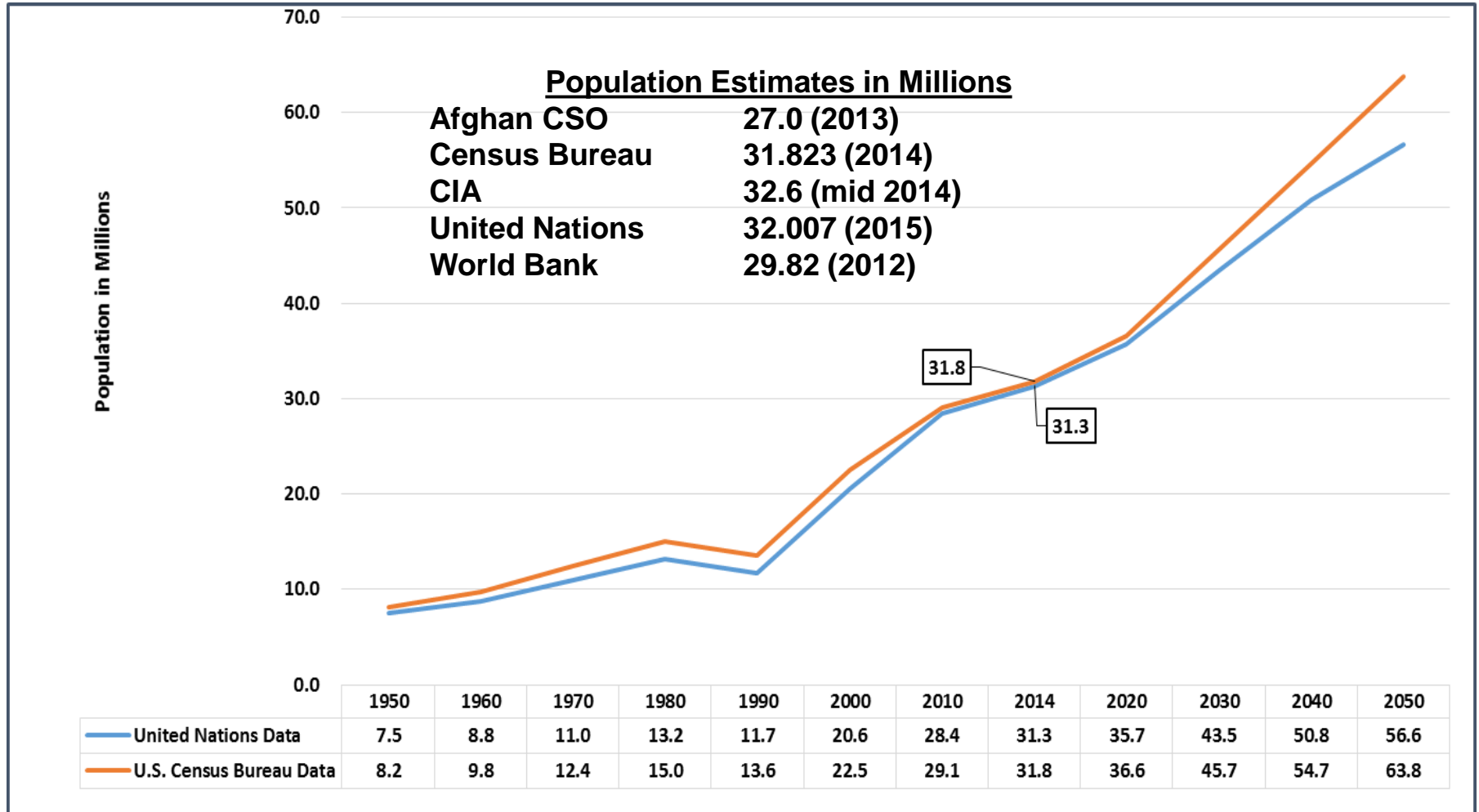
- **Total population: 31,822,848 (July 2014 est.)**
 - Pashtun 42%, Tajik 27%, Hazara 9%, Uzbek 9%, Aimak 4%, Turkmen 3%, Baloch 2%, other 4%
 - Sunni Muslim 80%, Shia Muslim 19%, other 1%
- **Population 0-14 years: 42% (male 6,793,832/female 6,579,388); 15-24 years: 22.2% (male 3,600,264/female 3,464,781)**
- **Urban population: 23.5% of total population (2011)**
- **Rate of urbanization: 4.41% annual rate of change (2010-15 est.)**
- **Young men and women reaching employment age annually: 392,116 males (5% of labor force), 370,295 females (2010 est.) 30-40% unemployment in 2008**
- **Agriculture employs 79% of population for only 20% of GDP?**
- **Services employ 15.7% of population for 54.4% of GDP?**



Source: 2003 National Geographic Society. <http://www.afghan-network.net/maps/Afghanistan-Map.pdf>. Adapted by Amber Wilhelm, CRS Graphics.

Notes: This map is intended to be illustrative of the approximate demographic distribution by region of Afghanistan. CRS has no way to confirm exact population distributions

Afghanistan's Demographic Pressure



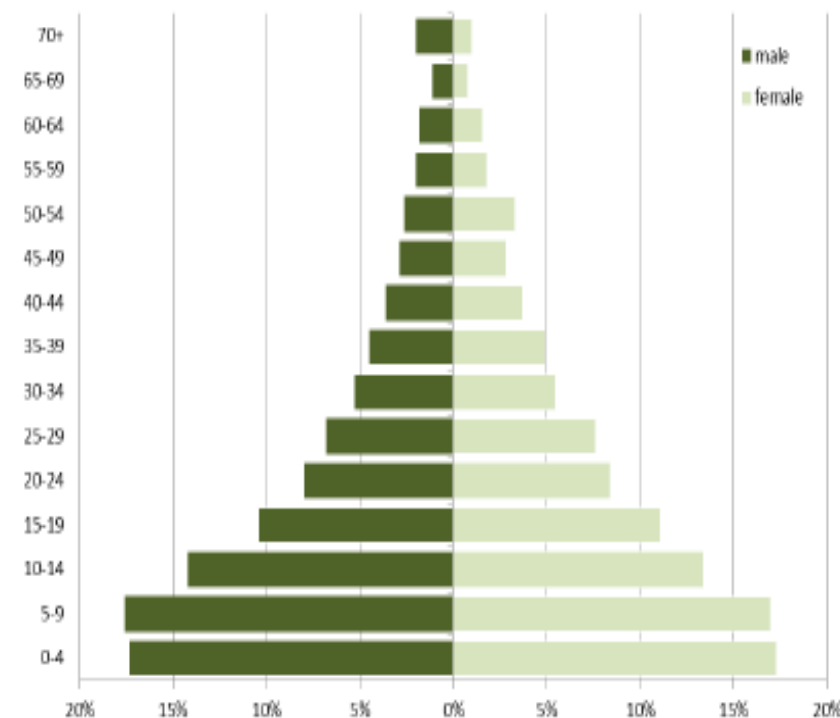
World Bank Estimate of Demographic Challenges

The country is facing huge demographic challenges which will add pressures to the labor market. The Afghan labor market is characterized by a young and fast-growing workforce. Decades of conflict, international migration and relatively high fertility rates make Afghanistan – together with Pakistan and Nepal – one of the youngest countries in South Asia. The proportion of population aged 15 or below is as high as 51.3 percent, meaning that more than one in every two Afghans is economically dependent.

Afghanistan's population pyramid is characterized by a wide base that will maintain a sustained rate of growth in the number of new labor-market entrants for decades to come. Between 2010/11 and 2015/16 alone, the labor force is expected to increase by 1,7 million people, and by an additional 4 million by 2025/26, not accounting for any return migration or changes in participation rates. This means that every year 400,000 to 500,000 will potentially seek jobs.

Afghanistan has one of the highest fertility rates in the world – 5.1 percent in 2011/12. Unless the fertility rate decreases, demographic pressures will continue to rise and reduce the demographic dividend. A high fertility rate, coupled with declining mortality rates, tends to produce a “youth bulge”. Normally, a youth bulge presents an opportunity for growth in the impending years, since it would lower the age dependency ratio, i.e., the population younger than 15 or older than 64 as a share of the number of people of working age.

A decreasing dependency ratio means that a higher proportion of the population contributes to productive, income-raising work, relative to non-active dependents (e.g., elderly and children) which would consequently increase domestic savings and GDP per capita growth. But, a youth bulge could also pose a risk to stability if young people are left without viable jobs or other economic opportunities.



Source: World Bank staff calculation based on NRVA 2011/12

The Poverty Challenge

World Bank: Most of Population Excluded from Economic Growth– March 2014

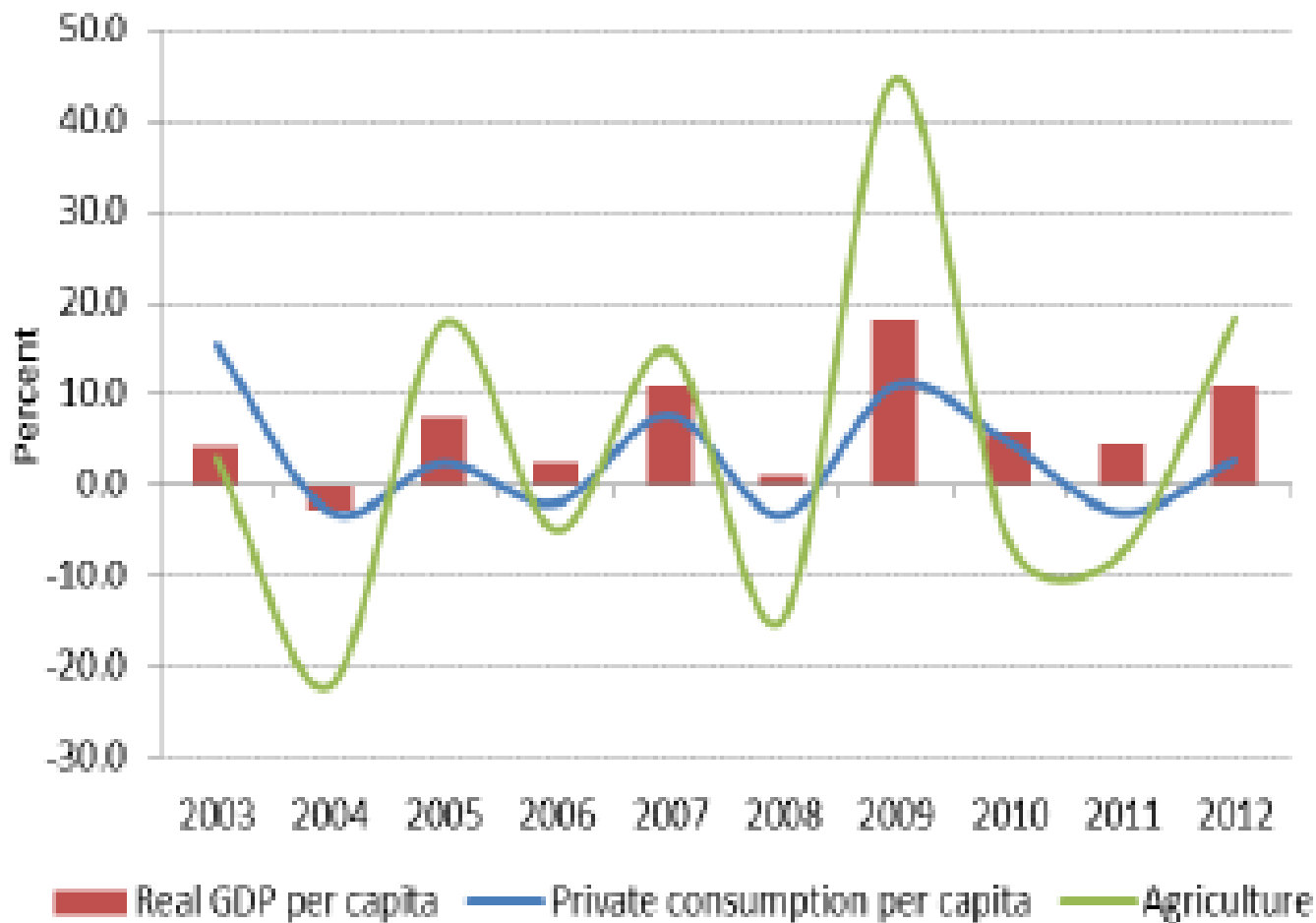
Growth has so far failed to produce more jobs and income for the poor: First, the volatility of agricultural growth likely hampers prospects for poverty reduction since agriculture accounts for more than half of employment. Poor households in Afghanistan, especially those who subsist on less than richer, wage-earning households. This would explain why growth has not benefited the poor and also perhaps why inequality has increased. Second, the persistent high level of un- and underemployment implies that growth in Afghanistan did not produce sufficient employment opportunities, which might have reduced the poverty impact. Finally, the increase in violence over the same period might have disproportionately affected the poor. Deterioration in the security situation limits the possibilities for public service delivery, the outreach of humanitarian development efforts, and access to markets for the poor. Moreover, insecurity also restricts access to public services, especially for women and children who might refrain from visiting clinics or going to school.

The report identifies four main population segments that have been largely excluded from the growth process and are at risk of being disadvantaged in future:

- The low-skilled workforce.** Literacy levels in the Afghan working population are extremely low, especially among adults and women. Both literacy and education level tends to correlate with lower levels of poverty in Afghanistan.
- The rural poor.** Agriculture provides income for around half of Afghanistan's population; for 30 percent of households it constitutes the most important source of income. Agriculture is the main source of livelihood and subsistence for 70-80 percent of the rural population in Afghanistan. Employment in agriculture is characterized mainly by small family businesses that produce mainly for subsistence.
- Youth.** The proportion of population aged 15 or below is as high as 51.3 percent, meaning that more than one in every two Afghans is economically dependent. Young people tend to be better educated on average, especially in urban areas. However, they are also less likely to find paid employment.
- Women.** While almost every man in the age range of 25-50 is economically active, only one in every two women participates in the labor market. While the female participation rate does not appear very low within the South Asian cultural context, women in Afghanistan are much less engaged in wage-earning employment. At the same time, the fertility rate is very high, at 5.1 percent in 2011/12. Increasing the share of female labor market participation will key to reducing fertility and reducing demographic pressures in the future.

Given Afghanistan's annual population growth of 2.8 percent, this would mean only limited improvement in average per-capita income, continuing high rates of un- and underemployment, and little progress in reducing poverty. For example, at a rate of 4.8 percent GDP growth per year, it would take Afghanistan more than 20 years to increase real GDP per capita from its current estimated level to that of the South Asian region (2011), which is US\$786. Convergence to South Asian income levels would then become an even further distant goal. Only growth at the upper level of the range of plausible scenarios would enable Afghanistan to meaningfully reduce poverty and achieve higher per-capita incomes.

World Bank: Limited Growth in GDP per Capita and Personal Consumption



Source: CSO

Poverty Has Not Dropped Since 2007

Poverty is high and persistent in Afghanistan.

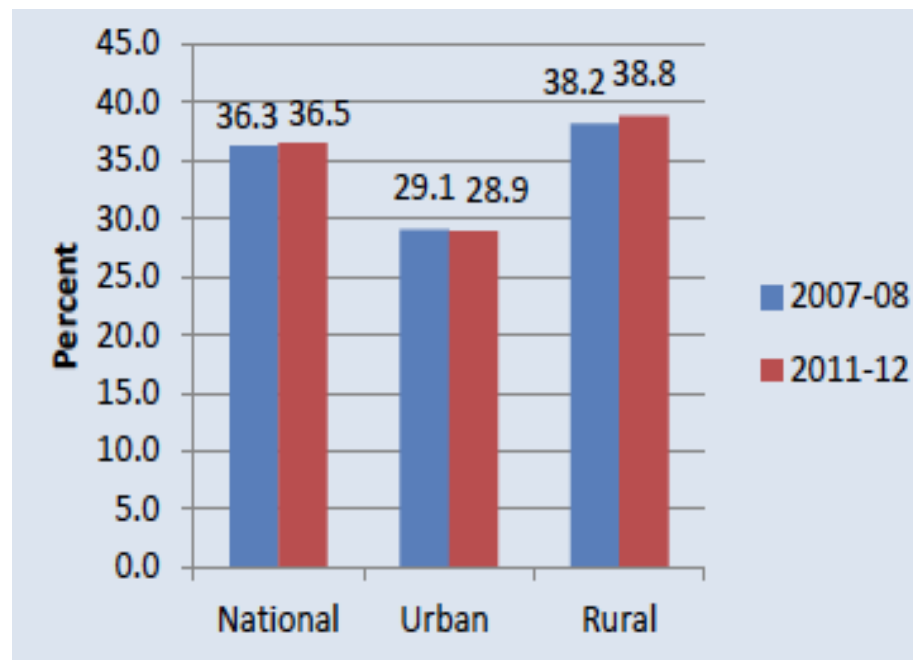
- According to the 2011-12 household survey, the poverty rate was 36 percent, meaning that about 9 million individuals (3 of every 8 Afghans) had consumption levels below the national poverty line.
- The national poverty rate remained substantially unchanged between 2007-08 and 2011-12.
- A number of factors could have contributed to this measured trend. First, the volatility of agriculture would affect measured trends, with the two years preceding the 2011-12 survey both featuring negative agriculture growth.
- Second, Afghanistan faces a daunting demographic challenge, with around 400,000 new entrants into the labor force each year and underemployment pervasive.
- Third, the high dependency ratio and low female labor force participation both serve as a drag on improving Afghanistan's poverty profile

World Bank Estimate of Worsening Afghan Poverty Trends

The national poverty rate in Afghanistan was around 36 percent in 2011-12, the same level measured in 2007-08...

Furthermore, the results showed that inequality edged up. In particular, the Gini coefficient increased to 31.6 in 2011-12 from 29.7 in 2007-08, while the growth rate of per capita expenditure of the richest 20 percent of the population was three times as high as that of the poorest 20 percent

...In addition, the bottom forty percent of the population commands only 21 percent of total consumption and more than 50 percent of the population is still vulnerable to becoming poor.



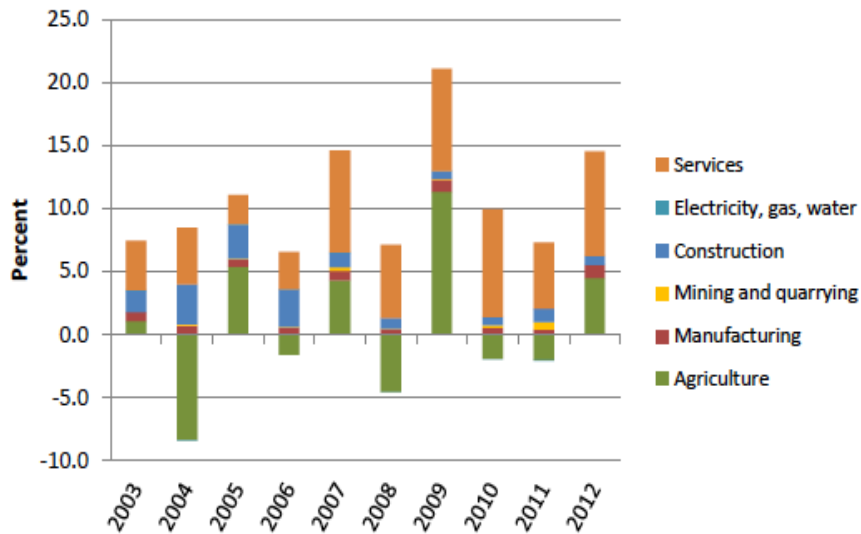
...A number of factors could be contributing to the measured trends. First, the volatility of agricultural production would affect measured poverty trends since agriculture accounts for more than half of employment. It is worth noting that 2010 and 2011, the two years preceding the 2011-12 survey, both featured negative growth in the agricultural sector. Second, pervasive underemployment likely affects the poverty impact of growth. Afghanistan faces a daunting demographic challenge, with around 400,000 new entrants into the labor force expected in the next few years.

...Finally, the high dependency ratio, low levels of female labor force participation, and low labor productivity all contribute to shaping Afghanistan's poverty profile. High economic dependency due to demographic pressure is further aggravated by extremely low levels of female labor force participation (19 percent) and the overwhelming prevalence of vulnerable forms of employment in informal and low productivity jobs (81 percent).

World Bank Estimate of Agricultural & Poverty Challenges

Agriculture, together with services, is still the largest contributor to economic growth. In spite of the structural shift in Afghanistan's economy, agriculture remains one of the largest contributors to economic growth. In 2012, for instance, it contributed over half of the 14.4 percent of GDP growth, thanks to favorable weather conditions and an exceptionally rich harvest. Depending on the harvest in any given year, agriculture accounts for one-fourth to one-third of GDP.

Figure 1.8: Sector Contributions to Real GDP Growth (percentage points)



Source: World Bank staff calculations based on CSO data

Afghanistan's economy is dominated by agriculture in more than one dimension. Aside from its direct contribution to GDP, agricultural production feeds into the economic growth process through its impact on aggregate demand and significance in manufacturing. In 2011/12, 49 percent of all households derived their income from agriculture; for 30 percent of all households agriculture constitutes the main income source. Not surprisingly, private aggregate demand is highly correlated with agricultural production (Figure 1.9). Moreover, 96 percent of the manufacturing sector depends on agricultural products for inputs (food and beverages, textiles, and leathers).

Nassif, Claudia; Joya, Omar; Lofgren, Hans; Gable, Susanna; Redaelli, Silvia; Jordan, Luke; Jaffrin, Guillemette Sidonie. 2014. *Full report*. Vol. 2 of *Afghanistan - Pathways to inclusive growth*. Washington, DC : World Bank Group, Report No: ACS8228, Islamic State of Afghanistan, Pathways to Inclusive Growth, Full Report, March 2014, SASEP, SOUTH ASIA 23, 30-31

... there are indicators as to why growth has failed to produce more jobs and income for the poor. First, the volatility of agricultural growth likely affects prospects for poverty reduction since agriculture accounts for more than half of employment. Although agriculture grew by 45 percent in 2009, it actually contracted in 2008, 2010, and 2011, with limited irrigation and dependence on rain-fed crops contributing to volatility. Poor households in Afghanistan, especially those who subsist on agriculture, have only few risk-coping mechanisms and are more strongly affected by agricultural output contractions than richer, wage-earning households. In many cases, livelihood risks are being managed by disposing household assets or deferring expenditures for health and education services which, in turn, have negative dynamic effects for future income. This would not only explain why growth has not benefited the poor but could also explain the increase in inequality.

Second, the persistent high level of un- and underemployment implies that growth in Afghanistan did not produce sufficient employment opportunities, especially for the poor and underprivileged segments of the population. Finally, the increase in violence over the same period might have disproportionately affected the poor. A deteriorated security situation restricts public service delivery, the reach of humanitarian development efforts, and access to markets for the poor. Moreover, insecurity also restricts access to public services, especially for women and children who might refrain from visiting clinics or going to school

Cannot Meet Food Needs

Notwithstanding agriculture's importance to the economy, Afghanistan is not able to fully meet its food needs. Before the conflicts, Afghanistan was self-sufficient in cereals – and in some years was able even to be a small exporter. Today, however, and despite the large area devoted to cultivation of the primary staple (wheat), Afghanistan remains a highly food-insecure country (Table 1.3). High year-to-year fluctuations in domestic cereal production make the country dependent on food imports and have exposed the economy to external food-price shocks. For example, wheat demand in 2011 stood at 4.69 million tons, while national production was only 3.46 million tons, leaving a food deficit of more than 1.20 million tons. Adding to this a seed demand of 626,000 tons, the overall wheat deficit in 2011 was nearly 1.86 million tons.

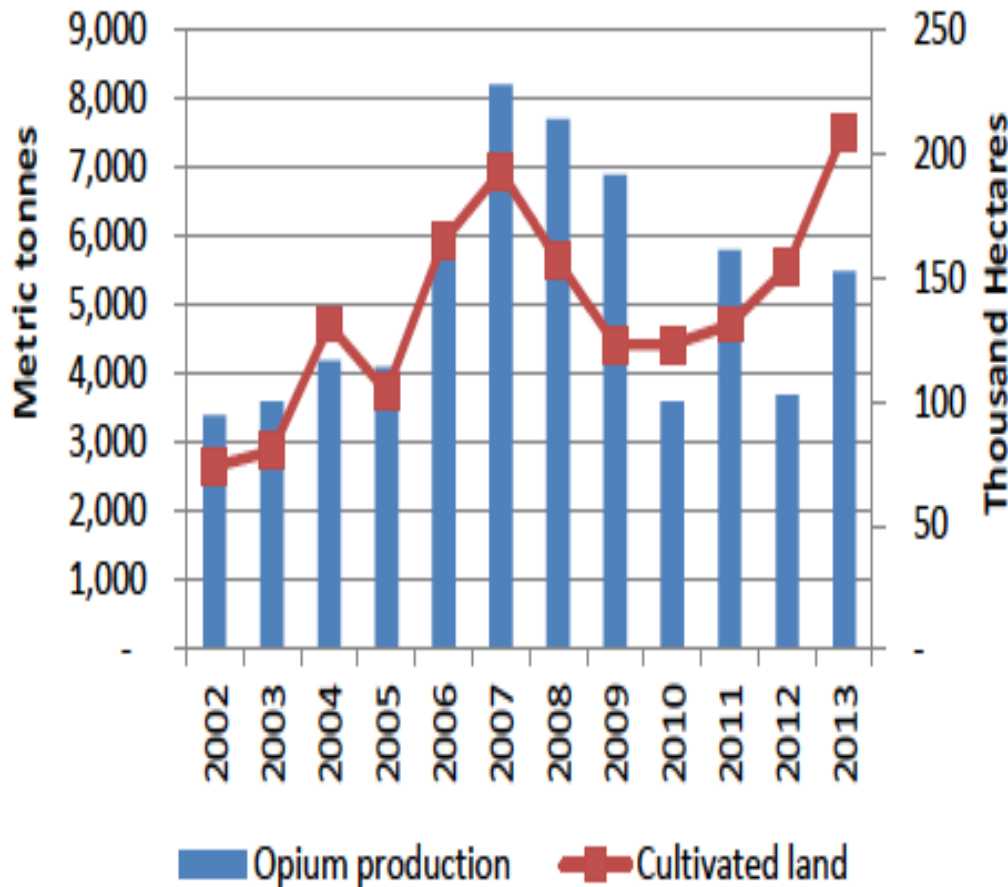
Cereal Production in Afghanistan (thousands of tons)

	2007	2008	2009	2010	2011	2012
Total wheat production	4,343	2,767	5,064	4,532	3,456	5,008
Estimated wheat demand	4,330	4,416	4,505	4,595	4,687	4,362
Seed demand and losses	734	677	806	753	626	1,067
Surplus/shortfall	-721	-2,326	-247	-816	-1,857	-422

Sources: World Food Program (2012); Agriculture Commodity Price Bulletin (year 8, vol. 7), and Agriculture Prospects Report, July 2012

The Challenge of a Narco-Economy

Shifting Back Towards a Narco-Economy



Source: UNODC

Both opium production and area under poppy cultivation increased considerably in 2013 –and is expected to remain at a high level in 2014.

According to UNODC data, opium production increased by almost 50 percent to 5,500 tons in 2013, while the total area under poppy cultivation expanded by 36 percent to 209,000 hectares.

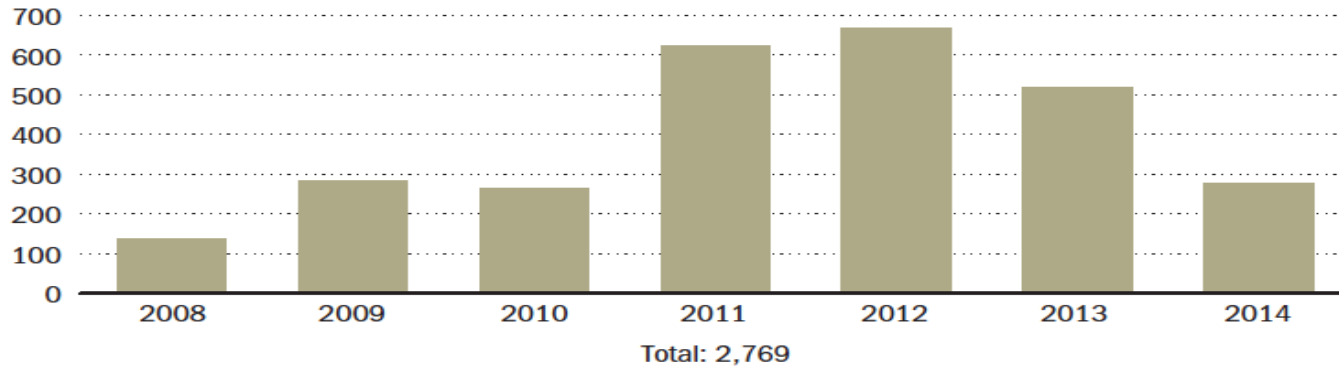
Opium production in 2013 appears to have recovered from the decline in 2012 triggered by adverse weather and disease. While the total value of opium production at farmgate prices remained at about 4 percent of GDP (or \$950 million) in 2013 due to a decline in the farm-gate price, the export value of opiates (including drugs) increased from 11 percent of GDP in 2012 to 15 percent of GDP – or \$3.1 billion – in 2013.

A number of factors could have contributed to the recent increase in poppy production, including (i) the introduction of new production technologies (e.g. irrigation); (ii) fewer livelihood opportunities or the expectation thereof; and (iii) the rollback of international forces and associated counternarcotic efforts from the provinces.

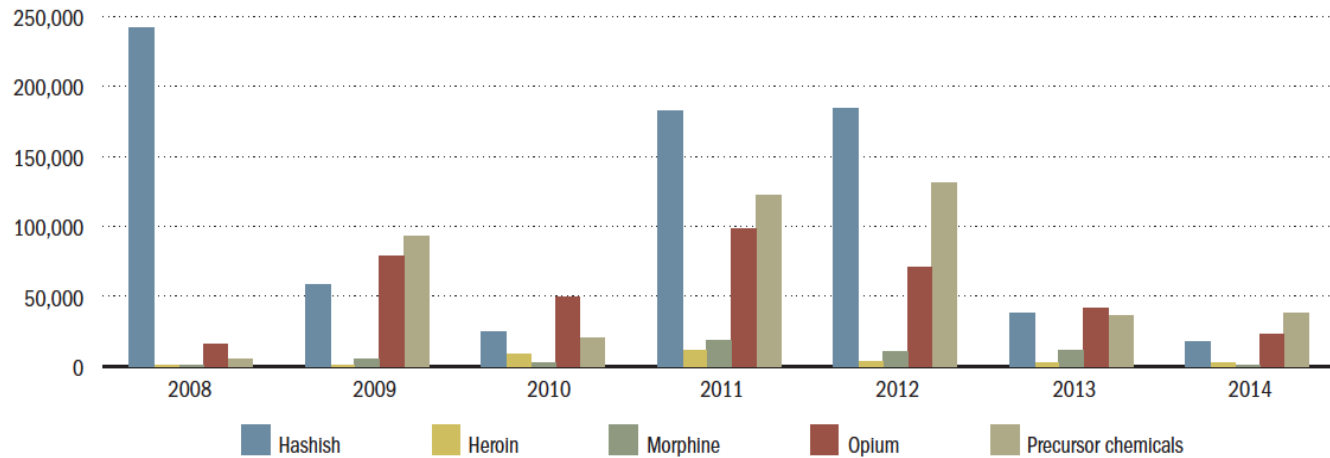
Although opium’s importance in GDP has been declining over time (down from 13 percent of GDP in 2007 to 4.1 percent in 2013 at farm-gate prices), it is likely an important source of livelihood for a segment of the rural population

Trends in Counternarcotics Activity: 2008-2014

INTERDICTION OPERATIONS, 2008-2014

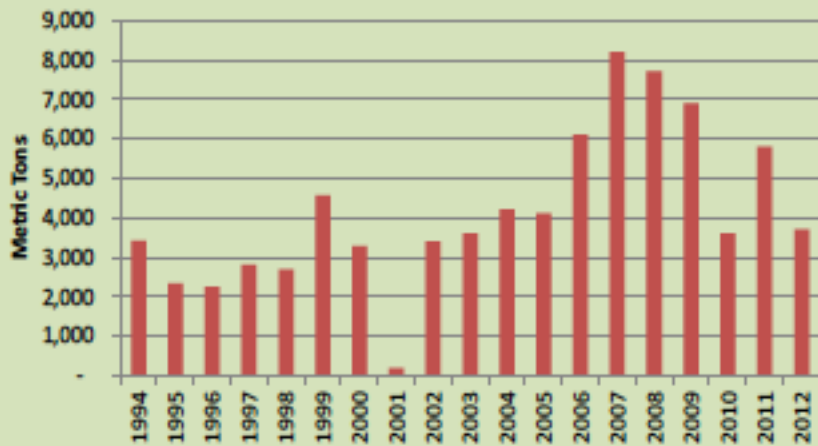


DRUG SEIZURES, 2008-2014 (KILOGRAMS)

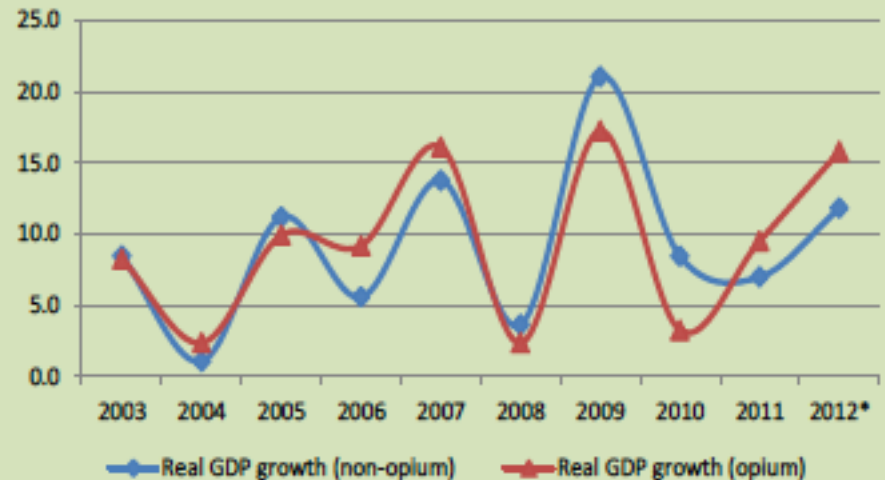


Note: Fiscal year.

World Bank Estimate of Opium Economy



Source: UNODC/MCN opium surveys



Source: Central Statistics Organization

Opium Production in Afghanistan

In terms of production and share of GDP, opium's importance has been declining since 2007, when it reached a record production of 8,200 tons. Nowadays, production is closer to 3,700 tons (UNODC, 2012), which amounts to 3.3 percent of GDP in farm-gate value, or 10 percent in export value – compared to 13 percent of GDP by farmgate value in 2007. However, measuring opium production as part of the national income is not straightforward. While the nominal difference between opium-GDP and non-opium-GDP is relatively small – an average of US\$500 million each year – non-opium and opium GDP growth can differ by more than 5 percentage points in some years). However, average opium GDP growth has been only slightly higher than non-opium GDP growth: 9.4 percent compared to 9.2 percent, which suggests that between 2003 and 2012 opium has not been an important driver of economic growth.

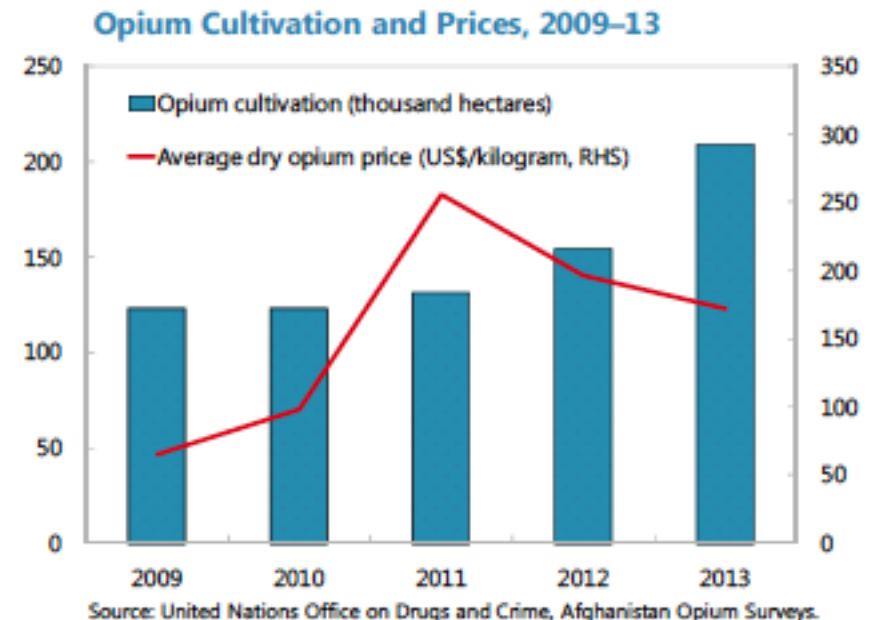
That said, opium is still Afghanistan's single most important cash crop and therefore has significant implications for income and consumption of rural, poor households. The average cash income of poppy-growing households is 52 percent higher than that of households that had never grown poppy. Poppy-growing households also tend to be farther away from markets⁵ This, in turn, adds to the complexity of finding the right approach to reducing opium production, which ultimately hinges on the development of alternative and competitive agricultural supply chains.

IMF Estimate of Opium Economy

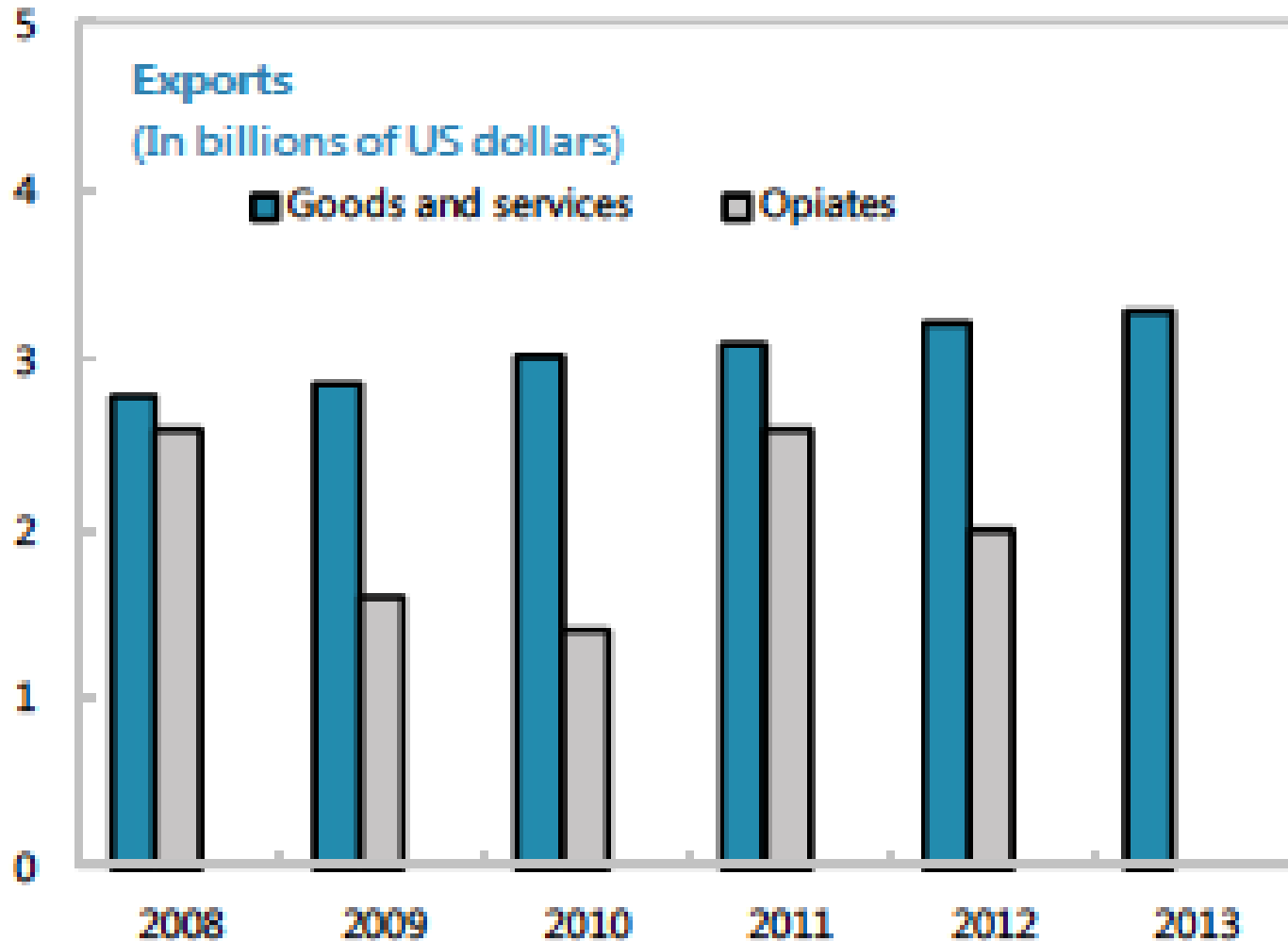
Drug production and trafficking are macro-relevant in Afghanistan. Production includes opium, heroin, morphine, and cannabis. In 2013, the farm-gate value of potential opium production was estimated at 4 percent of GDP. The potential net value of opiates and the value of opiates potentially available for export were estimated at 15 percent and 14 percent of GDP, respectively.¹ The combination of high opium prices and Afghanistan's significant involvement in its cultivation exposes the country to risks of economic instability, as a number of factors could trigger a shock to production and prices which would transmit to the formal economy, including through farmers' incomes. These include climate and water supply, eradication campaigns, external demand, change in policies (e.g., Taliban's ban in 2000), border controls, and conflicts in neighboring countries.

There could be significant distorting effect of the drug industry on the formal economy.²

Resources devoted to drug cultivation and trafficking are diverted from other productive opportunities, decreasing activity in others sectors of the economy. It is also possible that spillovers from the drug sector may increase activity in other sectors.



IMF Estimate of Value of Opium vs. Other Exports

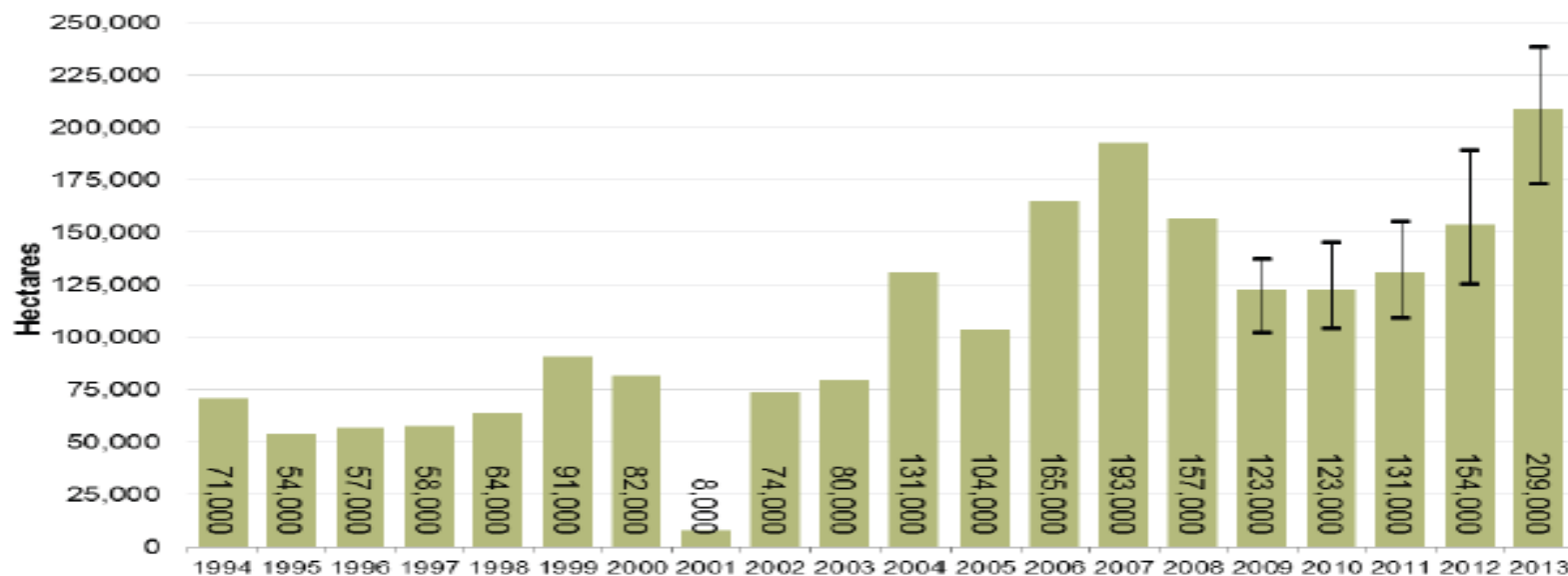


Source: ISLAMIC REPUBLIC OF AFGHANISTAN. 2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ISLAMIC REPUBLIC OF AFGHANISTAN, <http://www.imf.org/external/pubs/ft/scr/2014/cr14128.pdf>, p. 35.

UDOC Estimate of Rising Afghan Opium Production 2012 vs. 2012-2013 – Part I

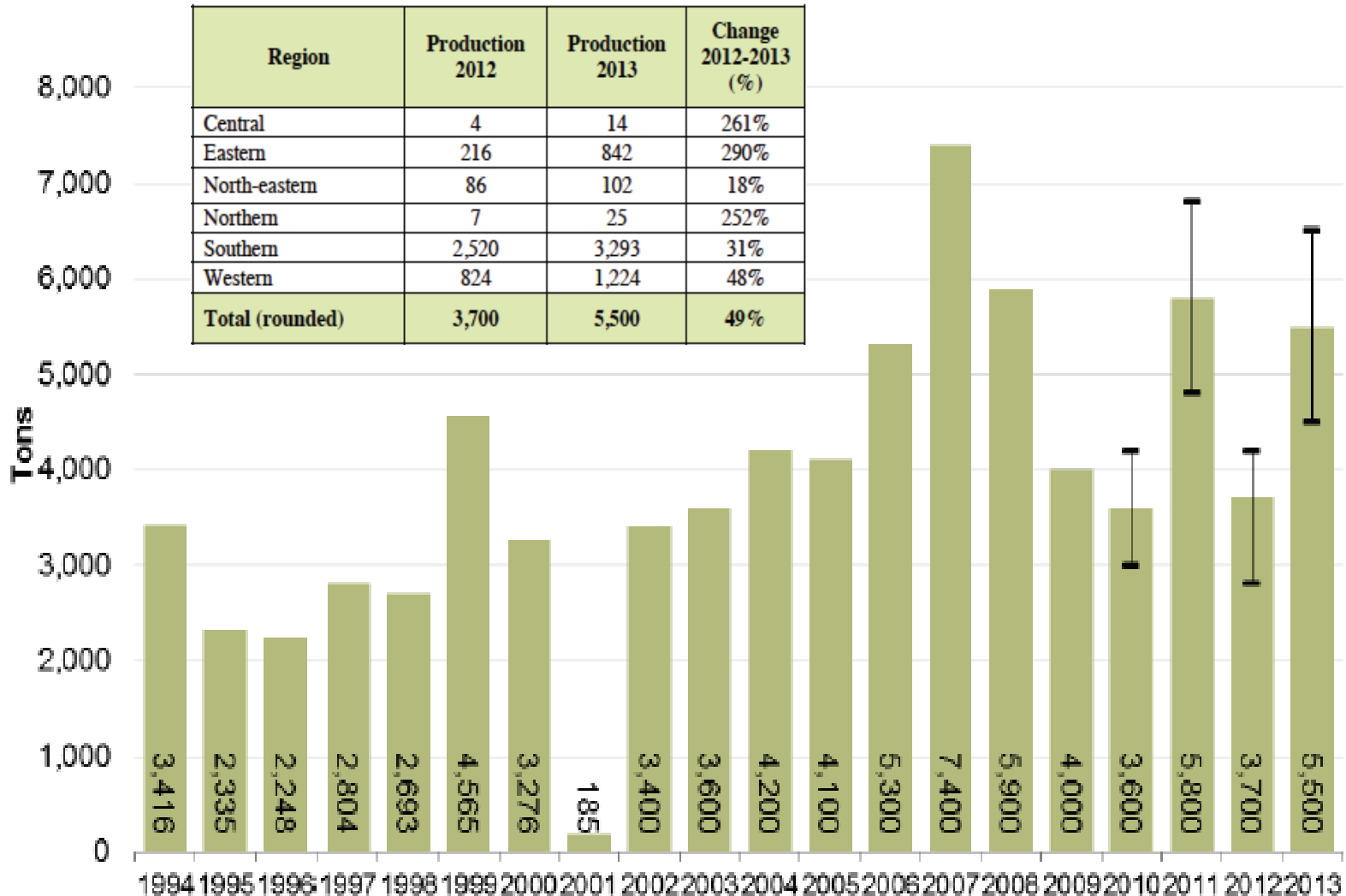
	2012	Change from 2012	2013
Net opium poppy cultivation (after eradication) in hectares (ha)	154,000 ha (125,000–189,000)	36%	209,000 ha (173,000–238,000)
Number of poppy free provinces ²	17	-2	15
Number of provinces affected by poppy cultivation	17	+2	19
Eradication	9,672	-24%	7,348
Average opium yield (weighted by cultivation)	23.7 kg/ha	11%	26.3 kg/ha
Potential production of opium	3,700 (2,800 – 4,200 tons)	49%	5,500 (4,500 - 6,500 tons)

Figure 1: Opium cultivation in Afghanistan, 1994-2013 (Hectares)



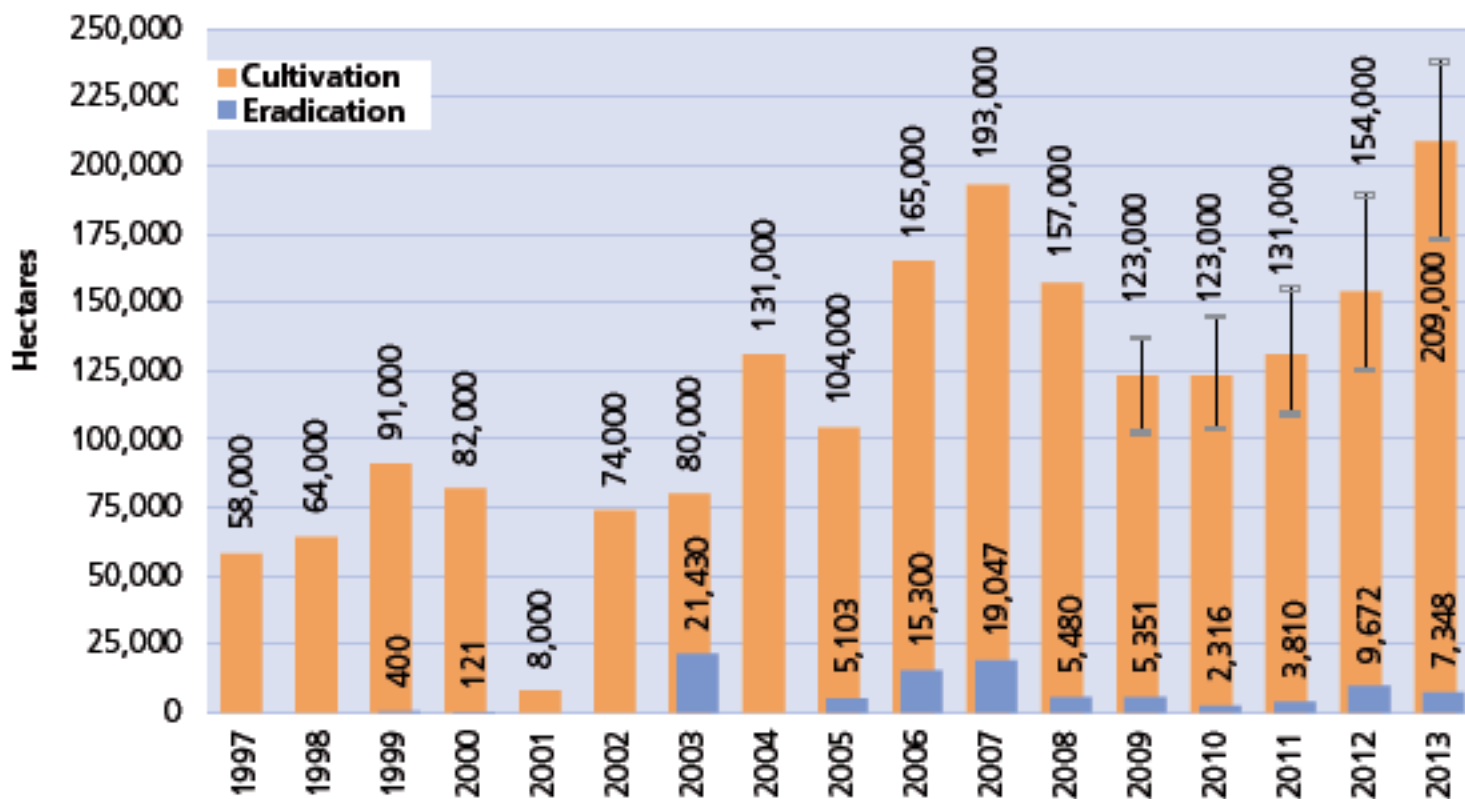
Source: UNODC (1994-2002), MCN/UNODC (since 2003). The high-low lines represent the upper and lower bounds of the 95% confidence interval.

UDOC Estimate of Rising Afghan Opium Production 2012 vs. 2012-2013 – Part II (Production in Tons)



UDOC Estimate of Rising Afghan Opium Cultivation 1997-2013

Opium poppy cultivation and eradication in Afghanistan, 1997-2013



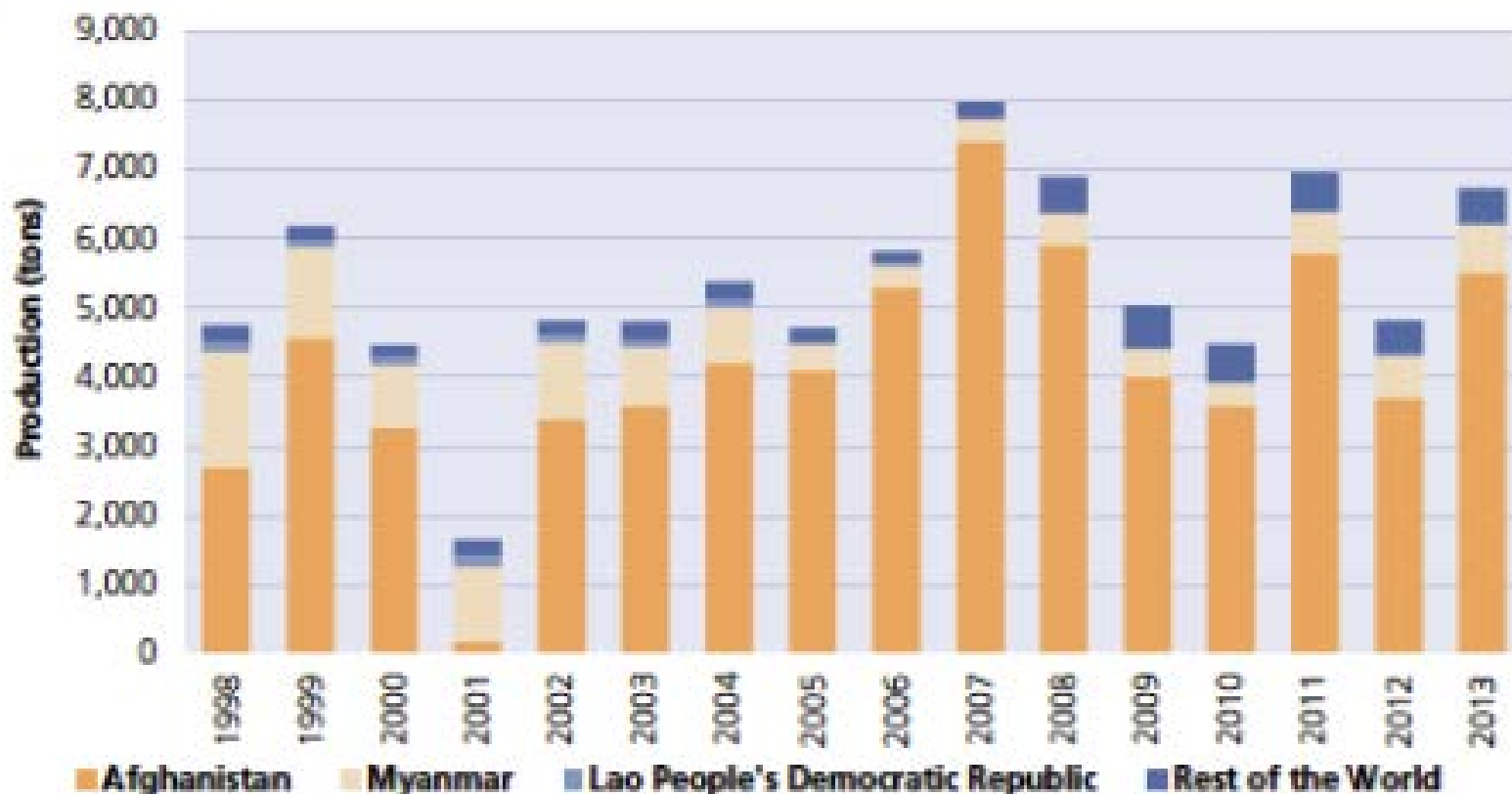
Source: 1997-2002: UNODC; since 2003: National Illicit Crop Monitoring System supported by UNODC.

The global area under illicit opium poppy cultivation in 2013 was 296,720 hectares (ha), the highest level since 1998 when estimates became available. An increase in cultivation was seen in both Afghanistan and Myanmar. The main increase was observed in Afghanistan, where the area of opium poppy cultivation increased 36 per cent, from 154,000 ha in 2012 to 209,000 ha in 2013. The main area of cultivation in Afghanistan was in nine provinces in the southern and western part of the country, while the major increase was observed in Helmand and Kandahar

UNDOC, World Drug Report, June 26, 2014, p. 21;

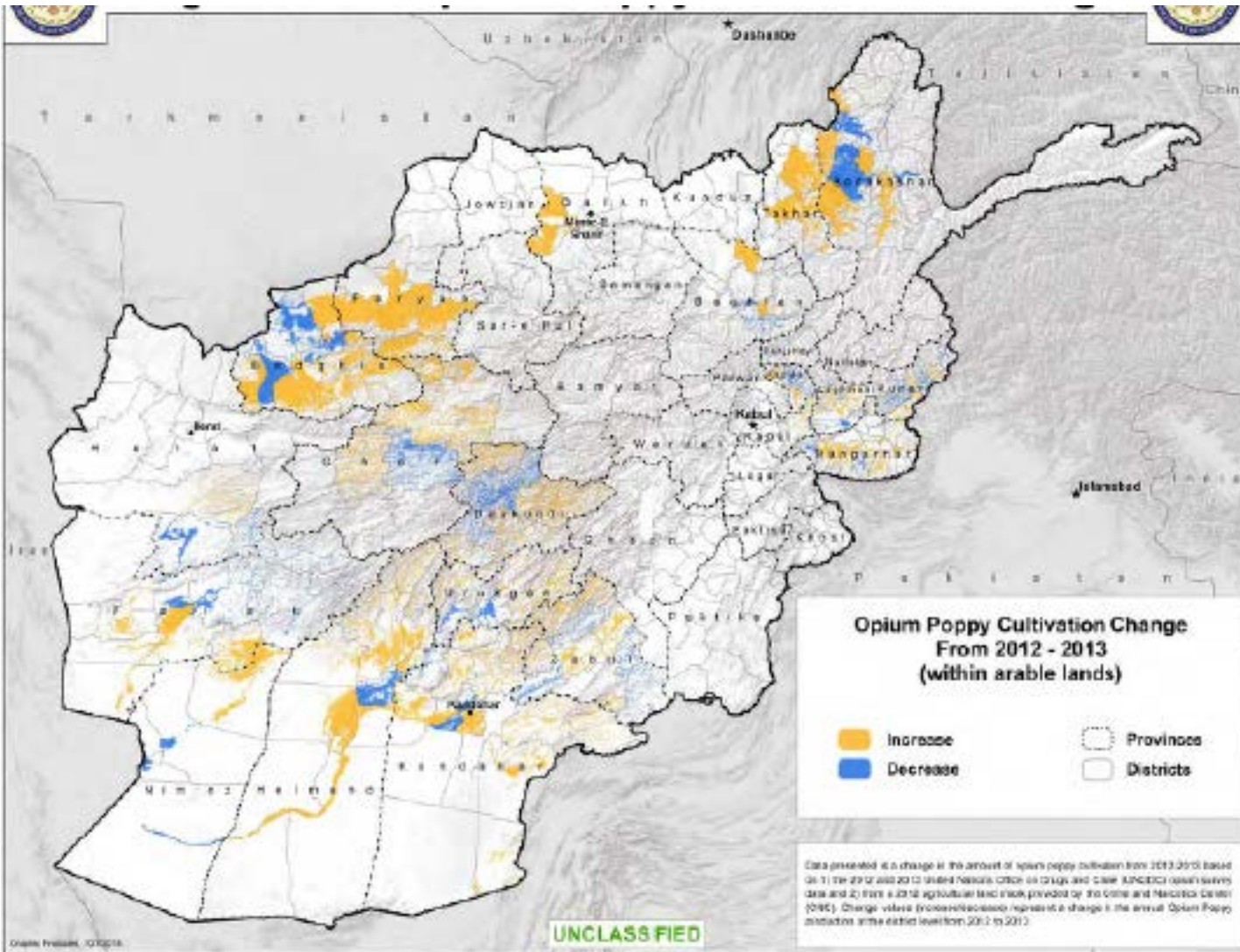
https://www.unodc.org/wdr2014/press/Selected_graphs_for_journalists_2014.pdf.

UDOC Estimate of Rising Afghan and Global Opium Production 1997-2013



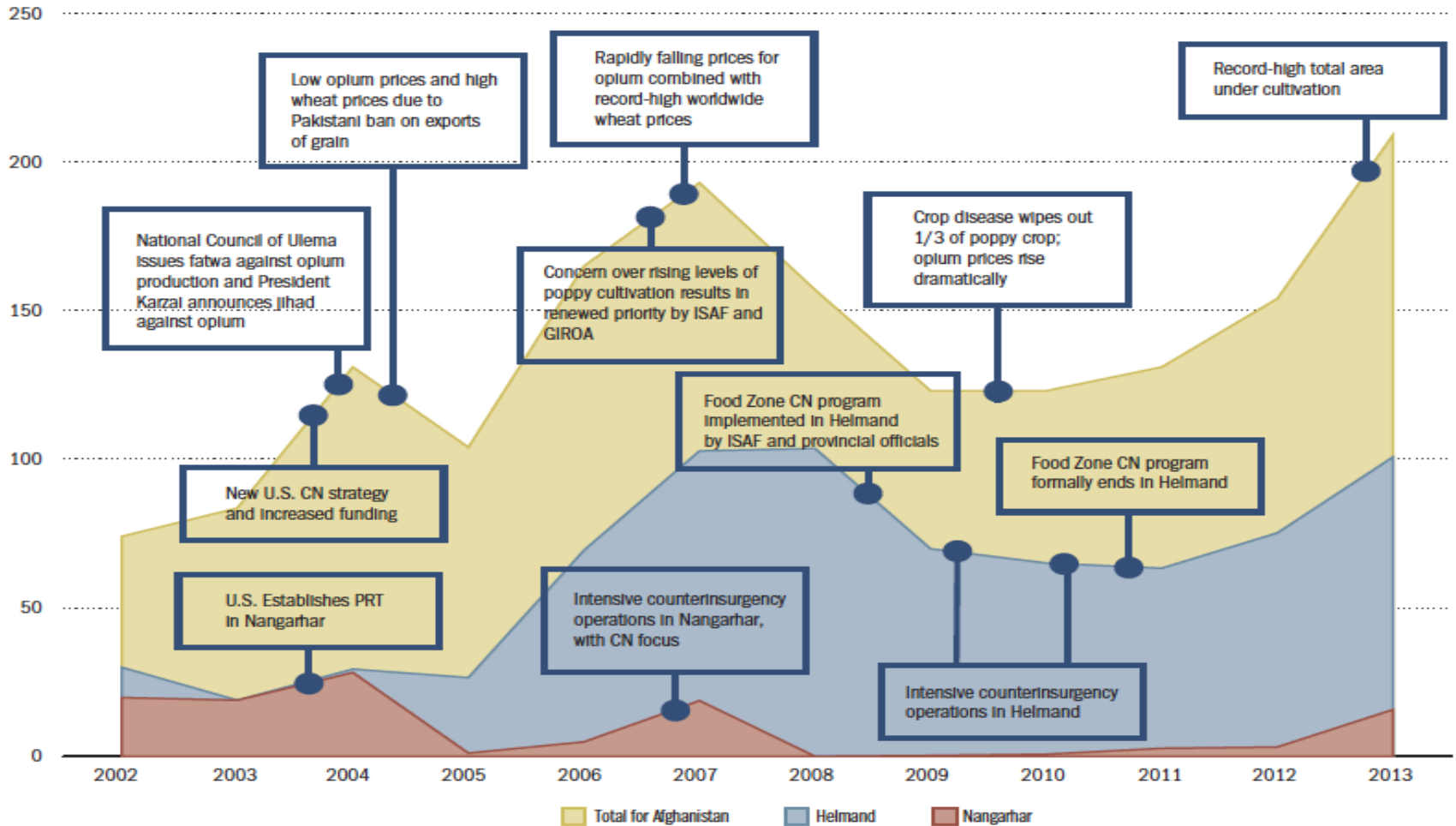
The potential production of opium in 2013 is estimated at 6,883 tons, which is a return to the levels observed in 2011 and 2008. The opium production in Afghanistan accounts for 80 per cent of the global opium production (5,500 tons). The potential production of heroin (of unknown purity) has also increased to 560 tons, comparable to 2008 estimates of 600 tons

The Drug Outcome of the Surge: Change in Poppy Cultivation 2012-2013



Counter-Narcotics Efforts Have Failed: SIGAR Estimate Total Area Under Poppy Cultivation: 2002-2013

FLUCTUATIONS IN OPIUM-POPPY CULTIVATION AND KEY EVENTS IN AFGHANISTAN, 2002-2013 (THOUSANDS OF HECTARES)

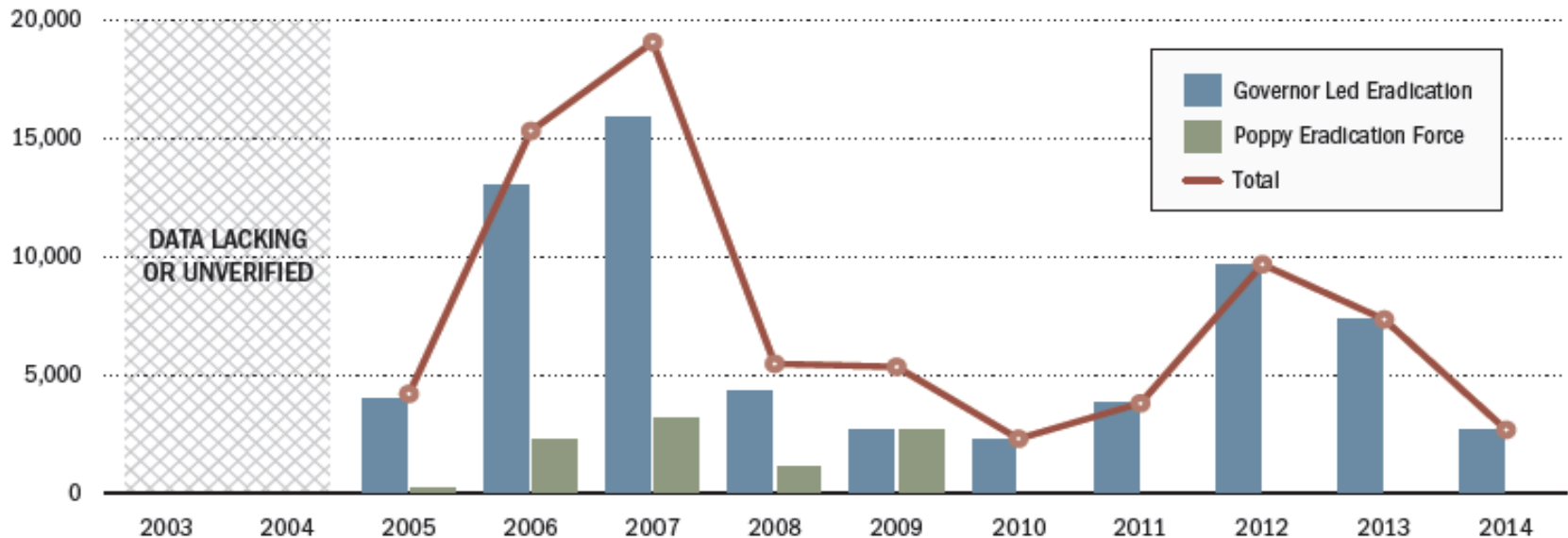


Note: PRT = Provincial Reconstruction Team. CN = counternarcotics.

Source: SIGAR, Special Project Report 15-10-SP, *Poppy Cultivation in Afghanistan: After a Decade of Reconstruction and Over \$7 Billion in Counternarcotics Efforts, Poppy Cultivation Levels Are at an All-Time High*, 10/14/2014.

Poppy Eradication has Been a \$1 US Billion Failure

POPPY ERADICATION IN AFGHANISTAN (HECTARES)



Source: UNODC, *Afghanistan Opium Survey 2003*, 10/2003, pp. 53, 96; UNODC, *Afghanistan Opium Survey 2004*, 11/2004, p. 77; UNODC, *Afghanistan Opium Survey 2010*, 12/2010, p. 45; UNODC, *Afghanistan Opium Survey 2013*, 10/2013, p. 35; UNODC, *Afghanistan Poppy Eradication Verification Report*, 8/2014, p. 4.

Besides issues of methodology and security challenges, politics complicated eradication verification. Eradication was often

used as a metric for judging state-building, institutional, and individual Performance. This encouraged over-reporting by Afghan nationals and a preference for reporting higher levels of eradication amongst drug-control institutions. This became particularly evident with the level of over-reporting by the PEF in the spring of 2007 that culminated in a review² and subsequent reduction

in the final figures reported. The argument that eradication has extended the writ of the state is far from compelling when viewed against the complaints of corruption and the targeting of vulnerable communities that have accompanied crop Destruction. Indeed, an employee of a nongovernmental organization in Kandahar in 2008 referred to the “predatory and sneering face of the eradication team,” arguing that it was “not the face that should be seen in rural areas.” Afghan farmers themselves will often refer to eradication operations as acting “like a thief stealing in the night” where these efforts are not accompanied by a more resilient state presence that includes the delivery of physical and social infrastructure and improved security.

SIGAR, Quarterly Report, October 30, 2013, p. 10-11.

Poor Prospects for the Future

The increases in cultivation between 2012 and 2013 have been significant.

A report released this quarter by SIGAR's Office of Special Projects illustrates that opium-cultivation potential has been rising, and that large areas of potential production increases appear in the east, north, and southwest of Afghanistan.

The transmittal letter by the Special IG notes, as one example, that Nangarhar Province in eastern Afghanistan, declared "poppy free" by the UN in 2008, "saw a fourfold increase in opium poppy cultivation between 2012 and 2013."¹⁶ There is little reason to believe cultivation will fall in 2015.

The latest planting season began in late October 2014. Farm-gate opium prices remain relatively high at around \$140 per kilogram. The Afghan economy remains fragile: economic growth has declined, real wages are falling, and inflation has increased. The security situation in many rural areas of the country is increasingly uncertain. In such conditions, opium production should be expected to rise.

The Challenge of Investment, Mining and LoCs

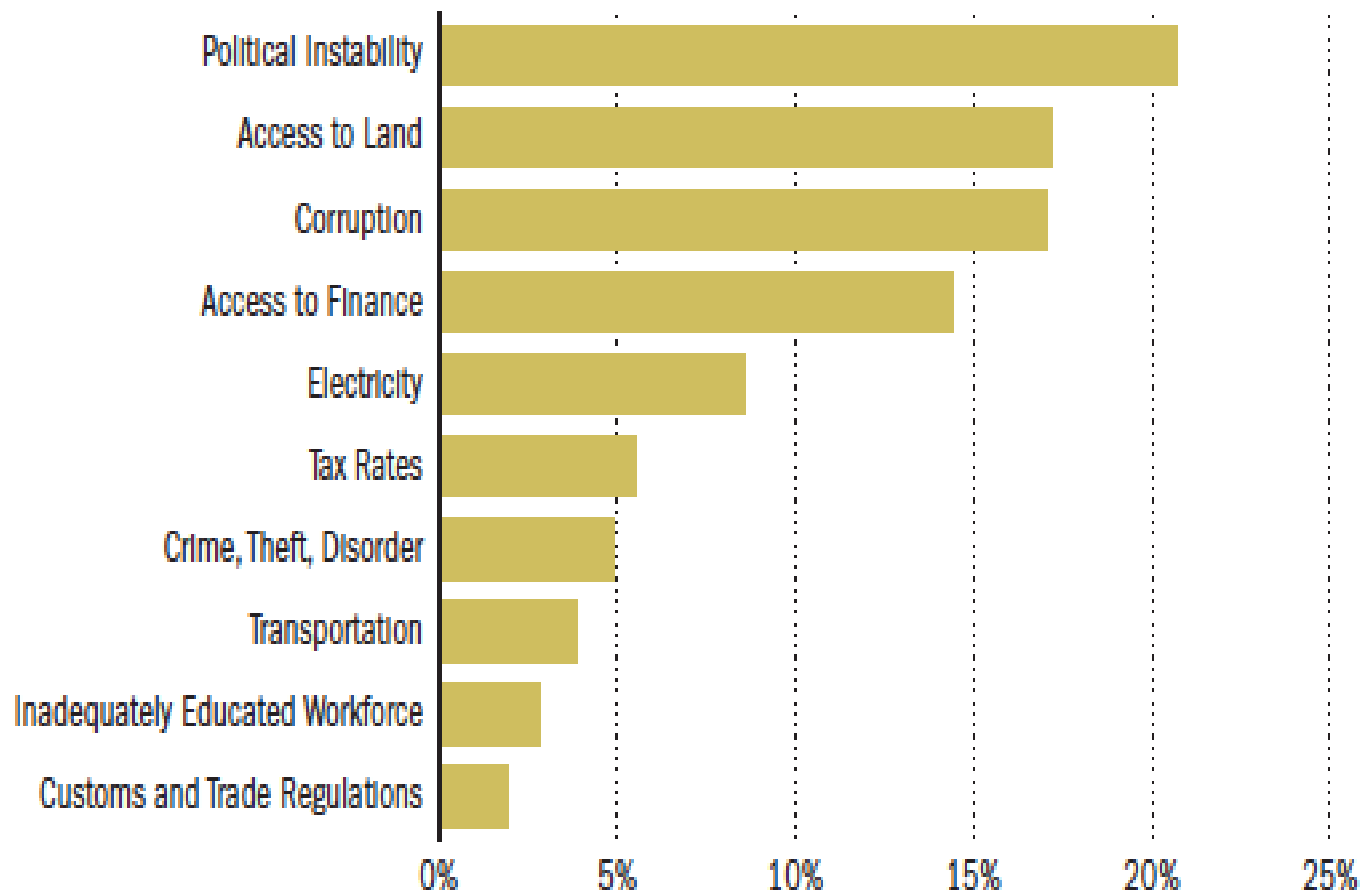
Low World Bank Rankings in Critical Areas of Doing Business

(The higher the number the worse the country ranking out of 189 countries)

Topics	DB 2014 Rank	DB 2013 Rank
Starting a Business	24	31
Dealing with Construction Permits	167	170
Getting Electricity	104	111
Registering Property	175	176
Getting Credit	130	154
Protecting Investors	189	189
Paying Taxes	98	95
Trading Across Borders	184	181
Enforcing Contracts	168	170
Resolving Insolvency	115	118

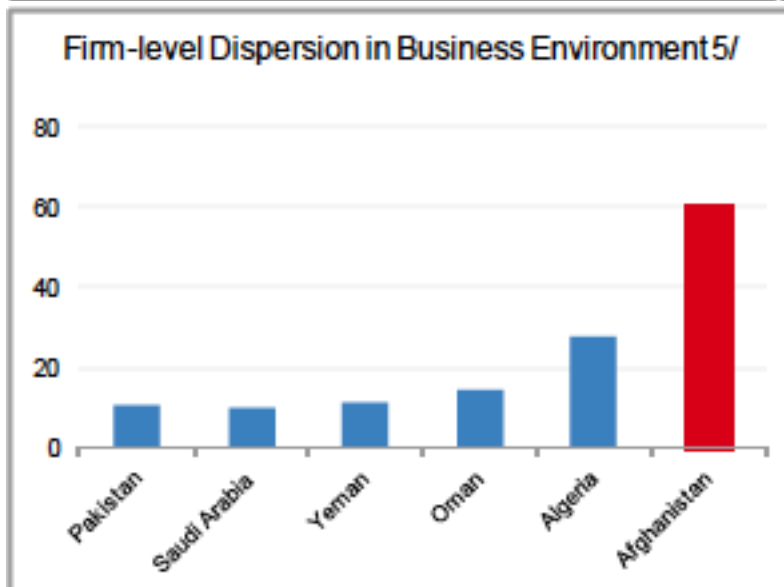
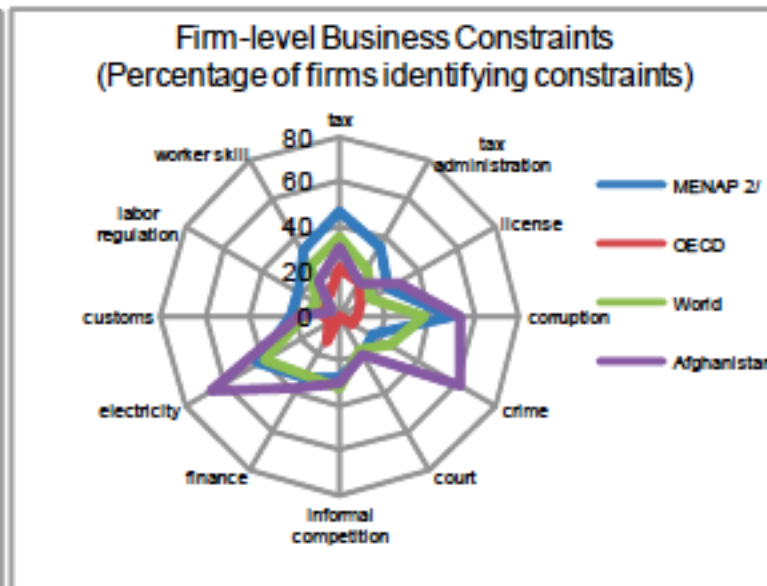
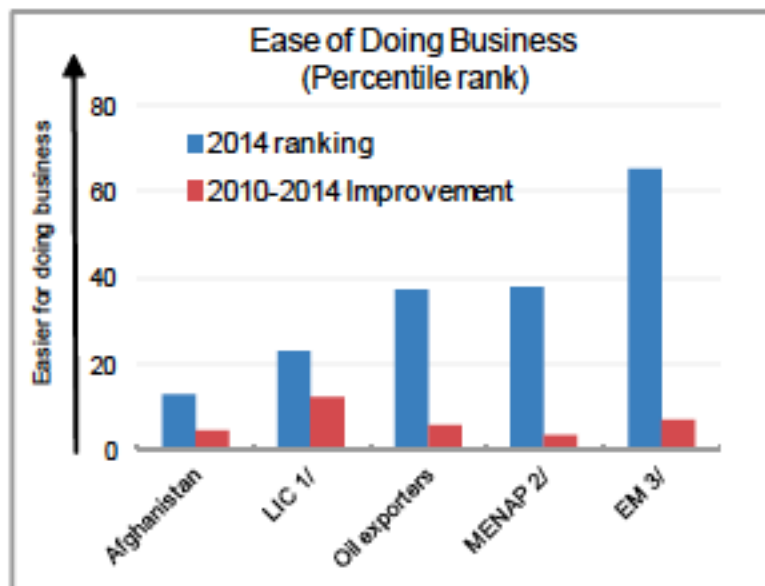
Source: World Bank. Doing Business Report 2014 Note: Data points indicate ranking for 189 countries surveyed.

Top 10 Factors World Bank Cited as Main Business-Environment Constraint in 2014



Source: World Bank, "Enterprise Surveys, Afghanistan 2014," survey of 354 businesses, accessed 8/29/2014.

IMF Estimate of Business Problems



Sources: World Bank Doing Business Report (2014); World Bank Worldwide Governance Indicators; World Bank Business Environment and Enterprise Performance Survey; and IMF staff calculations.

1/ Low income countries;

2/ Middle East, North Africa, and Pakistan;

3/ Emerging market economies;

4/ Worldwide Governance Indicators include government effectiveness, regulatory quality, rule of law, and control of corruption; trend line is based on cross-country regression.

World Bank: Natural Resource Development – a Double-Edged Sword

...considering the current level of violence and political developments, it is likely that it will take many years to fully restore peace and stability even in the best-case scenario. Any growth-enhancing policies therefore need to be realistic and aim at supporting sectors and economic activities that show the best potential for conflict resilience and, in turn, provide the largest impetus for conflict reduction.

Agricultural development meets this requirement as it would directly improve income for the majority of households in Afghanistan. And as the large volatility in agriculture output demonstrates, the sector still has potential to grow even within the existing parameters of insecurity and violence. The large international interest and successful outcome of the recent tenders for the exploration and production in Amu Darya, Aynak, and Hajigak indicate a similar “conflict resilience” for extractive industries. However, international experience shows that not only does natural resource exploitation have limited job creation potential, but that it also carries large risks, especially for governance, social cohesion, and conflict. With the development of the extractive industries, Afghanistan is now adding another stress factor to its already-vulnerable country context. In fact there is ample empirical evidence that natural resource endowment can be detrimental to the development prospects of a country – even under more favorable circumstances than those found in Afghanistan.

The phenomenon of countries endowed with natural wealth producing low development outcomes is described as the “natural resource curse” which is usually a result of (i) a decline in the competitiveness of other economic sectors due to an appreciation of the real exchange rate as resource revenues enter an economy (the “Dutch disease” effect), (ii) volatility of revenues from the natural resource sector due to exposure to global commodity market swings, (iii) governmental mismanagement of resources, and/or (iv) weak institutions, rent-seeking behavior, and redistributive struggles.

Most critical for Afghanistan is the notion that natural resources can undermine governance and spur conflict by challenging livelihoods, threatening the environment, and raising disputes over rights to control the resources; feelings of relative deprivation arise from the distribution of revenues from resource exploitation or providing financing to insurgent groups. In this sense, the development of extractive industries poses a serious threat to Afghanistan’s weak governance environment.

World Bank: Key Messages

- ✓ Afghanistan's economy remains largely agrarian. Manufacturing contributed very little to economic growth over the past decade with the economy dependent primarily on agricultural output. The service sector is relatively unsophisticated and mainly informal.
- ✓ Structural changes observed over the past ten years have come from reconstruction and recovery activities financed predominantly by donors.
- ✓ Private-sector investment, hampered by persistent and increasing violence, has been very small. Growth over the past decade was driven mainly by demand from public sector activities.
- ✓ There have been some important achievements. However, development challenges are still very large. In spite of strong economic growth, poverty remains pervasive and has not decreased in the past five years.
- ✓ With 400,000-500,000 young people entering the labor market annually, Afghanistan faces an unprecedented demographic challenge. Without drastic changes in the country's security situation to enable greater private investment, labor market pressures will continue to rise, and in turn increase the risk of conflict and violence.
- ✓ Enhancing the impact of growth on poverty and shared prosperity in the post-transition period will require steps to ensure that growth is strong and steady, accompanied by greater job creation.

Meaningful Mining Resources Can Only Come After Transition

SIGAR July 2014 Report to Congress

The United States, the Afghan government, and the international donor community count on development of Afghanistan's natural resources to underpin future economic growth in the face of declining external aid. Although mining has contributed less than 2% to the country's GDP to date, the Afghan government expects to eventually receive significant revenues from large-scale investments in the Aynak (copper) and Hajigak (iron-ore) mines, and from oil and gas fields in the Afghan-Tajik basin.

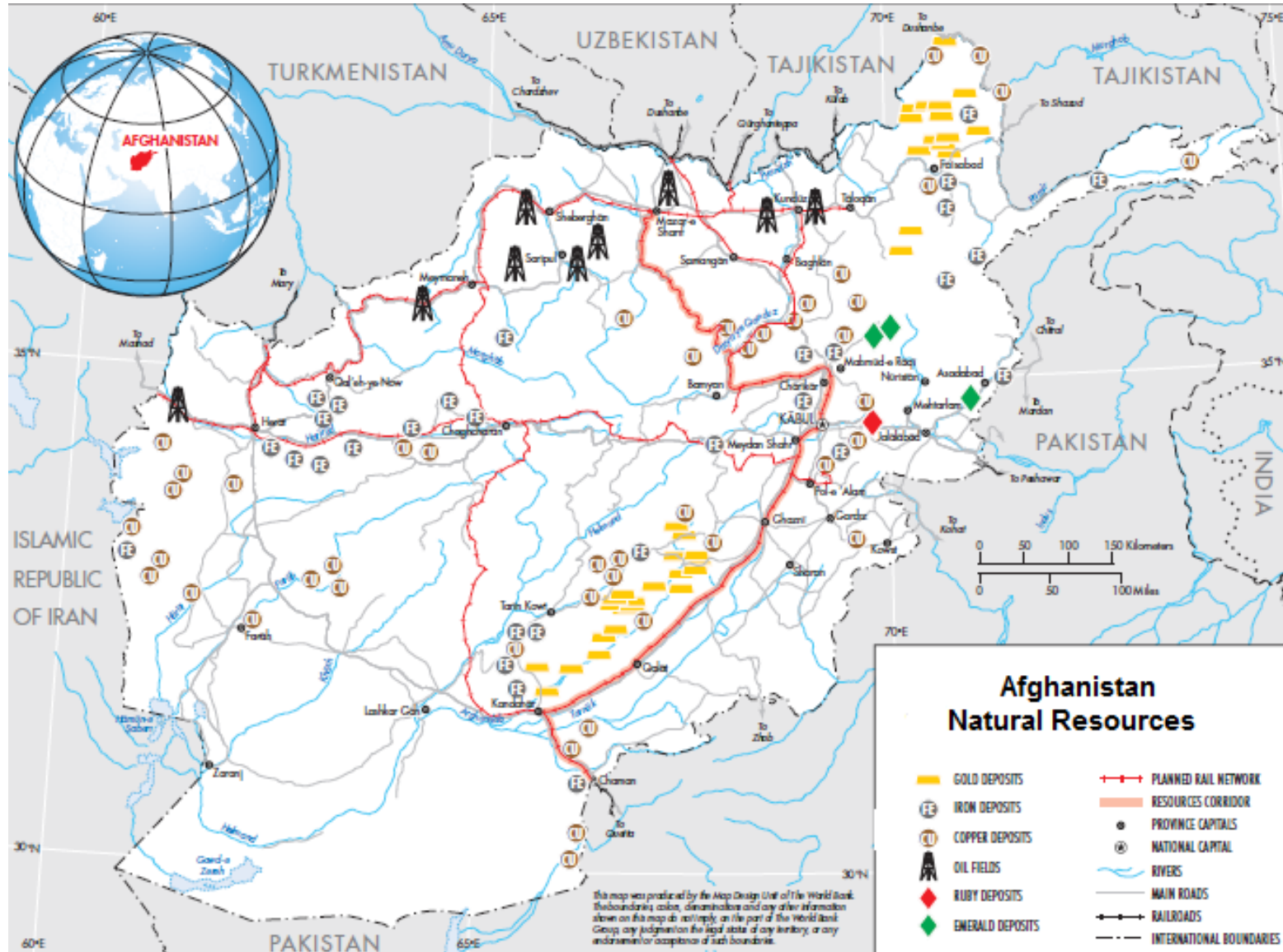
The World Bank estimates annual extractive-sector revenues could reach between \$0.7 billion and \$1.5 billion by 2022–2024.⁶⁰⁸ However, the United States Institute for Peace warned that revenue projections from mineral extraction are often difficult to make with any accuracy, given commodity-price fluctuations and uncertainty whether identified resources can be fully extracted. Moreover, the government will not necessarily receive the full value of Afghanistan's mineral wealth in revenues.

SIGAR has long cautioned that the Afghan government may not be able to earn substantial revenues from Afghanistan's natural resources any time soon because of the considerable infrastructure investment required to develop them, especially given the difficult security environment. In addition, the Revenue Watch Institute gave Afghanistan a failing grade in 2013 for its minimal oversight of the mining-licensing process and of state-owned mining companies. It said lawmakers do not receive, regular reports on licensing decisions, which cannot be appealed, and are denied access to certain major mining contracts deemed confidential.

Allegations that members of the executive and legislative branches benefit from contracts won by relatives cannot be confirmed; Afghanistan's Audit and Control Office does not specifically review resource revenues, and the reports it does prepare are not published. An Integrity Watch Afghanistan report this quarter compared Afghanistan's governance of its mining-industry to best practices in six countries in order to help highlight Afghanistan's opportunities and challenges.

It found that corruption is a major investor concern in Afghanistan, and that mining-sector transparency—in licensing process, tax and royalty data, distribution of funds, and public access to information—along with good governance were essential to sustainable development that benefits the public.

Natural Resources in Afghanistan



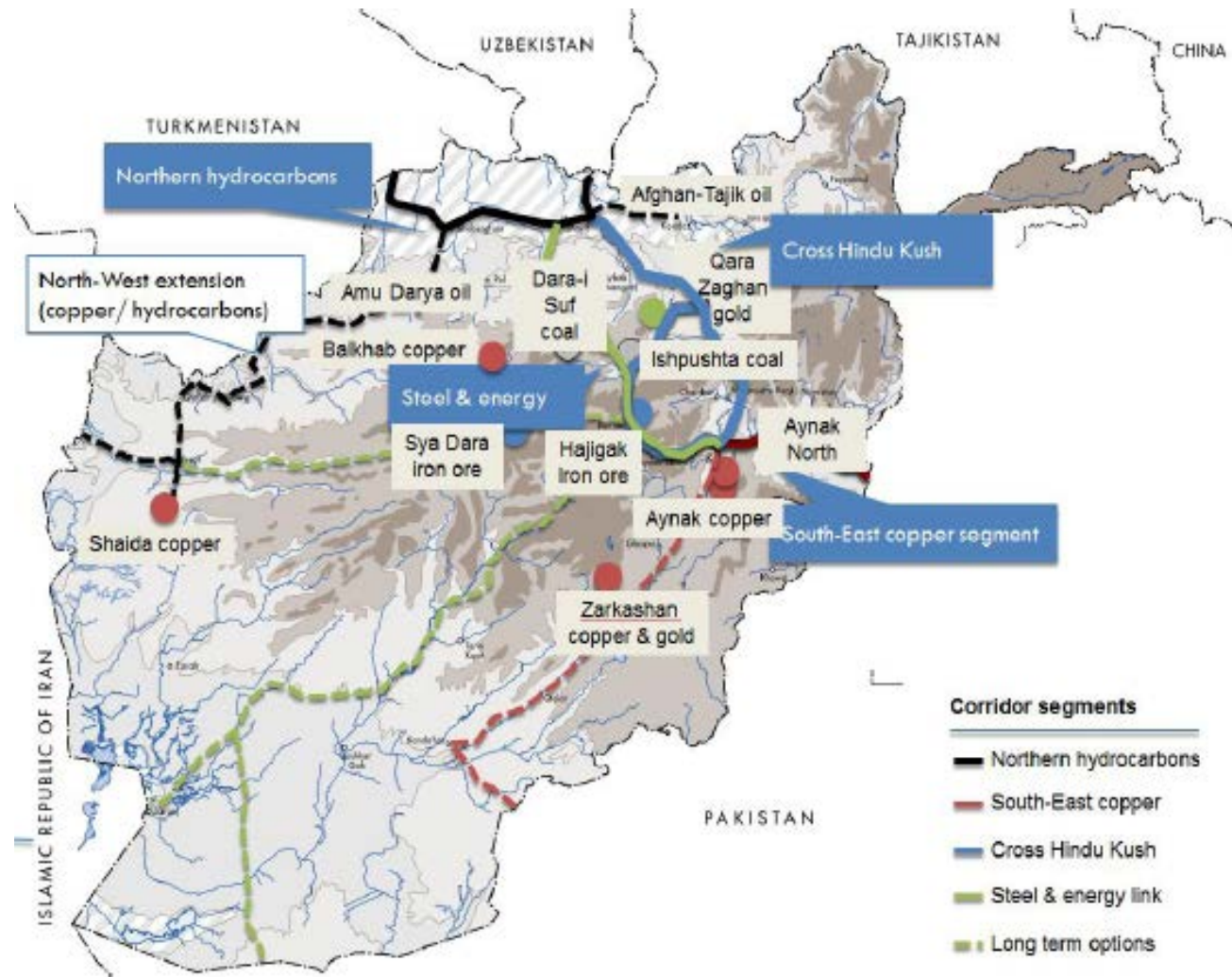
So Much for the New Silk Road: A Collapsing Road System

SIGAR July 2014 Report to Congress

Afghanistan's lack of transportation infrastructure hinders internal commerce, foreign trade, and economic growth. The World Bank said restoring the transportation sector is imperative for economic development. Afghanistan's infrastructure shortcomings particularly constrain the service and agriculture sectors, currently the leading contributors to GDP. They also hold back the mining industry, whose future revenues the Afghan government and international donor community are counting on to offset declining aid. This quarter, the United States continued its efforts to assist Afghanistan in developing ministry capacity, sustaining operations and maintenance, and complying with international Standards.

...While the United States has provided \$2.2 billion cumulatively for road construction and O&M and currently spends about \$5 million annually for O&M efforts, the World Bank said 85% of Afghan roads are in poor shape and a majority cannot be used by motor vehicles. Afghanistan does not currently have sufficient funding and technical capacity to maintain its roads and highways, according to the U.S. Department of Transportation (DOT). Moreover, the lack of a functioning roads authority has significantly affected road infrastructure across Afghanistan. Although the Cabinet and the President gave approval in August 2013 for the Ministry of Public Works (MOPW) to create a roads authority and road fund, the authority has not yet been established

Critical Importance of Uncertain LoC Security and \$7-9 Billion in Added Investment Funds



The Challenge of Economic Stability and Development

Nine Major Challenges that are not War Related

- Past reporting on GDP growth has been dishonest in that it took figures shaped by the agriculture sector, and gains determined by peak rainfall, and implied these were the result of development and aid.
- Transition and cuts in military and aid spending may have a critical impact on both the service and industries sector during transition. The lack of a comparable estimate of the impact of the narcotics sector is analytically absurd.
- In spite of these problems, there seems to have been real progress in human development in spite of gross exaggeration of improvement in medical services, and in students actually in school versus expected years of schooling.
- This still, however, has left Afghanistan far behind other poor Asian state like Bangladesh and Nepal.
- Transition will make the major barriers to doing business in Afghanistan – which ranks only 164th out of 189 countries – far more serious.
- There are no credible estimates of just how dependent Afghanistan has been on outside military spending and aid, but the World Bank and CIA warn that Afghan imports were 17 time exports in 2012.

Economic Challenges

- **Massive current dependence on outside war spending and aid**
- **“New Silk Road” is dead, and “Ring Road” is uncertain; mineral wealth is no miracle solution to economic challenges. Very little real growth other than aid and military spending driven – cyclical impact of rainfall.**
- **Still at war and highly aid dependent.**
- **Unclear who will plan and manage aid and revenues in government. No clear structure for managing aid, revenue flows, outside plans and focus.**
- **The goal of 50% Afghan control ignores the roll back of aid/NGO presence; government ability to use and manage is insufficient.**
- **Failure of UNAMA, uncertain role of World Bank and outside help in development planning, post-Transition economic stability.**
- **Key problems in transport, agriculture, power sector. Rising poverty, acute population pressure, uncertain employment level**
- **Service sector was dependent on flow of outside money. may leave, export capital, collapse.**
- **Major barriers to private development**
- **At least some risk of major recession and collapse of the market-driven sector.**

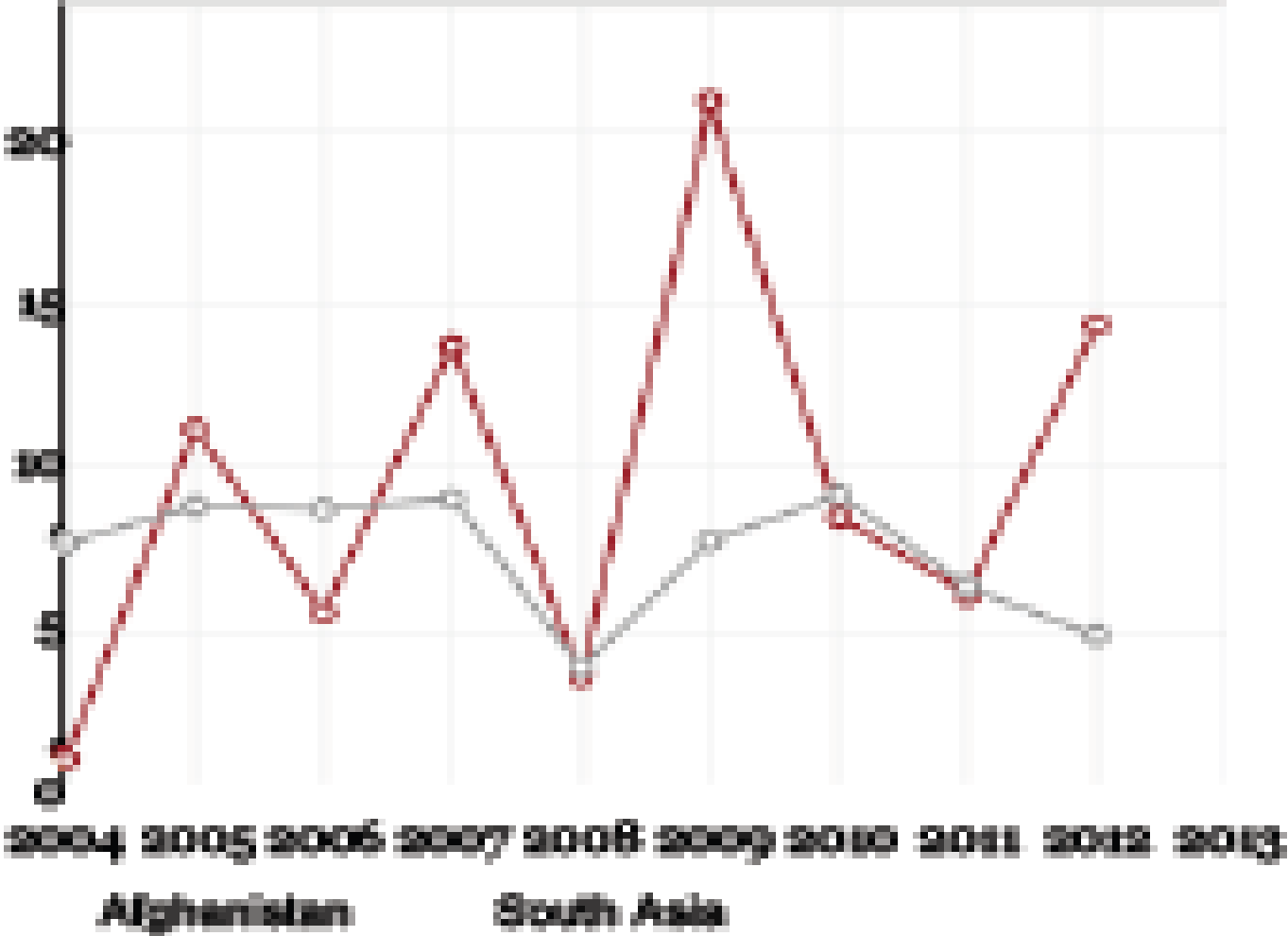
World Bank: Afghanistan's Growth and Development Progress Remains Fragile – March 2014

While initial progress in producing development outcomes was very encouraging in the immediate post-Taliban era, recent trends point to rising insecurity, deteriorating governance, a stagnant poverty rate, and mounting challenges to employment:

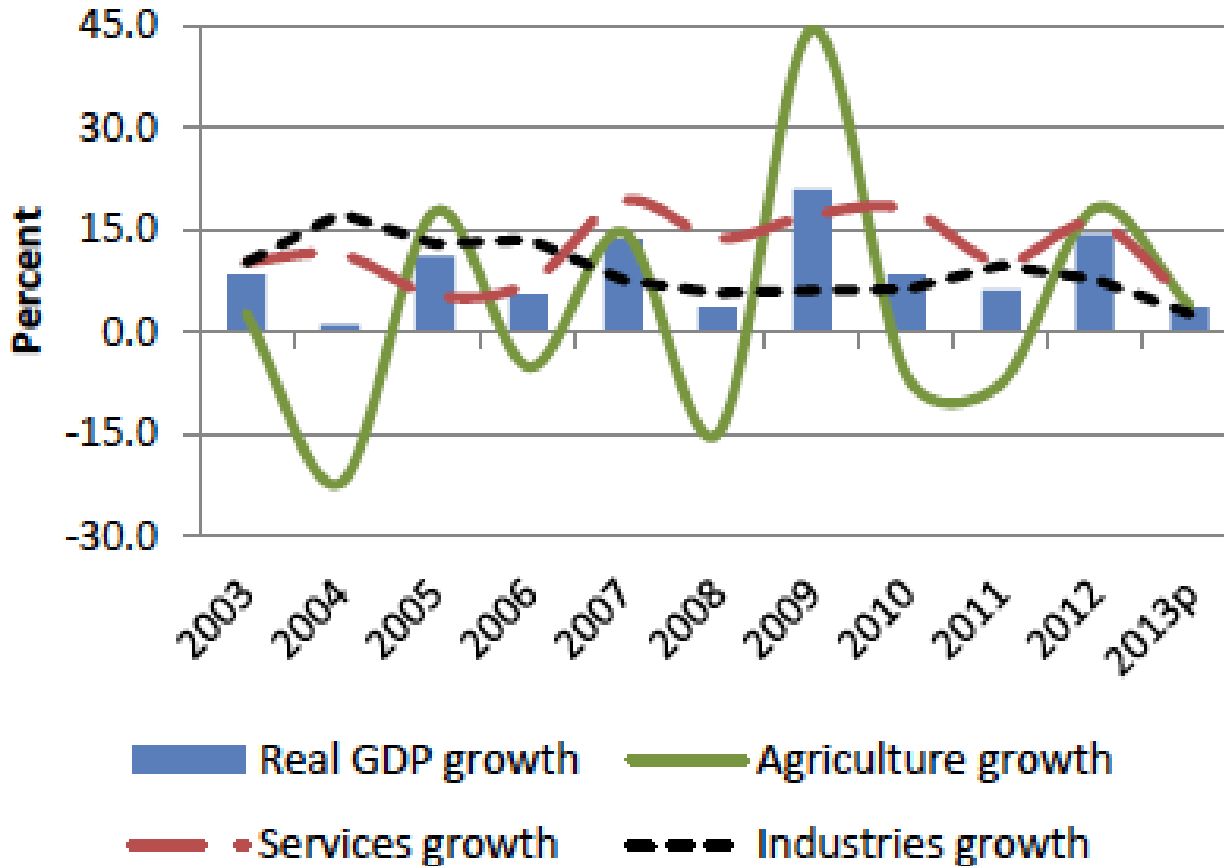
- **The security situation deteriorated after 2009** and the level of violence remains high. Annually, between 2,000 and 3,000 civilians are harmed or killed in violent incidences related to the ongoing insurgency.
- **Economic growth has not been pro-poor.** Poverty levels are high, with 36 percent of the population living below the national poverty line in 2011/12 and more than 50 percent vulnerable to becoming poor. Recent data suggests that overall poverty levels have not declined between 2007 and 2011, despite rapid growth in this period. At the same time, inequality measured by the Gini coefficient appears to have increased somewhat.
- **Unemployment is relatively low**, at 8.2 percent in 2011/12 but underemployment is a serious issue, with 16.8 percent of the employed population working less than 40 hours per week. At the same time, labor participation is low, at 60 percent, due mainly to a very low participation of women in the labor market.
- **The governance deficit relative to other low-income countries is still very large.** Reforms in areas that could have improved rule of law and control of corruption have been very slow. Corruption is pervasive and widespread. In 2012 Transparency International ranked Afghanistan 174th out of 176 countries, joint last with North Korea and Somalia. But most concerning is that the governance situation appears to have regressed, especially in areas such as control of corruption, rule of law and political stability.
- **In addition, the country is facing huge demographic challenges.** The Afghan labor market is characterized by a young and fast-growing workforce. Decades of conflict, international migration and staggeringly high fertility rates make Afghanistan – together with Pakistan and Nepal – one of the youngest countries in South Asia. Between 2010/11 and 2015/16 alone, the labor force is expected to increase by 1.7 million people, and by an additional 4 million by 2025/26. These trends pose significant risks to social cohesion in a situation that is already characterized by strong political, regional, and ethnic tensions.

World Bank Estimate of Afghan GDP Growth 2004-2013

(Annual % Growth in Constant \$US 2010 Dollars)



World Bank Estimate of Afghan GDP Growth Tied to Agricultural Growth and Rainfall

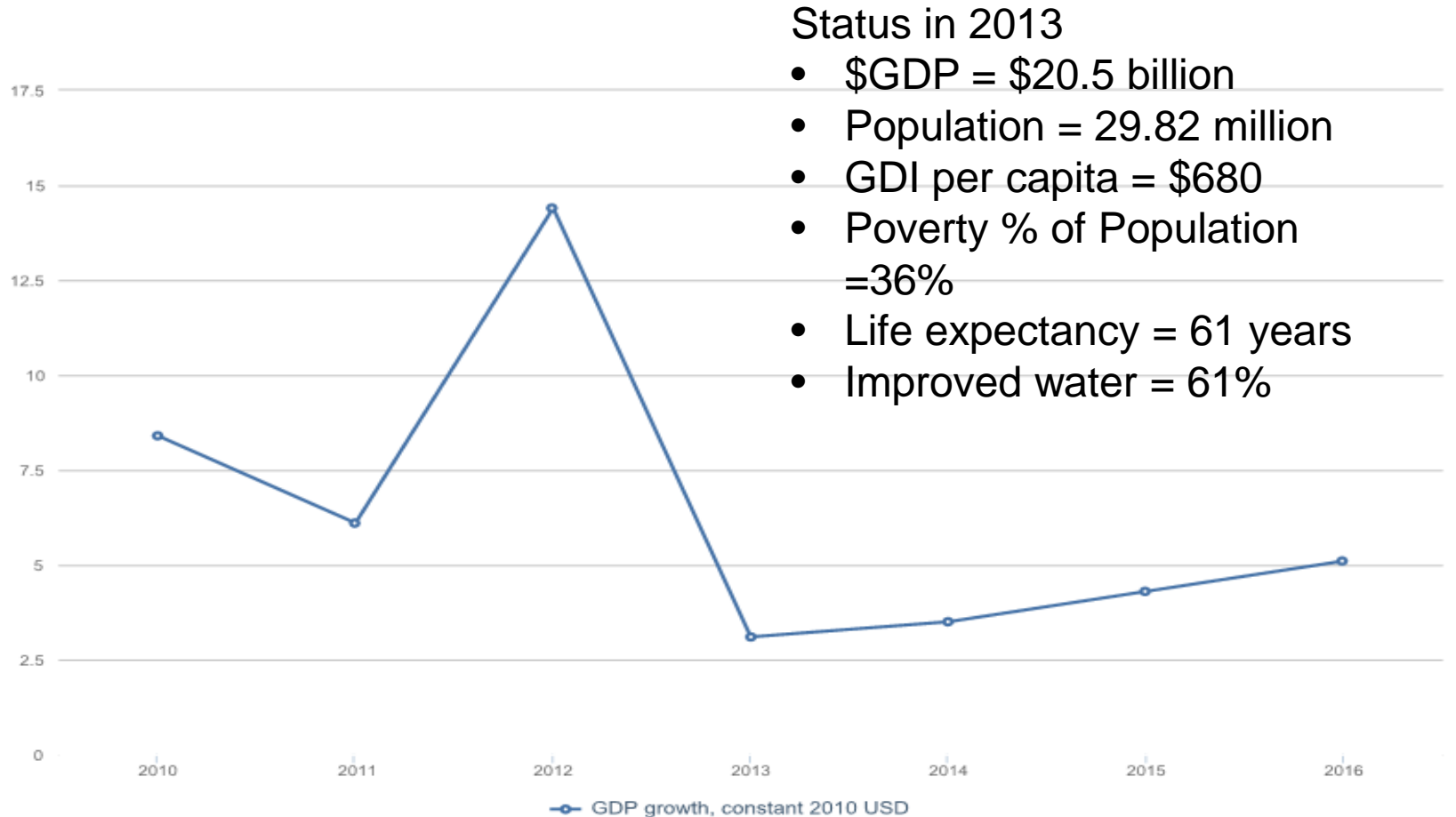


- Real GDP growth (excluding opium production) was 14.4% in 2012, which represented a sharp uptick from 6.1% in 2011.
- This strong performance was in large part due to an exceptional agricultural harvest supported by favorable weather conditions.
- Agriculture accounts for about a quarter of GDP (excluding opium). As a result, economic growth is influenced heavily by the volatile agricultural sector.

Source: CSO

World Bank Estimate of Afghan GDP Growth 2010-2016

(In Constant \$US 2010 Dollars)



Status in 2013

- \$GDP = \$20.5 billion
- Population = 29.82 million
- GDI per capita = \$680
- Poverty % of Population = 36%
- Life expectancy = 61 years
- Improved water = 61%

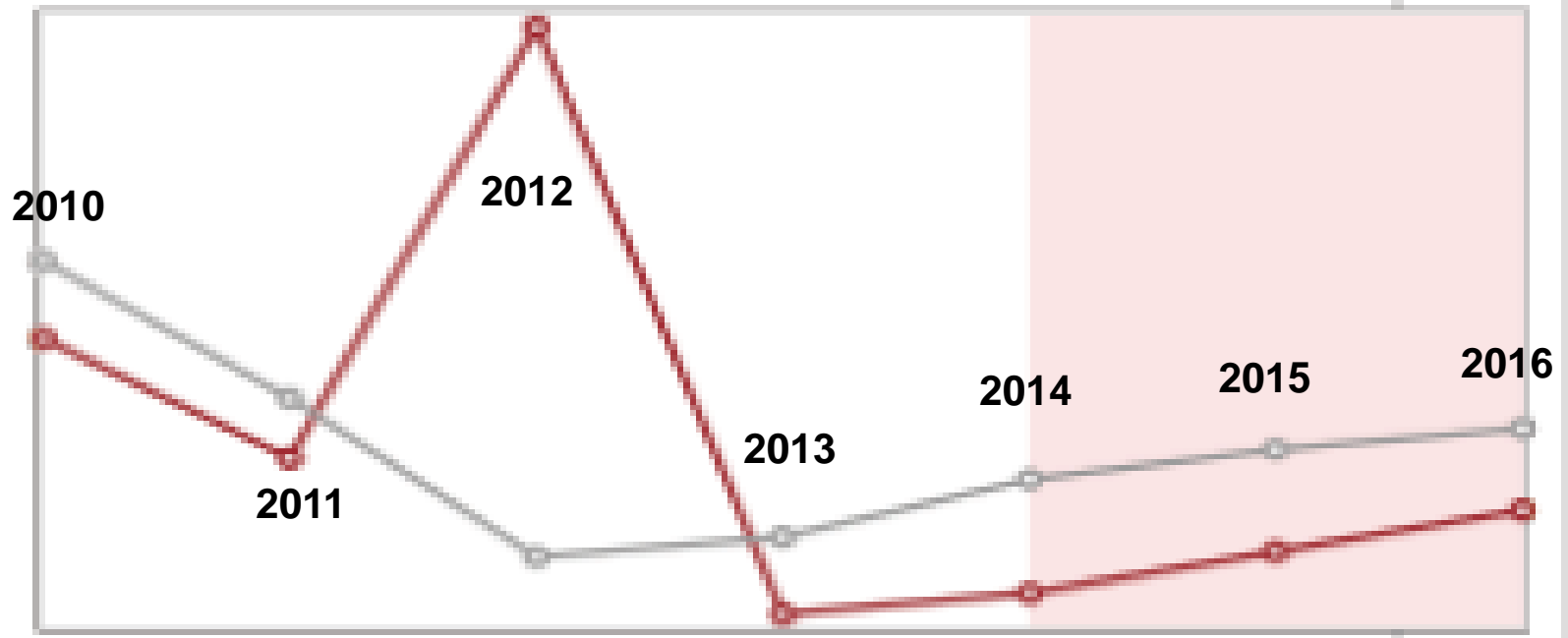
Country : Afghanistan

Created from: Global Economic Prospects

Created on: 05/05/2014

World Bank Estimate of GDP Growth in Comparison with Rest of South Asia

Annual GDP Growth (%)

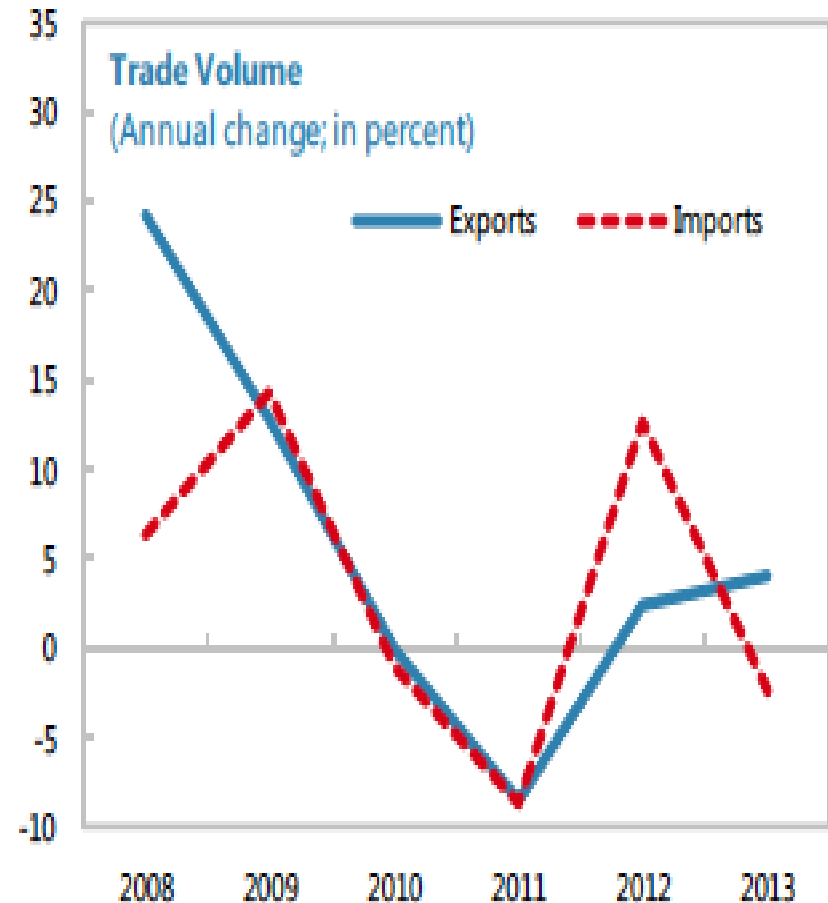
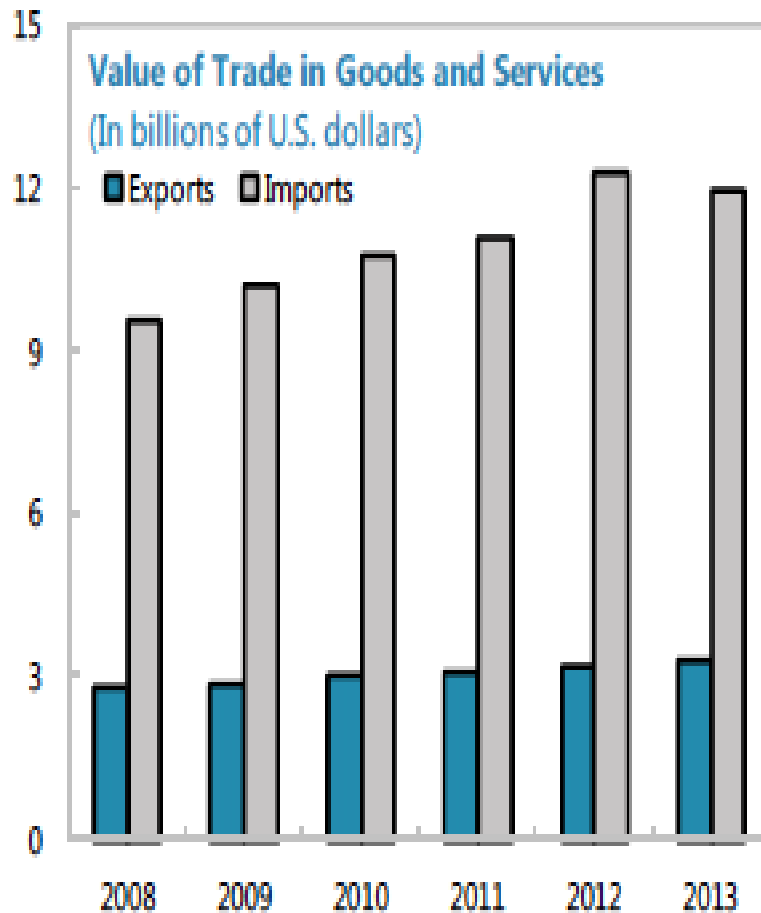


Afghanistan South Asia

Forecast (2014, 2015, 2016)

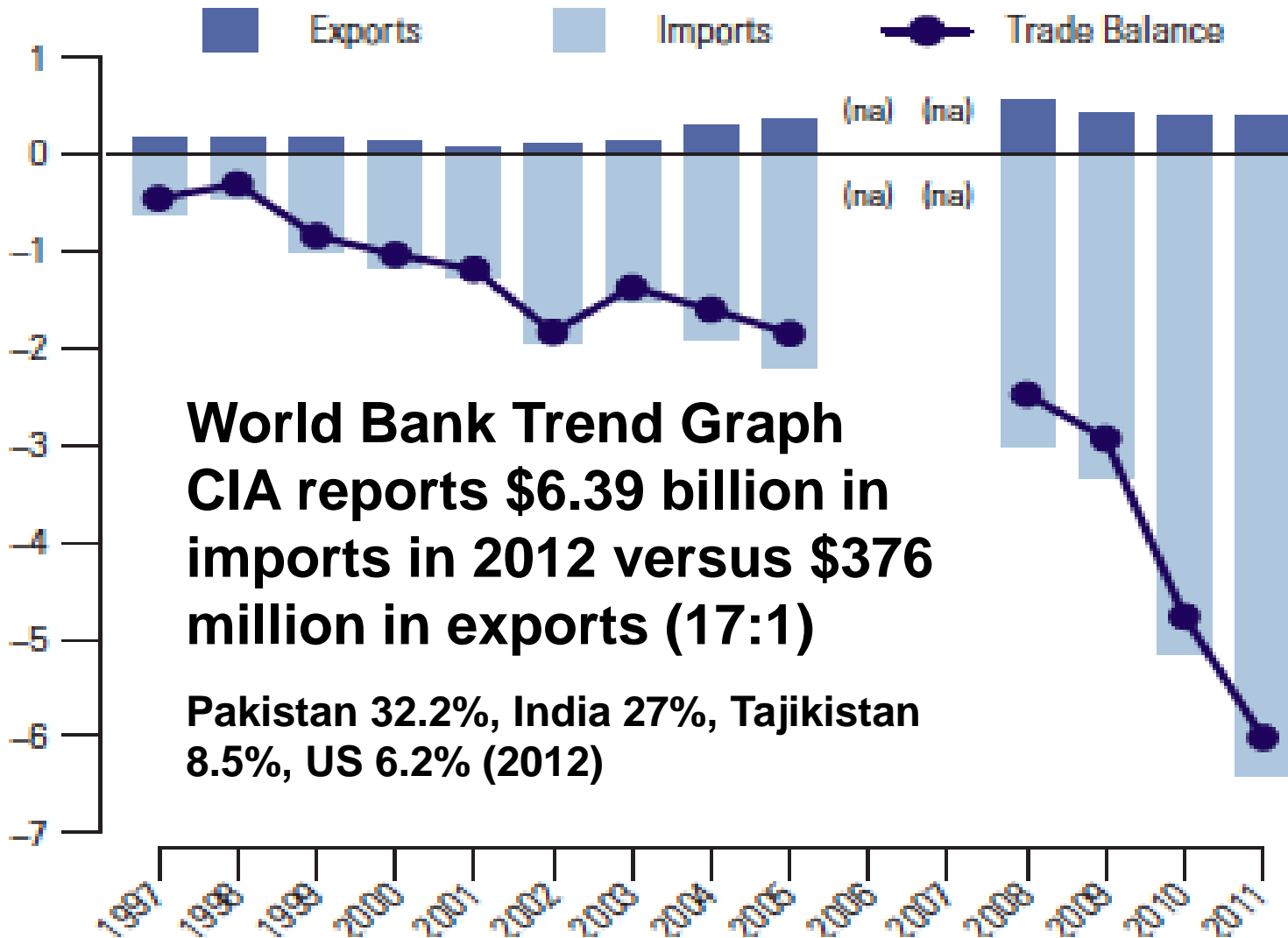
Source: World Bank, <http://data.worldbank.org/country/afghanistan>, April 7, 2014.

IMF Estimate of Imports vs. Exports



Challenge of Post Transition Trade Balance

(Bln US\$ by year)



World Bank Trend Graph
CIA reports \$6.39 billion in imports in 2012 versus \$376 million in exports (17:1)

Pakistan 32.2%, India 27%, Tajikistan 8.5%, US 6.2% (2012)

World Bank Estimate of Major Barriers to Doing Business and Private Development (164th Out of 189 Countries)

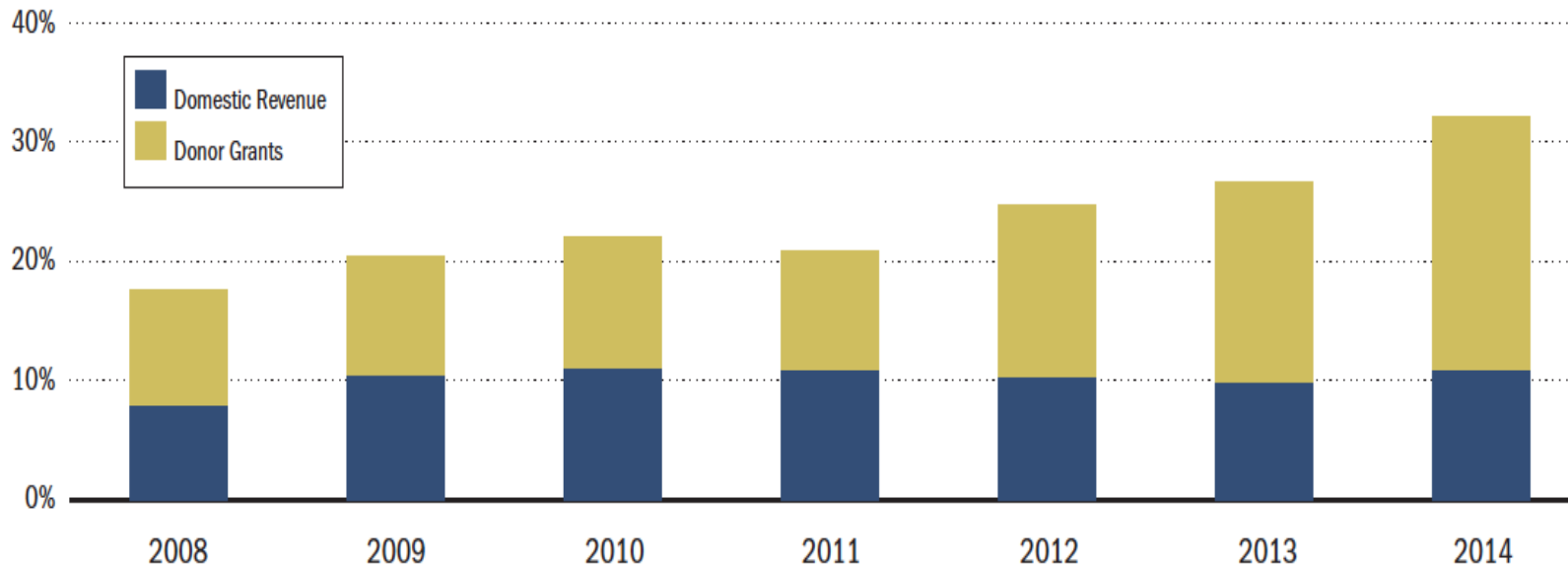
REGION	South Asia	DOING BUSINESS 2014 RANK	DOING BUSINESS 2013 RANK**	CHANGE IN RANK
INCOME CATEGORY	Low income	164	170	↑ 6
POPULATION	29,824,536	DOING BUSINESS 2014 DTP** (% POINTS)	DOING BUSINESS 2013 DTP** (% POINTS)	IMPROVEMENT IN DTP** (% POINTS)
GNI PER CAPITA (US\$)	622	42.45	41.82	↑ 0.63
CITY COVERED	Kabul			

TOPICS	DB 2014 Rank	DB 2013 Rank	Change in Rank
Starting a Business ✓	24	31	+ 7
Dealing with Construction Permits	167	170	+ 3
Getting Electricity	104	111	+ 7
Registering Property	175	176	+ 1
Getting Credit ✓	130	154	+ 24
Protecting Investors	189	189	No change
Paying Taxes	98	95	+ -3
Trading Across Borders	184	181	+ -3
Enforcing Contracts	168	170	+ 2
Resolving Insolvency	115	118	+ 3



Afghan Dependence on Donors vs. Revenues

Domestic Revenue and Donor Grants in Afghan Budgets
As percentage of Afghan GDP

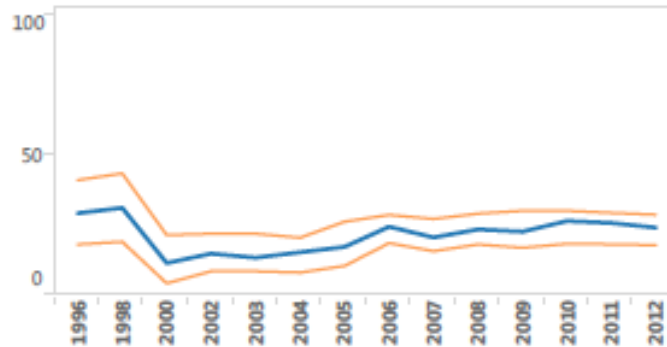


In 2013, the Afghan government's domestic revenue was only about \$2 billion, while its overall budget expenditures were \$5.4 billion. Donor grants made up the difference, funding 63% of the budget. Afghanistan's current budget, approved in January 2014, is about \$7.6 billion, with donor grants expected to fund about \$4.8 billion, or still more than 60% of the total. U.S. FY 2014 appropriations for Afghan reconstruction are \$7.5 billion—by coincidence, almost the same as Afghanistan's current national budget of \$7.6 billion. But most of that U.S. aid, as well as most of other international donors' assistance, goes through programs and funds that are not part of the Afghan budget.

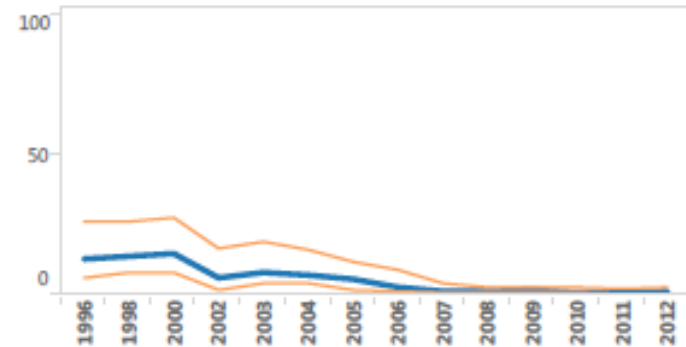
The Threat of Pakistani Instability

Income Group, Region, or Country: Pakistan

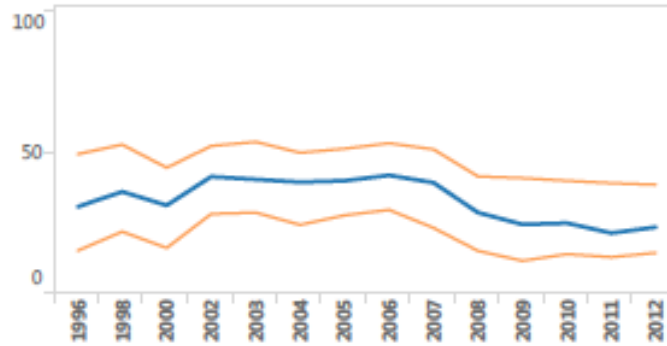
Voice and Accountability



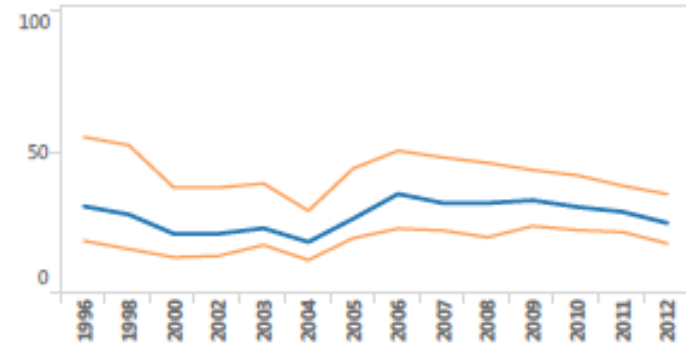
Political Stability and Absence of Violence/Terrorism



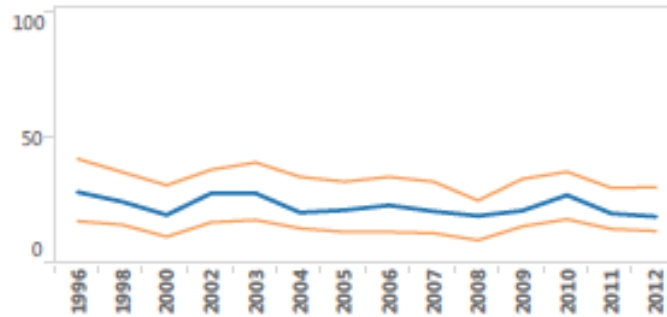
Government Effectiveness



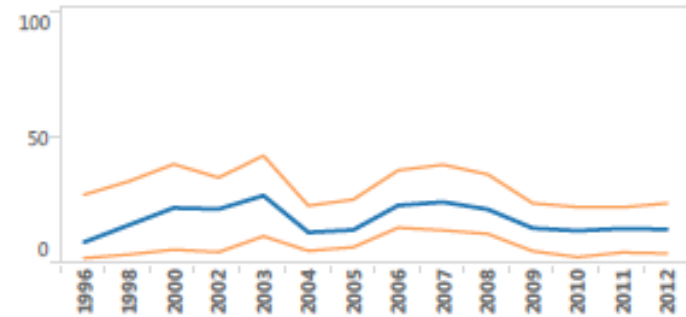
Regulatory Quality



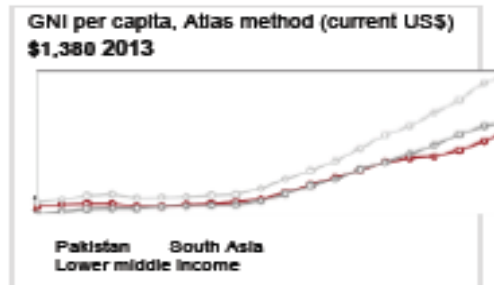
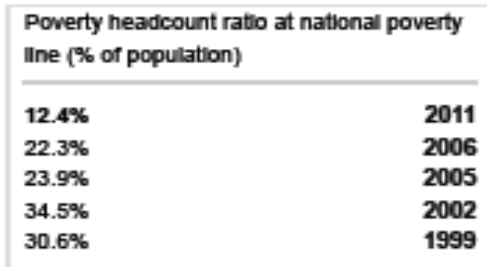
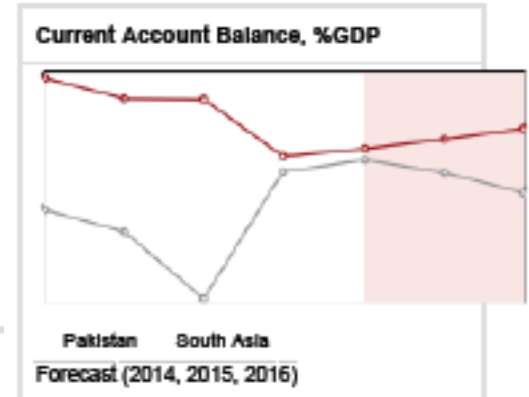
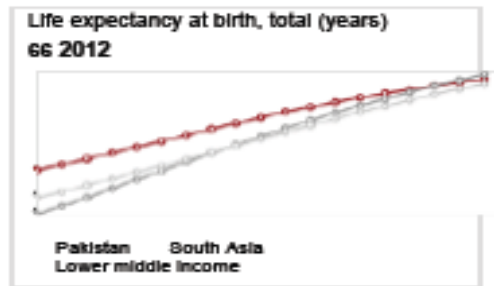
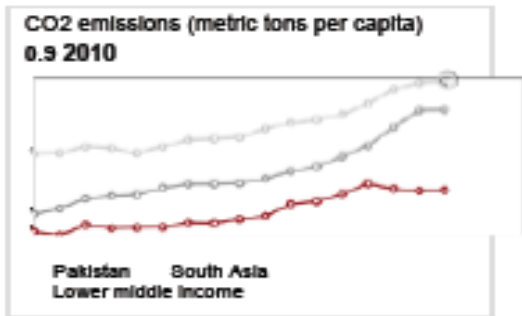
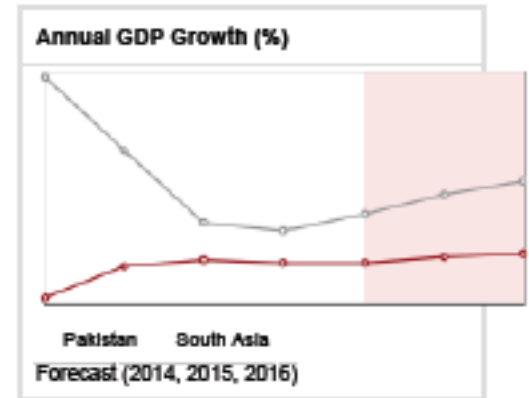
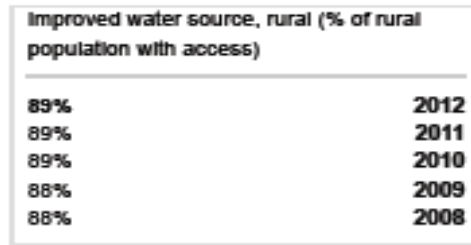
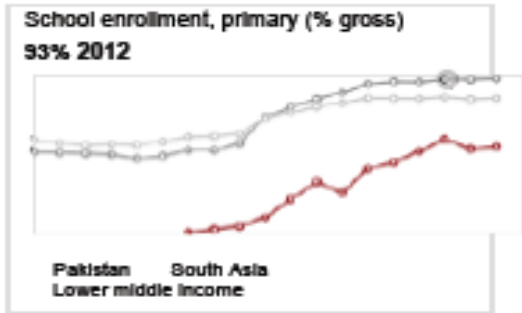
Rule of Law



Control of Corruption

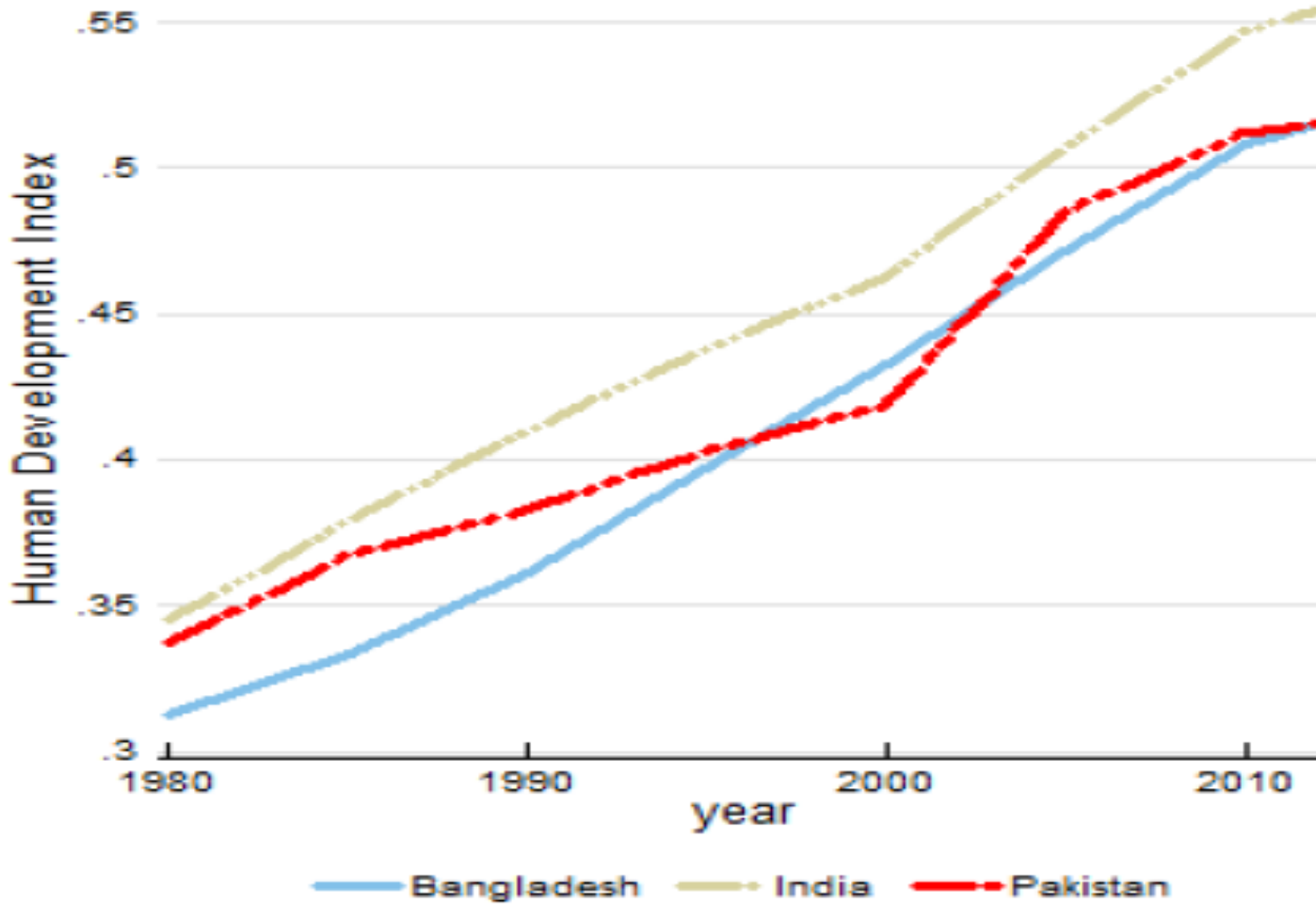


Pakistan



Pakistan

Figure 2: Trends in Pakistan's HDI 1980-2012



Economy Rankings

Economies are ranked on their ease of doing business, from 1 – 189. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2013.

EXPLORE ECONOMY DATA

Ranking Methodology

Explanation of how the [Ease of Doing Business Index](#) (PDF) its sub-indices and the distance to frontier measures are calculated.

SUBNATIONAL = Subnational *Doing Business* ranking data available.

or
 or

PRINT | EXCEL

Economy	Ease of Doing Business Rank ▲	Filtered Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Sri Lanka	85	1	2	4	1	5	3	4	8	1	3	2
Maldives	95	2	3	1	6	6	6	5	4	5	2	1
Nepal	105	3	6	3	3	1	2	6	5	7	4	7
Pakistan SUBNATIONAL	110	4	7	5	7	4	3	2	7	2	6	3
Bangladesh	130	5	4	2	8	8	5	1	2	3	7	5
India SUBNATIONAL	134	6	8	8	5	3	1	2	6	4	8	6
Bhutan	141	7	5	6	1	2	6	7	3	6	1	8
Afghanistan	164	8	1	7	4	7	8	8	1	8	6	4

Pakistan

Pakistan's 2012 HDI of 0.515 is above the average of 0.466 for countries in the low human development group and below the average of 0.558 for countries in South Asia. From South Asia, countries which are close to Pakistan in 2012 HDI rank and population size are India and Bangladesh, which have HDIs ranked 136 and 146 respectively (see table B).

Table B: Pakistan's HDI indicators for 2012 relative to selected countries and groups

	HDI value	HDI rank	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (PPP US\$)
Pakistan	0.515	146	65.7	7.3	4.9	2,566
India	0.554	136	65.8	10.7	4.4	3,285
Bangladesh	0.515	146	69.2	8.1	4.8	1,785
South Asia	0.558	—	66.2	10.2	4.7	3,343
Low HDI	0.466	—	59.1	8.5	4.2	1,633

Pakistan's HDI for 2012 is 0.515. However, when the value is discounted for inequality, the HDI falls to 0.356, a loss of 30.9 percent due to inequality in the distribution of the dimension indices. India and Bangladesh, show losses due to inequality of 29.3 percent and 27.4 percent respectively. The average loss due to inequality for low HDI countries is 33.5 percent and for South Asia it is 29.1 percent.

Table C: Pakistan's IHDI for 2012 relative to selected countries and groups

	IHDI value	Overall Loss (%)	Loss due to inequality in life expectancy at birth (%)	Loss due to inequality in education (%)	Loss due to inequality in income (%)
Pakistan	0.356	30.9	32.3	45.2	11
India	0.392	29.3	27.1	42.4	15.8
Bangladesh	0.374	27.4	23.2	39.4	17.7
South Asia	0.395	29.1	27	42	15.9
Low HDI	0.31	33.5	35.7	38.7	25.6

Pakistan

The most recent survey data available for estimating MPI figures for Pakistan were collected in 2006/2007. In Pakistan 49.4 percent of the population lived in multidimensional poverty (the MPI 'head count') while an additional 11 percent were vulnerable to multiple deprivations. The intensity of deprivation – that is, the average percentage of deprivation experienced by people living in multidimensional poverty – in Pakistan was 53.4 percent. The country's MPI value, which is the share of the population that is multi-dimensionally poor adjusted by the intensity of the deprivations, was 0.264. India and Bangladesh had MPI values of 0.283 and 0.292 respectively.

Table E compares income poverty, measured by the percentage of the population living below PPP US\$1.25 per day, and multidimensional deprivations in Pakistan. It shows that income poverty only tells part of the story. The multidimensional poverty headcount is 28.4 percentage points higher than income poverty. This implies that individuals living above the income poverty line may still suffer deprivations in education, health and other living conditions. Table E also shows the percentage of Pakistan's population that live in severe poverty (deprivation score is 50 percent or more) and that are vulnerable to poverty (deprivation score between 20 and 30 percent). The contributions of deprivations in each dimension to overall poverty complete a comprehensive picture of people living in poverty in Pakistan. Figures for India and Bangladesh are also shown in the table for comparison.

Table E: The most recent MPI figures for Pakistan relative to selected countries

	Survey year	MPI value	Headcount (%)	Intensity of deprivation (%)	Population			Contribution to overall poverty of deprivations in		
					Vulnerable to poverty (%)	In severe poverty (%)	Below income poverty line (%)	Health	Education	Living Standards
Pakistan	2006/2007	0.264	49.4	53.4	11	27.4	21	37.9	30.8	31.2
India	2005/2006	0.283	53.7	52.7	16.4	28.6	32.7	35.7	21.8	42.5
Bangladesh	2007	0.292	57.8	50.4	21.2	26.2	43.3	34.5	18.7	46.8

Looking Towards the Future

Formidable Development Challenges

Poverty and Demography

- Poverty high and persistent (36% of population in 2012)
- About 400,000 new entrants into labor force each year
- Low human development, despite decade of progress

Aid Dependence

- Economic activity, service delivery, security highly reliant on aid

Security and Fragility

- Undermine progress toward job creation and self-reliance
- Continued progress on service delivery critical for social cohesion

Corruption and Governance

- Progress in fighting corruption and building institutions critical

Possible Options; Key Issues for Attention

Restore fiscal stability by creating fiscal space

- Improve revenues, secure additional on-budget assistance, prioritize expenditures to safeguard progress on development outcomes
- Fiscal space even more important with revenues lower than previously projected
- Security spending pressures may require rethinking financing options

Restore confidence and create private sector jobs

- Investor confidence down; jobs needed for 400,000 new workers per year; poverty high and persistent at 36% and 50% considered vulnerable

Strengthen social cohesion and service delivery

- Fragility and conflict remain pervasive; women's labor force participation, literacy, infant mortality remain lacking despite improvements of the past decade

Corruption and Governance

- Fighting corruption and strengthening governance critical across the board

Restoring fiscal stability: Revenues need to rise significantly, but will require bold reforms

- **The centerpiece of restoring fiscal stability is improving revenues**
 - Without a significant increase in revenues, Afghanistan cannot restore fiscal stability, given its considerable expenditure needs
- **Immediate, credible, and bold measures are needed, including for example:**
 - expediting custom action plan implementation, including HR measures, enforcement powers for ACD, improving inspection and post-clearance audit procedures, and countrywide rollout of ASYCUDA valuation module
 - expediting VAT implementation with 10% rate and approving Tax Admin Law
 - conducting effective and risk-based audits to improve taxpayer compliance
- **In the medium term, extractive industries can be a source of considerable revenues, but will require progress on the regulatory and legislative framework**

Tokyo Conference and Development Challenges: The Financing Gap

- **Persistent financing gap:**

Aid will decline as share of GDP, but a persistent financing gap will remain through 2025 (with considerable needs for security, O&M, and improving low levels of development)

- **Economic Growth:**

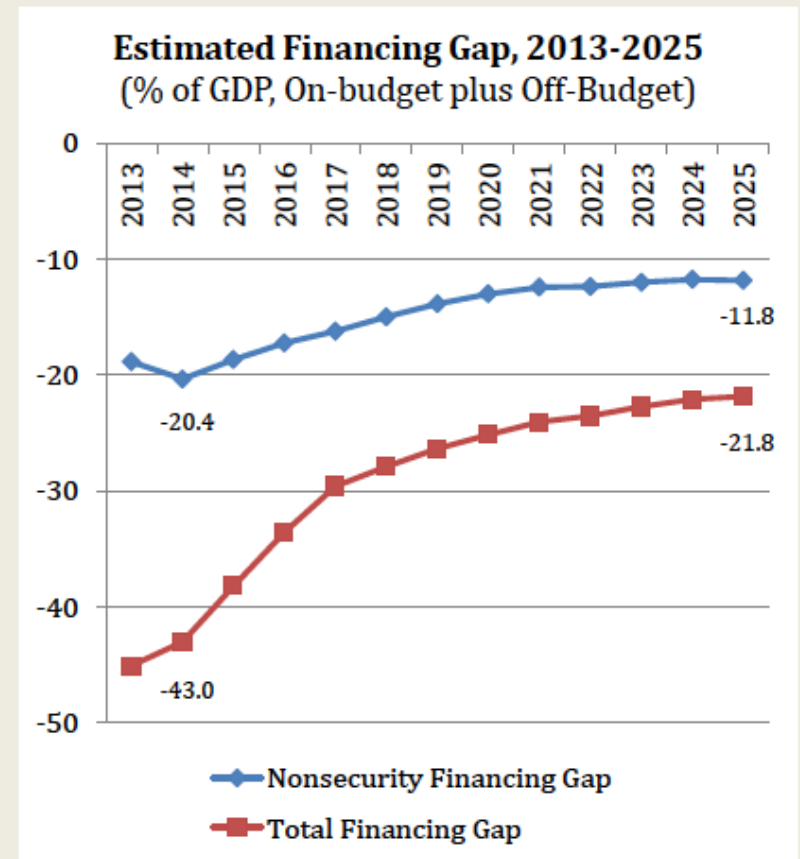
Projected at 5 percent per year given smooth political and security transition

- **International community:**

Recognized need for more on-budget assistance to mitigate impact of declining aid

- **Government:**

Recognized need to improve revenues, prioritize spending, and strengthen absorptive capacity and PFM systems



The World Bank Projects Rising Dependence on Foreign Aid and Grants Through 2018

(Tentative Staff Projections)

	2012	2013	2014	2015	2016	2017	2018
	<i>Actual/Estimates</i>		<i>Tentative Staff Projections</i>				
Real GDP growth	14.4	3.7	1.5	4.0	5.0	5.1	5.3
Nominal GDP (bn US\$)	20.5	20.3	21.0	22.6	24.4	26.4	28.5
CPI inflation (period average)	6.4	7.7	6.1	5.5	5.5	5.0	5.0
Fiscal			<i>Percent of GDP</i>				
Revenues and grants	23.1	23.5	25.1	27.4	28.9	33.1	34.8
Domestic revenues	10.3	9.7	8.7	9.6	10.8	11.6	12.8
Foreign grants	13.0	14.5	16.5	17.8	18.1	21.5	22.0
Total core expenditures	23.8	24.7	27.3	29.7	30.5	34.7	36.7
Recurrent expenditures	17.1	17.6	19.4	22.2	23.4	27.4	29.1
Development expenditures	6.7	7.1	8.0	7.5	7.1	7.3	7.6
Overall balance (incl. grants)	-0.5	-0.5	-2.1	-2.3	-1.6	-1.6	-1.9
External							
Trade balance	-41.9	-40.8	-39.3	-37.7	-35.5	-33.5	-30.3
Current acct balance (incl. grants)	4.2	3.7	4.1	0.3	-1.9	-3.7	-3.5
External debt	6.4	6.2	6.1	5.9	5.8	5.6	5.5

Source: Staff estimates, tentative and subject to revision

Going forward: Restore Confidence and Support Development

Restore fiscal stability through improved revenues, securing adequate on-budget grant assistance, and prioritizing spending

Restore investor confidence and create private sector jobs by addressing financial sector, land, and business climate impediments and by unlocking the potential of agriculture, services, and extractive industries

Strengthen social cohesion and service delivery by promoting social inclusion, targeted rural and urban programs, and improving efficiency of service delivery

- ✓ Prioritize regional integration to establish Afghanistan's role as a regional economic partner in trade and transit, energy and water, and labor migration

High level commitment to tackle corruption, strengthen governance, and safeguard public financial management is critical across the board

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SIGAR on Rising Violence Levels: 2013-2014

NUMBER OF SECURITY INCIDENTS

Time Period	Number of Incidents	Number of Days	Average Number of Incidents per Day
November 16, 2013–February 15, 2014	4,649	92	50.5
March 1–May 31, 2014	5,864	92	63.7
June 1–August 15, 2014	5,456	76	71.8
Total	15,969	260	61.4

Source: UN Security Council, *The Situation in Afghanistan and its implications for international peace and security*, 9/9/2014, p. 6, 6/18/2014, p. 5, and 3/7/2014, p. 5.

According to the UN Secretary-General, the conflict in Afghanistan continues to intensify. In his September 9 report to the UN Security Council, the Secretary-General said insurgent groups, international terrorists, and associated networks took advantage of the protracted electoral crisis and political uncertainty to mount major assaults around the country... the number of security incidents continued to increase, with this period reflecting the second-highest level of violence, after 2011, since the fall of the Taliban.

The majority of the security incidents once again occurred in the south, south-east, and east. 1 The UN recorded 211 assassinations and 30 failed assassination attempts, an increase of 7.1% for both over the same period in 2013. Armed clashes (47.3%) and improvised explosive device (IED) events (29.1%) accounted for 76.4% of all security incidents.

The UN reported that some insurgents attempted not only to capture but also to hold territory through the use of “swarm attacks” consisting of several hundred attackers attempting to overwhelm district administrative centers and security checkpoints.

Afghan and American commanders say the ANSF is holding well near main cities, but are being tested as more remote districts come under heavy attacks. Afghan interior minister Mohammad Omar Daudzai testified to the Afghan parliament that the past six months had been the deadliest of the 13-year-long conflict, with 1,368 ANP personnel killed and 2,370 wounded since the beginning of the current Afghan year. Police casualties have generally run at twice the level of Afghan Army casualties through much of the war