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Afghanistan's Civil Transition Challenges: Governance and Development Indicators

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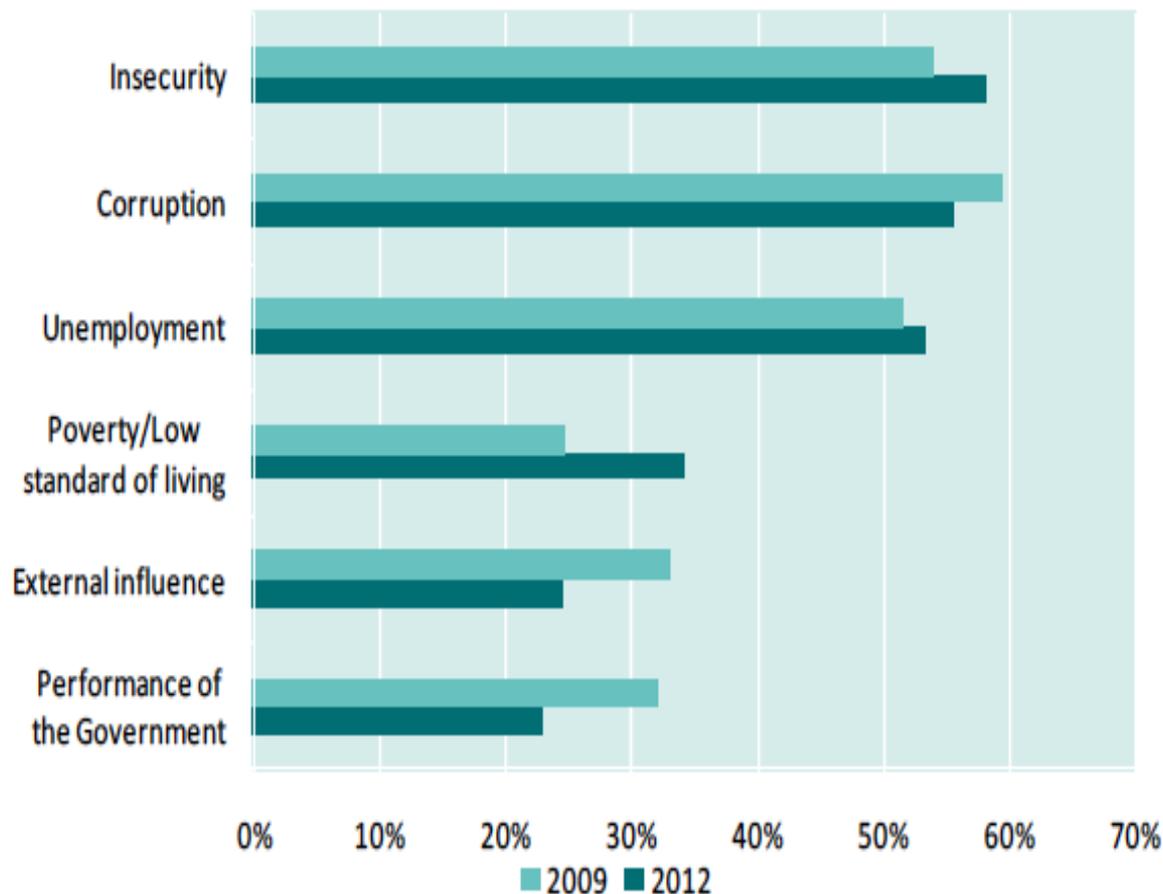
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in Strategy

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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.

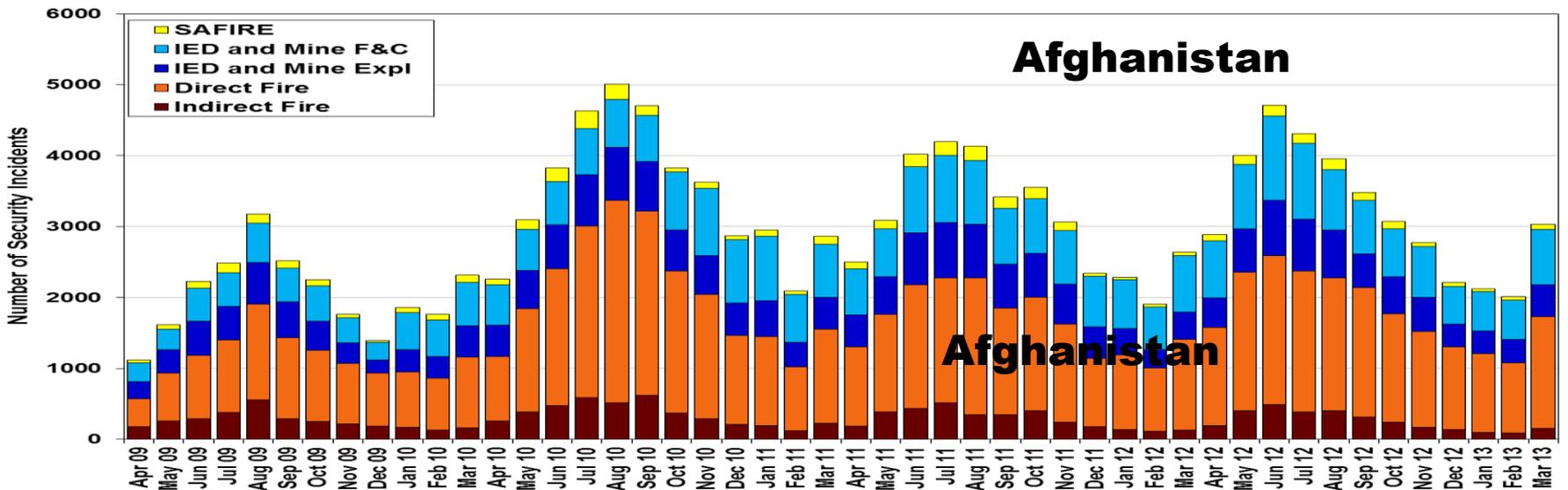
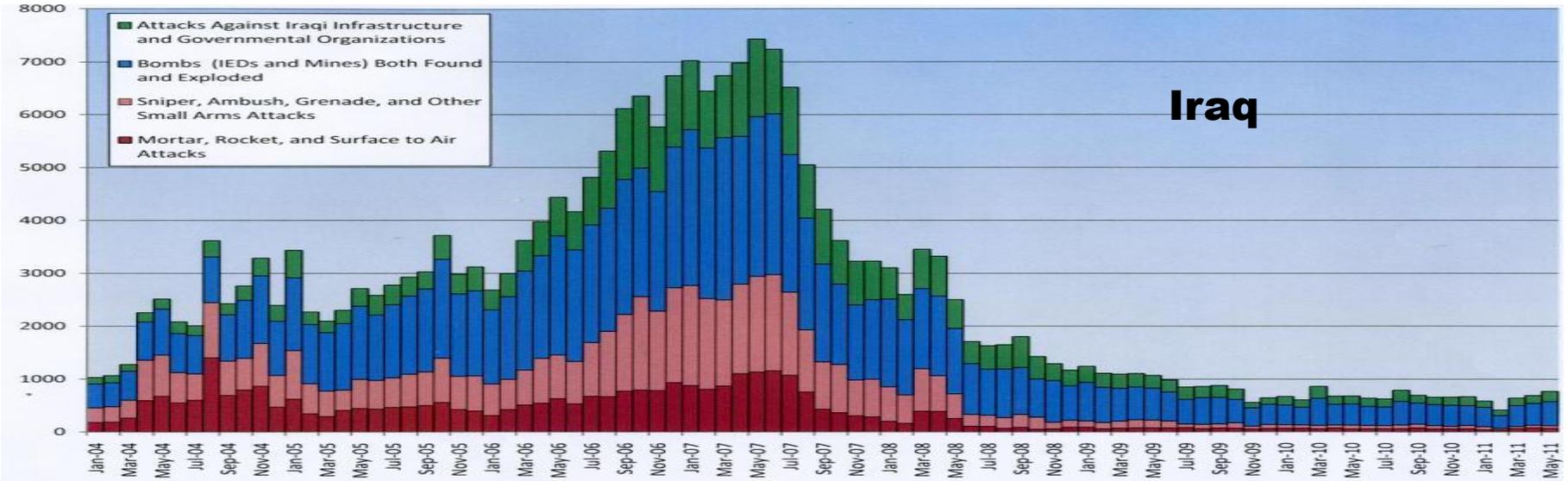
In general, there has been no major change in the level of corruption observed in the judiciary, customs service and local authorities, which remained high in 2012, as in 2009.

Facing a Continuing War Zone Without Eliminating Pakistani Sanctuaries or Major Progress in Security

The Uncertain Structure of Security

- **Conflicting polls and US intel estimates of on Taliban support and influence**
- **NATO/ISAF has stopped all meaningful reporting on security trends after EIA fiasco.**
- **No maps or assessments of insurgent control or influence versus limited mapping of 10 worst areas of tactical encounters.**
- **No maps or assessments of areas of effective government control and support and areas where government is not present or lacks support.**
- **Shift from direct clashes to high profile and political attacks makes it impossible to assess situation using past metrics, but HPAs sharply up.**
- **No reason for insurgents to engage NATO/ISAF or ANSF on unfavorable terms before combat NATO/ISAF forces are gone.**

Failed Surge in Afghanistan vs. Surge in Iraq



Uncertain Improvement in 2012-2014

April 1 – September 15, 2012 vs. April 1 – Sept 15, 2013.

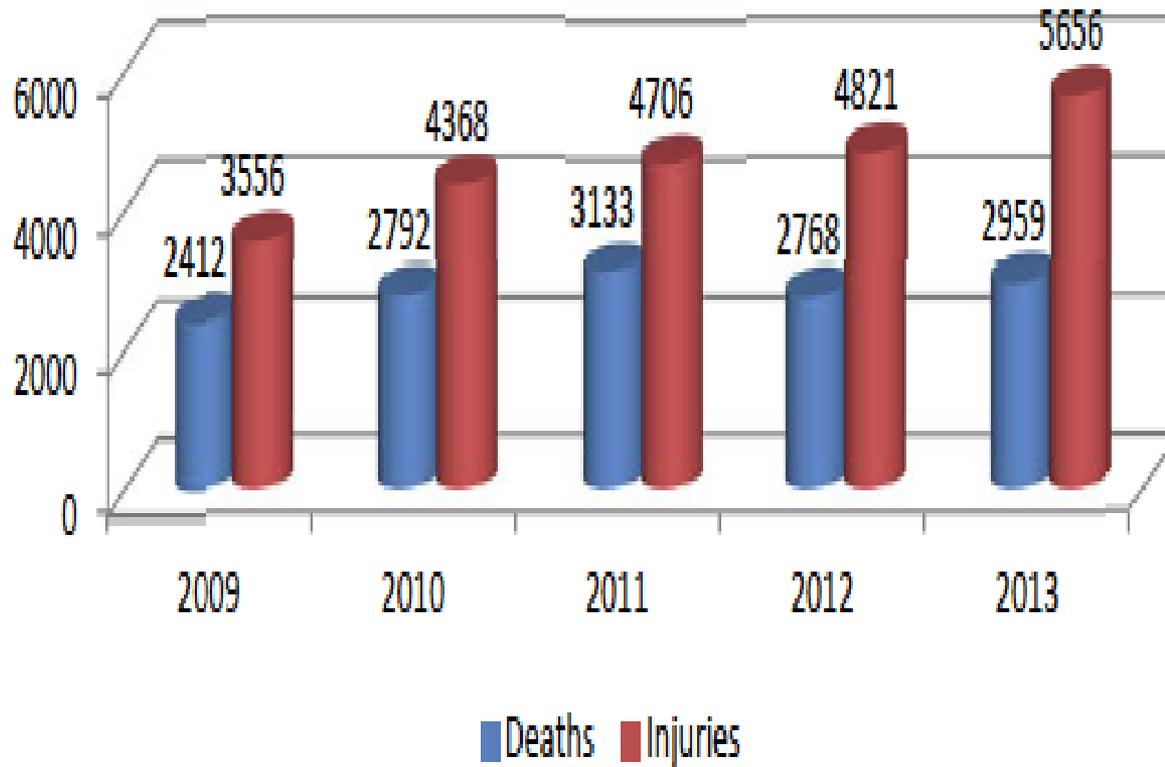
Metric	EIAs	HPA	Direct Fire	IED Events	IED/Mine Explosions	Complex/ Coordinated Attack	IDF
% YoY Change	-6%	1%	-1%	-22%	-5%	5%	-18%

October 1, 2012 – March 13, 2013 vs. October 1, 2013 – March 13, 2014.

Metric	EIA	HPA	Direct Fire	IED Events	IED/Mine Explosions	Complex/ Coordinated Attack	IDF
% YoY Change	-2%	43%	5%	-24%	-11%	-8%	-15%

“Surge” Did Not Affect Rise in Civilian Killed and Wounded Through End 2013

UN Estimate of Civilian deaths and Injuries: January to December 2009-2013



UNAMA documented 8,615 civilian casualties (2,959 civilian deaths and 5,656 injured) in 2013, marking a seven per cent increase in deaths and a 17 per cent increase in injuries compared to 2012.

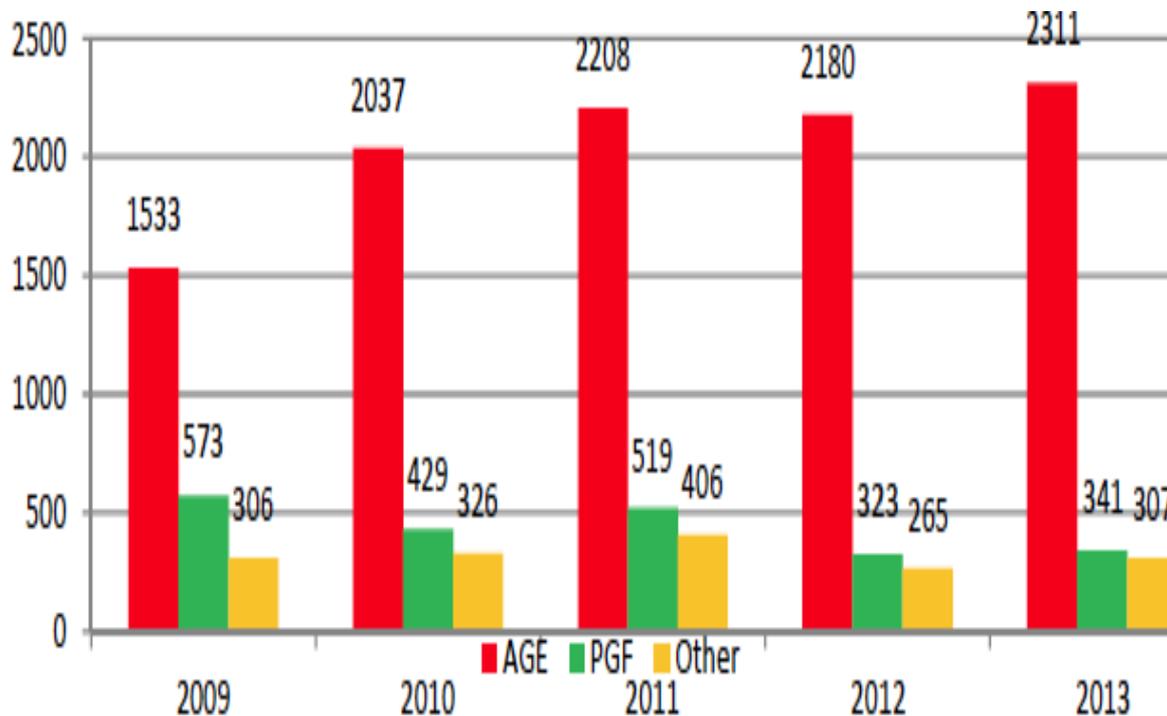
The rise in civilians killed and injured in Afghanistan’s armed conflict in 2013 reverses the decline reported in 2012 and is similar to record high numbers of civilian casualties documented in 2011. Since 2009, the armed conflict has claimed the lives of 14, 064 Afghan civilians and injured thousands more.

...while improvised explosive devices used by Anti-Government Elements¹ remained the biggest killer of civilians in 2013, increased ground engagements between Pro-Government Forces and Anti-Government Elements emerged as the number-two cause of civilian casualties with rising numbers of Afghan civilians killed and injured in cross-fire. Both factors drove the escalation of civilian casualties in 2013.

Source: UNAMA, CIVILIAN CASUALTIES IN AFGHAN CONFLICT RISE BY 14 PER CENT IN 2013, http://unama.unmissions.org/Portals/UNAMA/human%20rights/Feb_8_2014_PoC-report_2013-PR-ENG-Inf.pdf, February 8, 2014, pp. 12.

Taliban and Insurgent Killing Power Rising

UN Estimate of Civilian deaths by Parties to the Conflict: January to December 2009-2013



UNAMA's report found that Anti-Government Elements continued to deliberately target civilians across the country and carried out attacks without regard for civilian life, causing 6,374 civilian casualties (2,311 civilian deaths and 4,063 injured), up four per cent from 2012.

Indiscriminate use of IEDs by Anti-Government Elements increased in 2013 and remained the leading cause of civilian deaths and injuries. UNAMA recorded 2,890 civilian casualties (962 civilian deaths and 1,928 injured) from IEDs, up 14 per cent from 2012.

Within civilian casualties from IEDs, UNAMA noted an 84 per cent rise in civilian deaths and injuries from radio-controlled IEDs and a 39 per cent decrease in civilian casualties from indiscriminate victim-activated pressure-plate IEDs. Anti-Government Elements continued to detonate IEDs in public areas used by civilians such as roads, markets, Government offices, bazaars, in and around schools, and bus stations

Suicide and complex attacks caused 1,236 civilian casualties (255 killed and 981 injured) in 73 incidents in 2013. While the number of attacks was similar to 2012, an 18 per cent decrease in civilian casualties from

Source: UNAMA, CIVILIAN CASUALTIES IN AFGHAN CONFLICT RISE BY 14 PER CENT IN 2013, http://unama.unmissions.org/Portals/UNAMA/human%20rights/Feb_8_2014_PoC-report_2013-PR-ENG-final.pdf, February 8, 2014, pp. 1-2, 7

**Progress in some Areas of
Human Development, *But*
Progress is Often Grossly
Exaggerated and Lag Other
Poorest Countries in the
Region**

The Uncertain State of Progress

- UN Human development data reflect real progress, but also serious limits to that progress, and input data are very uncertain.
- 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.
- 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.

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 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/usaidd-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>.

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

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.

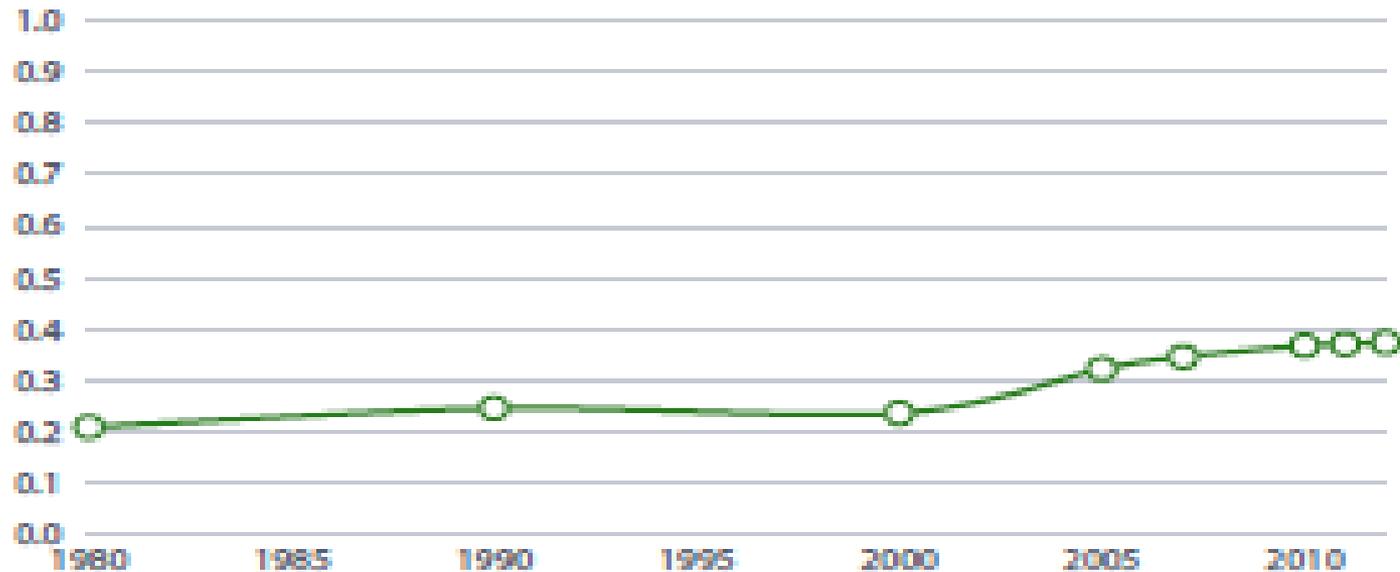
The worst impact of transition will be on the fiscal situation with a projected financing gap of 25% of GDP by 2021/22. Even assuming ambitious targets for robust growth in domestic revenue are met (with a projected rise from 10% of GDP to more than 17% of GDP a decade from now), there will be an unmanageable 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

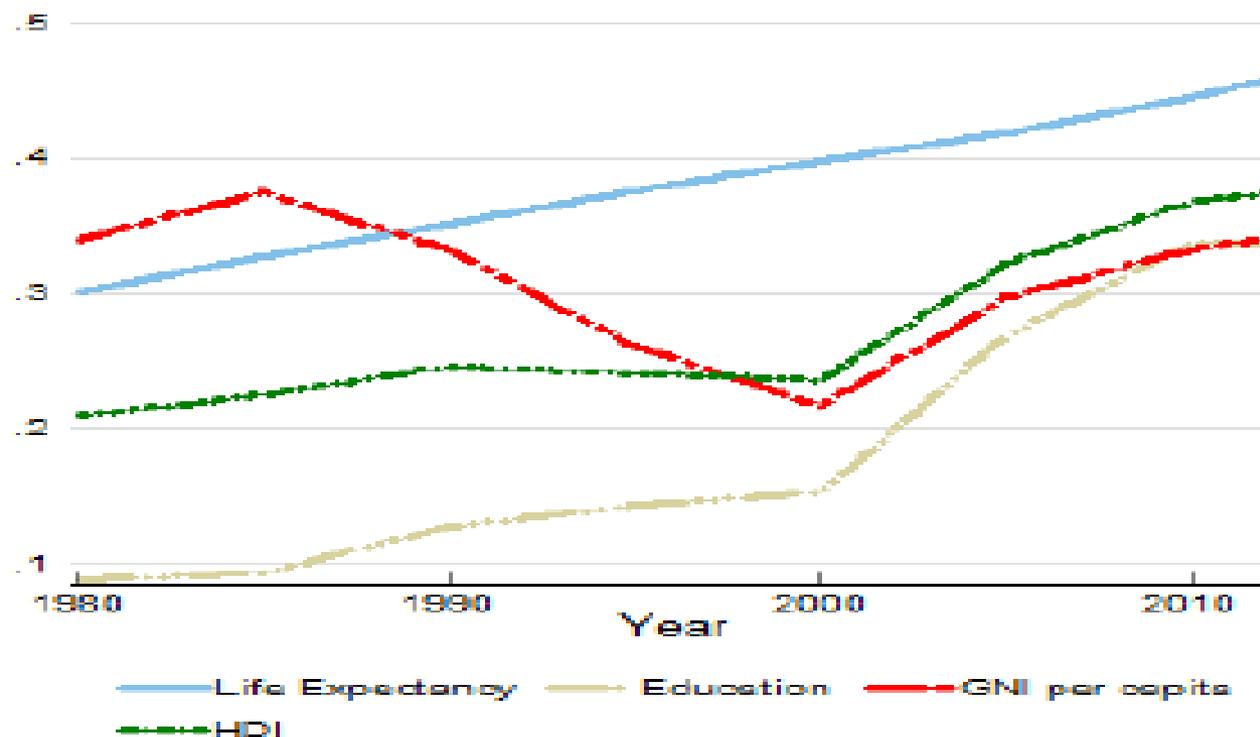
(175th in the World in 2013)

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	

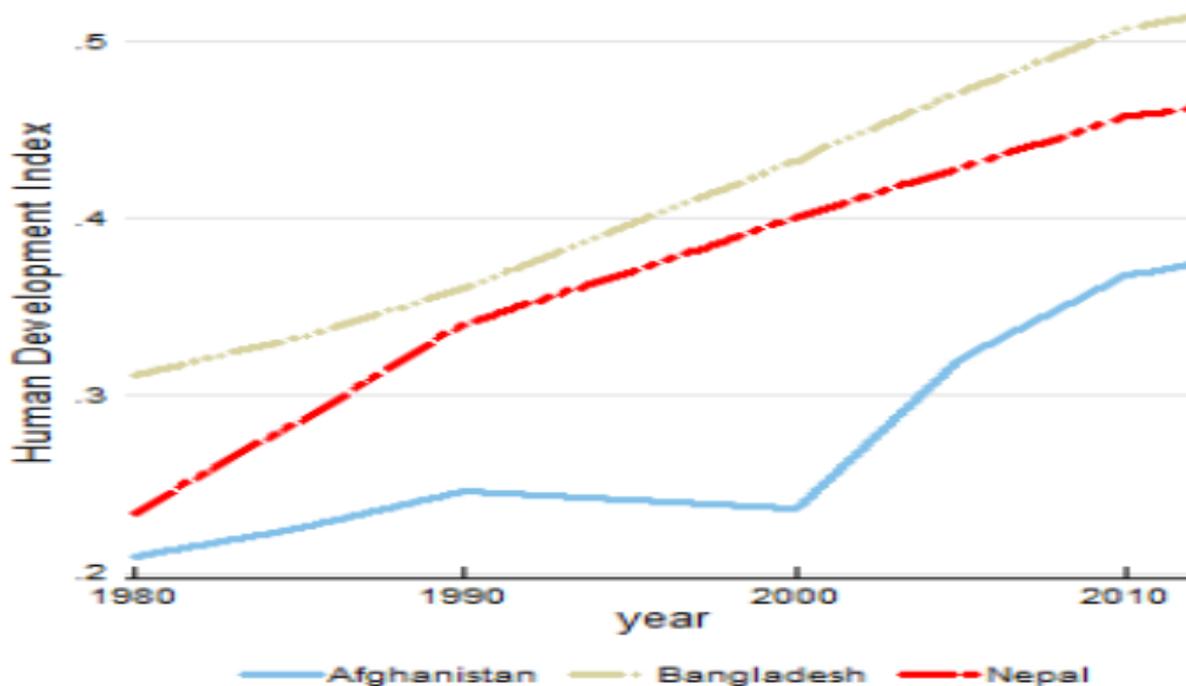
UN Human Development Progress by Category: 1980-2012



	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

UN Human Development Progress Lags by Comparison With Other Poor States: 1980-2012

(175th out of 187 Rated Countries)

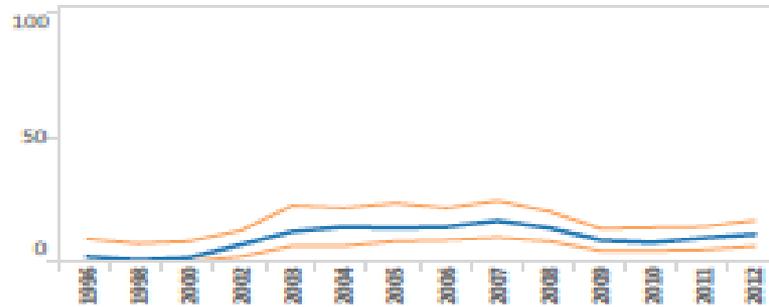


	HDI value	HDI rank	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (PPP US\$)
Afghanistan	0.374	175	49.1	8.1	3.1	1,000
Nepal	0.463	157	69.1	8.9	3.2	1,137
Pakistan	0.515	146	65.7	7.3	4.9	2,566
South Asia	0.558	—	66.2	10.2	4.7	3,343
Low HDI	0.466	—	59.1	8.5	4.2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

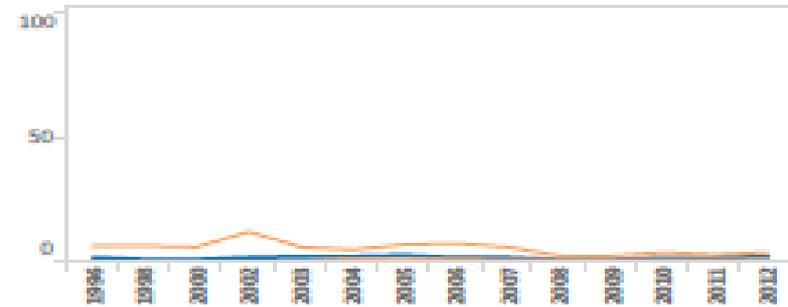
The Challenge of Governance and Corruption

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

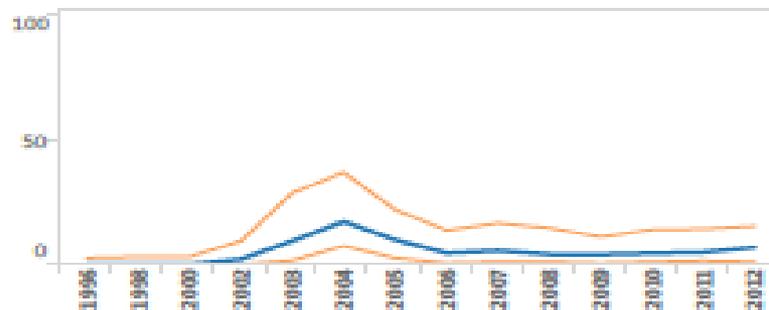
Voice and Accountability



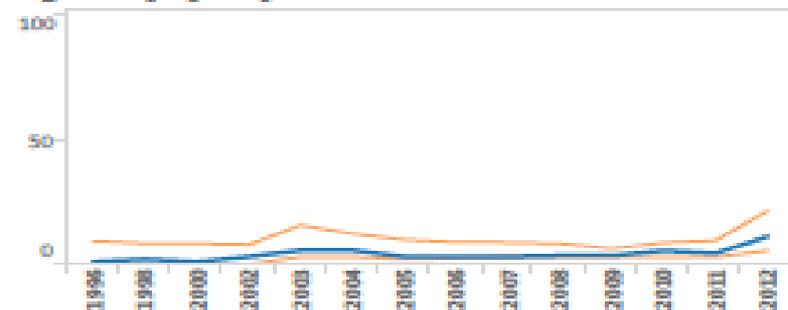
Political Stability and Absence of Violence/Terrorism



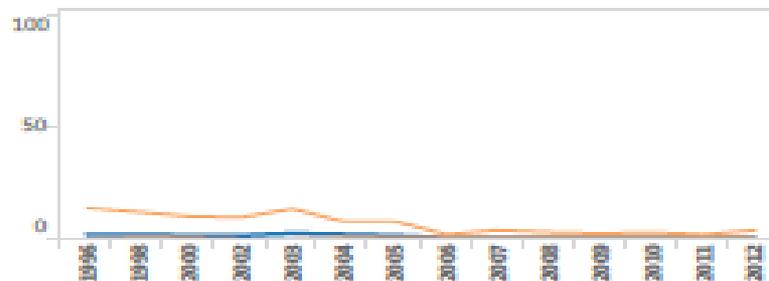
Government Effectiveness



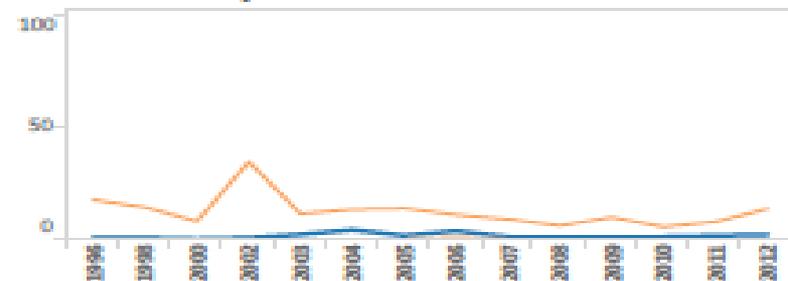
Regulatory Quality



Rule of Law



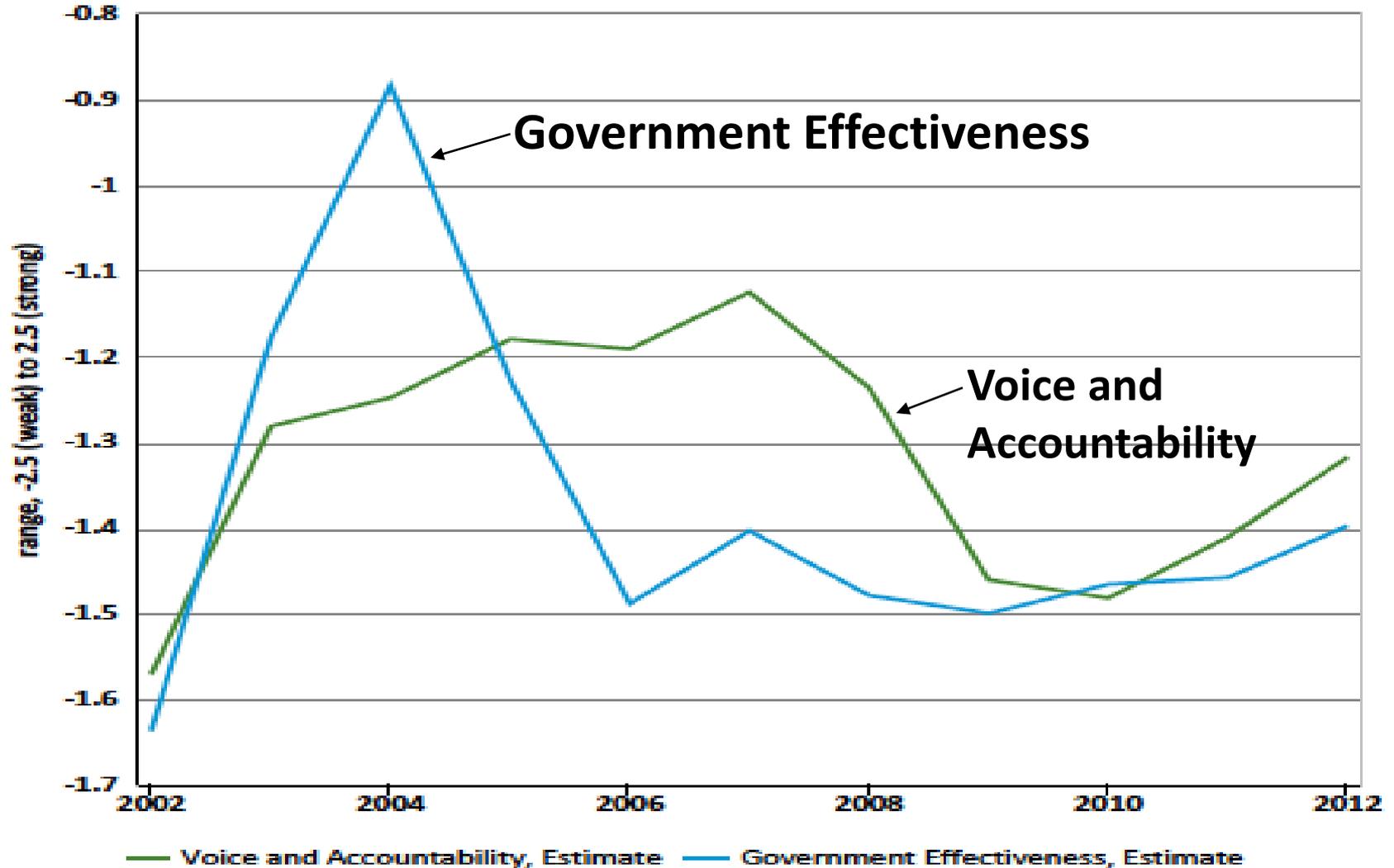
Control of Corruption



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.

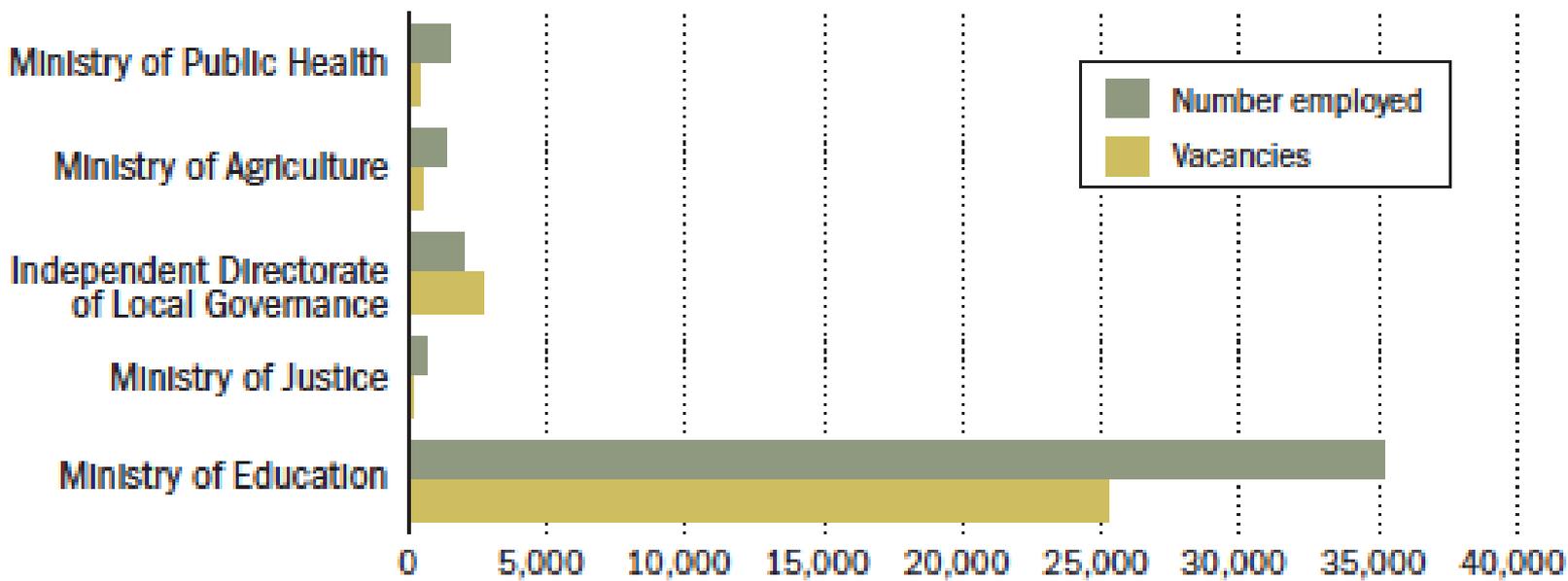
World Bank Rankings of Governance Shows Very Uncertain Trends

Afghanistan



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 47districts 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

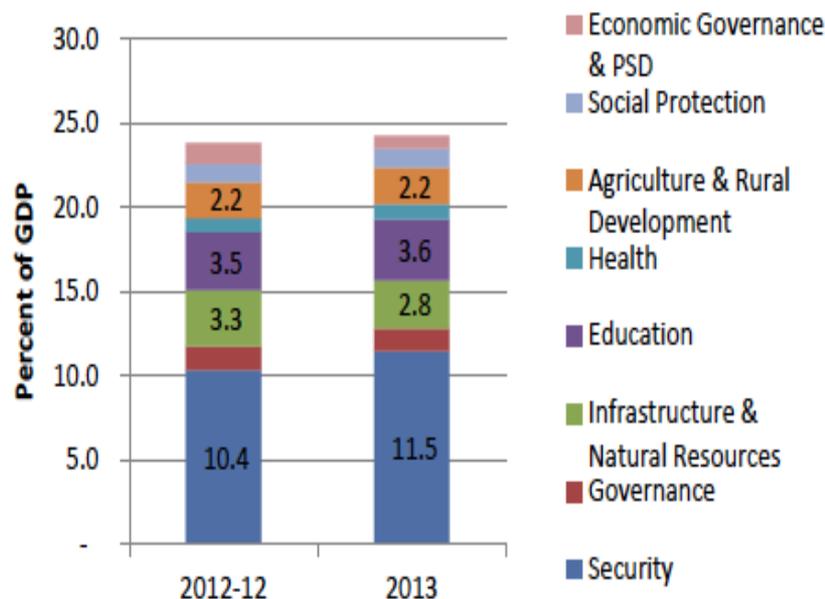
Source: USAID, ODG, response to SIGAR data call, 3/31/2014.

Budget Execution Has Been a Major Problem

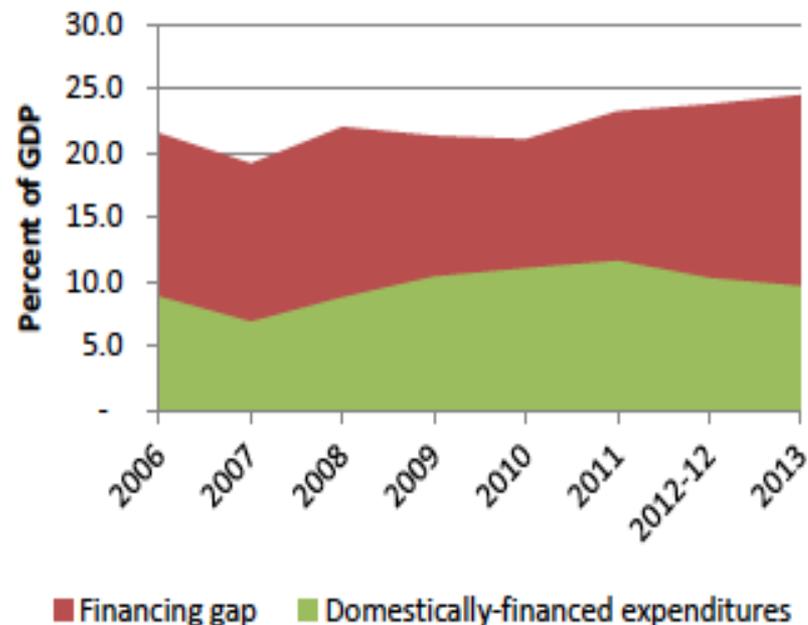
- **Operating expenditures:**
 - **Increased during the first six months of 2013, as more spending moved on-budget. Yet execution rates remain low, particularly for the development budget.**
 - **Increased to Afs 82.1 billion in the first six months in 2013, compared to Afs 75.4 billion over the same 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.**

World Bank Estimate of Growing Financing Gap

Core Government Expenditures as % of GDP



Financing Gap in domestic Revenues as % of GDP



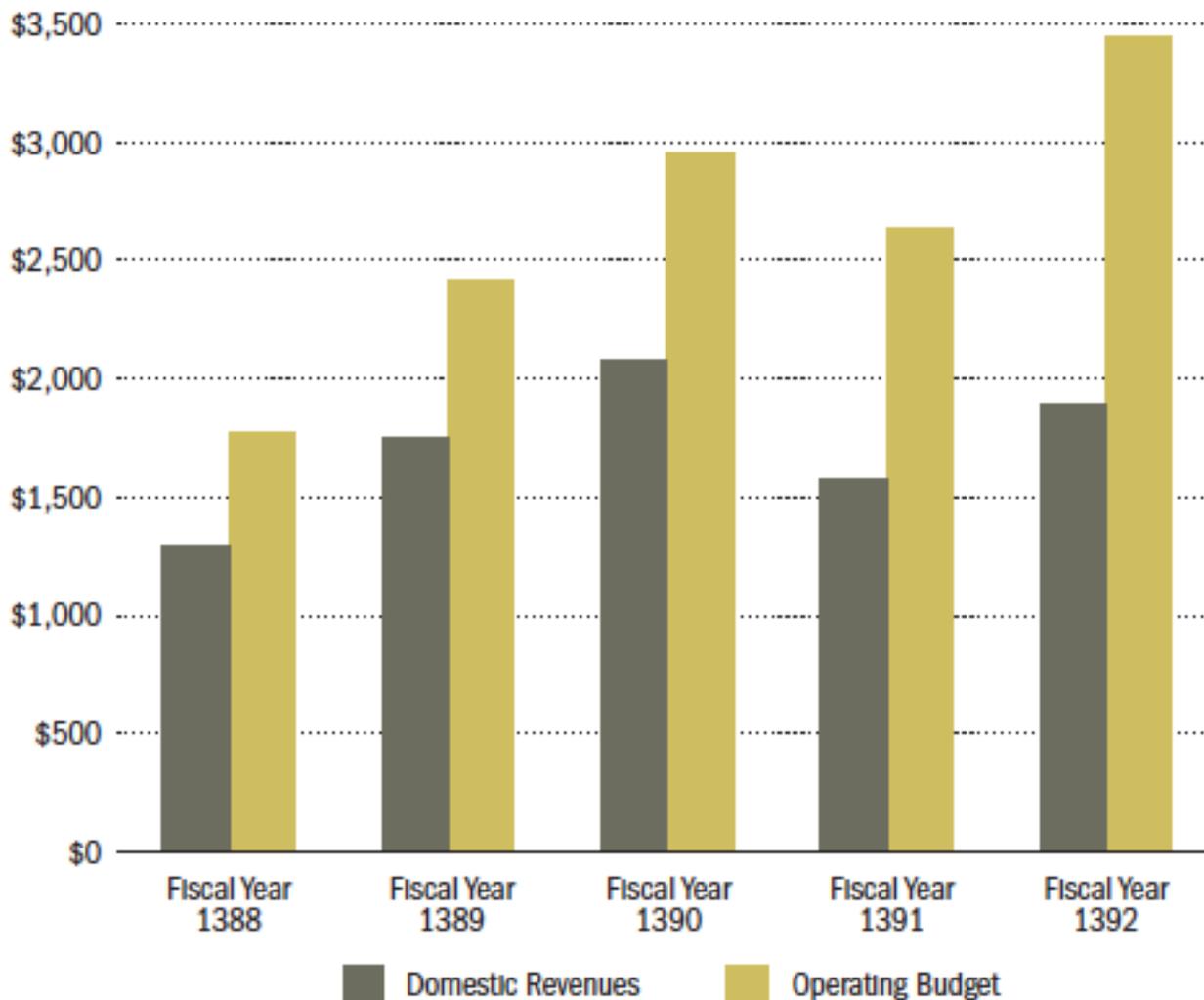
Transition Financing Critically Dependent on No Increase in Security Costs

	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 BUDGET (\$ MILLIONS)



...domestic revenues declined to 9.6% of GDP in 2013, one of the lowest in the world.

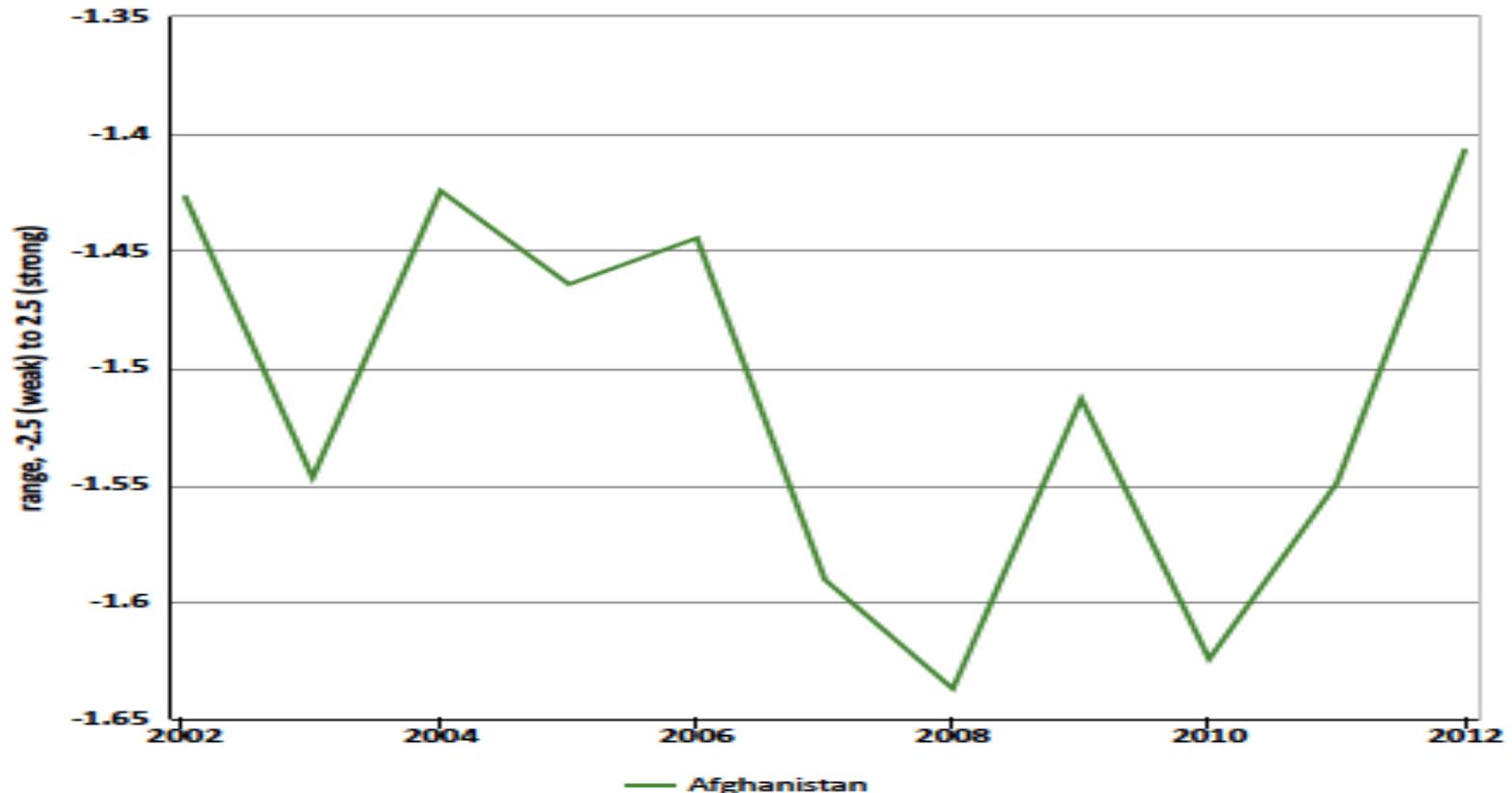
Afghanistan's commitments under the Tokyo Mutual Accountability Framework call for it to increase revenues to 15% of GDP by 2016 and to 19% by 2025.

The Bank warned that the current decline in revenue poses risks to long-term sustainability and to achieving Tokyo Mutual Accountability Framework targets, upon which donor assistance is predicated

The Challenge of Corruption

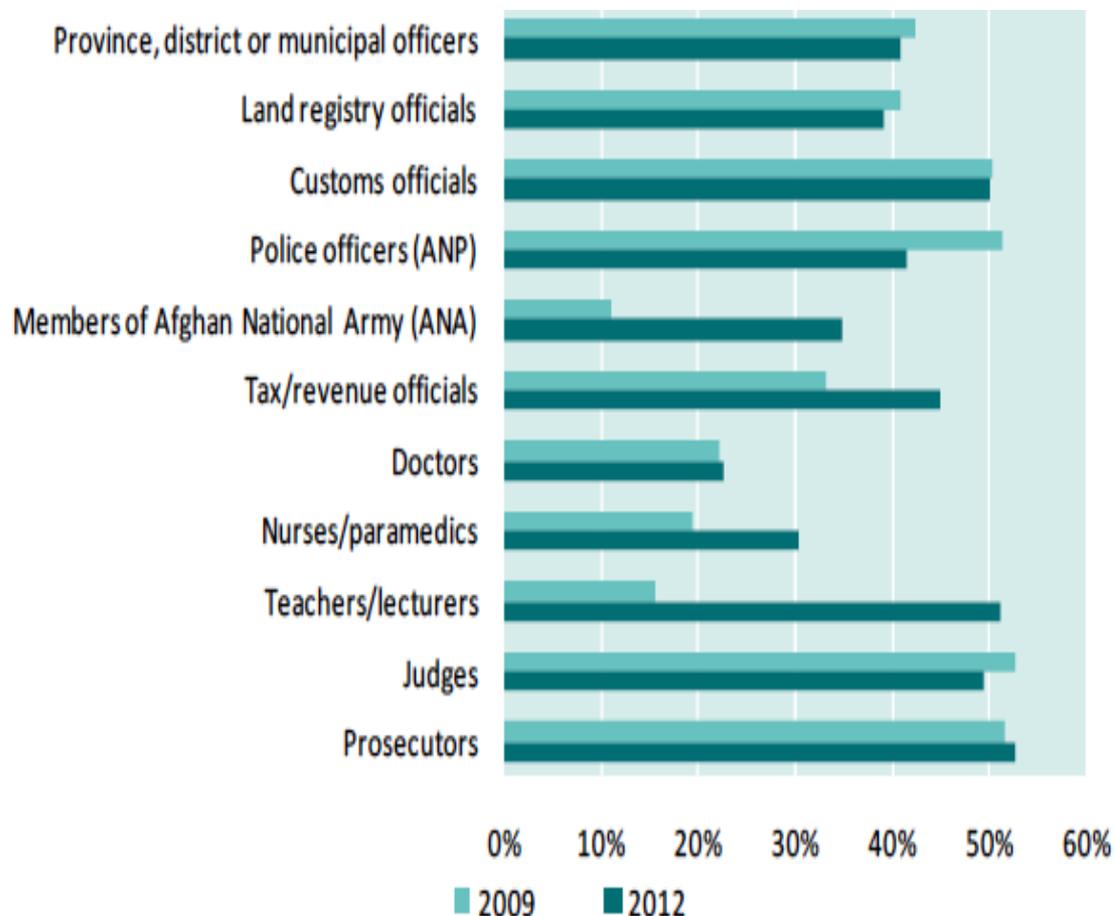
- 175th most corrupt country out of 177 ranked by Transparency International. Budget openness is minimal.
- Bad rating on World Bank's "Control of corruption index" bad. Improvement is driven by aid donors.

Control of Corruption, Estimate



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.

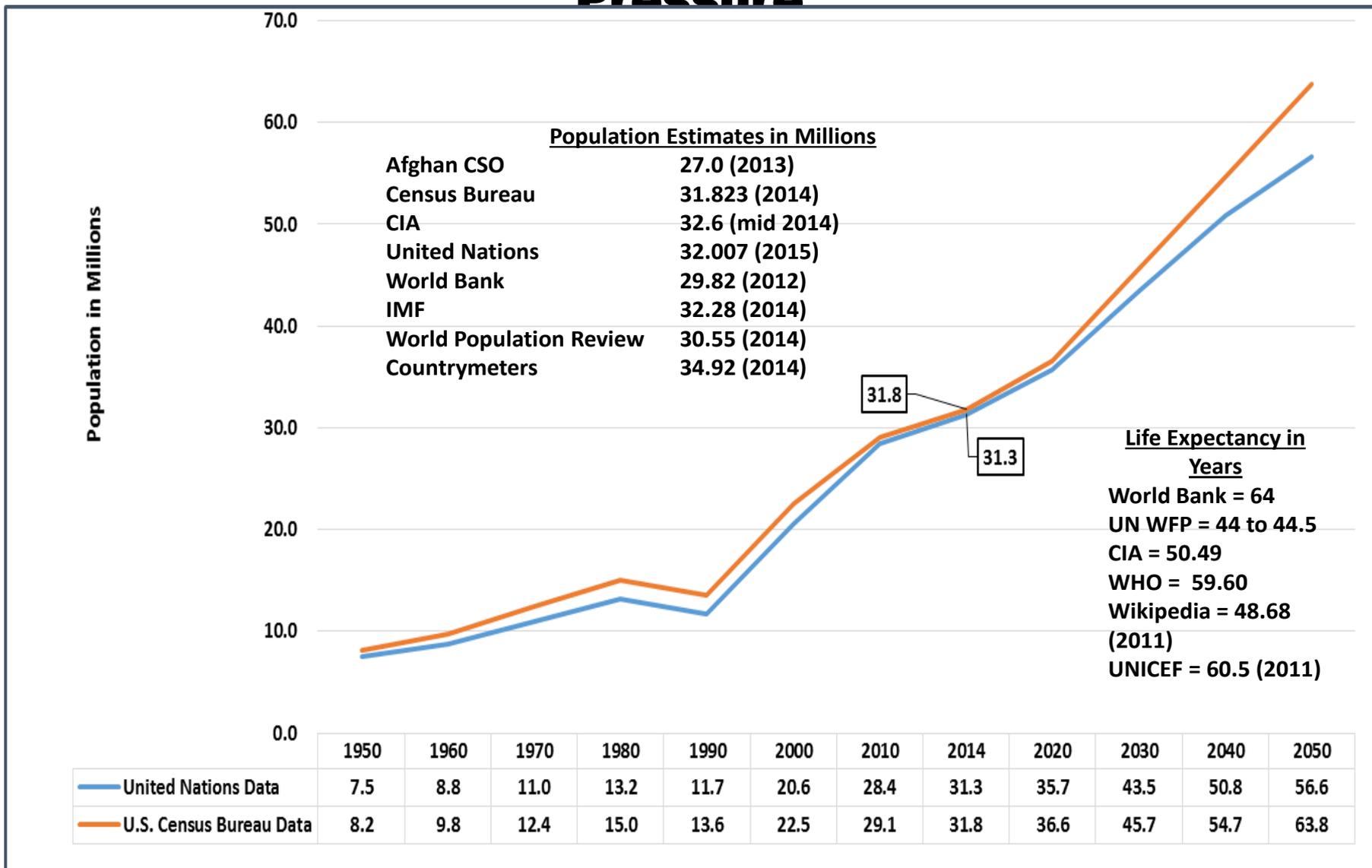
Credible sources reported that local police in many areas extorted a "tax" and inflicted violence at police checkpoints for nonpayment. Truck drivers complained that they had to pay bribes to security forces, insurgents, and bandits to allow their trucks to pass.

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 Challenge of Demographics and Constant Population Pressure on Governance, the Economy, and Security

Afghanistan's Uncertain Demographic Pressure



CIA Estimate of 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?**

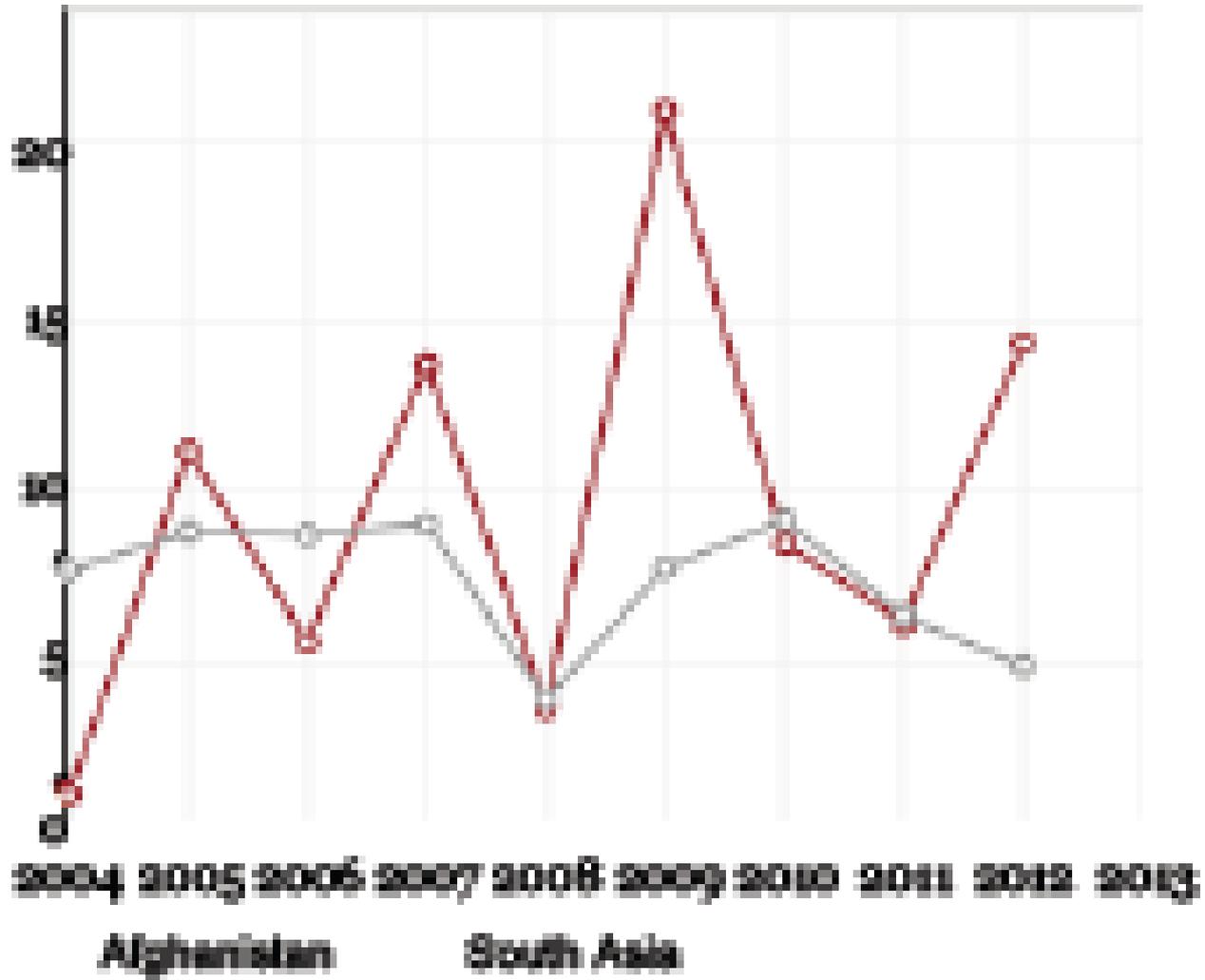
The Challenge of Economic Stability and Development

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 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.**

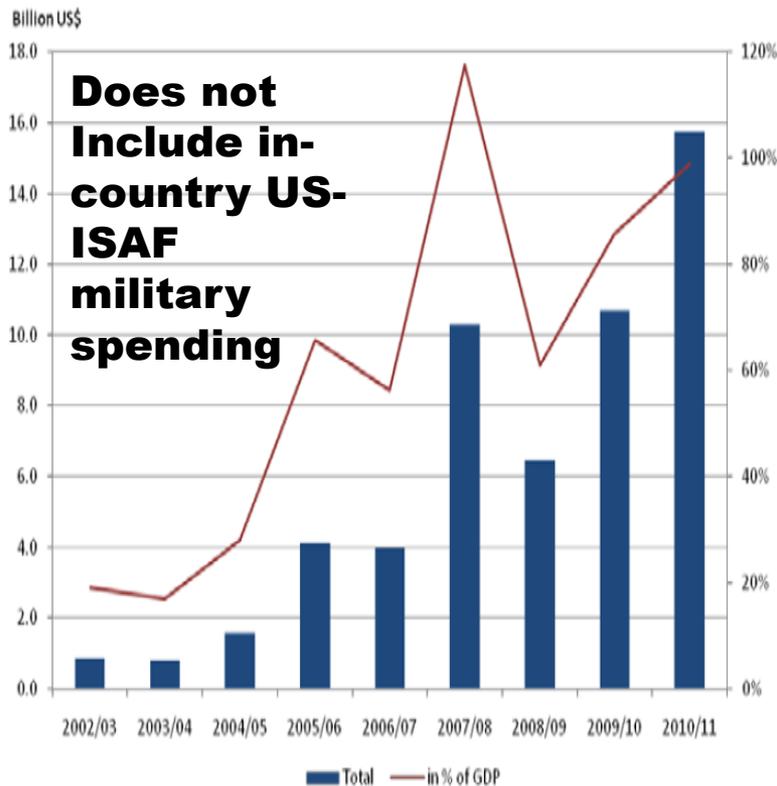
World Bank Estimate of Afghan GDP Growth 2004-2013

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



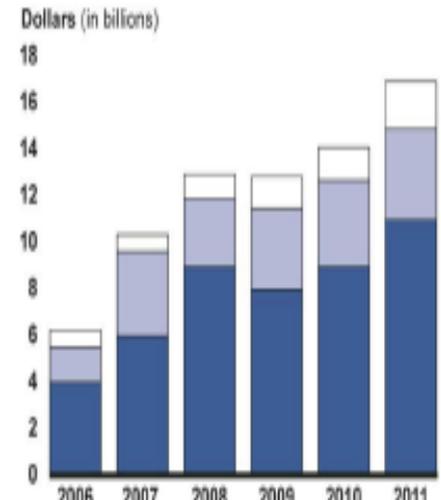
An Economy Driven by Aid, Military Spending, and Narcotics

Outside Aid Spending Drives GDP After 2003/2004



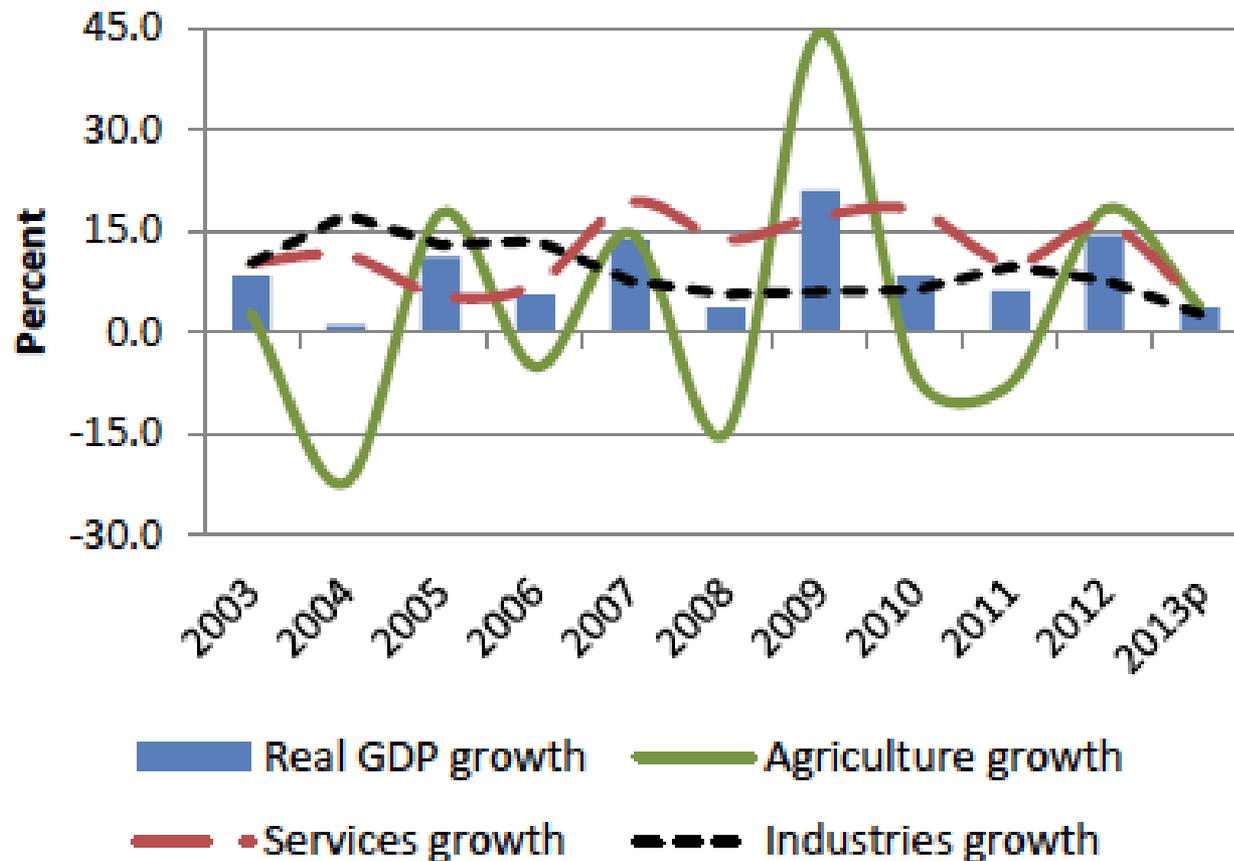
Only 10% of Afghan Budget is Self-Funded

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



	2006	2007	2008	2009	2010	2011
Afghan funded expenditures	\$0.71	\$0.74	\$1.04	\$1.34	\$1.45	\$2.04
Other donor funded expenditures	\$1.56	\$3.64	\$2.94	\$3.51	\$3.69	\$3.92
U.S. funded expenditures	\$3.55	\$5.76	\$8.75	\$8.07	\$8.69	\$11.49
Total public expenditures	\$5.81	\$10.14	\$12.73	\$12.92	\$13.83	\$17.44

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

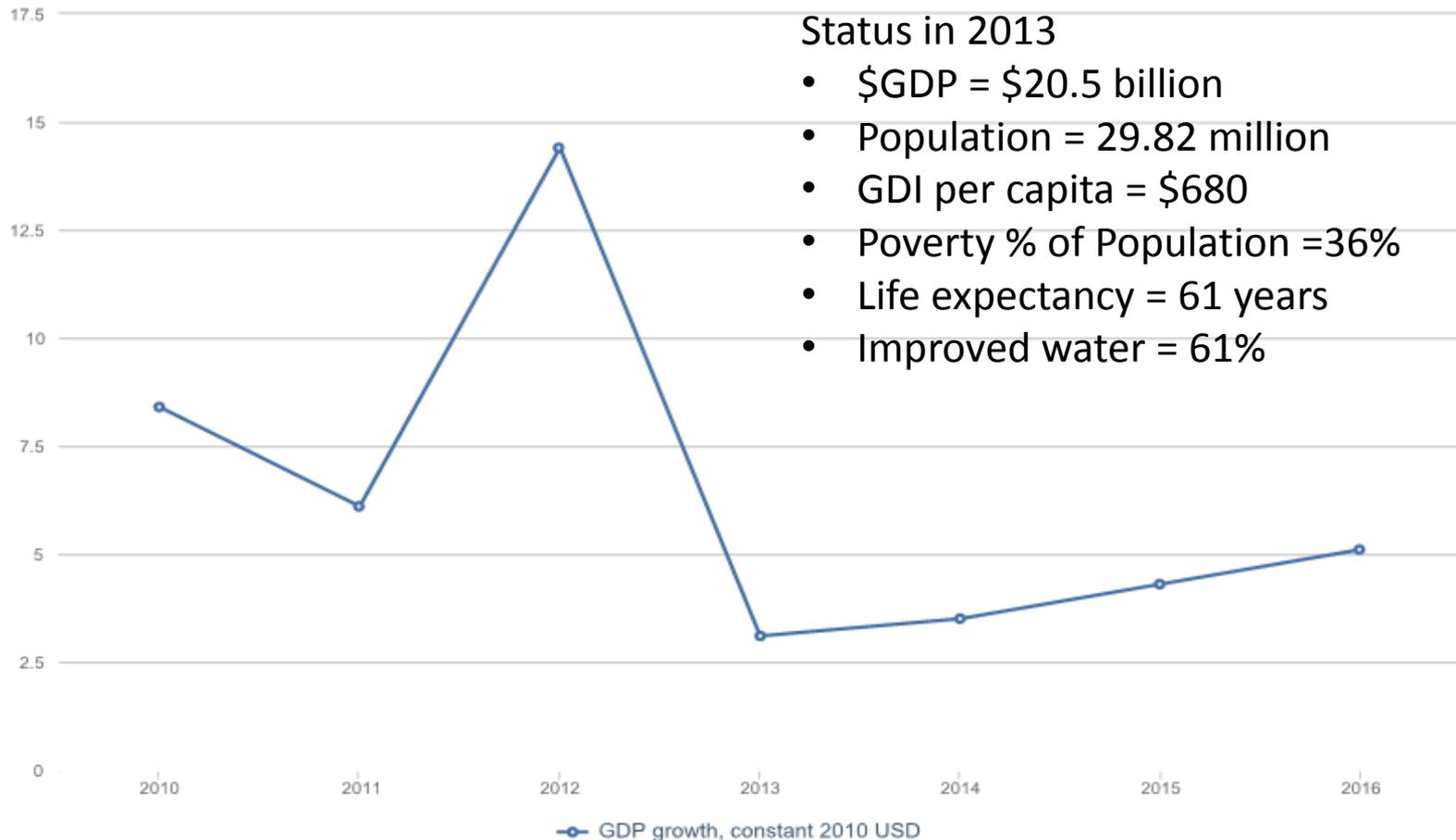


Source: CSO

- 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.

World Bank Estimate of Afghan GDP Growth 2010-2016

(In Constant \$US 2010 Dollars)



Country : Afghanistan

Created from: Global Economic Prospects

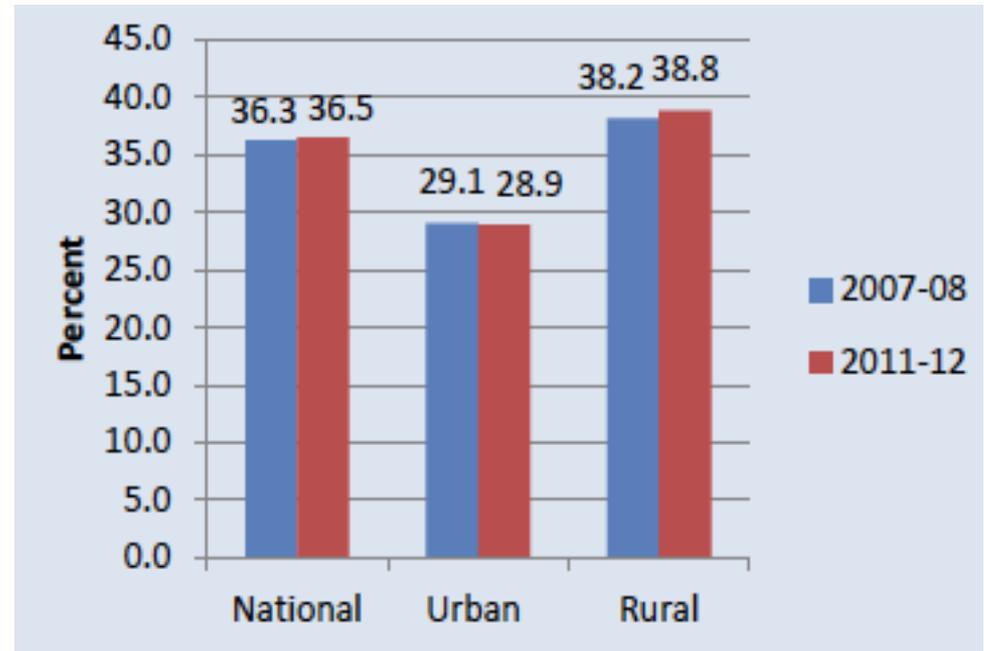
Created on: 05/05/2014

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.

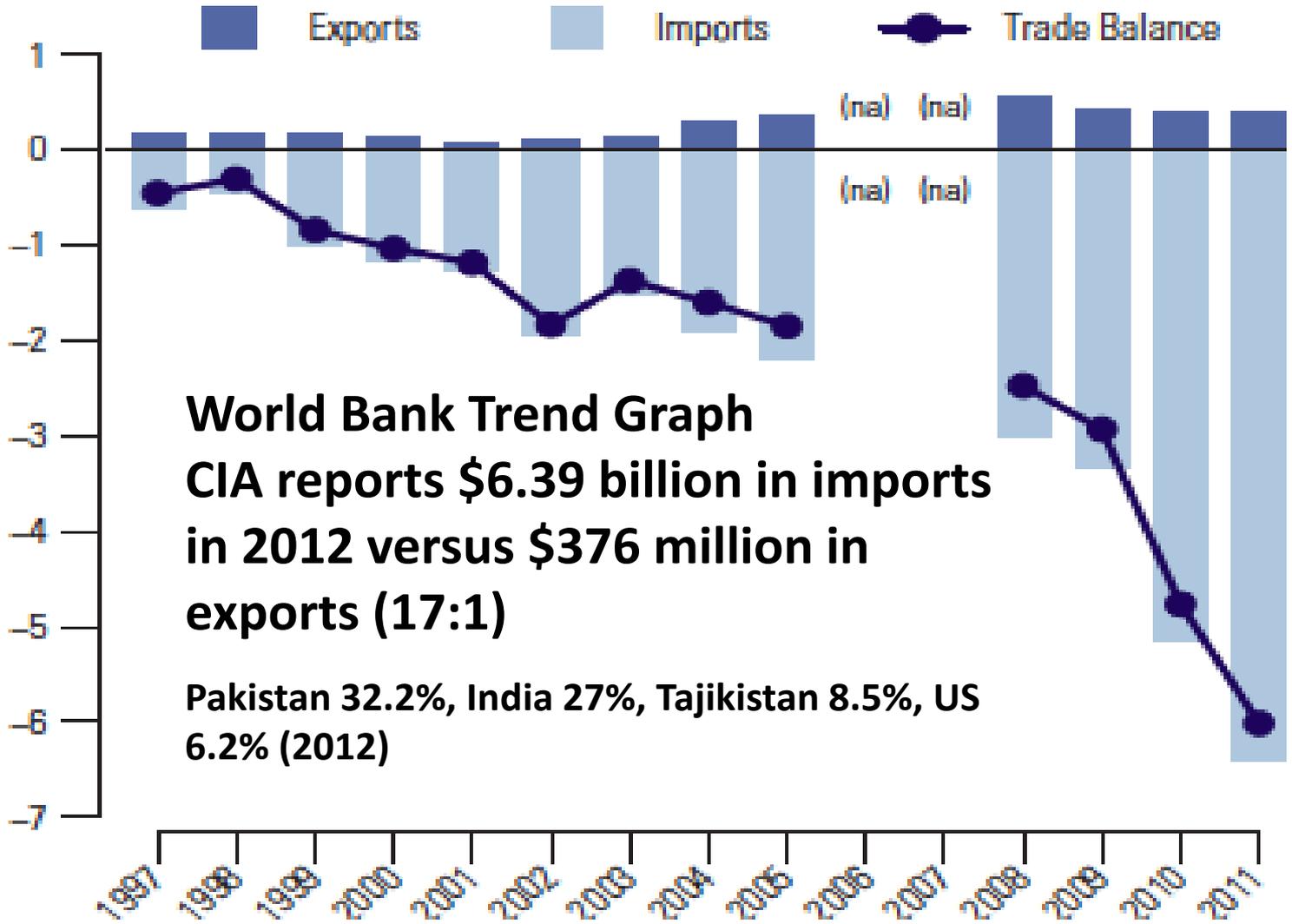


...A number of factors could be contributing to the measured trends. First, the volatility of agricultural production would affect measured poverty trends since agriculture accounts for more than half of employment. It is worth noting that 2010 and 2011, the two years preceding the 2011-12 survey, both 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).

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)

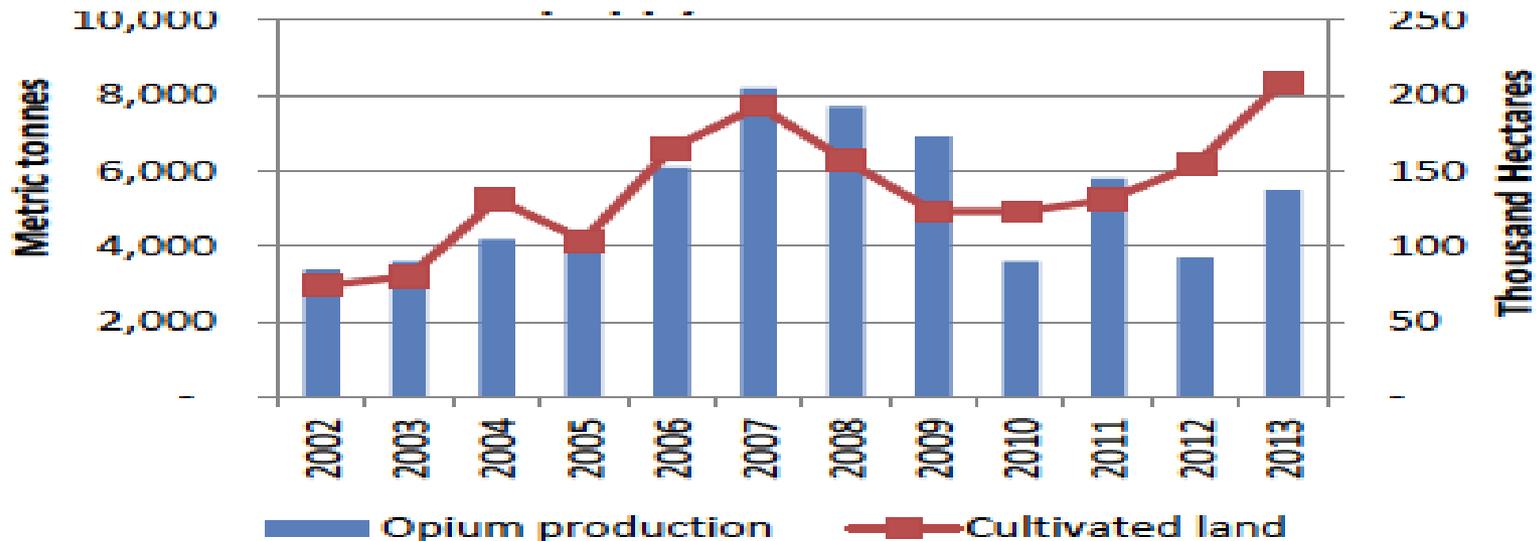
World Bank Estimate of Major Barriers to Doing Business and Private Development (164th Out of 189 Countries)

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



World Bank Estimate of Afghan Opium Production and Area Under Poppy Cultivation 2002-2013



Source: UNODC

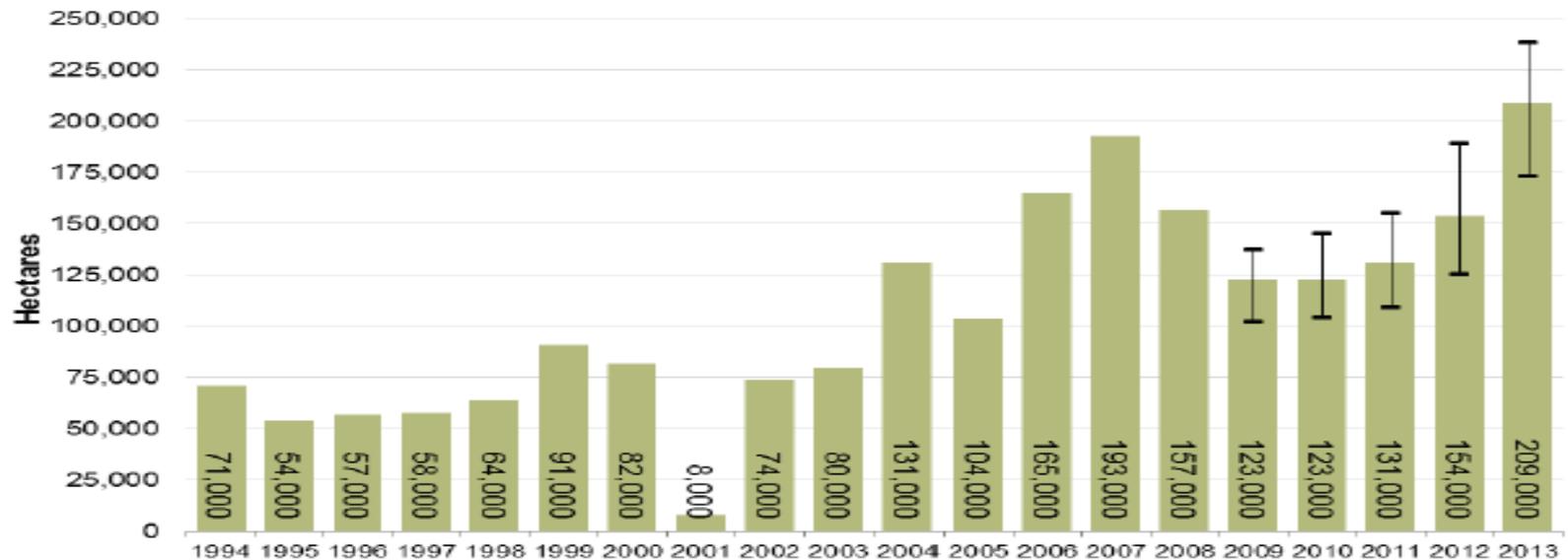
Both opium production and area under poppy cultivation increased considerably in 2013, although this is not reflected in estimated non-opium GDP growth figures for 2013. **According to UNODC data, opium production increased by almost 50 percent to 5,500 tons in 2013, while the total area under poppy cultivation expanded by 36 percent to 209,000 hectares (Figure 5)**. 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 farm-gate 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.**

The UNODC estimates that the net value of the domestic market for opiates is far smaller, worth approximately 1 percent of GDP or \$200 million, compared to the net export value of opiates which is around \$2.9 billion. Despite substantial financial flows from opium production, analysis suggests that the contribution of opium to economic growth in the past ten years has been minimal, although it is likely to be an important source of livelihood for a segment of the rural population.

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)

