Country Report: Afghanistan

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Introduction

The LDC countries face even more severe financial crisis of unprecedented dimensions in a world that has never before been so closely connected and interdependent, including the decline in global output, trade, and private capital flows. The consequences are global and the situation is more volatile causing many LDC countries to miss reaching the MDGs. The current financial crisis is rapidly becoming an economic crisis and threatens to become a social crisis in many LDC countries.

The high costs of food & energy with their high inelasticity has fueled the crisis resulting more unemployment and poverty in the LDC countries.

In Afghanistan the situation became worst due to additional factors, such as consecutive droughts, terrorist attacks, corruption and drug trafficking. As a result, the economic growth slowed down, unemployment increased and the capital inflow reduced, the prices of food & energy escalated and the country major goals were off track.
Global Situation Assessed

1. Sudden stop in capital flows
2. External demand shock
3. Terms of trade shock for commodity exporters
4. Drop in remittances
5. Food & Energy Crisis worsen
6. Unemployment extended
7. Bankruptcies expanded & Credit Crunched
8. New Economic order revisited
9. MDGs not totally achieved
10. Drought and unmanaged disaster
11. Higher transportation & transit cost with no comprehensive and integrated trade facilitation
Assessment of the Socio-economic Development

- in late 2001, Afghanistan emerged as a State that was devastated without many parallels in the modern history.
- The extent of destruction of physical, institutional, human and social capital left Afghanistan and its international partners to build it by the rule of law,
- Six and a half years later, despite considerable progress and sacrifices, Afghans are yet to complete this task, while facing many challenges of poverty.
- In order to meet these challenges and realize the aspirations of the Afghan people, the five-year Afghanistan National Development Strategy (ANDS) which is a MDGs-based plan serving as the country’s Poverty Reduction Strategy Paper was launched in 2008. Fundamental to its successful implementation is the need to invest in critical national capacities, such as education, energy, irrigation, and agriculture, as well as to promote reconciliation, justice and alternative livelihoods.
Progress Made in Achieving the Brussels' Program of Action- Commitment-1

The Government of Afghanistan has made effort to implement the PRSP called ANDS (Afghan National Development Strategy) financially & technically supported by the International Community. The Government of Afghanistan has made effort to implement the PRSP called ANDS (Afghan National Development Strategy) financially & technically supported by the International Community. During the past eight years, the Government of Afghanistan with the assistance of donor community has invested billion of US dollars in its development budget each year to deliver public services in security, rule of law and social & economic development areas. As a result the GDP has had an average of 10% growth each year increasing the per capita income from US$ 180 in 2001 to US$380 by the end of 2008. Although Afghanistan has not achieved the MDGs, it has made remarkable improvement in human development, particularly in education & health. The number of students enrolled in basic education has increased from less than 800,000 in 2001 to more than 6.5 million by the end of 2008. Infant mortality has dropped more than 20% during the period and parental care vhas improved more than 30% by the end of 2008.
Progress Made in Achieving the Brussels' Program of Action- Commitment-2

The Government is trying to provide good governance and measurable improvements in the delivery of services by (i) establishing, reform and strengthened government institutions at the central and sub-national levels with an emphasis on transparency, competence and results-based management; and (ii) reforming legislative processes, including holding of free and fair elections. The Government is trying to provide good governance and measurable improvements in the delivery of services by (i) establishing, reform and strengthened government institutions at the central and sub-national levels with an emphasis on transparency, competence and results-based management; and (ii) reforming legislative processes, including holding of free and fair elections. The Government of Afghanistan has been carrying a massive administration program, judiciary reforms, establishing an Independent Commission on Local Government and the establishment of Independent Watchdog Commission on anti-corruption for strengthening the rule of law and promoting effective participation among relevant stakeholders & cooperation.
Progress Made in Achieving the Brussels' Program of Action- Commitment-3

The Government has started to build the institutional mechanisms to support capacity development, mainly in the public sector, but where appropriate, supporting institutions and initiatives which will also enable the private sector to participate and benefit from these mechanisms. The institutional responsibility will be with Inter-ministerial Commission on capacity development. The Government has started to build the institutional mechanisms to support capacity development, mainly in the public sector, but where appropriate, supporting institutions and initiatives which will also enable the private sector to participate and benefit from these mechanisms. The institutional responsibility will be with Inter-ministerial Commission on Capacity Development (ICCD). The ICCD is making effort to assess capacity assets & needs by engaging stakeholders before formulating, implementing and finally evaluate capacity development programs. While the ICCD has not been quite functionalized and mobilized as agreed by both the government and donor community commissioned by the Presidential Decree to achieve its stated objectives, it is working to develop a comprehensive plan by stakeholders, including UNAMA, UNDP & the World Bank.
Progress Made in Achieving the Brussels' Program of Action- Commitment-4

Capitalizing on its location as a ‘land bridge’ between Central and South Asia, and the Middle and the Far East the Government’s key priorities are:

(i) To increase and deepen Afghanistan’s participation and leadership in bilateral and region-wide agreements that facilitate transit, transport, and investment in the region;

(ii) To adopt comprehensive measures for exploitation of Afghanistan’s hydro-power resources and potentials;

(iii) To facilitate the voluntary return of refugees; and (iv) To extend regional cooperation on border management to better align efforts against organized cross-border criminal activities,

While the Government has constricted more than 4,000 Km of ring road around the country and its working on railway networking linking Afghanistan, to Central Asian countries, Indian sub-continent & Europe, it has started building of rail way roads and energy network from neighboring countries. These developments will have multiple effects on energy distribution and availability, improving the business environment, promoting enterprise, particularly SMEs as well as agriculture & agro-industries & sustainable tourism. Many manufacturing industries such as Ghauri Cement Factory have be rehabilitated or newly established in many industrial parks, especially those of Kabul, Mazar & Heerat.
Progress Made in Achieving the Brussels' Program of Action- Commitment-5

Three key Government priorities are: (i) to develop the legal framework for the private sector, including the passage and enactment of key commercial laws (ii) to create a regulatory framework to support their implementation; and (iii) to improve enforcement of the legal and regulatory frameworks.

The government of Afghanistan has carried out a massive financial reform programs in customs reforms as well as on income tax laws & collection programs for mobilizing financial resources, less dependency on foreign aid and efficient public finance management program with controlled budget system. As a result, the ratio of foreign aid for financing state budget has decreased from more than 75% in 2002 to around 50% in 2008.
Progress Made in Achieving the Brussels' Program of Action- Commitment-6

Commitment 6: The Government is providing humanitarian support for Afghans affected by natural disasters, insecurity, and the return from refugee status in neighbouring countries. In addition, it coordinates the Government’s preparedness for natural disasters and humanitarian situations.
ANDS Goals for 1387-1391 (2008-2013)

The Afghanistan National Development Strategy (ANDS) is a Millennium Development Goals (MDGs)-based plan that serves as Afghanistan’s Poverty Reduction Strategy Paper (PRSP). It is underpinned by the principles, pillars and benchmarks of the Afghanistan Compact. The pillars and goals of the ANDS are:


2. Governance, Rule of Law and Human Rights: Strengthen democratic practice and institutions, human rights, the rule of law, delivery of public services and government accountability.

3. Economic and Social Development: Reduce poverty, ensure sustainable development through a private sector-led market economy, improve human development indicators, and make significant progress towards the MDGs.
Challenges Obtaining National Development Goals

- A) Security Sector: Terrorism, foreign interference, instability and weak capacity in governance

- B) Governance Sector: (i) weak public sector institutions and underdeveloped governance and administration capabilities; (ii) high levels of corruption; (iii) fiscal uncertainty; (iv) weak legislative development and enforcement; (v) weak parliamentary oversight; (vi) weak community and civil society institutions;

- C) Social & economic sector: the poor state of infrastructure, low levels of human capital development and institutional capacity, and the lack of a proper enabling economic environment. A major challenge in this pillar is to create an environment where the economy performs to its full potential, while at the same time ensuring that the most vulnerable members of society are not left behind.
Innovative Strategies & Best Practices Shared

1) Alternative livelihood Program (ALP) is to strengthening Afghan government's capacity to promote licit economic opportunities by addressing problem of illicit poppy cultivation by implement comprehensive development plan for local economic growth and poverty reduction in the country.

2) Women Enterprise Development (WED) is designed to help Afghan women participate in the market economy by enhancing their business development skills and earning potential which will focus on strengthening core public administration capacities for both national and sub-national levels of government.

3) The primary focus of Capacity Development Program (CDP) is to Implement the Afghanistan National Development Strategy (ANDS) with an emphasis on core public administrative functions involving financial, human resources and program management, and monitoring and evaluation.

4) Decentralized electricity supply from renewable energies was launched in the North of Afghanistan to establish a power supply grid in 2008 by GTZ of Germany.
Policy Response to Crisis

- The global financial crisis is unlikely to have major negative implications for Afghanistan, due to the fact that its formal financial sector is small, which does not play a major role in financing economic activity, and has very limited international exposure. Afghanistan's isolation from world trade and global finance might for once be to its advantage, shielding the country from the economic and financial meltdown abroad. The bigger risk is the flow of ODA.

- Despite of its little exposure to the World’s financial & economic crisis, the Government has made some policy response to the world crisis:

  1. Afghanistan National Disaster Management Authority (ANDMA) which has the mandate to coordinate and manage all aspects related to emergency response to disaster has managed to respond to the needy people with its limited resources & skills.

  2. The Government has been active in buying food supplies & fuels commercially to stabilize food & fuel prices and distribute food to needy population, especially to those living in remote and hardly accessible during harsh winter.
Government Commitments

• The Afghan Government is firmly committed to build a strong, private sector-led market economy to provide the foundation for sustainable economic growth and for generating employment.

• In the area of security: To achieve nationwide stabilization, strengthen law enforcement, and improve personal security for every Afghan.

• With Good Governance: To strengthen democratic practice and institutions, human rights, the rule of law, delivery of public services, and government accountability.

• With social & economic development: To reduce poverty, ensure sustainable development through a private sector-led market economy, improve human development indicators, and make significant progress toward achieving the MDGs reflected in the ANDS.
Conclusion

Global crisis spreading from advanced countries to LDCs hit African Sahara and many Asian countries particularly harder

Required a coordinated & harmonized global response
  fiscal and monetary stimulus where feasible
  emergency measures to support financial sectors

New programs have had to adapt to the new crisis
  Exchange and monetary policies according to country circumstances
  Accommodative fiscal stance as possible given financing/sustainability issues; attention to social safety nets
  Focus on maintaining financial sector health

• Agricultural development with managed food security and Innovative productivity technology are needed
Recommendations

1. Demonstrate political will and take proper action now
2. Provide additional resources targeting infrastructural projects parallel to agricultural development, including FEW (famine early warning)
3. Increase policy space and flexibility, and reduce conditionality by focusing on results
4. Promote trade, including the provision of Aid for Trade, trade facilitation, regional cooperation & technical assistance
5. Increase transparency, accountability, and equitable representation
6. Enhance financial sector support and regulatory strengthening