

BTI 2016 | Afghanistan Country Report

Status Index	1-10	2.95	# 120 of 129	
Political Transformation	1-10	3.02	# 117 of 129	➔
Economic Transformation	1-10	2.89	# 119 of 129	➔
Management Index	1-10	3.88	# 99 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	31.6	HDI	0.468	GDP p.c., PPP \$	1945.5
Pop. growth ¹	% p.a.	3.0	HDI rank of 187	169	Gini Index	-
Life expectancy	years	60.9	UN Education Index	0.365	Poverty ³	% -
Urban population	%	26.3	Gender inequality ²	0.705	Aid per capita \$	171.6

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

The 2014 elections and the parallel large-scale withdrawal of U.S. and NATO-led forces from Afghanistan by the end of the 2014 marked the end of a transition period. The first democratic transfer of leadership ended the rule of President Hamid Karzai, who had been in office since his appointment as interim head of state in 2001. Elected president in 2004, he was not eligible to run again in 2014. The first round of the 2014 presidential election in April resulted in a run-off between the two main contenders, Ashraf Ghani and Abdullah Abdullah, and was marked by widespread fraud allegations by both camps, which continued even after the recount of second-round polling results in September. Subsequently, the United States brokered the creation of a so-called unity government assigning Ashraf Ghani the presidency due to his victory according to the official ballot results, and giving Abdullah Abdullah the newly created post of chief executive officer (CEO), akin to a prime minister's post. Under the terms of the governmental agreement, the CEO post and mandate must be confirmed and more precisely defined by a yet-to-be-convened grand assembly (Loya Jirga) within two years of the September 2014 elections. Under international pressure, the unity government agreed to pursue further democratic reforms and develop the market economy in accordance with the parameters set out in the Tokyo Mutual Accountability Framework.

Since 2013, Afghan security forces have had sole charge of the country's security. The 13-year international combat mission consequently concluded, leaving only a residual training-and-support force of 13,000 troops. The insurgency has claimed unprecedentedly high numbers of troop casualties since 2013, and the degree of political violence has led to increasing civilian casualties. The insecurity has led to the internal displacement of more than 600,000 people throughout the country. Human-rights abuses, discrimination against minority groups and women continue. The overall socioeconomic situation in Afghanistan has improved, but jobs, investor confidence, reliable financial management and strategic planning are in short supply. Afghanistan will not achieve the Millennium Development Goals (MDG) goals it had planned to reach by 2020.

The overall level of human development remains low, while poverty rates are high and steady (36%), calling into question the reconstruction efforts and efficiency of the political leadership. Democratic as well as market economic principles are often shunted to the side by short-term rent-seeking interests, the effects of political and economic interest groups' patron-client networks, a weak judiciary, and social cleavages. The national economy is not self-sufficient and depends heavily on foreign finance. The withdrawal of international troops led to a slowdown in commercial activity and exacerbated uncertainty and insecurity, causing a downward trend in economic growth in 2013 and 2014. A financing gap is expected to persist at least until 2025.

History and Characteristics of Transformation

Just as Afghanistan's statehood was the result of imperial powers drawing borders in the late 19th century, the current democratic framework is externally and de jure induced rather than a domestically rooted, de facto lived product. The population has never previously experienced democracy. Under the rule of the Soviet-backed People's Democratic Party of Afghanistan (PDPA), the idea of democracy was discredited. Popular resistance against the policies of the PDPA regime was mobilized based on an Islamist ideology that interpreted the regime's reforms as anti-Islamic. A decade later, the Taliban's takeover of territorial control and ultimately the country's government mainly succeeded because they claimed to stand for normative principles promising justice and certainty after half a decade of factionalized civil war and related disorder and injustice (1992 – 1996). Under the current political configuration, anti-government forces such as the Taliban are using similar Islamist rhetoric and ideological arguments to criticize democracy and assert that it violates Islamic principles, thereby opposing against the presence of international forces on Afghan territory, the high level of corruption and reforms. The 9/11 events played a significant role in transforming the country, leading to the overthrow of the Taliban's authoritarian regime and the establishment of a transitional democratic government under the leadership of Hamid Karzai. In 2001, the Taliban were ousted by Northern Alliance forces supported by the initial U.S. military intervention. In the subsequent formation of a government, representatives of the former Northern Alliance held an advantage, and were appointed to leading positions in disproportionate numbers. Given the lasting effects of the ethnically stamped Afghan conflict during the 1990s, this imbalance created a significant cleavage between Tajik, Uzbek, and Turkmen population groups on the one hand and the Pashtuns of the south, southeast and southwest on the other. As the military and political intervention expanded in scope, large sums of money and investments in the reconstruction and institution-building process followed. The country established formal democratic institutions, adopted a democratic constitution in 2004, and national elections were held in 2004 and 2009, in 2014 for president, and in 2005 and 2010 for parliament. Provincial-council elections took place in 2005, 2009 and 2014. However, all elections suffered from a lack of transparency and large-scale fraud. The neglect of intra-Afghan reconciliation and the marginalization of Taliban factions in the 2001 Bonn Agreement, which resulted in their political exclusion, set the stage for a growing insurgency by anti-government

groups. The intensity of the insurgency picked up beginning in spring 2006, and has resulted in increasing insecurity throughout the country. The international troop surge implemented by the Obama administration in 2010 was meant to end the fighting, but only resulted in further escalation of violence. Since 2013, the Afghan National Security Forces have taken over sole responsibility for security countrywide, as the international military mission has been reduced in size. However, 2013 and 2014 have been the most violent years in Afghanistan since 2002, and the number of civilian casualties has been rising steadily. Heightened insecurity since 2006, widespread rent-seeking and bad governance performance in general has inhibited socioeconomic development and is undermining the legitimacy of both the political leadership and its international mentors. Given the government's inability to broaden its revenue base and enforce economic reforms, the economy's degree of dependence on foreign aid has remained extraordinary high for the last decade, with aid contributing about 70% of the national budget during the transition period (2013 – 2014).

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Afghan state does not have a monopoly on the use of force across the country's entire territory. Security in the provinces of Helmand, Nangarhar, Ghazni, Kunduz and Badghis is fragile. This does not mean that the Taliban have a complete monopoly on the use of force in these provinces, but the insurgents do pose a major challenge to the country's security apparatus. After the withdrawal of the NATO forces in June 2014, 800 Taliban fighters stormed various police and military checkpoints in Helmand to establish their foothold. A similar attack in August 2014 in the Hersarak district of Nangarhar, this time by an estimated 1,000 Taliban, reflected the worsening situation. In Kunduz too, the Afghan security forces have been struggling against the Taliban insurgents for greater control. Throughout the review period, the security situation has also worsened throughout Kabul province and in some northern districts. Although the Afghan National Security Forces (ANSF) had nearly reached its target size of 352,000 members by the end of 2014 (97%), the scope of professionalism, training, reliability and subsequent effectiveness varies greatly between the Afghan National Army (ANA) and the Afghan National Police (ANP). The latter has experienced a high desertion rate. In addition, the Afghan Local Police (ALP) units that exist in as many as 150 of Afghanistan's 400 districts have amplified the popular impression that corruption and a culture of impunity are widespread, particularly among the police forces. This significantly hampers the implementation of the rule of law and undermines local security. Local strongmen maintain private militias and have to some extent managed to integrate these formally into ANP and ALP structures. Outright anti-government forces such as the Taliban, the insurgent Hezbe-Islami (Gulbuddin Hekmatyar faction) and the Haqqani network have steadily intensified the insurgency and the level of violence throughout the country.

Afghanistan is not a nation-state in the Western sense of the term; however, a majority of the Afghan people identify with the state and accept its legitimacy. Nevertheless, tribal alliances, politicized communal identities and socioeconomic grievances

Question
Score

Monopoly on the
use of force

3

State identity

6

undermine state legitimacy. There are as many as 14 recognized ethnic groups in the country, with Pashtuns making up between 40% and 50% of the population. Tajiks account for an additional 25%, while Hazaras and Uzbeks amount to about 9% each. A handful of smaller groups exist as well. As a rule, access to citizenship is granted on the basis of the Afghan Citizenship Law, passed in 2000. Accordingly, any person above 18 who has been living in the country for at least five years and has no criminal record can apply for citizenship. Repatriates and returnees who need to renew their documents are provided with assistance by the relevant authorities. Several groups including the Jogi and Bangriwala communities are denied citizenship, and are considered stateless.

Factionalism and cronyism have prevented the state from bridging the gaps between different ethnic groups and factions. The state's inability to unify groups has contributed to its fragility. The years of war have resulted in deep divisions along different ethnic, sectarian and political lines. External actors have exacerbated these cleavages by supporting various groups and pitting them against each other in a protracted conflict to achieve their own objectives (e.g., short-term stabilization, project implementation and putative state-building). The cleavages between different linguistic groups, for example Pashto and non-Pashto speakers, have become more significant and taken on a political dimension.

Afghanistan is not a secular state. Islam is the official religion, as the majority of the populace is Muslim. The government is highly sensitive to this factor, and cannot make any law or policy that contravenes the state religion. The legal order and official justice system also follow Islamic principles. Free expressions of opinions that violate or question Islamic norms are largely perceived as a threat to Islam and are rejected, as is the freedom of expression. Given the slow development of the legal system, the delivery of justice and civil conflict mediation are in practice dominated by traditional actors such as local mullahs, elders, traditional elites, Taliban and their local shadow institutions. Depending on the case, these different authorities apply a mixture of local and Shari'ah law, informed by Islamic norms and principles. Non-state justice delivery enjoys legitimacy because it is faster and cheaper and enforcement is more likely.

If basic functions like domestic security and the rule of law are excluded, and the quality of administrative structures is not factored in, Afghanistan can be said to have shown a general improvement in terms of basic infrastructure coverage throughout the country. This varies in degree, however, and to a large extent has been achieved through donor funding. The government's concern with improving the basic health delivery system has been reflected in the expansion of health care services, along with the facilities to support them. The expansion of health care services focuses on seven components, including maternal and newborn health, child health and

No interference of religious dogmas

3

Basic administration

3

immunization, nutrition, control of communicable diseases, mental health, disability, and the provision of essential drugs

The Afghanistan Revenue Department has shown a commitment to improving its services, and has sought to introduce a “service culture” in the country. The introduction of taxpayer identification numbers marks a step toward an enlargement of the tax base, and has helped to streamline the collection of revenues. Afghan government has devoted increasing attention to education. Local infrastructure development is carried out via the government’s district administration departments. Anti-government forces, particularly the Taliban, have set up so-called shadow governments and administrative structures (“commissions”) for key sectors (education, courts, security) at the district and provincial level in many provinces. As rivals to the state’s power, they appear, disappear and reappear, targeted by the national security forces. In the law-enforcement sector, the ANP has been supplemented by local police units. However, this has had an ultimately detrimental effect on efficient enforcement and local security. Provision of clean drinking water and sanitation has made considerable progress, but achievement of the MDGs, which Afghanistan committed to fulfilling by 2020, remains far out of reach.

2 | Political Participation

Afghanistan held its third post-2001 presidential and provincial-council elections in 2014, and its second parliamentary elections in 2010. A lack of transparency in voter registration procedures and widespread vote-rigging by influential strongmen and candidates, assisted by portions of the state administration itself, has characterized every poll to date. Provincial council and legislative elections are not party-based; the single non-transferable vote system (SNTV) is used as electoral mechanism. The 2014 elections were conducted on the basis of a new election law (passed in 2013) which aimed to reduce the president’s influence over the composition of the Independent Election Commission. This was only partly successful. The presidential elections of 2014 led to a run-off between the two leading candidates, as neither garnered a clear-cut majority. After the run-off reversed the lead from the first round, both camps indulged in allegations and counter-allegations of rigged ballots, the U.S. secretary of state mediated the formation of a so-called unity government, in which the two camps agreed to establish a joint government structure. This was facilitated through the introduction of a new office akin to prime minister, called chief executive officer. Fraud allegations were raised throughout the entire election process and continued thereafter. The Independent Election Commission has been the target of considerable protest and criticism, but like the Electoral Complaints Commission, it in fact played a constructive role throughout the process, acting responsibly, professional and effectively.

Free and fair
elections

3

Afghan politics has been characterized by the executive dominance over the parliament. In addition, state affairs and domestic development have to large extent been driven by external donors (most importantly the United States) and international institutions such as the World Bank, the IMF, ISAF/NATO and the United Nations. Domestic veto powers at the national level include strongmen from across the spectrum of former mujahedin and warlords who have formed major financial and economic interest groups with stakes in natural resources (mining), the banking sector, and large-scale aid-funded construction projects. Regularly acting in the shadow of presidential power, parliamentarians' ability to pass pro-democratic legislation is constrained by their own strict adherence to putative Islamic prescriptions as well as a lack of training, education and knowledge. The new president has vowed to root out "warlordism" and to break with the previous strategy of coopting "warlords" into the government.

Effective power to govern
3

The Afghan constitution does guarantee freedom of association and assembly, and civil society has grown over the years as a result. However, the country's security environment and the de facto weakness of the state in many if not most regions of the country restrict the de fact ability to exercise these rights. Actors who interfere with or violate these rights include organizations and individuals from the Afghan security sector (police, military, other security services), insurgent groups, regional warlords and local tribal leaders or strongmen. State authorities generally interfere less with the work of local and international NGOs than with the activities of other civil-society groups. Members of organizations and associations that engage in politically sensitive areas such as human rights, corruption, accountability or the misuse of public authority for personal economic interests often face personal threats.

Association / assembly rights
4

During the 2014 presidential elections, thousands of Afghans took to the streets upon being informed that elections were rigged. They stormed the presidential palace to show their anger and distrust in the process. Numerous and varied associations currently operate in Afghanistan, including the Afghanistan Banks Association, the Afghan Midwives Association, the New Afghanistan Women Association, and the Afghanistan Independent Bar Association, among others. As of June 2014, there were 4,882 registered associations in the country, along with 2,091 operating NGOs. Former President Hamid Karzai signed the Association Law in September 2013, aiming to broaden the country's civic space. However, the power transfer in 2014 prevented many proposed amendments from being enacted. The Law on Non-Governmental Organizations (NGOs), signed in June 2005, was under review within the Ministry of Justice at the time of writing.

The constitution guarantees the freedom of expression and permits media freedom. However, anything that is contrary to the dictates of Islam is in practice banned. Media flourished in the post-2001 period mainly from a zero baseline, and due to massive international donor funding. Nevertheless, journalists have faced death threats and financial difficulties. Violence against journalists increased by 64% in

Freedom of expression
4

2014, driven in particular by government actions. The new government passed an information law in November 2014, a milestone on the way to greater transparency and more press freedom. With an estimated 1,000 media outlets operating in Afghanistan, most TV and radio stations are privately owned. Moby, the largest media group, has been criticized for airing pro-Western programs and promoting a culture opposed by the country's large conservative populace. The bulk of media outlets are partisan. During the first round of elections in 2014, the media engaged in self-censorship regarding reporting on election-day Taliban attacks at polling stations, in a protest against insurgent violence targeting journalists during the campaign period. Expected aid cuts may directly affect the mass media, a prospect that has led to growing concern in the sector.

3 | Rule of Law

The separation of powers in the Afghan political system remains fragile. The executive operates largely without major checks from the legislature. The parliament is highly fragmented and consists more of individuals than political blocs, let alone political parties. In 2013, former President Karzai refused to listen to recommendations by a grand assembly (Loya Jirga) or the House of the People (Wolesi Jirga, the lower house of parliament) regarding signature of the Bilateral Security Agreement with the United States. The judiciary cannot play an effective role, as it has become one of the most corrupt institutions in the country. The April 2014 presidential elections also weakened the executive, as the runner up was co-opted as the national unity government's chief executive officer, an office that has yet to be included in or clearly defined by the constitution, though this will happen through consultation in a grand assembly to be held within two years' time. The fact that each cabinet members must be approved by parliament has induced many deputies to sell their approval.

Separation of powers

3

The judiciary is not independent. Under Karzai it was largely regarded as serving the president's political will. It is a highly corrupt institution, a fact that leads it to compromise its own reasoning, and to give in to the powerful influences of strongmen and interest groups. Even the prospect of establishing judicial independence has posed a threat to the small elite's ability to secure its own interests, with judicial reforms thus delayed. Consequently, several significant and potentially beneficial pieces of legislation have also been blocked or delayed, resulting in the continuing lack of laws prosecuting land-grabbing, the non-implementation of the 2007 Land Policy, and the miring of the rangeland and land-management law revisions in endless reviews by government commissions and other bodies. Since late 2014, the new government has made concerted efforts to bring more transparency and effectiveness to the judicial sector. For example, it reopened the Kabul Bank case, and the anti-corruption authority published detailed reports on the Kabul Bank affair as well as on

Independent judiciary

3

the state of land grabbing. Moreover, in its first month in power, the government dismissed 200 judges and 600 judicial officers on grounds of corruption or abuse of authority.

The prosecution or penalization of high officials remains a major challenge for the new government. The Afghan Attorney General has made no significant progress with regard to indictments or prosecutions. Some presidential candidates have allegedly been involved in gross human-rights violations, but were nonetheless allowed to run for the country's highest office, as the office of Attorney General declared that there was not enough proof to substantiate the allegations. Few warlords have been convicted for the massive human-rights abuses of the past. President Ghani issued a decree in October 2014 to reopen the 2010 Kabul Bank fraud scandal, which badly undermined the country's financial confidence. Bank founder Sher Khan Farnood was convicted of massive misappropriation; however, the five-year prison sentence was not implemented. Bribery has been an effective tool used by powerful officials to defy prosecution.

Prosecution of
office abuse
2

Civil rights are undermined by the scope of the (increasing) political violence throughout the country. The number of civilian victims (both fatalities and injuries) steadily increased throughout the reporting period; indeed, the figures for 2014 are 22% higher than those for 2013. Human-rights violations, including torture, kidnapping, targeted killings, arbitrary arrests and detentions, are alarmingly frequent. Violations of children and women's rights have officially decreased, but remain frequent. The presence of an estimated number of 600,000 internally displaced persons at the end of 2014 is a sign that the right to a secure life is not respected. The constitution treats both men and women equally, but gender discrimination continues in practice. Women are often threatened or attacked if they enter public life.

Civil rights
2

4 | Stability of Democratic Institutions

Formal democratic institutions have been put in place, largely through the help of massive funding and external direction, rather than through Afghans' own activity. The performance of the parliament, judiciary and elected government is weak, and has contributed to a steady decrease in public legitimacy. Government officers lack the capacities and training to effectively administer state policies at the various bureaucratic levels. Merit-based appointments have been the exception to date, despite the provisions of the Public Administration Reform. Posts as governors, chiefs of police and within provincial line ministries, and even below this level have been subject to purchase by ambitious applicants. The April 2014 presidential election and the conflict that ensued illustrated the limited effectiveness of the

Performance of
democratic
institutions
3

country's existing political institutions. The establishment of electoral cycles has not ushered in democratic conduct.

Relevant actors within the government and state officially accept democratic institutions, but informally undermine their functioning and legitimacy. For example, several office holders in the Karzai government maintained private militias and pursued business interests that worked counter to government policies and authority. Taliban groups have established shadow administrative commissions to run affairs at the local level, as they regard existing formal democratic institutions as being illegitimate. There is a broad sense among key stakeholders and the population at large that the country's current institutions depend on foreign economic and security assistance. This prevailing opinion undermines institutional legitimacy.

Commitment to
democratic
institutions
3

5 | Political and Social Integration

Political parties exist, but there is no tradition of stable, socially rooted party allegiance and engagement. By the end of 2012, more than 84 parties were registered with the Ministry of Justice of Afghanistan. As a rule, these parties are centered on individuals rather than on ideologies or collective social interests, although some are ethnically based. During elections, parties and party programs play a minimal role under the SNTV mechanism. Most candidates run for electoral office as independents, and subsequently participate in fluid alliances between various political (partly ethnically based) camps that are constituted by clientelist relations. Voter mobilization also follows a patron-client logic.

Party system
2

Diverse interest groups and associations have sprung up in Afghanistan in recent years. However, these are generally dependent on donor funding, and are often limited to the capital city, Kabul. Few have strong grassroots support, and their agendas are largely donor-driven. Issues addressed and tasks performed include women's empowerment, the protection of women's rights, media support and outreach, poverty reduction, human rights, small-scale trade and business support, exchange within professional groups, and liaising between the government and different sections of the society. The expected reduction in foreign aid from 2015 onward will most likely narrow this sector's activities. Social interests are underrepresented in rural areas. There is no forum for the achievement of broad societal consensus or interest representation. Elected local councils at the village level have largely ceased operation following the cessation of project funding. Workers' rights are not effectively guaranteed, and labor unions therefore face tremendous challenges, with activists facing threats and harassment.

Interest groups
3

Some surveys have shown appreciable support for democratic institutions. For example, an annual Asia Foundation survey investigating approval of democratic institutions (which has improved over the years in terms of methodology and representativeness) found in its 2014 edition that 72.7% of Afghans expressed confidence in the media. In both 2013 and 2014, government ministers were accorded the lowest level of confidence (respectively 46% and 47%) of any democratic bodies. The Independent Election Commission had a significantly higher approval rating (with 66.4% of respondents expressing confidence in the institution). Parliament received a 51% approval rate, with provincial councils achieving a 58% rating.

Approval of
democracy
n/a

However, anti-government forces, including the Taliban, the insurgent Hizb-i-Islami Gulbuddin (HIG) and other groups, reject democracy and have carried out a widening insurgency. This entails threats and attacks against people working with the government and international organizations. The existing survey data indicates that Afghan youth and the urban population in general demonstrate higher approval of democratic norms and procedures than do rural constituencies. However, even these individuals distrust many officials – either due to their past within the Mujahedeen or their current continuing status as “warlords” allegedly involved in gross violations of human rights.

Civic self-organization has expanded, particularly in urban areas and among youth. However, the absence of broad societal consensus or large-scale organization renders social organizations ill-equipped to influence national-level policies and agenda-setting. Moreover, mobilizing support is difficult, as these groups are unable to offer solutions to the most pressing challenges facing the average citizen, such as poverty, unemployment and the lack of security. In many rural areas, the degree of mutual trust among people has declined further, even within families and in neighborhoods, due to increasing insurgent activities, the failure of local justice institutions (courts), and a subsequent culture of impunity and corruption.

Social capital
2

II. Economic Transformation

6 | Level of Socioeconomic Development

Afghanistan ranks 169th amongst the 187 countries surveyed in the 2014 Human Development Index (HDI). Although the country’s position in the ranking has improved due to the addition of countries; the overall level of poverty and inequality with respect to education, gender and income remains high. Women’s labor-market participation rate is 15.7% compared to 80.3% for men. Women hold 27.6% of parliamentary seats thanks largely to a quota system; however, just 5.8% of adult

Question
Score

Socioeconomic
barriers
1

women have achieved a secondary or higher level of education, compared to 34% of their male counterparts. Afghanistan holds the third to last position in the 2014 Gender Inequality Index (GII) (HDR 2014), and the MDG objective of increasing the share of public offices held by women to 30% by 2020 is unrealistic. The new provincial-council election law, implemented in 2013, lowered the quota for women councilors from 25% to 20%. There is little evidence of exclusion based on religion and ethnicity; however, it is a problem between power brokers and officials. A subsistence or near-subsistence economy prevails in the agricultural sector, which accounts for Afghanistan's numerically largest workforce. The country lacks the resources and structural conditions to create employment opportunities for the bulk of its workforce. A total of 36.5% of the population lives below the national poverty line. However, there are very strong differences between rural and urban areas. While the province of Kabul has a poverty rate of 29%, the rural southern province of Paktia has a poverty rate of 76%. While only 29% of rural households have access to electricity, 90% of urban households do. Additionally, 19% of rural households have access to safe water, as compared to 58% of urban households. In addition, illiteracy is also most prevalent in rural areas. Income inequality as measured by the Gini coefficient increased to 31.6 compared to previously measured 29.7 in 2007-08) and the prevalence of food insecurity also increased from 28.2% of the population affected by food insecurity in 2007-2008 to 30.1% in 2013-2014.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	6275.1	15936.8	20310.9	20842.0
GDP growth	%	11.2	8.4	1.9	2.0
Inflation (CPI)	%	12.7	0.9	7.7	4.6
Unemployment	%	8.5	8.5	8.0	-
Foreign direct investment	% of GDP	4.3	0.5	0.3	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-	-2795.5	-6705.6	-
Public debt	% of GDP	-	-	-	-
External debt	\$ M	-	2423.3	2576.8	-
Total debt service	\$ M	-	10.0	25.3	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-	1.5	-	-
Tax revenue	% of GDP	-	9.1	-	-
Government consumption	% of GDP	10.6	14.3	12.3	12.8
Public expnd. on education	% of GDP	-	4.5	4.6	-
Public expnd. on health	% of GDP	0.8	1.8	1.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.0	1.9	1.1	1.3

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Afghanistan's competition law is comprehensive, creating a Competition and Consumer Authority tasked with preventing anti-competitive practices, regulating mergers, promoting economic efficiency and consumer welfare, and ensuring the freedom of trade. However, enforcement is poor due to weak judicial institutions and limited access to the courts.

Market-based
competition
3

Heightened uncertainty regarding the political and security transition affected investor decisions to commit resources in Afghanistan from 2013 onwards. The number of new firm registrations fell sharply, and in 2013 reached its lowest level in five years, with reductions evident both for local and foreign new fixed investments. Local companies have increasingly limited access to finance, and keep fewer accounts with local banks. For the most part, they do not trust Afghan banks, which is largely a consequence of the 2010 Kabul Bank scandal. Only 2% of firms use banks to finance investments.

The informal sector is large, although an exact quantification is not possible due to limited data availability. Labor migration is common, producing a significant volume of remittances. However, these flows are difficult to measure, as most of these funds are sent through hawala networks.

The country has laws that discourage monopolies, but weak institutions prevent the government from successfully performing this task. The competition laws prohibit the formation of cartels and practices such as price fixing and the abuse of dominant market positions. However, laws have not in practice deterred profiteers from making gains.

Anti-monopoly
policy
2

In September 2014, a number of liquid-gas importing companies called on the government to identify the profiteers behind gas-price hikes and have their business licenses revoked. Officials of the oil and gas association subsequently threatened to cancel the licenses of companies responsible for the price hike, and Ministry of Commerce and Industries (MoCI) officials indicated their support for the decision.

Afghanistan has been criticized for establishing state monopolies, thereby tarnishing its image as a growing market economy.

The average tariff rate in Afghanistan is currently 6.8%. However, complex customs procedures that deter imports are a significant problem. Foreign ownership of land is constitutionally prohibited. The national financial sector is underdeveloped. There are 17 commercial banks and three state banks, but access to financing for the private sector remains scarce. Customs duties and tariffs depend on the type of goods. A significant volume of Afghanistan's trade (as high as four-fifths, by some estimates), including import and export activities, is unregistered.

Liberalization of
foreign trade

3

After the formation of the new government, Kabul launched the process of drafting, adopting and enacting the remaining legislation needed to qualify for WTO membership.

Afghanistan's formal banking sector remains fragile, and has not yet fully recovered from the Kabul Bank crisis that emerged in 2010. Most of the population relies on the hawala system of informal money dealers to transfer money or income. For these people, access to credit is typically also best achieved through the informal system of money lenders, or through informal ties based on communal or tribal/clan ties.

Banking system

3

Regarding the formal banking and financial sector, systemic weaknesses persist in banking operations and governance, including in the areas of personnel capacity, internal oversight and compliance with regulations. Banking-sector deposits declined from 16.1% of GDP in 2012 to 15.5% in 2013. However, lending to the private sector has remained steady, with a total volume of loans provided by financial and banking institutions of \$830 million as of June 2014.

The Kabul Bank crisis of 2010 revealed serious limitations in the capacities of the central bank's Financial Supervision Department and the financial sector's broader governance framework. Nevertheless, the sector's profits rose from \$4 million in the first half of 2013 to \$23 million in the first half of 2014.

8 | Currency and Price Stability

The government and central bank in Afghanistan do not coordinate with one another to pursue consistent inflation and appropriate foreign-exchange policies. The government has very little influence on monetary policy. For this reason, fiscal targets have become hostage to the country's underdeveloped financial sector, which is dominated by banks. Food-item inflation has become rampant in Afghanistan, but the government and central bank have no effective mechanisms for addressing the problem. In addition, the dearth of credit available to foreign businesses has seriously hampered investment, in turn hindering any potential productivity gains.

Anti-inflation /
forex policy

6

Consumer-price inflation remained below an annual overall rate of 10% throughout 2013 –and 2014. Period-average headline inflation fell to 5.6% in June 2014, the latest in steady declines since early 2011. Exchange-rate and currency-stability policy is carried out by the central bank through its monetary policy and twice-weekly open-market auctions. During 2012 and 2013, the central bank largely failed to keep the value of the country's currency, the afghani, stable. However, after a strong depreciation (10%) against the U.S. dollar in 2013, the currency did stabilize in the first half of 2014. Foreign-exchange reserves have been successfully amassed since 2002, and amounted to \$7.3 billion in June 2014. However, fluctuations in this amount have become more common since 2013.

Although autonomous and independent, the central bank has been unable to recover fully from the 2010 scandal and subsequent crisis. Due to its systemic fragility and vulnerability with regard to banking governance and operations, the central bank's mechanisms for cooperation and conflict resolution with the government are weak. This is evident from the lack of a fiscal target and the government's widening budget deficits.

Macroeconomic stability is not ensured. Real GDP growth has dropped sharply, from an annual average of 9.4% between 2003 and 2012 to an estimated 3.7% in 2013 and an expected 1.5% in 2014.

Macrostability

4

The Afghan economy suffers greatly from corruption, a high degree of aid dependence, and low levels of human development. Security problems, uncertainty over the future, the huge informal economy, the illegal poppy trade and a lack of transparency have all contributed to increased economic instability. Increased expenditures during the 2014 election year – primarily on security and social programs – have additionally depleted the cash balances available for operational spending.

Afghanistan has a history of missing budget targets. Given the deteriorating economic slowdown, as well as increasing weaknesses in tax and customs compliance, the

unfinanced budget gap in 2014 stood at \$537 million, the result of a revenue gap of AFN 37 billion. This financing gap is expected to persist throughout the next decade. Given the slow progress in fiscal stabilization, job-market creation and business-climate improvements, the year-to-year ability to bridge the budget deficit will depend to a large extent on further commitments of international aid.

9 | Private Property

The 2004 Afghan constitution safeguards the right of individuals to own property, and a law on the acquisition of property rights, passed 50 years ago, is still technically valid. Nevertheless, the protection of property rights is very weak in Afghanistan. There are several reasons for this, including poor institutional capacity to enhance private-sector growth, as well as the slow nature of legislative processes related to land ownership. The Land Policy Framework issued in 2007, which classifies land according to international best practices, was all but forgotten for more than five years. Land grabbing by all kinds of actors is rampant; more than 240,000 hectares of land has been taken over in this way since 2001. A legal regulation on this issue entered a second round of official review in November 2014, and awaits implementation. There is no entity in Afghanistan that collects information on private-land ownership, as the cadastre department was folded into the Afghan Land Administration (ALA), which is concerned with government and public land. Despite major efforts by international donors to establish effective property registries and a land-title database for urban and rural areas, limited progress has been achieved beyond pilot projects. An estimated 80% of land is transferred informally. Moreover, although the constitution prohibits discrimination against foreign investors, foreign ownership of land is not allowed.

Due to rampant corruption, a poorly functioning judicial system, and the influence of powerful individual and political actors, private companies cannot operate efficiently. Though the institutional underpinnings for the private sector are in place, their execution is deficient. There have been several USAID-related scandals in which permits have been awarded through corrupt practices. Privatization processes in Afghanistan were not conducted in a way consistent with market principles. Several problems were evident: the widespread corruption undermined transparency; flaws in the underlying mechanisms made it impossible to determine the degree of equity in the process; and the service quality provided by the companies involved was not consistent with market principles. The objectives of privatization – including the promotion of competition, the imposition of hard budget constraints and an improvement in the business environment – thus remain unachieved as a consequence of these procedural flaws.

Property rights
2

Private enterprise
4

10 | Welfare Regime

Afghanistan's Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD) is charged with the provision of services and assistance to various extremely vulnerable groups across the country. However, this is a poor country, with more than 36% of the population living below the poverty line. Vulnerable groups targeted by the MoLSAMD include orphaned children, women with no support, and disabled people. Such individuals require assistance primarily in the larger cities such as Kabul, Kandahar, Mazar-i Sharif, Jalalabad and Herat, as a result of rural-urban migration that has failed to improve families' economic conditions. The national Safety Nets and Pensions Support Project was implemented in 2009 with the aim of improving the administration of the public-pension schemes and further assisting vulnerable groups. These safety nets' dependence on external financing sources renders them vulnerable, and indeed, MoLSAMD's work is intermittently hampered by the need to find adequate implementing partners. Other vulnerable groups, also mostly in urban areas, include IDPs, nomads (Kuchi), poor repatriates, and the secondary displaced. The Ministry of Refugees and Repatriation, the municipalities, the Kuchi Directorate and the Ministry of Border and Tribal Affairs have not reached consensus with regard to administrative responsibility for these groups. The entire budget for social protection (besides the above-mentioned ministries, the Ministry of Women's Affairs and the National Disaster Management Authority) was 1% of the total central government budget in 2013 and 5% in 2014 and the sector target for 2015 amounts to 4.8%. Only about 50% of the Afghan population currently has access to the public health sector. For 2015, health spending constitutes 4.2% of the overall budget, up from 4% in the previous two budgets (2013, 2014).

Social safety nets
2

The Afghan constitution contains guarantees of equality of opportunity. However, equal access is questionable when education levels are low, unemployment is on rise and public offices are routinely abused. Traditional Afghan norms do not support opportunities for all to participate in the system. Conservatism particularly limits women's freedom of movement, which results in lower education-enrollment rates, low rates of employment among women, and few women running for and holding public office. The equality agenda is largely donor-driven, for example through the establishment of the National Action Plan for Women (2008 – 2018) or the provisions included in the Tokyo Mutual Accountability Framework for women's protection and gender equality. Minor legal provisions have resulted, mainly ensuring the implementation of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), which Afghanistan ratified in 2009. However, frequent initiatives from conservative actors as well as the Ministry of Justice have sought to limit women's participation in public life and their legal status as individuals, indicating just how continuously precarious women's rights remain. The rights of the only acknowledged religious minority (including both Sikhs and

Equal opportunity
2

Hindus) are limited, as they are not permitted to run for public office or have their own parliamentary representative.

11 | Economic Performance

Afghanistan's real annual GDP growth has slowed notably, from an estimated 3.7% in 2013 to a projected 1.5% in 2014. All main domains of the economy, excluding the opium and agricultural sectors, slowed down significantly. This includes the services sector, which accounts for about half of the country's economic output. Food-item inflation averaged 11.4% from mid-2013 to mid-2014, even as overall consumer-price inflation decreased to 5.6%. The Central Bank auctions between \$40 million and \$50 million twice a week, seeking to stabilize the afghani against the dollar. A projected 8% unemployment rate is in fact much higher due to the cessation of a large number of unfinished projects and the loss of tens of thousands of jobs in construction, transportation and other areas. Moreover, most people are employed in the informal sector, and thus regarded as "self-employed." The country's demographic structure means the government is faced with the challenge of creating 400,000 new jobs every years just for new entrants into the labor force. Budget revenues in 2014 were 27% lower than projections, amounting to a projected AFN 96 billion, or less than \$2 billion (by comparison, the export value of Afghan opiates in 2013 was \$3.1 billion). Afghanistan's domestic-revenue collection rate is among the world's lowest, averaging 9% of GDP from 2006 – 2013, and falling to 8.7% in 2014. Investment activity dropped throughout the reporting period. In 2014, the country was reported to be in a fiscal and confidence crisis, which has had a severe impact on revenues and growth. The trade deficit is large by historical standards, amounting to roughly 40% of GDP. This is being offset by the influx of foreign-aid money, resulting in a positive 2014 balance of payments of about 4% of GDP.

Output strength
4

12 | Sustainability

The National Environmental Protection Agency (NEPA) was established on the basis of the National Environmental Protection Act 2005 as the country's leading environmental policymaking and regulatory institution. It is tasked with developing and implementing national environmental policies and strategies in order to integrate environmental issues and sustainable development approaches into the legal and regulatory frameworks. So far, it has accomplished little except in the field of species protection. In 2014, NEPA published a National Biodiversity Strategy and Action Plan which was developed with Indian assistance. Afghanistan faces several serious environmental challenges such as water scarcity, soil erosion and desertification. The mountainous central highlands and the northeastern mountain ranges of Afghanistan are considered to be vulnerable to climate change. In urban areas, water, air pollution and waste management constitute growing problems. Up to 80% of Afghanistan's

Environmental
policy
3

population depends for their daily survival on accessing and using natural resources such as fuel wood, pastures and land, putting great pressure on the commons. The government has thus far been unable to establish environmentally sustainable incentives for public consumption and economic activities.

No official data on public education expenditure is available. However, the national budget plans for the period under review forecast education-sector expenditures amounting to 15% of the core budget in 2013 and 13% in 2014. The core budget overall amounts to 32% of GDP. Despite improvements, literacy rates remain low at 17.6% for females, and 45.5% for males, for an overall average of 31.7%. Thus, there are an estimated 11 million adults in the country who do not know how to read and write. The Global Partnership for Education was launched in 2012 with the aim of expanding education to insecure areas and getting children back into schools. The ratio of girls to boys enrolled in public and private schools is 71.8% at the primary level, 55.3% at the secondary level, and 33.2% at the tertiary level. Traditionally, the Ministry of Education has provided much of the country's formal technical and vocational education. An important development in Afghan higher education has been the emergence of private-sector higher education, which is in principle allowed by the country's constitution. Indeed, private universities have experienced an unprecedented boom over the past five years. However, there is no overall regulatory framework for curriculum development and structure or examinations. Many non-profit organizations are working in the research and development sector in Afghanistan, following donor-driven agendas and topics. Through the ministries, the government finances research in the agricultural and health sector, and commissions consulting reports in various fields. The Afghanistan Academy of Sciences is not heavily supported and has limited outputs. The main spending in the education sector is for primary education and teacher training, with higher education receiving just one-eighth of the funding allocated to the primary-education sector. The most effective higher-education programs are achieved through bilateral international cooperation, such as Afghanistan's program with India.

Education policy /
R&D

2

Transformation Management

I. Level of Difficulty

Poverty rates have remained persistently high despite a decade of large-scale reconstruction, aid flows and poverty alleviation efforts. Afghanistan is one of the world's 32 landlocked states. Geography has impaired its access to international markets and hampered its competitiveness in the global market. Almost three-quarters of its land area is not fit for economic usage; the prevalence of high mountain areas, steppes and oases, and the precipitation-dependence of water availability render the population highly vulnerable to natural disasters such as droughts and floods, as well as to food insecurity. Flash floods and landslides regularly cause human and material losses; an estimated 67,000 Afghans were affected when floods and landslides hit 11 (out of 34) provinces in April 2014. The national economy is highly donor-dependent, unable to sustain its population, and is further constrained by lack of an educated labor force. Despite improvements, the existing road network is not sufficient and hampers market access. Security concerns and infrastructure impediments limit traffic between major urban centers primarily to air traffic, such as between Herat and Kabul. Large-scale infrastructure projects such as dams, improvements in the north-south highway connection (Salang Tunnel), and urban planning efforts have been insufficiently realized.

Structural
constraints
10

Afghans have traditions of civil society in the broad sense. However, these are not compatible with European notions of civil society, as the state-society structure and the underlying logics are dissimilar. While family, clan- and ethnicity-based mutual-support networks could be deemed to represent informal civil-society traditions, they have never had a larger societal function or worked toward the establishment of consensus-based state or public representation. Rather, they function on the basis of excluding others. Village councils and local institutions have traditionally worked to settle family disputes, but not necessarily according to democratic principles of justice, and not in a non-partisan way. Interest representation in the economic sphere, particularly in urban areas, does have a tradition. Today, numerous associations in Afghanistan seek to engage citizens in public life and make the government accountable. However, this increase in the number of civil-society organizations is mainly donor-driven, and has not increased the social trust these organizations seek. Their ability to survive without foreign aid money is uncertain. Social-trust levels in

Civil society
traditions
10

rural areas have decreased during the period under review given the expansion of the insurgency, the resulting lack of security, and the prevailing uncertainty of alliances.

Conflict has been a persistent phenomenon in Afghanistan for decades. The year 2014 marked the end of official combat operations and the withdrawal of an estimated 44,000 international forces from Afghanistan, leaving the task of security provision largely to the Afghan National Army and Afghan police forces. Some 13,000 troops, mainly Americans, remain in the country to support and train the Afghan army. Taliban insurgents have declared the withdrawal to be a defeat of the foreign forces, and have pledged to continue their fight until a pure Islamic system has been achieved. The country has deep ethnic and social cleavages, with Tajiks, Uzbeks and Turkmen traditionally serving as rivals to the Pashtuns. Warlords and strongmen in the country have exploited these divisions to further their own interests. The political wrangling between Ghani and Abdullah before the formation of the National Unity Government was a sign that conflicts over the distribution and allocation of all kinds of resources remain serious. They cut across existing cleavages, with actors often seeking to exploit these, for example through attempts to instrumentalize ethnic differences. However, official policy resists this ethnic manipulation at an operational level; for example, in terms of recruitment and network-forging, patron-client ties are mostly structured by local personal networks; clan, tribal and family relations; and other alliances. Social conflict, exacerbated by inequality and exclusion, is significant, but is diffused by narratives of political and ethnic confrontation, traditionally highly unequal power relations, and the population's habituation to unrest, as well as the lack of a concrete cause or target at which to direct grievances.

Conflict intensity

9

II. Management Performance

14 | Steering Capability

The post-2001 political process in Afghanistan was characterized by donor-driven policy-making, agenda creation and priority setting. The Afghanistan National Development Strategy (ANDS), launched in 2008, concluded by the end of 2013. It was MDG-based, "pro-poor," and ran in parallel with a Poverty Reduction Strategy Paper. Evaluations of the strategy are still forthcoming at the time of writing. A lack of clarity regarding implementation of the comprehensive vision expressed in ANDS motivated local stakeholders to opt for what came to be called an Afghan-led approach, or later the Kabul process. Prioritization was conducted through the launch of 22 national priority programs, 14 of which became fully approved by early 2014. The implementation period for each program is three years. Another type of prioritization was accomplished by the newly elected executive government's

Question

Score

Prioritization

5

approval of the Bilateral Security Agreement with the U.S. administration in September 2014, and the signature of a Status of Forces Agreement with NATO after ex-President Karzai's withholding of consent throughout 2013 and 2014. This signaled the new government's acknowledgement and approval of continued assistance, both in the security and civil sectors, for years to come. The president presented an ambitious reform program entitled "Realizing Self-Reliance" despite structural constraints within the political system.

Policy-implementation capacity remains limited for several reasons. The most significant reason is the limited implementation capacity of the government bodies – for example, a 2013 study found that only 17% of development-budget funds had effectively been released in the first half of 2013. The lack of capacity can be traced to low human-resources development, although this was identified as a key development challenge in the Kabul Process and was made the subject of five separate national priority programs. Poor governance (corruption, abuse of office, suboptimal management of public finances) is a second major factor impeding implementation effectiveness. Both the poor state of human-resources development and governance in general are reflected in the performance of the security sector, and explain to a large extent why the single most important priority of the government, to provide security for the population, has not been achieved. The budget of the ANSF is largely dependent on foreign funding, and is thus uncertain. While army recruits are trained professionally, police personnel are poorly trained, largely illiterate, and known for corruption and abuse of authority. The realization of economic-growth policies has been similarly hampered. A relatively small group of businessmen constitute the economic elite, and control major economically beneficial activities. The patronage system prevalent in Afghanistan's highly unequal society prevents pro-poor policies from reaching the intended target groups.

The government's policy learning during the review period was marked by President Karzai's weakening of domestic political processes. He vetoed the launch of negotiations with the Taliban, stalled discussions on the future of the international forces in the country when he referred the issue to the Loya Jirga, and subsequently even balked at implementing its pro-agreement decision. The political process under Karzai grew arbitrary and rather defensive, framed by basic consensus agreements closed with international donors at large international conferences that ensured the necessary flow of aid funds. Though aware of the degree of corruption and the scope of poor governance, the Karzai government made no serious effort curb the root causes of policy failures. Policies and implementation measures were altered on an ad hoc basis, but institutionalized mechanisms that might facilitate innovation and flexibility in policymaking are absent. The government was in all likelihood overwhelmed by the quantity of international good practices and recommendations put forward by donor governments, international partners and development agencies, and was unable to judge the extent to which they might fit the local context.

Implementation
3

Policy learning
4

Following Ashraf Ghani's victory in the 2014 presidential elections, Afghans at large have high hopes from the new unity government. Ghani is seen as a visionary and an individual capable of learning from experience based on observations, consultation and knowledge exchange. The extent to which he can impose his attitude upon an entire government machinery remains to be seen. However, as an academic, long-time World Bank executive, government advisor and former finance minister, Ghani is highly experienced with policy-making processes amid international developments and constraints.

15 | Resource Efficiency

Afghanistan has not been able to acquire the human, financial, and organizational resources required to run the administration effectively and without foreign assistance. Foreign finance in particular is needed to keep the most basic functions of the government (including security and personnel salaries) operational. The 2014 election year and preceding uncertainty regarding the peaceful transfer of power, as well as further uncertainty over the international forces' withdrawal, resulted in a financial crisis, government income shortfalls and an extraordinarily high budget deficit. Where corruption prevails, efficient use of resources is minimal. The 20% budget shortfall set off alarm bells among the country's financial managers, particularly after the 2013 enactment of the VAT Law to improve taxation and revenue collection. Afghanistan will need more than \$7 billion annually for the next decade to sustain a functional government, rebuild infrastructure and fund the Afghan army and police. Despite public-administration reform efforts seeking to improve recruitment of government personnel based on merit and transparent procedures, high-ranking posts throughout the provinces in particular have been filled based on personal network ties. The Karzai government viewed the recruitment of provincial governors and chiefs of security as a way to subdivide zones of influence between different factions (his own and that of his Northern Alliance-origin vice president), as well as a means of increasing influence in domestic and business affairs.

There is formal agreement within the government that a coherent policy should be coordinated in order to steer the country toward economic growth and political stability. However, the government is in practice often unable to reconcile differing interests and objectives, due to low levels of personnel capacity and poor coordination procedures on the one hand, and interference by international stakeholders that administer programs such as salary provision within certain sectors (UNDP) on the other. Employees of departments, ministries and public authorities/offices often lack sufficient understanding of their office's mandate and responsibility within the overall administrative framework. This leads to contradictory positions on pressing issues. For example, it took concerted efforts over a long period of time to urge the concerned departments/ministries (MoRR, MoI,

Efficient use of
assets

2

Policy
coordination

3

MoBTA etc.) to create an internally displaced person (IDP) policy, which was finally passed in 2014. Delays and conflicts in passing land-related legislation reflect the government's inability to respond to conflicting stakeholder interests. In this case, parliamentarians and their personal networks clearly have the highest stakes in legal regulations enabling land usage, related fraud and land-grabbing. The lack of policies in many fields renders the question of policy coherence moot.

The new government's signature of the Bilateral Security Agreement with the United States and the Status of Forces Agreement (SOFA) with NATO in September 2014 ensured the legal status of the U.S. and NATO/ISAF follow-on missions in Afghanistan after 2014. This may give some coherence to national-security programs. Reconciliation with anti-government forces such as the Taliban or Hizb-i-Islami Gulbuddin (HIG) insurgents remains a challenge, but will be necessary if peace is to be established. However, the lack of coordination among security institutions such as the Afghan National Army, the Ministry of National Defense (MoD), the Ministry of Interior (MoI) and the National Directorate of Security (NDS) impedes the government's ability to secure the country in the post-withdrawal period.

Afghanistan has a National Anti-Corruption Strategy, and institutionalized the High Office of Oversight and Anti-Corruption with the rank of a ministry, tasked with encouraging transparency and accountability. As of 2014, the office was also assigned to reduce corruption in governmental organizations by 20% each year by simplifying administrative procedures and developing anti-corruption mechanisms, investigating cases, creating capacity-building/anti-corruption training programs for government staff, and engaging in public-awareness raising. Integrity Watch's National Corruption Survey 2014 (based on 2013 data) found that justice institutions (particularly the courts), the police (under the Ministry of Interior) and the Ministry of Education are perceived as the country's most corrupt institutions. This inhibits citizens' access to public services. The incidence of bribery has doubled compared to 2011 – 2012, and has been further institutionalized. Neither the government nor the international community are perceived as acting seriously to combat corruption. A Regulation on Police Disciplinary Procedure exists, as does the New Afghan Police Strategy of 2014, but both await proper implementation. An Access to Information Law was passed in 2014, which in theory promises higher levels of transparency. Incoming President Ashraf Ghani has already focused strongly on containing corruption, naming it one of the major drivers of instability and vowing to combat all sorts of public-office abuse, bribery and corruption. In his first months in office from September 2014 onward, he removed numerous officials involved in corruption and fraud from key positions, including 200 judges and 600 judicial officers. In addition, he ordered the High Office of Oversight and Anti-corruption to reopen the Kabul Bank case for non-partisan investigation. The Independent Joint Anti-Corruption Monitoring and Evaluation Committee published its Report on the Public Inquiry into Land Usurpation, a fact-finding document on the extent of land-grabbing in

Anti-corruption
policy
3

Afghanistan, in November 2014. In 2014, the government also successfully avoided being blacklisted by the IMF's Financial Action Task thanks to the introduction of draft laws for the criminal prosecution of money-laundering and terrorist activities.

16 | Consensus-Building

The country's main government actors accept democracy as the appropriate form of government, as was set out in the 2004 constitution. The 2014 presidential and provincial-council elections served as an illustration of how democratic principles are realized in the current political process. Media, civil-society organizations (mainly limited to Kabul), the Independent Election Commission and the Independent Election Complaints Commission helped to ensure that the elections were measured against democratic standards, even though many flaws characterized the overall election process. In his inauguration speech, Ghani stated that Afghanistan's political process is based on democracy. This, combined with a previous period of increasing official silence regarding democracy as an objective of state- and institution-building in Afghanistan, both among Afghan politicians and international donors, leaves ample scope of interpretation with regard to what form of political system is in fact deemed desirable. By contrast, there is a more certain consensus in regarding peace, stability, accountability and economic improvement as the objectives of government. The outcome of the elections – the formation of a unity government between the two presidential contenders – is a positive sign, indicating both camps' agreement to work together toward achieving these aims.

Consensus on goals

3

The anti-government forces, including the Taliban and other insurgent groups, do not believe in democratic governance. Their agenda and propaganda expresses the view that democracy is contradictory to Islamic principles. As a part of this message, they allude to Afghans' experiences from the late 1970s onward, when the Soviet-backed regime in Kabul tried to carry out reforms in the name of democracy. This era led to full-fledged civil war – a violent conflict that is generally viewed as the beginning point of the turmoil of the last three and a half decades.

The state's support of market-economic principles is specified in the constitution. No major figures today challenge the current neoliberal model, and politicians of all backgrounds speak out for economic growth. However, true competition is hindered by the dominance of personal network ties and decisions made on the basis of patronage. Few have access to capital, and markets are imperfect or entirely informal, operating as parallel markets outside the legal framework. In recent years, the rise and health of private businesses and investments have been closely tied to the presence of international forces and civilian actors with large aid budgets to spend. The large-scale military withdrawal at the end of 2014 has prompted a decline in investment and has exacerbated unemployment.

The political leadership of Afghanistan does not explicitly advocate democracy in the course of everyday politics, because the issues of security, accountability, employment and improved governance – albeit implicitly based on democratic principles – are the populations’ major concerns, and thus drive political discourses and the articulation of desires. “Stability” as an overriding objective and prerequisite for survival – of the political regime, democratic ambitions, and citizens themselves, given the prevalence of politically motivated violence – has been regularly invoked as an excuse for abrogating the reform process and various constitutional provisions. Non-democratic actors, the so-called former warlords, were part of the Karzai governments and have been able to exert territorial and economic control in their areas of influence. President Ghani has expressed a commitment to neutralizing veto powers in the post-September-2014 political configuration. He made an alliance with notorious Uzbek “warlord” Abdul Rashid Dostum, who now serves as vice president, on the condition that Dostum apologizes for war crimes committed during the civil war and Taliban periods. Beyond Dostum, the candidacies of former warlords in the 2014 presidential elections could be seen as an indicator that they are formally ready to subject to constitutional rules, and that anti-democratic actors can thus be co-opted. However, anti-democratic, anti-government groups such as the various Taliban factions have not proved amenable even to participation in consensus-oriented dialogue. The Karzai government consequently resorted to excluding these actors, which resulted in ongoing violent conflict and insurgent activities.

Anti-democratic
actors

4

Deep ethnic, tribal, linguistic, ideological and sectarian cleavages cut across Afghani society. None is alone a national-level deal breaker, although each is felt in everyday life in the form of discrimination and exclusionary organizational practices. For example, recruitment often follows ethnic or ideological lines, as it is conducted on the basis of personal network ties. Similarly, cleavage-based exclusion manifests in the organization of militias and characterizes access to resources. The (roughly) north-south cleavage between former Northern Alliance members and supporters, mainly Tajiks, Uzbeks and Turkmen, on the one hand, and Pashtuns on the other, has been bridged in the form of power-sharing deals in the composition of the government and administration. Most recently, this has been visible in president/vice-president power-sharing alliances, as well as in the formation of the Ghani-Abdullah unity government. However, the current government is vulnerable to ethnic and sectarian disruptions. In the recent past, the nomads-settlers conflict, which itself has an ethnic (Hazara vs. Pashtuns) undertone, took on a new immediacy. The potential for mobilization along existing cleavages remains considerable. The new government’ intention to enter into dialogue with insurgent groups is intended to deescalate one source of ideological, ethnic, and sectarian conflict. At the sub-national level, cleavage-based conflicts are sometimes fueled by the behavior of members of the sub-national administration. This manifests in symbolic gestures as

Cleavage /
conflict
management

4

ordinary as the controversial renaming of streets, or tearing down street signs, for example.

Civil society in Afghanistan is growing. However, its involvement in policy formulation or decision making is marginal. Civil society representatives were invited to international donor conferences largely due to pressure by the international community. This gave local organizations a voice, and forced the political leadership to listen to and acknowledge their positions. However, this “forced” civil society participation is not sustainable, and has largely failed to produce palpable effects. Community leaders, civil-society groups, minority groups, and women’s advocacy organizations are not routinely consulted in the course of decision making, monitoring and planning. For example, civil society has largely been excluded from negotiation processes and strategy-development sessions of the Afghan High Peace Council, the leading body of the Afghanistan Peace and Reintegration Program. The Loya Jirga, Afghanistan’s grand council of tribal, community, and interest-group representatives, likewise fails to integrate civil-society participation. Rather, it is elitist, exclusionary, external to the formal political process, not committed to democratic principles, and thus unreceptive to otherwise unheard views.

Civil society
participation
4

The Afghan judiciary lacks both the will and capacity to address past abuses and acts of injustice. Human-rights activists expect the new government to publish a conflict-mapping report on war crimes and serious human-rights abuses committed between 1978 and 2001. This was compiled years ago by activists of the Afghanistan Independent Human Rights Commission, but was not published due to security concerns and a fear of intimidation and further conflict. According to a statement by the International Criminal Court in 2013, war crimes and crimes against humanity continue to be committed in the country. The number of perpetrators is large, and they stem from all different periods of the country’s three-plus decades of political turmoil. When the Dutch police in 2013 released a first batch of death lists containing almost 5,000 names of victims of the Afghan Security Service under the Peoples Democratic Party of Afghanistan regime in the late 1970s and 1980s, many Afghans reacted strongly and voiced their opposition to the so-called National Reconciliation Charter that proposes immunity for those accused of war crimes. Given the high degree of factionalism during the different political regimes of the past, the reconciliation process is seen ambivalently. The supporters of the former Northern Alliance in particular expressed irritation and resentment over the establishment of the High Peace Council in 2009, as well as toward the intensified efforts to enter negotiations with Taliban in 2012 – 2013 and the proposed provisions providing impunity. In these skeptics’ view, they fought the Taliban and ultimately freed Afghanistan from the Taliban’s terroristic regime, and see little reason now to allocate the Islamist forces a share in the government and of available resources.

Reconciliation
4

17 | International Cooperation

Afghanistan's policies and long-term development strategies have in recent years been primarily donor-driven. The Afghan National Development Strategy (ANDS) for the period 2008 – 2013 is a case in point; though it is well-designed and includes all desirable outcomes, it lacks operational steps and procedures by which the prescribed development might be achieved. Similarly, Afghans themselves have only limited influence over the strategies for international assistance resulting from the large international donor conferences. This has led to situations where aid money is not consistently spent on long-term development goals, but is also used to realize short-term objectives. International donor commitment has been consistent despite large-scale rent-seeking and capital flight. In 2012, the government and the international community agreed in Tokyo on a Mutual Accountability Framework (TMAF) that conditions further international assistance on reform progress in various sectors. The basis for the Tokyo Agreement also forms the core of the government's own strategy for achieving self-reliance within the so-called transformation decade from 2015 to 2024. Thus, the TMAF constitutes an instrument for aid conditionality. The passing of the 2013 Election Law represented a first tangible outcome here. As such, the TMAF might help the new government achieve the reforms it has committed to in the 22 envisaged national priority programs.

The Afghan National Security Forces took over countrywide responsibility for security in 2013. Their financing comes largely from international partners. Additionally, a 13,000-strong international force remains in Afghanistan to train and support the Afghan forces. The fragility of the Afghan economy will require a continued inflow of aid in the coming years in order to enable the unity government to stabilize itself and survive, and avoid a fall into chaos. The continued dependence on donors bodes ill for the country's ability to convert assistance into sustainable development. However, President Ghani has reassured his international allies that he will cooperate fully in seeking to bring about peace and stability.

The international community's continued financial and technical support for Afghanistan is an indicator of credibility. However, the continuation of support has increasingly been tied to progress toward commitments made in the areas of political stability, good governance (particularly regarding financial and administrative management), the effectiveness of judicial institutions, and the rule of law. The conditioning of aid has partly been a response by Western governments to growing pressure from their own taxpayers regarding accountability and effectiveness of spending in Afghanistan. Karzai's reluctance to sign the BSA and NATO agreements in 2013 helped prompt donors and troop-sending countries' publics to scrutinize not only their military assistance, but also democratic state-building and reconstruction efforts. Indeed, Karzai's behavior in the entire BSA- and pre-election process

Effective use of support

5

Credibility

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damaged the Afghan government's reputation as reliable partner, as it suggested that the international troop presence was detrimental to peace and development in Afghanistan. Furthermore, both sides blamed each other for Afghanistan's continued political and economic frailty. The fact that both the convened Loya Jirga and the lower house of parliament decided in favor of the agreements, thus isolating the president as essentially the only spoiler in this affair, ultimately helped the international community and the government resume cooperation immediately after the elections, signing the agreement in September 2014. Ghani enjoys a reputation as reformer and is trusted by international partners to solidify democratic principles and improve governance procedures.

The political leadership is exploring ways to improve and revive good relations with neighbors, as well as to enter into cooperative agreements in the wider region with countries including Saudi Arabia, Russia, China and India. In 2011, Afghanistan and Turkey jointly created a regional partnership called the Heart of Asia process. This mainly focuses on confidence-building measures among the participants. After the Karzai administration showed insufficient political will to lead, Ghani's first foreign state visits after his election demonstrated that he hopes to use good relations with neighbors to improve Afghanistan's international strategic position. Ghani has also initiated counterterrorism collaborations with Pakistan, and members of the Afghan National Army have begun training in Rawalpindi (Pakistan). Improved relations with Pakistan are seen as fundamental in preparing the way for peace negotiations with the Taliban leadership. Afghanistan participates in numerous further initiatives, including the Regional Economic Cooperation Conferences on Afghanistan (RECCA); the Central Asia Regional Economic Cooperation Program (CAREC); the World Bank's CASA 1000 energy-transmission project connecting Kyrgyzstan, Tajikistan, Pakistan and Afghanistan; the TAPI project; the ADB's TUTAP energy corridor; and the ECO. Given the economic nature and envisaged shared benefit of these projects, they all have the potential to further regional integration. In addition, Afghanistan's Ministry of Counter-Narcotics presented a regional- and international-cooperation policy initiative in June 2014, seeking to explore ways to deal with the challenges of the drug economy.

Regional
cooperation

7

Strategic Outlook

Afghanistan's key challenges include the need to establish peace, financial stability, economic self-sufficiency, and good governance, ideally within the next decade. More immediately, the parliamentary elections in 2015 will require the elaboration and implementation of a range of complex and interdependent measures. In order to ensure fair and transparent elections, the electoral law needs to be further reviewed, and voter registration should ideally be linked to a census and system to validate citizens' identities. A census would also enable the political leadership to realistically plan and target development programs (for example in the education and health sectors), while establishing the basis for local taxation and improved (municipal) revenue collection. Economic growth and the balancing of financial deficits can only be achieved by enhancing revenue collection from enterprises and customs activities. This will require better record-keeping, better administration, the establishment of incentives for legalization, a decrease in protective tariffs, etc. Given the current fiscal crisis and expected increases in security spending over the next years, the country risks being unable to invest sufficiently in socioeconomic development. In this regard, the international community must advise the political leadership on how to keep a sustainable balance. Private-sector support and confidence-building measures in the economic realm should be a governmental priority. Corruption, abuse of office, and the weakness of the judicial institutions should be tackled through justice-sector reforms. The new Ghani/Abdullah government has expressed its commitment to all these measures, and plans comprehensive reforms. At the beginning of 2015, however, the unity government appeared hardly able to gain the consent of the lower house of parliament for its cabinet appointees. Financially, self-reliance will likely remain out of reach for the next decade, despite envisaged improvements. Consequently, the international donor community will have to maintain its high levels of funding and complement it with technical advice and expertise. The established conditionality in the Tokyo Mutual Accountability Framework should be continued, signaling to the Afghan partners that they are responsible for making progress. As a sign of resumed confidence between the government and the international community, the latter should support the gradual transfer of financial administrative authority to Afghan offices. Moreover, it is vital to push for comprehensive reforms that include a further recognition of the importance of women and youth, as well as of human rights in general. Afghanistan should continue to seek to bolster mutual trust with Pakistan. It must enter into serious dialogue with the Taliban and other insurgent groups to end the violent conflict. Reconciliation with and/or prosecution of the war criminals of the past and the human-rights violators of the present must be addressed.