

BTI 2012 | Afghanistan Country Report

Status Index	1-10	2.82	# 124 of 128	
Political Transformation	1-10	2.75	# 124 of 128	➔
Economic Transformation	1-10	2.89	# 122 of 128	➔
Management Index	1-10	3.38	# 108 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	34.4	HDI	0.398	GDP p.c.	\$	1207
Pop. growth ¹	% p.a.	2.8	HDI rank of 187	172	Gini Index		29.4
Life expectancy	years	48	UN Education Index	0.367	Poverty ³	%	-
Urban population	%	24.8	Gender inequality ²	0.707	Aid per capita	\$	203.7

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

Executive Summary

Political and economic transformation in Afghanistan is moving at a slow pace, hampered by a bleak security outlook and a resilient anti-government insurgency. There is increasing recognition that the Taliban and other anti-government elements cannot be conclusively defeated, and voices advocating negotiation with the Taliban are becoming louder. With the war entering now its 10th year, there is no sign of decisive military victory by the international forces fighting alongside the Afghan National Army against the strengthening insurgency. The level of violence has increased, and the security situation has deteriorated.

Afghanistan held its second presidential, provincial council and parliamentary elections in the years 2009 and 2010. Originally scheduled district council elections were not held. The voting process was overshadowed by irregularities and fraud, and the Independent Election Commission invalidated large numbers of votes. Corruption has spread to the point where it affects all institutions, which has led to a loss of public confidence in the government. Afghanistan was recently declared to be the second most corrupt country among a list of 180. As of the time of writing, the United States had announced that it would begin withdrawing troops from the country in July 2011. An enlarged Afghan National Army, currently numbering 134,000 individuals, is slated to take over security and defense tasks. This body's ability to handle its new security responsibilities will become evident in 2011 – 2012.

Despite record GDP growth (22.5%) in 2009 – 2010, an increase in domestic revenue collection, improvements in education and an expansion in custom duties, nearly half of Afghanistan's residents live on incomes under 120% of the poverty line. In real terms, poverty has increased and dependency on donor assistance has spiraled upward. Outside the area of education, almost all Human Development Index (HDI) indicators have deteriorated. Overall, the 2009 – 2011 period must be seen as further evidence of the highly complex nature of the state- and nation-building project in Afghanistan. Despite international engagement and the (presumable) desire of

Afghan stakeholders (NGOs, some politicians, segments of the national political elite as represented in parliament and cabinet) to deepen and strengthen Afghanistan's fragile democracy and expand the country's still-limited market system, veto powers among formally pro-government forces as well as powerful actors outside the state administration and government remain strong.

History and Characteristics of Transformation

Afghanistan has undergone marked changes in its political history since 1747, when the Pashtun tribes first unified under Ahmad Shah Durrani. Since then, the country has experienced nearly every type of political rule, including monarchy, a republic, a socialist state, an Islamist theocracy and now a moderate democracy. Since the end of monarchical rule in 1973, the process of political transformation has been uneven and marred by internal as well as external opposition and intervention.

Afghanistan's last king, Mohammad Zahir Shah, who ruled from 1933 to 1973, oversaw a brief experiment with political liberalization in the mid-1960s. In 1973, Mohammed Daoud Khan, a former prime minister and cousin of King Zahir Shah, became the country's first president after staging a bloodless coup that brought an end to the constitutional monarchy and declaring Afghanistan a republic.

Beginning with the period of political liberalization in the 1960s, the Soviet-backed Communist People's Democratic Party of Afghanistan (PDPA) grew increasingly active in Afghan politics, ultimately seizing power in a 1978 coup led by Nur Muhammad Taraki. In the wake of its socialist revolution (also known as the Saur revolution), the PDPA introduced several changes, including secularism and extensive land reform policies, the former of which in particular evoked opposition among the conservative mujahedeen. In December 1979, amidst growing factionalist tensions within the PDPA and a nascent civil war with Islamist rebels, the Soviet Union stepped in to support the Parcham faction in the socialist government.

For 10 years, the Soviet Union provided military backing for the PDPA government in its battle against the Islamist resistance, which in turn received support from the United States, Saudi Arabia and Pakistan. The bloody and disastrous conflict ended in 1989 with the Soviet withdrawal of troops, and the government fell three years later to the mujahedeen, who chose Burhanuddin Rabbani as president. Intense infighting among various mujahedeen factions eventually led the Taliban leadership to oust Rabbani and take power in 1996. By the end of 2000, the Taliban controlled nearly 95% of the country's total territory, with the exception of a northeastern district still held by ethnic-based (Uzbek, Tajik and Hazara) anti-Taliban forces known as the Northern Alliance.

The Taliban regime, led by Mullah Mohammad Omar, established a strict Islamic government based on a fundamentalist interpretation of the Quran and traditional Pashtun tribal code. The

new government soon found itself politically isolated within the international community as a consequence of its strict religious and political outlook. During this period, the ousted regime of former President Rabbani continued to receive support from the West.

In retaliation for the events of 9/11, the United States invaded Afghanistan in late 2001, and the Taliban government collapsed shortly thereafter. Under the auspices of the United Nations, plans were developed to establish a new, broad-based government in Kabul. After a series of negotiations, the Grand Council (Loya Jirga), comprised of political and tribal leaders, selected Hamid Karzai to rule for an interim period under U.S. supervision until elections in 2004.

Efforts to restore constitutional order in Afghanistan in 2003 resulted in the adoption of a new constitution in early 2004. While the 502-member constitutional Grand Council ultimately promulgated this new constitution, deep disagreements over the power of the presidency, the relationship between Kabul and the provinces, and the adoption of official languages threatened to undermine the entire process. The new constitution established a parliamentary system with a powerful president. The presidential elections of November 2004, the subsequent inauguration of Karzai as Afghanistan's first elected chief executive in December of that year, and the National Assembly elections of September 2005 have served to reestablish constitutional authority in Afghanistan. The government nonetheless continues to have difficulty enforcing control over territory outside of Kabul, and the division of power in parliament, which is based on ethnic and tribal loyalties, has exacerbated factionalism.

Hamid Karzai won election to a second term in 2009 amid allegations of fraud. Parliamentary elections carried out in 2010 were also highly contested due to widespread allegations of irregularities. During the years under review, the government proved unable to strengthen the quality of governance, deepen its authority vis-à-vis non-state actors, or develop broader legitimacy among elites and the populace. With gains remaining limited and fragile, the future of democratic and economic transformation in "post-civil war" Afghanistan seems highly insecure.

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

Transformation Status

I. Political Transformation

1 | Stateness

Conditions of law and order in Afghanistan did not improve during the period under review. Given the country's reliance on foreign forces in the face of a growing anti-government insurgency, the government of Afghanistan cannot claim to have a monopoly on the use of force. Despite the enlargement of the Afghan National Army, which numbered 134,000 soldiers at the time of writing, and assistance by an estimated 150,000 NATO-led International Security Assistance Force (ISAF) personnel in securing the population, no significant progress has been made in terms of countering the so-called Taliban insurgency. Security has declined in parts of the country that had been fairly secure until 2006, especially the northern and northeastern provinces. Only in the capital city Kabul can the handover of security responsibilities to Afghan forces be seen as a success. The number of suicide attacks and other incidences of violence declined there considerably. The U.S. and NATO-led counter-insurgency strategy, which started systematically at the end of 2009, resulted in an escalation of violence in Afghanistan without providing even localized security improvements in the rural countryside. Insurgents are not only attacking government institutions such as the Afghan National Army, Afghan National Police and government administrators (e.g., governors), but have begun making tribal elders a target as well. This shows that local security arrangements and authority structures which had supported or maintained neutrality toward the government have lost influence and become highly vulnerable to violent attack. Despite the coalition forces' claims that 2010 showed better performance than did 2009, the announcement that coalition forces would begin withdrawal in July 2011 has created uncertainty and potentially even undermined security in the short and medium term. The year 2010 saw the highest death toll among civilians, national and international security forces in Afghanistan since 2001.

Afghanistan is a multiethnic society home to several ethnic groups, the largest of which include the Pashtuns, the Tajiks, the Hazaras and the Uzbeks. Ethnic

Question

Score

Monopoly on the use of force

2

State identity

6

divisions such as differing local languages and cultural traditions are regularly subject to political instrumentalization, and hold the potential to increase conflict severity. For example, recent conflict history has resulted in a broad divide between Pashtuns and non-Pashtuns. Religion has the potential to serve as a unifying force if national identity, which is simultaneously a Muslim identity, is challenged from the outside. Sectarianism is gaining ground, creating cleavages between Sunnis and Shi'ites. Discrimination against entire population groups on the basis of language, sectarian orientation or other issues, as in the case of the Hazara, has a long tradition, and efforts to bridge such divides are rare. However, discrimination based on economic situation (i.e., a lack of access to basic resources, which has left large portions of the population disempowered) has led many to leave Afghanistan.

With the country constitutionally defined as an Islamic republic, all actions of Afghanistan's government have to be in accordance with the religious sensitivities of its populace and religious authorities (ulema). However, these are not fixed, but are rather subject to recurrent moods and manipulations. Religious edicts (fatwas) against persons who transgress Islamic principles are common, and typically draw criticism from liberal quarters. Liberals view these edicts as dogma that interferes with and retards the national development of the current Afghan state. Anti-government insurgents use religion, but more effectively exploit the sentiment that Afghans have never been subject to foreign rule. On these grounds, the insurgents are able to mobilize large quantities of the population to oppose "foreign occupiers" who are characterized as non-believers.

Afghanistan is a centralized state, the working and resource-distribution mechanisms of which are impeded by dysfunctional resource flows both from the top down and the bottom up. This is due to endemic corruption, insufficient staff capacities, and a lack of trust in the country's future stability and development among large parts of the population. For these reasons, line ministries at the provincial level are unable to provide public services of a sufficient level of quality or reliability. Local government structures (at the district and provincial level) are understaffed and underfinanced, and thus rely largely on international donors and organizations to provide local assistance, especially in terms of infrastructure. The National Solidarity Program, which was supposed to overhaul local governance structures and provide basic infrastructure in all rural settlements between 2004 and 2006, has been unable to cover the rural countryside entirely, while its successes in the area of infrastructure provision have been undermined by a lack of follow-up and the spread of insecurity. However, the operations of this donor-financed program, administered through the Afghan government, demonstrate the seriousness of attempts to provide public services. As a result, 37% of the population is said to have access to basic sanitation facilities, and 48% to an improved water source. Similarly, efforts to construct a finance and tax administration and administer local commercial activities in Afghanistan's

No interference of religious dogmas

3

Basic administration

2

municipalities have shown some progress. In the juridical sphere, local prosecutor offices, criminal investigation units and law enforcement bodies exist. However, the Independent Directorate of Local Governance (IDLG), set up in 2007, has not been able to effectively build staff capacities within local governance institutions, whether within community and district development councils or at the provincial council level.

2 | Political Participation

On August 20, 2009, Afghans voted to elect a president and members of provincial councils for the second time in the nation's history. These were the first elections to be organized primarily by Afghan institutions. The voting took place amid armed conflict in the southern and eastern regions and sporadic violence in other areas of the country. Most candidates entered the ballot independently, choosing not to associate themselves with the large number of political parties operating in the country. There were widespread charges of fraud and election-rigging. The Electoral Complaints Commission (ECC), tasked with investigating and adjudicating complaints, announced afterward that it had received 2,654 complaints about fraud and irregularities for the presidential and provincial council elections combined. After examination, the ECC declared about 1 million Karzai votes and about 200,000 Abdullah votes to be fraudulent, and announced that a second election round would be held, as the vote cancellation reduced Karzai's total share from 54.6% to below the 50% constitutionally required for victory. However, the second round did not take place, as runner-up Abdullah (who gathered 27.8% of the votes in the first round) withdrew, thus enabling Karzai to win the Afghan presidency for the second time. The extent of irregularities and fraudulent practices reduced the credibility of both elections. Similarly, the September 2010 parliamentary elections for the lower parliamentary house (the Wolesi Jirga) were not transparent, and were again overshadowed by allegations of substantial fraud.

Free and fair
elections

3

As a result of the presidential elections in 2009, Hamid Karzai was reconfirmed in office despite large-scale election fraud. The pre-election campaigns waged by provincial council and presidential candidates virtually all undermined democratic principles in one way or another. The parliamentary election in 2010 resulted in a stalemate that left the parliament ineffective for months. Despite his reelection, Karzai's hold on power is weak, as his government has failed to curb the insurgency and the rise of corruption, or to improve public service delivery. Karzai is largely dependent on bargaining and negotiations with former "warlords," such as his deputy Mohammad Qasim ("Marshal") Fahim and Ismail Khan, who served as head of the Ministry for Energy and Water in the former cabinet but was rejected by the old parliament in 2010, and whose next position was still unclear at the end of

Effective power to
govern

2

February 2011. The latter two are political actors with varying degrees of veto powers within the Afghan political system.

Association and assembly rights are provided by the Afghan constitution. During the 2009 – 2010 period, diverse associations including the Afghanistan Peace Association, the Prisoners' Rights Defense Association of Afghanistan, and the Afghan Journalist Association gradually increased their level of activity, and voiced their concerns over specific issues. Most so-called civil society organizations are donor-supported, and tailor their agendas according to the availability of donor funding rather than focusing on issues that large parts of the population would deem most needed and useful. The security situation has undermined the operation and existence of numerous associations that have sprouted in the post-Taliban period. Beyond Kabul, outreach is severely limited and subject to outright intimidation, harassment and interference by local power brokers.

Association /
assembly rights
4

The 2004 Afghan constitution provides for freedom of expression. However, this is restricted by the “national assets or national policy clause,” which prohibits coverage of an issue or event that might harm the rights of others or public security. Journalists and media people consider this provision to obstruct the freedom of expression. The government claims that it has allowed more freedom in this area, as there are more than 500 newspapers, 20 private television channels, 80 – 90 radio stations, and numerous interest groups that today inform the public. However, official censorship continues, and journalists have been intimidated and subjected to violence. Some have lost their life for raising their voice in this highly divided society. Large parts of the population remain uninformed, and have access only to biased information that ranges from official news to rumors and “news” spread via modern technology such as mobile phones or DVDs. As a result, the population is skeptical and unsure as to what is true or not.

Freedom of
expression
4

3 | Rule of Law

The Afghan constitution provides for separation of powers between the executive and the parliament. However, the president has a strong constitutional role. The office combines the powers exercised by the king and prime minister under the country's 1964 constitution. The parliament is tasked with checking the powers of the president and the government. The parliament did not approve all the 24 nominees presented by the president for confirmation after his reelection in 2009. The constitution places the parliament's legislative process firmly under government control. Because the president is not dependent upon the parliament for his election, he can fully assert his role as an executive. Despite this powerful role, he has been target of criticism for not moving decisively on various governance issues.

Separation of
powers
3

The high degree of corruption in Afghan society undermines the performance of the country's justice system. People's confidence in the judiciary declined during the period under review, as the court system has been unable to ensure fair trial standards or curtail the practice of arbitrary detention. Outcomes in the system are attainable through bribes for anybody possessing the adequate financial means or personal relationships. Reports describing extrajudicial actions by the United States and its coalition partners have bolstered the population's distrust in the judiciary, and have significantly undermined efforts to maintain the rule of law. Afghans continue to view traditional dispute resolution mechanisms such as community or tribal councils (jirga and shura) more positively than the formal justice system, because they often deliver justice more cheaply and more quickly than can the government. The Independent Election Commission criticized the Supreme Court for investigating complaints of fraud and irregularities in the 2010 parliamentary elections, as this was contrary to the provisions of the constitution. However, it was President Karzai himself who assigned the body this task. Election officials criticized the fact that neither the attorney general nor the Supreme Court had the authority to change the final results declared by the commission in November 2010. The judiciary remains subservient to the government; for this reason, people's trust in the institution has not improved.

Independent
judiciary
2

Afghanistan is plagued by rampant corruption. This has hindered economic development and contributed to the country's deepening poverty. Prosecution of office abuse is unlikely given the current security apparatus, including the police and judicial system. Officials engage in abuses including arbitrary arrest and detention, torture, extortion, and extrajudicial killings.

Prosecution of
office abuse
2

Afghans have started enjoying some civil rights due to the transition process set in motion after the fall of the Taliban regime in 2001. The hopes connected to this process, which promised the efficient rule of law and effective government structures, have since eroded. Because police and judicial institutions largely lie under the influence of local and national power brokers, the protection of civil liberties is not assured. Mechanisms theoretically in place to ensure citizen's rights exist only on paper, and their application can be pursued – if at all – through personal relationships and patronage structures, certainly not the process foreseen in the constitution.

Civil rights
2

4 | Stability of Democratic Institutions

Democratic institutions aside from the formally elected ones such as the president and the two houses of parliament (for which any “democratic” element is limited to the conduct of elections) are few. At the subnational level, provincial councils were elected, for a second time in 2009; however, their mandate is limited and largely undefined, and poorly understood even by the elected council members. None of

Performance of
democratic
institutions
3

these institutions have developed the potential to bring about change. Officeholders in the parliament as well as in provincial councils are largely self-interested individuals who in most cases are not working on behalf of their ostensible constituency, but are rather seeking to further their own family or clan interests. These figures' motivation to run for public office was the opportunity to win access to government and foreign funding. Similarly, public offices appointed by the interior minister and the president at the provincial and district levels are typically sold, rather than staffed through any merit-based considerations.

The international donor community and the United States in particular claim to be committed to the stabilization of democratic institutions. However, a larger share of money goes into combating the insurgency. Afghan actors' expressions of support for democratic institutions must be seen as a mode of paying lip service to the donor community, which is the major funder of the national budget. These institutions are in fact systematically undermined by these actors' actual practices.

Commitment to
democratic
institutions

3

5 | Political and Social Integration

Although more than 110 registered political parties exist in Afghanistan, they do not represent large constituencies. In June 2009, the parliament passed a new political parties law, requiring existing parties to re-register with the Ministry of Justice and demonstrate a membership base larger than 10,000 members, much higher than the 700 previously required. The development of the party system has historically been impeded by several factors, including deep public distrust toward party politics that evolved out of Marxist and Maoist movements in the 1960s and 1970s. Moreover, parties with strong ethnic bases are known to be linked with influential power brokers and their armed militias. In addition, the current voting system of single nontransferable votes results in inequitable political representation, acting as a disincentive to the creation of a party-based electoral system. Existing political parties are ineffective; for this reason, the major presidential candidates in the 2009 elections, including Hamid Karzai and Abdullah Abdullah, ran as independents. More than 80% of provincial council candidates also stood for election as independents, as did all but 1.2% of the 2,500-plus candidates for parliamentary elections.

Party system

2

In a country where political parties are unable to play an effective role, there is little ability for public interest groups to have any impact on decision-making. As in the case of political parties, the number of interest groups increased during the period under review, but this growth had little obvious effect. Though a wide variety of networks and associations (women, business, sports, media, etc.) exist, the majority of civil society organizations follow donor-driven agendas, with very few exceptions. Many clearly profit-oriented NGOs have formed, which appear to be led by the interests of their founders rather than working on behalf of societal

Interest groups

2

concerns or making efforts to represent the public interest. Private interests aiming at economic gains, participation in decision-making or influence in general are pursued through personal relationships and flexible informal networks. The interests of the powerless masses are not represented through interest groups in any comprehensive way.

The limited and partly enforced participation of the people in the 2009 – 2010 electoral process leads to an ambiguous picture in terms of the population's genuine interest in democratic institutions. Benefits accruing from the formal introduction of so-called democracy remain fairly minimal. Afghans are becoming cynical about these institutions, as democratization has not provided freedom, equality or development, and has not alleviated poverty. Disillusionment and disappointment are rampant, and there is a broad sense that democracy is a term with little or even harmful content. The people's democratic regime under Soviet-influenced rule had previously served to discredit any project related to the term "democracy," and since that time it has been associated with disagreeable outcomes.

Approval of
democracy
n/a

Trust between citizens is fairly low. Cooperation, mutual support and mobilization are focused primarily around notions of "qaum" – a term designating a common identity based on shared family, tribal, ethnic, professional or other links. Self-organization that features mutual support is rudimentary, while traditional patterns of community and collective action are highly hierarchical and inequitable. These structures are rarely contested or subject to scrutiny. Communities within Afghanistan's vast rural landscape rely on qaum relationships to arrange basic public works and local governance. Organized voluntary organizations and autonomous associations in any form are rare, and are largely limited to the capital city Kabul.

Social capital
2

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Afghanistan's improved status in the annually released Human Development Index (HDI) –rising from 181st place out of 182 countries in 2009 to 155th out of 169 countries in 2010 – must largely be ascribed to changes in the report's methodology. Afghanistan is still among the world's 23 least developed countries. Social exclusion and marginalization based on poverty, corruption, education gaps and gender discrimination are evident in both rural and urban areas. Poverty is rampant in Afghanistan, with 42% of the population living below the poverty line and 30% just above that level. According to Transparency International,

Socioeconomic
barriers
1

Afghanistan ranked as the second most corrupt state in the world in 2010. Long known as the world's biggest producer of opium, Afghanistan has also become the biggest producer of cannabis, with estimated production of between 1,500 and 3,500 tons a year. A correlation between drug revenues and corruption is evident. Afghans paid \$2.5 billion in bribes during the period under observation, the equivalent of almost one-quarter (23%) of Afghanistan's GDP. An estimated \$2.8 billion was generated by the illicit opium trade. Another correlation often cited is between the insurgency and opium cultivation. Approximately 80% of communities with very poor security conditions cultivated poppies, while only 7% of communities untouched by violence did so. Although no causal linkages can be drawn from either correlation, it is evident that drugs and corruption are the country's most significant income generators, together accounting for about half of the country's illicit GDP. Women are largely excluded from monetary income generation. Given the lack of employment in Afghanistan, the dominance of illicit income strategies, slow economic growth, poor living standards and the deteriorating security situation, 42% of the population today lives below the poverty line, compared to 33% in 2005.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	9707.4	11940.3	14213.7	17243.1
GDP growth	%	11.1	3.4	20.4	8.2
Inflation (CPI)	%	8.5	30.6	-8.3	0.9
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	2.5	2.5	1.3	0.4
Export growth	%	-6.3	6.9	-21.0	-1.6
Import growth	%	9.6	-0.1	-9.2	-3.3
Current account balance	\$ mn.	-	-	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ mn.	1973.7	2088.9	2222.6	2297.2
Total debt service	\$ mn.	4.7	7.7	10.2	9.2

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	-1.8	-2.0	0.2	-
Tax revenue	% of GDP	5.3	5.2	7.3	-
Government consumption	% of GDP	10.5	9.1	10.1	10.7
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	7.6	7.4	7.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.2	1.9	1.8	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Despite having a very liberal market regime, Afghanistan slipped from 165th to 167th place worldwide in the World Bank's rankings of the ease of doing business. Instability, deficient and corrupt officials, and competing traditional systems of justice hampered progress in this area. Rampant bribery by law enforcement officials has made corruption the biggest public concern, outstripping even insecurity and unemployment. According to reports, around 25% of Afghan citizens had to pay at least one bribe to police or local officials over the past year. Corruption is also evident in international organizations and NGOs. Deficient information and nontransparent procedures hamper progress.

Market-based
competition
3

Afghanistan has strong anti-monopoly laws governing competition in the public and private economic sector. However, poor implementation of these laws causes a lack of coordination between the public and private sector, slowing economic development. The ineffectiveness of the anti-monopoly law is in part due to officials' partiality toward friends and relatives. Another concern is traders' lack of awareness of the country's commercial laws, which results in pronouncedly negative attitudes toward the market economic system. Business financing primarily depends on profits and private savings, and fewer than 15% of transactions rely on bank transfers.

Anti-monopoly
policy
2

Afghanistan received observer status with the WTO in December 2004, and is working toward full accession. The Afghan-Pakistan Transit Trade Agreement, formally signed by Pakistan and Afghanistan in October 2010, envisages freer access to cross-border trade and transport networks linking Afghanistan, Pakistan and India. However, legal, regulatory and accounting systems are inconsistent with international norms. The legal framework for investment is inadequate. Accounting

Liberalization of
foreign trade
3

and standards regimes have not yet been established, and regulatory bodies are corrupt, weak and understaffed. The progress of reform programs is profoundly dependent on foreign experts.

Afghanistan's banking system is not mature. It is characterized by a lack of management capacities, limited operational transparency, weak legal frameworks, a poorly differentiated capital market, and a small and dysfunctional public debt market. The inability to access capital is the fourth-highest constraint for private businesses in Afghanistan. Plans to establish a stock exchange are still in their infancy. High political risks make investment decisions challenging.

Banking system
3

8 | Currency and Price Stability

Afghanistan's central bank uses monetary policy measures to control inflation and exchange rate volatility. During the period under review, policy was consistent with the 12 month inflation target of 6%. The central bank also uses 28-day capital notes, and engages in the sale and purchase of foreign exchange with market dealers. The country has a managed floating exchange rate system. The exchange rate for the national currency (the afghani) appreciated to AFN 44 to \$1 in 2010, from AFN 51 to \$1 in 2009. The upward pressure on the real exchange rate is a result of illicit activities, remittances and large inflows of funds from external donors.

Anti-inflation /
forex policy
6

During the period under review, the Ministry of Finance introduced program budgeting for the first time in preparing the annual national budget. While the development budget is still funded entirely by international donors, 40% of the operational budget is mobilized locally. Foreign assistance accounted for 47% of GDP. The execution rates for development expenditures are very low due to government agencies' low capacity to spend funds in time. Budgeted amounts of development expenditures are around 43% for infrastructure and natural resources, 21% for agriculture and rural development, and around 14% for education. The high budgetary requirements of the security sector, deficient revenue collection and the lack of predictability in foreign aid all diminish the prospects for macroeconomic and fiscal stability.

Macrostability
4

In Afghanistan, budgeting as a tool of national policy is weak, as most economic activities take place beyond the government's fiscal control. Afghanistan's fiscal sustainability has regressed due to rising operational expenditures, mainly for security, and it remains one of the world's most aid-dependent countries. Domestic revenue as a share of GDP fell to 6.9% in 2008 – 2009 from 7.5% in 2006 – 2007, before increasing to 9.4% in 2009 – 2010.

9 | Private Property

Though both Afghanistan's constitution and the international conventions to which it is a signatory in theory protect property rights, widespread corruption, the incapacity of courts, deficient property registries and the absence of a comprehensive land titling database limit actual property rights protection to a significant extent. The process of purchasing real estate, acquiring a clear land title or registering a leasehold interest is intricate and difficult. It takes almost eight months and legal fees of 4% to register property. Access to land is considered to be one of the biggest barriers to investment in Afghanistan. There is no specific law on bankruptcy and no enforcement of patent and copyright laws. Afghanistan is not a member of WTO agreements or treaties such as the Trade Related Intellectual Property Rights (TRIPS) or World Intellectual Property Organization (WIPO) agreements. In addition to pirated DVDs and software, sale of counterfeit building materials and pharmaceuticals is very common.

Property rights
2

An institutional framework for private enterprises is in place. It was determined that 56 out of 65 state-owned enterprises (SOEs) should be privatized. Another 1320 state-owned land parcels or buildings have been identified and slated for privatization, and an evaluation of 44 SOEs, including six state-owned banks, has been carried out. In addition, the government approved proposals to liquidate, restructure and/or corporatize 25 SOEs, including three banks. Forty-three completed public auctions had transferred assets worth \$11.56 million to the private sector by September 2009. Starting a business in Afghanistan takes fewer days than the worldwide average, but when closing, firms face little opportunity to recover their investment. It is difficult and takes longer than the world average for businesses to enforce a contract, and they tend to pay comparatively high taxes.

Private enterprise
5

10 | Welfare Regime

Existing social security networks rely on family and qaum relationships (see "social capital"), while official and public safety nets are underfinanced, operating in only a very limited way. Despite the approval of a \$7.5 million Pension Administration and Safety Net Project by the World Bank in 2009, no progress has been made with respect to implementation. Since the government is increasingly dependent on donor assistance to meet even its operational expenses, publicly financed safety nets are unlikely to evolve in the short or medium term.

Social safety nets
1

Due to rampant corruption and the control of elites over employment, business and other opportunities – most of which are financially supported by the international community through donor and aid structures – discrimination is common. There is lack of transparency and of access to information regarding medium and small-scale

Equal opportunity
2

enterprises. NGOs such as Afghan Women in Business seek to provide women with opportunities to engage in businesses, offering capital, skills and training in managing small enterprises. However, the role played by women is minimal, and they are largely marginalized. To date, the potential of women to contribute to countering the insurgency and to reconstruction of the state and economy has not been acknowledged. Though all international donors and partners emphasize gender equality, the practical realization of such demands is difficult given traditional public attitudes, moral values and practical barriers that impede women's participation in many societal realms.

11 | Economic Performance

Real GDP growth totaled 22.5% in 2009 – 2010, with projects of lower growth of 8% to 9% in 2010 – 2011. This record pace of growth is attributable mainly to private consumption, the security economy, higher spending and large off-budget contributions by the donors. About half the country's output and 10% of real growth is contributed by the service sector. The opium economy has been on the decline since 2007 due to crop substitution and plant diseases, but this has resulted in a price surge and higher total revenues from opium. Despite the decline of the opium economy, the number of opium-free provinces has remained stable since initiation of the monitoring process in 2005.

In 2009 – 2010, imports declined from 75% to 64% of GDP, whereas exports declined from 23% to 15%. The overall balance of payments remained in deficit, while the current account deficit for the 2009 – 2010 period was financed by grants. The currency appreciated significantly, from 51 afghani to 44 afghani per U.S. dollar. The central bank contained non-food inflation at 3%. Gross national reserves amounted to 13 months of official imports, worth \$3.8 billion. Taxes contributed 48% of the domestic revenues, while the share attributable to customs duties and fees increased to 35%. The external budget represented 60% of all public expenditure, while the size of core budget increased by 17% due to higher operating expenditures.

12 | Sustainability

Neither the government nor the population of Afghanistan consider environmental challenges and regulatory needs in the course of sector-based development policies, though an environmental law exists.

Despite some achievements, public expenditures have been underfunded and are largely ineffective in achieving national objectives, especially in critical service-delivery sectors such as education. Nevertheless, Afghanistan improved its

Output strength

5

Environmental policy

2

Education policy / R&D

1

education index rating; according to estimates, nearly 7 million children were enrolled in school, with girls accounting for 36% of this population. University enrollment increased to 62,000. More than 80% of the 170,000 students enrolled completed the full accelerated primary cycle.

Transformation Management

I. Level of Difficulty

Afghanistan remains one of the world's most aid-dependent countries. Given its poor financial condition and reliance on externally provided security, the country is unable to manage the ongoing transformation effectively. The level of corruption, ranking second in the world, is an indicator of the level of misappropriation of funds, while scarce resources and a serious lack of employment opportunities contribute to the further impoverishment of the population. Regular mobilization related to ethnic divides and political cleavages, partially exacerbated by the international intervention, make it difficult for government and civil society institutions to grow and solidify.

Structural
constraints
10

Afghanistan has virtually no tradition of civil society. An emphasis has been placed on building civil society in such a way as to initiate public debates on issues such as Afghan national identity, counter-insurgency, peace-building and reconciliation, and ideally also to hold the government accountable. The term "Jama-ye Madani" (civil society) is unfamiliar to many Afghans, especially in rural areas, and those who do use it often fail to comprehend its essence. Numerous organizations operate under the "civil society" label, including the Afghanistan Independent Human Rights Commission, the Afghan Civil Society Forum, Network for Peace and others, but many do not have the capacities to expand their activities beyond Kabul or other large cities in relative peaceful regions, such as Herat and Mazar-i Sharif. Suspicions that these organizations are agents of the international community, and are devoted to furthering the agenda of the West (suspected to be anti-Afghan among some parts of the population) rather than strengthening the Afghan community and representing its interests, make it hard for civil society organizations to earn legitimacy, support and credibility.

Civil society
traditions
10

Conflict intensified in Afghanistan during the period under review. With the support of 150,000 foreign troops, the Afghan army claimed to have dismantled al-Qaeda and Taliban safe havens in southern Afghanistan. However, the insurgents have opened new war fronts in the north and west of the country, which had previously been comparatively peaceful. The year 2010 was the most violent and bloodiest since the Taliban were ousted at the end of 2001. Foreign troops suffered record numbers of deaths in 2010, with 711 soldiers killed, roughly two-thirds from America. Large numbers of civilians were also victims, with an annual average of 2,000 deaths in the last three years. Such “collateral damage” increases resentment of foreign forces on Afghan soil and plays into the insurgents’ hands. The United Nations, through the U.N. Department of Safety and Security (UNDSS), reported 2,412 civilian deaths and 3,803 injuries between January and October 2010 – a 20% rise from 2009. Some military analysts predict that violence will worsen in 2011 when international forces begin their withdrawal.

Conflict intensity
10

II. Management Performance

14 | Steering Capability

The government is unable to set forth strategic priorities in any policy field. The Prioritization and Implementation Plan, 2010 – 2013, which was launched as a component of the Afghan National Development Strategy in July 2010, contains ambitious goals for better governance but no clear milestones detailing how to achieve these in the face of growing challenges. Against the backdrop of growing insecurity and a high dependence on international forces, the leadership’s capability to steer the country toward stability and good governance is very modest and functions – if at all – only on the basis of clientelistic and personal relationships rather than through the working of democratic institutions. The Afghanization of the security sector has yet to be achieved. Corruption has become endemic, and the leadership is losing credibility due to its involvement in graft and corruption.

Question
Score

Prioritization
3

The government has limited capacity to implement policies and reforms. Afghans as well as international donors expect President Hamid Karzai to fulfill national commitments. For the first time, the government has highlighted the need for understanding and tackling the challenges of implementation under the Prioritization and Implementation Plan of July 2010. Given the wide variety of current challenges, the Afghan government has to set itself a target for the implementation of policies paving the way for a transition away from conflict, and

Implementation
3

which will enable it to support itself economically with functioning democratic institutions ensuring peace, justice and equitable development.

With the country still in the grip of a violent insurgency, government officials in Afghanistan as well as their counterparts – the representatives of the international community and coalition forces – have gradually acknowledged the need for reconciliation and the reintegration of anti-government elements into the ruling circles and all spheres of life. The underlying rationale is that transition processes can only take place effectively in a peaceful environment. The international community backs the Afghan-initiated “peace jirgas” aimed at reintegrating those insurgents ready to lay down arms and support the government. However, the peace jirga of June 2010 failed, demonstrating the weakness of the Afghan government. The country’s leadership has a vision, but concrete policies, dedication, consensus-building and resources to implement policies effectively are lacking.

Policy learning
3

15 | Resource Efficiency

The government is in theory committed to eliminating all forms of wasteful resource usage in order to revitalize the economy. However, the government does not in reality utilize its meager assets efficiently. Corruption is the main impediment, as assets are abused by officials at all administrative levels. Financial resources are erratic, and the exposure of regular shipments of “suitcases of money” to the presidential office from Iran hints at the ambiguous role of international influences in Afghanistan’s state- and institution-building process. The internationally supported public administration reform process and civil service reform project have yielded highly unsatisfactory results. Efforts to improve the skills of administrative staff and create a merit-based recruiting process have not yet borne fruit.

Efficient use of
assets
2

The government’s ability to coordinate policies internally and externally is hampered by structural constraints. Karzai has not been able to coordinate his national policy agendas with those of international donors, who themselves operate with varying mandates and resources. Total coordination failure is prevented by state officials’ personality-driven coordination with influential power brokers, and traditions of temporary alliance building and breaking.

Policy
coordination
3

During the 2009 – 2010 period, corruption was identified as a major impediment to development in Afghanistan. As a result, anti-corruption policies have gained primacy, with both internal and external pressure exerted on the government to take effective measures to reduce corruption. Massive aid flows have not improved economic, welfare or security conditions, in part because various significant figures, including government officials, warlords and international contractors, are involved in corruption. Karzai has pledged to fight corruption and end the culture of

Anti-corruption
policy
1

impunity, but this effort has to date shown no progress. The High Office of Oversight (HOO), an anti-corruption body, was created with a mandate to coordinate and oversee the implementation of the Anti-Administrative Corruption Strategy, but has to date shown no appreciable success.

16 | Consensus-Building

There is clearly no consensus among major political forces inside and outside the government with respect to democracy and the most fundamental aspects of state and society. The emphasis on democracy is not understood by large parts of the population due to negative experiences with what the Soviet-backed government previously called democracy, as well as to the failure of development since 2001. This lack of understanding of the idea and concept of democracy is shared by most political actors.

Consensus on goals
3

The intensification of armed conflict in the years 2009 – 2010 demonstrates that insurgents have become influential veto powers in the process of transformation. They have undermined the rule of law and confidence in the government. Civilian casualties and security incidents increased in the months before presidential, provincial council and parliamentary elections in 2009 and 2010. Violence of this sort reduces trust in institutions. There are few reformers in the Western sense, as their scope of influence on anti-democratic actors is very limited.

Anti-democratic
actors
3

The government did not improve its ability to manage the worsening societal conflicts during the 2009 – 2010 period. Political and ethnic cleavages have widened, polarizing the war-ravaged society further. Pashtuns, the largest ethnic group, feel marginalized and discriminated against by the government, and contend that non-Pashtun ethnic groups, particularly Tajiks and Uzbeks, are privileged in the current political power-sharing agreement. Pashtuns claim that the international community mainly supports the non-Pashtun ethnic groups, who blame them for constituting the core of the insurgency or being pro- insurgency. The Hazara too contend that their political representation at the national level does not match their numbers in the overall population. In the Afghan National Army (ANA), an imbalance exists in favor of Tajiks; more than 50% of officers and non-commissioned officers are Tajik. The center-periphery divide remains unbridged, resulting in continued conflicts.

Cleavage /
conflict
management
4

The participation of civil society in Afghan politics showed no improvement during the years under review. The number of civil society organizations has grown, but their contribution is negligible. Afghan parliamentarians do not consult civil society groups or see them as partners. The same is true for subnational government

Civil society
participation
3

agencies, which prevent provincial council members from playing their mandated decision-making role, and monitor the affairs of provincial government bodies.

There is a growing consensus within the Afghan government and international community as to the necessity to promote reconciliation. Attempts to eliminate Taliban and al-Qaeda by force have failed. As international forces were slated to begin withdrawing in July 2011, the Afghan government is now under pressure to negotiate and achieve reconciliation with anti-government elements. The leaders of hardcore Taliban and Hizb-e-Islami forces have declared that negotiations will be possible only once international military forces leave Afghanistan. The year 2010 has witnessed greater attention paid to the ongoing Program Tahkim-e-Solh (Strengthening Peace Program), which offers insurgents the opportunity to renounce violence and peacefully support the Afghan government, but no major breakthrough has taken place.

Reconciliation
5

17 | International Cooperation

Hamid Karzai's government and transition process would not have been possible had international support not been forthcoming. The elaboration of the Afghan National Development Strategy took too long, and since its launch in 2009 has failed to keep track of milestones. Nine years of economic, political and military support by the international community have shown disappointing results, as the country lacks efficient institutions and a framework for the rule of law. Resources have not been efficiently utilized, resulting in growing discontent with the Afghan government within the population and the international community.

Effective use of
support
6

Hamid Karzai won the election in 2009, but his credibility as a leader steering his country through democratic transformation has waned over the years as violence and corruption have increased. Fraud and irregularities during the presidential and provincial elections of 2009 and 2010 further affected his image. People are frustrated with his speeches and plans, and expect tangible improvements regarding stability and living standards. Karzai is no longer the lead choice of his international backers, but given a lack of other potential consensus candidates, the international community has other choice than to continue reluctantly to support him. Other government officials have proved no better as counterparts for international dialogue.

Credibility
3

The year 2010 saw the convening of the first international conference in Kabul; however, the notion of genuine regional cooperation has a long way to go. A regional approach to combating terrorism is being stressed by all Central and South Asian governments. However, neighboring countries such as Pakistan are not happy with the growing Indian influence in Afghanistan. India has opened four regional consulates and has provided reconstruction assistance amounting to about \$662

Regional
cooperation
6

million. Iran is suspicious of Pakistan's support of Sunni Taliban and pro-insurgency elements. Moreover, Iran has accused Pakistan of allowing terrorist organization Jundullah to operate from its soil against Iran. Relations between regional actors are thus characterized by mutual mistrust and selective collaboration. The Afghan government has pleaded with its neighbors to avoid drawing the country into their bilateral problems, and to join in the effort to stabilize Afghanistan.

Strategic Outlook

The strategic outlook for Afghanistan is bleak and complicated. The country has become further fragmented by the insurgency and the failure of the government and international community to deliver on promises of development and stability. This has in turn affected the country's political, economic and security progress. Numerous actors are operating within Afghanistan, each pursuing its own agenda, a fact that contributes to economic and political fissures within the society. Afghans' perception that their country has again become a host for proxy wars between regional and extraregional powers grows stronger every day. These powers are now under immense pressure to cooperate and bring peace to the country. The United States has declared that it would begin withdrawing forces in July 2011. Conflict is thus expected to intensify and become more violent in 2011. Pakistan, the United States and Afghanistan are working out a strategic alignment before the withdrawal starts. However, skepticism regarding Pakistan's future role is high within Afghan diplomatic circles, because of the former country's close connections with the Taliban. A process of reconciliation and negotiation with the Taliban seems to be the only way out of this quagmire, but it is unclear whether this process can yield results in the short term. However, expectations that the 2011 –2012 may yield some successes in this regard are high. The Afghan National Army and the Afghan police must assume greater responsibility for securing and protecting the country's population in coming years.