

# BTI 2014 | Afghanistan Country Report

<b>Status Index</b>	1-10	<b>2.97</b>	# 122 of 129	
Political Transformation	1-10	2.97	# 120 of 129	➔
Economic Transformation	1-10	2.96	# 120 of 129	➔
<b>Management Index</b>	1-10	<b>3.30</b>	# 115 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2014 – Afghanistan Country Report. Gütersloh: Bertelsmann Stiftung, 2014.

This work is licensed under a [Creative Commons Attribution 4.0 International License](http://creativecommons.org/licenses/by/4.0/).

**Key Indicators**

Population	M	29.8	HDI	0.374	GDP p.c.	\$	-
Pop. growth <sup>1</sup>	% p.a.	2.4	HDI rank of 187	175	Gini Index		27.8
Life expectancy	years	60.1	UN Education Index	0.337	Poverty <sup>3</sup>	%	-
Urban population	%	23.9	Gender inequality <sup>2</sup>	0.712	Aid per capita	\$	210.5

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Afghanistan's transformation to democracy and market economy will largely be determined by the handling of a protracted anti-government insurgency, the 2014 elections, troop withdrawals and corruption. President Hamid Karzai's second term ends in 2014, the same year international forces withdraw and Afghan National Security Forces will take over full responsibility of securing the country. Many observers are pessimistic that the democratization process can move forward during this security transition, to be completed by the end of 2014. The signing of a Strategic Partnership Agreement between United States and Afghanistan in May 2012 has signaled continuing partnership between the two countries. Also, international donors pledged billions of dollars at international conferences in 2012 (in Tokyo for civilian aid in and Chicago for military aid), which served to restore confidence in the transition. Politically, the country faces uncertainty as it prepares itself for presidential and local elections in 2014. To hold transparent and credible elections is a daunting task for the country given its history of electoral fraud and manipulation.

The war has reached a stalemate and no major breakthrough occurred on the reconciliation front with the Taliban. After the assassination in September 2011 of Burhanudin Rabbani, a former president and the leader of the High Peace Council, the vacant seat at the head of the council was filled by his son, Salahudin Rabbani, a relatively weak partner. This was done in order to keep good relations with Jamiat, the political party supported by most northerners. Negotiations with the Taliban remain at an impasse; efforts to bring Taliban factions on board for a peaceful political settlement of the conflict are largely rejected by the former Northern Alliance members. However, the established Taliban liaison office in Qatar is gaining recognition and may assume greater significance in the year 2013 as steps toward a security transition gain momentum.

Economic growth declined to 5.7% in 2012. More than 30% of the population is living below the national poverty line. The international donors at the Tokyo Conference in July 2012 pledged \$16 billion in development aid through 2016 to help prevent the economy from collapsing and to promote stability. The international donors called on the Afghan government to toughen its stance

on corruption, as they avoid donor money from going to waste. Despite the pledge, many in the leadership fear the country will face massive cuts in economic aid after the international forces depart Afghanistan.

## History and Characteristics of Transformation

Afghanistan has had a turbulent political history with much bloodshed and little political reform and economic stability. The political elite has experimented with different forms of government including monarchy, republic, socialism, Islamic Emirate-style rule and a Western form of democracy.

Taliban rule (1996 – 2001) was short-lived and collapsed in the wake of the U.S. invasion of Afghanistan following the 9/11 terrorist attack. The attempt to transform Afghanistan from rule by Shari'ah law under the Taliban to a moderate democracy has not been smooth.

Years of civil war have prevented the new political leadership from gaining a strong base with the population and also contributed to their lack of vision. After the withdrawal of the Soviet forces in 1988, the elite had no vision for Afghanistan as a political entity and country. Subsequently, after the Taliban's rule, the efforts to form a broad-based government acceptable to all came from external quarters, with the United Nations taking the lead. The Bonn Conference in December 2001 expedited the formation of an interim government led by Hamid Karzai till presidential elections were held in the year 2004. Efforts to restore constitutional order in Afghanistan resulted in the adoption of a new constitution in early 2004. The 502-member constitutional Loya Jirga (Grand Council) ultimately promulgated this new constitution despite deep disagreements over the power of the presidency, the relationship between Kabul and the provinces and the adoption of official languages.

The presidential elections of November 2004, the subsequent inauguration of Hamid Karzai as Afghanistan's first elected chief executive in December of that year, and the National Assembly elections of September 2005 have served to re-establish constitutional authority in Afghanistan. Hamid Karzai won election to a second term in 2009 amid evidence-based allegations of fraud. Likewise, parliamentary elections carried out in 2010 were highly contested due to widespread accusations of irregularities.

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

Afghan forces are still far from holding a monopoly on the use of force. The country, which has largely depended on foreign forces to maintain law and order and curb insurgency, has not made strides to secure its population. The state is in the process of a security transition, with the Afghan National Security Forces (ANSF), including the Afghan National Army (ANA) and the Afghan National Police (ANP), taking control of areas and the International Security Assistance Force (ISAF) continuing to withdraw. The ANSF continued to meet growth benchmarks (352,000). However, there are serious concerns over their operational capabilities and the sustainability of maintaining such a large force, which costs billions of dollars a year. The participants at the May 2012 NATO Chicago Summit agreed to maintain and foot the bill of ANSF until 2016, which should thereafter be gradually reduced to a sustainable size. By April 2012, security in 138 districts in 20 provinces (out of a total of 398 districts) had been placed under the Afghan forces. However, the south and east of the country are far from being termed stable with insurgents commonly labeled as “Taliban” and their supporters in active control. The credibility and operational capabilities of factionalized ANSF are yet to be tested when they assume full control. Many strategic analysts fear the outbreak of a renewed civil war and ethnic strife.

The ANSF has been complemented by the creation of a local police force, the Afghan Local Police (ALP) in insecure districts. Given that the ALP essentially amounts to the re-armament of former military commanders who continue to exercise considerable influence at the local level and who contest the ANSF’s monopoly on power, cooperation between the two is expected to be difficult.

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. Still, tribal alliances and socioeconomic grievances undermine state legitimacy. Furthermore, the so-called insurgents question the government’s authority. Due to built-in factionalism and cronyism, the state has not managed to bridge the gaps between different ethnic

Question  
Score

Monopoly on the  
use of force  
3

State identity  
6

groups and factions. The state's poor capacity to unify has contributed to its fragility. The years of war have resulted in deep divisions along different ethnic, sectarian and political lines. External actors have added to 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. Furthermore, political discrimination has obstructed effective state-building.

Afghanistan is an Islamic republic and religion plays an important role in Afghan society. Politically, the country cannot adopt any policy that contravenes basic Islamic principles. The violent protests against the burning of the Quran by American soldiers at Bagram air base in early 2012 signaled fragility of inter-religious relations in the country. The Asia Foundation's 2012 Survey of the Afghan People revealed that local institutions highly revere religious leaders. Likewise, the Afghan people rely on religious leaders – as well as local strongmen, elders and dignitaries – to resolve family, tribal and legal disputes.

The provision of public services by the basic administrative structures is gradually improving, but progress is slow and the country still lacks effective governance and rule of law. The Afghan government has made limited progress in establishing a sufficient level of governance at the provincial and district levels necessary to win lasting support. The provision of education and health facilities is largely dependent on foreign aid. In March 2012, Acting Minister of Public Health, Suraya Dali, remarked that 75% of health centers in Afghanistan will close down if international aid is cut. In 2012, the supply of students far exceeded the amount of employed qualified teachers. According to statistics provided by the Ministry of Education, 80% of the country's 165,000 teachers have not achieved the equivalent of a high school education or did not complete their university studies. The number of educational facilities is inadequate – only 40% of schools are in permanent buildings according to a 2012 government report – around 4,500 schools are currently being built. Moreover, widespread corruption hampers public services and affects the developmental efforts of the government, as bribes and lack of competency obstruct efficient and equitable service delivery. The judicial sector, local courts and judges are reputed to be highly corrupt. This leads to a situation where ordinary people do not turn to the state for solving local conflicts, but instead consult elders, local strongmen or religious institutions, including the Taliban shadow administration. Indeed, estimates suggest that by the end of 2012, Taliban courts covered jurisdiction in 150 districts.

No interference of religious dogmas

3

Basic administration

2

## 2 | Political Participation

The massive rigging of the 2010 parliamentary elections brought the legislative and the executive branches of government almost on the brink of collapse. In 2011, parliament tried to initiate the impeachment of President Hamid Karzai for setting up a Special Election Tribunal that had been created to investigate reports of fraud. The president backed down and announced the dissolution of the tribunal in August 2011 and confirmed the role of the Independent Election Commission (IEC) authority in determining who was legitimately elected.

Free and fair elections

3

The election commission has scheduled both presidential and provincial elections for April 5, 2014. The international community has already pledged \$13 million to support the holding of elections, with the EU being the largest contributor in the effort to organize the polls. The previous presidential and parliamentary elections, held in late 2009 and September 2010 respectively, were marred by allegations of widespread fraud. The lack of transparency in the system will likely affect the forthcoming elections as well and widen the trust deficit.

Tensions have already begun to mount between the president and the Wolesi Jirga (the lower house of the National Assembly), as debate over electoral and other key legal reforms heat up. The opposition is demanding changes to the structures of the Independent Elections Commission (IEC) and the Electoral Complaints Commission (ECC), as well as an overhaul of the Single Non-Transferable Vote (SNTV), an election mechanism designed to ensure free and fair elections.

Afghanistan is not a mature democracy where elected political powers have effective power to govern in their respective areas. Veto powers include especially the political circle around Vice-President Mohammed Fahim, namely business interests and former members of the Northern Alliance. Groups that formerly made up the Northern Alliance exert considerable influence. All provincial administrators (including governors, security commanders, mayors etc.) and ministers are not elected, but appointed by the president and the Ministry of Interior. It is these local politicians and ministers who ultimately govern, chosen by a small circle of politicians and the interest groups they represent.

Effective power to govern

2

Afghans have long complained about their elected representatives, and now they are accusing some politicians of prolonged absence from work and other abuses. The secretariat that manages the work of the Wolesi Jirga, or the lower house of parliament, accused some elected members of continued absence from the chamber. Indeed, due to a lack of quorum, legislators could not make laws.

The 2004 Afghan constitution guarantees freedom of association and assembly and people have since experienced new civic liberties. Internet use is also growing in Afghanistan, enabling many to collectively voice views on political, social and economic issues. There are diverse associations, for example: the Social Association of Afghan Justice Seekers; the Afghan Elderly Association; and the Association of Afghan Blog Writers. In addition, new umbrella networks have been established to coordinate civil society activities, including the Afghan Civil Society Forum, the Foundation for Culture and Civil Society and the Tribal Liaison Office. There is strong evidence these networks and umbrella organizations are purely donor-driven, however, so their sustainability without outside assistance is questionable.

Association /  
assembly rights  
4

Freedom of expression has flourished during the review period with millions of dollars invested in radio and television programs in Afghanistan. As of September 2010, there were 20 private TV channels, 220 radio stations, and 300 newspapers operating in the country. The freedom is under threat due to a new media law proposed in June 2012. Human rights activists and journalists openly opposed the proposed draft of the media law, which would expand government control of the press and curb freedom of speech. The protests of journalists yielded a small victory in October 2012 when the Ministry of Information and Culture agreed to five of 19 changes suggested by journalists. The changes included getting rid of the proposal for special courts for alleged media violations and a clause that proposed restrictions on foreign radio and TV programming. In another development in June 2012, the government for the first time since 2001 banned a political party, the Solidarity Party, which had accused many former commanders of committing war crimes and demanded justice through the court system. The ban came amid rising concerns that the withdrawal of foreign forces will come with regressive measures concerning freedom of expression.

Freedom of  
expression  
4

### 3 | Rule of Law

While the separation of powers exists between the executive and legislative, this does not ensure the effective functioning of democracy in Afghanistan. The troubling factor is the mutual distrust that marks the relationship between parliament and President Karzai. The relations between these two important pillars of the state have largely been characterized by rivalry, which has resulted in administrative deadlock regarding the governance of the country.

Separation of  
powers  
4

The Afghan Assembly flexed its muscles again on 4 August 2012, by refusing to confirm the re-appointment of Defense Minister Abdul Rahim Wardak and Interior Minister Bismillah Khan Mohammadi. The move came as a result of their failure to reduce alleged corruption in their ministries and to improve security. Though Hamid

Karzai initially bowed down, the nominations were later approved (in September 2012) and the row settled.

In accordance with article 116 of the Constitution of the Islamic Republic of Afghanistan, the judiciary is an independent body. The judicial power is comprised of the Supreme Court, appeal courts and primary courts. The Afghan justice system continues to be notoriously slow, ineffective and corrupt, which contributes to the frustration of many Afghan citizens. The justice system is criticized by many for failing to provide even the most basic elements of fair trials, such as defense lawyers. The informal justice system of jirgas and local shuras operate in the country for quick dispensation of justice and resolution of conflicts. Furthermore, the Taliban shadow administration delivers justice by enforcing its strict interpretation of Sharia law in almost 50% of the districts.

Independent  
judiciary  
3

Office abuse is very common in Afghanistan. However, the Attorney General's office has taken on some controversial cases, the most prominent related to former warlord Gen. Rashid Dostum and Finance Minister Hazrat Omar Zakhilwal. The former is suspected of barring investment in the extraction field in northern Afghanistan, while Zakhilwal is accused of transferring large sums of money into overseas bank accounts. However, these investigations will not necessarily lead to prosecutions. There are many other cases that are slowly coming to light, but no major conviction have occurred.

Prosecution of  
office abuse  
2

Civil rights are guaranteed by the Afghan constitution, but ensuring them in a poor security situation is difficult. Also, human rights organizations and Afghans themselves have questioned the government's commitment to ensuring the basic civil rights of the populace. The Afghan population, and women in particular, have suffered during the review period from widespread lawlessness and abuses by the security forces and armed groups. Shukria Barakzai, an Afghan parliamentarian, has been an open critic of Hamid Karzai for being unable to protect women's rights in the country, let alone ensure the civil rights of the entire Afghan populace. Since justice can be bought in courts, the defense of civil rights issues is relative and belongs to the one with more money and personal relations with strongmen.

Civil rights  
2

#### 4 | Stability of Democratic Institutions

Democratic institutions have been put in place and preparations for the third national elections are underway, which seem to be formally stabilizing the infant democracy in the country. However, these institutions are only operational thanks to massive financial support from international donors. Cronyism and corruption have weakened these institutions and analysts are expecting a faltering support for democracy around the elections in 2014. The security transition around the withdrawal of the international forces from Afghanistan adds to the uncertainty currently felt

Performance of  
democratic  
institutions  
3



throughout the country. Currently there is increasing friction between the president and parliament, while the judiciary and the public administration are not efficient enough to satisfy the needs of the people. In sum, there are grave concerns about the future of the country and its political stability. Therefore, forecasting the performance of institutions is not on the various stakeholders' lists of top priorities.

Democratic institutions are accepted among most political interest groups, but less so among the populace due to non-delivery of services, chief among them security. This lack of effective government presence has allowed anti-government groups to gain a foothold in local communities. The Taliban and insurgents set up alternative institutions and decry the formal government bodies, which provides a major conflict line. Moreover, in Afghanistan, the functioning and service delivery of these institutions is a precondition for their recognition. International actors, particularly the United States and its allies, would like to leave behind stronger institutions that would not be undermined by anti-state elements. For this reason, the investments into local stabilization programs in key areas are enormous.

Commitment to  
democratic  
institutions  
3

## 5 | Political and Social Integration

The country has a weak political party system. Individualism and trust in one's personal network, rather than trust in political parties, has hampered the evolution of a vibrant political system. Afghanistan lacks issue-based parties, which obstructs long-term political goal achievement. The numerous political parties currently operating in the country may seem, on one hand, to be a positive development, but on the other, they are playing a divisive role in an already fractured and conflict-ridden society. Most of these parties have a shadowy past and carry a history of factional splits, ethnic politics and changing alliances. The government took steps to improve the party system by introducing regulations in July 2012, which reduced party registration rules and therefore enabled more parties to register and participate in the elections. At present, Afghanistan's electoral system clearly mandates voting for independent candidates and not political parties.

Party system  
2

The emergence of a multitude of interest groups in Afghanistan – representing women, media professionals and civil society groups – indicates potential that in the future they may become a check on political processes. However, at present these interest groups are largely donor-driven and have not made a loud and clear impact. For example, the birth of the “Trust Parliamentary Group” is putting pressure on the government to fight corruption. Group members are aiming to increase awareness among the Afghans to curb corruption and bring to trial higher ups engaged in corruption. Their voices are given coverage by the Western media, but within their own country they are considered weak groups that do not impact decision-making.

Interest groups  
3

Since 2001, Afghans have become acquainted with democratic institutions. They have experienced two elections in the country and are preparing for the third one in 2014. Democratization has been obstructed, however, by a culture of patronage and a lack of accountability to the citizenry. Afghans believe that the process should continue and gear the country toward greater political stability. However, the common Afghan is not concerned about democracy, but rather about peace and security. Therefore, the anti-government insurgency known as the Taliban is a major challenge to the democratization process. The group is outspoken against corruption and delivers quick and sustainable justice at the local level, which undermines the approval of democracy by large segments of Afghan society. Existing survey data is problematic, as the methods of data-gathering and coverage do not meet academic standards. Consequently, the survey data reflects an overly optimistic picture of Afghans' attitudes and opinions about the current system and their future. Because surveyors could not access critical districts, the value of the survey is negligible. In sum, the lack of legitimacy on the side of the government, which is labeled "democratic" additionally undermines citizens' approval of democracy as a system of government. After all, "democracy" has not provided Afghans with basic services or even security.

Approval of  
democracy  
n/a

In Afghanistan, the social fabric relies is made up of families and selective personal relationships. Beyond this level, social capital is fairly underdeveloped, not least because years of war and insurgency have hampered the evolution of suprafamily and wide-reaching personal networks. The ethnicization and political fragmentation throughout the first half of the 1990s contributed to fissures and strengthened trust at family level only. Political and newly revived social institutions like different councils (jirga, shura etc.) at both the national and sub-national (district, local) levels have not been successful in achieving cohesion and bridging factionalism at the clan, interest-group and tribal levels that dominates Afghan society.

Social capital  
2

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Afghanistan's rank on the Human Development Index improved slightly from 181st to 172nd from 2010 to 2013. However, it still has some of the worst humanitarian indicators in the world: 34% of the population is food insecure and 10% of children die before they start primary school. However, poverty has reduced in past years with 36% of the population living below the poverty line (ranking 53rd out of 157 countries), an improvement from 42% in 2010. Poverty is significant in rural areas and among the nomadic groups of the country, though. The poverty level of the rural

Question  
Score

Socioeconomic  
barriers  
1

population is close to 36%, while in urban centers it is 29% and among the nomadic groups the level rises to 54%. These indicators show the differentiated degree of poverty among the poor groups of Afghanistan, though the reliability of the data remains dubious. Women constitute a negligible fragment of the monetary income earners of Afghanistan (less than 5%). Since mobility outside the home is limited for cultural reasons, women – especially in rural areas – are primarily involved in home-based income-generating activities like carpet weaving, sewing, tailoring, agricultural work, taking care of livestock and selling dairy products. Also, violence against women is on the rise in Afghanistan. The country’s independent Human Rights Commission said there has been a worrisome 22% rise recently.

The continued conflict has marginalized many sectors of the Afghan population, including-youth, returnees, as well as the internally displaced and the nomadic populace. Young employees generally occupy temporary and precarious positions as “apprentices” or “trainees” in a labor market with no contractual or regulatory obligations for employers. Internally Displaced Persons (IDPs) household heads have substantially lower literacy rates and levels of education, directly impacting their labor market outcomes. Subsequently, IDPs’ employment opportunities are primarily in construction and other poorly paid and unsafe jobs.

Nomadic Kuchi communities, which account for 1.6 million people in the country, are socially and economically marginalized. Other nomadic groups, such as the Jogi, Jat, Gorbat and Chori Frosh suffer from severe social, economic and political barriers to education and employment.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	12487.0	15936.8	18033.5	-
GDP growth	%	21.0	8.4	7.0	-
Inflation (CPI)	%	-13.2	12.9	5.7	<b>6.8</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.7	0.5	0.5	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-1828.0	-2687.7	-	-

Economic indicators		2009	2010	2011	2012
Public debt	% of GDP	-	-	-	-
External debt	\$ M	2469.9	2423.3	2623.4	-
Total debt service	\$ M	10.7	10.0	10.6	-
Cash surplus or deficit	% of GDP	0.3	1.5	-0.6	-
Tax revenue	% of GDP	8.4	9.1	8.8	-
Government consumption	% of GDP	11.7	14.3	16.0	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.8	2.4	1.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.0	3.7	4.7	<b>3.8</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Article 10 of the 2004 Afghan constitution guarantees and promotes private investment. Market forces are to operate and competition is to take place to boost the economy. However, the reality on the ground impedes economic growth. For one, security threats limit investors' opportunities to develop businesses in some provinces, and certain sectors (such as mining and hydrocarbons) still lack a regulatory environment that fully supports investment. Corruption has also impeded market competition. Moreover, many businesses cite access to land as one of the greatest impediments to investment in Afghanistan.

In addition, Afghanistan's legal system is only just beginning to be rebuilt. Much of the framework necessary for encouraging and protecting private investment is not yet in place.

Furthermore, the informal sector of the Afghan economy is significant, estimates rate it at about 80% of the registered GDP. Afghanistan's opium economy is growing and the UN warns that cultivation is returning in northern and eastern Afghan provinces that were previously judged to be "poppy free." The total value of the Afghan opiate economy is estimated at roughly \$2.4 billion, equivalent to 15% of the country's licit GDP.

Market-based  
competition  
3

Though Afghanistan has laws in place to discourage monopolistic structures, small groups of businessmen dominate the market in many sectors. These individuals enjoy excessive advantages that result in a non-competitive environment. In addition, some industries, including money changing and carpet production, have well-organized guilds which protect existing firms and create barriers to entry. Regulatory frameworks and enforcement mechanisms are still in their infancy.

Anti-monopoly  
policy  
2

The government has been continuously engaged in eliminating institutional barriers, easing regulation procedures, and developing an efficient legal framework for private investment in Afghanistan. Afghanistan was ranked 160th out of 183 countries in the world in the 2012 Doing Business report of the World Bank and the International Finance Corporation. Under the current government, responsibility for trade policy, trade facilitation, and customs administration is spread across different ministries, offices and agencies, often with conflicting agendas and vested interest groups dominating. Currently, almost a dozen documents are required for both import and export, and process time takes officially 70 days. These problems in Afghanistan are compounded by continuing conflict with insurgents, which particularly affects border regions, and by frictions with its largest neighbor, Pakistan, over a number of trade and border protection issues.

Liberalization of  
foreign trade  
3

The banking sector in Afghanistan is still recovering from the Kabul Bank crisis that hit in September 2010. Growth of bank deposits slowed from an annual average of 79.7% between 2005 and 2010 to an average of 6.5% over the past two years. Growth of commercial loans, which were nearly doubling annually in the years before the crisis, has plummeted to -15% since 2011. Subsequently, Afghanistan's banking performance, which was already the lowest in the region, worsened. The privatization process of Kabul Bank has been initiated. In short, the forensic audits of Afghanistan's major banks indicate systemic fragility and vulnerability in all areas of banking governance and operations, including skills, internal controls, accounting, credit analysis and compliance with regulations.

Banking system  
3

## 8 | Currency and Price Stability

Da Afghanistan Bank (DAB) is responsible for foreign exchange licensing and regulation, and supervision of foreign exchange dealers. The Afghani continued to depreciate by 4.7% against the U.S. dollar and 3.8% against the euro in 2012. This is attributed to lower foreign capital inflows related to the reduction of international military troops. Generally, the Afghani is believed to be overvalued.

Anti-inflation /  
forex policy  
6

After accelerating in 2012, inflation moderated in the months after March, resulting in a decline of the overall price index by 0.5%. Inflation in 2011 was largely driven

by higher prices of non-food items, while food prices increased by only 2.6% and, indeed, have receded since January 2012 (-2.0%).

Da Afghanistan Bank relies mainly on open market operations as an instrument of, and money growth as a target for, monetary policy. In response to the double-digit inflation in fiscal year 2012, DAB curbed money growth to 16% year-on-year. Increasing demand for credit by the government accounted for most of the money growth; demand for credit by the private sector has been declining since the beginning of the year.

Macroeconomic stability in Afghanistan has been heavily dependent on aid flows. The country is undergoing reconstruction and recovery. Therefore, its large material needs tilted the trade balance heavily toward imports. After an initial sharp increase in imports, the trade gap has stayed more or less constant with imports about four times exports, giving a huge trade deficit of 64% of GDP from 2005/06 to 2010/11. In 2010/11 the current account deficit (excluding grants) was estimated at 40% of GDP, and was financed – as in previous years – by grants, confirming Afghanistan’s aid dependency and raising concerns about the impact of aid falls on the current account balance. Taxes and duties are the largest sources of domestic revenue, accounting for 45% and 31% of total collection respectively. Tax collection in fiscal 2012 grew by 16%, largely due to improvements in tax administration, along with greater tax compliance and an increasing number of audits.

Macrostability  
4

## 9 | Private Property

Property rights protection is weak due to the lack of a comprehensive land titling database, disputed land titles, incapacity of commercial courts, and widespread corruption. The acquisition of a clear land title to purchase real estate or a registered leasehold interest is complicated and cumbersome. Legal pluralism provides for an informal property rights system at the local level. The World Bank estimated in its 2012 Doing Business report that it takes an average of 250 days and entails legal fees of 5 % of property value to register a property. According to Da Afghanistan Bank, there is no law on the books that deals specifically with bankruptcy, although the subject is discussed in some of the articles of the banking law.

Property rights  
2

While Afghanistan has laws on patents and copyright, they are not compliant with World Trade Organization (WTO) standards and are in the process of being amended. A draft law on trademarks is also being amended to conform to WTO standards. Afghanistan is not a member of the WTO Trade Related Intellectual Property Rights (TRIPS) Agreement or the World Intellectual Property Organization (WIPO) Internet Treaties. There is no serious enforcement of intellectual property rights, and pirated

DVDs and software are sold throughout the country. Counterfeit pharmaceuticals and building materials are also widespread.

Government policies and regulations apply the standard of competitive equality to private enterprises in competition with public ones with respect to access to markets, credit and other business operations. However, working-level government officials have exhibited anti-competitive and protectionist bias in some sectors in which state-owned enterprises (SOEs) are active. The Ministry of Finance has determined that eight of 64 enterprises should remain state-owned for the time being, while the other 56 should be divested either through privatization, liquidation, corporatization or other mechanisms. The Afghan government has approved 29 SOE liquidations, restructuring and corporatization proposals. Foreign and domestic investors enjoy equal treatment under ongoing privatization programs.

Private enterprise  
5

## 10 | Welfare Regime

The existing social safety nets are inadequate to provide basic needs and livelihood opportunities for large parts of society. Most of the existing mechanisms and institutions are informal and do not reach beyond the core family and wider family level. The public social safety schemes are characterized by fragmentation, small programs and poor systems development. Donor and NGO partners will continue being an essential part of the policy dialogue regarding social service provision, given their primary role in protecting the poor and vulnerable in humanitarian need.

Social safety nets  
1

Afghanistan is ranked 69th out of 86 in the 2012 Social Institutions and Gender Index. The country was ranked 101st out of 102 countries in the 2009 Social Institutions and Gender Index. The 2011 Human Development Index (HDI) score for the country is 0.398, placing it in 172nd place out of 187 countries. The UNDP Gender Inequality Index score is 0.707. Gender bias is evident from the discriminatory family code. Women's full and equal participation in public life is severely restricted by security threats and social customs. Afghanistan does not have effective institutional mechanisms in place to guarantee women's equal treatment in employment, including paid maternity leave. Equality of opportunity in Afghanistan is affected by ethnicity, social group, sectarian affiliation, gender and political group belonging.

Equal opportunity  
2

According to a World Bank report, women's land ownership varies depending on ethnic group. Women's access to property other than land is additionally restricted through discriminatory inheritance practices. There is no information available on laws regarding access to credit in Afghanistan.

## 11 | Economic Performance

Real GDP growth slowed from 8.4% in 2010 to 7.3% in 2011, primarily as a result of unfavorable weather and a poor harvest. However, the agriculture sector rebounded strongly in 2012 and is expected to boost GDP growth to over 10%. Agriculture represents 31.6% of GDP, industry 26.3%, and services 42.1%.

The services sector grew by more than 12 % in 2011. Telecommunications, transportation, and public services were the most dynamic subsectors. The demand for transportation and distribution was fuelled by continuously high donor aid inflows and security-related trade.

The United Nations Office on Drugs and Crime (UNODC), estimated total farm-gate income from opium to be \$1.4 billion in 2011, equivalent to 9% of GDP. The export earnings from opium production are estimated at \$2.4 billion (15% of GDP). Gross income from opium was 11 times higher than for wheat in 2011, thus making opium a much more attractive crop to harvest. Consequently, land used for opium cultivation increased by 7% and opium production increased by 61%.

Exports contribute only marginally to economic growth although the country is distinguished by its openness to trade and, with few products taxed above 15%, it has one of the lowest tariff regimes in the region.

Afghanistan's external position remains weak. The current account gap of 42.3% of GDP in 2011/12 was only slightly lower than the 44.4% of the previous year. Remittance inflows are mostly informal and not fully reflected in the balance of payments statistics. Foreign direct investment remained at less than 2% of GDP. International reserves stand at \$48.6 billion, largely due to large inflows of grants financing the current account deficit and reflecting a surplus balance of payments.

## 12 | Sustainability

Given the dire security situation in many parts of the country, environmental policy formulation is not a priority for the government or for international donors. Except for a lone department, the National Environmental Protection Agency (NEPA), Afghanistan has no governmental structure or institution dedicated to environmental concerns. An environment law was enacted in 2007. However, the implementation and regulatory framework is deficient to any sustainable level.

Yet Afghanistan is in need of stronger environmental policies given its vulnerability to climate change and the population's reliance on agriculture. Afghanistan has an area of 652,000 square kilometers. Up to 80% of Afghans are directly dependent on farming for income and sustenance. Agriculture provides livelihoods for more than

Output strength  
5

Environmental  
policy  
2



60% of the population. Since 1998, more than 6.7 million Afghans have been affected by the impacts of disasters and extreme weather events such as drought, earthquakes, disease epidemics, sandstorms and harsh winters.

Approximately 75% of Afghanistan is vulnerable to desertification. Some 85-90% of the country's water is taken from surface sources, and 10-15% from below the ground. It was estimated that the groundwater resources feeding the Kabul water supply can only cope with increased demand until 2012. Only some 31% of households currently have access to safe drinking water. More than 2.5 million people in Afghanistan are affected by drought or water shortages.

The government is working to improve its literacy levels and is implementing projects with international assistance to develop the education sector. In March 2011, Afghanistan became a Global Partnership for Education (GPE) developing country partner. This achievement is seen as a critical milestone in the development of the education sector in Afghanistan. It represents a significant international endorsement of the plans and capacity of the government of Afghanistan to achieve UNESCO's Education For All goals.

In 2012, the demand for education far exceeded the supply of employed qualified teachers. According to statistics provided by the Ministry of Education, 80% of the country's 165,000 teachers have not achieved the equivalent of a high school education or did not complete their post-secondary studies. As of 2012, the number of educational facilities is inadequate and only 40% of schools are in permanent buildings. In response, around 4,500 schools are currently being built, according to a 2012 government report.

R&D is carried out as part of some international development projects, but with rare participation of local scholars due to lack of capacity. As of now, no Master's degree can be obtained inside Afghanistan except in the languages Dari and Pashto and in religious studies (auqaf), which hampers the capacity of the public administration.

Education policy /  
R&D  
2

## Transformation Management

### I. Level of Difficulty

Structural constraints resulting from Afghanistan's low level of development hamper effective governance and the creation of strong management structures. Afghanistan remains one of the world's least developed countries. The country's GDP per capita is only \$528 (2010/11). More than one-third of the population lives below the poverty line, more than half are vulnerable and at serious risk of falling into poverty, and three-quarters are illiterate. With the beginning of the year 2013 many are voicing that the largely aid-dependent economy of Afghanistan will face major problems when the expected future cuts in aid take place. Aid has funded the delivery of essential services including education and health, infrastructure investments as well as government administration. With a decrease in aid flows, delivery systems and the provision of basic services would likely deteriorate in a corrupt environment.

Structural  
constraints  
10

While the number of registered Afghan Civil Society Organizations (CSOs) and informal civic groups has expanded dramatically in recent years (estimated at 4,280), the vast majority of these CSOs have weak capacity and lack popular public support. Many are only vehicles for attracting foreign aid, while others lack local buy-in and are simply promoting a Western agenda. Some believe that unless peace prevails and the country becomes prosperous and self-reliant, violence will remain and civil society traditions will not evolve strongly. The Afghanistan Civil Society Organizations Network for Peace (ACSONP) is a network of Afghan civil societies established to work for peace, but its progress remains to be seen in the coming years.

Civil society  
traditions  
10

The country has faced decades of conflict, which has polarized Afghan society on ethnic and ideological lines. The subtle divisions between Pashtuns and non-Pashtuns have grown in recent years, increasing the trust deficit even more. The Taliban and the anti-government insurgency continue to threaten peace and security in the country as international forces prepare to withdrawal in 2014. Armed opposition groups killed almost 1,100 Afghan security forces in the last six months of 2012 when NATO forces were handing over security to Afghans. Around 161,000 Afghans were displaced in the first nine months of 2011 due to conflict and 3,000 civilian deaths occurred in 2011 – reminders that conflict in Afghanistan is far from over.

Conflict intensity  
9

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Most of the steering of the Afghan policy agenda has come from the foreign powers providing military and civilian aid. Hamid Karzai, who has ruled the country for almost a decade, including the interim period prior to his formal election in 2004, has been an ineffective leader and has no ability to maintain strategic priorities. Most of the strategic thinking is coming from the United States and its NATO allies. The signing of a May 2012 strategic partnership between the two countries, known as the Enduring Afghanistan – U.S. Strategic Partnership Agreement, resulted from U.S. concerns and its own strategic prioritization. Likewise, the dialogue with the Taliban leadership is also a foreign effort. The strategic stability and policies that benefit the country mainly take roots outside the Afghan soil. It should be noted, though, that the Afghan government is very concerned about the withdrawal of international forces, as security and civilian protection will mainly fall to the Afghan forces.

Prioritization  
3

The Afghanistan National Development Strategy Prioritization and Implementation Plan of 2010 stands out as an ambitious plan. The three main pillars of security, economic prosperity and democracy have proven to be major challenges for Karzai's government. The country can boast a large Afghan National Army and Afghan National Police force (352,000 together) but their performance as a stabilizing force is in doubt, even as the drawdown in 2014 becomes imminent. Implementing the development strategy is subject to the donor aid, which currently forms a whopping 95% of Afghanistan GDP. Similarly, 90% of the government operational expenditures are provided by international donors. Meanwhile, democracy in the country has fallen prey to cronyism and corruption, thereby limiting the government capacity to implement its ambitious development strategy.

Implementation  
3

The Afghan government does not show signs of complex learning as most of its policies have been tailored to suit the interests of various stakeholders. Though the country is preparing for a security transition, clear policies have not evolved from within Afghanistan. The protracted Taliban insurgency reflects the government's failure to learn from history. It has failed to stabilize the country or allow its democratic institutions to flourish. The government is weighing an option of reconciliation with the Taliban to achieve comprehensive peace but has not pushed to get the process started. The Afghan government lacks flexibility to adapt to the changing environment and remains highly dependent on foreign aid, making the future uncertain.

Policy learning  
3

## 15 | Resource Efficiency

Afghanistan is working toward efficient use of its limited resources, but its capacity to do so has come under severe criticism. Many are reluctant to serve in provinces where there is still substantial violence. There is over reliance on U.S. and foreign advisors to keep Afghan ministries operating. The Karzai administrative reform decree issued on 26 July 2012 required virtually every ministry and government body to develop a work plan, complete unfinished tasks, file specified reports or carry out specified reforms. In 2011, donor funds covered 57% of the Afghan government's \$2.2 billion operating budget. Cuts in aid will therefore drastically affect budget allocations. The assets are not fully utilized leaving the country weak and economically frail. One major criticism of many donors is that the Afghan government lacks the management structure and implementation capacity to properly use donor funds. This has caused several donors to distribute funds not to the government administration but to international NGOs. The sustainability of this spending behavior is questionable.

Efficient use of assets

2

The country has not made headway regarding policy coordination. The non-Pashtun elements are at best skeptical of the government's overtures to the Taliban and its attempts to initiate dialogue with the insurgent representatives. They oppose the government policy of reconciliation, and demand a greater representation of their own interests in a new political settlement. In 2012, the Afghan government focused more on coordinating with the United States and international donors to enable a smooth security transition rather than on internal political forces.

Policy coordination

3

In 2012, the Karzai regime openly acknowledged that graft and corruption are pervasive problems in Afghanistan. Corruption is worse than ever and seems to be an intractable problem. Anti-corruption commitments of the government remain low and the High Office of Oversight and Anti-Corruption has not performed adequately. Transparency and accountability are desired objectives of the government but it lacks the will to prosecute corrupt officials and members of the elite. International donors at the Tokyo Conference in July 2012 pledged \$16 billion in developmental aid to Afghanistan over the next four years but made it contingent on the government's commitment to anti-corruption policies.

Anti-corruption policy

1

## 16 | Consensus-Building

Formally, the major political stakeholders within the government are bound to the constitutional commitment on a democratic state. However, Hamid Karzai has failed to build consensus or form a clear vision of what democracy would look like in Afghanistan, and how to achieve it. The main powerful groups lack consensus in Afghanistan, as they are divided along sectarian, ethnic, political, social and

Consensus on goals

3

professional lines. The idea, content and value of democracy are alien to most political stakeholders and to the population at large. Moreover, uncertainty regarding the future political development of the country prevails as Afghanistan prepares for the 2014 presidential elections and the security transition. Taliban and anti-government groups are a major challenge to the ongoing transition process and unless a consensus over power sharing evolves, the institutions will fail to deliver.

Karzai's government has drawn up a roadmap for peace that involves persuading the Taliban and other insurgent groups to agree to a cease-fire as a prelude to becoming peaceful players in the country's nascent democracy. Yet the Taliban strongly oppose the Western style of democracy taking root in Afghanistan. They are demanding a new constitution for the country based on the principles of Islam, national interest, historical achievements and social justice. Their opposition and operations thus impede the democratic process. The government has established the Higher Peace Council at the national level, with sub-branches in the provinces, to promote peace and reconciliation. Members try to win anti-government actors and forces over to the government side. Anti-government actors are convinced to lay down their arms and join a reintegration process during which they receive a salary and sometimes job-training. However, the process is not sustainable and many see it as unjust, as many integrated individuals – who have committed atrocities against the population – enjoy not only impunity, but are granted opportunities like job-training. The government also tried to co-opt anti-government forces into its ranks with the creation of the Afghan local police and paramilitary self-defense groups at the village level. Yet these efforts to transform anti-government actors could backfire. Therefore, the long-term prospects are uncertain and are also likely to be costly.

Afghanistan is split along ethnic, sectarian, social and political lines, however they all intersect and get bridged at times. Years of conflict have created deep cleavages in Afghan society and contributed to the continuation of conflict and instability. The schedule for the security transition has already caused major political factions to test potential alliances. For example, in the north, the major political actors seem to be reviving the once-powerful "Northern Alliance." Already, these forces have quietly begun contingency planning for a case in which the insurgents/Taliban attempt to take power. Attempts by the government to woo Taliban into a reconciliation process are disapproved of by Tajiks, Uzbeks and Hazaras, who are worried about any Taliban influence in the government. There are also fears that the Afghan National Security Forces (ANSF) might itself fall apart along ethnic lines because the composition of the forces favors Tajiks (from the north) over Pashtuns (from the south). The attacks of members of the Afghan security forces on fellow troops or foreign army personal (also known as "insider attacks") in Afghanistan in 2012 is another worrying development on the Afghan security scene as it has the potential to endanger the International Security Assistance Force's (ISAF) mission to train and prepare Afghan security forces for the challenges of stabilizing the country. In a

Anti-democratic  
actors

4

Cleavage /  
conflict  
management

4

nutshell, the political establishment is a cause of cleavage-based conflict, not its remedy.

Civil society organizations have increased, but the government does not take their voice into account when formulating policies. At this juncture, with the country moving toward transition, diverse civil society groups could contribute to a comprehensive Afghan peace process, as they play a mediating role between the population and government bodies. However, civil society's role has been limited and at times excluded in formal negotiations. In fact, some civil society organizations believe that the government does not recognize their due role nor involve them as they are perceived as major critics. Indeed, the government does not take them seriously and their cooperation is not enlisted. Even elected provincial councils, which have an in-between role between constituency and government, are - despite their mandate - often ignored by sub-national government agencies.

Civil society  
participation  
3

The legacy of past war crimes and human rights abuses is an issue of great concern for many Afghans. A desire for justice is well-documented but has so far largely gone unaddressed. The failure to tackle past crimes and implement justice has contributed to a culture of criminal impunity in which all violent actors have continued committing crimes. The government's action plan on Peace, Justice and Reconciliation adopted in 2007 has not been implemented so far. In 2006, the Afghanistan Independent Human Rights Commission (AIHRC) launched an unprecedented effort to document the violations of international humanitarian law in Afghanistan between 1978 and 2001. The report has been prepared, but remains unpublished. The government has initiated reconciliation with the Taliban at the political level.

Reconciliation  
5

## 17 | International Cooperation

The Afghan government has received massive financial, technical and military assistance. The international backing of the country has been solid since the ouster of the Taliban regime in 2001. Security and protection against insurgents have been provided by the international forces, which will hand over the responsibility to the Afghan National Security Forces in the year 2014. International actors have provided the funding and training for the Afghan forces. Most of the political and economic strategies have resulted from foreign initiatives with little role of Afghan leadership. The Afghan government continues to pledge reforms in dealing with corruption, the control of funds, security issues, and the use of aid without making the progress that is necessary. The Kabul Bank scandal is just one indicator of the extent of money laundering and misuse of funds by Afghan political stakeholders.

Effective use of  
support  
5

The government's credibility further waned in 2011 – 2012 due to corruption and weak governance. The international partners are no longer optimistic of Karzai's

Credibility  
3

ability to deliver services and steer the country through the upcoming security transition and democratization process. Karzai's two-year term as president will end in the year 2014 when a new leader is elected. He is not leaving behind a credible and strong political system.

The rationale for a regional approach has intensified with the signal that the current international security presence will be gradually reduced between now and 2014. Afghanistan is party to several regional blocs and initiatives including the South Asian Association for Regional Cooperation (SAARC), the Economic Cooperation Organization (ECO), the Triangular Initiative (a joint effort by Afghanistan, Iran and Pakistan to interrupt the flow of opiates out of Afghanistan). In June 2012, Afghanistan was granted full observer status in the Shanghai Cooperation Organization (SCO), a security coordination body that includes Russia, China, Uzbekistan, Tajikistan, Kazakhstan and Kyrgyzstan. This signifies that the leadership has managed to develop regional links that would ideally lock all neighbors into a cooperative environment.

However, the country has to overcome a trust deficit to make these regional ties more effective in the coming years. The "Heart of Asia" ministerial conference in June 2012, hosted by Afghanistan, brought together 14 regional countries. They jointly agreed to fight terrorism, drug trafficking and pursue economic development. In an effort to keep Afghanistan stable and economically vibrant as donors wind down their involvement, the administration is emphasizing development of a Central Asia-South Asia trading hub as part of a "New Silk Road."

Regional  
cooperation  
6

## Strategic Outlook

Not surprisingly, Afghans see their country's future as tied to external factors, namely the geopolitical situation in the region, and pledges of foreign aid. While the ISAF withdrawal is underway, the pledges for civilian and military aid, made at conferences in Tokyo and Chicago in 2012, served to reassure the population of the country's future stability. Nevertheless, one significant factor possibly inhibiting a return on such aid is low capacity – both of Afghan human resources, as well as the administration in terms of spending. Corruption and nepotism have also weakened the development process over the last years and continue to do so. Regarding the security transition, how the Afghan National Security Forces perform in 2013 and after 2014 will depend upon its capabilities to withstand new challenges, for example being underequipped, despite the available military assistance. Insurgent groups seem to be waiting for a withdrawal of international forces. At the same time, the government is making efforts to demonstrate its commitment to negotiations with interested Taliban factions, stating this would be essential for a comprehensive peace. The Higher Peace Council, charged with the reconciliation and integration of Taliban and anti-government groups, has established offices in each province. At the national level, the talks have not yielded concrete results except for a visit to Pakistan, which resulted in several former Taliban being released (and enjoying impunity now). The next presidential elections are scheduled for 5 April 2014. Independent Election Commission chief Fazel Ahmad Manawi announced that the country's provincial elections, originally to be held in mid-2013, will be held on the same date to minimize costs. President Karzai will be stepping down after completion of his two terms (or a decade if the interim period is taken into account). Many analysts believe that Taliban insurgents will mar the electoral process if they are not involved in the reconciliation process.

The readiness of some Taliban factions to enter into negotiations is a positive sign, though it also sheds light on the splits occurring within the Taliban. It is still contested who will succeed Karzai as president after the 2014 election as no candidate is in sight. Political resistance to a nominee and/or security concerns could cause the election to be postponed.