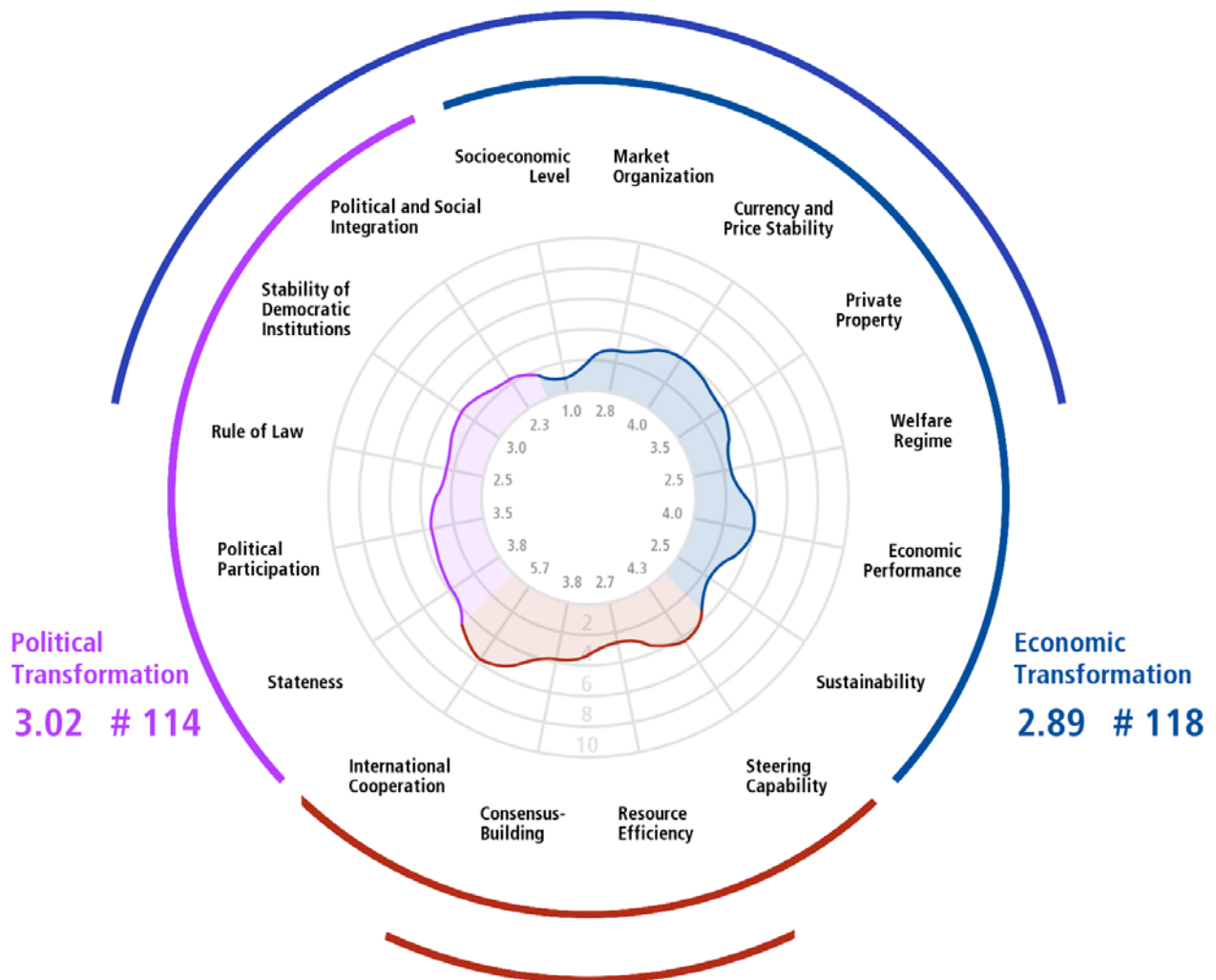


Afghanistan

Status Index

2.95 # 121

on 1-10 scale out of 129



Political Transformation
3.02 # 114

Economic Transformation
2.89 # 118

Governance Index

4.02 # 91

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	34.7	HDI	0.479	GDP p.c., PPP \$	1877
Pop. growth ¹	% p.a.	2.7	HDI rank of 188	169	Gini Index	-
Life expectancy	years	63.3	UN Education Index	0.434	Poverty ³	% -
Urban population	%	27.1	Gender inequality ²	0.667	Aid per capita \$	125.7

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

With the new so-called National Unity Government taking office, headed by President Ashraf Ghani and Chief Executive Abdullah, major policy changes were initiated in Afghanistan. Although the government did not perform as efficiently and quickly as it had initially promised (having raised expectations), international pressure helped prevent the democratic process from being derailed after two years. Both government factions finally seemed to understand each other. Many in Afghanistan were skeptical about the democratic process in the post-election period, as the U.S. had intervened to make the deal possible between the two contesting candidates Ghani and Abdullah. Their performance in the two-year period has not been impressive due to the challenges of weak economy, corruption, power wrangling and increasing insurgency. However, the elected government has survived criticism and collapse.

On January 1, 2015, the Afghan National Defense and Security Forces (ANDSF) took over full security responsibility in Afghanistan, after the United States officially concluded Operation Enduring Freedom and the North Atlantic Treaty Organization (NATO) ended the International Security Assistance Force (ISAF) mission.

This was a major transition in recent Afghan history. The international forces had mainly defended the country, plus assisted it in building institutions and countering terrorism and insurgency. Afghanistan today is mobilizing its own forces to defend the country against armed opposition groups. The main challengers to the state's monopoly of force are the Taliban of the Islamic Emirate (Taliban) and newly emerged IS-Khorasan. The former has broadened the insurgency and returned to levels of strength not seen since 2001. IS-Khorasan comprise mainly former Taliban who were looking for new leaders after Taliban leader Mullah M. Omar was announced dead in 2015. Afghan forces suffer heavy casualties; 2015 and 2016 have resulted in record highs of civilian casualties, increasing numbers of which are killed in ground combat. NATO forces have mainly moved into an advisory and training role. President Obama decided to leave a force of 8,400, larger than the earlier stated 5,500 troops, until the end of his term in January 2017. Security

has been handed over mainly to the Afghans but the dependency of the security forces on continued funding from NATO allies is a source of concern. At the NATO summit in Warsaw in summer 2016, an annual sum of \$4.5 billion was pledged by Western countries to support the Afghan military until 2020. At the Brussels donor conference in early October 2016, the international community pledged another \$15.2 billion for 2017 to 2020. The Afghan budget is still mainly donor funded. Most of the institutions and infrastructure development projects were funded from abroad.

History and Characteristics of Transformation

Afghanistan's statehood resulted from border drawn by imperial powers in the late 19th century. Throughout much of the 20th century, Afghanistan was ruled by a monarch who did not allow democratic traditions to take root (e.g., parties to form freely). The extent to which the state penetrated rural areas before the outbreak of violence in 1978 is rather low. The population has not experienced democracy in the past. During the period of the Soviet-backed rule of the People's Democratic Party of Afghanistan (PDPA), the idea of democracy was discredited. Popular resistance against the policies of the PDPA regime was mobilized based on an Islamist ideology that interpreted the regime's reforms as anti-Islamic. A decade later, the Taliban takeover of territorial control and government in Afghanistan mainly succeeded because they proclaimed to stand for normative principles that promised justice and certainty after half a decade of factionalized civil war and related disorder and injustice (1992-1996). In the current political set-up anti-government forces like the Taliban are using similar Islamist rhetoric and ideological arguments to decry democracy and differentiate it from Islamic principles, thereby speaking out against the presence of international forces on Afghan territory, the high level of corruption and democratic reforms. The Khorsan-Chapter of so-called Islamic State has a similar ideology. The events of 9/11 played a significant role in transforming the country from the Taliban's authoritarian regime to a transitional democratic government under the leadership of Hamid Karzai. In 2001, the Taliban were ousted by Northern Alliance forces supported by the initial U.S. military intervention. In the subsequent formation of government representatives of the previous Northern Alliance were advantaged and disproportionately appointed to leadership positions. Given the ethnicization of the Afghan conflict during the 1990s, this institutionalized a strong polarization between largely Tajiks, Uzbeks, and Turkmen population groups on the one hand and Pashtuns from the south, southeast and southwest on the other. With the military and political intervention expanding in scope, large sums of money and investments in the reconstruction and institution-building process followed. The country established formal democratic institutions, adopted a democratic constitution in 2004, and national elections were held in 2004, 2009, and 2014 for president and in 2005 and 2010 for parliament. Provincial council elections took place in 2005, 2009, and 2014. All elections suffered from a lack of transparency and large-scale fraud. The neglect of intra-Afghan reconciliation and the marginalization of Taliban factions in the 2001 Bonn Agreement, resulting in their political exclusion, set the stage for an increasing insurgency of anti-government groups. The intensity of the insurgency picked up from spring 2006 and

resulted in increasing insecurity throughout the country. The international troop surge of the Obama administration began in 2010 was meant to end the fighting, but resulted in further escalation of violence. Since 2013, the Afghan National Security Forces have taken over the sole responsibility for security countrywide as the international military mission was to withdraw by end of 2014. Over the past years, the number of civilian casualties has been rising steadily.

The U.S. and Western allies backed the government of Hamid Karzai who stayed in power for 13 years. It was the U.S. that salvaged the controversial 2014 presidential elections when the two candidates signed a deal of National Unity Government (NUG). John Kerry, then U.S. Secretary of State, helped the Afghans to proceed with the democratic process, though both President Ashraf Ghani and Abdullah Abdullah, the chief executive, were reluctant to accept the election results. The National Unity Government has completed two years in office despite skepticism about its survival. The government is struggling with reforms, institution-building and strengthening the Afghan National Security Forces. The government is economically fragile and dependent on international donors to function. The growing insurgency of the Taliban and lately IS-Khorasan has resulted in the deterioration of security and stabilization efforts.

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

With the withdrawal of majority of international forces from Afghanistan, the government has not been able to cope effectively with the rising tide of insurgent attacks and bomb blasts, killing thousands of civilians. Taliban and IS forces are engaged in a war of attrition with Afghanistan National Security Forces. The Obama administration revised its earlier decision to withdraw forces by the end of 2016 and allowed left an estimated force of 8,400 in Afghanistan until the end of his presidential term. This decision was the result of the worsening security situation in Afghanistan, where the U.S. had fought its “war on terror” for 13 years. According to the United Nations Assistance Mission in Afghanistan’s (UNAMA) statistics, civilian casualties have been rising to another record high in 2016. The first half of January 2017 saw a spike in security incidents, reported as 56 across 22 provinces out of 34 total.

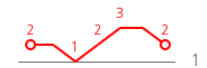
The fighting has been intense and the struggle for control of territory continues. The Taliban gained territory throughout 2015 and 2016 and are at their strongest presence since 2001. Government forces have a monumental task to weaken the Taliban forces who still have strongholds in the north and south of the country. Particularly the north, northeast and west of Afghanistan witness an increasing influence of Talibanization. 2015 and 2016 witnessed bloody battles between government forces and Taliban. Secondly, the government is being challenged by IS (the Khorasan-chapter) in eastern Nangarhar province. IS claimed responsibility for several attacks against Shi’a institutions (mosque, shrine) and the attack on mainly Hazara protesters against the Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan (TUTAP) power line route in July 2016. Compared to previous years, the rating for monopoly of violence has to be lowered at this time.

Question
Score

Monopoly on the
use of force

2

'06 '18 10



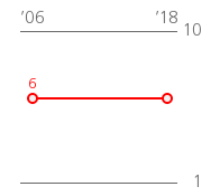
In Afghanistan the issue is not so much about the legitimacy of state but rather the government. Even the Taliban have nationalist sentiments and – in contrast to IS and other jihadi factions – reject a global jihadi agenda. A majority of the Afghan population accepts the fact that Afghanistan is their country, however, years of war and polarization by different political groups and regimes have scrutinized the legitimacy of the respective governments in place. Trust deficits persist among a fragmented population and its political leaders. The nationality question is not dominating the political discourse. None of the ethnic groups would claim that either Pashtuns, Tajiks, Uzbeks, Turkmens, Hazaras, and so on are not Afghan nationals. However, barriers to establish an administrative record and to receive identity documents (tazkeera) exist for a few communities (e.g., Jogi), who can only register in a few northern provinces. Moreover, the ethnic divide has created mistrust among the people as different stakeholders foster the divides rather than engage in nation building. This manifests in disputes and political arguments related to the issuing of new electronic identity cards (e-tazkeera). Although their introduction was planned since 2015, the government has been wary to go ahead with the process after criticism from some political quarters that did not agree with the absence or presence of the word “Afghan” – traditionally understood to only include Pashtuns by the non-Pashtun segments of society – on the cards.

Afghanistan is not a secular state and religion has played a major role in the politics and institutions of the country. Officially called the Islamic Republic of Afghanistan, constitutionally the government cannot adopt any law policy that is contrary to Islam. Political Islam still prevails, but controversy remains as to who is more religiously correct – the Taliban (Deobandi Hanafism), IS (Salafism) or the Islamic constitution of the country (moderate Hanafi). The controversy is not the subject of a debate but manifests violently in contestations between the different groups over territorial control and people’s followership. The religious scholars (ulama) are not entering the debate out of fear of political pursuit. Local clerics cannot afford to be neutral but, given the high insecurity situation in the country, most are supporting the Taliban interpretation of Islam.

Afghanistan, and particularly the new government Ghani/Abdullah since 2014, has made strides in setting up different administrative structures. These have been largely supported by the technical and financial assistance of international donors. Different ministries – education, health, justice, refugee assistance, etc. – are in place and judging by report statistics there has been a gradual improvement in their performance, particularly in the case of the Ministry of Refugees and Repatriation since 2015. However, the country is still passing through a transition period in which efficient functional public administrative institutions are yet to achieve their respective goals. In particular, subnational administrative structures continue to perform poorly, not least because at district level they can barely maintain a presence and enforce policies. Another inhibiting factor is the limited number of trained professionals who the government can recruit, especially in competition with the

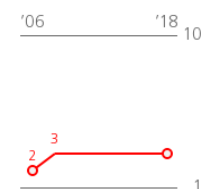
State identity

6



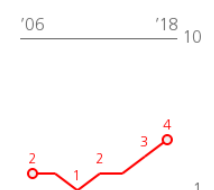
No interference of religious dogmas

3



Basic administration

4



private or NGO/international employment sector. The number of universities and schools operating in Afghanistan has increased but literacy rates still require a boost. The ministry of public health is working to reach out and cater to the needs of increasing health services.

There are several ministries and agencies that share one function; for instance, the High Office of Oversight on Anti-Corruption, Audit and Control Authority, President's Office, Internal Audit Departments of the individual ministries and agencies, and the Attorney General's Office all deal with anti-corruption efforts in the civil service sector.

2 | Political Participation

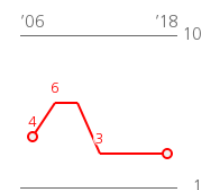
The latest (presidential) election took place in 2014 and was accompanied by major complaints. The elections results were contested and an announcement was delayed. After one round of voting failed to produce a decisive outcome, the 2014 presidential election went to a run-off between the two leading candidates. Ashraf Ghani and Abdullah Abdullah both claimed victory amid accusations of fraud. Eventually the U.S. mediated an agreement between the two candidates and formed the National Unity Government. The two men agreed on electoral reform as a condition for any future elections, but little progress has been made because of disagreements over the makeup of supervisory bodies during the first two years in office (September 2014-2016).

The parliamentary elections to be held in June 2016 were initially delayed until October 2016. Due to continued disagreements a final date has yet to be announced, whereas Independent Election Commission points out that elections are stalled due to insecurity and a lack funds. One of the preconditions is the introduction of the electronic identity documents (e-tazkeera) which is inhibited due to political disagreement over the use of the word "Afghan." The likeliest date for elections will be 2019 and that then presidential, parliamentary, provincial council and, eventually for the first time, district council elections will be held simultaneously. In the run-up to the Brussels donor conference on Afghanistan in October 2016, the government eventually agreed on a new compromise for electoral reform.

The government has tremendous difficulties, even with current political will, to enforce good governance and decrease corruption. President Ashraf Ghani is trying to achieve an effective working relationship with his political rival Abdullah Abdullah, who holds the office of the Chief Executive in the National Unity Government. Despite the President's attempt to recruit professionals who have not been part of previous corrupt factions, several administrative entities are governed by local power brokers like personal fiefdoms. The Taliban have increased their insurgency affecting stabilization in the country. Their arbitrary rule is challenged by a new force, IS-Khorasan promising social justice and a "true" Islamic government.

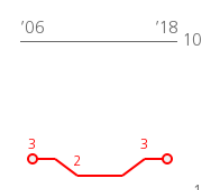
Free and fair elections

3



Effective power to govern

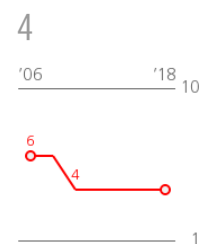
3



President Ghani is facing most consistent criticism from the Hazara community who formed political opposition groups and took to the streets to protest against rising discrimination.

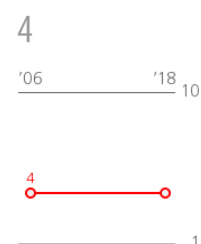
The Afghan constitution guarantees association and assembly rights. The government is facilitating the formation of associations. As of September 2016, there are 2,334 associations. There are no legal barriers to the right of assembly. Yet, due to internal armed conflict, cultural obstacles, pressure from informal actors and government pressure, various population groups and civic associations often cannot fully enjoy their constitutional rights. While in government controlled areas, it is often politicians, bureaucrats and government who intervene and the security forces tend to use inappropriate repression or even lethal violence against anti-government protests, in the insurgency areas, association and assembly rights are non-existent.

Association / assembly rights



The Afghan Constitution guarantees freedom of expression. While current leaders, President Ghani and Chief Executive Abdullah, boast about the strides made by the National Unity Government in granting increasing freedom to the people, critics have highlighted the silencing of critical voices by the government. Journalists have been skeptical of government for not providing them requisite protection as they have been easily targeted by insurgents. Moreover, they also complain about timely official information despite the implementation of the Access to Information Law. Violence against journalists persists. It is common that representatives of various interest groups, including government factions, intimidate journalists to suppress certain news reporting (e.g., about public protests and grievances). The media is still not professional and investigative reporting largely absent.

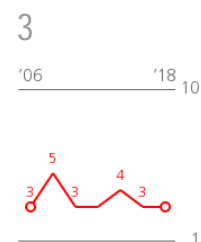
Freedom of expression



3 | Rule of Law

The 2004 constitution of Afghanistan provides for a strong executive in order to keep the government functioning. The executive (since 2014 the so-called Unity government comprising President and Chief Executive) is not only the head of the government but also head of state. The parliament is provided with numerous oversight powers and duties. Given parliament's outdatedness due to overdue elections since 2015, the lower house is comprised of powerbrokers and representatives of interest groups that often work against the government and sabotage many of its initiatives or actions. This was manifest in cases of cabinet appointments, the dismissal of several ministers in 2015 for under-spending their budgets (e.g., Foreign Minister Salahuddin Rabbani, Public Works Minister Mahmood Baligh and Labor and Social Affairs Minister Nasreen Oryakhel), but also in delaying and quasi-boycotting many legal initiatives, such as the approval of the land law. In many cases, as with the electoral reform compromise, the executive is forced to bypass parliamentary legislation by presidential executive decrees. With the formation of the National Unity Government after the controversial 2014 presidential

Separation of powers



elections, the separation of powers within the executive branch are in question. Disagreement exists whether the president needs the consensus of the chief executive officer on important appointments and decisions. The latter's claim of a 50% share in executive matters has not been confirmed by a constitutional process (Loya Jirga) as was agreed upon the establishment of the Unity government in 2014.

Afghan judicial system is slow, corrupt, inefficient, and highly politicized. Political and cultural reasons as well as capacity issues (lack of training and professionalism) are at the root of the miserable state of the judiciary. Given these points, people do not have much trust in the formal judicial system. As a result, they are accessing informal/traditional justice institutions which solve common people's legal conflicts faster and for less money. However, even traditional institutions are known to be largely corrupt and decide in favor of the person with more power resources (money, influence, status, etc.). This provides space for the Taliban and IS to promote their justice ideas and related propaganda. The new Attorney General Farid Hamidi, is campaigning in the country to raise public confidence in the country's legal system.

Afghanistan is widely considered to be a highly corrupt country; in various polls, 90% or more of its citizens said corruption is a problem in their daily lives.

The government's failure to curtail corruption and hold high officials accountable for contracts and bribes, has indirectly fed the continuing insurgency in the country. Officials involved in money laundering have mainly remained above the law. After taking office, President Ashraf Ghani supported the publication of a report of the public inquiry into land usurpations; however legal prosecution is still not enforced. An already convicted and jailed businessman Khalilullah Ferozi in the famous Kabul Bank scam, was initially allowed to sign a deal to set up a housing project in November 2015. The deal was only halted by the government after increasing pressure from the public. In another instance, Vice-President Rashid Dostum was not held accountable for his assault and abuse of a former provincial governor in 2016; instead, his security personnel has been taken to court.

While the constitution provides for a broad range of civil rights on paper, in daily life, ensuring those rights remains illusory. One major factor, among others, is the ongoing internal war and the Taliban insurgency, including new IS activities. The insecure environment and political violence have caused massive internal displacement (1.7 million people by end of 2016) while forced repatriation from Pakistan (more than 600,000 people in 2016) and deportations from Iran (more than 400,000 people in 2016) has added to the mass of uprooted people on Afghan territory, resulting in another humanitarian crisis. Given the limited response capacities of the Afghan government, protection for these groups is limited if not largely non-existent. This affects particularly the poorest sections of society. Striving to survive therefore often means for ordinary people to subject oneself to the locally dominant power group, whether Taliban, IS or criminal power broker. Access to justice is largely inhibited. In more than 50% of the country's districts the population faces a permanent risk of

Independent
judiciary

3

'06 '18 10



Prosecution of
office abuse

2

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Civil rights

2

'06 '18 10



physical integrity and threats to life. Protest and opposition are rare and have not been voiced equally from different sections of society.

4 | Stability of Democratic Institutions

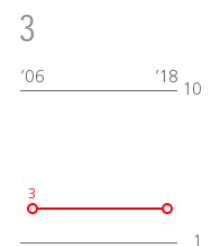
Democratic institutions in Afghanistan are formally established (parliament, legal codes, judiciary, elections, etc.) but they are not stable and lack de facto legitimacy due to perceived ineffectiveness in taking on ordinary Afghan's problems and in bringing about development and peace. Despite reform efforts in the public administration realm, the performance of the administration is modest: budgets are not spent, corruption levels are high, training and recruitment of professional staff is underdeveloped. The constellation of the Unity Government comprises irreconcilable differences that manifest in competing claims for positions to satisfy clientelistic networks of the two government factions. This creates frictions among institutions and results in qualitatively different policy implementation in the subnational governance realms of various provinces. The judiciary is deemed corrupt and its representatives to be acting for their own or their patrons' self-interest, rather than common interest or justice. The delay of parliamentary elections due to the awaited electoral reforms is another sign that democracy's pace is slow and political bargaining between the different power factions difficult.

The increasing instability and insecurity in the country undermines the legitimacy of Afghan democratic institutions. The Single Non-Transferable Vote System has favored individuals rather than proportional representation. Party structures in the western democratic sense are largely absent in Afghanistan, as is the democratic constitution of associations. Society is characterized by patron-client relations and loyalty clusters in different network configurations around certain individuals who are acknowledged as leaders, even if their political attitude is not democratic but based on power resources like status, disposition of the means of political violence (armed followers) and wealth. Moreover, the idea of democracy has been discredited in the eyes of many Afghans because previous regimes that called themselves democratic were perceived as highly un-Islamic (like the Soviet-backed governments in the 1980s) and destructive for Afghan society.

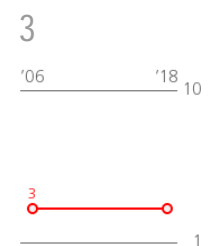
5 | Political and Social Integration

Political parties operate in Afghanistan and the youth has been enthusiastic in registering themselves as members before the 2014 elections. Nevertheless, political parties mostly remain personalized organizations which hamper the progress of deepening the country's democratic transformation. The parliament's term expired in June 2015 and a new election date was not announced until end of January 2017. On the one hand, such delays decrease people's faith in their political institutions. On the

Performance of democratic institutions



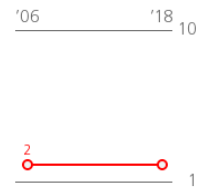
Commitment to democratic institutions



Party system

2

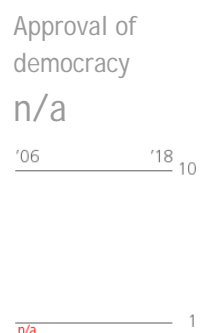
other hand, the contestation and ongoing fragmentation of the political landscape increasingly inhibits not only a societal consensus on electoral mechanisms and the practical conduction of elections, but increases the impression that new elections will not improve the overall situation in the country. Political parties lack a formal role in the legislature thereby weakening their role in policy-making. The electoral system does not require that candidates for the parliament or provincial councils be party members. Party membership therefore offers no formal advantage to prospective representatives. Traditional parties with roots in society are mainly jihadi parties which cater to traditional constituencies because of patron-client networks and thus continue to exhibit path dependencies detrimental to democratic transition. As the country follows the Single Non-Transferable Vote system, parties have little room to grow and develop meaningful political agendas. There are about 70 registered parties in Afghanistan, but they are least democratic institutions. Individuals and personality cults play dominate political culture and inhibit political agenda-setting on development and democracy.



New interest groups are emerging and taking roots in the country. They are humanitarian, social, economic or political in nature. Each one is promoting their cause and exerting influence on the government; however, only few, rather traditional, groups dominate. Polarization is common, and cooperation is the exception. As a result, many societal interests remain un- and underrepresented, especially those of the poor and disadvantaged sections of society, for instance, women, disabled and displaced persons. Representation largely follows the logic of patronage. Intermediary organizations (i.e., unions, peasant organizations or professional associations) are weak, partly reflecting prevalent social power structures in the countryside and partly reflecting the smallness of modern economic sectors (and their interest groups).



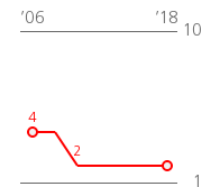
Afghans support democracy in principle but do not see it manifest for their own benefit in Afghanistan because factionalism dominates the political landscape and equal access to rights and resources is a distant dream. The power struggle among the political leaders exhibits non-democratic principles are de facto in effect. The Taliban, and recently also IS (IS-Khorasan), exploit this political space in the tradition of other jihadi parties that decry democracy by equating it with putative secularism that they blame for the dismal state of the population, corruption and the political system at large. Trust in political institutions is increasingly waning as the performance of government institutions and its international partners is seen in a negative light, for instance not having improved access to resources and being unable, and in the perception of people unwilling, to end violence. Existing opinion polls and surveys show a wide discrepancy between various age cohorts, gender, region and an urban-rural divide in respect of the approval of democratic institutions. Across the board, however, there is a growing dissatisfaction with the democratic performance of the political system, its institutions and authorities.



Although Afghanistan still suffers from decades of civil war, ongoing insurgency and ethnic antagonisms, which obviously have negative consequences for social capital and social cohesion, statistics show a growing number of autonomous, self-organized groups. As of September 2016, there are 2,334 associations. There are 4,001 registered local NGOs. The Afghanistan Human Rights and Democracy Organization (AHRDO), Afghans4Tomorrow, the Initiative to Educate Afghan Women, Andisha Community Language School (ACLS) are a few NGOs listed among many operating for the development and promotion of rights of Afghans. But they mainly operate only in Kabul and a few other urban centers. Among ordinary people who struggle to survive everyday (poverty levels are increasing, 80% of the poor are living in rural areas, one-third of the population is food-insecure), mutual trust and self-help is further eroding. The economic situation with declining purchasing power and decreasing employment opportunities blocks traditional mutual help like borrowing and allowing for mutual indebtedness. The increasing insecurity in the countryside further motivates people not to trust their neighbors.

Social capital

2



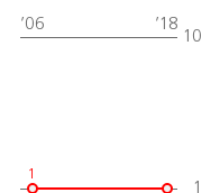
II. Economic Transformation

6 | Level of Socioeconomic Development

Although reliable data is often not available, poverty and social exclusion are extensive and structurally ingrained. More than 38% of the population lives below the poverty line. Half of the population still lives without access to improved water sources, including both men and women living in rural and urban areas. Poverty rates have increased in the past years, not least due to geographical imbalances in off budget spending, as well as insufficient investments in the real economy that could foster sustainable and inclusive growth. The bulk of the population survives on subsistence-economy basis.

Question
ScoreSocioeconomic
barriers

1



While human development and gender inequality improved since the mid-2000s, Afghanistan ranks last in Asia-Oceania, both in the HDI (2015: 0.479) and the Gender Inequality Index (2015: 0.667). The potential of women to contribute to economic development remains severely restricted by structural barriers, cultural norms and insecurity. Relevant indicators for women are significantly worse than those for men. 17% of women are literate, compared to nearly half of men, and just 15% of working age females are in paid employment. Moreover, Afghanistan has the second highest maternal mortality rate in the world and the third highest infant mortality rate, with less than one doctor per every 1000 people. Child labor is extensive and literacy rate is substantially low – only 28.1% of the entire population over the age of 15 is literate; 71.9% of adults are incapable of even basic reading and writing skills.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	20046.3	20050.2	19703.0	19469.0
GDP growth	%	2.0	1.3	1.1	2.2
Inflation (CPI)	%	7.7	4.6	-1.5	2.2
Unemployment	%	8.4	8.4	8.5	8.5
Foreign direct investment	% of GDP	0.2	0.2	0.8	0.5
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-5049.9	-3919.9	-5056.7	-
Public debt	% of GDP	9.5	8.7	9.1	8.0
External debt	\$ M	2576.8	2580.3	2487.5	2403.9
Total debt service	\$ M	25.1	38.2	44.6	43.7
Net lending/borrowing	% of GDP	2.3	-	-	-
Tax revenue	% of GDP	7.2	-	-	-
Government consumption	% of GDP	12.0	12.6	12.3	12.3
Public education spending	% of GDP	3.5	3.8	3.3	-
Public health spending	% of GDP	2.7	2.9	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.1	1.3	1.0	0.9

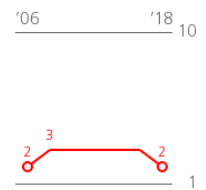
Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

There is no proper legal framework in place for market competition. There are some banking and business laws however they are not clearly defined. Despite efforts to streamline the procedures for establishing a business, bureaucratic impediments to private sector production and investment still hamper the overall regulatory environment. The ranking of Ease of Doing Business in Afghanistan deteriorated to 183 in 2016 from 182 in 2015. This suggests that the regulatory environment is not conducive to business operation with weaker protections of property rights. Due to deficient laws, rules and regulations, the institutional framework is weak. Informal

Market-based
competition
2

financial services still play the major role in business transactions. The labor market remains severely underdeveloped, with the 2009 labor law poorly implemented. The informal sector is large, although an exact quantification is not possible due to limited data availability. Labor migration is common, producing a significant volume of remittances. However, these flows are difficult to measure, as most of these funds are sent through hawala networks.

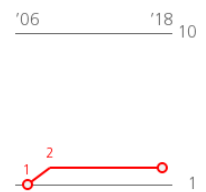


As in the past, heightened uncertainty regarding the political and security transition affected investor decisions to commit resources in Afghanistan during the review period. Local companies have increasingly limited access to finance, and keep fewer accounts with local banks. Less than 5% of businesses and firms use banks to finance investments. Due to the severe underdevelopment of the financial system, the government has very limited influence on monetary policy.

To date, there is no anti-monopoly law. The competition laws prohibit the formation of cartels and practices such as price fixing and the abuse of dominant market positions. However, laws have not in practice deterred profiteers from making gains.

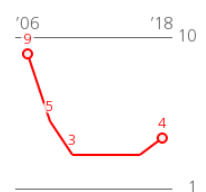
Anti-monopoly policy
2

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



Afghanistan joined the WTO in July 2016 and will have to adjust its legal and institutional infrastructure as per WTO requirements. This requires specifically new legislation and reform in the trade sector. Afghanistan has already started the reform process in tariff and non-tariff areas. Nonetheless, instability and volatile policy enforcement still pose major problems. Lowered investor confidence decreased FDI by 30% in 2015 only. Unemployment and capital flight affect the government revenue, hence missing the fiscal targets. One major impediment to substantial increases in revenues is the high permeability of the Afghanistan-Pakistan border where corruption is multi-layered and systemic. The customs system therefore has a poor reputation. Trade is hampered because of cumbersome procedures (47 agencies involved) that are highly time-consuming and expensive. Since 2015, the government has made efforts for improvements which resulted in few pilot projects in 2016 and an actual increase in revenues from 22% in 2015 to 33% in the first half of 2016.

Liberalization of foreign trade
4



With the exception of land ownership, foreign and domestic investors are treated the same under the law. The financial sector remains underdeveloped, and scarce access to financing hinders private-sector growth.

As mentioned under 7.1, the banking system and financial services remain dominated by informal structures. Three state banks and over 15 commercial banks are in operation across the country, but trust in the banking system is weak. In 2016, the share of non-performing loans stood at 15.2%, whereas the capital to assets ratio was 10.4%.

Six banks are offering Islamic banking instruments and one international bank facilitates small businesses. The banking sector remained mostly liquid and had to face many challenges during the year 2016 due to low level of investment. The absence of Islamic banking regulations, a major deficiency, was resolved during 2016. In the new Banking Law of Afghanistan, there is a complete section for Islamic banking. Moreover, 46 manuals of regulations and guidelines have been developed by the central bank.

Banking remains highly centralized, with a considerable majority of total loans made in Kabul Province. Bank lending is undermined by a deficient legal and regulatory infrastructure that impedes the enforcement of property rights and development of collateral. The difficulty of accessing credit through banks and other formal financial institutions makes existing firms dependent on family funds and retained earnings, limits opportunities for entrepreneurship, and reinforces dependence on the informal financial sector.

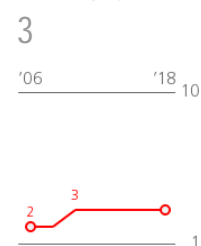
8 | Currency and Price Stability

The central bank of Afghanistan is governed by the Supreme Council, the decision-making body and an Executive Board responsible for implementation and operations. The central bank is run through laws, regulations and circulars. According to the central bank law, it cannot be considered as independent or autonomous, thereby controlling inflation is inadequate.

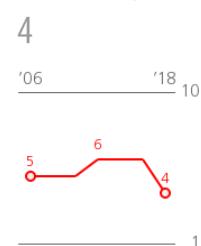
Monetary policy operates closely with its fiscal counterpart and depends upon the demand of liquidity by the government and hence seems to be hostage to the fiscal policy. There is no consistent monetary policy leading to missing fiscal targets in 2016. Inflation remained at 4.8% as reported by some agencies. Forex policy of Afghanistan is dependent upon donor aid and consumer revenue to a large extent. The USDAFN traded at 66.6700 on Saturday January 21, 2017.

The revenue-collecting target of AFN 114 billion was missed as AFN 109 billion was collected. Economic growth in fiscal year 2016 is down by 7% compared to 2015. The factors attributing to the missed fiscal targets are: uncertainty after the pullout of foreign forces from 2014 onwards, a decrease in household consumption, a decrease in trade and lower investment. As well, the low implementation rate of the development budget inhibits more rapid progress toward poverty reduction.

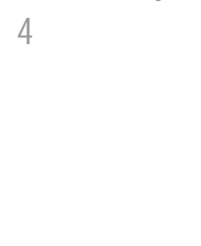
Banking system



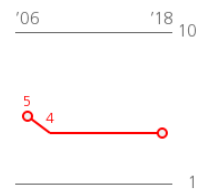
Anti-inflation /
forex policy



Macrostability



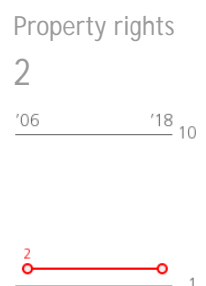
However, recovery of the public sector has led to growth in services, which now account for around 40% of GDP. Mining, so far mostly the awarding of licenses, has also been growing rapidly due to exploration of the country's vast mineral resources, such as lithium, and precious stones. Furthermore, almost 80-90% of Afghanistan's economy is still in the informal sector. Government expenses continue to exceed revenues, resulting in continued dependency on international donors (about 70% of the budget) for the foreseeable future. The withdrawal of international forces indicated how donor-driven economic reconstruction had been bolstered by the needs of foreign troops since 2001, manifesting in economic downturn as demand for transport, construction, telecommunications and other services have decreased significantly after 2014.



Agriculture remains Afghanistan's most important source of employment: 60% to 80% of Afghanistan's population works in this sector, although it accounts for just one-third of GDP and most Afghan farmers are primarily subsistence farmers. Investment has fallen off significantly and is largely financed by donors and the public sector. New firm registrations fell dramatically with half as many new firms registered in 2016 compared to 2013. Afghanistan has a small formal financial services sector and domestic credit remains tight.

9 | Private Property

Property rights protection is weak due to the absence of a formal land titling system, disputed land titles, incapacity of commercial courts and widespread corruption. Land laws in Afghanistan are based on legal pluralism. Frequently, multiple "owners" claim the same piece of land, each asserting rights from a different source. The decree of a new land law has been inhibited by parliament since the early 2000s. Judges and attorneys are often without expertise in land and property matters. An estimated 80% of land is held and transferred informally, without legally recognized deeds, titles, or a simple means to prove ownership.



Resulting disputes hinder the development of commercial and agricultural enterprises. Real estate agents are not reliable. Mortgages and liens are at an early stage of development.

While there is no requirement for foreigners to secure Afghan partners, the Afghan Constitution and the Private Investment Law (2005) prohibit foreign ownership of land. In practice, most foreign firms find it necessary to work with an Afghan partner and many businesses cite lack of land ownership as one of the greatest impediments to investment in Afghanistan. Foreigners may lease arable land for 3 to 5 years and non-arable land for 25 to 30 years.

Article 16 of the Private Investment Law of 2005 (PIL) stipulates that foreign investors are provided national treatment. The PIL permits investments in nearly all sectors except nuclear power, gambling, and production of narcotics and intoxicants. There are also limitations on the total value of service transactions or assets with respect to motion pictures, road transport (passenger and freight), and on the total number of people that can be employed in security companies. There are no active privatization programs ongoing in Afghanistan

The private sector is vibrant but suffers from lack of support by government regulations and policy enforcement, for instance, with regard to export licensing (slow, corrupt, complicated administrative hurdles) and trade facilitation.

Over 30 active state-owned enterprises (SOEs) exist, almost all of which are wholly owned by the government. About 11,000 people are employed in sectors including public security, construction, transport, agriculture and extractive industries. Net income for all the SOEs is around \$13 million; only a few are profitable.

There are 13 state-owned corporations (SOCs), entities that have independent boards and are not operated or directly supervised by the government. SOEs and SOCs make up a small share of overall economic activity, although a few SOCs have significant market share in their sectors, including Afghan Telecom (Aftel), Ariana Afghan Airlines, and the electrical utility DABS (Da Afghanistan Breshna Sherkat).

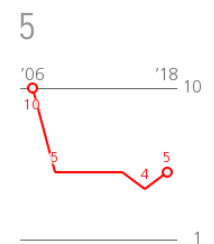
10 | Welfare Regime

The main ministry in charge of protection and social safety net support is the Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD). Vulnerable groups targeted by the MoLSAMD include orphaned children, women with no support, surviving dependents of martyrs and disabled people. A major share (87%) of the protection budget component (1.4% of GDP) is used for pensions of the civil and military retirees as well as the martyrs and disabled. Other vulnerable groups, such as displaced persons, nomads (Kuchi), and poor repatriates do not receive adequate assistance (neither material nor financial). Only 8% of the protection budget is developmental, 92% comprise the operating budget share.

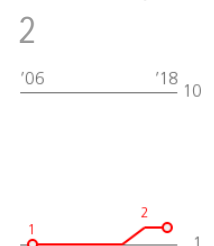
A Pension Administration and Safety Net Project started in 2009 with the objectives to improve administration of public schemes and to pilot modest social safety net programs. Its outreach is very limited, the challenge continues to be the weak integration of the project activities in the formal structure of the Social Affairs Department.

As for the pilot project, the closing date extended by one year, from June 2016 to June 2017, to allow for the activities under the Martyrs and Disabled and Safety Nets components to finish. Around 100,000 pension records are transitioned from the old

Private enterprise



Social safety nets



paper-based scheme to the new technology based pension administration system (PAS), and 75,000 pensioners are paid through bank accounts. The Pension Department (PD) in Kabul introduced the biometric verification of beneficiaries. The Safety Nets component delivered the first round of payments to beneficiaries in May-June 2016. A total of 10,483 poor families were selected and enrolled in the pilot, out of which 6,114 beneficiary families received the first round of direct cash benefits; a control group consisting of the remaining 2,894 families will receive their benefits only after the completion of the impact evaluation.

In contrast to the protection budget component, 84% of the health budget share is for development purposes. Priorities are productivity in health services, mother and children health services and mortality control of newborns.

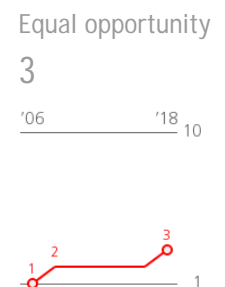
The government of Afghanistan by law gives women the right to vote, freedom from violence, seats in parliament, and so forth. The problem is applying the central government's laws in a country where local customs have prevailed for centuries. In a 2016 survey, 81% of Afghans said women should have "equal" opportunities for education, and 74% voiced acceptance of women working outside the home, up from 64% in 2015.

Women and girls in Afghanistan continue to face severe and persistent discrimination, violence, street harassment, forced and child marriage, severe restrictions on working and studying outside the home and limited access to justice. According to a Global Rights study, 87% of women in Afghanistan experience physical, sexual or psychological violence during their lifetime, with 62% experiencing multiple forms. Traditional justice systems continue to work against women's rights, undermining formal legal reform. Women who seek help to escape violence often face indifference or criminal sanctions for committing moral crimes.

At the same time, there are more women holding positions of power than ever before: 27.7% of the seats in parliament are held by women, four ministries and the Afghanistan Independent Human Rights Commission are led by women and three women have been appointed as ambassadors.

Much of the support for women's rights is narrow, with many Afghans objecting to education if it required women to travel from home, and to women working outside the fields of health care or education. Part of the increase in support for women working appears to be explained by poverty and the need for additional household income.

As well, one of the main inhibiting factors for equal access across all social backgrounds is wealth or one's economic situation. Public offices, access to education and employment often need to be paid for.



11 | Economic Performance

After the withdrawal of the bulk of international troops, the Afghan economy – mainly driven by foreign aid, expenditures by international security forces, and the construction sector – slowed down severely. Unemployment remained high both at the public and government sector. Major national projects like Citizen Charter (initiated in 2016) and the traditional quick fix approaches like cash-for-work, apprenticeships, and internship programs funded by donors made up for unemployment to some extent.

The low yield in the agriculture sector, adverse weather conditions and diseases constrained agricultural production. The GDP growth remained low at 1.5 % with expectation of 1.8% in 2017. This growth rate is much lower than increase in population rate of 3%. Domestic revenue collection picked up from 2015 onwards, partly due to improved tax administration, an increase in taxes on businesses, and a telecommunication fee of 10% on mobile top-ups.

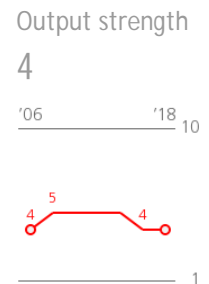
Still GDP growth is low (1.5% in 2016) and 37% of the population lives below the national poverty line. The inflation rate was 4.6 in 2016. Investments and tax revenue remain weak, while trade balance deficit is rising, as is government debt and budget deficits.

Imports have declined with the lowest number since 2013. This implies a decline in domestic demand and purchasing power. Afghanistan's exports improved due to good fruit yields in 2015, which were processed and exported in 2016. The budget imbalance, negative trade balance and international debt suggests poor execution of only 35% of the development budget.

12 | Sustainability

Agriculture and agriculture-related industries are fundamental means of livelihood in Afghanistan, traditionally generating 50% of the country's GDP and supporting 85% of its people. Afghanistan's National Environmental Protection Agency was established in 2005 and the first Environmental Law was promulgated in early 2007. The agency is expected to play a major role in environmental protection, as well as to be the central point in dealing with the management of Afghanistan's environment so that it benefits all the citizens of Afghanistan. However, so far it has hardly performed. For the first time, in the national budget 2016 to 2017, 8.5% of the development budget is reserved for projects to improve the environment. In 2015 to 2016, Afghanistan joined 14 environmental conventions and protocols.

Afghanistan lags in progress toward the Millennium Development Goals (MDGs) - which it committed (in 2004) to fulfill until 2020 - and Sustainable Development



Goals (SDGs). Clean water remains inaccessible for an estimated 35% of the population. This is a major contributor to a range of intestinal diseases, child mortality, and is a proxy indicator for high levels of absolute poverty.

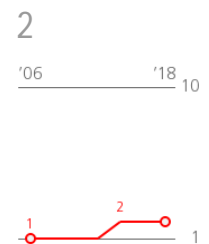
Poverty in Afghanistan is multi-dimensional: it varies by region, by gender, and by access to exit pathways. Poverty is particularly severe in rural areas, where low productivity, poor market integration, and recurrent shocks not only replicate poverty over generations but also render these areas susceptible to migration, warlordism, and recruitment by well-financed operators in the criminal economy. This dynamic has heightened the impact of natural disasters and contributed to deforestation, over-grazing and food insecurity. The protection component share of the current national budget (2016-17) has allocated zero percent for the office of disaster preparedness. There are more than 2.5 million vulnerable persons living with disability, many of whom suffer from social, economic and political marginalization. Urban poverty, intensified by people moving to suburban areas without a growing urban economy to provide them with jobs, is also an increasing concern.

The Afghan education system includes primary education, secondary education, higher education, vocational education, teacher training, and religious education. However, capacity is lacking in public institutions, and in the last decade or more, dozens of fee-based private institutions, most of them also for-profit, have sprung up to absorb young Afghani's growing demand for higher education. The costs of private education are variable and largely unregulated. Although the higher education system in Afghanistan has shown some improvement over the last thirteen years, it still faces many challenges. For instance, the literacy rates are still very low. Nevertheless, the number of high school graduates increases every year and cannot be absorbed by the number of public and private higher education institutions.

The education budget increased from 4.8% in 2014 to 12.5% in 2016 to 2017 (national budget figures) - with the Ministry of Education receiving 81% thereof and the Ministry of Higher education 15%, demonstrating the commitment of the new Ghani-Abdullah government to improve education as one of the major preconditions for development. Following this rationale, the government also drafted a new national strategic plan for higher education 2015/16 to 2018/19 and a higher education law. Despite the increased budget spending for education, the BTI score in this indicator shall remain low because the effect of this spending has yet to bear fruit.

Research is grossly underdeveloped and suffers from a lack of capacity and financial support. The share of the Science Academy in the education sector budget is zero percent.

Education policy /
R&D



Governance

I. Level of Difficulty

Afghanistan still remains one of the most impoverished countries in Asia. 39%-36% of the population lives below poverty line. The statistics vary but the percentage is high for a country going through transition. Many die of poverty and malnutrition rather than the raging insurgency in the country.

Increasing literacy has been high on the government's agenda as it plays a primary role in the development of the country. Literacy data collected by various organizations estimate 38.39% of the adult population (aged 15 years and above) as literate. Accordingly, some 12 million of the adult population are illiterate.

The landlocked geographic position puts it in a disadvantageous position, therefore the current government is giving primacy to regional connectivity. President Ghani's famous quote "Breakfast in Delhi, lunch in Peshawar, and dinner in Kabul – that's the world we seek!" has attracted the attention of the regional governments and Afghan populace. However, the realization is hampered by difficult relations with Pakistan which closed its borders several times in 2016 severely affecting bilateral trade. Furthermore, the mutual accusations of harboring terrorist networks by Pakistan and Afghanistan have caused a deterioration of bilateral ties. The de facto forced repatriation of Afghan refugees from Pakistan back to Afghanistan and connected stigmatization in Pakistan have affected bilateral trade ties and severely brought exports to and imports from Pakistan down. Against the background of these difficulties, transnational development and connectivity projects have remained a distant dream.

Besides war, political violence and terrorism, the country is substantially exposed to natural disasters, heavy floods and landslides caused by extreme weather conditions.

While family, clan- and ethnicity-based mutual support networks could be attributed to represent informal civil society traditions, they have never had a larger societal ambition or worked for a consensus and interest representation toward the state or in public more generally. Rather, they function on the basis of excluding others. Village councils and local institutions have been operating to settle family disputes, yet not necessarily according to democratic principles of justice, and not in non-partisan way. Interest representation in the economic sphere, particularly in urban areas, does have

Structural
constraints

10



1

Civil society
traditions

10

a pre-war tradition. Today, numerous associations work in Afghanistan in order to engage the citizens in public life and make the government accountable. However, the sprouting of civil society organizations is mainly donor-driven and has not increased the social trust that these organizations aim to build. Their sustainability without foreign aid is uncertain. Social trust levels in rural areas have decreased in the reporting period given the expanding insurgency, resulting insecurity and uncertainty of alliances.

Approximately 274 international nongovernmental organizations (NGOs) remained active in Afghanistan in 2015, in addition to nearly 1,800 local NGOs. The country has seen gradual growth and a spreading effect from these organizations. The present Afghan government is said to be more receptive to the voices of civil society than President Hamid Karzai's government. However, many point out that the civil society concerns are not converted to policies in practice due to lack of mistrust and confidence. Secondly, the Afghan civil society is facing the challenge of corruption and transparency. Many view NGOs with suspicion as created by international community with their own agenda rather than the actual concern of the Afghan people.

Afghan society is highly fragmented, as is its political and religious landscape. Multiple group identities overlap, depending on the location (region) and social context. Ethnic boundary drawing has become pertinent once again (visible for example in the emerging Hazara movement and politicization of Hazaras). Among the Taliban, ethnic factors increasingly take a backseat; there are rising numbers of Uzbek, Tajik, and Turkmen Taliban followers.

The major political conflict in the country is the fault line between the main political camps of the Pashtuns on the one side and non-Pashtuns, in particular Tajiks, on the other side. The latter were elevated into positions of national power after 2011 by international intervention. The Tajik dominated Northern Alliance occupied key positions while Pashtuns were conflated to be Taliban or Taliban sympathizers. Consequently, grievance among Pashtun population groups toward former Northern Alliance-affiliated powerbrokers arose who are accused of excluding the former from access to resources and denying them justice. This has contributed to the rise of the renewed insurgency since 2009. Currently, Hazaras accuse the Ghani/Abdullah government of systematic discrimination.

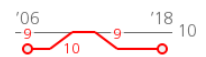
Religious differences have so far been mainly tolerated (Sunni-Shia as well as intra-Sunni sectarian differences). However, with the increasing Salafization of large population groups particularly in Afghanistan's northeast and north, religious conflicts are likely to escalate in the future. Attacks of IS/IS-Khorasan on Shia-shrines and mosques as well as the mutual persecution of religious scholars between Taliban-affiliated and IS-affiliated clerics during 2016 are indicative of this trend.



1

Conflict intensity

9



1

The confrontational nature of politics is manifest in the difficult first two years of the National Unity Government where both offices – that of the president and the chief executive – conflicted in their governing approaches and risked the implosion of the Unity Government.

Simultaneously, the Taliban insurgency saw a surge in the aftermath of the NATO withdrawal. Casualties of forces and civilians have increased in the two years of the new government. According to official figures, the government is in control of two-thirds of the country while the rest is under anti-government forces' influence. The contestation over territorial control and legitimacy is ongoing.

II. Governance Performance

14 | Steering Capability

The government has set strategic priorities based on Ashraf Ghani's 2014 reform agenda Realizing Self-Reliance. It set 39 benchmarks focusing on tackling corruption, improving governance, restoring fiscal sustainability, reforming development planning and management, bolstering private sector confidence, promoting growth and creating jobs, ensuring citizens' development rights and entering into development partnerships with Afghanistan's neighbors and international partners.

Yet, the capacity to go beyond the drafting stage and realize prioritization of strategic objectives in actual policy implementation remains very much limited, due to a lack of capacity and political will. Moreover, the government's long-term strategic aims, as far as they can be identified, are only in part, at least, committed to the country's transformation towards democracy based on the rule of law.

The difficulties with implementation have been glossed over when the reform plan was further specified and narrowed before the 2016 Brussels donor conference that marked the end of the first two years in office of the current government. As a result, a new five-year strategy, the Afghanistan National Peace and Development Framework, was introduced and the previously 22 National Priority Programs (NPPs) narrowed down to 10. They newly include the so-called Citizen's Charter, a Comprehensive Agriculture Development NPP, a National Infrastructure Plan, an Urban NPP and a women's economic empowerment NPP. Inter-ministerial working groups have been established for most NPPs and the president is following up progress personally. In other sectors, for instance, land management reform, a land management authority has been established by presidential decree and draft versions of a Land Management Law and Land Acquisition Law are taken to the High Council

Question
Score

Prioritization

5

'06 '18 10



1

for Land and Water, which is chaired also by the president. Ashraf Ghani is being criticized for investing too much time and energy in micro-management and heading or steering several reform processes himself, up to signing budget allocation decisions and tenders without delegating to the respective sectoral authorities.

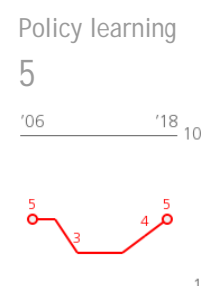
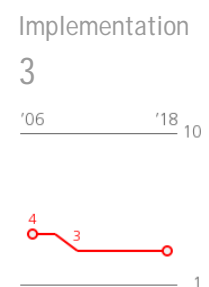
It is too early to assess whether the government will be able to organize its policy measures according to plan. The need for more coordination and efficiency has actually led to a rapprochement of both factions of the Unity Government before the Brussels conference in early October 2016. Despite all differences in governance approaches and so on, the two leaders of the government seem finally willing to bridge their different views and establish a culture of unity. The leadership has underlined the need for good governance and accountability, attempting to eradicate corruption through accountability by involving citizens at both urban and rural levels and improving social facilities.

In order to enhance trade and boost its economy the government has been focusing on signing agreements with neighboring countries, such as Trilateral Transport and Transit Agreements with both Iran and India.

The current government aims to implement its reform strategy, however, it is too early to assess whether the government will be successful in the mid to long term. The structural challenges mount with insecurity and government monopoly of force further being contested. The economy has considerably slowed down since the withdrawal of the international troops and its supporting infrastructure. Social indicators and mass-scale displacement have not resulted in large-scale popular support. On the contrary, the government is seen as weak and economic opportunities declining (leading to less purchasing power, consumption, more food insecurity and rising poverty levels). The fragmentation of the political, religious and social landscape in Afghanistan has furthermore eroded trust and confidence among the different population groups. Short-term incentives, such as promises by armed opposition groups, are welcomed by certain strata of the population for lack of alternatives and this inhibits reconciliation and societal consensus. More than half of the population indicated in a 2016 opinion survey that they would leave the country if given the opportunity.

The government shows limited ability to learn from its past political history and international experiences, yet is adapting to the changing environment. The president's training and socialization as a World Bank economist supports policy learning, although ground realities constrain strategic implementation. While, policy learning happens coincidentally; institutionalized mechanisms that facilitate innovation and flexibility in policy-making are largely absent.

The government is struggling to maintain security in the country largely on its own. Mainly known to depend on the international community to run the government and implement reforms, the government recognizes the fact that the country has to be



self-reliant if it has to survive in the long run. Economic reforms and initiatives are necessary for sustenance. It has made moves to achieve greater regional connectivity. However, it believes in the use of force against the Taliban and IS-Khorasan. The peace agreement in September 2016 with Gulbuddin Hekmatyar, a former warlord and leader of Hizb-e Islami party, is the first of its kind since 2001 and the government has been complimented by the international community as it may pave the way for a future peace deal with the Taliban, who have been fighting to overthrow the Kabul government for 15 years.

15 | Resource Efficiency

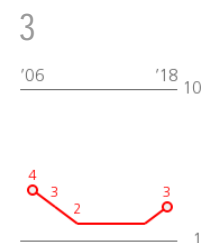
Revenue collection performance was strong in 2015, with domestic revenues reaching 10.2% of GDP. This strong performance has continued into 2016, with domestic revenues collected in the first eight months of 2016 standing at 30% higher than the value for the same period in the previous year. This increase is largely the result of improvements in tax administration and the introduction and implementation of new policy measures.

A poor war-torn country is trying to improve productivity of labor, and investing in human capital by initiating various reform strategies including women empowerment, improving health facilities and providing education. Government is trying to absorb the educated youth returning from Pakistan. It has to bring down the corruption level to achieve efficient utilization of available assets. The mining industry is the backbone of the future economic growth, but it remains under-utilized due to capital starvation.

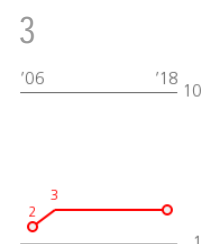
Several ministers had to concede their positions due to under-spending their assigned budgets in 2016. Because of necessary re-appointments of ministers this points to non-efficient use of human resources and is an indicator of wasted financial resources because of non-expenditure. Generally, administrative recruitment processes are marked by political appointments.

Policy coherence is gradually appearing as the government is attempting to improve accountability, fight corruption and reform and stabilize the economy. The president has initiated several interministerial task forces and working groups to ensure policy coherence. He also presides over several so-called High Councils (meetings) centered on key policy issues, such as water and land. What is problematic, is that there seems to be a disconnect between the policy-units in different ministries and government agencies on the one hand and the implementing units on the other hand. While the former are envisioning policy coherence and effective implementation, the latter are not yet sufficiently taken on board and trained accordingly.

Efficient use of assets



Policy coordination

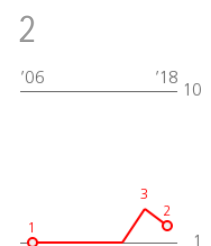


Different ministries are operating under complicated procedures but aim to achieve the larger goal of self-sufficiency to achieve financial sustainability in a peaceful environment.

Afghanistan's Defense and Interior Ministries have developed their five-year strategies for improvement and professionalization of the country's security forces. Counter-narcotics security forces have cleared 12,377 hectares of land of opium and interdicted about 22,000 tons of narcotics in 2015.

Afghanistan is one of the most corruption-prone countries in Asia. The National Unity Government has announced zero tolerance for corruption in the country and has termed it a national shame. With the help of the U.N. it has set up an Anti-Corruption Centre to punish those involved in corruption. So far, however, anti-corruption policy has remained mostly cosmetic. There are a few exceptions. For instance, a top Afghan military general and former chief of the military attorney of Kabul was jailed by an anti-corruption tribunal in November 2016 for 30 months. As well, the court awarded a fine of AFN 50,000 after he was convicted of involvement in corruption during the special tribunal. The High Office of Oversight and Anti-corruption (HOOAC) is monitoring the implementation of anti-corruption policies. Overall, however, the government clearly failed to contain corruption during the review period, and the existing mechanisms in place are ineffective.

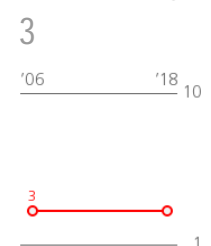
Anti-corruption policy



16 | Consensus-Building

The formation of the National Unity Government and its commitment to consolidate democracy in the country and lay a solid foundation of market economy is evident from its policies. However, the government and country are still being challenged by armed opposition groups, such as Taliban, the IS and Haqqani network, and multiple spoilers among the regional power holders. The government realizes that it has to include all the former warlords and stakeholders in the political process of democratic transformation to make it conducive for economic growth, but disagreements persist and the conflict continues. The insurgency has put dents into the strategic priority of democratization as they are not included. The actions of local power brokers, such as provincial governors or even ex-President Hamid Karzai, indicate that they are trying to undermine the government's effort toward democratic reforms. A consensus on the content and meaning of democracy among all stakeholders in Afghanistan is still absent. For some, democracy is only the discursive facade to receive international donor funding; consequently, their conduct is highly undemocratic, such as a lack of respect for human rights.

Consensus on goals



Reforms are underway to make Afghanistan a competitive economy in the region by opening itself to its regional neighbors with a resolve to ultimately convert the war economy into a vibrant market economy. The latter works only if the environment is competitive and stability is ensured. Joining the WTO in 2016 indicates that

Afghanistan wants an efficient market economy that will pave the way for self-reliance – a major objective of the government. At the moment, still too many actors benefit from a shadow/war market economy because there is obviously easy access to resources that fuel illegal financial flows.

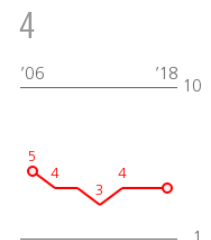
The government has little control of powerful anti-democratic actors. It has yet to put an end to the insurgency that vetoes the influence of the National Unity Government by continuing their activities and stalling the peace process. The bomb attacks carried out by the Taliban and IS-Khorasan have largely engaged the Afghan National Security Forces in a war of attrition. They defy the government in its effort to reform and transform to a peaceful democracy. The peace agreement with Hizb-e Islami's Gulbuddin Hekmatyar is a step toward harnessing anti-democratic actors and could be a model for future peace talks with other armed opposition groups. Besides actors of violence, other influential powerbrokers need to have their anti-democratic influence contained (provincial governors, former ministers with strong local backing and armed support). Furthermore, the subnational governmental administration is often following patron-client logics loyal to one government faction. The exclusion and discrimination of local groups other than their own by subnational government administrators creates strong grievances and hampers faith in democratic processes in everyday politics at the local level. Due to factionalism, even in the national level of government, the government is not able to control these anti-democratic currents at the crucial interface where local population meets local government representatives.

Ethnic cleavages continue, though on the surface it seems that they are being reduced. Ethnic diversity has been used effectively as a political card by various warlords and political leaders in Afghanistan. Even the present government is blamed for dividing the people on ethnic lines. Ghani has surrounded himself with advisers from his Pashtun ethnic group and clan (Gilzai/Ahmadzai), while excluding those from other backgrounds. Both of his vice presidents are from ethnic minorities, but several of his closest confidants are fellow Ghilzai Pashtuns. He has also alienated influential Durrani Pashtuns, whose tribe ruled the country for centuries.

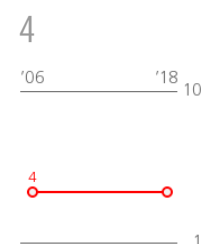
The Afghan political leadership has launched a long-term strategy to expand civil society through its Citizens' Charter Program (2016) that intends to broaden the civic participation in the democratic process. However, skepticism among the people regarding the government's ability to further their interests exist. Unless the Citizens' Charter starts operating and building trust between the government and the people and coordinating efforts, civil society in Afghanistan is less like to grow. Initiatives of the government have been welcomed by various segments of society.

Afghan civil society groups started the 2nd phase of the Afghan people's dialogue on peace in 2014; the result, a comprehensive report "Roadmap to Peace" was presented to the public and the government in spring 2016. Present government representatives

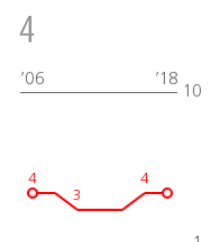
Anti-democratic actors



Cleavage / conflict management



Civil society participation



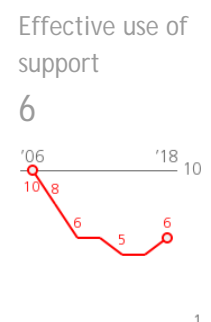
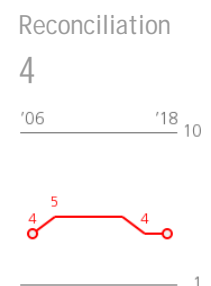
showed themselves committed and appreciated the initiative, albeit no conclusive information is available to what extent the recommendations feed into policy measures.

During their 2014 presidential contest, both Ghani and his rival, Abdullah, promised to make peacemaking their first priority. They were making no headway in efforts to engage the Taliban in a dialogue. The peace deal with Gulbuddin Hekmatyar of Hizb-e Islami, known as the “butcher of Kabul,” is a major development in this regard, as he has been granted general amnesty and removed from the black list of terrorist organization under the agreement. Civil society activists protested against the peace deal, but this was played down by the government which believes that this deal is the beginning of engaging the Taliban in reconciliation process and involving former mujahedin warlords. In contrast to the previous government (until mid-2014) under Karzai, the current government made efforts to recruit administrators and government representatives without a background as violent perpetrators or corrupt power brokers. Nevertheless, several government posts are held by war criminals, such as Vice-President Rashid Dostum. The Afghan government is morally being held accountable for not bringing the violators of law and order to justice, but rather giving them political positions in the government. Practically, however, accountability is not enforced.

17 | International Cooperation

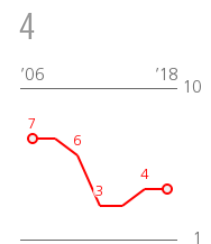
The Afghan government is highly dependent on political, economic and security support by external actors, especially the United States. In fact, the political regime has mainly survived due to international assistance for the country; around 70% of the national budget is externally financed. Despite high-impact support, the Afghan security forces are not able to provide sufficient security without international (military) support. While special forces are more or less effective, the regular police and the army are not up to the military requirements, and personnel often simply lacks the training and the motivation necessary to fulfill their mission.

Since the Tokyo donors’ conference in 2012, the financial aid of the international community is increasingly tied to conditionalities, such as performance in fulfilling the benchmarks of the Tokyo Mutual Accountability Framework (TMAF). The international community has reiterated its support for the transformation decade from 2014 onwards. International donors have welcomed the Afghanistan National Peace and Development Framework (ANPDF) and pledged around \$15.2 billion in Brussels 2016 in support of the long-term strategic development for the period 2017 to 2020. The success will be measured along TMAF’s 39 benchmarks. These pledges made in 2016 indicate the donors’ hope that the present government strategy will be successful in achieving its goal of peace and development. So far, however, there is little indication that this hope is realistic.



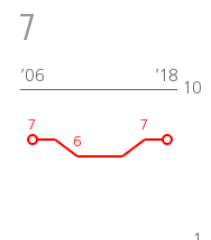
The new government Ghani/Abdullah has initiated renewed partnerships with its neighbors in the initial months of taking office. Pakistan, China, Iran, India and Saudi Arabia were among the countries with whom Afghanistan actively engaged to elevate mutual ties to a new level. Given animosities between its neighbors, especially between Pakistan and India and the deteriorating security situation in Pakistan and Afghanistan due to terrorist attacks which both countries blame on actors from the other's territory, the new partnership initiative did not bear fruit as envisaged and hardly resonates. Iran, China and Russia are believed to support the Taliban given the threat by IS-Khorasan. Saudi Arabia is the origin of comprehensive Wahhabi influences and at the same time a desired candidate for Afghan laborers. On the international level, the government is committed to perform according to the agreed criteria in the Mutual Accountability Framework in order to qualify for further aid. For years the aid has been given to the country despite being criticized for misappropriating funds and wasted by corrupt officials. However, the government has doled out assistance to sustain itself. The government is working to achieve greater credibility by putting forward strategic development plans in order to involve international donors, organizations and international nongovernmental organizations in the transformation process of the country.

Credibility



In 2007, Afghanistan became the 8th member of SAAR, the South Asian Regional Cooperation council. Nevertheless, the relations between Pakistan and Afghanistan are characterized by regular tensions. The Ghani/Abdullah leadership courteously offered a new level of trust upon their taking office, incl. intelligence sharing, joint striving for the peace process in Afghanistan (via Pakistan's influence on the Taliban), improvement of trade relations, and so on. However, after the Public Army School attack in Peshawar 2014, Pakistan resorted to mistrust and decided to expel Afghan refugees. The mutual relations deteriorated throughout 2016. Afghan officials have accused Pakistan's military and Inter-Services Intelligence agency for aiding Taliban insurgents and other militants operating in Afghanistan and of providing sanctuary to them in Pakistan. Afghanistan-India relations are a thorn in the side of Pakistan. President Ghani and Prime Minister Modi of India have agreed to strengthen counter-terrorism cooperation to combat especially the cross-border movement of terrorists. Afghanistan decided to use Indian development assistance for infrastructure and connectivity projects. The Heart of Asia process continues to focus on Afghanistan and its neighboring countries.

Regional cooperation



In December 2015, the leaders from Afghanistan, Pakistan, India and Turkmenistan broke ground to inaugurate the Turkmenistan-Afghanistan-Pakistan-India project, worth \$10 billion. The pipeline, which is due to be finished by 2019, will carry gas from Turkmenistan through Afghanistan to Pakistan and India.

Strategic Outlook

Previous negligence in the reform process until 2014 have caused poverty and social inequality to rise. Moreover, political polarization along ethnic and religious cleavages and ambivalent strategies by Afghanistan's neighbors have not increased the prospects for social stability in the near future. The continued inflow of resources is essential to prevent increasing conflicts over resource distribution among political elites and related risks of violent escalations. The commitment to democratic reforms will depend on available resources because government institutions enjoy legitimacy only as long as they are able to redistribute material or financial benefits. The Afghan government system is highly centralized and risks taking on authoritarian tendencies. The current National Unity Government lacks constitutional backing which can only be legalized by constitutional reform. Parliamentary and district council elections are long overdue. The government should announce a road map for planning and conducting the elections. The main challenges derive from the insecurity situation. After the withdrawal of the NATO and U.S. forces, the Afghan National Security Forces faced an increasing insurgency and suffered high numbers of casualties. Because the Afghan forces are largely dependent upon international military and financial support, the international community has made generous pledges at the Warsaw Summit in 2016 for the next four years. In order to become economically independent, the government has revised the 2012 Strategy for Self-Reliance. One major component of this strategy is regional integration and collaboration with the international community, for example through initiatives such as the Heart of Asia Process, the New Silk Road Initiative and the Regional Economic Cooperation Conference on Afghanistan. The government adopted an anti-corruption strategy to facilitate development progress and institutional good governance.

The domestic actors should keep their resolve to stabilize democracy in the country and move gradually toward transformation. To end the Taliban insurgency, the government should continue to strive for peace talks with the help of Pakistan and other regional powers.