

# Afghanistan

<b>Status Index</b> (Democracy: 2.97 / Market economy: 3.07)		<b>3.02</b>	<b>Management Index</b>		<b>4.62</b>
<b>HDI</b>	0.346		<b>Population</b>	27.2 (2003)	
<b>GDP p. c. (\$, PPP)</b>	822		<b>Population growth<sup>1</sup></b>	2.3	
<b>Unemployment rate</b>	estimated 25%		<b>Women in Parliament</b>	n/a	
<b>UN Education Index</b>	0.343		<b>Poverty<sup>2</sup></b>	60% -80%	
			<b>Gini Index<sup>a</sup></b>	35.5	
Sources: UNDP: National Human Development Report 2005. Figures for 2002 – if not indicated otherwise. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (1990-2002); ADB (2004): Afghanistan: Country Strategy and Program Updates 2004-2006 <sup>a</sup> calculated by the Da Afghanistan Bank on estimated data					

## A. Executive summary

After 25 years of a protracted and devastating war, in 2001 Afghanistan entered a phase of political and economic reconstruction initiated by a massive international military, political and economic intervention. The reconstruction process in Afghanistan is still very fragile and has to master many perils at the same time: Thus the Taliban have destabilized the south and southeast of Afghanistan, warlords are controlling large parts of the country, and the economy of drugs spread throughout the country and was equal to 38% of the GDP in 2004. Moreover Afghanistan is one of the least developed countries in the world and lacks capable state structures and a civil society in a Western sense.

Against these rather unfavorable conditions Afghanistan made an essential progress in the field of introducing democracy and a market economy during the last two years: The government set a reliable framework for a market economy, even if the security environment is not favorable for economic investments. The crucial steps of the Bonn Peace Talks (December 2001), which envisaged a legitimacy of the government and the constitution through the citizens or their representatives (Emergency Loya Jirga 2002, Constitutional Loya Jirga 2003-2004, Presidential Elections 2004), could be realized without heavy setbacks. These political events, moreover, demonstrated that the political elites have accepted democracy as the label for political actions. Nevertheless, the decision-making processes and political expressions hardly follow democratic principals but are dominated by patronage and enforcement. In addition, political institutions remained rudimentary developed: the government is imbued by patronage and corruption, while political parties and organizations of interest are fragmented along personal competition and “clientele-istic” networks.

Thus, it will take decades and many setbacks to establish sound political institutions that are capable enough for a self-supporting democracy. The realization of this goal depends very much on the long-standing military, political and economic commitment of the international community in Afghanistan.

## **B. History and characteristics of transformation**

Local communities, clans, tribes ethnic and religious groups are the most important references for political identity and action in Afghan society. This multifaceted societal organization has worked against state building processes since the end of the 19th century, when the modern Afghan state was founded as a result of the “Great Game” between British India and Russia to serve as a buffer between those imperial powers. During the course of the 20<sup>th</sup> century the Afghan state remained weak not at least because it lacked the financial resources for a self-sufficient state-building process. The country developed into a rentier state financially dependent on external financial resources (e.g. development aid) accounting 40% of the national budget in the 1970s. Though Afghan economic policy was more of the *laissez-faire* variety up to the 1950s it maneuvered between a free market economy and a state-controlled, planned economy until the 1970s.

The policy of the Afghan royal house, which determined politics until 1973, incorporated regional elites into a system of sinecures. King Zahir Shah established a constitutional monarchy in 1964, with a bicameral Parliament consisting of the *wolesi jirga* (lower house) and the *meshrano jirga* (upper house) However the democratic elections for the lower house in 1965 and 1969 found little enthusiasm; the overwhelmingly illiterate population did not realize the importance of democracy and elections. In addition, Zahir Shah missed the opportunity to impose a party law. Thus, all political parties remained illegal which led to the emergence of political movements on the extreme wings, which either pursued communist (such as in the People’s Democratic Party of Afghanistan or PDPA, *shola-ye javid*, *sitam-i melli*) or Islamic ideas (*jamiat-i islami*, *hizb-i islami*).

While state structures had difficulty taking hold in rural regions, Afghanistan’s urban centers advanced as oases of statehood. This triggered the Afghanistan conflict in 1978 and 1979 between the state, which was anchored in urban areas and pushed for political modernization, and rural areas, where traditional and particular interests resisted state power. The PDPA, a communist party with an exclusively urban base that came to power through a *coup d’état* in 1978, attempted to end this system of particular autonomies and forced Afghanistan into modern statehood by implementing radical reforms. The reaction of the traditional elite culminated in revolts across the country and finally led in 1979 to a 10-year intervention of Soviet

troops to support the communist regime. During the war, the embryonic state structures built during the 20th century collapsed on all levels. State infrastructure was nearly completely destroyed, and the state's monopoly on violence was replaced by myriads of competing warlords. In addition, the mujahidin, who took over the government from 1992 to 1994, were not able to re-establish a monopoly on violence. Afghanistan fragmented into numerous small kingdoms and various regions became incorporated into the economic circles of Afghanistan's neighbors while the domestic economy came to a standstill. This formation of warlord structures was directly interlinked with the emergence of a war economy (opium cultivation, drug trade and smuggling etc.)

The Taliban, who appeared in 1994 and took over Kabul in 1996, managed to bring Afghanistan under one rule by controlling about 90 % of the country by the end of the 1990s. However, the movement lost its credits among the majority of the population because of its repressive politics that was legitimized with Islamic references. In addition, the Taliban benefited from the war economy, and under their rule, Afghanistan became the "safe haven" for militant Islamists such as Osama bin Ladin, who already fought in the Afghan jihad against the Soviets.

The military intervention of the Coalition forces in Afghanistan in autumn 2001, following the attacks of 9/11, led directly to a collapse of the Taliban regime. The Taliban were immediately replaced by the identical warlords who stayed in power in the middle of the 1990s and who joined the Northern Alliance, a loosely organized opposition of the Taliban, which became the main vehicle of the United States-led intervention. A transitional cabinet, which was compiled on the Bonn Peace Talks in December 2001, endeavored to reach a balance by including power holders as well as professionals. The important milestones of the peace agreement – the Emergency Loya Jirga in June 2002, the Constitutional Loya Jirga in December 2003-January 2004 and the presidential elections in October 2004 – could be carried out without any severe interference. However, the efforts of the international community to rebuild the country have been contrasted by the fragmentation of the country into myriads of petty kingdoms, the overall lack of security, the dominance of war economies and ongoing clashes among the warlords as well as between the Coalition forces and the Taliban.

## **C. Assessment**

### **1. Democracy**

The new constitution of Afghanistan, released in January 2004, adopted a bi-cameral parliamentary system, which already existed during the constitutional monarchy from 1964 to 1974. It consists of the wolesi jirga (House of People) and the meshrano jirga (House of Elders), both elected in May 2005. In the current process of state building, the first presidential elections were held on October 9, 2004, which confirmed Hamid Karzai in office. Even though the election preparations did not fulfill international standards, the election itself had positive results: firstly, there were no violent actions; secondly, more than 8 million people participated in the election. However, the election made clear that ethnic preferences strongly influence voting and are a hurdle for the democratic process. Furthermore, two warlords, Rashid Dostum and Mohammad Mohaqeq, gained democratic legitimacy by scoring each about 10% of the votes.

#### **1.1. Stateness**

Since the collapse of the Taliban, recurring violence throughout the country has destabilized Afghanistan's security situation. Especially in the South and the Southeast, fighting between the Taliban and the coalition forces has continued. Furthermore, warlords control large parts of the country and occupy governmental posts reaching up to ministers. This has been paralyzing the government in taking action against the warlords and preventing necessary reforms of core ministries. However since 2003, the government is making up leeway and the position of warlords is weakening: Firstly, President Hamid Karzai was able to accomplish his personnel policy by appointing and shifting governors. Most remarkably, he dismissed Ismail Khan, the self-proclaimed Emir of Herat, from his governor's position, after he was put under pressure by other warlords. Also the new cabinet, constituted in December 2004, includes no warlord. Secondly, the state's monopoly on the use of force has been strengthened due to the disarmament, demobilization and reintegration (DDR) of former militias, as well as the training of 21,000 soldiers of the Afghan army.

The fragmentation of Afghan society along ethnic, religious, ideological lines still hinders the creation of a unique national identity. While on the one hand the long-running Afghan War deepened these rifts, it generated on the other hand a belief in a common national identity for the first time, primarily determined by Afghanistan's

territorial integrity. The new constitution, established by the Constitutional Loya Jirga in 2004, endeavors to balance the demands of various pressure groups. On the one side, Afghanistan has become an Islamic State and the Shariah has been established as the fundamental base of the judiciary. On the other side, the constitution takes into account equal rights and duties of men and women before the law, as well as international standards such as guaranteeing human rights.

## **1.2. Political participation**

A significant problem of the Afghan Transitional Authority/Administration (ATA), formed during the Bonn Process, was its lack of legitimacy. The Emergency Loya Jirga held in June 2002, which appointed a new government, was the first step to boost the legitimacy of the government by Afghan representatives. The presidential elections in October 2004 witnessed an enormous voter turnout, which underlined at least the symbolic significance of this election for the people and gave for the first time democratic legitimacy to the Afghan government.

The various steps undertaken during the period under review to improve people's participation can likewise be considered positive, even though questionable at some levels. The Emergency Loya Jirga, the Constitutional Loya Jirga as well as the presidential election, which should be democratic exercises, were influenced by informal acts such as bribes, threats and repressions. The decisions on the Emergency Loya Jirga were taken behind closed doors by the most influential political actors. The constitution was legitimized not by a voting procedure by the representatives, but by way of proclamation by President Hamid Karzai. Thus delegates of both gatherings were disappointed about the procedures.

International agencies as well as the United States are significant veto powers over the Afghan government. Afghan-American advisors influence the decision-making processes in the ministries and the U.S. Ambassador Zalmay Khalilzad has been constantly intervening in domestic politics. Countries such as Russia, Pakistan and Iran also influence political actors by providing them with material and financial support.

The strict censorship of the Taliban era has been replaced by numerous independent print and broadcast media. However, the danger that Islamic groups close to the Afghan government will once again curtail freedom of speech, still remains. The Supreme Court, headed by the Islamist Fazel Shinwari, has repeatedly placed constraints on the freedom of the media. Moral police squads have been established in Kabul and Herat, and throughout the country, there is much to be achieved toward

the equality of women. Despite some prominent exemptions, the participation of women in the public arena is very low. Traditional mentalities still hold women back: poverty, malnutrition, exclusion from public life, rape, violence, poor health care, illiteracy and forced marriages are among their human security concerns. However, more schools and public spaces have been opened to women, and access to media and other forms of expression are on the rise (such as women-run radio stations). The country's new constitution outlaws gender discrimination and reserves a significant number of seats for women in the National Assembly.

### **1.3. Rule of law**

In accord with the new constitution, a Supreme Court (*stera mahkama*), consisting of nine members appointed for a ten-year term by the president and approved by the *wolesi jirga*, along with subordinate High Courts and Appeals Courts, were established. Other bodies connected with the Judiciary are the Ministry of Justice as well as an Afghan Independent Human Rights Commission for investigating human rights abuses and war crimes. A legal multiplicity nonetheless still exists in Afghanistan, in which secular law co-exists with various schools of Islamic law and pre-Islamic legal systems (e.g., *pashtunwali*). Furthermore, an independent judiciary, like other bodies of the political system, has not yet been established. The government further lacks the capacities to punish civil rights violations and deliberate abuses of authority, often by officials. Particularly the branch of the executive, such as the police force, is seriously entangled in the patronage systems of the ruling warlords and repeatedly accused of arbitrary actions.

### **1.4. Stability of democratic institutions**

Despite the positive performance of the presidential elections, democratic institutions are still under construction and can hardly be considered functional in all areas. This applies to both governmental and non-governmental organizations (NGOs). Some politically influential Afghans still have reservations about a democratic system. They include, in particular, Islamic groups who use violence to oppose the government (*Taliban*, *hezb-i islami*). Even more significantly, democratic rules are neither widely known nor heeded. Precisely because patronage-based thinking is so dominant, many politically prominent people accept democracy as a new empty formula, but do not accept democratic rules of the game. Democratic institutions are willingly used for self-serving reasons but their authority is not actually accepted.

## **1.5. Political and social integration**

A civil society in the Western sense can rarely be found and is still constrained by the predominant system of patronage. Traditional forms of political organization such as *shuras* and *jirgas* are the dominant decision-making bodies of the communities.

A stable and moderate party system is not anchored in Afghan society. More than 60 parties have been founded or re-established since the winter of 2001-2002, primarily in Kabul. However, the parties most likely to represent moderate and democratic programs are highly fragmented due to patronage-based structures and personal competition. Political identification usually focuses on individuals. The presidential elections demonstrated that the politicians with the largest personal networks win the ballots.

The high level of participation in elections underlines that most Afghans welcome democracy, the meaning of which, however, remains a moot point within the population. Afghans on the one side connect the notion of democracy mainly to communist propaganda of the 1980s; on the other side this term seems to indicate economic development and peace.

## **2. Market economy**

### **2.1. Level of socioeconomic development**

Afghanistan is one of the five least developed countries in the world. International development aid is the largest pillar of the Afghan economy, besides the agricultural sector that employs 80% of the labor force and is largely subsistence-oriented. An estimated 1.7 million Afghans economically depend on the opium business, which accounts for 80-90% of the global turnout.

Every second Afghan can be classified as poor, and 20.4% of the rural population consumes less than 2,070 kilocalories per day. Poverty is compounded by a lack of social services, poor health, education and nutrition, gender inequality and human displacement. Over half of the population is severely affected by drought. High illiteracy rates – estimated at about 56.8 for the male and 85.9 for the female population – and a lack of education marginalizes large portions of the population.

Women's participation in economic activities and political life is subject to many constraints. In general, women have a poor education, fewer market skills, and they often lack ownership of economic assets and possess a very limited freedom of

choice. Further restrictions arise from the high fertility rate (6.9) and the very high maternal mortality rate. With a GDI index of 0.300, Afghanistan ranks in international comparison just above Niger and Burkina Faso and far behind its regional neighbors.

## **2.2. Organization of the market and competition**

In September 2002, the Afghan government ratified the Law on Domestic and Foreign Private Investment. However, it in fact does not distinguish between the terms for foreign and domestic investment. This law enables 100% of foreign investments, the complete transfer of profits and capital to locations outside the country, international arbitration and streamlined licensing procedures. Furthermore, the Afghan Investment Support Agency (AISA), a clearance and advice center for domestic and foreign investors, was established in August 2003. AISA attracted large foreign investments, especially in the telecommunications sector, where competition between two privately owned mobile networks exists.

The new Central Bank Law and Banking Law were adopted in 2003, granting independence to the central bank as well as providing the legal framework for several other banks, which have been licensed since. The government initiated a broad tax reform in 2004, including business establishment tax, income tax and land tax. Likewise, the tax administration was modernized and there are plans to create units in the provinces under the supervision of the finance ministry.

Due to limited human resources available in Afghanistan, strong competition for skilled local staff exists between the public sector, NGOs, international agencies and the private sector.

Market competition is partly warped as many private firms, even though performing for-profit activities, are registered as NGOs and therefore do not pay taxes. Furthermore, regional strongmen hold monopolies in some business divisions.

## **2.3. Currency and price stability**

The Afghan financial system collapsed with the breakdown of government structures. While the Islamic banking system introduced by the Taliban proved unworkable, the informal hawala system of money-changers emerged during the war and is the most prevalent system for financial transactions till date. While hawala works well enough for smaller financial transactions, it did not guarantee enough security for bigger



investments. Furthermore the hawala system allows the laundering of illegal money, esp. drug money.

In October 2002 the transitional government, building the base for improved economic stability and the implementation of financial and economic reforms, launched a new currency. The new afghani replaced a number of currencies circulating in the country before, and strong fiscal discipline helped to keep the inflation under control. (March 2004: 10.5%). According to the IMF, consumer prices increased in the first quarter of 2004-2005 by 6.9%, compared to an average 2.5% in 2003-2004. This rise reflects increases in rents, education fees and other non-tradable shares.

#### **2.4. Private property**

The government is preparing to privatize non-viable state-owned enterprises, based on a legal framework. Regarding the lack of public safety and the rule of law, disputes over private property currently represent an important conflict area. Real estate, agricultural land and water rights have changed hands frequently over the last 25 years. The land reform at the end of the 1970s resulted in large-scale confiscations, and every shift in military constellations resulted in a redistribution of land and water rights in favor of supporters of the winning side. Since the collapse of the Taliban the return of refugees exacerbated this situation and many warlords (e.g. Mohammad Fahim) have invested their money in land and houses, often taking possession with the use of force. Therefore, land offers an inadequate collateral to generate money and hinders the foundation of small businesses. To overcome these constraints, the Ministry of Commerce plans to establish industrial parks outside Kabul and other cities.

#### **2.5. Welfare regime**

At the point of this writing, the Afghan state does not have the capacities of managing the responsibilities of a welfare system. Only rudimentary social services exist, mostly maintained by NGOs. Some 39% of the population in urban areas and 69% in rural areas do not have safe drinking water, which leads to the death of every eighth child due to contaminated water. Afghanistan has a poor health care system. Its infant mortality rate is one of the world's highest (166 deaths per 1000 live births) and maternal mortality rates are 60 times higher than in industrial countries. The current

health policy is focusing on large vaccination programs against measles and other childhood diseases. Thus, the number of reported polio cases could almost be decreased to nil.

Nearly 80% of the country's 6,900 schools were damaged or destroyed in fighting. The "Back to School" campaign launched by the ATA resulted in some 3 million children, a third of them girls, and 70,000 teachers returning to schools. Until 2004, 54.4% of primary age children were in school. Since 2002, a record of 4 million high school students has enrolled. However, Afghanistan still lacks an adequate educational system and has one of the lowest adult literacy rates, at just 28.7% of the population. In some provinces, over 61% of children are not enrolled, and over 80% of girls do not attend schools. In 2003, 1.5 million children were denied access to education due to a lack of schools and teachers. Accordingly, the teacher-pupil ratio varies between urban and rural areas from 20 to 100 pupils per teacher. The government's deficient programs in education and research are displayed by the total expenditure of 6% on education. The educational infrastructure is still insufficient to handle the high number of new students.

Family and patronage systems based on local, ethnic and religious affinities remain fundamental sources for social security. Especially rural households mostly rely on informal and private risk management instruments. The government has implemented the National Emergency Employment Program that generated 8 million labor days in 2003-2004.

## **2.6. Economic performance**

Since 2002, the Afghan economy has made impressive progress, with real GDP growth, excluding opium production, of nearly 30% in 2002-2003 and 23% in 2003-2004. These high growth rates reflect the low level of economic activities before 2002 as well as the end of a long drought and the impact of donor assistance (\$1.8 billion in 2002 and \$1.7 billion in 2003). GDP growth was strong in the agricultural sector (52%) with a value of about \$2.1 billion, but slowed down since mid 2004 due to the negative impact of bad weather conditions. It has remained strong in the construction sector and services, with the latter benefiting from aid-related and possibly opium-related demands. Nonetheless, the performance of the Afghan economy should still be rated as extremely low because of its structural weaknesses and the lack of human capital, which will require decades to achieve satisfactory scores in the most important HDI parameters. The informal economy (drug economy, hawala) weakens the monetary policy. Modernization of the central bank and reforms regarding the financial sector are progressing, although the banking sector is still in

its infancy. Until now, taxes can hardly be imposed due to the weakness of the state and if they are at all imposed, the warlords often retain these.

The domestic revenue of the Afghan state is one of the lowest in the world (\$348.6 million in 2001-2003). However, the government has put efforts into increasing domestic revenues to be able to afford national security and civil servants' salaries on its own. Economic growth has so far done little to alleviate inequality by income, gender or geography. The poorest 30% of the population receive only 9% of the national income, while the upper third receive 55%. The Gini Index gives the Afghanistan Bank a 35.5 rating.

## **2.7. Sustainability**

Afghanistan's economic activity over the last decade made no allowances for sustainability. Natural resources (for instance, forests) were over-exploited, particularly in conjunction with the dominant economy of violence. Afghanistan's economy continues to suffer from enormous war damage, such as the destruction of the infrastructure or the contamination of agricultural land by landmines. Since 2002, the international community undertook heavy efforts to improve the infrastructure, for instance in asphaltting the highway section between Kabul and Kandahar in 2003, reducing travel time from 14 to four hours. Furthermore since the collapse of the Taliban, air and water pollution, especially in Kabul, have immensely increased due to the high resource requirements of repatriates as well as of the myriads of NGOs and international agencies.

The country still lacks an adequate educational system and has important deficits in education and research. In 2003, about 31,000 students were enrolled in Afghanistan's 17 higher education institutions.

## **3. Management**

### **3.1. Level of difficulty**

After 25 years of war, Afghanistan faces infrastructural deficiencies that are indicated by its poor medical and health care, a high rate of illiteracy (64%) and inadequate vocational education. Major problems are the dominance of the drug economy, "warlord-ism" and the re-integration of the high number of repatriates. Civil and democratic institutions are rarely in existence. Furthermore, the population lacks an institutional understanding and does not trust the government. Particularly in rural

areas the state is associated with arbitrary interference and the promotion of foreign values, endangering the traditional way of living. The local level still constitutes the most significant political arena, and decisions are made by village elders, commanders and religious authorities. Urban areas have become beehives of aid agencies, which are still inadequately coordinated. The government, which attempted to register the aid agencies in 2002, still lacks the capacities to coordinate the agencies.

In accordance to values and lifestyle, the urban and rural population is deeply divided. Moreover, Afghanistan has a high potential for ethnic and religious tensions, which repeatedly escalate in violent strife on the local level. Affiliations with former communist and Islamic groups continue to play a significant role even though they seldom show unifying effects.

### Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	4
System of government:	<i>Presidential</i>	Electoral disproportionality:	27.6
Head of State:	<i>Hamid Karsai</i>		
		Number of ministries:	25
		Number of ministers:	25
<small>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Number of ministries/ ministers denotes the situation on 1 January 2005.</small>			

### 3.2. Steering capability

Because of the political instability and the lack of capacities, the transitional government, established on December 22, 2001, was initially unable to identify or implement strategic priorities. First attempts to change this situation were: the release of the government's National Development Framework in April 2002, and the report "Securing Afghanistan" in 2004, which defined the guidelines for the Afghan government policy.

Reform of the government is still very slow and faces many setbacks. On the one hand, the Ministry of Finance headed by Ashraf Ghani, a former member of the World Bank, took over the leadership of the reconstruction process, and significant progress has been made in fiscal, banking, trade, land titling, and legal and regulatory programs. On the other hand, ministries, such as the Ministry of Defense and the Ministry of Interior, failed to reform themselves, and they are notorious for patronage and corruption. A security sector reform, which is of great importance, did not take

place. This is why the DDR program was conceptualized and carried out in a half-hearted manner, even though a considerable number of militias could be reintegrated into civil life in 2004-2005.

The Afghan government has endeavored to follow international recommendations and has shown a high level of flexibility towards international demands. The Afghan government's will toward cooperation reflects its strong dependency on international financial aid and military (ISAF) assistance. Critics accuse the Afghan government of being a puppet of the international community, particularly of the United States.

### **3.3. Resource efficiency**

The possibilities for the Afghan government to use its human resources efficiently are very restricted. Due to almost 25 years of war, there is a lack of qualified personnel. Educated civil servants are moving to international organizations, attracted by higher salaries. To handle this problem, the Priority Reform and Restructuring Program was implemented, that allows ministries to place key staff on an elevated pay scale.

Patronage pervades all government institutions and remains the main mechanism for recruitments; even many ministers were appointed out of political considerations and loyalties and not due to qualifications. This has resulted in increased inefficiency in several ministries and the poor development of administrative structures. Another problem is that the competences among the ministries are often not clearly defined, for example between the Ministries of Planning, Reconstruction, Economy and Rural Development or between the Ministries of Education, Higher Education, Labor and Women's Affairs on issues of vocational training and adult education. However, President Karzai recently initiated an about-face by compiling the new cabinet mostly with educated professionals and scaling down the number of ministries from 30 to 25 in December 2004.

Corruption is endemic to all state functions (police, judiciary) and is seen as a usual form of business transaction; even ministers were involved in land grabs. Corruption is additionally interlinked with the opium business. Thus, bribery is invested on a massive scale to undermine efforts against the drug economy. While an anti-corruption department was established in March 2004, the government has failed to fight a broad based campaign against corruption.

The Afghan government implemented with international help the National Solidarity Program (NSP), primarily to promote participation and democracy in the local context. The aim of the NSP is that village communities should decide independently

upon municipality development via democratic elected shuras. Although the NSP set positive accents, it entails the danger of creating parallel structures due to the establishing of additional decision-making bodies besides already existing shuras.

### **3.4. Consensus-building**

While the market economy is not at all questioned as the economic framework, democracy is accepted as the “game in town”, externally implemented by the international community. While the results of the presidential elections and the replacements of many ministers were accepted by the concerned political leaders (such as M. Fahim, Y. Qanuni), it is questionable whether they did this out of democratic conviction or more due to international pressure. In addition, political movements such as the Taliban categorically reject democratic principles and repeatedly violently oppose the current government. President Karzai did undertake several attempts to incorporate moderate Taliban into the political structure. Nevertheless, it seems almost impossible to integrate the multiplicity of political actors in the processes of decision-making and shaping public opinion. This is why President Karzai, who previously included influential warlords in his cabinet, now follows a strict course of confronting them since August 2004. However, he still endeavors to bridge the gap between the professionals in his cabinet and the strong mujahidin faction led by Burhanuddin Rabbani and Abdurrah Sayyaf. Karzai’s skill in bridging social rifts was one important reason for his affirmation in the presidential office; he was the only candidate who managed to win votes among all ideological, ethnical and religious groups.

The government endeavors to recruit leading figures of the social elite for governmental positions. However due to the weakness of the civil society, an exchange of ideas with civil society organizations and their increased participation has rarely occurred. The government does not yet have the ability for developing social capital among citizens.

Afghan society is deeply divided as the ideological, religious and ethnic cleavages caused by the war are still alive and dominate existing stereotypes. This, for example, became obvious during the Constitutional Loya Jirga, when Malalay Joya, after criticizing the mujahidin mythos in public, received threats on her life. A reconciliation process, which has to deal with a complexity of overlapping conflicts, has not started yet, but it has been frequently discussed.

### **3.5. International cooperation**

The international community plays a crucial role in Afghanistan's present situation. With an annual assistance of \$1.2 billion, the international community is the driving economic force behind the reconstruction of Afghanistan. In addition, it has to taken into consideration that the process of political reconstruction was ushered in by the United Nations (UN) and the United States and externally implemented by the Bonn Agreement in late 2001.

Regarding the low absorption capacity of the Afghan government, the national budget is divided into a core budget under direct control of the government and an external budget that flows from donor agencies directly to UN agencies, NGOs or private contractors. However, the latter budget, in bypassing the government, can increase tensions between the centre and provinces and create parallel structures. Thus within the society and the government there is a growing amount of criticism about the efficiency of NGOs.

The government is generally considered a reliable partner that endeavors to implement the Bonn Agreement. The Afghan government works very closely with the IMF, the World Bank and the Asian Development Bank to establish an economic and fiscal system that corresponds to international standards. However, problems arise from the lack of state power and the absence of the rule of law. Many provinces remain under the control of warlords; thus, insecurity has remained a serious problem for international organizations, foreign investors or international NGOs. Especially in South and Southeast Afghanistan, civil expatriates became "soft targets" of the Taliban.

Because Afghanistan is landlocked, its economic development highly depends on its cooperation with neighboring countries. Moreover, the neighbors are eager to pursue their own interests in Afghanistan – a fact which played an enormous role during wartimes in the 1990s. Especially the relationship with Pakistan is still on bad terms, despite state visits. Since 2004, exchange of fire between border guards of both countries have frequently occurred and diplomatic residences of Pakistan were looted by an Afghan mob in Kabul in July 2003 and in Mazar-i Sharif in November 2004. Nevertheless, the Afghan government has signed cooperation agreements with all its neighbors: the "Central and South Asian Trade and Transport Forum" are worth mentioning which promote regional trade and economic cooperation and a Gas Pipeline Project, envisaged to be built in the near future after the review period. This 1,600 kilometer pipeline could transport up to 30 billion cubic meters of natural gas

from Turkmenistan via Afghanistan to Pakistan and India. The project will take four years to be completed and will cost approximately \$3.2 billion, to be funded by the World Bank.

#### **4. Trend of development**

##### **4.1. Democratic development**

The presidential elections of October 2004 gave the impression that democracy developed in a rapid way. Of course and most importantly, the presidential elections underlined that large parts of the Afghan society accepted democracy as the new political system. However, democratic proceedings and values are not deep rooted in the Afghan society at all. Especially in rural areas, knowledge about democracy is poorly developed. For example, the difference between the function of a king and a president is widely unknown. In addition, client networks and bribery dominate voting patterns. During presidential elections, the local potentates often enough decided upon which candidate his constituency was for whom to vote.

Moreover, democratic institutions and practices are rarely established. For example, decision-making processes of political parties hardly follow democratic rules and are dominated by patronage. Only a few parties managed to agree on a political program. The introduction of democratic principles to the community level through the NSP showed contrasting results: While in several communities democratic rules could be established, in others the local elite dictated the outcome.

##### **4.2. Market economy development**

The government's "National Development Framework" and the "Securing Afghanistan's Future" report set ambitious goals, including large improvements in the socioeconomic situation, in line with the Millennium Development Goals. Since the HDI and the GDI were first ever levied in 2004-2005, statements about socioeconomic development have to rely on other indicators. In general, a progress of the human development and education level can be recognized, most notable in data about school enrollment and food security. Another indicator for the improved situation is the number of three million refugees who returned to Afghanistan.



**Table 2: Development of socioeconomic indicators of modernization**

	HDI	GDI	GDP index	Gini index	UN Education Index	Political representation of women <sup>a</sup>	GDP per capita (\$, PPP)
2002	0.346	0.300	0.352	35.5	0.343	-	822

Sources: UNDP: National Human Development Report 2005

Bearing in mind that during wartimes a governmental economic strategy was non-existent, since 2001 the government established an institutional framework for a market economy, which pays attention to the private sector and put it in the center of its strategy. Two out of three pillars of the National Development Framework are related to the private sector. Structural reforms were also executed in the financial sector and in the trade sector.

**Table 3: Development of macroeconomic fundamentals (2000-2004)**

	2000	2001	2002	2003	2004
Growth of GDP in %	N.A.	N.A.	29 <sup>a</sup>	16 <sup>a</sup>	N.A.
Export growth in % (Merchandise)	N.A.	N.A.	47,1 <sup>b</sup>	33,4 <sup>b</sup>	N.A.
Import growth in % (Merchandise)	N.A.	N.A.	40,3 <sup>b</sup>	23,6 <sup>b</sup>	N.A.
Inflation in % (CPI)	N.A.	N.A.	5,2 <sup>d</sup>	24 <sup>b</sup>	N.A.
Investment in % of GDP	N.A.	N.A.	N.A.	N.A.	N.A.
Tax Revenue in % of GDP	N.A.	N.A.	N.A.	2,4 <sup>a</sup>	N.A.
Unemployment in %	N.A.	N.A.	N.A.	N.A.	N.A.
Budget deficit in % of GDP (million US\$)	N.A.	N.A.	728 <sup>a</sup>	1306 <sup>a</sup>	N.A.
Current account balance in % of GDP	N.A.	N.A.	4,7 <sup>c</sup>	3,4 <sup>c</sup>	N.A.

Source: **a:** World Bank (2004): Afghanistan: State Building, Sustaining Growth, and Reducing Poverty; **b:** ADB (2004): Afghanistan: Country Strategy and Program Updates 2004-2006; **c:** ADB (2004): Country Strategy and Program Update 2004-2006; **d:** World Fact Book <http://www.cia.gov/cia/publications/factbook/geos/af.htm> accessed January 27, 2005.

Economic development has improved enormously. Starting from a very low base, growth of the legal GDP was well over 4%, but recently lost some of its momentum. After 29% in 2002-2003 and 16% in 2003-2004 (downward revision from 23% due to low output in the agricultural sector), 8% is projected for 2004-2005. This will fall short of the earmark of 9%, which was envisaged as an acceptable, visible economic and social progress strong enough to compete with the drug economy.

#### **D. Strategic perspective**

Although the year 2004 offered some positive developments (presidential election, decreasing power of the warlords) Afghanistan still faces many problems threatening the political and economic reconstruction of the country. The parliamentary elections, scheduled for May 2005, will most likely intensify the conflict situation: The danger exists that various local conflict constellations will influence the elections and the latter become a platform for unsolved conflicts. Moreover, the logistical problems are immense: Size and boundaries of many districts are controversial and a census of the provincial population has not taken place yet.

In addition, the state's monopoly of violence is still not achieved and can be challenged by the warlords. The new cabinet has to prove that it is able to conduct necessary reforms and to realize them against the will of the warlords. Furthermore, it is premature to describe the Taliban as a run-out model although reports on the dissolving of the Taliban are circulating since summer 2004. While the elections showed that, at present, the Taliban hardly have the necessary logistics to run large-scale operations, they are still able to destabilize large regions of the country.

The economic development might be one of the most protracted problems of the country. Thus, the Afghan economy suffers from the legacies of war and is still underdeveloped. On the one hand, it will take decades to fulfill the minimum of socioeconomic standards. On the other hand, it will take a long time to reduce the opium economy in a sustainable way. The international community regards opium production widely as the major obstacle in the reconstruction of the Afghan state. Opium forms the mainstay of the Afghan farming and dominates the national export. The strategies for fighting the drug economy used in other countries seem insufficient in regard of the complex situation in Afghanistan. Much depends on the approach the international community decides to take. A strong emphasis on eradication would have had negative impacts on the rural poverty and could breed strong anti-governmental feeling. A sustainable – equate distributed – economic growth and the development of strong institutions could create the political safety and social as economic prerequisites to eliminate opium cultivation, however will take decades.