

# BTI 2010 | Afghanistan Country Report

<b>Status Index</b>	1-10	<b>2.81</b>	# 124 of 128	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	26.3	HDI	0.4	GDP p.c.	\$	-
Pop. growth	% p.a.	-	HDI rank of 182	181	Gini Index		-
Life expectancy	years	44	UN Education Index	0.35	Poverty <sup>2</sup>	%	-
Urban population	%	-	Gender equality <sup>1</sup>	-	Aid per capita	\$	145.7

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

Little progress in democratic and economic transformation in Afghanistan has been made during the period under review. Democratic institutions set up with massive economic and technical support from international donors have not succeeded in broadening the scope of democratization. As the government has failed to deliver services and security to the Afghans, speculations have started as to who will replace President Hamid Karzai in the 2009 presidential elections. The rising number of civilian deaths and the influence of the international forces have led to his waning popularity and an increase in support for the Taliban, perceived to be struggling to liberate their country from foreign “occupation.”

The Taliban, which has created a parallel government structure that includes defense and finance councils, has waged an insurgency that has crippled the country’s progress. An estimated 50,700 foreign forces in the country have faced stiff resistance from the Taliban and other anti-government elements, including al-Qaeda operatives. In 2008, a large part of the country remained without adequate security, and armed bands launched attacks in regions not controlled by the central government.

Hampered by massive corruption and a lack of quality leadership and human capital, the government of Afghanistan remains weak. It has failed to implement important reforms that are needed to promote human and socioeconomic development in a country where 53% of the population lives below the poverty line. Frustrated and disappointed with the government’s failings in terms of security and welfare, Afghan citizens’ support for the democratic process has declined considerably in the last two years.

The Afghan government announced measures to fight corruption between April and September of 2008. Following the recommendations of a high-level government commission, two new anti-corruption bodies were established, the High Office of Oversight, an independent oversight unit, and a special anti-corruption investigative unit within the Office of the Attorney General. However, as of January 2009, no measurable progress in curbing corruption has been observed.

## History and Characteristics of Transformation

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

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

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

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

The Taliban regime, led by Mullah Mohammad Omar, established a strict Islamic government based on a fundamentalist interpretation of the Quran and traditional Pashtun tribal code. The new government soon found itself politically isolated within the international community as a consequence of its strict religious and political outlook. During this period, the ousted regime of former President Rabbani continued to receive support from the West.

In retaliation to the events of 9/11, the United States invaded Afghanistan in late 2001, and the Taliban government collapsed shortly thereafter. Under the auspices of the United Nations, plans

were developed to establish a new, broad-based government in Kabul. After a series of negotiations, the Loya Jirga (Grand Council), which is comprised of political and tribal leaders, selected Hamid Karzai to rule for an interim period under U.S. supervision until elections in 2004.

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

# Transformation Status

## I. Democracy

### 1 | Stateness

The Afghan government was not able to attain a monopoly on the use of force during the period under review. President Hamid Karzai is being assisted by an estimated 55,000-strong International Security Assistance Force (ISAF) to ensure the security of the Afghan citizens and the maintenance of law and order. Insecurity remains a formidable challenge, as crime and lawlessness has increased despite an enlarged Afghan National Army (70,900 strong). As the influence of the Afghan government is limited beyond Kabul, the state is barely capable of controlling its own territory. This weakness has created opportunities for insurgent groups to take control in different parts of the country. The Taliban insurgency has even created a parallel government structure equipped with defense and finance councils. In 2007, the number of violent incidents increased by one-third over 2006, killing about 6,500 combatants and 1,500 civilians. In the same year, the number of suicide attacks rose from 123 to 160, and the number of roadside bombings increased from 1,931 to 2,615.

Monopoly on the use of force

Afghanistan is home to several religious sects as well as various ethnic, linguistic and tribal groups. Rivalry and even armed hostilities have traditionally been common between and within many of these groups. While decades of civil war have strengthened these divisions and loyalties, average Afghans are proud of their state identity and attempt to bolster this identity when interacting with foreigners.

State identity

Religion has played a vital role in shaping the political and social outlook of Afghans. Between 80% and 85% of the country's Muslims are Sunni and 15% to 19% are Shi'ite. As an Islamic republic, the government must ensure that no law contravenes Islam. Minorities are allowed to practice their religion, but religious tolerance has lost ground since the era of Soviet intervention and support for the socialist and secular government of the 1980s. Religious identity became more pronounced with the emergence of Taliban and their subsequent short term government (1996 – 2001), with international media projecting it as a negative development in Afghanistan's political history. Currently, the government is

No interference of religious dogmas

cautiously attempting to democratize the country without offending the religious sentiments of the people.

The institutions necessary for basic administrative matters have been operating but are broadly ineffective due to the ongoing insurgency and weak governance. Governors who are executives at the provincial level have a modest role in decisions concerning the administrative structures, recruitment of senior staff, and the size and composition of the work force. Afghanistan's 34 provinces are further subdivided into 398 administrative districts. Districts are generally very poorly resourced, and the administrative capacity at the district level is extremely weak. Many district offices of government ministries have little or no staff and no real operating budget. There are no elected bodies at the district level. It is reported that an estimated 40% of district governors have less than an elementary school education.

Basic  
administration

The Independent Directorate for Local Governance (IDLG) was established by presidential decree on 30 August 2007, with a mandate to improve governance and achieve stability at the sub-national level. The IDLG is responsible for supervising provincial and district governors, provincial councils and municipalities (with the exception of Kabul).

## 2 | Political Participation

Afghanistan elected a president and a parliament through general elections in 2004 and 2005. The completion of a series of elections, with the exception of district councils, was considered a major milestone that has given the Afghan government additional legitimacy. The elections, the first in 30 years, were generally regarded to be fair and free as liberals, conservatives, Taliban, former communists and women were allowed to run for office. No major vote rigging was reported. The optimism surrounding the initial elections appears to have given way to disappointment, skepticism and frustration among the Afghan population. Presidential and provincial council elections are scheduled for August 2009, followed by Wolesi Jirga (the lower house of parliament) and district council elections in mid-2010. At the time of writing, the Independent Election Commission (IEC) is updating the voters' register while working to improve its effectiveness and build its capacity to carry out its duties in preparation for the forthcoming elections. The IEC is also establishing a verification mechanism using biometric technology (fingerprint and facial recognition) to identify and remove multiple registrations from the database of voters.

Free and fair  
elections

The government of Afghanistan faces enormous challenges in terms of its credibility, legitimacy and capacity to govern effectively throughout the country. Re-emergent non-state actors are coming into direct confrontation with the nascent

Effective power to  
govern

political institutions at the local, provincial and national levels. As a result, the World Bank in 2007 ranked Afghanistan in the bottom one percent of the world's most unstable countries. The legitimacy of the government declined significantly in 2008.

Assembly rights and associations are formally provided for in the Afghan constitution, and there are several associations such as the banking association, revolutionary women's association, the Afghanistan foreign press association, Afghanistan peace association active in the country. However, these organizations and their activities are not considered to represent the Afghan population overall. Furthermore, because the government's effective power to govern does not reach beyond many areas outside of the capital, assembly rights are not secured throughout the country.

Association /  
assembly rights

Despite efforts to put in place laws guaranteeing inviolable rights to freedom of expression and opinion, some individuals exercising these rights through the media have been charged with violating those very laws, and in some cases murdered for doing so. Because the government does not endure criticism very well, several investigative journalists have been detained. Media formats in general and electronic media in particular are very recent phenomena in Afghanistan. Approximately a dozen private television channels have been established since the collapse of the Taliban regime.

Freedom of  
expression

### 3 | Rule of Law

The Afghan constitution provides for the separation of government powers. In political reality, however, the president dominates the legislature and effective checks on presidential authority are lacking. Despite his constitutional power, President Hamid Karzai has remained weak on the home and international fronts because of his dependency on foreign aid and external security forces. The Afghan parliament, particularly in the Wolesi Jirga (lower house), has remained fragmented and weak because of divisions over the question of support for the president. In April of 2007, Wolesi Jirga Speaker Yunus Qanooni and former Afghan President Burhanuddin Rabbani, both prominent Northern Alliance figures, organized a broader opposition bloc called the "National Front." In May of 2007, the National Front achieved a majority in parliament to oust Karzai ally Rangin Spanta as foreign minister. Karzai, however, refused to replace him, instead seeking a Supreme Court ruling that Spanta should remain on the grounds that his ousting was related to a refugee issue (Iran's expulsion of 100,000 Afghan refugees), not a foreign policy issue. The National Front, fearing Pashtun consolidation, has been generally opposed to Karzai's overtures to Taliban fighters to end their fight and join the government. The National Front's opposition to these overtures drew

Separation of  
powers

backing from the U.S. and British governments in October 2008.

The country has a Supreme Court, an Office of the Attorney General and a Ministry of Justice. Furthermore, Afghanistan has an informal justice system: the jirga and shura (community council and consultative body). These institutions operate in rural areas, and recent surveys have shown that people place higher trust in these institutions because the formal justice system remains mired in administrative delays, bribery and corruption. The “war economy” has left an indelible impact on the dispensation of justice in the country. In rural areas, Afghans turn to the militants in order to resolve disputes and punish wrongdoers. Taliban judges hold court in people’s homes or local mosques. Judicial, parliamentary and security institutions essential to facilitating President Hamid Karzai’s ability to govern are still under construction and weak. For example, the former warlord General Rashid Dostum, who has committed grave violations and is accused of kidnappings and assault, cannot be brought to trial because the government fears that this will spark factional fighting in the country.

Independent  
judiciary

Prosecution of office abuse is difficult in an environment where bribery and corruption are pervasive. Abuse of authority by officials is common; extorting bribes from people for dispensing their duties has made the security and the judicial apparatus of the country ineffective. Hamid Karzai has been criticized for building political support at the expense of tolerating officials in his government who are allegedly involved in the narcotics trade. President Karzai’s own brother, the Kandahar provincial chief Ahmed Wali Karzai, has been accused of involvement in the opium trade. Officeholders abuse their positions because accountability is lacking in Afghanistan.

Prosecution of  
office abuse

The status of civil rights further declined due to rising insecurity, corruption and inefficient government institutions. A weak justice system has compounded the problem. Violations of civil rights are common in the country. Law firms and attorneys dealing specifically with civil rights are present in Kabul but their work remains impaired due to the prevailing situation in the country and years of conflict. According to the September 2008 International Religious Freedom report, minorities in Afghanistan, including Christians, Sikhs, Hindus and Baha’i’s, face discrimination. For example, the Supreme Court declared the Baha’i faith to be a form of blasphemy in May of 2007.

Civil rights

#### 4 | Stability of Democratic Institutions

The government of Afghanistan intends to hold two elections before 2011: a presidential election in 2009 and the election of parliament and district councils in 2010. The Afghan population and the international community, however, are not enthusiastic about the upcoming elections. The chief illusion is that Afghanistan has

Performance of  
democratic  
institutions



been able to develop democratic institutions that could deliver. The worsening security conditions and the internal political struggles inside the government, however, seriously hamper the development of more efficient and effective democratic government. Some observers believe that a true, functioning democracy is simply impracticable in an environment of corruption, poverty and insurgency. Even in the United States, analysts are urging a shift in strategy that involves de-emphasizing democracy-building and concentrating more on targeting Taliban and Al-Qaeda sanctuaries inside Pakistan with the aid of Pakistani military forces.

During the review period, commitment to democratic institutions has eroded amongst the citizens and to a certain extent amongst foreign supporters of Afghanistan. However, those who are part of the government and hold key positions are devoted to developing democratic institutions as they consider them the only means by which they can challenge the mounting Taliban insurgency and ensure the security of Afghans. Most of those who were elected in the 2005 parliamentary elections are seeking re-election, including President Hamid Karzai.

Commitment to democratic institutions

Some actors in Afghanistan are trying to thwart the democratization process because they consider democratization to be alien to Afghan culture and a process imposed from external forces. The Taliban are critical of the government's policies and see President Hamid Karzai as a foreign puppet rather than a democratically elected president.

## 5 | Political and Social Integration

Political parties have not yet matured to the point where they represent constituencies beyond a very narrow ethnic base. Their development has been hindered by several factors, including a deep public mistrust of political parties in recent Afghan history, their association with armed militias, and the current electoral system of single nontransferable voting (SNTV), which undermines the formation of parties.

Party system

To date, political parties in Afghanistan have been provided with few opportunities to legitimize their role within the political process in Afghanistan and with little external support, thus impeding their maturation. Party identification was not allowed for candidates in the 2005 elections and party-based coalitions could not function in parliament. Most political groupings are based on alliances that formed during the military struggles from 1979 to 2002.

Different interest groups operate in the country but their influence is very limited. In general, the state of interest groups in a Western pluralist sense is rudimentary.

Interest groups

The Afghan Civil Society Forum (ACSF) operates as a network in order to enhance the role of civil society in the political decision-making process and to strengthen

the capacity of interest groups. In so doing, it provides a platform for dialogue and exchange for civil society groups and actors. Beginning in 2008, the ACSF has been working with its partners to initiate a comprehensive capacity development program for civil servants in the south, southeast and eastern parts of Afghanistan.

Afghan consent to democratic norms is declining as increasing violence and insecurity has had a negative impact on the living standards and prosperity of the country. The introduction of formal democratic institutions has not led to a deepening of democratic values. Afghanistan is an infant democracy with institutions that still need to grow and mature. Various surveys show that during the last two years, opinion about democracy being the best form of government has dropped from 44% in 2006 to 30% in 2008. Actual disapproval of democracy has grown from 11% in 2006 to 16% in 2008.

Consent to  
democratic norms

Associational activities are allowed and a number of self-help organizations have emerged that are aimed at facilitating sustainable livelihoods, but these are operating with assistance from local and international NGOs in Afghanistan. Most of the Afghan returnees from both Pakistan and Iran organize themselves in these networks to overcome their problems. Family, tribe and community networks have protected and sustained Afghans, even if they remain largely unacknowledged in the formal policy discourse. However, three decades of civil war and economic decline have left sources of civic self-organization shattered.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Afghanistan ranks among the poorest and least developed countries of the world in terms of the Human Development Index (HDI). Social exclusion and marginalization based on poverty, injustice, crime, education gaps and gender discrimination are evident, particularly in the rural areas, where most of the indigenous population lives. Afghanistan is considered to be a hub for the drug and narcotics trade, and its borders are regarded as the most dangerous in the world. Despite an international presence and assistance, social disparities, high poverty rates and income disparities persisted throughout the review period. Indeed, 53% of the population lives below the poverty line and the literacy rate is at 28%. In addition, Afghanistan suffers from a huge gap in income distribution, with 10% of the population earning an average of \$920 per month, while 90% earn an average of \$130 and 35% receive an income of less than \$100 per month. Currently, 60% of

Socioeconomic  
barriers

the country's economy is based on opium production, as Afghanistan provides 92% of the world's opium supply. Billions of dollars of foreign aid has been given to help rebuild Afghanistan's economy in an attempt to reduce reliance on the illicit drug trade, but there has been little progress made so far.

The standard of living for Afghans is among the lowest in the world. Only 13% of the population has access to potable water, 12% have adequate sanitation and just 6% have access to electricity. Poor economic performance has led to a significant increase in crime and social discrepancies. Employment in the formal legal sector of the economy is still very low. Deficient resources and inefficient compliance are major hurdles to the development process in the country. Opium production increased, leading to a decrease in its prices during the period under review. Agricultural prospects are bleak due to drought, deficient inputs and the insurgency.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	5729.1	6851.7	8186.2	<b>10169.5</b>
Growth of GDP	%	9.4	14.5	11.2	<b>16.2</b>
Inflation (CPI)	%	-	12.1	3.5	<b>17.0</b>
Unemployment	%	-	8.5	-	-
Foreign direct investment	% of GDP	-	-	3.0	<b>2.8</b>
Export growth	%	-2.8	31.4	-	-
Import growth	%	-25.7	20.9	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	-	-	1635.3	<b>1961.4</b>
External debt	\$ mn.	-	-	1653.5	<b>2041.3</b>
Total debt service	% of GNI	-	-	0.1	<b>0.2</b>
Cash surplus or deficit	% of GDP	-	-	-1.8	<b>-1.7</b>
Tax Revenue	% of GDP	-	-	5.9	<b>5.1</b>
Government consumption	% of GDP	9.8	9.7	9.9	<b>10.6</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.9	3.0	3.0	-

		2004	2005	2006	2007
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.0	1.6	1.5	2.1

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

Institutional foundations for a competitive market economy are poorly developed and managed. Although the relevant public institutions are in place, they continue to suffer from widespread corruption and deficient rule of law. Opening a business in Afghanistan is comparatively easy due to the country's favorable tax conditions, but it is otherwise stalled owing to difficulties related to registering property, access to credit, protecting investors, enforcing contracts and import/export hurdles. The startup costs of a business are considerably large. Registering property is a major problem, as the process is complex and takes an average of 252 days to process. Moreover, most land has no clear title resulting in limited credit options for businesses, hence discouraging investment. Cross-border trade is costly and decidedly slow. Legally importing a container requires 88 days, 11 documents, and a payment of \$2,100—(this is the highest fee in the region). The government needs to establish a simple credit registry and simplify bureaucratic procedures in order to discourage smuggling, reduce corruption and raise revenues.

Market-based competition

The legislation (“Anti Monopoly Law”) on competition is still dysfunctional. Drug traffickers, some of whom are members of parliament and occupy other high-level governmental positions, still enjoy a monopoly over most of the economic activities.

Anti-monopoly policy

Afghanistan formally has one of the most liberal trade regimes in the region. However, the deficient infrastructure both in physical and institutional terms hampers the prospects of foreign trade, and transit and custom documents rarely meet the requirements of Afghanistan's trading partners. In macroeconomic terms, Afghanistan imports roughly eight times as much as it exports and is only very slowly building its domestic production capacity. Given that the government is expected to join the WTO in 2010, the need to address human resource and capacity-building seems urgent if Afghanistan is to advance toward establishing a liberal trade regime.

Liberalization of foreign trade

The formal banking system and the capital market are poorly differentiated, and the vast informal sector is inadequately regulated and supervised. The central bank

Banking system

continued to maintain restrictions on the growth of credit and branches of weak banks. Foreign exchange auctions remain a primary instrument of monetary policy. However, there is no secondary market for foreign exchange auctions. Non-cash transactions are not common in the system nor has any mechanism yet been devised by the central bank. Credit, market, liquidity and risk management regulations have yet to be established.

## 8 | Currency and Price Stability

The central bank of Afghanistan, known as Da Afghanistan Bank (DAB), has been trying to maintain price stability by basing its policy decisions on a growth rate target for currency in circulation. The DAB has also aimed at smoothing short-term exchange rate fluctuations, given the large impact such fluctuations can have on inflationary expectations and inflation itself.

Anti-inflation /  
forex policy

Despite some favorable economic figures, inflation picked up significantly in 2007 and 2008. Higher prices for imported fuel and foodstuffs in 2008 accounted for a CPI increase of 24% from 2007 to 2008. Inflation is expected to rise further as food prices have been increasing since 2007. The central bank's monetary policy in 2007 – 2008 helped to moderate inflationary pressures. Issuance of capital notes by the central bank increased significantly, resulting in an increase of interest rates to 14.6% at the end of 2007, compared with 7.6% at the end of 2006. The afghani strengthened by 1.1% against the U.S. dollar and is estimated to have appreciated.

Afghanistan's national budget is composed of the core budget and the external budget. The core budget is controlled by the government through the treasury, whereas the external budgetary funds are distributed directly by donors to their contracting partners. At the start of the fiscal year April 2008 – March 2009, the external budget was approximately \$4.8 billion and the core budget was \$2.6 billion. However, the actual available funds for the core budget stood at \$3.73 billion due to unspent funds carried forward and the mid-year review of the national budget. The budgetary allocation reveals that almost twice of the funds are assigned by the donors through non-governmental channels which may not be well coordinated and spent. This has bred corruption as well as a criminalization of the economy, and has eroded public sector integrity.

Macrostability

The process of budget implementation is still in its infancy in Afghanistan. From 2007 to 2008 only 54% of the development budget was spent. This may be attributed to poor coordination between governmental and donor partners, the difficulties of implementing projects in an unstable environment, overly ambitious targets, and the varying spending abilities of ministries. For example, the security spending allocation was not fully used, but significantly increased in the midst of the fiscal year. The linkage between budget formulation and consequent execution

and monitoring remained weak, and progress in integrating the operating and development budgets has been slow.

## 9 | Private Property

Property rights are generally protected under the constitution and international covenants. However, Afghanistan's land laws and practices are extremely complex and often unclear. Moreover, Afghanistan has never had a reliable, standardized system of land titling. As a result, commercial land use and investment are much more difficult endeavors than they should be for future economic development. The 2000 Law on Lands created a commission tasked with clarifying land titling and use issues through the court system and relative authorities. A separate law specifies the conditions under which the government can expropriate land. Several decrees related to land ownership, title, restitution and possession have been issued during the Karzai administration. The government, however, along with the donor partners have failed to develop mechanisms to address the issues related to property rights, specifically in the areas of land titling, dispute settlement and private settlement. Due to the insufficient judicial infrastructure, the otherwise constitutionally protected property rights cannot be implemented and enforced.

Property rights

The institutional and legal frameworks for private enterprise do exist under the constitutional provisions. The privatization process, however, is too slow. The authorities and the donor partners are working to privatize the petroleum company of Afghanistan. Out of a total 65 state-owned enterprises (SOE), the Afghan Government has approved the liquidation of 19 SOEs and 3 former banks. To date, no significant privatization of any entity has been completed. Work is in progress, however, albeit at a sluggish rate.

Private enterprise

## 10 | Welfare Regime

Afghanistan is highly dependent on international assistance to meet even its operational expenses. Given the HDI and other social and economic indicators, and the fact that the international community is running short on fulfilling their commitments, the social safety nets are more of a myth than reality. Kabul is overpopulated with very high rents, rural areas are highly insecure and, despite some initiatives, the rampant corruption prevailing in the country hinders any provision for social safety nets.

Social safety nets

There are many programs that have been initiated with the help of international partners to compensate for poverty; however, they have been unable to make any significant progress towards this objective as poverty has been rising for the past few years. Almost half the population (53%) in Afghanistan lives below the poverty

Equal opportunity

line. Warlords and drug barons continue to exercise a significant degree of control over existing opportunities. The government and its international partners have become hostage to the whims of this powerful elite, many of whom are members of the parliament. Women and religious minorities are discriminated against in practice and (sometimes) by law.

## 11 | Economic Performance

The economic data suggests a mixed trend in the past five years. Real GDP has increased consistently from \$4.4 billion in 2003 to \$11.2 billion in 2008. Similarly, there has been a steady increase in per capita income registered from \$186 to \$399 for the same period. The afghani strengthened by 1.1% against the U.S. dollar during 2007 and 2008, and is estimated to have appreciated by 3% in real effective terms over the same period. However, the percentage change in economic growth shows a downward trend from 13.9% in 2007 to 8.6% in 2008 with a further decrease to 7.2% forecasted for 2009. Earlier estimates of a 9% annual GDP growth rate, which is still far below the rate needed to improve the standard of living in Afghanistan, has not been achieved.”

Output strength

Opium production reached record levels in 2007 – 2008, and farm-gate prices of opium declined significantly, reflecting the increase in supply. As a percent of GDP, domestic revenue declined from 7.5% in 2006 – 2007 to 7% in 2007 – 2008, in part due to lower than projected imports. The revenue shortfall was mainly due to inadequate enforcement efforts and the undervaluation of petroleum imports by customs. The increase in real GDP is attributed to the international military presence and assistance rather than real growth in employment and other vital sectors of the economy. Despite favorable economic figures, inflation picked up significantly in 2007 – 2008. The inflation rate reached 24% in 2008, due to higher prices of imported fuel and foodstuffs.

The exchange rate remained stable relative to the U.S. dollar during 2007 till the end of 2008, fluctuating from 49.7 to 49.9 afghanis per U.S. dollar. This was mainly due to the currency ceiling observed by the central bank.

Per capita income rose to \$399 for the period under review as compared to \$299 in 2005 – 2006. Operating revenues excluding grants declined from 7.5% in 2005 – 2006 to 7.0% in 2007 – 2008 primarily due to a shortfall in collection on part of the authorities.

Afghanistan’s total trade was estimated by the IMF at \$9.9 billion, comprising about \$1.9 billion in exports which includes approximately \$483 million in official exports, \$1.35 billion of unofficial exports and \$160 million of smuggling (data for 2008). Imports stood at \$7.9 billion encompassing approximately \$7.25 billion of

official imports, \$4.7 billion of duty free imports and \$590 million of smuggling. The trade deficit is registered at the equivalent of 62.5% of GDP. The current account balance including grants registered a surplus of 0.9% of GDP in 2007 – 2008 compared to a deficit of 4.9% in 2006 – 2007. Gross international reserves increased to about \$2.8 billion, which is equivalent to 11 months of imports. Foreign exchange reserves are expected to rise further to \$3 billion, that is, 11 months of projected imports by the end of 2008. The external position is expected to strengthen due to aid inflows in excess of 50% of the GDP.

Afghanistan's operating revenues, excluding grants, stood at 7% of GDP compared with operating expenditures of 10.6% of GDP. Domestic revenue in Afghanistan remains one of the lowest in the world in relation to licit GDP. Accounting for 60% of economic activity in Afghanistan, opium remains the largest single contributing factor to the economy.

## 12 | Sustainability

Afghanistan's Environment Act 2005 clarifies administrative roles at the national level and coordination with provincial authorities. It spells out frameworks for managing natural resource conservation and biodiversity, drinking water, pollution control and environmental education. Moreover, the law provides tools for enforcement. In practice, however, these rules are not enforceable in most areas of the country.

Environmental  
policy

In Afghanistan, more than 80% of the population relies directly on natural resources such as rangelands and bodies of water for their livelihood and daily needs, but only 12% of the land is arable. Protecting natural resources in a country lacking basic infrastructure, however, is a serious challenge. The National Development Framework 2002 and the Afghanistan National Development Strategy 2004 did not list the environment as a separate sector. With overlapping approaches towards environmental concerns, the two reports have caused confusion among planners, coupled by a lack of baseline data on forest cover, energy use and other indicators.

Environmental education does not currently exist at any level and public perceptions about the links between environmental degradation, health and human livelihood is very low.

Education in Afghanistan has improved since 2001. According to recent estimates from Afghanistan's Ministry of Education, more than 5.4 million children are enrolled in schools today, nearly 35% of them girls. In 2007, however, increased Taliban activity forced the closure of 35% of the schools in the southern provinces. In 2008, about 9,500 schools were reportedly operating, at least some in every province. The Ministry of Education estimated that in 2006, 8 million children were

Education policy /  
R&D



in school, including nearly 3 million girls. Despite renewed emphasis on educating girls, in 2008 the ratio of girls to boys in secondary schools was one to three or four, as rural families continued the tradition of educating only males. Higher education has also faced difficulties. When Kabul University reopened in 2002, some 24,000 students, male and female, enrolled. Although seven universities were operating in 2007, only a total of 22,700 students were active in higher education.

Research and development is nonexistent in Afghanistan, which does not bode well for the reconstruction and development process in Afghanistan.

# Transformation Management

## I. Level of Difficulty

Structural difficulties which constrain good governance in Afghanistan are severe. Reconstruction of the country is dependent upon Provincial Reconstruction Teams (PRTs) – units introduced to Afghanistan by the U.S. government to facilitate the reconstruction process. These units are comprised primarily of military officers and reconstruction experts from ISAF countries, which also fund each PRT. The Afghan public does not view its government capable of providing security and protecting them against NATO and U.S. strikes, which resulted in to over 2,000 civilian deaths in the year 2008 alone. The Afghan National Army and Afghan National Police, whose numbers have grown during the review period, are not in a position to defend their country and root out the insurgency.

Structural  
constraints

Increasing security issues in Afghanistan threaten the development of a vibrant civil society, as it is understood within a Western context. Afghans have a set of traditions which knit them in societal relations, including Shuras and Jirgas, which are common community level structures that bring Afghans together in resolving social issues. Religious communities gather in mosques. Civil society organizations formed with foreign financial and technical assistance remain hostage to the agendas of their donors. These organizations speak and communicate in the language of their donors, which is not comprehended by common Afghans. Indeed, through years of war, the resilience of community-based structures has allowed Afghans to survive, while the national government has failed to provide basic security and public services.

Civil society  
traditions

Conflict intensity in Afghanistan is high and has further intensified along religious lines. The Taliban insurgency in the southeastern and eastern provinces of Afghanistan poses a serious threat to the security of the country. The Taliban is largely termed a religious network and challenges the authority of the government, the presence of an estimated 70,000 to 80,000-strong international force, and the expanded Afghan National Security Forces. Ethnic differences prevail but factional fighting did not make headlines during the review period. President Hamid Karzai has been successful in marginalizing several major regional strongmen without confronting them. Although different ethnic warlords have maintained their private militias, the fighting in Afghanistan currently does not follow ethnic lines.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The weak Afghan leadership cannot set forth strategic priorities. Its dependency on the international community both for economic and security development keeps it from planning and setting out priorities. Establishing peace and human security remain at the top of the United Nations Development Assistance Framework's agenda. Although the Afghan National Development Strategy (ANDS) approved in May 2008 recognizes that security and stability are preconditions for facilitating economic and social development, it is largely silent on how to go about doing so.

Prioritization

Reforms have been introduced in different sectors to improve security, governance, health and education facilities but the results are meager on account of weak or ineffective implementation. Most of these reforms have been implemented with the support of donors (who also monitor them), a fact which reflects the government's incapacity to implement reforms on its own. International actors therefore maintain significant levels of influence on policy and program development in the implementation process. The Afghan National Development Strategy is only being implemented thanks to external funding. Implementation and the means by which democratic goals and ideals should be fostered and strengthened among the various stakeholder groups throughout society remains a challenge for the political leadership.

Implementation

The Afghan political leadership is highly constrained politically and economically due to a lack of resources and an increasing dependence on the international community. Innovative policies are thus rare. The leadership has not learned from the country's political history and continues to make mistakes that lead to continued conflict and instability in the country.

Policy learning

### 15 | Resource Efficiency

The criminalization of the Afghan economy and the erosion of public sector integrity are mainly attributed to the failure of the Afghan political elite to overcome their differences and the inability of international actors to help build legitimate institutions. Three major sectors of the economy – mining, agriculture and services – must be revitalized. Afghanistan's rich mineral resources, which include copper, iron, marble, chromite, manganese and emeralds, could generate

Efficient use of assets

considerable income, provided good governance is ensured. Moreover, the most important aspect of human resource development, namely education, is clearly missing in the reconstruction process. It is estimated that one month of current military expenditures, if invested in education and vocational programs, could change the life opportunities of five generations of Afghans. Moreover, the failure of international partners to devise mechanisms for trade and enterprise partnerships has further reduced opportunities during the reconstruction process.

The Karzai government falls short in coordinating the conflicting objectives and interests of the donor partners and the international community. Since Afghanistan is dependent on international assistance for its survival, the national interest has become hostage to the donors' agenda. Despite being in office for more than eight years, Karzai's government still lacks any coherent policy to spell out Afghanistan's national interests and integrity. Moreover, corruption, poverty and the insurgency further undermine the government in coordinating its policies. Given the critical importance of the democratization process to the long-term stability of Afghanistan, the international community and the Afghan stakeholders need to ensure that future funding and technical assistance is properly coordinated.

Policy  
coordination

Corruption is rampant at all levels of Afghan society, government and international partners. In 2008, Afghanistan slipped to rank 176 in the Corruption Perceptions Index (CPI) from a rank of 172 in 2007. Between April and September of 2008, the Afghan government announced measures to fight corruption. Following the recommendations of a high-level government commission, two new anti-corruption entities were established, the High Office of Oversight, an independent oversight unit, and a special anti-corruption investigative unit within the Office of the Attorney General. Despite having anti-corruption laws and an anti-corruption commission, enforcement mechanisms are almost nonexistent. The judiciary is deficient on all counts including knowledge, reference materials, books, precedents and trained judges. Moreover, the very low salaries of judges and public servants as compared to their counterparts in NGOs and foreign agencies further aggravate the situation.

Anti-corruption  
policy

## 16 | Consensus-Building

Some major political actors in Afghanistan agree on peace, development and democracy in the country. Nevertheless, people are losing patience as they have yet to experience any palpable benefits associated with democracy and a market economy. An ongoing insurgency and the criminalization of daily life are indicators of the absence of an overarching consensus on transformation goals in Afghanistan.

Consensus on goals

The democratic process in Afghanistan has been marred by the insurgency and anti-government elements. The government has not taken substantial steps to co-opt

Anti-democratic  
veto actors

powerful anti-democratic actors. This has been a dilemma for the government, as the steps towards reconciliation have earned criticism from his supporters, while anti-government elements see it as a trap of the West. In 2001 – 2002, President Hamid Karzai had a very liberal policy of amnesty that was severely criticized by other members of the governing coalition. Karzai also repeatedly tried to speak with the Taliban commanders, using Sibghatullah Mojaddedi (a former party and religious leader of the 1980s) as a go-between. Karzai's government has been talking to moderate Taliban members about joining the government, but these negotiations have not borne fruit.

The ongoing and growing Taliban insurgency, challenging the writ of President Hamid Karzai and the presence of international coalition forces, reflects the failure of the government to manage conflict. Karzai is being viewed by the anti-government elements as a puppet of the West incapable of bridging political cleavages and managing conflicts. On the other hand, the Taliban are increasingly viewed as a liberating force, thereby retaining their popular base in south and southeastern Afghanistan.

Cleavage /  
conflict  
management

Political cleavages rooted in ethnicity are present but the government has tried to integrate them by allowing them to contest elections and become part of parliament. Pashtuns are the dominant ethnic group and are considered to be opposed to other ethnic minorities. However, the latter are part of the political and democratic process. Ethnic minorities such as the Tajik, Uzbek and Hazara of the anti-Taliban Northern Alliance constitute opposition elements in the parliament. The National Front, an opposition bloc in the parliament, fears Pashtun consolidation and therefore opposes Karzai's overtures to Taliban fighters to end their fight and join the government. The political differences amongst these various groups within the system are positive manifestations of the democratic process.

Civil society plays a minimal role in Afghanistan's political process, as years of conflict have nurtured a sense of disappointment and passivity among most Afghans. Many organizations are nonetheless imparting civic education and encouraging the population to participate, as informed citizens with improved awareness can make better choices and make the government more accountable.

Civil society  
participation

Afghanistan's parliament passed an amnesty law (National Stability and Reconciliation) in March of 2007 that prevents the state from independently prosecuting people for war crimes committed during conflicts in recent decades. The legislation invites all groups involved in the war to lay down their arms and rejoin society. It facilitates national reconciliation but critics point out that alleged war criminals in the parliament are protecting themselves from prosecution. The law recognizes the rights of war crime victims to seek justice and to bring cases against those alleged to have committed war crimes. In the absence of a complaint by a victim, however, Afghan authorities are now banned from prosecuting accused

Reconciliation

war criminals on their own.

## 17 | International Cooperation

President Hamid Karzai is carrying out democratic transformation with continued cooperation from the international community. State-building would not have been possible without capital flows from the donors. The United States has made a long-term commitment to help Afghanistan rebuild itself after years of war. Along with others in the international community, the United States currently provides resources and expertise to Afghanistan in a variety of areas, including humanitarian relief, capacity-building, security needs, counter-narcotic programs and infrastructure projects. In June of 2008, donors pledged more than \$20 billion for the Afghanistan National Development Strategy, approved in May of 2008. Security pledges have been made by NATO-led ISAF, to assist Afghans in safeguarding their country from violence. Most of the assistance will be channeled through Afghan government institutions.

Effective use of support

President Karzai has been criticized by the international community for failing to improve the domestic situation. The president's term officially expires on 22 May 2009. The law states that elections should be held 30 to 60 days before the end of the president's tenure. Given the difficulties of voter registration, elections cannot take place before 20 August 2009. The parliament is bitterly opposing this delay and it may lead to a political crisis. While there may be disagreement on who becomes the new president, the international community has pledged support to the political leadership in transforming the country.

Credibility

After experiencing political and economic isolation within South and Central Asia, Afghanistan is making strides to actively participate in regional and international organizations. President Karzai characterized regional cooperation as one of the pillars of Afghanistan's foreign, security and development policy. The regional approach is highlighted in dealing with its neighbors to reduce tensions and counter terrorism. In 2008, Afghanistan joined Kyrgyzstan, Pakistan and Tajikistan in a new Inter-Governmental Council to oversee the transmission of electric power within the new Central and South Asia regional electricity market.

Regional cooperation

## Strategic Outlook

The fundamental lack of security in Afghanistan – whether due to the insurgency, terrorism, regional meddling, or warlordism – undermines the potential for progress on all other fronts. Afghanistan's democratic and economic transformation is endangered by the growing Taliban insurgency, which is seen by its supporters as a liberation movement. The combined military strategy of the United States and ISAF/NATO countries in rooting out the Taliban has failed. Karzai's efforts to win over the moderate Taliban members by engaging them in political dialogue have also not succeeded.

The international community and the Afghan government, in cooperation with regional powers, need to work out a coherent political strategy. The use of force has failed and has cultivated more hatred amongst the victims, who hold the government and international forces responsible for their present miseries and insecurity. The trust deficit between Pakistan and Afghanistan has further complicated the problem. It is high time that all stakeholders opt for a political solution, rather than increasing military forces and operations in Afghanistan. An exit strategy by international forces could lead to an improvement of the situation. The political leadership, which cannot continue to rely on the financial and political crutches provided by the West, has to meet the expectations of its people by assuming greater accountability and responsibility for its policies. Presidential elections in 2009 provide the Afghans the opportunity to make a conscious decision about electing new leadership, as do elections for the Wolesi Jirga (Lower House) and district councils scheduled to take place in 2010. However, trust in the democratic process among the population must be rebuilt, since the 2004 presidential elections and 2005 provincial elections failed to deliver the changes promised to Afghans.

Afghanistan needs assistance to develop its institutions, but money doled out to a government which is not accountable is wasteful. The Afghan leadership could initiate attempts to prosecute those involved in corruption, which would restore some of the lost confidence in the leadership. Taking steps to make the justice system more effective and expedite procedures could help large numbers of complainants with varying grievances and reduce crime levels in the country. Opium eradication policies in Afghanistan have failed because the demand for opium worldwide has not subsided. The narcotics trade will continue to undermine the country's formal trade as long as other countries do not take collective action against the powerful drug mafia that is importing opium from Afghanistan.