2020 POLICY NOTES:

PRIORITIES FOR INCLUSIVE DEVELOPMENT IN AFGHANISTAN

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

Foreword

These are critical times for Afghanistan. The negotiations in Doha present the possibility of peace and unprecedented opportunities for development progress. In Geneva, the Afghanistan Conference held November 24, 2020, called for immediate ceasefire between the Taliban and the Afghan National Security Forces and sent an encouraging sign that the international community will continue its financial support and protect hard-won gains achieved since 2001.

The Afghanistan Conference proceedings made clear that faster progress will require significant reforms to drive poverty reduction and deliver tangible benefits to the Afghan people. In the context of the COVID-19 crisis, which has depressed the Afghan economy, undermined government finances, and sent poverty to unprecedented levels, bold action is ever more urgent.

The World Bank is uniquely positioned to provide analysis and advice to help Afghanistan navigate the difficult road ahead toward a resilient recovery. By combining global expertise with in-depth country-specific knowledge, the Bank can help identify workable solutions to a range of critical policy, institutional, and delivery constraints across all sectors.

The Policy Notes included in this volume capture the depth and relevance of World Bank policy advice. They present clear recommendations to prioritize feasible reforms and public investments and inform the action of the Afghanistan government policymakers and its international partners. These Policy Notes make it abundantly clear that making faster progress toward economic and social development in Afghanistan is possible, despite the current conflict and political pressures. For example, Afghanistan's untapped potential in the extractive industries and agriculture can pave the way for economic growth, job creation, revenue generation, and larger exports. More robust growth can benefit all Afghans if accompanied by sustained reforms and investments to expand service delivery, strengthen institutions, address corruption, and improve critical infrastructure.

There is no doubt that Afghanistan cannot realize its growth potential without the full contribution of women. At the same time, Afghanistan needs to address climate change threats that will put its natural resources under pressure and lead to more frequent and severe natural disasters, further fueling the conflict.

As always, implementation will be critical. By publishing these Policy Notes, the World Bank aims to reinvigorate discussion around Afghanistan's reform priorities and drive coordinated and decisive action to boost development and reduce poverty. In that effort, the Afghanistan Reconstruction Trust Fund, which unites a 34-member partnership of international donors, can play a critical role in channeling international aid and mobilizing investments, advice, and policy dialogue.

We look forward to working with the Afghan government and its international partners to translate into action the measures put forth in these Policy Notes. We have a daunting task ahead of us. I am confident that, together, we can realize the promise of peace and prosperity for all Afghans.

Hartwig Schafer
Regional Vice President
South Asia Region
The World Bank

Acknowledgements

The Policy Notes presented in this volume were prepared by a large team of World Bank specialists, under the guidance of Henry Kerali, Country Director for Afghanistan and Homa-Zahra Fotouhi, Operations Manager. The notes benefited immeasurably from comments and inputs provided by government and development partners. The Policy Notes also benefited from a peer review process managed by the Biruni Institute and the Overseas Development Institute (ODI).

Primary authors included Tobias Haque, Cesar Cancho, Erwin Knippenberg, Nandini Krishnan, Endeshaw Tadesse, Andras Bodor, Suhail Kassim, Wagma Mohmand Karokhail, Mohammad Sulaiman Akbari, Sebastian Saez, Anna Custers, Taehyun Lee, Sayed Murtaza Muzaffari, Nora Dihel, William Gain, Charles Kunaka, Nina Paustian, Anita Takura, Arati Belle, Sayed Mujtaba Shobair, Najla Sabri, Edda Smith, Sarah E. Haddock, Davit Melikyan, Kalesh Kumar, Waseem Kazmi, Charles Blanco, Jose Eduardo Gutierrez Ossio, Yousif Mubarak, Atiqullah Ahmadzai, Aminata Ndiaye, Andrej Popovic, Saidel Mayar, Nouma Dione, Tsuyoshi Fukao, Harsha Aturupane, Shahram Paksima, Abdul Hai Sofizada, Yama Noori, Kurt Larsen, Palwasha Mirbacha, Habib Ahmadzai, Francisca Ayodeji Akala, Sayed Ghulam, Susan Wong, Luiza Nora, Kosuke Anan, Kevin Tomlinson, Manievel Sene, Amanullah Alamzai, Abimbola Adubi, Felipe Dizon, Sana Nimer, Maximilian Hirn, Fanny Missfeldt-Ringius, Hamid Quraishi, Noora Arfaa, Michael Stanley, Ajmal Askerzoy, Kulwinder Singh Rao, Antoine Kunth, Junko Narimatsu, Rajendra Singh, Sharada Srinivasan, Sateh Chafic El-Arnaout, Tahir Akbar, Hyoung Gun Wang, Sally Beth Murray, and Ajmal Khan Shams. The team is especially grateful for advice and comments provided by Nigel Roberts and Omar Joya, Keiko Nagai for collating the final version, Abdullah Yadgare for organizing the dissemination, and many other World Bank Afghanistan country team staff for reviews and feedback.

TABLE OF CONTENTS

TABLE OF FIGURES

Executive Summary

Priorities for Inclusive Development in Afghanistan

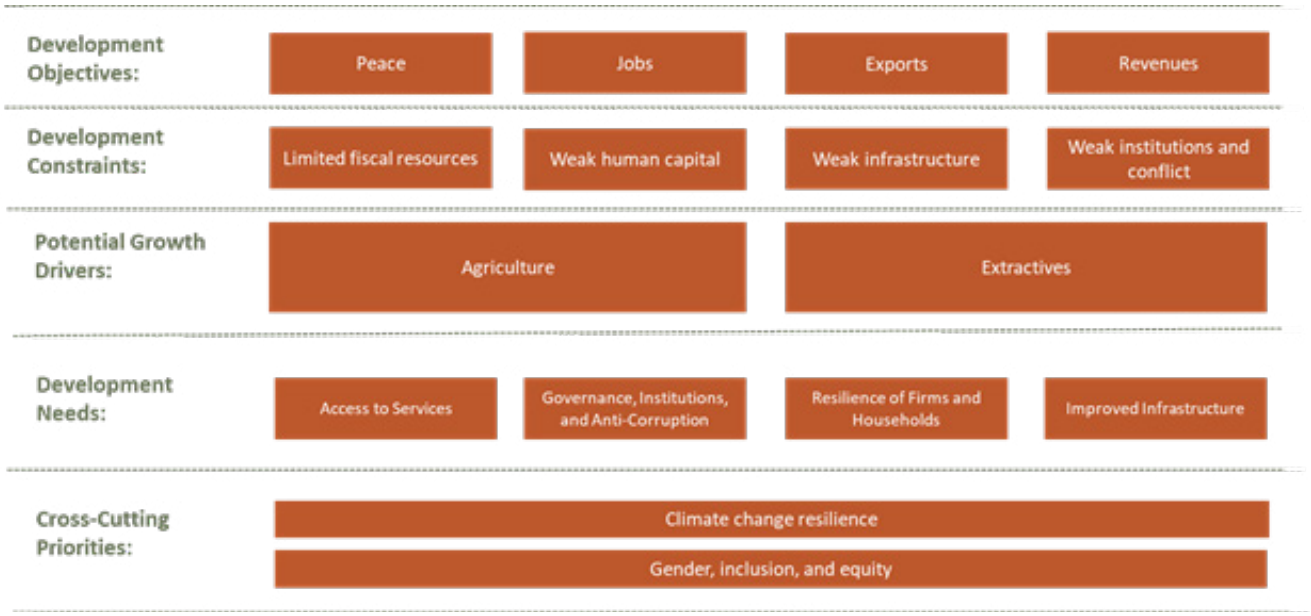
Introduction

Afghanistan is currently facing stark development challenges. Over recent years, insecurity has worsened, the economy has stagnated (driven by declines in international support and periods of political instability), and poverty has increased. Recent political contestation and uncertainty over future levels of grant support (which finance 75 percent of public expenditure) have eroded private sector confidence, weakening investment and further slowing growth. The recent peace agreement between the United States and the Taliban seems likely to lead to a substantial drawdown of international troops, while prospects for a sustainable intra-Afghan peace agreement remain uncertain. The current COVID-19 pandemic is an immense challenge, with severe negative impacts for human welfare, economic growth, and government revenues. The implications of the worldwide COVID-19 crisis for international support to Afghanistan remain unclear, but current grant pledges expire at the end of 2020 and significant reductions in grant support are in any case expected over coming years. Over the medium term, Afghanistan faces more challenges with a rapidly growing population and 600,000 Afghans reaching working age each year, and extreme exposure to intensifying weather-related shocks resulting from climate change.

This note presents policy recommendations for achieving inclusive development despite current challenges. Recommendations in this note are taken from a series of 19 policy notes prepared by World Bank technical teams. World Bank analysis shows that inclusive economic growth and poverty reduction is possible in Afghanistan, despite current challenges. Realizing growth potential, however, will require (i) tight prioritization of scarce fiscal resources and government capacity; (ii) a step-change in effectiveness in implementing reforms and public investments; and (iii) close cooperation and coordination between Afghanistan and its international partners.

Policy priorities presented in this note are aligned with priorities identified in the Afghanistan National Peace and Development Framework (ANPDF). These priorities are (i) improving governance and state effectiveness through public sector reform, rooting out corruption, and strengthening subnational governance; (ii) bolstering social capital and nation-building through reforming the justice sector and strengthening national identity; (iii) economic growth and job creation through agriculture development, private sector growth, and mineral and resource development; and (iv) poverty reduction and social inclusion through improving the quality of health and education programs.

Figure 1: Development objectives, constraints, and priorities



Source: World Bank

Development Context

Afghanistan has made enormous development progress since 2001. Between 2002 and 2012, the economy grew by 9 percent per year on average, driven by aid influx and strong agricultural growth. Consistently strong economic growth led to rapid increases in incomes, with output per capita increasing by around 75 percent between 2003 and 2012. Development outcomes also rapidly advanced, with substantial improvements in school enrollment rates, increases in life expectancy, reductions in infant and child mortality, and broadened access to basic infrastructure.

Progress has slowed over recent years amid political instability, increasing insecurity, and declining international support. International grants to Afghanistan have rapidly declined over the past decade from 100 percent of gross domestic product (GDP) in 2011 to 45 percent of GDP today. Insecurity has intensified, and the disputed outcomes of the 2014 and 2019 presidential elections have harmed confidence. As a result, economic growth has slowed considerably, averaging around 2 percent since 2014. Some development outcomes also now show worrying trends with (i) a slowing pace of progress in access to basic services; (ii) widening gender gaps; and (iii) widening urban-rural disparities. Labor market outcomes have deteriorated precipitously, with 25 percent of Afghans now unemployed. With declining per capita incomes, the poverty rate has steadily increased from 34 percent in 2015 to more than 55 percent today.

Figure 2: Economic and development indicators

Indicator	Unit	2002	2007	2012	2017	2019
Macroeconomic Indicators						
GDP	Nominal US$ billion	4.1	7.0	19.9	20.2	19.1
GDP per capita	2011 PPP US$	1,027	1,252	1,789	1,777	1,800
Revenues	% GDP	3	8	10	12	14
Grants	% GDP	65	88	77	41	43
Grants	US$ billion	2.6	8.6	13.6	8.2	8.1
Security	US$ billion	0.2	5.1	8.6	4.6	4.6
Civilian	US$ billion	2.5	3.5	5.1	3.5	3.5
Public debt	% GDP	346	20	7	7	7
Key Development Indicators						
Infant mortality	per 1,000 live births	-	191	91	55	49
Secondary enrollment rate	Percentage	13	28	54	54	-
Percent access to grid electricity	Percent population	8	13	23	30	31
Poverty rate	At basic needs poverty line	-	34	38	55	-

Source: World Bank

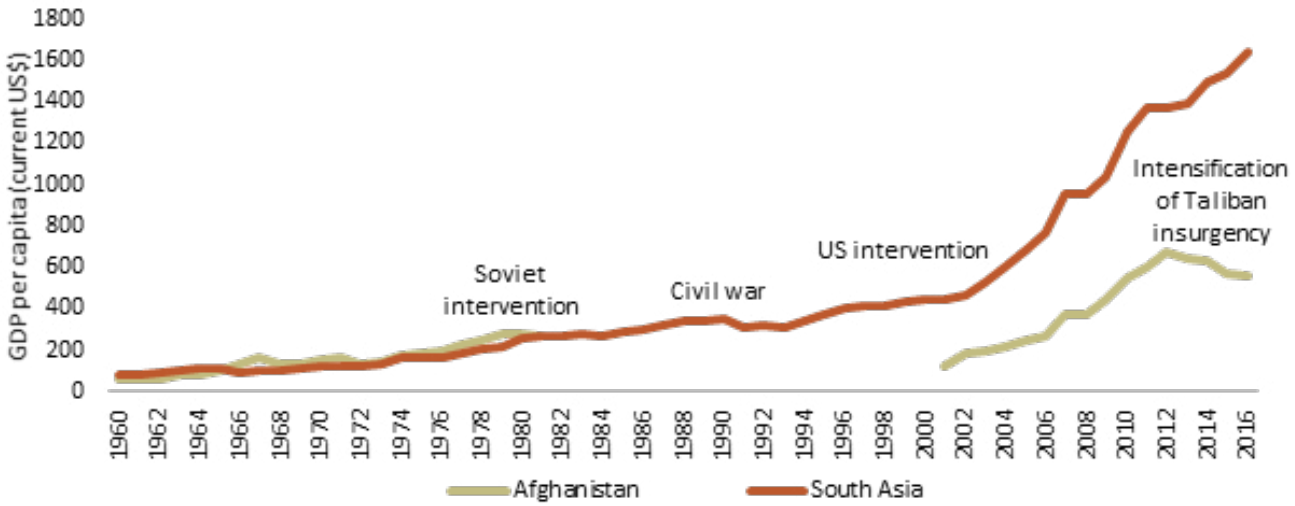
Conflict has taken an enormous toll on Afghanistan's development. Periods of conflict have caused gaps between Afghanistan's economic development progress and the progress achieved by the rest of South Asia. Conflict and insecurity have constrained development through multiple channels, with conflict undermining private investment and evidence showing that insecurity impedes private sector activity and pushes productive activity into the illicit economy. Damage to infrastructure has resulted in substantial negative impacts, including constraints to trade and a contraction of land under irrigation. Fiscal impacts have been severe, with insecurity undermining the effectiveness of revenue collection and high security expenditures diverting scarce resources away from development needs. Human capital development has been undermined through conflict-related disruptions to basic services, including health and education, displacement of populations, direct civilian casualties, and constrained access of households to social protection and financial services.

Conflict in Afghanistan is driven by a complex range of overlapping factors and will not be easily addressed. Long-standing historical patterns of regional autonomy and resistance to centralized rule cause the state's inability to limit conflict and violence. Political fragmentation has been exacerbated by geopolitically motived international interference over the past four decades, including international support for the Taliban and efforts to mobilize local warlords and strongmen in the fight against international terrorism. At the local level, conflict is driven by multiple sources of grievance, including (i) ubiquitous corruption and the perceived failure of the state to provide adequate security and justice; (ii) predatory conduct and abuse of power by the state and its security forces; and (iii) disputes over natural resources, including land, water, and minerals. Global evidence is clear that addressing conflict will require local grievances to be addressed and powerful elites to be incentivized to maintain any new settlement. Improved living standards and better access to services is necessary, but not sufficient, for a peaceful Afghanistan.

Figure 3: Transmission channels from conflict to economic development

Source: World Bank

Figure 4: Impact of conflict on Afghanistan's economic development



Source: World Bank

Events over the past year have further exacerbated development challenges. The COVID-19 pandemic is already taking an enormous toll on Afghanistan. The virus and related containment measures, including border closures and the recent lockdown of major cities, has led to (i) massive disruptions to productive economic activity and consumption; (ii) reduced exports due to disruptions at border points; (iii) negative impacts on remittances; and (iv) increased fiscal pressures, with government revenues expected to decline by at least 30 percent below budgeted levels. The global COVID-19 crisis may lead to reductions in grants as major donors face domestic fiscal pressures. Largely due to the impacts of COVID-19, GDP is expected to contract by at least 5.5 percent in 2020, leading to a significant decline in real per capita incomes and increased rates of poverty. Private sector confidence and investment has been further weakened by (i) the protracted 2019 presidential election process and disputed outcomes; (ii) uncertainty regarding the eventual outcome of any agreement with the Taliban; and (iii) ongoing questions regarding the future level of international civilian and security grant support.

Development Objectives, Constraints, and Lessons Learned

Figure 5: Development objectives and constraints

Amid this challenging context, Afghanistan must now seek to achieve several overlapping development objectives that must be addressed simultaneously by any effective development strategy.

- **Consolidating and sustaining peace.** If progress can be made toward a political settlement with the Taliban, accelerated economic development will be essential to consolidating and sustaining peace. International evidence shows that peace agreements are only likely to be effectively sustained if all parties have access to the resulting economic benefits. If a political settlement with the Taliban is reached, it will be important that any development strategy (i) delivers an immediate post-conflict improvement in living standards to signal change and move incentives away from violence; (ii) provides broad access to new economic opportunities, without creating new sources of resentment and grievance—especially among those with the capacity to mobilize violence; and (iii) allows for continued progress with the difficult task of building core state institutions and mobilizing private sector investment.
- **Job creation and poverty reduction.** Poverty remains at unacceptable high levels and is increasing, while employment outcomes are deteriorating. International evidence is clear that economic growth is necessary, but not sufficient for poverty reduction. Previous patterns of economic growth in Afghanistan have not been effective in addressing poverty, with the poverty rate increasing even as the economy rapidly grew from 2002–2012. The labor force is expected to grow by 4 million by 2025, with up to 600,000 additional young people seeking jobs every year. Rapid and widely shared improvements in livelihood opportunities are essential.
- **Export growth.** Afghanistan faces a large structural trade deficit, equal to around 35 percent of GDP. Afghanistan exports goods worth around $800 million per year, while importing goods worth around $8 billion per year. This trade deficit is financed almost entirely by international grants. As grants decline over coming years, Afghanistan faces the potential for a disruptive macroeconomic adjustment if new sources of foreign exchange receipts cannot be mobilized. While there may be capacity to substitute some exports—including basic agricultural products—with domestic production, Afghanistan's capacity to produce many exported goods is likely to remain limited (machinery, petroleum, consumer products). Exports need to be mobilized to finance continued reliance on vital imported goods.
- **Revenue generation.** International grants that currently finance around 75 percent of public expenditure, including around half of budget expenditure, and 90 percent of security expenditure are expected to decline substantially over coming years. Government revenues are already around 14 percent of GDP—close to the average for low-income countries. To increase revenues and escape current levels of aid dependence, Afghanistan must mobilize new sources of economic growth that also have the potential to generate substantial government revenues.

Afghanistan faces important constraints that must be reflected in its development strategy. The substantial development challenges outlined above must be achieved while taking account of realities that tightly constrain viable development pathways.

- **Limited fiscal resources.** Fiscal resources in Afghanistan are already tightly constrained, and there is limited scope to raise additional revenues without faster economic growth. At the same time, total per capita on-budget civilian spending is only around $85 per year, while health spending per capita is only around $8 per year. While Afghanistan may be able to raise limited financing from external concessional borrowing or development of a domestic debt market, fiscal constraints are likely to tighten substantially over coming years as international grant support declines. Public resources will be insufficient to drive economic development.
- **Weak human capital.** Afghanistan continues to have a poorly educated and primarily rural workforce. Around 74 percent of the population continue to live in rural areas. Literacy rates are low, at around 55 percent for men and 30 percent for women. Most the workforce has either no or only primary education. About 3.5 million children (75 percent of them girls) remain out of school, and due to low education quality, 93 percent of children at late-primary age are not proficient at reading. Seven out of 100 children do not survive to age 5, 41 out of 100 children are stunted, and only 78 percent of the population over 15 years old survive to the age of 60. As a result, Afghanistan has a Human Capital Index of only 39 percent and ranks 133 out of 157 countries.
- **Poor infrastructure.** Afghanistan's road and energy networks are limited, with 85 percent of the road network in poor condition and supply of electricity is unreliable with only 31 percent of the population having access to grid electricity. Access to water and sanitation remain limited, especially in rural areas. Of Afghanistan's 8 million hectares of arable land (12 percent of total), currently only about 2 million hectares are irrigated.
- **Weak institutions.** Afghanistan continues to face problems related to weak institutions and governance. Due to complex political, historical, and social factors, Afghanistan does not have a strong state able to enforce rules, contracts, and property rights. The state's legitimacy is not uniformly accepted, while key state powers and institutions are often mobilized by powerful individuals to extract payments rather than deliver services. While substantial effort continues to be devoted to strengthening institutions and governance in Afghanistan, international evidence suggests that this is a very long-term process, highly dependent on conducive broader political conditions. In the absence of strong institutions to mediate contestation over power and resources, insecurity and violence is likely to persist at some level over the medium term, even following a political settlement.

Afghanistan's short-term development strategy and priorities need to be feasible within these long-term constraints. Given fiscal constraints, a focus on mobilizing the private sector is clearly required, through establishing the enabling conditions that encourage investment by local businesses and international investors. However, it is unrealistic to expect Afghanistan to follow private sector–led development strategies historically adopted by fast-developing low-income countries, which have generally involved some combination of strong, centralized governance, resource allocation through highly functional markets, integration with global supply chains, and export-driven diversification. Instead, a highly targeted approach is likely to be needed, focusing on sectors that have substantial potential for employment, revenue, and exports, but do not rely on sophisticated supply chains, high levels of human capital, or large public investments.

Important lessons learned through previous development efforts need to be reflected in future strategies.

- **Need for realism.** Previous development planning efforts in Afghanistan have been characterized by excessive ambition, including the establishment of unrealistic targets and unaffordable plans. Excessive ambition has proven unhelpful in the past through undermining credibility of plans, eroding accountability when plans are not fulfilled and targets not met, and distributing scarce resources too widely.
- **Need for focus on implementation.** Efforts dedicated toward planning have not been matched by focused efforts toward implementation. A new focus on implementation could be supported by (i) focusing on a small number of key priorities for development, at the level of specific reforms and investments; (ii)

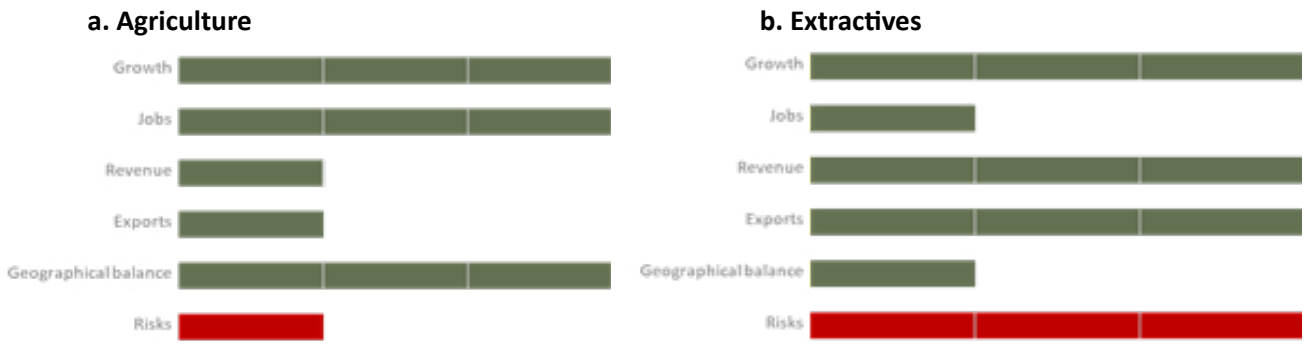
establishing systems for regular monitoring and reporting on progress to the executive and development partners; (iii) ensuring stability in institutional arrangements and staffing in key sectors for adequate time to allow progress to be made; and (iv) coordinating actions across involved parties and taking decisive action when progress is slowed by vested interests.

- **Need for coordination and alignment of development funds.** Development partners continue to finance a large share of public investment, including well over half of on-budget development expenditures. Donor coordination in Afghanistan benefits from the use of large multidonor trust funds, including the Afghanistan Reconstruction Trust Fund and the Afghanistan Infrastructure Trust Fund, which allow for coordinated provision of on-budget support. Around half of civilian grants are still provided off-budget, however, with several hundred projects currently underway. At the same time, the government-financed development budget still includes a large number of projects, many of which have been selected for political purposes rather than on the basis of their contribution to development objectives. Apart from a serious effort to cull unnecessary projects, a key priority in the context of declining grants is to ensure that all on- and off-budget development spending is closely aligned with a reduced number of clearly articulated government priorities.
- **Need to recognize the impacts of aid on governance and institutions.** The international community has actively contributed to the current weak governance and institutional environment through (i) previous lack of coordination between donors and between donors and government; (ii) utilization of a profusion of implementation channels; (iii) weaknesses in accountability for use of development funds (especially for off-budget programs) and the consequent leakages that so concern donors; and (iv) the utilization of aid to achieve short-term security and political objectives. Heavy reliance on international technical assistance and the establishment of a "parallel civil service" have undermined sustainability. Development partners and the government need to maintain recent progress in (i) aligning resources behind government policy objectives; (ii) making greater use of government systems to avoid fragmentation and improve efficiency; and (iii) establishing credible and measurable joint objectives and regularly assessing progress against them.

Growth Drivers

Afghanistan has proven potential in both agriculture and extractives. World Bank analysis shows that mobilization of extractives and agriculture could together drive growth rates of up to 6.5 percent per annum, revenues of $6 billion, and exports of $6 billion within 10 years. Extractive and agriculture sectors are highly complementary, and a development strategy focused on mobilization of these sectors could achieve progress in poverty reduction, job creation, foreign exchange generation, and revenue mobilization.

Figure 6: Key growth drivers



Source: World Bank

Agriculture

Development of the agriculture sector has unparalleled potential to create jobs and reduce poverty. Agriculture remains the foundation of Afghanistan's economy. Any development strategy that is intended to provide broad-based growth and improvements in living standards must involve improved agricultural productivity. Around 74 percent of the population and 90 percent of the poor live in rural areas. About half of households derive part of their income from agriculture, which employs around 40 percent of the workforce. Agriculture already accounts for around a quarter of GDP, while agro-processing accounts for around 90 percent of manufacturing. Irrigated wheat, horticulture (fruits, nuts, and vegetables) and intensive livestock (milk, eggs, and poultry meat) in peri-urban areas have the greatest short-term potential.

Substantial reforms and investments are required to mobilize agricultural production. Priorities for development of the agriculture sector include:

- Rehabilitating and expanding irrigation structures and improving water management. Substantial public investment in irrigation will be required. Complete rehabilitation of existing irrigation schemes and better on-farm water management are the top priorities, given significantly lower costs than investing in new irrigation infrastructure.
- Investing in land management systems and capacity. Immediate policy and regulatory attention is needed to secure the rights of private owners, especially in irrigated and peri-urban areas, to improve land-leasing arrangements, facilitate the development of efficient land markets, and address current land-related disputes as an important driver of local-level conflict. This can be pursued through continuation of reforms for the transition toward an administrative system of land management, currently being driven by the Ministry of Urban Development and Land.
- Supporting development of agri-industrial parks to provide secure and serviced spaces for agri-firms to operate. This should include establishing an appropriate legal and regulatory environment to encourage increased private sector investment in agribusiness and in firms that efficiently deliver services, linking emergent farmers into commercial value chains. This will also require adequate infrastructure links between production in rural areas and consumption and processing in urban centers and industrial zones. Developing agro-processing will have the added benefit of import substitution for products mostly consumed in urban areas.
- Supporting the rural poor who are extremely exposed to natural disasters and isolated from markets. Agricultural interventions in peri-urban areas can deliver good returns due to market access and increasing urban demand in the context of rapid urbanization (partly driven by internal displacement and returnee inflows). But to avoid exacerbation of inequity and poverty, additional interventions need to be targeted toward the rural poor, who often lack access to markets, services, and infrastructure. Agricultural development activities should include efforts to provide farmers in lagging areas with access to drought-resistant crops and improved animal husbandry and cultivation methods.

Agricultural development alone, however, will not be sufficient to meet Afghanistan's development challenges. The export potential of agriculture is relatively limited, with current production concentrated in grain and vegetables. Because most production in the agriculture sector is informal, it cannot easily be taxed and therefore will not provide sufficient contribution to revenues.

Extractives

Development of the extractives sector is also vital for Afghanistan. Extractives potential includes oil, natural gas, copper, coal, marble, construction materials, iron ore, gold, lithium, and other industrial minerals. With substantial proven resources and very limited large-scale development to date, the sector represents a source of significant potential for economic growth and export revenues. Extractives development is ideally suited for private sector–led development given the capacity of the private sector to pool domestic and international capital for required investments.

Extractives development is highly complementary to agriculture development. The employment potential from extractives development is relatively limited and direct benefits are likely to be geographically concentrated. However, extractives is the only sector with the potential to generate sufficient foreign exchange receipts and fiscal revenues to substitute declining aid flows.

Continued efforts are needed to mobilize the extractives sector. Highest priorities for development of the extractives sector are:

- **Articulating a clear vision and ensuring institutional, policy, and regulatory stability across the sector.** The potential of the Afghanistan extractives sector has so far not been fully realized, partly due to frequent changes in the legal, regulatory, and institutional framework, and partly driven by corruption and rent-seeking. Mobilizing substantial investment will require the government to (i) articulate a clear vision for development of the sector focused tightly on core investments; (ii) complete work to establish the appropriate regulatory and institutional arrangements; and (iii) insulate selected key institutions and functions from undue political influence to ensure ongoing policy continuity and stability.
- **Mobilizing scalable proof-of-concept investments.** The government should focus initial efforts on a few key investments that have the potential to generate revenues, infrastructure, and jobs. A roadmap for development/renegotiations of these projects should be approved by the High Economic Council. Such projects will demonstrate to the sector that successful investment in Afghanistan is possible, despite limited progress with large-scale investments to date. Joint public and private sector investment plans should then be developed to encourage further incremental investments building on these initial projects, with plans intended to ensure maximum local economic benefits and job creation as the sector matures.
- **Facilitating investment.** The government may need to work with other countries to negotiate necessary transit agreements and bilateral tax treaties to enable investment. Given the likely context of continued insecurity, efforts will be required to provide investors with (i) necessary support in securing sites and transport routes; and (ii) guarantees and other risk mitigation instruments.

Development Needs

Figure 7: Development needs

A range of enabling requirements need to be in place to facilitate growth in key growth sectors and ensure that benefits of growth in these sectors are maximized. Progress with development of the agriculture and extractives sectors is unlikely to be possible unless a basic enabling environment for investment and human capital development is established. At the same time, without efforts to strengthen the broader enabling environment, the full potential development benefits of growth in agriculture and extractives will not be realized, and growth in these sectors will not achieve its potential impacts on poverty reduction, job creation, human capital development, and economic growth.

Prioritization of such enabling measures is vital. Previous experience in Afghanistan has shown that development efforts are frequently undermined by excessive ambition, dispersed efforts, and the proliferation of priorities. Much remains to be done across all enabling areas to identify high-level cross-cutting priorities in each sector, followed by second-order, subsectoral priorities.

Human capital

Efforts to strengthen human capital are vital across several subsectors. Building human capital is both an important goal in itself and key to strengthening the capacity of the Afghanistan economy to respond to future opportunities and shocks. A well-educated and healthy population will be better equipped to identify and respond to economic opportunities as they emerge in a dynamic region.

Top-tier priorities for human capital development are:

- **Increasing, or at least protecting, public investment in health and education in the context of increasing fiscal constraints.** Health expenditures are currently only around $8 per capita per year, reflecting heavy reliance on out-of-pocket expenditures. Education spending is higher, at around $17 per capita, but the share of the budget allocated to education has declined from 25 percent in 2010 to 14 percent today. While Afghanistan will likely face the need for substantial expenditure cuts over coming years, investment in human capital should be maintained or expanded, as this is likely to provide high economic returns under a wide range of potential future scenarios or development strategies.
- **Establishing a broad-based social protection scheme.** Households in Afghanistan are highly exposed to negative shocks, including natural disasters, health shocks, price shocks, and conflict. When impacted by shocks, many households—especially the poor—resort to harmful coping mechanisms, such as reducing investment in education, reducing food consumption, selling assets, or accumulating debt. This can cause long-term poverty traps and further undermine human capital development. In the context of current uncertainties and the ongoing COVID-19 pandemic, immediate investment to establish social protection mechanisms to protect poor households is vital.

Second-tier human development priorities by subsector are shown in Table 1.

Table 1: Second-tier human development priorities by subsector

Subsector	Key Priorities
Education	• To **improve access to general education for girls** and for those who are in hard-to-reach areas, develop a harmonized community-based education strategy to improve coordination between stakeholders on standardizing program costs and quality, enable transition to hub schools, and improve sustainability of community-based education programs by streamlining funding mechanisms. • To **improve education quality**, develop a comprehensive roadmap for reforming teacher management. The teacher policy should determine norms for equitable allocation of teaching positions and transparent recruitment mechanisms, coupled with systems for credentialing existing teachers. Recruitment of female teachers should be prioritized. • To **enhance skills development**, adopt more flexible approaches to technical and vocational education and training, allowing students to combine study and work, and deepen collaboration with the private sector to ensure closer matches between supply and demand for skills. • To **strengthen higher education**, prioritize the provision of connectivity and digital services at universities. Quality assurance mechanisms for teaching and learning should be developed to standardize processes for quality assurance and accreditation across public and private higher education institutions.
Health	• To the extent possible, **increase government contributions to health financing** to expand coverage while increasing efficiency in expenditures through (i) improving referral systems to manage patient flows to hospitals; (ii) improving key procurement systems; and (iii) aligning off-budget donor support around key policy goals. • To **improve efficiency and effectiveness of hospitals**, which absorb half of the national health budget, undertake a review and rationalization of national hospitals to improve efficiency, including strengthening hospital accreditation and regulation.
Community Development	• **Clarify and strengthen the mandate of Community Development Committees (CDCs)**, including through passage of the CDC bylaw. The role and mandate of cluster CDCs should be recognized in law and expanded in relation to managing infrastructure investment and service delivery linkages. • **Strengthen systems for fiduciary management by CDCs** so that they can plan, monitor, and track expenditures across all community-level programs. • **Integrate CDCs into subnational government policy** to ensure that their existing role is recognized and utilized in subnational governance reforms.

Governance and institutions

Afghanistan's governance and institutional challenges are deeply rooted in history and politics. Decades of conflict have impeded the emergence of a strong state with the capacity to impose rule of law. Fragmentation of political power has led to a form of social order based on transactional bargains between elites at the national and local levels. As in other low-income and fragile states, there is often wide divergence between formal rules, laws, policies, and procedures and actual practices. As Afghanistan enters a period of renewed political uncertainty exacerbated by the severe COVID-19 shock, governance challenges may become more pronounced.

Failure to address corruption has become a source of contention between Afghanistan and the international community. Ongoing grant support from the international community is likely to depend on the government making significant efforts over the short term to address corruption and improve the business regulatory environment. In the absence of such steps, donor fatigue may lead to a sharp decline in grant support to both the security and civilian sectors, with potentially serious implications for fiscal sustainability and service delivery. Previous efforts to demonstrate progress on addressing corruption have been undermined by excessive ambition in planning documents, proliferation of difficult-to-measure targets and strategies, and weaknesses in the measurement and reporting of progress. Improvements in governance would give assurance to donors to shift more of their grants to on-budget delivery mechanisms.

Top-tier priorities for governance and institutions are:

- **Reaching agreement between the government and development partners on a small set of practical indicators for assessing progress in improving governance.** To ensure that the government can credibly demonstrate progress, it should reach agreement with the international community on a limited number of specific, measurable, and time-bound policy actions to address corruption and improve governance. Development partners should mobilize technical assistance to help the government achieve targeted reforms. External verification mechanisms should be used to ensure credibility. An incentive mechanism should be built in to shift more resources on-budget as targets are achieved and verified.
- **Avoiding backsliding from previous gains during a difficult period.** Governance challenges and political economy pressures may worsen over the coming period as Afghanistan deals with (i) ongoing contestation of the outcomes of presidential elections; (ii) an uncertain security environment and potential negotiations with the Taliban; and (iii) a major economic and welfare shock arising from the COVID-19 pandemic. A key government priority is to maintain gains achieved over the past decade in building and strengthening core state institutions. This will likely require minimizing institutional restructuring and reorganization, avoiding large staff turnover in key agencies, and maintaining performance in core state functions such as revenue collection.

Second-tier governance and institutional priorities by subsector are shown in Table 2.

Table 2: Second-tier governance and institutional priorities by subsector

Subsector	Key Priorities
Expenditure and Revenue Management	• To **strengthen public finance reform efforts**, simplify and streamline the Fiscal Performance Improvement Plan to focus on a manageable number of strategic reforms. • To **improve expenditure quality**, accelerate work on public expenditure reviews to identify options for savings. Maintain progress on public investment management reforms to ensure that new projects have undergone thorough economic analysis. Implement payroll and pensions policies to address emerging risks to fiscal sustainability. • To **improve accountability and oversight**, strengthen management of the contingency reserve funds, progress legal reforms to ensure the independence on the Supreme Audit Office, and continue reforms toward the implementation of e-procurement. • To **strengthen revenue performance**, ensure revenue targets are realistic in the context of recent shocks. Prioritize implementation of the value added tax, the rollout of e-filing and e-payment, and addressing corruption in the customs department through implementation of human resources reforms.
Public Sector Reform	• To **ensure the integrity of the payroll system**, complete the rollout of the new Human Resource Management Information System. • To **move toward an equitable civil service pay structure that encourages high performance**, progress with implementation of the new civil service pay policy, including within the Ministry of Finance, where the current remuneration structure remains inconsistent with key elements of the new policy. • To **move toward sustainability**, conduct a review of all on-budget and off-budget national and international technical assistant positions across government, with the objective of (i) rationalization and prioritization of these positions in the short term; and (ii) transitioning to tashkeel (organizational structure) positions over the medium term.
Financial Sector	• To **ensure financial sector sustainability**, complete the restructuring and governance improvements of state-owned banks. • To **facilitate growth of the small enterprise sector**, continue to support facilities providing credit to small businesses, including the Microfinance Investment Support Facility for Afghanistan, the Afghanistan Credit Guarantee Foundation, and the Agricultural Development Fund. • To **support broader financial inclusion**, strengthen the financial sector infrastructure, including expansion of the public credit registry and movable collateral registry. Pursue the modernization and integration of payment systems and the adoption of digital financial services.
Private Sector	• **Target efforts toward specified sectors and value chains with high potential**, including the extractives and agribusiness sectors. In these sectors, address infrastructure and regulatory constraints and support additional investment through risk-sharing and public-private partnerships. • **Target support to existing and new market spaces**, including industrial zones and urban markets. In these spaces, ensure the provision of basic infrastructure, including energy, water, transport, and safe housing for workers. • **Support firms in accessing finance and managing risks**, including through (i) expanding financial education for the business community; (ii) supporting bank loan applications and enhanced accounting practices for the business community; and (iii) utilizing donor funds to provide matching grants and other de-risking subsidies for selected catalytic investments.
Urban development	• **Address constraints to production and trade and transit in main urban centers**, including through strengthening the financial management, revenue raising, planning, and service delivery capacity of major municipalities.

Infrastructure

Improved infrastructure is important and will involve efforts across several subsectors. Infrastructure weaknesses constrain development progress by increasing the costs and difficulties facing investors, while impeding quality and access to social services and the development of human capital.

Top-tier priorities for improving key infrastructure are:

- **Improve water supply and sanitation to reinforce health outcomes** through selected capital investments in drinking water, sanitation, and irrigation infrastructure to keep pace with demand. Investments should be carefully targeted taking account of efficiency and equity considerations.
- **Improve supply and reliability of electricity from the grid** by developing a grid code to ensure that all grid investments, including for distribution, can be undertaken with private sector participation. The Afghan grid also needs to be synchronized inside the country and with key countries that serve Afghanistan with power.
- **Identify and mobilize regional financing for key regional transport infrastructure investments.** Work with regional partners and the private sector to identify viable regional connectivity projects, including new rail infrastructure, that offer economic opportunities but are affordable within available fiscal space.
- **Expand access and private investment in digital technology** by allocating key spectrum in a market-oriented manner and enabling private investment in backbone infrastructure.

Second-tier priorities by infrastructure subsector are shown in Table 3.

Table 3: Second-tier infrastructure priorities by subsector

Subsector	Key Priorities
Water	• To **facilitate improved water management**, establish a national water information system to enable continuous data collection and analysis, dissemination, and monitoring. Emphasis should be placed on the adoption of new digital and remote sensing technologies. • To **improve sustainability**, better price water resources where affordable. Fiscal resources are under pressure while investment needs continue to grow. Pricing water to reflect some measure of its actual value to the economy is critical to efficiently sustaining vital services to the population. However, this needs to be balanced with a concern for affordability by the poor.
Energy	• Develop a plan **to expand access to energy**. The plan should outline steps to (i) complete the transmission ring, including through leveraging private investment where possible; and (ii) develop a private sector–led approach to distribution-level electrification. • To **enhance access for those expected to be living without grid connections over the longer term**, assign clear institutional responsibilities for off-grid access, potentially through establishing a rural electrification agency.
Transport and Trade	• **Develop a road sector development strategy**, identifying key investments and appropriate financing options (including mobilization of private sector financing). Coordinate development partners and involved government agencies around this plan. • Develop a civil aviation masterplan to **ensure that Afghanistan's airports are served reliably by national and foreign airlines**. This masterplan should be consistent with the overall transport sector policy approach that the government should facilitate private sector service provision while minimizing capital and operating subsidies. • To **facilitate trade**, fully implement trade facilitation agreements, including the World Trade Organization Trade Facilitation Agreement. Ratify and/or implement other trade conventions that could reduce transport and trade costs.

Subsector	Key Priorities
Digital Development	**Promote competition in broadband deployment** by (i) implementing the infrastructure-sharing policy to allow multiple operators to utilize key broadband infrastructure; (ii) reducing the administrative barriers to acquiring rights-of-way for new infrastructure; (iii) enforcing nondiscriminatory access to (and transparency in tariff-setting for) the optical fiber backbone for all operators; and (iv) consolidating the fragmented mobile market and facilitating private investments in the state-owned Afghan Telecom. **Utilize the Telecommunication Development Fund to expand access to remote areas.**

Cross-cutting Priorities

Figure 8: Cross-Cutting Priorities

Gender and climate resilience issues will need to be considered across all priority areas. These cross-cutting priorities do not rely only on stand-alone interventions but can be pursued through mainstreaming of appropriate approaches across all public investment and reform programs.

Climate resilience

Afghanistan, with its consistently high rankings on the Global Climate Risk Index, is among the most vulnerable countries to the effects of natural hazards and climate change. Climate change poses a significant threat to Afghanistan's natural resources, in particular the agriculture sector, on which the majority of Afghans depend for their livelihoods. While floods have to date represented the most frequent natural hazard in Afghanistan, droughts already cause an average of $280 million in economic damages to agriculture each year with the potential for an extreme drought event to result in economic losses of up to $3 billion. Climate change is also expected to increase the frequency of heavy precipitation events leading to more flooding, as well as contribute to earlier spring snowmelt, reducing the availability of water over the summer months and making efficient irrigation system even more critical for agricultural productivity.

Government and development partners should pursue cross-cutting approaches that strengthen resilience to climate change and other weather-related shocks. Such approaches could include (i) supporting irrigation expansions and extensions, and promoting climate-smart agricultural practices such as efficient land and water use, and utilization of drought-resistant crops; (ii) designing and constructing infrastructure that is resistant to climate change and extreme weather events; (iii) investing in social protection mechanisms that enhance the resilience of households to weather-related shocks and natural disasters; and (iv) reforming management of contingency funds to ensure sufficient resources are available when needed to respond to natural disasters.

Gender equality

Low human capital attainment, particularly for women, poses one of the greatest barriers to economic development in Afghanistan. Improved education and health outcomes for women are critical for women's participation in the economy and for human capital outcomes for children and future generations. Despite significant gains toward gender equality, female literacy remains low (29.8 percent of adult women are literate compared to 55.5 percent of men). The gender gap in school enrollment remains wide at primary (82.7 percent for girls and 121.1 percent for boys), secondary (38.8 percent for girls and 68.1 percent for boys) and tertiary (4.9 percent for females and 14.2 percent for males) levels. Girls make up 75 percent of the total 3.5 million out-of-school children. Maternal mortality rates remain among the highest in world, while 20 percent of health facilities do not have any female staff. Women's participation in the formal economy in both rural and urban areas remains the lowest in South Asia, with women comprising only 35.9 percent of the total labor force and only 21 percent of urban female workforce, compared to 73 percent for men. Only 27.3 percent of civil service positions are occupied by women, with women particularly underrepresented in senior management roles.

The government and development partners should pursue cross-cutting approaches that improve the position of women within Afghan society. Such approaches could include:

- In relation to agriculture, promoting women-to-women delivery for extension and other services;
- In relation to education and health, prioritizing the construction of school boundary walls and the hiring of female teachers and female health workers to promote girls' attendance and women's access to health services;
- In relation to public sector management, continuing to actively promote the hiring of women through positive discriminatory recruitment practices;
- In relation to the business environment, removing regulatory barriers toward women's economic participation, enhancing women's access to finance, continuing to develop digital payment and e-government systems to overcome cultural constraints to women traveling and queueing, and introducing microfinance schemes targeted toward women entrepreneurs;
- In relation to social protection and community development, ensuring that programs empower women at the community and household level through their active and meaningful participation and engagement in community development activities.

1 Inclusive Economic Growth

Maintaining Stability While Mobilizing New Growth Sources

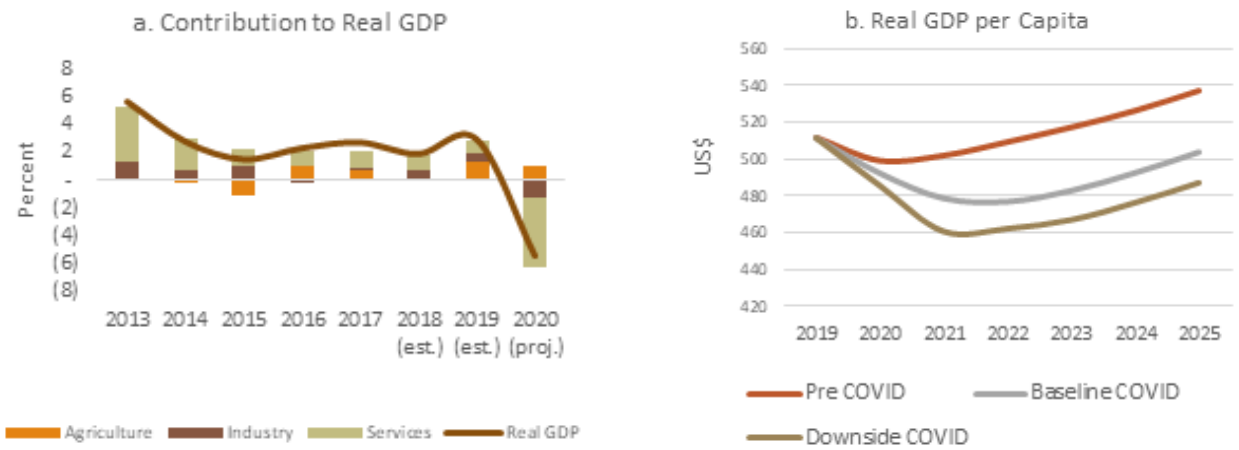
Context

Afghanistan experienced rapid growth following the U.S.-led intervention in 2001. Between 2002 and 2012, the Afghan economy grew by around 9 percent per year on average, driven by aid influx and strong agricultural growth. Civilian and security grant inflows spurred rapid expansion of the service economy, which experienced consistent double-digit growth. Agriculture also experienced rapid but volatile growth, with output heavily dependent on weather conditions. Consistently strong economic growth led to rapid increases in incomes, with output per capita increasing by around 75 percent between 2003 and 2012.

Economic growth has slowed since 2012, averaging just 2.8 percent per year, barely faster than the rate of population growth. Slow growth since 2012 reflects (i) rapid declines in aid, with grants decreasing from nearly 100 percent of GDP in 2009 to around 43 percent of GDP in 2019; (ii) deteriorating security conditions associated with the resurgence of anti-government elements; and (iii) political instability following the 2014 presidential election process, subsequent contesting of results, and delayed formation of the National Unity Government.

The global COVID-19 crisis is having a substantial negative impact on Afghanistan's economy. With major disruptions to domestic economic activity, regional trade, and remittance flows, the economy is expected to contract by more than 5 percent over 2020. With declining incomes and increasing food prices, hardship is increasing, with the poverty rate expected to reach up to 72 percent over 2020. Due to reduced trade, administrative disruptions, and declining economic output, government revenues have fallen sharply, placing major pressure on government finances. The negative impacts of the COVID-19 crisis on confidence and investment have been exacerbated by continued uncertainties around (i) the extent of continued international grant and security support; and (ii) the prospects for and eventual contours of any political settlement with the Taliban. With an anticipated slow economic recovery, it is expected to take several years for output and per capita incomes to return to pre-COVID-19 levels.

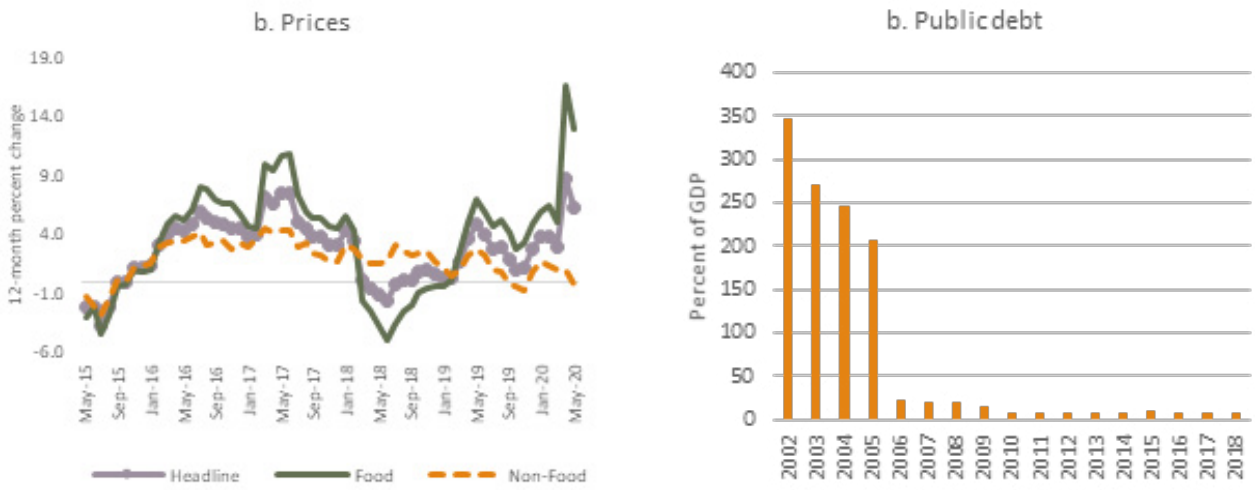
Figure 9: The economy is growing too slowly to support poverty reduction



Source: National Statistic and Information Authority (NSIA); World Bank staff estimates

Overall macroeconomic management has been sound since 2001. Even through significant shocks such as the COVID-19 crisis, the government has performed well in (i) constraining fiscal deficits and limiting new borrowing; (ii) maintaining responsible monetary policies that limit inflation; and (iii) maintaining an appropriate, market-based exchange rate regime that has averted the need for difficult adjustments and supported accumulation of substantial foreign exchange reserves. Macroeconomic policy settings have established a sound foundation for economic growth if microeconomic constraints, including regulatory, human capital, and infrastructural constraints, can be addressed.

Figure 10: Macroeconomic management has remained sound



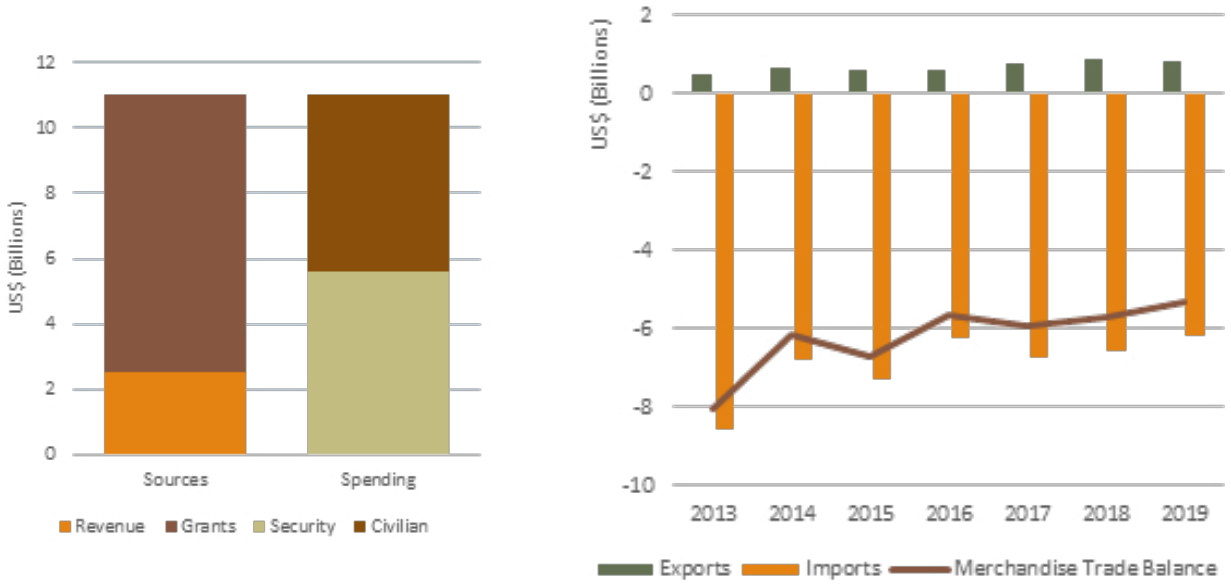
Source: NSIA and Ministry of Finance

Afghanistan's fiscal situation is unsustainable, with total public expenditure at around 58 percent of GDP—which is exceptionally high for any country. High public expenditure is driven largely by the security sector, with security spending at 30 percent of GDP relative to 3 percent of GDP for the average low-income country. Afghanistan has performed well over recent years in increasing revenues, reaching 14 percent of GDP (close to the average for low-income countries) in 2019. The nation continues to depend on grants to finance around 90 percent of total public expenditure (on- and off-budget), including 47 percent of on-budget spending and around 90 percent of security sector spending (on- and off-budget). Progress with improving revenue perfor-

mance has been slowed by the COVID-19 crisis, with revenues expected to fall significantly below budgeted levels.

Aid-driven growth has also spurred massive import growth and the emergence of a structural trade deficit. Merchandise imports are currently around $6.6 billion (33 percent of GDP), while merchandise exports are around $875 million (4 percent of GDP). Consequently, Afghanistan is completely reliant on grants for the foreign exchange inflows that finance the trade deficit.

Figure 11: Aid inflows have driven large macroeconomic imbalances



Source: National Statistic and Information Authority (NSIA); World Bank staff estimates

Aid inflows are expected to decline over the medium term. Current grant pledges from the international community expire in 2020, with some donors signaling large reductions in civilian support. The global COVID-19 crisis is expected to negatively impact aid contributions, in the context of increased fiscal pressures in donor nations and increased global needs. Even if grant support is sustained over the medium term, reductions in grant support over the longer term are inevitable. Unless action is taken, aid declines over coming years will leave the Afghan government with insufficient resources to deliver vital services and infrastructure required for human welfare and economic growth. Declining aid also threatens macroeconomic stability with the prospect of Afghanistan being unable to finance its large import bill.

Afghanistan therefore needs an economic development strategy that achieves multiple objectives. New sources of growth need to be mobilized that achieve several overlapping objectives:

- **Generate government revenues.** The economy needs to be able to generate substantial government revenue to substitute for decreasing aid in financing the provision of vital services and infrastructure.
- **Generate exports.** Afghanistan needs to substantially improve its export performance to finance current imports. Major new sources of exports are needed.
- **Generate jobs and reduce poverty.** Poverty is at unacceptably high levels and likely increasing in the context of slow growth. Economic growth is needed to generate new jobs and improve livelihoods, especially for the large number of poor Afghans living in rural areas.

Any new growth model must be feasible within important constraints, including (i) low human capital, with low rates of literacy and a poorly educated workforce; (ii) weak institutions for protecting property rights, enforcing contracts, and facilitating the functioning of markets; and (iii) poor infrastructure, reflecting destruction through decades of conflict. At the same time, Afghanistan can benefit from its youthful population if appropriate skills can be rapidly developed, and take advantage of its location in the heart of a dynamic and fast-growing region if connectivity with neighboring countries can be improved.

Policy Recommendations

Maintain a macroeconomic environment that enables development. No country has achieved rapid and sustainable economic development progress without maintaining debt at reasonable levels, controlling inflation, and ensuring relative exchange rate stability. Priorities include (i) avoiding accumulation of unsustainable debt through limiting fiscal deficits and ensuring borrowing is on highly concessional terms; and (ii) ensuring the continued independence of the central bank to safeguard the appropriate and apolitical management of exchange rate and monetary policy.

Reassure the international community that grant resources are being well utilized. Under any circumstances, Afghanistan will remain reliant on grants to maintain services and infrastructure over the medium term. Efforts to address corruption and ensure the efficient utilization of public resources should be prioritized to reassure the international community and secure continued grant support, and to attract private investment. Continued grant support will be necessary to finance the required transition to self-reliance over time.

Focus on growth. Declining aid cannot be substituted simply by increasing revenue collection. Revenue is already equivalent to 14 percent of GDP, equal to the low-income country average and close to Afghanistan's estimated revenue potential. Important measures can and should be taken to further strengthen revenue performance, including the introduction of a value added tax. However, unless the economy grows much faster, revenues will never substitute for aid inflows, currently around 43 percent of GDP (or $8.2 billion, compared to revenues of $2.7 billion). Imposing an increased tax burden on a private sector that is not expanding is likely to be counterproductive, undermining competitiveness, profitability, and investment.

Mobilize private investment. In the context of declining grants, the government does not have sufficient fiscal resources to drive economic growth through public investment. Growth must therefore come from private investment, with the government focusing on providing an appropriate enabling environment. Improved governance (reducing corruption) and streamlining the regulatory environment are essential for private sector investment. Public expenditure should be directed toward providing the goods and services on which the private sector relies, including (i) health and education, to ensure a productive workforce; and (ii) basic infrastructure, especially transport, energy, and irrigation networks.

Prioritize extractives and agriculture. Afghanistan has proven potential in both agriculture and extractives. World Bank analysis shows that mobilization of extractives and agriculture could together drive growth rates of up to 6.5 percent per year, with revenues of $6 billion and exports of $6 billion within 10 years. These sectors are highly complementary. Growth in agriculture can generate jobs and improve livelihoods, especially for the poor, who are overrepresented in rural areas. Mobilization of extractives, while unlikely to generate very large numbers of jobs, can generate government revenues and foreign exchange receipts to substitute for declining aid inflows.

Support the capacity of firms and households to manage risks. Afghanistan is likely to remain subject to insecurity and uncertainty over the medium term. Firms consistently cite political instability and insecurity (especially crime) as a constraint to investment. Households' exposure to shocks is a major driver of poverty and constraint to investment in human capital. The government can support economic growth by providing firms and households with tools to manage risks, such as (i) supporting expansion of financial services so that firms and households can save and borrow when needed; (ii) investing in health, education, and skills so that poor households can contribute to the economy; (iii) establishing productive cash transfer schemes to improve livelihoods of poor communities; and (iv) working with development partners to establish new financial products that help firms manage risks, including risk-sharing products, credit guarantees, and political risk insurance.

2 Poverty, Demographic Trends, & Social Protection

Increasing Households' Resilience & Expanding Access to Public Services

Context

Poverty in Afghanistan has increased in the past decade, and currently over half of the population lives below the poverty line. From 2007–2011, poverty increased from 34 percent to 38 percent, despite high economic growth. Real GDP per capita grew 7 percent annually during this period, but the economic growth only benefited the richest 20 percent of Afghans. The subsequent slowdown in economic growth and deterioration in security was accompanied by worsening welfare, with poverty rates increasing to 55 percent by 2016–2017 (Figure 12a). Poverty remains widespread across the country, with the highest levels (in some cases, over 90 percent) observed in rural areas and areas of difficult accessibility (Figure 12b).

Food insecurity also increased, and by 2016, 45 percent of the population was food insecure (defined as deficiencies in meeting minimum caloric requirements), up from 28 percent in 2007. Although data are not available for more recent years, poverty is likely to have increased due to drought in 2018, slower growth, and continued displacement, especially in rural areas. Based on model simulations, the COVID-19 pandemic is expected to have increased the poverty rate in 2020 to between 61 and 72 percent of the population, with impacts on households felt across all regions and levels of incomes.

Exposure to shocks is very high and disproportionally affects the poor. In 2010–2011, four out of five households experienced at least one shock and 56 percent of households were exposed to three or more shocks (e.g., employment loss, family member illness, crop losses). The country's geography, reliance on rain-fed agriculture, protracted conflict, and lack of an effective safety net all contribute to vulnerability to shocks. While shocks are a common experience, they hit the most vulnerable the hardest. Three in four poor households are affected by shocks related to prices, loss of livelihood and productive assets, or natural calamities, with approximately 80 percent of them reporting an inability to recover from shocks within one year. The COVID-19 pandemic affected households relying on temporary or casual work, especially in urban areas.

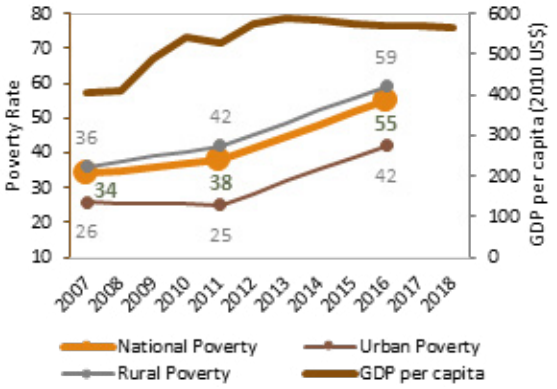
Indicators of nonmonetary welfare have shown improvement in recent years, though some hard-won gains may be at risk. Indicators related to access to health and education have improved since the 2000s. For instance, the number of children enrolled in school has more than doubled from close to 4 million in 2003 to over 9 million in 2017. Similarly, in health, the share of births attended by a health professional increased from 22 percent in 2007 to over 50 percent in 2017.

Despite this progress, overall human development indicators remain low. In 2017, more than 50 percent of students attending grade 4 exhibited an academic performance in math equivalent to less than first grade (Systems Approach for Better Education Results 2017). Indicators of child nutrition remain worryingly high; stunting still affects over 40 percent of children up to 5 years old (Afghanistan Living Conditions Survey [ALCS] 2016–17); while high reliance on out-of-pocket expenditures for health services (72 percent) (National Health Accounts 2019) compounds the fragility. Declining economic growth accompanied by worsening labor market conditions, a deterioration of the security situation, a long recovery from the effects of the COVID-19 pandemic, and the possibility of a further withdrawal of international aid are putting the hard-won gains in nonmonetary welfare at risk, especially for women and girls.

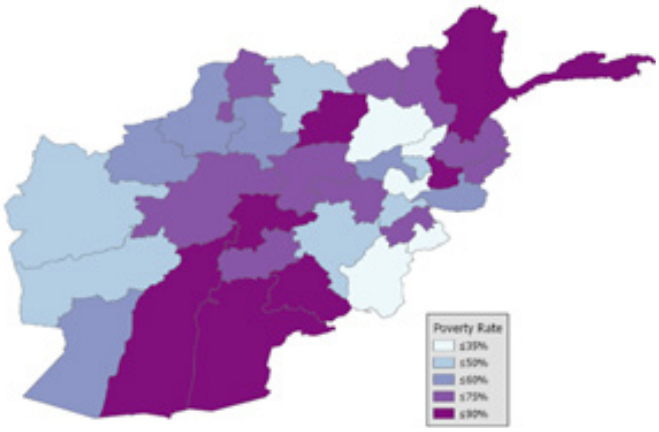
Gender gaps are considerable in opportunities to accumulate productive assets, with women having lower access to services and fewer economic opportunities than men. For instance, access to education, though improving in time, still shows big disparities: the net attendance rate for primary education is 20 percentage points higher for boys than girls (66 and 46 percent, respectively). These inequities have enduring consequences, as evidenced by the stark differences in literacy rates between men and women, especially over 30 years old (Figure 13a), and also are related to the differences by gender in active participation in the economy, as evidenced by the large differences in labor force participation: 80 percent for men against 27 percent for women.

Figure 12: Poverty has increased in the last decade and remains widespread

a. National Poverty Rates and GDP per capita



b. Poverty rate by provinces, 2016/2017

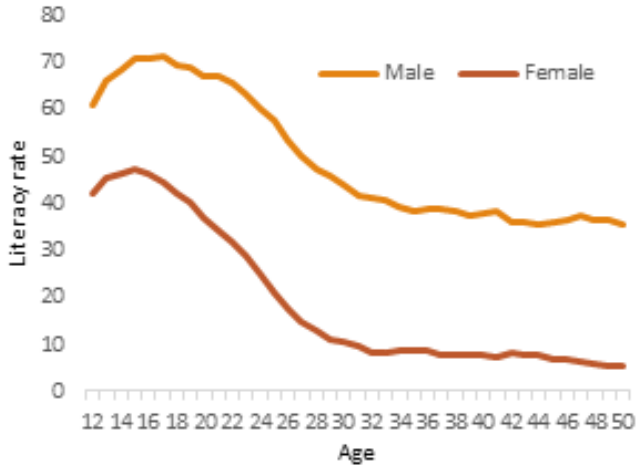


Source: World Development Indicators; World Bank staff estimates based on National Risk and Vulnerability Assessment 2007–08 and 2011–12 and ALCS 2016–17.

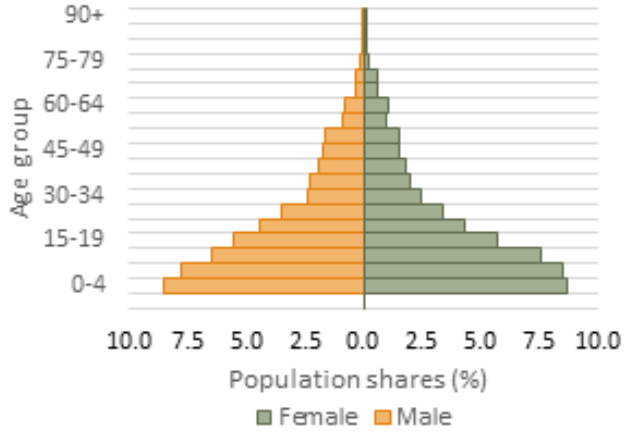
While declining, Afghanistan's fertility rate remains among the highest in the world and the population is very young. On average, Afghan women have 5.3 children. The annual population growth rate is close to 3.3 percent, which means that the population will double over the next 25 years. Consequently, the population of Afghanistan is very young (Figure 13b), with almost three-quarters below the age of 30 and about 25 percent between the ages of 15 and 30. In addition, high population growth will undermine savings. In combination with the limited availability of arable land, high population growth will inevitably result in increased pressure on farm land and fragmentation of land holdings. With fewer productive assets, households will be forced to use all their incomes for consumption, limiting their capacity to save. This will result in fewer resources available to finance investment at the national level, limiting Afghanistan's capacity to grow.

Figure 13: Literacy rates and age distribution

a. Literacy rates by gender, 2016/2017



b. Population Pyramid, 2016/2017



Source: National Statistic and Information Authority based on ALCS 2016–17.

Social assistance spending and coverage in Afghanistan are among the lowest when compared with similar countries. The government channels almost all social assistance to the civil service and the security sector—the largest program being the Martyrs and Disabled program (1.1 percent of GDP). Unregulated voluntary saving schemes for workers at nongovernmental organizations and private sector are also in place but have a very low coverage. No resources are allocated to safety net schemes targeted to the poor, though government priorities are shifting in response to the COVID-19 pandemic, with resources being mobilized to finance the establishment of a shock responsive resilience building system. International comparisons show that many fragile and conflict-affected countries tend to rely more heavily on social safety nets to help their populations cope with heightened social and economic stress associated with such contexts (e.g., Timor-Leste and South Sudan spend over 6 and 10 percent of their GDP in social safety nets, respectively).

Lack of productive employment remains the biggest challenge to reduce poverty. Few people have access to productive or remunerative employment, and even when the head of a household is employed, about the half the population of such households lives in poverty. Afghans living in households where the household head is employed in agriculture are likely to face higher poverty rates (63 percent) and account for a third of the poor population. More broadly, almost 60 percent of the population belongs to households where the head of household holds vulnerable employment, being either self-employed, a day laborer, or an unpaid worker.

Poorer households are more likely to adopt harmful coping mechanisms when affected by shocks. Households in the bottom 20 percent experienced 1.35 shocks during 2016–2017, slightly higher than the 1.1 shocks experienced by households in the top 20 percent. Moreover, poor households were more likely to adopt adverse coping strategies, such as decreasing food intake and quality when impacted by shocks, with enduring negative effects on their living standards.

Internal displacement and returning refugees put increasing pressure on labor markets and service delivery, especially in urban areas. The 2018 drought, current political uncertainty, and deterioration in security pose serious risks to an already impoverished population. The total number of internally displaced has been rapidly

increasing since 2012 and reached an all-time high of around 1.2 million in 2018. The ability of Afghans to seek refuge in neighboring Pakistan and Iran has deteriorated in recent years, increasing the likelihood of internal displacement to the main urban centers. In addition, close to 800,000 undocumented Afghans returned in 2018, primarily from Iran. There are concerns that returnees have limited human capital, few resources, and limited connections to help manage the transition. The growing numbers of displaced people, many of whom are moving to urban and peri-urban areas, are likely putting increased pressure on services, employment opportunities, and available humanitarian assistance.

An approaching youth bulge presents employment challenges. Projections show the labor force is expected to increase by 4 million by 2025, which means 480,000–600,000 new entrants each year, which is many more than the economy can absorb. Around 500,000 young males already are unemployed, most of whom reside in rural areas (72 percent) and have only primary education (26 percent) or none at all (43 percent). About 71 percent of young people cite unemployment as the biggest problem they face. Youth bulges in the presence of slow growth and limited job opportunities can pose risks in already insecure environments, especially if migration channels are limited.

Afghanistan is among a handful of countries without any recent census data. The first and only national population census of Afghanistan was conducted in 1979. Official population estimates were subsequently revised in 2004, based on a household listing exercise conducted in 29 provinces that yielded a population growth estimate of 2.03 percent per year. Used since then to project population data, the growth estimate resulted in an official population estimate of 29 million in 2016–2017. Models from the U.S. Census Bureau and the United Nations, however, result in higher estimates of national population—between 33 and 34 million for 2016. These population projections do not account for returning migrants, who arrived in large numbers from 2016 onwards. In addition, estimates of the nomadic Kuchi population have not been updated since 2004, and while official estimates indicate the share of rural population is close to 70 percent, a new census may be required to validate this calculation.

Efforts to protect the poor and vulnerable in Afghanistan remain fragmented and rely heavily on off-budget programming. Most of the initiatives trying to address poverty and vulnerability consist of short-term, small, and fragmented schemes. With few exceptions, safety net interventions are financed and implemented off-budget by humanitarian partners who struggle with decreasing resources and coordination challenges. The COVID-19 pandemic showed the importance of accurately counting the population to quickly reach the poorest and most needy to support them in times of extreme difficulty.

Policy Recommendations

Develop a resilient safety net program with regular and predictable benefits delivery and the capability to scale up to respond to shocks and ensure that the poor and vulnerable can have access to minimum needs and help to build resilience. One of the most urgent priorities for the country—a shock responsive safety net program that provides regular and predictable support during normal years and emergency responses during shock years to chronically poor and vulnerable households—will help cope with chronic poverty, destitution, and vulnerability. It can reduce the vulnerability of poor households exposed to negative shocks, and stimulate participants' ownership via an agreement on roles and responsibilities for beneficiaries to help with its acceptance and sustainability.

Box: Towards a shock-responsive safety net system

As a response to the COVID-19 pandemic, the World Bank pushed forward a series of projects as part of its response, recovery, and resilience framework called Relief Effort for Afghan Communities and Households (REACH). The REACH project, combined with additional financing for the Citizens' Charter Afghanistan Project will provide one-time assistance to 93 percent of the population through a mix of food packages and cash and will include laying the foundation for a social registry. As part of the recovery phase, the Early Warning, Early Finance and Early Action Project (ENETAWF) will seek to establish a system of recurrent cash transfers in targeted districts, through a combination of unconditional cash transfers and public works. The project will lay the foundation for a shock responsive safety net system that can gradually be expanded over time and increasingly leveraged to respond to emergencies.

Continue expanding access to basic services, particularly focusing on the inclusion of vulnerable and hard-to-reach populations, including women and displaced populations. Another important priority is to continue expanding access to health and education and improving nonmonetary welfare indicators while enhancing equity, quality, and relevance. Special attention is needed to enhance access to services and employment opportunities for women (for instance, a lack of female teachers discourages girls' school attendance or a lack of female health workers restricts women's access to health care). Expanded service delivery should also be sensitive to the needs of internally displaced populations and returning migrants.

Invest in agricultural productivity and climate resilience in rural areas to improve access to productive, income-generating opportunities. Supporting improvement in agricultural productivity and resilience to climate-related shocks, including better water management, drought-resistant varieties of seeds, and improved farming and livestock practices, will be critical to improve income generation among rural households. Currently, rural areas have few productive off-farm activities, so strengthening linkages with markets and population centers will be important. The public works financed through ENETAWF will seek to reduce erosion and improve water retention to boost resilience, in tandem with the recently approved Emergency Agriculture and Food Supply project.

Support private sector–led employment generation while investing in the employability and skills of young Afghans. Support initiatives for the private sector to invest and create more employment opportunities for the poor by addressing the weak financial sector, poorly functioning land markets, and fragmented licensing and registration regimes. In addition, support new entrants into the labor market through initiatives that support skills development (vocational, digital, and functional literacy and numeracy), basic business management skills, and access to credit.

Invest in reforms and regulations of private and public sector pension schemes to make them financially sustainable and aligned with the realities of implementation and accounting for an expanded labor force. In addition, embrace digital transformation to modernize the old pension system (i.e., digitizing old records, creating a pensioner census) and help drive positive long-term performance outcomes.

Strengthen and enhance data collection for welfare measurement and learning from implementation of large-scale programs, including using geospatial information. Key priorities are continued support for a core set of

surveys to monitor welfare and living conditions, and investing in foundational data including a population and agricultural census. Implementation of large-scale programs creates a rich flow of administrative data that can yield significant insights into ground conditions, especially due to the higher frequency at which such data is generated. Creating knowledge hubs in key provincial centers by engaging with provincial universities and a central implementation agency with a provincial footprint might be a useful approach to create awareness about the availability and usage of these data sources. Complement these efforts with incentives to encourage data-driven decision making using available survey, administrative, and geospatial data. The government statistical office (National Statistics and Information Authority) is completing its 2019–2020 household survey and will work with the World Bank to update its poverty and labor statistics accordingly.

Box: Geospatial data in Afghanistan

Unlike many countries and due, in part, to the ongoing conflict, Afghanistan has substantial geospatial data holdings. These can be used in conjunction with administrative data collected, for instance, by the Ministry of Public Health's Sehatmandi project, to allow for nuanced policy choices at a highly disaggregated level. One such case is the Ministry of Public Health facility-level monthly data that show fluctuations in patients and directly enable better monitoring and evaluation. The availability of geospatial data allows for a comparatively complete picture of resource endowments and enables considerable analytic opportunities to identify gaps in service delivery. However, inadequate structures and staffing within ministries and outdated curricula at universities limit the potential of this data.

Policy recommendations:

- Ministries and provincial and local governments should engage more strongly with universities to develop a sustainable skills pipeline of geospatial analysts with critical thinking skills.
- Continue investing in public foundational geospatial data production, creating a sustainable data ecosystem.
- Strengthen internal geospatial training structures within ministries, especially at the managerial and director level.
- Engage with third parties to offload data hosting, while maintaining positive control of public data.

3 Private Sector Development for Jobs

Prioritizing Key Reforms to Unleash the Potential of Firms and Sectors

Context

About 300,000 Afghans who urgently need jobs enter the labor force each year. [1]Given the fiscal constraints, these jobs need to be developed in the private sector. With 55 percent of Afghans living in poverty, the overall unemployment rate of around 23 percent is already high. An estimated 80 percent of all jobs are classified as vulnerable employment, characterized by job insecurity and poor working conditions. However, the private sector that could produce more jobs has limited capabilities and is dominated primarily by informal small and medium enterprises (SMEs), which constitute a large proportion of Afghan businesses and over half the country's GDP, employ approximately 50 percent of the labor force, and are mostly informal and exhibit low productivity.

Afghan firms operate in a highly challenging context, dealing with high risks and significant gaps in the key public goods that enable business activity. Insecurity, political instability, corruption, and macroeconomic conditions create risks that affect the overall attractiveness of the investment and business environment. In addition, there are deficiencies in the infrastructure and services needed by the private sector, including serviced land, electricity, access to credit, and efficient and effective business regulation. Where these inputs are available—for example, access to credit or serviced land—they are likely to be scarce or at a high cost. Human capital is also a constraint, with insufficient availability of qualified workers who are ready for emerging opportunities and just a 26.8 percent female labor force participation rate, of which 60 percent are employed in the livestock sector primarily as unpaid family workers.

As a result, Afghan SMEs report some of the most serious impediments to doing business in the world: just 3.6 percent of small firms and 6.7 percent of medium firms have a bank loan or line of credit; 0.3 percent of sales of small firms and 1.6 percent of sales of medium firms come from exports; one-third of small firms and one-fifth of medium firms identify business licensing and permits as a major constraint; and 43.7 percent of small firms and 48.9 percent of medium firms report incidences of bribery. [2] The weak private sector and enabling environment is reflected in Afghanistan's rank of 173 (out of 190 countries) in the Doing Business 2020 Report; Afghanistan's last rank (together with Somalia and North Korea) in Transparency International's Corruption Perceptions Index; and foreign direct investment levels that are currently below the average for fragile and conflict-affected countries.

The outbreak of COVID-19 has had significant impact on Afghanistan's domestic private sector, with increasing signs of economic suf-

1 Managed Labor Migration in Afghanistan (World Bank 2018). Actual numbers could be higher if returning refugees and potential demobilized ex-combatants entering the labor force are accurately accounted for.

2 Afghanistan Enterprise Survey (2014).

fering through loss of jobs, livelihoods, and other income sources. In the short term, lockdowns, social distancing measures, and mobility restrictions are directly impacting shops and vendors whose incomes rely on their ability to sell in market spaces. Since the onset of the pandemic, the Ministry of Economy has forecast that unemployment could increase by 40 percent and poverty by 70 percent; the Ministry of Labor and Social Affairs has stated that most employees working for small businesses have lost their jobs; the National Union of Afghanistan Workers and Employees has claimed that approximately 2 million workers and employees have lost their jobs; and officials from the Afghanistan Chamber of Commerce and Investment have estimated that operations of small and medium businesses are down by 80 percent due to restrictions imposed to prevent COVID-19 spread. These affected businesses are being forced to decrease planned investments in productive assets, reduce the hours of work, lay off workers, take loans, remain closed to conserve working capital, default on rents and utility bills, and even sell assets, with enduring negative impacts on earning capacity, livelihoods, and human capital accumulation.

Modeling shows that the crisis is having a major impact. World Bank Group (WBG) microsimulations estimate that a 25 percent decrease in income from shop-keeping and small businesses, street and market sales, and other similar trade activities in April–June 2020 (while keeping other variables constant) can increase urban poverty from 41.6 to 42.8 percent; while a more severe decline of 50 percent in income from these sources during April–June 2020 and a further 25 percent decline during the rest of the year can push urban poverty up to 46.6 percent. [3] Additional simulations reveal that, on average, selling assets may only cover two months of basic consumption. The WBG Business Pulse Survey (BPS) reports that 88 percent of firms experienced an average decline of 61 percent in sales and 68 percent in cash flows, resulting in at least 37 percent of firms having laid off at least one employee. [4] By the time the crisis ends, many local businesses may have permanently and irreversibly lost savings, assets, and livelihoods.

The private sector also has windows of opportunity that could be leveraged. The country's young population and growing workforce, with approximately 46 percent of the population under the age of 15, is a substantial demographic asset if the human capital can be built and well trained. With adequate investment in transport infrastructure, Afghanistan could be the land bridge between South Asia and Central Asia. It is part of Corridors 5 and 6 of the Central Asia Regional Economic Cooperation routes, which can provide the shortest link between Pakistan, Afghanistan, Tajikistan, Uzbekistan, and the Arabian Sea. This could have potential for increased trade and transit of goods and services.

The country also has a rich portfolio of mines and mineral deposits, ranging from well-known assets in copper, coal, iron ore, gold, and oil and gas to more speculative deposits in lithium and other minerals. With about 75 percent of the population living in rural areas and 40 percent of the workforce depending on agriculture, there is significant opportunity in agribusiness and agri-exports if the productivity of the sector and market linkages can be improved. Finally, the BPS indicates that, since the onset of COVID-19, some sectors are showing promise: there is a significant increase by firms in the use of the internet, online social media, specialized apps, digital platforms for business purposes, and remote working; and several firms reported actual or planned changes to their product and service mix in direct response to COVID-19, including embedding elements of hygiene and health standards.

Successful outcomes of the ongoing peace negotiations will provide significant opportunities to bolster private sector investment in Afghanistan. Sustainable peace dividends could include a substantial reduction in security costs for businesses, informal "tax" payments to nonstate actors, and overall cost and time for doing business. While the initial interventions in a post-settlement scenario are likely to be focused on humanitarian aid and basic service delivery, the private sector's crucial medium- to long-term role for job creation (including

3 World Bank (2020). Household Welfare Impacts of COVID-19 in Afghanistan: A Microsimulation Approach [presentation].

4 The WBG Business Pulse Survey, conducted between May and August 2020, interviewed around 400 SMEs in agriculture, manufacturing, and services in five major Afghan cities.

for demobilized fighters, displaced populations, and women) must not be understated. The policy perspectives and proposed recommendations in this note are intended to serve as a medium-term (three-to-five-year) blueprint to creating a conducive environment for unleashing the potential of the domestic private sector.

Policy Recommendations

Given the modest success of two decades of top-down and horizontal investment climate reforms, a new strategic approach is recommended to refocus on bottom-up efforts to stimulate jobs, combined with continued reforms in the business environment. Such a bottom-up approach would focus on (i) sectoral development by mobilizing key infrastructure, services, and policies to enable emerging and exporting sectors; and (ii) strengthening firms by enabling micro, small, and medium enterprises and start-ups to expand employment and livelihood opportunities.

For all sectoral and firm-level programs, the following principles should apply: lessons should be learned from earlier efforts to avoid repeating mistakes; all interventions should be private sector-informed, market-led, and demand-driven; the focus should be on bridging the "implementation gap" instead of reinventing the wheel; interventions should be carefully prioritized and sequenced into short, medium, and long term, and based on strategic importance and the government's capacity to implement; and possible risks, government failures, and market failures should be clearly identified and accounted for upfront at the strategy and program design stage.

Concurrently, top-down and horizontal efforts already underway should be prioritized based on practicality of implementation, impact, and availability of resources. These include (i) supporting and strengthening the government's Private Sector Development (PriSEC) initiative; [5] (ii) business enabling environment efforts, including Doing Business reforms; (iii) trade and trade facilitation; and (iv) investment facilitation and promotion.

The government should redouble efforts to promote high potential sectors and value chains with a dual focus on export promotion and supporting emerging industries in the domestic market. These sectors and value chains include (i) mining and ancillary resource corridors; (ii) the coordinated development of agribusiness and light manufacturing; (iii) construction materials, given their role as job-creators-at-scale; and (iv) information and communications technology and digital development given its role in the future global economy.

For each of these sectors/subsectors, the government should embed well-defined criteria and monitoring and tracking instruments in the strategy and program design stage to mitigate the risk of political capture and ensure that all firms and businesses receive equal treatment. When designing sectoral and value chain interventions, the government should (i) evaluate lessons learned from past efforts around improving outcomes; (ii) analyze shifting trends at the sector and value chain level (for example, declining foreign aid) and prioritize accordingly; (iii) consider a full range of "new industrial policy" options that are not rigid, supply driven, protectionist, and designed to "pick winners," but are instead geared to sequence priorities in a flexible, fact-based, consultative, and problem-driven manner; and (iv) ensure those "new industrial policy" options are complemented by efforts to enable access to key output and input markets through trade policy and facilitation across all key border crossings (refer Trade Connectivity Policy Note), upgraded transport infrastructure (refer Transport Policy Note), improved tax administration (refer Public Expenditure and Revenue Management Policy Note), support to achieve the required standards, provision of better information about market opportunities, and improved coordination between players along existing value chains.

Stimulating activity in certain sectors may require the government to enable access to key resources, such as mining quarries and agribusiness infrastructure. Crowding-in private investment (domestic and foreign) is necessary to enable sectoral growth and can be facilitated through public-private partnerships (PPPs) and provision of long-term financing options and political risk insurance, particularly for large enterprises and anchor investors.

5 Executive Committee on Private Sector Development.

A key challenge is to provide safe, ready-to-use spaces for firms to operate. These could include industrial zones for large and small players ("plug and play facilities") in the manufacturing and agribusiness sectors, with safe housing and transportation for workers, and strengthening existing organic clusters. In addition, hundreds of physical markets exist in Afghan cities, which are hubs of job creation and local commercial activity. These markets are dominated by informal micro and small businesses, sedentary shops, and mobile vendors. Some of these markets are already organized into clusters, value chains, supplier linkages, hubs, and spokes based on business activity and geographic proximity. This organizing structure can be strengthened and improved. Thereafter, firms in these markets could be incentivized and capacitated to (i) collaborate and compete to drive competitiveness and diversification; (ii) upgrade their quality through efforts toward standards, licensing, certification, and safety; (iii) access specialized trainings and opportunities such as public procurement; (iv) target domestic and export markets by upgrading the production techniques and expanding the production capacity of the backward-linked production units that supply these markets; and (v) incentivize and enhance the participation of women in the workforce (*refer Gender Equality and Inclusion Policy Note*). Targeted livelihoods and employment support to vulnerable households (including displaced populations—refer *Community Development and Citizen Participation Policy Note*), demobilized ex-combatants, and informal and subsistence-level actors should continue to be a focus area for the government.

It is important to acknowledge the government's potential capacity constraints in planning, designing, coordinating, and implementing comprehensive and ambitious policy programs at scale. Given this reality, institutional capacity building of the government is a critical mandate. For example, PriSEC should continue to be strengthened and could also develop into a potential delivery unit given its unique and valuable role. In addition, deregulation efforts of the government should continue, whether through formalization efforts, increased online government to-business applications, or one-stop shops. To attract investment, (i) concerted efforts for investment promotion, project preparation, and project development must be made for targeted PPPs and infrastructure projects that align with the national interest and are linked to emerging and exporting sectors; (ii) legal areas such as contract enforcement, alternative dispute resolution, and property protection must be given enhanced focus; (iii) innovative options to provide land to private investors, such as a land bank, could be explored; (iv) interventions to reduce the burden of pervasive corruption and insecurity faced by the private sector must be introduced; and (v) accurate databases of private sector firms should be built up.

Skills development has been a focus area over the past few decades, but it has been largely supply driven until now. While outcomes and impacts are mixed, this area needs continued focus. Basic skills and training programs (such as provision of language, commercial, soft skills, on-the-job training, upskilling, and re-skilling), needs-based technical and vocational education and training (TVET–refer Education Policy Note), and job match-making efforts that have proven successful should continue, and innovative ways of delivering and scaling these up should be explored. There is a need for a systematic approach to developing demand-driven skills that are targeted to emerging needs in the private sector, meeting specific demands of firms, with curriculums responsive to local labor market needs, and where "education-to-work" and competency-based approaches are stressed (refer Education Policy Note). In addition, specialized institutes of higher education would help create a qualified workforce for highly technical careers.

Given the importance of access to finance for entrepreneurship development and job creation, a substantial reform agenda is already underway regarding financial inclusion and sector stability and will be further scaled up. Complementary work is required with the private sector to build up a credible demand (pipeline) for financing that can benefit from the new financing and de-risking instruments. This can be achieved through (i) expanding financial education for the business community beyond access to credit to encompass savings and insurance; (ii) supporting bank loan applications and enhanced accounting practices for the business community; (iii) considering the recourse to matching grants and other de-risking subsidies not as stand-alone investment-stimulating tools but as collateral substitution for co-financing from the financial sector or start-up financing through business competitions; (iv) pursuing options to expand the financing available for infrastructure in the country, including through innovative funds and risk-sharing facilities; and (v) encouraging

digital entrepreneurship and technology financing through the possible introduction of start-up innovation grants and subsidies, and alternative debt and equity financing via seed, angel, and venture capital funds, and/or private sector-managed crowd-funding platforms.

Technology offers a platform to (i) increase the private sector's efficiencies and productivity; and (ii) improve the government's ability to enhance transparency and operational effectiveness, communicate directly with the private sector, and collect valuable data to inform public policy. This is even more applicable since the onset of the COVID-19 pandemic, as evidenced by early BPS findings. While there have been major improvements in recent years to access to electricity and telecommunications infrastructure (in 2019, over 90 percent of the population had mobile network coverage and 14 percent of the population used the internet), much more infrastructure remains to be built (*refer Digital Development Policy Not*e).

Afghanistan is currently not well placed to capitalize on hi-tech opportunities emerging from the fast-evolving global digital landscape. However, while it would be unrealistic to aspire to become an innovation or technology **development** hub, Afghanistan can certainly benefit from greater **absorption** (adoption, scale-up, technology extension) of mobile platforms (such as cell phones that are already widely used for limited commercial purposes), internet platforms (such as accounting and data management applications as well as email communications), and IT-enabled services. As a next step, technology entrepreneurship could be promoted and building ancillary infrastructure (such as incubators—several of which exist and should be upgraded or revived—and accelerators, but also basic internet centers) would be helpful.

4 Trade Connectivity

Reducing Trade Costs to Foster Trade-Led Recovery in Afghanistan

Context

One of the most critical challenges that the government of Afghanistan faces today is unleashing new drivers of growth, especially trade. Before the COVID-19 global crisis, the most significant constraints identified to unleash trade opportunities for Afghanistan were (a) insufficient production capacity; (b) lack of economic diversification and high concentration of exports and imports in terms of products and destination markets; and (c) poor logistics and trade infrastructure.[6] The pandemic has increased the importance of addressing these constraints to support the economic resilience recovery phase of the crisis.[7]

Afghanistan's trade policy environment is generally open, with World Trade Organization (WTO) membership a significant step toward a rules-based, open, transparent, and predictable trade policy regime. However, the economy is not well integrated with the global economy. While the share of trade to GDP was more than 50 percent in 2017, exports of goods and services participation was only 6 percent. Also, the share of trade in global value chains in gross exports was less than 13 percent, compared to 35 percent in the South Asia region.[8] Because of these two characteristics, the trade impact of the COVID-19 crisis in Afghanistan was largely a supply and demand shock due to border closures leading to rises in prices, loss of jobs, and fall in demand in major export markets. The trade data of the first four months of 2020 indicated a sharp decline in trade, particularly starting the second half of March, when neighboring countries applied stringent movement restrictions. For instance, customs data show a significant drop in the value of trade in the month of April, with exports and imports shrinking by 90 percent and 52 percent year-on-year, respectively. To support Afghanistan's resilient recovery phase requires strengthening the capacity to conduct trade policy, with a specific focus on institutional capabilities on trade policy, trade facilitation, and connectivity to transform trade into a growth vehicle.[9]

Trade performance in Afghanistan faces three critical challenges: (a) a structurally unsustainable external imbalance; (b) lack of product diversification; and (c) limited number of trading partners. Afghanistan's trade balance is significantly negative. According to International Monetary Fund (IMF) data, exports reached $948

6 Rocha, Nadia (2017). Trade as a vehicle for growth in Afghanistan: challenges and opportunities, World Bank, Washington, D.C.

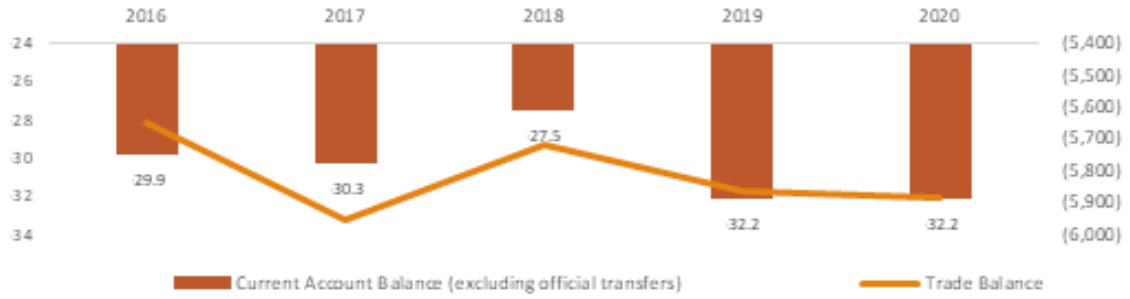
7 World Bank (2020). Saving Lives, Scaling-up Impact and Getting Back on Track: World Bank Group COVID-19 Crisis Response Approach Paper, http://documents1.worldbank.org/curated/en/136631594937150795/pdf/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track.pdf.

8 World Bank, World Development Report 2020.

9 Other Policy Notes address other relevant and related trade-related matters, such as business environment, participation in value chains, and supply-side constraints.

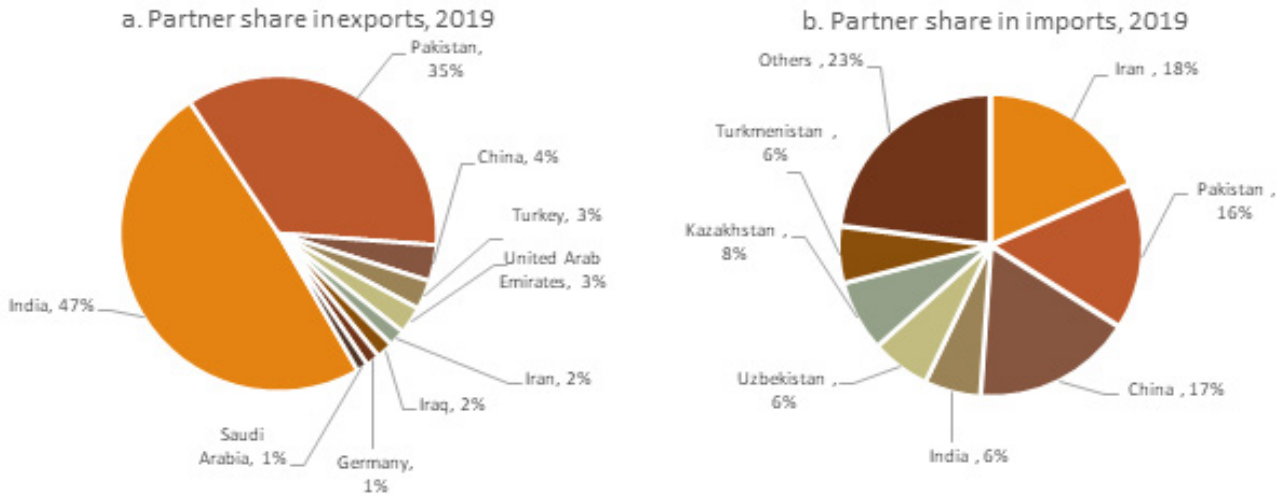
million in 2019 while imports were almost seven times higher at $6.8 billion. The current account deficit share in total GDP was 32 percent in 2019, financed by official transfers. In the medium term, export growth needs to accelerate to contribute to a sustainable reduction of the current account deficit (Figure 14).

Figure 14: Unsustainable external balance (% of GDP and US$)



Source: IMF

Figure 15: Afghanistan's main trading partners

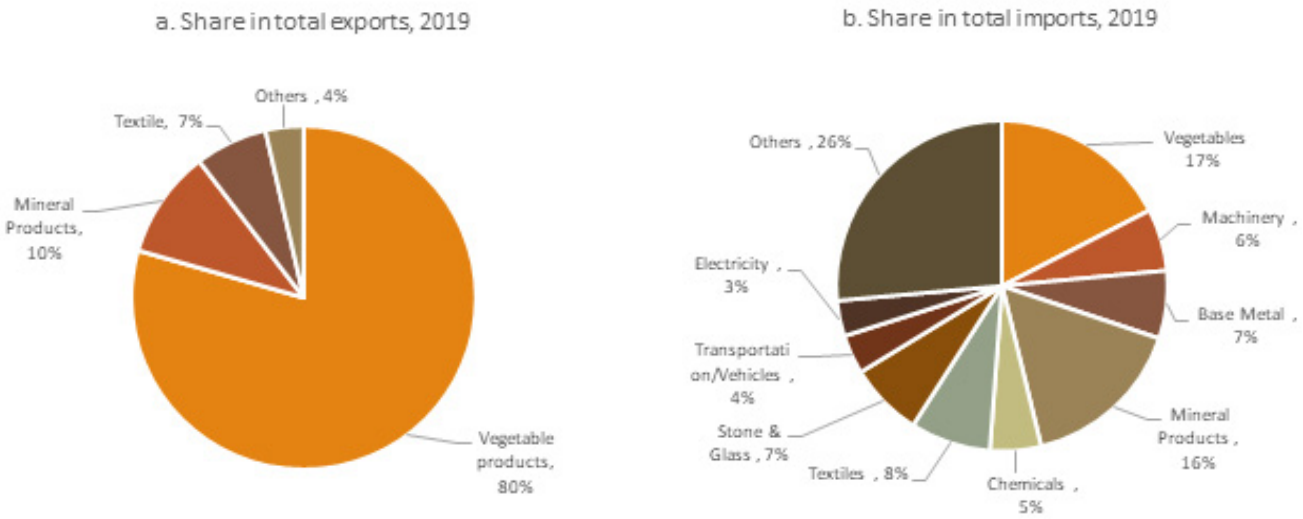


Source: NSIA

Exports are concentrated in a limited number of commodities and destinations. Product diversification can allow Afghanistan to fully take advantage of opportunities available to export new products to new destinations. For example (Figure 16a), vegetable exports represent 80 percent of total Afghan exports, with the high product concentration a potential weakness that must be addressed. In addition, two regional markets, India and Pakistan, represent more than 80 percent of destination markets. Gravity analysis suggests that Afghanistan underperforms in trade, even compared to its neighbors and other countries at similar levels of development.[10]

10 Rocha, Nadia (2017). Trade as a vehicle for growth in Afghanistan: challenges and opportunities, World Bank, Washington, D.C.

Figure 16: Composition of exports and imports

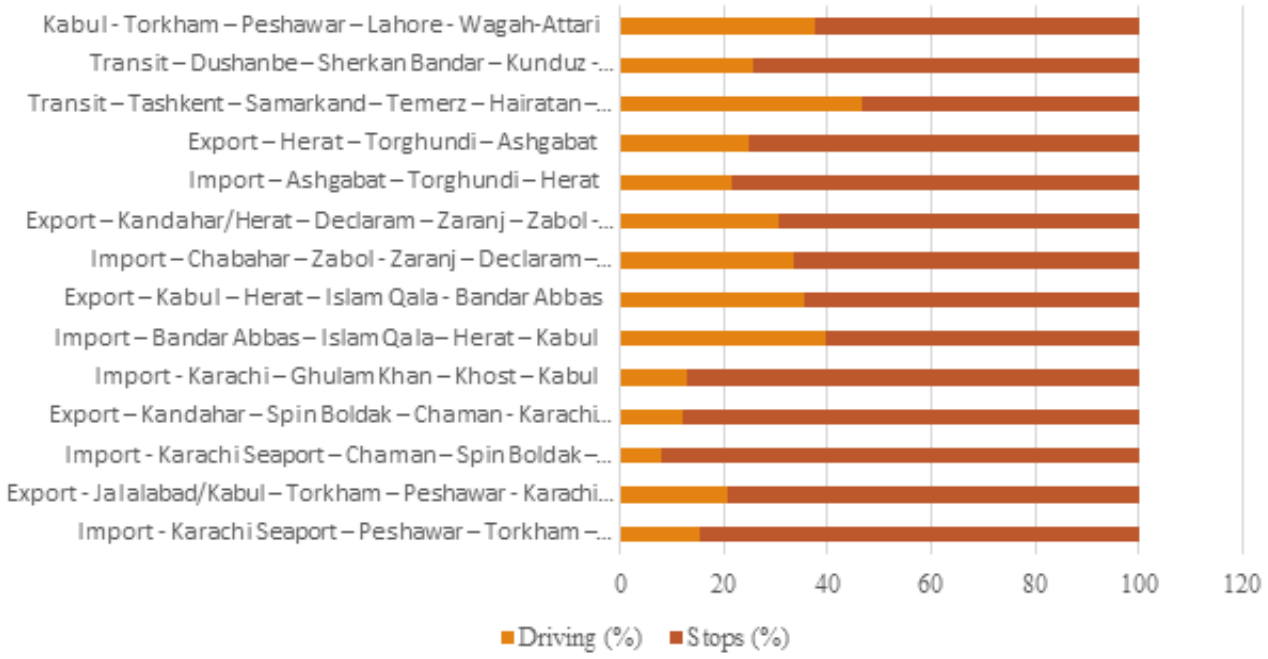


Source: NSIA

The most significant constraints to unleashing trade opportunities in Afghanistan are (a) insufficient production capacity; (b) lack of economic diversification and high concentration of exports and imports in terms of products and destination markets; and (c) poor logistics and trade infrastructure. To overcome these constraints, strengthening policy-making capabilities within the full range of ministries and agencies responsible for trade policy matters is necessary.

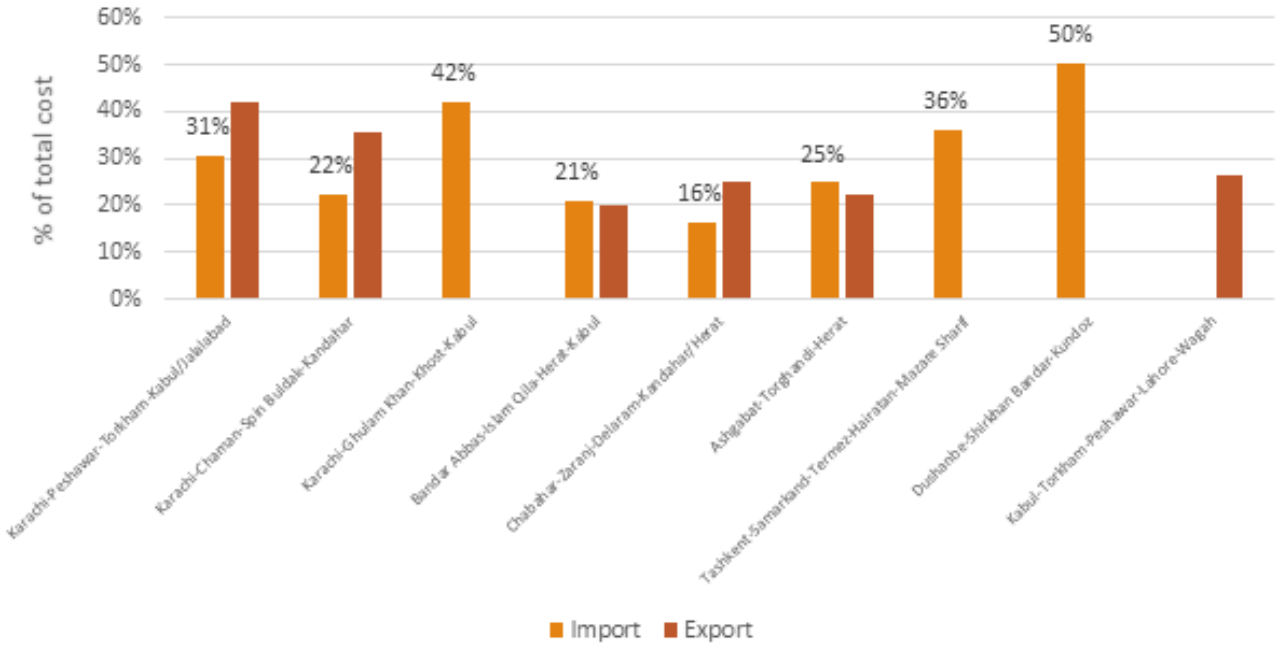
Poor logistics and trade infrastructure translate into high trade costs for Afghanistan. Transport costs in time along the key corridors range from two days on the corridor between Herat and Ashgabat to 11 days between Kandahar and Karachi, with an average time of more than 5.5 days. For some corridors, the actual driving time is less than 20 percent of the total transport time, with over 80 percent of the time spent at transit stops and border crossings. The longest time spent at stops is on the corridors through Pakistan, with delays due in large part to an insufficient and cumbersome policy and regulatory framework, as well as the poor implementation of existing requirements, resulting in time-consuming customs procedures (Figures 17 and 18). Afghanistan has little policy and procedure harmonization with neighbors, creating so-called “thick” borders that subject Afghanistan’s international traffic to more stringent and wholesale controls than in other regions of the world.

Figure 17: Moving and stop time on main corridors



Source: World Bank

Figure 18: Costs of stops and clearance as a share of total import and export price



Source: World Bank

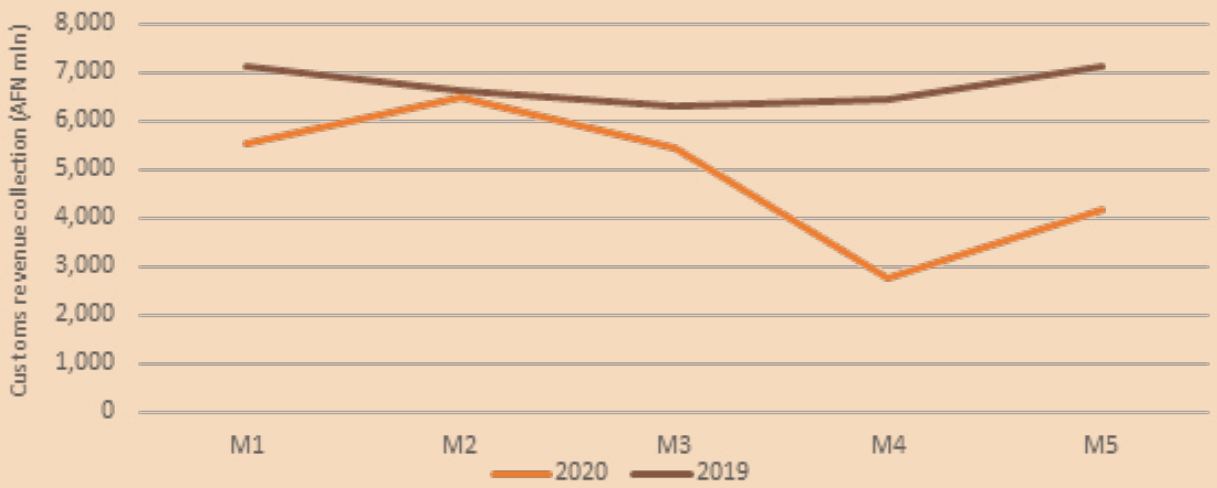
Low quality and expensive logistics services also contribute to high trade costs. Frequent transloading and repeated handling of goods during transportation, which is due in part to the absence of agreements on the exchange of traffic rights with neighboring countries, generates losses of goods and time while increasing costs. Trucks carrying goods are not able to transport freight from origin to destination, and many shipping lines do not allow their containers to travel to Afghanistan. In addition to weak or absent regulatory alignment, skills levels in logistics are quite low.

Box: Impacts of COVID-19 on trade

The COVID-19 crisis had a significant impact on revenue collected by customs at various border points. Revenue collection by the Afghanistan Customs Department decreased dramatically since the start of the crisis mid-March (M3 [11] in Figure 19) and dropped most significantly in April. Since May, revenue collection from trade flows seems to be recovering, although it remains well below last year›s collections. Since customs revenues represent a sizable share of government revenues, this drop represents an important impact of the crisis.

Trade has not been impacted equally across customs points, however. The customs posts that receive the majority of their trade flows from Pakistan, such as Nangarhar and Kandahar, showed a dramatic fall in revenue collection in April. At the start of April, borders between Afghanistan and Pakistan were closed due to fears of transmitting the COVID-19 virus across borders. In mid-April, the restriction was slowly eased, and border crossing of cargo trucks and containers at Torkham and Chaman were facilitated three days a week. Later in the month, the openings increased to six days a week. The number of trucks and cargo that pass on a daily basis remains limited and significantly lower than usual, due to the health and security measures that have been put in place, which is reflected in the continued low revenue collection at these border crossings. Trade flows with other neighbors, such as Iran, Turkmenistan, Uzbekistan, and Tajikistan, have been more resilient and even increased in Balkh, where goods arrive from Turkmenistan, Uzbekistan, and Tajikistan. Exports, in particular through air corridors, stopped almost completely due to the disruption to international air traffic at Kabul airport. As of the end of May, export flights were again being arranged on a case-by-case basis.

Figure 19: Afghanistan customs department monthly revenue collection



Source: Afghanistan Customs Department

Policy Recommendations

Trade policymaking in Afghanistan can be strengthened in several dimensions. The new National Trade Policy (NTP) strategy is well developed and embedded in a national strategic vision. If well implemented, the NTP could become a sound instrument to promote economic diversification, export development, and protection of the country's interests in global trade. Success in trade policymaking depends on several factors, including the quality of the trade policy-making process. Quality encompasses several aspects: trade policy design, implementation, and administration, together with human and infrastructure resources. Human resources

11 This refers to the Afghan calendar, rather than the Gregorian calendar.

relate to the stability, the type, and the quantity and/or quality of skills, including management and technical skills specific to the topic. The government should focus on strengthening trade policy-making capabilities.

As a landlocked country in a challenging geographic setting, Afghanistan needs a careful review of the tariff structure to fully exploit the wide variety of trade routes surrounding it. Poor logistics and trade infrastructure translate into high trade costs for Afghanistan. In this context, import tariff policies should avoid increasing trade costs and be based on clear principles, be consistent, and contribute to achieving the overall trade objectives and strategy of the country. The COVID-19 pandemic has demonstrated that the current tariff structure could be further rationalized and improved, particularly in cases where high tariffs may have a significant negative impact on the poor. For example, the government introduced temporary two-month waivers for some tariff rates for a limited number of products, including the 20 percent import tariff on products for washing and cleaning preparations, and the 10 percent tariff on fabrics that are required to produce protection gear.

The government should establish a formal institutional design for strengthening tariff policies that would:

- **Expand and improve the existing inter-ministerial/agencies coordination and decision-making mechanism with participation of all ministries/agencies responsible for trade-related matters and clearly defined respective responsibilities**. Ministries that should be involved in trade policy include finance (revenue and overall economic management); commerce and industry (microeconomic aspects of trade policy design and competitiveness); agriculture (as responsible for domestic production and export activities); and foreign affairs when international matters involving negotiations or treaty obligations are involved. Additional relevant ministries can be involved for specific product types, such as energy for import/export of electricity.
- **Make decisions based on evidence.** Trade policies, including tariff-setting, need to be based on rigorous analytical work to assess their economic impacts. The analytical/technical function consists of collecting, analyzing, and disseminating trade-related data information and analysis to support informed trade policy decisions.
- **Fulfill international obligations**. Trade policy, including import tariffs, should be consistent with the country's international commitments under the WTO and any other international agreements that address trade policy, and establish a transparent and open consultation mechanism. The tariff-setting authority needs to be able to gather information from within the government, as well as from the general public. To achieve this objective, the government needs to establish rules and procedures for the participation of private interests, and more broadly, civil society and any interested person, in the decision-making process of trade policymaking in an advisory capacity.

Additional priorities include:

Strengthening analytical capabilities to help officials respond to basic policy questions such as likely impact of tariff reforms and changes in indirect taxes and others on revenues. Extend the use of analytical tools to other policy questions, such as developing trade remedy capabilities consistent with WTO obligations and trade in services. These tools include the World Integrated Trade System; Tariff Reform Impact Simulation Tool; trade competitiveness diagnostics; trade facilitation, connectivity and logistics costs; tariffs and non-tariff measures; and trade in services analysis.

Supporting an export-led growth strategy. Firms and entrepreneurs require a transparent, stable, and nondiscriminatory business environment to invest, grow, and develop business relationships across borders. The WTO rules are a minimum common denominator that link Afghanistan to the global economy, as well as to regional and bilateral trading partners. A good faith implementation of commitment is consistent with the country's aspiration to attract foreign direct investment, connect to markets, and diversify its economy.

Capacity building to participate at the WTO, in regional agreements, and deep trade relationships should focus on training of Ministry of Industry and Commerce staff, as well as officials from other relevant ministries and

public agencies on WTO rules and obligations, which are the building blocks of regional and bilateral trade. Capacity building will facilitate exploring new trade agreements, including regional agreements, to support access to regional markets and beyond. This should include critical areas to support Afghanistan's trade interests. In order to achieve this goal, the government should strengthen negotiation and implementation capacity across all agencies responsible for trade-related matters.

Increasing trade opportunities in regional markets. Regional trade presents significant potential opportunities for Afghanistan, both for product and market diversification. The government should actively pursue a broad regional trade agenda that would include an assessment of barriers to export such as tariffs and non-tariff measures in the region, production capacities, and trade potential. Trade agreements with regional partners can be deepened and expanded to enhance regional cooperation, which would facilitate visa processing, improve transport and logistics, and help with the harmonization and simplification of customs procedures in line with international standards and regional commitments.

Implementing the WTO Trade Facilitation Agreement (TFA) to reduce trade costs, foster exports, and support a resilient recovery phase. Afghanistan ranked 177th on the Trading Across Border indicator of the Doing Business Index (2020) and 160th in the Logistics Performance Index. The TFA includes provisions to streamline, speed up, and coordinate trade processes that contribute to growth in world trade. Reduction in delays at the border are expected to result in greater collection of government revenues, with border efficiency and increased levels of automation and governance. Small and medium enterprises are expected to gain the most from the greater efficiency, predictability, transparency, and access to information related to regulatory requirements.

Prioritizing the full and effective implementation of the TFA. The government notified the WTO that support would be needed to implement 17[12] category C measures. In addition, the following complementary activities would aid in enhancing the efficiency and competitiveness of trade in Afghanistan:

a) Full implementation of the Automated System for Customs Data World at all border points and agencies.
b) Development of a detailed blueprint for the design of the Afghanistan National Single Window.
c) Simplification of processes and procedures relating to customs and quarantine cooperation supporting the enhanced export of agri-trade products.
d) Enhanced automation for the issuing of sanitary and phytosanitary certificates.
e) Enhancing the current risk-based approach for border clearance to include all border agencies.
f) Increase transparency and predictability for traders through access to regulatory information via the establishment of a national trade portal.

Building capacity to negotiate bilateral road transport agreements. Afghanistan should actively pursue proper formal bilateral agreements with the main neighboring countries to facilitate trade, open markets, and reduce trade costs. To achieve this goal, authorities should strengthen the technical understanding and leverage the technical negotiating capacity of the relevant ministries and agencies. Costs and benefits as well as complementarity with other national and international legislation should be carefully assessed.

Supporting full implementation of the Transports Internationaux Routiers (TIR) convention. One of the government's aspirations is to benefit from Afghanistan's geographical location as a transit country. Although Afghanistan was, in 1982, the first South Asian country to ratify the 1975 Geneva Customs Convention on the International Transport of Goods under cover of TIR Afghanistan, implementation remains patchy. TIR is the most important instrument for international transit and is used in more than 70 countries.

12 1.2 – Information available through the Internet, 1.3 – Enquiry points, 2.1 – Comments and information before entry into force, 2.2 – Consultations, 3.0 – Advance Rulings, 5.1 – Notifications for enhanced controls or inspections, 5.3 – Test procedures, 7.1 – Pre-arrival processing, 7.6 – Average release times, 7.7 – Authorized operators, 7.8 – Expedited shipments, 8.0 – Border agency cooperation, 10.2 – Acceptance of copies, 10.3 – Use of international standards, 10.4 – Single Window, 11 – Transit, 12 – Customs cooperation.

Identifying and assessing the costs and benefits of other conventions that Afghanistan could ratify that are complementary to the TIR convention from an administrative and regulatory point of view. A thorough analysis could plan potential next steps and strengthen required capacity of involved public agencies, but also among logistics services providers. Priority conventions include the Convention on the Contract for the International Carriage of Goods by Road (CMR) of 1956, the Customs Container Convention of 1972, and the International Convention on the Harmonization of Frontier Controls of 1982. The Afghanistan Cabinet has approved the 1968 conventions on Road Traffic and Road Signs and Signals, and instructed the Ministry of Transport to start the internal process of ratifying them, including creation of a workplan and amending laws as necessary.

Figure 20: Ratification of conventions by Afghanistan

	Conventions	AFG	KAZ	KGZ	PAK	TAJ	TKM	UZB
1	Road Traffic 1968	No	Yes	Yes	Yes	Yes	Yes	Yes
2	Road Signs/Signals 1968	No	Yes	Yes	Yes	Yes	Yes	Yes
3	CMR Convention 1956	No	Yes	Yes		Yes	Yes	Yes
4	TIR Convention 1975	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5	Containers 1972	No	Yes	Yes				
6	Frontier Control 1982	No	Yes	Yes		Yes		Yes

Source: Ministry of Commerce and Industry
Note: AFG: Afghanistan; KAZ: Kazakhstan; KGZ: Kyrgyzstan; PAK: Pakistan; TAJ: Tajikistan; TKM: Turkmenistan; UZB: Uzbekistan

5 Climate Change

Strengthening Disaster Risk Management and Resilience

Context

Afghanistan is exposed to a range of hazards. With its diverse topography and location in a seismically active zone, the country has experienced recurrent disasters every year. The most devastating hydro-meteorological hazards in terms of frequency, destruction, and human loss include floods, flash floods, droughts, landslides, avalanches, and extreme heat and cold.[13] The issues of vulnerability also need to be seen through the lens of a political economy analysis. Due to a suite of socio-political-economic reasons, people in Afghanistan are vulnerable and exposed to the natural hazards. Since 2000, disasters caused by natural hazards have affected close to 19 million people and caused over 10,600 deaths. It is a landlocked country where about 75 percent of the terrain is mountainous and the landscape is denuded harsh desert.

About 80 percent of Afghans depend directly on natural resources to meet their livelihood requirements and face serious anthropogenic and natural threats, including climate change.[14] Ranked eighth out of 170 countries for its vulnerability to climate change over the next 30 years, Afghanistan has limited coping mechanisms and protective capacity, and relies heavily on flood/drought-affected agricultural land. It is an agriculture-based economy, but only a relatively small part of the land area—an estimated 12 percent—is suitable for irrigated and non-irrigated farming or horticulture. Reductions of the mountain snowpack and glaciers due to climate change could have a profound effect on Afghanistan's water resources, which are mostly needed for the large and small-scale agribusiness and home use. In addition, the county's weak institutional capacities, structured inequalities, and armed conflict exacerbate vulnerability.[15] All these factors increase the likelihood that when hazard events happen, they turn into disasters with large humanitarian and economic consequences. It is anticipated that further change in climatic conditions, whether due to natural variation or human induced, will increase the incidence of extreme weather events, including heat waves, floods, and droughts.

In the context of Afghanistan, the relationship between fragility, conflict, and disasters is apparent and exemplified by the 2018 drought that led to influx of internally displaced persons into urban areas, as well as the 2019 flash floods that led to loss of lives and infrastructure damages. Due to violence and armed conflict, the state capacity to prepare and respond to climate variability, climate change, and natural hazards is considerably reduced, which further increases

13 GFDRR (2019) Afghanistan. Global Facility for Disaster Reduction and Recovery. Available: https://www.gfdrr.org/en/afghanistan

14 UNEP 2009c.

15 Peters et al. (2020). Climate change, conflict and fragility. DAI / DFID: London.

the vulnerability of people.[16] In addition, increased climate and disaster risk and weak responses to such events also have negative implications for social cohesion, state-society trust, and violent and armed conflicts. This is a classic example of a fragility trap.

The country faces significant risk of economic damages due to natural disasters, while also facing challenges of high poverty rate and low adaptive capacity. Afghanistan is regarded as a drought- and flood-prone country.[17] Analysis shows that the annual expected loss due to nationwide floods is about $53 million, while a flood with a 20-year return period would affect over 600,000 people. In addition, over $16 million in GDP is projected to be spent to respond and recover from landslides.[18] Weather-related fatalities have equated to 0.225 percent of GDP. The total economic losses from natural disasters between 2000 and 2019 amount to over $173 billion. In 2016 alone, there were 135 fatalities and economic losses estimated at $31.2 million. Armed conflict has exacerbated this vulnerability through the destruction of key infrastructure and collapse of institutions. The internally displaced and poor are among the most vulnerable in these situations. These conditions have collectively made Afghanistan disproportionately vulnerable to climate change despite being among the lowest contributor of greenhouse gas (GHG) emissions that cause global warming.

Climate change poses a significant threat to Afghanistan's socioeconomic development. Key sectoral impacts will be on agriculture, water, natural resources and environment, energy, infrastructure, trade, education, and poverty. The average annual temperatures are reported to have increased by almost 0.6 degrees C over the past six decades, and it is projected that average temperatures will increase by 2–6 degrees C by 2100. There has been an observed decrease in mean annual precipitation at an average rate of 0.5 mm per month (or 2 percent per decade) since 1960,[19] and higher temperature variations across seasons (ranging from 35–40 degrees C all over the country) reduce predictability and planning, especially for the agriculture sector. Erratic rainfall patterns result in high dependency on snowmelt for irrigation,[20] which further increases vulnerability of the Afghan population and an economy dependent on agriculture.

The changing weather patterns have increased the intensity of cold and hot months annually. Due to lack of proper infrastructure to meet household energy needs, there is a significant use of biomass fuel for heating during the cold months leading to air pollution and high levels of respiratory diseases. Afghanistan itself is not considered a high contributor to climate change, but highly exposed to localized emissions such as the particulates (PM10 and PM2.5) as well as short-lived climate pollutants including black carbon, methane, and other GHGs. According to World Health Organization (WHO) estimates, environmental risks cause more than one in four deaths in Afghanistan. From air pollution alone, it is estimated that from 38,000 to 52,000 people die prematurely every year (with the annual mortality rate being 406 deaths per 100,000).

Droughts have affected 6.5 million people since 2000. While droughts have been recorded in every part of the country, an extreme drought could cause an estimated $3 billion in agricultural losses and lead to severe food shortages across the country. Rainfall is scarce and unpredictable, and a small snowpack resulting from a dry winter can result in low reservoir levels, dry streams, shortages of potable and irrigation water, and lead to food shortages and socioeconomic problems. In the 2017–2018 winter season, an estimated 70 percent water deficit was recorded across the country. Wheat production was 57 percent below the five-year average in 2017 and the 2018 harvest was even lower—down from 4.2 million metric tons to 3.5 million metric tons.

The lives of 13 million people are at stake due to food insecurity, with 8 million already facing food shortages. In August 2018 alone, 2.2 million people faced food and water scarcity, and 150,000 Afghans left their villages

16 Siddiqi, A. (2018). 'Disasters in conflict areas: finding the politics' Disasters 42(S2): S161–S172; Peters, K., Holloway, K., and Peters, L.E.R. (2019) Disaster Risk Reduction in conflict contexts: the state of the evidence. London: Overseas Development Institute. Available: https://www.odi.org/publications/11341-disaster-risk-reduction-strategies-navigating-conflict-contexts;
Rüttinger, L., Smith, D., Stang, G., Tanzler, D. and Vivekananda, J. (2015) A new climate for peace: taking action on climate and fragility risks. Berlin: Adelphi, International Alert, Woodrow Wilson International Center for Scholars and European Union Institute for Security.

17 GFDRR (2019) Afghanistan. Global Facility for Disaster Reduction and Recovery. Available: https://www.gfdrr.org/en/afghanistan

18 World Bank 2018. Afghanistan Multi-Hazard Risk Assessment.

19 Ahmarkhil, 2011.

20 Favre & Kamal 2004.

in the western regions. These internally displaced people are highly vulnerable to a multitude of sociopolitical, economic, and climate-related risks. In addition, this rural outmigration increases risks and vulnerability for both urban and rural population: it burdens the urban infrastructure and stresses water supply due to increased population, and makes the rural population, especially women, children, and the elderly, more prone to risk.

National laws, strategies, institutions, and policies

Afghanistan has a dedicated institutional arrangement for disaster risk management at the national and local level. The National Disaster Management Commission and the Afghanistan National Disaster Management Authority (ANDMA) are the apex bodies responsible for disaster response and risk management in Afghanistan. Most importantly, there are district and provincial-level committees on disaster risk management to implement the policies on the ground. Afghanistan's institutional architecture needs substantial investment and strengthening to manage current disaster (including climate-related) risk and future projections of Afghanistan's changing risk profile.

The National Environmental Protection Agency (NEPA) is tasked with the mainstreaming of climate change into development programs. This mandate requires close coordination with other ministries and agencies, including the Ministry of Agriculture, Irrigation and Livestock (MAIL) responsible for protection and management of forests, rangelands, and protected areas; the Ministry of Energy and Water (MEW) responsible for the overall planning, management, and development of water resources and energy; the Ministry of Urban Development and Land (MUDL) responsible for urban facilities including waste management; the Ministry of Transport responsible for transport services; and ANDMA responsible for disaster and emergency response. Cross-cutting issues associated with tackling climate change require close coordination between these institutions, despite each facing serious budgetary and technical capacity constraints.

In 2015, Afghanistan submitted its Nationally Determined Contribution (NDC) that pledged voluntary contributions to mitigate and adapt to climate change over 2020–2030. The NDC, however, was accompanied by conditions on receiving financial and technical assistance. Some of the barriers to implementing adaptation measures have been funding gaps, lack of expertise, lack of reliable historical data, weak institutions, and security constraints. Despite these constraints, Afghanistan has drawn up a National Action Plan with a total estimated implementation cost of $10.8 billion over 10 years. The key aspects of the action plan include (i) development and adoption of the Climate Change Strategy and Action Plan; (ii) development of a system to assess vulnerability and adaptation; (iii) identification and mainstreaming of climate change adaptation technologies in policies and strategies; (iv) strengthening and expansion of hydrological monitoring networks; and (v) development and management of water resources. The proposed interventions cover the water-agriculture-energy nexus, which are key building blocks for bolstering Afghanistan's climate change adaptation and mitigation efforts.

Afghanistan has additionally pledged mitigation targets of key GHG gases—carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O)—through interventions in the energy, forest and rangeland, industry and extractives, agriculture and livestock, and waste management sectors. In the energy sector, the country proposes investments in hydropower, solar, clean cookstoves, and energy efficient options for transportation, services, mining, and agriculture. The commitments also target afforestation and reforestation of degraded areas and rangeland rehabilitation. Waste management would focus on recycling, composting, and engineering designs of landfills to facilitate methane recovery from landfills and reduction in open burning.

The government of Afghanistan is also a signatory to the Sendai Framework for Disaster Risk Reduction.[21] The framework aims to prevent and reduce existing disaster risks and increase preparedness for response and recovery from hazards as a part of broader development goals by 2030. Afghanistan is one of the few countries

21 UNISDR (2015). *Sendai Framework for Disaster Risk Reduction 2015-2030*. United Nations International Strategy for Disaster Reduction. Geneva, Switzerland.

within Asia that explicitly recognizes the links between conflict, climate, and disaster vulnerabilities and risk, and has been an active participant of the regional and global convening for disaster risk management. There are empirical examples of interventions by local and international actors that seek to address those linked risks in a complementary manner.[22]

Key Issues

Afghanistan's commitments in terms of mitigation and adaptation are clearly defined in the NDCs; however, challenges remain in accessing the required funding. The challenges are not just limited to the weak institutional capacity to implement programs**,** de-risking investments, poor baseline data to inform policy interventions, and lack of adaptive capacity, but are specific to the conflict and post-conflict context in Afghanistan. Directing climate funding to conflict and post-conflict countries remains a global challenge that has yet to be sufficiently overcome with adapted protocols, policies, and procedures. In addition, global funding mechanisms lack enough integration of conflict analysis and conflict sensitivity into the design of climate investment. Weak institutional coordination among relevant line ministries to enforce and implement enacted legislation, exacerbated by poor or inadequate budget allocations, further highlights the limitation to implement programs. With appropriate technical and institutional support, however, Afghanistan could lead the way to demonstrate effective integration of multi-hazard, multi-threat and risk-based analyses into program, investment, and policy design, and implementation and reporting processes.

Increased awareness of disaster risk management with better weather, water, and climate services is needed. Over recent decades, disaster risk management in Afghanistan has been focused on response and recovery to disaster events. More recently, the government has worked intensively with development partners on prevention and preparedness activities. Knowing the proportion of spending across the disaster risk management categories is difficult for several reasons related to labeling of financial flows, data tracking, etc. However, analysis suggests that over the period 1997–2016, for every $100 spent on emergency response, just $2.24 was spent on disaster risk reduction and preparedness.[23] The nationwide scale-up of disaster risk management has been hampered by a lack of consistent national-level information on hazard, exposure, and risks and institutional commitment, further aggravated by lack of data and security issues. There is also a general gap in data availability between 1980 and 2000, when conflict virtually stopped all data collection. However, advancing methodologies using remote sensing information and global models offer new opportunities for quantitative risk assessment in data-scarce areas.

The report "Strengthening Hydromet and Early Warning Services in Afghanistan: A Road Map" makes it clear that it is essential for the country to have a sustained period of investments and technical assistance to build adequate capacity to deliver accurate and timely hydrological and meteorological (hydromet) and climate services and early warning capabilities across the country with specialized services for critical sectors and "last mile" connectivity to communities.[24] The potential socioeconomic gains from such investments to the country and its citizens range from $4 –$12 for each dollar invested in avoided losses and improved productivity.

Policy Recommendations

Strengthening disaster risk information, preparedness, and decision support for climate resilience requires a different approach to hydromet modernization that includes (i) improving the institutional structure for disaster preparedness and technical capacities for geospatial risk assessment and management within mainline agencies

22 Mena, R., Hilhorst, T., and Peters, K. (2019). *Disaster risk reduction and protracted violent conflict. The case of Afghanistan.* Overseas Development Institute: London. Available: https://www.odi.org/publications/11413-disaster-risk-reduction-and-protracted-violent-conflict-case-afghanistan.

23 Peters, K. (2018). *Accelerating Sendai Framework implementation in Asia: disaster risk reduction in contexts of violence, conflict and fragility*. Overseas Development Institute. London, UK. Available: https://www.odi.org/publications/11153-accelerating-sendai-framework-implementation-asia-disaster-risk-reduction-contexts-violence-conflict.

24 World Bank Group. 2018. Strengthening Hydromet and Early Warning Services in Afghanistan: A Road Map. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/31059.

such as the Ministry of Rural Rehabilitation and Development and MAIL; (ii) focus on improving the quality and delivery of services (hydromet, agromet, disaster risk information) with an optimized, lean meteorological and hydrological observation infrastructure that can be sustained; (iii) stronger emphasis on capacity building and institutional strengthening targeted toward service delivery, including building human capital through support to related university-level curriculum and programs; (iv) regional collaboration as an essential ingredient to take advantage of data, models, tools, and methodologies from partners in South and Central Asia; and (v) moving toward "last mile" connectivity for early warning services, bringing decision support and preparedness to community level, while considering traditionally marginalized groups (women, minorities, people with disabilities, etc.).

In terms of dealing with current and future climate and disaster risk, greater emphasis should be placed on the need to devise risk-informed development trajectories with the help of analytical and technical capacities and processes to understand the trade-offs, risk tolerances, and risk preferences of different actors, sectors, and government and donor ambitions.[25] The government wants to move from response and recovery-focused disaster risk management toward more proactive measures that emphasize risk reduction, mitigation, and preparedness. For this to happen, significant scale-up of investment is required in ex ante (rather than ex post) measures. To enable this transition, funding arrangements are needed to shift the feasibility and incentives structures toward proactive and preventative action. Examples of this include using anticipatory action,[26] forecast-based finance,[27] and crisis modifiers.[28] Lastly, it would be necessary to adapt these proactive risk management measures to the fragile and conflict/post-conflict context of Afghanistan.

Mitigation

Afforestation and reforestation of degraded forests will enhance carbon sequestration through increase in forests and forest carbon stock enhancement. The interventions being proposed here should also include measures to strengthen adaptive capacity of trees and forests especially in fragile ecosystems. Policy options should also seek to address areas that support the adaptive capacity of forest dependent communities.

Identifying viable options for pollution management is needed, based on a detailed review of the sources of pollution, with a focus on double wins—interventions that reduce local pollution and help fight climate change (such as those focused on reducing black carbon from incomplete combustion and poor landfill management).

Adaptation

Integrated landscape and water management should involve the promotion of climate-smart agriculture practices to mitigate climate change risks; holistic management of upper land water and land vegetative cover including water harvesting; and holistic grazing and livestock management using technologies for efficient use of water resources. Other focuses include on-farm water management schemes that involve surface water and rainwater harvesting and storage for use during the dry season for irrigation and livestock, and promotion of high-value crops for job opportunities and income generation.

Improvement in the legal and regulatory framework should involve conducting gap analysis for natural resource management-relevant policies, laws, and strategies, with revisions to landscape approaches (based on implementation feasibility) and laws where necessary, and law enforcement to promote adaptation and resilience to climate change.

25 Opitz–Stapleton, S., Nadin, R., Kellett, J, Quevedo, A., Caldarone, M., and Peters, K. (2019) *Risk-Informed Development: From Crisis to Resilience*. London: Overseas Development Institute. New York: United Nations Development Programme. Available: https://www.odi.org/publications/11314-risk-informed-development-crisis-resilience.

26 Wilkinson, E., Pforr, T., and Weingartner, L. (2020). Integrating 'anticipatory action' in disaster risk management. Overseas Development Institute: London.

27 Weingartner, L. and Wilkinson, E. (2019). Anticipatory crisis financing and action: concepts, initiatives and evidence. Overseas Development Institute: London. Available: https://www.odi.org/publications/11390-anticipatory-crisis-financing-and-action-concepts-initiatives-and-evidence.

28 Peters, K. and Pichon, F. (2017). Crisis modifiers: find a solution for a more flexible development-humanitarian system? Research Report. London: Overseas Development Institute. Available: https://www.odi.org/publications/10975-crisis-modifiers-solution-more-flexible-development-humanitarian-system.

Dryland agriculture (crops and livestock production) should be improved to increase the area under modern water efficient irrigation, restore traditional irrigation infrastructure (karezes), build check dams, modernize dryland farming and water resources management practices and skills, and develop the agriculture value chains.

Water management policy interventions are needed to develop improved designs and methodologies for watershed- and catchment-level management, including ecological measures and spatial planning that is key for maintaining the water balance and ecosystem-based adaptation for developing resilience to shocks because of prolonged droughts.

Regeneration of degraded forests and rangelands is important in minimizing the long-term effects of climate change. Community-based natural resource management strategies could be strategic entry points for interventions.

Cross-cutting policy options

After decades of armed conflict that eroded the technical capacity of key institutions, there is critical need to strengthen institutions related to providing weather, water, and climate services and to reduce disaster risk. Meteorological and hydrological capacity in Afghanistan has been developed on a project basis within different government organizations, such as the Afghanistan Meteorological Department (AMD) and Water Resources Management Department (WRD) within MEW and ANDMA. These services, while critical to ensure resilience in weather-dependent sectors, such as agriculture, water, energy, and transport, and to reduce the impacts of hazards, such as droughts, floods, landslides, are at present not adequate, with several challenges needing to be addressed: Information is disaggregated, poor quality, and inaccessible; capacity for forecasting and to translate available information into decision support is insufficient; and analytics often are superficial.

These services also require good information infrastructure and effective communication and engagement with users. A critical challenge hampering the production and delivery of services is that institutional mandates are not clear with multiple agencies attempting, in ad hoc ways, to duplicate functionalities. There is need to tackle these overlapping and unclear roles while also enhancing the visibility of hydromet services within a combined institution that is autonomous to ensure a stable institutional framework for service effectiveness.

The critical role of NEPA in ensuring coordination among various institutions should be strengthened through improvements to technical capacity, infrastructure, and equipment. A capacity building platform to support NEPA would be important to resourcing the institution to recruit, train, and retain critical staff. The 2007 Environmental Law does not explicitly mention climate change, but it addresses relevant issues such as biodiversity, water conservation, and pollution management. These issues require strong inter-ministerial coordination mechanisms.

Tangible change is most likely to come from deeper investment in subnational systems, institutions, and technical capacity. As part of the government's commitment to achieve by 2020 the Sendai Framework Target E, which is to have in place local-to-national disaster risk reduction strategies, technical support is urgently required to develop those strategies in ways that are not conflict-blind; ideally through collaborative processes of bringing together expertise on climate, disaster risk, humanitarian action, peace, and conflict. The foundations are already in place, with a clear articulation that effective disaster risk reduction is a component of peace and peacebuilding—as in Afghanistan's 2011 Strategic National Action Plan. The 2014–2017 Afghanistan Disaster Management Strategy also recognized the risk of increased violence and conflict owing to funding shortfalls

and unequal distribution of disaster-related funding. In revising subnational disaster risk reduction strategies and crafting accompanying budgeted implementation plans, there is opportunity for Afghanistan to be a leader in Asia in ways that systematically integrate conflict analysis and approaches and principles such as conflict sensitivity and "Do No Harm."[29]

The need for ministerial coordination cannot be overemphasized. Processes for developing the Hydromet and Climate Services Road Map included technical coordination among the key agencies, such as the AMD, WRD, MAIL, NEPA, Ministry of Rural Development and Reconstruction, and Ministry of Finance. In addition, the engagement of drought early warning has been through the Early Warning Committee including key government stakeholders and development partners. There is critical need to ensure that such coordination does not remain specific to activities, but can be made thematic committees that are formalized.

MEW remains critical in the areas of agriculture, water, and energy, and needs to develop programs that strengthen integration with MAIL and NEPA. More support is needed to integrate climate considerations more explicitly into several laws and programs. One way will be the development of interventions at the watershed level to address all critical needs, which already is happening and will need to be scaled up once established.

Ongoing engagement between MAIL and National Resources Management in the development of integrated landscape management approaches has reflected a similar need for coordination. Integrated approaches at the watershed level will help in building resilient communities. Within the current World Bank and Afghanistan Reconstruction Trust Fund portfolio across agriculture, energy, and water, there are synergies that should be strengthened with better coordination among these key institutions.

Little data collection exists on the sources of air pollution to quantify the impacts on the health sector from increased respiratory diseases. NEPA has only one mobile van for data collection. The inconsistent data collection and reporting is inadequate for decision making and policy interventions. Investments toward reliable data collection and management mechanisms and the establishment of early warning systems should form part of the forward-looking plan and are critical, as financing from donor assistance and other sources has gradually dwindled. It is important to explore other opportunities for financing climate change-related investments. For example, Afghanistan could tap into resources from the Green Climate Fund and the climate co-benefits agenda. Fiscal policies can play a key role in climate change mitigation and adaptation, such as carbon pricing to internalize the cost of GHG emissions and set a price signal, which can attract private sector investments for mitigation measures. The national expenditure and tax structure can be designed to provide a reserve/buffer in the event of climate-related natural disasters. It would be important to adopt policies that facilitate private sector investments in mitigation measures, building resilience, and adaptation.

29 Mena, R., Hilhorst, T., and Peters, K. (2019). *Disaster risk reduction and protracted violent conflict. The case of Afghanistan.* Overseas Development Institute: London. Available: https://www.odi.org/publications/11413-disaster-risk-reduction-and-protracted-violent-conflict-case-afghanistan.

6 Gender Equality and Inclusion

Ensuring Equity and Inclusion for Women and Persons with Disabilities

Overview

Afghanistan has achieved remarkable progress on gender equality and development since 2002. Afghan women have gradually reentered the public sphere and regained their rights. Key policy initiatives and legal reforms made over the past 15 years, aligned with the five pillars of the national gender strategy, have served to improve the quality of life for women and girls. For example, Afghanistan's Law on Elimination of Violence Against Women criminalizes acts of violence that previously were not addressed under the law.

The Afghan government and its partners have implemented numerous initiatives to help elevate the status of Afghan women, including the establishment of the Ministry of Women's Affairs and the creation of the Women's Economic Empowerment National Priority Program (WEE-NPP). These efforts have led to great gains—girls previously with no access to education now comprise one-third of the 8 million students enrolled in schools, and women's access to reproductive health services has significantly improved. However, full implementation of the government's vision of gender equity is challenged by deteriorating security and persistent social norms that disadvantage women and girls.

Attitudes are becoming more equitable over time, but changes have been slow and uneven across the country. According to the 2019 *Survey of the Afghan People*, a record high number of Afghans support women working outside the home, with 76 percent saying they approve, up from 70.3 percent in 2018 (Asia Foundation 2019). Still, attitudes and beliefs about honor and shame that emphasize female modesty and purity are linked to low levels of female labor force participation and poor access to services and markets. Less than half of women participate in decisions about major household purchases (42 percent) or her own health care (48 percent) (Demographic and Health Survey [DHS], 2015). Eight in 10 ever-married women and more than seven in 10 ever-married men agree that a husband is justified in beating his wife for at least one of the following reasons: if she burns the food, argues with him, goes out without telling him, neglects the children, or refuses to have sex (DHS, 2015).

Gender and social inequities are likely to be more pronounced during and after COVID-19. As the coronavirus pandemic escalates in Afghanistan, the health crisis, coupled with the anticipated economic slump, is likely to disproportionately affect women and other excluded groups and deepen gaps**.** For example, women's health and education may be disproportionately affected. Female-headed households (FHHs) and households without an able-bodied man will be particularly vulnerable and may suffer more from increased poverty, nutrition/food insecurity (since these households are already very

vulnerable and overrepresented among the poor).[30] Women will be more at risk of losing jobs and businesses while simultaneously less likely to have savings, assets, or job-related social protection and benefits to be able to cope with income shocks. Furthermore, as has been observed across the globe, COVID-19 is exacerbating incidence of gender-based violence (GBV), which is already very high in the country.

Afghanistan's long-term social and economic development depends on greater gender equality. More specifically, development hinges on the realization of women's human capital and their meaningful participation in the economic sectors and society at large. This policy note is focused on challenges related to human capital, economic empowerment, identity, voice and agency, and inclusion. These thematic areas have been prioritized for having wider gender gaps, as well as having greater potential for impacting women's lives positively if they are addressed.

Human Capital

Low human capital attainment, particularly for rural girls and women, is one of the greatest barriers to economic development in Afghanistan. Female illiteracy remains stubbornly high, especially in rural areas. Approximately 70 percent of adult Afghan women are illiterate, compared to 45 percent of men (Afghanistan Living Conditions Survey [ALCS] 2016/17). Female illiteracy is a key issue that limits women's own uptake of opportunities and negatively impacts the health and development of children.

Youth educational outcomes are improving, but large gender disparities persist. According to the two most recent ALCS surveys, education attainment and completion rates have improved by one to two percentage points across all levels of education and for both males and females. However, large disparities remain across the sexes. Approximately 72 percent of young women have no education, compared to 43 percent of young men. The gender gap in school enrollment remains wide at primary (82.7 percent for girls and 121.1 percent for boys), secondary (38.8 percent for girls and 68.1 percent for boys) and tertiary (4.9 percent for females and 14.2 percent for males) levels. The school enrollment rate for marginalized groups also is low—in 2005, only 16.5 percent of disabled girls went to school.[31] Wide disparities also exist across urban and rural areas, especially the latter.

Continued efforts are needed to build demand and family support for girls' education. The most common reason for girls to not attend school is "family didn't allow" (40 percent of girls versus 3 percent of boys), followed by "no school/school too far" (35 percent of girls) (ALCS 2016/17). The geographical imbalance of female teachers also contributes to large regional disparities in education outcomes for girls. Only 33 percent of teaching professionals are female and the majority of them work in the large cities. Many districts have no certified female teachers and 130 districts in the country did not produce a single female university graduate between 2001–2018.

Women's health outcomes have improved significantly over time, but major issues remain. The maternal mortality ratio in Afghanistan fell substantially from 1,600 to 638 deaths per 100,000 live births during 2002–2017 (World Development Indicators [WDI]). The fertility rate declined sharply from 7.3 births per woman in 2002 to 4.5 births per woman in 2019 (WDI). Yet, women's health status remains dire. Afghanistan's maternal mortality ratio remains one of the highest in the world. Only 50.5 percent of births are attended by skilled health staff (WDI 2015) with large regional disparities on this indicator. The country still has one of the highest

30 FHHs and HHs without an able-bodied man are among the poor; these households comprise 10–12 percent of the "very poor" categories according to the community well-being analysis conducted by the Citizens' Charter Afghanistan Project. Furthermore, the population in female-headed households experience moderate to severe hunger more than twice as much as those in male-headed households (24.4 percent and 10.0 percent, respectively) (ALCS 2016/17).

31 Afghan Landmine Survivors Organization (ALSO) (2017). Access of Persons with Disabilities to Education in Afghanistan. Kabul, Afghanistan.

fertility rates in the world, ranking 12th among 198 countries (2015) (United Nations Population Fund [UNFPA] 2017). A variety of constraints affect women's access to health care services, including the low supply of health care professionals in Afghanistan, especially female health care workers. For example, as many as 10 percent of health facilities do not have any female staff (Ministry of Public Health/Health Management Information System 2019). The density of physicians and nurses/midwives per 10,000 people stand at 2.7 and 3.2, respectively (WHO 2015),[32] which is significantly lower than the WHO recommended threshold of 22.8/10,000. Women's access to health services is undermined by distance to health facilities, low health-seeking behavior, restrictive social norms, insecurity and instability, mobility constraints, and lack of awareness about reproductive health and well-being.

Economic Empowerment

Afghanistan has made considerable commitment toward women's economic empowerment since 2002, including the launch of WEE-NPP, the establishment of the Afghan Women Chamber of Commerce and Industries, the development of policies on inheritance, and the promotion of women's participation in the civil service.

Women's labor force participation has increased over time, but the talent and energy of Afghan women is largely underutilized in the labor market. Only 26.8 percent of women participate in the labor force, compared to 80.6 percent of men (ALCS 2016/17). Women who do participate in the labor market have higher unemployment (41 percent of women versus 18.3 percent of men are unemployed [ALCS 2016/17]) and lower access to quality jobs. Women comprise 27.3 percent of civil servants (Independent Administrative Reform and Civil Service Commission 2019), with an even lower share in managerial positions. Moreover, women are disproportionately concentrated in the lower (and less remunerative) levels of value chains, in lower productivity activities, and in the informal sector. There is also a wide gender gap in entrepreneurship: women own only 2.2 percent of firms and are majority owners of a mere 0.5 percent of firms (2014) (World Bank 2020).

Besides the overall lack of employment opportunities, there is a range of barriers to women's economic empowerment. Women's lower education and skills is one driver of inequality in the labor market. Women are especially underrepresented in educational fields that open the doors to high-skill, high-paying jobs: for example, female students account for 18 percent of graduates in tertiary education but they comprise only 4 percent of graduates in engineering, manufacturing, and construction programs. Limited access to finance undermines women's ability to start, operate, and expand their businesses. Only 7.2 percent of women versus 22.5 percent of men have access to formal financial services (Global Findex Database 2017).

Gender norms around work—that cast men as breadwinners and women as homemakers—are reinforced by discriminatory laws or the weak enforcement of laws that guarantee equal rights. Afghanistan scores 38.1 out of 100 in the World Bank's Women, Business and the Law Index 2020 (World Bank 2020), which is much lower than the average score of 62.3 for the South Asia region. This index shows Afghanistan's relatively slow progress on indicators of pay (measuring laws and regulations affecting women's pay), marriage (legal constraints related to marriage in the form of legal marriage age) and parenthood (laws affecting women's work after having children, such as maternity leave, overtime, especially in the private sector). While there is no apparent gender discrimination in existing laws affecting women, the interpretation and implementation of the laws is gender-biased in many government departments/ministries.

Identity, Voice and Agency

Lack of national identity documents is a major challenge to women's voice and participation in Afghanistan. Approximately 12 million people in Afghanistan (33 percent of the total population of 36.4 million) lack a

32 World Health Organization (WHO) (2015). Eastern Mediterranean Region Framework for health information systems and core indicators for monitoring health situation and health system performance. https://applications.emro.who.int/dsaf/EMROPUB_2015_EN_1904.pdf?ua=1.

national identity card (*Tazkira*), of which women comprise 55 percent (ID4D, World Bank 2018). Lack of access to *Tazkira* or similar foundational documents limits access to critical services and participation in formal political and economic life, especially for women. These limitations are further exacerbated for women with disabilities. While there is no explicit gender discrimination in the law, social norms and poor understanding and implementation of the laws undermine the ability of Afghan women to independently obtain an ID card/ passport.

Gender-based violence is very prevalent and may increase during the COVID-19 crisis. Approximately 87 percent of Afghan women experience at least one form of physical, sexual, or psychological violence in their lifetime (UNFPA 2019). Early marriage of girls is common: 35 percent of women age 20–24 years are married before age 18, and 9 percent are married before age 15 (DHS 2015). Women and children living in informal urban settlements or in camps for internally displaced people are at an increased risk of facing crime and violence (Solotaroff and Pande 2014). Boys are also at risk of violence. *Bacha bazi*, a practice involving the sexual abuse, rape, and exploitation of boys, is prevalent in several provinces of Afghanistan.

In Afghanistan, GBV is a taboo subject, silencing survivors and preventing them from coming forward. General lack of awareness on the issue and the limited availability of support services for survivors exacerbate the situation. The majority of Afghan women who have experienced physical or sexual violence (61 percent) did not seek help and did not tell anyone about the violence. Among women who experienced GBV and sought help, 80 percent solicited their own family for assistance (DHS 2015).

GBV incidence is also common in public spheres and in the workplace, with 91 percent of females facing violence in educational institutions and 87 percent experiencing sexual harassment at work (Women and Children Legal Research Foundation 2015). Those who report abuse—including harassment, sexual advances, or exploitation—risk retribution and often more violence for speaking out. At the same time, the reporting mechanisms in most government departments/ministries are vague and entities are not well-equipped to properly handle GBV incidents. Women face numerous obstacles to getting fair treatment from the justice system, combined with a severe shortage of female personnel in the legal system.

Implementation of the government's gender commitments is undermined by women's limited voice and participation and insufficient budget allocation. Due to high illiteracy and lack of awareness, women are unable to benefit from the rights they are entitled to under various laws. Women's participation is low in leadership positions as well as their involvement in policy dialogue, planning, and budgeting, a situation further compounded by their low capacity in these areas. The existing gender units in line ministries/departments suffer from low capacity and vague mandates with minimum involvement in the design and implementation of ministry programs. Furthermore, the budget allocation for gender-inclusive policies and programs is low both at the national and subnational levels.

Social Inclusion and Disability

There are strong patterns in Afghan society of social exclusion and inequality that have been shaped by the country's history and geography. A few groups, including women and girls, youth, internally displaced persons and returnees, ethnic and religious minorities, and persons with disabilities, are at the forefront of the literature on exclusion and vulnerability in Afghanistan. These historically excluded groups are disadvantaged in how they engage in markets, access services, and participate in spaces.

One of the most enduring legacies of conflict in Afghanistan has been the impact on families affected by disability. Afghanistan has one of the world's largest populations per capita of persons with disabilities.[33] While the exact prevalence of disability is unknown, estimates suggest that one in five households in Afghanistan has a member that is differently-abled. Around three-quarters of persons with disabilities live in rural and

33 "Disability is Not Weakness". Human Rights Watch (2020).

poor semi-urban settings (Norad 2012).[34] Most are illiterate, unemployed, and lack access to health services, education, and other opportunities. Only 37 percent of persons with disabilities are employed. Persons with disabilities also face challenges in access to finance, markets, and networks because of barriers that arise from non-inclusive regulations, policies and resource allocation, social stigma, and prejudice, as well as low education and obstacles to moving around in communities and city spaces.

Disability is a cross-cutting issue that intersects with other markers of exclusion, discrimination, and vulnerability. Persons with disabilities are overrepresented among the several million Afghans who are internally displaced and face greater difficulties gaining humanitarian assistance. People with disabilities also face higher rates of multidimensional poverty compared with persons without disabilities.

The government of Afghanistan has taken several legislative, policy, and programmatic steps that indicate commitment to advancing the rights of persons with disabilities. These include becoming a signatory to a number of international conventions, adopting the law on Rights and Privileges of Persons with Disabilities,[35] providing rehabilitation services and assistive devices through the Basic Package of Health Services, and providing disability benefits to war-related persons with disabilities. Despite these efforts, the commitments have not always been translated into effective measures and practices that enable people with disabilities to partake fully in Afghanistan's economic and social development and access health and rehabilitation services more equally all over the country. Aside from a small stipend available to those who acquired a disability as a result of the war, there are no publicly funded social protection services for persons with disabilities in Afghanistan.[36]

Policy Recommendations

Human capital

Increase female staff in the health and education sectors, particularly in rural areas. A few actions that can help increase the percentage of female staff include:

i) Prioritizing recruitment of female staff members in the health and education sectors and addressing the geographical imbalance of health workers and female teachers.
ii) Offering attractive incentive packages to female health and education staff and their spouses to relocate to remote locations.
iii) Imposing a quota for female staff in both health and education sectors in rural areas, implementing rigorous monitoring systems, and establishing an enabling environment to meet the quota through positive discrimination, transparency in recruitment, safe workplace environments, day care facilities, etc.

Promote girls' enrollment in education at all levels. Increase the number of education facilities and bring education through community-based interventions that address social norms and attitudes.

Implement the Inclusive and Child-Friendly Education Policy for children with disability and special needs. Invest in human resource development for special education and provide assistive technologies for education.

Provide accessible and safe female-only transportation to schools in rural areas. Invest in better infrastructure and public transportation, with options for persons with disabilities (especially children).

34 Norwegian Agency for Development Cooperation; cited in: SIDA: Disability Rights in Afghanistan [2014].

35 This law was passed in 2009 and is only available in local languages. The law restricts the provision of disability benefits to war-related acquired disabilities and does not include natural/birth disabilities for social protection payments. However, other provisions of the law, including health, education, accessibility, and skills training include both birth and acquired disabilities.

36 Human Rights Watch (2020).

Expand adult literacy and numeracy courses across the country. Adult learning programs should refer participants to Women's Economic Empowerment (WEE) initiatives that help facilitate their financial and productive inclusion.

Invest in improving nutrition outcomes, particularly for pregnant women and children.

Economic empowerment

Design and launch the second phase of WEE-NPP as one of the government's major inter-ministerial national priority programs. The first phase of WEE-NPP, launched in 2017, brought good momentum to the WEE agenda. Based on the lessons learned from the first phase, the next phase of the WEE-NPP should focus on scaling up women's financial and productive inclusion, including by removing legal and regulatory barriers. Supported programs should aim to facilitate the empowerment of women, especially those in the "last mile",[37] including through mobilization into self-help groups in rural areas.

Facilitate an enabling environment for women's paid work. In the civil service, the implementation of a quota for qualified women in senior positions/grades can help address gender discrimination in recruitment processes. Legislative and departmental policies should support work-life balance and anti-harassment measures.

Develop programs that promote young women's social and economic inclusion. Programs should account for the unique constraints and needs of different profiles of young Afghan women (based on factors such as age, education, marital status, geography).

Identity, voice and agency

Improve women's participation and leadership in policy dialogue, planning, and programming by upgrading the existing gender units in the line ministries from the department to the directorate level, recruiting more women in senior positions in all government departments considering a quota system, and increasing gender-responsive budgeting allocations.

Raise awareness of women's rights in existing laws and ensure laws are upheld. Awareness-raising campaigns should be designed at the national level targeting all women to enhance their knowledge about existing laws and various forms of discrimination and exclusion. Efforts should be made to strengthen the implementation of existing laws through capacity building of the relevant government bodies while also keeping them accountable for proper enforcement.

Make national identity cards (*Tazkira*) compulsory for all Afghan citizens, especially women. With government support, mass *Tazkira* registration can be facilitated through Community Development Councils. In addition, encourage mandatory registration of births, deaths, marriages/divorces, and other life-changing events for all citizens.

Promote programs that engage men and boys in the process of changing values and gender norms. It is powerful when men call on other men to make a change and advocate for women. Clergymen, mosque Imams, and scholars could be recruited to serve as powerful facilitators in changing gender attitudes and advocating for the rights of women.

37 "Last mile" refers not only to the poorest of the poor, but also to the people, places, and small enterprise levels that are underserved and excluded, where development needs are greatest, and where resources are most scarce. In least developed countries, the "last mile" sees poverty, vulnerability, inequalities, and exclusion often reinforcing each other.

Enhance prevention, mitigation, and response systems for GBV by:

1) Developing and conducting a nationwide awareness-raising campaign by adopting a communication strategy with an evidence-based framework for prevention, with appropriate follow-up and referral to services for consistent results while ensuring "do no harm" principles;
2) Developing a national GBV Grievance Redress Mechanism with a unified policy, reporting, responding, and case management system. This requires a comprehensive set of standards and protocols (such as a Code of Conduct for all civil servants and strict implementation of the anti-harassment of women and children law) to prevent and mitigate GBV incidents; and
3) Strengthening the capacity and role of police, health and social workers, and other institutions in GBV case reporting and management systems to ensure better quality care for GBV survivors. A strong partnership with the GBV subcluster and relevant international organizations is needed to ensure quality and coordination.

Social inclusion and disability

Improve the evidence base on disability issues. There is a critical need for robust information and data to support disability inclusion in policies and programs. This includes collecting and analyzing data on the prevalence and forms of disability (including mental and other nonphysical disabilities), which are not included in the current programming. The situation of persons with disabilities may be vastly different in different regions and by age group, gender, and socioeconomic background. The stigma and discrimination experienced by persons with disabilities is compounded by a lack of accessibility to services, spaces, and markets.[38] Actions to address this exclusion include:

1) Carrying out consultation and policy dialogue with disability civil society groups as well as organizations in the health, education, and employment sectors to ensure that future policies and interventions are informed by disability considerations;
2) Taking stock of and evaluating policies and programmatic infrastructures to support persons with disabilities. This includes carrying out analytical studies to identify the barriers to services, markets, and spaces for persons with disabilities;
3) Advocating mainstreaming of social inclusion, especially for persons with disabilities, and improving access to economic and income generation opportunities, including skills development, digital skills, and entrepreneurship tailored to the needs of persons with disabilities;
4) Targeting stigma and discrimination and work toward changing perceptions on disability, and
5) Ensuring coherent work across the Ministries of Health and Education, and the Ministry of Labor, Social Affairs, Martyrs and Disabled to review and assess current legislation and identify gaps where disability-specific legislation could be strengthened.

38 Adapted from World Bank. 2018. Disability Inclusion and Accountability.

7 Public Expenditure and Revenue Management

Prioritizing Key Reforms for Progress Toward Self-Reliance

Context

Afghanistan's fiscal performance improved significantly between 2014 and 2019. Revenue increased from 8.5 percent of gross domestic product (GDP) in 2014 to a record high of 14.1 percent of GDP in 2019 due to improved tax and customs administration and enforcement of measures to collect nontax revenues. Credibility of the budget also improved, with the development budget execution ratio increasing from 67 percent in 2017 to 92 percent in 2019 due to the removal from the budget of nonperforming projects. Strong fiscal management has kept the overall budget close to balance.

The COVID-19 crisis has caused major negative revenue impacts. Driven by reduced economic activity, restrictions on international trade, and deteriorating compliance, core domestic revenues (excluding one-off revenue sources) to the end of August 2020 were around 35 percent lower than the Ministry of Finance's (MoF's) original targets for 2020. Coming out of the crisis, Afghanistan will have to strengthen its core tax collection to support increased spending needs in the context of declining grants.

Afghanistan's fiscal envelope remains dominated by international grants and security expenditures. Domestic revenues cover only half of on-budget expenditures (28.5 percent of GDP) despite recent strong revenue growth. Afghanistan's public expenditure also heavily relies on off-budget expenditures (almost 30 percent of GDP), all of which are financed by international grants. Grant flows finance 74 percent of total public expenditures (on- and off-budget). Meanwhile, fiscal space for development and service delivery is significantly constrained by large security expenditures, which account for 34 percent of on-budget expenditures and 49 percent of total public expenditures.

Gradual progress has been made in establishing a better functioning and more credible public financial management (PFM) system. Adoption of the Public Finance and Expenditure Management Law and Public Procurement Law established the legal PFM framework. The Afghanistan Financial Management Information System (AFMIS) has been rolled out across provinces for payment processing, accounting, and reporting. Improved management systems for public investment projects and operations and maintenance (O&M) expenditure are being gradually rolled out. Adoption of an accountancy law has provided a legislative framework for accounting. A new tax administration law was adopted, clarifying responsibilities for tax administration, along with the rollout of an electronic tax administration system.

Afghanistan's PFM system, however, remains too weak to ensure strategic allocation of resources and efficient service delivery. There are consistent gaps between formal rules and actual practices. The budget process does not lead to strategic alignment between development priorities and resource allocation, with issues

compounded by frequent delays. Proper selection, appraisal, and preparation of public investment projects are yet to be consistently achieved, despite the gradual introduction of public investment management reforms over recent years. Management of O&M expenditure remains weak, constraining public service delivery. External scrutiny over budget management is undermined by the weak capacity and lack of independence of the Supreme Audit Office. Lack of transparent allocation and disbursement mechanisms for the contingency budget erodes confidence in budget accountability and capacity to promptly cope with emergency spending needs.

In Afghanistan's procurement modernization and institutionalization agenda, implementation of planned procurement reforms is a high priority, and the president regularly leads the National Procurement Commission meetings that approve contract awards above a certain value threshold. This political support has been pivotal in ensuring the success and ownership of the procurement reforms implemented in the country. The steps taken so far to reform the Afghan procurement system have yielded many positive results to get value for money, though much more needs to be done to bring the performance of the procurement system in line with international standards.

Tangible progress in strengthening PFM systems is critical to demonstrate the government's commitment and capacity to ensure the efficient and effective use of own and grant resources. Current grant pledges to Afghanistan expire in 2020, and serious concerns have been raised by the international community over corruption, weak transparency, and accountability in management of public resources. Some donors are signaling large reductions in civilian grants if weaknesses in public resource management cannot be addressed.

Improving revenue collection will remain central to Afghanistan's self-reliance agenda, but will become increasingly challenging. In 2018 and 2019, strong revenue performance was driven largely by one-off sources, including the collection of arrears and penalties under a tax amnesty program, revenues derived from state-owned enterprises, and operating profit transfer from the Da Afghanistan Bank (central bank), while tax revenue increase slowed significantly. Core tax collection[39] declined from 8.9 to 8.3 percent of GDP from 2018 to 2019. In coming years, further revenue growth will have to come from improvements in core tax collection performance through administration and enforcement improvements and promotion of voluntary compliance.

A pressing need exists to better prioritize PFM reform efforts, given limited capacity and resources. The current PFM reform implementation framework is anchored in the Fiscal Performance Improvement Plan (FPIP), which includes thousands of activities over more than 100 teams. Such a profusion of activities makes it difficult to identify key priorities, diffuses government capacity, spreads available technical assistance resources too widely, and undermines effective monitoring and reporting on progress. The FPIP includes several advanced reforms (such as developing sophisticated economic models, rolling forward estimates), while basic PFM functionality remains weak, as evidenced by problems with payroll and commitment controls, lack of alignment between policy and expenditure, and incomplete implementation of existing policies (for example, the Civil Servant Pay Policy). Lack of strategic prioritization of reform priorities has resulted in overcommitment of the limited resources available, leading to slow progress.

While procurement systems like electronic government procurement (e-GP) and professionalization are under progress in Afghanistan, efficiency and transparency benefits have not yet been fully realized, as timely implementation is essential to deliver planned results. In the context of perceptions of high levels of corruption, procurement reforms are foundational for the delivery of investments in Afghanistan. The fragile and high security related risk situation limits and restricts bidding processes. Market outreach initiatives undertaken through the National Procurement Agency (NPA) and donor-funded projects in international markets have not found much traction from bidders. With an estimated 50 percent of budget used for public procurement, concentration of procurement around Kabul presents a missed opportunity for wider regional development

39 Tax and customs revenues, excluding nontax revenues.

and employment. Entrusting procurement to more professionally trained personnel or specialized agencies, enhancing oversight and supervision of procurement at entity level, and ensuring an effective complaint management system are important priorities to improve public procurement.

Policy Recommendations

Prioritize the reforms critical to getting the basic budget functions right. Limited resources and capacity mean that prioritization across possible PFM reforms is vital. Reform efforts should be focused on making incremental but meaningful progress on the core PFM building blocks. "Big-bang" reforms intended to achieve radical changes in PFM systems over short periods of time have a poor track record internationally. Global experience and good practice (especially in fragile states) suggest a gradual approach focusing initially on basic PFM functions, such as (i) budget processes that link expenditures with policy and sector priorities; (ii) implementing expenditure controls, e.g., for payroll; (iii) adequate financial reporting of central government entities; and (iv) adequate financial auditing and taking action on audit reports.

Establish clear reform goals and ensure delivery to specified timelines. Progress with PFM reforms is not only important to improve the function of the budget, but also to provide assurance that action is being taken to reduce opportunities for corruption and improve efficiency in use of public resources. In order to signal political commitment, it will be important to (i) identify a small number of critical, high-profile PFM reforms to be delivered within short time frames; (ii) effectively implement those reforms; and (iii) verify implementation using credible external third parties. Establishing additional ambitious reform plans that may not be fully implemented or for which implementation cannot be credibly verified risks fueling negative perceptions.

Capitalize on the reform momentum provided by major donor budget support programs. Using budget support vehicles of major development partners, such as the Incentive Program Development Policy Grant (World Bank) and State and Resilience Building Contracts (European Union), would allow for leveraging the technical and financial resources from the international community to drive difficult PFM reforms. Successful and timely follow-through of PFM reform actions supported by budget support programs would provide demonstrable evidence for government's commitment and capacity, especially if implementation of such reforms is externally verified.

Simplify the PFM reform management system to a better targeted and sequential reform planning and implementation framework. The design of the FPIP should be recalibrated to target the most important PFM reform priorities, with a focus on implementation of recent legal, regulatory, and policy changes. A small number of realistic targets should be set for MoF teams, with those teams held accountable for progress, drawing on a thorough assessment of the binding constraints of PFM performance and drawing from international assessments and reports of the Supreme Audit Office and the Internal Control Cadre from the last three years. Targeting select reform priorities, instead of numerous objectives and activities, would allow for effective monitoring and enforcement by senior management and significantly improve the alignment between the use of limited resources and key PFM reform priorities. Expansion of FPIP to additional ministries should not be pursued until the system is operating effectively within MoF and substantial progress in reforming central PFM systems is being achieved.

Establish the PFM Cadre and Academy without further delay. Significant investments in various donor-financed government programs for the development of PFM capacity in the public sector have not translated into sustainable capacity building within the civil service. Weaknesses in PFM capacity and systems have long been regarded as impeding good governance, accountability, and efficiency in government actions. A PFM cadre would ensure building and retaining capacity. Steps toward the establishment of a public financial management (inclusive of procurement) cadre would be to (i) establish a committee overseen by a deputy minister and outline its terms of reference; (ii) work out a PFM and Integrated Financial Management Information System Academy

curriculum to be complemented by the Association of Chartered Certified Accountants; and (iii) formulate a work plan for the next three years for the PFM diploma. In parallel, MoF and the Independent Administration Reform and Civil Service Commission will need to finalize the formal arrangements and regulations for the launch of a PFM cadre.

Reform Areas

Budgetary planning

- **Establish clear alignment between development priorities and budget allocation.** The effectiveness of the budget as a tool for development has been undermined by the mismatch between development priorities and budget allocations. A stronger top-down system of budget allocation, at least at sectoral levels, is needed to set clear priorities. Resources should be allocated to sector priorities at the start of the budget process and within the estimated fiscal space available. Allocations to priority sectors should be reflected in the Fiscal Strategy Paper and within budget ceilings for sectors and ministries. Earlier involvement of the National Assembly in setting budget priorities could help gain political buy-in and reduce the current dominance of transactional bargaining over the inclusion of specific projects during late stages of budget approval.

- **Widen fiscal space through rationalizing the existing project portfolio.** Aligning budget allocation to emerging development priorities requires fiscal space. This can be done by stopping or restructuring poorly performing projects through an annual portfolio review and rationalization process, based on objective criteria such as implementation progress, time/cost overrun, and forward spending needs. Resources generated from the rationalization can be reoriented to accommodate changing development priorities.

- **Continue work to review public expenditures, including in the security sector.** With declining grants over time and limited scope for revenue growth, Afghanistan will face increasing pressure on available fiscal space. Work to review public expenditures should continue, including efforts to (i) understand current trends and cost drivers; (ii) identify scope for efficiency improvements and savings; and (iii) ensure alignment between expenditure allocations and policy priorities.

Budget formulation

Institutionalize an improved Public Investment Management (PIM) process. At the center of the linkage between fiscal planning and budget formulation lies proper selection of public investment (development) projects. The budget should allow only shovel-ready projects that have proven economic and financial feasibility and alignment with development priorities through project screening and appraisal. Requiring all projects to undergo defined project selection processes would significantly reduce the risks of interference and political bargaining (auctioning). Gradual progress has been made since 2018 through budget circulars mandating (i) strategic fit screening with standardized project concept notes; and (ii) economic appraisal of all projects above $7.5 million. The following actions are required to enforce strengthened screening, appraisal, and selection processes for all projects:

- Adopt a PIM Regulation. The critical next step is to formally institutionalize the improved project management system into a legal mandate by adopting new PIM regulations. This should further formalize the framework for project appraisal and approval based on economic, strategic fit, and gender analysis. Regulations will also clarify institutional responsibilities throughout the project cycle and establish consistent criteria for project assessment, including climate change impacts, prior to approval.
- Establish a functioning project database including off-budget programs. An Integrated Bank of Projects (IBP) system should be established to register and manage the entire breadth of projects (on- and off-budget) along the whole project management cycle. The IBP would allow a transparent

mechanism to monitor the preparation progress of all projects under the strengthened PIM system. The IBP should include off-budget programs by improving and consolidating the current Donor Assistance Database system to align off-budget programs with national priorities.

- **Address risks to fiscal sustainability arising from civil service pay and pensions.** The cost of the civil service is currently not sustainable. Recent changes to pay policy, intended to address sustainability issues, have not been effectively implemented. Current management of pensions and allowances is leading to the accumulation of a large unfunded liability for government. Policy frameworks need to be established to guide pensions and allowances, including for military martyrs and the disabled, to ensure that government obligations can be met without squeezing out much-needed expenditure on basic public services.
- **Strengthen O&M expenditure management.** Lack of proper norms in O&M budget allocation has led to wide mismatches between O&M allocations, the use of O&M budgets, and actual O&M needs, leading to deterioration of public assets (e.g., schools, hospitals, roads) as a result of deferred maintenance and service delivery inefficiencies. Gradual improvements have been made since 2018, including adoption of a new O&M policy and rolling out budgeting norms for vehicles and buildings. Further actions are needed in 2020 to implement the new O&M policy by introducing new budget norms and guidelines on new asset categories (e.g., highways).

Budget execution and audit

- **Strengthen control of payroll.** Weaknesses in payroll controls risk undermining the integrity of expenditure. Progress should be prioritized toward entering full biometric and biographic data for all civil servants on the Human Resources Management Information System (HRMIS) and generating the payrolls only directly from the HRMIS.
- **Improve contingency budget management.** Current management of contingency reserves has raised concerns regarding control and transparency. The Public Finance and Expenditure Management Law allows up to 3 percent of the total budgeted expenditures to be allocated to a contingency reserve. Prompt action is needed to improve management of contingency reserves by adopting new regulations on contingency budget management. These regulations should (i) clearly define eligible purposes for the use of contingency reserves; (ii) include provisions allowing for early or preemptive responses to natural disasters, especially drought; and (iii) establish full reporting requirements, including publication of utilization of all contingency reserves by expenditure category.
- **Facilitate the rollout of an e-procurement system.** E-procurement, an electronic web-based system for acquisition of goods and services, has significant potential to help reduce corruption and improve transparency and accountability in budget execution. The Afghanistan Government Electronic and Open Procurement System has been under development since 2018, with 18 modules planned. However, the progress of rolling out the system has been slow. Three modules (procurement planning, facilitation, and contract progress monitoring) were developed, but two critical modules have made slow progress, including vendor registration and e-tendering. Completion of the e-tendering system and its integration with other modules is the immediate priority, as four other modules that are developed cannot be fully functional without the e-tendering system.
- **Strengthen the capacity and independence of the Supreme Audit Office (SAO).** Independent external audit is vital for financial integrity. However, the current SAO law has several weaknesses, undermining functional and organizational independence as noted by the 2017 SAI-Performance Measurement Framework Assessment. Improving the SAO law in line with international principles and practices is a pressing task to address key weaknesses in the existing legal framework, especially in relation to external audit independence, including (i) ensuring protection of SAO staff and leadership against prosecution for activities related to performance of formal duties; (ii) improving budgetary autonomy; and (iii) increase autonomy over human resource practices.

- **Strengthen fiscal transparency.** Progress with publication of expenditure data should continue, especially in relation to emergency expenditures in response to COVID-19 and through the contingency fund. Full documentation for projects financed through the discretionary development budget should be published, including economic appraisals. A report should be published detailing changes made to the executive budget by the National Assembly prior to approval.

Revenue administration and policy

Reform in revenue administration and policy should aim to support the dual objective of increasing revenues while promoting voluntary compliance through improving tax policy and tax and customs administration. This is achieved through a combination of broadening the tax base, enhancing controls and enforcement, facilitating taxpayers, and improving transparency and accountability. Recommended policies include:

- **Develop a medium-term revenue strategy.** In its path toward self-reliance and coming out of the COVID-19 pandemic, Afghanistan will have to strengthen its domestic revenue collection. A medium-term revenue strategy, providing a comprehensive roadmap for reform in the areas of tax policy, administration, and enhanced collaboration between the revenue departments (tax and customs), will be central to this.
- **Widen the tax base through implementation of a value added tax (VAT)**. The planned implementation of VAT by 2021 is a key measure to improve the overall efficiency of the tax system and broaden the tax base by formalizing and documenting the production chain. It is an efficient tax instrument that helps reduce tax evasion by improving control over the tax base through a tax credit mechanism. For the effective and timely implementation of VAT, the immediate priority is to (i) provide full high-level political support to the Afghanistan Revenue Department (ARD) to prepare and roll out VAT; (ii) put in place a VAT Task Force responsible to prepare and roll out VAT, with a clear mandate and adequate political support; (iii) amend the VAT Law to eliminate the Business Receipt Tax under the VAT threshold; (iv) ensure effective deployment of an IT solution for VAT implementation; and (v) initiate communication with taxpayers and the wider public to prepare them for the impending change.
- **Facilitate taxpayers to promote voluntary compliance**. Both the ARD and Afghanistan Customs Department (ACD) have taken initial steps in facilitating taxpayers over the past few years. Extending electronic tax filing to all taxpayers, both for domestic taxes as well as taxes at the border is a critical component of taxpayer facilitation. In parallel, introducing electronic payments for all taxpayers will bring immense efficiency gains and reduced opportunities for corruption. Similarly, issuing electronic tax clearance certificates will ease the cost of doing business. Completing these facilitation measures, while ensuring system integrity and sustainability, is a priority.
- **Enhance transparency and accountability in the ACD**. Integrity has been a major concern at customs due to a sense of a lack of progress in curbing corruption. While customs has implemented an impressive IT infrastructure to allow for electronic clearance of goods, this is still accompanied by a paper trail, which necessitates unnecessary person-to-person interactions—and opportunities for discretion—at many steps of the clearance process. Further simplification of business processes, regulations, and procedures will help reduce the complexity of the customs system, as well as incentives to pay bribes.
- **Strengthen human resources practices in the ACD.** There are widespread allegations of inappropriate political appointments, pressure leading to the rehiring of dismissed staff, preference given to individuals with links to the political elite (at the central or local level), and the sale of lucrative posts. Low pay and job uncertainty do not provide the right incentives for customs officials to facilitate trade while maximizing revenue collection and minimizing fraud. The customs cadre regulation that was approved in 2018 allows for higher pay and requires competitive recruitment but has not yet been implemented. To strengthen human resources practices, the customs cadre regulation should be effectively implemented, coupled with proper training, competitive hiring, and career progression opportunities.

Procurement reforms

Widen the reach and depth of procurement activities through deconcentration of NPA and National Procurement Institute (NPI) activities. Adequate development of systems and professional cadre means procurement of public contracts should broaden beyond Kabul and avoid markets capture. With the peace initiative unfolding and e-GP systems getting stabilized, a deconcentrated model of NPA/NPI activities to key regional centers like Mazar, Herat, and Kandahar can be initiated for better regional distribution of benefits.

Separate policymaking and oversight functions from routine procurement operations, and introduce an independent complaint handling system. It is essential to retain the function of NPA as the body for policymaking, providing guidance and tools for consistent application of procurement policies, cadre regulation, management, and professionalization. Decentralization of the procurement operation and implementation roles currently played by NPA to line ministries or to a separate institution would add an important but currently missing responsibility for oversight and procurement audit functions.

Roll out of e-GP system to all procurement activities in Afghanistan. The e-GP system under development requires a detailed plan for imparting training to users in line ministries as well as bidders in the medium term of one to two years. Gains of efficiency and transparency from e-GP need to be demonstrated through a well-functioning management information system that can inform procurement management and policymaking.

Furthering the professionalization agenda. With a first of its kind NPI in South Asia established in Afghanistan, efforts should be made to train and develop civil servants recruited to the procurement cadre to eliminate dependency on contracted procurement staff hired by various on-budget and off-budget projects.

Enhancing efficiency in procurement management. Further support can be provided through specific services, such as (i) a verified Afghanistan Procurement Panel; (ii) procurement agents for end-to-end service; (iii) a dedicated audit unit at NPA; (iv) professional civil servants in procurement directorates of ministries; (v) certified probity assurance providers for high value (e.g., above $30 million) and complex procurement; and (vi) Hands-on Expanded Implementation Support.

8 Civilian Administration

Improving Public Sector Efficiency

Context

State capacity is central to Afghanistan's self-reliance agenda,[40] but significant challenges must be overcome. State capacity has been constrained by instability, weak institutions, heavy dependence on donor financing, and the dominance of the security sector. The security sector alone accounted for approximately 37 percent of the national budget in 2020—among the highest levels as a proportion of government expenditure in the world—leaving limited fiscal space for the government to maintain and expand a competitive and well-paid civilian administration responsive to increasing service delivery needs.

The COVID-19 pandemic further exacerbated fundamental and structural weaknesses in the civilian administration's capacity to implement national policies and plan and implement national programs. An overly centralized decision-making structure, lack of clear rules on center-to-provincial fiscal transfers, and an extremely weak capacity in provinces to procure goods and services and to monitor and implement national programs show the challenges facing the civilian administration.

If the intra-Afghan negotiations succeed in moving from strict constitutional interpretations and macro-level governance structures to more interest and incentive-based talks, the structure, functions, and decision-making authorities in the civilian administration can play an important facilitating role in bringing all parties closer to a middle ground. Deconcentrating the center and delegating most service delivery functions to administrative structures at the subnational level would change the historical narrative that whoever controls Kabul controls it all.

The size of the Afghan civil service (*Tashkeel*) has doubled since 2002, putting substantial burden on the national budget. The non-security sector grew from approximately 200,000 personnel in 2002 to an approved *Tashkeel* of around 430,000 personnel in 2020, primarily the result of teacher recruitment, which accounted for 82 percent of the net change. The cost of wages and salaries of the government, including the security sector, grew to 47.2 percent of total planned expenditure in 2020 (14 percent of projected GDP), limiting fiscal space for operational and capital expenditures.

Despite the sharp growth in size of the public administration over the last 10–15 years, the pool of qualified and educated civil servants is limited, especially at the subnational level. The average level of education and core competencies in the public sector remain low, limiting effectiveness. This problem is more severe at the subnational level. This can be partly attributed to recruitment processes, which recently were improved by the Independent Administrative Reform and Civil Service Commission (IARCSC).

40 "Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership," Islamic Republic of Afghanistan, 2014.

While the legal framework provides for open and competitive recruitment, with posts required to be tied to objective and merit-based criteria, recruitment processes have historically been convoluted and vulnerable to political intervention. In this regard, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee asserted that 100 percent of teacher recruitment was politicized before the introduction of the mass recruitment procedure, with senior appointments (Grades 1 and 2) across the civil service particularly subject to political bargaining. Capacity is also constrained by inflexibility in the current establishment control (*Tashkeelat*) system, while fragmented and mostly manual payroll verification and management makes it extremely difficult to understand the actual number of active civil servants and to validate their identity.

The Pay and Grading (P&G) system introduced in 2008 brought form and structure to the civil service, but has constrained career growth in technical and professional areas. As the system is differentiated only by grade and not technical skill, it has restricted the career progression of technical staff and, correspondingly, pay progression. Professionals such as engineers or doctors struggle to move beyond the mid-point of the grade scale, regardless of seniority or ability, because upper grades are restricted to management staff. Civil service pay is also affected by limited flexibility, lacking the ability to adjust salary levels to special circumstances, such as areas with higher levels of insecurity.

Meanwhile, the real base pay of civil servants has significantly declined since P&G was introduced in 2008. Historically, real base pay has been allowed to decline and special allowances, overtime, and other ad hoc arrangements have been implemented to offset the drop. Aggregate expenditure on civilian salaries and allowances in 2016 was approximately $969 million, of which allowances and overtime were 36.3 percent. The complexity of these arrangements can lead to abuse and weaken oversight.

Donor-funded technical assistance has helped to address short-term capacity gaps, but has contributed to keeping talented staff beyond the reach of the public sector. In the context of weak public sector capacity, many donor-funded programs have hired non-civil service staff (a "parallel civil service") who work in ministries alongside government employees and help support urgent development objectives. Approximately 20,141 National Technical Assistance (NTA) contracted staff and advisors are employed by government through on-budget donor financing and from its own development budget. An additional 8,000 individual local contractors are estimated to be employed off-budget.[41] NTA has often been used directly to administer core government functions rather than building long-term state capacity, limiting ownership and accountability of policy reform. **In addition to the high dependency on NTAs, there is a growing trend of overreliance on high-cost international consultant support.** Much of this support is for routine activities and therefore not strategically assigned or responsive to critical gap areas requiring specialized technical support.

Continued weak capacity in technical, managerial, and professional areas has increased reliance on temporary capacity injection schemes, such as Tackling Afghanistan's Government HRM (human resources management) and Institutional Reforms (TAGHIR), or the introduction of different salary scales such as Super Skills. While TAGHIR has contributed relative stability to the public sector, having more than 600 "higher caliber" positions, its aggregate impact is difficult to assess, partly because capacity injection has been thinly spread across government and the recruitment processes have not always been robust. Super Skills, under which 3,741 civil servants currently receive salaries of anywhere between $300 to $1,500 per month, was unregulated for a long time and therefore had been highly vulnerable to abuse and conducive to patronage.

Information and communications technology (ICT), while critical to improving efficiency in government processes, remains dependent on donor financing. Digitalization efforts, particularly in the realm of public financial management, continue to rely heavily on donor-funded projects. Beyond initial investments to support establishment of these ICT systems, project financing is used to avail recurrent costs for operation and maintenance, including license fees, maintenance services, and internet services.

41 There has been no systematic tracking of such data due also to the difficulty to monitor off-budget NTA.

The current establishment control process constrains strategic prioritization and alignment of resources with policy objectives, as well as the equitable allocation of human resources across sectors and provinces. At present, annual staffing ceilings are set by the Budget Committee, based narrowly on historical trends and budget limitations, resulting in a *Tashkeel* that is often not well aligned with realities on the ground (especially in provinces) and difficulties in mapping employees to positions in the *Tashkeel*. Linked to this, the lack of a functional human resource management information system (HRMIS) increases vulnerability to misuse of public funds, adding to concerns regarding ghost employees (especially teachers), and continues to obstruct implementation of an automated payroll system linked to the Afghanistan Financial Management Information System (AFMIS). For example, there are significant divergences in the distribution of Ministry of Education (MoE) employees by grade between the IARCSC *Tashkeel* registry and the MoE's payroll data, and the IARCSC *Tashkeel* registry does not include temporary teachers and "overtime" teacher positions. This fragmented and mostly manual payroll verification and management is vulnerable to misuse of public funds.

The P&G salary scale has not been adjusted since its creation in 2008 and base salaries are declining in real terms. There are currently no systematic increases in base salaries, and there is no central entity responsible and empowered regularly to review salaries and propose changes within fiscal constraints. There are currently no labor unions among the civil service or negotiation and bargaining processes. As a result, base salaries have been eroded by inflation. For example, a nominal salary of AFN 12,000 in 2008 had an equivalent real value of only AFN 8,426 in 2017 when using year-on-year Consumer Price Index to adjust for purchasing power. While the median public sector pay is higher than some nongovernmental sectors, 39.8 percent of households headed by a salaried public sector worker fell below the poverty line, according to the 2011–2012 Afghanistan Living Conditions Survey (ALCS).

As aid volumes decline, the sustainability of donor-funded programs and, by extension, technical assistance is at risk. NTA salaries are generally six to 10 times higher than comparable grades in the core civil service, while international consultancy fees charged in Afghanistan are among the highest in the world. According to AFMIS data, the on-budget NTA (equal to under 5 percent of the entire nonuniform civil service) cost of $212 million was more than 25 percent of the annual cost of the core civil service ($800 million) in 2017—comparable to the total base salaries for teachers ($256 million). In addition, while P&G is the predominant scale for the core civil service and the NTA for donor-funded staff, there remain over 10 different pay scales in use across the public sector. This undermines the principle of equal pay for equal work and contributes to fragmentation and lack of transparency of the overall civil service that makes effective management and control of the wage bill difficult.

Capacity injection programs, while avoiding challenges of accountability and policy ownership involved with parallel technical assistance, also carry substantial sustainability challenges. Appointees are formal civil servants and while their employment is open-ended, their higher salaries, denominated on the NTA scale, are linked to project-issued contracts. Unlike other contracted and project-financed staff in project implementation units, sudden discontinuation of the appointees' higher salaries can have a serious disruptive impact across the government. Over two-thirds of TAGHIR appointees are key directors general and directors across the government, and such staff frequently lead on development, management, and execution of government policies and programs.

Investment in digitalization of key administrative processes and systems has generally not followed citizen-centric and whole-of-government approaches. Systems have not been integrated to harness the full benefits of digitalization, and investments in hardware infrastructure have been fragmented. Many existing propriety systems in the areas of public expenditure management and revenue administration were not planned with self-sufficiency in mind, subsequently involving high cost of maintenance and upgrading. While the government has recently turned to more cost-effective homegrown systems, these bring scalability, interoperability, and security challenges.

Policy Recommendations

Building on the initiatives of IARCSC in the mass recruitment process, **the government should increasingly deconcentrate administrative functions to the district level, further decentralize civil service positions in *Tashkeel*, and use more equitable norms for the allocation of civil service position among provinces,** especially teacher positions. Residents of a district should preferably be recruited and deployed in their respective district, and in a post-settlement scenario, residence in a district should be made a precondition for employment there. In tandem, the government should decrease the number and size of central entities, leaving them primarily with identifying policy, standards, regulatory functions, and oversight. The human resources management function in line ministries and at provincial levels needs to be reviewed and aligned with the deconcentration agenda.

Introduction of an HRMIS that can be integrated with AFMIS and e-payment systems would allow for a flexible and dynamic establishment control system. Line ministries would be able to recommend their required staffing levels, with the *Tashkeel* providing authorization tracked by the HRMIS. Organizational structures should be linked to the functions of ministries and clearly identify the level and responsibilities of each position. Ad hoc arrangements outside of the authorized *Tashkeel* should be ended. This is particularly relevant for MoE, which currently is unable to accurately determine the number of teachers per province or district. An integrated HRMIS would enable accuracy and stronger controls on the allocation of new positions, which would facilitate implementation of gender targets to address staffing imbalances.

IARCSC has made considerable progress in the establishment of a national HRMIS, with six key modules developed. Biometric and biographic data of 338,310 civil servants in 52 line ministries and agencies across 34 provinces have been collected. **Despite the progress, key challenges remain to address**. HRMIS end-to-end security requires strengthening. In terms of core system functionalities, the payroll module is still not developed, although the IARCSC HRMIS team has completed requirement gathering and coding. This module is critical to helping address issues around misuse of public funds, ad hoc arrangements, and the prevalence of "ghost" employees, significantly helping to restrict payroll to personnel assigned to specific authorized positions. The payroll is also an important mechanism for monitoring enforcement of pay reforms, as well as constituting the key starting point for piloting digital payments to civil servants.

Addressing issues related to fiscally affordable pay that promote equal pay for equal work requires an innovative approach. A new Civil Servant Pay Policy grounded in equality principles, alongside a specifically tailored wage bill forecasting model, was developed by a technical committee including the Ministry of Finance and IARCSC. Rather than implementing a universal adjustment of P&G rates, which fiscal space would not afford, future wage growth—in the form of supplements—should be used to compensate civil servants with verified competencies, i.e., linking pay to professionalization reforms. Highly qualified technical personnel will have opportunities to join a professional cadre, while nontechnical professionals will have opportunities to receive additional pay tied to competency testing. Low grade nonprofessional staff members are protected through a modest unconditional pay supplement. Wage increases are also conditional on implementation of other related strategic reforms, such as biometric enrollment in HRMIS and elimination of NTA positions within employment groups.

T**he Civil Servant Pay Policy will** promote the recruitment and retention of competent civil servants through competency-based supplements, rather than the current use of ad hoc allowances, and **serve as an instrument for line ministries to certify the competencies of their existing civil servants on payroll.**

Implementation of this policy will require a phased approach and ongoing analysis and review. The High-Level Pay Committee approved by the Cabinet in January 2020 to oversee implementation of the Pay Policy,

supported by a Working-Level Technical Committee, should regularly review and ensure standardization of civilian compensation informed by scenarios created using the wage bill forecasting model. Based on the available fiscal space (to be provided by MoF) and informed by consultations across the public sector, the committee should submit proposals to the Cabinet for revised rates of pay and adjustments to allowances for inclusion in the budget process, including recommendations on cadre-specific rates of pay and on NTA pay. The committee should additionally consider the impact of compensation on the gender composition of the civil service.

The government should consider a plan for selective and strategic use of NTAs in the short term and develop a phase-out plan to support institutional self-reliance in the medium term, as the cadre management system and a blended positions-based and career based-system mature. **The government also should evaluate the use of high cost international technical assistance that leads to dependency traps,** which would first require an exercise to consolidate data on existing parallel structures, as well as to record and monitor donor assistance, including off-budget. This exercise could be led by MoF as part of its Fiscal Performance Implementation Plan commitment to gradually reduce the reliance on technical assistance, which particularly impedes sustainability efforts within public financial management functions. A comprehensive assessment to identify what share of overall NTAs are financed through donor projects can help redirect some from parallel to core civil service staff in a gradual process based on existing capacities that would not weaken results. Nonetheless, a meaningful rationalization is required to help develop and sustain capacity to execute (on-budget) the investments to come and to deliver key services.

The government should seek a more fiscally sustainable and meritocratic, professionalized senior civil service corps. Interdependent gradual reforms around civil service pay and professionalization, including the establishment of cadre groups—especially the senior executive cadre—are an important transition mechanism that can provide momentum for improved wage bill management. However, current progress is lagging, and it will be important for the government to reprioritize and advance implementation of these important reforms.

GovTech can greatly assist Afghanistan to better deploy and utilize technology. GovTech, a World Bank initiative, promotes the use of foundational and frontier digital technologies with the goal of transforming the way governments operate, deliver services, and interact with citizens. In Afghanistan, some core GovTech-related activities have been planned by the Digital Central Asia-South Asia initiative, including establishment of government cloud, shared services, and digitalized accessibility of prioritized public services through the e-government portal. However, the full potential of GovTech remains to be unlocked. While an updated roadmap for digitalization of public services is required to set approaches for pursuing medium-term targets, there is a need in the short term to (i) conduct thorough research and analysis of e-government systems and processes to establish a clear institutional framework for prioritization of digitalization (in batches of services/ life events) as part of the public investment management framework; (ii) adopt a whole-of-government architecture and service delivery standards; and (iii) introduce a comprehensive methodology and framework for business process reengineering to ensure that digitalization introduces necessary monitoring and control mechanisms for enhancements in efficiency, anti-corruption, and evidence-based policy.

9 Financial Sector

Policies and Investments to Scale Up Access to Financial Services

Context

Some improvements in overall financial sector stability have been observed over the past years as the sector slowly continued to rebuild following the Kabul Bank crisis of 2010. After the Kabul Bank collapse, the stability of the financial system was threatened, and concerns arose about the central bank's capacity to adequately supervise the sector. In parallel, the microfinance sector, which experienced a repayment crisis in 2008 in the aftermath of uncontrolled growth, experienced the closing of several microfinance institutions and consolidation of the remaining ones. Subsequent reforms in the areas of regulatory and supervision capacity, risk management, and governance indicated an improved health of the banking sector, as measured by higher capitalization and liquidity levels.

Similarly, new performance standards were introduced, with strengthened policies and procedures adopted in the microfinance sector. However, profitability has remained weak in both the banking and the microfinance sectors. A recent wave of exit and consolidation in the banking sector led to the number of banks decreasing from 16 in 2014 to 13 in 2019. In the overall financial sector, the clientele is increasing, as a reflection of slowly restored public confidence. As per the Global Financial Inclusion Index, the percentage of Afghan adults who own accounts in financial institutions slightly improved from 11 percent in 2014 to 15 percent in 2017.

However, financial stability challenges persist and are expected to be amplified with the COVID-19 pandemic. Although the banking sector has remained well-capitalized and liquid on an aggregate level since the outbreak of COVID-19, portfolio quality has already deteriorated across the board and the financial health of weaker banks is at risk. The slowdown in economic activity—especially among micro, small and medium enterprises (MSMEs) and the informal sector—has also led to a deterioration of loan portfolio quality in the microfinance sector, which could pose liquidity risks for microfinance institutions that are non-deposit taking and vulnerable to any deviations in interest income from loans.

In the context of COVID-19 and in addition to preserving financial stability as the utmost priority, the access-to-finance agenda remains critical to address the negative impact on the MSME sector and households. Access to financial services has been extremely limited even prior to the outbreak of COVID-19. More than eight out of 10 Afghan adults are financially excluded, with women disproportionately affected, as only 7 percent of women own an account at a financial institution. In comparison, the average for the South Asia region stands at 70 percent for all adults, and 65 percent for women only.

Access to financial services is a key factor for households to sustain their livelihoods and improve resilience, for businesses to thrive, and for MSMEs to continue generating jobs. Meanwhile, financing for Afghan firms has worsened. Credit to the private sector stood at 3.2 percent of GDP in 2019, compared with 4.1 percent in 2012, which was already the lowest in the region and one of the lowest in the world. By comparison, the credit-to-GDP ratio stood at 88 percent in Nepal (+29 percentage points since 2012), and 18 percent in Pakistan (+3 percentage points since 2012). Total banking sector loans have fallen below pre-2012 levels to the equivalent of $518 million as of the end of May 2020. As bank deposits increased, the loan-to-deposit ratio has steadily decreased since 2010. The usage of digital payment is very low, as only 1 percent of Afghan adults own mobile wallets, affecting the ability to efficiently transact and sustain operations and deliver cash relief to vulnerable people during the pandemic.

Internal deficiencies and inefficiencies limit the sector's ability to finance the economy. These relate to governance, funding structure including low liquidity in local currency, risk management capacity, loan appraisal, and management capacity, including human resources. These inefficiencies ultimately translate into high interest rates and collateral requirements. Furthermore, the limited availability of financial products, including Sharia-compliant financing and insurance, also limit the usage of financial services for those that already own an account. Financial institutions have not taken advantage of fintech to introduce innovative and lower-cost financial products and services, including digital financial services.

A weak contract enforcement framework and a non-performing loan ratio that is going up and exceeds 20 percent in some banks put pressure on the already low and volatile profitability margin of financial institutions, which reinforces their aversion to extending their clientele beyond the large corporates. The length and complexity of legal proceedings, as well as the absence of specialized commercial courts for financial issues, is cited by financial institutions as a constraint to access to finance.

The deteriorating security environment has further decreased the already limited outreach of formal financial institutions after several branch closures and limited services in some areas. Financial institutions also experience high security-related operating costs, which they cannot fully absorb and pass onto clients. The resulting high cost of financial intermediation drives the Afghan population away from formal finance. Currently, the majority of financial transactions takes place through informal channels, mainly *hawalas* (money transfer systems).

Despite recent progress made to improve the framework for secured transactions and establish the public credit registry and collateral registry, weak credit infrastructure persists. Credit reporting coverage remains low at 1.5 percent of the population, compared to the regional average of 4 percent. The collateral registry is currently not functional, and the limited knowledge of and scarce use by banks and microfinance institutions of alternative financing methodologies that substitute for traditional collateralized lending continue to constrain lending to MSMEs.

The low levels of financial inclusion can be partly explained by the overall low financial literacy in the population, especially among women, and the population's mistrust of the financial sector, owing to the Kabul Bank crisis and weak consumer protection. In addition, sporadic rumors about the strength of the financial sector further hurt public confidence. These issues, coupled with misperceptions about financial services and religious beliefs (such as *riba,* or interest), affect the demand for formal financial services.

Specifically regarding MSMEs, the informality, weak documentation, and low skills make it challenging to identify a bankable business pipeline for banks. In addition, the limited availability of competent and experienced financial professionals as well as credible experts in related areas (such as of property valuation, legal experts, or certified public accountants) constrain the growth of the financial sector and its ability to support the economy.

Several reforms are already underway to address such challenges. In line with the Afghanistan National Peace and Development Framework (ANPDF) for 2017–2021, reforms include the strengthening of accountability and governance in the banking sector and implementation of the strategy to reform the state-owned banks adopted in November 2017. A range of facilities to ease access to credit for MSMEs have been established, and investments have built a basic infrastructure for the national payment systems**.** Efforts to increase access to finance recently culminated with the adoption of the NFIS is to reduce financial exclusion in Afghanistan by close to 15 percent and improve the overall financial access of all Afghan citizens within the next four years. A National Money Laundering and Terrorist Financing Risk Assessment (NRA) is also being completed by Afghan authorities, as recommended by the Financial Action Task Force. The NRA is a countrywide exercise that assesses vulnerabilities against money laundering and terrorist financing in financial institutions and designated nonfinancial businesses and professions.

Policy recommendations

Accelerate the implementation of the state-owned bank strategy to demonstrate accountability and stronger governance of the banking sector. A major chapter of the Kabul Bank crisis ended in September 2019 with the final cash transfer from the Ministry of Finance to DAB to extinguish its lender-of-last-resort exposure. Resuming recovery of the remaining 40 percent of assets stolen during the crisis will be an important signal to the market. In parallel, accelerating the implementation of the state-owned bank strategy, including consolidation, commencing with the merger of Bank-e-Millie and New Kabul Bank and further reforms of Pashtany Bank, is essential to strengthen financial stability and minimize fiscal risks while allowing them to play a unique and critical role in supporting economic growth.

Further strengthen the regulatory and supervisory capacity of DAB and establish adequate deposit insurance, bank resolution, and crisis management frameworks to safeguard financial stability. DAB should ensure effective regulatory and prudential oversight of all financial institutions with a focus on enforcement, in particular for weaker banks, including early intervention as needed. With the rising difficulties of some banks since late 2018, sustained intense monitoring by DAB as well as an independent review of operations, systems, and asset quality of the higher-risk weak banks are a critical priority. In addition, DAB should establish the required legal and regulatory framework for bank resolution and enhance its capacity for crisis prevention.

At the same time, finalize and start implementation of the National Risk Assessment and implement the corresponding action plan to strengthen financial integrity. Completion of the NRA is critical to pursuing priority reforms and measures that are necessary to address financial integrity issues in Afghanistan, including the adoption of a risk-based approach for anti-money laundering/countering the financing of terrorism (AML/CFT). The implementation of a comprehensive and well-resourced action plan will be key to achieving the financial inclusion goals that are outlined in the NFIS, including the development of digital financial services and expanding outreach in areas where informal channels are well established. DAB should continue efforts to develop an appropriate regulatory and supervisory framework for nonbank financial services providers (including money service providers and electronic money institutions) to launch these while addressing AML/CFT issues.

Support the uptake of Digital Financial Services (DFS). As highlighted during the pandemic, a large segment of the population does not have access to DFS due to limited access to formal identification documentation or the limited agent network of formal financial service providers. Reforms that support large-scale ownership of mobile money wallets, efficiency and reliability of digital transactions, and the common use of digital payments (even at retail level) should be pursued, in parallel with upgrades to the national payment infrastructure. The government should also support DFS through the availability of e-payment for most government-to-person services and incentives for digital in lieu of physical cash transactions.

Scale up existing facilities to improve access to financial services for MSMEs, including for women and the agriculture sector, to boost economic growth. The Microfinance Investment Support Facility for Afghanistan and Afghanistan Credit Guarantee Foundation are strong vehicles for microfinance and small and medium enterprise finance. The government should also ensure that the Agricultural Development Fund pursues its endeavor to become a sustainable financial institution with strong governance. Building a network of strong institutions will support financial institutions in providing innovative and tailored financial services (including Sharia-compliant leasing and micro-insurance) and thus facilitate the shift from informal to formal sources of financing. Furthermore, systematically addressing constraints to financing for women is a priority. Recourse to nontraditional collateral, use of financial technology, and design of gender-smart financial instruments will be key to closing the financial access gap.

Support prerequisite reforms facilitating development of a sustainable housing finance market, including for low-income households in urban and rural areas, through implementation of concomitant public policies enabling an increase in the supply of affordable housing (e.g., cadaster, land titling, foreclosure, mortgage registration and availability of a capable and well-resourced construction market, design firms, and building materials industry). Technical assistance support should be considered for commercial banks to develop mortgage lending capacity, including related to Sharia compliance. Consideration should also be given to supporting microfinance institutions with technical assistance and liquidity to develop new or refine existing housing microfinance products and expand housing microfinance lending.

Provide an enabling environment to increase access to financial services and avoid being a direct provider. International experience shows, in particular in weak governance environments with fiscal constraints, that the government or state-owned institutions should avoid being a direct provider of financial services. The government should instead focus on indirectly supporting increased access to financial services by creating an enabling business environment, ensuring macro-financial stability, and strengthening the operations of existing institutions, including through sustainable business models. Private investments, including toward developing the country's infrastructure, could be facilitated by risk-sharing instruments and sustainable risk-sharing financing facilities.

All government initiatives that support the development of facilities to improve access to finance should be accompanied by measures to strengthen governance and safeguard fiscal risks. DAB's efforts to strengthen the financial sector infrastructure (expansion of public credit registry and movable collateral registry, and modernization of payment system) should also be pursued. The government should further support financial innovations, including the adoption of digital financial services, as an opportunity to increase financial inclusion and reduce the large gender gap in access to financial services. Financial education and literacy should be mainstreamed to attract more people toward formal financial channels. This is particularly relevant for women and youth. Finally, implementation of the NFIS in close coordination with the private sector and the inclusion of the nontraditional financial sector stakeholders will be important to prioritize reforms than can leverage private investments.

These priorities and policies are in line with the ANPDF and contribute to the objectives of the Afghanistan Self-Reliance Accelerator Package, in addition to the Private Sector Development, Comprehensive Agriculture Development, and Women's Economic Empowerment National Priority Programs.

10 Education

Foundational Investments to Broaden Accessibility & Opportunity

Context

General education sector

Afghanistan has achieved remarkable growth in school enrollment at all levels in the past decade, but serious challenges exist. Despite insecurity and unstable governance since the 2001 ousting of the Taliban, the country has made notable progress in improving access to education, particularly at the primary education level. The 2016–17 Afghanistan Living Conditions Survey shows an increase in primary and lower secondary enrollment—partly due to efforts in constructing and establishing public schools and allocating teachers to them. However, half of girls and a quarter of boys still never enter school today, and 93.4 percent of children in the country are in Learning Poverty, unable to read and understand an uncomplicated text by age 10.

School construction remains a top priority agenda for both encouraging more enrollment and facilitating learning. In general education,[42] enrollment rose from approximately 4 million students in 2003, with very few girls, to 9 million in 2017, with 39 percent of them girls. According to the Ministry of Education (MoE), about 1 million children, or 12 percent, were "permanently absent" in 2017. Roughly half of all the schools today operate in rented premises or in open air due to a lack of buildings.

Overall, more than 3.5 million out-of-school children, of whom 75 percent are girls, do not have access to basic education. Evidence shows that insecurity, cultural norms, distance to school, and lack of female teachers are key barriers for girls. The government has been exploring alternative options to deliver public education that would facilitate the enrollment and retention of girls, such as the Community Based Education (CBE) model that could potentially complement the existing system. Concerns over coordination, transition, and sustainability still remain for both the MoE and development partners.

Teachers matter more to student achievement than any other aspect of schooling and are crucial to improving school enrollment and learning outcomes in Afghanistan. According to the Systems Approach for Better Education Results Service Delivery for 2018 (SABER SD 2018), almost 20 percent of primary teachers are unable to correctly compute double-digit addition, 50 percent are unable to compute the perimeter of a rectangle, and only 46 percent could correctly answer reading comprehension questions. While multiple factors contribute to poor learning results, the lack of qualified teachers is a significant binding constraint. The MoE, with World Bank support through a series of projects (EQUIP, EQUIP II), has trained many teachers, but the need remains significant.

42 It includes primary and lower secondary education (grades 1 to 9) in Afghanistan.

Many Afghan students perform significantly below the MoE's mathematics and language standards. For instance, after spending four years in primary school, less than half of Afghan students can master grade 1 mathematics and only around 65 percent can master the language curriculum (SABER SD 2018). These results are not surprising in view of the poor performance metrics of teachers. The low availability of early childhood development (ECD) programs also contributes to low performance,[43] as only 1 percent of children age 3–5 years old attend preschool in Afghanistan (Multiple Indicator Cluster Survey 2012).

Ineffective and inefficient teacher management also erodes Afghanistan's education performance. In past years, teacher recruitment and deployment were characterized by nepotism and corruption, resulting in tens of thousands of unqualified teachers entering the teaching force and creating a disparity of teacher-student ratios between provinces. There is also a gender dimension to the teacher issue as only 33 percent of all *Tashkeel* teachers[44] are female, with half of them located in the three major provinces of Kabul, Herat, and Balkh. Other provinces need more female teachers to help address the low access to education for girls.

COVID-19 has made the situation worse by forcing all public schools to close in March 2020. They will continue to remain closed, except grades 11 and 12, until the end of March 2021 at least. In the absence of effective policy action, today's primary and secondary school students could experience a significant loss of learning.

Skills development sector

With the Afghan labor force growing by almost 500,000 people per year and with COVID-19 impacts expected to lead to further economic strain, **the Technical and Vocational Education and Training (TVET) sector is seen as a critical vehicle for human capital development and an important part of Afghanistan's economic recovery and poverty reduction efforts.** Around half the population is underemployed or unemployed, and overall labor force participation rate is low at 53 percent. Women are notably underrepresented in the labor market, and the majority of the active population is categorized under "vulnerable employment." The COVID-19 pandemic means an even greater number of undereducated and unskilled young people will be entering the labor market in coming years.

Given the scale and scope of the challenge, the current formal TVET system is small and unequipped to meet demand for immediate skills. Most young people seek relevant skills development opportunities outside the education system. At present, only about 80,000 youth are in TVET schools and institutes, while 700,000 young people are engaged in the traditional apprenticeships known as the Ostad-Shargerdi system.

The overall institutional framework for TVET is fragmented, and the mandate for TVET activities is spread across government agencies and service providers. Decision making for the formal TVET sector remains overcentralized and core administrative and academic responsibilities (student registration, academic supervision, and curriculum development) are largely based in Kabul. There is limited connectivity between the nonformal and formal sectors, and TVET is often viewed as a back channel to entering higher education, instead of a pathway to direct employment in a trade. This leads to the lack of a dynamic set of learning pathways between and within various educational sectors (and the formal and informal labor market) capable of facilitating movement according to individual, sectoral, labor market, and national needs and interests.

The formal TVET sector also fails to live up to its promise due to shortcomings in quality and poor alignment with market needs. Despite recent improvements, trades taught by TVET institutes remain largely disconnected from market needs and involve very little engagement from the private sector. The current stock of teachers

43 The strong link between holistic child development and school readiness reinforces the importance of integrated, multisectoral ECD programs. There is plenty of evidence that disadvantaged students are those making the most noticeable gains from ECD programs.

44 Full time teacher with civil servant status.

also lacks adequate pedagogical and technical competencies, and the limited and poor use of innovations and digital technologies is hampering the potential scale and quality of TVET provision. As a result, poor quality and weak alignment produce high rates of under- and unemployment among TVET program graduates.

Higher education sector

In a modern global knowledge economy, the higher education system contributes to a pool of high-level human resources essential for economic development, including policymakers, professionals, managers, academics, and technical experts. It is also acknowledged that higher education can contribute to the promotion of civic values and attitudes needed for a modern democracy and the development of a socially cohesive nation. In Afghanistan, equity remains the primary challenge and the country requires a major increase in the number of university graduates to create a modern, skilled workforce to accelerate economic growth.

In addition, the number of female university graduates needs to increase sharply to address gender equity. Females comprise only 24 percent of students enrolled in public universities and higher education institutions due to numerous challenges, including lower retention and completion of secondary-level education by girls, traditional and conservative barriers, and in some cases, the lack of conducive learning environments. Only about 6,000 women can be accommodated in public university hostels/dormitories, compared to 59,000 men.

The higher education sector must also modernize teaching and learning. There is a severe shortage of qualified academic staff in Afghan universities, particularly females. Out of approximately 5,000 faculty in public universities, 774 are female and just over 200 of them have master's degrees or above. The number of PhD-qualified academic staff is less than 5 percent and most university academics have only bachelor's degrees. COVID-19 and the closure of higher education institutions is likely to further challenge the sector, heightened by movement restrictions between local and overseas universities.

The governance of higher education is outdated and needs to be strengthened, with greater autonomy and accountability at the institution level. Reforms related to the licensing, quality assurance, and accreditation of higher education institutions have to be strengthened to reflect international standards and practices. In addition, the research output of Afghan universities remains far below global norms. The promotion of research is a vital next step in increasing the quality of higher education in Afghanistan. Public universities continue to operate within a highly centralized system, and competition between public and private higher education institutions needs to be based on standards of quality in teaching, learning, and outputs.

Policy recommendations

General education sector

To support the National Education Strategic Plan III (2017–2021), development partners have identified several high priority reforms and interventions. Addressing the deep access and equity challenges requires development of a comprehensive and feasible School Infrastructure Policy to establish norms for distribution of resources, identify innovative solutions for sustainable maintenance of existing infrastructure, and ensure adequate shelter for children who study in open areas. The policy should be supported by credible data through mapping the infrastructure and maintenance needs of schools across the country.

To improve access for girls and students in hard-to-reach areas, the MoE should develop a harmonized CBE strategy that improves coordination between stakeholders on standardizing program cost and quality, enables the transition to hub schools, and improves sustainability of CBE programs by streamlining funding mechanisms.

The government should develop a comprehensive roadmap for reforming teacher management and assessing their qualifications. The teacher policy should determine norms for equitable allocation of teaching positions and transparent recruitment mechanisms, coupled with systems for credentialing existing teachers. Broader reforms are needed to improve the quality and relevance of curriculums and track system performance through regular learning assessments.

Global evidence shows that early childhood education (ECE) plays a key role to improve student learning. In Afghanistan, however, the ECE sector is in a nascent phase of development. The MoE should develop a national preschool policy, establish a viable ECE service delivery model, engage and coordinate with preschool stakeholders, and strengthen the MoE ECE unit's capacity to implement these actions.

Given the significant impact of COVID-19 on education service delivery in Afghanistan, it is critical to have a clear vision for remote learning capabilities while keeping in mind the limited infrastructure, particularly in the general education sector. The MoE needs a policy that encompasses short-term measures, such as pilot programs using traditional technologies including radio and TV with a robust monitoring mechanism built in, while also investing in and improving the information and communications technology (ICT) infrastructure for delivering education in the long term. Since the current ICT infrastructure is limited in the country, particularly in rural areas, a phased approach is recommended for expanding the use of ICT for improving general education service delivery in the mid-term. The MoE is currently implementing its COVID-19 response plan, which is a good opportunity to assess investment-worthy approaches for ICT usage and develop a mid-term roadmap for the ICT education activities.

Skills development sector

Increased access to TVET to cover a larger share of Afghan youth will require expansion of formal TVET service delivery, coupled with nonformal channels to broaden target groups. The new TVET Strategy (2019–2024) underscores the need for systematic planning and distribution of new infrastructure, better use of existing infrastructure, and prioritizing extension of TVET services into underserved rural areas and target groups. To improve equity, flexible delivery modalities through nonformal approaches (including scaling up operating systems) and tapping the potential of various synchronous and asynchronous digital delivery mechanisms should be expanded to accommodate the lifestyle and cultural constraints of learners, particularly women, as well as those who are unemployed, semi-illiterate, dropouts, special needs students, and displaced students.

To improve employment outcomes for youth, the TVET sector requires a coherent and sustained effort to address quality and relevance. A curriculum revision must be responsive to local labor market needs and be reoriented to stress "education-to-work" and competency-based approaches. Deepening collaboration with private sector at all stages of curriculum revision and delivery is essential. The government should also build on existing reforms related to merit-based TVET teacher recruitment and capacity building, as well as prioritizing teacher professional experiences including exposure to industry experience for both existing and new teachers.

The institutional framework underpinning the TVET sector also requires strengthening in light of an ambitious administrative and academic reform agenda. Major strategic policy and programming reforms will be needed to expand the TVET system and link formal and nonformal approaches. Improving alignment and connectivity with the higher education sector, as well as mobility between different forms of the TVET activities, will require an integrated strategy that should articulate coherent learning pathways between nonformal and formal subsectors to accommodate the rapidly changing world of work and promote lifelong learning opportunities. To respond to these and the significant COVID-19-related challenges, the newly established independent TVET Authority should benefit from capacity building at the center, in addition to strategically delegating academic, management, and operational authority to provincial and district levels.

Higher education sector

Equitable expansion is a high priority in the higher education sector with a need to pilot innovative modes of service provision to broaden access. Development partners can play a catalytic role in the introduction of e-learning modalities and encourage greater use of information technology in teaching, learning, and research in higher education. Furthermore, the closing of higher education institutions due to COVID-19 accentuated the demand for innovative and multimodal delivery of higher education, particularly a platform for blended, distance, and e-learning. There is also a need for a concerted effort to improve the gender sensitivity of facilities and services in universities.

To improve the quality of learning, there is a critical need to invest in the foundational elements of the higher education system. Increasing the proportion of university academic staff with master's and PhD-level qualifications will improve the capacity of the teaching force. The higher education sector also should improve the stock of facilities, equipment, and infrastructure to enable modern teaching and learning, as well as introducing student-centered and outcome-based approaches to learning, embedding e-learning as one of the integral elements of this approach. In addition, support to build research capacity and foster a culture of academic inquiry is needed. Strengthening linkages and collaboration with foreign universities improves the quality assurance system and increases access to quality online education and research activities. This collaboration can be built through faculty and student exchange programs, while integration of digital technologies in higher education will further enable local institutions to access and benefit from regional and global academic resources.

Higher education institutions will benefit from strengthening the governance of the sector. Reforms should promote quality assurance mechanisms, ensuring that the same norms and processes for quality assurance and accreditation apply to both public and private higher education institutions. Priority should be given to gradually increasing academic autonomy, especially in curriculum design and delivery, teaching-learning processes, and assessment methods. Autonomy also should be supported through the preparation of strategic institutional development plans to implement, track, and benchmark development priorities at the university level. The public university system should be allowed to move gradually toward fiscal autonomy, building an adequate mechanism for checks and balances, to encourage revenue generation and management for reinvestment in the development of the institutions. Policy reforms should furthermore focus on greater engagement with private sector representatives to broaden the scope and scale of public-private partnerships in higher education. Blended, distance, and e-learning should be recognized in the higher education regulatory system and become a fundamental part of teaching and learning.

11 Health

Unfinished Agenda of Sustaining Gains

Context

Despite rising levels of violence over the last decade, notable progress has been made in improving maternal and child health outcomes, as well as in nutrition and health service delivery. The progress in key health outcomes has occurred as the government has contracted out essential basic health service provision in 31 of 34 provinces to nongovernmental organizations (NGOs) that are paid based on their performance on key services with set targets. The same services are provided in the remaining three provinces by the Ministry of Public Health with technical support from contracted program managers.

Key enablers for the health sector progress are (i) strong government stewardship; (ii) development of sound and stable policy frameworks; (iii) prioritization of investments in primary care and the introduction of a basic package of health services (BPHS) and essential package of hospital services (EPHS) for implementation by service providers; (iv) strong and focused investments in health information systems, including third party monitoring; and (v) donor financial assistance under one umbrella through the Afghanistan Reconstruction Trust Fund platform that has allowed harmonization in intervention design and implementation arrangements across the country. The achievements in service coverage and health outcomes despite the ongoing conflict suggest a resilient health system with a strong foundation of primary health care services that can be reached within two hours by over 90 percent of the population.

Afghanistan has a high poverty rate of 54 percent and a Human Capital Index (HCI) of 0.39, suggesting a significant shortcoming in potential income and GDP as children born in Afghanistan today will be on average 61 percent less productive than they would be if there were perfect survival, education, and health in the country. Afghanistan ranks 133 out of 157 countries that have an HCI because about seven out of 100 children do not survive to age 5; children on average have only about 4.9 learning-adjusted years of school (out of a maximum of 14 years); 41 out of 100 children are stunted;[45] and only 78 percent of the population over 15 years survive to the age of 60. In addition to increasing the intrinsic benefits and values of optimal health and education of its people, Afghanistan could more than double its GDP by improving its health and education outcomes.

The health sector financing situation is complex and precarious. According to the 2017 National Health Accounts, total health expenditures consisted of 75.5 percent out-of-pocket (OOP) spending by the population,[46] with the rest financed by donors (19.4 percent) and government (5.1 percent). The latest public expenditure update by the World Bank (2019) indicates that the government's budgeted

45 Afghanistan's HCI is based on 2017 data including the stunting rate of 41 out of 100 children. The latest update on the national stunting rate is 36.6, which is from the 2018 Afghanistan Health Survey (AHS).

46 OOP spending: 54.3% on medical goods and drugs and 34.6% on diagnostics.

spending of $135 per Afghan includes $8 for health, $17 for education, and $21 for infrastructure, while $50 is for security. Maintaining the current levels of health service delivery and development outcomes requires increasing recurrent expenditures by an average of $195 million per year between 2020 and 2030, according to government estimates. Without such an increase, only minimal levels of health coverage would be provided, which does not bode well for the country's human capital.

Maintaining and improving the current gains in health outcomes, driven largely by improvements at the primary and secondary health care levels, needs to remain a top government priority. However, the country faces increasing fiscal constraints as donor financing declines and domestic revenue mobilization remains limited, while security expenditures continue to increase, squeezing funding for social and economic development. Gains in the health sector have made service provision more equitable, but the poor and the underserved still suffer from limited access to basic services.

The government has been designing an "Integrated Package of Health Services" (IPHS) as a strategy to manage the double-burden of communicable diseases and the rising rates of noncommunicable diseases, including mental health ailments. Implementation of the IPHS will largely depend on the prevailing fiscal situation, with consideration for a phased rollout focusing on health promotion and prevention services that can be cost-effectively introduced within the current BPHS/EPHS services.

The total per capita health expenditure increased by an average of 7.8 percent per year between 2005 and 2016, *mostly in out-of-pocket spending* and external donor contributions. In addition, a small and stagnant share of domestic government expenditures varied between 4.3 percent and 6.1 percent of health expenditures. According to the WHO Global Health Expenditures Database, the external financing for 2016 was split between funding managed by the government, representing 25 percent, and funds spent directly by the donors or by the private sector and NGO institutions representing 75 percent of the total external funds. While external funds increased between 2003 and 2013, they have been decreasing since then. Combined with the stagnant share of domestic spending, that means OOP spending has been increasing. Compared with other countries in South Asia, OOP spending in Afghanistan represents the highest share of total health expenditures (75.5 percent in 2016), and one of the highest in the world. The high OOP spending is mostly at the hospital level, largely due to the use of nonregulated private health services and the high costs of drugs and medical supplies because of a complex and inefficient pharmaceutical and medical supply chain system. While all income quintiles in Afghanistan, including the richest, experience financial distress because of the high level of OOP, the poorest are more negatively impacted.

Although substantial improvements have been made since 2001, Afghanistan still has one of the highest rates of maternal and child mortality worldwide. The burden of maternal mortality is driven partly by poor access to maternity care, with 79 percent of pregnant women not receiving at least four antenatal care visits and 41 percent giving birth at home (AHS 2018). Home births greatly increase the risk for women and children—deaths within the first month of life account for up to half of deaths under the age of 5 years. Even when antenatal care is provided or delivery occurs in a health facility, the quality of services often needs to be strengthened. Most maternal and neonatal deaths can be prevented with adequate care before, during, and after delivery.

The Total Fertility Rate (TFR) of 5.1 children per woman (AHS 2018) limits Afghanistan's economic potential. Lowering the TFR is a precondition to achieving the demographic dividend that is essential for economic growth. Despite an increase in the Contraceptive Prevalence Rate from 5 percent to 17.4 percent between 2003 and 2018, the TFR has remained stagnant due to a lack of family planning services to meet the level of need. This contributes to high rates of maternal and child mortality, lowers female life expectancy, and limits women's participation in education and labor with a direct impact on the country's economy and social development. Afghanistan's population structure also has a high proportion of dependents to workers in the economy (1.1 people of working age for each dependent, compared to nearly two workers per dependent in India and 2.7 in

South Korea). Such a ratio leads to increased expenditures on consumption, reduced household savings, and limited opportunities to invest in health and education at the household level, while systematically limiting investments in human capital and potentially undermining economic productivity at the national level.

Undernutrition, which has long-lasting negative impacts on the health of children and adolescents, is high among children under 5 years old, with 36.6 percent stunted, 5 percent wasted, and 2.9 percent with severe acute malnutrition (AHS 2018). Commencing from conception and pregnancy, undernutrition increases infant, child, adolescent, and maternal morbidity and mortality, and also slows the country's economic growth while perpetuating poverty through decreased physical and cognitive development (often irreparably), decreased learning capacity, poorer school performance, decreased individual and, in turn, national productivity, and losses owing to increased health costs.

Hospital spending accounts for a significant portion of public health expenditures and has been rising (from 30 percent in 2008 to 40 percent in 2014), even though the availability of services is still below global standards (with none providing specialized services such as cancer diagnosis and treatment). The situation leads to a proliferation of private hospitals that are not regulated, thereby causing more harm than good. Measures of quality of care remain quite low with a wide variation across public hospitals. Recent analysis suggests that a great deal of preventable mortality and morbidity is due to either the lack of availability or the poor quality of basic hospital services, such as basic trauma, comprehensive maternity, and surgical care. Recent global evidence indicates that more people (5.7 million) die in low- and middle-income countries every year from poor quality health care when compared with those (2.9 million) that die from lack of access to care. An efficiency review of all public hospitals across the country found variability in efficiency scores across the different types of hospitals, with the large Kabul tertiary-level hospitals being the least efficient and the NGO-run secondary-level hospitals in the provinces the most efficient. There has been inconsistency in the application of the government's hospital policies over the last 10 years, varying from substantial autonomy to centralized control of key functions (e.g., budget management and procurement). While much has been done at the primary and secondary health care levels to improve the efficiency and quality of services, more government attention and effort is needed at the tertiary level.

Only 51 percent of children in Afghanistan are fully immunized, leading to preventable cases of infection and mortality. Cultural, political, economic, and geographic barriers to immunization contribute to the problem. This is true for the polio virus, which remains endemic only in Afghanistan and Pakistan, and will likely be true for pandemics such as COVID-19.

Policy Recommendations

Continue strengthening the delivery and quality of primary and secondary health care services to sustain sectoral gains. The government needs to maintain focused attention on the provision of a harmonized package through contracted service providers. While improving the efficiency and effectiveness of the contracted services, there should also be a gradual increase in domestic financing toward fully sustaining this model. As part of the peace settlement, there is a need for high-level dialogue with anti-government elements to ensure that service delivery in all areas can continue uninterrupted and to enhance the performance of the service providers.

Other key areas of attention include (i) extending services to very remote and hard-to-reach areas to expand coverage to the "last mile"; (ii) improving the quality of services (including a greater focus on human resources for health to address the shortage of female health workers and equitable distribution of workers); (iii) improving health promotion and prevention of noncommunicable diseases, including mental health at the primary health care level (to reduce the need for costly hospital interventions) and with special attention to the

needs of those with disabilities; (iv) expanding gender-based violence- (GBV-) related health services to cover all provinces, including strengthening the capacity of frontline health workers to handle such cases; (iv) improving the referral systems to manage the flow of patients to hospitals; and (vi) strengthening citizen accountability and monitoring by leveraging existing platforms including the Citizens' Charter Afghanistan Project and Health Shuras that are part of the existing broader democratic state building policy agenda.

Promote and ensure greater efficiency and equity of health sector financing. The current arrangement will not sustainably finance service delivery and system development, which are core to achieving the Universal Health Coverage goals. Important considerations for implementation include (i) increasing the government's contribution to health by exploring new sources of revenue and aligning expenditures with prioritized policy goals; (ii) reducing the fragmentation of donor funding streams by capturing as much "off-budget" funding within the government's planning process along with the "on-budget" resources (such as support to the government from the Global Financing Facility for Women, Children and Adolescents for the development of a health sector investment case); (iii) developing public policies to reduce the high level of OOP spending as a share of total health expenditures, especially among the poor and vulnerable, by improving service delivery and strengthening health promotion and prevention services within the BPHS and EPHS; (iv) focusing on selected areas of efficiency and equity improvements, such as procurement mechanisms (for equipment, pharmaceuticals, and other supplies), hospital management, and prevention/promotion efforts at the functioning primary health care level; and (v) improving the Ministry of Public Health's governance capacity, including institutional and managerial capacity (aligned to core functions, lines of accountability, and rationalized staffing) for planning, financing, and ensuring provision of quality health services at all levels. These have all been well defined in the government's Health Financing Strategy, which will require political will, ownership, and dedicated resources by the government to support effective implementation.

Invest in human capital to reap the demographic dividend. This will require **strong multisectoral action with strong central government oversight to coordinate** the various cross-cutting interventions and inputs to address key determinants of health, nutrition, and broader human development outcomes. More attention should be given to reducing infant, child, and maternal mortality; improving adolescent girls' and women's health and empowerment; improving family planning services to cover unmet needs and to reduce missed opportunities for services; improving nutritional status of children, adolescents (especially girls), and mothers through improving delivery and access to essential nutrition services, particularly from conception through pregnancy up to 2 years of age (including infant and young child feeding and caring, and maternal nutrition counseling); improving coordination between various organizations working on nutrition; improving food security and collaboration with other sectors such as water and sanitation; strengthening early childhood development (including early stimulation of babies and infants); increasing literacy; improving gender dynamics; and reducing GBV and early marriages and conducting premarriage counseling.

While the health sector is central to many of these interventions, it cannot achieve the required goals without the active contribution of and collaboration with other sectors (education, social protection, transport, agriculture, energy, etc.) and key stakeholders (including the private sector, religious leaders and scholars, community leaders, civil society organizations). Many critical behaviors (such as family planning, maternal nutrition, and infant and young child feeding practices) are suboptimal and have marginally changed over the last 15 years and will therefore require focused attention in the design of interventions.

Improve the quality and efficiency of hospitals through a comprehensive review and rationalization of national hospitals, which account for about half of government expenditures on health. There is evidence of overstaffing, inefficiencies, and less than optimal quality of services, leading to preventable morbidity and mortality. The review should examine the strengths and weaknesses in the implementation and performance of various hospital policies (including centralized control versus autonomy of key functions, public-private partnership pilots). Hospital regulation and accreditation (public and private) is a priority to improve the quality

of care (focusing on managerial and technical/clinical capacity of staff, improving supply chains for equipment, medical supplies, and drugs). At the provincial level, there needs to be a review that leads to the strengthening of the health departments' oversight of hospitals.

Strengthen immunization programs, disease surveillance, and pandemic preparedness. Strengthening access to routine immunization services is critical for all vaccine-preventable diseases including polio. Addressing cultural barriers through community engagement is a potential strategy that has demonstrated success in the fight against polio. In addition, innovative strategies for expanding access to vaccinations and disease surveillance efforts in conflict-affected areas need to be explored, including as part of the government's pandemic preparedness plans and efforts in light of emerging diseases such as COVID-19. A strong disease surveillance system is an essential part of health security that requires coordinated action to ensure early detection and response to any disease outbreak.

In 2016, a joint external evaluation of the core capacities in the International Health Regulations assessed the strengths and weaknesses in the country. The government has developed a national action plan, which includes strengthening the basic health services package to incorporate health security considerations. As a priority, the government should explore how to finance the implementation of the action plan with the required level of engagement and coordination of national and international stakeholders, including those providing humanitarian assistance.

Box: COVID-19 and its impacts on health service delivery

The first COVID-19 case in Afghanistan was reported in Herat province in western Afghanistan on February 24, 2020. The number of cases soared across the country very quickly, with some evidence that health service delivery was negatively impacted by the pandemic and most health facilities were underutilized and experienced demand shock. According to mathematical models by Johns Hopkins University, large service disruptions in Afghanistan have the potential to leave 843,300 children without oral antibiotics for the treatment of pneumonia, 958,600 children without DPT (diphtheria, pertussis, and tetanus) vaccinations, 141,500 women without access to facility-based deliveries, and 494,500 fewer women receiving family planning services. As a result, child mortality in Afghanistan could increase by 18 percent and maternal mortality by 14 percent over the next year. Maintaining essential health services during the COVID-19 pandemic is critical to prevent these severe outcomes and protect the gains made over the past years in reducing maternal and child mortality.

12 Community Development & Citizen Participation

Fulfilling the Promise of Service Delivery to Local Communities

Context

Despite significant improvements, access to basic services remains a persistent development challenge in Afghanistan, particularly in rural areas. The recently launched first Afghanistan Multidimensional Poverty Index shows that just over half (51.7 percent) of people in Afghanistan are multidimensionally poor. Multidimensional poverty in urban areas affects 18 percent of people, but in rural areas—representing 70 percent of the country's population—the figure is 61 percent. Multidimensional poverty affects 89 percent of Kuchi (nomadic) people.[47] According to the 2016–17 Afghanistan Living Conditions Survey (ALCS), only 36 percent of the population use safely managed drinking water (SDG indicator 6.1.1) and 41 percent use safely managed sanitation services. The ALCS also found that 63 percent of the rural population had access to roads within two kilometers. Gaps in access to services between the poor and nonpoor remain sizable.

Mechanisms for local service delivery have not been systematic. Since 2003, local service delivery has played a dual role in Afghanistan: promoting social cohesion and trust in public institutions (particularly through the deployment of participatory and community-driven approaches to local development), while laying the foundation for inclusive job creation and growth. The overall structure of government at the subnational level is not well developed. Historically, formal functional and budget authority for the delivery of most key services in the provinces is held by highly centralized line ministries, which work largely on their own with little local coordination between them. Cutting across this is the system of provincial governors, who have little formal responsibility for service delivery but wield enormous local authority and power.

Community driven development (CDD) programs, which form a partnership between government and communities, have therefore been the main platform for delivery of basic services and infrastructure at the local level. Over the last decade, many programs have actively involved local communities in the planning and implementation of development projects. **The furthest reaching and most comprehensive of these programs was the National Solidarity Programme (NSP), which helped establish Community Development Councils (CDCs).** Earlier legal and local structures of governance such as the Jirga and Shuras have historically constituted a critical base of governance and accountability at the local level. The CDCs, which are community-based decision-making bodies composed of men and women who are democratically elected by their communities, are more inclusive, provide voice to the marginalized, and also help avoid elite capture. Community acceptance of CDCs has been conditioned

47 Afghanistan Multidimensional Poverty Index, 2016–17. Report released March 2019.

by their past experience. Over a decade and a half, the NSP provided the main participatory platform for service delivery in an estimated 90 percent of villages in rural Afghanistan. Approximately 35,000 CDCs were formed between 2003–2016 in all rural areas of 34 provinces.

The legal and policy framework for CDCs has evolved over time. While the Afghanistan Constitution calls for the election of village councils, these have not yet been constituted and it remains unfeasible to hold formal village-level elections throughout the country, given current security and fiscal constraints. Therefore, CDCs act as the main development bodies to help the government deliver services at the local level. A 2006 CDC bylaw passed by the president of Afghanistan forms the legal basis for CDCs. The bylaw defines CDCs as "the social and development foundation at the community level, responsible for the implementation and supervision of development projects, serving also as a liaison between communities, the government and nongovernment organizations." Consequently, various ministries work with CDCs as the first point of contact with local communities on development issues. CDCs have also gained trust from citizens over time—in The Asia Foundation's 2018 Survey of the Afghan People, 76 percent of respondents reported satisfaction with CDC performance and 83 percent found CDCs to be trustworthy and representing community needs.

The core platform for community development, citizen engagement, and local service delivery is embodied in the Citizens' Charter National Priority Program (CCNPP). Building on the participatory community platform created by the NSP, the CCNPP, which was officially launched in late 2016, delivers a minimum package of basic services at the local level. CDCs continue to be the means by which citizens can demand services, hold line agencies accountable, and ensure that the poorest and most vulnerable can access services. The CCNPP is the first inter-ministerial program where ministries collaborate on a single program in both rural and urban areas. It is the core program under the Afghanistan National Poverty and Development Framework (ANPDF) pillar on poverty and social inclusion. The Ministry of Finance (MoF) chairs the government's working group on Citizens' Charter with the Ministry of Rural Rehabilitation and Development (MRRD) and the Independent Directorate of Local Governance (IDLG) as lead implementing agencies for the rural and urban components, respectively. The working group also consists of the Ministry of Education (MoE), Ministry of Public Health (MoPH), and Ministry of Agriculture, Irrigation and Livestock (MAIL). The Citizens' Charter contributes to the government's long-term goals of reducing poverty and deepening the relationship between citizens and the state. The CDD platform in Afghanistan is being used as a key vehicle to respond to the COVID-19 pandemic to spread information about the virus and for preventative health measures and will be used to deliver food and cash assistance to 90 percent of the country.

The impacts of COVID-19 have significantly stretched an already weak health service delivery system, especially in rural areas, and have increased economic vulnerability, especially among already poor and vulnerable segments of the population, including internally displaced persons (IDPs) who account for about 15 percent of the population. Preliminary indications, and experience from previous shocks in Afghanistan, are that many Afghans have suffered economically, including through job loss, and have had to spend their savings and borrow from others, which rapidly increases levels of household debt. Increased debt and loss of resources have increased levels of poverty and vulnerability and put communities in an even worse economic condition to rebuild in the aftermath of the outbreak. Farmers may lose their planting season this year due to the extended lockdown, which will directly impact the income for rural farming households, as well as overall food security, due to limited availability and the resultant price increases.[48] Leveraging Afghanistan's CDD platform is critical to responding to the crisis.

Women's participation in CDCs has increased rapidly, but active engagement is varied. The Citizens' Charter Afghanistan Project (CCAP) can serve as the main vehicle for women's social and economic empowerment in

48 Policy Note Review Report: "Community Development and Citizen Participation: Fulfilling the promise of Service Delivery to Local Communities", Biruni Institute, April 23, 2020.

Afghanistan. One of the significant achievements of CCAP thus far is ensuring 49 percent female membership of the CDCs through a redefined electoral mechanism and specified quotas. This is a marked increase from the 35 percent female membership seen under the NSP. Yet, the level of "active participation" of women varies substantially by province depending on the sociocultural norms and prevalence of Anti-Government Elements (AGEs) in those areas. A promising development is that a number of female CDC members are youth.

Internal displacement, migration, and refugee return have strained service delivery capacity. Over the last three years, Afghanistan has seen a massive influx of returnees from Pakistan and Iran. According to UNHCR and UNOCHA estimates, about 775,000 refugees returned to Afghanistan in 2016–2017 and another influx of 445,000 came in 2019. This added to the close to 2 million IDPs in Afghanistan who were forced to move out of conflict or natural disaster (drought) regions. Most of these displaced people move to cities and peri-urban centers, putting immense strain on existing service delivery capacity as well as economic opportunities in host communities.

The potential involvement of the Taliban in the next government may necessitate the need to demobilize Taliban fighters and reintegrate them into their villages and communities. Former combatants will need opportunities to participate in local community development activities. The potential for former fighters to be represented in CDCs will need to be considered. Since Taliban fighters will lose their income source as a result of any peace process, they will need to be included in employment generation schemes (e.g., seasonal employment opportunities and village infrastructure maintenance works). Inclusion of other peace-promotion activities, such as conflict resolution training, periodic peace gatherings (which provide opportunities for trust-building dialogue), inclusive employment schemes, and support for youth-led initiatives as part of community mobilization activities, is also being proposed by the government's technical teams.

Inter-ministerial coordination has improved over time but is not yet at potential. The CCNPP vision of a truly multisectoral and inter-ministerial program is slowly materializing. Collaboration with the MoPH and MoE on preparing health and education scorecards is strong. However, the awareness and responsiveness of line ministries to the CCNPP vision remain limited, particularly at the subnational level, where the coordination platforms that have been set up meet more often than in the past but not regularly. In addition, implementation and staffing capacity needs strengthening. The challenge of delivering a minimum package of basic services nationally across multiple sectors requires adequate institutional and human resource capacity across several sectors and ministries. Unfortunately, this has often been lacking, particularly when it comes to frontline service providers. To a large extent, the outsourcing of service delivery and social mobilization functions to nongovernment organizations (NGOs) as "facilitating partners" (FPs) has helped fill this capacity gap. At the central level, the use of national technical assistant contractual staff has been critical to provide management capacity, but this has been hindered by frequent staff turnover and occasional non-meritocratic recruitment. For longer term sustainability, a strong cadre of civil servants combined with a structured format for in-sourcing NGOs would be needed.

Citizen engagement and participatory monitoring systems are in place but not yet effective. At the core of the CCNPP has been the effort to build trust between citizens and the state, and establish mechanisms for transparency, participation, and social accountability. While the program does not make achieving rule of law its explicit objective, the program has enabled community members to hold their elected CDC officials accountable. The CCNPP has managed to set up a robust bottom-up grievance redress mechanism (GRM) as well as committees for community participatory monitoring. These have been undertaking social audits of the program as well as the community scorecard to review progress with the minimum service standards. However, results of internal monitoring suggest that not all of these committees and systems are effective. The vision of community engagement underlying the ANPDF pillar on CCNPP has thus yet to be attained.

Policy Recommendations

The CDC bylaw needs to be updated so it becomes the unified community platform for development interventions. Given the crucial role that CDCs play in serving as democratically elected local governance bodies, it is important to further strengthen and define their mandate through a revision of the 2006 CDC By-Law. The revision should formalize the role of CDCs as the primary conduit for all development interventions at the local level, including government-led and bilateral programs. Likewise, CDC clusters (and Gozar Assemblies in urban areas) should be recognized formally and all office bearers of these institutions should be provided government-issued identification. Similarly, the existing sectoral bodies at the community level (e.g., water, health, and education shuras) should all be converted into "subcommittees" under the CDC to create a unified "whole of community" structure available to work with sectoral development programs. Election norms and CDC governance rules should be codified under the bylaw, using the current policies in the CCNPP.

Management, fiduciary oversight, and monitoring systems have to be strengthened. For programs that reach the most local level (village), it is extra critical to ensure complete transparency because the programs are the most clear representation of the government to rural populations far from the decision-making centers. Any corruption has multiplied negative effects beyond loss of resources that impact the citizen-state relationship. In order to facilitate long-term subnational grant transfers to the CDC and cluster level, an effective system of financial management and procurement needs to be established by government. The management information system for grants from different community development programs needs to become robust enough to track all expenditures, and internal monitoring systems need to become more efficient in responding to deviations from field-level implementation. This could potentially be housed in the Treasury department or be part of the Financial Management Information System.

Additional infrastructure investments are needed at the "cluster CDC" level. From an administrative and budgetary perspective, working with close to 40,000 CDCs will not be feasible for the government in the longer term. Instead, the focus of the second and third phases of the CCNPP should be to gradually move toward a "cluster CDC" level in rural areas or "Gozar Assembly" (GA) level in urban areas. While primary elections could still be at CDC level, infrastructure investments and service delivery linkages should also to be done at the Cluster Community Development Council (CCDC), as they are currently done on the urban side, where both CDCs and GAs receive grants. This would be in line with global CDD experience, where the unit of intervention is usually at a subdistrict level (e.g., Kecamatan in Indonesia, Panchayat in India, Woreda in Ethiopia, or Commune in Vietnam and most of West Africa). It would be important to ensure that women's participation does not dissipate by going to clusters, and that elite capture is prevented by continuing transparent CDC-level elections.

Inter-sectoral coordination at both the national and subnational levels needs to be strengthened. While the CCNPP is perhaps the most advanced NPP in inter-ministerial collaboration, there is a lot of room for improvement. A key policy priority has to be to issue clear guidelines and protocols for inter-sectoral coordination at both national (via the CCNPP Steering Committee or High Council on Poverty) and subnational level (via Provincial Citizens' Charter Management Committees and Districts Citizens' Charter Management Committees. This will require policy regulations codifying the recently issued concept note on CCNPP coordination and governance, as well as budgetary allocations to finance the coordination activities.

Linkages are needed with the subnational governance (SNG) policy rollout. The 2018 subnational governance policy roadmap[49] had defined clear linkages between the CDCs/CCDC/GA and the proposed SNG structures and systems. Should the new administration embark on rollout of the SNG policy, it will be imperative to ensure that the village- and cluster-level structures set-up via the CCNPP have an adequate role and mandate in the SNG systems. A policy reform program around SNG that embeds CCNPP can therefore be considered, including the possibility of converting CDCs to Villages Councils that are defined in the Afghan Constitution.[50]

49 *Islamic Republic of Afghanistan: Citizen-Centered Governance: A Roadmap for Subnational Reform,* May 2018.

50 Note that there are some risks to this as well in terms of politicization of CDCs, which are currently viewed primarily as development bodies. It would also require more systematic capacity building of CDCs.

Improve integration of planning and introduce annual financing of CDCs/clusters/Gozars. While the fiscal space for government may be limited at present, it is important for the new administration to consider formalizing the CDC planning process into the government's annual budget and planning exercise. In addition, a system of sustained (possibly formula-based) annual fiscal transfers to the CCDC/GA should be established so that these bodies have a sustainable long-term mandate and are not just seen as project entities. Such steps have been important features of global examples of national community development platforms.

Women's participation must be made more meaningful through supporting programs. To achieve the ANPDF and CCNPP goals related to women's empowerment, it will be critical to ensure that the CDC women's subcommittees are linked with ongoing donor and development programs. The most important will be the Women's Economic Empowerment-National Priority Program (WEE-NPP). The government may consider a stand-alone intervention targeting women in CDCs through the next phase of the WEE-NPP. An intervention to support youth economic empowerment and/or active citizenship through CDCs also may be considered due to young people's high unemployment rates and vulnerability to anti-social influence.

Community participatory monitoring (CPM) and the grievance redress mechanism under CDCs should become the unified GRM/CPM at the local level. Given its coverage and proximity to ordinary citizens, the GRM and CPM committees that have been established hold the potential to inform the CCNPP and all other government programs operating at the local level. The new administration may consider leveraging CCAP's GRM to become a "whole of government" GRM at the local level that can channel all forms of grievances and feedback to relevant line ministries and projects, while the CPM committees can become a channel for beneficiary feedback and social accountability. These steps will help ensure a "country system" for citizen feedback and local grievances.

Leveraging the facilitating partner experience and knowledge, particularly in remote and high-risk areas, increases their reach and effectiveness. While it was originally envisaged that the role of NGO FPs would only be for the initial years of the CCNPP rollout, these organizations clearly provide invaluable expertise and local mobilization capacity, particularly in remote areas or those with AGE influence. Contracting the services of FPs allows government agencies to focus on their mandate in formulating policy, regulations, and strategy, while FPs and the private sector focus on their comparative advantage in implementation. Therefore, it is recommended that the new administration consider extending the FP collaboration throughout the life of the CCNPP. The rollout of the basic primary health services package through NGOs shows how critical a role they can play in local service delivery. Investing in joint partnerships between civil society organizations and government (like under CCNPP and health) actually leverages the strengths of both to deliver services faster and more cost-effectively. The FPs can also play a crucial role in helping deliver activities supporting the reintegration of Taliban fighters who are skeptical about the government's collaboration, which can minimize risks for government staff by using their existing networks on the ground.

Consider establishment of an independent Citizens' Charter Management Authority (CCMA). Given the size, complexity, and multisectoral modality of the CCNPP, the new administration may consider as a policy action the establishment of an *independent* Citizens' Charter Management Authority headed by a ministerial-rank technocrat, but reporting directly to the President's Office and with inter-ministerial coordination run through MoF. The existing national technical assistance financed staff under the MRRD and IDLG could then be shifted to the new independent authority after rationalizing staff numbers for greater cost efficiency. An independent and unified CCMA would help streamline implementation, reduce political interference, and lessen the possibility of inter-ministerial competition over resources and mandate. Such an outcome is especially important given the increasing number of activities and roles that CCAP and associated projects are playing.

Continue leveraging existing CDCs to deliver immediate needs (e.g., food, cash, awareness raising). To help Afghanistan cushion the economic impact of the COVID-19 pandemic on Afghan households and support critical food supply chains, the COVID-19 Relief Effort for Afghan Communities and Households (REACH) was approved in August. The project will benefit 2.9 million households across Afghanistan and complement a parallel relief

effort organized under the CCAP. Together, the two projects are covering 90 percent of households in the country under the government's "Dastarkhan-e-Milli" program, benefiting an estimated 4.1 million households with incomes of $2 a day or less. REACH will help revive the nationwide CDC structure that had been invested in for almost two decades under the NSP, which will set the stage for a fast-tracked expansion of CCAP as well as the forthcoming Early Warning, Early Finance and Early Action Project (ENETAWF, meaning "resilience" in Dari) that will establish a national disaster response and social protection system.

13 Agriculture and Food Sector

Low-Hanging Fruit for Poverty Reduction

Context

Agriculture plays a crucial role in Afghanistan's economic development. Before the conflicts, Afghanistan was self-sufficient in cereals and in some years was even a small exporter. The country has since become largely dependent on imports to meet domestic food demand. This situation is compounded by the COVID-19 pandemic, with the country facing large social and economic crises. GDP is expected to contract by at least 5.5 percent in 2020, exacerbating the already dire socioeconomic situation. The poverty rate is expected to spike from 55 percent in 2017 to at least 72 percent, forcing an additional 1.9 million people or more into poverty. The development of the agriculture and food sector into an engine of growth and prosperity is a low-hanging fruit for poverty reduction and should remain a priority. This requires an enabling policy and regulatory framework that is conducive for a sustainable and inclusive growth and duly enforced by the government.

Revitalizing agriculture and investing in priority value chains is key to economic growth, job creation, poverty reduction, and food security in Afghanistan. Many Afghans rely on the agri-food sector for their livelihoods: about 80 percent of the population, including 90 percent of the poor live in rural areas, and about half of all households derive at least part of their income from agriculture. Agriculture (not including agro-processing) accounts for about 20 percent of national GDP and employs more than 40 percent of the population,[51] a figure that understates the overall importance of agriculture because almost 90 percent of the manufacturing sector's contribution consists of agro-processing.

Agriculture is one of the two sectors with great potential to drive economic growth in the foreseeable future, with untapped capacity to generate the foreign exchange and fiscal revenues needed to help offset projected reductions in foreign aid. In addition, because the agribusiness subsector including food processing offers significant potential to create jobs, it could play a vital role in raising incomes of the poor. For these reasons, the development of the agribusiness subsector is identified as a top priority in the Comprehensive Agriculture Development National Priority Program 2016–2020 and the World Bank-supported Afghanistan Agribusiness Charter (ABC) 2019–2024 adopted in 2018, and will contribute to the Afghanistan National Peace and Development Framework (ANPDF)'s priority of economic growth, job creation, and private sector growth. Furthermore, agriculture is one of the priority sectors in the recently adopted Human Capital National Priority Program for the development of human capital for agribusiness.

51 Afghanistan Development Update, World Bank, January 2020.

Over the past years, the sector received a good amount of investments leading to impressive gains, described by a good growth rate and import reduction, yet the investment made was small compared to the magnitude of the problem. However, the gains could have been better managed. The key lessons drawn from the past include: (i) investments were uncoordinated and fragmented in isolation by donors; (ii) too much focus on plan and policy development, rather than execution and institutional capacity development; (iii) interventions were short-term focused; (iv) in some cases, other priorities including stabilization and poppy eradication were the central objective; and (v) little effort had gone into climate change as, so far, climate change and agricultural sector development strategies have not provided a coherent future roadmap to deal with climate risk.

The Afghanistan Agriculture Sector Review, completed by the World Bank in 2014, concludes that the development of the sector calls for a two-pillar strategy. Pillar I should focus on the commercial development of the priority value chains (i.e., irrigated wheat, livestock, horticulture) to drive growth in agricultural productivity and create high-quality jobs, and Pillar II should focus on improving productivity in subsistence-oriented rain-fed farming and extensive livestock systems to address food security and livelihood needs of the poor, nomads (Kuchi), and landless people.

The National Export Strategy completed in 2018 identified encouraging prospects for trade-led growth with a focus on the value chains for which the country has a comparative advantage, including dried fruits and nuts, and fresh fruits and vegetables. Other studies noted the importance of import substitution as a national-led growthstrategy.[52]

The Agribusiness Charter aims to catalyze the emergence of an efficient, market-orientated agribusiness sector characterized by competitive agribusinesses. The ABC supports policies that facilitate increased private investment in agribusiness and institutions for more efficient delivery—including through partnerships with the private sector—of services and inputs provided to farmers and agri-firms. By focusing on strategic priorities[53] to promote accelerated agribusiness development, the ABC constitutes an important component of the government's strategy to promote growth, bring about transformative change, and promote self-reliance.

Afghanistan has very low agriculture productivity in a context of conflict and violence. The agriculture sector is dominated by smallholder farmers: 60 percent of farms are smaller than 1 hectare (ha), and 90 percent are smaller than 5 ha. Natural resources such as land, water, and soil are often poorly managed, in part because ongoing conflict and violence limit access by farmers/producers to improved technologies, production practices, and extension services. Household-level data show that a significant portion of arable land remains underutilized, mainly due to poor management of irrigation water. Out of 4.4 million ha identified as irrigable land,[54] about 2 million ha are currently irrigated on a regular basis.

These challenges, together with frequent prolonged droughts, have negatively impacted many agricultural production systems, with knock-on effects felt both locally and nationally. Many traditional export crops have lost market share, a trend attributable in large part to the declining productivity of aging orchards and vineyards, lack of new planting, and the appearance of new market entrants who are more competitive on cost and quality. The lagging performance of many production systems is worrisome, but it also provides grounds for optimism, because it offers ample catch-up opportunities to enhance productivity and increase resilience of those systems through appropriate policy reform and supporting investments.

Underperforming agribusiness and poor enabling environment contribute to low productivity. Agribusiness value chains in Afghanistan are generally underdeveloped: the ratio of food processing value added to primary

52 Bolton, L. (2019). Agriculture in Afghanistan – Economic Sustainability and Sub-Sector Viability. K4D Helpdesk Report 574. Brighton, UK: Institute of Development Studies.

53 For example, enabling policies and regulations, agri-industrial development, facilitating access to finance, and institutional strengthening for efficient service delivery.

54 World Bank. 2014. Islamic Republic of Afghanistan Agricultural Sector Review: Revitalizing Agriculture for Economic Growth, Job Creation and Food Security. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/21733.

production value added is low, and post-harvest systems are for the most part outdated and inefficient. Opportunities for agribusiness development abound, but Afghan producers and processors are poorly positioned to compete in international markets and are only weakly integrated into global agri-value chains.[55] The agro-processing sector is poorly developed and domestically processed products cannot compete with imports. Major challenges include lower levels of technological expertise and absences of scale economies relative to global competitors, an unpredictable policy environment, inadequate infrastructure (energy, logistics, secure storage, handling and packaging, etc.), and lack of consistent and well-structured supply chains.

Afghanistan carried out a record number of business reforms in recent years, but it continues to lag in areas such as paying taxes, trading across borders, registering property, dealing with construction permits, and enforcing contracts—all of which have significant impacts on agribusiness. In addition to the macro business environment reforms, regulations and institutions that could facilitate agricultural development and trade also need attention at the sector level because (i) agricultural supply chains largely depend on the smallholders, who mostly require institutional and capacity support to comply with agricultural industry needs; (ii) agricultural value chains and markets are fragmented; and (iii) sanitary and phytosanitary (SPS) enforcement, food safety standards, and export certification are lacking. In this context, support for smallholder farmers (to invest and meet industry needs), and policies and regulations, such as food safety standards traceability and export certification, are required to develop trade-oriented supply chains that are inclusive to smallholders. The ABC recognizes that private sector participation in investments and delivery of services is essential for agriculture and agribusiness development for export-led growth and job creation, but efforts are nascent and there is a lot of room for growth. A critical first step will be to create an enabling environment that not only facilitates strategic long-term investments in the agriculture/agribusiness sector, but also promotes strong private sector development of both domestic and export markets.

Vulnerability to climate change and natural disasters must be addressed. Agriculture also faces important challenges in the context of climate change and natural disasters, especially water scarcity and drought. Afghanistan is extremely vulnerable to climate change effects (ranked eighth of 170 countries in the next 30 years). From 1960 to 2008, average annual temperatures increased by 0.6 degrees Celsius, and further increases between 2 and 6.2 degrees Celsius are projected by 2090.[56] Higher temperatures will result in increased evapotranspiration, greater rainfall variability leading to increased frequency of extreme events such as floods, droughts, and storms, and major changes in the flow regimes of the country's river systems due to reduced snowpack. Higher temperatures are already causing changes in snowmelt, leading to recurrent and more frequent droughts and intense spring floods followed by summer water shortages.

Every year, some 250,000 people are affected by environmental disasters. These developments have major implications for agriculture, as production systems will need to become more productive and more resilient. Today, most cultivable land receives less than 400 millimeters of rain per year and annual rainfall is highly variable. Unless urgent measures are taken to build resilience, climate change can be expected to further reduce productivity in crop and livestock production systems, accelerate processes of land degradation, and increase food insecurity. Improving resilience in the sector will depend critically on improving the efficiency of irrigated agriculture.

Low institutional capacity and poor service delivery mechanisms also hinder productivity. Despite some institutional gains through several change management exercises and wide-ranging capacity building programs, major challenges remain in providing adequate services for agriculture/agribusiness development in Afghanistan. The main institutional constraints are linked particularly with limited capacity to develop and

55 Poole, N. (2018). 'Building Dairy Value Chains in Badakhshan, Afghanistan' in Value Chains for Nutrition in South Asia: Who Delivers, How, and to Whom?. IDS Bulletin 49.1, Brighton: IDS.

56 World Bank, Climate Change Knowledge Portal: https://climateknowledgeportal.worldbank.org/country/afghanistan/ [accessed October 2019]; World Bank/GFDRR (2017): Disaster Risk Profile: Afghanistan.

formulate policy and programs—most policy documents are developed with support of donor-funded projects with limited engagement from the line ministries; poor inter-departmental collaboration and coordination leads to inefficiency of interventions as well as limited and inadequate delivery of services for agriculture and agribusiness development; limited capacity in both human (skill deficits, high level of staff turnover) and financial resources to sufficiently develop policies and programs; and a centralized system with limited focus on delivery of services to farmers and herders, including research and extension and advisory services, as well as quality agricultural inputs. Public investments need to include the institutional set-up and country capacity for climate-resilient agricultural research, development, and technology dissemination. This is currently done on a small scale, such as project by project, with most of the services provided by donor-funded programs.

Gender issues require greater focus. Although women have always played a key role in all dimensions of agricultural production, most of their labor has been unpaid.[57] As in many countries, the participation of women varies by production system and by activity. Women are very involved in many horticultural production and value addition activities, including in opium poppy cultivation at times. Women also take central roles in the daily tasks of livestock management and in processing animal by-products. They produce milk, yogurt, and other dairy products for household consumption or for small-scale sale. Often, women also have a role in selling eggs and chickens and in collecting and processing wool and cashmere, including producing carpets and wool products.

Despite their extensive and economically critical engagement, many Afghan women face persistent discrimination in seeking to access land, knowledge and advisory services (extension and dissemination, and adoption and training), finance, quality inputs, and markets. They are largely confined to production activities, with limited ability to participate in decisions relating to asset ownership and use, choice of productive activity, or marketing of principal commodities. Discrimination undermines their ability to increase productivity and thereby acts as a drag on growth and development of the sector.

COVID-19 impacts in Afghanistan include (i) rising prices[58] and scarcity of staple and nutritious foods (like fruit, vegetables, and eggs), particularly in urban areas. Price spikes were aggravated by panic buying and hoarding,[59] compounded by the current indication of an increased risk of natural hazards, including droughts, floods, and build-up of adult desert locusts in southern Afghanistan and the region in 2020; (ii) falling rural incomes as market outlets are disrupted by restrictions on movements and closure of borders to traditional export markets; (iii) disruption to supply chains due to reduction in imported inputs, particularly wheat and flour, from closed borders with Central Asian countries;[60] and (iv) rising rural unemployment due to loss of market and the influx of returnees due to the virus. Hunger and malnutrition remain at dangerously high levels, with 12.4 million people forecast to be in crisis or emergency food insecurity between June and November of 2020.[61] The United Nations has included Afghanistan near the top of the list of countries at risk of famine, with the rural poor hit especially hard by COVID-19-related disruptions to their livelihoods and incomes. Private sector food operators such as agribusiness and small and medium enterprises are also vulnerable to supply and demand disruptions resulting from COVID-19 lockdowns, yet they are critical to maintaining the domestic availability of food.

57 World Bank, Jobs from Agriculture in Afghanistan.

58 World Food Program (WFP) data indicate that in Afghanistan's main city markets in April 2020, prices of wheat flour and cooking oil had spiked by up to 23 percent over the previous month, while the cost of rice, sugar, pulses, and eggs had increased by between 7 percent and 12 percent due to supply chain disruptions and sporadic and partial border closures (with Pakistan, Iran, and Kazakhstan).

59 Save the Children Statement on Afghanistan Food Insecurity, May 1, 2020.

60 Currently the trade flow is open to wheat and flour imports from Kazakhstan and the border with Pakistan is open at least three times a week. However, main food commodity prices (wheat, wheat flour, cooking oil, pulse, rice, and sugar) are still higher compared to 14 March, 2020. The wheat price and wheat flour high and low prices are, respectively, 15 percent, 17 percent, and 18 percent higher than pre-crisis times, cooking oil is 40 percent higher, pulses 32 percent, rice 8–22 percent, and sugar 22 percent higher, along with an average purchasing power drop of 21 percent.

61 Afghanistan Humanitarian Response Plan, Humanitarian program cycle, 2020 mid-year revision, issued in June 2020.

Policy Recommendations

Policy and regulatory reforms to strengthen the enabling environment: Lessons learned from previous interventions show the need to attract private sector investment into agriculture by improving the enabling environment. Priority actions for promoting and sustaining the growth of agriculture and agribusiness subsector include (i) addressing import and business regulation issues and tax issues; (ii) improving the efficiency and transparency of Afghanistan's food safety and quality assurance system; and (iii) promoting an effective legal and regulatory framework for the management of agri-industrial parks to provide secure and serviced spaces for agri-firms and farmer associations to operate. Efforts are needed to facilitate increased private investment in agribusiness and in firms that efficiently deliver services, linking emergent farmers with commercial value chains for an inclusive growth strategy.

Institutional strengthening measures to improve service delivery: Successful development of the agriculture sector will depend on the capacity of the Ministry of Agriculture, Irrigation and Livestock (MAIL) to deliver services to farmers and herders adopting a departmentalized extension services model. In addition, the Ministry of Industry and Commerce (MoIC) also needs to actively engage in post-production and marketing programs as well as in facilitating downstream investments. MAIL and MoIC are struggling to provide the services needed to promote successful agriculture/agribusiness development. Human resource gaps in these ministries need to be addressed, and capacity must be strengthened in the areas of planning, advisory, and extension, including through Farmers' Learning and Resource Centers (FLRCs) monitoring and evaluation.

Support to MAIL and MoIC should focus on (i) strengthening entities and structures involved in formulating, implementing, and monitoring policy; (ii) implementing strategies and solutions for enhanced growth, employment, and entrepreneurship in the agribusiness subsector; (iii) developing and making good use of interactive and demand-driven knowledge, innovation, and extension systems; (iv) promoting investments in the agribusiness subsector; (v) enhancing governance and partnerships across value chains; (vi) supporting the decentralization of service delivery; and (vii) staff development and strengthening management capacity for formulation and coordination of agriculture and agribusiness development programs and projects and coordination with development and humanitarian programs.

Supporting investments in value chain development (Pillar 1): Irrigated wheat, horticulture (fruits, nuts, and vegetables), and intensive livestock (milk, eggs, and poultry meat) currently account for two-thirds of agricultural GDP. With domestic demand projected to grow strongly in coming years, all three subsectors hold significant promise for further development, but growth remains sluggish due to productivity constraints and linkage challenges. With the right mix of policies and strategic investments, the three subsectors could double agricultural production and create thousands of additional full-time equivalent jobs. Water, extension services, regulation of inputs, security of land tenure, and access to credit are among the critical constraints facing the irrigated wheat, horticulture, and livestock sectors.

To achieve quick results in the short term, improving the enabling environment for priority sectors should focus on the following: Increased yields of irrigated wheat through use of improved seeds, and the adoption of better agronomic and water management practices; improved livestock productivity through cross-breeding programs, improved veterinary and extension services, disease surveillance and control, and improved on-farm livestock management and feeding and pasture management practices; increased extension outreach through FLRCs by accelerating the endorsement of the subnational strategy of MAIL; and increased horticulture production through improved on-farm water management, crop management including certified saplings, pest control, access to finance to overcome investment and working capital requirements, reform of public SPS systems, and capacity building and enabling investments in agro-processing and agribusiness logistics.

Investments in rain-fed farming and extensive livestock systems (Pillar 2): Given the empirical evidence of climate change in Afghanistan,[62] implementing a climate-resilient agriculture system is critical. Measures should be taken to implement[63] the National Dry Lands Agriculture Policy (toward climate-resilient agriculture in Afghanistan), which sets the vision for 2030, and prioritizes the following areas: (i) Increasing the productivity of drylands, including crops, livestock, horticulture, and mixed-farming systems, with the aim to increase farm income and household food security and nutrition, while diversifying production; (ii) strengthening the resilience of dryland communities to extreme weather events and climate change by introducing dryland farming strategies that include measures to adapt and mitigate climate change and reduce the vulnerability of dryland communities to shocks; (iii) restoring and maintaining valuable dryland ecosystems to reduce environmental degradation, particularly in rangeland areas, and strengthening water conservation and management; and (iv) strengthening the capacity of Afghan men and women to ensure that dryland agriculture decisions are based on the best available knowledge, leverage relevant technologies and other innovations, and are targeted to those that are most vulnerable within communities.

While investments and policies directed for value chain development should yield widespread benefits for the poor, additional interventions will be needed for those in remote rain-fed farming areas and nomadic livestock systems. In this case, disseminating drought-tolerant crop varieties and controlling animal diseases would offer widespread gains at relatively low cost, as would reforms in property rights and the management of open pastures. Without proper land and water management systems, reducing the existing high volatility in production and incomes in the dryland areas will be hard. Implementing climate-resilient agriculture systems is a high priority, and the dryland farming policy needs to be implemented to ensure optimum output from both rain-fed and irrigated systems.

Development of youth-driven initiatives in agriculture: Afghanistan has a strong and growing population of young people (women and men), many of them poor, who mostly reside in rural areas and have experienced some form of displacement. Lack of attractive jobs and limited engagement has made a majority of them join militant groups or increase agitations against the government. There is need for strong initiatives to mobilize and support these youth into agriculture,[64] such as subsidized back-to-land ventures, entrepreneurial skill-building programs in livestock and horticulture, and group farming as well as group farming strategies.

Integrated policy responses to COVID-19: The World Bank developed a Relief, Recovery, and Resilience framework for protecting people and economies through integrated policy responses to COVID-19.[65] In Afghanistan, the proposed policy responses to COVID-19 impacts on agriculture include (i) support for food supply chains and production to restore/maintain and improve food security with a focus on wheat and other key staple crops (rice, maize, pulses, oil seeds, vegetables) and livestock (poultry, dairy, small ruminants); (ii) support for employment generation with specific and strong support to youth and women engagement in agriculture; and (iii) support for resilient agriculture and agribusiness[66] and sustainable productivity.

Cross-cutting measures on gender to drive growth and share prosperity: Successful development of Afghanistan's agriculture sector will depend critically on the ability of the government to engage women

62 AM KHALID - 2018 Disaster risk management in Afghanistan: exploring the possible implications of climate change.- etd.ceu.edu.

63 [62] Drought Risk Management Strategy was developed by MAIL to operationalize the National Dry Lands Agriculture Policy.

64 Youth require specialized support to engage productively in the agriculture sector. In Afghanistan, where the share of young people is among the highest in the world, a peaceful and prosperous future depends on the ability of youth to drive positive change in their communities and in their country. Many facts about the status of youth in Afghanistan underlie the need for their economic inclusion.

65 The integrated policy responses to COVID-19 include containing the pandemic and protecting health, protecting human capital and livelihoods for economic growth, and leading the economic policy response.

66 Policies will support competitive horticulture value chains (fruits, nuts, and vegetables) and livestock (milk, eggs, and poultry meat) that account for two-thirds of agricultural GDP. Policies will also enable agribusiness development and quality jobs and contribute to the ABC.

productively throughout the value chain and unlock the enormous store of untapped potential that women represent. To close existing gender gaps, interventions should be designed to (a) utilize the traditional roles of women as entry points for improving their productivity; and (b) involve women increasingly in different nodes of the value chains to expand their decision-making ability and livelihood opportunities. However, care should be taken against burdening women by creating more work pressure for them without giving them control over their income.

There is need for selective interventions through targeting programs to female-headed households. Women farmers are less likely than men to have access to agricultural extension services, due to social and cultural restrictions on their mobility and interaction with men. Relieving this key constraint for women producers calls for policy actions and investment in women-to-women service delivery at every stage of the value chain. This will go a long way to overcoming the lack of access by women to critical information that men acquire much more easily, such as information about improved crop varieties and animal breeds, product quality standards, and market prices for inputs and products. Because women are less likely to access financial services to support agricultural investments or agro-entrepreneurship, action is needed as well to provide microfinance services targeting women. This will require regulatory and policy support.

14 Water Sector

Toward Sustainability, Better Services, and Resilience

Context

In landlocked Afghanistan, water is vital to the health and prosperity of the people, environment, and economy of the country. The government is working to develop and improve the water sector, including the recent adoption of a new Water Regulatory Law as well as the preparation of major new investments, such as the Afghanistan Water, Sanitation, Hygiene and Institutional Support Program, with support from the World Bank and the Afghanistan Reconstruction Trust Fund.

Three overarching priorities for the government to improve the water sector's contribution to human and economic development are sustaining scarce water resources for future generations in the face of rapid population growth and climate change; delivering safe and reliable drinking water, sanitation, and irrigation services to all of Afghanistan's people; and building resilience to natural disasters such as droughts, floods, and the spread of diseases, including the ongoing COVID-19 pandemic.

The current political, security, and economic challenges are compounded by increasing poverty rates, high unemployment, and climate change. Afghanistan is highly vulnerable to the effects of changing temperature and precipitation patterns that are likely to have significant impacts on its food supply, public health, drinking water security, ecosystems, and biodiversity. Widespread poverty makes the population especially vulnerable to extreme weather events such as droughts and floods. The poverty rate in Afghanistan has increased from 38 percent in 2012 to 55 percent in 2017. While real GDP growth is expected to accelerate through 2021 due to an easing of drought conditions and improved agricultural production, Afghanistan's projected growth path will not be strong enough to improve livelihoods for a population expanding rapidly at 2.7 percent annually.[67]

Efforts to achieve a peace settlement are ongoing, but significant security improvements are unlikely in the short run. Some of the main security challenges for the water sector include limited access to project sites and resources; limited interest of qualified national/international firms; significant delays in project implementation; and challenging supervision and monitoring and evaluation of projects, especially in remote areas.

67 The global COVID-19 pandemic will impact all existing projections of economic growth and social and political conditions. As of the writing of this note (August 2020), there is not yet sufficient understanding of the impact of the pandemic to provide a basis for modifying projections.

The water resources challenge

Afghanistan has significant water resources, but these are becoming rapidly stressed due to demographic change, economic growth, urbanization, climate change, and inadequate capacity and management of the storage and service delivery infrastructure. Annual renewable water resources per person have fallen from over 4,000 cubic meters per capita (m^3/capita) in the 1980s to less than 1,500 m^3/capita today, a level conventionally defined as "water stressed". In rapidly growing urban centers such as Kabul, Herat, and Kandahar, groundwater levels have declined dramatically due to extensive unregulated pumping of groundwater. This raises the cost of accessing water, as wells need to be continuously deepened and replaced, and is fundamentally unsustainable from an environmental and economic perspective and may lead to future local aquifer depletion. In addition, the absence of wellhead protection zones and effective wastewater disposal means aquifers and rivers are increasingly polluted, further decreasing the safe supply of water and adding to public health threats and environmental degradation.

Sustaining water resources is vital to Afghanistan's agricultural economy, which is the largest consumer of freshwater, taking over 90 percent of annual withdrawals. Farming provides a livelihood for the majority of the country's rural population and yields many indirect benefits in addition to sustaining the country's food supply. Equitable and reliable access to water for agriculture is therefore of prime importance to economic productivity and poverty reduction. Despite agriculture's economic importance, most of Afghanistan's cultivated land remains rainfed or is only marginally irrigated.[68] Existing irrigation infrastructure is limited and has deteriorated during decades of conflict, resulting in reduced production, increased imports, and a reduced food security. The existing irrigation system is relying mainly on surface water that is highly vulnerable to climate change-induced variation in snowmelt. Snowpack in the Hindu Kush is expected to decline by up to 50 percent during this century, with drastic impacts on the river flow regime and thus agriculture and livelihoods.[69]

Improving the sustainability of water resources is thus fundamental for Afghanistan's drinking water supply and public health, agriculture, energy generation, environmental protection, industry and mining, poverty reduction, and even regional stability. The cross-cutting nature of water in the economy is reflected in its complex governance arrangements involving many ministries and institutions. Under the general oversight of the Supreme Council of Water, Land and Environment, these include the National Water Affairs Regulation Authority, the overall coordinating body for water resources management that focuses on policy development; Ministry of Rural Rehabilitation and Development responsible for rural services; Ministry of Agriculture, Irrigation and Livestock; Ministry of Public Health; National Environmental Protection Agency; Ministry of Industries and Mines; Energy Services Regulatory Office; and Afghanistan Urban Water Supply and Sewerage Corporation (AUWSSC), a public utility responsible for urban and semi-urban area water supply and wastewater. Mounting stress on water resources risks straining relations with neighboring countries. Of Afghanistan's five river basins (Northern, Amu, Kabul, Helmand, and Harirud-Murghab), only the northern basin drains fully within the country. The other river basins are transboundary in nature and their water flows may become increasingly contested between Afghanistan and its neighbors, including Pakistan and Iran, which are exposed to similar demographic and climate-related pressures, and all Amu Darya riparians. In addition, the greater unpredictability and severity of climate change impacts will further affect relations between countries in the region as competition over water resources and related tensions may increase.

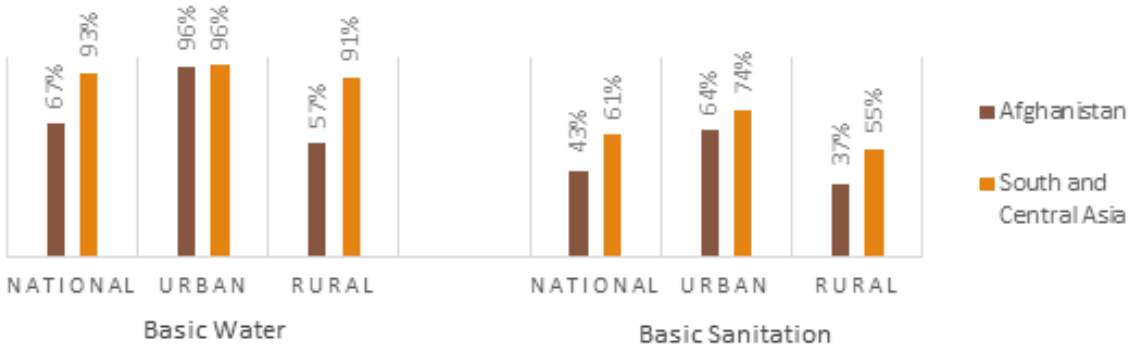
68 Rout B. (2008). How the Water Flows: A typology of Irrigation Systems in Afghanistan. Afghanistan Research and Evaluation Unit. Kabul, Afghanistan.

69 Mosier T.M. (2015). Characterizing Linkages Between the Climate, Cryosphere, and Impacts on Run-of-River Hydropower in Data-Sparse Mountain Environments. Dissertation. Oregon State University.

The service delivery challenge

Water supply and sanitation services in Afghanistan are inadequate, even relative to neighboring countries that face many of the same constraints as Afghanistan, and the country is not on track to meet Sustainable Development Goal (SDG) 6 to "ensure availability and sustainable management of water and sanitation for all" by 2030. Only 67 percent of Afghanistan's population has access to basic drinking water services and only 43 percent to basic sanitation services.[70] There are large geographical disparities, with 95 percent of urban households having access to basic water services, compared to 57 percent of rural households. Overall basic access lags well below regional averages, in particular in rural Afghanistan (Figure 21).[71]

Figure 21: Access to basic sanitation and water – Afghanistan and South Asia



Source: World Development Indicators

The reality on the ground is even more challenging than overview statistics suggest. The definition of "basic access to water" (Figure 21) does not necessarily include regular supply, or safe water, free of contamination. In fact, a recent survey in 10 provinces of Afghanistan found that, among households with basic access to water, as many as 77 percent consumed water contaminated with E. coli bacteria. Water sources are also often located far from households—even in urban areas only 21 percent of the population has access to piped water on premises—and supply is typically intermittent. AUWSSC, Afghanistan's urban water utility, is stuck in a low performance trap: inadequate infrastructure, low service quality, operational inefficiency, and lack of consumer trust constrain its revenues; lacking revenues, the utility is not able to make the necessary investments in staff, maintenance, and infrastructure. Outside urban areas, local capacity to maintain assets and services is even lower due to lack of staff, equipment, and funding.

Decades of conflict have taken a severe toll on irrigation and storage infrastructure that is outdated or deteriorated, resulting in suboptimal service. Existing irrigation infrastructure in Afghanistan is limited, with a very low efficiency, mostly small at less than 100 hectares (ha) and community managed.[72] Only 2 percent of all schemes are larger than 500 ha. Formal, state-managed irrigation systems cover an area of 330,000 ha across 10 irrigation schemes. Groundwater irrigation is practiced throughout the country with traditional karezes[73] systems, but these represent less than 10 percent of irrigation water. The World Bank-financed On-Farm Water Management Project and Irrigation Restoration and Development Project are helping restore core irrigation infrastructure through the rehabilitation of more than 190 irrigation schemes, including over 14 kilometers of riverbank protection and supporting dam safety. However, demand remains high for further investments in irrigation to raise agricultural productivity, in particular in marginalized regions of the country.

70 "Basic" drinking water refers to "Drinking water from an [technically] improved source, provided collection time is not more than 30 minutes for a roundtrip including queuing", while "basic" sanitation means the "Use of improved facilities which are not shared with other households" (UNICEF/WHO Joint Monitoring Programme).

71 South and Central Asia of UNICEF/WHO Joint Monitoring Programme includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Nepal, Pakistan, and Sri Lanka.

72 World Bank (2018). Pilot Climate Change Impact Analysis on Hydrology and Agriculture in the Balkhab Watershed, Northern Afghanistan, Washington, D.C.

73 Karazes are ancient traditional structures that collect ground water from various hydrous layers with horizontal tunnels and outflows on the surface.

Weak institutions, a fragmented sector structure, and the lack of reliable sector data are critical problems that impede efforts to improve sector planning and management. Fragmented, low-capacity institutions limit the sector's implementation efficiency, and an incomplete and inconsistent policy and regulatory environment give insufficient guidance on rules and long-term sector goals. The impact of the new Water Regulatory Law is not fully understood and its changes have not yet been fully implemented. Due to the ongoing political instability and the disruptive impact of COVID-19, this ambiguity may persist. Reliable, up-to-date information on the sector is generally not available. Particularly lacking are water balances and analytical studies on surface water (sub)basins. Information on groundwater boundaries and aquifers is also scarce, even as falling water tables are increasingly noticeable in major urban areas such as Kabul, the capital. To the extent that data exist, it is scattered across institutions and difficult to find and access.

The resilience challenge

Afghanistan is prone to water-related natural disasters such as droughts and floods. Floods are the most frequent natural hazard in Afghanistan and result in the greatest economic damage. Climate change will alter precipitation patterns and result in more intense snowmelt, which will increase flood risks including flash floods. Drought is another natural hazard that regularly affects Afghanistan. Historical records suggest that severe droughts have occurred every 10 to 15 years in the region. Serious droughts in 2017–2019 increased pressures on water resources and agriculture, creating an ongoing humanitarian emergency and displacing up to 230,000 Afghans in 2018. The associated disruptions to rural livelihoods are expected to disproportionately impact poor rural communities with lower coping capacities.

COVID-19 is having a significant negative impact on Afghanistan, showing that floods and droughts are not the only disasters facing the country. As of August 26, 2020, the Ministry of Public Health reported more than 38,100 confirmed cases in the country, occurring throughout all 34 provinces. Due to limited testing, the true number of cases is likely much higher. Afghanistan is extremely vulnerable to the spread of such diseases due to constrained access to water supply and sanitation and the weaknesses of basic health systems. COVID-19's economic impacts are already severe and expected to worsen. The pandemic and related containment measures, including border closures and the recent lockdown of major cities, have led to major challenges in the water sector, including (i) a significant decline in revenue of the national water utility; (ii) disruptions to critical imports, including water treatment chemicals and water supply electro-mechanical equipment; (iii) delays and cancellation of development projects; and (iv) delays in implementing strategic plans. The severity of the impacts and the limited resilience of the water sector to cope with these challenges are key concerns.

The water sector—at the nexus of agriculture and public health—is crucial to improving Afghanistan's resilience and capacity to withstand the socioeconomic impacts of natural disasters. Without better, more resilient water, sanitation, and irrigation infrastructure and a greater capacity to operate and sustain it, weak services will continue to expose Afghanistan's population to the brunt of climate change impacts, such as extreme temperature, floods, and droughts. The sector is in urgent need of improving short-term emergency response plans and a long-term strategy to build more sustainable infrastructure and institutions. Emergency plans will include measures to sustain core services during disasters, while building back stronger will require "climate smart" infrastructure (especially for efficient irrigation) and agricultural adaptation, based on integrating long-term sector disaster risk planning at regional, national, and local levels, as well as close involvement of stakeholders, including marginalized groups, to strengthen social coping mechanisms. This increased resilience will also require AUWSSC to climate-proof its existing water infrastructure and explicitly take expected climatic changes into account when planning new investments.

Policy recommendations

Sustaining water resources

Effective water resources planning for surface and groundwater as well as for protecting the water quality will require putting in place effective integrated planning and management of all aspects impacting water resources, including governance, capacity building, systems operations and maintenance, implementation of nature-based solutions (including rainwater harvesting), infrastructure, and institutional development. This entails coordinated management of water and land resources to maximize welfare in an equitable manner and protect vital ecosystems. In the near term, a clear prioritization of water resource challenges and the development of locally appropriate solutions remains critical. The country's universities and research centers should be further encouraged to play a leading role in water-related analytical studies and research, climate change modeling, identifying water sources protection zones, developing a water information system, capacity development, and enhancing concerned water sector institutions.

Establish a comprehensive national water information system. Good decision making and systematic planning in water resources management depends on the availability of reliable and current data. The present paucity and inaccessibility of information are significant obstacles to effective integrated management of surface and groundwater resources in Afghanistan. A central and comprehensive national water information system should be established at the National Water Affairs Regulation Authority in close coordination with the National Statistics and Information Authority. This system should facilitate access to already existing data (through digitalization, collection of scattered information, better data sharing protocols) and enable continuous data collection, analysis, dissemination, and monitoring. Priorities should include the adoption of new digital and remote sensing technologies and interpretation of satellite image, which are important given the country's fragile security and the large number of remote population sites. Investment in an institutional architecture for credible data gathering and knowledge production with clear rules to facilitate data sharing with researchers and other stakeholders will be critical. Protocols for data sharing should be established.

Improve coordination of government institutions with donors. As water is at the intersection of multiple sectors of the economy and has enormous impact on human development, efficient coordination between government institutions and donor partners is essential for efficient water resources planning and management. Improved coordination of the development of water and related resources is necessary to promote equitable economic growth and social welfare while preserving vital ecosystems. At the subsector and institutional levels, better coordination will help reduce duplication and improve outcomes. The recent formation of an AUWSSC–Donors Coordination group, which has agreed on a capacity building roadmap, provides a useful example.

Set Priorities in Transboundary Water Relationships. Afghanistan shares four of its five river basins with neighboring countries. To secure the sustainability of its water resources, the government should carefully study existing water allocation regimes and develop a transboundary water management strategy that prioritizes its transboundary engagements and objectives, focusing on those with significant potential for enhanced partnerships between upstream and downstream water users. Feasibility studies have demonstrated the value to Afghanistan and other countries of joint management of development projects, such as hydropower and flood management, on shared rivers. Political will and continuing to build institutional capacities for conducting international water negotiations will also be essential.

Improving service delivery

Major capital investments are needed because existing drinking water, sanitation, and irrigation infrastructure has been damaged by conflict and the supply has not kept pace with the rapid growth in demand for water. Closing water-related capital investment gaps will be critical to achieving many of the Sustainable Development

Goals, from Zero Hunger (SDG 2) to providing Clean Water and Sanitation for All (SDG 6) and ensuring Sustainable Cities and Communities (SDG 11). To strengthen these important developmental efforts, it will be critical to encourage private sector participation in service delivery and to efficiently use scarce fiscal resources (as of now most public investments are concentrated in densely populated urban areas such as Kabul and Kandahar), while also taking political economy and equity concerns into account. The rural population requires a special policy focus, as villages in rural Afghanistan tend to be difficult to reach and are particularly vulnerable to contaminated water, poor sanitation, and droughts. The government's existing and long-running Rural Water Supply, Sanitation and Irrigation Program provides a basis for scaling up to a more comprehensive rural water and sanitation development program.

Strengthening the capacity of sector institutions remains critical to sustaining infrastructure and the delivery of services. Improving operational, technical, and managerial performance, and introducing good practices in human resources and financial reporting are top priorities for institutions such as AUWSSC. Investments in service delivery should take a long-term programmatic approach that combines the implementation of infrastructure investments with parallel progress in targeted reform and capacity building measures. When institutional reforms do not accompany capital investments, the sustainability of outcomes will be compromised, as infrastructure is not operated and maintained in a technically efficient and financially sustainable manner. In turn, capacity building programs and reforms can be undermined in the eyes of government, sector staff, and local communities if there are no noticeable service improvements due to a lack of investments. As a part of this process, design parameters and operations and maintenance manuals for the sector infrastructure should be updated and defined and benchmarking practiced.

Balance service sustainability and affordability. Pricing water (drinking water and irrigation water) to reflect some measure of its actual value to the economy and cost of production is critical to efficiently sustaining vital services to the population. However, this needs to be balanced with a concern for affordability by users, mostly obviously the poor. The government plays the central role in this vital balancing act as the source of major capital investments and subsidies, the tariff setter, and a mediator in water conflicts.

Building resilience

Build resilient systems because fragile, conflict- and violence-affected countries are often the most impacted by climate change and the least able to adapt to these unpredictable changes. Water-related resilience measures can be a catalyst for rebuilding the country's infrastructure systems and institutions. Effective climate change adaptation will require well-planned infrastructure and sound water management to reduce vulnerabilities and increase the margin of safety in water storage reserves, service capacity, and extreme event mitigation. It will be important for government to promote rainwater harvesting, disaster risk reduction, efficient irrigation (e.g., drip irrigation); flood resilience of irrigation schemes; land and water management at the watershed level (to stabilize slopes); implementing terracing, agro-forestry, and agro-silvopastoral systems that will reduce soil erosion and runoff from steep slopes; implementation of early warning flood management systems; and hazard mapping.

Promote citizen engagement to build social resilience around water. The meaningful participation of Afghans, including marginalized groups, is critical to raise awareness of the imperative to conserve and protect the country's water resources, and to identify and implement locally appropriate measures to strengthen climate resilience. Stakeholders include universities, the private sector (engineering, associations, and other key users) and civil society including local village councils, NGOs, and farmer and women's groups. The participation of women will be of particular importance due to their central role in managing household water.

Regional coordination is essential to strengthening national coping mechanisms and resilience. In establishing Afghanistan's rights in shared surface water resources through international agreements, it will be important to develop contingencies for droughts and impacts of climate change in shared basin management.

15 Energy

Providing Electricity for Growth and Development

Context

Over the past 10 years, Afghanistan has built an extensive electricity transmission network and gained access to significant power generation resources both domestic and abroad. Access to grid-based electricity remains low but has steadily increased since 2004, when it was at only 8 percent. As of 2019, household access to grid electricity is estimated at 31 percent. Grid electricity is mostly available in urban centers and along transmission corridors that are connected to imported electricity. Afghanistan's per capita electricity consumption averages 187 kWh per person per year, significantly less than the Asia (without China) average of 1,110 kWh per person and the average electricity usage of 3,200 kWh per person worldwide (International Energy Agency 2017). Electricity access varies widely between rural (164 kWh/person/year) and urban areas (375 kWh/person/year). Nevertheless, electricity access has steadily expanded, and the number of customers has grown from 227,854 in 2004 to 1,460,173 in 2019. More than 92 percent are residential customers and about 6 percent are commercial customers. The remaining 2 percent include public agencies (government departments, holy places, etc.) and industry (registered and unregistered).

However, gains in access to electricity are fragile. Afghanistan's grid structure, which is operated as several separate grid islands, creates a challenging environment for the continued supply of power. The February 2016 failure of transmission lines between Uzbekistan, Tajikistan, and Afghanistan, which normally would have provided 81 per cent of Afghanistan's electricity, illustrates the fragility of the system and the need for diversifying power supply. Similar failures took place in early 2018. Load shedding and outages are very common, even in urban areas where many homes and businesses continue to rely on private generators and solar home systems, due to growing demand and shortage of supply. A recent survey indicated that 75 percent of grid-connected households and 57 percent of business and institutional customers had some sort of backup supply.

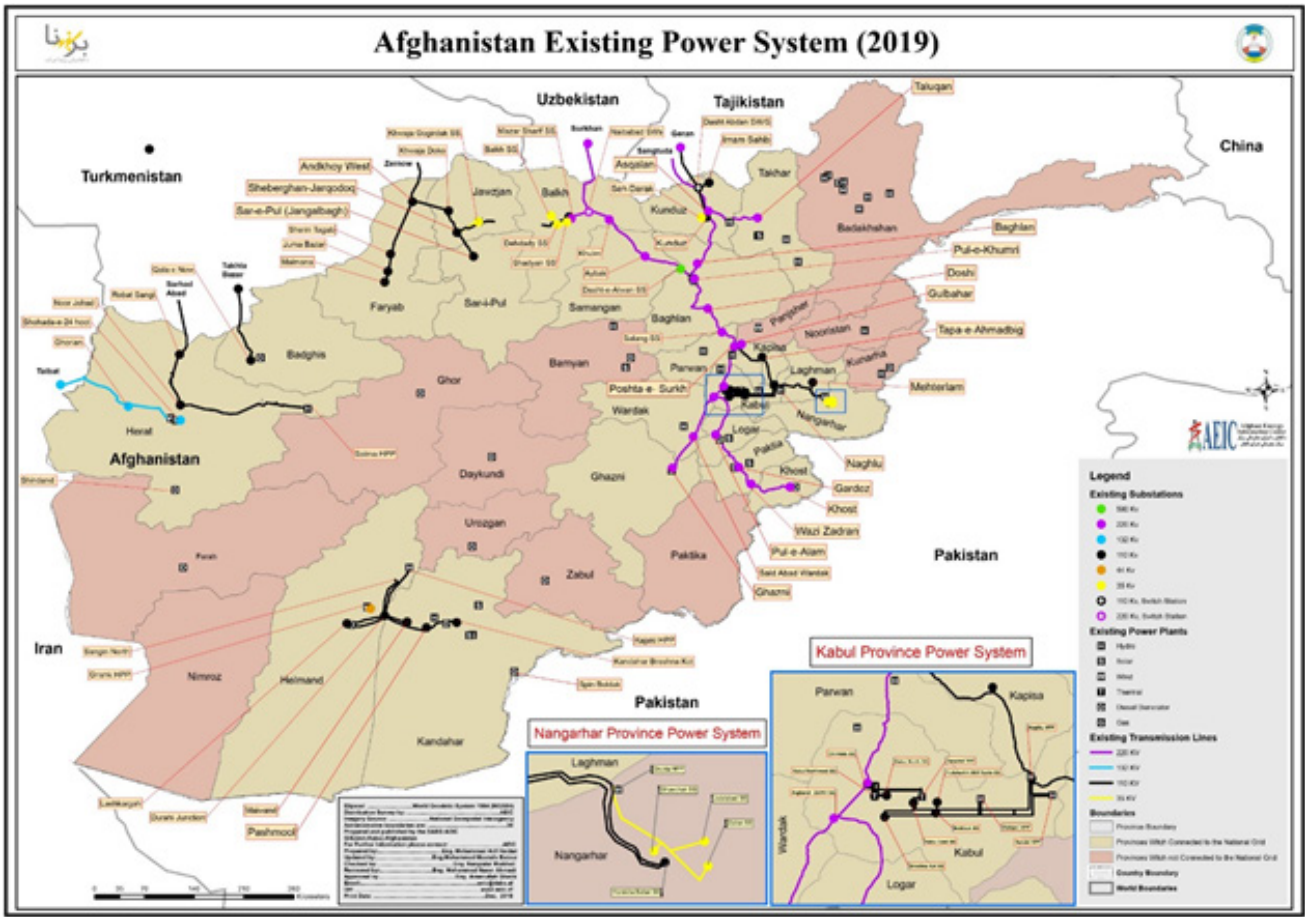
Afghanistan's electricity mix is dominated by imports that are complemented by domestic hydropower. Afghanistan has limited domestic sources of electricity, with only 522 MW of installed capacity, made up of hydro (49 percent), thermal (39 percent), and diesel (12 percent). This compares to more than 1,000 MW of imported electricity from four neighboring countries: the Islamic Republic of Iran, Tajikistan, Turkmenistan, and Uzbekistan. While current prices are low, there is no certainty on pricing or continuity of supply over the longer term. For the period of 2017–2018, electricity imports of 3,841 GWh made up 75 per cent of supplied electricity. Imported electricity is integral to meeting Afghanistan's demand, and has resulted in almost tripling of electricity consumption compared to the 1,289 GWh consumed in 2006.

Afghanistan is actively pursuing investments in its hydropower potential. Construction of a proposed 100-MW hydropower project on the site of the existing Kajaki hydropower plant is underway. Several solar photovoltaic, wind, and gas-fired independent power producers (IPPs) are either constructed or underway in Kandahar, Kabul, Jowzjan, Balkh, and Herat provinces. Another 300 MW of additional power will become available upon completion of the Central Asia-South Asia (CASA)-1000 transmission line, which will interconnect Afghanistan with the Kyrgyz Republic, Pakistan, and Tajikistan. Further opportunities for importing power exist, as Tajikistan and Uzbekistan have excess capacity they could sell to Afghanistan. **In sum, the government's efforts to tap into more generation capacity are paying off. The challenge now is to ensure that the transmission and distribution grid is reinforced so that the additional power can be dispatched.**

The COVID-19 outbreak significantly impacted Afghanistan's economy in general and the energy sector more specifically. Real GDP in 2020 is estimated to contract by 5.5 percent compared to pre-COVID projections. A sharp contraction in services and industry due to lockdowns and other social distancing measures led to significant reductions in demand for electricity, resulting in reduced revenue and collections for Da Afghanistan Breshna Sherkat (DABS), Afghanistan's vertically integrated power utility. During March/April 2020, DABS' cash inflow dropped by about 60 percent compared to the same period in the previous year, with households and firms unable to pay their electricity bills in the context of lockdowns and major declines in economic activity. Over the summer, however, revenue collections improved.

DABS is heavily dependent on payment of electricity bills by its customers to sustain its operations. DABS purchases about 80 percent of its electricity from Afghanistan's neighboring countries, regulated through Power Purchase Agreements (PPAs). In addition, 6 percent of its electricity comes from domestic IPPs. DABS' average monthly operational cost of around $30 million was primarily met by its cash inflow from payments of electricity bills. However, with reduced revenue and collections, DABS was expected to exhaust its funds available to pay for electricity supplies by June 2020, which would have led to supply disruptions and prolonged power outages. However, advanced payment of outstanding government arrears by the Ministry of Finance, which was a prior action under the COVID-19 response development policy grant financed by the World Bank and Afghanistan Reconstruction Trust Fund development partners, avoided significant power disruptions.

Energy sector financial viability is crucial at a time when the network needs to expand to cover a larger proportion of the population. The current average retail tariff is AFN 6.8/kWh (approximately 9 U.S. cents/kWh), which is below the average cost of supply. The average cost of power generation and electricity imports are at 5 U.S. cents/kWh. Capital investments are largely financed by grants from donors, and the pricing reflects a deliberate choice by DABS to partially pass on savings from investment subsidies to its customers. In the past, DABS has generally shown positive cash flow and profits. This was a result of several factors, including donor funding of capital expenditure; exclusion of depreciation charges from the finances; and historical budgetary allocations from the former Ministry of Energy and Water (MEW) and the Ministry of Finance. However, the need for sector investments exceeds the availability of donor financing, which decreases DABS' ability to continue to maintain tariffs that are below the cost of supply. Furthermore, ongoing depreciation of the exchange rate places increasing pressure on the company's finances, as a large percentage of its costs, including the supply of imported electricity, are incurred in U.S. dollars. To remedy this situation, MEW has adopted a tariff adjustment procedure and DABS is accordingly revising its tariffs and tariff structure. These changes are expected to be adopted in late 2020.



Key Challenges

The 2018–2019 energy survey undertaken by the World Bank[74] shows how access to grid electricity improves people's welfare, with income improved (food expenditure per person per week up by 8 percent); productivity increased, freeing up time for household tasks; income fluctuations reduced; and the likelihood of child labor significantly reduced (19 percent decrease). About two-thirds of the population still lacks access to the electricity grid. However, Afghans have high expectations that they will soon be connected. Almost without exception, those currently not connected to the grid expect to be connected within two to three years.

Under a geospatial planning exercise conducted in 2017, the cost of providing all Afghans with modern on- and off-grid electricity sources by 2030 was estimated to cost between $8 billion and $26 billion. These costs included up-front capital investments for extending the transmission and distribution network, construction of mini-grid systems, and installation of stand-alone solar and diesel technologies. The analysis reviewed different scenarios that showed it would be cost-effective to electrify 45–60 percent of Afghans, while the remainder should be connected through mini-grids and stand-alone plants. Even if only partial electrification is targeted by 2030, significant financial resources will have to be mobilized. Leveraging financing from the private sector will be critical to close the financing gap.

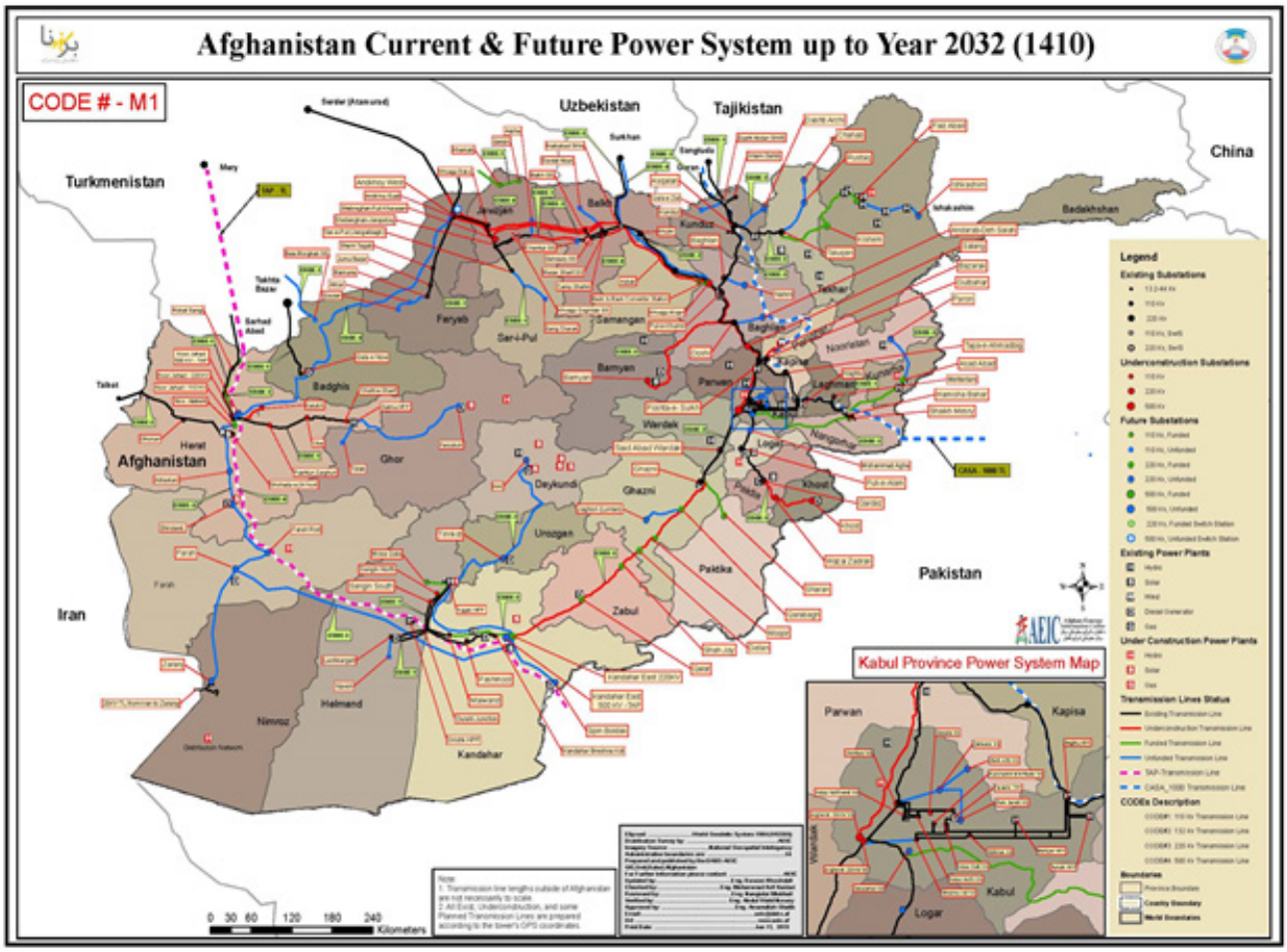
The government aims to provide 60 percent of Afghans with grid electricity within a five-year period, using a two-pronged approach. First, it intends to complete the transmission backbone of the network, including electrification of its district capitals under a plan approved in 2019 by Afghanistan's Infrastructure Council to ensure greater stability. Second, it aims to electrify around newly built substations of the transmission backbone using private sector participation.

74 Samuel Hall (2019). Afghanistan Energy Study. Available at:
https://energypedia.info/wiki/Afghanistan_Energy_Study#Households_and_Enterprise_Energy_Diaries_.28Activity_3.29.

The last-mile distribution of power from substations linking transmission lines is the most complicated part of the network in terms of management. The complexity comes from bringing together various interested parties, leading to technical losses and commercial losses, including theft of electricity. Involving the private sector—almost as an independent agent—is perceived by governmental stakeholders and DABS as the most viable option. DABS is considering outsourcing the management of certain feeders or even larger parts of the distribution system to private parties. **Options include an output and performance-based approach using distribution levels, with regional concessions in different provinces drawing on the local private sector.** These options, however, require a clear regulatory framework to function well. Whatever option is selected, it will require further training of DABS staff and of future private sector partners to ensure the grid extensions are undertaken in a technically sound and timely manner. It will further require improvements in DABS' operations and maintenance practices.

The rural population remains mostly unconnected to the grid and will not gain access to grid electricity soon. The rough terrain and scattered population make it difficult to recoup the cost of investment in transmission and distribution lines. The precarious security situation in several provinces further increases complexity and uncertainty, adversely affecting public sector capacity to plan and implement projects and reducing the private sector's appetite for investment. However, Afghanistan is home to the world's largest network of mini-grids, which were constructed with the help of the National Solidarity Programme . Under this community-driven approach, 5,000 mini- and micro-hydro power plants were built.

Off-grid electricity systems have thus far not realized the same productivity gains and economic improvement generally associated with grid electricity. Stand-alone solar systems that have contributed to rapid improvement in basic access to electricity in rural areas are generally not capable of providing suitable power for usage in commercial and industrial activities. The penetration of productivity-improving solutions such as solar water pumps and solar refrigerators is still very low, mostly due to the limited affordability and awareness among rural households, as well as limited access of the private sector to technical and financial resources. Mini-grid users mainly use electricity for lighting, mobile phone charging, and radio or television.



Reforming the institutional framework for rural energy provision has been identified as necessary to support the expansion of energy supply to rural areas through on- or off-grid systems. As of today, the rural renewable energy space in Afghanistan is a shared responsibility between the Ministry of Rural Rehabilitation and Development (MRRD), the former MEW, and DABS. While MEW oversaw the overall policy and master plan development of the energy sector, MRRD is responsible for planning, implementation, and management of all off-grid projects up to 1,000 kW. As per the Renewable Energy Policy, MRRD hands over the operations and maintenance of projects above 100 kW to DABS or private sector companies. The division of MEW into the National Authority for Water Regulation and Energy Services Regulation Authority in mid-February 2020 creates further uncertainties about the roles and responsibilities of either entity, not only with respect to electrification but also with respect to who will assume the role of policymaking. DABS is also active in the off-grid space, although to a lesser extent, through the operation and maintenance of several mini-grids mostly running on diesel and in urban/peri-urban settings. This distracts DABS from its core business and should be moved to an entity dedicated for off-grid electrification.

The overlapping roles among institutions and the size of the off-grid population call for a review and possible reorganization of responsibilities to ensure long-term sustainability of initiatives already implemented while continuously increasing the energy services. A systematic off-grid plan focusing on productive uses that is implemented concurrent with the grid expansion plan would help availability of affordable, basic electricity services to a wider segment of the population.

While Afghanistan has made great strides in its generation options, the country has significantly expanded its solar energy ambitions. Afghanistan's high insolation has over 200 GW of solar power potential. Due to

the strong solar irradiation and abundant land suitable for developing solar photovoltaic (PV) projects, the government is pursuing policies to increase the deployment of on-grid solar PV power generation through private sector investments. In November 2018, the government reiterated its intentions of developing a domestic utility-scale solar energy generation program through a call for expression of interest from potential bidders issued by the Public Private Partnership Department of the Ministry of Finance, targeting a significantly more ambitious plan for 2,000 MW of installed capacity. Given the rapidly declining cost of solar technology and the speed with which on-grid solar plants can be constructed (often less than 18 months), the government rightfully pursues this resource. The solar plan now needs to be made operational and broken down into feasible sub-targets and timetables. Beyond this program, DABS has received government approval for a National Solar PV and Water Heating Rooftop Program, which is yet to be launched. As long as the costs for solar power remain higher than for alternatives, such as electricity imports, adding solar plants will constitute a financial burden to DABS. As part of the COVID-19 response, DABS procured and installed solar systems in COVID-19 designated health care facilities in Herat province, the early epicenter of the pandemic. The systems were funded by the International Development Association.

Pursuing such intermittent generation options raises the importance of improving grid interconnectivity and developing and applying a unique grid code. As the share of variable renewable energy (VRE) such as solar PV increases, and given existing fragmentation issues, the grid needs to be managed in response to variability, including through more ancillary services, backup supply, and load-shifting capabilities. Mechanisms to accommodate VRE include flexible operation of other generators and optimal use of hydropower assets, load shifting via demand response, as well as market and infrastructure development that supports power evacuation across a larger demand area. These are all complex solutions for the Afghan power system and operators, which is highly desegregated. The integration of VRE into the Afghan power system is further complicated by the fragmentation of the Afghan transmission system, weak distribution networks, seasonal disconnect between the summer hydropower supply peak and the winter power demand peak, limited capacity of hydropower reservoirs, vulnerability to climate impacts on river flows, overall inadequate power supply and reserves to provide quality power, and need for controllability of the system.
The grid code needs to be completed swiftly to ensure all grid investments, including for distribution, can be undertaken to a satisfactory standard. Efforts for the preparation of an action plan for synchronization with some of Afghanistan's neighboring countries are also underway and supported by the Central Asia Water and Energy Program trust fund. In this context, introduction of energy storage technologies such as battery energy storage solutions (BESS) could help improve resilience, power quality and ramping, and optimization of generation and grid resources in Afghanistan. As a resource for which international costs are falling rapidly, BESS could create new opportunities for least-cost system planning and management as well as integration to micro-grids. The U.S. Agency for International Development (USAID) is supporting a 10-MW energy storage facility in Kandahar province, the first in Afghanistan.

Governance reform of the power sector needs to continue. Given the small size of the power sector, DABS' structure as a vertically integrated power utility remains adequate. Strategic use of private sector funding through PPAs and IPPs in both the generation and distribution sectors is appropriate. However, care needs to be taken that DABS' finances are not being locked in by take-or-pay commitments that it is unable to honor in the long term. Today's most powerful vehicle for governance reform is the 2018 Partnership Agreement between DABS and the Ministry of Finance. It sets targets and timetables for key reform actions, all of which have been met and that has put DABS on a path of sustainability. It includes measures that should help bring DABS back to financial viability over the next five years.

Further efforts need to be made to strengthen the regulatory department at MEW so that it can eventually be spun off as an independent regulator. The Partnership Agreement was amended in May 2020 to include additional reform measures, including payment of DABS arrears by the Ministry of Finance as a response to COVID-19 (see above). Legal reform is required to align roles and responsibilities of all actors in the energy

sector. Similarly, DABS needs to conclude the revisions of its Articles of Incorporation in line with the recently adopted state-owned enterprise/state-owned corporation law. DABS' tariff reform needs to be concluded through the adoption of its tariff proposal and new tariff structure.

Policy Recommendations

The government should develop a detailed plan with feasible targets and timetables for connecting the 69 percent of Afghan households that do not have access to the electricity grid. Where cost effective, grid extension should follow by concluding the transmission backbone of Afghanistan and developing a private sector–led approach to distribution-level electrification. Most segments along the transmission backbone are either under construction or funded. However, funding is still required for some key segments, especially in central, western, and southern Afghanistan. DABS estimates the total cost of these investments exceeds $500 million to be undertaken over a 10-year horizon. Leveraging the private sector through a competitive, coordinated, and phased approach would reduce the up-front investment needed and leverage the know-how of the private sector.

For those Afghans who live far from the grid and who cannot be connected in the next five to 10 years, better off-grid electricity options need to be made available with a focus on supporting productive uses for income generation. To ensure a plan can be developed, the government needs to assign clear roles and responsibilities for rural access and ensure that the right expertise is available within institutions necessary for best practices, including a rural electrification agency and a rural electrification fund.

The government needs to provide better electricity to those people already connected to the grid and reduce the frequent outages customers face. In this context, the completion of the grid code is essential to ensure all grid investments, including for distribution, can be undertaken to a satisfactory standard. The Afghan grid also needs to be synchronized both inside the country and with key countries that export power to it.
The finances of the electricity sector need to be carefully governed to ensure that the stabilization and extension of the grid can be undertaken in a sustainable manner. Unlike health and education, electricity is a sector that should be able to recover its own costs and more. The judicious implementation of the new tariff procedure is critical.

There is a consensus among donors that better coordination among donors can help improve outcomes for the sector. The donor community supporting the energy sector includes Asian Development Bank, Australian Aid, GIZ (German Agency for International Cooperation), United Nations Development Program, USAID, the World Bank Group, and others.

16 Extractives Sector

Harnessing Afghanistan's Large Resource Endowment

Context

Afghanistan has a large, diverse resource endowment. Extractives[75] potential, including oil, natural gas, copper, coal, marble, construction materials, iron ore, gold, lithium, and other industrial minerals, provides the nation with a diversity of development opportunities. The sector represents a source of significant potential for economic growth and expansion, less reliant on public sector investment and ideally suited for private sector–led development given the capacity of the private sector to pool domestic and international capital. Leveraging these resources meets an equally diverse array of broader objectives around building linkages to other sectors, ensuring revenues and foreign exchange earnings to the government, building infrastructure, potentially diversifying the sources of energy, and contributing to the creation of jobs and livelihoods.

Afghanistan has been a mineral producer for the past century. There are no large commercial-scale mines currently in production, although the potential is significant from several known resource assets such as Aynak (copper). Artisanal and small-scale mining (ASM) produces construction minerals, dimension stone (marble), and gemstones. Industrial minerals and dimension stones are produced for domestic end-use markets that include road and housing construction within an industry structure consisting of small to medium enterprises benefiting from a decade of economic expansion and domestic investments. Gemstone production remains strong with superior quality Afghan stones supplying regional and global markets, but it is largely informal. Small chromite and gold mining continues to show promise for expansion if there is improved local security and favorable prices.

Afghan natural gas production commenced in 1967 and continued through the mid-1980s, declining thereafter. During the early years, the Soviet Union was the primary consumer of Afghan gas production, which was delivered to the Soviet pipeline network via Uzbekistan; some production also served the Northern Fertilizer and Power Plant and a textile mill in Mazar-e-Sharif. At its peak in the late 1970s, Afghanistan supplied 70–90 percent of its natural gas output to the Soviet Union's natural gas grid. During the 1980s, gas sales accounted for $300 million a year in export revenues (56 percent of the total). After the withdrawal of Soviet forces in 1988 and the cessation of exports, investment in natural gas production and operations in Afghanistan dramatically contracted. Gas production dropped from a high of 8.2 million cubic meters per day in the 1980s to around 500,000 cubic meters per day today.

Extractives are a high-risk industry, with investors exposed to market uncertainties, technical challenges, and the introduction of competing supplies from other resource areas. Successful resource-

75 Extractives includes oil, gas (hydrocarbons), and minerals.

endowed countries attract investments by providing clarity, consistency, and predictability on roles and responsibilities of both government agencies and investors, backed by a transparent, nondiscretionary set of rules and decision-making processes. Good sector governance results from effective implementation of policy and legal and regulatory instruments aligned with international good practices. Good governance coupled with strong implementation capacity helps ensure that countries such as Afghanistan realize the benefits of the extractives sector (i.e., revenue generation, infrastructure development, employment) while limiting the potential for the "resource curse," and that investors have the predictability they need to grow their operations.

The development of the oil, gas, and mining sector is a long-term strategy that will require commitment over the next 20 years to sustain growth. Along the way, the government should take the lead on aligning private and public sector investment plans to ensure that hard and soft infrastructure necessary for the sector will leverage growth more broadly across agriculture and other parts of the economy. Withholding sector development "until the right institutions are in place" can take decades and may not be an option given the county's urgent need for alternative sources for revenues and foreign exchange earnings to replace foreign aid. Based on the World Bank's global experience, sustainable institutional capacity can only be built when those very institutions are actively engaged in fulfilling their role in the development of specific extractives projects.

Leveraging resource wealth toward broader societal objectives requires good governance. The government has been working toward modernizing the sector for more than a decade. However, despite 15 years of international support to the sector, sustained institutional capacity has varied and sector development has stagnated. Well-entrenched challenges to sector development remain, including political economy dynamics at the local and national level (transparency, beneficial ownership, informal ASM, gemstones, etc.) that require a strong commitment toward implementing policy as well as institutional, technical, and regulatory solutions. The government has struggled to build and retain institutional and human resource capacity to fulfill its role in managing the sector, impeding the country's ability to attract the investment necessary to reach the sector's potential as an engine for growth and sustainable development.

Afghanistan can learn from other successful nations that have built strong governance to leverage oil, gas, and mining to catalyze economic diversification and provide revenue earnings and access to foreign exchange. Key challenges related to building good governance along a value chain include (a) ensuring the nondiscretionary, competitive, and transparent award of contracts and licenses; (b) benchmarking contractual terms and conditions internationally to ensure their competitiveness to attract private capital; (c) building core capacities, skills, and transparent institutions to ensure regulatory compliance; (d) building capacities for collection of taxes and royalties; (e) ensuring sound financial management; and (f) implementing sustainable policies for inclusive economic growth and diversification, benefit sharing, and environmental and social sustainability.

Resource development requires commitment to a long-term strategy, backed by strong resource corridor implementation. Key resource opportunities around Aynak, Hajigak, Dari Suf, Sya Dara, Badakhshan, Zarkeshan, and other large to medium-size mining opportunities will require time to complete exploration, feasibility studies, regulatory approval, and construction. Capital investment requirements for these operations will range from hundreds to billions of U.S. dollars, made through smaller incremental investments that progressively build into larger commercial operations. Such a long-term strategy can go on for two or more decades and requires stability of policies backed by adherence to vision regarding the roles and responsibility of the government and investors to grow the sector and deliver benefits to Afghans that will reduce poverty.

Uncertainty in fiscal policy, nontransparent or discretionary decision-making processes, or a lack of clarity regarding institutional roles and responsibilities (including obligations between government, community, and investor) can have devastating impact on a long-term extractives sector growth strategy. Specific concerns that have emerged include: (i) the need to ensure the proper role for state-owned enterprises to complement private sector investments; (ii) that subsidies or tariff structures do not erode the commercial viability of oil,

gas, and mineral products sold domestically; and (iii) that passage and application of laws and regulations offer investors stability and consistency. Any restrictions on the quantity to be produced and/or exported will immediately undercut any long-term strategy.

Sequencing of incremental investments within a diversified portfolio is advised, providing "proof of concept" to global investors. Over the past decade, many of the larger resource development projects globally have been caught in decision paralysis, with governments unable to decide key actions to advance investments mostly over concern that a misstep on such a large investment would harm the whole economy. A preferred strategy is to facilitate smaller incremental investments in which each stage of investment tests and demonstrates that regulatory oversight is independent, transparent, and nondiscretionary, and that fiscal policies are consistently applied and extractive projects are commercially viable and yielding benefits.

Operations that are designed to be "scalable," meaning they can incrementally grow through reinvestment of smaller amounts of capital, are (a) likely to place smaller demands on a global capital pool that remains constrained after the 2008 financial crisis; (b) less likely to encounter decision paralysis within government as any small misstep can be corrected ahead of the next stage of incremental investment; and (c) more likely to enable adjustments mutually agreed by the government and investors that are warranted by changes to the overall development scheme. Within the portfolio of available resources (oil, gas, and minerals), there will be a natural sequencing between commodities that can be first to market versus those that will require longer lead times. In Afghanistan, this implies mining should initially come from Aynak copper, which requires another three to four years to complete feasibility, environmental, and social impact assessments, achieve regulatory approval, and begin construction.

There are unique environmental and social challenges for extractives. The World Bank has worked with the Ministry of Mines and Petroleum (MoMP), National Environmental Protection Agency (NEPA), and Ministry of Information and Culture (MoIC) to support adoption of good practices regarding regulatory compliance, monitoring, and reporting of environmental and social performance. Current social development challenges relate to adherence to global good practices regarding transparent and well-documented resettlement and compensation processes, implementation of community development agreements (CDAs), managing the social license to operate, benefits sharing, and protection of physical cultural resources. In addition, there are environmental challenges associated with the extractives sector that need to be appropriately managed, such as management of water resources and tailings dams, as well as noise, air, and soil pollution. For Afghanistan, the absence of policies, regulations, and practices aimed at managing the social and environmental impacts of the extractives sector could serve to exacerbate fragility and the potential for violence.

In consideration of the above, two challenges are noted as priority topics for the new government of Afghanistan: (a) Continued governance reforms to achieve inclusive growth, local content, jobs, infrastructure, and environmental and social sustainability; and (b) sequenced and incremental investments to establish "proof of concept" for Afghan developments.

Policy Recommendations

Continue governance reforms to ensure inclusive growth through strong benefits sharing, management and transparency of revenues (e.g., Extractive Industries Transparency Initiative), environmental and social management, and strong partnerships to achieve shared value. While the last 15 years of international support to the oil, gas, and mining sector has yielded positive results, a number of critical challenges to ensuring good governance of the sector remain. They include (i) the need for a **realistic and unified vision for sector development** that can attract investment, while also managing expectations; (ii) the need for **consistency and predictability in the legal, contractual, regulatory, and institutional framework** for managing the sector; and (iii) strengthening the **capacity for sustained implementation and oversight**.

To avoid mixed signals and policy uncertainties regarding the roles of the private and public sector from all parts of the government, develop a realistic, prioritized, time-bound, and measurable vision for sector development over the short to medium term aimed at providing guidance to key stakeholders on areas to focus investments, areas of reform, sector direction, etc.

Streamline and strengthen laws and regulations. Over the last 10 years, the mining law has undergone a continuous process of amendment and revision, resulting in instability and unpredictability that hampers the country's ability to attract investment. The goal of reforming the mining law is to ensure competitiveness, stability, predictability, and consistency of the institutional, legal, contractual, and regulatory framework, while focusing on building a strong system of implementation and oversight, including transparent and independent regulatory institutions.

Build core capacity and strengthen institutions. The capacity of key institutions charged with managing and overseeing the sector remains critically weak, compromising the implementation and oversight of existing laws and regulations. Responding to the need requires (a) continued capacity building of MoMP on roles and responsibilities assigned by law, including health, safety, and environmental compliance; (b) initiating the Afghanistan Oil and Gas Regulatory Authority with capacity building support to discharge its roles and responsibilities as assigned by law, including clearly established areas of coordination between MoMP and the regulator; (c) continued capacity building of NEPA, with a focus on regulatory review of feasibility studies and environmental and social impact assessments, as well as environmental and social management of the sector; (d) continued capacity building at MoIC regarding the proper management of physical cultural resources in mining areas; (e) continued reforms that have emerged from the Strategic Environmental and Social Impact Assessment; (f) implementing a community benefits-sharing scheme, including by supporting CDAs, to build the social license to operate and ensure that benefits from extractives accrue to communities; (g) continued innovative third-party contractual and regulatory monitoring, while building concurrent regulatory capacities and increasing support on transfer pricing procedures and audits; and (h) implementing key transparency initiatives, such as the Extractive Industries Transparency Initiative and other transparency laws, and establishing an international advisory panel to help oversee the tender and contracting for large-scale developments.

Encourage sequenced and incremental investments to establish "proof of concept" for oil, gas, and mining developments. Aynak mine was tendered in 2007–2009, but a series of development challenges, including the protection of physical cultural resources, created inertia around key decisions. A decade later, the contract is being renegotiated, with continued paralysis on making major decisions. The government should consider using incremental investments to develop mine projects progressively. Such an approach gives the government greater control over sector development, ensuring full regulatory and contractual compliance, while also permitting adjustments to contractual terms and conditions if warranted. Steps to an incremental investment approach include (i) unlocking key investments in the sector that have the potential to generate revenues, infrastructure, and jobs, such as Aynak Copper or Totimaidan Gas, by preparing a roadmap for development/ renegotiations; (ii) establishing a public investment plan unit as part of the initiative to inform and align public sector and private sector investment; and (iii) continuing analytics on sequencing of scalable investments, with continued "lessons learned" to avoid irrevocable decisions.

To catalyze investments, begin regional dialogue regarding cross-border transit agreements and bilateral tax treaties for the evacuation of mineral products. Other potential steps include working with the Ministry of Finance on the fiscal feasibility of alternative public-private partnership arrangements to leverage strong coordination of public and private investments; exploring options for possible addition of a public-private investment planning unit for extractives to inform and align public sector and private sector investment; and continuing analysis of investment risks and assessment of investor needs regarding financial guarantees, partial risk guarantees, credit enhancement of state-owned enterprises, and other risk mitigation instruments.

17 Transport

Improving Local, Regional, and Global Connectivity to Stimulate Economic Development and Poverty Alleviation

Context

Although strategically located at a historical trade crossroads, Afghanistan's transport system is unable to meet the needs of the majority of its inhabitants and businesses, or the wider region. Like other landlocked countries, the underdevelopment of regional road and rail connectivity and inadequate transit regimes hinder access to nearby ports and transit trade, leaving Afghanistan comparatively isolated from regional and global markets. Gaps within the road network and civil aviation sector likewise hinder the development of a more prosperous, equitable, and integrated national economy. Afghanistan's cities, particularly Kabul, face sustained stress from rapid and under-planned growth. In addition, the sector faces the additional challenges of supporting the pandemic response and economic recovery, adapting to climate change and rapid urbanization, responding to evolving security conditions, and helping enhance mobility without exacerbating the spread of COVID-19.

Currently, Afghanistan's transportation system is characterized by (i) unnecessarily high costs, both internal (investment in infrastructure and maintenance, and inefficient passenger and freight services) and external (pollution, collisions, congestion delay); (ii) growing and unsustainable congestion in many urban areas; (iii) unreliable, costly, and poor quality transport services that affect the competitiveness of Afghanistan's economy as a whole; (iv) severe maintenance and rehabilitation backlogs; (vi) inadequate coordination, planning, and resources; (vii) low levels of enforcement of laws and safety standards; and (viii) public and private bodies with constrained resources and capacity.

Given the extensive gaps, improving transport connectivity and services has tremendous potential to lower the cost of trade, bolster productivity, connect people to markets and services, open extractive sector opportunities, and improve livelihoods and social welfare in both urban and rural parts of the country. Development of the sector is also vital to demonstrate the state's capacity to deliver public goods and improve people's lives; developing the sector in an inclusive way can also bolster state legitimacy and national cohesion.

The main short-term impacts of COVID-19 on road freight transport are a substantial reduction in the supply of food and medications, as well as an increase in the costs of freight transport, an increase in freight tariffs, and a consequent increase in consumer prices. Lack of supply of medications and a rise in their prices to consumers has had a further indirect negative consequence of an increase in the supply of illegally imported and unregulated medications. COVID-19 also has amplified urban mobility challenges, with women and the poor, including informal economy workers and service workers, particularly hard-hit by limited safe urban mobility services during the pandemic.

Transport can also play a vital role in COVID-19 response and recovery by supporting the delivery of essential resources and the continuity of the supply chain, promoting the recovery through the development of infrastructure with long-term economic benefits, and creating short-term employment opportunities in labor-based works. A better-managed urban transport sector can mitigate the spread of the virus and ensure basic mobility to jobs and services.

Regional and global connectivity

Afghanistan is relatively isolated from regional and global markets due to the underdevelopment of road, rail, and civil aviation, lack of transit regimes to facilitate access to ports, and challenges in the administration of customs that have discouraged international cooperation to reduce friction at border crossings. Afghanistan's rail network is at a nascent stage of development, while the key road links for international trade, particularly the Salang Pass, are inadequate and require significant upgrading. The available trade routes are very limited, resulting in vulnerability and high cost.

Road infrastructure and connectivity

Road infrastructure is the backbone of Afghanistan's economy and transport sector, accounting for more than 90 percent of passenger and freight traffic, including most imports and most if not all goods transit. Despite this, Afghanistan suffers from inadequate regional and domestic road connectivity due to underdevelopment of the road network and maintenance backlogs. More than 2,000 kilometers (km) of primary highways are yet to be developed, only 40 percent of the strategic road network is paved, and an estimated 85 percent of the road network is in poor condition due to a cycle of "build-neglect-rebuild." These deficiencies in Afghanistan's road network discourage regional trade and transit through Afghanistan, as well as the movement of goods and produce domestically.

The government is struggling with developing, operating, and maintaining a reliable and efficient road network in the country due to a range of challenges. Given limited financial resources, Afghanistan should focus on three strategic approaches to the development of the domestic and regional road networks: (i) Prioritize road infrastructure investments and contracting approaches that produce maximum social welfare and livelihood benefits; (ii) stretch limited funding by adopting a policy of road asset preservation underpinned by modern road asset management methods; and (iii) identify revenue management strategies and policies that are consistent with the sector's focus on livelihoods and welfare, including identifying appropriate candidates for tolling. All three strategic pillars will depend on an across-the-board improvement in sector governance, addressing sector institutional and policy limitations, and systematically adopting appropriate contracting methods to deliver quality outputs.

Freight and logistics

Although road freight accounts for more than 90 percent of freight movement in Afghanistan, the road freight industry is relatively inefficient and undercapitalized, has inadequate access to financing and insurance, and faces high informal costs. Even before the impact of COVID-19, road freight transport tariffs were, on average, about 25 percent higher than in other countries of Central Asia. Addressing the underlying inefficiencies in the Afghanistan trucking and logistics industries will be critical to enhancing the nation's economic competitiveness. Major causes of inefficiency in the freight and logistics sector appear to be related to the way in which the industry is regulated (including the licensing rules for trucking and freight forwarding companies) and the way regulations are enforced, including a large number of informal checkpoints and fees paid by truckers. In addition, concerns about the Afghan customs administration and the country's aging truck fleet also appear to

be significant deterrents to greater international cooperation to establish more seamless cargo movement. As a result, goods often must be unloaded and reloaded at borders.

The COVID-19 pandemic has added significantly to the challenges faced by the trucking industry, which had not yet recovered from a decline in demand for trucking services due to the drawdown of international forces. The pandemic has caused a large, further reduction in the demand for freight services in recent years, a reduction in the supply of food and medicine, and higher informal road freight transport costs, which has translated into higher tariffs. Rising consumer prices appear to have contributed to an emerging market in illegally imported and unregulated medications.

Most of Afghanistan's international trade is with and via Pakistan. COVID-19 has had an even greater impact on this international trade than on domestic freight logistics. International inspections of cargo in Karachi port and at the border between Afghanistan and Pakistan have increased, with consequent increases in transport and logistic costs. Sustained and unpredictable border closures and other measures (including a requirement that truck drivers at the border hand over their vehicles to foreign operators, who would complete deliveries and return the truck to the border crossing) have created additional burdens. Some trade has been diverted to Iranian ports, but delays on these corridors have been almost as great as on the traditional transit routes through Pakistan. Overall, delays on conventional trade corridors have encouraged the development of new road freight corridors through Afghanistan using the Transports Internationaux Routiers (TIR) conventions that allow TIR-designated trucks to bypass border inspections. While the long-term impacts of COVID-19 on supply chains are still evolving, Afghanistan is not currently well placed to adapt to some of the likely changes.

Supply chain

Many of Afghanistan's supply chains are not as underdeveloped as its freight transport sector. One set of supply chains—those used by most of the large suppliers of imported goods—was expanded and improved to meet the demands of the U.S. and NATO forces until their withdrawal. The expertise and storage facilities developed during this period are still available and used to support some of the larger civilian supply chains, mostly those involved in international trade. However, tracking and tracing facilities provided by the military forces were dismantled on their withdrawal, creating a remaining weakness. In addition, the advantages of the larger supply chains did not filter down to the smaller international or almost all domestic supply chains, which remain largely fragmented and function more as separate and uncoordinated services.

Rail infrastructure and connectivity

Afghanistan could significantly reduce logistics costs and increase its role as a transit country if it could develop a regional rail connection to an Arabian Sea port. Afghanistan's rail subsector is currently at a nascent stage of development, as the country had no railway network until the completion of the 75-km Hairatan to Mazar-e-Sharif railway line in 2011. Although Afghanistan is rich in mineral resources that may generate long-distance bulk commodity traffic once stable security conditions permit their development, the domestic market for rail services is currently inadequate to develop further rail connectivity. Additionally, the existing limited network has not achieved its full potential due to poorly functioning intermodal interfaces and burdensome customs procedures, which leaves Afghanistan with fewer export opportunities and higher costs to import, and also prevents the development of value-added local industries that could benefit from the potential transit trade.

Given Afghanistan's potential role as a transit route that has large regional benefit, it could cooperate with regional partners to establish new regional rail connectivity linking Central Asia and South Asia. Such an outcome

will depend on whether regional partners can agree on investment priorities and develop an innovative regional financing strategy. Afghanistan may prepare for future investment in rail and natural resource development by establishing policies to enable public-private partnerships, building capacity in the rail sector, and laying a foundation for the required customs administration to enable future regional rail development.

Civil aviation

Afghanistan's mountainous topography, geographically dispersed population and economic centers, heavy snowfall in some areas, and localized security challenges have fueled growth in the civil aviation subsector. For now, the civil aviation sector remains dependent on international support. While passenger traffic grew by 73 percent from 2015 to 2017, air freight traffic more than doubled to 4,199 metric tons in the same period. The major challenges in civil aviation relate to institutional capacity, regional access/equity, security, lack of airport capacity, underdeveloped air freight logistics, and low competitiveness of the domestic carriers. The Afghanistan Civil Aviation Authority (ACAA) continues to rely on international assistance to handle core functions related to the management of its airspace, and Afghan airlines certified by the ACAA continue to be banned from operating within the European Union. Afghanistan has bolstered domestic service through an open skies policy, but existing infrastructure suffers from poor maintenance and airports have significant unmet investment needs. The potential of air cargo for high-value exports has not been unlocked.

Given fiscal constraints, Afghanistan should focus on the essential strategic priority of ensuring it can assume control of its airspace and manage key safety requirements without foreign assistance, in anticipation of a long-term drawdown of foreign involvement in the country. As the development of the subsector must limit public sector financial obligations, the government should support policies and strategies that enable a greater private sector role in narrowing the infrastructure gap while carefully considering the net public fiscal impact of any proposed capital and operating subsidies.

The COVID-19 pandemic caused Afghanistan to suspend all international and most domestic aviation services in March 2020, with dramatic negative impacts on the transport of medications and perishable and high-value traded goods. Services to some countries were restarted early in June 2020, but were suspended again at the end of July following a resurgence in the number of COVID-19 cases in Afghanistan. The recovery profile will be shaped by regulatory instructions to resume flights, the response capacity of airlines, health protection measures, and passenger trust.

Urban and intercity transport

Afghanistan's major cities are rapidly growing, but limitations in the provision of urban transportation and housing are undermining some of the gains of urbanization. Kabul, for instance, has struggled to cope with rapid population growth averaging nearly 3.5 percent annually over the past 15 years. Land use in Kabul has sprawled, and urban mobility is increasingly defined by scarce, unreliable, and unsafe public transport services, deterioration of the pedestrian environment, inadequate investment in infrastructure and transport fleets, increased private car ownership, and poor traffic management. These problems have resulted in poor access to livelihoods and social services, while high housing and transport costs eat into household incomes, and rising externalities (congestion, pollution, and increasing rates of collision casualties) disproportionately harm social welfare for the poor.

Inefficiency in urban transport imposes particularly high social costs for the poor, who depend more heavily on walking, bicycling, and mass transit service, and who suffer disproportionately from high urban transport fares, congestion, low quality urban transport services, and the negative health effects of air pollution and unsafe road conditions. The spread of COVID-19 in Afghanistan has exacerbated the existing urban mobility challenges,

tremendously impacting the poorest and vulnerable populations. Women and the poor are particularly hard-hit by the impact of the virus, which has resulted in lockdowns that have had drastic impacts on informal economy workers and service workers. The current pandemic and overall trends reinforce the urgency of improving the quality of urban transport governance to ensure that policy development prioritizes safe, inclusive, and sustainable urban mobility, as well as building institutional capacity and addressing financing constraints.

Road safety and transport services

Road safety is a serious challenge in Afghanistan. Although estimates vary widely, road safety outcomes are considered very poor, particularly given the country's relatively low levels of motorization. Road transportation services are largely unregulated and prone to cut-throat competition, and consequently are often unsafe as well as unreliable. There is a need for policies and regulations to facilitate transport services based on national and international standards, and encourage and support the private sector to provide safe and reliable services through appropriate regulation and market competition. Afghanistan can make rapid progress improving road safety by first adopting proven measures from other contexts, including the application of existing laws to promote safe driving, speed management measures, and developing vehicle import standards and a National Road Safety Strategy with an implementation roadmap.

Governance and institutional development

Finally, **governance challenges, institutional capacity, and insecurity pose significant risks to the sector.** Opportunities to enhance the sector's impact will be threatened by governance shortcomings that have enabled inefficient use of resources and, in some cases, short-sighted decision making. Given extensive infrastructure and public sector capacity gaps in all key areas, as Afghanistan attempts to narrow its many infrastructure gaps, resource constraints will place a premium on investment prioritization—doing more with less—and asset preservation. Inadequate governance and capacity currently pose formidable barriers to those strategies. To enable success, the government should adopt institutional arrangements and policies that support greater transparency and accountability at all levels—planning, budgeting, implementation, and reporting. This will require institutional changes, closer engagement with development partners, and changes to contracting approaches and public management.

Policy Recommendations

Given all of the challenges, the transport sector can underpin Afghanistan’s development by focusing on four strategic pillars: (i) Strengthen governance, accountability, and institutional capacity to efficiently manage sector resources and assets; (ii) support an integrated and equitable national economy through improved road infrastructure connectivity and more efficient freight and logistics services; (iii) provide accessible, safe, and affordable urban mobility to consolidate the benefits of urbanization and manage the spread of COVID-19; and (iv) open new economic opportunities by enhancing regional and global connectivity and adopting policies to facilitate transit and trade. Beyond these pillars, the core principles of Sustainable Mobility for All—universal access to efficient, safe, and sustainable transport—should play a central role in policy development to ensure that gains are inclusive and are passed on to future generations. In the context of the COVID-19 response and recovery, interventions need to always consider resilient, inclusive, and sustainable recovery.

Governance and strategic planning

Prepare a Transport Sector Strategy for overall economic growth and poverty reduction, and undertake a review of sector governance challenges and financial sustainability of subsectors, beginning with the road sector.

The strategy and review should (i) include a list of strategic investment priorities and multimodal connectivity gaps supported by spatial and cost-benefit analysis (e.g., multimodal connectivity, completing critical missing links in the road network, establishing hubs to link domestic producers and markets, or developing regional north-north corridors); (ii) include a review of sector governance challenges and financial sustainability of subsectors, beginning with the road sector, and propose governance mechanisms to improve accountability, transparency, and management of each subsector, and review the roles of the Project Implementation Units within the government; (iii) explore potential revenue mechanisms and opportunities to leverage the private sector; and (iv) identify appropriate sector-wide coordination mechanisms that support the participation of key players, including development partners, and enhance governance.

Conduct a comprehensive functional review of the National Road Authority (NRA) in the Ministry of Public Works (MPW). Strengthen and reform the NRA (MPW) to (i) adopt network-based planning and programming based on life-cycle costs; (ii) give high priority to maintenance funding and timely disbursements within the financial resources available; (iii) introduce commercialization of road maintenance; and (iv) develop adequate capacity at all levels in both public and private components of the road sector.

Establish a policy framework for private investment in infrastructure and natural resource development with a focus on governance and accountability. While there is more potential for the private sector to support key investments in selected areas, sound governance mechanisms and strong sector policies must be in place to ensure such arrangements serve the public interest.

Road sector development and management

Implement priority investment and policy actions identified under the Transport Sector Strategy to improve local, regional, and global connectivity.

Support recovery from COVID-19 and invest in peace-building and inclusive road development programs through labor-intensive road construction and maintenance. These programs can create short-term, unskilled jobs for the rural poor to overcome economic shock, and facilitate rural economic recovery by building sustainable road infrastructure. A similar approach can also build national cohesion in a post-peace settlement by employing ex-combatants and investing in areas formerly controlled by the Taliban. Pilot microenterprises to maintain the rural road network to promote local ownership.

Incorporate low-cost techniques for sustainable water harvesting and groundwater recharge into road building and maintenance in semi-arid areas. This approach, known as Roads for Water, is compatible with labor-based and mechanized works and can enhance the economic benefits of roads and the sustainability of rural livelihoods.

Develop a Road Safety Strategy with multisectoral recommendations to reduce the incidence of severe collisions and manage their social costs. The strategy will focus on achieving rapid results based on global lessons, outline coordination mechanisms, identify lead agencies for implementation, and identify capacity building needs.

Rail and regional connectivity

Investment in trade and transport facilitation is a priority. Continued policy dialogue through the Central Asia Regional Economic Cooperation and the Central Asia-South Asia Connectivity Platform (CASA Transport Platform) will facilitate policy harmonization and technical cooperation to enable trade and transport. Afghanistan will

also require direct investment in customs and transit information systems, border posts, legislative and policy changes, and capacity building.

Continue dialogue on developing regional rail connectivity through the CASA Platform. Momentum has emerged around rail connectivity through Afghanistan to maritime ports on the Gulf Sea. Afghanistan should engage with regional stakeholders to identify alignments with potential to serve new markets (e.g., South Asia Region) and leverage regional investment.

Freight and logistics and COVID-19

Some short-term measures have already been taken that reduce the impact of COVID-19 on domestic road freight, with various measures implemented to reduce additional costs and transit times resulting from increased inspections of Afghanistan's trade to and via Pakistan and Iran. More effective short-term and additional longer-term measures will only have an impact if the underlying inefficiencies in the Afghanistan trucking and logistics industries are addressed. Many of these are institutional and relate to the regulations related to both industries and the means by which the regulations are enforced.
A start has been the transfer of responsibility from the Ministry of Transport to the Ministry of Finance for collecting many regulatory charges. Medium-term measures will include providing incentives to restructure the trucking industry through the creation of more medium-sized companies, and further improvements to trade facilitation at Afghanistan's borders and inland logistics centers. Longer-term measures will include additional incentives to attract more transit trade. Enhanced railway connectivity could be a major feature of the longer-term measures.

Afghanistan should improve customs procedures and strengthen relations with other countries regarding road transport, particularly implementing the TIR cargo system.

Urban and intercity transport

Countrywide urban transport policy recommendations include: (a) Prioritize the movement of people, not vehicles, in traffic management decisions; (b) ensure the safety and comfort of nonmotorized road users through appropriate facilities and complementary to public transport services; (c) allocate road space efficiently and limit the impact of private vehicles on public transit services and nonmotorized road users, including by implementing tailored COVID-19 safety measures; (d) facilitate efficient private sector provision of public transport services through complementary public investments, citywide service planning, and well-regulated market competition; and (e) recognize and respond to the diverse needs of all transport users, including women, vulnerable groups, and those living in the urban periphery and unplanned settlements.

For Kabul, policy recommendations include: (a) Clarify policy mandates of key institutions and enhance stakeholder coordination around an integrated urban transport agenda. The dialogue will aim to improve institutional cooperation in the near term and identify the limitations of existing institutional, policy, legal, and human resources. In this context, longer-term, sustained engagement shall support institutional restructuring and technical assistance for key institutions, including the government-run Millie Bus service; (b) adopt low-cost, rapid-rollout urban street management measures by drawing on global lessons to improve street space allocation to promote safety, nonmotorized transport, and transit service—including in the COVID-19 context—and identify lessons for development of contextual guidelines; (c) work with existing operators to formalize informal urban transport services in Kabul and establish a comprehensive service plan, including (i) an assessment of urban transport needs, including those of women and vulnerable individuals and groups; (ii) a service plan and licensing and regulatory reforms to provide safe and orderly services; and (iii)

an investment plan with a focus on nonmotorized transport and transit services, such as bus priority lanes, nonmotorized mobility (cycling lane and provision of shared biking services) and other public investments that facilitate formalizing transit services; (d) implement one or two bus rapid transit corridors in the Kabul Urban Development Framework and prepare key bylaws and regulations for private bus operations on them; and (e) develop a long-range urban transportation plan and associated infrastructure. Infrastructure investment will be guided by the urban transport master-planning exercise and be mostly targeted to support transit and nonmotorized mobility.

For selected provincial cities, policy recommendations include: (a) Preparation of an accessibility analysis to guide decision making, which shows how existing transport infrastructure and services affect access to jobs and services for residents living in the different parts of each urban area; (b) identification of strategies to better regulate the market for urban transport services to ensure services are more affordable and accessible to low-income residents; and (c) a list of corridors and infrastructure investments with the highest potential to bolster economic growth and social welfare by increasing access to jobs and basic services for the urban poor and those living in informal settlements and urban peripheries, including through support for nonmotorized transportation services (such as shared biking).

Civil aviation

Prepare a Civil Aviation Strategic Investment Plan focused on enabling Afghanistan to manage all key civil aviation safety and airspace control functions without sustained foreign involvement. This plan should build on and complement other development partner activities (particularly of USAID and the Italian government). The investment plan should (i) prioritize institutional reforms, capacity building, and infrastructure/equipment to enable the ACAA to assume full and sustained control of Afghan airspace and ensure operational safety; and (ii) ensure the financial sustainability of the key sector institutions based on user fees, including the ACAA.

Upgrade Hamid Karzai International Airport in Kabul, which is currently operating above capacity, including the expansion of passenger terminals and air cargo infrastructure, as well as policy support and technical assistance to support private sector investment.

18 Digital Development

Enabling Afghanistan's Digital Economy

Context

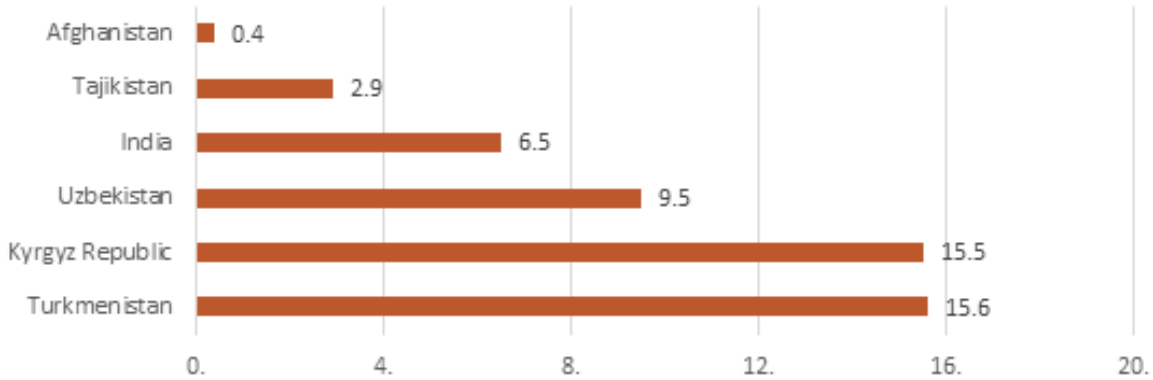
Afghanistan's telecommunications sector has shown continued progress over the last decade, with potential for growth. The Telecommunications Services Regulation Act of 2006 established the Afghanistan Telecom Regulatory Authority (ATRA) within the framework of the Ministry of Communications and Information Technology (MCIT). ATRA is now fully independent of MCIT.

The wireless market is fully competitive with six mobile operators in Afghanistan today, covering over 17 million people. While mobile broadband coverage had reached 90 percent of Afghanistan's population by 2019, fixed broadband penetration and fiber-to-the-home (FTTH) levels remained below 1 percent, the lowest among neighboring countries (Figure 22).

Afghanistan's decade-long investment in fiber optic infrastructure has helped it foster robust links to its neighboring countries. In 2007, the government launched an initiative to deploy 4,810 kilometers of the optical fiber cable backbone ring. These links have helped connect Afghanistan with Iran, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan, and a backbone link to China is currently being considered.

The government has taken positive steps to improve the enabling environment, including the approval of the Open Access Policy (OAP) in October 2016 and issuance of downstream regulations. The OAP enables any licensed operator, for the first time, to access wholesale broadband network infrastructure on equal and nondiscriminatory terms and at fair and reasonable prices, including the right for existing and future network providers to build, locate, own, and operate physical optical fiber infrastructure, international gateways, and internet exchange points in competition with the state-owned Afghan Telecom. Until the OAP, which is expected to facilitate growth of a private sector–led broadband market, Afghan Telecom was the sole optical fiber operator, setting a high price for internet access. As of 2020, three private operators operating locally (Afghan Wireless Communication Company [AWCC], Etisalat, and Asia Consulting Group) have entered the market, and downstream regulations and guidelines including right-of-way guidelines, optical fiber wholesale tariff, and interconnection and quality of service regulations have been issued by ATRA, which is now encouraged to take immediate steps to attract and license more global wholesale optical fiber operators to promote further competition.

Figure 22: Broadband household penetration (%)



Source: TeleGeography

Progress has been made to promote e-government, but deeper shifts in business processes and greater institutional capacity are needed. Efforts have been made to digitize a number of government services across different ministries, but gaps remain in inter-agency coordination and implementation of critical digital government infrastructure, interoperability, and development of citizen-centric e-services that are accessible to all segments of the population, including in more remote areas of the country.

The government has taken steps to address the digital skills gap to foster local IT industry development, but much more effort is needed to position this sector as a sustainable job creator. There are about 250 IT Training Institutes across Afghanistan that graduate thousands of IT professionals each year, of which around 20 percent are women. The ICT Sector Development Project trained over 2,400 people, including about 500 women, on employable skills such as cybersecurity, database management, and software development. Targeted investments will be needed to scale up these efforts, including in areas outside of Kabul and urban centers.

Afghanistan can do more to capture the potential of digital networks and services to support economic development. In the absence of a widely accessible, affordable, and reliable digital infrastructure that is resilient by design, Afghanistan will lag in an increasingly digital global economy and in building longer-term resilience against external shocks, such as natural disasters and the ongoing COVID-19 pandemic. Digital infrastructure and digitally enabled services and applications are not only essential in pandemic relief, but also will aid resilient economic recovery. In the medium term, it would be critical to extend internet connectivity in rural areas of the country so that no segment of the population is left behind.

Box: High prices for international bandwidth

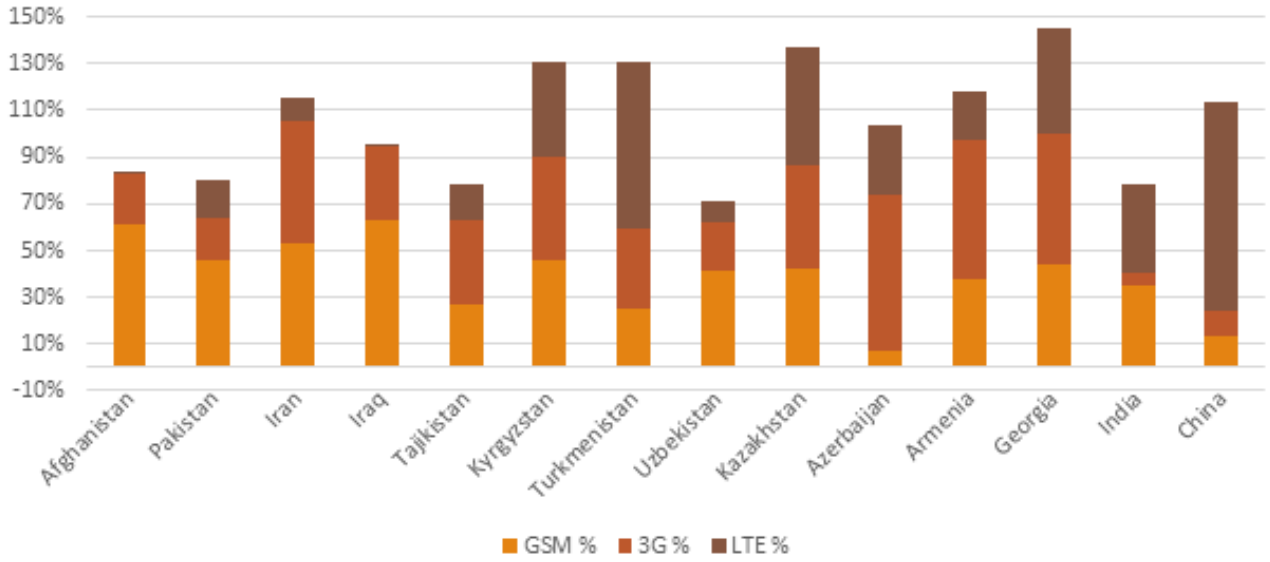
As a landlocked country, Afghanistan pays high prices to neighboring countries for international bandwidth. For example, IP (internet protocol) transit pricing per Mbps is around $12 per month, significantly higher than in countries such as India ($4), Pakistan ($2), and Uzbekistan ($6.50), which has resulted in fixed broadband penetration remaining low. Despite the OAP, private investments in international and domestic optical fiber connectivity remain limited.

Fragmentation of radio spectrum also results in higher prices for consumers because inefficient allocation of the three main radio spectrum bands—900, 1800 and 2100 MHz—is leading to increased costs of network deployment as companies have to invest in more infrastructure to use scattered or smaller radio frequency allocations. As a result, an entry package for mobile broadband represents 14.8 percent of the gross national income per capita, while the Broadband Commission (of the International Telecommunications Union and UNESCO) considers 2 percent as the threshold for affordability.

Internet costs are also higher due to the limited use of local internet data exchange. Currently, much of local data traffic is being routed internationally resulting in slow speed, high latency performance, and high costs. The National Internet Exchange (NIXA) needs to be upgraded and used effectively to route internet traffic locally. There is a need to encourage telecom operators and major content delivery networks to interconnect via NIXA so that internet traffic can be routed locally. Once locally interconnected, it is estimated that about 35 percent of the internet traffic would become local in nature, resulting in improved quality and reduced costs.

There is limited investment and innovation in network technology outside of the major urban areas. Only 0.4 percent of the country's population are covered by 4G/LTE, while 73.7 percent of the population, mostly in rural areas, are still using legacy 2G networks with poor speeds. Afghanistan is behind many of its neighbors in 4G/LTE deployment (Figure 23). Use of legacy infrastructure affects the quality of services and the kinds of applications that people can access on their mobile phones. The mobile voice market is maturing rapidly and value-added services based on mobile broadband are key to expansion.

Figure 23: Mobile penetration by technology (%)



Source: TeleGeography and Ookla (2019)

Investments by the private operators that have entered the upstream wholesale data transmission markets are lagging. In 2018, AWCC, Etisalat, and Asia Consulting Group signed license agreements to roll out optical fiber networks in the country. However, network rollout by these operators remain negligible. Security is a key concern for private operators to invest in infrastructure, as well as other barriers including securing of right-of-way, infrastructure-sharing arrangements and nontransparent pricing of existing networks (of which Afghan Telecom has the "significant market power"). Gaps also remain in legal frameworks to safeguard against other security threats, including cybercrime and exploitation of personal data and privacy.

Access to digital connectivity and platforms has proven critical in COVID-19 relief efforts to ensure continuity of government and businesses, and to support citizens' access to critical information and services. The pandemic has called for an urgent need to improve access to affordable and reliable high-speed internet in Afghanistan—particularly in rural areas—to ensure all segments of the population are able to access critical information and services, for example, in the education, health, and financial sectors. In the immediate term, increasing access to spectrum, even temporarily, can increase mobile broadband capacity to cater for increased data traffic (for example in the 1800 and 2100 MHz bands); and measures can also be implemented to improve connectivity for schools, higher education institutions, and hospitals. In the medium term, the Telecommunications Development Fund can be mobilized to connect more rural areas to broadband internet services.

Looking ahead, digital technologies can help Afghanistan with building a resilient recovery from the pandemic. This could be done by developing an effective digital government platform for inclusive and resilient public service delivery; and by connecting Afghan businesses and entrepreneurs to the global digital economy for economic diversification and jobs. For this, institutional reforms and digital literacy and skills development will be crucial to promote the greater use of digital technologies to foster socioeconomic inclusion and help accelerate digitalization of the economy across sectors. These will require a strong partnership between the government and the industry.

Policy Recommendations

Create a more favorable enabling environment to promote competition in broadband infrastructure deployment by (i) implementing the infrastructure-sharing policy and issuing the passive infrastructure regulation. Passive infrastructure sharing within the sector and cross-sector will be critical to reduce duplicated network deployment and lower costs for operators, including the deployment of FTTH networks. These include sharing of existing poles and ducts as well as sharing rights-of-way with power lines, pipelines (such as the Turkmenistan-Afghanistan-Pakistan-India pipeline), roads, and railways; (ii) taking steps to reduce administrative barriers to acquire rights-of-way; (iii) enforcing nondiscriminatory access to and transparency in tariff setting for the optical fiber backbone for all operators, including Afghan Telecom; and (iv) assessing options for consolidating the fragmented mobile market and facilitating private investments in the state-owned Afghan Telecom to create a more competitive broadband market.

R**educe barriers for private sector investments** by (i) allocating essential spectrum bands in a market-oriented manner, particularly in the existing mobile bands (850, 900, 1800, and 2100 MHz bands) as well as additional spectrum that will be required for rolling out 4G/LTE and 5G services. In the immediate term, temporarily release spectrum (as needed) to increase mobile broadband capacity during the COVID-19 pandemic; (ii) using the Telecommunications Development Fund, that is managed by ATRA and collects 2.5 percent of the net revenues of fixed and mobile operators, to facilitate investments in remote areas, particularly in security-threatened regions. This can enable greater adoption of internet in rural areas; (iii) investing in growing NIXA and connecting operators and major content providers will enable better local traffic exchange and reduce costs for both the operators and users; and (iv) review regulatory costs and taxation requirements on the sector, including custom duties for telecom equipment. For example, specific taxations and a high regulatory tax are imposed on the operators, including the 10 percent telecom tax and the 2.5 percent collected for the Telecommunications Development Fund.

Stimulate demand for broadband by building use cases of digital technologies by (i) accelerating provision of e-government services in partnership with the private sector, including the provision of cloud-based digital government infrastructure and citizen-centric services through a user-friendly, unified, and accessible e-portal. Demand for broadband connectivity, including FTTH, can also be stimulated by connecting government offices, schools, and health care facilities to the internet; (ii) implementing digital skills training programs beyond Kabul and provincial headquarters for creating economic opportunities and jobs, including a strong focus on women and people with disabilities; (iii) improving connectivity and increasing access to online information and services, such as health, education, and financial transactions. This is becoming increasingly important for responding to emergency situations such as natural disasters and pandemics (COVID-19), in which schools, health facilities, and businesses close down and people in need remain isolated; and (iv) promoting digital literacy for enabling greater use of digital technologies to foster socioeconomic inclusion of all segments of the population, including the illiterate. The use of emerging technologies also present opportunities for Afghanistan. Other use cases include the development of smart cities leveraging Internet of Things for governments to make data-driven decisions regarding infrastructure deployment, use of artificial intelligence for disaster risk management, and use of drones for monitoring conflict as well as improving health care delivery.

19 Urbanization

Leveraging Urbanization for Employment, Growth, Efficient Local Governance, and Livable Cities

Context

In recent years, Afghanistan's urbanization rate has been increasing faster than that of most other countries in South Asia. Afghanistan is experiencing a rapid urban transition, with around 8 million people (25 percent of the population) currently living in urban areas. With urban growth reaching over 4 percent annually, 15 million people are expected to join urban areas by 2060.

It is important that Afghanistan's urbanization be inclusive, with quality basic services provided to all its urban residents. This was illustrated by the ongoing COVID-19 pandemic, which impacted mainly underserved neighborhoods that feature overcrowded urban housing, poor access to water, sanitation, and healthcare, and lack of household savings to survive long periods of lockdowns. More broadly, the persistent lack of affordable housing and services fosters socio-spatial exclusion and urban inequality. The current supply of formal housing only meets 5–10 percent of the total housing need and is unaffordable for 90–95 percent of the population. The housing deficit is fueling the rapid proliferation of under-serviced, crowded informal settlements (accounting for 70 percent of urban dwellings).

Urban growth has been propelled by rural poverty, and the influx of returning refugees and Internally Displaced People (IDP) from conflict and natural disasters.[76] About 6 million refugees returned to Afghanistan between 2002 and 2015, mostly settling in cities. Urban growth has not been matched by investment in basic infrastructure and services or planning, resulting in extensive unplanned sprawl—often onto land disputed or vulnerable to natural disasters—and households lacking basic services such as clean water, sanitation, and connectivity to jobs.

Afghanistan is highly prone to intense and recurring natural hazards. With its diverse topography and location in a seismically active zone, the country faces recurrent flooding, drought, landslides, avalanches, and earthquakes. Ranked eighth out of 170 countries for its vulnerability to climate change over the next 30 years means an increase in multiple hazards is anticipated, with the risks compounded by a high poverty rate, limited coping mechanisms and mitigation, and reliance on agriculture that is vulnerable to flood and drought. Loss of lives, livelihoods, and property, as well as mass displacement are frequent, exemplified by the 2018 drought that spurred an influx of hundreds of thousands of internally displaced persons into urban areas, as well as the 2019 flash floods, which led to loss of lives and damage to infrastructure. Annual damages to residential houses from urban flooding alone are estimated at $7.52 million.

76 Over a million new IDPs and refugees annually in the past four years, many of whom reside in—or create new—urban centers, mostly in informal settlements. Source: UNHCR (2019). "Afghanistan: Operational Update: November 2019."

Afghanistan is struggling to harness its urban dividends. The economic benefits stemming from the country's urban hierarchy that consists of Kabul, regional hubs and transit centres, and small towns and rural communities remain suboptimal. A productive urban economy demands urban services, such as modern transportation, housing, and municipal services, and it is important for the government to mobilize finance, build the needed infrastructure and improve urban governance to accommodate the changes that cities will experience. However, Afghanistan has done little to prepare its municipalities to tackle the challenges of urbanization.

Afghan municipalities are struggling to cope with the scale of urban growth. This is due to a combination of limited urban management capabilities and weak financial resources at municipal level. There have been insufficient national policies and regulations to guide urban development; limited grounded spatial plans; and weak municipal governance to ensure equitable service delivery. Afghanistan needs to take planned measures to make cities more productive, livable, welcoming, resilient, and safer, especially for women.

The government has placed urban development at the forefront of its agenda. The Afghanistan National Peace and Development Framework (ANPDF) 2017–2021 notes the importance of cities as engines of economic growth and hosts of incoming migrants and sets three major goals for the sector: (i) Creating networks of dynamic, safe, livable urban centers; (ii) turning urban centers into economic growth hubs that are cultural centers promoting social inclusion; and (iii) decentralizing urban planning and promoting participatory urban governance.

Priorities are elaborated in the Urban National Priority Program. The Ministry of Urban Development and Land (MUDL) is responsible for national urban policies in areas such as housing, construction, spatial planning, and land administration, while the Independent Directorate of Local Government (IDLG) coordinates and regulates subnational governments. The High Council for Urban Development, chaired by the president, coordinates progress in the sector at a higher level through regular meetings. More recently, foundational urban policies have been introduced,[77] and strategic plans for six provincial capital cities initiated.

Municipalities in Afghanistan suffer from underinvestment and weak institutional capacity. Deficits in basic urban services are caused by underinvestment and lack of maintenance of existing infrastructure. Planning, municipal management, and governance capacities are weak, as municipalities have significant difficulties attracting adequate numbers of competent staff. Therefore, any future transition of municipalities from deconcentrated entities to fully devolved entities will have important implications for organizational structures and human resource management at the municipal level. This includes defining key responsibilities for municipal staff, introducing local hiring, and ensuring adequate compensation and incentives. In fact, in the absence of municipal discretion over human resource management, municipal service delivery will be greatly hindered.

Municipalities in Afghanistan are predominantly reliant on their own revenue sources. Three different laws currently determine revenue assignment—the newly enacted Municipal Law (2018), the City Services Fees and Charges Law, and the Safayi Tax Law. The own-source revenues assigned to the municipal level are generally appropriate and budget execution rates are low. However, the reliance by some municipalities on nonrecurrent asset revenues (such as proceeds from the sale of land) raises substantial concern about financial sustainability. Municipalities in Afghanistan enjoy soft-budgetary constraints, with deficits in some cases financed at the expense of the development budget.

While Afghanistan's central government does not provide systematic municipal grants, municipalities have been provided with "deficit grants" by the Ministry of Finance (through the IDLG) on a discretionary basis. This consists of a mix of need- and incentive-based funding, which receives the larger portion. However, the

77 Such as the Urban Planning and Housing Law, the 2018 Municipal Law, the 2017 Land Management Law.

Municipal Law foresees the introduction of a performance-based municipal grant system (e.g., Municipal Incentive Fund, or MIF, that replaces the "deficit grants"). Once established, the performance-based municipal grant system will reward municipalities that adopt good governance measures and increase fiscal discipline, participation, accountability, and transparency. However, there is an urgent need to further explore the financial sustainability of the proposed MIF and to consider the operational processes and the basic features and design of the performance-based municipal grant system.

While borrowing is not likely to be a suitable option for most municipalities in Afghanistan, public-private partnerships (PPPs) could be one way to attract capital investment, even in the absence of direct municipal borrowing. While the ability of municipalities to enter PPPs should not be unnecessarily restricted, operational guidance should be provided to prevent municipalities from issuing loan guarantees and taking on other long-term fiduciary liabilities that would cause an excessive risk to the financial health of the municipality.

Afghanistan's cities suffer from chronic deficits in basic urban services, exacerbating poverty and weakening resilience to economic, environmental, and public health shocks. Afghan cities lack sewerage networks, resulting in sewage disposed at informal sites causing public health risks. Only 14 percent of urban dwellings have piped water, with the attendant public health risk exacerbated and highlighted by the COVID-19 pandemic. Municipalities are responsible for solid waste management and maintenance of municipal road assets. Cities use informal dumping grounds or dump directly into rivers, causing major pollution, health, and flooding risks. There are virtually no public transport systems, adding to traffic congestion and limiting the mobility of low-income residents to access jobs, markets, and vital services.

For women and vulnerable groups, this is particularly worsened by poor security, a lack of street lighting and sidewalks, and limited access to appropriate or preferred transport options. Most cities are undergoing unplanned urban development, giving rise to the expansion of informal settlements across the country. Challenges result from underinvestment, inadequate coordination, low accountability (particularly to women, the poor, and vulnerable groups), low implementation capacity, and slow budget approval processes.

A persistent urban housing deficit fosters poverty and socio-spatial exclusion. Afghanistan's housing sector is unable to supply affordable housing to scale to meet the demands of a growing population of urban mid-to-low-income and poor families. Around 75 percent of urban housing is informal, with a combination of poor build quality, lack of basic services, and no titles or permits. Affordable, resilient house construction is limited, and low-skill informal firms dominate the construction sector, while the small formal sector focuses on high-end housing.

Access to land is arguably the greatest impediment to affordable housing. Official processes for land registration, transfer, and building permitting are complex and often nontransparent. As a result, most land transactions are performed outside the formal system. Urban land released through formal Land Allocation Schemes or occupied informally by IDPs has often lacked basic services and been contested private or state land. Recent government policies have begun to address these challenges, including (i) land readjustment and preparation to issue Occupancy Certificates for urban IDPs; (ii) recognition of a wider range of documents to prove land ownership; and (iii) incremental transition of deeds from courts to MUDL, and a move toward a new titling system.

Cities display weak resilience against natural hazards. Recurrent drought and flooding are the dominant hazards in Afghanistan. Much of the population is vulnerable to earthquakes, coupled with seismic and water-induced landslides, which can block access to small villages and between major cities, further increasing vulnerability of residents.

Urbanization around the world has supported historic economic growth, but Afghanistan has not yet reaped this dividend. Together with rural-urban migrants, displaced people, and returnee refugees, hundreds of thousands are joining the cities each year, many expecting jobs. Yet the pace of job creation has fallen far short of needs: GDP per capita in 2018 was $73 *below* 2013 levels, and unemployment almost doubled from 2007 to 2014. The informal sector accounts for approximately 80 percent of employment, and the public sector for half of formal employment. Structural transformation has also struggled to reach women, who continue to work primarily in (mostly rural) agriculture, while male employment has shifted to sectors that thrive in cities (services and industry). Insecurity is a largely intractable deterrent to most large-scale investments in the near term, and very weak education limits workers' productivity.

Cities can harness job creation. Already, rapid urbanization has created employment in the construction sector, where many unskilled migrants find day labor. The share of formal jobs rose by 10 percentage points from 2008–2014, and there is evidence of the expansion and formalization of small urban firms. The share of industry and services in employment rose by 15 percentage points from 2008–2014, with increased participation for both genders despite men's dominance.

Several cities enjoy strong renewable power and other natural resources. Afghanistan's main secondary cities were historic trade hubs, close to borders with Iran (Herat), Central Asia (Mazar-e-Sharif and Herat), and Pakistan (Kandahar and Jalalabad), and new cross-border rail links (including the "Belt and Road" network) will expand markets for the products of these cities and their regions, while the "national ring road" connecting major cities can nurture corridor development.

Policy Recommendations

Municipal governments require enhanced capacity and financial resources to manage their growing cities. In the near term, own-source revenues should be strengthened by broadening the tax base, emphasizing "Safayi" registration and improved fee collection. The government should also pilot the newly enacted performance-based municipal grant system (i.e., Municipal Incentive Fund, Municipal Law 2018) and explore, as a first phase, its financial sustainability and appropriate operational processes and basic design features. Municipal budget execution should be improved in parallel to enhancing revenues, through accelerated municipal budget approval processes and broader capacity building. The government should design and implement programs to strengthen key urban planning and management institutions, including training, tools, and human resource/ institutional reforms, focusing on municipal governance capacity and land administration.

It is also necessary to coordinate the multitude of national agencies operating in cities; these should be coordinated around the emerging urban development frameworks and Capital Investment Plans (CIPs). Before broader progress can be made, it will be critical to harmonize the current urban legal framework by clarifying and removing contradictions between the Municipal Law and the Urban Development and Housing Law. Similarly, reformed land management and mortgage laws still contain important loopholes and gaps that need to be addressed. In the longer run, the authority and accountability of municipalities should be strengthened by supporting the transition to locally elected mayors. Financing for urban development should also be further strengthened through (i) enhancing registration and collection of municipal fees; and (ii) leveraging public assets to mobilize private investments through urban regeneration, which requires capacity building and a policy framework.

To address the housing deficit and keep up with new demand, the government must urgently transition from a *project-based* to a *systematic* approach to housing that addresses the underlying bottlenecks to supply and demand: land, servicing, regulation, the housing and building materials sector, and finance. Households and firms will not invest in quality housing without secure access to land. In the near term, the government should ensure timely land allocation and land release in optimal urban locations (with strong access to jobs

and low hazard risk). A new Land Registration Law that enables improved harmonization of the dual deed/title registration systems and land registration and transfer processes is needed. This should also provide solutions in the near term for informal settlement residents, refugees, and IDPs with the integration of the latter supported by completing Occupancy Certificate issuance initiated under the City For All program.

Land and building regulations should be revised to enable affordable, formal, housing development. The government should review and improve the Afghanistan Building Codes relevant to housing, as well as land use and building permit regulations and procedures, to ensure their suitability to the needs of low-income urban residents. The government should avoid biasing policies and regulation against rental housing, which is a critical part of any integrated affordable housing strategy.

Multiyear, evidence-based, city-level Capital Investment Plans should be prepared and implemented, to address the large and growing infrastructure deficits in cities, as basic services are a critical component of adequate housing and also necessary for urban productivity, inclusion, and resilience. CIPs must extend basic services to informal urban settlements and to areas planned for future housing, with spaces and services tailored to the needs of women, children, displaced people, the poor, and other vulnerable groups. Servicing should be financed by municipal land value capture, central transfers under the MIF, and donors. Municipalities will need authority to coordinate central agencies' local service delivery and investments, including the provision of trunk infrastructure, and to implement sustainable solid waste management.

Afghanistan's cities must be made more resilient to the multiple and severe hazards they face. Procedures and capacity should be developed to integrate resilience principles into all urban planning and investments. Geospatial databases should be established and capacity to use them strengthened to enhance disaster preparedness and resilience. Basic urban services should build in resilience to urban health, economic, natural, political, and other risks.

In the longer run, the government should conduct market segmentation analyses on a regular basis to ensure that the private sector is providing housing for all income segments and diagnose appropriate responses where this is not the case. Most of the urban housing is produced by small or informal firms, and households' own construction. The government should incentivize the Afghanistan Builders Association to capacitate the informal sector and small firms to formalize and deliver resilient, formal housing. The government also should support the identification and promotion of low-cost, resilient, culturally sensitive housing typologies, construction techniques, design standards, and building materials. Incremental housing enables low-income residents to gradually improve their homes over time, within their financial means, and occurs de facto in Afghanistan. The government should ensure regulations recognize and support incrementalism to incentivize these investments and enable formalization. Urban land readjustment programs should be expanded, particularly in the urban expansion area. A level playing field must be ensured for access to construction finance.

COVID-19 has introduced a severe economic downturn in the global economy, also affecting Afghanistan and its cities. With risks of a severe intensification of urban poverty, provision of urgent relief, broader social safety nets, job creation, and healthcare in cities is critical. The crisis makes it even more important to double-down on sustainable job creation in cities. To achieve this, each municipality will need to implement a roadmap aimed at addressing its productivity constraints. Plans should include not only "hard" investments, but also the "soft" reforms that are critical to reaping the benefits, including enhancement of one-stop centers and online platforms to simplify land acquisition, permitting, tax payment, and combatting corruption.

Attracting private investment requires security and the protection of property rights: nationally, this is supported by the ongoing peace process, but these efforts must be translated to the city level through measures such as regeneration of derelict areas, street lighting, neighborhood and city policing, strengthening local justice institutions, and improving community engagement, inclusion, and government accountability.

Plans to strengthen city competitiveness and productivity must build on both local consultations and a national coordinating framework. Municipalities should institutionalize business consultations in city planning processes and within this should ensure vulnerable groups are included and prioritized by creating dedicated forums for the large informal sector and women. The government should formulate the National Spatial Strategy and National Spatial Plan as the overarching territorial plan to integrate and exploit complementarity between sectoral development plans and the hierarchy of subnational plans.

For long-term urban prosperity, the government should protect and harness the rich natural resources around major cities (including agriculture, minerals, power, and water), and develop cities' connectivity to surrounding rural areas, other large cities, and international markets. Over the longer run, the government should also pursue comprehensive, transparent, and equitable land registration, a functional regulatory framework for land consolidation, and simplified land transfer and permitting legislation to improve the business environment.