

Reforms in Review Part 2



Poverty Reduction and Social Inclusion: Investing in Pro-Poor Development

Assessing the increase in poverty rates

On May 7, 2018, the Central Statistics Office released the first data on the welfare of the Afghan people since the economic crisis of 2014 when international forces handed security responsibilities to the Afghan National Defense and Security Forces (ANDSF). The Afghanistan Living Conditions Survey (ALCS) confirmed the inevitable—the number of those living in poverty has increased, to 54.5%.

A combination of factors has perpetuated poverty in Afghanistan for the past 17 years:

1. ***A lack of access to basic services and quality education*** across the country, which was stymied by corruption and fragmented development approaches, has trapped a large part of the population in poverty with no ‘exit ramp.’
2. ***A near-stagnant agricultural GDP*** has led to a decline in the sector’s share of total GDP, from 71 percent in 1994 to 24 percent in 2013. The sector employs 40 percent of the total labor force, and more than half of the rural workforce, but the lack of development in the sector means this proportion of the population have not had the chance to improve their livelihoods.¹
3. ***Geographical imbalances in off-budget spending***² has meant those living in conflict-ridden areas have not benefited equally from development projects. The government’s efforts to develop a transparent budget and encourage donors to align their aid with national priorities according to the national budget is key to balancing development initiatives across the country.
4. With mortality rates decreasing and average family size only marginally decreased, there is a major ***youth bulge***, with 75% of the population under the age of 35 and growing. More youths are entering the job market.

¹ <https://openknowledge.worldbank.org/bitstream/handle/10986/29312/9781464812651.pdf?sequence=2&isAllowed=y>

² <http://policymof.gov.af/afghanistan-national-peace-and-development-framework-anpdf/>

5. At the same time, there has been *a misalignment of educational opportunities with the needs of the Afghan job market*, leaving nearly two-thirds of recent college graduates unemployed.
6. *Land tenure insecurity and illegal land seizures* make up nearly 60% of all civil disputes and denies citizens the economic advantage of owning property. For the first time in 17 years, the issue is now being seriously addressed, legally and systematically.
7. *A high number of IDPs and returnees* have returned to Afghanistan over the years but have remained marginalized from systems of service-delivery and governance, and living in poverty, due to the lack of a strategic plan and programming to directly address their needs.
8. The *on-going conflict, and rampant and unchecked corruption*, further perpetuate poverty as it hampers the government's ability to deliver services and citizens' ability to reach services.

These factors were further compounded by the **economic crisis of 2014**, when an estimated half a million breadwinners lost employment when the economy propped up by international troop presence in the country disappeared. The rise of foreign aid for reconstruction and security-supported service-led growth since the fall of Taliban in 2001 did not reduce poverty levels.³ During the security transition from ISAF to ANDSF, the Afghan government undertook major fiscal and budgetary reforms to cut waste and corruption from the budget, and stabilize the public financial sector while coping with further limited resources.

For years, these perpetuating factors went unchecked. **Afghan development policies were not focused on marginalized groups**—women, poor, and youth—and there were insufficient investments in the real economy to drive sustainable growth. “Even during Afghanistan’s years of high economic growth, poverty rates failed to drop, as growth was not pro-poor,” writes Shubham Chaudhuri, Country Director of the World Bank in Afghanistan, [in his assessment of the ALCS](#). Government investments were simply not focused on those living in poverty, and wealth growth and distribution over the past 17 years was grossly unbalanced.

The outlook for pro-poor, inclusive development

When the National Unity Government took office in 2014, they took initial steps to chart the country on a path to self-reliance with policies, strategies and National Priority Programs (NPPs) that were inclusive and pro-poor. The goal is to address the direct needs of those living in poverty, while leveling economic growth across all sectors of society, ultimately reducing poverty and improving the welfare of the Afghan people. The government is not only targeting marginalized groups with specific programs, but also mainstreaming pro-poor approaches across all activities.

As the government implements the ANPDF, it does so with a long-term strategic outlook and full realization that sustainable, balanced and inclusive development will take **10 to 15 years to show substantial results**. There are no quick fixes that will trigger rapid growth and foster self-sustaining development in the short term.

The [Afghanistan National Peace and Development Framework \(ANPDF\)](#), presented to the international community and the Afghan people at the Brussels Conference in 2016, lays out the

³ <http://documents.worldbank.org/curated/en/667181493794491292/pdf/114741-WP-v1-P159553-PUBLIC.pdf>

poverty-reduction and social inclusion, and agricultural strategies, as well as the strategy for developing human capital and creating jobs. As the government implements the ANPDF, it does so with a long-term strategic outlook and full realization that sustainable, balanced and inclusive development will take **10 to 15 years to show substantial results**. There are no quick fixes that will trigger rapid growth and foster self-sustaining development in the short term. As analyses show,

poverty reduction efforts have been comparable through developing nations in Asia and elsewhere.

GDP per capita is expected to increase by about 30-40 USD per year over the next 2 years, with economic growth projected at a steady increase of 2.9 % for 2018 and 3.4% for 2019, and inflation maintained in the single digits. However, growth must focus on those living in poverty to have a meaningful effect on real incomes of the poor.

Growth rates are projected to increase gradually. Based on current data from the Central Statistics Office, GDP per capita is expected to increase by about 30-40 USD per year over the next 2 years, with economic growth projected at a steady increase of 2.9 % for 2018 and 3.4% for 2019, and inflation maintained in the single

digits. However, growth must focus on those living in poverty to have a meaningful effect on real incomes of the poor. GDP is driven mainly by agricultural production, which will take 10 years to develop at a rate that will substantially reduce poverty rates.

The World Bank⁴ estimates that even in a high growth scenario, it will be enormously challenging to sustain current levels of employment generation over the next 10 years. This is due to the relatively low job-intensity of some of Afghanistan's potential growth drivers such as mining, energy, and long distance trade, which are capital rather than labor intensive.⁵ There are a number of risks that could considerably destabilize the process further, including continuation of the conflict and violence, fluctuations in the global economy, political uncertainty, drought and natural disaster. For this reason, the ANPDF focuses on investing in growth with a diversity of programs, such as agriculture, infrastructure and education, which contribute to the country's development but also create more jobs.

Key Components of Poverty-Reduction

The Citizen's Charter

The Citizen's Charter (Charter) is the key to national pro-poor development and is a whole-of-government effort⁶ that links rural communities, districts, provinces, and the central level in inclusive development, overcoming the fragmented development approaches of the past. Under the Charter, rural and urban communities are organized into Community Development Councils (CDCs) through elections, which make decisions about education, health, basic infrastructure and agricultural services delivered by the government. The aim of the Charter is to reduce poverty and break the cycle of fragility and violence.

⁴ <http://www.worldbank.org/en/country/afghanistan>

⁵ <http://policymof.gov.af/afghanistan-national-peace-and-development-framework-anpdf/>

⁶ Ministry of Rural Rehabilitation and Development, Ministry of Agriculture, Irrigation and Livestock, Ministry of Public Health, Ministry of Education, Independent Directorate for Local Governance

The reach and impact of the Charter can be tracked online at www.ccnpp.org. Currently, it is rolled out in 6,704 communities in all 34 provinces, reaching over 5 million citizens, with 1,037 development projects financed, including 1,307 clean water points. CDCs are comprised of 49% women council members, and majority of council members are under the age of 40, reflecting a trend in increased youth participation across the country.

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The Charter has also served as a platform for the implementation of labour intensive work programs and social inclusion grants for those most in need, including in 14 districts which have high numbers of returnees and Internally Displaced Persons (IDPs). To date, 434 communities have been provided maintenance cash grants, which create 1.5 million labour days, benefiting more than 30,000 poor and ultra poor households through jobs, and more than 130,000 households will benefit from the rehabilitation and construction of new infrastructure. **Community Grain Banks** are being set up in the communities for the most vulnerable and poorest families, with 1,377 currently established. Earlier this year, the government launched a new youth initiative via the Charter to reach 1.6 million children currently excluded from formal education.

The Charter has exceeded the half-way mark in reaching its goals—by 2020, it will reach 12,000 communities. By 2026, it will be rolled out in every community of the country, providing universal access to clean water, quality government-provided education, and the basic package of health services. Communities will also have one of the following, based on the prioritization analysis of each community: small-scale irrigation and drainage, all-years roads to market, or electricity from renewables.

Women's Empowerment

Despite advances in women's rights and participation made over the years, there were no targeted policies to remove barriers to economic empowerment and increase the participation of women in business and government. Women remained an untapped participant in growing the economy. Over the next fifteen years, the government will invest 250 million USD in the Women's Economic Empowerment National Priority Program (WEEP NPP), implement a reform agenda to increase women's mobility, improve the quality of gender statistics, and eliminate regulations that block women's access to credit and markets.

A number of major legislative reforms have been implemented to remove legal barriers, including requiring husband and wife be included on property ownership documents and a revision to the Labor Law to level the playing field for women. The Civil Service Commission has introduced the Gender Integration Policy and implemented a 5 point advantage to women candidates. The National Procurement Authority gives a 25% advantage to Afghan-owned businesses and an extra 5% advantage to women-owned Afghan businesses. However, the government only has enough jobs for about only 3% of the employable population.

The WEEP launched in 2017, and in the first year, supported 70,000 women farmers in agricultural activities, including kitchen, gardens, nurseries and greenhouses, and supported 35,000 women in the livestock sector, including provision of livestock, technical support, and provision of inputs.

Thus private sector and agricultural development is key.

Because women make up over 50% of the production market, and most reside in rural areas, the keystone of the government’s strategy for empowering women is the **Women’s Economic Empowerment National Priority Program**, which targets rural women living in poverty and women farmers and producers. The program launched in 2017, and in the first year, supported 70,000 women farmers in agricultural activities, including kitchen, gardens, nurseries and greenhouses, and supported 35,000 women in the livestock sector, including provision of livestock, technical support, and provision of inputs. Over 3,000 female teachers have been recruited in all provinces and 900 community midwives trained to date, with further recruitment and training underway. The

goal is to simultaneously provide employment for women, while extending education and healthcare to women and girls.

The Jobs for Peace program was launched in 2016 and has generated 22,000 rural jobs, mostly unskilled positions, and provided more than 2.6 million labor days, providing jobs for over half a million families living in rural areas to repair and maintain village infrastructure.

Social Protection

While the government cannot afford large-scale national safety net and welfare programs to help the 54% of citizens currently living in poverty, pro-poor government spending is being increased and made more efficient. The strategy for reducing poverty is

investing in skills development, productivity, and access to labor-intensive paid employment for those living in extreme poverty.

The Jobs for Peace program was launched in 2016 and has generated 22,000 rural jobs, mostly unskilled positions, and provided more than 2.6 million labor days, providing jobs for over half a million families living in rural areas to repair and maintain village infrastructure. In its second phase, the program will scale-up to other provinces and introduce a labor-based clean-up program in Afghanistan's five largest cities, with an initial target of 10,000 new jobs.

There is a substantial part of the population including vulnerable, disabled, widowed, and elderly citizens who need carefully managed assistance. Weak targeting systems, deeply embedded corruption, and poor management structures are problems that have crippled the government's ability to effectively serve these communities.

Reforms are still underway at the Ministry of Labor, Social Affairs, Martyrs and Disabled, but to date, the pensions program for disabled citizens is now being disbursed electronically, cutting opportunities for corruption. The National Disability and Physical Empowerment Strategy is finalized and financial resources allocated to implementing the strategy. Vulnerable populations, including war widows and disabled, are also being prioritized in the distribution of government housing.

Another major issue in the country that has perpetuated poverty is **land encroachment and land grabbing**, which make up over 60% of civil disputes in the country. The independent land directorate ARAZI is producing a national priority programs that incorporates ongoing multi-agency urban land certification programs that to provide legally-recognized occupancy certificates to irregular urban settlements, including in 12 priority provinces with high numbers of returnees and IDPs. Land ownership opens up further opportunities to advance economically.

Increasing Labor Productivity & Investing in Human Capital

During the past years of reconstruction efforts, citizens' skill sets have not been well-aligned with market demands in Afghanistan, which exacerbates high unemployment rates. As anticipated, this situation has only gotten worse as the government's growth strategy gradually takes hold. The government has planned programming to increase labor productivity of citizens and invest in needed human capital.

By 2020, the government will establish at least one TVET school in every province and by 2021, one TVET school in every district, eventually converting 70% of high schools to TVET institutions. The TVET program will adopt the German apprenticeship training model. The program is designed to instill technical and practical skill sets in Afghan youth, adequately matching their skill sets with the demands of the Afghan job market.

Last month, the government launched a **new package of human capital and education initiatives**. The Technical and Vocational Education and Training Board (TVET) has become a independent organization from the Ministry of Education and in the next fiscal year will have its own budget. By 2020, the government will established at least one TVET school in every province and by 2021, one TVET school in every district, eventually converting 70% of high schools in TVET institutions. The TVET program will adopt the German apprenticeship training model. The program is designed to instill technical and practical skill sets in Afghan youth, adequately matching their skill sets with the demands of the Afghan job market.

The government is also pursuing programs to directly serve the urgent needs of the over **2 million returnees and IDPs in the country**, most who live in poverty, while simultaneously integrating this marginalized group into mainstream systems of governance and service-delivery. In 2016, the

government formed the Displaced and Returnees Executive Committee (DiREC), and the national action plan is now being implemented. Education, health, and land distribution for returnees and IDPs, as well as the completion of 4,000 housing units in Herat Qasemabad township for returns and IDPs, are the prioritized activities for 2018.

Comprehensive Agricultural Development

Economic growth is mainly driven by agricultural production in Afghanistan, providing 40% of jobs, and most export products. Poor agricultural livelihoods and underemployment are some of the main drivers of poverty, thus investment in this sector is key.⁷ The government's agricultural development strategy aims to create more resilient livelihoods in food staples such as cereals and livestock, as well as job creation in industrialization of horticulture and livestock.

Agricultural production grew 12.4% in 2016, compared to 2015. The agriculture and livestock sector created day, short and long term jobs for up to 2.25 million people between 2015 and 2017.

The **Comprehensive Agriculture Development National Priority Program (CAD-NPP)** has been completed and different pillars of the program are in various phases of implementation. The goal is to increase wheat production, expand irrigated land, improve water and livestock management, increase horticulture capacity, and pursue re-

forestation. The success of the NPP as a comprehensive program depends upon the reform pillar, moving the MAIL towards becoming a more effective and farmer-centric institution. The MAIL has started on reforms to support improved effectiveness in MAIL, merging the core HR and Procurement functions, while developing a unified recruitment guideline.

The first new program to be launched under the CAD-NPP will be the **Agribusiness Charter (ABC)**, currently in the design phase. The ABC is an inter-ministerial framework which coordinates new and existing investments in agribusiness to create jobs and stimulate growth. ABC will increase access to agricultural finance, availability of agro-industrial land, strengthen infrastructure for value-chain development, improve policy and regulatory environment for agribusiness growth, and most importantly, strengthen the ability of the government to perform the core functions that support these advancements. The ABC will launch this year, with new investments coming into the 2019 budget cycle. In addition, through the MAIL, Ministry of Commerce and Industry, and Private Sector Executive Council, business simplification reforms, development of air corridors and transport links, and investment in cold storage facilities and value-chain support are being implemented to increase agricultural exports, in line with the National Export Strategy.

The MAIL is currently analyzing and piloting ways of improving delivery of public services through CDCs, building on the platform provided by the Citizens' Charter NPP. This will build a stronger understanding of poverty into community engagements, and allow MAIL to ensure they can reach the poorest with more appropriate services in support of basic resilience and food security. Pilots of the adapted approach to community-led service delivery are being designed. Scaled-up changes to programming are expected to be rolled out in 2019. Although a coherent framework

⁷ <http://www.worldbank.org/en/country/afghanistan/publication/unlocking-potential-of-agriculture-for-afghanistan-growth>

to operationalize the CAD-NPP is still in development, significant gains have been made through ongoing programs to advance:

Agricultural production grew 12.4% in 2016, compared to 2015. The agriculture and livestock sector created day, short and long term jobs for up to 2.25 million people between 2015 and 2017. Dairy production was enhanced through marketing, livestock reproduction, and a comprehensive dairy program implemented in partnership with UNAFO. Milk production from five commercial dairy unions was up to 5.6 million liters in 2017, compared to 3.7 in 2015, which saw the total incomes paid back to farmers supplying the unions rise from 86.3 million Afghanis in 2015 to 140.2 million Afghanis in 2017. Chicken meat produced domestically supplies 53% of the local consumption now. Fish farms increased by 250% with the domestic production reaching 7,000 tons per year in 2017. In 2017, more than 22% of market demand was provided through domestic products.

Horticulture and fruit yields, as well as exports of horticulture products, increased by 7% in the past three years. In 2016, greenhouse produce reached 138,000 tons and provided 8,000 job opportunities after the government installed 7,400 greenhouses in 29 provinces. Honey production grew by 15% in 2016. Cotton and soybean production increased, and Afghanistan is projected to become the highest soybean producer in the region.

Twenty-three processing and packaging centers with the capacity for 100 metric tons have been constructed and are in use by orchard owners, and 1,450 raisin-drying houses have been built and are in operation. In 2017, 336,010 hectares of land were cultivated for fruit gardens in Afghanistan in 2017, up from 218,636 in 2016, and 2,587 hectares of land cultivated for saffron.

Agricultural lending is still very constrained, representing less than 3.5% of total bank lending. However, some micro-financing institutions and other financial institutions with specialized loan products for the agriculture sector have increased lending. Over 20,000 farmers have also been directly supported over the past three years through the **provision of agricultural machinery, and loans** worth \$66 million USD. The Agribusiness Charter aims to build on this progress by expanding value-chain financing and access to digital financial services, while ensuring the sustainability and sound management of financial institutions.

Agricultural water management projects led to a 20-25% reduction in water losses in some areas in 2017. Forty-two water and hydropower projects are underway, and private investment worth \$1 billion has been attracted in the agricultural sector.⁸

⁸ Ministry of Agriculture, Irrigation, and Livestock