



PEACE

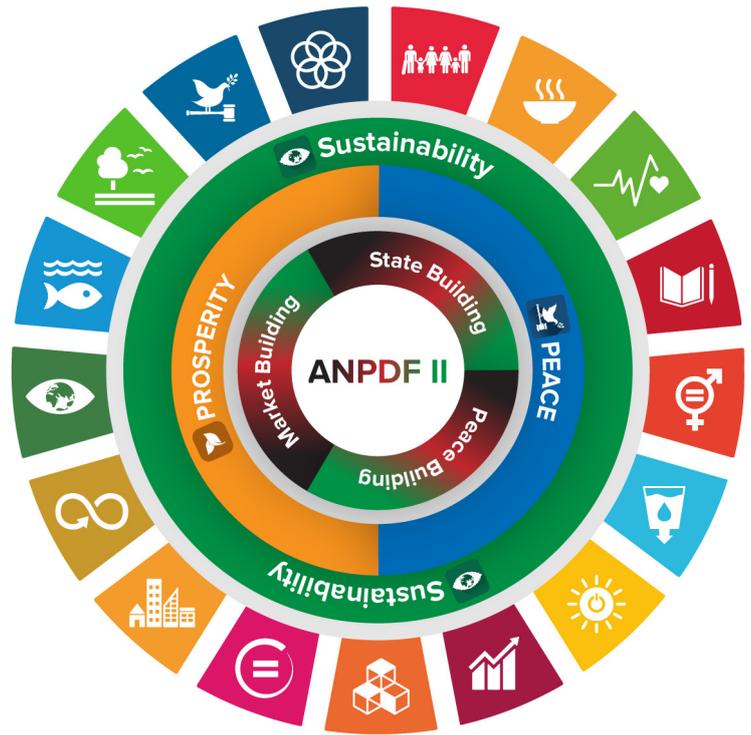


PROSPERITY



SUSTAINABILITY

Peace Building
State Building
Market Building



Achieving Afghanistan's
Long-Term Goals amid
Short-Term Adversities

April 2021

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Abbreviations

| | |
|------------------|------------------------------------------------------------|
| ADB | Asian Development Bank |
| A-GTAP | Afghanistan Global Trade Analysis Project |
| ALCS | Afghanistan Living Conditions Survey |
| ANDMA | Afghanistan National Disaster Management Authority |
| ANDS | Afghanistan National Development Strategy |
| ANPDF (I and II) | Afghanistan National Peace and Development Framework |
| ACCSAP | Afghan Climate Change Strategy and Action Plan |
| A-SDGs | Afghanistan Sustainable Development Goals |
| BCPR | Bureau for Crisis Prevention and Recovery |
| BRI | Belt and Road Initiative |
| C-CGE | Country Computable General Equilibrium Model (Afghanistan) |
| CGE | Computable General Equilibrium Model |
| CODI | (Social Protection) The Core Diagnostic Instrument |
| COVID-19 | Corona Virus 2019 |
| DDR | Disarmament, Demobilization and Reintegration |
| DRR | Disaster Risk Reduction |
| DSSI | Debt Service Suspension Initiative |
| ESCAP | Economic and Social Commission for Asia and the Pacific |
| EU | European Union -- All 27 Member States |
| FAO | Food and Agriculture Organisation |
| FSU/CIS | Former Soviet Union/ Commonwealth of Independent States |
| G20 | Group of 20 (19 countries and the European Union) |
| GDP | Gross Domestic Product |
| GIRoA | Government of the Islamic Republic of Afghanistan |
| GTAP | Global Trade Analysis Project |
| HIPIC | Heavily Indebted Poor Countries |
| IDPs | Internally Displaced People |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| INFF | Integrated Financing Framework |
| IOM | International Organization for Migration |
| ISPA | Interagency Social Protection Assessments |
| MDRI | Multilateral Debt Relief Initiative |
| MICS | Multiple Indicator Cluster Surveys |
| M&E | Monitoring and Evaluation |
| MoIA | Ministry of Interior Affairs |
| MoLSA | Ministry of Labor and Social Affairs |

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|--------|------------------------------------------------------------------------|
| MoPH | The Ministry of Public Health |
| MPI | Multi-Dimensional Poverty Index |
| MSMEs | Micro, Small and Medium-Sized Enterprises |
| NNS | National Nutrition Survey |
| NPP | National Priority Programme |
| NRVA | National Risk and Vulnerability Assessment |
| NSIA | National Statistics and Information Authority |
| OCHA | The United Nations Office for the Coordination of Humanitarian Affairs |
| OPHI | Oxford Poverty & Human Development Initiative |
| PAS | Protected Areas System |
| PPE | Personal Protective Equipment |
| PPP | Public-Private Partnership |
| RDAs | Regional Development Authorities |
| RECCA | Russia, Eastern Europe, and Central Asia |
| SAARC | South Asian Association for Regional Cooperation |
| SAM | Social Accounting Matrix |
| SDGs | Sustainable Development Goals |
| SERPS | Socioeconomic Response Plans |
| SMEs | Small- and Medium-sized Enterprises |
| TFP | Total Factor Productivity |
| UBI | Universal Basic Income |
| UNAMA | United Nations Assistance Mission in Afghanistan |
| UNCT | United Nations Country Team |
| UNDCO | United Nations Development Coordination Office |
| UNDP | United Nations Development Programme |
| UNEP | United Nations Environmental Programme |
| UNFPA | United Nations Population Fund |
| UNHCR | United Nations High Commission for Refugees |
| UNICEF | United Nations Children's Fund |
| UNIDO | United Nations Industrial Development Organization |
| UNOCA | United Nations Regional Office for Central Africa |
| UNODC | United Nations Office on Drugs and Crime |
| UNOPS | United Nations Operations Programme |
| UNSCR | United Nations Security Council Resolution |
| WFP | United Nations Food Programme |
| WHO | World Health Organization |

Exchange rate: one Afghani = 0.013 United States Dollar

Foreword

2020 could have been a turning point in Afghanistan's history. Peace talks were initiated, donors reiterated their continuing support for the country and there was optimism that economic growth and social progress would accelerate.

Unfortunately, the onset of the COVID-19 pandemic set back economic growth, progress towards peace slowed, and violence has increased. Economic, social and environmental progress, including towards the achievement of the SDGs, has suffered setbacks. The recent increase in violence has placed Afghanistan among the most conflict-affected countries both in terms of economic and human losses. Improvements in governance and expanding national outreach have slowed down with dire effects on infrastructure development, education expansion and health services. Economic conditions have deteriorated and there has been an increase in already high rates of poverty.

Yet, there is room for optimism. The national strategy and plans included in the ANPDF II and the NPPs provide a comprehensive framework for setting Afghanistan on a sustainable and equitable future course of development. The pledged support by donors, which is almost equal to what Afghanistan has been granted in the past, is another indication of the confidence in Afghanistan's ability to change course and their intention to support Afghanistan to do so.

This report is part of UNDP's continuing support to Afghanistan. It is driven by the belief that the response to the development challenges facing Afghanistan can best be anchored to the SDGs for which the Government, UNDP and other development partners have already established priorities and worked out implementation modalities. It provides an assessment of the current situation and identifies opportunities and challenges facing the country.

The objective is to provide a framework so that policies, programmes and projects complement, rather than compete with each other in order to make the total greater than the sum of the parts. For example, the report has estimated the likely impact of several individual policies such in the areas of governance, the business environment and the investment climate, access to

credit, agriculture and trade. Each one of them can add 1.5 to 2.5 percentage points to the economic growth rate. Though not insignificant, if policies in these areas are pursued simultaneously they can boost GDP by 30-40 percent by 2030. Even under a business as usual scenario, achieving peace can alone increase the level of GDP by nearly 7 percent.

Beyond analytics, it also proposes a series of programmes that are aligned with the objectives and policies included in the ANPDF II and the NPPs. It estimates funding requirements for the proposed policies and recognizes the institutional constraints. In addition to developmental policies, it pays attention to social protection and has identified several employment and social assistance programmes that can have a significant impact at low fiscal costs – such as public works, cash transfers and a social pension.

The report takes a three-fold approach with aspects that reinforce each other. First, it aims to support a multi-dimensional conflict-sensitive approach to peacebuilding through improvements in governance within the SDG framework, considering the emergence of COVID-19. Second, it focuses on growth acceleration through domestic private sector development, deeper utilization of national resources including minerals as well as regional cooperation. In combination, these can promote access to finance, increase productivity, create jobs, enhance health service delivery, and improve access to information and knowledge. Third, policies and projects in these areas are linked to complementary efforts to develop energy self-sufficiency, avoid adverse environmental impacts, build sustainable livelihoods, strengthen social protection and increase resilience.

The proposals contained within this report are fully aligned with Afghanistan's own priorities--grouped in three areas, Peace Building, State Building and Market Building. Of paramount importance, and effectively a precondition for moving forward successfully, is peace—which can only be achieved by Afghans for Afghans. In this, the international community can only play a supportive role. In this effort, UNDP is prepared to provide support as Afghanistan travels the road ahead, working closely with domestic stakeholders and international partners.



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Executive Summary

1. As Afghanistan moves into the future against the backdrop of ongoing peace negotiations, it is confronted with many uncertainties but also faces several opportunities. UNDP is committed to supporting Afghanistan's transition from a War Economy to a Peace Economy. This report summarizes the analytical work UNDP has conducted so far from which it derived several programme and project proposals that can be considered for weathering the effects of the pandemic in the short-run, creating conditions for inclusive economic growth, and supporting the achievement of the SDGs.

2. Attaining peace is the main precondition for taking advantage of opportunities. The peace negotiations that started in 2020 are still going on. The more conflict persists, the more it perpetuates and reinforces structures and mechanisms that become increasingly more difficult to change. And when peace is achieved, Afghanistan will still have to deal with the frequent droughts, floods, earthquakes and gradual environmental degradation that have consequential effects on livelihoods. The outbreak of the COVID-19 pandemic has added strain to these challenges and may compromise past gains, halt progress and threaten the country's prospects. It may take real GDP two years to recover to its pre-pandemic level and even longer for per capita incomes to do so considering fast population growth. COVID-19 can further aggravate pre-existing fault lines by reducing trust in Afghanistan's already weak institutions and strengthening perceptions among citizens of government inability or neglect in addressing pre-existing poverty and inequality. The success of leadership is conditioned not only on good governance, but also on its ability to provide public services to all citizens.

3. In view of the changing situation, the Government has proactively updated its plans and policies recently. This is reflected in the recent publication "Afghanistan National Peace and Development Framework (ANPDF II): 2021 to 2025" which revolves around Peace-building, State-building and Market-building. Following the revised priorities of the Government, UNDP is adjusting its current programming, taking into account synergies with other UN agencies and the broader donor community. The ultimate objective is to support the transition of Afghanistan while mitigating the effects of the COVID-19 pandemic on the achievement of its longer-term development goals for which the Sustainable Development Goals (SDGs) serve as a critical guide.

4. To assist in recovery from the pandemic and to pave the way towards the attainment of longer-term objectives, including those of the SDGs, this report reviews the current situation in Afghanistan, anticipates future developments, proposes policy directions subject to anticipated fiscal constraints and summarizes UNDP's programmatic activities. Its premise rests on the observation that a country can realize a large peace dividend, build resilience to multiple shocks and achieve sustainable and equitable economic growth when it (a) correctly assesses the facts; (b) adopts the right strategy with evidence-based supporting policies; and (c) addresses short-term challenges without being derailed from its longer-term objectives.

5. Accordingly, UNDP's programmatic offer is intended to contribute to the Government's and donors' joint efforts. It does so through (a) systems thinking to identify where the best leverage points for interventions might be based and for a better understanding of the relationship between the different policies and outcomes; (b) SDG Integration to support the implementation of the ANPDF II and its associated National Priority programmes, as well as to help align the overall efforts of the United Nations system and other actors with the Government's efforts to achieve the Agenda 2030 with a focus on what can be achieved during the ANPDF II by 2025; and (c) CGE modelling that evaluates the likely effects of alternative policy proposals in the context of several simulated scenarios. In addition, UNDP proposes the establishment of an Integrated National Platform, led and managed by the Government that would coordinate the efforts of all actors involved, explore synergies, avoid duplication and waste, and build trust, thereby increasing development impact.

6. UNDP, with its presence in Afghanistan and global experience, can help map and regularly update the country's likely future course from a broad development perspective. It utilizes a holistic project design approach that considers other countries' experiences and Afghanistan's unique situation. It has a substantive, policy-relevant knowledge base for project formulation, including modeling work, a long-standing, foresight-based stance on global and regional public goods, and ability to get things done on the ground through effective project implementation supported by proven procurement systems.

7. In line with the Government's plans for peace, state and market building, UNDP notes that attaining peace is a prerequisite for success. Peace will create linkages between the State and the market by enabling programmes and projects to have a national outreach. With respect to market building, UNDP's proposed projects aim to develop markets that are in desperate need and help make them inclusive, enabling livelihoods for all, especially the poorest; expand financing, including for the SDGs, by reducing corruption—a major channel of leakage from the fiscal space; promote entrepreneurship opportunities for the poor, women and youth; and enhance market competition domestically and through trade. A recent UNDP report identifies extractive industries as a future driver for economic growth and includes proposals for making them a major source of FDI. However, it also notes that this would be conditional on achieving peace and should be subject to environmental sustainability considerations.

8. Development plans will face several challenges, even after the peace agreement is reached. A main conclusion of this report is that current conditions in Afghanistan, combined with the evidence from other countries that have been in conflict, may make the payoff period for the peace dividend long while the returns from specific policies and programmes may be initially small and stretching out over several decades. This necessitates that support from donors should be sizeable and predictable. On one hand, the donors' conference in Geneva held in November 2020 reiterated the continuing support of the international community to Afghanistan by nearly maintaining previous levels of funding despite a recent decline in ODA to other developing countries following the economic effects of the pandemic in their own countries. On the other hand, the future support of donors cannot no longer be considered unconditional but would now depend on Afghanistan's efforts being steadfast and consistent.

9. This report is part of UNDP's support to Afghanistan in its efforts to achieve sustainable and inclusive economic growth by making progress towards the SDGs and capitalizing on the prospects for peace amid the adversities caused by the COVID-19 pandemic. Its objective is to contribute to the dialogue between the Government, United Nations agencies, donors and development partners that are actively supporting Afghanistan so that they can jointly select the appropriate policies and effectively implement them. It reviews the current situation, Part 1, which outlines a framework for addressing the effects of the pandemic and achieving the country's broader development goals (Part 2). Part 3 summarizes the UNDP's proposed support to Afghanistan. In addition, an extended introduction in the next section summarizes the findings of the report including policy options in the context of Afghanistan's prospects and fiscal constraints, and briefly outlines UNDP's rationale and approach.

10. More specifically, Part 1 of the report examines the structural characteristics of Afghanistan. It casts them against the international experience in terms of the peace dividend and prospects for achieving the SDGs. It then introduces complications arising from shocks and uncertainty (such as the pandemic, droughts and internal displacement). Even if peace were agreed in the near future, the effects from the now decades-long conflict are likely to be long lasting and the probability of a recurrence of the violence, even if sporadic, is non-negligible. Addressing the effects of COVID-19 and recurrent environmental disasters requires domestic capacity and funding that are currently insufficient to provide emergency relief, and too inadequate to support recovery and sustainable economic growth in the long run.

11. Part 2 sets the framework for UNDP and others to follow in terms of addressing the effects of the pandemic and achieving the country's broader development goals. It presents several quantitative estimates or simulations of the impact of the pandemic and alternative policy responses to them. This part pays particular attention to social protection which is the most cross-cutting economic and social sector, affecting and being affected by many other policies and goals. It concludes by identifying systemic regulatory, institutional and fiscal constraints that could compromise the response to the pandemic and jeopardize progress towards economic growth, social development and the attainment of the SDGs.

12. Part 3 summarizes UNDP's proposed agenda for the next five years. UNDP has organized its support in a three-pronged approach based on peace, prosperity and sustainability whose key programmatic elements are

summarized in the table. The aim is to strengthen institutions, improve physical infrastructure, and make better use of the limited fiscal resources. Ultimately the goal of this approach is to improve the well-being of citizens in such a way that would lead to greater progress across all dimensions of human development.

| UNDP PROGRAMMATIC PROPOSALS 2021-25 | |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Peace | Objective: Focusing on governance, support a multi-dimensional conflict-sensitive approach to peace building within the SDG framework, considering the emergence of COVID-19. Programmes (2): Peace Human Security, Justice and Peace; and Promoting Good Governance. Estimated Cost: US\$564 million |
| 2. Prosperity | Objective: Promote sustainable livelihoods; private sector development, job creation and productivity; access to information, knowledge and finance; healthcare delivery. Programmes (2): Economic Transformation for All and Social Protection. Estimated Cost: US\$841 million |
| 3. Sustainability | Objective: Develop energy self-sufficiency and economic recovery taking into account the social and environmental limits to growth. Programmes (1): Environment, climate change and resilience. Estimated Cost: US\$21 million |
| 4. Policy and SDG Integration | Objective: Promoting policy and programme integration, integrated financing, robust monitoring and innovation towards the achievement of SDGs. Programmes (1): SDG integration, SDG financing, data and M&E, aid coordination and innovation Estimated Cost: US\$ 20 million (indicative) Note: Reported costs refer to total programme costs, funded and unfunded. |

13. In conclusion, Afghanistan is facing multiple challenges, but there is hope for reduced political uncertainties and signs of emerging prospects for peace, which provides a basis for optimism. UNDP will continue to support Afghanistan at this critical juncture for peace and development, and, together with partners, will work towards a safe and prosperous future as it has done in the past amidst the enduring shocks of conflict, natural disasters and forced displacement that have recently been compounded by the COVID-19 pandemic. On Afghanistan’s side, the use of donor funds should be consistent with the needs of the citizens and be delivered with utmost efficiency and transparency—coupled with clear efforts to include the private sector through an improved business environment and tangible progress toward peace.

INTRODUCTION AND SUMMARY

14. Afghanistan has made considerable progress in the last 20 years. Per capita incomes have increased by 75 percent since the early 2000s and 40 percent since 2007. There have been advances on several fronts including education enrolments that have increased ten-fold and reductions in child mortality. The provision of basic health services has expanded and the share of births attended by health personnel has increased as has the rate of antenatal care from 16 percent in 2003¹ to 69 percent in 2020².

15. However, progress has not been continuous; in fact, there have been several reversals. The high economic growth of the 2000s came to an end by 2013 and has averaged only 2.3 percent per annum since then. Even during the period of fast growth, poverty has kept increasing – a clear sign that growth has not been inclusive. A major factor for this has been the ongoing conflict that, as the UN Assistance Mission in Afghanistan (UNAMA) has recently noted, there has been a sharp increase in violence since the start of Afghanistan Peace Negotiations in September 2020³. Population growth has slowed the rise of per capita income, and droughts and floods have also taken a toll on production and livelihoods. The onset of the pandemic has added new challenges. More than one million registered Afghan refugees remain abroad and some of those who have returned from countries heavily infected by COVID-19 have contributed to the spread of the disease reducing vitally needed foreign income, and placing further strains on housing and local services.

16. Weak human capital is an additional constraint that is compounded by the lack of a dynamic private sector and the underemployment of women in the economy. Whether strengthening human capital would lead to productivity gains would depend on the pace and nature of economic growth that is also contingent on reaching a peace agreement, the size of additional investments and the prospects facing the private sector. Private sector development is saddled by regulatory and non-regulatory barriers, including corruption, limited access to finance, lack of coordinated support for local industry, poor connectivity within the country and in trade with neighboring countries, and security uncertainties. The potential of Afghan women is held back by several disadvantages ranging from limited access to education to fewer employment opportunities than those available to men and several institutional and social restrictions.

17. Progress towards the achievement of the SDGs was off track even before the pandemic. Afghanistan's progress towards the SDGs has so far been less than half of what would be required to achieve them by 2030, one of the lowest rates of progress in the world. Conflict has undermined progress by reducing productive capacity and has also weakened governance. It has constrained market opportunities and the outreach of the Government across the country. Afghanistan is the most affected low-income country by natural disasters, being second only to Haiti in the number of fatalities in the last four decades. Its low level of economic development is depriving it of effective coping mechanisms. In addition to poverty, the numbers of displaced persons and refugees have been rising. Moving ahead is constrained by the structure of the economy that is dominated by informality, the sizeable production of opium and a partial ability of the Government to take control of its natural resources.

18. Afghanistan is at the gate of a peace process which provides grounds for optimism. The advent of COVID-19 demands warring sides to unite against a common enemy. This seems to be supported by ordinary citizens. A survey of the Afghan people conducted in 2019 found that 89 percent of Afghans support efforts to negotiate peace, and 64 percent still believe that reconciliation is possible. The vast majority of them (80 percent) feel that preservation of freedom of speech and freedom of the press should be protected in any peace agreement. Also, most (65 percent) would oppose a peace agreement that endangered women's education or the ability to work outside the home. National reconciliation can be a challenging task and only Afghans themselves can tackle it⁴.

19. While Afghanistan needs to address the immediate impact of the pandemic, the best anchor for long-term policies remains the SDG framework. Afghanistan should contain the spread of the virus and address the effects of the pandemic while paving the way to recovery and the achievement of the SDGs. On the way to 2030, the urgent response to COVID-19 must be an integral part of the Government's actions and the international community's support at the national and subnational levels. Thus, the immediate response to the

pandemic cannot be other than “health first” but, hopefully, the impact of COVID-19 would be short-lived and not strong enough to derail the achievement of the SDGs. If anything, the pandemic has moved sustainable development to center stage by underscoring that future approaches and policies should be different from those of the past so to avoid a return to the same unsustainable path that characterized the pre-COVID-19 period.

20. UNDP is committed to play a significant role for the future of Afghanistan and proposes a balanced analytical, evidence-based approach in line with Afghanistan’s National Peace and Development Framework (ANPDF II) and the accompanying National Priority programmes (NPPs). UNDP and the broader UN system are well placed to offer a platform that links donor support with national efforts and maximizes the impact on livelihoods through effective public policies while building self-reliance and resilience.

21. This report is accordingly written for the Government, United Nations agencies, donors and development partners that are actively supporting Afghanistan’s efforts. Part 1 reviews the current situation, paying attention to the current characteristics of Afghanistan and likely prospects taking also into account the international experience. Part 2 outlines a framework for addressing the effects of the pandemic and achieving Afghanistan’s development goals including fast economic recovery and improvements in livelihoods. Part 3 summarizes UNDP’s proposed agenda that is organized in a three-pronged approach based on peace, prosperity and sustainability focusing on the next five years. The rest of this introductory section summarizes the findings of the analytical work conducted by UNDP regarding the prospects of Afghanistan and policy options in the short and medium term.

Preparing for the Future

22. In addition to the review of current situation and challenges, UNDP has conducted several quantitative analyses regarding the likely course of Afghanistan amid the pandemic to better guide the choice of policy options. The findings are distinguished between those that are relevant during the pandemic, in the medium-term (till 2024) and all the way to 2030, the year that is used by the Government and the international community to evaluate economic and social progress towards the SDGs. The results are summarized below followed by an assessment of alternative policies and UNDP’s proposed role in Afghanistan.

23. Despite the low reported incidence rate of the coronavirus across Afghanistan, its impact is expected to be sizeable on the economy and citizens and can have long-lasting effects. The total number of recorded infections till September 2020 has been below 45,000 but has been accompanied by a high rate of fatalities - more than 1,500. This death rate is at least twice as high as that found in other South Asian countries and almost 10 times higher than the lowest rate found in Sri Lanka. Though this rate may reflect the status of health services in Afghanistan, it may also be affected by the limited availability of tests (TEXTBOX 1). It is therefore likely that the impact of the pandemic on human lives may be much higher than that suggested by the results presented below. In fact, by the end of December 2020, the number of infections reached 51,500.

Text box 1: In Afghanistan the Death Rate from the Pandemic is high

In Afghanistan, the test rate for COVID-19 is far below that in other neighboring countries*. This makes the reported numbers for infected individuals particularly uncertain. As of September 30, 2020, the total cases tested per million people in Afghanistan was around 1,000 as compared to 1,400 in Pakistan, 2,200 in Bangladesh, 2,700 in Nepal and more than 4,500 in India. Given the low rate of testing, it is probable that the actual number of infections is much higher as suggested by the high death rate reported in Afghanistan, which stands at 3.7 recorded deaths to all recorded infections. This is the highest rate among other South Asian countries for which data are available. The rate varies between 0.4 in Sri Lanka and 2.1 in Pakistan.

* The comparator countries are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

Source: World Bank (2020). Beaten or Broken? Informality and COVID-19. South Asia Economic Forum, Fall. Table 1.2

24. UNDP has used two different computable general equilibrium models (CGE) to estimate the likely impact of the pandemic as well as the costs and effects of alternative policies. The first model, (a Country Computable General Equilibrium: C-CGE), is a conventional dynamic general equilibrium model. The second model (Afghanistan - Global Trade Analysis Project: A-GTAP) is a multi-country, multi-regional computable general equilibrium model that can additionally incorporate how the effects of international shocks, like an economic recession resulting from the pandemic, can find their way into Afghanistan's economy. Both models have been suitably adapted to Afghanistan's conditions and their results regarding the impact of the pandemic are summarized in TEXTBOX 2.

25. The simulation results derived from UNDP's models suggest that, in the absence of substantial and effective policy responses and additional donor funds, the immediate adverse impact of the pandemic on the economy would be significant, while GDP may not recover its pre-epidemic level until 2024. The reduction in per capita incomes will be even greater than the GDP loss given the high population growth rate: The per capita income may still be 10 percent lower in 2024 than its 2019 level. The poverty rate may increase by one-third, from 55 percent to 68 percent of the population. In the absence of effective use of donor funds and additional policy actions by the Government, the fiscal space available to fight the effects of the pandemic will shrink significantly.

Policy Options

26. UNDP's modeling results vividly illustrate the challenges Afghanistan is confronted with, but the model can also be used for identifying policies to mitigate the effects of these challenges. In addition to the known detrimental effects of conflict, the results show the gravity of the impact of the pandemic and reinforce the case for continued support by international donors. They also demonstrate that there are several policy options open to the Government to turn the situation around and set Afghanistan on a post-conflict sustainable and inclusive development path.

27. The impact of the pandemic can be lessened by several policies whose effects have been simulated by UNDP's CGE models. All types of domestic fiscal mobilization (revenue increases and expenditure reduction/switching) would result in a "growth penalty". However, the available fiscal space for expanding economic and social policies can expand, if security spending (currently around 30 percent of GDP - US\$6 billion) were reduced even by a relatively small amount, such as US\$400 million. And if Afghanistan improves the management of its public finances at the macro level, the economic growth rate could accelerate significantly. Afghanistan should therefore endeavor to make the best use of its existing resources, reduce "leakages", increase the efficiency of tax collection and broaden the tax base (rather than increasing the tax rates, at least in the short run). It can also consider introducing some sin taxes on commodities and activities that have negative externalities, such as those that have adverse effects on health and the environment.

28. In addition to policies at the macro/fiscal level, there are several options available at the sectoral level. A decrease in the cost of trade between Afghanistan and its trading partners, a reduction in red tape and improvements in the business environment, easing access to credit and encouraging Public-Private Partnerships (PPPs) can add to the economic growth rate and enhance possibilities for revenue collection thus avoiding the creation of budget deficits. Specifically with regard to agriculture, an increase in the cultivated land under food-related crops can lead to lower food prices and, if associated with gains in productivity, can also increase GDP substantially by 2030, thus enabling faster progress toward the attainment of the SDGs (TEXTBOX 3).

29. When collectively pursued as a package, the gains arising from the proposed individual policies can be even higher. For example, a policy menu consisting of reduction in the costs of trade, increased access to capital and agricultural reforms would have a cumulative impact on GDP that would be 30 percent higher than if any of these policies were pursued alone, and 42 percent higher than in a "business as usual" scenario".

Text box 2: Summary of UNDP's estimates of the likely Impact of COVID-19

The pandemic has necessitated recurrent and development expenditures to be reallocated towards COVID-19 response activities while it has added to the fiscal pressures due to additional funding required to support the health sector and expand social protection while government revenues have been reduced as a result of the contraction of the economy.

Without an effective recovery plan, the following scenarios have been simulated with the use of computable general equilibrium models (CGE):

- The immediate GDP loss due to the impact of the pandemic may reach 6 percent by end 2020 or 9 percent compared to the pre-pandemic growth projection of 3 percent growth for 2020.
- Recovery will be slow with total GDP probably surpassing its 2019 level not before 2023 and by then the cumulative loss in GDP can reach more than 70 percent of its 2019 level.
- The resulting revenue loss compared to a baseline projection by IMF in 2019 could be 12 percent in 2020 reaching 18 percent in 2024 with an annual average for the whole period of 16 percent and with the prospect of remaining lower for some time thereafter.
- Between 2020 and 2024 the tax revenue from international trade (custom duties, export taxes and trade related fees) would be affected most (down by 19 percent) due to a reduction in imports, while the revenue loss from corporate tax and personal income tax could be reduced by around 18 percent, and that from taxes on goods and services could decline by 10 percent due to reduced economic activity.
- To fully offset the resulting fiscal gap, donor grants would need to increase by 30 percent compared to their 2019 level.
- In addition to the revenue loss, the additional spending required to directly address the effects of the pandemic (estimated at US\$250 million) could further reduce the growth rate by:
 - 2 percent if funded by the government budget (i.e. in addition to the 6 percent induced by the pandemic);
 - 1.3 percent if funded through switching from other public expenditures (neutral deficit impact).
- Per capita incomes will decrease more than GDP (due to population growth) and by 2024 may still be nearly 10 percent below their level in 2019.
- Poverty is expected to increase to 68 percent from its rate of 55 percent in 2019.
- Overall, Afghanistan would need to allocate resources equivalent of 1.5 percent of the current GDP (\$3 billion/year) for immediate interventions in the health sector and the introduction of some minimum social protection measures along with support to the economy and the promotion of SDGs by 2030.

Sources: UNDP (2020)

Afghanistan Coronavirus Impact: Country Note, April.

https://www.af.undp.org/content/afghanistan/en/home/library/hiv_aids/Afghanistan-Coronavirus-impact.html

Afghanistan Coronavirus Socio-Economic Impact Assessment, July.

https://www.af.undp.org/content/afghanistan/en/home/library/hiv_aids/Afghanistan-Coronavirus-impact-Note2.html

Afghanistan, Potential Impact of the Coronavirus Pandemic on SDG Attainment September.

https://www.af.undp.org/content/afghanistan/en/home/library/hiv_aids/Corona-ImpactonSDGAttainment-Notelll.html

Afghanistan Coronavirus Socio-Economic Impact Assessment: Fiscal Options in Response to Corona Virus Crisis, November

<http://www.af.undp.org/library/knowledge-products/CountryNoteIV.html>, November

30. Even if all the right policies were adopted and also were adequately funded and effectively and swiftly implemented, their effects would take time to materialize. This creates a need for several employment and social assistance measures that can be introduced in the short-run ideally in a way that they can subsequently be used as the basis for the development of a comprehensive social protection system. As TEXTBOX 3 shows and taking into account their fiscal requirements, outreach and impact, promising interventions in the area of social protection at present seem to be the introduction of (i) public works for the working age population, (ii) a “social pension” paid to the elderly and (iii) income support to the internally displaced people and returnees.

While these measures are needed in the immediate future, the Government can in parallel accelerate the introduction of social health insurance that is already under consideration.

Text box 3: Summary of Policy Options for Addressing the Short-term Impact of COVID-19 and Paving the Way toward the Attainment of the SDGs by 2030

UNDP's policy simulations derived from the application of Computable General Equilibrium models (CGE) suggest that the negative impact of the pandemic summarized in TEXTBOX 2 can be mitigated:

- If the need for security expenditures (currently around 30 percent of GDP) is reduced and the funds released are spent on productive activities and social objectives
- If the fiscal gap is bridged through grants instead of a decrease in justified expenditures and increases in tax rates
- If governance is improved by reducing waste and leakages, increasing the efficiency of tax collection, and making best use of existing resources – this could add 2 percentage points to the economic growth rate
- Achieving peace can also increase the level of GDP by nearly 7 percent
- A reduction in the cost of trade between Afghanistan and its trading partners could increase Afghanistan's GDP by 4 percent compared to its level in 2019 and will also have beneficial effect for its trading partners, especially Pakistan and Iran
- If the business environment becomes more conducive to investment, this could add two percentage points to the economic growth rate
- Easing access to loans for the private sector by reducing the cost of capital by 10 percent could add 1.6 percent to GDP
- If Public-Private Partnerships projects can attract US\$4 billion, this could both fill the projected funding gap resulting from lower donor grants and catalyze transitions in the real economy
- An increase in cultivated land by 5 percent and an improvement in total factor productivity (TFP) by 1 percent, would decrease food prices by between 0.9 percent and 1.5 percent while GDP could increase by almost 40 percent by 2030.
- The most relevant forms of social protection to start with at present seem to be a programme for public works ("cash for work") available to the working age population, a "social pension" paid to the elderly and income support to the internally displaced people and returnees:
 - A social pension of 1,000 Afghanis per month paid to 800,000 elderly (65+) for 12 months would require a fiscal outlay of 0.6 percent of GDP (US\$125 million)
 - Income support to 760,000 Internally Displaced Persons and Returnees also at 1,000 Afghanis/month for 12 months would require a fiscal outlay of 0.6 percent GDP (US\$119 million)
 - Public works for 75 days (3 months) paid to one million beneficiaries
 - At a daily "market" wage rate of AFN300 (US\$3.9) would require a fiscal outlay of 1.5 percent of GDP (US\$293 million)
 - At a daily "national average income" rate of AFN120 (US\$1.6) would require a fiscal outlay of 0.6 percent of GDP (US\$117 million)
 - At a daily "poverty line" rate of AFN68 (US\$0.9) would require a fiscal outlay of 0.3 percent of GDP (US\$66 million).

Effective implementation of these policies would require exploring synergies at three levels. First, between the Government and non-state actors (peace); second, at international and regional levels (donor support and trade); and third, domestically, through transparent governance and private sector-driven development policies that are geared towards fast and inclusive economic growth at the center of which lies the attainment of the SDGs.

Note: Figures subject to rounding

Sources: See sources to TEXTBOX 2 and Chapter on Social Protection

Economic Prospects and Fiscal Affordability

31. Economic growth was negative in 2020 but is projected to rebound from 2021 onwards. Preliminary estimates suggest that GDP declined by 5 percent in 2020—a significant setback. However, positive economic growth is projected to resume thereafter. Though projections based on different sources vary somewhat (see Table 1) they all agree that the economy will grow faster than the annual rate of population growth (around 2.5 percent). If so, growth rates will be much higher than those in the last five years or so and would result in an increase in average per capita incomes, assuming that growth and social spending will be pro-poor.

| Table 1: Projected Real GDP Growth | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|-----------------|------|
| | 2020 | 2021 | 2022 | 2023 |
| Budget (2021) | -5.0 | 3.6 | 3.7 | 3.9 |
| IMF (May 2020) | | 4.0 | 4.5 | 4.5 |
| UNDP (January 2021) | | 3.6 | 3.6 | 3.7 |
| Source: Government Budget, IMF and UNDP GTAP-A model | | | | |
| Memo Items (in billion US\$) | | | | |
| Nominal GDP (UNDP projections) | 18.6 | 19.3 | 20.0 | 20.7 |
| Domestic Revenues | 2.3 | 2.8 | 2.8 | 3.4 |
| Expenditures /1 | 5.9 | 6.1 | 5.6 | 6.0 |
| Domestic Deficit | -3.6 | -3.3 | -2.8 | -2.6 |
| On-budget grants /2 | 3.0 | 2.8 | 2.5 | 2.5 |
| Total Deficit | -0.7 | -0.5 | -0.2 | -0.1 |
| (in million US\$) | | | | |
| SDG requirements | | 300 | 300 | 300 |
| Social Protection /3 | | 310 | 244 | 244 |
| Public Works (daily wage = poverty line) /4 | | 66 | | |
| Social Pension /4 | | 125 | 125 | 125 |
| Support to Returnees and IDPs /4 | | 119 | 119 | 119 |
| Social Security (cash transfers) /5 | | | 1% to 2% of GDP | |
| 1/ About 2/3 of expenditures are operational and 1/3 are for investment | | | | |
| 2/ Excluding donors' direct spending outside the budget | | | | |
| 3/ Some of the social protection measures can be included and funded under the SDGs | | | | |
| 4/ For a description of these programmes and the wage/benefit levels see TEXTBOX 3 | | | | |
| 5/ Includes cash benefits to children, elderly and the disabled, assuming 4 percent real GDP annual growth till 2030; the cost would be lower if it replaces the social pension envisaged under the short-term response - see Table 8 | | | | |
| Source: Government of Afghanistan; IMF (2020); UNDP estimates | | | | |

32. The pledged support to Afghanistan by donors at the Geneva Conference (2020) came at a critical point in time as domestic revenues can only finance one-quarter of public expenditures. Foreign Direct Investment (FDI) flows have dropped by 40 percent and this may compromise the pace of future economic growth⁵. The impact of the pandemic and continuing conflict are creating a humanitarian crisis that calls for an additional US\$1.3 billion in 2021 alone⁶. A peace agreement can allow resources allocated to security to be used for economic growth and social development⁷. The government might also see substantial new revenue flow in from sectors with illicit production in areas that are currently under the control of non-state actors⁸. Expected improvements in the management of revenues can also contribute to a more effective use of public

funds through transparent approval and implementation of the strategies, policies, programmes, policies and projects as a recent Presidential Degree announced⁹.

33. Donor support is as welcome as much as it is generous. Donors reiterated their continuing support to Afghanistan in terms of representation as it was attended by more than 90 participants (66 countries and 30 international organizations) as well as funding¹⁰. With respect to funding, they pledged US\$13.2 billion for 2021-24 to be disbursed in annual increments starting with US\$3.3 billion in 2021. The total amount is not much lower than the amount granted to Afghanistan in Brussels (US\$15.2 billion for the period 2016-20) or previously in Tokyo (US\$16 billion for the period 2012-16). This is all more significant given that ODA has declined following the economic effects of the pandemic on donor countries and reductions in aid granted to other developing countries¹¹.

34. However, the disbursement of donor funds is not guaranteed. If the donor funds are fully disbursed, they will amount to more than 50 percent of the Government's budget. This relatively exceptional level of total funding is expected to disburse at the same level as in 2021 (US\$3.3 billion annually) but "will be subject to annual joint reviews by the government and international partners with donors exercising their right to decide upon the level and modality of their annual financial support¹². This cautious approach follows the limited progress made during Afghanistan's Transformation Decade (2015-2024) on reducing corruption while "the level of violence that remained unacceptably high".

35. Conditions attached to the future disbursement of funds by the donors effectively amount to a promise whose fulfillment would critically depend on how the funds are used and what progress they would help achieve across several wide-ranging fronts. Progress is expected to be assessed not only in terms of reaching an "Afghan-led and Afghan-owned" inclusive and durable peace but also in terms of respect for International humanitarian law especially with respect to the rights of women, minorities, the displaced populations and returnees regardless of their ethnicity and beliefs. Donors expect that the Government will introduce and implement governance reforms including in the areas of anti-corruption, transparency, accountability, representation and independence of the judiciary; and that it will make effective use of the emergency, humanitarian and development assistance. These significant steps are in line with the "Peace-State-Market" nexus of ANPDF II as well as UNDP's proposed framework. Still, they will require consistent and sustained effort to overcome the weak institutional framework and delays in concluding a peace agreement whose terms of power sharing will determine the outreach the economic and social programmes across the whole country¹³.

36. While relying on donor funds in the short-run, Afghanistan needs in parallel to explore and build up alternative and sustainable sources of financing. A promising prospect ahead relies on the wealth of mineral deposits that have so far been barely (or illicitly) exploited. Some deposits are among the largest known in the world (such as copper) and the total value of untapped minerals has been estimated at US\$1 trillion. The direct production benefits from expanding the extraction of minerals are as obvious as they can be massive. There can also be secondary but important effects such as an increase in public revenues. Success in these areas would require not just a willingness of investors to come forth but also the Government's capacity and readiness to provide the necessary incentives, set adequate regulatory and institutional frameworks, and implement such large contracts transparently and for the benefit of the people, for example, in terms of technology transfer and raising the skills and employment of nationals¹⁴. There is, however, a serious risk of heightened corruption if revenues rise substantially. Both these risks require policy attention.

37. Still from a longer-term perspective, although to date Afghanistan has not borrowed from external sources and international financial institutions to the extent that other developing countries have, this could change in the future. Afghanistan is not highly indebted, this has been so mainly because of donor support. However, debt service on external public and publicly guaranteed debt has increased six-fold in just over a decade and the IMF now considers Afghanistan to be a high-risk country for debt distress¹⁵. Should Afghanistan wish or need to borrow in the future, its sovereign credit rating will critically determine the terms of borrowing. Lenders take into account several critical characteristics of the domestic economy such as its macroeconomic stability, the potential for business development, as well as the prospects for growth, policy predictability, transparency

and security. The Government has strategies, plans and programmes that address these economic areas but should be cognizant of another factor that impacts sovereign credit rating, its vulnerability to climate change. Recent studies have shown that lack of climate change resilience has a statistically strong negative effect on sovereign credit rating in both advanced and emerging economies. However, the adverse effect on emerging economies was found to be three times more than the estimate for advanced economies¹⁶. A low sovereign credit rating for Afghanistan can therefore become an issue even when donor funds are maintained at their current level, but decline over time as a percentage of GDP as economic growth resumes. In fact, the possibility of a “fiscal cliff” is implicit in the Government’s current Medium-Term Fiscal Framework.

38. The way domestic revenues are raised and public expenditures are allocated should link emergency and short-term priorities to long-term objectives for which the SDGs provide useful guidance. For example, as in the previously mentioned case of climate change, there is an implicit tradeoff between economic growth and environmental sustainability in the short-run, although the two are complementary in the longer-run. Efforts to attract much-needed domestic and foreign investments should take into account that environmental degradation can result from investments driven by a narrow concern for quick monetary profits that discount social costs. Economic modelling can be helpful in identifying when economic growth is based on unsustainable resource consumption while recognizing that economic freedom, voice and agency vary between different groups such as between ordinary citizens and the economic establishment, or between rural and urban residents.

39. In the immediate short-run, it is likely that more than 18 million people, or half of the population will need humanitarian assistance in 2021. This number is almost six times the number of people in need of such assistance compared to four years ago – estimated then at 2.3 million¹⁷. The increase is partly due to the onset of the pandemic and partly due to the previous drought in 2018-2019. It has resulted in heightened food insecurity with the result that Afghanistan now has the second highest number of people under emergency food insecurity in the world, with nearly half of children below the age of five likely to face acute malnutrition. Additional adverse effects are likely to manifest themselves in the form of rising debt, marrying off young girls, sending children to work and pulling them out of school. Securing the necessary amount of funds can be difficult, as can also be the design and rollout of the required programmes to deliver such assistance in several hard-to-reach (HTR) areas especially in the course of one year¹⁸. On the positive side, the humanitarian assistance granted to Afghanistan has increased from US\$300 million in 2016 to US\$565 million in 2020¹⁹. However, while the assistance in 2016 covered almost 90 percent of estimated requirements, it was adequate for only 50 percent of the requirements in 2020, and this percentage may be lower for 2021 if the number of those in need increases to 18 million compared to 9.4 million in 2020²⁰.

40. In conclusion, despite the optimism created by the outcome of the donor conference and the prospects of a peace agreement, Afghanistan is facing headwinds whose force must be countered. Domestic resource mobilization may stay subdued for some time due to continuing security issues, a large informal economy, and inefficient revenue collection. The country’s limited economic diversification and low productivity imply that, even if the private sector develops quickly, its proportional contribution to investment and economic growth would be small. The pandemic is affecting lives, livelihoods and cross-border trade, the latter potentially affecting inflation beyond domestic factors as it is also determined by the level of imports upon which Afghanistan is heavily dependent. And the good intentions included in Government plans and donor documents can easily end up as a proliferation of goals, targets and conditionalities that, unless addressed decisively and quickly, may only be reached partially.

UNDP’s Approach and Proposed Support

41. In line with Afghanistan’s National Peace and Development Framework (ANPDF II), UNDP proposes a balanced, analytical, and evidence-based approach. The immediate response to the pandemic cannot be other than “health first”. The impact of COVID-19 is massive but will hopefully be short-lived compared to the development horizon envisaged for the achievement of the SDGs by 2030. If anything, the pandemic has moved sustainable development to center stage by demanding that future approaches and policies increase

resilience and be different from those of the past so to avoid a return to the same unsustainable path that characterized the pre-COVID-19 period. Gender equality remains a fundamental requirement for building more effective resilience at the community level, notably through women’s participation in the intra-Afghan peace dialogue at the national level.

42. UNDP is committed to support the Afghanistan’s efforts guided by the United Nations Security Council Resolution (UNSCR 72/279) and the emerging global approaches to fight the pandemic while preserving the conditions for long-term growth. The Resolution assigns UNDP the role of providing an ‘integrator function’ in support of countries in their efforts to implement the 2030 Agenda in line with the findings of a recent review of the socioeconomic response plans to the pandemic in 42 countries²¹. The review examined the alignment of country policies with the UN response framework; their linkages with national plans and UN Cooperation Frameworks; their focus on gender, human rights and vulnerable groups; the extent of involvement by UN country teams (UNCT); the level of collaboration with the International Financial Institutions (IFIs); and the specificity of action plans, including costing/resource gaps. It found that, despite the urgency of addressing the effects of the pandemic, two common threads in the majority of responses were their emphasis on “better recovery” and the identification of funding gaps. The majority of the plans covered in-depth include macroeconomic response and coordination; social cohesion and community resilience; and, when relevant, conflict and risk prevention, community-level engagement, governance and the rule of law.

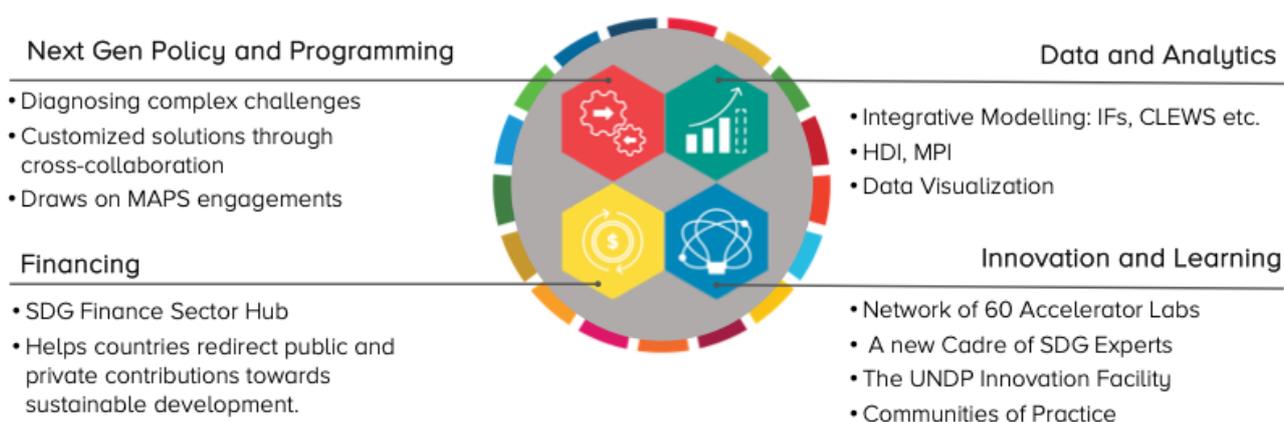
43. These areas are at the heart UNDP’s proposals for Afghanistan, many of which had previously been anticipated and included in the UNDP Strategic Plan (2018-2021). In their updated form, they have been organized across five areas (“5Ps”: Peace, Prosperity, Planet, People and Partnerships), and six priority approaches (“signature solutions”) to which the additional requirements arising from the pandemic have been added (Table 2). Both are supported by four “enablers” for SDG integration (Figure 1). Each of UNDP’s six signature solutions are designed to be implemented in an integrated manner and has multiple dimensions as reflected in the 5P’s. All are aligned in an integrated way towards the achievement of the SDGs by 2030.

| UNDP Signature Solutions | | 5P’s | | | | |
|--------------------------|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|------------|--------|--------|--------------|
| | | Peace | Prosperity | Planet | People | Partnerships |
| 1 | Keeping People out of Poverty | Enablers: 1. Data & Analytics 2. Policy & Programming 3. SDG financing 4. Innovation & Learning plus COVID-19 | | | | |
| 2 | Governance for Peaceful, Just and Inclusive Societies | | | | | |
| 3 | Crisis Prevention and Increased Resilience | | | | | |
| 4 | Environment-Nature Based Solutions for Development | | | | | |
| 5 | Clean, Affordable Energy | | | | | |
| 6 | Women’s Empowerment and Gender Equality | | | | | |

Figure 1: Implementation of the Six Signature Solutions, Applying the 5P's



The SDG Integration: UNDP CO Offer

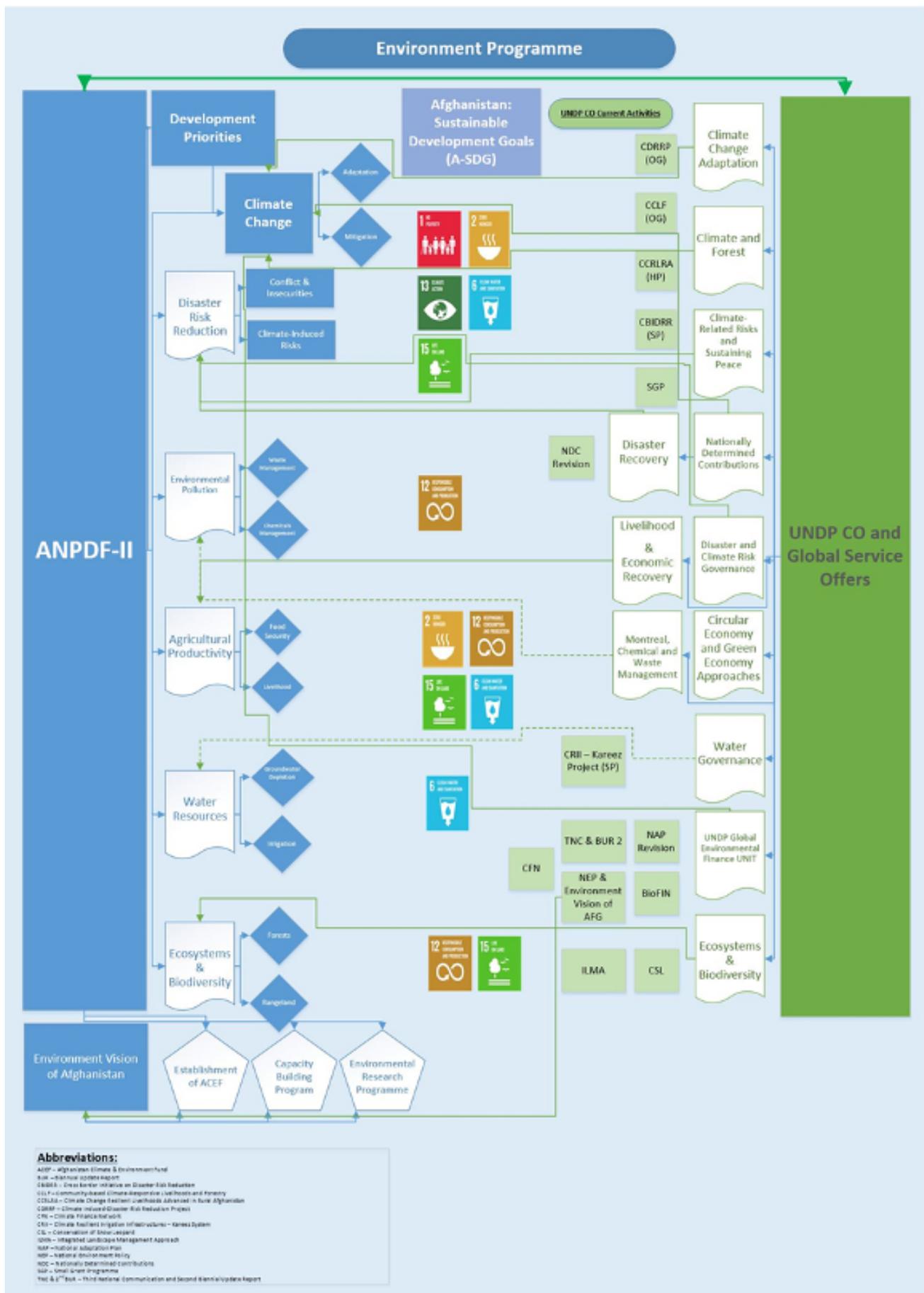


44. UNDP has identified several programmes that can contribute to the national objectives of Afghanistan. UNDP has developed a portfolio of five programmes,²² organized under the headings indicated in Table 3. As the table shows, they are aligned with the vision and priorities expressed in the ANPDF II (ANNEX 3) and the evolving set of National Priority Programmes (NPPs). An example of the correspondence between UNDP’s proposals for Afghanistan and ANPDF II and the NPPs in view of the global experience of UNDP is schematically presented for the environmental programme in Figure 2. The proposed programmes include 66 projects that are also informed by the Government’s broader international commitments, such as the multi-lateral environmental agreements to which Afghanistan is a signatory and the 16 Afghanistan Sustainable Development Goals (A-SDGs). The costs for UNDP’s proposed projects have been estimated individually and are expected to require a total investment of US\$1.5 billion over the next five years (ANNEX 4).

45. The programmes proposed by UNDP aim to strengthen the link between Afghanistan’s humanitarian needs in the short run and its development objectives in the medium to long-run. They can help to build resilience of the most vulnerable segments of the population and increase trust between citizens and the State through improved transparency and accountability, greater engagement of citizens in the oversight of government organizations and a reduction in corruption through new forms of digital governance that would improve access to information. In line with the Government priorities for peace-building, state-building and market-building included in ANPDF II, the proposed programme focus on (i) enabling the Government to perform essential social protection functions, reducing inequalities by introducing digital governance in local governance, the rule of law and the security sector; (ii) supporting improved policy coordination and coherence, building institutional capacity and putting in place the institutional reforms needed to improve transparency and accountability; and (iii) linking economic growth to environmental sustainability and social-ecological resilience, enhancing economic opportunities, strengthening labor market programmes, and creating a more integrated systems approach to development issues using the UNDP’s SDG platform approach.

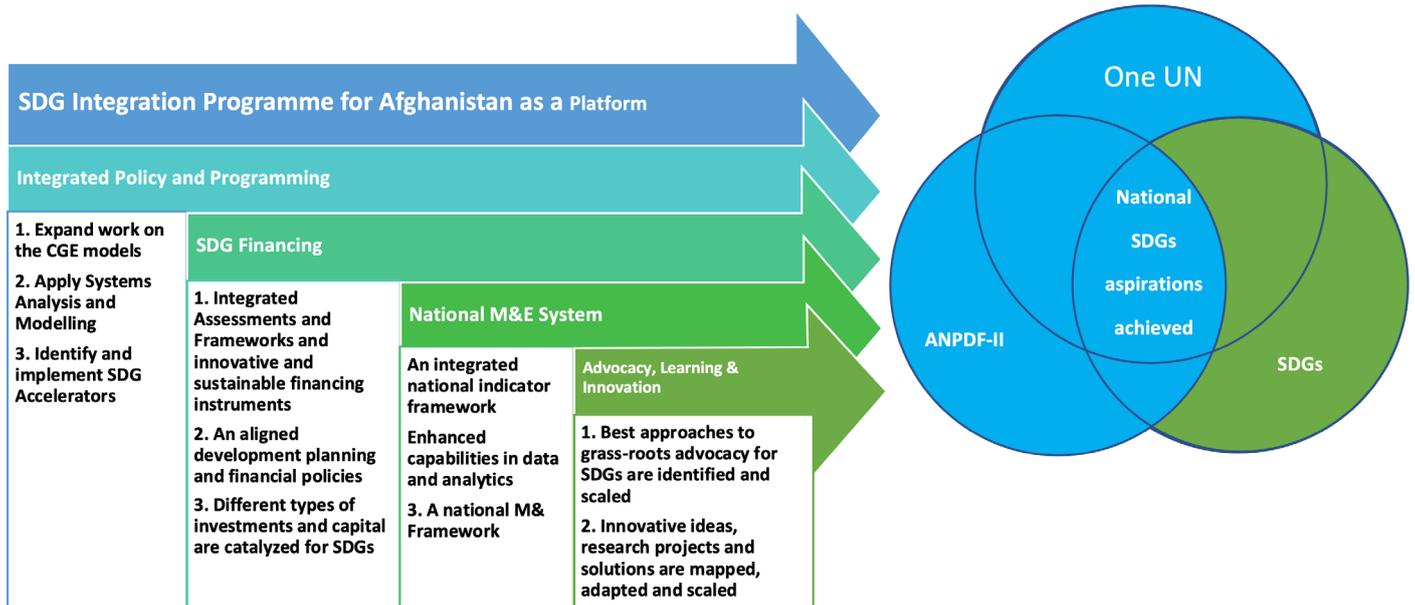
| Table 3: Alignment of UNDP Programmatic Offers with ANPDF II and the NPPs | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| UNDP support to: | ANPDF II areas | NPP |
| Programme 1: Environment; SDG Relevance: 1, 2, 6, 12, 13, 15, 17; UNDP Offers: 12 | | |
| <ul style="list-style-type: none"> Prevention of environmental degradation Resilience to climate change Reduction in losses due to natural disasters | <ul style="list-style-type: none"> Climate Change impact, Disaster Risk Reduction, resilience and adaptation Focus on water, agriculture, forests, rangelands, energy, ecosystem, biodiversity and health | <ul style="list-style-type: none"> National infrastructure plan National comprehensive agriculture development priority programme Urban development programme |
| Programme 2: Governance; SDG Relevance: 5, 8, 10, 11, 16, 17; UNDP Offers: 7 | | |
| <ul style="list-style-type: none"> Public administration Local governance Urban governance National Assembly Electoral processes Civil Society Organizations | <ul style="list-style-type: none"> Good governance Effective institutions Citizens' participation Policy coherence | <ul style="list-style-type: none"> Core government functions Professionalization of public sector Public financial management Sub-national governance Corruption Data quality/ access/ use |
| Programme 3: Human Security, Justice and Peace; SDG Relevance: 3, 5, 16, 17; Offers: 10 | | |
| <ul style="list-style-type: none"> Justice delivery/ Coordination Legal oversight Human rights Informal justice mechanisms Civil Society capacity Corruption Security sector reform Spending monitoring Capacity enhancement Peace and reintegration | <ul style="list-style-type: none"> Peace Building Justice for All, Rule of Law Justice Sector Reform Security Peace Support Reintegration | <ul style="list-style-type: none"> Effective governance Justice for all Security sector Peace Reintegration |
| Programme 4: Economic Transformation for All; SDG: 1, 5, 7, 8, 15, 16, 17; UNDP Offers: 12 | | |
| <ul style="list-style-type: none"> Private Sector Energy Extractive Industries Agriculture | <ul style="list-style-type: none"> Poverty reduction Inclusive growth Regional connectivity Trade Gender | <ul style="list-style-type: none"> Citizens' Charter Programme Infrastructure Programme Market-building: Trade and Transit Agriculture and Mining Industrial Development Women's Economic Empowerment |
| Programme 5: Social Protection; SDG Relevance: 1, 5, 3, 7, 10, 17 ; UNDP Offers: 5 | | |
| <ul style="list-style-type: none"> Social protection/ inclusion Migration, Returnees Health (solar, vaccines, AIDS etc.) Inclusion/ Humanitarian | <ul style="list-style-type: none"> State-building Citizen's needs Social protection programmes Productive human capital Poverty reduction | <ul style="list-style-type: none"> Effective Governance Human Capital Development Citizens' Charter Programme Healthcare |
| Programme 6: SDG Innovative Financing (Cross Cutting) | | |
| <ul style="list-style-type: none"> SDG policy and programme integration Data and M&E Systems SDG Financing Innovation and digitalization Aid coordination | <ul style="list-style-type: none"> Effective institutions Policy coherence | |
| SDG 1: No Poverty; SDG 2: Zero Hunger; SDG 3: Good Health and Well-being; SDG 5: Gender Equality; SDG 6: Clean Water and Sanitation; SDG 7: Affordable and Clean Energy; SDG 8: Decent Work and Economic Growth; SDG 10: Reduced Inequality; SDG 12: Responsible Consumption and Production; SDG 13: Climate Action; SDG 15: Life on Land; SDG 16: Peace and Justice Strong Institutions; SDG 17: Partnerships to achieve the Goal. | | |
| Source: ANPDF II, NPP and UNDP Programme Documents, see ANNEX 3 and ANNEX 4 | | |

Figure 2: The relationship between UNDP's Global Experience and Activities in Afghanistan, the ANPDF-II and the SDGs



46. A “Platform Approach” can improve the outcomes of development actions that are currently being carried out in an uncoordinated manner. For example, neither Afghanistan at its current level of development nor any single organization on its own can have much of an impact on reducing poverty and on promoting sustainable economic growth and long-lasting peace. A platform can avoid unnecessary duplication and exploit synergies to achieve economies of scale (Figure 3). To implement the proposed portfolio of national priority programmes, UNDP proposes that the Government commission an integrated National SDG Platform staffed and led by national administrators that, among other that, inter alia, will oversee the creation and implementation of a Social Fund. UNDP can help the Government to build and facilitate this platform and use it to secure and coordinate SDG financing. It also considers its future support to Afghanistan to lie less on delivering projects and more on providing advice guided by the need to ensure coherence and complementarity between development and humanitarian activities and also to expand cooperation and coordination within the donor community.

Figure 3: SDG Integration Programme for Afghanistan as a Platform



Risks and Challenges

47. Afghanistan's prospects depend on different challenges that span across different time horizons. While the pandemic requires an immediate response, responses to other issues take more time to implement and their results can materialize only in the long-run. For economic, social and environmental impacts to be appropriately considered, a longer time horizon is required to evaluate policy results. Afghanistan's path to the SDGs is uncertain and several risks loom on the way to 2030.

48. First, the scope and nature of a peace agreement are critical for the prospects of Afghanistan. The results of a settlement would depend on the allocation of Ministries and administrative functions between the parties at national and regional levels. This can affect the choice of and commitment to policies that can range from who would control the proceeds from the exploitation of natural resources to the education of girls and women's economic participation. As a result, economic and social outcomes can vary and therefore affect the development outcomes and progress toward the SDGs.

49. Second, return to conflict in some form or another cannot be ruled out at least in some sporadic, albeit still destructive, form. As international experience suggests especially for low-income countries with weak governance, there can be a recurrence of conflict within a decade, or even earlier than that. Even under the most optimistic scenarios of peace and policy outcomes, improvements in livelihoods will be slow, and Afghanistan starts from a low base. On the one hand, resolving security challenges cannot but be welcome. On the other hand, confidence that the government can deliver quality services to the majority of citizens can only be built gradually. Without a fast and significant increase in jobs and improvements in livelihoods, citizens may continue to resort to their own resilience mechanisms that will for some time depend on options open to them within their communities. In the absence of national mechanisms for social protection, citizens may continue to seek support from and offer allegiance to powerful local groups, seek opportunities in illicit activities including those related to opium production and mineral extraction, and even join or continue participation in violent networks.

50. Third, domestic revenue mobilization is unlikely to be sufficient for tackling the economic hardship caused the pandemic, yet donors are likely to reduce the amount of aid they have generously been providing in the past. The reduction in aid can be significant compared to US\$15 billion pledged for the 2017-2020 period that corresponded to nearly US\$4 billion per year – almost 20 percent of the Afghanistan's GDP. Given the size of leakages from previous grants and the low rate of progress in the past, donors may impose stricter conditions and may switch to reviewing funding annually rather every four years as before. This can result in greater transparency and accountability on behalf of the Government but can also make the fiscal situation less predictable and thus adversely affect planning for longer-term objectives. A strong government commitment to governance reforms and effective follow-through is essential for securing steady flows of donor funds in the future.

51. Finally, a second wave of the pandemic, as has happened in other parts of the world, can compromise progress made so far. In addition to the increase in poverty due to the pandemic, the internal displacement and the return of migrants and refugees, if continued, can lead to more congested households promoting the spread of the virus. This can be exacerbated by climate-related events that Afghanistan is frequently exposed to and can force people into crowded emergency housing, thus making social distancing less likely. Poverty and the virus can therefore intersect and perpetuate the economic downturn making it more difficult contain the effects of the pandemic.

Conclusion: It can be done, together

52. A peaceful Afghanistan has tremendous economic potential. It can take advantage of its strategic location at the crossroads of Central Asia, the Indian subcontinent, the Middle East, and China; the availability of natural resources; its export potential from several high-value products such as carpets, gemstones and saffron; and the untapped human capital due to high unemployment and the limited role of Afghan women in the economy, and more broadly, in public life.

53. To reap the benefits of peace, Afghanistan needs to adopt a systemic policy approach to weather the perfect storm that conflict, corruption, environmental and climate conditions and more recently the coronavirus have created. To ensure peace benefits all citizens would require not just continuing donor support but also substantial reciprocal commitments by Afghanistan, especially to improve governance. Still, improving security, alleviating fiscal constraints and reducing corruption are extremely challenging and their results will take time to appear. This makes it even more pressing to start addressing them now. In parallel, steps should be taken in specific areas to save lives from the pandemic, protect livelihoods and ensure sustainable private sector growth and job creation.

54. The potential of policies would depend on the respective roles of the donors, the Government and the development partners of Afghanistan. The donors would need to continue providing grants, but these should focus on accelerating transformation and increasing resilience. The SDGs should be a central theme in the allocation of funding. Peace can release funds currently spent for military and security purposes that can be spent on development activities. The Government would then need to choose the right policies to improve governance and increase opportunities for ordinary citizens. Thus, an essential precondition for Afghanistan to successfully weather a reduction in grants should be serious reforms in governance and expenditure switching from less productive to more socially desirable activities. The case for mutual accountability by both donors and government is imperative in this respect.

55. UNDP has been a development partner to Afghanistan for a long time and will continue to be so. Together with other development partners, UNDP will support the Government to navigate its way through the pandemic and achieve the SDGs. It will support the acceleration of economic growth via private sector-led development and improvements in business and investor confidence that in turn promote job creation. Expanding social protection as well as other social services, including education and health services that have until now been constrained by the lack of fiscal space and implementation capacity, can improve livelihoods and avoid breeding discontent. This can help to reduce the level of social unrest especially among the young who form a sizeable part of the population. Achieving long lasting peace, securing adequate and reliable donor support and improving governance are all preconditions for realizing the objectives of the ANPDF and attaining the SDGs.

PART I: OVERVIEW

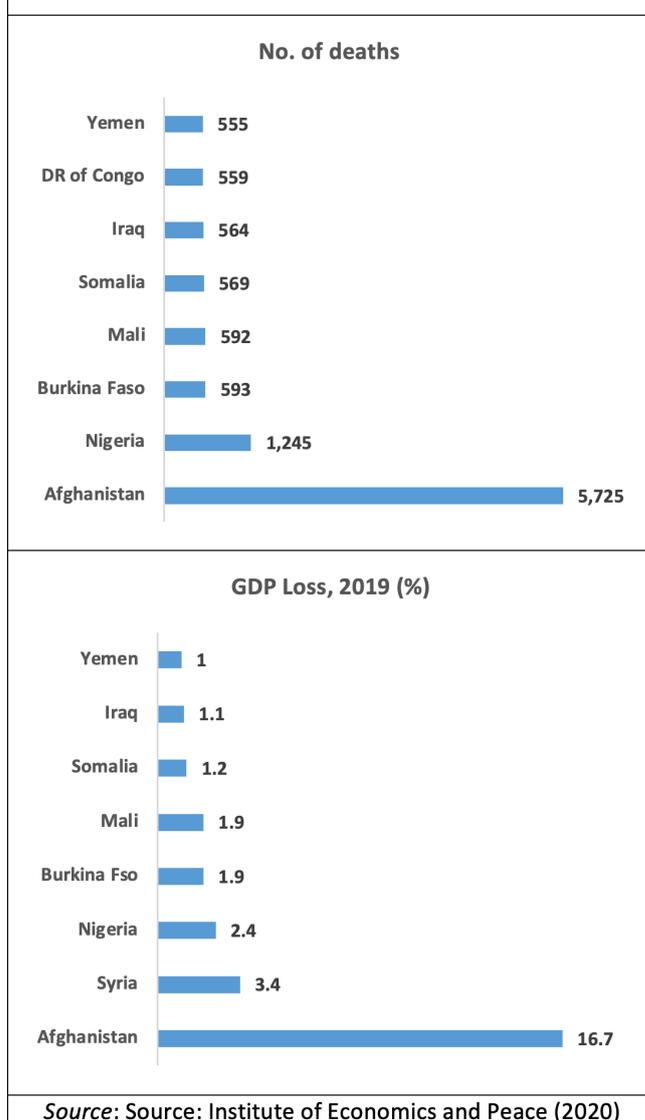
A. Initial Conditions in Afghanistan

The Legacy of Conflict

56. Afghanistan is one of the most violent crisis-ridden countries in the world. It has replaced Iraq as the country most affected by terrorism²³. In 2018 it recorded the highest number of terror related deaths and incidents globally for a second consecutive year with a nearly 60 percent increase since 2008. In 2019, the number of bombs dropped on Afghanistan by the coalition’s forces (that is, excluding strikes by the Afghan army) was nearly 7,500, compared with 950 bombs in 2015²⁴. The decline in the number of terrorism related incidences in 2019 has been followed by an increase in 2020 especially since the intra-Afghan peace dialogue began. The renewed fighting between militants and the government has resulted in the number of casualties in the final quarter of 2020 to be the second-highest total for that period of the year since 2009²⁵.

57. The impact of terrorism on Afghanistan’s GDP has increased over time and Afghanistan remains the country with the highest impact from terrorism. In 2002, the year after regime change, Afghanistan was ranked 14th in terms of the impact of terrorism. Following the regrouping of several anti-government forces internally and also in neighboring countries²⁶, Afghanistan’s rank reached the top spot in 2018, a position that was maintained in 2019 when, with Nigeria, it recorded over 1,000 deaths from terrorism and accounted for most deaths in a single country and for 41 percent of all deaths from terrorism globally²⁷. According to the Global Terrorism Index 2020, the economic cost of terrorism in Afghanistan was 19.5 percent of GDP in 2018 (with Iraq being second with a GDP loss of 4 percent) and had declined to 16.7 percent in 2019 (with Syria being second at 3.4 percent of GDP)²⁸. An index based on the broader definition of “violence” compared to “terrorism” assessed the loss to be as high as 47 percent of GDP in 2018, second only to Syria at 67 percent of GDP²⁹.

Figure 4: Most Affected Countries by Terrorism, 2019



58. Looked at from a peace perspective, terrorism is also taking a toll on public revenues. Had there been no conflict in Afghanistan, the revenue gains would have amounted to 6 percent of GDP per year – a significant increase to current revenues by 50 percent in 2020. Reduced collection efficiency, rather than lower economic activity, appears to be the key channel³⁰.

A Small Economy (including Opium Production)

59. The economy is weak, domestic production small and economic growth hesitant. In addition to its reliance on international grants, the value of imports is seven times higher than that of exports. Per capita GDP has been declining since the early 2010s. This is reducing fiscal space and makes the prospects for adequate and effective development programmes and humanitarian support bleak. Security, healthcare, shelter, food, clean water, sanitation facilities and social protection are all grossly inadequate³¹. The share of spending in public health and public education, as a percentage of total government spending is among the lowest in the world, ahead of only Timor-Leste and Georgia. Global incidence of disability varies from a low of 2.9 percent to highest 4.4 percent, the latter is found only in Afghanistan and Haiti. And among the few countries outside Africa, only Afghanistan together with Haiti, North Korea and the Lao People’s Democratic Republic have rates of orphaning reaching 10 percent³².

60. Though the value of opium production declined in 2018 due to the drought³³, it had increased to a record level in 2017 to between US\$4.1 billion and US\$6.6 billion in 2017 (or 20 percent to 32 percent of GDP). This brings the size of the opium economy to the same level as the rest of the agricultural sector and to three to four times bigger than the value of measured exports, which is 7 percent of GDP. Opium poppy cultivation employs the equivalent of 350,000 full-time jobs. This represents a sharp increase from previous years, partly because the number of new farmers, locals and migrants, engaged in its production increased by more than 10 percent.

61. The increase in opium production can be attributed to factors that relate to the state of the economy, population structure and conflict. These factors range from a lack of alternative economic opportunities (including employment, access to markets and basic infrastructure) as well as weak – including lost – government control and security, to increased exposure of the rural population to the influence of anti-government elements, the presence of migrants, poverty, vulnerability and the recent availability of relatively cheap solar water pumps in desert areas. The value of opium earned by farmers has been estimated to be US\$1.4 billion and accounts for more than half of the annual household income of frequent poppy farmers. Non-government groups and local “powerful locals” appropriate up to 35 percent of the value of production in the form of informal taxes³⁴. Opium production has a more functional and less risky value chain than alternative agricultural products.

Natural Disasters Loom

62. Within low-income countries Afghanistan is second, surpassed only by Haiti, in the number of fatalities from natural disasters during 1980–2015³⁵. More recently, the 2018 drought and 2019 floods have affected over 6.2 million people in 22 out of 34 provinces across Afghanistan. The worst-hit communities are those that have been displaced (the number of people affected has reached almost 3.4 million) or who have lost access to basic services for which Afghanistan ranks globally lowest in the Public Services Index³⁶. Afghanistan’s low levels of economic development make it extremely vulnerable to climate change impacts.

63. At least 6 million Afghans lived as refugees in neighboring Iran and Pakistan in 2019 while internal displacement continued in 2020. Nearly 400,000 people became internally displaced in 2019 and, as conflict continues, the number of forcibly displaced people in the first 10 months of 2020 reached 280,000³⁷. Women and children are disproportionately impacted, comprising 44 percent of all civilian casualties in the first three quarters of 2020. More than 570,000 have returned mainly from Iran and Pakistan in 2020. Many refugees are unregistered or without legal status. Afghanistan ranks among the lowest in the Quality of Nationality

Index, ahead only of Somalia and South Sudan, which includes ease of traveling, settling and working legally in another country³⁸. With the advent of COVID-19, these numbers have increased further. Most of those who returned or those who are internally displaced are “in crisis” having limited ability to access labor markets. The impact on the poor is accentuated by declining remittances. The rest of the country remains “in stress” from pressure arising from the country’s weak economy and institutions³⁹.

Widespread Corruption and Declining Trust

64. There is lack of trust and public sentiment towards the State is low. The lack of decent jobs, respect for citizen dignity, State impartiality and citizen trust are all at low points. There has been a 20 percent deterioration of feelings toward safety last year. This decrease is lower only than that for Mauritania (26 percent) and Mali (21 percent). There has also been a significant deterioration of confidence in the military in the last five years (over 31 percent) that places Afghanistan in the lowest place globally – jointly with Venezuela. U.S. and Afghan forces killed one-third more civilians than anti-government groups in the first quarter of 2019⁴⁰. Despite efforts to rationalize the police force, Afghanistan has had the largest deterioration in confidence in the local police, falling by 32 percentage points⁴¹ and now ranks lowest out of 144 countries⁴². Afghanistan is ranked 149th among the 149 countries included in the World Happiness Report 2021⁴³.

65. Corruption is widespread. Afghanistan is ranked 173rd (of 179 countries) in 2019 on the perceptions of corruption index reflecting the sentiments both of citizens and businessmen. The value of bribes is estimated to be almost 9 percent of GDP⁴⁴. A study that analyzed 96 IMF reports found that while there is a general increase in the references to corruption, these references are heavily skewed towards a minority of reports and countries with Afghanistan representing over 10 percent of all mentions⁴⁵. According to a report by the Special Inspector General for Afghanistan Reconstruction (SIGAR), a US oversight office that reviews reconstruction funding, of the US\$134 billion the U.S. Congress appropriated for Afghan reconstruction programmes since 2001, approximately 30 percent of the amounts reviewed have been lost to waste, fraud, and abuse. Between January 2018 and December 2019, the audit identified US\$1.8 billion in waste, fraud and abuse⁴⁶.

66. In addition to leakages in the way public funds are spent domestically, international grants do not always reach their intended destinations. A recent survey of 22 developing countries revealed that disbursements of aid coincide, in the same quarter, with significant increases in the value of bank deposits in havens. In a quarter where a country receives aid equivalent to 1 percent of GDP, its deposits in havens increase by 3.4 percent relative to a country receiving no aid; by contrast, there is no increase in deposits held in non-havens⁴⁷. Among the countries studied, Afghanistan had the highest share of aid as a percentage of GDP. The increase of its deposits in havens was more than 60 percent than the average of all other countries, the highest with the exception of Armenia, Guyana and Malawi. In contrast, the increase of its deposits in non-havens was the lowest at 13 percent of the average.

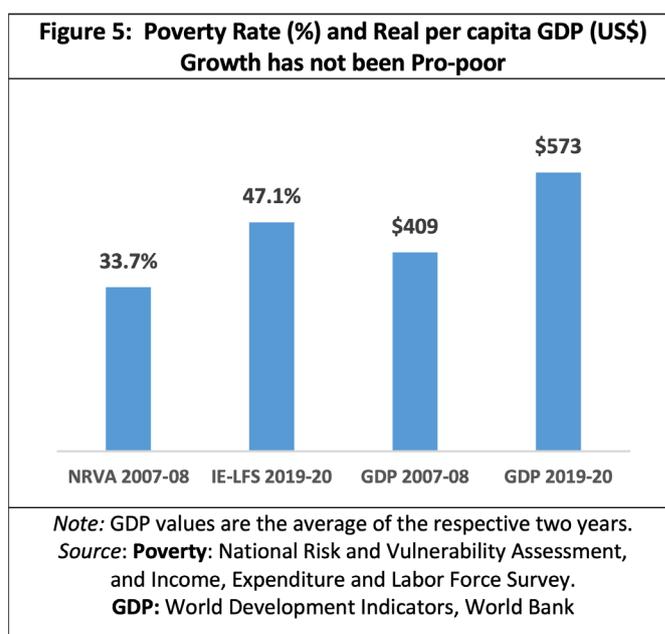
67. Corruption may increase during the pandemic. COVID-19 may aggravate the situation as opportunities for corruption may increase due to the spike in demand for public health services and weak procurement processes in the absence of transparent reporting, ex-post audits, accountability procedures and weak links between the civil society and the private sector⁴⁸. This can test further people’s trust in government and institutions, undermine the response to the crisis and deepen the economic impact of the pandemic. It can threaten social cohesion as corruption effectively constitutes a universal and unfair tax that does not generate budget revenue, redistributes income from poorer to the richer or more powerful entities, and acts as a significant deterrent to all forward-looking economic activity that generates returns with a lag especially for investments whose returns materialize in the long-run.

Poverty is rising

68. Inequality and poverty were high even before the pandemic. Afghanistan has high inequality as measured by the Gini coefficient (0.39). It has a large illicit economy whose returns predominantly accrue to those at the top of the income distribution with considerable leakages to non-state groups. Inequality has increased

over time, as poverty has risen despite the increase in average per capita incomes. Though the latest Income, Expenditure and Labor Force Survey (IE-LFS 2019-20) suggests that the percentage of those below the poverty line is 47 percent, which still is a rather high number, the corresponding estimate was 55 percent only four years ago (Afghanistan Living Conditions Survey - ALCS 2016-17). According to the latter survey, 81 percent of the population was living on less than AFN57 (US\$0.74) per day while the poorest half of the population was living on less than AFN30 (US\$0.39) per day, which indicates an extreme level of deprivation. Even the 5 percent of the population at the top of the distribution averaged only US\$2/day per person. Following the onset of the pandemic, only 31 percent of those in the top 20 percent of the income distribution are considered to be non-vulnerable⁴⁹.

69. Despite varying estimates, the trend is clear: poverty has been increasing over time. Earlier estimates of poverty suggest a rate of just under 34 percent in 2007-08. Since then, average per capita incomes have risen from US\$409 in 2007-08 to US\$573 in 2019-20 (Figure 5). This increase was mainly due to rapid economic growth between 2003 and 2013 that averaged nearly 10 percent annually. This was followed by an annual growth of only 2 percent but still the increase in average per capita incomes till 2019-20 has been 40 percent⁵⁰. Despite this increase in the average per capita income since 2007, poverty has been increasing at an annual rate of 5.5 percent (according to ALCS results) or a still significant 3.8 percent (according to the IE-LFS). These increases cannot be explained fully by the increase in the population whose average growth rate has been around 2.5 percent since the late 2000s⁵¹.



70. Poverty has remained stubbornly high also in the regions that have suffered less from conflict. One explanation for this is that higher levels of conflict have been positively associated with both a larger presence of troops (international and Afghan) and larger aid flows. Indeed, household data show that the negative impact of conflict on consumption has been more than offset by the positive impact of aid and with Afghan troops contributing more to poverty reduction than international troops, possibly because they spend more locally⁵². The conflict/economy/poverty nexus is a complex one (see Part B).

Girls and Women: An Untapped Resource

71. Gender divisions are prominent across social and private spheres. There are regularly reported harmful traditional practices against females of all ages especially in rural and remote locations⁵³. They include child marriage, forced marriage, forced isolation at home, abuse, gender-based violence, discrimination and “honor” killings that reduce, among others, the scope for having female doctors, female teachers and police women. One-in-six girls continue to marry young -- before their 15th birthday⁵⁴. Among women aged 20-24, 42 percent were married by the age of 16 years⁵⁵. The 2016 Afghanistan Demographic Health Survey (DHS) showed that 53 percent of women in Afghanistan had experienced physical violence since the age of 15, more than one-third have been subjected to psychological or emotional violence⁵⁶ and 16 percent of women experienced physical violence during pregnancy⁵⁷. According to the same survey the percentage of married women living in a polygamous marriage was more than 8 percent. Other reports bring the share of Afghan women who have experienced at least one form of physical or sexual violence to 90 percent. While suicide is far more common among men in most of the world, this may not be the case in Afghanistan, as 80 percent of suicide attempts are by women.⁵⁸ Similarly, while women represent about 38 percent of tuberculosis infections globally, in Afghanistan they represent 54 percent of such cases⁵⁹. And this difference, like others, may be underestimated as women are more likely to miss out on healthcare services.

72. Afghanistan is a classical patriarchal society, where social traditions differentiate between women and men in public and private life. In a sample of 25 countries with the highest combined scores of social and religious restrictions, Afghanistan was found to have the highest score and the highest gender inequality (along with Yemen), in the world as measured by the Human Development Index⁶⁰. As an example, of gender roles in public life, Afghan women police officers cannot go on patrols with men in same car making it harder to investigate domestic violence/disputes. In private life, women's rights are often inferior to those of men. Overall, intra-household relations and the agency of women are determined at the community and household levels, which are driven by restrictive social and cultural norms. In rural areas, women's access to credit, training, extension services, inputs, trading and marketing networks are more limited than in urban areas⁶¹. While the response of the justice sector to crimes of violence against women and girls continues to improve, the system also fails women and girls in a number of respects⁶².

73. The public/private interface in combination with development factors are adversely affecting women's health status. Low incomes, restricted rights, limited mobility and access to public services all combine in a way that inhibit progress toward better health outcomes. According to Afghanistan's National Nutrition Survey (NNS) more than 40 percent of women of reproductive age have anemia with their percentage regarding vitamin D deficiency reaching 95 percent. And despite marriages at an early age, only 1 percent of young women had comprehensive knowledge of HIV⁶³.

Children: An Opportunity That Should Not Be Missed

74. One-third of children are not in primary education and many are affected by internal displacement. Across the country, 3.7 million children are out of school (of which 60 percent are girls)⁶⁴ while child labor is affecting 9 percent of children (13 percent of boys and 5 percent of girls). 7,000 schools in the country remain without buildings, as school enrolments have increased due to population growth and the return of Afghan refugees from other countries⁶⁵. Save the Children has estimated that between 2017 and 2019 there were more than 300 attacks on schools. Nearly 60 percent of the internally displaced are children as are also 43 percent of returnees from Iran. In some provinces populated with internal displaced persons, selling girls at prices ranging from AFS150,000 to AFS 300,000 (some US\$2,000 to US\$4,000) is reported to be used to settle disputes or in hope to reduce poverty among the remaining "family" members. Sexual violence, also against boys, is not always seen as a crime in some communities. Those who allege cultural irregularities can be exposed to death threats⁶⁶.

75. Acute malnutrition is prevalent reaching 14 percent in some provinces. Continuation of conflict, acute respiratory infections, limited access to health facilities in conjunction with a non-diverse diet have regularly resulted in nearly half of children below the age of five likely to face acute malnutrition, especially during the winter months⁶⁷. One in four children below the age of five are underweight with stunting of all children reaching 44 percent and as much as 70 percent in some provinces. According to Afghanistan's National Nutrition Survey (NNS), more than 50 percent of children aged 6-59 months have vitamin A deficiency.

76. The conflict and the pandemic are taking a disproportional toll on children. The conflict in Afghanistan is the world's deadliest for children⁶⁸. According to the latest UN figures, one-third of the 6,000 killed or injured people between January and September 2020 were children. An average of five children have been killed or wounded every day for the past 14 years in war-torn Afghanistan. Data from the UN have shown that at least 26,025 children were killed or maimed from 2005 to 2019⁶⁹.

77. The majority of those in need for humanitarian assistance are children. Of the 18 million Afghans estimated to be in need for humanitarian assistance in 2021, 9.7 million will be children⁷⁰. In 2021, more than 300,000 children are facing illness and death due to winter conditions⁷¹. The polio vaccination programme has been halted since the onset of the pandemic, as health services have been redeployed to deal with the effects of COVID-19⁷².

Conclusion: Adverse Initial Conditions but Yet There is Potential

78. The conflict, limited Government revenues and outreach, weak institutions, corruption, a small and undiversified economic base, and dependence on external funds are restricting Afghanistan's ability to prosper. Under such legacy constraints, Afghanistan cannot plan and effectively implement a dynamic agenda that could result in fast economic growth with benefits across the whole population as also is envisaged by the SDGs. With a lack of a unified national approach, there has been poor coordination between stakeholders at national and provincial/district levels. The capacity of ministries and agencies is too low to effectively implement programmes on the ground while public funds are spent inefficiently. For example, the development budget execution rate is low standing at 28 percent⁷³. Conflict and corruption go hand in hand as corruption distorts justice, undermines the legitimacy of government and perpetuates the influence of non-state actors. It further demoralizes citizens, reduces confidence in the system, exacerbates inequality, and creates poverty for the great majority of the population. In addition to not serving the population, the current conditions, unless they are addressed, can weaken the case for the much-needed grants from donors who have conditioned future disbursements at the recent conference in Geneva on Afghanistan achieving peace and making tangible institutional and social progress.

79. The economy is dominated by a large informal sector that includes the production of opium and generates little economic growth. External funds, rather than domestic demand and exports, have been the driver of growth in the past but have to a large extent been associated with military and security operations. Even at its peak, Foreign Direct Investment (FDI) was less than 5 percent of GDP, and this was back in 2005, while it has since fallen substantially as has private domestic investment. The surefire approach to growth is through private sector development that may, however, at first result in low impact on economic growth given the small base of the sector and the high share of opium production in the economy. Both domestic and international investors may be slow in coming to Afghanistan until the investment climate improves in real life, rather than only in various external assessments (see TEXTBOX 4). A substantial but challenging precondition is to end the conflict whose costs and prospects are discussed in the next section.

80. Despite current conditions, Afghanistan has promising economic potential. In line with the ANPDF II, the peace dividend will enable Market Building along with State Building.. Peace will increase investor confidence and allow to divert its fiscal resources to where their impact is greatest. It will also enable social services to reach all the corners of the country. Economically, Afghanistan can take advantage of its location in Central Asia and exploit regional opportunities, including those that would arise from enhanced trade with neighboring countries, and the Belt and Road Initiative (BRI). Moreover, there is considerable potential for large amounts of external financing including for investments in Afghanistan's largely untapped mineral resources. A significant amount of such investments can come from East Asia.

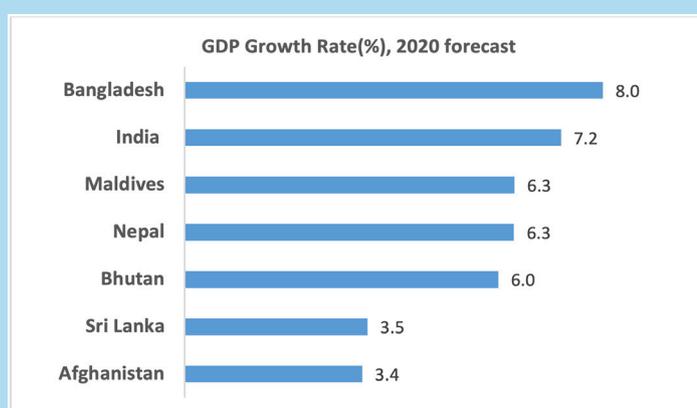
81. Productive investments that would expand and diversify the economy can also facilitate the transfer of advanced knowledge and technologies in infrastructure, renewable energy and critically, digital connectivity. These three areas can underpin more rapid growth and development for Afghanistan going forward. Digital advances can lead to highly productive increases in second-tier applications (cloud computing, machine learning, big data analysis, and automation) and the third-tier ecosystems such as algorithmic systems, electronic platforms for circular and sharing economy, precision agriculture with much-higher yields and less pollution, and online learning. The foreign investments that would support such activities should be attracted on equal terms across all lenders or investors and be deployed in a transparent manner. In parallel, Afghanistan can expand the production and exploit its export potential from several high-value products that it is already producing such as carpets, gemstones and saffron; and deploy and more productively utilize the abilities of Afghan women in the economy and more broadly in public life.

Text box 4: Doing Business in Afghanistan

In 2018 Afghanistan was rightly praised for climbing 16 places in that year's Doing Business report compiled by the World Bank, rising in rank to 167 compared to 183 in the previous report one year earlier*. This was enough to label Afghanistan a top performer globally. The improvement was even more commendable when cast against the decline in the economic growth rate (from 14.5 percent 2012 to 2.6 percent in 2017), increasing demographic pressures, a reduction in per capita incomes and a deteriorating security situation that increased the poverty rate to 55 percent from 38 percent in 2012.

This improvement cannot be undervalued, though much remains to be done in the critical economic areas of electricity, taxation, trading, construction permits, contract enforcement and registering property - all of which are in the lowest decile of global rankings. However, it is instructive to examine these numbers in a broader economic context, especially with respect to their potential to guide the approach toward achieving the SDGs.

For example, in the aforementioned report Bangladesh was ranked 9 places below and scored 20 percent less than Afghanistan. Yet, Bangladesh seems to be more successful in attracting investment and has a more dynamic economy with a pre-pandemic projected annual rate of growth of 8 percent against an annual rate of population growth of only 1 percent (compared to 3.5 percent in Afghanistan – next graph**).



In fact, the decline in population growth in Bangladesh has been cited as a contributory factor for the increase in per capita income and the decline in the poverty rate from 73.5 percent in 2010 to 10.4 percent in 2018**.

Granted that Bangladesh is not exposed to the conflict that is found in Afghanistan, and its per capita income is more than double that of Afghanistan's (US\$1,600 v. US\$600). Both imply that Bangladesh has more space and greater capacity to deliver results.

However, two relevant points in this comparison are (a) numerical assessments can be misleading regarding the status and potential of the economies; and (b) starting from a "near zero" base requires "near infinite" effort – something that requires extreme care in how to choose objectives and allocate the limited resources available.

In this context it should be noted that in the most recent Doing Business report released in November 2019, Afghanistan fell six places (to 173rd) out of 190 countries****. A country's aspirations and prospects need to be examined in tandem with prevailing security, governance and socio-economic conditions.

Sources

* <https://thediplomat.com/2018/11/afghanistan-declared-a-top-improver-in-2019-doing-business-ranking/>

** <https://www.weforum.org/agenda/2019/11/bangladesh-gdp-economy-asia/>

*** In the Doing Business Report, Azerbaijan is in the 25th position ahead of the Netherlands (36); Switzerland (38) is behind Belarus (37); and Italy is in the 51st position well behind Kosovo (44) and Serbia (48).

****The 17 countries with lower scores included 11 from Sub-Sahara Africa, 3 conflict economies from MENA (Syria, Libya and Yemen) as well as Haiti, Timor-Leste and Venezuela.

B. Afghanistan's Post-Conflict Prospects through the Lens of the International Experience

The Impact of Conflict

82. It is critical to adopt realistic expectations about future scenarios both for modelling purposes and also the selection of policies. If conflict continues or in the absence of a comprehensive peace agreement, the effects on the economy and livelihoods may continue to be grave. There are several international estimates of the effect of conflict on incomes that may be relevant for Afghanistan. An early estimate in 1999 suggested that during the average conflict year GDP per capita grows 2.2 percent slower than during peacetime. The more recent case of Sri Lanka is in line with this estimate: In the five years preceding the end of conflict (2004-2009) per capita GDP rose by 29 percent compared to the 44 percent that per capita incomes rose between 2009 and 2014 representing an increase in the annual rate of growth from 5.3 percent to 7.5 percent. Thus, a 15 year-long conflict is associated with approximately 30 percent lower per capita incomes – a significant difference⁷⁴. A more recent report in 2018 summarized the evidence for medium-sized developing countries and reported that internal armed conflict can cost up to 30 years of GDP growth, and that it takes as long as 20 years for trade to return to pre-war levels⁷⁵.

83. These findings are directly relevant for the SDGs. The setback from conflict reduces the Government's ability to address humanitarian and development needs or at least some of them. A median civil war has been found to be associated with five to ten times more civilian deaths⁷⁶. Moreover, in conflict countries the value of the Human Development Index can be set back by more than 2 decades⁷⁷. This is an area where Afghanistan cannot afford to stay for longer as it occupies the 169th position out of 189 countries in the inequality-adjusted Human Development Index with all countries below it being in Sub-Sahara Africa, with the exception of Haiti and Yemen⁷⁸. More broadly, a reduction in GDP directly affects employment (SDG5 on paid and unpaid work and SDG8 on decent work) and puts a hard budget constraint affecting most, if not all, other SDGs, including poverty (SDG1), malnutrition that is estimated to rise by five to eight percentage points during conflict (SDG2)⁷⁹, public health and vulnerability to diseases and epidemics (SDG3)⁸⁰ as well as SDG6 (water and sanitation), and fiscal and social protection policies (SDG10)⁸¹.

84. The effects of conflict also are adverse on the less tangible, but critical aspects such as political institutions and social capital that can further jeopardize the progress towards other SDGs. These effects operate via the militarization of individuals; result in the socialization of youth through combat units rather than at school; affect operations at all levels of local, provincial and national government; may expand the pool of those in need who are vulnerable to recruitment for insurgencies and transform political identities and social norms in the wrong direction⁸². They may also result in military, paramilitary and rebel elites replacing civilian leaders leading to "parochial altruism" where security and social protection is limited to members of the local communities that are part of specific social groups⁸³. In the absence of transparent mechanisms of dispute resolution, contract enforcement and effective non-discriminatory/non-nepotistic inter-group exchanges including trade, fast economic recovery remains an elusive goal. This is more so in ethnically or religiously divided societies⁸⁴ such as Afghanistan, thus having an impact on SDG16 (peace) and related governance and inequality goals (respectively SDG5 on work and SDG10 on social protection).

85. Conflict has a direct impact on economic structures and institutions as well as on the future of the labor market. Private capital and public infrastructure allocations as well as modes of economic production that have been built around decades of conflict can be very resistant to change. The accumulated conflict-specific skills among citizens are difficult to put to productive use after conflict has ended. The lack of alternative peaceful livelihood options generating comparable income can be a powerful incentive for restarting conflict. Though desirable from a social perspective, targeted job training, support for self-employment and related active labor market interventions are difficult to scale up and typically have limited impact, despite their considerable costs⁸⁵.

Peace Will Come but Conflict May Not Go

86. While Afghanistan may reach a peace agreement, the presence of several warring groups in combination with its low-income status and widespread poverty may not eliminate the probability of incidents recurring in the future. In this respect, the level of per capita GDP has been found to be statistically associated with high probabilities of reverting to conflict. One explanation is that higher income economies have more established property rights that enable people to protect assets and livelihoods. This lowers the expected return to violence among would-be rebels. Another explanation is that poverty causes violence as scarcity can lead to conflict over available resources along with displacement that changes population dynamics⁸⁶. Finally, more prosperous societies tend to have more organized structures and a more democratic culture, thus making them less violent. These three explanations are relevant to Afghanistan as well as an additional one: there are many anti-government groups (perhaps more than 20) and this makes it more difficult for peace agreements to be reached or be observed over time⁸⁷.

87. The strong statistical relationship between country per capita incomes and the probability of civil war in the next five to ten years are particularly relevant for Afghanistan. Based on the Collier-Hoeffler 2000 model⁸⁸, starting with a probability of 15 percent for an “average” country with per capita income of US\$250/year to revert to conflict, that probability is reduced by half when incomes increase to US\$600 per capita and then by half again when incomes reach US\$1,250. Countries with per capita income above US\$5,000 have a less than 1 percent probability of experiencing civil conflict⁸⁹.

88. The gross national income per capita in Afghanistan was only US\$570 in 2019 ranking Afghanistan 167th out of the 174 countries for which estimates are available⁹⁰. If this level of per capita income is taken at face value, and Afghanistan attains a steady annual per capita income growth of 3 percent (implying an ambitious GDP growth rate of more than 5 percent given the current rate of population growth) it will attain the conflict benchmark income level of US\$5,000 in more than five decades⁹¹. While this estimate may overstate the time required to reach such a relatively high level of income (for example, as it ignores undocumented incomes especially those that derive from the production of opium), it does not fully account for the effects of shocks that can surface in the meantime.

89. More recent empirical studies predict a gloomier picture, that is, higher probabilities of conflict persisting for a longer period of time. International studies suggest an 18 percent probability of having a civil war over the next decade at per capita incomes of US\$600 dropping to 11 percent for countries with incomes of US\$2,000. The probability becomes lower than 1 percent only after country incomes exceed US\$10,000 – and this is double the threshold level of income found in earlier studies⁹². Again, if these estimates are taken at face value and under the same assumptions made in the previous paragraph, it may take Afghanistan almost a century to reach a per capita income of US\$10,000.

90. A critical factor affecting the duration, costs and probability of repetition of conflict is the concentration of economic rent certain high value-added resources (such as oil, diamonds and narcotics) and who appropriates them. This has been amply summarized in the phrase “where resources permit, opportunistic rebel leaders crowd out ideological leaders”⁹³. Heavy reliance upon primary commodities is generally associated with a large share of location-specific “rents”. These rents constitute large sources of income for those who control the territory on which the rents are generated. However, rents can vary significantly from one year to another due to shocks such as drought or price changes. Such variation creates a need for survival among ordinary citizens who, under short-run pressures and in the absence of national mechanisms for social protection, seek support from the community that in turn can be controlled by powerful local groups. Opium cultivation fulfils these conditions. Cast in terms of political economy, the way resource rents are distributed across the population in a conflict economy can affect growth⁹⁴. This depends on the number and size of identifiable groups, the country’s geography, the size of rents especially in low-income countries, the extent of electoral competition versus patronage politics, and the time horizon of rulers⁹⁵.

91. Several of these aspects of the international experience are of relevance to Afghanistan that produces 84 percent of the global opium output⁹⁶. Much of those illicit drug profits go to non-state actors who manage opium in areas under their control and impose taxes on every link in the drug production chain -- from farmers and processing labs to traders who move the final product out of the country⁹⁷. Moreover, their illicit revenues from minerals are as high as those from drugs with additional funds being collected from extortions, taxes, real estate operations, charitable donations from private donors and institutions as well as from foreign countries⁹⁸.

92. It is not uncommon for countries coming out of conflict to favor urban areas and short-term profiteering over community involvement and social inclusion. The coping strategies of citizens that have evolved during conflict are often rooted in the security afforded to them by their communal and sectarian communities and their leaders while external interference may have also shaped and therefore limit the capacity of the emerging government institutions. At times unavoidably, donors do not always fully factor such legacies into their support and strategies to governments that often emerge as centralized administrations which lack merit-based civil service and transparent processes. The immediate need for humanitarian assistance can work against longer-term development objectives. The result is that the post-conflict order and institutional arrangements perpetuate past problems and become themselves the cause of instability and unrest. A better understanding how formal and informal institutional interact and the role of communal, government and non-state actors is needed in the planning for peace⁹⁹.

Conclusion: End the Conflict

93. Civil wars worsen poverty and poverty makes civil wars more likely. There is, therefore, considerable agreement that pro-growth policies and conflict prevention initiatives reinforce each other. In fact, it has been argued that in terms of policy implications, “the greatest gains in conflict prevention are to be made by focusing development efforts on the very poor rather than on countries of intermediate wealth”¹⁰⁰. Such development efforts may be compromised, not always unjustifiably, by the immense pressure to address imminent humanitarian crises arising from conflict, natural disasters and environmental degradation. Still in reality, there can be less of a trade-off between these two approaches and the two can, and should, reinforce each other.

94. Despite efforts, the dialogue for peace has yet to be concluded while violence has escalated. Though the political impasse over Presidential elections came to an end in May 2020 when the two leading candidates entered into an agreement after seven months of negotiations, there has been an increase in violence. Abductions and attacks are not confined to the police, security forces, army convoys and military bases, elected representatives, community leaders and activists. Professional women, such as journalists, media presenters, judges, doctors and nurses, are particularly targeted. Others are killed indiscriminately at schools, universities, places of worship, civil gatherings, hospitals and clinics. Journalists have become prime targets, making Afghanistan one of the deadliest countries for reporters globally, alongside Mexico¹⁰¹: At least 119 Afghan and foreign journalists have been killed in the past 20 years and, since the beginning of 2021, at least six journalists have lost their lives and several of their family members¹⁰². Car bombs and landmines randomly injure and kill civilians including children and women. The number of internally displaced persons induced by the conflict had increased even before the pandemic - by 8 percent in 2019 compared to 2018.

95. The risks to economic recovery stemming from the uncertainties associated with the ongoing peace negotiations remain. Unless agreements are quickly reached and are observed, private sector confidence will remain subdued. A deterioration or even a prolongation of the current security situation could continue to divert government capacity and policy attention from essential reforms, impede the delivery of essential services, and disrupt the implementation of development projects and absorption of donor funds. In Afghanistan, UNDP is cognizant of these issues and, as indicated in TEXTBOX 5, it uses them for its current assessment and for policy proposals detailed in the sections that follow.

Text box 5: UNDP and Fragile States

UNDP has studied critical issues that apply specifically to SDGs in fragile states*. Such states

- Exhibit chronic deficits in delivering on their core functions
- Are susceptible to wholesale breakdown when they experience shocks and crisis
- Are slow to recover after crises
- Have weak State-society relations

The study highlights the usefulness of having a consistent and coordinated approach to SDGs (“the integration imperative”), the need for “embracing universality” and eventually getting prepared to meet “the last mile challenge”.

Integration mainly emphasizes doing away with the culture of silos that seemed pervasive during the predecessors of the SDGs, namely the MDGs. The silo culture failed “to focus explicitly on the risks and effects of conflict”**. The achievement of Agenda 2030 depends on a country’s ability to connect the dots across a broad range of goals and targets to promote synergy and thereby leverage the entire framework. Also, the integration principle requires well-coordinated and coherent institutional arrangements.

Besides, in fragile situations, the notion of “suitability” could potentially be used as an excuse for choosing development priorities and implementation sequencing that is driven by political economy imperatives: political leaders going for “quick political wins”, efficiency and expediency, and selecting priorities that tend to benefit the politically influential while the priorities of the most vulnerable could easily be forgotten, all in the name of “suitability”.

The applications of MAPS (Mainstreaming, Acceleration and Policy Support) in the context of fragile situations must be guided by the principles adopted from the UNDG MAPS guide and informed by the New Deal for Engagement in Fragile States: (a) Strong ownership and leadership by governments and national stakeholders. All external support must be demand-driven, tailored to specific country conditions and needs, and complement and build on existing capacities available in a country and on development gains already made; (b) Significantly simplify and reduce programming, business and service transaction costs for governments and communities including integrating and harmonizing common and agency-specific business processes, plans, and programmes; (c) Work together as development, humanitarian and peacebuilding partners in fragile situations, using more integrated and harmonized approaches and team-based support, to achieve greater impact and accelerate progress; and (d) Drive towards common delivery of results and strengthened accountability, human rights, gender equality and environmental sustainability.

It recognizes that fragile environments are often inundated with a multitude of overlapping humanitarian, peacebuilding and governance, and development needs. These challenges also often compounded with the majority of migrants and displaced populations moving to urban areas, partially as a result of conflict but also to seek better economic opportunities.

Sources:

* https://www.undp.org/content/dam/undp/library/SDGs/English/SDG_Implementation_in_Fragile_States.pdf

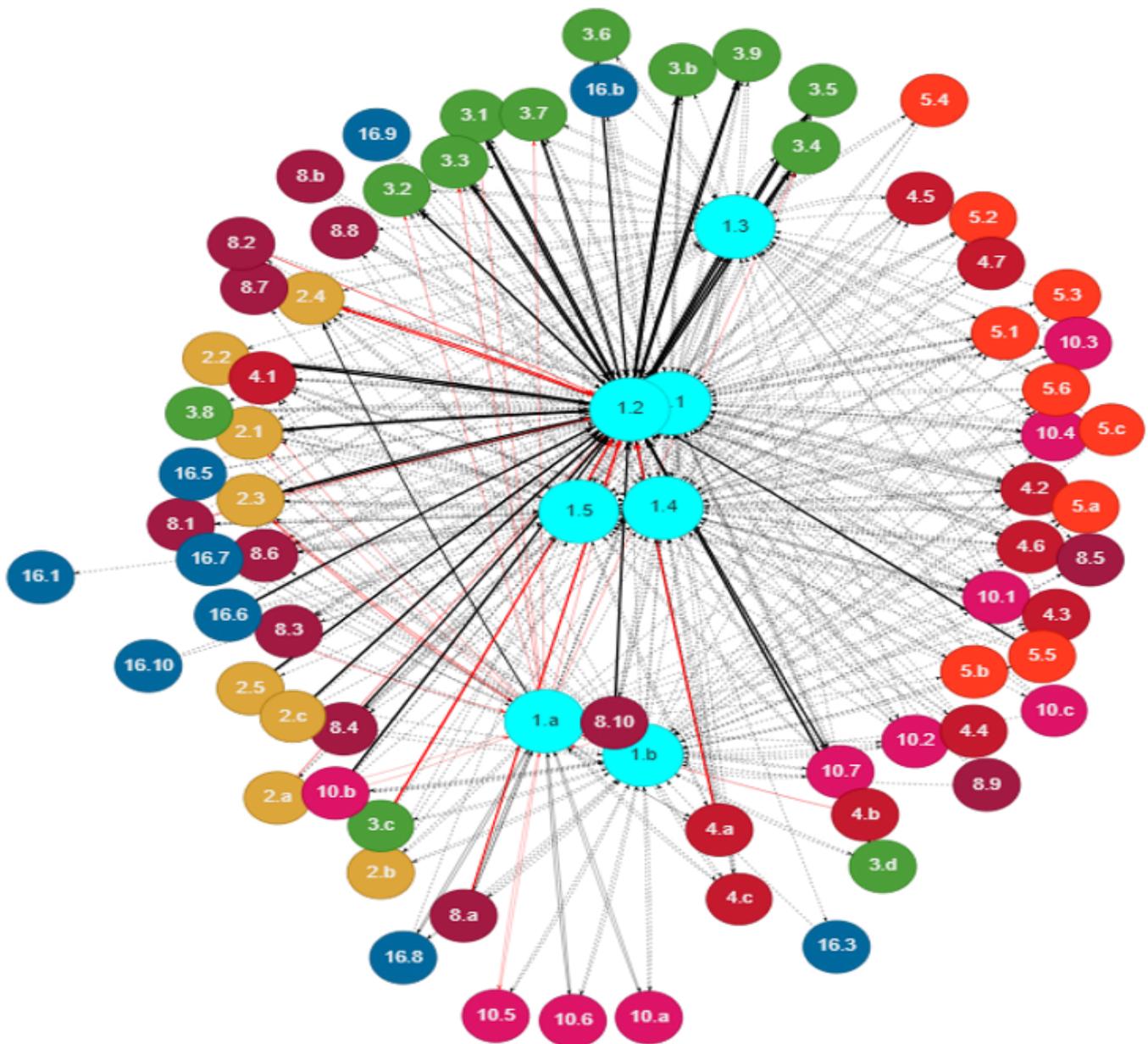
** Macartan Humphreys (2003). Economics and Violent Conflict. Harvard University
https://www.unicef.org/socialpolicy/files/Economics_and_Violent_Conflict.pdf

PART II: LONG-TERM GOALS, SHORT-TERM CRISES AND POLICY OPTIONS

C. The SDGs and A-SDGs: A Complete Agenda

96. The SDGs prescribe useful targets and goals to strive for, but the challenge remains to translate them into what is feasible and desirable in particular country contexts. The SDGs are considered as “an indivisible whole” requiring integrated and coherent development models where all targets are tackled simultaneously and the interdependences between the SDGs are considered in relation to the country’s context and its institutional arrangements.

Figure 6: Complete Network of Selected Afghanistan SDG targets



Source: Zhou and Moinuddin (2017)

97. The first step is to assess the degree of the connectedness between the issues covered by the SDGs and ensure that “the whole is greater than the sum of the parts”. This interconnected nature of the SDG targets has prompted a number of key scientific and policy researchers aimed at understanding, visualizing and quantifying these inter-linkages between them. This would allow for a better integration and greater policy coherence. Some researchers have largely focused on using qualitative¹⁰³ and semi-quantitative¹⁰⁴ methods to help interpret and visualize these interdependencies. Others have analyzed the SDG inter-linkages using Social Network Analysis and indicator-level time-series data and have created dashboard matrices for South Asia, including Afghanistan for which the network structure of SDG targets is shown for in Figure 6¹⁰⁵. The purpose of the figure is to show the complex synergies and trade-offs between targets. For example, the thick black lines show positive and strongly reinforcing relationships, while the narrow black lines show weaker causal relationships between one or more targets selected. The thick red lines indicate strong conflicting relationships or influence while the dotted lines show relationships between a pair of targets.

98. The network approach requires detailed data some of which are missing in Afghanistan. However, Afghanistan has already come up with its own priorities for the SDGs. Noting that some are policy inputs and others are outcomes, the targets considered to have highest level of importance in Afghanistan are poverty reduction, social protection, hunger, macroeconomic stability, employment, water quality, education and reduction in violence and child labour (TEXTBOX 6).

Text box 6: Afghanistan’s Own Prioritization of the SDGs

Soon after the adoption of the SDGs by the international community, the Government has assessed how best to achieve them, planning to periodically revise its plans as the situation evolves. The National Framework for the Implementation of the Afghanistan SDGs (A-SDGs) identified as relevant 12 goals organized in three pillars:

- **Security:** Achieve nationwide stabilization, strengthen law enforcement, and improve personal security for every Afghan citizen
- **Governance, Rule of Law and Human Rights:** Strengthen democratic processes and institutions, human rights, the rule of law, delivery of public services and government accountability
- **Economic and Social Development:** Reduce poverty, ensure sustainable development through a private-sector-led market economy, improve human development indicators, and make significant progress towards the SDGs.

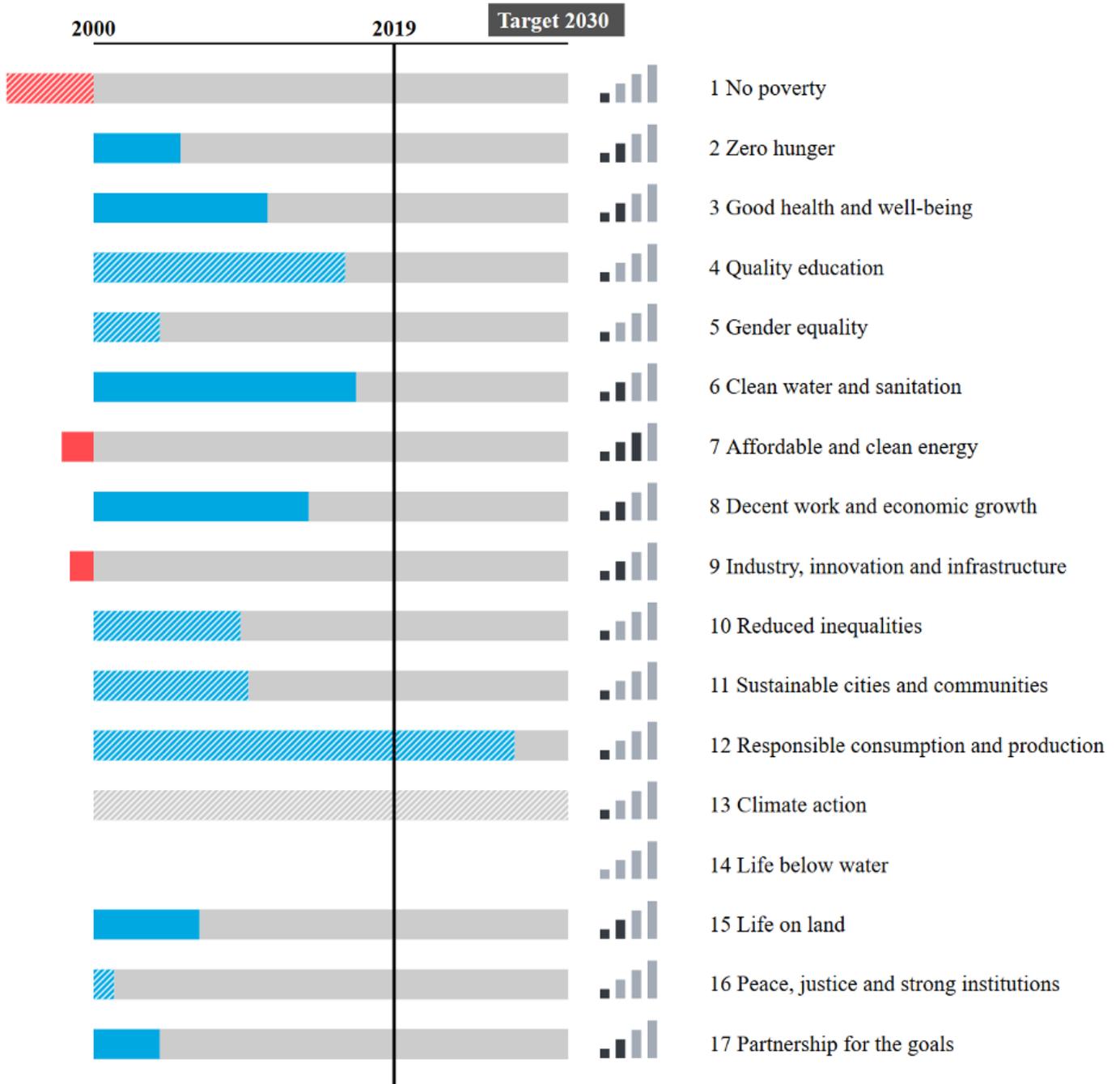
In July 2017 a Voluntary National Review at the High-Level Political Forum in July 2017 organized the SDGs in eight national sectors in line with the government’s national planning and budgeting, specifying 134 national targets associated with 189 indicators.

In January 2019, a technical task team under the Ministry of Economy identified and prioritized the most relevant targets of the SDGs in order to develop a roadmap and implementation strategy for the Afghanistan SDGs (A-SDGs). The team reviewed approaches by different countries, adapted them using a multi-criteria analysis framework and working with 28 government agencies identified national priorities based on an assessment of the current situation, policy gaps and policy impacts, and potential trade-offs across the whole of the A-SDG agenda. The results were validated through discussions and reviews with the UN Country Team and the World Bank Country Office in Kabul.

The resulting Afghanistan Sustainable Development Goals: Prioritization Report provided answers to the question “if progress is made on target x, what will be its influence on target y?” The synergies and tradeoffs across 110 A-SDG targets were assigned a value on a seven-point scale depending on their “level of urgency” (highest level being 7). For example, if poverty is reduced, it will positively impact the targets on social protection, maternal mortality, decent work and employment, and income inequality).

99. Afghanistan has achieved only 38 percent of the progress required towards all SDGs. Progress has been ranked 139th out of 162 countries for which estimates are available with all countries below Afghanistan being in Sub-Saharan Africa with the exception Haiti, Yemen and Papua New Guinea. The current status and trajectory of individual SDGs towards 2030 is shown in Figure 7 and summarized in TEXTBOX 7.

Figure 7: Afghanistan SDGs Dashboard 2019



Source: ESCAP.

Text box 7: Progress towards the SDGs during the First Five Years

SDG 1 No Poverty: The strong economic growth until 2012 has not had a lasting impact on poverty reduction. Economic growth has since averaged 2.3% annually and the national monetary poverty rate had climbed to nearly 55% before the pandemic. The rate is expected to rise further to anything between 68 % in 2020 with higher rates in rural areas.

SDG 2 Zero Hunger: Similarly, the share of the population with inadequate dietary diversity has increased to 35% from 20 % in 2007, with the shares observed in rural areas nearly double those living in urban areas (39% to 21%). The share of food insecure Afghans (measured as calorific deficiency) has reached 45%. Globally Afghanistan is ranked 180 out of 185 and the post-COVID-19 decrease in incomes could further increase food insecurity and hunger for an additional one-third of the population, or 12 million people.

SDG 3 Good Health and Wellbeing: Unlike the previous two SDGs, basic health services are now reaching 85% of the population up from only 60% in 2013 – a sharp increase in short period of time. The percentage of pregnant women who had at least one antenatal check-up increased to 70% from just 23% in 2005. Maternal mortality rates have dropped to 638 per 100,000 live births from 1,600 deaths while the proportion of births attended by skilled health personnel has also increased to 53% in 2017 from 40% in 2012. Yet 15% of the population lack access to hospitals in their vicinities, while the country has the lowest number of hospital beds per 1,000 people in the entire Middle East and Central Asian region: 0.4 beds versus a regional average of four. The Government also spends the least in the region on health care, at less than 1% of GDP while 75% of health expenditures are out of pocket by the household.

SDG 4 Quality Education: The number of schools increased from 3,400 in 2001 to 18,000 in 2018. Accordingly, the number of children enrolled in schools has increased from around one million to nearly 10 million children. The share of female teachers has reached 36%.

SDG 5: Gender Equality: A Ministry of Women's Affairs was established in 2002. Afghanistan has now enacted The Elimination of Violence against Women Law, the Law against Harassment and Regulations against Sexual Discrimination and has adopted the Convention on the Elimination of Discrimination against Women (CEDAW). There also is a National Action Plan for the Women of Afghanistan as well as a Women's Economic Empowerment National Priority Programme that aims to empower working women as does also the Afghan Women's Chamber of Commerce and Industry. More than one-quarter of seats in the lower house (28%) and the upper house (25%) are held by women. The Ministry of Finance has created a Gender Responsive Budgeting Unit. The President has issued a decree authorizing the positions of female Deputy Governors for the 34 provinces. A High Council on Women Affairs monitors progress on gender equality and women empowerment in the intra-Afghan negotiations. However, remaining gender differences in public and private lives are deep and persistent.

SDG 8 Decent Work and Economic Growth: Almost one in four Afghans are officially unemployed with more being discouraged from seeking employment. Turnover is high with 4 out of 5 jobs that were created before the political and security transition in 2014 were lost by 2018. Refugees/returnees (around 1.5 million over the last two years) and a similar number of internally displaced add to the pressure on the labor market. Seasonality, underemployment and informality affect most Afghans.

SDG 10 Reduced Inequalities: Past growth fueled by the large presence of international military forces and their civilian counterparts and generous donor aid have benefited relative few who are connected to networks of power and patronage. There are significant disparities between the rich and the poor, rural and urban households, and women and men.

SDG 16 Peace, Justice and Strong Institutions: Despite efforts, this remains an area of concern with Afghanistan ranking being 173rd among 180 countries in 2019 with respect to large-scale bribery and corruption in government institutions.

Sources: Afghanistan Living Condition Surveys; UNDP and World Bank latest projections; <https://dashboards.sdgindex.org/rankings>

Gender: More than One-Half of the SDGs

100. Even before the pandemic, there have been several and important gender differences that can hamper the effectiveness of well-intentioned policies and projects. Projects that have focused on gender equality have faced several implementation challenges, especially in rural areas. For example, in a project that was subsequently found to have met its overall objectives, half of participants during the community mobilization to disseminate the information about the project were women as indeed was envisaged by the design of the project. This was so because of the presence of female facilitators who met the women's group separately. However, none of those who participated in the mobilization turned up for registration but sent male family members to register, because there were no female facilitators during the registration. Over time, the share of participating women decreased from mobilization and registration to payment collection. This suggests that male members of the family are more likely to make decisions about the use of money¹⁰⁶.

101. The pandemic is aggravating preexisting gender inequalities through many channels.

The pandemic has an impact on all but can affect women more than men in terms as the impact on family finances is likely to increase unpaid work and demands on care. This impact can be particularly severe amidst conditions of fragility and conflict where social cohesion is already undermined and institutional capacity for public services is limited¹⁰⁷. Access to education is affected by lockdowns and additional costs of transport that impact girls more than boys and men when families prioritize their sons' education over their daughters.

102. The strained health services can limit further the availability of the already scant sexual and reproductive health services. An example of the gender divide in this area is that according to Afghanistan's Demographic and Health Survey (A-DHS) the percentage of young men who had knowledge about HIV was five times higher than that for young women. Women are less likely to either know about COVID-19 or find information about it¹⁰⁸. There can also be an increase in gender-based violence due to lockdowns and reduced access to support services. There are already surveys reporting that in addition to an increase in domestic violence, there has been increased pressure for girls to marry instead of study¹⁰⁹.

103. Under such conditions, resilience is the last resort for women. Women typically cater not only for themselves but also for their families, and their knowledge of household coping mechanisms and resource management contributes to the survival of their families through more effective responses to disasters and better outcomes of risk reduction programmes. Gender equality is a fundamental requirement for building more effective resilience also at the community level. Resilience at community and national levels can be promoted by women's participation in intra-Afghan dialogues including actions to combat COVID-19, support conflict-affected and internally displaced persons, including women, and improve the coordination between local, national and international organizations.

104. Though progress toward gender equality is conditional on achieving other SDGs, it is nevertheless an important economic and social issue that can in turn accelerate progress towards the other SDGs and therefore calls for specific actions. Prime policy candidates are those that can address the significant under-enrolment of girls in schools and increase access to general and reproductive health services. There are many examples that show the potential of Afghan women. In response to the pandemic, an all-female Afghan robotics team was heralded for building a lightweight ventilator at a fraction of the normal cost¹¹⁰. Another example of the benefits from tapping the potential of women's education (plus the benefits from stopping the conflict) is a young Afghan woman who had survived a deadly Islamic State-plotted suicide bombing and went on to earn highest score at the 2020 university entrance exams among more than 170,000 other students¹¹¹. Though still hesitant, several other gender initiatives are emerging. In Kabul, a pilot programme employs only women drivers to transport female passengers and their kids for work and study¹¹². And more Afghan women have started investing in martial arts training.¹¹³

Text box 8: Past Gains and Post-Peace Prospects for Afghan Women

Afghan women have benefited from the political change in 2001. The 2004 Constitution improved several aspects of women's socio-economic conditions. From restricted, or even a lack of medical services available to women before 2001, women can now visit medical facilities and seek treatment, when security permits. Maternal mortality has declined by two-thirds and women's life expectancy has risen by nearly 20 percent. From no education for girls, school enrolment has more than tripled, although still only 33 percent are enrolled in primary schools. From no employment before 2001, with the exception working in agriculture including in poppy cultivation and opium harvesting, women now make up more than one-in-five civil servants and one-in-four members of Parliament. Social restrictions regarding the wearing of the burqa and being in public spaces without a male guardian have officially been removed. Mothers can now have their names included on their children's ID cards.

The gains have been greater among urban women from middle- and upper-class families than poorer ones in rural areas. In rural areas, where almost 80 percent of women live, they have fewer opportunities, are more constrained by social norms and may face harsher penalties from breaking away from them. They may even lean more toward a desire for peace as they have more relatives being part of the warfare, even if it means sacrificing some of their rights that may not be able to exercise anyway in areas under the control of powerful local actors and outside the control of the Government.

The ongoing intra-Afghan peace negotiations may end up affecting women's rights in the context of the evolving balance of power and the nine women (out of 46 members) in the High Council for National Reconciliation, a higher supervisory body to monitor and direct the negotiating team, may not be able to secure past gains. However, the Taliban's negotiating team has no women representatives. They are reported to have opposed the decision to have mothers' names on identity documents. While the gains women have made in the past two decades may hold in the urban and Government controlled areas, the position of women in the countryside may still continue to be under the cultural norms and social practices that the non-state actors impose.

105. Donor support can be critical but would need to consider cultural sensitivities in the context of development. Some of the issues observed in low-income developing countries today were present in many of today's high-income economies until well into the second half of 20th century. The approach should be relevant and constructive for a country like Afghanistan. And gender indicators should be examined in context. Political representation of women, although critically important in practice (TEXTBOX 8), is only one of the many that can be used for monitoring progress towards their integration in the public sphere. For example, the top three countries in the world with the greatest representation of women in national parliaments are Rwanda at 63 percent, and Cuba and Bolivia, each with 53 percent¹¹⁴.

"In Afghanistan, [my] Government helped women and girls integrate into society. Now, the rate of women serving in Parliament is higher in Afghanistan than in the United States".

Comment of the US Ambassador to the UN, Samantha Power, at UN Security Council, on 19/01/2015. <https://www.un.org/press/en/2015/sc11740.doc.htm>

D. The COVID-19 Crisis

Evolving and Uncertain

106. Early estimates of the effects of the pandemic have so far been proven to be pessimistic. According to estimates by the University of Oxford/WHO last April, the spread of COVID-19 would have peaked in June 2020 and if preventive measures had not been taken, the virus would have affected nearly 70 percent of the population resulting in 20,500 deaths by end 2020¹¹⁵. Initial predictions made by the Afghan Ministry of Public Health (MoPH) in May 2020 anticipated that between 16 million and 28 million people may eventually be infected and more than 100,000 may also die in the absence of mitigating policies by the end of the year¹¹⁶. This compares to a scenario of 190,000 infections subsequently developed in the National Emergency Response Plan for Corona Virus¹¹⁷. The national COVID-19 morbidity and mortality survey conducted by MoPH in July 2020 suggested that about 10 million people, nearly one-third of the population, either have or have had the virus¹¹⁸.

107. At the end of December 2020, there have been 51,500 officially-reported infected people across all 34 provinces in Afghanistan. However, only 165,000 people have been tested, a very small number for a population of 37 million. Moreover, the number of fatalities has been relatively high (2,200). The testing rates in neighboring countries has been much higher ranging from 40 percent more in Pakistan to more than four times in India. Afghanistan's high "test-positivity-rate" (positive tests as a percentage of total tests) is suggestive that the spread of the virus must be higher. Indeed, at 3.7 percent the rate is the highest among the eight South Asian countries for which comparable data are available, where the rate was found to be between 0.4 in Sri Lanka and 2.1 in Pakistan¹¹⁹.

108. The Ministry of Public Health is expecting a second wave of 90,000 infections during the 2020-21 winter season, but the number may actually turn out to be higher. This can be so as under economic hardship people may be under pressure for work, defy social distancing due to other needs, or cannot take self-protection measures such as regular hand washing or even be able to buy soap and masks. Additionally, the flow of Afghans coming back to the country from abroad, especially from infected neighboring countries, is likely to aggravate the situation as housing facilities are limited and people would unavoidably be unable to practice social distancing.

109. Health facilities are inadequate to deal with the pandemic. In terms of health facilities, one report in the initial stage of the pandemic stated that the U.S. had 33 ICU beds per 100,000 people compared to two in India, Pakistan, and Bangladesh and 0.1 in Uganda. If Afghanistan had Uganda's extremely small number of ICU beds and taking into consideration its population size, this would bring its expected total number of ICU beds to 35. Instead, at the beginning of the pandemic, Afghanistan was reported to have just 12 ICU beds and only two diagnostic laboratories for its highly-dispersed population of nearly 35 million¹²⁰. However, Afghanistan has now expanded the number of its diagnostic laboratories to 13 and added 1,300 intensive care beds across the country¹²¹.

110. As a result of COVID-19, the provision of previously routine health services has been reduced while others have been repurposed. The lockdowns have been responsible for the slowdown in the delivery of health services while significant resources have been reallocated from the prevention and treatment of communicable diseases, such as tuberculosis and polio, to the fight against the pandemic. The polio campaign was halted till Autumn 2020 with new cases of polio reaching the highest number on record since 2001. This added to the challenge of achieving coverage at national level as two years earlier 840,000 children had missed vaccination in six provinces in the south and east due to insecurity resulting in an observation that "the map of polio mirrors the conflict in Afghanistan"¹²². This side effect of the pandemic is extremely serious and not only for Afghanistan as an infected child can put 200 others at risk with the result that, "if polio is not eradicated in Afghanistan and Pakistan, there can be 200,000 new cases every year globally"¹²³.

111. The adverse impact of COVID-19 on economic activity is expected to be significant and long-lasting, with significant adverse effects on poverty. Per capita incomes have been declining and the economic impact of the pandemic may perpetuate this trend and even make it worse, reflecting the global experience that suggests “the poorest suffer most from COVID-19”¹²⁴. Poverty in Afghanistan is difficult to tackle due to a combination of continued conflict, rapid population growth compared to slow economic growth, and increasing prices of essential household goods.

112. Moreover, the international experience suggests that the pandemic has slowed down progress towards achieving the critical SDG goal of ending hunger by 2030. Achieving this goal is not going to be easy in Afghanistan amid the ongoing conflict. The current economic and environmental risks can further obstruct the path of progress as the pandemic can result in higher food prices and disrupted supply chains and trade, at least in the short-run¹²⁵. Oxfam estimated that the number of people on the brink of famine in Afghanistan has risen to 3.5 million compared to 2.5 million before the pandemic¹²⁶ while food insecurity is predicted to affect 13 million this year¹²⁷.

113. There is bound to also be an adverse effect on investment, employment and remittances. Public investments have been affected by the falling rate of execution of the Government’s development budget. Private investment is also expected to have sharply declined given the negative impacts of COVID-19 on top of the already-weak business confidence and low asset profitability and increased vulnerability of the banking sector that is weakening the intermediation of credit from banks to private sector. A survey conducted by UNIDO in July 2020 found that two-thirds of firms reported that more than half of their employees were unable to come to work, especially among the more formal/export-oriented firms, with the share of women being disproportionately high. From their side the major concerns of firms was cash shortage, payment of wages, reduction of orders, disruptions in value chains and supply of inputs with small, domestic upstream and low-tech firms being the most hit. Half of firms were already considering laying off workers, especially those in less skilled jobs. As many as two-thirds of firms expected that they might close within three to six months with loans considered to be their first line of defense¹²⁸. The numbers of repatriating Afghans have continued to increase putting pressure on local labor markets while remittances are expected to decline by around 40 percent from 2019 levels¹²⁹.

114. The pandemic can affect the pace and outcome of the peace process and therefore contribute to fragility. Slow or partial progress can affect security, political stability, governance and social cohesion in ways that are difficult to quantify and predict (TEXTBOX 9). However, all signs point to the fact that the fiscal resources available are desperately inadequate when compared with the actual needs of Afghanistan. It is also unclear what the outcome of the peace process will be in terms of scope and the division of administrative responsibilities of the involved parties, which further erodes the trust of citizens in their Government¹³⁰.

115. Responding to the pandemic, the Government increased COVID-19 related spending and has introduced several measures aimed to contain the spread of the virus and cushion the impact on the economy and livelihoods. It initially allocated 0.5 percent of GDP for emergency pandemic response that included 0.1 percent of GDP for urgent health needs (testing labs, setting up special wards in hospitals and buying medical supplies). By the end of 2020, pandemic-related spending is estimated to have reached 2.9 percent of GDP. In parallel, the government introduced containment measures including introducing screening at ports of entry; quarantine for infected people; social distancing including countrywide lockdowns; closure of public places, schools and universities; limits to working hours and alternating schedules for government and non-government organizations; restrictions of flights and road transportation, both domestically and across the border. Scarcity and panic-buying have contributed to rising food prices. To address the social impact, the Government temporarily provided free bread to the poor in Kabul and other cities, and waived electricity bills of less than US\$13 and utility bills benefiting more than 1.5 million Kabul residents. And to support the economy and employment, it extended the tax filing deadline, waived tax and customs payment penalties if dues are paid before the end of the first quarter 2021, and made transfers to provinces, supported agriculture and short-term job creation¹³¹.

Text box 9: Non-state Actors, Social Protection and Health Care amidst the Pandemic

Following a powerful earthquake in South Asia in October 2015, that killed hundreds of people, many of them in Pakistan, thousands of members of Jamaat-ud-Dawa, an Islamic charity that serves as a front organization for a militant jihadi group with al Qaeda ties, volunteered to help and won widespread praise for their efforts to help provide support and distribute aid to those impacted by the earthquake.

However, the COVID-19 pandemic is also attracting terrorists, insurgents, and criminal organizations who seek to acquire political legitimacy through the provision of public health services, especially in “ungoverned spaces”, not just regions but also whole countries, where governments are unable or unwilling to operate. In Lebanon, the Hezbollah has offered its services to disinfect public spaces, something that can help to change its reputation as a sectarian (Shiite) organization. In Syria, a militant group called Hayat Tahrir al-Sham used the guidance of the World Health Organization (WHO) to disseminate advice by printing leaflets on how Syrians could be protected from getting sick. Using a different approach in Somalia, the al Qaeda-linked al-Shabab group engaged in propaganda linking the virus to Western forces stationed there.

In Afghanistan, the Taliban started a public health campaign to inform citizens of the dangers of the virus, provide information on how to contain its spread, and have promised safe access to health care workers crossing through territory under their control. By compensating for the country’s inadequate public health services, they were able to present themselves as a legitimate stakeholder in the future of Afghanistan.

These groups promote their social status especially in areas where the government has limited or no outreach, though they often lack the resources to provide high-end services, being able to provide only the bare minimum, for example, subsistence social assistance or adequate medical equipment. Still, they can win propaganda victories by emphasizing the ineptitude of the Government, associating it with deliberate negligence and a lack of concern for its own citizens. When they are able to operate for long time, violent non-state actors can perpetuate and reinforce their reputation as competent carers. If the trillions spent on combatting terrorist groups provide any sort of lesson, it is that confronting them directly has limited results while the highest returns can come not just from reaching a peace accord, but through building a competent public administration, as well as accountable and transparent governance.

By exploiting gaps in governance, violent non-state actors attempt to reach the status of a legitimate alternate form of governance when the provision of public goods is in short supply. By doing so they make gains in the battle for public opinion and rewrite the social contract. While a social contract can be defined as a mutual agreement between specific persons, groups, or elements within a society, a more relevant definition is “the tacit and implicit agreement between members of a society to cooperate for social benefits, usually by sacrificing some individual freedom in return for State protection”. Limited state protection opens the door to non-state actors, some of whom may be benevolent (such as community-based organizations) while others may be militant.

Source: Adapted from Colin P. Clarke (2020, Yesterday’s Terrorists Are Today’s Public Health Providers: Insurgents around the world are using the pandemic to win new converts and weaken their enemies. *Foreign Policy*, April 8. <https://foreignpolicy.com/2020/04/08/terrorists-non-state-ungoverned-health-providers-coronavirus-pandemic/>

116. The international community is supporting Afghanistan in fighting the pandemic. In addition to the funds pledged at the Geneva conference, the IMF provided an emergency assistance grant of US\$220 million while the World Bank contributed another US\$400 million last year. The latter amount is a significant 1.6 percent of GDP and targets Afghan households with incomes up to US\$2 per day (twice the national poverty line). As approximately 90 percent of all households fall below that threshold, the programme is near universal. Households in rural areas will receive an equivalent of US\$50 in essential food staples and hygiene products, while those in urban areas will receive a combination of cash and in-kind equivalent to US\$100¹³².

An Assessment of the Impact of the Pandemic: UNDP's Modelling Results¹

117. UNDP has conducted four quantitative assessments of the likely effects of the pandemic in the short- to medium term (until 2024). The results are suggestive of the size of the adverse impact of the pandemic and have been used for exploring alternative policies to alleviate its effects. They have incorporated the infection transmission scenarios developed by the Ministry of Public Health, and have also evaluated different ways that can be used to fund the fiscal gap.¹³³

118. More specifically, the UNDP analysis has been based on two separate models specifically developed for Afghanistan. The first model, (a Country Computable General Equilibrium: C-CGE), is a conventional dynamic general equilibrium model. The second model (Afghanistan Global Trade Analysis Project: A-GTAP) is a multi-country, multi-regional computable general equilibrium model that can also incorporate how the effects of international shocks, such as an economic recession resulting from the pandemic, can find their way into Afghanistan's economy. The usefulness of the computable general equilibrium models (CGE) derives from the fact that it can simulate the effect of changes in one part of the economy upon the rest of the economy. The combined results of these two models are presented below with selective comparisons to those reported by other studies.¹³⁴

... On total GDP

119. The pre-pandemic forecasts for economic growth, although modest, are no longer valid. The IMF's Staff Report of 2019 projected that the GDP growth rate would have been 3.5 percent in 2020 increasing annually by 0.5 percentage points thereafter until the mid-2020s. At that rate, the economy would have increased by nearly 25 percent by 2024 (Figure 8). In April 2020 this projection was revised to a 3 percent loss of GDP by the end of 2020 that proved to be on the low side, but admittedly came out too soon after the onset of the pandemic when the international community knew little about the likely course the coronavirus. However, even at the time this revised IMF projection offered a clear warning: "if the impact of the pandemic lasts through the end of the year, Afghanistan would suffer a deeper than currently projected output loss and face a much larger fiscal deficit ... In the long run, there will be slower real GDP growth ... lower grants ... lower expenditures" .

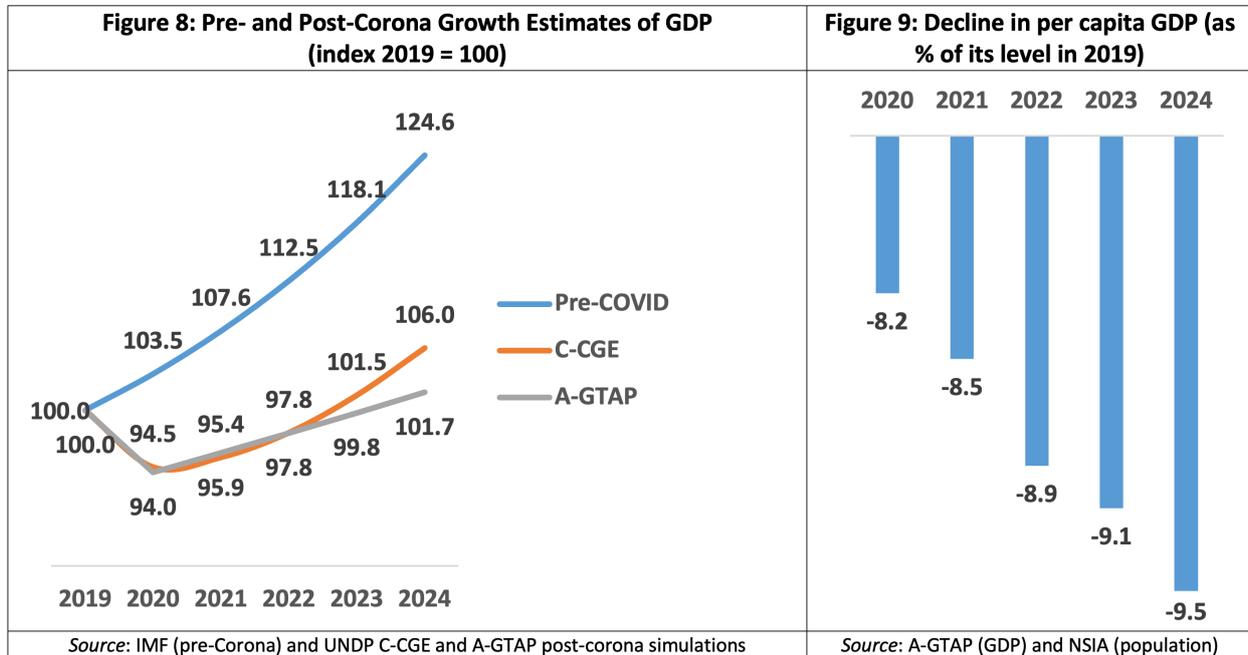
120. More recent UNDP simulations have confirmed these fears. The C-CGE model results suggest the decline in GDP could reach 5.5 percent by end of 2020.¹³⁵ The Asian Development Bank (ADB) forecast is 5 percent and the World Bank's range of estimates are between 5.5 percent and 7.4 percent¹³⁶. Under a hypothesized V-shaped recovery, which is still uncertain, GDP will start increasing slowly at first (by 1 percent in 2021) reaching an annual rate of growth of 4.5 percent by 2024. By then GDP would have barely recovered its level in 2019 (Figure 8). All estimates suggest that the pace of recovery in 2021 will be modest at 1 percent growth, but also warn about the possibility of further contraction.

121. The A-GTAP predicts a similar pattern of recession and recovery. It predicts the loss in GDP to be 6 percent in 2020 using the Medium Transmission Scenario that has been developed by the Ministry of Public Health and is based on 190,000 expected infected cases. It further assumes, first, that the reduction in global trade would be similar to that from the 2008 Global Financial Crisis (13 percent); second, oil prices would be

1. The simulations presented below were developed from a baseline scenario using available data till end-2019, some of which were preliminary. Their results are more indicative of orders of magnitude than sport estimates.

half their 2019 level; third, the number of Afghan returnees from Pakistan would be approximately 300,000; and fourth, like in the case of the C-CGE and the models used by others, there would be no policy response/recovery plan to the pandemic.

122. All in all, when compounded over time, the total loss in GDP by 2024 would amount to around 75 percent of its value in 2019, which is equivalent to US\$15 billion.



... On per capita GDP and Poverty

123. Economic growth has been lower than population growth from the mid-2010s resulting in a decline in per capita incomes over time. The growth in GDP has averaged only 2.3 percent since 2014 – in fact industry and services grew by only 2 percent or lower in 2019. In the meantime, the population has been growing at an annual rate of nearly 2.5 percent. As a result, there has been a significant decline in per capita incomes that according to the IE-LFS (2019-20) pushed the poverty rate to 47 percent by the time the pandemic hit (from 38 percent in 2012) though an earlier survey had indicated that the poverty rate had reached nearly 55 percent by the mid-2010s (ALCS 2016-17).

124. Although the level of GDP may recover its 2019 level by 2023, the adverse impact on per capita incomes can be long-lasting. The predicted by the models positive GDP growth after 2021, if it materializes, will only moderate the rate of decline in per capital income but it will not be enough to overturn it. By 2024 the population will be 12 percent more than it was in 2019 implying that per capita incomes will be about 10 percent lower than they were in 2019 (Figure 9). Nevertheless, the loss could be even greater according to the World Bank’s most recent estimates that predict a decline in per capita income of 13 percent by 2021¹³⁷.

125. All studies suggest that there will be a significant increase in poverty. The A-GTAP model predicts that the national poverty rate may surge by nearly 25 percent, from 54 percent in 2016-17 to 68 percent in 2020. This is in line with the analysis by the World Bank that the poverty rate may increase to between 61 percent and 72 percent. Both estimates are lower than that estimated by local researchers who forecast an increase in the poverty rate to reach as much as 80 percent implying that 8 million people would fall below the poverty line in addition to the 16 million who were poor in 2017¹³⁸. Projections aside, by December 2020, one-in-three households have taken on “catastrophic” levels of debt and nearly two-in-three (60 percent) have seen their incomes being reduced¹³⁹. The reduction in household incomes is expected to vary considerably across provinces—larger in urban areas given their higher dependence on vulnerable activities and less direct access to agricultural production.

126. Poverty can be accentuated by the decline in remittances. Remittance inflows could fall by as much as 40 percent due to the return of Afghan workers from host countries, many of which are from oil exporters whose economic prospects have also worsened due to the pandemic and the sharp drop in oil prices. The impact of reduced remittances would vary by regions: Although they account for less than 5 percent of household income nationally, there are regions like Ghazni and Khost where over 20 percent of households heavily depend on remittances¹⁴⁰.

... On different economic sectors

127. According to the C-CGE results, the reduction in economic activity will be more significant in industry and services than in agriculture. In line with the expected decline in total GDP most of the impact would occur during 2020 assuming that the coronavirus will not spread beyond 2020 and there will be a V-shaped recovery. According to the C-CGE model the reduction in output would vary by sector and year but in cumulative terms the decline in output by 2024 will be greatest (more than 20 percent compared to pre-COVID-19 levels) in several manufacturing and services sectors as well as accommodation & food services, electronic equipment, transportation and postal services. The smallest decline (less than 10 percent) will be in public administration and defense, livestock, fruits and cereals, opium and opiates and mining.

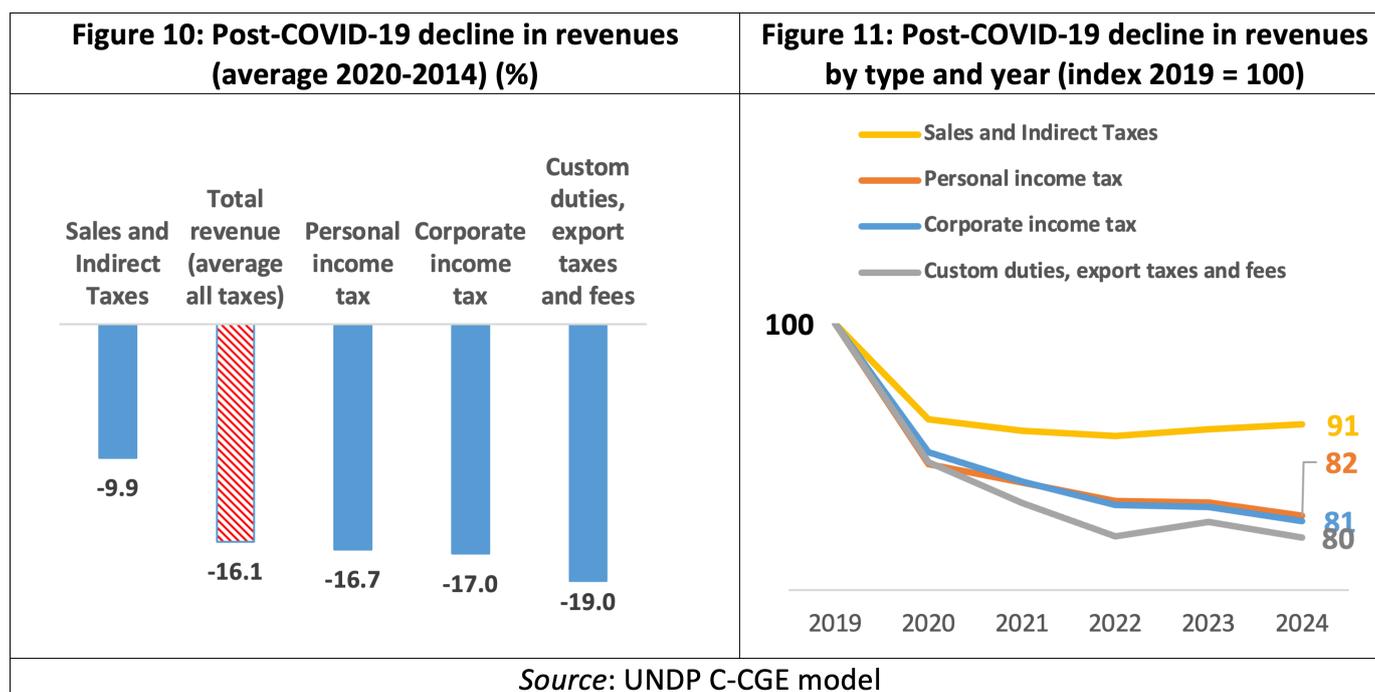
128. In fact, the relatively better prospects of agriculture might not be as good as they might sound. The 7 percent increase in agricultural output in 2019 was preceded by a 10 percent decline in 2018. This means that the level of agricultural output in 2019 was nearly 4 percent lower than it was in 2018 – while the population had increased by 5 percent since 2018. Moreover, good prospects in agriculture may be compromised or quickly overturned depending on weather conditions and impacts of lockdowns that can disrupt agricultural supply chains.

129. Overall, the prospects for industry and services may remain subdued for some time. Almost 60 percent of Afghanistan's imports in 2019 were for industrial purposes. The post-pandemic disruption in trade is partly responsible for industry's low (2 percent) rate of growth in 2019 that is predicted to decline by up to 10 percent in 2020. The already anemic growth in services in 2019 (1.5 percent) is also estimated to decline by 14 percent.

... On domestic revenues

130. Overall, the C-CGE model predicts that domestic revenues from all sources would decline by more than 16 percent on average year-in year-out till 2024 (Figure 10). This decline is somewhat bigger than what the World Bank models suggest, that is, that revenues would be 11.4 percent lower in 2023 than in 2019 (a drop to 12.5 percent from 14.1 percent of GDP). The World Bank also predicts that the share of recurrent expenditure financed by domestic revenues ("fiscal sustainability") might drop from 74 percent in 2019 to 48 percent in 2020. This ratio is expected to rise to only 64 percent by 2023 with full recovery taking even longer. Excluding new grants for fighting the pandemic, the fiscal deficit is expected to reach 5 percent of GDP. The 2020 the mid-year budget review has already revised downward the revenue estimates by nearly one-third (from US\$2.7 billion to US\$1.9 billion)¹⁴¹.

131. All sources of revenues, direct and indirect, will be reduced, though to different extent. The corporate tax revenue can be reduced by an average of 17 percent between 2020 and 2024 and the personal income tax revenue by nearly the same amount. The tax on goods and services could be reduced less, by almost 10 percent (Figure 10 and Figure 11). The cumulative loss in revenues can reach nearly US\$2 billion by 2024 by which time they will still be below their level in 2019.



132. The revenue from taxes on international trade will be affected most by almost 20 percent. This is not unexpected given global nature of the pandemic that has reduced economic activity and restricted international trade as a precautionary, if not a protective, measure. By comparison, the World Bank expects revenues from international trade to fall by around 33 percent. However, both simulations agree that revenue collection is likely to remain depressed and unlikely to recover its 2019 levels before 2023.

The Health Challenge

133. The fight against the pandemic calls for additional funding and access to health services. There has already been a swift response through partial reallocation of domestic resources and additional donor funds. However, given the smallness of the health sector, even a fast expansion will initially make only a small contribution to the total capacity required to address the pandemic effectively. Much more will be required in terms of protocols for referrals, dedicated ambulances, isolation centers and quarantine, contact tracing, disease surveillance at community level, preparation of guidelines, development of training materials, awareness campaigns, data collection and analysis of information, ideally on a daily basis.

134. Even if the health physical infrastructure were in place, more would be required for effective service delivery – leaving aside the need to prepare for a possible second wave of the virus. The medical infrastructure in place often attracts the most attention but, as the experience even from some high-income countries makes clear, the role of leadership and weak management systems cannot be overstated. Failure to take into consideration the strength of political will and managerial competence can compromise the effectiveness of programmes, as does the lack of knowledge among citizens regarding the essentials of public health practices¹⁴².

135. The health situation can be conflated by two additional factors. First, the pressure on health services arising from the spread of COVID-19 can compromise the provision both of individual treatments for other conditions and the delivery of public health services (such as vaccinations, especially polio). This has happened even in some high-income countries where there have “excess deaths” owing to less attention being paid to ordinary diseases and medical emergencies. Second, the ongoing conflict in Afghanistan does not seem to spare hospitals, clinics and medical personnel.

There are Policy Options

136. While not all is within the nuances that the models can handle, growth-sensitive fiscal policies are actually possible and can dampen the adverse effects on economic growth and livelihoods.

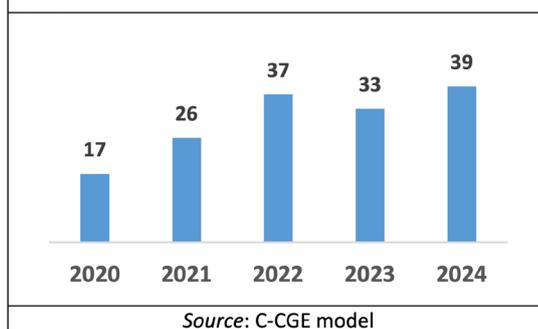
- The reduction of the adverse effect of fiscal tightening would depend on the composition of the adjustments both on the revenue side and the expenditure side of the budget. For example, raising revenues might be preferable to be done through expanding the tax base, rather than increasing the tax rates; the fiscal space can be expanded by switching expenditures away from unproductive subsidies to investments in areas that have high social returns; reducing corruption can allow more funds to be channeled to worthy activities such as those in the areas of health, education and productive infrastructure.
- Macroeconomic policies would not alone be enough: To be effective, they will also require steps to improve the business environment and regulatory framework to “crowd in” the private sector, including from domestic and foreign investors. In this respect, improving governance is of paramount importance.
- Improving this macro-micro nexus can also improve the prospects for peace. Expanding revenues, for example, by reducing conflict related tax exemptions (such as those stemming from the inability to tax in areas that are not under the control of the government) would come with the need to also spend in those so far difficult to reach areas. This can signal the intention and confirm the ability of government to expand its socially-useful spending, therefore reducing the need of ordinary citizens to rely on non-state actors for their employment, social protection, and livelihoods.

... Through Domestic Mobilization and Donor Support

137. All types of domestic mobilization in terms of revenue increases and expenditure reduction/ switching would result in a “growth penalty”. UNDP has simulated the effects of the following policies:

- To fully offset the expected fiscal gap, donor grants should increase by 30 percent compared to the previous grant cycle.
- Over the next 5 years, additional US\$6 billion would be needed to cover the government budget losses caused by the pandemic to maintain the level of expenditures initially planned by the IMF, 30 percent more than in the previous 5 years.
- The additional spending required to directly address just the effects of the pandemic could reduce the growth rate by:
 - 2 percent if funded by the government budget (that is, in addition to the 6 percent induced by the pandemic).
 - 1.3 percent if funded through switching from other public expenditures (neutral deficit impact).

Figure 12: Annual additional requirements for grants to maintain the level of expenditures as projected in 2019 (% of GDP)



| | |
|-------------|-------|
| Afghanistan | 6.84 |
| Iran | 1.12 |
| Pakistan | 1.11 |
| Nepal | 0.13 |
| Armenia | 0.003 |

Source: UNDP A-GTAP estimates and IMF (2020), Macro-economic cost of Conflict, Working Paper #20/110.

... Through Achieving Peace and Improving Governance

138. Improvements in governance and achieving peace can create fiscal space and boost economic growth. If governance is improved by reducing waste and leakages, increasing the efficiency in tax collection, and making best use of existing resources – this could add 2 percentage points to the economic growth rate. Reaching a peace agreement would have a positive impact on private sector confidence and the level of economic activity and revenue collection. It could increase government capacity to deliver across the whole country, increase attention to the provision of public services, and execute development projects. Assuming a peace deal is signed and would last for four consecutive years, Afghanistan’s GDP could grow nearly 7 percent over and above what it might have been, had conflict continued.

... Through Private Sector Development

139. Private sector development, as well as increased access to loans and investments, can also add to the size of GDP. The loan-to-deposit ratio in Afghanistan is particularly low (15 percent). This means that banks rely on their own deposits to make loans to their customers and may not be earning as much as they could while lending to the private sector remains subdued. In fact, credit to the private sector is barely 4 percent of GDP compared to nearly 30 percent on average in low-income countries. While over exposure by the banks should be avoided, according to A-GTAP simulations a decline in the cost of capital by 10 percent would increase the capital use of firms by 17 percent with a resulting increase in GDP by 1.6 percent. If the business environment becomes more conducive to investment, this could add 2 percentage points to the economic growth rate. And if Public-Private Partnerships projects can attract US\$4 billion, this could both fill the projected funding gap resulting from lower donor grants and catalyze sustainability transitions in the real economy.

... Through Trade and Exports

140. A reduction in trade costs would have beneficial effects on Afghanistan and also on its neighbors. A reduction in costs can come from policies that would simplify customs procedures, improve transport logistics and reduce political tensions among Afghanistan's regional trade partners, SAARC² and RECCA³. The results suggest that, if regional cooperation increases through a 10 percent reduction in trade costs, Afghanistan's GDP will increase by:

- 1.5 percent in the case of trade with RECCA-VII countries
- 3.7 percent in the case of trade with Pakistan alone, and
- 4.2 percent in the case of SAARC countries (see Table 5)¹⁴³.

| Country | Bilateral | SAARC | RECCA-VII |
|-------------|-----------|-------|-----------|
| Afghanistan | 3.740 | 4.245 | 1.462 |
| Pakistan | 0.040 | 0.442 | |
| India | | 0.002 | 0.002 |
| Bhutan | | 0.522 | |
| Sri Lanka | | 0.001 | |
| Kyrgyzstan | | | 0.067 |
| Iran | | | 0.004 |
| Turkey | | | 0.002 |
| Georgia | | | 0.002 |
| Armenia | | | 0.001 |
| Tajikistan | | | 0.001 |
| Kazakhstan | | | 0.001 |

Source: UNDP A-GTAP staff estimates

141. The benefits from increased trade will not be confined to Afghanistan. The increase in its GDP could boost the imports supplied from increased exports by its trading partners by 11 percent. Accordingly, the GDP in the countries of the trading partners will increase. The increase will be significant in Iran and Pakistan, although smaller among other trading partners (Table 5).

142. Additional CGE simulations examined the effects on SDGs and agriculture. In addition to being part of SDG-17 ("global partnerships for sustainable development"), a 10 percent reduction in the cost of doing trade between Afghanistan and SAARC countries would advance progress towards SDG-2 (zero hunger) and SDG-1 (no poverty). Poverty would be reduced by 15 percentage points¹⁴⁴ and food insecurity would be reduced by 14 percentage points from its current level of around 35 percent found both in rural and urban areas (IE-LFS2020). And if cultivated land increases by 5 percent and total factor productivity (TFP) by 1 percent, there would be a decrease in food prices by between 0.9 percent and 1.5 percent, while GDP would increase by 1.4 percent. Both changes are with respect to their levels in 2019.

143. When collectively pursued as a package, the gains arising from these policies could be even higher. If trade improves and private sector development accelerates in tandem with an expansion in agriculture, the cumulative impact on Afghanistan's GDP by 2030 would be 30 percent higher than if any of these policies were

2. SAARC (South Asian Association for Regional Cooperation) includes Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka.

3. RECCA-VII (Regional Economic Cooperation Conference on Afghanistan, 2017) includes Afghanistan, Kazakhstan, Turkey, Georgia, Armenia, India, Iran, Tajikistan and Kyrgyzstan.

pursued alone, and 42 percent higher than in a “business as usual” scenario. Accordingly, UNDP is conducting a series of comprehensive assessments to better advise the government and development partners on the way forward, also taking into consideration the effects of the pandemic (TEXTBOX 10).

Text box 10: UNDP in Afghanistan and COVID-19

UNDP is repurposing and mobilizing funds to support Afghanistan’s national response, prevention, and mitigation activities, and prepare for longer-term development interventions. With international partners, UNDP is working to procure personal protective equipment (PPE) and other health supplies, and has established 15 fixed health centers and 11 mobile health teams and two home follow-up teams.

UNDP also is focusing on increased risk communication, contact tracing, case detection, and follow-up care through fixed and mobile teams in Kandahar, Jalalabad, and Herat, with two mobile teams and one fixed health center for COVID-19 in each of the above three provinces.

With financial support from the Global Fund, UNDP has helped to strengthen Afghanistan’s laboratory and diagnosis capacity nationally, and has provided technical assistance to train 25 regional and provincial laboratory staff in the use of high-tech equipment. The country’s central public laboratory can now process 1,500 tests daily, while laboratories can process 150 daily in Herat, 100 in Balkh, 100-150 in Nangarhar, and 120-150 in Kandahar province.

In partnership with the Ministry of Interior Affairs (MoIA), UNDP is helping to make operational five new hospital facilities so that they have the capacity to quarantine, isolate, and treat infected Afghan National Police personnel. These hospitals will receive health equipment and medical supplies and comprise some 300 beds, with quarantine facilities and intensive care units, across five provinces. To further support frontline medical and security personnel, UNDP is procuring protective and sanitary kits including hand sanitizers, rubber gloves, face masks, and other protective equipment.

Source: UNDP staff reports.

E. The Environment: An Increasingly Challenging Issue

144. Decades of conflict have undermined Afghanistan's capacity to respond to natural disasters, making it difficult to withstand the impact of ecological pressures in the future. It is the most affected low-income country by natural disasters being second, only to Haiti in the number of fatalities resulting from them in the last four decades. Afghanistan faces the highest number of ecological threats arising from water stress, food insecurity, floods, droughts high population growth and mass population displacement in addition to being one of the world's least peaceful nations. It lacks risk information and advanced warning systems, protective capacity, coping mechanisms, and the ability to grow economically, thereby being in a weak position to gradually stand up to the ecological challenges it is confronted with. Afghanistan is considered to be the country with the least resilience and ability to cope with ecological shocks now and until 2050¹⁴⁵.

145. On most environmental metrics, Afghanistan has among the lowest, if not the lowest, scores in the world and its position is deteriorating. It is generally placed among the bottom three percent of countries and came last among 141 countries in the 2020 Ecological Threat Register¹⁴⁶. In 2020 Afghanistan ranked 178th out of 180 countries in the Environmental Performance Index (EPI) only ahead of Myanmar and Liberia¹⁴⁷. The only positive indicator in Afghanistan is its Ecological Footprint (EF) per person in which it is ranked the 7th best country globally.¹⁴⁸ However, this is largely a reflection of the elementary nature of production techniques and unsophisticated household consumption. The EF is likely to increase in the future due to fast population growth.

146. Afghanistan's challenging geography and lack of infrastructure further reduce its ability to respond to disasters. The road system, which is still in need of improvement, connects urban centers around the perimeter of the country, leaving many people who live along river valleys, in deserts and mountains out of reach of essential services. Soil erosion aggravates the situation for the nearly two-thirds of Afghans whose livelihood depends on agriculture to hunger by destroying arable land. All these factors combined affect adversely livestock through the reduction in vegetation cover and the suitability of rangeland for grazing.

147. Periodic droughts have far reaching effect in Afghanistan. Droughts result in decreased productivity, forced migration, changes in livelihood activities, decreased exports, financial losses for citizens and fiscal losses for the Government. Flash floods result in damage to irrigation canals, destruction of agricultural land, the loss of crops and livestock, damage to and destruction of dwellings, the spread of diseases, and destruction of infrastructure including roads and bridges.

148. The impact of natural disasters has affected nine million people since 1980, who are nearly one-third of the current population¹⁴⁹. As elsewhere, the poorest suffer the most from climate change¹⁵⁰. In 2018 alone, more than a quarter of a million people in the western regions alone were displaced by a drought¹⁵¹ that exacerbated poverty and insecurity. More recent floods and landslides amidst the pandemic during the summer of 2020 have resulted in hundreds of deaths and displacement of thousand families. Recurrent extreme winter conditions, avalanches, hot summers and sandstorms coupled with periodic earthquakes place Afghanistan globally in the top 10 percent of countries in terms of vulnerability to such shocks¹⁵².

149. Across Afghanistan, the annual number of deaths attributable to inhaled particles has tripled from 1990 to 2019¹⁵³. Air pollution is ranked second only to malnutrition as the highest risk factor contributing to death and disability¹⁵⁴. One survey ranked Kabul as the 9th most polluted city out of 96 assessed¹⁵⁵ and Kabul while on another account it is considered to be the world's worst polluted city in 2020 and it is expected to remain among the most polluted cities in the near future¹⁵⁶. There are several causes for this such as excessive use of coal, aging vehicles, electricity shortages, low-quality fuels, and burning old tires and plastics to provide heating¹⁵⁷. According to the Ministry of Public Health, there were 5,000 deaths attributed to air pollution in 2020. Other estimates claim this number is much higher and in fact exceeds the number of deaths from conflict¹⁵⁸. Unless air pollution is contained, it can have significant long-term economic implications as it constitutes the second highest increase in gross national income losses globally. While several countries have managed to contain pollution, Afghanistan has seen one of the highest increases in household air pollution losses in the world in since the middle 1990s¹⁵⁹.

150. The environmental risks are more likely to increase than not and to do so in the not very distant future. There is bound to be more intensive exploitation of land in view of increasing population and, at least in the short run, increases in poverty. Annual precipitation has already decreased, the incidence and duration of droughts may increase as it has done over the last 20 years: the per capita renewable water resources have dropped by nearly 40 percent¹⁶⁰. The existing irrigation systems in Afghanistan are operating at a low efficiency level of about 25 percent, which indicates that there is considerable scope for reducing waste.

151. Thus, Afghanistan finds itself in a situation that it has both an excess water supply and water scarcity, resulting both in floods and droughts. Snow and ice have traditionally made up the largest sources of annually renewable freshwater. In 2017 this made the annual per capita water availability of nearly 1,900m³/inhabitant/year. This amount is far above the minimum required. Despite this, water resources per capita have dropped by 25 percent since 2003. Moreover, water availability varies with season and drops during droughts while its distribution is geographically unequal. The unequal distribution of water has led to over-extraction of groundwater both for agricultural uses in rural areas and for drinking water in urban areas with a consequent drop in groundwater levels and also in the quality of water. Several analyzed samples of water have found that concentration of harmful substances in water significantly exceed the WHO maximum prescribed levels¹⁶¹.

152. Deforestation and illegal extraction and trade of minerals pose additional environment concerns. Although reforestation and afforestation efforts are increasing, less than two percent of the land is covered by natural forests¹⁶² and at the current rate, they may completely disappear by 2050¹⁶³. Other natural resources, such as talc, are being exploited on a massive scale, fetching around US\$300 million a year that are appropriated by militant groups¹⁶⁴.

153. The impacts of environmental degradation will be more severe among the more vulnerable and poorer segments of the population. More than 80 percent of community livelihoods are based on natural resources and the pressure for productive and equitable sharing of resources is critical to fight poverty and hunger. The situation can be aggravated as the size of the population increases and shocks take place more frequently. And when more than one shocks take place at the same time, their effects can multiply. Failure to address them in a substantive and timely manner can have an adverse effect on Government legitimacy.

154. Though this may not appear to be a short-term priority, climate change impacts may affect hydro-electricity production from changes in precipitation, unpredictable ice pack and snow melt patterns, combined with deforestation. The amount of water reaching lowland hydroelectric plants is already declining partly due to increased competition for water use from upstream irrigation. The absence of water management results in heavier flow peaks in winter due to higher precipitation and earlier snow melt and decreased flows in summer due to droughts which may also lead to an increase in community conflicts over water.

155. Afghanistan seeks to maintain and eventually restore its critical natural resources base. To this effect, it will need to address significant barriers to biodiversity conservation, watershed maintenance, and improve productivity, as well as put in place a clear institutional and legal framework for the management of protected areas. The country currently has an inadequate Protected Areas System (PAS) and limited capacity for enforcement. Still, the Government has developed and implemented several environmental policies on different topics. It has introduced a five-year plan to reduce air pollution in major cities and issued a number of Presidential decrees on topics such as tree plantations, prohibition of wildlife hunting, and a ban on burning air polluting substances. There is also a national Afghan Climate Change Strategy and Action Plan (ACCSAP). A draft National Environment Policy (NEP) is in the early stages of development but, when completed, it can guide decision-making and the interpretation of the Environment Act of 2008 in critical multiple connected areas that give rise to insecurities related to water, food, energy, ecology and climate. It can take into consideration the impact of climate shocks on factors such as resource scarcity, livelihood security and displacement, which can increase the risk of future violent conflict.

156. Achieving a peace settlement is likely to increase the exploitation of natural resources. Afghanistan is rich in lapis, onyx, chromite, oil and copper. However, it should avoid the “resource curse” by developing a clear green vision that would avoid illegal mining, local conflicts, loss of lives, corruption and an increase in environmental degradation. An effective legal and regulatory framework will be needed to provide the foundation on which mining operations and other resource extraction activities can take place¹⁶⁵.

F. Social Protection

Social Protection is at the Heart of the SDGs

157. Social protection is a core part of social services and includes measures that prevent, manage, and overcome situations that adversely affect people’s well-being¹⁶⁶. It helps individuals maintain their living standard when confronted by contingencies such as illness, maternity, disability or old age; market risks, such as unemployment; as well as economic crises or natural disasters. It encompasses policies and programmes aimed to reduce poverty and vulnerability through the promotion of labor markets, lowering exposure to risks and enhancing capacity to address risks. It includes contributory schemes whereby future beneficiaries pay at least some part of the required insurance premium, and tax-financed schemes.

158. Accordingly, social protection encompasses insurance-based schemes funded by contributions, typically referred to as social insurance or social security, and needs-based schemes funded by general revenues that are referred to as social assistance. Still these terms are often used in a rather ambiguous way. For example, social security is at times synonymous with social protection, though it is more often associated with income support. The Universal Declaration of Human Rights states that “Everyone, as a member of society, has the right to social security”¹⁶⁷ and explains this right to apply to “unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his [or her] control”¹⁶⁸.

159. The list of social protection measures is long in practice ranging from policies that cater “from cradle to grave” to just a few or even one: pensions for formal sector employees only. In between these two extremes, social protection policies can address tangible risks such as unemployment, sickness, disability and old age as well as less tangible ones, such as exclusion. Thus, social protection is faced with the problem of a loose definition, both theoretically as well as in practice. For example, employment/unemployment programmes as well as education, health services and humanitarian assistance all serve the purpose of providing social protection to the citizens. To complicate matters further, social protection can be offered by different agencies that are supported by different budgets, at times with little policy and spending coherence.

160. The SDGs provide a framework for social protection, but their targets are scattered across many different goals. The ILO approach identifies target 1.3 as a particularly relevant one. This target calls upon countries to implement nationally appropriate social protection systems for all, including floors, for reducing and preventing poverty. Other targets include target 3.8 on universal health coverage; target 5.4 on gender equality; and target 10.4 on generally greater equality. A specific goal (SDG-8) is particularly relevant to social protection as it refers to economic growth and decent work both being preconditions for archiving many other goals, including income security, and for reducing the need for social protection¹⁶⁹. Other goals of relevance to social protection include SDG-2 (on hunger), SDG-16 (on peace, justice and strong institutions) and SDG-17 (on partnerships).

161. Social protection is considered to be “good economics”. In this respect it is useful to distinguish social protection between employment-oriented, insurance-based and assistance-focused. A practical approach is proposed in the CODI (Core Diagnostics Instrument) that was agreed between 25 organizations including many from the UN family (UNDP, ILO, UNICEF, World Food Programme, the United Nations University and the Food and Agriculture Organization), as well as the International Social Security Association, the World Bank, and others¹⁷⁰.

162. CODI is based on the analytical frameworks provided by the ISPA tools (International Social Protection for All)¹⁷¹. It examines the performance of social protection systems, programmes and delivery mechanisms. It provides an overview of what the basic features of the national social protection policy framework are, including legal framework and rights. It covers the role of a national social protection strategy and objectives; the need for institutional arrangements and benefit institutionalization; the ability of national capacity for policymaking,

dialogue, implementation, and coordination; issues of public spending and sources of financing; and the need for monitoring and evaluation capacity.

163. Similarly, following UNDP’s approach to fragile states, the assessment of approaches and policies needs to be a multi-faceted one (TEXTBOX 5). These facets are weaved into CODI’s analysis that identifies seven key areas: (1) legal framework, strategy, and national objectives; (2) alignment of policies with the social protection needs of the population; (3) social protection policymaking; (4) social protection policy implementation; (5) public spending and financing; (6) information dissemination and raising awareness; and (7) monitoring and evaluation systems. The “key areas” and the “assessment criteria” elaborated in the CODI tool provide a useful entry point regarding what type of analysis can be relevant for Afghanistan, what policies to select, how to implement them and then monitor their results.

164. Two areas that complement and enhance social protection efforts are education and health, which are weak in Afghanistan. Both are merit goods with substantial positive externalities in the economy and the society and also on most SDGs. Achieving universal basic education (SDG-4) is probably one of the most reachable goals (TEXTBOX 11).

Text box 11: Universal Enrolment in Education: a Low Hanging Fruit with Far Reaching Benefits

There are 3.7 million children out of school. At a unit cost of around US\$50 per year, their enrolment would require additional public expenditure of US\$185 million annually. This is equivalent to less than one percent of GDP (0.93 percent in 2019) and only a fraction of the 30 percent of GDP spent on security.

Increasing access would require additional capital expenditures to build more schools. Moreover, families should be willing to do so. This can be facilitated by increasing public awareness regarding the benefits of educating children, especially girls.

Families should also be able to afford to send their children to school. There are several ways for the Government to encourage this. One measure is to reduce the direct costs of education for example, by waving user fees officially, at least for the needy students, and avoiding side payments unofficially. There also are successful examples from the international experience of adjusting the school year and attendance requirements to the agricultural conditions in developing countries, as a lot of child work is in family farms. Another measure is to increase the benefits of attending schools by cash transfers conditional on attendance and progression as well as offering school meals.

In addition to its future effect on productivity, worker mobility and citizen literacy (from better health within households to informed political participation), achieving universal enrolment would reduce the rate of early marriages that in Afghanistan affects one in six girls by the age of 15 years.

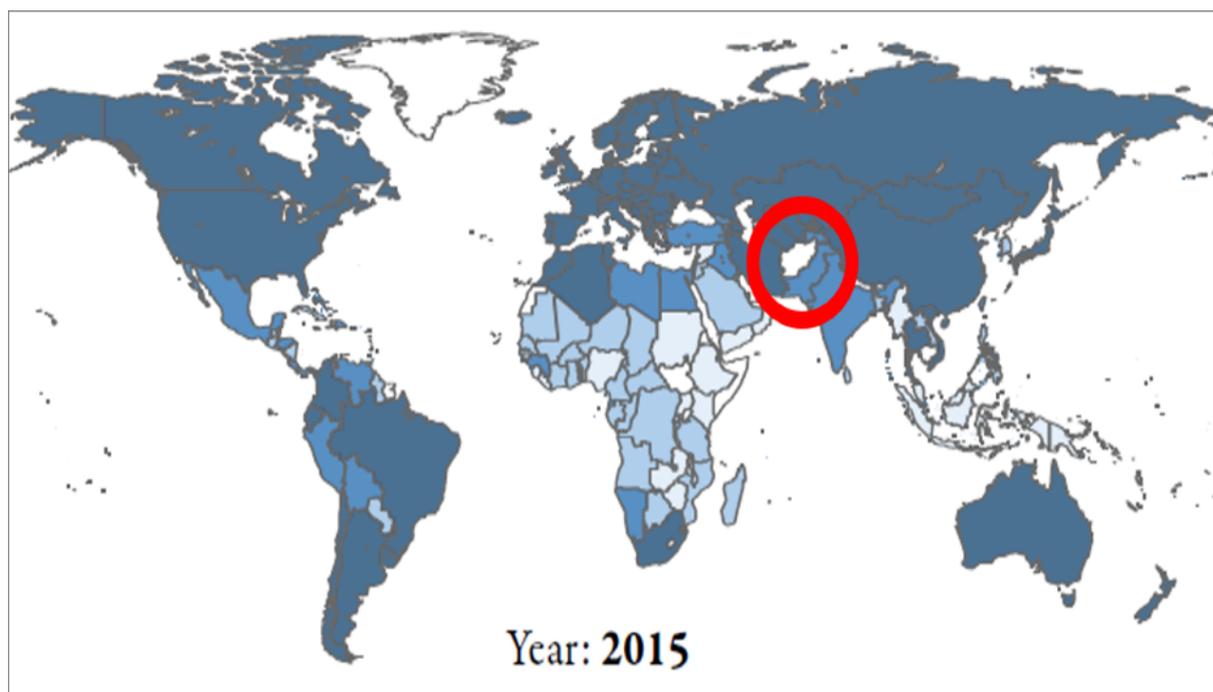
Sources: Orazem, Sedlacek and Tzannatos (2009); World Bank (2016); UNICEF (2020).

165. Education has significant spillover effects on other SDGs. For example, decent work (SDG-8) that can contribute to poverty reduction as education raises the productivity of workers, increases the effectiveness of training and enables workers to move across occupations and industries. In fact, it is the mobility of workers that has a substantial impact on productivity growth through the reallocation from less productive activities to more productive activities, such as moving out of agriculture to industry and services or from declining to expanding sectors. Better health (SDG-3) also contributes to productivity and reduces the loss from illnesses and premature deaths. Although education is usually seen as area distinct from social protection, all approaches include health as a core element of social protection. In this respect, health can be approached from two angles. One is that general health services should be accessible to all – from childhood through to adulthood and old age. The other is through health insurance, specifically for workers and their families.

Global Positioning of Afghanistan

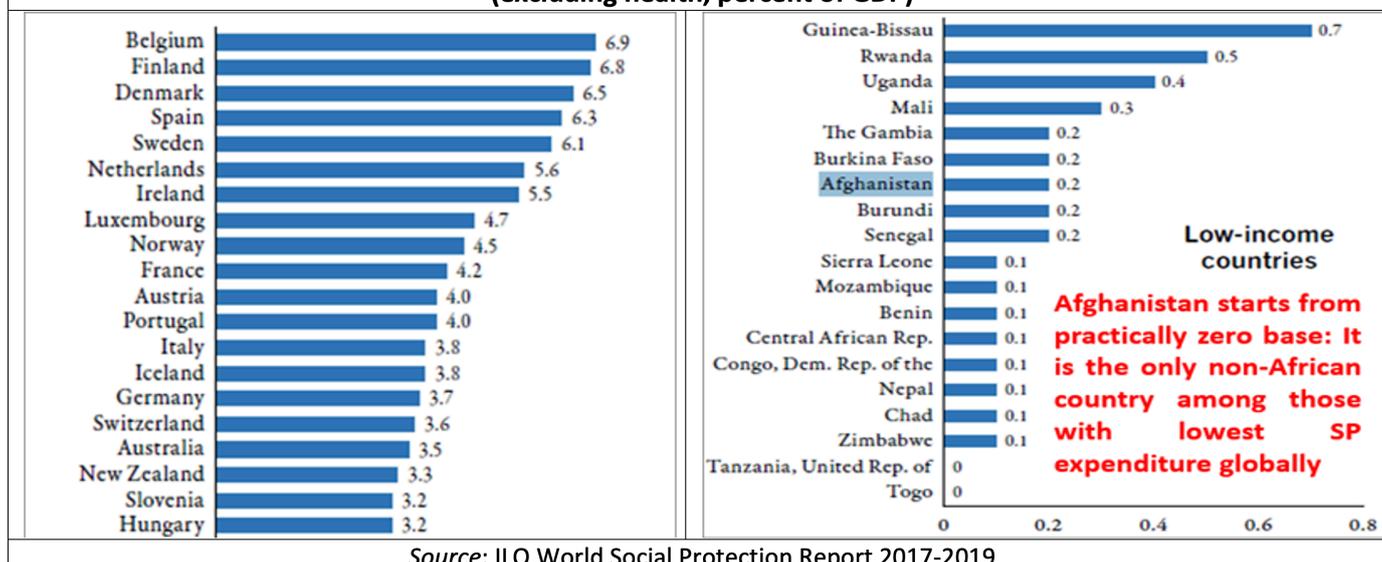
166. Afghanistan practically starts from a low base regarding social protection, having little prior experience with regard to the design and implementation of interventions. It is probably the country with the lowest number of social protection policies as well as having one of the lowest levels of public spending on social protection. Figure 13 shows the number of social protection policy areas across the world with darker colors indicating the country has more programmes. And as Figure 14 also shows, Afghanistan is in the group of countries with the lowest spending on social protection, all others in the group being Sub-Saharan countries.

Figure 13: Number of policy areas covered in social protection programmes anchored in national legislation (darker areas: higher number)



Source: ILO World Social Protection Report 2017-2019

Figure 14: Public social protection expenditure on people of working age by income level (excluding health, percent of GDP)



Source: ILO World Social Protection Report 2017-2019

167. The initial selection of policies in Afghanistan cannot be over ambitious, and should initially aim for low-hanging fruits. The design and administration of social protection interventions and more generally social protection systems are complex. Unless policies are carefully formulated, unit costs can be relatively high without having commensurate effects on the objective. Without compromising the “integration imperative” for achieving the SDGs in low-income countries that face fiscal constraints and have weak governance, priority should be given to achieving universal education. As mentioned earlier, education is a low-hanging fruit, as it has low unit costs and high returns. Similarly, health services should continue to focus at least on basic services ranging from immunization to reducing unplanned pregnancies and increasing the number of births attended by skilled health staff, thereby reducing maternal and infant mortality.

168. Other than education and health, the case for social protection is expanded below in terms of the available interventions and funding options for labor market policies and social assistance.

The next sections provide an overview of the interventions that usually come under the social protection umbrella distinguishing between employment policies (including for agriculture), social assistance and social insurance. They also discuss the issues of policy coherence, implementation, outreach, monitoring and evaluation as well as options for funding. It should be taken into consideration that most countries introduced and expanded social protection interventions sequentially after some critical level of income and structure of production is reached. Historically social protection measures have started when country per capita incomes had reached around US\$2,000 (Table 6). However, some developing countries have started introducing some social protection systems at lower levels of threshold per capita incomes¹⁷².

| (in 1990 US\$) | | |
|---------------------|------|-------|
| Germany | 1889 | 2,379 |
| Denmark | 1892 | 2,598 |
| France | 1905 | 2,894 |
| Australia | 1908 | 4,693 |
| United Kingdom | 1911 | 4,709 |
| Romania | 1913 | 1,741 |
| Sweden | 1913 | 2,874 |
| Spain | 1919 | 2,044 |
| Italy | 1919 | 2,103 |
| Belgium | 1920 | 3,962 |
| Russia | 1922 | 611 |
| South Africa | 1928 | 1,533 |
| Hungary | 1928 | 2,415 |
| Poland | 1929 | 2,117 |
| Greece | 1934 | 2,418 |
| Argentina | 1934 | 3,845 |
| Portugal | 1935 | 1,669 |
| Brazil | 1936 | 1,235 |
| Norway | 1936 | 4,035 |
| Finland | 1937 | 3,441 |
| Canada | 1937 | 4,473 |
| Ortiz et al. (2019) | | |

169. It is not unexpected that at its current low-level of per capita income, Afghanistan has no large-scale national safety nets or tax-based income transfer programmes¹⁷³ The formal sector is small, making it hard to verify the employment status and level of income of potential beneficiaries. The tax base is small resulting in revenues that are not adequate to introduce and expand pro-poor policies. Designing the appropriate governance structure is challenging amidst conditions of conflict, weak governance and corruption and the massive scale of the problem: a substantial part of the Afghan population includes children and the vulnerable, disabled, widowed, and elderly citizens. Developing the relevant protocols and mechanisms on the ground is neither easy, nor can they be achieved in a short period of time.

170. Moreover, effectively implementing social protection involves the participation of many agencies at the national, regional and community levels where the potential beneficiaries are located. One can easily count more than 20 ministries and agencies that are involved in Afghanistan and as many international donors¹⁷⁴. This raises the issue of policy coherence, coordination and the difficulty of reducing fraud and the abuse of public funds. The complexity is increased by the fact that many programmes are supported by international donors. For example, many of the social protection programmes that are being implemented and coordinated involve more than a dozen UN agencies, financial institutions and development partners¹⁷⁵.

Options for Afghanistan

171. The social protection measures described in this section support several SDGs. They do so both from a development/human capital perspective and also a welfare/humanitarian perspective (Table 7). For example, cash assistance to households in the form of a social pension paid to the elderly can directly reduce poverty and indirectly increase education enrolments and reduce child labor, thus contributing to future economic growth. Public works can reduce exposure to labor market risks and increase macroeconomic resilience by preserving consumption levels¹⁷⁶.

| Objective | Goal |
|----------------------------------------------|----------------|
| Tackle poverty and inequality | SDG 1, SDG 10 |
| Strengthen food security Goal 2 | SDG 2 |
| Improve health and cognitive development | SDG 3, SDG 9 |
| Strengthen education outcomes | SDG 4 |
| Promote gender equality | SDG 5 |
| Household level environmental management | SDG 6, SDG 13 |
| Strengthen social inclusion and cohesion | SDG 11, SDG 16 |
| Decent and productive work; inclusive growth | SDG 8 |
| Improve macroeconomic resilience | SDG 12 |
| Opportunities for development partnerships | SDG 17 |

Source: UNICEF (2019b)

Labor Market Programmes: Help the Poor help themselves

172. Labor market interventions are policies and programmes designed to promote the efficient operation of labor markets, employment and the protection of workers. They are accordingly classified as “active” and “passive” policies. Active labor market programmes (ALMPs) aim to help initial job seekers or the unemployed to get jobs or existing workers move across jobs, for example, due to company restructuring or declining industries. They take the form of (a) programmes across the whole labor market such as Employment Services involving job counseling, placement assistance and job matching that aims to increase the efficiency of labor markets and reduce frictional unemployment; (b) supply side programs aiming to increase the employability of workers through Training and Retraining with target groups being prospective and current workers, the unemployed and specific groups such as women and the youth; (c) demand side programmes aiming at Direct Employment Creation by supporting micro and small enterprises through technical assistance and financing, public works and subsidies.

Passive labor market programmes include out-of-work income maintenance, such as unemployment benefits, and at times early retirement on the expectation that this would create space for the unemployed to replace retired workers or would lead to efficiency gains by recruiting more productive replacements.



173. Public works is probably the most promising first step for scaling-up in Afghanistan especially in rural locations affected by natural disasters. Public works programmes, also known as “cash for work” or “food for work”, are commonly found in low-income countries and often take place in rural areas under stress. They typically target poor households and unskilled workers (often women) and can serve the dual objectives of generating income and creating or maintaining local infrastructure, for example, by improving water supply and sanitation or building roads, bridges, irrigation systems, schools and health clinics. There are already some examples of such programmes in Afghanistan supported by multiple donors¹⁷⁷. Setting the wage rate is critical for determining the costs of public works as well as for attracting participants. A daily wage rate between AFN300 and AFN350 appears to be the current norm (US\$3.8/day to US\$4.4/day). However, in the context of rural communities, especially during periods of systemic unemployment, a lower daily wage can be sufficient, given that the average daily income (GDP/person) is only AFN120 (US\$1.6) and for those below the poverty line equal or less than AFN68 (US\$0.9). On this basis, UNDP has estimated that:

- Public works for 75 days (3 months) paid to one million beneficiaries
 - At a daily “market” wage rate of AFN300 (US\$3.9) would require a fiscal outlay of 1.5 percent of GDP (US\$293 million)
 - At a daily “average income” rate of AFN120 (US\$1.6) would require a fiscal outlay of 0.6 percent of GDP (US\$117 million)
 - At a daily “poverty line” rate of AFN68 (US\$0.9) would require a fiscal outlay of 0.3 percent of GDP (US\$66 million).

174. In contrast, unemployment protection is one aspect of social protection that at present can be delegated into the future. The administration of unemployment insurance requires heavy information requirements regarding employment and wage records, as well as the presence of effective employment offices to verify and follow up on claims. Both are lacking in Afghanistan and are unlikely to reach the required functional capabilities before the end of the SDGs in 2030. More generally, it is not practically feasible to offer unemployment insurance in labor markets characterized by a large share of informal employment and sizeable underemployment. In fact, unemployment protection is the least common social protection programme (ANNEX 5).

175. However, other labor market programmes can be considered factoring in their higher relative costs and limited effectiveness, or the difficulty of administering them. One example is enterprise support in conjunction with easier access to financial services for micro, small and medium enterprises (MSMEs), noting that related programmes may have relatively high costs and a low survival rate for start-ups. However, when properly designed, they may have significant returns. For example, UNDP is developing a pilot project to provide wage subsidies at the national minimum monthly wage (AFN5,000 or around US\$65) to full-time employees in registered micro-enterprises (those with up to three registered employees) and small enterprises (those with up to 12 registered employees) in Kabul and four border provinces for up to four months. These schemes are expected to generate around US\$4 worth of additional economic value for every US\$1 spent on related programmes. Another example is training, which is always useful but should be demand-driven by enterprises to keep costs low and to enhance its relevance. Employers or their associations (for example, industrial and trade chambers) should contribute towards at least part of the costs, but must also be given adequate authority within the relevant training boards to make decisions on the content and level of the curricula so that they are grounded in the identification of their skills requirements¹⁷⁸.

Social Assistance: A Case for Social Pensions

176. With more than half of the population living in poverty, there is certainly a great need for social assistance. Universal income support schemes are out of reach at present given the fiscal situation. For example, UNDP has estimated that a Universal Basic Income (UBI) scheme would require a fiscal outlay of:

- 10 percent of GDP if it aims to compensate citizens for even a small loss in consumption (around 700 Afghani per month) for only six months.
- 6 percent of GDP if it aims to compensate only the working age adults (15-65 years) for only six months.

177. More targeted assistance appears to be a feasible option, especially during the course of the pandemic. Social assistance can be provided to the physically or mentally disabled, widows, orphans, substance abusers, victims of natural disasters and more. It can take the form of cash or in-kind (for example, food and shelter) on a temporary or permanent basis. Without taking into consideration the administrative capacity and unintended costs (such as likely fraud and abuse), UNDP has estimated two specific measures that would require relatively low fiscal outlays: a “social pension” paid to the elderly (65+ years of age)¹⁷⁹ and income support to internally displaced people (IDPs) and returnees:

- A social pension of AFN1,000 per month paid to 800,000 elderly (65+) for 12 months would require a fiscal outlay of 0.6 percent of GDP (US\$125 million)
- Income support to 760,000 Internally Displaced Persons (IDPs) and Returnees also at AFN1,000 per month for 12 months would require a fiscal outlay of 0.6 percent GDP (US\$119 million)

178. Social pensions can be a particularly promising programme for Afghanistan. Social pensions (also called “demogrant”, “categorical pension” and “citizens’ pension”) have high reach potential across the population. While part of the social security system, social pensions do not require their recipients to have worked before, although in some cases they may have worked but not enough to qualify for a pension. Though the payment of social pensions can be conditional on income, in Afghanistan it can be universal, as the poverty rate is high and income verification is not feasible due to the large share of informality.

179. Social pensions have been found to have significant effects not only on family consumption, but also on increasing the human capital of children¹⁸⁰. Most old persons over the age of 65 in developing countries live in extended families and spend their incomes within the family. The value of social pensions is typically low, so they do not have high fiscal costs, as well as because there are fewer older people in developing countries. Social pensions also do not have a significant adverse effect on labor supply, as older people do not or cannot work.

Contributory Social Insurance: Possible but gradually as GDP and Formal Employment grow

180. Economic theory provides a clear justification for the contributory social insurance that can be introduced at any development stage. In theoretical terms, according to conventional economic theory a corner solution (“zero insurance”) can never be optimal. Given that the general population is risk averse, the willingness to insure against risks is non-zero. In practice, all countries offer some form of social insurance to public sector employees. The absence of contributory social insurance for the private sector in low-income countries is an indication of a market failure arising from “incomplete markets”. And this is also the case in Afghanistan: the economy lacks the economic capability (that is, payment of contributions) and administrative instruments that would insure workers against future risks in the labor market. From their side, employers are not insured against worker injury and investors against adverse health and safety issues affecting their workforce. At present, the insurance premium that would bring workers and employers together is too high.

181. Contributory payroll contributions from workers and/or employers (depending on the nature of the insurable risk) can therefore be introduced gradually as the rate of formalization of the economy increases and wage employment moves from the invisible to the visible. In general, social insurance can be self-financed, for example, in the areas of old age and survivor pensions for the private sector (as in the public sector), employment injuries, sickness and disability. This pre-supposes the prior undertaking of actuarial studies and an effective system in place for the administration of benefits. Afterwards, once the system is in place, it may take 10-15 years for contributors to vest their pension and start being paid.

182. Two other programmes of social protection, maternity insurance and family benefits, are less commonly offered in early stages of development than old age and survivor pensions, injury, disability and sickness and health insurance. These two programmes are more closely associated with the level of per capita level of income and the development stage of a country, although they usually are routinely available to workers in the public sector. The availability of maternity benefits could attract highly qualified women into employment and reduce the propensity of mothers to leave the labor market while they can protect and improve the human capital of a newborn. They are also an important gender equality issue. However, maternity benefits can have an adverse effect on female employment as employers may be reluctant to hire women anticipating that they may have to face the consequences of their employee's absence due to birth, while being required to pay her salary. Though nothing can be done regarding the absence of new mothers from work, the disincentive to employers that arises from having to pay wages can be reduced if maternity benefits are financed from social security funds or from the general budget. Countries are increasingly moving the responsibility of paying the wages during maternity to the social insurance fund away from the employer's payroll. Afghanistan can decide whether to enter this policy area given the low numbers of female workers in the private sector and the high fertility rates. As for family benefits being tied to employment, while some countries do offer them, they can be postponed for a later day.

183. Afghanistan can proceed by combining non-contributory benefits with contributory social insurance. The ILO has conducted a historical comparison between developing countries that have a similar level of GDP per capita to high-income countries when they established social security systems. The ILO study that countries still at relatively low incomes in the late 19th and early 20th centuries established social security systems with a mix of contributory social insurance and non-contributory social assistance. This gradual way can be adopted by Afghanistan given the fiscal space it has today. Social protection can be expanded in the future and deepen as revenues increase due to economic growth and adequate administrative mechanisms are developed to implement it.

Towards Building A Comprehensive System of Social Security

184. In the longer run, active labor market programmes like the public works and cash assistance mentioned above can be complementary to and used as the basis for building a modern and effective social security system. The system can offer protection to citizens as they move across the lifecycle, focusing on the most vulnerable categories of the population initially with parallel improvements in administrative capacity for effective implementation, while avoiding abuse, fraud and corruption. The target groups will be children, persons with disabilities, and older people¹⁸¹.

185. There are several options for introducing and expanding a system of social security, which are presented below. Table 8 sets out two options aiming at universal coverage for children, persons with disabilities and older people. Option 1 would be an initially lower cost option, commencing in Year 1 (notionally 2021) at around one percent of GDP; Option 2 would be more ambitious, starting at around two percent of GDP. The main differences are in terms of age of eligibility and transfer values. The Universal Child Benefit would begin in both cases with younger children (0-1 years of age in Option 1 and 0-6 years of age in Option 2) and no child would be removed until the age of 18, with the only additional recipients being newborns. The Old Age Social Pension would commence at 60 years in Option 1 and at 65 years in Option 2. Disability Benefits would be aimed at those with a severe disability – both children and adults – up to the age eligibility for the Old Age Social Pension, at which point they would be transferred onto the pension.

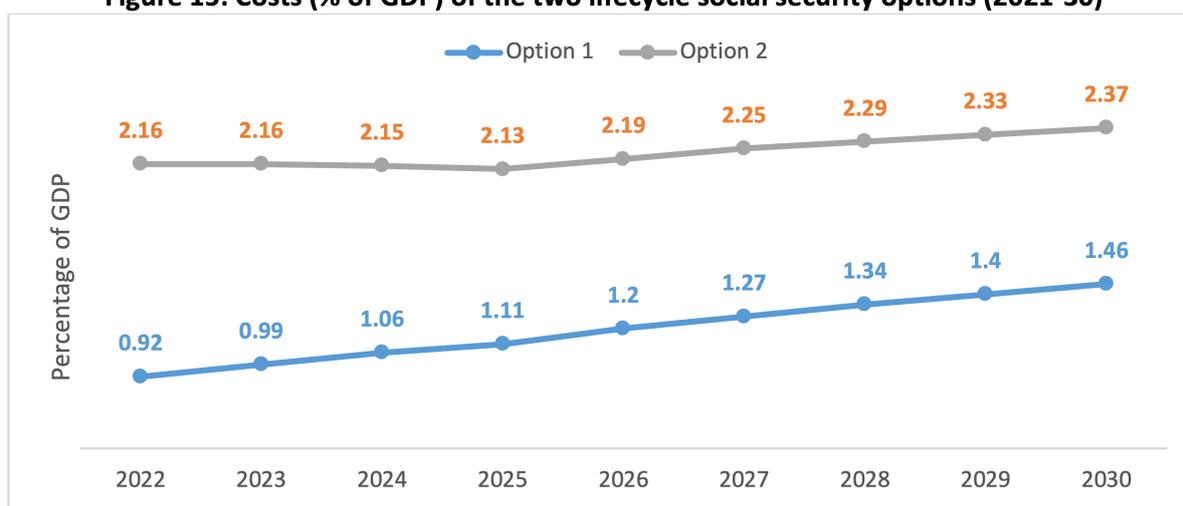
186. The number of direct recipients is projected to increase over time. Under Option 1, there would be 3.6 million direct recipients in 2021 and 8.8 million under Option 2. By 2030, the number would increase to 13.5 million under Option 1 and 18.7 million under Option 2. The proportion of households reached across Afghanistan would be high. By the time all children are incorporated in the scheme, around 95 percent of households would benefit.

Table 8: Two options for building a lifecycle social security system

| Scheme | Age of eligibility | Monthly Transfer (AFN) | Monthly Transfer (US\$) | Cost in Year 1 (US\$ million) | Cost in Year 1 (% of GDP) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------------|-------------------------|-------------------------------|---------------------------|
| Option 1 (Lower cost) | | | | | |
| Child benefit | 0-1 in year 1 | 200 | 2.60 | 66 | 0.3 |
| Disability Benefits | 0-66 | 600 | 7.75 | 65 | 0.3 |
| Old Age Pension | 67+ | | | 75 | 0.3 |
| Total | | | | 206 | 0.9 |
| Option 2 (Higher cost) | | | | | |
| Child benefit | 0-6 in Year 1 | 200 | 2.60 | 228 | 1.0 |
| Disability Benefits | 0-64 | 1,000 | 12.95 | 108 | 0.5 |
| Old Age Pension | 65+ | | | 155 | 0.7 |
| Total | | | | 491 | 2.2 |
| Notes 1/ Figures subject to rounding 2/ Assumes that child and old age benefits would have 90 percent national coverage and that disability benefits would be paid to 1 percent of children and 2.5 percent of working age adults. Source: UNDP estimates | | | | | |

187. The total cost of the two options up to 2030 are indicated in Figure 15. This is based on the assumption that the annual rate of economic growth will be 4 percent to 4.5 percent up to 2025 and 4 percent thereafter, with the benefit levels indexed to inflation. The costs would range from 1 percent and 2 percent of GDP in the initial year of implementation, rising to 1.6 percent and 2.2 percent of GDP by 2030.

Figure 15: Costs (% of GDP) of the two lifecycle social security options (2021-30)



Source: Kidd (2021).

Text box 12: A Cash Transfer Programme in Afghanistan: Results of an Evaluation

A safety net pilot cash transfer project supported by the World Bank benefited 33,490 poor and vulnerable families. The objective and modalities were “to design and implement, in selected areas, a safety net administration system that would deliver a well-targeted cash transfer ... [to] develop and test the implementation arrangements and targeting and payment systems that would help identify the poor and vulnerable households and deliver cash safely ... [to] serve as a foundation for a nationwide well-targeted safety net ... [to] inform coherent institutional framework for future scale-up of safety net interventions in the country ... [to] contribute to the Government’s poverty reduction effort”. The project was implemented from 2010 to 2017.

Impact evaluation identified several positive results. The cash transfers had encouraged school attendance and lowered child labor; improved a sense of social cohesion; increased beneficiaries’ confidence in institutions and men’s attitudes toward gender equality. As a result of the project, fewer households reduced food consumption or skipped meals to cope with negative shocks and also fewer households reported having no food in the household or children going to bed hungry. Targeting improved significantly over time “as indicated by the international experience”. From the first year to the last year of the project, exclusion errors decreased from 80 to 28 percent and inclusion errors from 85 percent to 18 percent. This was taken to constitute “a significant achievement in terms of efficiency gains”. More than nine out of 10 of the beneficiaries felt that the targeting was transparent and fair.

The evaluation also looked at several administration aspects of the project. It found measurement errors related to the definitions of household size and a high rate of discrepancies between administrative data and self-reporting of enrolled households in receipt of cash transfer payments. It noted that the completion of the project took longer than planned by 18 months – which necessitated two extensions. The enrollment of beneficiaries took 2.5 years longer than that envisaged.

The evaluation concluded that “while many of these impacts are hard to quantify and use for a cost-benefit analysis, they are most definitely positive and long lasting.”

A lesson from this project is that a targeted cash transfer programme can be useful for reducing poverty, child labor and food insecurity, as well as for increasing education enrolments. Another is that the creation of administrative capacity to deliver such a programme should take place in advance of, or at least, in parallel with, delivering the cash transfer. Beyond the project, a fundamental issue remains—the ability to fund such programmes at a national level. This can be overcome by reducing leakages and rationalizing public spending by diverting resources from activities that have low social returns toward social protection.

Source: Adapted from World Bank (2018)

<http://documents1.worldbank.org/curated/en/988361531334187508/pdf/ICR00004385-07052018.pdf>

Agriculture: An Honorary Member of Social Protection

188. The prominent role of agriculture for food security and employment is naturally related to social protection. Although not directly related to the conventional social protection programmes, there are several measures that can increase agricultural contribution to the economic recovery and long-term economic growth, thereby indirectly affording greater social protection to ordinary citizens. These measures include improvements to the existing irrigation technics, from small to larger ones depending on the environmental conditions of different regions, clearing contaminated lands and turning them into higher value production and incorporating disaster risk reduction (DRR) measures that would reduce the vulnerability of the country to natural hazards.

189. Agriculture can be given priority given its large employment share and the prevalent role of opium cultivation, with all the consequences it carries. There are many agricultural interventions for licit crops that could be implemented including extension services, rural development, natural resource management, access to markets, subsidized credit, investment grants, access to improved

seeds and fertilizer subsidies coupled with social protection interventions such as cash transfers and public works. In addition to impacts on employment and income security, these interventions are likely to have important effects on the diversification of diets, hunger, malnutrition, and poverty reduction.

190. The evidence on the effectiveness and desirability of such interventions is mixed, but is worth considering given that Afghanistan has prior experience with some of them. Some impact evaluation studies have found that cash transfers crowd out private transfers, while others have found the opposite and suggest that cash transfers schemes may improve participation in social networks¹⁸². Other agricultural interventions, such as land reform and crop insurance are likely to promote risk taking and encourage investments by rural farmers, as would agricultural and rural interventions on education. While infrastructure development can increase school attendance, education can decrease from microcredit schemes as it may lead to activities that are home-based thereby increasing child labor. This can be more relevant for girls, if such credit promotes activities that are usually undertaken by women.

191. On the health side, some interventions, such as integrated pest management, may improve the health status of rural farmers while irrigation, microcredit and land reform interventions can improve household labor allocation. New agricultural technologies have gender-specific impacts on labor demand. There can also be effects on the local economy through spillover effects on consumption from microcredit and irrigation, price changes (lower input prices and higher commodity prices) and more widespread changes in labor markets. Lastly, such interventions may lead to higher participation in social networks and to increases in informal private transfers. These are complex issues that would need to be examined more carefully and in greater detail.

G. Bridging the Fiscal Gap

192. The endorsement of SDGs by the international community came with the call for “ODA-and-beyond” to meet the cross-cutting ambitions of the 2030 Agenda, but ODA is expected to be reduced after the pandemic ends¹⁸³. ODA across the world is expected to decline following the pandemic, as donors attempt to weather the health and economic impact on their own economies. The reduction in aid can be particularly damaging for Afghanistan, where a significant part of government expenditures (including security) are funded by donors. This has been the case in the past when per capita incomes decline after donor funds were reduced (Figure 5): ODA has fallen from its peak of more than 50 percent of GDP to only around 20 percent during the last decade¹⁸⁴.

193. The fiscal situation will worsen following the adverse impact of COVID-19, while the SDG agenda is estimated to require additional funding of US\$3 billion by 2030. Part of the resulting shortfall can be met by making the best use of donor funds and reducing leakages. However, the most promising response is to promote private sector development that would increase revenues as well as switch public spending from areas that have low social return to those that would have the biggest development impact.

... Through Private Sector Growth

194. The most reliable way to increase public spending is through the promotion of private sector-led economic growth. This would result both in the formalization of production and the broadening of the tax base. The international experience, as well as common sense, clearly indicate the critical role of private sector for creating sustainable growth, and in combination with public/private partnerships and effective social policies, inclusive growth.

195. The private sector cannot grow without additional investments of substantial size. Institutional weaknesses and corruption have been critical deterrents to private investment, which has been falling over time. Even during their peak in 2005, FDI inflows were less than 5 percent of GDP and have since been reduced. Moreover, despite the numerical dominance of small enterprises and informality, less than one percent of ODA has been allocated to the development of SMEs. There have been regular proclamations for “clear strategies” for SMEs both by donors and the government, but support to the sector and access to finance have been limited¹⁸⁵. Embedded power configurations and valued social identity among local groups has not been helpful in this respect.

196. Private sector businesses encounter numerous regulatory and non-regulatory barriers and face an uncertain future amid conflict. These include corruption, limited access to finance, burdensome regulations, lack of coordinated support for local industry, poor connectivity within the country and with neighbors, and insecurity. Unsurprisingly, production mainly originates from activities in the informal economy (80 percent) that generates little growth and, if engaged in illicit activities, can even weaken the growth of formal-sector firms. The presence of firms in districts that experience violence is found to decline following increases in violence whose effects can persist for months, if not years. Larger firms that are likely to be most dynamic drivers for growth and employment have been found to react more negatively to violence¹⁸⁶.

197. The creation of economic opportunities is critical to breaking the vicious circle of conflict and underinvestment in which much of the country is trapped. This will require strengthening institutions, fostering functional regulatory frameworks, and creating a business-enabling environment to support the private sector and attract foreign investment. Priority actions include:

- the development of a proper institutional and legal framework to support the private sector and attract Foreign Direct Investment (FDI);
- the design of specific incentives for formalization, including access to credit;
- support to firms that are integrated into local and regional supply chains;
- raising awareness about the benefits of formalization;
- avoiding the accumulation of public sector arrears to private sector contractors;
- improvements in public infrastructure on which firms rely, such as water, electricity and telecommunications.

198. UNDP has reviewed and analyzed several policy areas that can support the growth of the private sector. Policy areas include existing institutional and ecosystem regulations from legal, economic and financial perspectives; the revision of public-private partnerships (PPP) and related directives regulating the sale and lease of Government lands and assets, the implementation of law enforcement necessary for the implementation of PPP projects, ways to attract private and international investments; a risk assessment of the local financial market; access of the private sector to commercial finance; proposals for a blended finance scheme in the water sector covering the mobilization of investments, securing guarantees, offering technical assistance, linkages with value chains and the mitigation of risk for individual investors; and the possibility of launching crowd-funding for the rehabilitation of a Heritage Commercial Market. There can also be possibilities to issue Green Sukuk and other forms of Blended Financing for the implementation of specific projects such as solar energy. Under such schemes the project becomes the underlying asset and the cash flow generated by the project should be sufficient to pay back the loan. UNDP can provide technical assistance and guidance based on the international experience of successful applications of such schemes, including the issuing of thematic bonds issued by both the public and private sectors on the condition that the funds obtained are used to finance projects with a social and environmental impact.

... Through Revenue Raising, Expenditure Switching and Grants

199. Macroeconomic and monetary policies can create cascading benefits across the whole economy. Such policies can ensure economic stability, promote growth and reduce demand deficient unemployment that usually accounts for the bulk of the unemployed. They include the adoption of an “accommodating” macroeconomic framework through deficit finance provided that its impact (social return) is greater than the fiscal costs. An expansionary monetary policy can help, depending on the level of inflation, its impact on employment/unemployment, the relationship between wages and prices (indexation) and also between wages and earnings from self-employment¹⁸⁷.

200. In addition to the benefits from policies that promote economic growth and increase the size of the tax base, there are several other ways to increase public revenues¹⁸⁸. An increase in tax revenue can come by reducing evasion/avoidance, increasing compliance and strengthening the efficiency of tax collection while setting the right level and mix of taxes (e.g., on consumption, personal income, property, profits, financial activities, imports and natural resources). The elimination of illicit financial flows arising from capital flight, money laundering, bribery, tax evasion, trade mispricing and financial irregularities would also add to the government funds. The contribution of the financial sector to the revenue increasing effort can also be strengthened through its participation in specialized vehicles and guarantees.

201. Increasing revenues may have little or even detrimental effect on economic growth, if they undermine incentives to produce and invest, or are spent on inefficient Government activities. Increasing the efficiency of public spending can be done by “expenditure switching” from unproductive activities to lower-cost ones that have higher social impact. At times this can be done “at a stroke of a pen” after expenditure reviews are conducted that, if taken to heart, can be completed and lead to reforms in a short period of time. This can be the case of unnecessary universal/producer/consumer subsidies or security spending. Information campaigns and incentives can encourage corporate social responsibility that can supplement Government efforts on social protection, although initially the benefits will only accrue to a few formal sector workers in larger establishments. The same applies to attempts to involve members of the diaspora in investment opportunities and humanitarian activities.

202. Finally, depending on and securing aid and concessional loans from donor governments or international organizations is a last resort, but an important one as few countries have managed to reduce public debt significantly and swiftly by themselves. In addition to trying to raise or maintain the amount of such funds, it also is desirable from a country perspective to achieve a reduction or restructuring of public debt through debt forgiveness, reductions in interest rate and increases in the length of debt maturity. Examples of such initiatives include the IMF/World Bank Heavily Indebted Poor Countries initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI) that link debt forgiveness to strengthening poverty-reduction efforts. Afghanistan

has benefitted from these two initiatives, and has received the full amount of debt-relief for which it was eligible. Though still low, its debt has tripled from 0.1 percent to 0.3 percent of GDP. In the same period, the poverty-reducing expenditures increased by less than US\$300 million¹⁹⁰. In this respect, the April 2020 Debt Service Suspension Initiative (DSSI) by the G20 presents a new opportunity for Afghanistan to make good use of the economic and fiscal benefits that come with it. The programme envisages the suspension of debt service payments on the debt of IDA-eligible and least developed countries. The Initiative is expected to result in fiscal savings of US\$40 million in 2020¹⁹¹ and this amount may increase if its duration is extended.

PART III: UNDP'S APPROACH, ACTIVITIES AND PROPOSALS

UNDP's Strategy and Programmatic Approach

203. Building on and after updating its Strategic Plan (2018-2021), UNDP is committed to support the Afghanistan's efforts guided by the United Nations Security Council Resolution (UNSCR 72/279) and emerging global approaches to fight the pandemic, while preserving the drivers for growth. The Resolution assigns UNDP the role of providing an 'integrator function' in support of countries in their efforts to implement the 2030 Agenda in line with the findings of a recent review of the socioeconomic response plans to the pandemic in 42 countries¹⁹². The review examined the alignment of country policies with the UN response framework; their linkages with national plans and UN Cooperation Frameworks; their focus on gender, human rights and vulnerable groups; the extent of the involvement of UN country teams (UNCT); the level of collaboration with International Financial Institutions (IFIs); and the specificity of action plans, including costing/resource gaps. It found that, despite the urgency of addressing the effects of the pandemic, two common threads in the majority of responses were their emphasis on "better recovery" and the identification of funding gaps. The majority of the plans covered in depth the macroeconomic response and coordination; social cohesion and community resilience; and, when relevant, conflict and risk prevention, community-level engagement, governance and the rule of law.

204. These areas are at the heart UNDP's proposals for Afghanistan, many of which that had previously been anticipated and included in the ongoing UNDP Strategic Plan (2018-2021) and have now been adjusted in line with the vision and priorities expressed in Afghanistan's Peace and Development Framework II (ANPDF II). The ANPDF II recognizes the combined effects of conflict, corruption, poverty and inequalities on the development trajectory of the country and how these effects have been exacerbated by the pandemic. As a practical vision for a peaceful and prosperous Afghanistan, ANPDF II outlines critical areas of intervention during the next five years to build peace, strong and resilient institutions and functioning markets to stimulate sustained and long-term economic growth and create decent jobs for all. It considers that peace is of paramount importance as it affects all policies that are already in place and those that will follow. While paving the way for peace, Afghanistan is already responding to the pandemic. It does so without losing sight of its development objectives in the medium-term (until 2025 when the ANPDF II expires) and beyond (until 2030 the target date for the achievement of the SDGs). Thus, the development response can usefully be anchored to the SDGs for which the Government, UNDP and other development partners have already established priorities and worked out implementation modalities.

205. In its updated approach, UNDP sees its future to support to Afghanistan as relying less on delivering projects and more on providing advice guided by the need to ensure coherence and complementarity between development and humanitarian activities and also to expand cooperation and coordination within the donor community. Programmatic support has been reorganized across (a) five areas, namely Peace, Prosperity, Planet, People and Partnerships ("5P's"); six priority approaches ("signature solutions"); and four "enablers" for SDG integration to which the additional requirements arising from the pandemic have been added (see earlier Table 2). Each of UNDP's six signature solutions is designed to be implemented in an integrated manner. Each signature solution has multiple dimensions as reflected in the 5P's. All are aligned in an integrated way towards the achievement of the SDGs by 2030 (see earlier Figure 1).

206. UNDP has developed ten programmes and proposes several projects that can contribute to the national objectives of Afghanistan. The programmes (ANNEX 2 and ANNEX 2) have been designed to support the vision and priorities expressed in the ANPDF II (ANNEX 3). They key planning instruments through which the ANPDF II aims to realize its vision for Afghanistan are the 15 National Priority Programmes (NPPs) that cover the Afghanistan Sustainable Development Goals (A-SDGs). UNDP has identified 59 projects that are in line with the NPPs, which are also informed by the Government's broader international commitments, such as the multi-lateral environmental agreements to which Afghanistan is a signatory and the 16 Afghanistan Sustainable Development Goals (A-SDGs). The costs for UNDP's proposed projects have been estimated individually and are expected to require a total investment of US\$1.5 billion over the next five years (ANNEX 4).

207. The proposed programmes by UNDP aim to strengthen the link between Afghanistan’s humanitarian needs in the short-run and the development objectives in the medium to long run. They can help to build the resilience of the most vulnerable segments of the population and increase trust between citizens and the State through improved transparency and accountability, greater engagement of citizens in the oversight of government organizations and a reduction in corruption through new forms of digital governance that would improve access to information. In line with the Government priorities for peace-building, state-building and market-building included in the ANPDF II, the proposed programmes focus on (i) enabling the Government to perform essential social protection functions, reducing inequalities by introducing digital governance in local governance, the rule of law and the security sector; (ii) supporting improved policy coordination and coherence, building institutional capacity and putting in place the institutional reforms needed to improve transparency and accountability; and (iii) linking economic growth to environmental sustainability and social-ecological resilience, enhancing economic opportunities, strengthening labor market programmes, and creating a more integrated systems approach to development using the UNDP’s SDG platform approach.

UNDP’s Ongoing Support

208. The ANPDF II includes several SDGs and UNDP has refined the national SDG indicator framework to address issues related to data gaps and enable proper monitoring and reporting of the relevant targets. UNDP also initiated a technical process to estimate the costs of achieving the national SDG targets and conducted diagnostics in support of assessing the wider financing landscape to influence public and private investments and attract additional resources needed to achieve the SDGs. In addition to the results presented earlier regarding the impact of the pandemic, UNDP’s computable general equilibrium models (C-CGE and A-GTAP) will be used for properly integrating the SDGs into the national planning system, thereby enabling evidence-informed policy design and implementation.

209. UNDP can support the goals of the ANPDF through the creation of integrated modelling and policy platforms and the development of a financing framework. UNDP is working with the Government of Afghanistan on integrated modelling platforms, such as the SDG Calculator and Systems Dynamics, to better incorporate the SDGs into the planning system. The results of these efforts would provide technical expertise to address key sustainability issues, particularly those related to balancing and articulating environmental protection, tackling inequalities and promoting equitable economic growth. The National Integrated Financing Framework (NIFF) as well as a financing strategy will organize policies and institutional structures of the Government to mobilize sufficient public and private financing for the SDGs and the priorities included in the ANPDF II.

210. Moving ahead would require a sound and integrated Monitoring and Reporting System for Afghanistan SDGs. UNDP is working with the Ministry of Economy and the National Statistics and Information Authority to develop a national SDGs indicator framework. It has already provided strategic directions on how data innovation, particularly by trialing new methods and technologies, such as big data and artificial intelligence, could create new sources of data for those SDG indicators that cannot be measured through the existing official statistics and methodologies. UNDP is also planning to provide support to the development of an online dashboard for SDG indicators that would allow for accessing, analyzing and visualizing data on all the SDG indicators in Afghanistan. The online dashboard will be instrumental for decision-making and advocacy on SDGs, particularly when data are disaggregated by geography, gender, age and other necessary levels.

UNDP's Proposals for the “Triple Bottom Line”

211. The progress of Afghanistan, like that of other countries around the world, towards achieving the Sustainable Development Goals (SDGs) depends on how it will address the “triple bottom line”. The triple bottom line refers to economic, social and environmental pillars of sustainability¹⁹³. A summary of UNDP's proposals derived from its own analytical work, assessments from academia, think tanks and development organizations as well as from the international experience is presented below also adding the case of COVID-19. The success of these proposals would critically depend on the outcome of the peace dialogue.

The Economy

212. The requirements for sound macroeconomic management and fiscal viability are well known while those for addressing the challenges facing private sector development are more country specific. Private sector development will be critical for growth and exports, raising public revenues and reducing the reliance on donor funds while it can contribute to employment creation and income security. UNDP has estimated that increased regional trade cooperation can result in economic gains equivalent to four percent of GDP through the promotion of trade with SAARC (South Asia Association for Regional Cooperation) (Table 5).

213. UNDP proposes the creation of a Fund to facilitate lending to enterprises. At the inception phase the Fund's capital and operations costs could be covered by a project whose operating costs should be derived from a fee to ensure the Fund's sustainability. Intermediary banks should also charge a fee to encourage them to expand lending from their own resources.

214. For private sector development, UNDP proposes that the selection of priorities should be based on clear criteria. Each criterion should be assigned an appropriate weight to ensure objectivity in beneficiary selection and reduce corruption. Such criteria can include:

- The value added, possibilities for import substitution and/or export growth;
- Profitability that can be used for business expansion;
- Prospects for sustainability taking into account the environmental “green” impact;
- Regional and local linkages with national and regional value chains;
- Prospects for formalization of firms and employment;
- Employment creation;
- Digital innovation that can enhance youth employment opportunities;
- Effects on poverty reduction; and
- Women's empowerment through both company ownership and employment impact.

The Environment

215. Economic policies should also take into consideration their environmental impacts. Specific policies in the areas of climate change adaptation, disaster risk reduction and biodiversity, which the Government may consider and UNDP programme can support include:

- Additional donor funding combined with better use of public funds;
- Enhancing institutional and implementation capacity;
- Development data, information and early warning systems;
- Emphasis on biodiversity conservation;
- Strengthening climate-induced disaster resilience; and
- Addressing gender impact of environmental changes.

Social Protection

216. Though Afghanistan has limited fiscal space and institutional capacity to offer comprehensive social protection to its citizens, there are still programmes that can be practically deployed. This report has indicated that public works, social pensions and temporary support to Internally Displaced People can be introduced at first to address the impact of the pandemic and then to be used as a basis for the expansion of social protection. It also argues that striving for achieving universal enrolment in basic education can, and should, be considered as an integral part of social protection.

217. Moreover, Afghanistan can gradually proceed by combining non-contributory benefits with contributory social insurance. This is the way that many social protection schemes have been introduced even in low-income countries and can gradually be adopted also by Afghanistan as the formalization of the economy increases along with economic growth when adequate institutional mechanisms are developed. A gradual approach also allows for minimizing duplication by carefully complementing coverage provided by existing social protection schemes.

Plus Covid-19

218. With respect to the impact of COVID-19, UNDP is proposing to support measures by the Government in cooperation with the development partners that can:

- Accelerate and increase donor finance while reducing fiscal leakages and redirecting public resources to areas with the highest social returns.
- Increase transparency in procurement of medical supplies and equipment including for essential items such as personal protective equipment, antivirals, and ventilators.
- Prepare health financing strategies for ensuring timely and flexible access to emergency/crisis financing.
- Improve core health service capabilities for healthcare delivery during a public health emergency.
- Reduce barriers to healthcare access by maintaining critical infrastructure and transportation.
- Improve health leadership, management, and command structure for efficient health care delivery.
- Promote collaboration, coordination, and partnerships through a platform approach.
- Enhance community communication channels between health system actors and other sectors with the engagement of citizens.
- Improve the “surge” response by enhancing human and capital resources for handling public health emergencies, for example, maintaining registers of pro-bono doctors and medical care staff.
- Strengthen the healthcare workforce through capacity building and improved training.

Finally, an Integrated Platform

219. The proposed programmes aim to strengthen the link between the humanitarian needs and the development objectives – the two must go hand-in-hand in a coherent way. In its integrator function based on a platform approach, UNDP considers critical preconditions for sustainable development and the achievement of the SDGs to be the alignment of the activities of Afghanistan’s development partners with the Government’s objectives.

220. A “Platform Approach” can improve the outcomes of development actions that are currently being carried out in an uncoordinated manner. Neither Afghanistan at its current level of development nor any single organization on its own can have much of an impact on reducing poverty and on promoting sustainable economic growth and long-lasting peace. A platform can avoid unnecessary duplication and exploit synergies to achieve economies of scale. To implement the proposed portfolio of national priority programmes, UNDP proposes that the Government commissions an integrated National SDG Platform staffed and led by national administrators that will oversee the creation and implementation of a Social Fund. UNDP can help the Government to build and facilitate this platform and use it to secure and coordinate SDG financing.

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ANNEXES

ANNEX 1: Description of Programs

| |
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| Programme Descriptions |
| Environment: The main goal of the Environment Programme is to minimize further environmental degradation as this will significantly constrain the government’s future efforts to reduce poverty and to promote economic growth. |
| Local Governance: The goal of this programme is to build greater government accountability for needs-based service delivery by promoting meaningful participation by citizens and civil society in the governance mechanisms, structures and processes at the sub-national level. |
| Peace and Reconciliation: This programme focuses on building greater trust between citizens and the State through community-based peace and development programme that address the drivers of localized conflict and by building greater capacity for and participation in the peace building process. |
| Responsive Institutions: The programme aims to build trust in government by improving the capacity of government organizations to perform essential functions and ensuring that they are more inclusive and responsive to citizen’s needs by putting in place appropriate accountability mechanisms and policies. |
| Inclusive and Accountable Governance: The overall goal of this programme is to build trust in government by focusing on reform of the National Assembly and the two National Electoral Management Bodies, and developing more effective oversight by civil society organizations |
| Justice, Human Rights and Security Sector: This programme focuses on building the capacity of justice organizations to deliver services, improving the responsiveness of justice organizations to the concerns of citizens, protecting human rights and improving access to justice at local level. |
| Anti-Corruption: This programme deals with improving the transparency of public organizations through improved processes and procedures, engaging citizens and non-state actors in oversight of government organizations and increasing access to information. |
| Social Protection: This programme will focus on institutional reform by setting up a social protection coordination platform, supporting the government with the establishment of a minimum protection floor, advising on access to financing, looking at digital governance mechanisms for social protection and coordinating work on labor market polices. |
| Sustainable Energy for All: This programme will address the issue of energy self-sufficiency and linked issues of affordability and sustainability by providing policy and capacity building support for improving the efficiency of thermal energy devices, access to off-grid renewable energy sources, the use of solar energy in healthcare delivery and for de-risking private sector investment in renewable energy. |
| Economic Transformation for All: This programme focuses on improving the enabling environment for job creation by tackling the constraints on employment, private sector development, and job creation, reducing the barriers to labor productivity in the agriculture sector, and improving access to information and knowledge. It will also look at improving access to finance in critical areas of the Afghan economy and improving regional economic connectivity. |

ANNEX 2: Programme Objectives and Their Relationship to the SDGs and NPPs

A. Peace

1. Support to Peace and Reconciliation: To support building greater trust between citizens and the State through community-based peace and development programmes that address the drivers of localized conflict and by building greater capacity for and participation in the peace building process.

2. Inclusive and Accountable Governance for Peace: To support the creation of trust in government by focusing on building the capacity of National Assembly and the National Electoral Management Bodies, and developing more effective oversight by civil society organizations.

3. Support to Local Governance: To support building the capacity and greater government accountability for needs-based service delivery by promoting meaningful participation by citizens and civil society in the governance mechanisms, structures and processes at the sub-national level.

4. Promoting Responsive Institutions: To support the creation of trust in government by improving the capacity of government organizations to perform essential functions and ensuring they are more inclusive & responsive to citizen's needs by putting in place appropriate accountability mechanisms, policies and infrastructure.

5. Anti-Corruption: To support improvements in the transparency of public organizations through improved processes and procedures, engaging citizens and non-state actors in oversight of government organizations and increasing access to information.

6. Justice & Security: To support capacity building for justice and rule of law organizations to deliver services; improve the responsiveness of justice institutions to the concerns of citizens; protect human rights; and improve access to justice at local level.

Issues

- Armed conflict is a central challenge in Afghanistan
- No short-term solutions to structural issues
- Economic impact of conflict estimated between 19% & 47% of GDP
- Security spending at more than 50% of government expenditures
- Among the lowest rank globally in the Public Services Index.
- Low public confidence toward the State.
- Lack of clarity over the functions, roles and responsibilities at the local level
- Lack of clear mandates for ministries, and lack of coordination and whole-of-government approach
- Weak administrative and governance capacities and evidence-based policy making
- High level of corruption and patronage and rent-seeking practices
- High rates of crime and low confidence of citizens in the State judicial system to deliver justice.
- Insufficient oversight and institutional capacity within the legislature and executive branches
- Siloed approach to development planning and implementation
- COVID-19 has compounded the challenges Afghanistan faces

SDG1, SDG5, SDG8, SDG15, SDG16, SDG17

NPPs Areas: Governance; Citizens' Charter; Human Capital; Women Economic Empowerment; Private Sector Development; Anti-Corruption; Sub-national Governance Policy

B. Prosperity

7. Economic Transformation for All: To support an enabling environment for economic growth and job creation by tackling constraints on employment and private sector development, reducing the barriers to labor productivity in the agriculture sector, and improving access to information and knowledge. It will also look at improving access to finance in critical areas of the Afghan economy and improving regional economic connectivity.

8. Social Protection and Health: To support the creation of a social fund for Afghanistan; set up a social protection coordination platform and develop a social protection system; facilitate access to finance social protection; introduce digital governance mechanisms; build resilient and sustainable systems for health; and provide assistance to the most vulnerable.

9. Sustainable Energy for All: To support the move towards energy self-sufficiency and enable the environment for public-private partnership and investment in clean and affordable energy; facilitate the development and economic activities and create employment opportunities at local and national levels; improve policies and regulations to ensure inclusive access to energy to all; enable investment in local renewable and clean energy resources connecting locally produced energy to the national grid.

Issues

- Nearly 60 percent of GDP, relies on external support
- High leakage of deposits to foreign “safe havens”
- Declining external funding
- Imports exceed exports as much as five times
- Amongst the lowest in the world in terms of foreign direct investment
- More than half the population below the national poverty line
- Large share of employment in low-productivity agriculture (nearly 40 percent)
- Agricultural employment is declining, but low labor absorption in other sectors
- Unemployment rate estimated around 15 percent among university graduates.
- Low share of development spending on skills enhancement
- More than 60 percent of the rural population are multi-dimensionally poor
- Poverty since the onset of the pandemic has increased to 74 percent
- 170th out of 189 countries in the Human Development Index (HDI)
- One million people with disabilities, only 12 percent receive disability benefits
- More than 1.1 million internally displaced due to conflict.
- Donor dependent and weak governance system in the health sector.
- No health insurance scheme and social protection,
- Most grid electricity (80 percent) imported through cross-border transmission lines
- Only 35 percent of citizens have access to grid electricity.
- Little access to clean, affordable and reliable energy
- Low per capita energy consumption in (149 KWh, e.g. 620 in India, 557 in Pakistan, 616 in Sri Lanka)
- Low private investment in energy infrastructures and in-country energy generation
- Adverse impact of COVID-19 on the growth, unemployment
- More than 265,000 returnees
- Unemployment rate has increased

SDG 1, SDG 3, SDG 5, SDG 7, SDG 8, SDG 10

NPPs Areas: Governance, Private Sector Development; National Infrastructure Plan, Citizens’ Charter

C. Sustainability

Environment and Climate Change Programme Objective: To protect the environment from further degradation, reduce risk of climate disasters on people's livelihoods, improve preparedness for natural disaster shocks, expand livelihood options in protected areas, and help government to formulate policies and programmes to reduce poverty and to promote sustainable economic growth.

Issues

- • Natural capital makes more than 45 percent of national wealth
- More than 80 percent of the communities' livelihoods in rural areas is based on natural resources
- 2.8 percent of the country is forested and forests may completely disappear by 2050
- Total renewable water resources per capita dropped nearly 40 percent between 2002 and 2017
- High climate vulnerability, and temperatures rising above global average.
- Air pollution cause of more deaths than war
- No Early Warning System
- Little attention to Disaster Risk Reduction (DRR) and climate-induced disaster resilience
- Lack of Gender Mainstreaming in DRR/CCA and Biodiversity
- Lack of improved irrigation systems
- Lack of livelihood options for protected areas
- Data and Information Gap
- Lack of attention to Biodiversity conservation
- Weak framework for addressing climate change adaptation, risks and biodiversity conservation
- Lack of clear institutional and legal framework for protected areas
- Inadequate funding for climate change adaptation, disaster risk reduction, and biodiversity

ANNEX 3: Alignment of UNDP Proposed Programmes with the ANPDF II

| ANPDF | UNDP | Alignment |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| PEACE BUILDING 1. The imperative of peace 2. Maintaining national security capabilities | <p>Peace: UNDP, through its Peace Programme, is committed to building national capacities for peacebuilding and knowledge-sharing that will last beyond the scope of the programme. The main areas where SPRA will contribute the most in terms of sustainability is developing/strengthening systems, processes and knowledge bases.</p> <p>Simultaneously, as part of its support to Afghanistan Security Forces, UNDP provides the following:</p> <ul style="list-style-type: none"> • Strengthening Rule of law and Human Rights in Afghanistan • Strengthening capacity of Justice Institutions through regulatory and policy • Strengthening gender and juvenile justice • Support to Community Oriented Policing Services (COPS) • Support Public Service Centre (PSC) • Support to Payroll Management (Police Payroll, which will be transitioned to government) | Fully Aligned |
| Peace Building Programmes | | |
| 1-Peace Programme | <p>More specifically, UNDP's Peace Programme among others provides:</p> <ul style="list-style-type: none"> • Platform for Peacebuilding and Post-conflict recovery • Community security and stabilization through development • Institutionalization of mutually reinforcing long-term Afghan capacities for Peace • Technical support to the State Ministry for Peace and High Peace Council | Fully Aligned |
| 2-Security Sector | <p>UNDP's "Justice and Security Sector Reform Programme, will support relevant government partners in implementing the following:</p> <ul style="list-style-type: none"> • The National Justice and Judicial Reform Plan (2017) • The National Action Plan and on UNSCR 1325- Women, Peace and Security (2015) • The National Action Plan on UNSCR 1325-Women, Peace and Security (2015). • The MOIA Strategic Plan (2018-2020) | Fully Aligned |
| 3-Justice for All | <p>UNDP's Justice programme is fully aligned with national and international policies and priorities and specifically focuses on the following:</p> <ul style="list-style-type: none"> • Improve access to Justice through Legal Aid and Legal Awareness • Support to justice and judiciary institutions to protect human rights and fair trial standards • Support to renovation and infrastructure of prisons and detention centers • Support to standardization of legislative system • Technical support to ensure monitoring and oversight of the applicable laws • Police capacity building on legal judicial and legal aspects • Strengthen coordination among EAW sector institutions • Mainstreaming of gender justice at provincial and district levels | Fully Aligned |
| 4-Reintegration | <p>UNDP's Justice programme also includes a component on support the government's reintegration of combatants and internally displaced populations in economic activities and jobs creation.</p> | Fully Aligned |
| STATE BUILDING 1. Fiscal constraints, prioritization, and selectivity 2. Optimize programmes and partnerships 3. Establish metrics for conditions-based aid 4. Aligning service delivery with citizen needs 5. Self-Reliance 6. Governance, rule of law and anti-corruption | <p>Sustainability All UNDP programmes include a specific component on "Response to and Recovery from the COVID-19 Pandemic", to facilitate the transition from early response to early recovery, leading to sustainable development.</p> <p>Furthermore, the CO is working closely with the GIROA to prepare for the upcoming donors' pledging conference. Specifically:</p> <ul style="list-style-type: none"> • Providing technical support on policy-choices through simulation and identification of best policy options • Evidence-based programming by utilizing the Computable General Equilibrium (CGE) Model • Analyzing the likely impact of different policy options by considering a range of plausible future scenarios in advance • Optimizing the use of limited fiscal space to achieve transformative change. <p>SDGs Financing is another priority for the CO. Work has been initiated on this important exercise that aims to establishing an innovative SDG financing ecosystem in the country as well as to encourage the necessary investments.</p> <p>UNDP's Anti-Corruption Programme includes interventions to support the government's initiatives to counter corruption in all its forms. It includes:</p> <ul style="list-style-type: none"> • Support to justice and security sector reform leading to an impartial, transparent, and accountable justice system • Support to the independent Anti-Corruption Justice Centre. • Enhance service delivery, transparency and integrity to reduce level of corruption, which will lead to more efficient services and enhance citizens' trust in the state institutions. | Fully Aligned |

| ANPDF | UNDP | Alignment |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| State-Building Programmes | | |
| 1- Effective Governance | <p>UNDP's "Promoting Responsive Institutions" Programme's objectives are aligned with this ANPDF programme, which focuses on:</p> <ul style="list-style-type: none"> • Whole of government and inclusive platform approach for enabling state institutions to perform essential functions • Policy analysis, professional and institutional capacity enhancement • Business processes simplification and re-engineering • E-governance • Strengthening state-citizen-civil society interactions • Communication and information sharing | Fully Aligned |
| 2-Human Capital Development (service delivery) | <p>UNDP's "Social Protection and Health Programme" - Human Capital and Institutional Development for Social Protection.</p> <ul style="list-style-type: none"> • This Programme aims at reducing inequalities, support to vulnerable segments of society, • Preserve health and well-being of communities • Address multidimensional poverty through a systematic approach • It also supports provision of social safety nets for the most vulnerable • Facilitate access to services to all citizens, especially the marginalized. • Support the public health sector to make it more responsive to the needs of citizens. | Aligned |
| 3-Citizens' Charter (social protection) | UNDP's "Social Protection and Health Programme" - Human Capital and Institutional Development for Social Protection Project. | Aligned |
| 4-Implementation Support | <p>UNDP's unique strength offers a highly integrated model for sustainable development lies in three main areas:</p> <ul style="list-style-type: none"> • Supporting Human Development and Human Security to improve wellbeing • Using a Multi-Dimensional Poverty approach to reduce vulnerabilities and inequalities • Promoting Effective Governance and Human Rights through cluster development | Fully Aligned |
| 6-National Healthcare | All UNDP programmes include a specific component on "Response to and Recovery from the COVID-19 Pandemic", to facilitate the transition from early response to early recovery, leading to sustainable development. | Fully Aligned |
| <p>MARKET BUILDING</p> <p>1. Responding to COVID-19: COVID-19 relief and recovery is the government's most urgent priority</p> <p>2. Leverage Afghanistan's natural endowments</p> <p>3. Poverty reduction and inclusive growth</p> <p>4. Regional Connectivity</p> <p>5. From Aid to Trade</p> | <p>Prosperity</p> <p>All UNDP programmes include a specific component on "Response to and Recovery from the COVID-19 Pandemic", to facilitate the transition from early response to early recovery, leading to sustainable development.</p> <p>UNDP's Programme on "Economic Transformation for All" aims at:</p> <ul style="list-style-type: none"> • Employment and job creation that will play a critical role in alleviating poverty and helping the Afghan rural and urban population reach prosperity. • Removing obstacles and barriers at policy and regulation level will play a critical role in enabling environment for private sector development as engine for growth. • The proposed private actions in employment will address the barriers to the labor productivity by focusing on value chain development in agricultural off-farm and in non-agricultural sectors. • Regular information and knowledge building in employment will help alleviate capacity gaps with specific focus on women participation in labor force. | <p>Fully Aligned</p> <p>Fully Aligned</p> |

| ANPDF | UNDP | Alignment |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Market Building Programmes | | |
| 1-Trade & Transit. | <p>UNDP's Programmes on SDGs Financing includes, but not limited to the following:</p> <ul style="list-style-type: none"> • Provide innovative financing methods to fill the Gaps between Available Resources and Funding Requirements • UNDP's role as Integrator aims at creating required conditions & eco-systems for multi-stakeholder engagement to leverage additional financing for SDGs • UNDP is the catalyst to trigger/leverage additional investments from different stakeholders, including public, private and foreign investors • Funding will not rely only on Grants and Donations, it will also focus on non-concessional Finance i.e. raising funds from Public, Private and Blended Finance • Create linkages between traditional UNDP Projects, the Private Sector and innovative financing instruments • Help the removal of blockages that are holding Private Sector from scaling up and increasing its participation in the Development Process. • Regional cooperation policies using Afghanistan Global Trade Analysis Project A-GTAP/C-CGE • Regional Economic Cooperation for Afghanistan RECCA • Cross-border local communities' cooperation with Tajikistan LITACA | Fully Aligned |
| 2-Primary Sector Development | <p>UNDP's Programme on "Economic Transformation for All" includes a specific project called "The Community Based Agriculture and Rural Development – Access to Licit Livelihood (CBARD-ALL), that has the following objectives:</p> <ul style="list-style-type: none"> • Supports the production of fruit and vegetables as an alternative to poppy cultivation in three key, high cultivating provinces of Afghanistan • Build, develop, and strengthen existing private agro-business facilities in the areas of irrigation, and agricultural facilities • Introduction or strengthening of value-addition activities through community-owned production by building or repairing critical infrastructures • Packaging and processing plants • Marketing of Afghan products and establish export markets. Prices in international markets are much higher, but regional and global markets require better quality products that get from farm to market without significant deterioration or loss • This project supports cold chain facilities to bring to market Afghan fruits and vegetables. • National Human Development Report on Mining Industry along with a project to support small and medium scale mining. | Fully Aligned |
| 3-Industrial Development | <p>UNDP's Programme on "Economic Transformation for All" includes a specific project called "The Community Based Agriculture and Rural Development – Access to Licit Livelihood (CBARD-ALL). This project will work closely with the Afghanistan Industrial Association (AIA) on policy review and reform action plans.</p> | Aligned |
| 4-Urban Development | <ul style="list-style-type: none"> • UNDP's Programmes in general works as a committed partner to address major development challenges that hinders its prosperity; slows down economic growth and the capacity to create employment and sustainable livelihoods added to the lack of access to basic public services. UNDP's specific Programmes with objectives to tackle the above challenges include: Economic Transformation for All, Sustainable Energy for All, Environment and Social Protection and Health Programme. • UNDP is preparing a programme on rural/urban dynamics around small cities of 100,000 inhabitants | Aligned |
| 5-Women's Economic Empowerment | <p>UNDP RECCA Programme has a definite objective for Women's Economic Empowerment that aims to expand the access of Afghan women to regional and global markets, overcome obstacles to their progress and build business-to-business partnerships among women entrepreneurs in the wider region.</p> | Fully Aligned |

Source: ANPDF II and UNDP programmatic reports.

ANNEX 4: Alignment of UNDP Proposed Projects with the NPPs

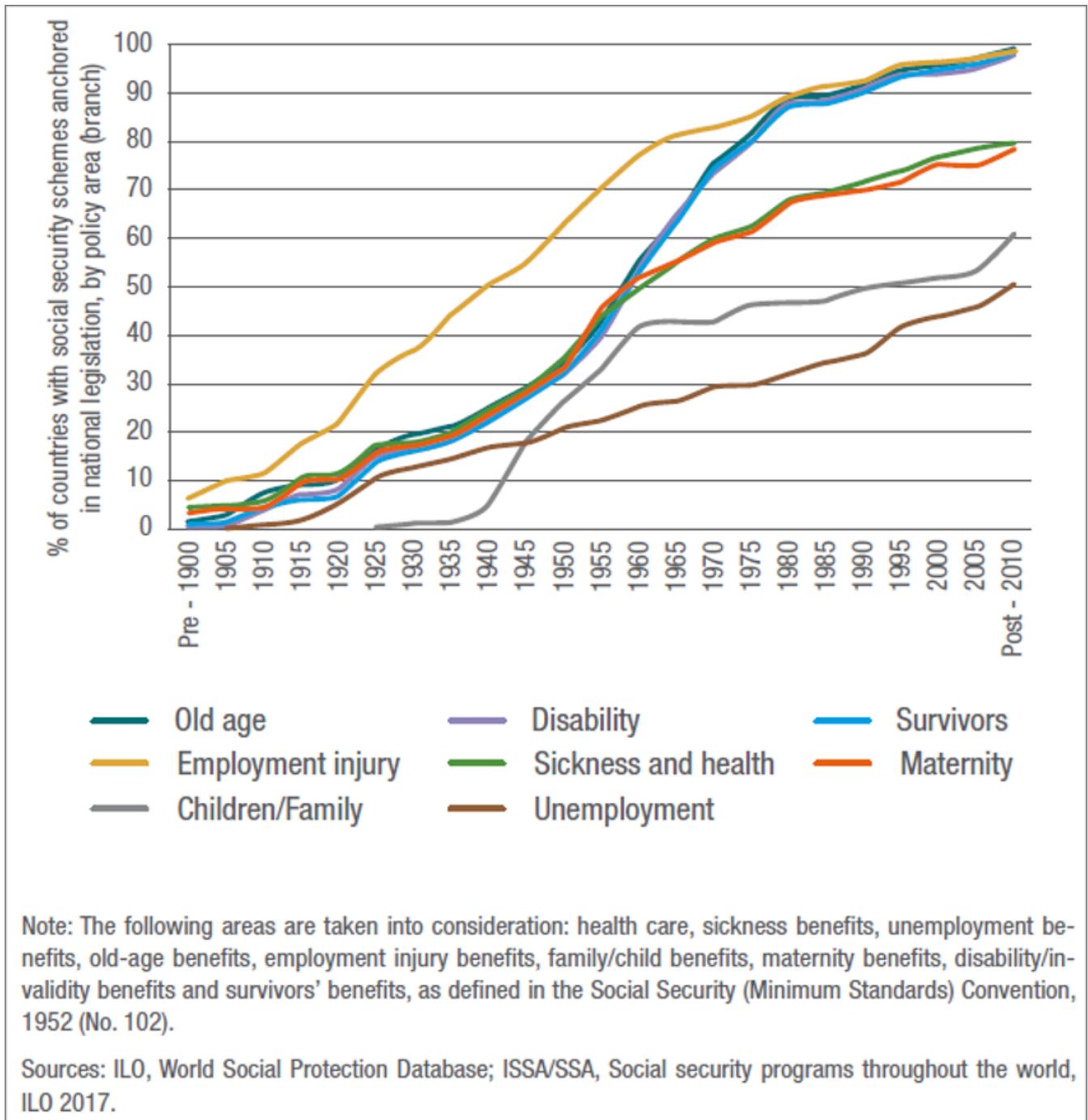
| ANPDF II | NPP | UNDP NPP Budget (2021-2025) | UNDP Program | Pipeline Status | No. | Project | Time Frame |
|----------------|-----------------------|-----------------------------|-------------------------------------|-----------------|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Peace-Building | Peace Programme (New) | 250,000,000 | Accountable Governance for Peace | A | 1 | Strengthening National Electoral Management Bodies | 2021-2025 |
| | | 42,336,000 | Support to Peace and Reconciliation | A | 2 | Strengthening Afghan capacities for dialogue, negotiation, achieving national consensus on Afghan-led solutions and promoting a culture of peace | 2022-2026 |
| | Security Sector | 16,500,000 | Accountable Governance for Peace | | 3 | Strengthen institutional capacities for increased effectiveness and accountability of security service delivery. | 2021-2024 |
| | | 30,300,000 | Accountable Governance for Peace | | 4 | Assess and support development of security sector infrastructure and operational capacities, including equipping and capacitating such facilities as required. | 2021-2024 |
| | | 42,000,000 | Accountable Governance for Peace | | 5 | Strengthen policing capabilities and service-delivery to communities and citizens' voice mechanisms for improved public trust. | 2021-2024 |
| | Justice for All | 20,000,000 | Accountable Governance for Peace | A | 6 | Strengthening legislative and oversight capacity | 2021-2024 |
| | | 50,000,000 | Justice and Security Sector Reform | A | 7 | Strengthening Rule of law and Human Rights in Afghanistan | 2021-2025 |
| | | 30,000,000 | Justice and Security Sector Reform | C | 8 | Strengthening capacity of Justice Institutions through regulatory and policy | 2021-2025 |
| | | 30,000,000 | Justice and Security Sector Reform | B | 9 | Strengthening gender and juvenile justice | 2022-2024 |
| | | 20,000,000 | Justice and Security Sector Reform | C | 10 | Public Service Centre (PSC) | 2021-2023 |
| | | 20,000,000 | Justice & Security Sector Reform | | 11 | Strengthen institutional capacities for improved justice service delivery for all Afghans, particularly vulnerable groups. | 2021-2024 |
| | | 10,000,000 | Justice & Security Sector Reform | | 12 | Strengthen the gender justice chain to improve access to justice for Afghan women. | 2021-2024 |
| | | 58,000,000 | Justice & Security Sector Reform | | 13 | Strengthen Civil Society capacities to enhance legal support, oversight and human rights' protection and promotion. | 2021-2024 |
| | | 26,500,000 | Justice & Security Sector Reform | | 14 | Strengthen justice sector coordination with informal justice mechanisms to increase access to justice for Afghan people, in accordance with human rights standards. | 2021-2024 |
| | | 8,015,304 | Justice and Security Sector Reform | Ongoing | 15 | Access to Quality Justice Services (AQJS) | 2021-2022 |

| ANPDF II | NPP | UNDP NPP Budget (2021-2025) | UNDP Program | Pipeline Status | No. | Project | Time Frame | |
|----------------------------------|-------------------------------------|------------------------------|-----------------------------------|-----------------|-------------------------------------------|-------------------------------------------------------------------------------|------------|--|
| | | 9,979,625 | Justice & Security Sector Reform | Ongoing | 16 | Community -orientated policing Services (COPs) | 2021-2023 | |
| | | 5,164,918 | Justice & Security Sector Reform | Ongoing | 17 | Catalytic Support to <u>MoIA</u> | 2021 | |
| | Reintegration (New) | 20,000,000 | Social Protection and Health | C | 18 | Joint Program on Social Protection, Migration and Development | 2021-2025 | |
| | Sub-Total | 688,795,847 | 45.35% | | | | | |
| State-Building | Effective Governance | 37,000,000 | Local Governance | A | 19 | Participatory Local Governance Enabling Environment Project | 2021-2026 | |
| | | 37,000,000 | Local Governance | B | 20 | Urban Governance Support Project | 2021-2026 | |
| | | 10,000,000 | Accountable Governance for Peace | C | 21 | Supporting CSOs to deepen inclusive Governance for Development | 2022-2025 | |
| | | 10,000,000 | Promoting Responsive Institutions | C | 22 | Enabling the state to perform essential functions | 2021-2025 | |
| | | 5,000,000 | Promoting Responsive Institutions | C | 23 | Support to civil service reforms | 2021-2025 | |
| | Human Capital Development | 20,000,000 | Social Protection and Health | B | 24 | Human Capital and Institutional Development for Social Protection | 2021-2025 | |
| | | 16,000,000 | Social Protection and Health | C | 25 | Skill Building Program for <u>Kuchi</u> Population (Social Inclusion program) | 2022-2026 | |
| | Citizen's Charter | 13,659,311 | Social Protection and Health | C | 26 | Strong Institutions for Health and Introduction of Social Health Insurance | 2022-2024 | |
| | Implementation Support (new) | | | | | | | |
| | Infrastructure (new) | 100,000,000 | Sustainable energy for All | B | 27 | Solar for Health Programme | 2022-2024 | |
| | | 9,000,000 | Sustainable Energy for All | C | 28 | Renewable Energy Policy Support Project (REPS) | 2022-2026 | |
| | | 17,500,000 | Sustainable Energy for All | A | 29 | Afghanistan Sustainable Energy for Rural Development (ASERD) - II | 2022-2026 | |
| | | 8,500,000 | Sustainable Energy for All | C | 30 | Thermal Energy and Energy Efficiency (TEEE) Project | 2022-2026 | |
| 9,000,000 | | Sustainable Energy for All | C | 32 | Productive Use of Renewable Energy (PURE) | 2022-2026 | | |
| National Healthcare (new) | 9,522,740 | Social Protection and Health | A | 33 | HIV/AIDS | 2021-2023 | | |

| ANPDF II | NPP | UNDP NPP Budget (2021-2025) | UNDP Program | Pipeline Status | No. | Project | Time Frame |
|------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| | | 16,573,124 | Social Protection and Health | A | 34 | TB-RSSH (Tuberculosis & Resilient and Sustainable Systems for Health) | 2021-2023 |
| | | 20,000,000 | Social Protection and Health | A | 35 | Malaria | 2021-2023 |
| | | 10,000,000 | Social Protection and Health | B | 36 | Electronic Vaccine Intelligence Network | 2022-2024 |
| | Sub-Total | 348,755,175 | 22.96% | | | | |
| Market-Building | Trade and Transit (new) | 10,000,000 | Inclusive Economic transformation | A | 37 | Livelihood Improvement in Tajik Afghan-Uzbek Cross-border Areas (LITAUCA) | 2021-2024 |
| | | 5,000,000 | Inclusive Economic transformation | B | 38 | Support to Regional Economic Cooperation Conference on Afghanistan (RECCA) | 2021-2025 |
| | Primary Sector Development | 30,000,000 | Inclusive Economic transformation | A | 39 | Community Based Alternative Rural Development (CBARD) – Access to Licit Livelihoods | 2021-2025 |
| | | 30,000,000 | Inclusive Economic transformation | C | 40 | Afghanistan Local Economic Development (ALED) | 2022-2025 |
| | | 9,000,000 | Inclusive Economic transformation | B | 41 | Job Creation in High Return Areas | 2022-2026 |
| | | 9,000,000 | Inclusive Economic transformation | B | 42 | Digital Jobs | 2022-2026 |
| | | 90,000,000 | Inclusive Economic transformation | C | 43 | Job creation for forcibly displaced | 2022-2026 |
| | | 20,000,000 | Sustainable Energy for All | B | 44 | Border District Electrification Project MRRD (Solar Home System) | 2022-2024 |
| | | 8,150,000 | Environment and Climate Change | B | 45 | Community-based Climate-responsive Livelihoods and Forestry (CCLF) | 2021-2026 |
| | | 9,432,556 | Environment and Climate Change | A | 46 | Climate Change Resilient livelihoods advanced in rural Afghanistan | 2021-2025 |
| | | 115,000,000 | Environment and Climate Change | C | 47 | Climate Resilient Irrigation Infrastructure | 2023-2026 |
| | | 20,000,000 | Sustainable Energy for All | A | 48 | GCF Project (Afghanistan Rural Energy Market Transformation Initiative - Strengthening resilience of livelihoods through sustainable energy access- Phase I) | 2021-2025 |
| | Industrial Development | 5,000,000 | Inclusive Economic transformation | B | 49 | Extractive Industries | 2021-2025 |

| ANPDF II | NPP | UNDP NPP Budget (2021-2025) | UNDP Program | Pipeline Status | No. | Project | Time Frame |
|------------------------|-------------------------------------|-----------------------------|-----------------------------------|-----------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| | Urban Development | | | | | | |
| | Women's Economic Empowerment | 9,000,000 | Inclusive Economic transformation | B | 50 | Preparing for Gender Equality and Women's Economic Empowerment | 2022-2026 |
| | Sub-Total | 369,582,556 | 24.33% | | | | |
| Environment | | 6,000,000 | Environment and Climate Change | C | 51 | Integrated Landscape Management Approach to CCA, DRR and Biodiversity Conservation (Bamyan Plateau PA and Surrounding Landscape) | 2023-2026 |
| | | 1,741,758 | Environment and Climate Change | Ongoing | 52 | Conservation of Snow leopards and their threatened ecosystem in Afghanistan (CSLTEA) | 2021-2023 |
| | | 2,055,927 | Environment and Climate Change | Ongoing | 53 | Adapting Afghan Communities to Climate Change-induced Disaster Risks (CDRRP) | 2021-2022 |
| | | 8,000,000 | Environment and Climate Change | C | 54 | Comprehensive Disaster Management Project (CDMP) | 2022-2026 |
| Anti-Corruption | | 20,000,000 | Anti-Corruption | C | 55 | Strengthening and Motivating Afghanistan public service to Assure Reliability and Transparency (SMART) project | 2022-2025 |
| | | 37,000,000 | Anti-corruption | | 56 | Strengthen legal and institutional framework and capacities to effectively prevent and combat corruption and impunity within the Security and Justice sectors in line with international standards. | 2021-2024 |
| | | 11,000,000 | Anti-corruption | | 57 | Strengthen engagement of Civil society, media and communities engaged in promoting a culture of transparency and integrity, and increased trust in the Government. | 2021-2024 |
| | | 14,000,000 | Anti-Corruption | B | 58 | Afghanistan Anti-Corruption, Transparency, Integrity and Openness (ACTION) Multi-Partner (MPTF) Project | 2021-2025 |
| SDGs | | 12,054,000 | N/A (cross-cutting project) | | 59 | Integrated Policy Support to Afghanistan SDGs | 2021-2024 |
| | Sub-Total | 111,851,685 | 7.36% | | | | |
| | TOTAL | 1,518,985,263 | | | | | |

ANNEX 5: Development of Social Protection Programmes in National Legislation by Policy Area (pre-1900 to post-2010, percentage of countries)



ANNEX 6: Passive Labor Market Programmes

Passive programs aim at

- reducing hardship on workers due to job loss through income replacement
- increasing efficiency, as workers can search longer for a better job (implying a more productive one)
- through severance, raising firing costs for employers, thus slowing down the rate of separations and keeping unemployment low (though this may also decrease hiring in the first instance)

A. Unemployment benefits

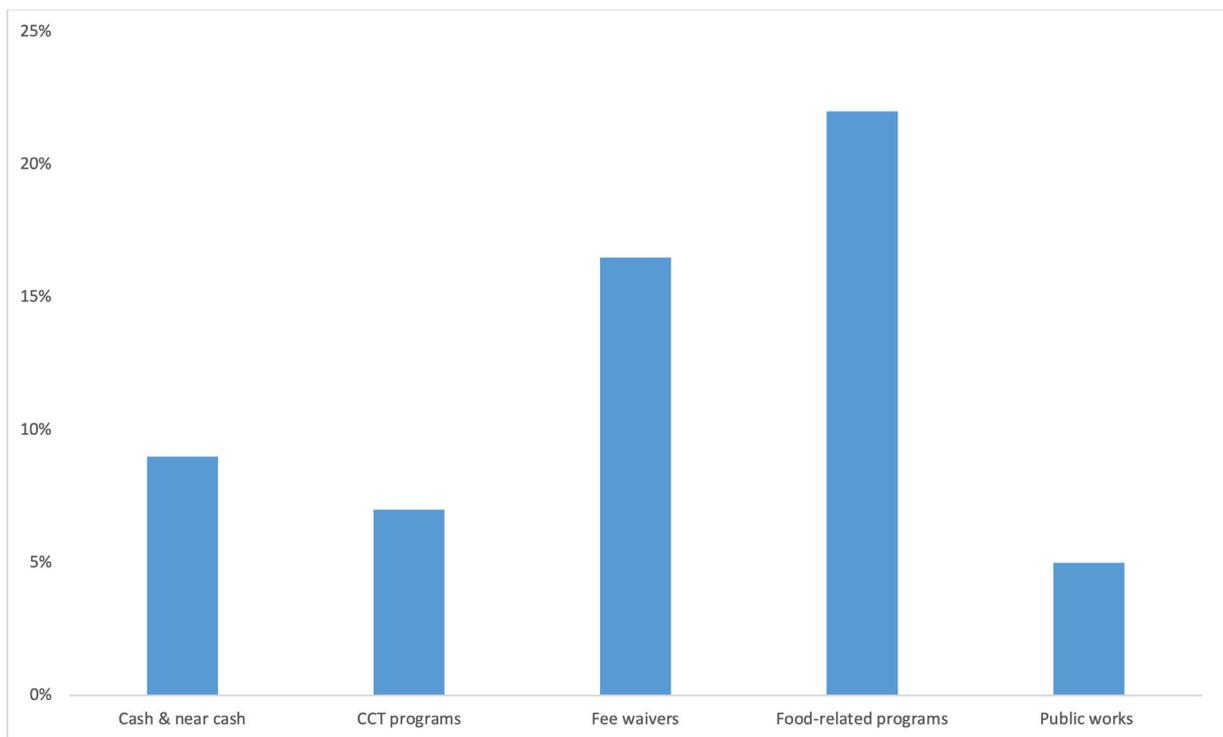
- replaces part of the salary
- usually for a limited period
- can be insurance or assistance, means tested (income/wealth) or not
- can be funded by all (employers, workers, governments) or solely employers

B. Severance Programs

- lump sum paid at the time of separation
- depends on final salary and years of service
- benefits can vary by cause (ordinary separation, abusive dismissal, technical/economic redundancy)
- funded by employers' contributions

Source: Constructed from Dar and Tzannatos (1999).

ANNEX 7: Share of Administrative Costs in Programme Budget Median Value by Type of Programme



Source: Grosh et al. (2008).

ENDNOTES

1. For 2003 see Multiple Indicator Cluster Surveys.
2. For 2003 see IE-LFS 2019-20.
3. UNAMA (2021).
4. Asia Foundation (2019).
5. https://live.worldbank.org/unlock-FDI?cid=ECR_E_NewsletterWeekly_EN_EXT&deliveryName=DM86830
6. Save the Children (2021).
7. For example, the annual expenditure on Afghanistan by the US, have averaged US\$40 billion annually between 2016 and 2018 and was US\$38 billion in 2019 (up to September). <https://www.bbc.co.uk/news/world-47391821>
8. Sufizada (2021).
9. DECREE of President of Islamic Republic of Afghanistan on Establishment of High Council of Revenues Pursuant to provision of article 64 of the Constitution of Afghanistan, for the purposes of increasing and effective management of revenues, aimed at approving and endorsing policies, plans, strategies, projects and programmes and for the purpose of implementing commitments of the Government of Islamic Republic of Afghanistan
10. TOLONews (2020).
11. Morozkina (2020).
12. UNAMA (2020).
13. According to one source, 60 percent of the Afghanistan is not controlled by the government (TOLONews, 2020). Another source states that the Taliban alone directly influence over 12 percent of Afghan districts, contest a further 34 percent and control 10 percent of the population (Nordland, 2019).
14. UNDP (2020a). Amiri (2021).
15. World Bank (2020b).
16. Cevik, Serhan and João Tovar Jalles (2020).
17. OCHA (2021a).
18. OCHA (2021a).
19. OCHA (2021b).
20. OCHA (2021c).
21. UNDCO/UNDP (2020).
22. The six programmes are organized in four groups: (i) : (i) Peace (Human Security, Justice and Peace; and Promoting Good Governance); (ii) Prosperity (Economic Transformation for All ; and Social Protection; and (iii) Sustainability (Environment Programme); (iv) Development Policy (SDG Integration).
23. Zucchini (2021); McCarthy (2021a).
24. McCarthy, Niall (2021b).
25. Zucchini (2021).
26. Several antigovernment groups are operating in Afghanistan including the Taliban, Al Qaeda and Daesh/ the Islamic of Iraq and the Levant (ISIL).
27. Institute for Economics & Peace (2020a).
28. The total economic impact of terrorism includes the direct cost of terrorism deaths, injuries and property damage, as well as the indirect costs from deaths, injuries, property damage and GDP losses. It also includes a multiplier effect on the direct costs. Direct costs are expenditures incurred by the victim, the perpetrator and the government. Indirect costs accrue after the fact and include the present value of the long-term costs arising from the incidence of terrorism, such as lost future income and physical and psychological trauma. See Institute for Economics & Peace (2019).
29. This high estimate of economic costs is measured as expenditures aimed to “contain, prevent and deal with the consequences of violence”. It includes the direct and indirect costs of violence. It refers to military and internal security spending on the police and judicial systems as well as the costs associated with incarceration, private security expenditures, forced displacements, homicides, suicides, arm conflict, violent crimes and sexual assaults. It also takes into account the consequences on the victims, perpetrators, public

systems including health, judicial and public safety as well as the longer-term costs of violence upon lost productivity, psychological effects and perception of safety and security. The multiplier effect represents the flow-on effects of direct costs, such as additional economic benefits that would come from investment in business development or education instead of containing or dealing with violence and captures the additional economic activity that would have accrued if the costs of violence had been avoided. Its value is assumed to be one. Still, the total estimate excludes impacts arising from the cost of crime to business, judicial system expenditure, domestic violence, household out-of-pocket spending on safety and security, and spillover effects from conflict and violence. See Institute for Economics & Peace (2019).

30. The period studied was 2005 to 2016. See IMF (2018).

31. European Union (2019).

32. Grosh et al. (2008): p. 358.

33. UNODC and Islamic Republic of Afghanistan (2016).

34. UNODC and Islamic Republic of Afghanistan (2017).

35. Farzad (2020).

36. The Global Economy (2019).

37. OCHA (2021c).

38. Afghanistan Times (2019).

39. Fews Net (2019).

40. 305 v. 227: UNAMA (2019).

41. <http://visionofhumanity.org/app/uploads/2019/07/GPI-2019web.pdf>

42. McCarthy (2020).

43. Helliwell, John F.; Richard Layard, Jeffrey D. Sachs, Jan-Emmanuel De Neve, Lara B. Akinin, and Shun Wang (2021) World Happiness Report. New York: United Nations Sustainable Development Solutions Network.

44. Integrity Watch Afghanistan (2018).

45. Transparency International (2020).

46. Gul (2020a).

47. Andersen et al. (2020).

48. Gaspar et al. (2020).

49. World Bank (2020c).

50. Rahimi (2020).

51. The size of the population was 27.7 million in 2007, 35.4 million in 2016 and 38 million in 2019.

<https://data.worldbank.org/indicator/SP.POP.TOTL?locations=AF>

52. Floreani et al. (2016).

53. The Afghanistan Living Conditions Survey 2016-2017 includes information on employment and social conditions.

54. UNICEF (2020).

55. Islamic Republic of Afghanistan (2019).

56. UNICEF (2020), page 12.

57. Islamic Republic of Afghanistan (2019).

58. Cousins (2020).

59. Cousins (2021).

60. The relationships were measured by Pew Research Center's 2012 Government Restrictions on Religion Index and Social Hostilities Involving Religion Index, and the UN Human Development Report 2013 Gender Inequality Index. See Pew Research Center (2012) and Grim Lyon (2015).

61. World Bank (2011).

62. UNAMA and OHCHR (2020).

63. Islamic Republic of Afghanistan (2019).

64. UNICEF (2020).

65. Ansar (2020).

66. Amnesty International (2019).

67. Fews Net (2019).

68. OCHA (2019).

69. UNICEF (2019a); Save the Children (2020).
70. Save the Children (2021). UNICEF (2021).
71. Faiez (2021).
72. Kumar (2020).
73. World Bank (2020c).
74. Collier (1999).
75. Barber, Rebecca (2019). Institute for Economics & Peace (2018).
76. Gates et al. (2012); Hoeffler (2017); Lacina and Gleditsch (2005).
77. UN and World Bank (2018).
78. UNDP (2020).
79. Gates et al. (2012).
80. Collier et al. (2003).
81. ILO (2017).
82. Wood (2008).
83. Bauer et al. (2016).
84. Costalli et al. (2017); Rohner et al. (2013).
85. For global overviews see Dar and Tzannatos (2001); Blattman and Annan (2016) .
86. Homer-Dixon (1994).
87. According to reports, President Ashraf Ghani says there are 20 terrorist groups in Afganistan, some of them having bases outside the country and others having operations in neighboring countries. These include the Haqqani Network; Al-Qaeda; Daesh; Lashkar-e-Taiba, Lashkar-e-Jhangvi, Jaish-e-Mohammad, Pakistani Taliban and Panjabi militants supporting other groups; Lashkar-e-Jhangvi; Lashkar-e-Taiba; Jaish-e-Mohammad; Mujahidin United Council (Shura-i-Etehad Mujahidin); the Maulvi Nazir Group; Therik-e Taliban Pakistan (TTP); the Amre Ba Maroof and the Momin groups; Jamat ud Dawah; Lashkar-e-Islam; Ansarul Islam; and the Islamic Jihad Movement among others that include of Chechens, Uighur Tajiks, Tehrik-i-Uzbekistan and Arabs. <https://tolonews.com/afghanistan/20-terrorist-groups-fighting-against-afghan-government>
88. Collier and Hoeffler (2000).
89. Macartan Humphreys (2003). Economics and Violent Conflict. Harvard University https://www.unicef.org/socialpolicy/files/Economics_and_Violent_Conflict.pdf
90. According to the Atlas method of the World Bank, the seven countries with lower incomes than Afghanistan are in descending order Madagascar (with and income of US\$520), the Democratic Republic of the Congo and the Central African Republic (both at US\$520), Sierra Leone (\$500), Mozambique (\$480), Malawi (\$380) and Burundi (\$280).
- 91 According to the Ministry of Economy, by 2030 real per capita income would have grown at a rate of 5.9 percent since 2015 and 7.1 percent since 2020. To derive the real GDP per capita growth rate one should add around 2 percentage points to the GDP growth rate to take into account the annual increase in population.
92. Fearon, James and David Laitin (2002). "Ethnicity, Insurgency and Civil Wars." American Political Science Review.
93. Weinstein, J. (2005). Resources and the information problem in rebel recruitment. Journal of Conflict Resolution 49 (4): 598-624.
94. Collier and Hoeffler (2005a; 2005b).
95. This does not necessarily imply that democracy in the common sense is always conducive to growth. Some empirical research finds that that normally democracies in developing countries can be worse than autocracies at harnessing resource rents for growth. See Collier and Hoeffler (2005a).
96. United Nation (2020).
97. 2008 report by Afghanistan Research and Evaluation Unit, an independent research organization in Kabul.
98. Sufizada (2021).
99. World Bank (2020d).
100. Humphreys (2003).
101. <https://www.nwaonline.com/news/2020/dec/23/mexico-afghanistan-in-lead-as-killings-of/>
102. <https://www.aa.com.tr/en/asia-pacific/afghanistan-3-relatives-of-slain-journalist-killed/2158116>

103. Le Blanc, D. (2015). Towards integration at last? The sustainable development goals as a network of targets. https://www.un.org/esa/desa/papers/2015/wp141_2015.pdf
104. Griggs et al. (2017).
105. Zhou and Moinuddin (2017).
106. World Bank (2018).
107. UN Women (2021).
108. IRC and UN Women (2020).
109. UN Women (2020).
110. Reuters (2020).
111. Faizi and Mashal (2020).
112. Sukheja (2019).
113. Sarwary (2020).
114. https://en.wikipedia.org/wiki/Women_in_government.
115. Islamic Republic of Afghanistan (2020g).
116. Alkozay (2020).
117. Islamic Republic of Afghanistan (2020f).
118. Gul (2020b).
119. The other South Asian countries are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. See World Bank (2020a), Table 1.2.
120. Quilty (2020).
121. Farzad and Rasekh (2020).
122. Kumar (2020).
123. Kumar (2020).
124. World Bank (2020c).
125. Bleich and Fleischhacker (2020).
126. IMF (2021).
127. TOLONews (2020).
128. UNIDO (2020).
129. World Bank (2020c).
130. Barrett et al. (2021).
131. IMF (2021).
132. World Bank (2020e).
133. See UNDP Afghanistan (2020) (a) “Afghanistan Coronavirus Impact: Country Note” (April 13) that offered early estimates of the adverse impact of the pandemic and initially assessed several social protection measures to alleviate its effects; (b) “Afghanistan Coronavirus Socio-economic Impact Assessment Update” (July 22) that updated the earlier estimates by casting them within an economy-wide analysis guided by the infection transmission scenarios developed by the Ministry of Public Health; (c) “Afghanistan: Potential Impact of the Coronavirus Pandemic on SDG Attainment” (September 18) that, utilized the A-GTAP model to assesses more broadly and more systematically the socio-economic impact of COVID-19 and the effect this might have on the SDGs; and (d) “Afghanistan Coronavirus Socio-economic Impact Assessment Update” (September 28) that focuses on the economic impact of the pandemic and ways to fund the resulting fiscal gap.
134. IMF (2020b).
135. According to Asian Development Bank Afghanistan’s GDP was predicted to contract by 5 percent due to COVID-19. See <https://avapress.com/en/167144/Afghan-GDP-Predicted-to-Contract-5-0-Due-to-COVID-19-ADB>
136. World Bank (2020c).
137. World Bank (2020c).
138. Biruni Institute (2021).
139. UNFPA (2020).
140. World Bank (2020c).
141. World Bank (2020c).
142. Skolnik (2020).

143. SAARC (South Asian Association for Regional Cooperation) is the regional intergovernmental organization and geopolitical union of Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. RECCAVII (Regional Economic Cooperation Conference on Afghanistan whose 7th meeting took place in November 2017) includes Afghanistan, Kazakhstan, Turkey, Georgia, Armenia, India, Iran, Tajikistan and Kyrgyzstan.
144. Assuming a “poverty-growth elasticity” of 2.8 as the empirical literature suggests for South Asia countries.
145. Institute for Economics & Peace (2020b).
146. Institute for Economics & Peace (2020b).
147. Yale University (2020).
148. The Global Footprint Network (2021).
149. The Disaster Risk Reduction (DRR) strategy launched by Afghanistan National Disaster Management Authority (ANDMA).
150. World Bank (2020c).
151. OCHA (2019).
152. United Nations Development Programme (UNDP) Bureau for Crisis Prevention and Recovery (BCPR) of UNDP, which reviewed vulnerability to the impact of various natural disasters in 200 countries, Afghanistan ranks at 5th and 17th respectively in terms of its relative vulnerability to earthquakes and floods.
153. Health Effects Institute (2020).
154. Institute for Health Metrics and Evaluation (2020).
155. <https://cfpub.epa.gov/airnow/index.cfm?action=aqibasics.aqi#:~:text=The%20AQI%20is%20an%20index,be%20a%20concern%20for%20you.&text=For%20each%20of%20these%20pollutants,standards%20to%20protect%20public%20health%20>
156. Lange et al. (2018), p. 182.
157. <https://www.dailysabah.com/world/asia-pacific/air-pollution-killed-almost-5000-people-in-afghanistan-in-2020-health-ministry-says>
158. Akbar and Khaksar (2020).
159. Lange et al. (2018), p. 182.
160. Estimated from <http://www.fao.org/nr/water/aquastat/data>.
161. Hussain et al. (2020).
162. FAO (2016).
163. Glinski (2019).
164. <https://www.globalwitness.org/en/campaigns/afghanistan/talc-everyday-mineral-funding-afghan-insurgents/>
165. UNDP (2020a).
166. UNRISD (2010).
167. Article 22
168. Article 25
169. ILO (2019). See also <https://www.socialprotection.org/gimi/ShowTheme.action;jsessionid=FUcc6HzQu7xaAUDpqGr1qOjVmuPaxsXsl5JFQJM5YAnsPh8nP1U!-1493888307?id=10&lang=EN>
170. <https://ispatools.org/core-diagnostic-instrument/>
171. <https://ispatools.org/>
172. Still only four countries have introduced social protection below US\$600: Democratic Republic of Congo, Burundi, Niger and Togo. See Ortiz et al. (2017).
173. Islamic Republic of Afghanistan (2020a).
174. For example, there can be as many as 12 ministries involved (Commerce and Trade, Economy, External Affairs, Finance, Labour and Social Affairs, Martyred and Disabled, Public Health, Public Works, Refugees and Returnees, Rural Rehabilitation and Development, Women’s Affairs); independent agencies and directorates (e.g. for Technical and Vocational Education and Training, Local Governance, Kuchi Affairs, National Statistics & Information Authority etc); councils (such as for Poverty Reduction and Community Development); several private sector and community organizations including chambers of commerce and civil society organizations.

175. For example, the UN Office for Coordination of Humanitarian Affairs, the High Commissioner for Refugees, UNDP as well as UNICEF, UNFPA, UNWomen, the International Labour Organization, International Organization for Migration, the World Bank, the International Monetary Fund, the International Policy Centre for Inclusive Growth (IPC-IG), the Asian Development Bank, the European Union and many bilateral donors.
176. UNICEF (2019b).
177. International Development Association (2019).
178. For the pros and cons of ALMPS see Dar and Tzannatos (2001); Angel-Urdinola et al. (2010); and Almeida et al. (2012).
179. There are approximately 940,000 elderly persons (65+) and 120,000 recipients of pensions who can be excluded from the social pension programme.
180. Carvalho (2000). Duflo, E. (2003).
181. Kidd (2021).
182. FAO (2014).
183. OECD (2018).
184. World Bank (2020c).
185. OECD (2019).
186. Blumenstock et al, (2018).
187. IMF estimates the “safe inflation” rate for developing economies to be between 5 percent and 12 percent while more recent (post 2000) academic research pushes the upper bound to 15 percent and 25 percent. Ortiz et al. (2017).
188. This list draws from many sources including Ortiz et al. (2015, 2017).
189. Examples other than HIPIC and MDRI include “haircuts” (e.g. Greece in early 2010s) and outright debt repudiation (Iraq in 2003 and Iceland in 2011).
190. See IMF (2019). According to the same report, Afghanistan’s poverty-reducing expenditures totaled US\$570m in 2017 up from US\$293m in 2010 (respectively 2.8 percent and 1.9 percent of GDP).
191. World Bank (2021).
192. UNDCO/UNDP (2020).
193. https://sustainabledevelopment.un.org/content/documents/1624Our_Planet__time_for_global_action.pdf



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