

Afghanistan: an agenda for catalyzing inclusive growth

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State of the Afghan Economy**

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Taking stock

Much progress but a challenging transition



Development outcomes have improved substantially since 2001...



GDP per capita
from USD 120
to USD 608



Revenue
from 3.3% of GDP
to 11.2% of GDP



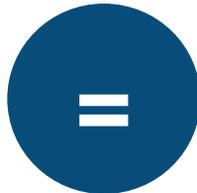
Life expectancy
from 44 years
to 61 years



School enrollment
from 0.8 million
to over 8 million



Under-5 mortality
from 137
to 55 deaths per
1000 live births



**Gender equality:
women in
parliament**
from 0
to 27%



Connectivity
from none
to 18 million
mobile phone
subscribers



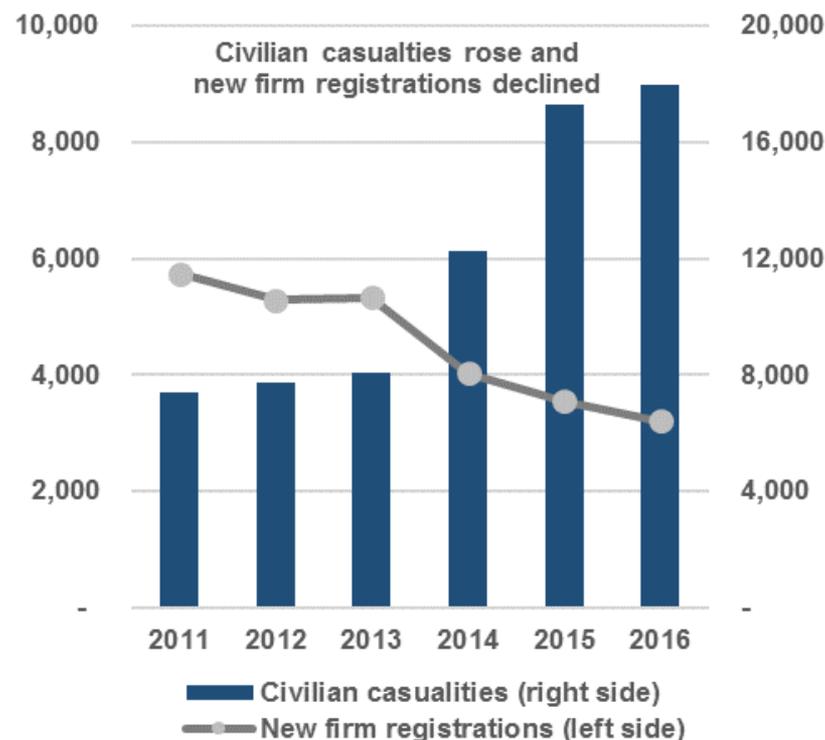
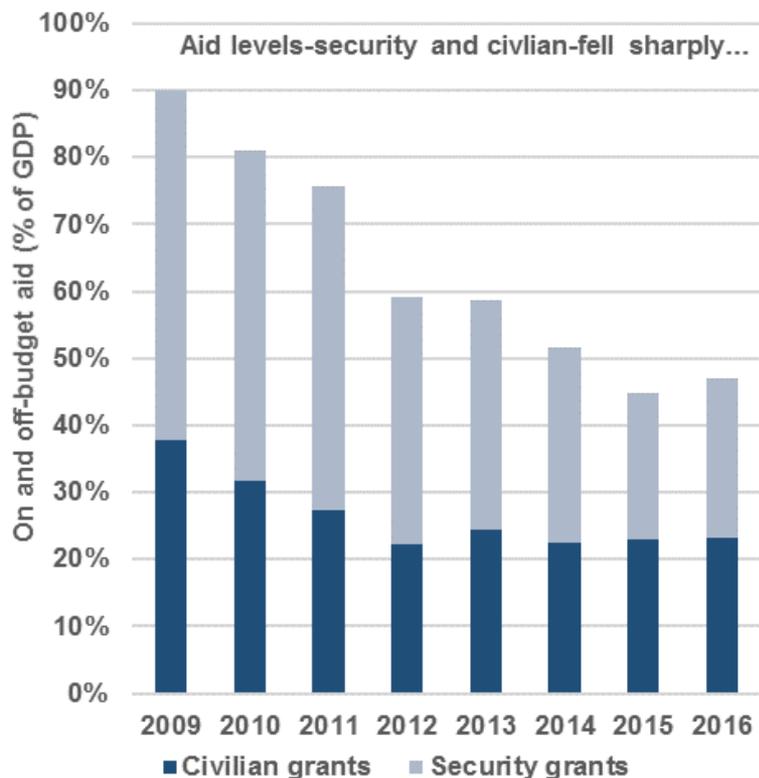
**Public financial
management**
from none
to stronger systems
than other fragile
states and many
low-income
countries



But the ongoing transition to self-reliance has been challenging...

The economy experienced a huge shock to demand...

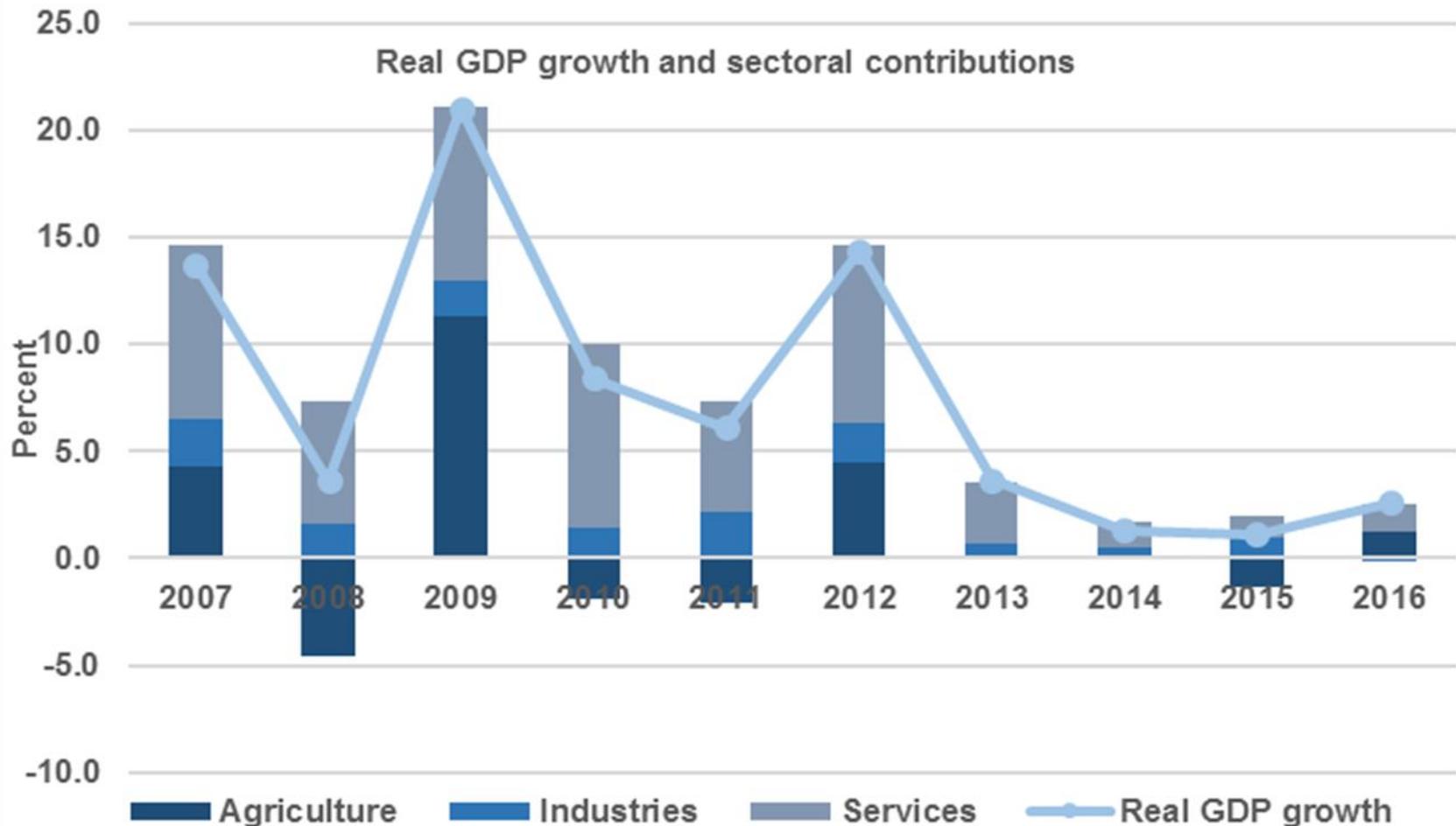
- ▶ With the withdrawal of international troops, the decline in aid levels and the deterioration in security adversely affected consumer and investor confidence and resulted in a sharp decline in domestic demand...





But the ongoing transition to self-reliance has been challenging... *...and economic growth declined significantly*

- ▶ Average annual real GDP growth fell from 9.4% between 2003 and 2012 to 2.1% between 2013 and 2016





...and slower progress on development outcomes, with some past gains eroded

Poverty	Poverty increased from 36% in 2008 to 39% in 2014.	Services	Primary attendance rates declined by 1.2% overall, and by 2.2% for girls.
Employment	Unemployment and underemployment increased from 25% in 2008 to 39% in 2014.	Gender	The gender gap in school attendance increased. For every 2 boys, less than 1 girl attends secondary education.
Violence	Annual civilian casualties increased from 6025 in 2012 to 6791 in 2014.	Private Investment	The number of new investment activities declined by almost 50% between 2012 and 2015.
Migration	Afghans seeking asylum in the EU increased from 38,000 in 2014 to 180,000 in 2015.	Displacement	Flows of returning refugees increased, exacerbating population pressures. The number of internally displaced reached 1.2 million.



Looking ahead: an agenda for inclusive growth
A lot to be done in the near term...but the results will
take time



An agenda for inclusive growth

A lot to be done now...but results will take time

Action is
required
now...

- ▶ Achieving peace and security are essential for a prosperous future...but military action and a political agreement will not by themselves bring about a durable peace.
- ▶ Maintaining confidence in the ability of the state to deliver services will be critical for stability
- ▶ Enhancing state effectiveness through improving governance, reducing corruption and strengthening institutional (implementation) capacity
- ▶ Boosting growth in the short-run through measures to enhance aggregate demand
- ▶ Laying the foundations for realizing Afghanistan's long-term growth potential through prioritized public investments and catalyzing private investments

...but
results
will take
time

- ▶ Given financing constraints and the lag before returns to investment—both institutional and infrastructural—materialize, results will take time...
- ▶ ...and so patience and a sustained commitment will be required and expectations have to be calibrated



Boosting growth in the short-term
Fiscal space is limited but the right reforms can help

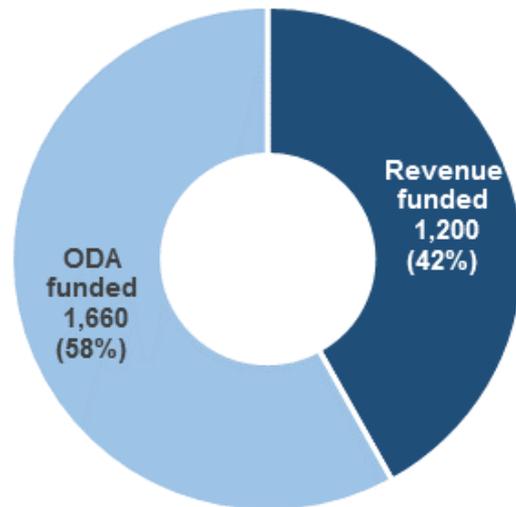


Boosting growth in the short-run

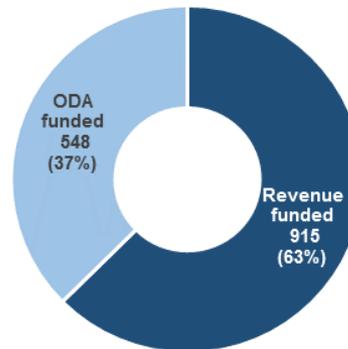
Afghanistan's fiscal room to maneuver is limited...

- ▶ Fiscal space is limited given imperatives of security spending and costs of basic service delivery for a growing population...
- ▶ Aid covers almost 60 percent of Afghanistan's on-budget civilian expenditures and 80 percent of on-budget development expenditures
- ▶ But with the right combination of fiscal and policy reforms, there is potential for a boost to growth even in the short-run

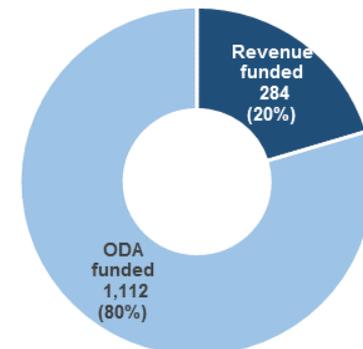
2013-2016 average annual
CIVILIAN ON-BUDGET expenditures:
TOTAL



2013-2016 average annual
CIVILIAN ON-BUDGET expenditures:
OPERATING



2013-2016 average annual
CIVILIAN ON-BUDGET expenditures:
DEVELOPMENT





Boosting growth in the short-run...

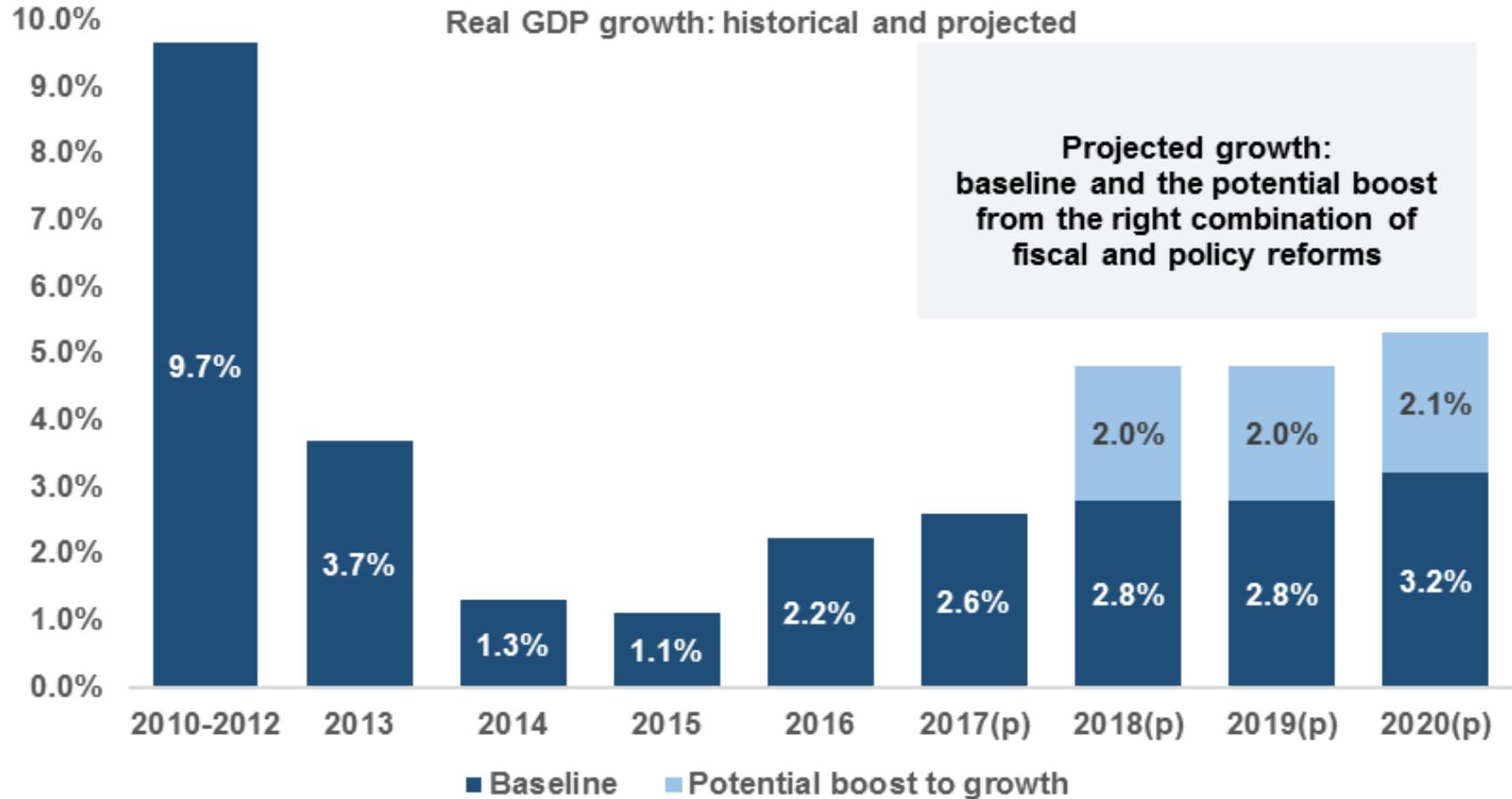
...with the right combination of fiscal and policy reforms

- 1 improve budget execution**
- 2 reorient budget expenditures towards labor-intensive and community-based programs that directly reach the population with the greatest needs and most likely, the highest marginal propensity to consume**
- 3 increase and improve quality of spending for basic service delivery**
- 4 promote private investment and strengthen confidence of business community by forcefully implementing reforms and measures to reduce risks and costs of doing business**
- 5 identify and selectively promote opportunities for import substitution (without distorting prices) and exports**
- 6 move from narrowly-focused revenue collection to broader revenue mobilization by expanding the tax base**
- 7 ensure Brussels aid commitments are met and more aid is delivered on budget**



Boosting growth in the short-run

...with the right combination of fiscal and policy reforms





Realizing Afghanistan's long-term growth potential

Investments are critical but have to be prioritized



Realizing Afghanistan's long-term growth potential

Growth must achieve multiple objectives

- 1 Growth has to be inclusive—must create jobs and reduce poverty...**
 - ▶ to provide livelihoods for the poor and opportunities for the 400,000 young Afghans coming of working age every year

- 2 Growth has to help close the external financing gap**
 - ▶ with aid declining, alternate sources of financing imports will be required—e.g., export earnings, FDI or remittances

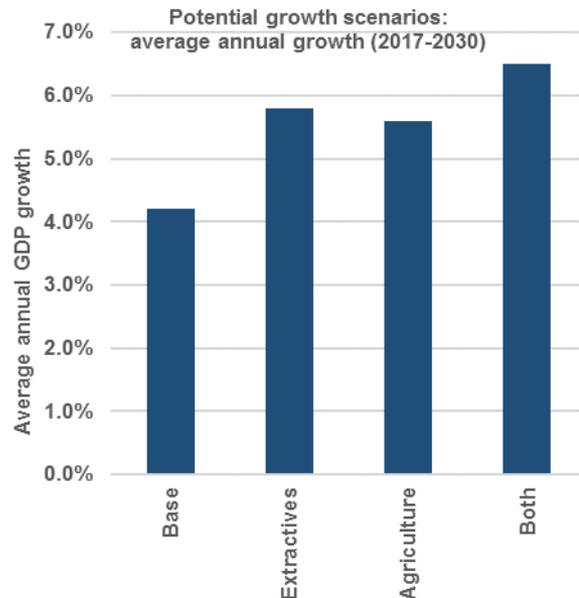
- 3 Growth has to generate revenues to enhance fiscal self-reliance**
 - ▶ aid currently finances 60 percent of the government budget



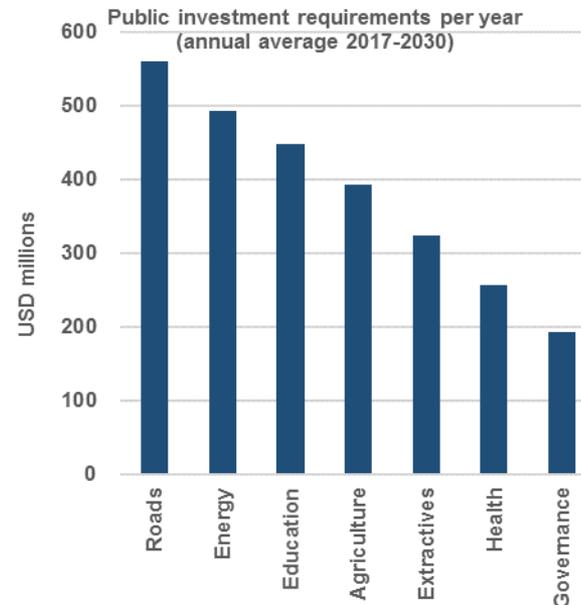
Realizing Afghanistan's long-term growth potential...

...will require significant investment

- ▶ Afghanistan has substantial growth potential, particularly in agriculture and extractives...
 - ▶ ...and realizing this potential could deliver average annual growth of 6.5 percent over 2017-2030
- ▶ ...and cities, if well-managed, can become growth poles



- ▶ ...but public investment requirements are significant
 - ▶ up to USD 2.6 billion per year through 2030
- ▶ ...a robust budget and PIM-PPP prioritization process will be critical





Realizing Afghanistan's long-term growth potential...

...and investment options need to be carefully prioritized

AGRICULTURE & AGRIBUSINESS

...to support income opportunities and job creation

Growth	Dark Blue	Dark Blue	Dark Blue
Jobs & poverty reduction	Dark Blue	Dark Blue	Dark Blue
Revenue	Dark Blue	Light Grey	Light Grey
Balance of payments	Dark Blue	Dark Blue	Light Grey
Risks	Red	Light Grey	Light Grey
Public investment	Red	Red	Light Grey

- ▶ Low risk and robust to changes in security
- ▶ Could contribute 1.4 percentage points to growth annually and produce 1.2 million jobs over the next 10 years
- ▶ Low revenue potential
- ▶ Good potential for import substitution

HUMAN CAPITAL

...to increase productivity and promote equity

Growth	Dark Blue	Dark Blue	Light Grey
Jobs & poverty reduction	Dark Blue	Dark Blue	Dark Blue
Revenue	Dark Blue	Light Grey	Light Grey
Balance of payments	Dark Blue	Dark Blue	Light Grey
Risks	Red	Light Grey	Light Grey
Public investment	Red	Red	Light Grey

- ▶ Low risk and relatively robust to insecurity
- ▶ Strong focus on women empowerment and youth (skills and employment)
- ▶ Opportunities for managed migration
- ▶ Investment in adult literacy could significantly improve productivity in agriculture

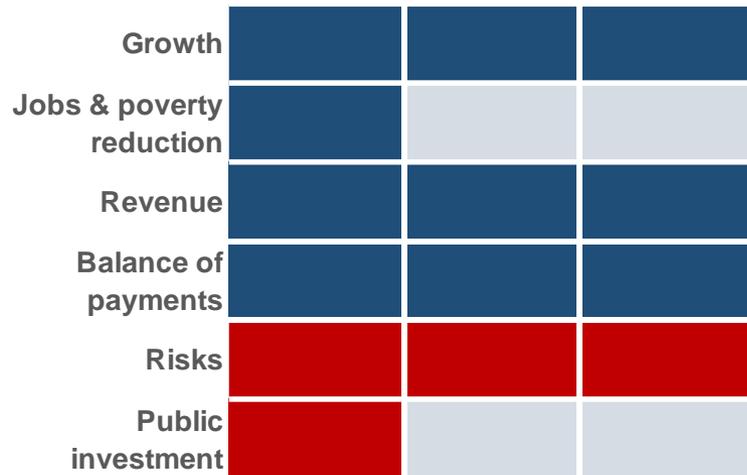


Realizing Afghanistan's long-term growth potential...

...and investment options need to be carefully prioritized

EXTRACTIVES & ENERGY

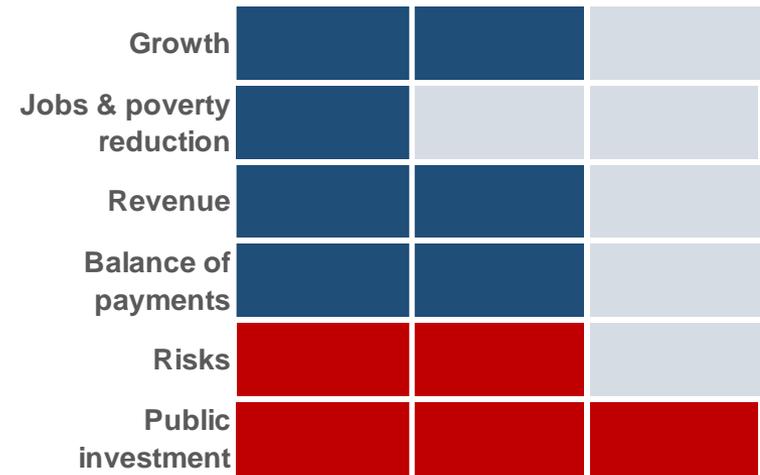
...to generate government revenues and foreign exchange earnings



- ▶ High governance risks but very attractive for private investment
- ▶ Large growth impact: could add 1.6 percentage points to GDP growth
- ▶ Modest job impact: 100,000-125,000 jobs but could catalyze more.
- ▶ High fiscal revenue potential: 3 percent of GDP annually through 2030

REGIONAL CONNECTIVITY

...to maximize economic opportunities



- ▶ High economic risks due to strategic interdependencies
- ▶ Large financing needs and potentially high but uncertain returns
- ▶ Revenue potential of transit trade: USD260 million annually but slow to materialize



Afghanistan: an agenda for catalyzing inclusive growth

...for government and international partners

BOOSTING GROWTH IN THE SHORT-RUN

- ▶ improve budget execution
- ▶ reorient budget expenditures towards labor-intensive and community-based programs that directly reach the population with the greatest needs and most likely, the highest marginal propensity to consume
- ▶ increase and improve quality of spending for basic service delivery
- ▶ promote private investment and strengthen confidence of business community by forcefully implementing reforms and measures to reduce risks and costs of doing business
- ▶ identify and selectively promote opportunities for import substitution and exports (without distorting prices)
- ▶ move from narrowly-focused revenue collection to broader revenue mobilization by expanding the tax base

REALIZING THE POTENTIAL FOR LONG-TERM GROWTH

- ▶ Investments—in institutions and in high-potential areas—will be critical
- ▶ Agriculture and agri-business, human capital, extractives and regional connectivity offer the greatest promise
- ▶ But public investments—particularly for connectivity and energy infrastructure--will have to be clearly prioritized and carefully selected
- ▶ And given financing constraints, crowding-in private capital—through reforms, PPP's and innovative financial solutions—will be tremendously important

ENHANCING STATE EFFECTIVENESS AND CREATING FISCAL SPACE

- ▶ Maintain, and ideally, increase on-budget financing
- ▶ Align off-budget and on-budget financing to respond to shared priorities
- ▶ Strengthen institutional (planning, coordination and implementation) capacity within government
- ▶ Implement anti-corruption strategy and strengthen civil service reforms
- ▶ Strengthen national and sub-national governance structures