

AFGHANISTAN



Islamic Republic of Afghanistan
Ministry of Economy

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POVERTY STATUS UPDATE

OVERVIEW



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AFGHANISTAN'S POVERTY CHALLENGE: STRONG GROWTH; PERSISTENT POVERTY

STRONG ECONOMIC GROWTH IN AFGHANISTAN DURING THE PRE-TRANSITION PERIOD (2007-08 TO 2011-12) HAS NOT REDUCED POVERTY. Afghanistan's per capita GDP grew at an average annual rate of 6.9 percent during that period. In contrast, in 2007-08, 36 percent of Afghans were poor, and four years later, still, more than one in three Afghans did not have the buying power to satisfy their basic food and non-food needs.

Economic growth in Afghanistan, therefore, is not in and of itself enough to reduce poverty. To achieve poverty reduction, economic growth needs to be far more inclusive for everyone, regardless of their circumstances.

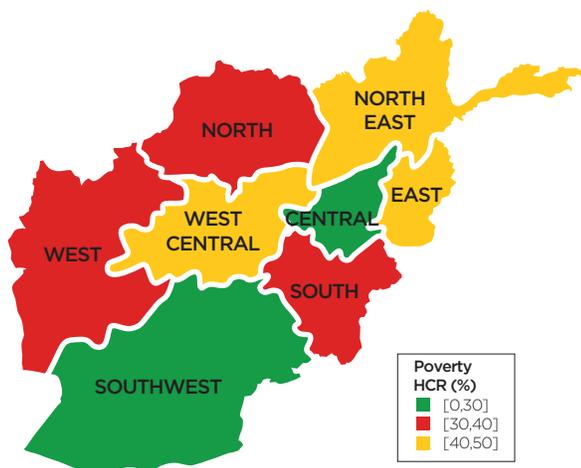
PATTERNS OF GROWTH CONTRIBUTED TO WIDENING INEQUALITY. Average per capita consumption grew at an annual rate of 1.2 percent between 2007-08 and 2011-12, but this did not benefit everyone equally, and inequality increased. While the poorest 20 percent of the population saw a 2 percent decline in real per capita expenditure, the richest 20 percent experienced a nine percent increase. Widening inequalities are reflected in an increase of the Gini index, which moved from 29.7 in 2007-08 to 31.6 percent in 2011-12.

PROFILE OF AFGHANISTAN'S POOR: RURAL, AGRICULTURAL, UNDEREMPLOYED, AND HIGHLY VULNERABLE

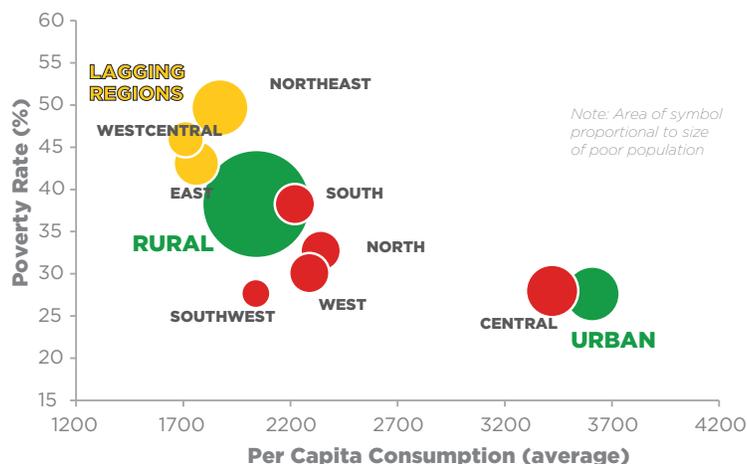
Although it is not possible to determine if the same individuals who were poor in 2007-08 were still poor in 2011-12, the data shows that the characteristics of the poor did not change.

POVERTY IN AFGHANISTAN STRONGLY CORRELATES TO WHERE PEOPLE LIVE. Four out of every five poor people live in rural areas. The mountainous East, Northeast, and West-Central regions—where almost half of the inhabitants are poor—have the lowest per capita consumption and highest likelihood of poverty.

Poverty headcount (HC), by region



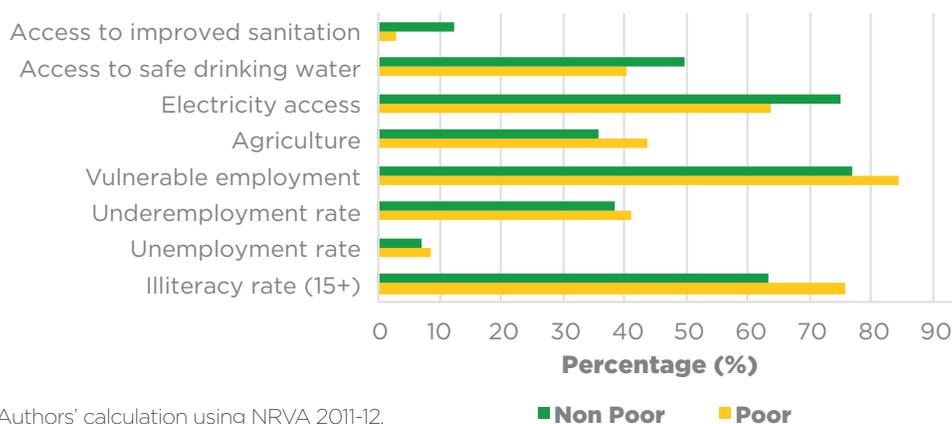
Poverty headcount and mean per capita expenditure, by location



Source: Authors' calculation using NRVA 2011-12.

LACK OF EDUCATION, LIVELIHOOD, AND LACK OF ACCESS TO BASIC SERVICES CLEARLY CONTRIBUTE TO AFGHAN POVERTY. Poor people tend to be illiterate (75.6 percent), and often lack opportunities to educate their children. Poor people face higher unemployment¹ (8 percent) or are underemployed (41 percent), and when they are employed, they are more likely to have a vulnerable and informal job (84.3 percent), most likely in agriculture (43.6 percent). Poor people are much less likely to have access to basic services such as electricity (63.8 percent), safe drinking water (40.3 percent), and sanitation (2.8 percent).

Profile of the poor



Source: Authors' calculation using NRVA 2011-12.

¹ In Afghanistan, as in most developing countries, labor is the most critical asset for poor households. For individuals living in poorer households, being engaged in some sort of income generating activity is a necessity to make ends meet. Poverty, together with the widespread availability of poor quality jobs in the informal sector make open unemployment a typically rare phenomenon. The relatively low level of open unemployment is counterbalanced by the severity of underemployment.

POVERTY IN AFGHANISTAN IS CLOSELY INTERTWINED WITH NATURAL AND MANMADE RISKS. The poor in Afghanistan are not only more likely to suffer from shocks, but also less equipped to deal with their consequences. Approximately 84 percent of Afghan households experienced at least one economic shock in 2011-12, and 53 percent suffered from three or more. Due to mountainous terrain, poor connectivity and greater reliance on subsistence and rain-fed agriculture, the poorest regions in the East, Northeast and West-Central are particularly exposed and vulnerable to shocks, especially natural hazards. Poor households are more likely to deal with risks using harmful coping mechanisms that may be necessary in the short term, but that can have greater long-term negative impacts, reducing the likelihood of escaping from poverty².

INTERNATIONAL SPENDING: AN EFFECTIVE DRIVER OF GROWTH, BUT GAINS NOT DISTRIBUTED EQUALLY

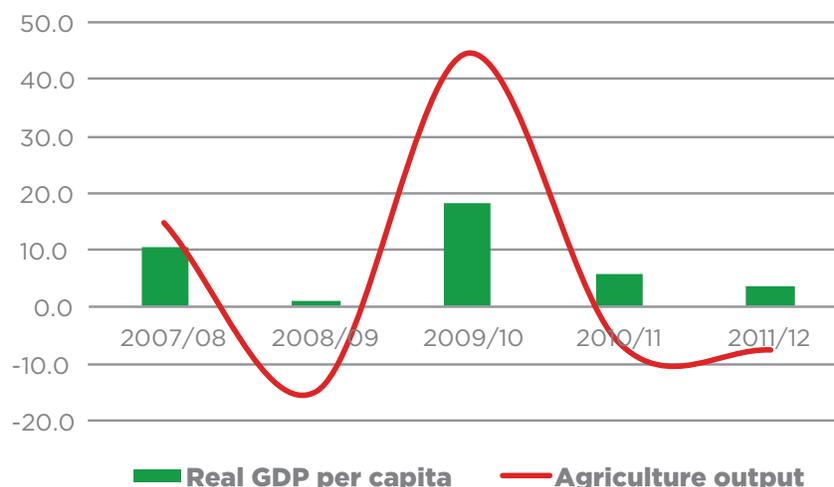
Although International spending on military and civilian assistance has contributed to economic growth, the gains have not benefitted Afghanistan's employment sectors and regions equally, nor have they reached the poorest.

INTERNATIONAL SPENDING CONTRIBUTED TO GROWTH AND JOB CREATION IN THE SERVICE SECTOR. However, while service sector growth contributed to creating good quality jobs, especially in government, health, and education services, 80 percent of new jobs were in informal day labor arrangements. Due to a lack of education, the poor could not compete for these jobs, and moved from vulnerable employment in agriculture to vulnerable employment in the service sector.

On the other hand, **AID DID NOT CONTRIBUTE TO RAISING PRODUCTIVITY OF THE AGRICULTURE SECTOR**, where most of the poor find employment. While losing its GDP primacy, the continued importance of agriculture in the Afghan economy contributed to economic growth volatility due to the sector's high reliance on rain-fed production and vulnerability to weather-related shocks.

² Lacking proper means to cope with risk, poor households face extremely unfavorable trade-offs when hit by a shock and may resort to "harmful" coping mechanisms, which includes things like selling livestock or assets that may affect future productivity and livelihood, or increasing use of child labor leading to intergenerational poverty, or reducing consumption and going hungry affecting health, human capital accumulation and future labor productivity.

Growth in Real GDP per capita and agriculture output



Source: Central Statistics Organization (CSO), 2014

INTERNATIONAL SPENDING BENEFITED HIGH-CONFLICT AREAS THE MOST, leaving behind the poorest West-Central, Northeast and East regions³. In the rest of the country, a thriving service sector created new and less vulnerable jobs, but “lagging” regions remained reliant on vulnerable employment in agriculture. Greater incidence of, and vulnerability to, natural hazards contributed to widening inequality between the poorest regions and the rest of the country.

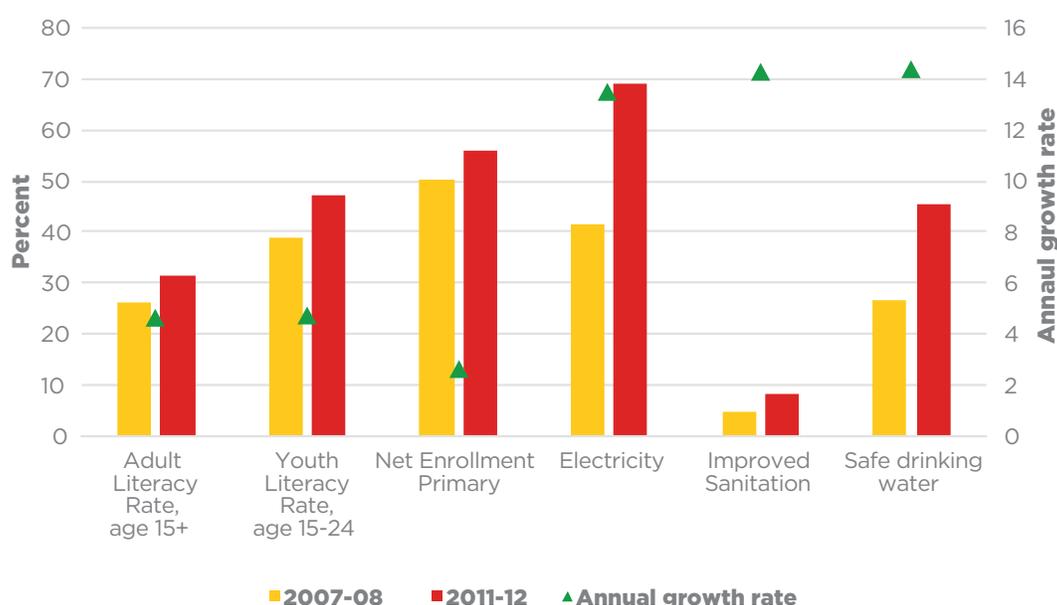
BEYOND CONSUMPTION: PROGRESS BELIES A WIDENING GAP IN ACCESS TO EDUCATION AND BASIC SERVICES

While consumption-based poverty in Afghanistan stagnated, overall country **HUMAN DEVELOPMENT OUTCOMES IMPROVED**. Enabled by international aid-supported public investment, from 2007-08 to 2011-12, literacy rates for the population aged 15 and above grew by five percent, youth literacy by 8 percent, and primary school enrollment by 6 percent annually. Access to electricity, safe drinking water, and improved sanitation all improved, growing annually by approximately 14 percent each. While these achievements have been significant, it is important to note that - at its pre-transition pace of progress - it will take the country from 20 to 25 years to achieve the same level of adult literacy of other low-income or conflict-affected countries. Further, it would take Afghanistan from 11 to 15 years to achieve the same level of youth literacy, and from 12 to 23 years to achieve the same level of primary-school enrollment as countries with a similar profile.

³ Aid increased in non-lagging regions by 79 percent over the period compared to only 31 percent in lagging regions.

AFGHANISTAN IS STILL A LONG WAY FROM CLOSING THE WIDENING GAP BETWEEN POOR AND BETTER OFF AFGHANS. Between 2007-08 and 2011-12, the gap in education between poor and non-poor Afghans widened. Children in poor households have significantly lower school enrollment rates than their counterparts in non-poor households. While urban areas and non-lagging regions saw significant improvement in school enrollment, education outcomes stagnated in rural areas and in lagging regions, mostly due to negative impact of shocks and conflict on girls' enrollment.

Trends in selected human development outcomes



Source: Authors calculations based on NRVA 2007-08 and 2011-12.

The gap in access to basic services between the poor and non-poor also widened, except in the case of access to electricity, mostly due to the expansion in the use of solar and battery sources. Expanded service delivery to rural areas reduced the urban-rural services access gap, but differences between the poorest East, Northeast and West-Central regions and the rest of the country widened, possibly reflecting differences in international aid allocation.

LESSONS LEARNED

While economic growth is necessary to reduce poverty, the poor must actually benefit from that growth. Poverty reduction hinges on the ability of the poorest to earn a good living; accumulate, control, and protect assets; and access quality services and opportunities. For Afghanistan, this means:

- 1) **STRENGTHENING AGRICULTURE** to sustain growth as aid dwindles, and for accelerating poverty reduction. As 75.6 percent of poor aged 15 and above are illiterate, they cannot take advantage of better employment opportunities requiring high skills, so poverty reduction should benefit the most from growth in sectors like agriculture where the poor concentrate.
- 2) **INVESTING IN HUMAN DEVELOPMENT** to support economic growth, improve welfare, reduce poverty, and bridge gaps in these areas between Afghanistan and other countries in the region. While continuing to expand supply of education, health and basic services, the country should devote greater attention to improving access and quality in underserved areas and among traditionally under-served groups such as girls and the poor.
- 3) **MANAGING AND MITIGATING RISK.** Geography (exposure to natural hazards), economic structure, and high incidence of poverty (households' limited ability to cope with shocks) require coordinated assistance to prevent and mitigate risks, and to help people cope with the impact of shocks. In particular, greater attention should be devoted to the development of an efficient system of safety nets to promote poverty reduction, and to complement and improve the effectiveness of investments in human development and agriculture.



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