



Understanding the Drivers of Poverty in Afghanistan

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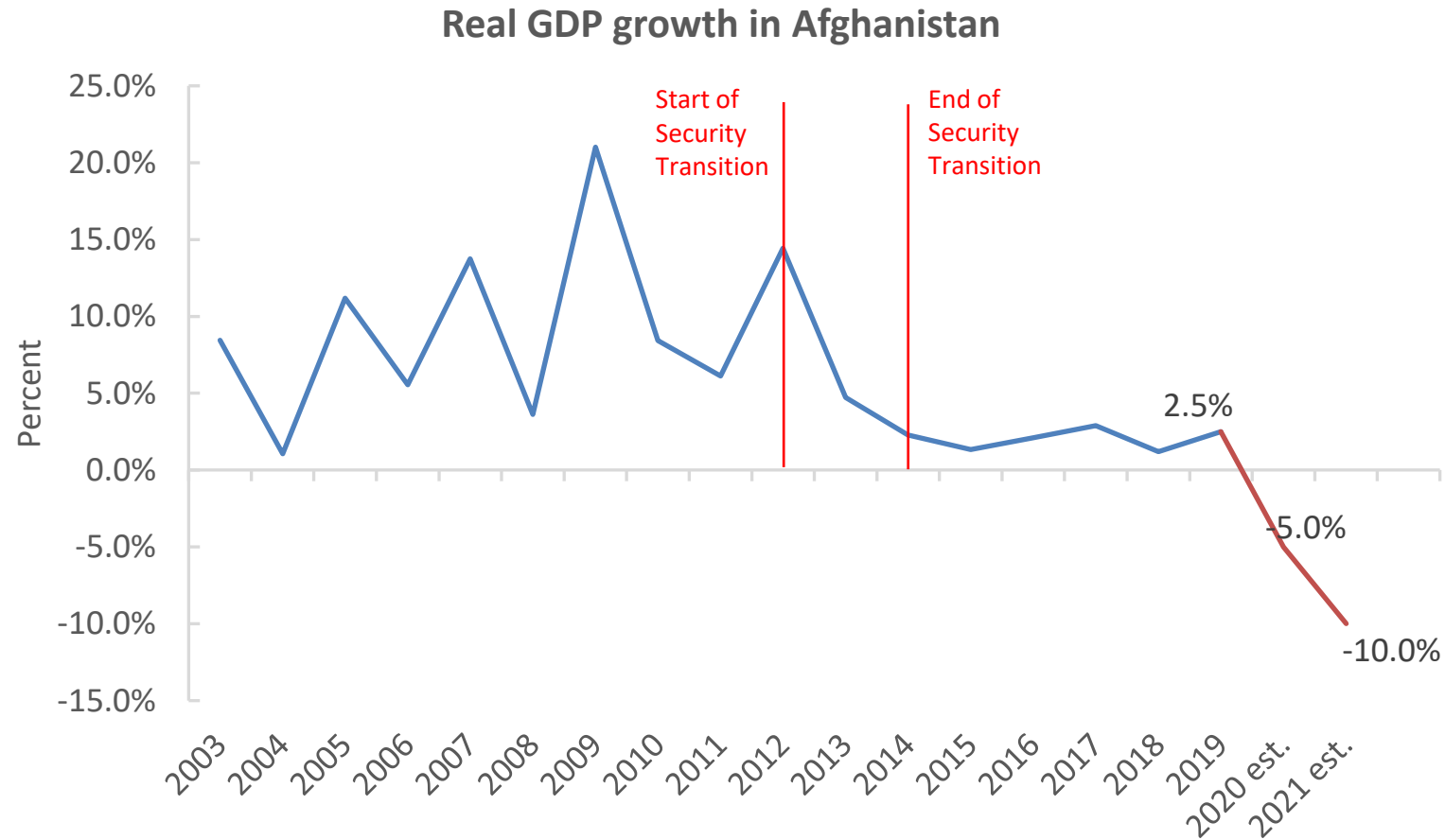
June 7, 2022

Recent history:

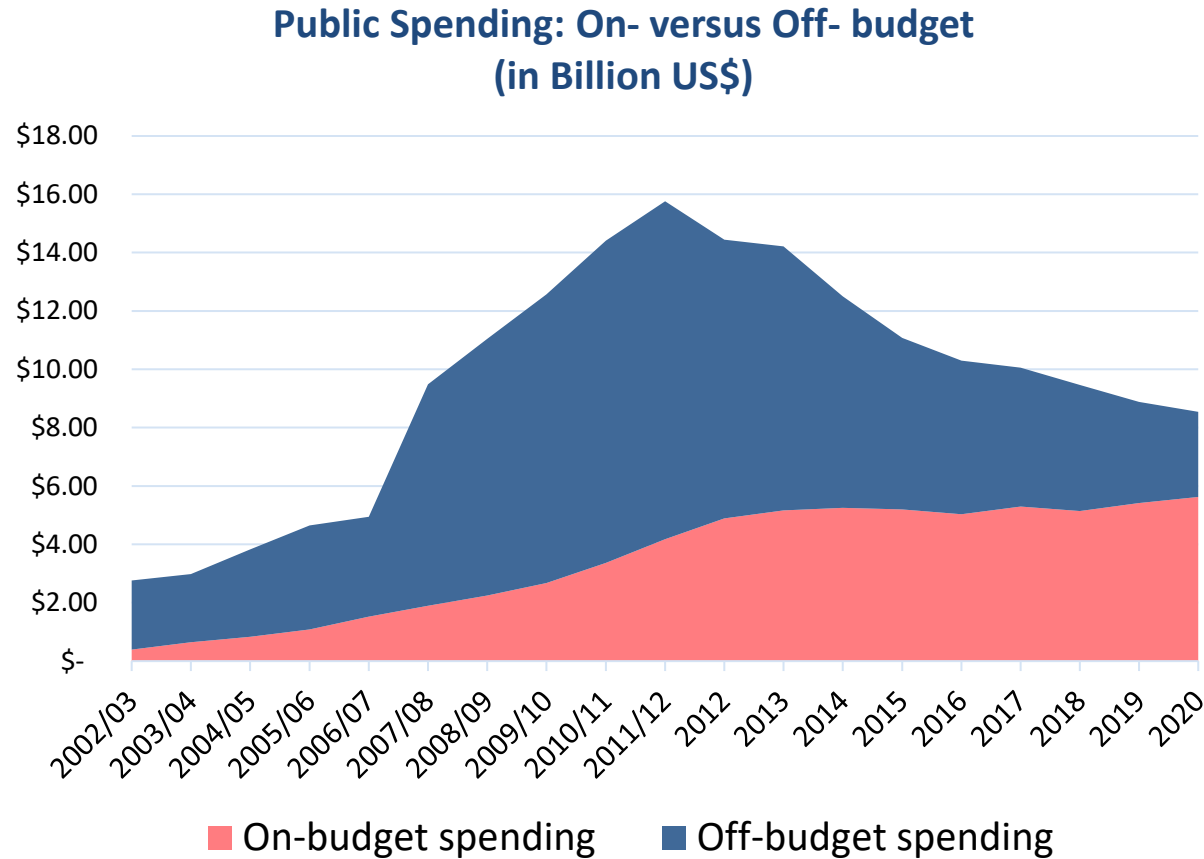
- Following Sep 11, 2001, the United States & NATO executed an attack on Taliban and maintained security presence in Afghanistan.
- About 60,000 NATO troops were present in 2009. Obama's troop surge: → 130,000 by 2011.
- Withdrawal of NATO troops between 2012 and 2014.
- Massive foreign aid (incl. civilian & security aid):
 - On average, about 85% of total public spending in AFG was financed by aid.
 - Cumulatively, about \$160 billion received in foreign aid.
 - Supported extensive economic development: human development (education & health), infrastructure, governance, civil society, human rights, etc.
- In Feb 2020, United States sign 'peace agreement' with the Taliban.
- In August 2021: political collapse!

Background & Context:

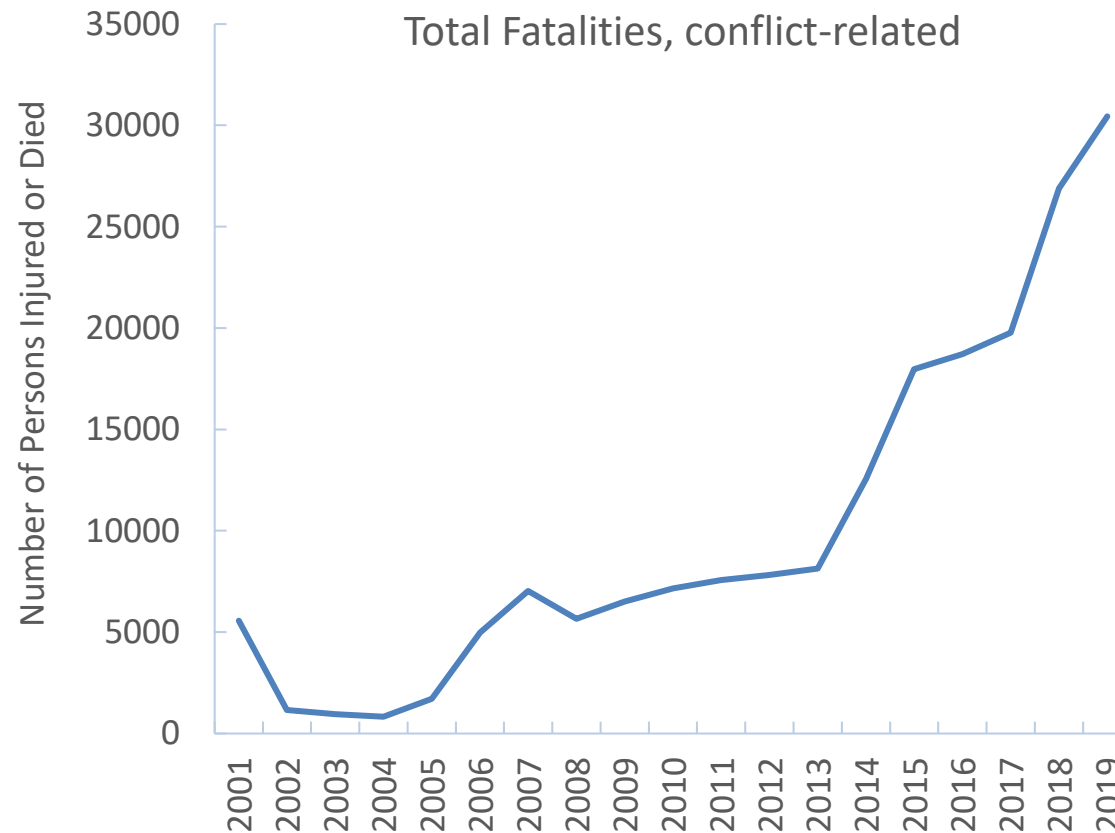
(1) Two episodes with distinct economic growth performance



(2) Public spending consisted of on-budget and off-budget expenditures, principally financed by foreign aid.

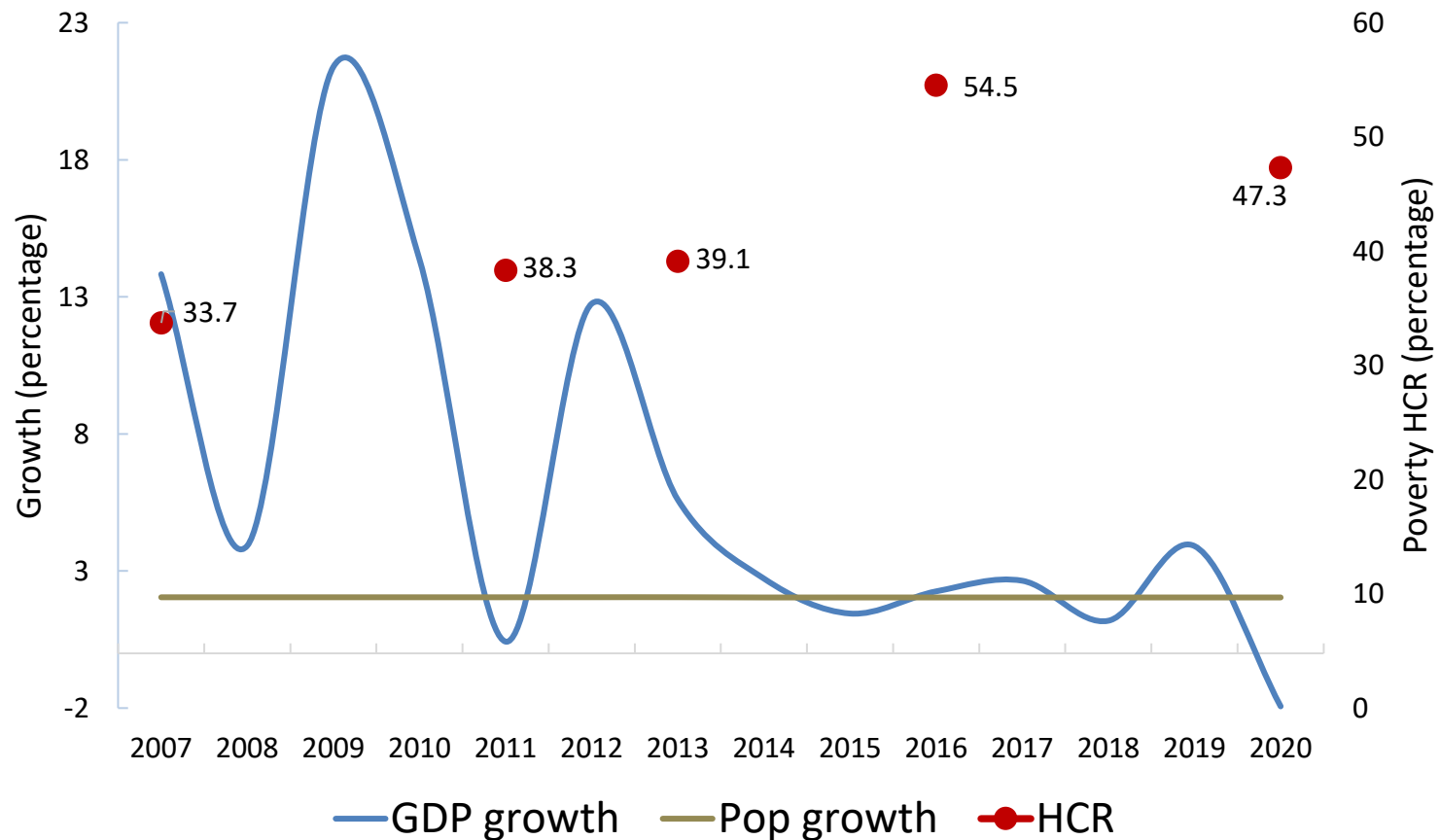


(3) Conflict consistently increased, leading to increased fatalities, especially in the post-Transition period



Source: Uppsala Conflict Data Program

(4) Economic growth failed to be pro-poor: Poverty increased to 47.3%



A few paradoxical relations:

- Poverty increased between 2007 and 2016, when economic growth was strong and foreign aid inflows were significant.
- Poverty declined over 2016-2020 when economic growth fell, foreign aid declined, and conflict intensified.
- Looking at spatial variations, poverty tended to be lower in provinces with higher levels of conflict.
- Correlation between conflict and (security-related) foreign aid is a possible explanation; but why did poverty increase between 2007 and 2013 when foreign aid was at record levels?

Research & Policy questions:

- What are the main correlates of poverty at household, community and regional levels?
- What correlations did conflict and foreign aid have with household poverty?
- What types of shocks (and coping mechanisms) are statistically significant for household vulnerability?
- What are some of the lessons learned from the two decades of poverty alleviation efforts – supported by mass foreign aid inflows – in Afghanistan?
- What policy framework going forward?

Empirical Methodology:

- Two datasets were compiled:
 - **Pooled household data**, using four data points (2007, 2011, 2016, and 2020): about 80,000 observations
 - Panel database with provincial/district-level socio-economic data: **8 different datasets were compiled**
- Three levels of analysis:
 - **Household:** HH size, age, gender, education, sector of activity, income diversification, dependency ratio, shocks, coping strategies, etc.
 - **Community:** access to basic services (paved road, health, school), existence of development projects, topographic features of the village
 - **Provincial:** nb of schools, nb of health facilities, conflict, displacement, natural disasters, budget expenditures, foreign aid disbursement

Empirical Methodology: (cont.)

- We use a multi-level, mixed-effect Probit/Logit model to identify correlates of poverty.
- Instead of simply clustering the standard errors, we use a multi-level model which allows the intercepts to vary per cluster.
- We also test sensitivity of the results by using the 'survey weights'.

Overall results:

- HHs with **female heads** are 2 to 3 times more likely to be poor than otherwise;
- **HH size** and **dependence** ratio also matter;
- But living in a **RURAL area** is not statistically associated with the likelihood of poverty.
- Lack of access to **basic services** (i.e. health facility, and primary & secondary schools in the village) is strongly associated with the probability of being poor.
- But no statistically significant result for access to other types of infrastructure (e.g. **distance to paved roads**).

Overall results: (cont.)

- Education attainment is associated with a lower probability of being poor:
 - HH heads with **tertiary education** are 2.5 to 3.33 times less likely to be poor than otherwise;
- Districts with higher average **HH spending on education** tend to have lower rates of HH poverty;
- Increase in public investment in **primary & secondary schools** is associated with lower probability of being poor.

Overall results: (cont.)

- Source of Income:
 - HHs who rely on income drawn from **agriculture** face **higher** likelihoods of poverty than those who rely on income from manufacturing, services and trade sectors.
 - **Remittances** reduce probability of being poor than agriculture-related income;
 - Income diversification reduces probability of being poor.

Overall results: (cont.)

- Both **'intensity' and 'type' of conflict** matter for poverty:
 - The type of conflict that leads to **civilian casualties** (in contrast to 'military fatalities') is associated with higher probabilities of being poor.
 - Likely to be the type of conflict that consists of **non-conventional military actions** (i.e., attacks involving improvised explosive devices) in urban milieus.
 - Conventional military actions in Afghanistan were associated with security-related aid (NATO/ISAF's Provincial Reconstruction Teams) and security-related budget disbursements.
- **Foreign aid flow into a province** has been a strong correlate of HH poverty: a 1-standard deviation increase in aid is associated with a 6.5-percentage point reduction in the probability of being poor for HHs living in that province.

Overall results: (cont.)

- Shocks that exert statistically significant impact on the poor:
 - Food prices shock,
 - Income shock,
 - Wealth shock (asset loss), and
 - Health shocks.
- Following a shock, the poor are 8 percent more likely to **borrow & increase their debt**, 7 percent more likely to **cut expenditures**, and 6 percent more likely to **reduce diet & food intake** than the non-poor.
- Results also confirm that these three coping strategies tend to further reinforce their vulnerability

Policy failures in Afghanistan: (1)

Growth-centric strategies ignored poverty alleviation as a first-order objective:

- Focus on growth 'maximization' rather than 'inclusive' growth;
- Poverty reduction assumed as a natural by-product of growth;
- Growth-centric vision in national development strategies: poverty was never seen as a primary anchor.

Policy failures in Afghanistan: (2)

Absence of a coordinated and concerted approach to poverty reduction;

- Poverty reduction never treated as a national priority;
- Out of 22 National Priority Programs, none was on poverty;
- Donors & International Community had their own priorities: Private Sector Development, Gender Equality, etc.
- Absence of coordination between Donors and the Gov't:
 - No reporting on off-budget aid disbursements;
 - Largely misaligned with national economic priorities;

Policy failures in Afghanistan: (3)

Fragility was largely ignored in policy decisions and economic strategies until very recently;

- Fragility as defined by LSE-Oxford Commission (2018):
 1. A security threat from organised non-state violence;
 2. The government lacks legitimacy in the eyes of many citizens;
 3. The state has weak capacity for essential functions;
 4. The environment for private investment is unattractive;
 5. The economy is exposed to shocks with little resilience; and
 6. Deep divisions in the society.
- Development interventions in fragile states thus need to take into account the sources & drivers of fragility.

Policy failures in Afghanistan: (4)

Poverty alleviation efforts were untargeted and broad, with limited effectiveness;

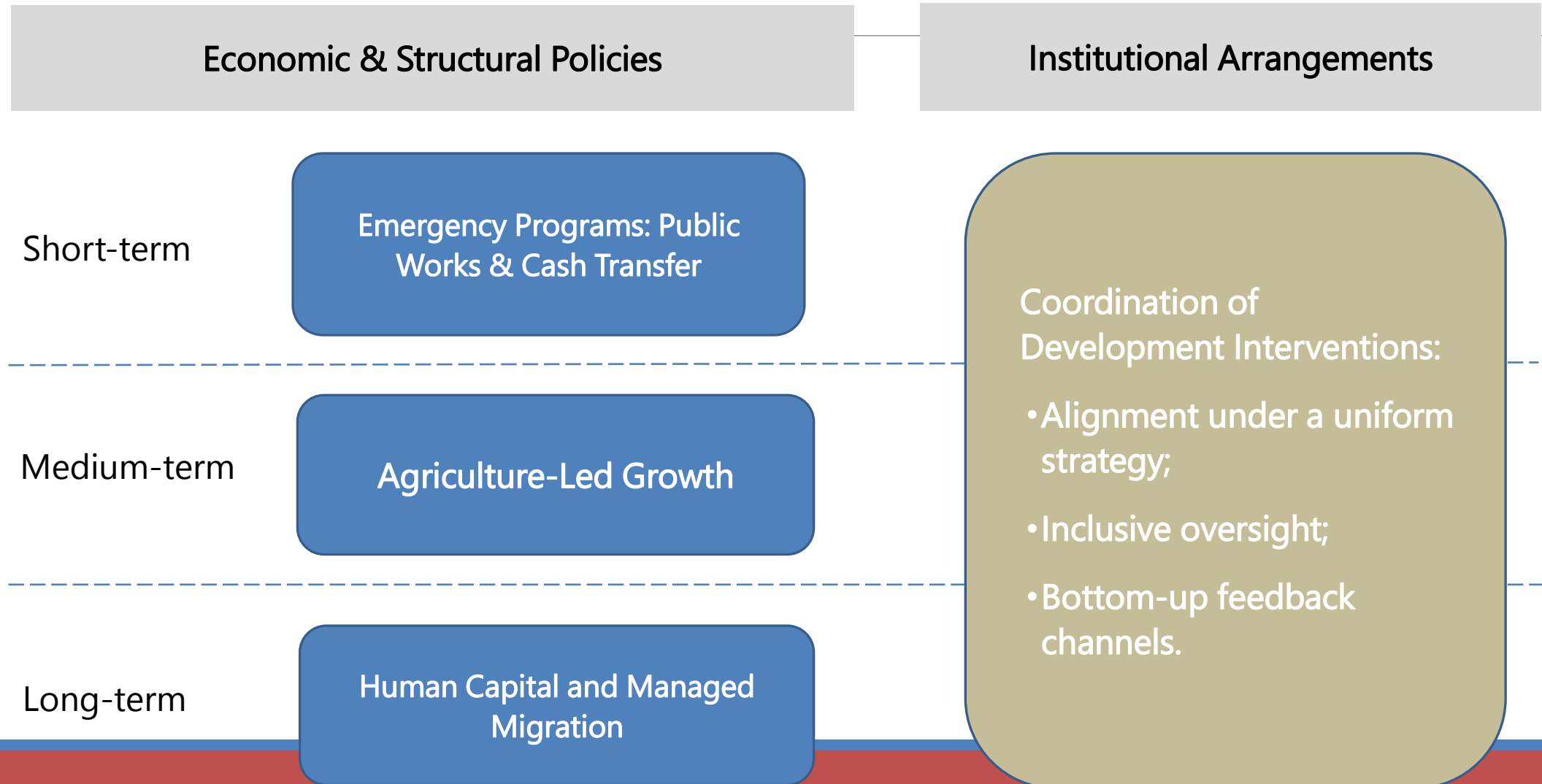
- Instead of focusing on few policy measures with largest impact, resources were invested in a wide range of programmes and interventions;
- Given weak government capacity, the pursuit of a 'comprehensive' strategy did not lead to desired outcomes.

Policy failures in Afghanistan: (5)

Political economy aspects hindered execution of pro-poor policies.

- Vested interests, and elite capture of resources & policymaking;
- Development of inclusive economic institutions, including pro-poor budgeting and transparency and accountability, made least progress;
- Yet, projects and programmes that were devoid of any economic & development justification made it through.

A Policy Framework for Poverty Alleviation:



Thank you!