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FOREWORD

This CDSS builds on the strategy outlined in last year's submission. A number of factors have intervened since last March to alter our analysis and strategy.

First, on April 27 a revolutionary government overthrew the Daoud regime. In its press to consolidate its power and join the vanguard of socialist countries, its development plans remain largely unformulated. This has major tactical implications for a U.S. assistance strategy.

Second, the Mission's thinking has evolved and crystalized as our understanding of poverty in Afghanistan has come into clearer focus and new opportunities for programming AID resources have been identified.

Third, more explicit CDSS guidance has prompted a harder look at cross-sectoral linkages and a sharper analysis of poverty as the basis for our strategy formulation.

The upshot is that this CDSS is a better defined, but still evolving strategy. Many of the identified causes of poverty rely on hypotheses that must yet be tested as data are developed. While the proposed strategy is conceived in terms of alleviating poverty by raising rural incomes broadly defined, the test will come in its execution. The feasibility of our AID strategy depends ultimately on the DRA's own development priorities and its willingness to cooperate with the U.S. in such a strategy.

Finally, U.S.-Afghan relations are still being defined and are presently marked by much uncertainty. Consequently, this strategy must of necessity be viewed as a tentative one in the light of our best current information.

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INTRODUCTION

In setting out the Mission's strategy for the next five years, this CDSS first defines poverty in terms of basic human needs. It then identifies and describes the characteristics of our proposed target group. Next, we present an analysis of poverty in Afghanistan, proposing a number of hypotheses for its causes and identifying the major constraints to raising the level of income for our target group.

Against a review of development progress and commitment to Basic Human Needs (BHN), Democratic Republic of Afghanistan (DRA) plans and budget, absorptive capacity, and other donor plans, a set of USAID objectives is established and a strategy for contributing to their achievement outlined. The broad objective is to raise rural household income, including basic health and education, of the target group; given the current political climate, certain tactical considerations are also discussed.

Finally, the proposed means for implementing the strategy are identified in a proposed assistance planning level, a portfolio of possible projects with indicative obligations, and a proposed staff level and Mission organization.

PART I ANALYSIS

A. DEFINITION OF POVERTY

Poverty in its broadest sense means that certain basic human needs go unsatisfied. Measured by almost any international standard, basic human needs in Afghanistan are not being met. The Crude Death Rate is approximately 25 per 1,000, the Infant Mortality Rate (180/1,000) is one of the world's highest, and life expectancy at birth is only 35 years. Access to clean drinking water is unknown even for most of the residents of the capital city, and periodic food shortages in some parts of the country have resulted in famine. The low average temperature makes the inadequacy of clothing, shelter, and particularly fuel all the more acute. Some 2.5 million primary school age children are not in school and only one in every nine is literate. Finally, the country's per capita income is only $180, [1/] and income distribution is highly skewed. [2/]

The IBRD defines the absolute poverty level in Afghanistan at $85 per capita. This includes cash and in-kind income in the form of food and other subsistence items. While this income level represents what is required to meet basic needs available in the market or through subsistence production, it excludes those basic needs, such as health and education services, which cannot be adequately satisfied in the marketplace. As such, the Bank's definition is inadequate as a measure of poverty.

1/ For more statistics, see AIDTO Circular A-469, 11/18/78, "Socio-Economic Indicators of Basic Needs, Progress and Commitment for 92 Developing Countries" and Annex A.

2/ See Annex B.

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For our analysis the definition of income includes cash (c), food and other subsistence items (f), and basic health and education services (s). Thus $y = f(c,f,s)$. In Afghanistan cash, food, and services are not substitutable because of: market imperfections in food distribution, farmers' perceptions of their food requirements, and the general unavailability of basic health and education services at any price. Therefore, our definition of income represents a composite requiring a minimum level of all three components. This level is not easily quantified but can be approximated by using the IBRD $85 per capita figure plus access to basic health and education services. Translated to the average household of 6.2 members, this represents a level of household income of $525 a year plus access to basic social services. Income defined in this fashion can be used as a proxy for basic human needs.

Recognizing that 85 percent of the population is rural and that, by and large, it includes the overwhelming majority of poorest households estimated at some one million, we have chosen to focus on rural household income, as defined above, to identify our target group and to analyze the determinants of poverty. 1/

B. TARGET GROUP

Based on our definition of poverty and our knowledge of Afghanistan, there are four groups that emerge as the most disadvantaged members of society: subsistence farmers, the landless and near-landless, rural women and rural children.

1/ See Annex C.

Identifying a target group inevitably involves a choice among poor groups in an attempt to arrive at a useful definition for programming resources. Thus, we have not included nomads and the urban poor among our target beneficiaries. Nomads constitute only a small proportion of the population (less than nine percent); further, we know very little about them and they would be difficult to reach. The urban poor also constitute only a small proportion of the population, but the primary reason for excluding them is that most government health and education services are already being directed toward the urban areas, and most industrial development is also occurring there. We realize, however, that as Afghanistan modernizes, the size of the urban population will probably increase dramatically and require our future attention.

In the following pages, our target group is described in more detail. The subsistence farmer is one whose landholding is sufficient to provide at least minimal household food requirements. At least one-half of the 1.2 million landowning farm families in Afghanistan are subsistence farmers. Most of their income is in the form of wheat produced on their own farms; the bulk of this is consumed in the household, and any excess is sold or bartered in exchange for basic necessities. The subsistence farmer's landholding is generally small relative to its quality, and low yields and high risk make food security his major concern. He and his family are normally uneducated and illiterate, with only minimal access to health, education, and family planning services. The landless and near-landless. Another 600,000 rural households are without land. There are also several thousand households whose land

holding is so small relative to the quality of the land that under the best conditions they would still be unable to meet minimal household food requirements. These are the near-landless, and they are otherwise undifferentiated from the absolutely landless. Both generally work for landowners as sharecroppers or agricultural laborers to meet their subsistence needs. Since they only receive a share of the crop, ceteris paribus, their net incomes are generally much lower than those of landowners. Most have to supplement their farm incomes with other, non-agricultural employment (e.g., collecting and selling firewood, doing odd jobs such as repairing mud walls and roofs, or working as a carrier in the bazaar). It is likely that in terms of general socio-economic indicators (literacy rates, mortality, morbidity, per capita income, etc.), this group ranks the lowest.

Rural women receive a significantly smaller share of nutrition, health, and education than men. For example, morbidity and mortality rates are highest among women; they have a lower life expectancy (due to preferential treatment of male infants and to high maternal mortality); and they are grossly under-represented throughout the education system. Moreover, their employment opportunities are severely limited, due both to the small number of jobs available and to the low skill level of women in general.

Rural children. If only because of the deplorably high infant mortality rate, children should be considered the most deprived group in Afghanistan. In addition, malnourishment is quite prevalent among children under five, and extremely so in those between two and three; this is due primarily to general parental ignorance of the nutritional needs of young children

rather than a scarcity of food *per se*. Finally, only 29 percent of the primary school-age children are enrolled, leaving one million boys and 1.5 million girls between the ages of seven and 14 out of school.

In the analysis of poverty below, we not only identify and explain the causes of poverty in rural Afghanistan but demonstrate that, in terms of our definition of poverty, our identified target beneficiaries are indeed poor.

C. DIAGNOSIS OF POVERTY

In this section, we identify first the determinants of rural household income and the constraints on expanded income for the poorer households. Second, we examine the household's expenditures with a view to suggesting possible multiplier effects at current consumption levels and at increased levels of income. Finally, we look at the macro-economic setting and the policies which affect rural household income.

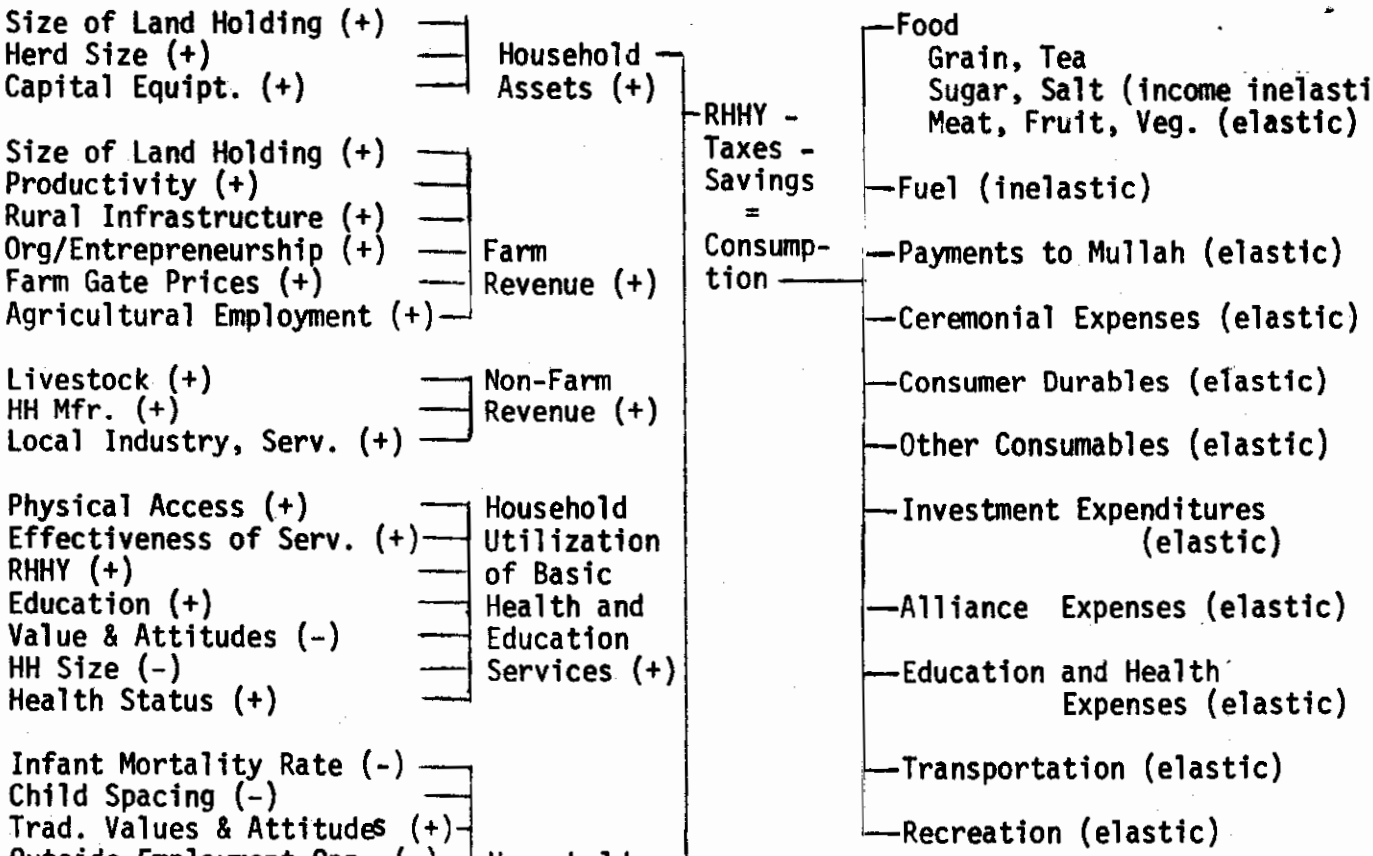
1. Micro-Analysis of Rural Household Income (RHHY).

We postulate that RHHY as we have defined it is a function of six key variables: a) household assets, b) farm revenue, c) non-farm employment, d) household utilization of basic health and education services, e) household size, and f) socio-economic status. These variables and their subvariables are plotted on the tree diagram presented in Figure 1 below.

This analysis is based on a Mission-developed methodology using a systems approach. (See Annex C for how it was developed and used.) We recognize the methodology has limitations in terms of its design and the narrow data base. It is used here simply as a device for

Figure 1

CDSS METHODOLOGY
Micro-Model of Key Variables That
Determine Rural Household Income (RHHY)
And of Household Expenditures*



*Notes:

1. The diagram flows from left to right.
2. A(+) indicates a direct relationship between dependent and independent variables so that a change in the first results in a similar change in the second, i.e., both increase or decrease.
3. A (-) indicates an inverse relationship. Thus if one variable increases, the other decreases.

ordering our data and suggesting hypotheses about the nature of the relationships that underlie poverty in Afghanistan.

In the following pages, each of these variables is described in more detail. In addition, within each of these variables, the constraints to increasing rural household income as defined are identified. Recognizing our listing is necessarily tentative in the absence of more comprehensive field analysis, it is toward these constraints that our development assistance strategy is directed.

a) Household Productive Assets.

The major productive assets which a rural household controls (or has access to) are land, livestock, and capital equipment. In general, any increase in the relative size, amount, or quality of these assets will result in an increase in household income.

Land is the most important productive asset in rural Afghanistan, and its net productive capacity for a cultivator depends upon its size, quality, and type of tenure relationship.

There are approximately 1.2 million farm families and roughly 8.0 million hectares of arable land. Nationwide, the distribution of this land is highly skewed: 90 percent of the landowners hold only 40 to 45 percent of the land, while the top five percent of the landowners hold between 40 and 60 percent. Although the average holding is about six hectares, 45 percent of all owner-operators are working plots smaller than 0.5 hectares. 1/

1/ DRA's proposed land reform may alter this distribution pattern.

In terms of productivity and thus income, however, the actual size of a holding is less important than the quality of the land. Well-irrigated land, for example, can produce two-three times as much wheat as semi-irrigated land, and about five times as much as rainfed land; moreover, well-irrigated land can be double-cropped. In terms of subsistence, the average family of six could get by with about one hectare of well-irrigated land (double-cropped) but would need about five hectares of semi-irrigated land and up to 20 hectares of rainfed land. 1/

Fortunately for smallholders, the tenure pattern in Afghanistan is such that size and quality are inversely correlated. Smallholdings predominate in the well-irrigated, productive areas, and more than half of the farms are less than five hectares. Farms in semi-irrigated areas average between five and ten hectares. In the dryland areas farms are necessarily larger, averaging more than ten hectares. Since land in the dry regions is essentially free, everyone has at least a few hectares to cultivate, but the richest households own hundreds and sometimes thousands of hectares.

The landless farm families have primarily access to land through sharecropping. 2/ Basically, there are two types of sharecropping: share-tenancy and share-labor. In the former, a farmer supplies all

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1/ Due to the lack of water, up to 1/3 of the semi-irrigated land is left fallow in any year; dryland farms are normally fallowed every other year. Thus, the size of the holding for both of these types must be larger than simple yields would indicate.

2/ Since 45 percent of the landowners own less than 0.5 hectares, a high proportion of these likely sharecrop additional land in order to meet their subsistence needs.

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the inputs of production but the land and consequently divides the yield with the landlord 50-50. The share-laborer, on the other hand, supplies only his own labor -- the landlord provides the draft animals, seed, fertilizer, etc. The share-laborer, in return for his labor, receives 1/5 of the crop. What this means in terms of income is that (holding land quality constant) the sharecropper must work twice as much land as an owner-operator to earn the same subsistence income; the share-laborer would have to work significantly more land. The relationship between size of holding, quality of holding, and tenure is presented below.

SUBSISTENCE FARM SIZE, 1975
(Average Family Size of Six)

	Owner-Operated	Share-Cropped (50%)	Share-Labor (20%)
Dryland wheat	21.1 ha	42.2 ha	105.5 ha
Semi-irrigated land - unimproved wheat only	4.8	9.6	29.0
Irrigated land - improved wheat	2.8	5.6	14.0
Irrigated - double-cropped cotton, wheat and other crops with adequate irrigation and improved conditions	1.0	2.0	5.0

The distribution of sharecropping appears to follow a pattern. Well-irrigated areas are characterized by owner-operators (about 2/3 of the farms under five hectares); semi-irrigated areas evince a high sharecropping rate, often as much as 75 percent; and the dryland regions are characterized by the lowest concentration of sharecroppers -- usually less than 20 percent are sharecroppers, and most of these are on holdings greater than ten hectares.

A rural household's constraints to increasing its ownership or access to additional land will depend upon the particular mix of land quality, size, and tenure relationships facing it. In rainfed areas, for example, the major constraint to farming more land is the lack of resources to cultivate the land. Poor households generally lack the cash/credit, seed, draft animals, and labor to cultivate more than a few hectares, though conceivably they could cultivate as much as they wanted. These farmers generally must work the land of others as share-laborers, relying on the landowner to supply the inputs.

Irrigated land, unlike most of the rainfed land which is held in common, is privately owned. A household wishing to increase this asset can either purchase or sharecrop more land. Most rural households probably cannot afford to purchase land, particularly the best irrigated and semi-irrigated lands, and must rely almost exclusively on sharecropping. On the other hand, since the well-irrigated areas are the more populated areas of the country, population pressure on land is probably at its highest, and there is likely to be very little land available for either purchase or sharecropping. In such cases, access to additional land is prohibited to the majority of rural households.

Herds. The second most important productive asset of rural households is livestock, mainly sheep and goats. Large herds are found primarily in the dryland areas, where the practice of two-three year fallowing insures sufficient pasture for the animals; in addition, the low yields on rainfed wheat compel farmers in these areas to diversify their income sources. Between 1/3 and 1/2 of the households in these areas

will own livestock, but the distribution is usually quite unequal. The richest households, which are also the largest landowning households, will own the majority of animals in the villages; most other households will have between six and ten sheep and goats.

Up to 25 percent of a village's total income may come from its livestock, though the lion's share of that will go to the few owners of large herds.

Animal ownership is a critical determinant of income. One constraint to increasing animal ownership appears to be the availability of pasture, which is usually related to the size of landholding, though it is not necessarily limited to that. Rainfed pasture could be increased significantly, for example, if more fallow land were planted to clover, alfalfa, and similar cover crops. Also, more efficient range management practices would result in more pasture for everyone. Small farmers are precluded from mixed farming because they cannot grow enough food grain and fodder given their landholdings.

Capital Equipment. Tractors, water pumps, threshers, draft animals, small mills, and weaving looms constitute the bulk of capital equipment assets available in the rural areas. Distribution of these items favors the wealthier households, who may charge rent for use by households without these assets. Skewed distribution of assets, however, may be as much a function of inappropriate technologies as income. The most important constraint to more capital intensive production by poor rural households is that the scale, organization, and productivity of subsistence farming and household manufacture

do not permit efficient use of more capital.

b) Farm Revenue.

Revenue from on-farm production (which here excludes livestock) is the principal source of income for the vast majority of rural households. Much of this revenue is in the form of wheat and other crops for home consumption or barter. Farm revenue is affected by the following variables: the productivity of land, labor, and capital; the amount and quality of local infrastructure (e.g., roads, energy supply, and markets); farm gate prices; the efficiency of the organization of the production system; and the availability of and remuneration from agricultural employment. Each of these variables is discussed below.

Productivity. The productivity of farming in Afghanistan varies widely from area to area but in general remains well below potential yields. Wheat, for example, averages only 0.75 MT per hectare on rainfed land and 1.8 MT on irrigated land, which is low by Middle East standards. Among the reasons for current low yields are the following: unfavorable climatological variables, poor soil quality, irrigation inefficiencies, and poor farming techniques, reflected in low labor and capital productivity.

The climate is arid or semi-arid throughout most of the country with annual precipitation in the 100-400 mm range, much of which is in the form of snow. Inter-year fluctuations in the amount and timing of precipitation make rainfed cultivation risky and low yielding. Low temperatures and high altitudes severely limit the growing season in

many areas, reducing the potential for double-cropping and causing the timing of agricultural operations to be critical.

Soils are often poorly structured, alkaline, and low in organic matter. Depletion of nutrients from generations of cultivation coupled with water and wind erosion have also reduced soil fertility, especially as population pressures have shortened the fallow cycle.

Undependable water supplies and on-farm irrigation inefficiencies are among the most significant constraints on land productivity in semi-irrigated areas. The recent USAID Irrigation Development Study identified major deficiencies in (1) farmer irrigation practices, (2) the design, operation and maintenance of conveyance systems, and (3) water resource exploitation.

Farming practices are largely traditional: flood irrigation is the rule, seeding and harvesting are by hand, while land preparation, threshing, and hauling are accomplished with animal power. Poor practices, however, are as much a result of economics as ignorance. Many farmers understand soil building practices, but with one or two hectares of land, the grain crop for household consumption clearly precludes a green manure crop. The use of agricultural inputs, e.g., improved seed and fertilizer, is still limited mostly to cash crop production in irrigated areas because of risk considerations, financial constraints, and lack of relevant technology.

Afghan agriculture is labor intensive. Labor productivity remains low, however, because most farmers are illiterate, are plagued by illness and poor nutrition, and lack the technology and capital needed to

increase productivity. Most farmers' cost/benefit calculus, heavily discounted for risk, does not motivate them to increase productivity, given their current circumstances.

The productivity of capital, especially mechanization, is largely irrelevant, given the limited availability of capital assets among rural households. Where capital is employed its full productive potential is constrained by the low productivity of labor, limited energy supply, and inappropriate technology.

Constraints to productivity and thus increased income will obviously be a function of the particular mix of size, quality, and tenure factors discussed earlier. The potential for increased income is significant. For example, under experimental conditions the yields of both rainfed and irrigated wheat have increased by a factor greater than three. While other constraints may vary with local conditions and require field analysis to be understood, it is possible to identify some tentative constraints. For dry and semi-irrigated lands, the major constraints to productivity appear to be deficient inputs. The obvious constraint to production increases in the semi-irrigated areas, of course, is water -- only 1/3 to 1/2 of the land is planted and land that is cultivated does not receive sufficient irrigation to attain potential yields. Both areas could benefit from the introduction of high yielding, drought-resistant varieties of wheat seed; certain improvements in farming techniques (correct planting dates, proper depth of seed, etc.) could also raise yields in the dryland regions. Improved health and education would raise labor productivity.

Rural infrastructure. Internal communications are extremely difficult and severely limit crop production options and farm cash income. There is an all weather paved road circling most of the country and spurs to the Pakistan and Iranian borders, but the majority of widely dispersed farm settlements are not linked to this network. Thus transportation of produce to market by animal and truck is expensive, and hampers development of an efficient, integrated marketing system. Rudimentary communications both act as disincentives to produce in excess of family requirements, especially for the semi-subsistence wheat farmer, and limit the distribution of fertilizers, improved seed, and institutional credit to the farmer.

Village energy supply is generally inadequate and expensive relative to subsistence incomes, further inhibiting farm productivity. Per capita consumption of energy in Afghanistan in fact is among the ten lowest in the world. 1/ Electricity is virtually absent outside a few major towns. Coal, while abundant, is not generally available in rural areas, and other fossil fuels are in short supply. Heavy reliance on wood as the principal fuel source for cooking and heat in rural areas has depleted national forests and disrupted the ecological balance, thus affecting land productivity.

Farm gate prices are depressed because most farmers:

- sell small quantities of ungraded, seasonal produce which receive the lowest price and incur high collection costs, whether absorbed by the farmer or a trader;

1/ IBRD, Afghanistan: The Journey to Economic Development, Volume 1, March 17, 1978, P. 51. All subsequent IBRD citations refer to this report unless otherwise indicated.

- can only sell their produce in local or nearby markets, given generally high travel costs to get the product to major markets;

- are often forced to mortgage or sell their standing crop at well below market price to obtain cash to carry them through the growing season;

- need cash at harvest and therefore must sell crops when prices are lowest.

Poor integration of markets also tends to reduce prices for most farmers. Low farm gate prices discourage the use of agricultural inputs, thus further limiting farm income. Farm gate prices, however, may be irrelevant for subsistence farmers in view of their concern for food security and low output of wheat, which is needed for household consumption. Current political uncertainty is creating further market distortions. Moreover, government established wheat prices are higher than world market prices, so the constraint lies more with farmer conditions than price policy.

The organization of farm production revolves around the individual household, except for maintenance of the community irrigation system. Given limited assets and low productivity, the majority of individual households are unable to generate more than a subsistence income in kind for its own needs. A pooling of assets, production energies, and marketing efforts could enhance their power and income, in kind and cash.

Agricultural employment here refers to the casual, temporary labor performed on another's farm in return for a wage in cash or kind. 1/ Such

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1/ Work performed by a share-laborer as previously discussed is not included under this category, since his work is performed according to his agreement with the landowner and is generally on a year-to-year basis.

work is undertaken by itinerant laborers as well as by sharecroppers and smallholders. Often this work is seasonal, occurring particularly during times of peak labor demand (land preparation, weeding, and harvesting). The laborer will generally work for a few days and then move on to another farm or return to his own. Labor opportunities appear to be greater in the well-irrigated areas and fewer in the dryland regions of the country, as would be expected with the greater labor input for irrigated wheat and with the prevalence of double-cropping in the well-irrigated areas. Expanded production and a more even distribution of labor requirements over the year would increase demand for labor and provide a more steady income. Therefore, the constraints to increased agricultural employment are primarily the low demand throughout most of the year and the low productivity of labor, which is affected by the same conditions keeping farmer productivity low.

c) Non-Farm Revenue.

The sources of non-farm income are somewhat arbitrarily categorized in this analysis as: household manufacturing and handicrafts, local industry, commerce and services, and livestock.

Household manufacturing and handicrafts.[1/] While data are very limited, household manufacture of handicrafts is by far the most important source of non-agricultural cash income in rural areas, engaging some 18 percent of the settled labor force - primarily children and women. Regional specialization prevails, with carpets the most significant item found mainly in the north and north-west, textile embroidery and leather goods located in the Kandahar region, wood and stone carving in the northeast, and jewelry around Kabul.

1/ IBRD, PP. 105-106.

Handicraft productivity and the return to the producer are constrained by the low health and education status of workers, the lack of appropriate capital equipment, an imperfect market which depresses producer prices, and the lack of associations to organize the estimated 80,000 production units. These factors keep household cash income derived from handicraft production well below potential.

Local industry, commerce, and services. Households with employment opportunities in the rapidly expanding informal industrial sector, though few and largely urban, are likely to be relatively better off. Enterprises in this sector include agricultural processing, auto repair establishments, machine shops, electrical repair shops, and furniture making. Given the lack of data and relatively higher cash incomes likely in this sector, its significance is less in terms of understanding poverty and more as a potential for alleviating poverty among landless households.

The major constraint to expanded employment in this sector is the lack of effective demand and minimum produce entering the market. Even if jobs were available, however, the employment skill level for most rural households is so low that they would be excluded from employment considerations.

Livestock.[1/] The productivity of flocks is low, the major constraint being the shortage of feed throughout the year, especially in winter. The flocks are in a precarious balance with the 40 million hectares of rangeland, following a cyclical pattern of expansion in years of high rainfall and sometimes drastic contraction in drought years. Disease and high

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1/ This section is based on IBRD Appraisal of Second Livestock Development Project - Afghanistan - 1976.

mortality among the flocks further cut productivity as animal disease control and veterinary services are limited. Traditional husbandry practices prevail, characterized by overgrazing and by valuing head count for status over animal weight for sale. The marketing system is poorly developed. Most animals are brought to consumption centers through a chain of traders, dealers and butchers with little quality control and with wide seasonal fluctuations in supply. Prices fluctuate accordingly and are based on unweighed live animals, without regard for meat quality. The feed constraint to increasing herd productivity has been mentioned. Other constraints to increasing income derived from livestock production relate primarily to improving the marketing system for these animals. Without quality control requirements at the purchase points, herdowners will not place emphasis on bringing top quality animals to market. Quality control on the farm results in healthy animals, leading ultimately to increased incomes for the owners.

d) Household Utilization of Basic Health and Education Services.

This variable is viewed as a direct determinant of rural household income in that government supplied social services, free or heavily subsidized as they are, represent income in kind for the household rather than a net outlay. As discussed throughout the above analysis, this variable also indirectly affects income through its effects on household size and productivity. The several factors which determine a household's utilization of these social services are described below.

Currently, at most only one-fourth of the population is within reasonable reach of modern health care, and probably only 40 percent of

the rural primary school-age population has access to a school. A majority of the population, therefore, has no choice of whether or not to utilize basic social services. Such services are simply not available. The constraint here lies in urban biased government policies, limited domestic revenues to support free or subsidized services, and poor planning and implementation of ministerial programs.

Even when such services are available, their effectiveness is often so low that many people will not utilize them. Basic health centers are frequently under-staffed and without modern drugs, and schools provide instruction that is largely irrelevant to the needs of the majority of the children. Hence, basic health centers are used only as a last resort (when the mullah, local shrine, and folk medicine have proven ineffective), and half or more of the school-age population within a three-five km. radius of the school does not attend.

Traditional beliefs and attitudes often preclude the utilization of even effective social services. For example, many of the cultural values pertaining to the seclusion of women prevent the examination of the female by a male physician, inhibit the acceptance and use of contraceptive devices, and generally proscribe female education beyond third grade, if indeed the girls are allowed to attend at all. Education, however, is one factor which tends to break down these beliefs and attitudes and leads to the expanded use of social services. For example, it is generally the case that married couples who are literate or have a basic education are more likely to accept family planning than those who are illiterate or uneducated. Similarly, the wealthier can afford

to forego the labor contribution of young children in order to allow them to attend school. Moreover, the rich in general, through their wider social contacts, are more informed of the existence and benefits of certain social services and are more likely to utilize those services than poorer households.

Wealthier families being generally larger and healthier tend to exercise greater demand for social services than smaller households. Being healthier, these households are likely to be more productive, ultimately reinforcing their greater wealth. There is also some evidence that healthier people utilize social services to a greater extent than less healthy people as they may understand the importance of preventive health care.

e) Rural Household Size.

In Afghanistan, a rural household can be defined as a productive and consumptive unit, comprising one or more nuclear families. The average size of rural Afghan households is 6.17 persons. 1/

The virtually automatic growth in families results from almost yearly pregnancies in the absence of any post-partum sex taboos and of any knowledge, let alone practice, of child spacing or birth control. Strongly reinforcing this cycle are parents' traditional values and attitudes favoring large families as a symbol of wealth, for protection and power in disputes, as labor to work the family's plot, and for social security in old age. The prevailing low level of education ensures that these attitudes go unchallenged. Since outside

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1/ IBRD, Vol. 1, P. 49.

employment opportunities for women are very limited, closely spaced pregnancies do not involve opportunity costs in the way of forfeited income for the household. Finally the higher the household income the larger the household can become, since parents and children tend to be healthier and survive longer and there is enough wealth to go around. This points up the potentially explosive demographic situation.

Nevertheless, several factors act as a check on household size. First, the prevailing high infant mortality rate greatly limits the number of surviving children since 50 percent of all children born die before reaching the age of five. Second, socio-economic factors, e.g., crowding, internal disputes, and inadequate economic resources generally lead to fissioning of extended families, the extended family household being an unstable phenomenon except among the wealthy. Finally, poor parental health which is prevalent in many households also checks fertility and thus household size. With improved health and reduced infant mortality, these checks are diminishing.

It is possible that for some households, increased size leads to increased household income. For example, a household with large holdings of land and/or livestock could use the additional household members as a substitute for hired labor; or, the additional family members could diversity the sources of the household income (e.g., government employment, business, and trading). For these families, the marginal cost of raising additional offspring would be offset by the marginal income produced by these children who have reached maturity and contributed to household income. On the other hand, for most families without

productive assets and/or living where employment opportunities are few, increased household size is a drain on scarce financial resources.

Assuming then that the majority of households find additional children an economic burden, and would favor limiting their families to a smaller number [1/], there are constraints to undertaking family planning for the average household. First, most rural households are totally ignorant of modern family planning practices. Second, even when there is an awareness of these programs, many families doubt their efficacy and fear the rumored side effects (e.g., IUDs are considered ineffective and dangerous; pills are believed to cause nausea and cancer). Third, current access to family planning techniques is severely limited, especially in the remote rural areas. Finally, a number of households view birth control or family planning as something immoral and contrary to the Koran.

f) Socio-Economic Status.

Socio-economic status is as much a reflection as a determinant of household income. As shown above, low-income households have limited assets and/or depend on others for access to assets, especially land and to a lesser extent herds. Land is the key determinant of socio-economic status. Status translates directly into power, and power perpetuates itself as it provides the means to control more assets and command more followers. Further, the powerful tend to control the Jirga or council of elders, which plays an important role in dispute settlement, distribution of responsibilities related to community labor allocation, and other community affairs.

1/ MSH 3 Province Study found that 92 percent of women interviewed would favor increasing space between pregnancies.

Most critical perhaps is the effect of socio-economic status on the distribution of water. The water master (mirab) is often dependent upon the landholders, especially the large and more powerful. Furthermore, the larger landowners tend to have holdings upstream, giving them first access to irrigation water. 1/

Other though less important determinants of socio-economic status include:

- Ethnicity. There is a pecking order among the country's five main ethnic groups with Pashtuns at the top, Hazaras at the bottom, and Takjiks, Uzbeks and Turkomans in between. Ethnic segregation in terms of residence, marriage, social relations and economic activity is the rule.

- Muslim Orthodoxy. While income is needed to fulfill the requirements of Islam, a devout Muslim enjoys more respect in the community than one who is less dutiful. Also, the Sunni Muslim enjoys the status of being among the clear majority and discriminates accordingly against the Shi'ites.

- Literacy as a scarce skill brings status to the literate, irrespective of income. Predictably, the poorer households are usually illiterate.

1/ Significantly, in well-irrigated areas where land distribution is most egalitarian and smallholders predominate, the jirga operates along more democratic or representational lines. Discussions and voting occur before major decisions are made, and the Mirab is elected to office rather than appointed by the wealthy and powerful.

- Kinship links and alliances afford opportunities for greater access to assets and can thus contribute to household status. Again power perpetuates power, and poorer households maintain a narrower social network. Indeed, the poor are frequently pawns in the networks of the powerful.

Household status is the variable least amenable to direct intervention to alleviate constraints. Hazaras obviously cannot become Pashtuns. But to the extent that farm income can be raised, improved status is likely to result.

Summary of Constraints.

The numerous constraints to increasing rural household income discussed in the preceding section can be grouped into three basic types: physical constraints, knowledge constraints, and financial constraints. These vary in degree depending on the target but are common to most. Physical constraints include, among others, insufficient landholdings relative to land quality, undependable irrigation sources, inaccessible markets, the lack of off-farm employment opportunities, and the unavailability of health and educational services. Knowledge constraints refer to the lack of information regarding such things as family planning practices, improved agricultural techniques, and preventive health measures. Viewed negatively, knowledge constraints also refer to the values, attitudes, and beliefs people hold which prevent them from utilizing new information, techniques, and practices. Finally, financial constraints refer to those cash/credit limitations which preclude rural households from investing in assets, health, education, skill acquisition, agricultural

improvements, etc., which would result ultimately in higher household income. In Section II of this paper we describe our own development strategy for dealing with the constraints described here.

2. Micro-Analysis of Rural Household Expenditures.

In the previous section we identified the major determinants of rural household income in Afghanistan. Subtracting taxes and savings from this income figure gives the total household income available for consumption expenditures. 1/ An understanding of how rural households spend or consume their income is important in measuring household living standards and predicting the economic impact of household income gains. Increases in aggregate income and consumption will be needed to generate and sustain economic growth. A review of the major categories of household consumption follows.

Food. Rural households consume nearly 2/3 of their income in the form of food. The standard fare for most households is bread and sugared tea, with soup or sauce and perhaps yogurt at noon and evening meals. On special occasions, rice, meats, and sweets are consumed. When available, fruits and vegetables are also eaten. In remote mountainous areas, however, vegetables and fruits are rarely consumed. Indications are that meat, fruit, and vegetables are highly income elastic. A CINAM study found that between 30 and 35 percent of the people in one

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1/ Taxes and savings are almost insignificant, given the low levels of cash income generated by most rural households. The major direct taxes on farmers are a land tax and a head tax on livestock, both mainly affecting the wealthy, who by all accounts pay tax on only a portion of their land and herds. Aggregate savings are minimal.

rural village had poor to average diets (meat was consumed about twice a month for the poor eaters, once a week for average dieters). The quantity and quality of food were found to depend upon the family's level of income, the well-off families eating well or very well because of their ability to make cash outlays for the income-elastic items.

Fuel. Next to food, fuel is probably the second most important item in the household's expenditures. Depending upon the geographical location, it may take a very high percentage of the consumer income. In relatively warm Lashkah Gar, fuel expenditures were reported to be around eight percent. They could easily go as high as 20 percent in more northern, mountainous regions. Fuel is probably income inelastic.

Health Expenses. Surprisingly, expenditures for health services (primarily drugs) account for a good deal of a family's consumption expenditures. A recent survey by Management Sciences for Health (MSH) [1/] found that reported annual household expenditures for health services averaged $90 cash, with a median expenditure of about $47. With households averaging about seven persons, and assuming average per capita income of $180, this means that 90/180 x 7 or a little over seven percent of their income went for health services. These expenses are probably income elastic.

Education Expenses. Education in government facilities is free. Families with children in Mosque schools or non-government schools usually make minimal annual contributions toward the teacher's salary. All children of course must purchase notebooks and pens throughout the year, and

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1/ MSH, Three Province Survey, 1978.

particularly in the more urban areas students must purchase uniforms. Overall, education probably takes less than five percent of the disposable income for those with children in school.

Ceremonial Expenses. These can severely eat into a household's income and often force the family into debt. Expenses related to marriage have been the major ceremonial expenditure. The bridewealth, or money and goods given in exchange for the bride, often amounted to more than $1,000. Other expenses associated with the marriage may bring the total cost to the groom's family to as much as $2,000. The government's recent Decree No. 6 has made the brideprice illegal, but the other expenses will undoubtedly continue; furthermore, it is likely that many families will continue to demand a brideprice of some sort before they will give their daughters in marriage. Other ceremonial expenses of note are those associated with male circumcision, religious sacrifices, and communal feasts. In general, these ceremonial expenses probably take from five to ten percent of the household's disposable income and are probably income elastic.

Other Expenses. The remaining income is spent on a variety of items all of which tend to be income elastic. For example, the mullah and malek each receive between 50 and 100 Afs from each married man in the village per annum; local saints also receive an annual gift of cash; school teachers usually receive a small amount each year from the parents of their students; and transportation and expenses related to shelter also take a small share of the disposable income. In addition, a certain

amount of feasting or social entertainment is necessary in order to maintain one's role in village life and to repay past benefactors and/or win new allies. None of these items, however, totals more than one or two percent of the total income, and altogether do not account for more than ten percent.

One conclusion from the above analysis is that there is very little disposable cash income remaining for consumables and consumer durables thus limiting market potential for local industry unless household cash incomes rise. These basic household expenses leave less than ten percent for other expenditures (radios, clothing, toys for the kids, cooking utensils, serving trays, etc.). For the poorer families, such expenditures are non-existent because after they have covered their requirements for food, medicine and fuel, there is nothing left. Debt is a constant threat, particularly for the landless, many of whom once had land but lost it because of debt.

Finally, any strategy directed at raising rural incomes must seriously consider what will happen to the income once generated. Obviously, any gains will provide immediate and direct benefits to the recipient household. Beyond that, we need to gauge the indirect benefits. If cash is spent on local production, e.g., more nutritious food, local industry products, farm implements, benefits accrue to the rural sector. If rural savings are mobilized for rural investment further gains in productivity will occur. Therefore, government investment policy becomes important for maximizing rural incomes.

3. Macro-Analysis

A brief sketch of the Afghan economy provides the context for reviewing the policy variables that reinforce poverty in Afghanistan.

a) The Economy

Afghanistan is characterized by a mixed economy, with the traditional sector in private hands and the modern sector dominated by the State. The major industries are publicly owned and managed, and State farms may increase with land reform. Education and health service are also heavily subsidized.

The rural economy representing 85 percent of the population encompasses agriculture, livestock, handicrafts, and rural trade. Only the latter two are monetized to any significant degree. The rest consists mainly of the government administration, the industrial sector, urban trade, tourism, and transport. Total GNP in Afghanistan in 1976/77 was on the order of Afs 115 billion ($2.4 billion [1/]) which translates into a GNP per capita of Afs 8,200 or about $180. A sectoral analysis of the Net Domestic Product and economically active population is shown in Annex D Table I. Per capita GNP has grown at about three percent over the last ten years.

Afghanistan's current foreign trade pattern and its rate of expansion is highly suggestive of a comparative advantage in agriculture. More than three-quarters of Afghanistan's export earnings are in agriculture, and all major export items, with the exception of natural gas, are based on agriculture. See Annex D Table II. The rate of growth

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1/ $1.00 = Afs. 47.38.

in the volume of agricultural exports over the past five years has been significant, exceeding ten percent per annum for the five major agricultural related exports. Most of these increases are attributable to expansion of areas planted rather than through gains in yields. The potential for a much greater efficiency in production exists, which would further enhance agricultural competitiveness.

As of November 1978, the level of Afghanistan's international reserves stood at $430 million, sufficient to cover some 14 months imports. This is about four times the level of November 1975. Reserves increased about $150 million in 1976, $60 million in 1977 and jumped again by about $150 million this past year. Foreign reserves have grown primarily as a consequence of Afghan worker remittances from abroad and rising prices for Afghanistan's major exports.

b) Economic Policy

In view of the structure of the Afghan economy, government policies are important for establishing a favorable setting for economic growth and in ensuring equity. The failures, distortions and limitations of past policies have failed to improve significantly income opportunities for the poor.

Fiscal policy is a very limited tool given the narrow tax base, the low level of government revenues taxes generate, and the large non-monetary sector of the economy. Taxes amount to only seven percent of GNP, a figure half that of most developing countries. Of the taxes collected, only 16 percent is derived from income taxes, while 75 percent comes from taxes on foreign trade; taxes on production and internal transactions

amount to only four percent. The reasons are two-fold: First, the economic structure of the country is not conducive to efficient tax collection (e.g., 1/4 of GNP is in subsistence income, most income and employment is in agriculture and rural handicrafts, and foreign trade is small); and second, tax administration (records, assessments, etc.) is very weak, leading to widespread tax evasion.

Monetary policy since the revolution has continued to follow the very conservative course of past governments. Thus despite rising foreign exchange reserves and an appreciating Afghani, inflation until recently has been kept at around six percent. Because much of the money supply is held outside the banking system, the government's ability to influence lending and investment is restricted. Nevertheless, excessive prudence has limited the extent to which foreign exchange earnings have been channeled into development. Finally, the large unmonetized sector of the economy also limits monetary policy leverage.

Investment policy has been heavily influenced by the availability of foreign aid, which has represented over 2/3 of development expenditures; and by the past governments' emphasis on major infrastructure (e.g., power, transport, major irrigation) and industrial development. (See Annex E for further details on the allocation of the past development budget.) Consequently, most of the investment has been directed at urban centers and special regions like the Helmand, Nangarhar, and Kunar valleys. On the one hand, urban based investments have led to income disparities. On the other hand, regional investments started with poorer regions and therefore have probably improved distribution.

Finally, Afghan development strategy has tended to ignore the country's comparative advantage in agriculture and the equity benefits of an agricultural-led growth strategy.

Price policy has contributed to market distortions for major commodities (such as gasoline, wheat, and sugar), has subsidized capital intensive production and reduced scarce government revenues. This policy has generally benefited the wealthier segments, e.g., civil servants, urban elite, and the cash market farmers. As the economy becomes more monetized and government price intervention spreads, these distortions are likely to become more acute. Furthermore, the uncertainty surrounding DRA intentions regarding economic reform reduces producer response to price signals.

Consumer transfers by government in the form of social services, as we have seen, benefit mostly urban residents. Moreover, a policy of free services cuts into scarce resources and necessarily limits possible coverage.

Asset transfers have not been a significant policy of past governments other than nationalization of major industries. The absence of an effective land reform policy has perpetuated poverty. The new government's plans for land reform, if implementation difficulties are overcome, could have a major impact on income distribution.

D. PROGRESS AND COMMITMENT 1/

Despite more than 15 years of development, basic human needs in Afghanistan continue to go largely unsatisfied. While per capita income

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1/ For additional data on Progress and Commitment, see Kabul TOAID A-97 of 10/7/78 and AIDTO CIRC A-469 of 11/18/78.

has doubled between 1960 and 1978, there has been a skewing of income distribution toward the wealthier classes (IBRD, 1978:50). Indicators of general welfare of the population between 1960 and 1978 show little or no progress. For example, the crude birth rate has increased (49.0 to 51.4), the crude death rate has only been reduced slightly (34.1 to 30.7), life expectancy remains low (32.8 in 1960, 34.6 in 1978), and per capita caloric and protein intakes have decreased (from 86 percent of daily requirements to 83.0 and from 63.9 percent to 58.0, respectively). Only in education have any real advances been made: the primary school enrollment ratio has increased from 9.0 to 28.0, and the secondary ratio from 1.0 to 11.0. But much of this increase has occurred in urban areas, and vocational enrollment as a percent of secondary has decreased remarkably, from 11.0 to 3.0 percent. 1/ Another area showing some progress has been institutional development, best exemplified by the Afghan Fertilizer Company (AFC) and the Agricultural Development Bank (ADB).

There are several reasons why there has been little or no progress in meeting basic human needs. First, the past government's development strategy (loosely based on a Soviet model) has favored capital-intensive heavy industry. Second, the government has skewed much of its provision of social services (e.g,, health and education) toward the urban areas. Third, the government has evinced a paternalistic attitude toward the rural areas, refusing for the most part to decentralize the development process and allow rural people to participate more fully in the planning, design, and implementation of projects; consequently, the projects that

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1/ All comparative data cited here come from IBRD's Afghanistan: Fruit and Vegetable project, 1978, Annex 1, PP. 1-2.

have been undertaken in the rural areas have generally failed to address the real needs of the people.

Recently, there have been signs that the DRA is interested in reaching the "masses." A series of revolutionary decrees have been issued which could relieve some of the constraints facing Afghanistan's poor, provided they are more than simply political expedients and are effectively implemented. Decree No. 6, for example, has attempted to abolish usury and land mortgages, but without expanded institutional credit has in fact limited credit availability for the poorer households.

Decree No. 8 consists of land reform legislation which may effectively remove the large landowning Khans from the social scene. Under this new law, ceilings of six hectares of well-irrigated land, or its equivalent, are established, and excess land is to be taken by the government and redistributed among the landless and smallholders and certain lands consolidated into State farms. The law also takes a positive step toward preventing further fragmentation of the land by regulating the size of plots that can be inherited. Despite the fact that the program does not eliminate tenancy per se (an owner with less than six hectares of well-irrigated land can still let his land out to sharecroppers) and that the implementation of the reform is likely to be extremely difficult in certain regions of the country (e.g., the West-central region, the Eastern provinces), the new regime has taken a bold and significant step with its new legislation. It remains to be seen, however, what the mix between State farms and private holdings will be.

The new regime also appears concerned with ensuring women's rights. One indication is the recently issued Decree No. 7 which abolishes the brideprice for a girl given in marriage, establishes a minimum marriage age of 16 for girls and 18 for boys, and bars forced marriages. In conclusion, despite some promising signs, it is too early to assess accurately the DRA's commitment to BHN.

E. DRA DEVELOPMENT PLAN AND BUDGET.

The new government is now preparing its Five Year Development Plan. Ministries, however, have produced little more than shopping lists of capital projects and Ministry of Planning's criteria for reviewing and integrating the various sectors are loosely defined. Although the plan is due out in March, its preparation is not going well and the government has opted for a one year plan now while it completes the Five Year Plan.

The government does not appear to have a concrete development model in mind, but clearly is ideologically attuned to Marxist theory. Instead, the plan is to be guided by a "basic human needs" objective (i.e., food, clothing, and shelter) and the objectives enunciated by Prime Minister Taraki in the Basic Lines of Revolutionary Duties broadcast in a speech on May 9, 1978. Among the 30 points outlined, the following are particularly relevant in terms of our proposed strategy:

1. Implementation of democratic land reform, reclamation of arid lands, expansion of irrigation.

2. Ensuring of equality of rights of women with men in all social, economic, political, cultural and civil aspects.

3. Ensuring of universal and compulsory and free primary education to all children of school age and creation of all essential provisions of effective struggle against illiteracy.

4. Ensuring of free health services, against various diseases and expansion of preventive and curative medicine.

It remains to be seen how close the emerging plan will address the needs of the poor. There are conflicting signs. On the plus side, agriculture is being increasingly slated as a high priority, with emphasis on land reform, cooperatives development, and the expanded provision of credit and other agricultural inputs. Education is being emphasized, especially at the primary level and for adult literacy. On the negative side, mines and heavy industries will continue to receive significant attention. The DRA is already discussing plans for a copper smelting plant and petroleum exploration.

The best measure of the government's plan will undoubtedly be the relative budget shares accorded to the various sectors and programs. The budget even for next year is at least two months off. In the Seven Year Plan of over a year ago, budget resources were poorly allocated to achieve broad based development. Agriculture, for example, was dwarfed by allocations to Mines and Industries and the Transport sector. (See Annex D for further details on the allocation of past government expenditures.)

In the absence of a formulated plan and budget projections, we are at a distinct disadvantage in assessing the DRA's strategy. Nevertheless, based on our diagnosis of poverty, it is possible to outline

the kind of strategy the DRA should follow to achieve its announced objectives for growth and equity.

First, Afghanistan's comparative economic advantage lies in the processing of agricultural surpluses both for the domestic market and for export. It is also the key to increasing income levels of the poor. Afghanistan's development strategy should therefore be directed to agricultural-led growth. Espousal of a capital intensive/heavy industry approach would be misguided, since investment in heavy industry would not be the most effective use of scarce capital resources, either to generate additional income or employment. The shortcomings inherent in such a strategy of economic development are clearly borne out by world experience of the last 20 years.

Second, resources available to past governments have not been allocated rationally or equitably, either between or within sectors. Basic social services have been directed at urban areas and favored the elite. Resources should be allocated to reflect the basic needs of the poor in terms of productivity, income and minimum levels of health and education.

Third, the levels of investment necessary for development are constrained by the limits of GNP and Government revenues. Nevertheless, the opportunities for resource mobilization have not been maximized in the past. In addition to traditional revenue generating measures, the Government should do more to utilize private income (i.e., fee for service), encourage private investment, and maximize non-monetary investment (i.e., self-help).

Fourth, management inefficiencies result in serious and unnecessary waste of limited development resources. Increased State management will tend to exacerbate these weaknesses. Moreover, the new government is inclined to consider commitment as a substitute for good management. The efficiency of Government programs should be improved.

Finally, population growth threatens the development prospects for Afghanistan. Past governments have virtually ignored this problem. The DRA must come to recognize the importance of population growth in the country's development plans and prospects.

F. ABSORPTIVE CAPACITY.

Although Afghanistan greatly needs assistance, its absorptive capacity has been very low due to past governments' administrative and managerial weaknesses. Planning and project development are very weak, reflecting inexperience with setting well defined, manageable objectives and specifically relating resources to their achievement. Implementation has generally been slow and ineffectual because: 1) technical staff is in short supply and those who are qualified are spread very thin, 2) recurrent budgets are inadequately related to development programs, and 3) government procedures and institutional arrangements are exceedingly complex and inefficient. While the new government's performance remains untested, it seems unlikely it will significantly overcome these weaknesses in the near term.

Absorptive capacity is relative. Turnkey capital projects, for example, can be more readily absorbed and are primarily constrained by Afghan ability to carry them forward once completed. But by their

very nature, such projects do little to expand either absorptive or development capacity. Block financial transfers unrelated to specific objectives (e.g., lines of credit) tend to go unutilized or when used impact only on foreign reserves rather than rural development. Projects that include institution building components, on the other hand, can significantly expand both absorptive and development capacity.

G. OTHER DONORS.

External assistance to Afghanistan over the next five years has yet to be clearly defined pending completion of the new Five Year Plan. If traditional patterns hold, annual assistance flows can be expected in the $200-250 million range, with lower levels in the early years and higher levels in later years as development projects come on stream.

Unquestionably, the Soviet Union will play the role of major donor. Since the revolution at least 29 trade and aid agreements have been signed totalling $105 million. The Soviet assistance portfolio is heavily concentrated in energy and mineral exploitation and large scale irrigation development in Nangahar, the Lower Kokcha Valley, at Kailagai near Puli-Khumri, at Sardeh in Ghazni, and in Balkh. Soviet interest has also been expressed in health and education.

Western donors, excluding the U.S., can be expected to provide another $100 million annually. The IBRD is clearly the leading donor with projected commitments of $60 million a year. The IBRD program, heavily influenced by its recommendations for an agricultural export led strategy, represents a systematic attempt to promote growth and alleviate poverty. Accordingly, its portfolio addresses such critical

areas as livestock, irrigation, agricultural credit, fruits and vegetables for export, grain storage and price stabilization, rural development, education and water supply. Given the similarity of objectives and strategy between IBRD and USAID, the necessity of close coordination is obvious and the opportunities for joint efforts are great. In fact, USAID and IBRD have established a very close working relationship.

The Asian Development Bank's program is directed at large scale irrigation, power development and seed production, with annual commitments approaching $20 million. West Germany and Canada are also likely to continue their assistance in the $10-15 million range.

No formal mechanism of donor coordination exists, and most donors rely on frequent informal contacts among themselves.

PART II STRATEGY

A. USAID OBJECTIVES

Based on the above analyses, we conclude that AID can most effectively contribute to the achievement of basic human needs of the poor by pursuing a strategy to raise household income of the target group. Specifically, USAID has set three basic objectives to guide this strategy:

1. To move subsistence farmers into the cash market economy;
2. To provide off-farm employment for the landless, near-landless, and farmers with unproductive land, and
3. To increase participation of rural women and children in the development process.

Subsistence to cash farming. Most basic needs are met in the market. They include minimum requirements for private consumption. But the market can perform only as well as need can be translated into effective demand. Income is the key. Although other elements of basic needs, such as health and education, are maintained through government systems, they are not unrelated to income levels. Taxes and fees for service, for example, both arise from income. Basic needs are not being met because incomes in general are too low and inequitably distributed.

The prospects for significantly increasing national income are dramatic. The World Bank estimates that an agricultural-led growth strategy could achieve a seven percent annual growth rate or a doubling

of national income within a ten year time frame. This extraordinary opportunity for economic progress and its potential for fulfillment of basic human needs is pivotal to the formulation of development strategies and policies in Afghanistan. Such rapid agricultural development will most effectively contribute to meeting basic human needs when programs deliberately focus on increasing the productivity and income levels of the subsistence farmer. Since basic needs are primarily met in the market and income redistribution or government welfare programs are not viable alternatives, increasing market participation is the appropriate objective.

Off-farm employment. Landless, near-landless, and farmers with very low quality agricultural land lack the productive base to move into the cash market economy through agricultural production. Although in the near term prospects for on-farm agricultural labor will probably increase as production of high-value crops increases, off-farm employment appears the most appropriate approach for the long term. Settlement and land reform can help some of these people, but not the majority. The overall growth strategy should lead to such opportunities.

Rural women and children. This group is currently not contributing to national development to their full potential nor are they receiving a fair share of household income and government social services. Furthermore, they hold the key to the future to containing population growth and increasing productivity. While income gains generated from expanding agriculture and off-farm employment will no doubt improve their

opportunity, we believe a special effort is required to ensure women and children are in the best position to take advantage of these opportunities and to increase their contribution to national development.

As field analyses are carried out, these objectives will be further defined in measurable terms. This will permit us to better evaluate the effectiveness of our strategy over time.

B. USAID STRATEGY

Our strategy centers on growth with equity. The diagram on the following page summarizes how our strategy proposes to alleviate the constraints faced by the poor households and achieve our objectives. There are seven major program elements: 1) food security, 2) off-farm employment, 3) regional development, 4) integration of women, 5) reducing infant mortality, 6) population, and 7) primary education.

DIAGRAM I

THE STRATEGY AS RELATED TO
OBJECTIVES, CONSTRAINTS AND MEANS

OBJECTIVE NO. 1: To move subsistence farmers into market economy.

CONSTRAINTS TO ACHIEVING OBJECTIVE

- land tenure
- high risks to substituting cash crops for wheat.
- unavailability of critical production inputs.
- insufficient capital/credit to undertake production for the cash market.
- undependable markets for wheat purchases and cash crop sales.
- lack of knowledge of improved agricultural practices.
- excessive family size relative to resource base.
- price fluctuations from harvest to harvest.
- low yield rain-fed varieties.
- fluctuations in amount & timing of precipitation.
- inefficient irrigation systems and practices.

PROGRAM MEANS

A. Support agriculture-led strategy based on food security.
   - Grain Stabilization
   - Ag. Credit
   - Ag. Inputs (Fertilizer, Seed, farm Implements)
   - Integrated Wheat Dev.
   - Irrigation Development
   - Rural Rds.
   - Rural Energy Research
   - BHC Staff Trg. and Construction
   - Non-Formal Education
   - Radio-Extension
   - Population Planning
   - AFGA

B. Regional development to intensify Cash Crop Production
   - CH Water Mgmt
   - CH Research and Extension
   - Master Plan Development
   - New Area Development
   - Rural Electrification
   - BHC Staff Trg. and Construction
   - Non-Formal Education
   - Rural Roads

*Our program means can obviously meet only a limited number of the constraints we have listed.

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OBJECTIVE NO. 2: To provide off-farm employment to landless, near-landless and farmers with unproductive land.

CONSTRAINTS TO ACHIEVING OBJECTIVE	PROGRAM MEANS
-lack of employment opportunities -lack of employment skills among rural population -poor health status of workers -unorganized and inefficient use of village resources. -undeveloped market infrastructure -undeveloped rural energy resources	A. Achieve Objective 1. B. Develop Rural Industry -Rural Industry Survey -Rural Industry Dev. -Rural Roads -Non-Formal Education -BHC Staff Trg. and Construction -Rural Energy Research C. Regional Development to mobilize Local resources -Regional Rural Dev. -Cooperatives Dev. -Rural Roads -RDD. Nat'l Trg. Institute

OBJECTIVE NO. 3: To increase participation of Rural Women and Children in development process.

CONSTRAINTS TO ACHIEVING OBJECTIVE	PROGRAM MEANS
-values and attitudes regarding female roles -limited access to family planning services -illiteracy -lack of necessary skills for participation in wider society -poor health status -parental ignorance of infant nutritional needs -parental ignorance of preventive health practices -irrelevant health service (i.e. not preventive) -values and attitudes regarding education. -irrelevance of education to rural needs.	A. Achieve Objectives 1 and 2. B. Improve Women's performance in Chosen Occupation. -MCH/FP -AFGA -Women's Centers -Non-Formal Education -RD Nat'l Trg. Institute -BHC Trg. and Construction C. Reduce Infant Mortality -MCH/FP -BHC Staff Trg. -Non-Formal Education D. Extend Primary Education -Rural Primary Schools -Primary School Teacher Trg.

1. Food Security.

Food security as used here covers expanded wheat production on rainfed land and shifting production to higher value crops on irrigated land. This is the key to reaching the subsistence farmer who is heavily dependent on wheat for his income. There is evidence that farm families, even with cash market access, are unwilling to risk security for increased income if food availability is not assured. Also, food security is needed to avoid famine which hurts the poor most. Food security then is our first priority for moving subsistence farmers into the cash market economy.

Food security based on domestic production supplemented with judicious imports is economically more rational than a policy of self-sufficiency, since the latter would require greater use of irrigated land for wheat production and thus forego opportunities for higher value crops.

A food security strategy must take into account the interdependence of all farmers. Thus emphasis must be directed at increasing the capacity of poorer wheat farmers to grow more wheat so that as farmers on irrigated land move to higher value crops, the poor farm can fill the vacuum thus created.

Afghanistan is fortunate that such a strategy which will provide direct impact on rural poverty is also the country's best growth strategy.

Food security will require national programs to raise production creating a framework for income gains. Recognizing the difficulty of

targeting production programs on the poor, however, regional programs are critical to ensure that income gains accrue to the poorer farmers.

At the national level, this strategy requires a policy to stabilize wheat prices both to assure adequate incentives to enter the market for semi-irrigated and dryland farmers and to assure a secure supply at reasonable prices for the farmer foregoing wheat production. A program of domestic procurement, price stabilization, imports and storage is key to this strategy. If the Government pursues this strategy, the Mission will propose a major PL-480, Title III program in coordination with other inputs from the World Bank and United Kingdom.

While a national pattern of constraints facing the subsistence farmer is hard to identify in the absence of further field analysis, it is necessary to assist national programs aimed at supplying agricultural inputs (e.g., fertilizer, improved seed, farm implements) and credit. For example, the Afghan Fertilizer Co. (AFC) has been instrumental in manufacturing, procuring, and distributing fertilizer (urea and imported DAP) through its extensive retail network to farmers cultivating high yielding varieties (HYV) of cotton and wheat. In fact, the fertilizer corporation has been so encouraged by these efforts, that it is planning to expand its provision of inputs to include insecticides, small implements, and the distribution of improved seed. The company is also attempting to expand its outreach.

The Afghan Seed Corporation (ASC) multiplies HYV seed for distribution to farmers throughout the country by AFC. This corporation could directly support food security if it chose to procure, multiply,

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and certify HYV seed for dryland wheat farmers. Also, the Agricultural Development Bank (ADB) has expanded credit so that cash farmers can purchase inputs -- fertilizer, seed, tools -- necessary to insure their success in HYV cultivation. The bank also is contemplating expanding its portfolio into other areas, e.g., irrigation development and tube-well construction.

Available data and analysis indicate that Northern Afghanistan is optimally suited to become the bread basket of the country, given the limited opportunities for cash crop production outside the fully irrigated perimeters. Thus success achieved in increasing the northern wheat farmer's productivity on rainfed and semi-irrigated land will do much to permit better lands to be shifted to higher cash crops, once he begins to produce a surplus. This farmer also stands to benefit directly from increased wheat production in terms of household nutritional levels and income derived from surplus wheat. Productivity increases in the rainfed and the semi-irrigated areas will require special efforts in locally adapted research, particularly to develop dryland high yield varieties (HYV), and extension of technology packages relevant to farmer conditions. If the DRA wants us to move ahead with a wheat development project in northern Afghanistan, we plan to do so.

One of the main ways to raise productivity in Afghanistan's semi-irrigated areas is to increase the dependability and efficiency of irrigation water. This can lead not only to a nearly two-fold increase in wheat yields, but it can permit the cultivation of a second crop. We are designing a small scale irrigation development project aimed

at increasing on-farm irrigation efficiency in traditional irrigation systems. We also plan to explore alternative low cost sources of rural energy to improve exploitation of ground water resources and extend pump irrigation possibilities. Productivity increases for dryland and semi-irrigated farmers may also be linked to farm-to-market roads.

Parallel to our proposed efforts are a number of other initiatives which can contribute to a food security strategy. The Government's land reform if effective could assure that production gains result in increased income for poorer farmers. However, the likely short run effect of land reform will be a drop in production. The effective formation of cooperatives may raise productivity. The IBRD's Fruits and Vegetables project is expressly designed to accelerate the shift of irrigated lands to export crop production.

Population growth directly affects food security. At current population growth rates and assuming continued consumption at 160 kg per capita, by the year 2,000 average annual wheat production will have to rise from the current 2.5 million MT to 4.5 million MT in order to ensure food security for the projected 25 million Afghans. Consequently, an effective family planning program to offset the impact of this growth, especially with improved health status and reduced infant mortality, must be an integral part of providing food security. (See 6. below for details on how we proposed to address population.)

The food security component of our strategy represents the Mission's first priority for raising household income. Indeed it is the necessary first step for the other elements of our strategy to succeed.

2. Off-Farm Employment

Success in achieving food security will increase the demand for farm labor. But significantly increased incomes, especially in cash for the landless and near-landless, will require creation of off-farm employment opportunities. This assessment appears to coincide with the DRA's. If the DRA's industrialization plans mean capital intensive, heavy and medium scale industry, however, this will not provide enough jobs. The emphasis should be on small scale, labor intensive industries, such as agricultrual processing and cottage industries. Off-farm job opportunities are also especially important for increasing rural women's participation in the economy and reducing fertility.

Given our lack of knowledge in this area, a survey of local industry potential and requirements becomes a first priority. This would then be followed with specific programs to develop small-scale rural industry and provide credit. These efforts would have to take into account the need for basic education, skills training, and health to bolster productivity. Development of rural infrastructure (e.g., roads, energy) can complement these efforts.

3. Regional Development

Regional development programs are critical to moving subsistence farmers to the cash market and creating employment for the landless and near-landless.

Recognizing that subsistence farmers are affected by local constraint patterns which are imperfectly understood, we must focus our

strategy on the specific constraints to cash market participation of specific populations in specific regions.

A regional group of subsistence farmers which exemplifies high potential for moving into cash farming is found in the Helmand Valley. Despite its high growth potential, the Helmand Valley still remains fairly subsistence oriented and under developed. Important strides have been made, but farmer incomes remain below the national average. The Helmand has become a wheat surplus area. Intensified cash crop production is now needed to integrate the Helmand farmer fully into the market economy.

The large infrastructure investment already made in the region has created significant opportunities to accelerate this process and maximize returns on past investments. We plan to undertake efforts to improve water management, coupled with a rationalization of the on-farm irrigation network and expanded drainage in the Central Helmand project areas. This should bring about rapid increases in small farmer productivity and incomes. A concerted effort in adaptive research and extension can accelerate the shift from subsistence crops to cash crops. Rural electrification will become feasible in 1982 when the Asian Development Bank completes its project to expand power generation capacity at Kajakai. The availability of power would spur further agricultural development, broaden opportunities for small-scale industry, and increase the well-being of Helmand residents.

The rich resource base offers significant opportunities for increasing subsistence farmers' market participation. W. Kajakai or Central Arghandab

have good agricultural potential and can benefit from the existing infrastructure (roads, market services, the Kajakai Dam). The Farm Economic Surveys already undertaken in these areas should facilitate planning and design work. But long term river basis development will require master planning to ensure the rational use of resources.

Other groups of subsistence farmers are found in regions with less agricultural potential for cash farming than areas like the Helmand.[1/] While such regions may have economic growth potential, heavy reliance on a subsistence-to-market strategy is inappropriate. In the short run, increased agricultural production can satisfy household food consumption requirements and may contribute to cash income. But significant income gains in the long run will require development of off-farm employment opportunities. In such areas, a catalyst is needed to mobilize local resources more effectively to ensure sufficient income to meet basic human needs.

As we have seen in Part I, the poorer households operate as individual production and consumption units. They have limited assets and are isolated from access to government services and jobs. Moreover, limited domestic revenues and administrative capacity make delivery of services to individual households difficult at best. The DRA is moving to expand significantly the development of co-operatives throughout the country. This may afford opportunities

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1/ We recognize that there may also be regions with such low productive potential that little can be done directly to raise income levels. Beyond providing education and health services, the long term solution is migration to more productive areas.

for broadening the poor's participation in development by mobilizing village resources for self-sustaining development. Working with co-operatives in the less productive regions may provide a solution.

The Mission has little experience with programs in local development in such regions. A phased regional rural development project will enable us to identify constraints and suitable approaches. Such regions will need to be included in the national network of co-operatives, health centers and primary schools. Well placed rural roads can facilitate delivery of services and people's access to jobs and services outside their village.

The Rural Development Department (RDD) is likely to be the coordinating agency for integrated rural development efforts in these regions. Another possible area of assistance may be to help develop RDD's national training institute to train its village worker staff more effectively.

4. Women's Participation.

Anyone familiar with Afghanistan can appreciate the challenge of formulating a program to increase women's participation in the development process. Success in raising household income through food security and off-farm employment opportunities is necessary to expand the options available to rural women. But women must also be able to control their fertility, raise their health status and acquire the knowledge and skills to perform the roles they choose to play. The Mission plans programs in family planning, maternal health services, and non-formal education which can contribute to

these objectives. Fundamental to the longer term improvement of women's status is better primary education currently denied most girls. Specific programs are described in the remaining sections.

5. Reducing Infant Mortality

Any effort to ensure that today's generation becomes a productive generation tomorrow must start with helping today's children survive beyond age five. Sixty percent of the deaths in Afghanistan occur in the 20 percent of the population that is under five years of age. The pattern of illness leading to child death in Afghanistan is well recognized. It consists of measles, diarrheal, and respiratory disease. The causes, rooted largely in parental ignorance, are manifested in poor nutrition, inadequate sanitation, and short birth intervals. This situation is compounded by the absence of effective health services. The Mission program to reduce infant mortality will focus on maternal/child health services and center upon village outreach.

These efforts must be supported by an expanded basic health center network staffed with qualified personnel who are sensitive to and capable of treating the needs of mothers and children. This will require nutrition, health, and family planning training for BHC staff and BHC construction. It is expected that the BHC will also provide services to the population at large, leading to improved health and labor productivity.

6. Population

Afghanistan's already burgeoning population problem will become acute if infant mortality is reduced. Continuing the current ineffective

public health programs without a population component suggests a population of 46 million by 2025, up from the current level of 14 million. Improvement in the health programs but still without effective family planning services, will lead to an estimated population of almost 70 million. An improved health program coupled with a population program drops these estimates to 39 million.

The choice for Afghanistan is whether its population fifty years from now will be 39 million or 70 million. Policy makers in the Government have not focused on this problem. They have yet to perceive its implications for today.

It is our intent to move on three broad fronts: a) population policy; b) integration of health, nutrition and family planning services; and c) investigation of alternative systems for introducing family planning information and services.

Other elements of our strategy should also contribute to reduced fertility. Primary education for girls is positively correlated with lower fertility rates, as are outside employment opportunities for women. Higher incomes may or may not impact on fertility rates. These linkages will bear evaluation as we implement our strategy.

7. Primary Education

Children hold the key to Afghanistan's future and must be given every chance to contribute their full potential. Three fourths of the school age children are, however, without access to basic education. Most of those who do have access get too little schooling and of the wrong kind. The price paid by the country in terms of lost potential

is high. It limits the opportunity for the child's development and retards subsequent learning of skills needed to be a productive citizen.

Village level needs make a persuasive case for giving priority to primary education. It enables an individual to conceptualize a future that is different from the one he now faces. It is best suited to promote modern attitudes, impart basic human skills of literacy and numeracy, and improve equity. It can also have a significant impact on expanding opportunities for women and reducing fertility. There is also evidence that, given the low level of national development in Afghanistan, the greater return to educational investment, as well as for equity, will come at the lowest educational levels and will diminish as one moves to secondary and higher education.

Expanding access to and increasing the relevance of primary education will require investments in school construction and teacher training. With respect to the first, the Mission plans to reshape its primary school construction effort to focus on: a) the kinds of schools that should be built both in terms of different physical configurations and alternate grade systems; b) where they should be built and in what relationship to other community structures; c) how they should be financed; and d) the implications of various construction models for system growth and equity. As for teacher training, we plan to assist the Government train teachers so that they can be more effective agents in meeting the needs of the population. The project should affect the examination system, repetition and drop-out rates for pupils, teachers' effectiveness, and the role of the school in the village. Increasing the number of female teachers

is critical to raising the enrollment of girls.

Interaction of Strategy Elements

We wish to underscore the integrated nature of the strategy. Food security is needed to encourage the shift from subsistence to cash farming. The resulting income gains are required to generate demand for local products and encourage development of local industry. Both elements will also help expand opportunities for women and for children as they move into adult life. Furthermore, many of our activities, e.g., health services, non-formal education, rural infrastructure, family planning, contribute simultaneously to all three objectives. While each element of the strategy could stand on its own in terms of providing direct benefits to the target group, in combination they are likely to have a significantly greater development impact than the sum of the elements.

C. TACTICS

See Annex F. (Limited Official Use)

PART III IMPLEMENTATION

A. ASSISTANCE PLANNING LEVEL

To carry out this strategy we propose an assistance planning level (PAPL) for Afghanistan for 1985 of $45 million. This is considerably less than the $71 million indicative planning allocation based on relative need and commitment. Our proposed level reflects first, the low absorptive capacity shown in the past and the newness of the current government. It is, therefore, premature to suggest that $71 million could be absorbed by the DRA. We believe that expanding our assistance to $45 million is reasonable considering the type of assistance proposed. Second, the absence of the Five Year Plan and a budget projection along with the uncertainty surrounding the role U.S. assistance can play argue for a gradual approach.

B. THE PORTFOLIO

In building a portfolio to implement our strategy within our proposed level we have been guided largely by our diagnosis of poverty without the benefit of detailed consultations with the host government. The portfolio then reflects more program emphases than agreed project initiatives. Table 1 sets forth our proposed program for FY 1981 to FY 1985.

C. STAFF LEVEL

Implementation of our proposed strategy will require a core staff of 29-31 DH Americans. Skills will be required in Agriculture, Rural Development, Education, Health and Family Planning. The portfolio includes an average of 15 projects underway each year. To ensure effective project implementation and to meet the design load, the Mission

FY81 CDSS (179)

Table 1

Proposed USAID Development Assistance Program
For FY 1981 to FY 1985 by Key
Areas and Projects ($000)

Areas of Emphasis and Projects	Prior Obs.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	LOP* Total
I. Food Security	16,886	11,492	9,500	10,600	9,500	8,500	66,478
0163 Int. Wheat Dev. I (C)**	2,355	2,023	-	-	-	-	4,378
Int. Wheat Dev. II (N)***	-	-	1,000	2,500	2,000	-	5,500
0178 Grain Stab. (PL 480) (C)	10,500	5,500	5,500	2,100	-	-	23,600
0171 Irrig. Dev. I (C)	4,031	969	-	-	-	-	5,000
- Irrig. Dev. II (N)	-	-	-	-	2,000	5,000	7,000
- Ag. Inputs Distribution(N)	-	1,000	1,000	2,000	2,000	-	6,000
- Ag. Credit II (N)	-	2,000	2,000	4,000	3,500	3,500	15,000
II. Off-Farm Employment	-	1,000	1,500	1,500	3,500	-	7,500
- Rural Industry Dev. I (N)	-	1,000	1,500	1,500	3,500	-	7,500
III. Local Development	1,245	5,255	8,500	12,500	12,000	24,500	79,500*
- Cen. Hel. Water Mgmt,III(N)	-	2,500	2,500	2,500	2,500	-	10,000
- Cen. Hel.Research & Ext.(N)	-	-	2,000	2,000	1,000	2,000	7,000
- Master Plan Dev. (N)	-	1,500	-	-	-	-	1,500
- New Area Dev. (N)	-	-	2,000	2,000	3,000	7,500	25,000*
- Rural Electrification (N)	-	-	-	3,000	3,000	8,000	18,000*
0170 Regional Rural Dev.I (C)	1,245	1,255	1,000	-	-	-	3,500
- Regional Rural Dev.II (N)	-	-	-	1,500	2,000	7,000	12,000*
- Cooperatives Dev. (OPG)(N)	-	-	1,000	1,500	-	-	2,500
IV. Rural Infrastructure (to support I, II, III)	-	-	2,500	2,000	3,000	4,000	11,500
- Rural Rds. (N)	-	-	2,000	1,000	3,000	4,000	10,000
- Rural Energy Res. (N)	-	-	500	1,000	-	-	1,500
V. Non-Formal Education (to support I, II, III)	-	1,000	2,000	2,000	2,000	2,000	9,000
Non-Formal Edu. (N)	-	1,000	1,000	2,000	2,000	2,000	8,000
RD National Trng. Inst. (N)	-	-	1,000	-	-	-	1,000

* LOP totals exceeds sum of 1981-1985 obligations because of a carry over beyond FY 85.

** (C) = Current Project

***(N) = New Project

Areas of Emphasis and Projects	Prior Obs.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	LOP Total
VI. Health and Population (to support women and children focus)	4,304	2,019	2,250	4,200	6,200	200	19,173
0173 MCH/FP (C)	1,500	1,000	1,000	2,000	1,500	-	7,000
0174 Pop. Planning (C)	304	569	-	-	-	-	873
- AFGA II (N)	-	450	250	200	200	200	1,300
0177 BHC Trng.& Const. (C)	2,500	-	1,000	2,000	4,500	-	10,000
VII. Primary Education (to support children's focus)	8,933	4,402	4,178	2,375	4,000	6,000	49,888
0150 Rural Primary Schools I(C)	4,735	2,000	2,178	2,375	-	-	11,288
Rural Primary Schools II(N)	-	-	-	-	2,000	4,000	20,000*
0167 PSTT I (C)	4,198	2,402	2,000	-	-	-	8,600
PSTT (N)	-	-	-	-	2,000	2,000	10,000*
Total Obs.	31,368	25,168	30,428	35,175	40,200	45,200	243,039
Total Projects	9	13	18	19	18	14	32

will have to supplement the resident staff with outside design and evaluation expertise on TDY. The Mission plans, however, to lead and control the design and evaluation process by integrating outside personnel into Mission teams. Direct hire staff will be kept at a minimum by relying on self-supporting contractors with full implementation authority, with Mission personnel concentrating on program development, project design, monitoring, and evaluation.

The Mission will be organized into five technical offices with one or two technical advisors served by a Design and Planning Office (DP), a Controller's Office, and a Management Office.

This staff level and organization is predicated on our moving forward with the proposed strategy as a whole. Obviously, if circumstances change, staff requirements will have to be reviewed.

Socio-Economic Indicators of Basic Needs, Progress and Commitment for Afghanistan

I. Promote Equitable Distribution of Development's Benefits

A. Percent of Income Received by Richest 5% of Households 25%

B. Percent of Income Received by Poorest 20% of Households 5%

C. Percent of Population in Absolute Poverty, 43

II. Achieve Sustainable Economic Growth

A. Average Annual Growth Rate of GDP per Capita 1970-75, 2.1

B. Average Annual Growth Rate of GDP 1970-76, 4.4

C. Average Annual Rate of Inflation 1970-76, 3.1

D. Annual Growth Rate of Gross Domestic Investment 1970-76, 5.6

E. Gross Domestic Savings as % of GDP 1976, 8

F. Average Annual Growth Rate of Exports 1970-76, 3.3

G. Debt Service as % of Exports 1976 , 7.3

H. External public Debt as % of GNP 1976, 37.2

I/ Gross Internat'l Reserves in Months of Import Coverage 1976, 7.0

J. Average Annual Growth Rate of Agriculture 1970-76, 4%

K. Average Annual Growth Rate of Industry 1970-76, --

L./ Average Annual Growth Rate of Services 1970-76, --

M. Average Annual Growth Rate of Energy Production 1960-75, 34.1

N. Per Capita Consumption of Energy (kilograms) 1975, 52

O. Per Capita GNP (US$) 1976, 160

P. Expenditures as % of Total Public Expenditures 1976, --

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III. Improve Utilization and Productivity of Labor

A. Average Annual Growth Rate of Labor Force 1970-75, 2.1

B. Average Annual Growth Rate of Employment 1970-75, --

C. Average Annual Growth Rate of Employment in Manufacturing 1974-76, 5

D. Rate of Unemployment, 7.0

E. Percent of Labor Force in Agriculture 1970, 82

F. Females as % of Labor Force 1970, 18

G. Percent of Population of Work Age (15-64 years) 1975, 53

H. Average Incremental Capital Output Ratio 1968-73, --

IV. Improve Agricultural Productivity

A. Percent of Land Owned by Largest 10% of Owners, 50

B. Percent of Land Owned by smallest 10% of Owners, 1

C. Average Annual Growth Rate of Agriculture 1970-76, 4

D. Index of Per Capita Food Production 1965/67=100 Av. 1974/71, 94

E. Food Imports as % Total Imports 1975, 27

F. Agriculture Production per Rural Person (US$) 1976, 103

G. Population Density per Sq. Km. of Arable Land (100 Ha) 1970, 102

H. Agricultural Expenditure as % of Total Public Expenditure 1976, 4.32

V. Improve Health and Nutrition Conditions

A. Crude Death Rate 1975, 31

B. Percent Change in Crude Death Rate 1960-75, -8.8

C. Life Expectancy at Birth 1975, 35

D. Add'l Years in Life Expectancy Gained During 1960-75, 2

E. Infant Mortality Rate 1975, 269

F. Child Mortality Rate (ages 1-4) 1975, 24

G. Per Capita Caloric Supply as % pf Requirements, 83

H. Per Capita Protein Supply (Grams/Day), 62

I. Percent of Population with Access to Safe Water 1975, 9

J. Percent of Population with Adequate Sewerage Disposal 1975, 21

K. Annual Disparity Reduction Rate in Life Expectancy 1960-75, 0.3

L. Annual Disparity Reduction Rate in Infant Mortality 1960-74, --

M. Population per Physician 1974, 26,100

N. Population per Nursing Person 1974, 28,410

O. Population per Hospital Bed 1976, 5,200

P. Hospital Bed Occupancy Rate, 78

Q. Support Personnel per Physician, 1.0

R. Population per Primary Health Worker, 19,670

S. Health Expenditures as % of Total Public Expenditures 1976, 2.5

T. Public Health Expenditures as % of GNP 1976, 0.65

U. Public Health Expenditures per Capita (US$) 1976, 1.20

VI. Reduce Population Growth via Fertility Decline

A. Percent of Population under Age 15 1975, 44

B. Crude Birth Rate 1975, 51

C. Percent Change in Crude Birth Rate 1960-74, 6.3

D. Total Fertility Rate 1975, 6.9

E. Percent of Married Women Using Family Planning, <2

F. Family Planning as Percent of Health Budget, <1%

G. Population Size (millions) 1976, 14.0

H. Average Annual Growth Rate of Population 1970-75, 2.2

I. Average Annual Growth Rate of Urban Population 1970-75, 5.4

J. Percent of Population in Urban Areas 1975, 12

K. Population Density Per sq. Km. 1976, 22

L. (US$) Per Capita Expenditure on Family Planning, --

VII. Provide Basic Education

A. Adult Literacy Rate (%) 1974, 14

B. Total Primary Enrollment Ratio 1975, 23

C. Female Primary Enrollment Ratio 1975, 7

D. Females as % of Total Students Primary 1975, 15

E. Secondary School Enrollment Ratio 1975, 8

F. Females as % of Total Secondary Students 1975, 12

G. Average Annual Growth Rate in Adult Literacy 1960-74, 4.1

H. Annual Disparity Reduction Rate in Literacy 1960-74, 0.5

I. Average Annual Growth Rate in Primary Enrollments 1965-75, 5

J. Student/Teacher Ratio at Primary Level, 30

K. Primary Level Expenditures as % of Public Current Education Expenditures, 38

L. Public Current Expenditure per Student for Primary Education (US$) 14.0

M. Index of 2nd Level Expenditures to Primary Level Expenditures, 3.2

N. Index of 3rd Level Expenditures to Primary Level Expenditures, 32.2

O. Education Expenditures as % of Total Public Expenditures 1976, 12.26

P. Public Education Expenditures as % of GNP 1976, 1.47

Q. Public Education Expenditure per capita (US$) 1976, 2.40

Income Distribution

It is likely that at least 40 percent of the population live in absolute poverty as defined by the IBRD (i.e. $85 per capita). The problem is probably less serious in the towns and cities, though the available evidence is not conclusive. The only survey work done on the distribution of income in urban areas has been in the capital city of Kabul. The survey suggests that income is extremely skewed: the bottom 56 percent of all households earn only 15.0 percent of income whereas the top 6 percent earn 49.2 percent. Information on other urban centers does not exist. In general, outside of Kabul where conspicuous consumption is concentrated, there is relatively little inequality of expenditure as opposed to income.

Distribution of Income, Kabul City 1968/69

Annual Income ($/Household)	No. of Households	%, Total Households	Sample Popl.	% of Total Popl.	% of Total Income
0 - 190	431	25.6	2,380	20.0	4.3
191 - 380	512	30.4	3,308	27.9	11.2
381 - 640	334	19.8	2,474	20.9	12.8
641 - 950	197	11.7	1,715	14.5	12.0
951 - 1,590	109	6.5	963	8.1	10.5
1,591 - 2,390	47	2.8	478	4.0	7.3
2,391 - 3,340	25	1.5	243	2.0	5.5
3,341 - 4,770	9	0.5	116	1.0	3.0
4,771 - 7,960	9	0.5	86	0.7	4.4
7,961 +	12	0.7	107	0.9	29.0
Total	1,685	100.0	11,870	100.0	100.0

A survey of income distribution in 12 villages of 7 provinces was taken by the Ministry of Planning in 1970. According to this survey between 11 and 60 percent of the population of these villages lived in absolute poverty. The survey shows that income distribution in the rural areas is somewhat less skewed than in Kabul. The survey indicated that the bottom 50 percent of households earned between 15 percent and 25 percent of total income, while the upper 10 percent earned 30 percent to 40 percent. Land tenure patterns per se did not appear to play a significant role in determining income distribution within villages. Some of the most inequitable distribution appeared in villages where over 85 percent of the farmers were owner-operators, while some villages with between 40 percent and 50 percent sharecroppers showed no more inequity than other villages with only 20 percent sharecroppers. The impact of land tenure apparently is masked by the more important factor of quality of land. Land tenure, however, is an important determinant of income, and the landless are generally poorer than the landed.

The following table shows the average annual per capita income and land availability in 1970 in the 7 province sample villages which were surveyed:

Province	Sample Population	Average Per Capita Income(Afs)	Total Irrig. Land (Jerib)	Equiv. Per Capita (Jeribs)	% Population in Absolute Poverty 1/
Baghlan	1,015	6,670	2,432	2.40	11
Kandahar	990	5,631	2,369	2.40	25
Kunduz	1,125	4,508	2,866	2.54	21
Parwan	684	2,653	632	0.92	48
Ghazni	1,633	2,514	1,746	1.07	59
Nangarhar	1,094	2,041	1,014	0.93	60
Laghman	385	2,671	493	1.28	47

1/ Based on 1969/70 absolute poverty level, calculated to be Afs. 2,907.

ANNEX C

METHODOLOGY

The USAID/Kabul mission has developed a methodology to assist it in formulating its 1981 CDSS. Since many of the underlying assumptions contained within the CDSS are derived from the methodology, it will be useful to sketch briefly the nature of the methodology we employed.

The methodology consists of 4 stages. These are: (1) problem identification, (2) model building, (3) data collection and analysis, and (4) strategy formulation. Each of these stages is described more fully below.

1. Problem Identification. This stage consisted primarily in identifying the overall objective of the mission. Given our mandate, it was imperative that we focus on the poor , but we were uncertain just who they were, why they were poor, and what it was we could do for them. After a number of brainstorming sessions, we decided that our basic goal should be to satisfy basic human needs. But this seemed too general for analytical purposes. We, therefore, looked to household income as a proxy for BHN. To this end, household income was broadly defined to include cash, in kind income and access to certain basic social services, such as education and health. The next task was to develop a model for understanding household income.

2. Model Building. Recognizing that 85 percent of Afghans live in rural areas, we decided to focus on the rural household. We began by identifying the primary independent variables which affect rural

household income (the dependent variable). Brainstorming again, we attempted to identify as broadly as possible all variables which might influence or determine rural household income. After exhausting all the possible variables, we grouped the variables into dependency relationships. These variables were then placed on a tree diagram, illustrated in Fig. 1., p. above.

As shown in Fig. 1., we decided that there were six major independent variables which affect rural household income. These are: household assets, farm revenue, non-farm revenue, utilization of basic social services, household size, and socio-economic status. Each of these major variables is itself influenced by several sub-variables.

To assist in understanding the inter-relationships among all of the major variables and sub-variables, we also sketched an oval diagram (not shown here). This proved useful in identifying counter-intuitive relationships as well as critical feedback loops and singling out those variables which tended to incluence or determine a large number of other variables. Such an oval diagram illustrated dramatically the importance, for example, of land tenure and household size as determining variables.

3. Data Collection and Analysis. After all the variables had been arranged in the tree diagram, each member of the CDSS working group was assigned a major variable for which he collected baseline data to permit at least a preliminary analysis of the nature of the variable's influence on rural household income. For example, of the 9 sub-variables which influence household size, 6 are direct relationships

(increases in one variable result in increases in the other) and 3 are inverted relationships (i.e., a decrease in one results in an increase in the other). The household size variable itself was found to correlate negatively with rural household income. The investigator, working closely with the population office, had to glean from available data a feel for what the magnitude might be of each of these sub-variables, which were the most important, which were the most intractable, etc. This procedure was followed in attempting to understand each of the other major variables. Once the relationship of a sub-variable to the main variable was understood, we examined what the contraints were to poor households increasing their income in terms of that variable.

The next step in the analysis was to examine household expenditures with a view to understanding how increases in income might be expended and what effect this would have on generating further increases through multiplier effects. Finally, the macro-analysis attempts to survey the economic and policy context within which rural household income is generated.

4. Strategy Formulation. Our strategy evolved easily from our analysis. Against a set of defined objectives and our understanding of the major constraints to increasing rural household income, we only had to ariculate the various cross sectoral thrusts our programs should follow in order to reach the target group and overcome the identified contraints.

ANNEX C

Limitations.

It would be unprofessional not to outline the limitations inherent in our methodology. First, the data base upon which our analysis of poverty has been made is narrow and unreliable. While gross statistics on the national level are readily available and are fairly accurate, little statistical data for the local level exists. Critical areas, such as household income and expenditures are virtually unexplored. The little information that does exist in this regard has been culled from various isolated studies. We cannot attest to either its reliability or its general applicability.

Second, our methodological design is less a theoretical model than a convenient way for assisting us order the data. As such, it is only predictive in a very general way and does not attempt to measure quantitative changes between interrelated variables (e.g., income and consumption). Even if the model were more sophisticated, the above-mentioned problems with the data base would still render the model only minimally useful in this regard.

Third, a number of the hypotheses contained within the model and in our strategy are untested. For example, we hypothesize that increased income will result in higher levels of education and that this in turn might reduce the fertility rate. This is an untested hypothesis. Further, we may not be able to test the hypothesis sufficiently during the next 5 years to offer an opinion on its validity.

The methodology's utlity has been in helping the Mission structure its thinking. No more is expected of it.

Table I

NDP and Economically Active Population
(1975/76)

	Million Dollars	% of NDP	No. of Persons Employed (000)	% of Total
Agriculture and Livestock	997.55	55.4	2,492.8	52.9
Handicrafts'	139.90	7.9	843.6	17.9
Industry and Mining	61.77	3.5	40.7	0.9
Construction	39.43	2.2	44.7	0.9
Transport and Communication	62.85	3.6	56.6	1.2
Commerce	214.75	12.2	257.3	5.5
Services	156.98	8.9	691.6	14.7
Other	110.55 1/	6.3	282.7 2/	6.0
Total	1,763.78	100.0	4,710.0	100.0

1/ Includes Housing.

2/ Includes unemployed which amounts to 2.7 percent of the total labor force.

Source: IBRD, p. 9.

Table II

Value of Exports of Principal Commodity
1972/73 - 1976/77
($ U.S. million fob)

	1972/3	1973/4	1974/5	1975/6	1976/7 (1)
Dried Fruits and Nuts	30.5	44.6	58.2	54.7	74.4
Fresh Fruits	10.7	21.6	31.5	20.1	27.0
Ginned Cotton	11.1	7.2	34.7	35.3	68.1
Karakul	16.1	17.0	12.7	10.4	22.5
Carpets and Rugs	10.8	14.5	19.9	16.1	24.1
Natural Gas	17.1	18.0	32.1	46.3	36.3
Others (2)	28.2	36.2	41.5	52.6	57.6
Total	124.5	159.1	230.6	235.5	310.0

(1) Provisional

(2) Most of which are agricultural

Table III

Central Government Revenue, 1972/73-1977/78
(millions of afghanis)

	1972/73	1973/74	1974/75	1975/76	Revised Estimates 1976/77 1/	Budget 1977/78
Current Revenue	5,688	6,562	9,525	11,169	12,686	13,894
Tax Revenue	3,196	4,056	6,585	6,709	7,934	8,629
Tax on net income & profits:	484	730	907	1,065	1,529	1,887
Corporate and income taxes	254	367	447	494	862	1,102
Individual income taxes	230	363	460	571	667	785
Taxes on Property:	78	83	95	97	151	500
Real estate (land) tax	78	83	95	97	151	500
Livestock tax	-	-	-	-	-	-
Taxes on Goods and Services:	196	253	262	289	762	450
General Sales tax	19	51	63	139	121	141
Selective excises	49	59	68	62	84	85
Licenses 2/	29	37	79	88	95	114
Other taxes on Goods and services	102	106	52	-	462	110
Taxes on International Trade and Transactions:	2,281	2,814	5,113	5,292	5,472	5,770
Import duties 3/	1,968	2,494	3,868	4,161	4,343	4,661
Export duties 3/	250	216	320	297	373	414
Selective export tax 4/	-	1	893	666	653	585 7/
Exchange profits 5/	42	70	-	-	-	-
Other	21	30	32	118	103	110 7/
Other taxes 6/	157	176	208	16	20	22
Non-tax revenue:	2,492	2,506	2,940	4,460	4,752	5,265
Property income:	1,361	1,694	1,916	3,452	3,527	4,051
From public enterprises	(928)	(735)	(447)	(523)	(250)	(814)
Sales of natural gas (gross)	(727)	(690)	(1,175)	(2,375)	(2,347)	(2,164)
Other	(206)	(269)	(294)	(554)	(930)	(1,073)
Administrative fee, charges, etc.	337	363	403	599	833	737
Other	294	449	621	409	392	477
Capital revenue	62	75	144	129	124	188
Total revenue	5,750	6,637	9,669	11,299	12,810	14,082

Source: Ministry of Finance and Da Afghanistan Bank

Footnotes:

1/ The revised estimates for 1976/77 are based on provisional actuals for ten months.

2/ Includes motor vehicle registration fees.

3/ Includes revenue from fixed import and export taxes.

4/ Data from Research Department, Da Afghanistan Bank. This item represents revenue from selective taxes on cotton, oilseeds, raisins, and walnuts.

5/ Staff estimates based on data provided by the Research Department, Da Afghanistan Bank. This item represents profits from government foreign exchange transactions with Da Afghanistan Bank.

6/ Includes stamp taxes.

7/ The 1977/78 Budget combines exchange profits and selective export taxes under the heading "Commercial transactions". The latter have been decomposed into the two former components in the same proportions as they were in 1976/77. Since exchange subsidy exceeds the resulting exchange profits and we present these data on a net basis, there is no entry here for exchange profits.

Allocation of Past Government Expenditures

Government expenditures are small in relation to GNP, although they have been increasing in recent years. In 1972/73 total expenditures on both the ordinary and development budget amounted to 10.8 percent of GNP; by 1976/77 this proportion had risen to 18.3 percent. During this same period, the proportion of the budget allocated for development projects increased from 44 percent to 54 percent. See Table 1.

Within this budget there are serious allocation problems. Programs addressing basic human needs receive low priority. Agricultural programs were allocated less than two percent of the ordinary budget and 20 percent of the development budget in 1977/78. The Seven Year Plan allocated 25 percent of the development budget to agricultural programs, yet agriculture contributes 60 percent of GNP and 70 percent of employment.

Allocations for social services were also low. Health accounted for 3.7 percent of the 1977/78 budget and during the course of the Seven Year Plan this was projected to drop to 3.1 percent. Health accounted for an even smaller portion of the development budget. It was allocated less than three percent of the total in 1977/78 and is expected to average only 1.2 percent over the planned period.

Even more disturbing than the low budget levels for health was its internal allocation. Urban hospitals received a disproportionate 49 percent share of

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the budget. During a recent exercise to reduce the health budget the Ministry of Finance actually increased the hospital budget.

If rural populations are to receive minimum health services, programs addressing their problems must receive significantly greater resources. This will require larger budget allocations as well as a shift of priorities within the health sector. Continued emphasis on providing urban health services would preclude the possibility of an equitable health system.

Education received a greater proportion of the budget than did health but it was still seriously inadequate. The proportion of GNP devoted to education was less than two percent. This ranked Afghanistan in the lower quartile of developing countries. The proportion of the 1977/78 ordinary budget going to education was 19 percent and this was projected to remain constant during the course of the Seven Year Plan. Only three percent of the 1977/78 development budget was allocated to education, and this percentage was expected to average only 1.7 percent over the course of the Seven Year Plan. Given the current high level of population growth and the potential for even much higher rates in the future, and given the small percentage of the school-age population presently enrolled, these allocations were clearly insufficient to have a major impact.

As in health, the relative priorities within the education sector appeared to be unnecessarily skewed against the rural majority of the population.

In the past five years 37 percent of education's ordinary budget and 42 percent of its development budget have been spent on primary education; there are two million primary school-age children. These figures were 16 percent and 39 percent respectively for higher education; there are tenthousand university enrollees. Unless greater attention is given to education in general, and primary education in particular, Afghanistan will continue to have a majority of its population illiterate and untouched by the modernizing influences of formal schooling.

The Government's allocation of its expenditure was based on a development approach which is urban oriented and industrial growth led. To meet the needs of Afghanistan's population will require a fundamental restructuring of Governmental priorities. The basic income, health and education needs of the population should be attacked directly. Thus, a greater portion of Governmental resources within those sectors funding must be directed to basic needs. That implies the structuring of delivery systems to impact the rural agrarian population. It is to be hoped that the new 5-Year Plan will face up to these challenges, as preliminary indications suggest.

Table 1
Distribution of Central Government Expenditures
1972/73 - 1977/78
(millions of afghanis)

	1972/73	1973/74	1974/75	1975/76	1976/77	Budget 1977/78
TOTAL ORDINARY	4,923	5,419	5,663	8,354	9,587	9,790
A. Overhead Expenditure	2,910	3,104	3,245	3,762	4,072	4,907
Gen. Admin. and public order	791	880	887	1,100	1,274	1,486
Defense	1,460	1,545	1,608	2,114	2,184	2,731
Public Debt (interest)	659	679	750	548	614	690
B. Social Services	1,230	1,412	1,429	1,569	1,953	2,430
Education	968	1,083	1,120	1,243	1,550	1,850
Health	186	192	204	268	342	373
Other	76	137	105	58	61	207
C. Identified Subsidies				1,306	649	689
Foreign Exchange	-	-	-	328	367	397
Government Monopolies	-	-	-	778	82	42
Wheat for civil servants	?	?	?	200 1/	200 1/	250 1/
D. Pensions, Economic Services and Other				1,717	2,913	1,741
Transfer to Pension Dept.	?	?	?	300 1/	300 1/	300 1/
Economic Services, Other	?	?	?	1,417	2,613 2/	1,441
C + D	783	903	989	3,023	3,562	2,453
TOTAL DEVELOPMENT	4,326	3,672	4,648	6,065	11,500	20,233
GRAND TOTAL	9,249	9,091	10,311	14,419	21,087	29,626

1/ Budget data

2/ Includes 620 budgeted for salary increase plus a large sum for purchase of banks.

Source: Ministry of Finance.