

# The Current Political and Economic Situation in Afghanistan

By  
Abdul Aziz Ferogh

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## TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
LIST OF TABLES	ii
FOREWORD	iii
INTRODUCTION	1
The Economy	1
The Politics	2
In-Country Population Changes and Refugees	4
In-Country Population	4
Refugee Population	6
Economic Situation	8
Agricultural Sector	10
Transportation and Communications	14
Public Health Sector	16
Education Sector	18
Industry, Mining, and Energy	20
Public Finance and Expenditures	24
Money Supply and Prices	28
External Sector	31
Conclusions and Prospects	35
Appendix A. TABLES	39
METHODOLOGICAL NOTES TO TABLES A-1—A-8	49
Appendix B. MEMORANDA	55
BIBLIOGRAPHY	71

## LIST OF TABLES

<u>Table</u>	<u>Page</u>
1. Population and Rate of Growth 1978-79 - 1989-90	5
2. Gross Domestic Product at 1978-79 Constant Prices	9
3. Estimated Production of Major Crops, 1978-79 - 1989-90	11
4. Estimated Industrial and Mining Production, 1978-79 - 1989-90	21
5. Indicators of Government Budgetary Position, 1978-79 - 1987-88	25
6. Monetary Survey, 1978-87	29
7. Consumer Price Index, 1978-79 - 1989-90	30
8. Indicators of Developments in External Sector, 1978-79 - 1989-90	33
A-1. Gross Domestic Product at 1978-79 Constant Prices, 1978-79 - 1989-90	39
A-2. Estimated and Projected Major Agricultural Crops, 1978-79 - 1992-93	40
A-3. Estimated and Projected Agricultural GDP, 1978-79 - 1992-93	42
A-4. Estimated and Projected Livestock Production, 1978-79 - 1992-93	43
A-5. Estimated and Projected Livestock GDP, 1978-79 - 1992-93	44
A-6. Estimated and Projected GDP from Mining, Industry, and Electricity	45
A-7. Estimated and Projected Gross Domestic Product at 1978-79 Constant Prices, 1989-90 - 1992-93	46
A-8. Projected Food Requirements, 1990-91 - 1992-93	47

## FOREWORD

The information and analysis contained in this report were developed by Mr. Ferogh during an assignment undertaken for the Nathan Associates/Berger Joint Venture under A.I.D. Contract No. 306-0205-C-00-9385-00 (Afghanistan Studies Project) in Pakistan in 1989-90. Four of the memoranda on economic issues written under this contract are reproduced in Appendix B. This report also draws on his experience with the pre-war Ministry of Planning in Afghanistan and numerous assignments since with United Nations agencies.

Because of its pertinence, this document is being issued as a special report. Drawing heavily on personal observations as well as those of knowledgeable individuals and organizations. The goal is to achieve a reasonably balanced treatment of information drawn from a variety of sometimes conflicting sources. The report emphasizes the need for political unity as a prerequisite for economic and social restructuring. It also points to the need for an integrated strategy for recovery—one that is based on priorities and on the needs of the people and with special attention to

- Agricultural production as a base for economic activity and
- Supportive monetary and fiscal policies to ensure success for the economic program.

This report is not strongly prescriptive in its approach, but it does attempt to call attention to the main issues. It recognizes that the war has devastated the country economically and socially, but it largely avoids becoming entangled in the fashionable, if currently unresolvable, debate concerning the extent of that devastation.

## INTRODUCTION

This report reviews the economic situation in Afghanistan over the decade or more that the country has been at war. It focuses on the factors, in addition to the war, that have contributed to the present economic and social crisis. The underlying purpose is to provide a base upon which to build a strategy and program for political, social, and economic recovery.

### The Economy

The economy of Afghanistan is predominantly agrarian with agricultural production accounting for about 45 percent of gross domestic product. The industrial sector is still at an early stage of development, and its share in gross domestic product is estimated at less than 13 percent. It is therefore evident that any strategy for the reconstruction of the economy should take into account the predominant role of the rural sector. The country is reportedly well endowed with mineral resources. However, the high costs of mining, the limited and costly transportation network, along with a lack of technical skills have failed to attract the financial resources for full exploitation of known deposits except for natural gas and some oil.

The country has an area of 65.2 million hectares, of which 12 percent is arable. Before the war only about 50 percent of the arable land was actually cultivated. Only two-thirds of the cultivated land was irrigated because of the limited availability of water. Today the total cultivated area is reportedly lower because of abandonment, and the amount of land irrigated is said to be less as a result of damages to irrigation systems. The magnitude of this situation will remain in contention until the database can be verified.

Agro-climatic conditions vary greatly. Precipitation is generally low and irregular, and the risk of severe drought is ever present. The growing season in most areas is comparatively short. This reduces the opportunity for double cropping, causing the bulk of the country's food production to come from grains such as wheat, barley, and corn—the main short-season crops. In spite of this, a wide range of long-season crops, primarily rice and

cotton, are produced along with a variety of warm weather crops, including grapes, citrus and other fruits, and vegetables.

The rural population is scattered in small villages throughout the valleys where water is available and irrigation is possible. The difficult mountain terrain and the dispersed population increase the cost of unifying the country. Outside of the major urban centers the costs for providing and maintaining transportation services and facilities are unusually high and so are the costs of providing basic education and health services. The majority of rural people in these areas do not have access to safe drinking water and electricity. For all of these reasons infant mortality remains unusually high (more than 200 per 1,000 live births), and the literacy rate remains below 20 percent, especially for women.

As a landlocked country, Afghanistan depends on the good will of its neighboring countries for trade and transit to foreign markets. The lack of efficient transit facilities in Iran and Pakistan increases transportation costs of most imports and exports from areas far beyond the immediate borders. The country has no railways and few major roads.

The roads from Kabul through the Khaiber Pass or through Kandahar Spin Boldak provide the main access to the transport system of Pakistan and the port of Karachi. Access to the sea, by way of Iran, is through the ports of Khorramshahar and Bandar-e-Khomeini. These ports are located deep in the Gulf, more than 3,200 kilometers from Herat. The northern highway through the Salang Pass to the bridge at Hairatan is the main link to the transportation network of the Soviet Union.

### The Politics

The political situation of the Afghan society has remained fragmented. The forces of fragmentation continue to exist and have hindered economic development. The difficulties in transportation and communications have made it difficult for the country to achieve political unity. From 1963 to 1973, Afghanistan experimented with a constitutional monarchy that experienced frequent cabinet changes resulting in political and economic instability. In 1973, Daoud Khan gained power through a military coup. He suspended the constitution, deposed his cousin, the King, and proclaimed Afghanistan a republic. The traditional nonaligned foreign policy was retained, although the government moved closer to the Soviet Union with its commitment to a state-dominated economic policy. In the final days of the Daoud regime there was a definite cooling of relations between Kabul and Moscow.

In April 1978, Daoud Khan was killed during a coup, and the new regime formed a revolutionary council and adopted a Marxist program of scientific socialism. The new regime introduced various repressive measures, including the confiscation of certain cultivated lands that gave rise to

widespread resistance. A treaty of friendship, good neighborliness, and cooperation was concluded with the Soviet Union later that year, a treaty that paved the way for the Soviet's military intervention.

Afghan resistance to the marxist regime continued in both urban and rural areas. In December 1979, the Soviet Union invaded Afghanistan and killed Hafizullah Amin, who had replaced Taraki in September of that year. The Soviet forces assisted Babrak Karmal in becoming the new head of state, but in May 1986 he was replaced by Najibullah. Najibullah tried in vain to pacify the resistance, but his policy of national reconciliation was resisted. In February 1988, the Afghan resistance formed the Afghan interim government in Pakistan. During this entire period the Afghan resistance to the occupying forces of the Soviet Union increased markedly.

In April 1988, the United Nations announced that an agreement had been reached under which the Soviet Union would withdraw its troops from Afghanistan. The withdrawal began in May 1988. The troop withdrawal soon followed the Geneva agreement between the Kabul regime and the Government of Pakistan. These agreements were intended to bring peace and stability to Afghanistan and to pave the way for the return of refugees to their homeland. The Afghan Resistance rejected the Geneva agreement on the ground that it did not provide for the right of self-determination for the Afghan nation and did not guarantee the transfer of power to a representative government. The war went on and on. As a result, the Afghan refugees continued to stay in Pakistan, Iran, and elsewhere. The Afghan Interim Government recently announced the framework for elections and the formulation of a Shura. It is widely believed, however, that the support of all the Mujahadeen groups and political elements of the Muslim Afghan society will be needed if the proposed plan of the Afghan Interim Government is to be fully implemented.

After the Geneva agreement, the Secretary General of the United Nations launched an appeal for humanitarian and economic assistance for Afghanistan and appointed a coordinator to assist in implementation. During the first year of the appeal more than \$980 million of aid was subscribed, about 70 percent of which was contributions in kind and most of it promised by the Soviet Union.

However, because of the unstable political conditions in the country, the United Nations-sponsored program is being implemented largely through the nongovernment organizations operating out of Pakistan rather than by the interim government. It appears that the program is encountering great difficulties because of technical and logistical problems and institutional bottlenecks.

At present Afghanistan is still in the midst of a deep economic and political crisis:

- One-third of the country's pre-war population still lives in exile,
- The political structure is highly fragmented,
- The productive capacity of the economy has been shattered by the effects of war, and
- There is no effective administrative structure to coordinate the reconstruction activities of the country.

In short the factors that led to strife in the past are still present, and the country is ill-equipped to deal with the problems of returning refugees.

In spite of sharp declines in the rural population over the past decade, Afghanistan remains predominantly rural. This population is dispersed among an estimated 31,000 villages throughout the country. Most of these villages lack access roads and are therefore isolated. Even before the war, the level of basic services available to the rural population was seriously inadequate by most world standards; today it is worse.

### In-Country Population Changes and Refugees

The total in-country population, adjusted for war-related deaths, is currently estimated at 12.4 million (Table 1). This assumes that about 4.8 million people are refugees living outside of the country. Those that fled the country included a major proportion of the country's cadre of professional and technical personnel. In addition, more than 1 million people who remained in the country have migrated from the countryside to various urban centers, mostly to Kabul. The population of Kabul had reached about 1.8 million in 1987, roughly twice what it was a decade earlier.

### In-Country Population

In 1976-77 Afghanistan's population was estimated by the World Bank at 14.0 million of which 12.5 million people were settled and 1.5 million were nomads. The average growth rate of population was then estimated at 2.18 percent annually. Today the growth rate is estimated to be only about 2 percent. Had the war not occurred, this rate would have increased the total Afghan population to between 18 and 19 million. However, this level was not achieved; partly because an estimated 1 million persons lost their lives due to the war, and mostly because of the large numbers that fled to Pakistan, Iran, and other countries.

Table 1. Population and Rate of Growth 1978-79 - 1989-90

(Values in thousands)

	1978-79	1989-90	Average growth rate 1978-79 - 1989-90
Total Population	14,600	18,150	2.0
Less war-related deaths	--	1,000	--
Total population adjusted	14,600	17,150	1.5
Less refugees in Pakistan		3,000	
NWPF Province	--	2,000	--
Baluchistan	--	700	--
Punjab Province	--	200	--
Unregistered	--	100	--
Less refugees in Iran	--	1,600	--
Less refugees in USA, Europe, India, etc.	--	200	--
Total refugees	--	4,800	--
Total population inside Afghanistan	14,600	12,350	-1.5
Settled population	13,050	11,400	-1.2
Rural	10,920	8,300	-2.5
Urban	2,130	3,100	3.5
Kabul	950	1,700	5.4
Others	1,180	1,400	1.6
Nomads	1,550	950	-4.4

The population figures for 1978-1979 are projected from World Bank estimates of population for 1976-77, using the same growth rates as in the World Bank Report. For the World Bank estimates see "Afghanistan: The Journey to Economic Development," Vol. II March 1978, World Bank.

The UN data on refugees in Pakistan and Iran were adjusted to reflect the current situation. The break-down of population in terms of urban and rural areas was based on socio-economic indicators.

Today, Kabul and other urban centers are facing great shortages of housing, health services, social amenities, and food. This has led to high prices which, coupled with limited employment opportunities, is bringing great hardship to many of the people. These hardships and a worsening of security conditions during the last 2 years have caused people to move away from the urban areas. The population of Kabul, for example, has declined from the peak and is now estimated to be about 1.7 million and falling.

During the past decade the rural population has diminished from about 10.9 million to around 8.3 million—a decline of nearly one-fourth. Reflecting on this situation, the United Nations Research Institute for Social Development (UNRISD) estimated that nearly 70 percent of the male refugees in the Pakistan-based refugee camps had been farmers.

These numbers have important implications for the current availability of farm labor and the productive capacity of agriculture. A survey by the Swedish Committee for Afghanistan (SCA), conducted about a year ago, concluded that the decline of the rural population had created labor shortages that were in part responsible for the decline of agriculture. Yet, if it can be assumed that the decline in the farm population was about equal to the decline in the total rural population, that is, 24 percent, it would still be less than the rate of rural unemployment, which had been in excess of 30 percent before the war. This raises questions about the postulated labor shortages and their alleged impact on farm production.

### Refugee Population

At present, Afghan refugees are estimated at 4.8 million, with 3 million in Pakistan, 1.6 million in Iran, and the remaining 0.2 million scattered in other countries such as the United States, Europe, India, and elsewhere. According to UNHCR, 60 percent of the refugees in Iran are settled in the central and southern provinces, with a major proportion living in urban areas. The remaining 40 percent are residing in the border provinces.

It is generally believed that the majority of the Afghan refugees in Iran, particularly in urban areas, have been gainfully employed and are now well-integrated into the local economy. From 1983 to 1988, years for which the data are available, a total of \$75 million was provided by UNHCR for the programs involving the Afghan refugees in Iran. UNHCR believes that because of the integration into the local economy, the repatriation from that country might be slow and, in the initial phases, might involve mostly those who had settled in the border provinces.

The Afghan refugees in Pakistan live in about 350 camps and villages, with 2 million in the Northwest Frontier Province of Pakistan (NWFP), 0.7 million in Baluchistan, and 0.2 million in Punjab. In addition, large numbers of unregistered refugees have spread over the major urban areas. More than 70

percent of refugees have been dependent on foreign assistance from various sources. According to UNHCR documents, the total cost of relief assistance averages about \$1 million a day.

From 1979 to 1988, the total expenditure incurred on relief operations by UNHCR in Pakistan amounted to \$800 million, and Pakistan is believed to be contributing about Rs. 1 million a day. The World Food Programme has spent more than \$85 million annually on its operations, which involve mainly food supplies. During 1988, for example, about 382,000 tons of wheat and 15,000 tons of edible (cooking) oil were supplied under this program. However, indications are that a cartel is reselling much of the donated wheat in the markets of NWFP and Baluchistan.

About 80 percent of the refugee population originated from the areas that are within about 200 kilometers inside Afghanistan. This suggests that the repatriation, when it occurs, will be mainly to the nearby border provinces from which the refugees originated. This will make the costs of assistance for repatriation and the provision of food supplies and essential inputs less than it would be otherwise.

So far, only a limited number of refugees have returned to their homeland. According to UNHCR and the United Nations monitoring missions visiting certain provinces in Afghanistan, some male members of the land-owning refugee families are currently returning to select areas to prepare fields for cultivation. However, it is uncertain if and when these isolated cases will develop into a full-scale repatriation movement of refugees.

Two conditions are frequently stated as prerequisites for the return of refugees to their homes in Afghanistan: (1) removal of the Kabul regime from power and (2) establishment of a broad-based, representative government based on Islamic principles. In addition, any increase in the rate of voluntary repatriation from Pakistan and Iran will also depend on the assurances of personal, economic, and political security.

The UNRISD survey data mentioned earlier raises some important questions about the refugees' possible need for assistance. Before the war, adjusted ADS data reflected a sex ratio of 48 females to 52 males. Among the refugee population, that ratio has been reversed. The survey suggests a ratio on the order of 51.2 females to 48.8 males. This changing pattern suggests the possible need for establishing special social and economic programs to assist families headed by widows. It could well be that the in-country ratio has been reversed similarly, thereby increasing the potential magnitude of the problem of widows.

The survey also revealed that approximately 60 percent of the Afghan refugee population in Pakistan was below the age of 18. This is about the same as it had been during the pre-war period and implies a continuing high dependency rate and low levels of per capita income and personal savings.

For the future it suggests that the working age population will increase at a fast rate in the next few years, and, unless jobs are created, the unemployment rate will rise dramatically.

### Economic Situation

Although the magnitudes may be debatable, there appears little doubt that the economic trends of the past decade are characterized by falling production, rising trade deficits, and increasing inflation. This is clear from official data and from recent studies undertaken by various international organizations operating inside Afghanistan.

The real gross domestic product has fallen at an average rate of 2.4 percent per year—from Afs. 116.2 billion in 1978-79 to Afs. 88.2 billion in 1988-89 (Table 2). There are signs of recovery. The economy grew at a modest real rate of about 1.0 percent in 1989, yet production in 1989-90 was only about 76 percent of what it had been in 1978-89.

Before the war, the average growth rate of the economy had been estimated at 3 percent per year. Had this rate persisted, the gross domestic product would have reached Afs. 160 billion by 1989-90. The current level is only 56 percent of that level, leaving little doubt that the economy suffered substantially from the ravages of war and from inappropriate policies.

This sharp decline in aggregate production, relative to potential, was caused by a marked deterioration in the productive capacity of the various economic sectors. The largest decline during the decade is estimated to have taken place in agriculture where total production fell from Afs. 61.8 billion to Afs. 39.7 billion, an average rate of 3.9 percent per year. This reduced agriculture's share of total gross domestic product from 53 to 45 percent. This magnitude of loss from a sector that must lead economic development is devastating to economic progress. In the past year, some recovery has occurred. A growth rate of more than 3 percent has raised agricultural production to nearly 45 percent of gross domestic product and to about 64 percent of its 1978-89 level in real terms.

Production from the industry, mining, and energy sectors, which contributed to more than 12 percent of gross domestic product in 1978-89, fell steadily from Afs. 14.4 billion to 11.0 billion in 1989-90—a drop of 2.4 percent per year. Even so these sectors still make about the same proportional contribution to gross domestic product—a little more than 12 percent. This production came from a mix of government-owned and private industries. But while private enterprises showed declines ranging from 2.2 to 2.7 percent per year, public enterprises increased their output on an average of 1.1 percent per year.

**Table 2. Gross Domestic Product at 1978-79 Constant Prices  
1978-79 - 1989-90**

(Values in Afs. millions)

	1978-79 Actual	1987-88 Estimated	1988-89 Estimated	1989-90 Estimated	Share of GDP % 1989-90	Avg. annual growth rate % 1978-79 - 1989-90
Agriculture, Livestock and Forestry	61,826	37,445	38,290	39,701	44.7	-3.9
Mining, Industry and Energy	14,420	12,690	11,562	11,036	12.4	-2.4
Construction	4,300	4,300	4,310	4,330	4.9	0.1
Transport and Communications	3,500	2,600	2,650	2,700	3.0	-2.3
Trade & Distribution	9,700	9,000	9,050	9,150	10.3	-0.5
Others	1,700	1,700	1,705	1,710	1.9	
Total Production	95,446	67,735	67,567	68,627	77.2	-3.0
Services	9,272	12,968	12,378	11,931	13.4	2.3
Housing (6% of total production)	5,727	4,064	4,054	4,118	4.6	-3.0
Net Domestic Product	110,445	84,767	83,999	84,676		
Depreciation	5,727	4,238	4,200	4,234	4.8	
GDP at factor cost	116,172	89,005	88,199	88,910	100.0	-2.4

Note: For details on methodology for estimation of GDP see Appendix A, Tables A-1 to A-6.  
Also see the methodological notes to Tables A-1 to A-8.

The mining sector, which never contributed significantly to gross domestic product, declined even more. From a pre-war level of slightly more than 1 percent, it now contributes less than 1/5 of 1 percent to the gross domestic product of the country. The decline was apparently due to sharp decreases in the production of natural gas, which had peaked at 2.8 billion cubic meters in 1984-85 and fell to 0.2 billion cubic meters in 1989-90. In other areas, construction held its own in real terms; trade and distribution declined modestly, and the contribution of transportation and communications to the gross domestic product fell at an average annual rate of more than 2.0 percent.

The primary growth was contributed by government services, with a rate of more than 6 percent per year from the pre-war level, causing the public sector to nearly double—from Afs. 4.5 billion in 1978-79 to Afs. 8.5 billion in 1989-90. This increase reflects the efforts of the government to maintain employment and to meet its increased needs for defense and national security. Today the public sector is nearly 10 percent of the gross domestic product.

### Agricultural Sector

Between 1978-79 and 1987-88, the production of both food and cash crops fell sharply (Table 3). The estimated output of wheat, the main cereal crop, declined from 2.8 million tons to 1.86 million tons—a decline of more than 34 percent during the period. During the last 2 years, wheat output has recovered somewhat. With an average rate of increase of 2.5 percent per year, production is now about 70 percent of what it was in 1978-79. It had been as low as 66 percent during the pre-war period in 1987-88, a year of exceptional drought.

Currently, basic foods are still in short supply, and a major portion of the food requirements are met through imports. The price of wheat in Kabul, where it rose from Afs. 70 per seer in 1987-88 to nearly Afs. 500 per seer in 1989-90, reflects this situation. Annual imports of wheat from all sources are currently estimated at more than 400,000 tons. This is substantially above peak-level imports during the pre-war period. The government has imported about 260,000 tons of foodgrains annually, mainly wheat from the Soviet Union. Since 1987, the United States has supplied about 180,000 tons of wheat under its humanitarian assistance program. This program was implemented through cross-border operations from Pakistan.

Hampered by security conditions, lack of financial incentives, and manpower, production of sugar beets and cotton has declined. Sugar beet production has been virtually eliminated, and cotton output is now about one-third of what it was before the war. Because of difficulties in marketing and high incidence of disease and pests, production of vegetables and fruits

- 11 -

**Table 3. Estimated Production of Major Crops, 1978-79 - 1989-90**

(Thousands of metric tons)

	1978-79	1987-88	1988-89	1989-90
<b>Food Grains</b>				
Wheat	2,813	1,863	1,899	1,958
Corn	780	546	563	587
Rice	428	257	270	280
Barely	325	209	220	238
Other Food Grains	36	23	25	26
<b>Total</b>	<b>4,382</b>	<b>2,898</b>	<b>2,977</b>	<b>3,089</b>
<b>Fruits and Vegetables</b>				
Fruits	824	589	582	597
Vegetables	766	514	517	536
<b>Industrial Crops</b>				
Cotton	132	40	40	43
Sugar beet	73	3	3	2
Sugar cane	64	34	32	26
Oil seeds	35	22	23	24

Data on major agricultural crops as presented in the above table significantly differ from the official data presented in the GOA published documents, as they were adjusted on the basis of recent surveys conducted by SCA inside Afghanistan and other observations and interviews with informed Afghans in Pakistan. Details are presented in Appendix A, Table A-2.

The data for 1978-79 are adopted from the GOA Central Statistical Office publications.

had also declined by 30 and 28 percent, respectively from pre-war to 1988-89 (Table 3).

These losses in agricultural production are attributable largely to the war and to the decline of the farm and rural populations. In 1987-88, the area irrigated had declined by about 21 percent as a result of damages to irrigation systems. At the same time, the rainfed area that was planted had fallen by some 30 percent. There is some evidence that some of the abandoned land is being brought back into production.

Almost all of the modern irrigation projects that were under construction with foreign assistance at the start of the war remain unfinished. The traditional irrigation systems, upon which 90 percent of Afghanistan's agriculture depends, have long been the subject of neglect and inadequate maintenance. These systems have sustained further damage as a result of the war. During the past 3 years, several nongovernment organizations, especially Volunteers in Technical Assistance (VITA), have undertaken the rehabilitation of Karezes in several districts. Although this contributes commendably to the welfare of the farmers involved, it contributes very little to the national problem of food shortages.

In the past, efforts to improve irrigation systems were thwarted by severe shortages of capital, technical inputs, and maintenance and repairs. Inequalities in the distribution of benefits according to traditional water rights are further impediments to the improvement of traditional irrigation systems and to the efficient use of water. These problems continue.

In spite of the shortages of water for significant increases in production, considerable potential exists for increasing production on irrigated land. This is mainly through increases in the use of chemical fertilizers, improved seeds, and improved farm and irrigation practices. Although some increase in the use of fertilizer has been recorded in recent years, no more than 16 percent of the irrigated area currently receives fertilizer. Total fertilizer use in 1989-90 amounted to 135,000 tons, representing 52 kilograms per hectare of irrigated land and roughly the equivalent of 800,000 tons of wheat.

The official price of fertilizer is currently set at Afs. 12,000 per ton. This reflects a highly subsidized rate compared with free market prices, which are reported to be about Afs. 60,000 per ton. It should be noted that almost all of the requirements for urea fertilizer are being met through the Mazar-i-Sharif fertilizer factory, which is still managed and operated by Soviet experts.

Domestic production of quality wheat seed, an important input for efficient fertilizer use, has generally been inadequate. The current supply amounts to less than 2,000 tons or about 10 percent of the need for seed wheat. Experts believe that the indigenous seed has lost its genetic potential

and needs to be replaced. In recent years the Kabul government imported about 10,000 tons of improved wheat seed annually, mainly from the Soviet Union. Several Pakistan-based organizations, with cross-border operations, have provided an additional 2,000 tons of improved seeds during each of the past 2 years. Although attempts have been made to start seed multiplication projects in the country, the lack of communications and unknown effectiveness of the extension services that are provided leaves the effectiveness of these projects in doubt. In addition, there are no uniform seed quality standards nor are there any coordinating mechanisms to ensure that seed multiplication activities proceed on a systematic basis.

For security and other reasons the extension service, which was established in the early 1970s, has collapsed. The basic organizational structure still exists, but it operates only in Kabul. Some of the nongovernment organizations such as VITA, SCA, and others have developed extension services for implementing agricultural programs, but their numbers are inadequate.

Most farmers have limited access to credit. Merchants and money lenders who once provided most of the credits to the farmers, although at high interest rates, have long left the rural areas. The land reform program introduced by the Kabul regime in early 1979 not only caused hardship for the people but also hampered the operations of the Agricultural Development Bank of Afghanistan.

According to data from the Agricultural Bank, that organization's lending has dropped from Afs. 1.0 billion in 1978-89 to less than Afs. 350 million in 1987-88. The working capital now available to the bank is inadequate, and more than Afs. 35 billion of overdue loans are outstanding. The management of the bank has suffered because a large number of its technical and managerial personnel have left the country. The nongovernment organizations have not yet been able to organize an agricultural credit program to support small and large farmers in Afghanistan. A proposal from SCA is under consideration. Because of the lack of credit, small farmers will benefit little from current farm programs. The larger, better-off farmers who have access to credit and the inputs that can be purchased will benefit.

The total output of livestock has declined at an average rate of 5.5 percent per year, and the livestock contribution to total gross domestic product has decreased from 16 percent in 1978-79 to 11 percent in 1989-90. It is believed that the livestock population of the country may have declined by nearly 50 percent mostly as a result of the war. The existing livestock population continues to suffer even more than before the war, from disease and poor management because of the curtailment of veterinary services and vaccination programs. Poor nutrition, resulting from overgrazed pastures and feed shortages, has always been a major impediment to animal production. With the decline in the number of animals, pastures have regenerated somewhat.

Some nongovernment organizations are implementing limited veterinary programs for the Afghan refugees in the border areas and have trained more than 100 veterinarians to work inside Afghanistan in the future. These programs, which are still at a rudimentary stage, should focus on training selected villagers as veterinary workers as well as providing limited direct services.

According to SCA estimates, the shortage of farm power has constrained the rehabilitation of agriculture in some areas of the country. It is believed that at least 300,000 pairs of oxen or 30 percent of the country's total animal traction has been lost over the last decade. So far nongovernment organizations have replaced only a small portion of total farm power requirements; VITA has sent 500 bullocks, 15 tractors, and about 300 threshers to Afghanistan this past year, and other organizations have supplied 300 pairs of oxen and 50 tractors. Meeting the needs for farm power will be an important factor in rehabilitating Afghan agriculture. Tractors are likely to play a much more important role today than before the war.

#### Transportation and Communications

A modest network of roads is the predominant mode of transportation. In 1978-79 about 21,000 kilometers of road existed with 2,700 kilometers of paved primary roads, 4,000 kilometers of gravel roads, and 14,000 kilometers of feeder roads. The development of a formal system of roads was started in the late 1950s. From 1957 to 1977, about \$450 million was spent on the major roads. But even after the primary road network was in place, the inadequacy and generally poor condition of feeder roads continued to impede national unification and the development of rural economy.

During the decade of the war, the condition of roads has deteriorated markedly. The war prevented regular road maintenance, and some 30 percent of the bridges and roads have been destroyed or severely damaged. The primary roads were originally paved with asphalt, but much of the pavement has been destroyed. For example, the overall condition of the Kabul-Kandahar highway is so bad that it now takes a truck more than 15 hours to travel a distance that took only 6 hours before.

The operations of the agencies that are responsible for the planning, construction, and maintenance of the road network have come to a standstill because of a lack of funds and technical capacity. Apparently the Kabul government is unable to implement a road maintenance or construction project outside the limits of Kabul City. The United Nations Development Programme (UNDP) reports that a few nongovernment organizations have some capacity to implement road projects, and a few have the capability to plan and develop design standards and to prepare cost estimates.

It is widely recognized that VITA also has the engineering capacity to build roads to carry low traffic volumes. During the last 3 years VITA has built a number of bridges and some minor roads. Construction was carried out with labor-intensive techniques and at relatively low cost. The means of maintaining these structures has not yet been worked out.

In 1978-79 there were about 65,000 major vehicles in the country consisting of 22,000 trucks, 12,300 buses, and about 31,000 cars. In addition, there were about 10,000 motorcycles and auto-rickshas. Many vehicles are reported to have been damaged and many of them are badly in need of repair. Since 1978-79, the total number of vehicles declined by about 10 percent, but the number of private trucks is said to have decreased by nearly 30 percent, whereas the number of publicly owned and operated trucks increased fourfold. Today, the share of privately owned trucks is only 65 percent whereas it had been as high as 90 percent before the war.

The capacity of the national trucking fleet was estimated to be 162,000 tons in 1987-88. This was a decrease of 6 percent from the 1978-79 level. During the same period, the capacity of the public sector fleet increased sixfold, from 13,000 tons to 77,000 tons whereas the capacity of the private sector declined from 159,000 tons to 85,000 tons, a drop of about 47 percent. It has been observed that the private trucking fleet now consists of a large number of small and aged trucks. This is believed to be the result of more favorable import duties on smaller and older trucks than on the newer and larger ones. During the past decade, many new trucks were imported by the government from the Soviet Union to facilitate its imports of emergency supplies and materials. Nine separate transport enterprises were formed with total assets of about Afs. 8 billion.

Because of poor road conditions and other factors, total freight traffic has apparently declined in recent years. Government statistics indicate a total of 1,943 million ton-kilometers being carried in 1984-85 and only 1,867 million ton-kilometers in 1987-88, an annual rate of decrease of 1.3 percent per year for the 3-year period. About 69 percent of the total haulage was carried by the private sector. These data do not, however, reflect the unofficial cross-border trade that is taking place between Afghanistan and Pakistan. According to recent findings, some 100 to 140 trucks cross the border each day on major routes carrying food and a variety of other items of trade.

Freight rates have increased sharply because of the poor road conditions, smaller size of vehicles, and the risk of detection. Currently, such rates are estimated to be about six times the level that would prevail under more normal conditions.

In addition to in-country problems, the cost of transportation for items in international trade is also high. The frequent transshipment of goods and the inadequate port and transport facilities of both Pakistan and Iran severely limit Afghanistan's free access to the sea. Currently, 70 percent of

Afghanistan's official trade is moved through the Soviet Union, and only 20 percent is moved through Pakistan. The construction of a road and railway bridge across the Amu Darya at Hairatan, with financial and technical assistance from the Soviet Union in 1982, helped to expand trade with the Soviets. Trade through Iran has come to a virtual halt in recent years.

The country has 32,175 telephones. For the in-country population of 12.3 million, this represents 1 telephone for every 382 persons. About 60 percent of the telephones are in Kabul, about 1 telephone for every 88 persons, and most of the remaining telephones are in the provincial capitals, including Kandahar, Herat, and Mazar-i-Sharif. Rural areas have virtually no telephones. An earth satellite station was built with Soviet assistance in the early 1980s. Telecommunications between Kabul, Moscow, and other countries are now provided by that system.

It is reported that automatic telephone exchanges are in service in the main cities. However, the exchanges in Kandahar and Kondozi were damaged by recent fighting, thus reducing the total number of telephones in service in the country from 32,675 to about 30,000. Most of the channel systems equipment and ordinary lines outside these provincial capitals have been destroyed or have disappeared. Communication between Kabul and the main urban centers controlled by the government is maintained through wireless systems. According to government data, about 256 wireless sets are operating throughout the country. All international mail to and from Afghanistan is currently routed through the Soviet Union.

### Public Health Sector

The level of health services available to the population, particularly in rural areas, was inadequate even before the war. In 1978-79, there were 56 hospitals and 223 basic health centers that provided health services to about 25 percent of the population. All the medical facilities and programs were administered through the central government and a few nongovernment organizations. About 6 percent of the population had access to safe drinking water.

The war has disrupted the few and infrequent rural health services that existed, and because of the rural-urban migration, a great strain has been placed on the urban health facilities as well. Some 6 hospitals and 118 health centers are reported to have been destroyed, and the remaining facilities are in a poor state of repair. In 1987-88 about 2,900 of the nation's 5,400 hospital beds, or 54 percent, were located in Kabul. Similarly, nearly 1,100 (63 percent) of the 1,750 doctors operating under the Ministry of Public Health served in the Kabul area.

As a result of these inadequacies, the health of most of the country's inhabitants continues to be poor. The main problems appear to be as follows:

- Sanitation is generally poor. Sewage runs in open trenches, and only about 30 percent of the population in Kabul and some major provincial cities have access to piped water.
- The incidence of malaria is on the rise, particularly in the eastern and northeastern provinces. Roughly 36,000 cases were reported in 1979 whereas 450,000 cases were reported in 1988.
- Tuberculosis is reported to be widespread.
- According to UNICEF, infant mortality continues to average about 190 per thousand live births. The mortality rate for children under 5 is estimated at 325 per thousand. This means that nearly one-half of the children who are born die before they reach the age of 5 years. Deaths of mothers during childbirth are estimated to be about 9 per thousand births, which is about 4 to 5 times as high as in most developing countries.
- With continued warfare and the presence of mines in many rural areas, the number of disabled persons is increasing and this poses a special problem.
- A large number of qualified doctors have left the country and most of the country's medical personnel who remain are poorly trained or lack experience. It appears that between 500 and 700 doctors have left the country over the past decade, and the available training institutions are underequipped, understaffed, and without adequate teaching materials.

During recent years, a large number of nongovernment organizations have offered medical assistance to the rural areas in Afghanistan. According to the Agency Coordinating Committee for Afghan Relief's (ACBAR) recent report, SCA is currently supporting about 1,500 health workers in all of the 29 provinces, including 85 health posts. The Management Sciences for Health organization has so far trained 1,400 health workers and established 108 health posts in the country, and indications are that an additional 100 health posts may have been set up by other nongovernment organizations. Most of

these health posts are very rudimentary; there are no buildings, they lack beds and equipment, and few have experienced personnel or access to doctors.

The placement of health facilities is to a large extent based on political decisions with little apparent relationship to population and needs. As a result, a major portion of the rural population has limited access to the facilities in place. The nongovernment organizations' training programs for health workers are of varying quality and are not well standardized. Substantial retraining is often required to prepare them to handle even ordinary cases.

Some of the nongovernment organizations, including Management Sciences for Health (MSH) and the Afghan Vaccination and Immunization Center (AVICEN), are currently implementing vaccination and immunization programs. However, these efforts have not yet been fully integrated into the programs of the health centers. Most of the centers do not have sufficient vaccinators and refrigeration facilities.

### Education Sector

In 1978-79, more than 1 million children were being taught in primary and secondary grades by about 40,000 teachers. Enrollment at Kabul and Nangarhar Universities had reached 11,300, with women constituting 22 percent of the total.

During the decade of the war, the educational system was seriously disrupted, first in the rural areas and later in the cities. More than 2,000 school buildings were destroyed and unknown thousands of experienced teachers and school administrators were allegedly executed or forced to leave the country.

The basic education system now in place is similar to that of the Soviet Union. It involves 11 years of schooling—five primary grades, three lower secondary, and three upper secondary. Unofficial sources suggest that in 1989-90 primary enrollment had decreased to about one-third of the pre-war level of 830,000 pupils. However, enrollment in secondary grades had declined less; in 1989-90 it was about 87 percent of the 92,400 students in those grades in 1978-79. Much of the decrease is undoubtedly the result of the decline in population. The lack of teachers and uncertain security also contribute to low school attendance.

In recent years a large number of nongovernment organizations have started supporting education activities inside Afghanistan. The Education Support Project assisted by USAID has established a substantial network of primary schools inside Afghanistan based on 6 years of education. This project currently supports 1,291 primary schools in all the 29 provinces with a

total enrollment of 132,000 pupils. The students are taught by about 5,000 Afghan teachers.

Similarly, the SCA has provided support to 82,200 students in 484 primary schools inside the country. The total number of teaching staff is reported to be 2,546. In addition, about 122,000 students are supported at the primary education level through other nongovernment organizations. The overall impression is that nongovernment organizations are supporting about 300,000 children at 2,000 primary schools that they have established. This represents about 15 percent of the population in the 7 to 14 age group.

Although the nongovernment organizations have been able to create a system of primary education in the rural areas, some aspects of these programs need to be improved if the effectiveness of the overall system is to be enhanced. One of the main issues has been the chronic shortage of qualified teachers at the local level. Yet teacher training and curriculum development for primary schools have not been standardized. A majority of the existing teaching staff do not have the qualifications required to conduct a formal teacher training program and so far no workable plan has been submitted. Low teacher salaries, relative to the rate of inflation, have not been conducive to attracting people into the teaching profession.

Vocational education has been concentrated in Kabul and in a few urban centers. Total enrollment in these schools has dropped from 20,750 students in 1978-79 to 19,690 in 1988-89, a decline of about 6 percent. In spite of this the total number of graduates from these institutions has increased. It was nearly 4,700 in 1987-88 compared with less than 4,300 in 1978-89.

The vocational training system is reported to favor technical and mechanical skills at the expense of management training in crop and livestock husbandry. This strategy is reflected in the number of "Technicoms," the secondary vocational schools, that have been built and supported by the Soviet Union. In 1978-79 there were only two such schools, but in 1987-88 there were seven. This allowed the total enrollment to triple from 1,700 in 1978-79 to 4,700 in 1989-90. The students were taught by 470 teachers, of whom 72 were from the Soviet Union.

In the Pakistan refugee camps a large number of skilled workers have been trained under the training programs supported by various agencies, including UNHCR, ILO, and other nongovernment organizations. In addition, thousands of the graduates of the vocational schools of Afghanistan have also migrated to Pakistan and Iran where job opportunities existed. According to a recent study conducted by UNRISD in Pakistan, of the 5,178 male refugees aged 12 or over, 17.4 percent possessed technical and mechanical skills.

The Kabul government, with assistance from Soviet advisers, introduced significant changes in the structure and organization of Kabul University. The engineering faculty, which had been assisted by the United States for more

than 20 years, was abolished in 1982. The faculty of medicine was brought under the direct control of the State Medical Institute and supervised by the Ministry of Public Health. The Soviet advisers introduced changes in the curriculum of several of the faculties with a view to sovietizing them. A number of new faculties related to the social sciences were also created to provide training to members of the ruling party. It is reported that, during this period, 36 teachers were executed and 340 teachers had to leave the country. This was nearly 44 percent of the total teaching staff.

Enrollment in the institutions of higher learning was 17,500 in 1987-88. In spite of the population loss, this was up from 11,300 in 1978-79 for an overall rise of 55 percent. The increase was totally inconsistent with the expansion of facilities and teaching staff and thus reduced the quality of education. This decline in quality will affect the development of Afghanistan for a long time.

### Industry, Mining, and Energy

During the 2 decades before the war, Afghanistan had accorded a high priority to the establishment of public enterprises in mining and manufacturing. In part this reflected the failure of the private sector to take the initiative. The state-owned enterprises often enjoyed a monopoly position in addition to being favored by administrative and financial concessions.

Most mining and manufacturing is still carried out largely through public enterprises. Although several new ones have been set up during the past decade, the increase in value-added contributed by such enterprises has not been great because in total they had already accounted for 80 percent of pre-war manufacturing output. In 1989-90, the value-added by all partial and wholly owned state manufacturing enterprises was up to 86 percent. The 30 public industrial enterprises in the country employ about 23,000 workers. Most of its enterprises are overstaffed and most of the workers are poorly trained. In 1987-88 the number of registered private enterprises was estimated at 325, and they employed about 9,000 people.

Manufacturing has advanced very slowly (Table 4). The average annual growth rate has been about 1.1 percent over the decade. At present, most of the enterprises are operating at between 20 and 30 percent of their capacity because of shortages of raw materials and transportation difficulties. It is also reported that the condition of the existing factories and shops has deteriorated through neglect and lack of maintenance. Most of the new industrial projects that were started before the war have remained unfinished.

Manufacturing is based largely on the processing of domestic raw materials, in particular agricultural raw materials. Thus, manufacturing

Table 4. Estimated Industrial and Mining Production, 1978-79 - 1989-90

	Units	1978-79	1987-88	1988-89	1989-90 Projection
<b>Mining and Quarrying</b>					
Natural Gas	Mill.cub.met	2,461.0	1,941.0	1,005.0	220.0 (a)
Coal	1000 tons	218.2	167.0	138.0	100.0
Salt	1000 tons	81.1	15.4	37.0	37.0
<b>Food Processing</b>					
Wheat Flour	1000 tons	97.0	203.0	161.0	160.0
Bakery Products	1000 tons	20.4	34.0	82.0	34.0
Sugar	1000 tons	10.8	0.1	0.1	--
Vegetable Oils	1000 tons	10.3	3.3	2.0	3.0
<b>Textiles and Leather</b>					
Ginned cotton	1000 tons	41.6	8.2	7.7	11.0
Cotton Textiles	Mill. met	88.0	52.6	32.9	30.0
Rayon Textiles	Mill. met	11.7	3.4	3.0	2.8
Woolen Textiles	Mill. met	0.4	0.2	0.2	0.2
Shoes (Leather)	1000 Pairs	304.1	675.0	580.0	500.0
<b>Chemical Products</b>					
Chemical Fertilizer	1000 tons	105.7	123.4	117.0	110.0
Petroleum Products	1000 tons	14.0	2.4	--	--
<b>Other</b>					
Cement	1000 tons	126.5	104.0	70.0	60.0
Electricity	Mill. Kwh.	845.4	700.0 (b)	650.0 (b)	550.0 (b)

Sources: GOA, Central Statistical Office and Ministry of Planning.

a. Adopted from the GOA Summary of Annual Plan for 1989-90.

b. Based on unofficial estimates, as the official estimates are believed to be biased and inconsistent with the Government controlled installed capacity.

performance has declined with the decline in agriculture. The steady decline in cotton production over the last decade has caused the output of textiles to drop to 34 percent of pre-war levels and ginned cotton to fall to 26 percent. The drastic decline in the production of sugar beets has caused the operation of the Baghlan sugar factory, with a total capacity of 16,000 tons, to shut down completely.

The production of cement has also dropped sharply from a level of 127,000 tons in 1978-79 to less than 104,000 tons in 1987-88. It dropped further to 60,000 tons in 1989-90. The fertilizer plant in Mazar-e-Sharif has, however, maintained full production because of the availability of raw materials and more favorable security conditions in the area.

Much of the cause for poor industrial performance is not new. Industrial development has long been constrained by a number of problems, including inefficient pricing policies, weaknesses in management, inadequacy of related laws, and interference by the central ministries in the day-to-day operations of the enterprises. As a result, the contributions of these enterprises to revenues, capital formation, and even employment has remained relatively insignificant.

Afghanistan has a wide range of mineral deposits with modest reserves. Most of these are in the central and northern regions of the country. The natural gas reserves have been estimated at about 130 billion cubic meters, and iron ore reserves are estimated at 1.7 billion tons. The petroleum reserves that were discovered before the war are, perhaps, 12 to 18 million tons, of which 30 percent is believed to be exploitable. The country also has substantial quantities of copper (about 11 million tons) and coal, possibly as much as 600 million tons.

However, because of the lack of appropriate infrastructure, technical know-how, and financial resources and the limited domestic markets a very small portion of these reserves has so far been tapped. Mining activities are concentrated in the production of natural gas, coal, and salt; before the war mining of lapis lazuli in northeastern Badakhsan province had also been included in the programs of the central government.

Production from mining has declined sharply—an average rate of about 18 percent per year. This drop has been due mainly to the sharp decline in the production of natural gas. From 1978 to 1985, the production of gas had been maintained at about 2.6 billion cubic meters per year. Since then, output has dropped steadily to 1.9 billion cubic meters in 1987-88 and further down to 1.0 billion cubic meters in 1988-89. Official estimates suggest that production will be down to 0.2 billion cubic meters in 1989-90, because of technical, institutional, and security problems facing these activities. The Kabul government intends to resume gas exports in 1990-91.

The production of coal has also declined over the last decade. Coal production was down to 46 percent of the pre-war level, which was 218,200 tons. The cement plant and the larger textile mills had used roughly 60 percent of the coal that was produced. The remaining 40 percent was consumed by households and other establishments.

The production of salt, too, has fallen. Last year, it was down to 46 percent of the pre-war level of 81,100 tons.

Recently the Soviet Union developed a proposal for building a 50,000-ton oil refinery in Shabarghan province. The refinery was to use the small reserves of oil that had been discovered in the area before the war. There is no indication of when the plant will be built.

Electric generating capacity is currently estimated at about 410 megawatts of which 254 is produced from hydropower, 48 from gas, 60 from diesel-generated power, and 48 from the thermal power plant completed in Kabul before the war. Although it is reported that operating conditions of most power facilities have deteriorated during the decade because of lack of maintenance and spare parts, the contribution of electric power to gross domestic product has remained about constant.

Several power projects that had been planned before the war have not been implemented. The transmission line between Kajakai and Kandahar was destroyed early in the war. As a result, the Kajakai hydropower plant, which has a capacity of 33 megawatts, has been unused for most of the past decade.

The Kabul government has procured more than 140 small diesel generators, mainly from eastern block countries, to provide electricity to the garrison towns in the border provinces under its control. In addition, two transmission lines have been built from the Soviet Union to Mazar-e-Sharif (220 kilovolts) and to Kunduz (110 kilovolts). As a result, electricity is already being provided to these towns.

Official government statistics show that Afghanistan imported 15 million kilowatt-hours of electricity in 1986-87 and 37 million kilowatt-hours in 1987-88. The price was set at 0.05 cents per kilowatt-hour. Since 1988-89, the cost of imported electricity has been covered under the Soviet Union's commodity aid program.

Even before the war the supply of electricity was inadequate to meet demand. About 5 percent of the people had access to electricity, and 80 percent of electricity was generated in and around Kabul. With the heavy influx of people to that city and the poor condition of the power lines and generating facilities, Kabul residents today have access to electricity for only 5 hours a day.

## Public Finance and Expenditures

In recent years the financial condition of the Kabul government has deteriorated markedly (Table 5). The growth of domestic revenues has been slower than that of ordinary expenditures with the result that the surplus, which once financed nearly 30 percent of development expenditures, turned into a deficit by the mid-1980s. In addition, development expenditures have grown, at least in nominal terms, and are now totally dependent on funding from sources other than the revenue base.

The overall budgetary deficit has increased. It was roughly Afs. 9.9 billion in 1978-79 and is now well over Afs. 90 billion. External assistance has been insufficient to finance the growing deficit. Thus, the government has had to resort to heavy borrowing. This has fueled inflation, reduced the value of the Afghani, and jeopardized the nation's balance of payments. In the past 3 years, net external aid and borrowing from the Central Bank has financed about 65 percent of total development expenditures (Table 5).

Total domestic revenues, after having reached the level of Afs. 42.5 billion in 1987-88, were only Afs. 39.4 billion in 1988-89 and were down further to Afs. 38 billion in 1989-90. During much of the last 11 years, revenues had increased at an average annual rate of more than 8 percent in nominal terms. However, given the high rate of inflation, this represents an average annual decline of more than 5 percent in real terms.

The country's basic revenue structure has remained essentially unchanged although some important shifts in the relative importance of various sources of revenue have occurred. Not unexpectedly, non-tax revenues increased more than threefold during the past decade—from Afs. 7.0 billion in 1978-79 to Afs. 23.2 billion in 1987-88. This change meant that the relative share of non-tax revenues rose from 43 percent to 55 percent.

Most of this increase was attributable to higher revenues from the sale of natural gas to the Soviet Union. Sales rose from a pre-war level of Afs. 2.6 billion to Afs. 10.4 billion in 1987-88. In 1988-89, however, revenues from the sale of gas to the Soviet Union fell by 55 percent from the previous year. As a result, the relative importance of non-tax revenues fell to 49 percent. No detailed information is available on revenues for 1989-90, but it appears likely that non-tax revenues will have fallen even further because exports of gas to the Soviet Union have been virtually halted. The reasons are not known.

Gross revenues from government enterprises contributed significantly to the steady rise in non-tax sources during this period. According to the official data, gross income from these enterprises amounted to Afs. 5.5 billion in 1987-88 compared with only Afs. 1.2 billion in 1978-79. These increases resulted from the establishment of new enterprises and an upward revision

**Table 5. Indicators of Government Budgetary Position,  
1978-79 - 1987-88**

(Values in Afs. millions)

	1978-79	1987-88	1988-89	1989-90 (a)
Total Revenue	16,446	42,490	39,400	38,000
Tax Revenue	9,449	19,288	20,000 (a)	--
Non-tax Revenue	6,997	23,202	19,400 (a)	--
Ordinary Expenditures	12,384	85,127	108,800	113,000
Government Departments	8,866	74,427	97,300	100,000
Subsidies	1,024	6,200	8,000	10,000
Debt-payments (gross)	2,494	4,500	3,500	3,000
Current Balance	4,062	(42,637)	(69,400)	(75,000)
Development Expenditures	14,013	21,641	21,100	15,000
Budgetary	6,845	11,969	11,100	7,700
Project Aid (gross)	7,168	9,672	10,000	7,300
Overall Deficit	(9,951)	(64,278)	(90,500)	(90,000)
Financing:	9,951	64,278	90,500	90,000
Foreign:				
Project Aid (gross)	7,168	9,672	10,000	7,300
Commodity Aid and Grants	1,746	16,991	23,600	26,000
Domestic: borrowing from the banking system	1,037	37,615	56,900	56,700
<b>Memorandum Items</b>				
Growth Rate of				
Current Revenues	(10.0)	0.7	(7.0)	(4.0)
Current Expenditures	3.6	31.0	28.0	3.9
Development Expenditures	14.0	(7.0)	(2.0)	(29.0)
Consumer price Index (1978-79=100)	100.0	332.0	435.0	577.0

Sources: GOA Ministry of Planning and Central Statistical Office.

a. Preliminary

in the prices of commodities that they sold—namely, sugar, gasoline, textiles, and electricity. Although data on net revenues from government-owned enterprises is not available, it is believed that this net contribution was negligible or even negative.

The tax system is still heavily dependent on indirect taxes. In 1987-88 about 69 percent of tax revenues were generated from import duties. This resulted from an average rate of increase in duties of 9.2 percent per year as well as from increases in the value of imports.

Direct taxes amounted to Afs. 5.9 billion in 1987-88, reflecting an annual average rate of increase of 9.9 percent from 1978-79, measured in nominal terms. In real terms, direct taxes in 1987-88 were about 70 percent of the pre-war level. As a percent of total tax revenues, direct taxes increased from 27 percent to 31 percent over the same period.

During the period 1978-79 to 1989-90 the government's ordinary expenditures, including foreign debt payments, increased ninefold—from Afs. 12.4 billion to Afs. 113.0 billion. Most of this rise resulted from increases in military expenditures, government employment, foreign debt payments, and subsidies paid to government-aided institutions. As in most countries' budgets, the level of military spending is not revealed clearly. However, statements made by several government officials suggests that it may be as much as 50 percent of the total budget. Because of the heavy burden of government operations and military costs, the share of the budget for social and economic services has generally been low and the maintenance of capital has been severely neglected.

The total cost of wages and salaries of government employees increased sevenfold, from Afs. 4.5 billion in 1978-79 to Afs. 31.9 billion in 1987-88. Because salaries and wages have risen only modestly, and not at all in recent years, this sharp rise is attributable mainly to increases in the number of employees.

To cover the losses of public enterprises for the subsidized sale of their products, Afs. 6.2 billion was budgeted in 1987-88 and Afs. 8.0 billion in 1988-89. The latter amount was an eightfold increase from 1978-79. These subsidies were provided for fertilizer, fuel, transport, communications, food, and electricity.

Service on external debt went up from Afs. 2.5 billion in 1978-79 to Afs. 4.5 billion in 1987-88, an increase of about 80 percent. Since then, the foreign debt service has dropped sharply, mainly because of repeated debt rescheduling by the Soviet Union.

Development expenditures rose from Afs. 14.0 billion in 1978-79 to Afs. 21.1 billion in 1988-89. This represents an average growth rate of 4.2 percent per year in nominal terms. In real terms, it represents a decline of about 3

percent per year. In 1989-90, preliminary estimates suggest a drop in the development budget of about 30 percent.

Because the current account of the budget has had no surplus for several years, the entire development budget had to be financed. For the last 3 years, about 30 percent of the development budget has been met by project aid and 70 percent from bank borrowing.

The development program, prepared with the assistance of Soviet experts, is highly capital intensive and has a high import content. As in many other world situations, the development program is often prepared with little regard for the social and economic priorities of the country. Projects are, to a large extent, determined by the type of projects favored by the donor. Consequently, a large portion of resources are directed to projects and activities that often compromise the goals and objectives of the nation in favor of the goals and objectives of the donor.

Between 1978-79 and 1989-90 more than 42 percent of total development expenditures were allocated to mining, industry, and energy. The major projects in the most recent budget for these sectors included

- Extension of two power transmission lines from the Soviet Union to the towns of Mazar-i-Sharif and Kunduz and construction of related substations,
- Gas and oil exploration,
- Construction of a gas station at Hairatan, and
- Expansion of Mazar-i-Sharif Silo with a capacity of 40,000 tons.

By contrast, agriculture constituted only 12 percent of the development budget, with investments concentrated in the expansion of state-owned farms and the establishment of agricultural mechanized stations, mainly in the northern provinces.

In the transportation sector, the highest priority was accorded to constructing a railway station at Torghondi and a port facility at Hairatan, establishing transport compounds, and expanding the Kabul airport.

The highest priority in social services was given to the construction of prefabricated apartments in Kabul and expansion of that city's water supply system. In the past decade, more than 5,500 apartment units were built, mainly for the benefit of party members and high ranking government officials. Construction of a large number of structures for military and

security purposes also absorbed a major portion of the development expenditures.

From 1978-79 to 1988-89, the 11-year cumulative total of development expenditures for all sectors was about Afs. 186 billion. Still, the real rate of economic growth continues to be negative, suggesting that for whatever reasons, the expenditures were ineffective or insufficient.

### Money Supply and Prices

The sharp rise in money supply and liquidity during recent years clearly reflects a rapid deterioration of the budgetary situation (Table 6). Between 1978 and 1988 the money supply (M1) has increased sixfold, from Afs. 28 billion at the end of 1978 to Afs. 179 billion at the end of 1988, resulting in an average growth rate of 20 percent per year.

A major portion of this increase has been attributed to heavy government borrowing from the banking system to support both the ordinary and the development budget. During the same period, net domestic borrowing increased ninefold while claims on the central government and nonfinancial public entities increased nearly twelvefold. This demand for credit by the government restricted the availability of credit to the private sector.

Domestic liquidity grew at an average rate of 20 percent per year during the 1978-88 decade. This growth, coupled with falling rates of production and economic activity, has become a major cause of rapid increases in the general level of prices.

During the decade, the general price level, measured by the national consumer price index, increased at an average rate of more than 17 percent per year—the price of major types of food rose variously in the range of 15 to 20 percent with meats, fruits, and vegetables increasing the most (Table 7). By comparison, non-food prices rose an average of only 12 percent per year.

During the past 2 years, however, there has been triple digit inflation. The consumer price index rose 103 points in 1988-89 and another 142 points in 1989-90. These sharp increases were caused in part by the earlier mentioned revisions in the prices of commodities sold by government-owned enterprises. For example, the price of gasoline was raised from Afs. 8.5 to Afs. 30 per liter at the beginning of 1986-87. It was raised again in early 1989-90 to Afs. 40 per liter. Over the same period diesel oil prices were raised from Afs. 8 to Afs. 20 per liter. Sugar prices were raised from Afs. 30 to Afs. 100 per kilogram in the same time frame as were prices of textiles and electricity.

Table 6. Monetary Survey, 1978 - 1987

(Values in Afs. millions)

	1978	1986	1987	1988
Foreign Assets (Net)	20,107	17,906	25,233	26,112
Domestic Credit	22,958	103,966	155,306	210,087
Claims on central Govt. (Net)	16,177	69,446	126,261	187,496
Claims on local Govt.	11	1,023	374	358
Claims on Non fin. pub. Ent.	--	23,419	14,136	3,016
Claims on private sector	6,770	8,773	12,699	17,580
Claims on other Fin. Inst.	--	1,305	1,836	1,637
Money Supply (M1)	28,625	85,113	131,419	179,414
Quasi-Money	4,826	16,676	21,866	26,732
Domestic Liquidity (M2)	33,451	101,789	153,285	206,146
Import Deposits	4,961	8,998	13,095	14,006
Other Items (Net) (a)	4,653	11,086	14,159	16,049

Memorandum Items

Percentage change in M1/Year	20.5	11.5	54.4	36.5
Percentage change in M2/Year	16.3	12.3	50.6	34.4
Percentage change in Consumer Price Index (1978-79=100)(b)	--	8.0	18.2	31.0

Source: Original data from, International Financial Statistics April 1990, page 86. For the 1978 data, see International Statistics, 1989, page 189.

a. Includes long-term foreign liabilities

b. Price indices are for the Afghan fiscal year ending March 20.

Table 7. Consumer Price Index, 1978-79 - 1989-90

Year Ended March	Total Index	Cereals	Meats	Fruits and nuts	Vege- tables	Other food items	Non food items
<u>Index Number 1978-79=100)</u>							
1981-2	142.6	131.5	163.6	158.2	145.1	108.2	149.6
1982-3	165.7	159.8	203.4	176.4	193.0	128.6	153.4
1983-4	201.1	191.3	233.0	206.3	225.7	201.1	182.4
1984-5	241.3	233.9	271.4	247.7	287.3	221.9	221.3
1985-6	260.1	248.9	264.5	290.6	354.4	207.9	239.6
1986-7	280.9	317.7	314.2	326.6	350.1	220.7	246.5
1987-8	332.3	348.5	480.0	400.4	430.6	237.9	273.9
1988-9	435.0						
1989-90	577.0						
		21.4					
<u>Percentage change from the previous year</u>							
1981-2	18.8	11.4	31.5	23.0	34.0	2.1	17.3
1982-3	16.2	21.5	24.3	11.5	33.0	18.9	2.5
1983-4	21.4	19.7	14.6	17.0	16.9	60.3	18.9
1984-5	19.7	22.3	16.5	20.1	27.3	7.7	21.3
1985-6	7.8	6.4	-2.5	17.3	23.4	-6.3	8.3
1986-7	8.0	27.7	18.8	12.4	-1.2	6.2	2.9
1987-8	18.2	9.7	49.9	22.6	23.0	7.8	11.1
1988-9	31.0						
1989-90	33.0						

Source: GOA Central Statistical Office.

The pricing of agricultural products has been determined largely by market forces. However, competition has been restricted by a number of factors, including high transport costs, lack of security, and arbitrary taxes and regulations imposed by local authorities.

The Kabul free market for currencies has reflected the inflationary trends. Against the U.S. dollar, the value of the Afghani has depreciated about 90 percent over the decade. The exchange rate was Afs. 47 per dollar in 1978-79; during 1989-90 it averaged Afs. 420.

Afghanistan's exchange system comprises several officially determined rates. The basic official exchange rate has remained constant throughout this period at a rate of Afs. 50.6 per dollar. The basic official rate, which is below the free market level, is applied in a number of situations. It is applied to a portion of private export earnings that must be surrendered to the government so that exporters realize less for their exports than they would otherwise. The basic official rate is also applied to all government transactions, certain foreign currencies earned in-country, and all transactions that are specified in clearing dollar units under bilateral arrangements. The remaining official rates, which have been altered from time to time but which are also below the market rate, are applied to proceeds of exports of specific items. This complex and cumbersome system of taxing exports and subsidizing imports has been carried over from the 1960s.

Four commercial banks are operating in Afghanistan, one is the Central Bank, which controls the money supply. In addition, there are three specialized lending institutions to provide credit for agriculture, industry, and construction, respectively. Most of the credit in agriculture is supplied by private lenders.

No organized capital market has ever existed in the country because the capacity of domestic households and businesses to save is small. Government policy has been to encourage private savings, but so far there is little evidence that it is working. Recently, interest on deposits of 1 year or more were increased from 10 to 11 percent. However, given Afghanistan's high rate of inflation the real value of deposits have declined markedly.

### External Sector

Afghanistan today is an import-oriented country with an increasingly widening gap between imports and exports. In order to meet the country's growing needs, the Kabul government has relied more and more on economic aid from the Soviet Union. This situation has enabled the Soviet Union to set the roots for economic dependence for many years to come.

It appears that Afghanistan had a reasonably comfortable balance of payments position before the war (Table 8). Total reserves had been rising and had reached \$391 million by 1979. Since then they have declined. In 1988-89 the total was reported to be \$261 million.

A recent IMF report put Afghanistan's current account deficit at \$511 million in 1986-87. This represents 81 percent of the value of exports. During 1978-79 the deficit had been \$225 million or 66 percent of total exports. These substantial shortfalls have been financed through external aid, capital inflows, and available reserves. No comparable data on the balance of payments are available for the last 3 years.

The indications are that the situation has deteriorated more rapidly during the past 3 years. The gap between exports and imports has been widening. From 1987-88 to 1989-90 the country's trade deficit increased from \$214 million to \$444 million—an average increase of 54 percent per year. This relatively high import dependence with its persistent deficit is causing severe structural imbalances in the economy.

The country's import capacity is quite limited. On average, over the past 3 years, exports were able to pay for only 55 percent of the commercial imports. The balance had to be financed through non-project assistance, mainly from the Soviet Union. It is obvious, however, that such large trade deficits are unsustainable even with past levels of external aid.

The immediate causes of the recent crisis in the country's balance of commercial trade has been the steady decline in the level of exports. Between 1987-88 and 1989-90 export earnings dropped sharply, from \$512 million to \$316 million, indicating an overall decline of 38 percent over the period. This sharp decrease in exports was a result of the fall of both the natural gas and agricultural exports.

Export earnings from the sale of natural gas to the Soviet Union declined from \$204 million in 1987-88 to a low level of \$93 million in 1988-89. For lack of security, no gas was exported in 1989-90. With the exception of wool, most other major commodities registered lower exports. The export of cotton declined by 10 percent—from \$8.9 million in 1987-88 to \$8 million in 1988-89, while exports of carpets and rugs fell by 21 percent—from \$49 million to \$39 million. Afghanistan's exports have become extremely vulnerable because of the country's high dependence on the markets of the Soviet Union. The Soviet Union's share of the country's exports increased markedly from 35 percent in 1978-89 to more than 63 percent in 1987-88. In 1988-89, however, it dropped to 53 percent, and in 1989-90, it dropped to 36 percent. This was the result of the sharp decline in gas exports, which had constituted about 40 to 50 percent of total exports during this period.

Afghanistan's imports are dominated by essential commodities for direct consumption, some intermediate products, and capital goods. During the past

**Table 8. Indicators of Developments in External Sector  
1978-79 - 1989-90**

(Thousands of U.S. dollars)

	1978-79	1987-88	1988-89	1989-90 (a)
<b>Foreign Trade (Commercial)</b>				
<b>Trade with Soviet Union</b>				
Exports (Fob), of which:	112,322	323,053	210,000	115,000
Natural Gas Exports	53,018	204,538	93,000	- -
Imports (Cif)	89,512	355,812	372,200	390,000
Balance	22,810	(32,759)	(162,200)	(275,000)
<b>Trade with Other Countries</b>				
Exports (Fob)	210,451	188,805	184,000	201,400
Imports (Cif)	330,413	370,214	360,000	370,000
Balance	119,962	181,409	176,000	168,600
<b>Total Trade</b>				
Exports (Fob)	322,773	511,858	394,000	316,400
Imports (Cif)	419,925	726,026	732,200	760,000
Balance	(97,152)	(214,168)	(338,200)	(443,600)
<b>External Aid</b>				
Project Loans and Grants	170,000	195,000	214,000	150,000
Non-Project Loans and Grants	65,000	250,000	260,000	230,000
<b>Debt Repayments</b>				
Principle	43,000	80,000	60,000	52,000
Interest	15,000	12,000	12,000	11,000
Debt service Ratio (%)	18	18	18	20
<b>Reserves, Excluding Gold</b>				
Total Reserves	390,560	279,680	261,120	240000 (b)
<b>Memorandum items</b>				
<b>Exchange Rate-Afs/US\$</b>				
Bazaar (Free Market)	46.6	191.6	307.0	420.0
Central Bank (Official)	50.6	50.6	50.6	50.6

Sources: GOA Central Statistical Office, Ministry of Planning and International Financial Statistics, April 1990.

Preliminary

Projection. According to International Financial Statistics of April 1990 total reserves dropped to \$255.7 million during the first quarter to 1990.

2 years, the total value of imports rose from \$726 million in 1987-88 to \$760 million in 1989-90—a rate of about 2.3 percent per year. This reflects the nation's foreign exchange scarcity and its limited import capacity rather than the requirements of the economy.

Non-project aid, primarily from the Soviet Union, financed a major part of the requirements for foodstuffs, petroleum, and other essential commodities. These imports for consumption allowed the division of funds for imports of capital goods, particularly vehicles, through commercial channels. In 1987-88 the Soviet Union supplied 250,000 tons of wheat and 430,000 tons of petroleum products to the Kabul government under its commodity assistance program. Dependence on the Soviets increased through the decade of the 1980s. The Soviet's share of total imports rose from a low level of 21 percent in 1978-79 to more than 49 percent in 1987-88. It has remained about constant since then.

In recent years, there has been a considerable shift from imports of commodities for direct consumption to imports of capital goods, mainly in the form of transport equipment. As percentage of total imports, the value of consumer goods, such as foodstuffs, textiles, medicinal products, and similar items dropped to 33 percent in 1987-88. The value of consumer goods had been 44 percent in 1978-9. In contrast, the relative share of capital goods rose from 12 to 42 percent.

Total non-project assistance, mostly in the form of commodities, has increased substantially over the past decade. It rose from \$65 million in 1978-89 to \$250 million in 1987-88. In subsequent years, non-project assistance averaged \$245 million per year. The main objective of commodity assistance was to contain domestic inflation and provide resources for financing the local cost of the Soviet-assisted development projects. It also enabled the Kabul government to service Russian loans.

Total project aid increased to \$195 million in 1987-88 from \$170 million in 1978-79. However, after reaching a peak of \$214 million in 1988-89 it dropped to only \$150 million in 1989-90. A major portion of project aid came from the communist bloc countries, especially the USSR, which financed 85 percent of total project assistance over the period. The major strategic objective of project aid from the Soviet Union was to foster economic integration and Afghan economic dependence.

Afghanistan's external debt has been growing rapidly. During the past decade, outstanding public debt, including undisbursed funds, was \$1.7 billion in 1977. By 1986 it was up to \$3.5 billion. Of this latter total, \$2.7 billion was disbursed and the remaining \$0.8 billion was undisbursed.

As expected, most of the outstanding debt (74 percent) is owed to the Soviet Union. The debt service ratio over the decade has remained manageable, at about 18 percent, due mainly to the generally soft terms of the loans

and repeated rescheduling by the Soviet Union. During the past year, the debt service ratio rose to 20 percent, mainly because of the sharp decline in the level of exports.

### Conclusions and Prospects

The past 11 years have dashed the immediate hopes of Afghanistan for continuing the progress that was on the pre-war horizon. The social and economic crises that the nation now faces must be overcome before serious progress can resume. The country's productive capacity must be restored and its economic and social environment must be normalized through political stability and policies that are conducive to restructuring and growth. As part of this, the effectiveness of public and private institutions must be improved even beyond their pre-war level, and the cadre of professionals that have left the country must be encouraged to return or be replaced.

The prospects for political stability and the return of millions of Afghan refugees to their homeland are no brighter today than they were 15 months ago. Should the current situation continue for long, even a reversion to the pre-war economy would be unable to provide conditions conducive to the return of refugees from Pakistan and Iran.

Some important constraints to restructuring include

- The current political structure of Afghanistan is highly fragmented. The Kabul government exercises little control outside of Kabul and a few provincial towns. The Afghan interim government on the other hand, has no presence inside the country and so far has failed to set up the necessary administrative structures needed to coordinate the reconstruction effort.
- Afghans have become donor dependent. The Kabul government is dependent on the Soviet Union for essential commodities, capital, and technical assistance. The Afghan interim government and the reconstruction program supported by nongovernment organizations is financed by outside assistance. The Afghan refugees in Pakistan and Iran are largely dependent on external assistance.
- The country has lost many of its experienced administrators and technical personnel. A shortage of skills

has already constrained the planning and implementation of a rehabilitation strategy.

- Statistical information and economic data are extremely poor for making realistic assessments of the current economic situation.
- Rural economic progress on which the country depends as the base for development is hampered by a harsh environment; uncertain personal security; shortages of animal and tractor power for cultivation; shortages of labor; limited agricultural services; and a lack of credit, technology, and husbandry skills.
- Transportation is perhaps the most critical constraint to the economic and political integration of the country and its rehabilitation. The lack of roads and other communications linking many of the settlements in the country also impede the delivery of adequate education and health services.

Given these constraints, the problem of designing and implementing an effective strategy and program for the rehabilitation of the Afghan economy is formidable. In mid-1988, the United Nations assumed the responsibility for coordinating the relief and reconstruction activities in the country. Although mechanisms for resource mobilization and coordination are now in place, implementation of the proposed programs has been severely constrained by a number of logistical, financial, and institutional problems. In particular, the responsible agencies have not yet been able to implement the proposed relief and rehabilitation programs through direct support. As a result, a number of nongovernment organizations operating out of Pakistan have played an increasingly important role.

The activities of the nongovernment organizations are concentrated in the area of agriculture, public health, education, and rural works. Although the overall priorities are consistent with the needs of the country, the capacity of the nongovernment organizations for implementation is limited. Furthermore, most of these organizations are operating as providers of free goods so that their programs are not acting as catalysts for economic recovery.

The United Nations-supported program is carried out in a piecemeal manner rather than being directed by a well-developed overall strategy. The nongovernment organizations also lack coordination and direction so that their effectiveness is markedly reduced. There is clearly a great need to lay out an integrated development strategy for guiding resources to their best and most effective use.

This situation leaves Afghanistan's economic future in considerable doubt. The prospects for economic recovery depend not only on the return of peace and personal security but also on a stable representative government to design and implement appropriate policies and strategies for the return of the refugee population and speedy recovery of the economy. Given the current low level of economic activity, Afghanistan faces a difficult economic situation for many years to come.

One plausible but extremely optimistic scenario for the period between 1989-90 and 1992-93 suggests that the total gross domestic product could grow at a rate of 5.3 percent per year. This would raise aggregate production to about 90 percent of the pre-war level. The success of this scenario depends on many favorable occurrences the most important of which is a return to normal political conditions within a year. It will also require substantial economic assistance to support the restoration of productive economic activity.

To make this a reality, increases in agricultural production would have to lead the way with an average growth rate of well over 7 percent. In 3 years this would put farm output at a level of about 80 percent of what it was in 1978-79 so that food would still be in short supply and would have to be supplemented through imports—an equivalent of about 700,000 tons of wheat. This assumes that the in-country population will grow at a rate of about 2 percent per year and that 70 percent of refugee population will return to their homes during the 3-year period.

Because the growth of the tax and revenue base tends to lag development, the large budgetary deficits that have accumulated during the past decade are not going to be eliminated even under the postulated optimism of this scenario. Thus, much foreign assistance will be required to fund the reconstruction effort and provide essential commodities and inputs. Transportation and communications will also require special attention.

The overall deficit in the country's external trade will undoubtedly widen. An important factor will be the restoration of high-level gas exports to the Soviet Union. There is substantial uncertainty surrounding this potential. The postulated return of 70 percent of the refugees to their homes and the associated requirements for housing, amenities, and job creation would call for substantial increases in imports of both capital and consumer goods and of agricultural inputs. The prospects for significant increase in export earnings in the medium term is limited because of supply side rigidities.

The government will be expected to present an integrated development strategy and to carry it out to meet the basic needs of the people. On the macroeconomic side, the government will be expected to adopt measures to improve the financial and external balances by pursuing prudent fiscal, monetary, and trade policies. On the micro side it will be expected to

provide access to capital and technology that will create job opportunities and raise the incomes of the people. This will require a reform of the civil service and improvements in its capacity to carry out the functions of government efficiently and effectively.

**Appendix A**

**TABLES**

**Table A-1. Gross Domestic Product at 1978-79 Constant Prices  
1978-79 - 1989-90**

(Values in Afs. millions)

	1978-79 Actual	1987-88 Estimated	1988-89 Estimated	1989-90 Estimated	Share of GDP % 1989-90	Avg. annual growth rate % 1978-79 - 1989-90
<b>1. Agriculture, Livestock and Forestry</b>	<b>61,826</b>	<b>37,445</b>	<b>38,290</b>	<b>39,701</b>	<b>44.7</b>	<b>-3.9</b>
Crops	41,946	27,400	27,930	28,920	32.5	-3.3
Livestock	19,180	9,555	9,860	10,266	11.5	-5.5
Forestry	700	490	500	515	0.6	-2.8
<b>2. Mining, Industry and Energy</b>	<b>14,420</b>	<b>12,690</b>	<b>11,562</b>	<b>11,036</b>	<b>12.4</b>	<b>-2.4</b>
Mining	1,575	1,225	657	174	0.2	-18.1
Industry	3,910	4,904	4,394	4,078	4.6	0.4
Private	787	649	584	555	0.6	-3.1
Public	3,123	4,255	3,810	3,523	4.0	1.1
Electricity	377	404	361	316	0.4	-1.6
Handicrafts	8,558	6,157	6,150	6,468	7.3	-2.5
<b>3. Construction</b>	<b>4,300</b>	<b>4,300</b>	<b>4,310</b>	<b>4,330</b>	<b>4.9</b>	<b>0.1</b>
<b>4. Transport and Communications</b>	<b>3,500</b>	<b>2,600</b>	<b>2,650</b>	<b>2,700</b>	<b>3.0</b>	<b>-2.3</b>
<b>5. Trade and Distribution</b>	<b>9,700</b>	<b>9,000</b>	<b>9,050</b>	<b>9,150</b>	<b>10.3</b>	<b>-0.5</b>
<b>6. Others</b>	<b>1,700</b>	<b>1,700</b>	<b>1,705</b>	<b>1,710</b>	<b>1.9</b>	
<b>7. Total Production</b>	<b>95,446</b>	<b>67,735</b>	<b>67,567</b>	<b>68,627</b>	<b>77.2</b>	<b>-3.0</b>
<b>8. Services</b>	<b>9,272</b>	<b>12,968</b>	<b>12,378</b>	<b>11,931</b>	<b>13.4</b>	<b>2.3</b>
Private (5% of item 7)	4,772	3,387	3,378	3,431	3.9	-3.0
Government	4,500	9,581	9,000	8,500	9.6	6.0
<b>9. Housing (6% of item 7)</b>	<b>5,727</b>	<b>4,064</b>	<b>4,054</b>	<b>4,118</b>	<b>4.6</b>	<b>-3.0</b>
<b>10. Net Domestic Product, afc</b>	<b>110,445</b>	<b>84,767</b>	<b>83,999</b>	<b>84,676</b>		
<b>11. Depreciation</b>	<b>5,727</b>	<b>4,238</b>	<b>4,200</b>	<b>4,234</b>	<b>4.8</b>	
<b>12. GDP at factor cost</b>	<b>116,172</b>	<b>89,005</b>	<b>88,199</b>	<b>88,910</b>	<b>100.0</b>	<b>-2.4</b>

**Table A-2. Estimated and Projected Major Agricultural Crops, 1978-79 - 1992-93**

(Area in thousands of ha., yield in kg., and production in thousands of tons)

	1978-79	1987-88	1988-89	1989-90	Projection		
	Actual	Estimate	Estimate	Estimate	1990-91	1991-92	1992-93
<b>Total Wheat</b>							
Area	2,348	1,702	1,720	1,745	1,810	1,945	2,150
Yield	1,198	1,095	1,104	1,137	1,169	1,196	1,122
Production	2,813	1,863	1,899	1,958	2,058	2,273	2,571
<b>Irrigated wheat</b>							
Area	1,300	996	1,010	1,030	1,060	1,135	1,220
Yield	1,735	1,506	1,515	1,534	1,564	1,622	1,700
Production	2,255	1,500	1,530	1,580	1,658	1,841	2,074
<b>Rainfed wheat</b>							
Area	1,048	706	710	715	750	810	930
Yield	533	514	520	530	533	533	534
Production	558	363	369	378	400	432	497
<b>Barley</b>							
Area	310	244	249	256	268	280	295
Yield	1,048	858	883	929	959	1,007	1,045
Production	325	209	220	238	257	282	308
<b>Rice</b>							
Area	210	167	170	175	183	193	205
Yield	2,038	1,539	1,588	1,600	1,670	1,762	1,902
Production	428	257	270	280	306	340	390
<b>Corn</b>							
Area	482	439	448	458	466	470	480
Yield	1,618	1,244	1,256	1,325	1,380	1,452	1,281
Production	780	546	563	587	617	648	697
<b>Other Grains</b>							
Area	42	32	33	35	37	39	
Yield	857	754	777	810	825	845	800
Production	36	23	25	26	28	30	33
<b>Total Cereals</b>							
Area	3,392	2,583	2,619	2,667	2,762	2,925	3,169
Yield	1,292	1,122	1,137	1,158	1,182	1,222	1,261
Production	4,382	2,898	2,977	3,089	3,266	3,573	3,999
<b>Industrial Crops</b>							
Cotton							
Area	112	50	50	50	60	71	85
Yield	1,179	800	800	860	900	943	988
Production	132	40	40	43	54	67	84

(Continued)

Table A-2. Continued.

	1978-79	1987-88	1988-89	1989-90	Projection		
	Actual	Estimate	Estimate	Estimate	1990-91	1991-92	1992-93
<b>Sugar Beet</b>							
Area	5.0	0.6	0.6	0.4	0.3	1.1	1.2
Yield	14,600	5,000	5,000	4,500	5,000	6,818	10,000
Production	73	3	3	2	2	7	12
<b>Sugar Cane</b>							
Area	4.0	3.2	3.0	2.5	3.0	3.2	3.5
Yield	16,000	10,560	10,500	10,400	11,000	13,000	14,800
Production	64	34	32	26	33	42	52
<b>Oil Seeds</b>							
Area	50	48	50	50	50	51	52
Yield	700	455	460	470	520	600	680
Production	35	22	23	24	26	31	35
<b>Total Area Industrial Crops</b>	171	102	104	103	113	126	141
<b>Vegetables and Potatoes</b>							
Area	18	17	17	17	17	17	17
Yield	13,889	9,529	9,647	9,941	10,294	11,000	12,000
Production	250	162	164	169	175	187	204
<b>Other Vegetables</b>							
Area	76	72	72	72	73	75	78
Yield	6,789	4,888	4,900	5,097	5,479	5,867	6,320
Production	516	352	353	367	400	440	493
<b>Total Area Vegetables</b>	94	89	89	89	90	92	95
<b>Fruits &amp; Grapes</b>							
Area	70	69	67	67	67	68	70
Yield	6,241	4,086	4,076	4,194	4,313	4,412	4,500
Production	440	282	273	281	289	300	315
<b>Other Fruits</b>							
Area	70	70	70	70	70	70	70
Yield	5,486	4,388	4,414	4,514	4,643	4,828	5,071
Production	384	307	309	316	325	338	355
<b>Total Area Fruit</b>	141	139	137	137	137	138	140
<b>Other Crops</b>							
Area	76	57	58	60	63	67	70
Yield	--	--	--	--	--	--	--
Production	--	--	--	--	--	--	--
<b>Total Area under cultivation</b>	3,873	2,970	3,007	3,056	3,165	3,348	3,615

**Table A-3. Estimated and Projected Agricultural GDP, 1978-79 - 1992-93**

(Afs millions, except as noted)

	1978-79	1978-79 Actual	1987-88 Estimate	1988-89 Estimate	1989-90 Estimate	Projections		
	Prices afs./tons					1990-91	1991-92	1992-93
<b>Cereals</b>								
Wheat	7,500	21,098	13,972	14,243	14,685	15,435	17,048	19,282
Barley	6,000	1,950	1,254	1,320	1,428	1,542	1,692	1,848
Rice	18,000	7,704	4,626	4,860	5,040	5,508	6,120	7,020
Corn	6,300	4,914	3,440	3,547	3,698	3,887	4,082	4,391
Subtotal	--	35,666	23,292	23,970	24,851	26,372	28,942	32,541
<b>Raw Cotton</b>	15,000	1,980	600	600	645	810	1,005	1,260
<b>Sugar Beet</b>	1,050	77	3	3	2	2	7	13
<b>Potatoes</b>	5,000	1,250	810	820	845	875	935	1,020
<b>Other Vegetables</b>	8,000	4,128	2,816	2,824	2,936	3,200	3,520	3,944
<b>Grapes</b>	8,000	3,520	2,256	2,184	2,248	2,312	2,400	2,520
<b>Other Fruits</b>	12,000	4,608	3,684	3,708	3,792	3,900	4,056	4,260
Subtotal	--	15,563	10,169	10,139	10,468	11,099	11,923	13,017
<b>Total</b>	--	51,229	33,461	34,109	35,319	37,471	40,865	45,558
<b>Other Agric. Products (15% of total)</b>	--	7,684	5,020	5,116	5,298	5,621	6,130	6,834
<b>GRAND TOTAL</b>	--	58,913	38,481	39,225	40,617	43,092	46,995	52,392
<b>Material Expenditures (28.8%)</b>	--	16,967	11,082	11,297	11,698	12,410	13,535	15,089
<b>Net Production (71.2%)</b>	--	41,946	27,399	27,928	28,919	30,681	33,460	37,303
<b>Annual Change in Agricultural GDP (%)</b>	--	--	--	1.9	3.5	6.1	9.1	11.5

43'

**Table A-4. Estimated and Projected Livestock Production, 1978-79 - 1992-93**

	1978-79	1987-88	1988-89	1989-90	Projections		
	Actual	Estimate	Estimate	Estimate	1990-91	1991-92	1992-93
<b>1. Number of Animals (000's)</b>							
Total cows	25,805	11,245	11,660	12,088	12,535	12,998	13,479
Milk cows	3,730	1,977	2,038	2,097	2,160	2,225	2,292
Total Sheep (000's)	1,120	594	612	630	649	669	690
Karakul Sheep	14,414	6,450	6,708	6,976	7,255	7,545	7,846
Total Goats (000's)	4,661	1,498	1,542	1,588	1,636	1,685	1,736
Total Goats (000's)	3,000	1,320	1,372	1,427	1,484	1,543	1,605
<b>2. Livestock Products</b>							
Milk/cow (kg.)	475	475	475	475	475	475	475
Wool/sheep (kg.)	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Total Meat (000 ton)	195	100	103	108	113	119	125
Cow meat	67	32	33	34	36	38	40
Goat and Sheep Meat	120	61	63	66	69	72	75
Other Meats	8	7	7	8	8	9	10
Milk total (000 ton)	792	396	409	423	437	452	467
Goat and Sheep Milk	260	114	119	124	129	134	139
Cow Milk	532	282	290	299	308	318	328
Karakul Skin Pelts (000's)	1,294	500	515	530	546	562	579
Sheep Wool (000 ton)	22.8	9.5	9.9	10.2	10.7	11.0	11.5

**Table A-5. Estimated and Projected Livestock GDP, 1978-79 - 1992-93**

(Values in Afs. millions at 1978-79 prices)

	1978-79	1978-79 Actual	1987-88 Estimate	1988-89 Estimate	1989-90 Estimate	Projections		
	Price afs./ tons					1990-91	1991-92	1992-93
<b>1. Meat (slaughtered weight)</b>								
of which								
Cow Meat	40,000	2,680	1,280	1,320	1,360	1,440	1,520	1,600
Sheep and Goat	60,000	7,200	3,660	3,780	3,960	4,140	4,320	4,500
Other meats	40,000	320	280	280	320	320	340	400
Subtotal		10,200	5,220	5,380	5,640	5,900	6,180	6,500
<b>2. Total Milk</b>								
of which								
Cow Milk	10,000	5,320	2,820	2,900	2,990	3,080	3,180	3,280
Sheep and Goat	7,500	1,950	855	892	930	968	1,005	1,043
Subtotal		7,270	3,675	3,792	3,920	4,048	4,185	4,323
<b>3. Sheep Wool</b>	70,000	1,596	665	693	714	749	770	805
<b>4. Karakul Skin(Afs 430/pek)</b>		556	215	221	228	235	242	249
Total (Items 1 to 4)		19,622	9,775	10,086	10,502	10,932	11,377	11,877
<b>5. Other Livestock Products (15% of total)</b>		2,943	1,466	1,513	1,575	1,640	1,707	1,782
<b>GRAND TOTAL</b>		22,565	11,241	11,599	12,077	12,572	13,084	13,659
<b>Material Expenditure (15%)</b>		3,385	1,686	1,740	1,812	1,896	1,963	2,049
<b>Net Production</b>		19,180	9,555	9,859	10,265	10,686	11,121	11,610
<b>Annual Average change in Livestock GDP (%)</b>				3.2	4.1	4.1	4.1	4.4

**Table A-6. Estimated and Projected GDP from Mining, Industry, and Electricity**

(Values in Afs. millions)

	1978-79	1987-88	1988-89	1989-90	Projections		
	Actual	Estimate	Estimate	Estimate	1990-91	1991-92	1992-93
<b>A. State and Mixed Sectors</b>							
<b>1. Mining and Quarrying</b>							
Gross Value (Official Fig.)	4,166	3,241	1,739	460			
Correction Factor							
Gross Value (Adjusted)	4,166	3,241	1,739	460	1,800	2,500	2,519
Material Expend. (62.2%)	2,591	2,016	1,082	286	1,120	1,555	1,567
Net Production (37.8%)	1,575	1,225	657	174	680	945	952
<b>2. Public Sector Industries</b>							
Gross Value (Official Fig.)	8,260	13,244	12,291	14,331			
Correction Factor		-15%	-18%	-35%			
Gross Value (Adjusted)	8,260	11,257	10,079	9,315	9,506	9,791	10,182
Material Expend. (62.2%)	5,138	7,002	6,269	5,794	5,913	6,090	6,333
Net Production (37.8%)	3,122	4,255	3,810	3,521	3,593	3,701	3,849
<b>3. Electricity</b>							
Gross Value (Official Fig.)	997	1,505	1,408	1,450			
Correction Factor		-29%	-32%	-42%			
Gross Value (Adjusted)	997	1,069	957	841	851	875	960
Material Expend. (62.2%)	620	665	596	523	529	544	597
Net Production (37.8%)	377	404	362	318	322	331	363
<b>B. Private Sector Industries</b>							
Gross Value (Official Fig.)	4,144	4,553	4,497	4,747			
Correction Factor		-25%	-32%	-38%			
Gross Value (Adjusted)	4,144	3,415	3,058	2,943	2,979	3,128	3,347
Material Expend. (81%)	3,357	2,766	2,477	2,384	2,413	2,534	2,711
Net Production (19%)	787	649	581	559	566	594	636
<b>C. Handicrafts</b>							
Gross Value (Official Fig.)	15,015	14,800	13,650	13,990			
Correction Factor		-27%	-21%	-19%			
Gross Value (Adjusted)	15,015	10,804	10,784	11,332	11,745	12,273	13,009
Material Expend. (43%)	6,456	4,646	4,637	4,873	5,050	5,277	5,594
Net Production (57%)	8,559	6,158	6,147	6,459	6,695	6,996	7,415

**Table A-7. Estimated and Projected Gross Domestic Product at  
1978-79 Constant Prices, 1989-90 - 1992-93**

(Values in Afs. millions)

	1989-90 Estimate	Projections			Share of GDP % 1989-90	Avg. Annual Growth Rate % 1989-90 - 1992-93
		1990-91	1991-92	1992-93		
<b>1. Agriculture,</b>						
Livestock and Forestry	39,704	41,900	45,131	49,494	44.7	7.6
Crops	28,923	30,684	33,460	37,304	32.5	8.9
Livestock	10,266	10,686	11,121	11,610	11.5	4.2
Forestry	515	530	550	580	0.6	4.0
<b>2. Mining,</b>						
Industry and Energy	11,036	11,856	12,566	13,215	12.4	6.2
Mining	174	680	945	952	0.2	
Industry	4,078	4,159	4,295	4,485	4.6	3.2
Private	555	566	594	636	0.6	4.6
Public	3,523	3,593	3,701	3,849	4.0	3.0
Electricity	316	322	331	363	0.4	4.7
Handicrafts	6,468	6,695	6,995	7,415	7.3	4.7
<b>3. Construction</b>	<b>4,330</b>	<b>4,547</b>	<b>4,774</b>	<b>5,013</b>	<b>4.9</b>	<b>5.0</b>
<b>4. Transport and   Communications</b>	<b>2,700</b>	<b>2,913</b>	<b>3,143</b>	<b>3,392</b>	<b>3.0</b>	<b>7.9</b>
<b>5. Trade and Distribution</b>	<b>9,150</b>	<b>9,607</b>	<b>10,279</b>	<b>11,310</b>	<b>10.3</b>	<b>7.3</b>
<b>6. Others</b>	<b>1,710</b>	<b>1,715</b>	<b>1,720</b>	<b>1,725</b>	<b>1.9</b>	<b>0.3</b>
<b>7. Total Production</b>	<b>68,627</b>	<b>72,538</b>	<b>77,613</b>	<b>84,149</b>	<b>77.2</b>	<b>7.0</b>
<b>8. Services</b>	<b>11,935</b>	<b>11,127</b>	<b>10,381</b>	<b>9,707</b>	<b>13.4</b>	<b>-6.7</b>
Private (5% of 7)	3,431	3,627	3,881	4,207	3.9	7.0
Government	8,500	7,500	6,500	5,500	9.6	-13.5
<b>9. Housing (6% of 7)</b>	<b>4,118</b>	<b>4,352</b>	<b>4,657</b>	<b>5,049</b>	<b>4.6</b>	<b>7.0</b>
<b>10. Net Domestic   Product, afc</b>	<b>84,676</b>	<b>88,017</b>	<b>92,651</b>	<b>98,905</b>		
<b>11. Depreciation</b>	<b>4,234</b>	<b>4,400</b>	<b>4,633</b>	<b>4,945</b>	<b>4.8</b>	
<b>12. GDP at afc</b>	<b>88,910</b>	<b>92,417</b>	<b>97,284</b>	<b>103,850</b>	<b>100.0</b>	<b>5.3</b>

2/1

**Table A-8. Projected Food Requirements, 1990-91 - 1992-93**

(Thousands of tons)

	1978-79	1989-90	Projections		
	Base	Estimate	1990-91	1991-92	1992-93
<b>Wheat</b>					
Domestic	2,813	1,958	2,058	2,273	2,571
Available for Consumption	2,391	1,664	1,749	1,932	2,185
Proportion of Domestic Production (%)	85	85	85	85	85
<b>Corn</b>					
Domestic	780	587	617	648	697
Available for Consumption	585	458	481	505	543
Proportion of Domestic Production (%)	75	78	78	78	78
<b>Rice</b>					
Domestic	428	280	306	340	390
Available for Consumption	364	238	260	289	332
Proportion of Domestic Production (%)	85	85	85	85	85
<b>Barley</b>					
Domestic	325	238	257	282	308
Available for Consumption	211	155	167	183	200
Proportion of Domestic Production (%)	65	65	65	65	65
<b>Minor Food Crops</b>					
Domestic	36	26	28	30	33
Available for Consumption	31	22	24	26	28
Proportion of Domestic Production (%)	85	85	85	85	85
<b>Total Domestic Production (tons)</b>	<b>4,382</b>	<b>3,089</b>	<b>3,266</b>	<b>3,573</b>	<b>3,999</b>
<b>Total Available for Consumption</b>	<b>3,583</b>	<b>2,537</b>	<b>2,681</b>	<b>2,935</b>	<b>3,288</b>
<b>Population (000) of which</b>	<b>14,600</b>	<b>17,150</b>	<b>17,493</b>	<b>17,842</b>	<b>18,235</b>
<b>Inside Afghanistan</b>	<b>14,400</b>	<b>12,250</b>	<b>13,300</b>	<b>14,900</b>	<b>16,700</b>
<b>Proportion of total</b>					
<b>Population (%)</b>	<b>98.6</b>	<b>71.4</b>	<b>76.0</b>	<b>83.5</b>	<b>91.6</b>
<b>Per Capita Consumption (Grain)</b>	<b>253</b>	<b>240</b>	<b>240</b>	<b>240</b>	<b>240</b>
<b>Total Requirement (tons)</b>	<b>3,643</b>	<b>2,940</b>	<b>3,192</b>	<b>3,576</b>	<b>4,008</b>
<b>Deficit, Mainly Wheat (000 tons)</b>	<b>-60</b>	<b>-403</b>	<b>-511</b>	<b>-641</b>	<b>-720</b>

45

## METHODOLOGICAL NOTES TO TABLES A-1-A-8

Table A-1

The methodology for the estimation of GDP in agriculture is presented in Tables A-2 through A-5. Similarly, the methodology for the estimation of GDP in mining, industry, and electricity is detailed in Table A-6. For the base year (1978-79) the results obtained from these exercises correspond to the official data for that year. For subsequent years, however, the results substantially differ from the official data, as they were adjusted to reflect the depressed situation of the economy during recent years.

Value added in construction and transport and communications is adopted from the official statistics. The GDP of trade and distribution in the base year (1978-79) was also adopted from the official data, but for subsequent years this was adjusted downward by about 15 percent to reflect the decline of private sector activities in this sector.

The GDP of the government sector includes mainly wages and salaries. These figures have been estimated at constant prices, using the official consumer price index (see Table 7 in the text). The depreciation figure is based on historical data of about 5 percent of total production, as indicated in the table.

For official data on GDP of the main economic sectors, see Ministry of Planning, *A Summary of the Development Plan for 1989-90*, Appendix, pp. 1-2, and the Central Statistical Office (CSO), *Statistical Yearbook*, 1987-88, pp. 90-100.

Table A-2

Data on area, yields, and the level of production in 1978-79 were taken from the official statistics (CSO, *Statistical Yearbook*, 1987-88, p. 109). For the year 1987-88, most of the figures on area under major crops were derived

from the reports of the *Agricultural Survey of Afghanistan* prepared by the SCA in 1988 (*Third Report, Crops and Yields, Volume 1, August 1988, p. 53*).

It is widely believed that the Agricultural Survey data on crop yields are sketchy and biased. Thus, for the purposes of this report, we have adjusted the level of yields in the base year to reflect the depressed level of farming during the war. It should be noted, however, that information on cotton and sugar beet production, area, and yields was obtained through official sources and closely approximates the data received through independent local sources.

For 1988-89 and 1989-90, the data on area and yields are estimated on the basis of recent information about the beginning of the recovery process in certain areas of the country, reported by local authorities and international agencies. Some relevant data in foreign trade and the level of per capita consumption of major crops reflected in past records were used for cross checking purposes.

For the purposes of projections in subsequent years, the prospects and potential of each major crop are evaluated on a yearly basis; thus, no extrapolation techniques are involved. Throughout this exercise the continued efforts of farmers, nongovernment organizations, and international agencies for the speedy recovery of the rural sector were taken into account.

### Table A-3

To obtain the gross value of major crops, the volume of production of each crop, presented in Table A-2, is valued at the 1978-79 constant prices shown in the table. These prices were also applied to the projected quantities of production during the subsequent years to obtain the projected gross output of this subsector in real terms. The methodology for estimating value added in this subsector throughout the years covered by the report is shown in Table A-3. To arrive at the GDP value in agriculture, the ratio of intermediate consumption to gross value was applied. Based on historical records this ratio is estimated at 28.8 percent, as shown in the table. For the 1978-79 constant prices see Ministry of Planning, the *Socio-Economic Development Plan for 1985-86*, pp. 101-19.

### Table A-4

Data on the size of stock in 1978-79 is given. The number of animals in 1987-88 was estimated from the SCA, *Agricultural Survey of Afghanistan* (First Report, May 1988, p. 19). From 1989-90 to 1992-93 the size of stock is projected at assumed rates using the assumptions with respect to fertility and mortality rates as well as off-takes. Throughout this exercise, the possible

recovery of the livestock subsector was taken into account. The production coefficients for milk, wool, and meat are based on historical records reported in the official publications (CSO, *Statistical Yearbook*, 1987-88, p. 115 and Ministry of Planning, *Socio-Economic Development Plan for 1986-87*, pp. 101-10). For the official data on the size of stock in the base year see CSO, *Statistical Yearbook*, 1985-86, p. 110.

#### Table A-5

The 1978-79 constant prices for major livestock products are published in a recent Ministry of Planning document (*Socio-Economic Development Plan for 1986-87*, pp. 101-19). These prices were applied to the production volumes presented in Table A-4 to derive the gross value of livestock production. Estimation of the livestock GDP was carried out on the basis of the methodology shown in Table A-5. The ratios of intermediate consumptions to gross production reflected in the historical accounts were used to obtain the value added figures. For official data on livestock production in 1978-79 see CSO, *Statistical Yearbook*, 1987-88, p. 115.

#### Table A-6

Data on gross value of mining, industry, electricity, and handicrafts are adopted from the official sources. To eliminate the obvious biases in the official data, some correction factors were adopted. These factors were developed on the basis of careful analysis of each activity in the relating subsectors. Projections of the value added (net production) take into account the impact on outputs of anticipated rehabilitation programs and/or improvement in the level of operational efficiency.

Moreover, it is assumed that some of the constraints, such as lack of transport and inadequate power supply, would be somewhat removed. Projections also account for the probable impact of increases in the agricultural output on the use of capacities in the modern and traditional industries.

Projections of the mineral products are to some extent based on the level of output in the base year and follow from past trends. Electricity output is projected in line with the possible improvement in the distribution system, as well as repair of existing facilities. Projections of the GDP of the traditional industries are based on the assumptions of population growth rate, increased agricultural production, and the return and resettlement of Afghan refugees in rural and urban areas.

To obtain the value added of each subsector, the value of intermediate costs is deducted from the gross value of each subsector. For this purpose

the ratios of intermediate consumptions to gross output as reflected in the historical records of the planning ministry were used, and the absolute values of intermediate consumptions were deducted from the gross values. For data on gross value of mining, industry, electricity, and handicrafts, see the following sources: Ministry of Planning, a *Summary of Socio-Economic Development Plan for 1989-90*, Appendix, pp. 1-10; Ministry of Planning, *Socio-Economic Situation and Programs for the 1990s*, July 1989, p. 9; CSO, *Statistical Yearbook*, 1987-88, pp. 138-52.

#### Table A-7

Projections of GDP in agriculture and livestock are based on data and methodology presented in Tables A-2 through A-5 and their related notes. Similarly, projections of GDP of mining, industry, electricity, and handicrafts are based on data shown in Table A-6 and their related notes.

For the projections of construction sector output, an assumed rate of growth has been considered. Projections take into account possible developments in private sector activities, return of refugees, and implementation of reconstruction programs in both the public and private sectors.

The projections of GDP of transport and communications are based on the assumption that in the future the output of these sectors should rise enough to cope with the needs of the productive sectors and foreign trade flows.

Projections of GDP in trade and distribution follow from recent developments and are based on assumptions concerning the projected levels of marketable domestic production and prospects of commercial imports.

Projections of GDP of the government sector assume a steady decline in real terms. This is consistent with assumed policy measures to restrain government consumption and improve fiscal balances. Projections of GDP of other services sectors are based on ad hoc measures and indirect methods indicated in the table. Depreciation is projected at 5 percent of net domestic production in line with past trends.

#### Table A-8

Data on domestic production is adjusted for seed requirements and wastage in storage and transportation to obtain the volumes available for consumption. The adjustment coefficients for each major food crop are shown in the table.

It is assumed that, by the end of 1992-93, about 92 percent of total population will reside inside the country and an estimated 1.5 million refugees will continue to stay abroad.

Data on domestic food production are taken from Table A-2.

The population figures are adopted from Table 1 in the text. Population is assumed to grow at an average rate of 2 percent annually.

The total requirement is estimated on the basis of needs of total population inside the country including the returning refugees. Per capita consumption of grains is in line with the historical data used by the Ministry of Planning and some international agencies.

## Appendix B

### MEMORANDA

#### Introduction

Services were provided to O/AID/Rep in Pakistan from November 3, 1989 through February 18, 1990. The objective of the assignment was to provide O/AID/Rep with the services of an expert with special knowledge of the economy of Afghanistan and distinctive insights into requirements for resettlement and rehabilitation of the country. The services consisted of oral counsel to O/AID/Rep and written memoranda.

Four memoranda on economic issues were submitted to Mr. Larry Crandall, Mission Director, and are reproduced in this appendix.

Utilizing Professional Skills	November 13, 1989
Swedish Committee Farm Power Report	December 17, 1989
Decision to Establish an Enterprise	January 7, 1990
Commercial Phase of PL-480 Wheat Supply	February 1, 1990

MEMORANDUM

To: Larry Crandall

November 13, 1989

From: Ferozh, Abdul

Subject: Utilizing Existing Afghan Professional Skills

-----

Introduction

The Afghan Interim Government (AIG), which now comprises 15 ministries, was set up by the Afghan Mujahiddeen in February 1989 with the objective to coordinate and manage the political, Military and economic affairs of the Afghan resistance. Over the last 10 months, however, the activities of the AIG, especially in the area of economic reconstruction and general administration, have remained very limited for a variety of reasons.

One of the major constraints facing the AIG is the lack of adequate numbers of qualified Afghan staff and technical personnel to plan, implement, manage and coordinate the reconstruction activities in the liberated areas. In view of this situation, there is an urgent need for the provision of adequate institutional support to the AIG to enhance the capabilities of its ministries in the provision of essential services to the Afghan People both inside and outside the country.

Providing The Services of Qualified Afghans to the AIG.

Cognizant of these issues, the USAID, Afghanistan section, has recently provided financial support to the International Committee for Migration (MIC) to identify qualified Afghans abroad and find jobs for them in the Pakistan-based institutions, mainly the AIG ministries.

On my way to Pakistan I stopped in Geneva, at your request, to discuss the overall situation of this project with the ICM concerned authorities. According to information gathered, the ICM has lately prepared a roster, containing some basic information on 669 Afghan professionals and technicians who are residing in the following countries.

United States	297	44.4 %
India	233	34.8 %
Fed. Rep. of Germany	68	10.1 %
Great Britain	28	4.2 %
France	22	3.3 %
Canada	10	1.5 %
Switzerland	7	1.1 %
Other countries	4	0.6 %
	-----	-----
Total	669	.100

A summary of the structure of manpower identified and the categories of professions involved are presented in Annex I. ICM hopes to repatriate about 200 Afghans over the period of two years, but the actual repatriation process of Afghan professionals will depend on the following two factors:

1. Political Situation: Most of the highly qualified Afghans abroad are of the view that the AIG is not representative of the various political groups and segments of the Afghan society and has so far failed to reach its declared objectives. In addition, there is a clear lack of unity among the political factions constituting the AIG. The continuation of these conditions over an extended period would no doubt prevent most of the Afghan professionals from participating in the AIG related activities.
2. Salary Scale: The salary scale of the AIG ranges from Rs. 7000 for the highest position to Rs. 1000 for the lowest rank in the AIG administration. Several Pakistan-based NGO's are presently employing Afghan professionals at international salary levels. The absence of competitive salaries, compared with the Afghan employees of the NGO - supported projects, hampers the possibility of recruiting adequate qualified staff in the AIG ministries. While the salary scale of the AIG may be compatible with the local conditions it is not high enough to meet the financial requirements of Afghan professionals who have family obligations abroad and could not accept local salary scales.

Actions to be taken by ICM.

1. ICM should be advised to select a group of 26 Afghan professionals from the existing list on the basis of some objective criteria, such as the educational background, current employment status, work experience, salaries earned, attitudes.... etc. The composition of the selected group would be
  - 4 Medical doctors
  - 4 Engineers
  - 4 Agronomists
  - 2 Economists
  - 2 Architects
  - 2 Univ. and Higher Ed. teachers
  - 2 Accountants
  - 2 Administrators/Managers
  - 2 Lawyers
  - 2 Veterinarians
2. As a second step, ICM should consult the AIG on all matters pertaining to the employment and recruitment of the selected professionals, and solicit AIG's agreement to the placement of these persons in the AIG ministries and departments. It is suggested that at this stage, the Afghan professionals should be assigned to the advisory jobs. This will allow ICM to recruit Afghan professionals at International salary levels.
3. Immediately after these steps are taken ICM should contact the selected Afghans abroad and evaluate the terms and conditions under which they will be prepared to work in the AIG administration. If the persons contacted are qualified and willing to serve in the AIG administration, then ICM should take the appropriate steps to recruit them on the basis of contracting arrangements. All terms and conditions relating to the employment of each Afghan professional, including the salary levels and duration of assignments, shall be included in such contracts.

ANNEX-I

Distribution of Qualified Afghans by  
Categories of Professions and Places  
of Origin.

Categories of Professions	USA	IND	FRA	GBR	GER	CAN	OTHERS	TOTALS
Doctors	44	14	5	2	7	-	1	73
Engineers	35	18	3	4	10	2	-	72
- Civil	18	1	1	1	1	-	-	22
- Mechanical	4	3	1	1	1	1	-	11
- Electrical	7	1	1	1	3	-	-	13
- Others	6	13	-	1	5	1	-	26
Agronomists	7	2	-	-	2	-	-	11
Economists	6	9	1	1	1	-	1	19
Architects and Town Planners	4	3	-	-	1	1	2	11
Uni. & Higher Ed. Teachers	22	2	1	2	4	-	-	31
Accountants	8	1	-	2	1	-	-	12
Veterinarians	1	-	-	-	-	-	-	1
Administrators/ Managers	4	5	1	-	2	-	-	12
Lawyers	3	3	-	2	2	-	-	10
Sub total	134	57	11	13	30	3	4	252
Other Professions and Technicians	163	176	14	15	38	7	7	417
Total	297	233	22	28	68	10	11	669

Source: International Committee for Migration - ICM, Geneva.

Financing Arrangements:

The total cost of expatriating 25 qualified Afghans is estimated at US\$ 1,000,000 for a period of one year; detailed cost estimates will be prepared by the ICM when and as appropriate. A number of donors such as the USAID, Federal Republic of Germany, Japan, and Saudi Arabia may be interested in financing this project. These sources should be consulted once detailed cost estimates are prepared and some of the preliminary steps have positively been taken.

November 12, 1989

December 17, 1989

To: Larry Crandall, AID/REP

From: Abdul A. Ferogh

Subject: SOME COMMENTS ON THE FARM POWER REPORT PREPARED BY THE SWEDISH COMMITTEE FOR AFGHANISTAN

The survey report states that from 1978 to 1987 nearly 50% of the country's animal traction was lost. On this basis about 500,000 oxen would be needed to meet the shortfall in order to reach pre-war levels. The report assumes that a pair of oxen can plough about 5.0 ha. of land. Thus, 250,000 pairs of oxen would cultivate 1,250,000 ha.

Since Pakistani sources will not be able to supply this number, therefore, the increasing use of tractors will be the only means to overcome farm power problem. Assuming that a 45 hp. tractor can cultivate about 60 ha. of land, approximately 20,800 tractors would be needed to cultivate about 1,250,000 ha. of abandoned land. However, while the survey ventures to draw such inferences, it is not clear about the base from which the estimated average changes or the absolute figures at the national level were measured.

Available data suggests that in 1978/79 about 3.9 million ha. were under cultivation of which 2.6 million ha. were irrigated and about 1.3 million ha. rainfed. According to an earlier report prepared by the Swedish Committee for Afghanistan, between 1978 and 1987, the irrigated area declined by 23% and rainfed area by 33%; thus, the area of abandoned land could be estimated at 1.0 million ha. Thus for the cultivation of 1.0 million ha. of abandoned land, about 16,600 tractors would be needed as against 20,800 estimated by the report.

Given the state of the economy now and in the near future, this is a lot by any standard. According to the findings of the report only about 50% of the provinces had a history of tractor use which started before the war; in the remaining provinces use of tractors would continue to be limited. This implies that at least 90% of tractors would be concentrated in 14 provinces.

However, the deployment of 14000 to 15000 tractors in 14 to 15 provinces over a period of say 3-4 years should be the subject of a careful soul searching. Before the war tractors were increasing by 400 per year, mostly financed through the loans provided by the Agricultural Development Bank of Afghanistan (Ag. Bank). At that time the following factors were positively affecting this process:

1. The Afghan Governments were heavily subsidising fuel costs.

2. The Agricultural Bank was providing cheap and easy credits for procurement of farm machinery, mainly tractors.
3. The over-valued exchange rates, which are still maintained, made tractors available in Afghanistan at prices considered below world market prices.
4. In certain provinces, wealthy farmers and larger land owners were using tractors to bring some pastures under rainfed cultivation.
5. In the year 1977-78 more than 300,000 afghans were working abroad, mainly in the Gulf countries. Therefore, some of the provinces, especially in the north and in the south west, were faced with some labour shortages in the agricultural sector.

There is a need for tractors in the country, particularly during the rehabilitation/reconstruction stage. Tractors are useful in raising labour productivity, in coping with peak farm operations and improving the timing of planting. However, tractors should be adopted as supplementary to and not as replacement for traditional sources of farm power including farm labourers.

Prior to the war 80% of land owners in the country owned less than 3.9 ha. whereas 2% held about 40% of cultivated land. However, 30 to 40% of land cropped was cultivated by landless poor sharecroppers. Given this agrarian structure some people fear that rapid mechanization will have some negative impacts on the rural economy both in terms of labour displacement and the eviction of tenants. Some people also fear that availability of modern inputs along with tractorization will encourage larger land owners to resume their formerly rented-out land for owner cultivation, resulting in a rapid polarization in the size distribution of the farms.

The report states that "studies in Pakistan Supported by the World Bank have shown that tractors cause a small and arguably acceptable amount of tenant displacement". This may be true, but a similar study on Pakistan supported by the World Bank in 1975 estimated the labour displacement effect per tractor to be 11 full-time farmers'. The unemployment level in Pakistan is very high at present, some Pakistani scholars report unemployment rate in Pakistan to be about 15%, involving 4-5 million people'. Over the last 10 years the employment capacity of the agricultural sector has declined rapidly.

Afghanistan's population is currently estimated at about 17 million people, growing at about 2% per year. The population is also very young, implying that about 45% is below the age of 15. According to a recent survey conducted by the United Nations

61

Research Institute about 60% of the Afghan refugees in Pakistan were below the age of 18. About 70% of the male refugees were farmers; the same may be true of the refugees in Iran. According to this same study the working population aged 18-49 will have nearly doubled by 1996. Given these demographic characteristics of the afghan population every effort should be directed at promoting the employment capacity of the rural sector with a view to avoid rapid urbanization and the social costs involved.

As the report has aptly suggested "the potential damage that inappropriate agricultural mechanization can do, if not governed by policies" will be considerable. However, before a comprehensive policy option is worked out a special indepth study should be undertaken on a managable scale to evaluate the over all situation of farm power in a few key agricultural areas, serving as a complement to the extensive sample survey now being carried out by the Swedish Committee. It is widely believed that without such case studies, to be sharply focused on key issues and linkages, the results obtained through the extensive survey alone will remain inconclusive.

Although some tractors will be supplied to afghan farmers during the rehabilitation stage, the issue of farm power as a structural constraint to the agricultural development may not be rapidly resolved. Over the recent years, farmers in Afghanistan have managed to meet farm power shortages through sharing and hiring of oxen and tractor services. During the interim period the NGOs as well as the AIG should assist farmers, particularly small farmers, to continue these arrangements and use the existing means more effectively. These institutions should also examine and test the possibility of establishing rural credit schemes with the view to improve small farmers' access to essential inputs including farm power supplies. They could also encourage individual entrepreneurs to purchase appropriate farm machineries on credit and then to sell the services to small farmers in the rural area.

In the immediate future the agricultural policies must emphasize further intensification of agriculture, training of young farmers and the improvement of existing water supplies; in the long run however, these policies should focus on some basic institutional arrangements to provide farmers with security of tenure and production incentives. If these policies are supported by concrete action programmes the farm power constraints to the rehabilitation and development of the agricultural sector in Afghanistan could be rapidly resolved.

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1. John P. McInerney and Graham F. Donaldson, "The Consequences of Farm Tractors in Pakistan" World Bank Staff Working Paper Number 210, February 1975, page 52
  2. Institute of Policy Studies "State of Employment in Pakistan" Islamabad, 1987, page 8
- 1/2

January 7, 1990

Abdul Aziz Ferogh

About Ministry of Mines and Industries Decision to Establish  
an Enterprise in Peshawar

Larry Crandall, AID/REP

Some officials of the AIG have told me that the AIG's Ministry of Mines and Industries had obtained some funds from the Ministry of Finance for establishing a Shawl Weaving Plant here in Peshawar. According to information gathered the proposed project will cost about Rs. 2.5 million at this stage of which about Rs. 0.17 million has already been committed to the financing of land required and other initial expenses. It is supposed to operate under the overall supervision of the Ministry concerned and will be attached to the Ministry's Department of Small Scale Industries.

I am very concerned with this issue and believe it does not provide any structural link between the AIG and Afghanistan. It revives the old pattern of public sector involvement in the productive areas and constrains the adoption of appropriate industrial policies in future. Let me elaborate on this point further:

Available data suggests that since mid-1950's Afghanistan has invested considerable amounts of financial resources in the industrial public enterprises with the hope to maximize economic growth and employment. However, due to the shortcomings of this strategy these hopes were frustrated; in 1978/79 for which data exists this ownership form accounted for only 2.7% of the GDP; private sector firms and handicrafts accounted for about 8% of GDP. This means that the magnitude of total investment that went into these enterprises was not commensurate with the level of output produced or the level of employment provided. There were about 30 enterprises in Afghanistan providing employment to 21,000 workers. The picture has not changed dramatically over the last 10 years.

By now experience has shown that as an alternative to private enterprises the performance record of public enterprises has not been a satisfactory one. The public entities in Afghanistan were constrained by the following factors:

1. Idle capacity and weaknesses in management.
2. Low level of productivity and over-staffing.
3. Lack of appropriate accounting system and efficient production, planning, control and supervision.
4. Inefficient pricing policies.

5. Interference of central ministries in the day-to-day operations and the management of enterprises.

I believe the AIG Ministry of Mines and Industries under the prevailing conditions may not be in a position to avoid these constraints and thus the outcome of the decision already made would add only to our bitter experience.

As a matter of principle the AIG should withdraw from activities which are most suited for private sector involvement. Experience in Afghanistan shows that private sector has a major comparative advantage in the areas of small-scale production. Experience in other developing countries indicates that the economies in which the private sector has a dominant role have experienced more rapid growth than those characterized by extensive government involvement. In most developing countries the governments now expect the private sector to share the responsibility of developing their economy.

In view of these observed facts the Ministry of Mines and Industries should not overlook the benefit of a private sector based rehabilitation strategy in future Afghanistan; this will maximize efficiency and the resource use which is a very vital factor in a resource-deficient country such as Afghanistan. These statements are not intended to make a plea for the establishment of a laissez faire economy in the country, far from this, I believe that in the Afghan context the private and public sectors are complimentary. The government should continue to provide public goods such as health and education, natural monopolies also provide a very strong case for the public form of ownership. In general, however, the government should take necessary measures to facilitate market processes rather than taking over the market. This is imperative for the development of private sector activities in the country.

Based on these points the Ministry of Mines and Industries could have encouraged private investors to take up the project. I believe there are a large number of managers in the refugee camps who could do the job effectively. I believe the direct involvement of the Ministry of Mines and Industries in these activities is not in line with the priorities of AIG at this critical stage. These activities deviate scarce resources from the more priority areas to less priority needs.

February 01, 1990

Abdul Aziz Ferozh

Commercial Sales of PL 480 Wheat

Larry Crandall, AID/REP  
Court C. F. Wolters, Program Officer

Available information confirms that Afghanistan's rural economy has been badly damaged by the effects of war. According to some preliminary estimates, between 1978-79 and 1989-90 the production of food grains declined at an average rate of about 2.7 per cent per year; the total amount of food deficit is currently estimated at 360,000 - 400,000 tons. However, there is no central government acceptable to the majority of people to make choices concerning the design and implementation of a food distribution strategy.

The administrative and political structures are highly fragmented and unstable with the actual power resting with the local authorities or the individual commanders at the district and sub-district level. A major part of the urban area is also controlled by the Kabul regime. However, despite the distortions that occurred in the functioning of the free market mechanisms as a result of the war, the pricing of agricultural products are still largely determined by the market forces.

In this situation reliance on the market mechanisms for the provision and supply of food to people inside the country is an efficient and cost-effective strategy. This approach will also help minimize the involvement of NGOs and aid-giving agencies in the local political struggles both inside and outside Afghanistan. In future also, when normalcy comes back to Afghanistan, the operations of this system should be strengthened and facilitated to maximize allocative efficiency in the economy.

In this context the recent proposal of USAID, which aims at organizing sales of PL 480 wheat through private channels, seems to be totally justified in principle. This is a pilot scheme which tests the capacity and efficiency of the Afghan traders (Private sector) to deliver wheat inside Afghanistan and would be implemented on a small scale, involving only 10,000 tons of PL 480 wheat in the initial phase. The longer-term objective of the proposed project will be to find out whether relatively large quantities of wheat can be effectively supplied to markets inside Afghanistan through private sector with minimum outside interventions and subsidy. The proposed scheme involves the following basic arrangements :

1. The USG and GOP will appoint an experienced agent to implement the program
2. Qualified Afghan traders will be selected to obtain wheat from GOP's Department of Food in both NWFP and Baluchistan and then ship the same to market centers inside Afghanistan
3. The GOP is assumed to provide the Afghan traders with the required facilities such as the export and transit permits

While the USAID proposal is quite sound in principle, a number of points should be taken into account while planning for the implementation of the proposed pilot scheme. These are briefly presented in the following paragraphs.

The proposed project links the Afghan traders with the Pkaistani bureaucracy, at least through the implementing agent which in all probability would be a Pakistani firm. Whether this arrangement will be attractive and acceptable to the Afghan traders at this juncture is still an open question. However experience has shown that the Afghan traders prefer to procure wheat and other essential commodities from traders in the border areas due to a number of social and administrative complexities involved.

In order to maintain the existing situation undisturbed the implementing agent could be authorized to make arrangements for shipment of wheat to border areas for transshipment to Afghanistan. The Afghan traders (private sector) will purchase PL 480 wheat from pre-planned and pre-determined sales centres in these areas for delivery to urban or rural centers inside Afghanistan as the case may be.

These arrangements will not affect the substance of the pilot scheme in any way but will facilitate a lot of things for the Afghan traders ; no transit or export permits will be required and at the same time the Afghan dealers will not be obliged to make arrangements with the tribales, Pakistani police, Political agents and the like.

The implementation of the proposed strategy is based on the basic assumption that the people inside Afghanistan are equipped with adequate purchasing power and can obtain wheat from the internal markets at the market-determined prices. At the moment very little or no information is available on purchasing power in Afghanistan. This issue must be tested through the proposed programme as well as by other independent studies.

The market mechanism through which the private sector is expected to operate usually allocates goods, including wheat, among those buyers who can afford and are willing to pay the market price; all those who cannot afford to pay the price will be unable to get them no matter how badly they need them.

Even before the war purchasing power was very limited, particularly in the food deficit areas. According to the world Bank, about 30 % of the population were below the poverty line. Over the last ten years the situation has aggravated further due to loss of assets, such as the livestock and the lack of employment opportunities. According to my preliminary estimates, between 1978-79 and 1989-90 GDP dropped by 22 %, agricultural crops by 31 %, and the livestock production by 46 % over the period. These indicators emphasise the fact that the purchasing power at the macro level is now at its lowest level. In addition severe food shortages have been reported in certain areas due to natural calamities and locust attacks.

Available information and highly systematic studies reveal that increasing market segmentation, transport constraints, lack of security and above all the taxes imposed by the local authorities has severely disrupted the market mechanisms and created the conditions for monopoly pricing practices at various levels. As a result of these distorting factors and also because of the food shortages the price of wheat in certain areas, including Kabul, appears to be sky-high and prohibitive.

However, if the results obtained from the proposed experimental scheme show that the distribution costs cannot be fully met by the final consumers then the USAID will have to review the programme once more and consider practical alternatives, even if these alternatives may involve provision of some sort of subsidies to the Afghan private traders. It is suggested that free distribution of wheat should be curtailed as much as possible to avoid the creation of an overdependence on external assistance for a long time. It is also stated that the distribution of food as a gift over a long period will lead to accusations of discrimination from those who will have to buy food or work for it.

It should be noted, however, that the vulnerable groups in the society cannot be served through the market mechanisms and the private sector which operates through these mechanisms. There is, therefore, a need for the implementation of direct support measures to meet the basic requirements of the vulnerable segments of the Afghan society.

Under any circumstances provision of food- for-work should receive the highest priority under the external aid programmes as increased production of domestic food and the restoration of the productive capacity of the economy will be the only optimum solution to the food supply problem in the country during the long run. Provisions of cash-for-food on a selective basis would also provide the Afghan labourers in the rural area with the purchasing power, facilitating the operations of commercial market mechanisms.

In view of these considerations, a flexible approach which combines the market mechanisms with the existing measures of direct support will be an optimum strategy during the interim period. While the proposed strategy of commercial sales of PL 480 is quite sound it has to be expanded gradually as the economic conditions permit. At present a number of NGOs' political parties, and UN agencies are providing food for the Afghan people at various levels. Unfortunately no coordination and standardization exists; while some sources are trying to avoid free distribution of food and essential commodities others are allocating these items free of cost. Experience has shown that lack of coordination and standardization of aid serves as a severe constraint to the implementation of a rigid commercial distribution system.

It will not be out of context to mention here that prior to the war Afghanistan benefitted from the US-supplied wheat under Title I , PL 480 programme in a number of critical years. According to the procedures prevailing at the time, after the PL 480 wheat arrived at the Karachi port, the Government of Afghanistan called the wheat forward and shipped it directly inside Afghanistan, using the transit facilities provided under the transit agreements between Afghanistan and Pakistan.

In the context of the proposed scheme the role of the Peshawar-based AIG has not yet been determined. This matter is quite understandable at this juncture. However, my impression as an individual is that the procedures contained under the proposed programme would not limit the options that would be available to the future government of Afghanistan, once such a representative government is in place inside the country.

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