Final Draft Report

Afghanistan Postwar Credit Needs

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Submitted by
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A Joint Venture

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GLOSSARY

ADBA	Agricultural Development Bank of Afghanistan
AFC	Afghan Fertilizer Company
Afghani	Afghan unit of currency
A.I.D.	U.S. Agency for International Development
AIG	Afghan Interim Government
ASSP	Agriculture Sector Support Project [O/AID/Rep project carried out by DAI and VITA]
CIDA	Canadian International Development Agency
DAI	Development Alternatives, Inc [O/AID/Rep contractor responsible for a portion of the ASSP]
EPB	Export Promotion Bank of Afghanistan
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development [World Bank]
havala	a traditional order to pay; more generally, the remittance system
hundi	promissory notes, bills of trade, and orders to pay in the traditional style
ICOR	Incremental Capital Output Ratio
IDA	International Development Association [soft loan window of the World Bank]
IDBA	Industrial Development Bank of Afghanistan
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LBII	Louis Berger International, Inc.

GLOSSARY
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LDC	less developed country
NAI	Nathan Associates Inc.
O/AID/Rep	Office of the Representative for Afghan Affairs (Pakistan)
ODA	Official Development Assistance
saraf	a dealer in the traditional money market
UNDP	United Nations Development Programme
USAID	A.I.D. Mission
VITA	Volunteers in Technical Assistance [O/AID/Rep contractor responsible for a portion of the ASSP]

EXECUTIVE SUMMARY

Introduction

This report provides an overview of the development of Afghanistan's financial system to meet its postwar credit needs. Financial systems provide the means to make payments, mobilize savings, and allocate credit in order to increase the efficiency with which the productive economy uses resources. In general, economically developed countries are also financially developed ones. One way to view financial development with a limited body of data, as is the case in Afghanistan, is to look at the system's ability to serve the various productive sectors and at its internal efficiency—that is, the level of "transaction costs" it imposes on those sectors.

In the case of Afghanistan these transaction costs are primarily the costs occasioned by "country risks" and, to a lesser degree, the lack of appropriate institutions and skilled personnel to operate the system. Country risks are those associated with social and political conditions peculiar to the country concerned. The political disorder in Afghanistan is one element of "country risk" because of the resulting lack of a consistent and well enforced legal order under which investments can be managed and their returns enjoyed. However, economic and social disorder exists as well. Rising inflation and uncertainty about prices make business decisions more risky. Uncertainties exist about supplies of raw materials, the market situation for selling to consumers, and even about what social order will prevail. There is uncertainty about all of the elements that the entrepreneur has to coordinate for an investment to be successful. There is consequent risk for anyone who lends to an Afghan entrepreneur—more than, for example, in the United States.

Even under the current circumstances some institutions and manpower exist that perform important functions, but as political order is restored, the question of institutions and manpower will become more prominent. Afghanistan has never had a strong, efficient central government that could effectively execute contracts and protect financial markets. Trade, production, and finance largely occurred informally, that is to say. without government supervision or protection.

Much of the formal sector activity that did occur was heavily dominated, and after 1973 generally owned, by the state. Formal sector banks served the limited number of formal sector firms. They drew their funds largely from the government—and from the 1960s on, especially from foreign assistance funds—and lent heavily to the government and government-dominated enterprises.

The civil war that followed the coup of 1978 disrupted both formal and informal sectors. Production has declined less than 30 percent only because of heavy foreign assistance inflows. The drop in the informal sector (agriculture, small-scale industry, and trade) is almost certainly far higher. With increased uncertainty and risk, informal financial activity has declined dramatically, and formal sector finance now serves as either a conduit for foreign assistance or a source of inflationary monetary expansion.

Afghanistan, which was formerly one of the poorest, least financially developed countries of the world (even when its informal financial system was considered) has regressed considerably.

The task for the Afghan government as well as for donors is to build on existing financial institutions and manpower in both the formal and informal sectors, promote their present efficiency, and exploit their potential in a growing Afghanistan. These institutions are a prerequisite to the restoration of other markets in Afghanistan.

Credit Needs

The "credit needs" of an economy are the difference between the self-financing capacity of enterprises and the level of investment needed to sustain some desired level of income growth. These are "credit" as distinguished from "grant" needs only if financial institutions exist that can meet the needs on a sustainable basis, if the borrowers are "bankable," and if the lenders can remain solvent.

Investment in the traditional sector has, historically, been heavily self-financed. Individuals, therefore, have lost their own assets (they have been decapitalized). The bulk of external finance came from richer relatives, friends, and neighbors. These, too, have been decapitalized. The traditional economy received indirect support from the money bazaar and traders, both of whose credit activities have been severely curtailed. Finally, the traditional sector received small amounts of credit from poorly functioning formal sector banks. The Agricultural Development Bank at its height reached less than 8 percent of the country's farmers—mainly the larger ones and only for their modern input purchases, tractors and fertilizer.

The entire financial sector provided less than $45 million in credit to the private sector in 1978 and certainly provides very little now. Expansion of institutional or informal credit of the volume required would destroy the credit markets that exist or could be created. Conversely, widespread grant distribution would undermine them. There is no easy solution.

Issues Involved

As the war recedes, the traditional sector may recuperate rapidly and resume its growth in productivity and range of goods. The modern sector is more problematic. Private and foreign investors might support some level of investment for reconstruction. But a postwar Afghanistan is likely to be perceived as posing high country risk, with few compensating advantages. Those with a choice are likely to be reluctant to invest their funds.

Some element of grant assistance is needed to assist Afghanistan's war-torn economy, especially if the government is to resettle a significant portion of the 5 million refugees who have left the country—to say nothing of those who remain. The challenge is to avoid putting the country on a perpetual dole.

The terms of reference for this assignment call for quantitative estimates of income, investment, and "credit needs." We provide these, but the figures are approximations. No one knows how many people are in the country, much less what they produced and consumed. Figures subject to some external verification—grain output, the activities of official organizations, and so forth—are perhaps more accurate.

More important, we provide here a qualitative sense of the issues and the needed institutional adjustments. The general purport of the numbers we have is that the economy has declined from its level in 1978.

Income

Total income was $2 billion in 1989 versus $2.6 billion in 1978 in constant prices, although marginally up from 1986. Agriculture, livestock, and forestry—which accounted for an estimated 44.7 percent of the total in 1989—have been declining at a projected trend rate of 3.9 percent (and because of the survey work by the Swedish Committee for Afghanistan these figures are quite firm). Any given year may show higher returns because Afghan agriculture, as John Maynard Keynes said of the Indian economy, is a wager on the rains. With resettlement we can hope for continuation of the good 1990 harvest trend, but we will have to wait for several years to be sure.

Investment

In 1988-90, Gross Investment was estimated to be $120 million (all figures in constant value terms), or less than 6 percent of GDP, down from $240 million in 1978. However, only $2 million of the 1988-90 total was in the private sector. The $2 million figure seems like an underestimate. In 1978, by contrast, according to our figures private sector investment was $50 million and public sector investment $190 million. The private sector, where most investment should occur and where capital stock destruction is considerable, has been investing a fraction of what it did in 1978.

What Is Needed

There are two ways to look at what is needed. First, we can determine the amount by which the capital stock must be increased to reach the 1978 per capita total. In terms of capital stock, a one-time infusion of $667 million will be required, spread out over several years, to restore per capita GDP to its 1978 level.

However, in terms of the sustained level of investment as a percentage of GDP that will be required to achieve various levels of income growth, higher amounts will be required. We believe that investment equal to 7 percent of GDP a year will be needed to sustain a 3 percent growth rate, or $140 million in 1990. This rate of income growth is likely to be slightly ahead of the population growth rate. To achieve a 5 percent growth rate would have required a $150 million investment in 1990.

Projections

We have made three projections of future income and investment. The first assumes a sustained 3 percent rate of GDP growth—little more than the rate of population growth—and takes until 1998 to attain prewar levels. The second assumes a 6 percent rate of growth and reaches prewar levels by 1995. The third assumes a fluctuating rate but reaches the 1978 level in 1995 as well.

Even the first growth rate is optimistic if foreign assistance is not forthcoming. The second rate is not impossible, given Afghanistan's relatively rapid growth before the war and the usual catch-up quality of postwar growth.

It appears that the required investment, even for the low-growth scenario, is a 1 percent increase in current rates, less than 1978 levels, but it will be difficult to achieve. The current rates are largely based on Eastern bloc funds for public sector investment. However, these funds have been declining rapidly because of economic problems in the donor countries and declining commitment to Afghanistan. Investment will be needed in traditional agriculture, craft industry, trade, and small-scale transport. Much of the investment will have to be in small farms and workshops. Arranging the financing will be difficult because institutions and markets to handle the financing do not exist.

Lessons Learned

The various informal financial markets and institutions continued to serve most of the economy's needs, including its external transactions. A few commercial banks, including the central bank, which continued to function as a commercial, bank emerged from the 1930s onward and served as investment companies backing some industrial and export activities, as well as handling government finance. To these were added some specialized development banks. All of these institutions had great financial difficulties with their credit operations. All banks were nationalized in 1975-76, and since 1978 they have served, as banks have typically done in Communist systems, as devices to maintain imperfect control over public enterprises—allocating capital and controlling payment, rather than creating a market for long- or short-term funds.

The specialized banks had an even shorter career than the commercial banks—though the Agricultural Development Bank of Afghanistan (ADBA) in particular gained some success in serving the agriculture sector on a sustainable basis. As Fry indicated, nonbank financial formal sector financial institutions continued to be insignificant.[1]

The lessons learned from the prewar Afghanistan experience can be considered institution by institution.

Central Bank

The central bank should have sufficient authority over the banking system, as it had after the 1975 banking law. However, it should not engage in commercial banking, even for government institutions as has Da Afghanistan Bank. It should concentrate on its role as central bank and prudential regulator of the banking system, rather than competing unfairly with commercial banks. The regulatory role should be combined with the central banking one—as in most non-Western-Hemisphere countries—because of the shortage of trained personnel. The central bank should establish its independence from the government—and not serve as its treasurer, freely funding its deficits as it has throughout Afghan history. To preserve this autonomy and play its role properly, the central bank will need trained cadres. For central bank personnel the relevant skills are more like those

[1]Maxwell J. Fry, *The Afghan Economy: Money, Finance and the Critical Constraints in Economic Development*. Leiden: E.J. Brill, 1974, pp. 146-149.

needed in a ministry of finance—such as a planning economist—than those of a commercial loan or bank operations expert.

Commercial Banks

Commercial banks need authority, autonomy, and skills as well. The commercial law and its enforcement need to be improved to assist in collecting dues. Commercial banks must be permitted to set their interest rates at levels that permit them to earn a profit.

Commercial banks need autonomy from the government and small groups of stockholders—who may pressure them to make inappropriate loans. A properly competitive banking system (including informal competitors) contained by strict prudential regulation against self-dealing should achieve these purposes. Rules that strictly limit the amount of loans that can be given to any one group of firms will be necessary.

Commercial bank staffs need to be trained to operate banking systems that generate savings, lend, and recover loans all at a reasonable transaction cost.

Specialized Banks

Specialized banks, with the partial exception of the ADBA, showed little promise before the war—but clearly need the same authority and autonomy as, if slightly different skills from, the commercial banks. With two exceptions there appears to be no reason to revive them.

The ADBA, particularly after its revival in the 1960s, served a considerable number of farmers on a sustainable basis with a largely indigenous cadre. This success was built on three preconditions:

- A focus on funding intensive agriculture using modern inputs—fertilizer and tractors.
- A focus on running a sustainable banking operation rather than a distribution service for inputs. Whenever the ADBA was dragooned into a distribution role, as for "crash" programs, recoveries fell precipitously.
- The existence of complementary distribution organizations for the inputs supported.

The success shows the feasibility of an organization such as the ADBA; however, that it never served more than 8 percent of farmers indicates its limitations. A similar institution or institutions could be supported in postwar conditions.

A less firm lesson emerges from the experience of the Industrial Development Bank, whose executives concluded that they would do better to shift to financing small industries, rather than the large unsuccessful ones with which they started. Unfortunately, the war intervened before they could see if they were right.

Informal Markets

Ignorance of or hostility to informal financial markets and agents that characterized prewar Afghanistan government policy toward the financial sector meant that the potential of these markets was underused and the formal sector often marginalized. The situation, like many reviewed here, was not unique to Afghanistan. A future Afghan formal financial sector must be linked to and learn from the informal sector as well as compete with it.

Constraints to Development

It is impossible to determine how the needed investment will be funded before we know the plans of aid donors. As in the past, public sector investment will probably be donor financed. However, a considerable portion of expanded private sector investment could come from the sector itself—reinvested profits, foreign capital contributions, and perhaps a rising volume of informal and formal sector credit.

The primary constraint to financial development in Afghanistan, country risk, has only been exacerbated by the civil war. The secondary constraint, the low level of economic and social development in the country itself, is manifested in the limited skill of clients and financial agents in handling the instruments they do have. Country risk is occasioned by instability in a country's social, political, and economic systems—and the excessive costs those systems may impose on investment. The levels of corruption and lawlessness in Afghanistan were always a constraint to investment. The rural areas were dominated by local elites, who made their own law, and by customary laws that were not necessarily adapted to the needs of a modern economy or easy to enforce. The hostility of the central government to private enterprise, particularly after 1978, worsened the situation.

As in other areas of the Afghan economy since 1978, the financial sector has experienced a radical process of decapitalization and loss of skills. Considerable informal sector capital has either been destroyed or fled the country; formal sector institutions and the government in Kabul on the support of which those formal institutions are based are largely insolvent.

Conclusion

To reiterate, Afghan financial systems have always been characterized by high country risk and a low level of skills. This has been exacerbated by the deskilling and decapitalization caused by the war.

Postwar Afghanistan will require a stable political regime to reduce country risk, a revived informal sector to serve most of the economy, and a network of formal sector financial institutions. In addition to political stability reduced country risk requires good macroeconomic management.

Given this reality and the limitations of formal Western-style intervention in the highly traditional Afghan society, the informal sector should be linked to, as well as mimicked by and in competition with, formal sector institutions. These formal sector institutions need to develop skilled cadres and prototype institutions and instruments. Experimental activities can begin now to prepare such cadres and prototypes—for example, (1) encourage the use of traditional means of remitting money, (2) provide support to privately owned institutions to allow them to discount cross-border paper, (3) provide support to Islamic financial institutions, and (4) aid the development of a prototype economic research unit from which a central bank cadre could grow. It is not now desirable to support direct credit programs in Afghanistan.

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Chapter 1

INTRODUCTION

Study Objectives

This report was prepared in response to Delivery Order No. 12 under A.I.D. Contract No. 306-0205-C-00-9385-00 (Afghanistan Studies Project). The objectives of the Delivery Order are to

1. Summarize lessons learned from the experience of Afghan credit programs and related domestic financial institutions before the Soviet invasion.

2. Describe and project critical Afghan postwar credit needs and to identify the main constraints to meeting these needs, especially for agriculture and industry.

3. Define the principal options for providing domestic credit in the postwar environment, especially in agriculture and industry.

4. Make policy recommendations concerning credit forms, institutions, and required resources, giving special attention to credit facilities needed to serve the private sector.

5. Make recommendations concerning the roles that A.I.D. and other donors can play in relieving postwar credit constraints.

Of these five objectives, the second is the most challenging and probably the most pivotal. Afghanistan's postwar credit needs and constraints can best be presented in the context of the anticipated performance of the national economy.

Principal Definitions

This report addresses the credit needs of postwar Afghanistan. The terms "credit," "needs," "postwar," and "Afghanistan" merit definition.

Credit

As used in this report, "credit" refers to any deferred financial obligation. Such deferred obligations may be of short-, medium-, or long-term duration. They may be unsecured or secured by real property or other collateral. The most common form of deferred obligation in most economies is trade credit—permission to pay trade debts at some period after delivery of goods. Most credit is short term and permits individuals and firms to manage their liquidity in circumstances in which demand for it varies over time. When they have excess liquidity, they can lend it out; when they are short, they can borrow. Much of this credit supports consumption or represents the way in which ongoing working capital is refinanced continually. For example, if the wheat and sugar cane seasons are different, growers and dealers need funds to invest at different seasons. Credit transactions can move funds to those who need them.

Credit may be examined from a number of perspectives, including those of the individual, the firm, financial institutions, productive sectors, the national economy, and the world economy. In this report, we are primarily concerned with the credit requirements of Afghanistan's national economy and its key productive sectors.

From any vantage point, credit may be characterized and quantified in terms of "stocks" and "flows." Financial stocks may be found on both sides of a firm's balance sheet. Assets (in the United States, listed on the left side of the balance sheet) include, for example, a stock of trade receivables—the total value of the trade obligations owed to the firm at a particular time. Similarly, firm's liabilities (right side of the U.S. balance sheet) include stocks of short-term, medium-term, and long-term debt—representing the value of the debt the firm owes to others at particular time. The changes in the levels of stocks during a given time period (often a year) represent "flows." A "sources and uses of funds analysis" ties flows to changes in stocks over time, relating consecutive balance sheet accounts to others and to each other in much the same way as the mind and eye derive the action (flows) in a motion picture from rapid changes in the individual frames of a motion picture.

A financial analyst looks at credit extended to the firm as a principal source of funds from outside the firm for its current and new undertakings. When, for example, the firm finances replacement or expansion of its physical assets through debt, the values for liabilities shown on the right side of the balance sheet rise as debt is incurred. It is important to recognize that debt is only one of several sources of increased funding. The right side of the balance sheet also contains another significant external source of funds called "equity"—the financial stock that represents the total value of funds contributed by the firm's owners. Normally, the financial analyst seeks to define how debt, equity, and internal sources of funds may be used singly or in combination to finance a given level of expansion. Indeed, some financial instruments—such as convertible debentures—with some of the characteristics of both equity and debt may be recommended.

Afghanistan has large requirements for replacing and expanding physical and financial assets and very modest prospects for generating substantial amounts of funds internally. Hence this report primarily addresses the external finance required to finance incremental capital stock and production of a recovering nation. Other types of finance are important and necessary for a functioning market economy. However, only the credit that supports major increments to capital stock, that is, investment, usually justifies the title "credit needs" in the context of a major rehabilitation of a national economy.

Just as the corporate financial analyst facing a business expansion of unprecedented magnitude may properly start with the size of the required investment and few preconceptions about desirable combinations and proportions of debt and equity funding, so an analysis of the economy of a country requiring a major rehabilitation should also start with the magnitude of the required investment. In Afghanistan, two additional factors argue for starting with investment requirements. First, the country may well require substantial grants (as distinguished from loans) in order to resettle its refugee population on a self-sustaining basis. Investments that cannot reasonably be repaid within periods and in amounts normally associated with a debtor-creditor relationship should not be defined as credit needs. Confusing credit and charity can result in a breakdown in needed financial discipline. Second, given formal restrictions on charging of interest, which may apply in Afghanistan in the future, it is necessary to recognize that many of the instruments in an Islamic financial system are debt instruments—obligations to pay—but like equity, have a variable share in an enterprise's profits.

Needs

Man's needs are infinite, and most economists agree. In the psychological sense there can be no quantitative limit to needs. For the purposes of this report, however, "credit needs" are defined as the amount of credit needed to finance sufficient investment to secure the desired income. These needs are usually determined by calculating the increments to capital stock that are needed to achieve a postulated minimum income level—once and for all. However, considerable economic literature tells us that achieving a given income level, more precisely a given steady- state growth rate of income, is a function of the sustained percentage of income that goes to investment—an infinite process.[2] There is a complex economic argument for this proposition, and its potential validity necessitates two estimates of credit needs: (1) for a once-and-for-all capital injection and (2) for a sustained investment of a percentage of GDP.

In short, our analysis of credit needs should begin by defining a goal for national income in terms of an acceptable standard of living for Afghans. It will then estimate incremental investments needed to achieve the goal. Finally, it will estimate the portion that credit may be expected to serve in the needed investment.

Postwar

Normally the terms "war" and "postwar" refer to two discontinuous states. For example, World War II ended on a certain date, August 14, 1945. Before that, there was "war"; after that, there was "peace." In the case of Afghanistan, the difference between pre-settlement and post-settlement conditions may be far less dramatic than the term "postwar" may imply. There have always been important sections of the country that were beyond the control of the central government.[3] Even after an agreed-upon government replaces the current regime in Kabul, important sections of the country will likely remain unreconciled. Now there are reputed to be more than 600 local commanders and shuras exerting control over various parts of Afghanistan. No single authority can really contain them all. The Shia forces remain totally autonomous; even the Peshawar-based parties associated with the Afghan Interim Government (AIG) are engaged in varying degrees of conflict with one another. Thus the social circumstances in Afghanistan are likely to remain disturbed even in a postwar period. Country risk, described in some detail later, and the decapitalized and deskilled financial system are likely to be major obstacles to financial development.

Afghanistan

The economic boundaries of Afghanistan are likely to continue to remain open. In Afghanistan's commercial history, the Hindu Kush has often been a more important barrier than have the country's frontiers. The financial effect of the continuing strife in Afghanistan, particularly the inflation of the Afghani, has been to push Afghanistan toward the monetary orbits of its

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[2]This finding emerged from the field variously called growth or development economics, based originally on the work of Harrod-Domar and the various models built on it. (*Handbook of Development Economics*, Hollis Chenery and T.N. Srinivasan, eds., Amsterdam: North Holland. See Part 2: "Structural Transformation," and specifically, Chapter 7, "Patterns of Structural Change," by Moshe Syrquin.)

[3]Fry, pp. 44-64.

neighbors. Businessmen who established commercial relationships while in refugee status well may continue to draw on the financial resources and systems in these neighboring countries. The extent to which Afghanistan's own financial system will influence and define economic activities carried on within the country's borders in the near future remains problematic.

In the following chapters, we start with a theoretic perspective on and historical survey of Afghanistan's institutions and instruments—and some estimates of how they have served the productive economy. We then proceed to analyze how and why constraints to their development can be relaxed, now and in a more peaceful future.

Lessons learned from the experience of Afghan credit programs and related domestic financial institutions before the Soviet invasion are discussed in Chapters 3 and 4. They point to the limitations of formal western-style institutions in a traditional nonwestern society such as Afghanistan. Because these same western-style institutions are necessary, there is a need for market discipline and institutional investment in them to enable them to function satisfactorily.

In Chapter 5, several projections of investment needs and how they are to be financed are made. We do not question the need for other financial services—remittance, safekeeping of savings, consumption credit, and accommodation of seasonal credit needs—but these cannot be addressed in the same type of quantitative projections as investment.

In Chapters 6 and 7, we outline the constraints to financial development in Afghanistan and what A.I.D. and other donors can do about them now and in the postwar period. The terms of reference have been extended to consider the present, responding to various concerns raised in the Mission about immediate issues involving credit programs that are connected to the long-term prospects. The introduction of market institutions now will constitute a basis on which to build in the postwar era.

Chapter 2

AFGHANISTAN'S FINANCIAL SYSTEM: WHAT IT SHOULD DO

The World Bank's development report for 1989 well states the case for creating strong financial systems in developing countries:

> The experiences of the 1980s have led many developing countries to reconsider their approach to development. Although countries differ in the scale of government intervention and in the extent to which they have already stabilized and restructured their economies, most have decided to rely more upon the private sector and market signals to direct the allocation of resources. To obtain all the benefits of greater reliance on voluntary, market-based decision making, they need efficient financial systems.
>
> A financial system provides services that are essential in a modern economy. The use of a stable, widely accepted medium of exchange reduces the costs of transactions. It facilitates trade and, therefore, specialization in production. Financial assets with attractive yield, liquidity, and risk characteristics encourage saving in financial form. By evaluating alternative investments and monitoring the activities of borrowers, financial intermediaries increase the efficiency of resource use. Access to a variety of financial instruments enables economic agents to pool, price, and exchange risk. Trade, the efficient use of resources, saving, and risk taking are the cornerstone of a growing economy.[4]

Financial systems provide means of payment, mobilize savings, and allocate credit and thereby increase the efficiency with which the productive economy uses resources. In general, economically developed countries are also

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[4] *World Development Report 1989: Financial Systems and Development; World Development Indicators.* Washington, D.C.: World Bank, 1989, p. 1.

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financially developed ones.[5] A country's financial development is measured by various statistical indices of its depth (the variety of different transformations of savings and credit it can manage) and its breadth (the extent to which it serves economic activity)—particularly the ratio of the total amount of financial transactions to GDP.

In the absence of data, as in Afghanistan, financial development can better be ascertained by measuring the system's ability to serve the various productive sectors and its internal efficiency—that is, the level of "transactions costs" it imposes on those sectors.

In Afghanistan these transactions costs are, first, the costs occasioned by "country risk" and, second, the lack of appropriate institutions and skilled personnel to operate the system—though there can be no question that the country risk is still the primary factor.[6] Even under current circumstances, some institutions and manpower exist that perform important functions, but as political order is restored, the question of institutions and manpower will become more salient.

Afghanistan has never had a strong, efficient central government that could effectively execute contracts and protect financial markets. Trade, production, and finance largely occurred informally, that is, without government supervision or protection.

Much of the formal sector activity that did occur was heavily dominated and, after 1973, generally owned by the state.[7] Formal sector banks served the limited number of formal sector firms. They drew their funds largely from the government—and from the 1960s on, especially from foreign assistance funds—and lent heavily to the government and government-dominated enterprises.[8] Even before 1978 many nominally private enterprises

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[5]Maxwell Fry's *Money, Interest and Banking in Economic Development* (Baltimore: Johns Hopkins University Press, 1988) is a current review of the state of the art on financial development. Readers might also be directed to Ronald McKinnon, *Money and Capital in Economic Development*, Washington, D.C.: Brookings Institution, 1973, and Edward S. Shaw, *Financial Deepening in Economic Development*, New York: Oxford University Press, 1973, as well as several books by the late Raymond Goldsmith, especially *Financial Structure and Development*, New Haven: Yale University Press, 1969.

[6]Fry argues that it has always been the primary factor.

[7]Afghan governments after 1953 were generally biased against private economic activity, a bias that increased considerably after 1973, long before the 1978 coup leading to communist regimes in Kabul.

[8]Fry, pp. 97-103.

had large proportions of state equity or were controlled by members of the royal family and those associated with them.

The civil war that followed the coup of 1978 disrupted both formal and informal sectors. Production has declined less than 30 percent only because of heavy foreign assistance inflows. The drop in the informal sector (agriculture, small-scale industry) is almost certainly far higher. With increased uncertainty and risk, informal financial activity has declined dramatically, and formal sector finance serves as either a conduit for foreign assistance or a source of inflationary monetary expansion.

Afghanistan, which was one of the poorest, least financially developed countries of the world (even when its informal financial system was considered), has regressed considerably.

The task for the Afghan government, as well as for donors, is to build on existing institutions and manpower in both the formal and informal sectors, promote their current efficiency, and make use of their potential in a growing Afghanistan.

Chapter 3

HISTORY OF THE AFGHAN FINANCIAL SYSTEM

In the discussion that follows, we rely heavily on Maxwell Fry's volume on the Afghan economy, cited elsewhere, and various Afghan government reports. We also draw on the *Da Afghanistan Bank Executive Board Report*, 1980 (Kabul: Da Afghanistan Bank, 1980); *Farm Power Report*, Volume 1 (Peshawar: Swedish Committee for Afghanistan, 1989); and various International Monetary Fund and World Bank reports.

Informal Financial Institutions

In the traditional economy, the financial system was one of informal lenders. The development of formal sector banks was late and limited. Few firms used the formal banks, and a majority of borrowers continued to depend on money bazaars, landlords, traders, friends, and relatives for credit. Savings mobilization was limited; informal lenders rarely acted as intermediaries and relied heavily on their own funds.

Informal lending was most commonly based on noncommercial connections. Friends, relatives, tribal fellows, and local leaders all were important sources of finance. Commercial credit was usually either extended by shopkeepers and traders operating out of bazaars and village markets or based on land or tillage relationships. Landlords would often extend credit for agricultural inputs or subsistence between harvests to their tenants or sharecroppers. Though cash transactions were not unknown, credit was usually extended and repaid in kind or by permitting the use of some land owned by the borrower. Although most noncommercially based lending did not carry explicit interest (beyond expectations of reciprocity), commercially based lending usually involved some type of interest or price markup. Rates were high, sometimes 20 to 40 percent in annual terms, but they were compensated for by the speed and convenience of informal moneylending.

Informal financial operations were limited to a small group of personal acquaintances so that informal financial markets were highly fragmented.

Informal credit was frequently used to finance consumption rather than for productive capital.

The Kabul government issued decree number 6 in 1978 to (1) reduce the amount of private land mortgages owed by those who owned two hectares or less and (2) forgive all loans by tenants and sharecroppers to landowners. The decree has had little effect because the government was not able either to enforce the decree or to provide finance to replace what had traditionally been provided by informal lenders. Before 1978, there were hundreds of such moneylenders in each province, but in recent years many of them have left the country.

On a more organized level, money bazaars in Kabul, Kandahar, and elsewhere in the country have a long tradition of moneylending and foreign exchange dealings and offered nearly the same services as commercial banks. They made short-term production and marketing loans to farmers and domestic traders, as well as to exporters and importers. It was believed before 1978 that one-half of the funds used by traders in the towns came from the money bazaars.[9] Before the establishment of Bank Milli in 1932 the money bazaar handled all foreign exchange transactions. The government achieved some success in suppressing the bazaar in the 1940s, partly as a stratagem to displace the bazaar traders—many of whom were Jewish, Hindu, or Sikh.[10]

During the 1960s, the money bazaar regained its dominant role, more or less as the Jews, in particular, left the country.[11] The volume of trade and thus transactions increased, and the sophistication of money bazaar traders rose through the mid-1970s. In Kabul, the number of principal money traders increased from 15 in 1960 to 35 in 1973.[12] There were 60 smaller scale operators. In the Kandahar market there were five principal traders in 1963.[13] In cities like Herat, Mazar-i-Sharif and Jalalabad, scattered dealers were operating out of small shops. The major dealers had accounts in the Da Afghanistan Bank as well as with the leading multinational banks in Bombay and Karachi.[14] Fry estimated that in 1972-73 the Kabul money bazaar alone

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[9]Fry, pp. 241-243.

[10]Fry, pp. 234-235.

[11]Fry, pp. 235-241.

[12]Fry, p. 237.

[13]Fry, p. 237.

[14]Fry, pp. 242-245.

accounted for 61 percent of the total turnover in foreign exchange.[15] Payments in connection with many domestic transactions, as well as trade with the neighboring countries, were made by the use of an indigenous demand bill of exchange called a hundi or havala. This bill is still a prime means for such payments despite, or perhaps partly because of civil war. The old Afghan hundi suffered somewhat because it was only negotiable with certain parties, and the clearing mechanism was not as organized as it is in the major traditional money markets in the Indian subcontinent.

Commercial Banks

Before 1978 the primary formal sector institutions were three commercial banks, one of which is also the central bank and four specialized development banks. Government borrowing has always accounted for a great deal of banking activity, and Da Afghanistan Bank, the central bank, accounts for more than 80 percent of the assets in the system.

Bank Milli

In 1929 the Government of Afghanistan granted permission to a group of Kabul merchants connected with a Mr. Zabuli to establish Afghanistan's first limited liability company, Shirkat-i-Sahami-yi-Afghan to regulate foreign trade and promote Afghan economic development.[16] The company was actually established in 1932 as an investment company under the name Bank Milli, with a government share in its founding capital. The bank functioned as a central bank. Eventually the bank had 2,000 shareholders, but the Zabuli family and associates continued to dominate it and lending was mostly to the shareholders.

In the 1930s the bank exercised a monopoly over legal foreign trade and foreign exchange dealings, and succeeded in closing the money bazaars. It offered traders loans, checking and savings accounts, and exchange and transfer drafts.

Most important, the Bank Milli became a major investor in industry. According to Fry, by 1947 it had invested in about 50 private trading and industrial enterprises.[17]

Cooperation between the Bank Milli and the government declined after the bank made some fraudulent foreign exchange transactions in 1937, though

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[15] Fry, 241-253.

[16] Fry, pp. 82ff.

[17] Fry, p. 86.

some observers believed that factional and ethnic considerations also contributed.[18] In 1939 the government created the Da Afghanistan Bank, described below, giving it responsibility for currency issue and foreign exchange transactions, as well as permitting it to function as a competing commercial bank.[19] The Bank Milli's difficulty with the government was patched up at the beginning of World War II, and the relationship continued harmoniously until the late 1940s. From 1953 on, as the government increased its control over the economy, the scope of the Bank Milli was curtailed.

The bank's equity remained stagnant and most new industrial activity was conducted outside its framework. Nonetheless, by 1973-74, it still had $15 million invested in industrial enterprises, including the Baghlan sugar factory, the Afghan textile company, Jabalusiraj cement factory, Jangalak foundry, and the Spainzar cotton company. It continued to be a major financier of new exports such as karakul wool, carpets, and cotton. By 1972-73 its assets were estimated at $51 million and its capital and reserves at $19 million—an incredibly liquid situation by international banking standards. The Bank Milli was nationalized by the government in 1976 and most of its industrial subsidiaries taken over by the government. In 1979 it had nine branches in Afghanistan and others in New York, London, Hamburg, Karachi, and Peshawar.

Pashtany Tejaraty Bank

Founded in 1954 to finance exports, the Pashtany Tejaraty Bank's shares were held largely by the government (65 percent) and the remainder by large trading firms and the Bank Milli. It was totally nationalized in 1976. Though it occasionally gave production loans, its focus was on export finance. In late 1979, it had six branches in Afghanistan and two abroad.

Da Afghanistan Bank

Da Afghanistan Bank, founded in 1939, has both commercial and central bank functions. Its central bank functions were widened by the Money and Banking Law of July 1975. Before 1975 Da Afghanistan Bank had little authority to control financial institutions. The 1975 law gave it some powers in this area: the High Council of the Afghanistan Bank, the bank's governing body, was empowered to provide operational policy guidelines for the other banks, and the charters of those banks were adjusted accordingly. Da Afghanistan Bank has exclusive right to issue currency, maintain and manage the country's foreign exchange reserves, and act as banker to the central and local governments and other official entities.

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[18]Fry, pp. 86-88.

[19]Fry, p. 86ff.

In principle the commercial and specialized banks are supposed to maintain a certain percentage of their overall deposit liabilities with Da Afghanistan Bank. However, this indirect monetary control is largely irrelevant because of the direct control that is exerted over bank operations: (1) most of the money supply is currency; (2) most of the deposits are with Da Afghanistan bank itself; and (3) Da Afghanistan Bank has an annual credit plan that indicates precisely how much credit banks can extend.

More than 90 percent of Da Afghanistan Banks commercial activity is government oriented. The bank opened two subsidiaries abroad in the 1950s to facilitate the Karakul trade: The Trading Company of Afghanistan Inc. in New York in 1954 and The Trading Company of Afghanistan Ltd. in London in 1955.

The increasing role of Da Afghanistan Bank has been accompanied by an increase in its scope. Its authorized capital increased from 120 million Afghanis in 1939 to 1 billion in 1978 and 2 billion in 1979. From 59 domestic branches in 1972, it increased to 85 branches in 1979. However, only 12 of these branches accepted savings deposits. The commercial operations remained largely limited to Kabul. Ninety percent of the 18,800 savings accounts in 1972, according to Fry, were held in Kabul.[20] Branches did not make loans, and little check clearing was undertaken.[21]

The number of employees rose from 1,900 in 1972 to 2,500 in 1979. Expansion of the bank's activities has always been constrained by its staff's lack of training. It was only in the early 1980s that the bank established a Money and Banking Institute in Kabul to train its lower- and middle-level staff, but this Institute has remained understaffed, undersupported, and ineffective.

Since 1978

Both the Bank Milli and Pashtany Tejaraty Bank, now nationalized and under close government control, have suffered in recent years from government interventions in their day-to-day operations and the imposition of civil service personnel rules. By 1985 their assets had risen to 23.055 billion Afghanis from 16.106 billion in 1980-81, a nominal increase of 6 percent a year. Annual inflation during this period exceeded 16 percent, so their total assets fell in real terms. Total credit dropped by about 1.873 billion Afghanis during this period. Private sector credit was almost totally stopped.

In contrast, Da Afghanistan Bank claims on the central government increased from 1981-82 to 1988-89 at an average annual rate of 25 percent to

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[20]Fry, p. 132.

[21]Fry, pp. 111, 131-134.

$705 million while credit to private parties declined from $3.2 million to $480,000. Da Afghanistan Bank's role has continued to expand. By 1985-86, it held 81 percent of the assets in the banking system.

The various informal financial markets and institutions continued to serve most of the economy's needs, including its external transactions. A few commercial banks, including the central bank, which continued to function as a commercial, bank emerged from the 1930s onward and served as investment companies backing some industrial and export activities, as well as handling government finance. To these were added some specialized development banks. All of these institutions had great financial difficulties with their credit operations. All banks were nationalized in 1975-76, and since 1978 they have served, as banks have typically done in Communist systems, as devices to maintain imperfect control over public enterprises—allocating capital and controlling payment, rather than creating a market for long- or short-term funds.

Specialized Banks

Agricultural Development Bank

The Agricultural and Cottage Industries Bank, the predecessor of the current Agricultural Development Bank of Afghanistan, was set up in 1954 to meet the medium- and long-term credit needs of the rural sector. After 14 years of poor performance it was reorganized with help from the United Nations Development Programme (UNDP), and in 1970 the World Bank issued a new charter.

During the 1970s, ADBA was transformed from a poorly run channel for distributing the government's budgetary resources to a profit-generating development banking institution. In the years up to 1978-79 it received $30 million from the International Development Association (IDA), $4.7 million from the Canadian International Development Agency (CIDA), and a grant of $5 million from USAID. UNDP provided substantial technical assistance, with the World Bank as the executing agency.

At the time of bank charter revisions in 1976, ADBA became a government bank. The Higher Council of the Da Afghanistan Bank took over the functions of ADBA's general meeting and nominated its board of directors. The ADBA president, who controls day-to-day operations, oversees four departments: credit, finance, administration, and staff; each department is headed by a vice president.

In 1973, ADBA staff were exempted from civil service regulations, salaries were increased to attract qualified personnel, and various training programs were implemented.

By 1979, the bank had 14 main branches and 6 sub-branches and 700 employees. Total assets as of March 1976 amounted to $47.8 million, compared with $16.6 million in March 1973. The authorized capital is 1 billion Afghanis, of which 605 million Afghanis was paid up by March 1977. The bank's net profit was about $1 million for 1975-76, an increase of more than 208 percent in current terms from 1972-73.

ADBA was successful in managing a rapidly expanding loan program and raising collection rates.[22] Success was achieved by a concentration on intensive agriculture using modern inputs, businesslike management, and the existence of a parallel input distribution network. Lending increased from 44 loans in 1969-70 to 47,764 loans in 1975-76. In earlier years, tractor loans dominated the portfolio, but from 1973-74 the focus shifted to short-term loans for agricultural inputs—especially fertilizer, which accounted for 71 percent of ADBA's portfolio and 96 percent of the number of loans in 1975-76.

The fertilizer program was designed jointly by the bank and the Afghan Fertilizer Company, a subsidiary organized with USAID assistance in 1973, with the latter responsible for distributing the fertilizer.

From 1970 to 1979, 2,500 tractors were imported by ADBA (which was the sole legal channel for such imports). Because it had responsibility for maintenance, ADBA created a separate subsidiary—the Agricultural Machinery and Services Company—for that purpose in 1976. UNDP provided assistance, with FAO as executing agency.

Despite its expansion, ADBA still served less than 8 percent of the country's farmers. Since 1979, its coverage has declined along with much of the rest of the economy. Its senior staff was replaced and many former staff members left the country, particularly for Pakistan. All foreign assistance was suspended in 1979, including assistance to the ADBA. The International Fund for Agricultural Development (IFAD) is just now beginning to process two requests for new assistance.[23] One IFAD project is an irrigation project with a credit component for the opium growing areas of Badakshan and Takhar. The second project is for technical assistance to ADBA.

The hasty and ineffective implementation of land reform legislation has exacerbated problems connected with the war, and repayment problems have increased. The bank was forced to lend to cooperatives, without proper preparation on its part. Its resources declined from 3.589 billion Afghanis in

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[22]Project Assistance Paper: Afghanistan—Agricultural Credit. Project 306-0165. Washington, D.C.: USAID, n.d. pp. 12-21.

[23]Telephone conversation with Mohammed Faisal, IFAD headquarters, Rome.

1980-81 to 3.444 billion Afghanis in 1988-89.[24] The loan portfolio declined from 1.830 billion Afghanis to 0.782 billion Afghani, or by 58 percent.

Mortgage and Construction Bank

The Mortgage and Construction Bank (MCB) was created by the government in 1947 to provide medium- and long-term loans for construction of housing and commercial structures in Kabul. Its repayment experience was so poor that it was soon forced to curtail lending. The repayment difficulties have continued, although the MCB has been able to increase its lending slightly in nominal terms. The loans were for 3 to 5 years at 5 percent annual interest. Many of them were made to government employees.

The total assets of the MCB continued to increase in nominal terms after 1978. They rose from $3.4 million in 1980-81 to $2.2 million in 1988-89, an average annual rate of 19 percent. Because the rate of inflation was 16 percent a year during that period, this represented an increase in real terms. The increase in loans was financed by government contributions to the bank's equity base. The total capital and reserves of the MCB rose from 137 million Afghanis to 495 million Afghanis. By the late 1970s, the bank had 25 employees, 5 of them professionals. All employees are located in its headquarters in Kabul.

Industrial Development Bank

Though a proposal to create an Industrial Development Bank had been under consideration for many years, the adoption of a Foreign and Domestic Private Investment Law in 1966 finally provided the basis for such an institution. The Industrial Bank Law was enacted, establishing the bank in 1971. The objective of the bank was to participate in the equity of, and to provide credit and guarantees for, private industries, especially larger scale ones.

The bank was established as a private company with 40 percent of its capital of $5.3 million held by foreign financial institutions. The remainder of the shares were held by the commercial banks and 200 other private individuals and companies.

The Industrial Development Bank was scheduled to receive a 25-year loan of $12.4 million from Da Afghanistan Bank at a rate of 2 percent a year and a $2 million loan from IDA to be reloaned to it by the government at rates ranging from 5.5 to 7.25 percent for an 18-year term, with 3 years grace.

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[24]International Financial Statistics, Washington, D.C.: International Monetary Fund, various volumes.

The bank had two lending rates, 8 percent for industries with less than $100,000 of equity and 10 percent for larger enterprises. In 1977 the bank established a Development Assistance Fund to help small-scale industries. In the period 1975-78, a project appraisal section in the bank's technical department prepared preliminary appraisals for more than 100 prototype small-scale projects to encourage entrepreneurs to undertake them.

The Industrial Bank Law was revised along with all other bank legislation in 1976, and the IDA was nationalized. Its board of directors was put under the control of the High Council of Da Afghanistan Bank. In the early 1980s the bank had 30 employees, of which 10 to 12 were professionals. The UNDP had been providing technical assistance with the World Bank as the executing agency.

The IDB started out cautiously. It made only 13 loans for a total of less than $4.4 million in the 1973-78 period. Its loans ballooned in nominal terms after 1978. Its assets increased from $17 million in 1980-81 to $6.3 million in 1988-89, an increase of more than 10.9 percent a year in nominal terms. The loan portfolio rose during the same period from $13.3 million to $4.2 million Both assets and loan portfolio decreased in real terms because of the rapid inflation. Its post-1978 loans were overwhelmingly to state-owned industries.

The long-term debt/equity ratio of the IDB declined from a reasonable 1.3/1 in 1980-81 to 39.5/1 in 1988-89, but as indicated elsewhere this is not illogical given the function of banks in the system that the Kabul regime was trying to construct. Most of the professional staff has left the country. The IDB continues to finance some rehabilitation of war-affected industries in Kabul and, in the last year or so, some privately owned small-scale industrial activities.

Export Promotion Bank

The Export Promotion Bank (EPB) was established in 1976 to promote exports, including agricultural commodities. Though it had private shareholders, its board of directors (High Council) included a number of high ranking government officials. The authorized capital of the bank was 100 million Afghani, of which 71 percent was paid up as of May 1977. Its capital and reserves were 181 million Afghanis, and it had 19 employees, including 10 professionals.

In addition to a 100-million Afghani loan from Da Afghanistan Bank, it received a $10 million loan from the Central Bank of Iran (roughly 450 million Afghanis at the time) in May 1977. The 15-year Iranian credit carried a 3.5 percent interest rate and had a one-year grace period.

By May 1977 its loan portfolio was 167 million Afghanis, mostly involved in raisin exports. EPB's long term-lending rate was 8 percent a year, and its short term rate was 10 percent.

In late 1977, the government received an $18 million loan for fruit and vegetable export from IDA. The EPB was expected to use 130 million Afghanis of this loan to support agroindustries and raisin marketing. The onlending rate to the EPB was to be 4 percent. The loan was caught up in the IDA cutoff of 1979, and since then the EPB's activities have declined, inter alia, because of a steady decline in exports.

The specialized banks had an even shorter career than the commercial banks—though the ADBA in particular gained some success in serving the agriculture sector on a sustainable basis. As Fry indicated, nonbank financial formal sector financial institutions continued to be insignificant.[25]

Summary

The lessons learned from the prewar Afghanistan experience are summarized in a separate discussion of each institution.

Central Bank

The central bank should have sufficient authority over the banking system—as it had after the 1975 banking law. However, it should not engage in commercial banking, even for government institutions as has Da Afghanistan Bank. It should concentrate on its role as central bank and prudential regulator of the banking system, rather than competing unfairly with commercial banks. The regulatory role should be combined with the central banking role, as in most non-Western Hemisphere countries, because of the shortage of trained personnel. The central bank should establish its independence from the government—and not serve as its treasurer, freely funding its deficits as it has throughout Afghan history. To preserve this autonomy and play its role properly, the central bank will need trained cadres. For central bank personnel, the relevant skills are more like those of a minister of finance or planning economist than those of a commercial loan or bank operations expert.

Commercial Banks

Commercial banks need authority, autonomy, and skills as well. The commercial law and its enforcement need to be improved to assist in the

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[25]Fry, pp. 146-149.

collection of dues. Commercial banks must be permitted to set their interest rates at levels that permit them to earn a profit.

Commercial banks need autonomy from the government and small groups of stockholders—who may pressure them to make inappropriate loans. The former requires private ownership. A properly competitive banking system (including informal competitors) contained by strict prudential regulation against self-dealing should achieve this purpose. Rules that strictly limit the amount of loans that can be given to any one group of firms will be necessary.

Commercial banks staffs need to be trained to operate banking systems that generate savings, lend, and recover loans all at a reasonable transaction cost.

Specialized Banks

Specialized banks, with the partial exception of the ADBA, have shown little promise—but clearly need the same authority and autonomy as, if slightly different skills than, the commercial banks. With two exceptions there appears to be no reason to revive them.

The ADBA, particularly after it was revived in the 1960s, served a considerable number of farmers on a sustainable basis with a largely indigenous cadre. This success was built on three preconditions:

1. A focus on funding intensive agriculture using modern inputs—fertilizer and tractors.
2. A focus on running a sustainable banking operation rather than a distribution service for inputs. Whenever the ADBA was dragooned into a distribution role, as for "crash" programs, recoveries fell precipitously.
3. The existence of complementary distribution organizations for the inputs supported.

The success shows the feasibility of an organization like the ADBA, though the fact that it never served more than 8 percent of farmers indicate its limitations. A similar institution or institutions could be supported in postwar conditions.

A less firm lesson emerges from the experience of the IDB, whose executives concluded that they would do better to shift to financing small industries, rather than the large unsuccessful ones with which they started. Unfortunately, the war intervened before they could see if they were right.

Informal Markets

Ignorance of or hostility to informal financial markets and agents that characterized prewar Afghan government policy toward the financial sector meant that the potential of these markets was underused and the formal sector often marginalized. The situation, like many reviewed here, was not unique to Afghanistan. A future Afghan formal financial sector must be linked to and learn from the informal sector as well as compete with it.

Chapter 4

GOVERNMENT POLICIES AND THEIR IMPACT ON FINANCIAL DEVELOPMENT

Interest Rate Policies

Because of explicit government control, the structure and level of interest rates in the formal sector, which had remained unchanged for the previous two decades, have undergone moderate changes since the mid-1970s.

Interest rates charged by the specialized development banks have remained constant. For commercial banks, the maximum interest rate on 12-month deposits was raised from 7 percent in 1975 to 10 percent in 1977 and to 12 percent in late 1989. The maximum lending rate was raised from 11 percent in 1975 to 12 percent in 1977 and to around 15 percent in 1989.

Because prices have increased at an average annual rate of 17 percent over the past 13 years, interest rates on both loans and deposits have been negative in real terms. Low interest rates have disrupted both the supply and demand sides of the formal financial system. Savings are low, and informal alternatives have not emerged. Borrowers seek loans to arbitrage (re-lend) the money in various markets or for speculative, not productive, purposes. Higher interest rates on deposits would benefit savers; higher loan rates would ensure that loans flow to the highest return uses, promote labor intensity, and thus improve the allocative efficiency of the system.

With interest rates negative in real terms, lenders are forced to rely on operating subsidies and curtail their operations, and they face decapitalization. Banks are forced to seek subsidized foreign donor funds. Small borrowers are discriminated against because banks cannot cover the costs of dealing with them and prefer the cheaper-to-handle larger borrowers. Despite these factors, however, the net effect is unclear because the government mandates so much credit allocation.

Meanwhile, in the informal financial sectors, rates have risen appreciably, especially since 1978. The informal and formal markets have been further separated and overall dualism and inefficiency have been reinforced.

Competition

There were never many formal sector banks in Afghanistan. Those that existed were concentrated in Kabul. The market was dominated by Da Afghanistan Bank, with the public sector as a depositor and borrower. The market has grown even more concentrated since 1978, because of the pressure of economic dislocation in the country as well as measures taken by the Kabul government to consolidate its control over the banking system.[26]

In market economies, banks are ideally agents in the financial markets, transforming maturities between savers and borrowers, allocating credit, and lending on their own credit under central bank regulation, all based on market principles. In many market economies, however, the government has moved to try to control the economy by direct guidance to banks as to whom they should lend on what principles—and this was the case in Afghanistan before 1978. Activities were almost entirely concentrated in Kabul; out-station banks functioned solely as government treasuries. Even before bank nationalization in 1975-76, the shareholdings were intertwined, the bank boards overlapped, and the government share and role was quite large. Da Afghanistan Bank, especially after 1975, exerted a direct role in credit allocation and did not permit competition.

The post-1978 regimes have only moved to the final stage, characteristic of centrally directed economies, where banks serve as control institutions through their allocation of funds—both operational and capital—and monitoring of receipts. Because control is generally undertaken in quantitative terms, interest rates, prices, and market forces have little relevance to these banks. Because they are extensions of the state, neither their capitalization nor operating margins are of any material importance. Competition would serve little purpose and would perhaps frustrate their role as controllers.

Arrearages and Defaults

Arrearages and defaults on the credit they extend have been a critical problem for Afghan banks. The Mortgage and Construction Bank, Agricultural and Cottage Industries Bank, and an industrial credit fund created in the mid-1950s all had to curtail their operations because their resources were tied up in arrearages.

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[26]Fry, pp. 105-108.

Commercial banks suffered from the same problem. By the early 1970s the Tejaraty Bank was illiquid. The Bank Milli followed a very conservative lending policy, primarily funding its own enterprises, and has been able to continue to function.

Because of apprehensions about these problems, Industrial Development Bank (IDB) and ADBA security requirements were extremely stringent. IDB took legal title to the collateral involved in its lending. ADBA required land-based security or promissory notes from landlords before it would lend.

However, recovering on the basis of landed security is quite difficult. There is often no market for land in rural areas—or the fellow farmers of the debtor refuse to bid for the land. In those circumstances even valuing land is difficult. In addition, the lack of cadastral surveys mean that title to much of the country's land is uncertain. Sharecroppers who used to cultivate some 40 percent of Afghanistan's cultivable land, and now cultivate some 17 percent in the areas covered by the Swedish Committee's survey have insecure tenures and thus are not able to provide landed collateral.[27]

The ADBA did have some favorable experience with the use of group guarantees for its agricultural lending. In fact, the ADBA depended on the government for assistance in collection, but government officers had no incentive to assist it. The government guarantees many of ADBA's loans. Despite these precautions, the recovery rate on ADBA's short-term loans only increased from 41 percent in 1973-74 to 65 percent in 1975-76. Its current level is difficult to determine. It is hard to imagine that it is collecting very much under the present circumstances when the bulk of the country is outside the Kabul government's control and the remainder very much affected by civil war.

Bank collection has been impeded both by political pressures to condone certain defaults and an absence of proper legal instruments to secure loans and enforce that security. The probiem has been exacerbated by the slow, lumbering nature of the court system for enforcing the instruments that do exist. And the low level of bank staff training makes it difficult for them to do the appraisals, audits, and inspections needed to use the available instruments.

Islamic law is still the basis of the country's legal system. It has been supplemented by the Commercial Code of 1954 and the Money and Banking Law of 1975. However, neither meets the needs of a modern financial system. It is generally recognized that new legislation on land titling, tenancy, financial institutions, and the central bank are required.

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[27]*The Agricultural Survey of Afghanistan, Sixth Report, 1988 and 1989 Surveys*. The Swedish Committee for Afghanistan, August 1990, pp. 8-9.

Chapter 5

HISTORY AND ALTERNATIVE PROJECTIONS OF PRODUCTION AND INVESTMENT

This chapter includes two important tables that are explained in Appendix A. Appendix A also includes the tables that represent our manipulations of the available data. These appendix tables have an artificial character because of necessary straight-line projections of data between known data points, whereas actual data fluctuate from year to year.

The salient features of the key sectors of the Afghan economy are outlined in four general periods: traditional, up to 1920; modernizing monarchy and Daud Khan's Republic, 1920 to 1978; revolutionary government, beginning in 1978; and the future. The periods have been classified broadly, coupling Amanullah, Nadir Shah, Zahir Shah, and Daud in one period, but, as can be seen, the breaks in economic structure are not sharp.

The five salient features are structure, production, capital stocks, investment, and credit and saving. The key sectors are the public sector, divided between (1) traditional government functions and (2) public sector industrial, commercial, transport, mining, and even agricultural activities (parastatal activities); and the private sector, divided into (3) traditional and transitional and (4) modern subsectors.

Structure

In the traditional period, farmers and herdsmen produced their own subsistence and a small surplus for the elites and for the market, including a very small volume of exports (at least in the 19th and much of the 20th centuries). This activity was supplemented by a small volume of craft manufacture and by trade in key commodities such as weapons and salt. The government maintained an army and a court, drawing both on British subventions when they were provided and on whatever taxes it could collect, as well as the private estate of the king.

During the modernization of the monarchy, three changes occurred: (1) productivity rose in the traditional sector and some export trade was developed in karakul skins, rugs, and fruits and nuts, and the country became self-sufficient in grain production; (2) the traditional sector increased the range of its goods and services; and (3) a rudimentary modern sector—private and parastatal—was developed. After 1973, the modern private sector firms were gradually nationalized.[28]

In the period after the revolution (1) productivity dropped precipitously in the traditional sector and the range of production contracted, because of war damage and depopulation as refugees fled the country; and (2) the remainder of the modern private sector was taken over by the state (ignoring for the moment a residual small-scale sector whose importance has increased in the last 2 years both in practical and ideological terms) and private sector production declined—though less dramatically than that in the traditional sector.

The future is naturally a question mark. As the war recedes, the traditional sector may recuperate rapidly and resume its growth in productivity and range of goods. Still the investment needs will be immense. The capital represented by items such as livestock, or the "wages fund" for traditional agriculture will need to be replaced or substituted for. Some estimates of what might be involved are noted later in this chapter.

An enormous portion of the country's livestock has been destroyed. Either new draft animals will have to be imported, as in the USAID-RONCO attempt to import mules, or substitutes such as tractors will be required. Tractors are probably easier for donors to arrange, but they will need to be fueled with imported and perhaps donated petroleum.

A further difficulty is how to provide capital and investment to this traditional economy. Markets will likely fail on both the supply and demand sides. On the supply side, there are no ready stocks of capital goods in the country, nor channels for providing them. On the demand side, many Afghan farmers and craftsmen do not have ready cash to purchase these capital items. Foreign donors could simply deliver them (tractors, food, etc.) in kind to designated beneficiaries as USAID is now doing—but that would involve the notorious inefficiencies of a fiat economy as well as leaving the economy with no market structure. The challenge is to help the markets grow in the process of recapitalizing the traditional economy.

The modern sector is even more problematic. Private and foreign investors might support some level of investment for reconstruction. But a postwar Afghanistan is likely to be perceived for a considerable time as

[28]Fry, pp. 9-43.

posing high country risk, with few compensating advantages. Those with a choice are likely to be reluctant to invest their funds.

There will certainly be some interest in processing Afghanistan's natural gas—although the only logical customer is the Soviet Union. Other resources, such as petroleum, may interest other countries. A country such as India might have firms interested in cotton development and processing, or some activities with fruits and vegetables. A limited number of international corporations will be interested in securing a potential market, no matter how small. Some manufacturing of goods may be undertaken, probably not by multinationals, for smuggling into the adjoining closed economies. Because Afghanistan is likely to be somewhat dependent on these same adjoining countries, there is a limit on what can be expected in this connection. Other activities might be sustained by reconstruction demands (cement and building materials and agricultural inputs). Whether the assembly of tractors might be justified by what is likely to be a highly tractor-dependent economy remains to be seen. Finally, the government or subsidized private entrepreneurs will probably secure assistance for various enterprises, but the track record of such subsidized or parastatal enterprises is not good.

As the previous discussion indicates, the shape of the future for the modern sector is highly dependent on the volume and timing of donor assistance. Any projections thus need to be based on several alternative projections of these flows, several of which are provided in the final section of this chapter.

In the sections that follow, we rely on projections of the available data, but the figures are only approximations. The full projections are included in an appendix. In the discussions that follow we give only the most important figures and trends.

Production and Income

Production figures from Afghanistan have always been suspect. Even population figures are only approximate. The governments of Afghanistan since 1978—with limited control (perhaps a third of the population), more limited technical ability, and motivation to make matters appear better than they are—have produced almost unusable figures.

Table 5-1 draws heavily on the statistical series developed by Abdul Ferogh based on a variety of sources.[29] These estimates indicate a decline of

[29]Abdul Ferogh, *The Current Political and Economic Situation in Afghanistan*, Washington, D.C.: Nathan/Berger Joint Venture, September 1990.

One naturally also wonders how much of the informal GDP is caught in these figures, particularly the activity of the 600-odd trucks that we estimate

Afghanistan's already low GDP at a rate of 2.4 percent a year from 1978 to 1989, leaving Afghanistan with a per capita income of roughly $130. Total income dropped from $2.6 billion in 1978 to $2.0 billion in 1989 in 1978 constant prices, marginally up from 1986. Agriculture, livestock, and forestry, which account for an estimated 53.2 percent of the total in 1978 has been declining at a rate of 3.9 percent (because of the survey work by the Swedish Committee these figures are the firmest we have). Mining, industry, and energy, which account for 12.4 percent of the estimated total, have been declining at a rate of only 2.4 percent—although this masks the role of the sustained export of natural gas to the Soviet Union and perhaps some overreporting by parastatal management. Transport and communications show a decline of only 2.3 percent, which does not sound credible in a civil war, when major roads are cut. Trade and distribution show little decline, and services show an increase. As the war winds down, recovery could be expected on all of these accounts. The change is unlikely to be dramatic until significant numbers of refugees return. However, some land is returning to cultivation, and rudimentary industrial activity is being revived in the liberated areas. The Kabul regime is moving to secure donor funds for various activities in areas under its control (mainly cities), but it is difficult to estimate the impact.

In a future, more peaceful situation, several alternative scenarios are possible. They will be discussed later after review of investment and capital stock estimates.

Income flows are still predominantly in the private sector. This is especially true because of the dominance of agriculture—where even government production from the several state farms has fallen. Conversely, industrial production has progressively moved into state hands, partly because of the decline of small-scale and cottage industry. The major sectors of the economy have been nationalized.

Capital Stock

If estimates of income are shaky, those of corresponding capital stock are more so, particularly if the capital stock in the vast traditional or informal sector or agriculture is considered. There are various ways to estimate this stock, and we discuss them in the appendix. We can estimate what it would take to restore the physical stock of capital in agriculture to what it was in 1978—and estimate capital requirements in other sectors—by multiplying the shortfalls in income from the 1978 levels by an estimated

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are covered in the cross-border trade and the 11,000 people employed by USAID contractors in the country. A lot of this is probably covered in Pakistan's GDP to the extent that the trucks are registered in Pakistan, and the employees remit to their families in refugee camps in Pakistan.

TABLE 5-1A. NATIONAL PRODUCT (GDP) BY SECTOR

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Prices (1978=100)	77.4	69.2	76.3	85.3	85.8	92.4	100.0	125.8	126.9	133.1	140.9	136.7	147.2	312.8	306.2	362.6
GDP (In millions of 1978 US$)																
World Bank	78.2	87.5	94.3	97.1	103.2											
Macro Data Base																
Ferogh							113.7	99.1	91.6	91.5	89.5	85.8	86.1	82.4	81.0	
GOA/IMF							116.2									89.0
														150.4	154.9	139.0
Final Figures																
GDP (In millions of 1978 US$)	76.9	82.9	89.5	96.5	102.7	109.2	116.2	112.8	109.5	106.3	103.2	100.2	97.3	94.4	91.7	89.0
AGRICULTURE	40.9	44.1	47.6	51.3	54.6	58.1	61.8	58.4	55.3	52.3	49.4	46.8	44.2	41.8	39.5	37.4
Crops	27.8	30.0	32.3	34.9	37.1	39.5	42.0	40.1	38.2	36.6	34.9	33.3	31.8	30.4	29.0	27.7
Livestock	12.7	13.7	14.8	15.9	17.0	18.0	19.2	17.8	16.5	15.2	14.1	13.1	12.1	11.2	10.4	9.6
Forestry	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1
INDUSTRY	9.5	10.3	11.1	12.0	12.7	13.5	14.4	14.2	14.0	13.8	13.6	13.4	13.2	13.1	12.9	12.7
Handicrafts/small scale Industry	6.2	6.7	7.2	7.8	8.3	8.8	9.4	9.1	8.8	8.5	8.2	7.9	7.6	7.4	7.1	6.9
Mining	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Energy	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Large scale	2.1	2.2	2.4	2.6	2.7	2.9	3.1	3.2	3.3	3.5	3.6	3.7	3.9	4.0	4.1	4.3
TRANSPORTATION & COMMUNICATION	2.3	2.5	2.7	2.9	3.1	3.3	3.5	3.4	3.3	3.2	3.1	3.0	2.9	2.8	2.7	2.6
Transportation																
TRADE & DISTRIBUTION	6.4	6.9	7.5	8.1	8.6	9.1	9.7	9.6	9.5	9.5	9.4	9.3	9.2	9.2	9.1	9.0
GENERAL GOVERNMENT SERVICES	3.0	3.2	3.5	3.7	4.0	4.2	4.5	4.9	5.3	5.8	6.3	6.9	7.5	8.1	8.8	9.6
OTHER	10.9	11.8	12.7	13.7	14.6	15.5	16.5	16.1	15.8	15.4	15.1	14.8	14.4	14.1	13.8	13.5
DEPRECIATION	3.8	4.1	4.4	4.7	5.0	5.4	5.7	5.5	5.3	5.1	5.0	4.8	4.7	4.5	4.3	4.2
ERROR	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6	1.0	1.2	1.3	1.3	1.2	0.9	0.5	0.0

Note: Projections are made between known and end point years.

Sources: Government of Afghanistan (GOA)
International Financial Statistics (IFS), International Monetary Fund (IMF)
"The Current Political and Economic Situation in Afghanistan", A.Ferogh, Nathan/Berger Joint Venture, September 1990 (Ferogh)
"Afghanistan Macroeconomic Database Development", Nathan/Berger Joint Venture, January 1990 (Macro Data Base)
"Afghanistan: The Journey to Economic Development", World Bank, March 17,1978

TABLE 5-1B. SECTOR PERCENTAGE OF NATIONAL PRODUCT (GDP)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Final Figures																
GDP (in millions of 1978 US$)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
AGRICULTURE	53.2%	53.2%	53.2%	53.2%	53.2%	53.2%	53.2%	51.8%	50.5%	49.2%	47.9%	46.7%	45.5%	44.3%	43.1%	42.0%
Crops	36.1%	36.1%	36.1%	36.1%	36.1%	36.1%	36.1%	35.5%	35.0%	34.4%	33.8%	33.3%	32.7%	32.2%	31.6%	31.1%
Livestock	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	15.8%	15.0%	14.3%	13.7%	13.0%	12.4%	11.9%	11.3%	10.8%
Forestry	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.1%	0.3%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%
INDUSTRY	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.6%	12.8%	13.0%	13.2%	13.4%	13.6%	13.8%	14.0%	14.3%
Handicrafts/small scale industry	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.0%	8.0%	7.9%	7.9%	7.9%	7.8%	7.8%	7.8%
Mining	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.3%
Energy	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Large scale	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.8%	3.0%	3.3%	3.5%	3.7%	4.0%	4.2%	4.5%	4.8%
TRANSPORTATION & COMMUNICATION	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.9%	2.9%	2.9%
Transportation																
TRADE & DISTRIBUTION	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.5%	8.7%	8.9%	9.1%	9.3%	9.5%	9.7%	9.9%	10.1%
GENERAL GOVERNMENT SERVICES	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	4.3%	4.9%	5.4%	6.1%	6.8%	7.7%	8.6%	9.6%	10.8%
OTHER	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.3%	14.4%	14.5%	14.6%	14.7%	14.8%	14.9%	15.1%	15.2%
DEPRECIATION	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.8%	4.8%	4.8%	4.8%	4.8%	4.7%	4.7%

Note: The unchanging sector percentages are an artifact based on projection techniques. Projections are made between known and end point years.

Sources: Government of Afghanistan (GOA)
International Financial Statistics (IFS), International Monetary Fund (IMF)
"The Current Political and Economic Situation in Afghanistan", A.Ferogh, Nathan/Berger Joint Venture, September 1990 (Ferogh)
"Afghanistan Macroeconomic Database Development", Nathan/Berger Joint Venture, January 1990 (Macro Data Base)
"Afghanistan: The Journey to Economic Development", World Bank, March 17,1978

TABLE 5-1C. INVESTMENT AND CAPITAL STOCK

		1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Final Figures																	
GDP (from table 5-1/IA)		76.9	82.9	89.5	96.5	102.7	109.2	116.2	112.8	109.5	106.3	103.2	100.2	97.3	94.4	91.7	89.0
Population Total		12818.5	13104.2	13396.3	13694.8	14000.0	14305.2	14617.1	14935.7	13890.2	12917.9	12000.0	12060.0	12120.3	12180.9	12241.8	12303.0
Rural		9613.9	9828.2	10047.2	10271.1	10500.0	10728.9	10962.8	11201.8	10018.9	8960.9	8015.0	8055.1	8095.4	8135.8	8176.5	8217.4
Urban		1922.8	1965.6	2009.4	2054.2	2100.0	2145.8	2192.6	2240.4	2469.3	2721.7	3000.0	3015.0	3030.1	3045.2	3060.5	3075.8
Nomad		1281.9	1310.4	1339.6	1369.5	1400.0	1430.5	1461.7	1493.6	1300.0	1131.5	985.0	989.9	994.9	999.8	1004.8	1009.9
Total Pop Growth (%)			2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	-7.0%	-7.0%	-7.1%	0.5%	0.5%	0.5%	0.5%	0.5%
ICOR(Ag+Traditional) =	0.3																
ICOR (Other) =	4.0																
Investment (Private)	(In millions of 1978 US$)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment (Public)		5.6	5.3	6.1	7.1	13.4	10.8	8.5	5.7	9.6	8.1	8.4	8.5	9.0	5.3	7.8	6.8
Investment (Total)		5.6	5.3	6.1	7.1	13.4	10.8	8.5	5.7	9.6	8.1	8.4	8.5	9.0	5.3	7.8	6.8
Investment (%age GDP)		7%	6%	7%	7%	13%	10%	7%	5%	9%	8%	8%	8%	9%	6%	9%	8%

Note: ICOR = Incremental Capital Output Ratio (explained in the appendix)

TABLE 5-1D. GDP BY SECTOR (PRIVATE VS. PUBLIC)

(%age)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP	76.9	82.9	89.5	96.5	102.7	109.2	116.2	112.8	109.5	106.3	103.2	100.2	97.3	94.4	91.7	89.0
Private (%age)	79%	79%	79%	79%	79%	79%	79%	76%	75%	74%	72%	71%	70%	69%	68%	66%
Public (%age)	21%	21%	21%	21%	21%	21%	21%	24%	25%	26%	28%	29%	30%	31%	32%	34%
AGRICULTURE																
Private (%age)	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%
Public (%age)	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
INDUSTRY																
Private (%age)	71%	71%	71%	71%	71%	71%	71%	64%	63%	61%	60%	59%	58%	57%	55%	54%
Public (%age)	29%	29%	29%	29%	29%	29%	29%	36%	37%	39%	40%	41%	42%	43%	45%	46%
TRANSPORTATION & COMMUNICATION																
Private (%age)	86%	86%	86%	86%	86%	86%	86%	83%	80%	77%	75%	72%	70%	67%	65%	63%
Public (%age)	15%	15%	15%	15%	15%	15%	15%	17%	20%	23%	25%	28%	30%	33%	35%	37%
TRADE & DISTRIBUTION																
Private (%age)	79%	79%	79%	79%	79%	79%	79%	76%	75%	74%	72%	71%	70%	69%	68%	66%
Public (%age)	21%	21%	21%	21%	21%	21%	21%	24%	25%	26%	28%	29%	30%	31%	32%	34%
GENERAL GOVERNMENT SERVICES																
Private (%age)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public (%age)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
OTHER																
Private (%age)	60%	60%	60%	60%	60%	60%	80%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Public (%age)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
DEPRECIATION																
Private (%age)	79%	79%	79%	79%	79%	79%	79%	76%	75%	74%	72%	71%	70%	69%	68%	66%
Public (%age)	21%	21%	21%	21%	21%	21%	21%	24%	25%	26%	28%	29%	30%	31%	32%	34%

Note: This table is calculated as outlined in the Appendix based on data in Tables IA and IIA

TABLE 5-1E. GDP BY SECTOR (PRIVATE VS. PUBLIC)

(Millions US$)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP	76.9	82.9	89.5	96.5	102.7	109.2	116.2	112.8	109.5	106.3	103.2	100.2	97.3	94.4	91.7	89.0
Private	60.4	65.2	70.3	75.8	80.7	85.8	91.3	86.2	82.2	78.3	74.7	71.3	68.0	64.9	61.9	59.1
Public	12.6	13.5	14.7	15.9	16.9	18.0	19.1	20.5	21.0	21.6	22.2	22.8	23.5	24.2	24.9	25.7
AGRICULTURE																
Private	40.5	43.7	47.1	50.8	54.1	57.5	61.2	57.9	54.7	51.8	48.9	46.3	43.8	41.4	39.2	37.0
Public	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4
INDUSTRY																
Private	6.7	7.3	7.8	8.5	9.0	9.6	10.2	9.1	8.8	8.5	8.2	7.9	7.6	7.4	7.1	6.9
Public	2.8	3.0	3.3	3.5	3.7	4.0	4.2	5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.7	5.8
TRANSPORTATION & COMMUNICATION																
Private	2.0	2.1	2.3	2.5	2.6	2.8	3.0	2.8	2.6	2.4	2.3	2.1	2.0	1.9	1.8	1.6
Public	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.7	0.8	0.8	0.9	0.9	0.9	1.0
TRADE & DISTRIBUTION																
Private	4.7	5.0	5.4	5.8	6.2	6.6	7.0	6.8	6.6	6.4	6.2	6.1	5.9	5.7	5.6	5.4
Public	1.8	1.9	2.1	2.2	2.4	2.5	2.7	2.8	3.0	3.1	3.2	3.3	3.3	3.4	3.5	3.6
GENERAL GOVERNMENT SERVICES																
Private	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	3.0	3.2	3.5	3.7	4.0	4.2	4.5	4.9	5.3	5.8	6.3	6.9	7.5	8.1	8.8	9.6
OTHER																
Private	6.6	7.1	7.6	8.2	8.7	9.3	9.9	9.7	9.5	9.3	9.1	8.9	8.7	8.5	8.3	8.1
Public	4.4	4.7	5.1	5.5	5.8	6.2	6.6	6.5	6.3	6.2	6.0	5.9	5.8	5.6	5.5	5.4

Note: This table is calculated as outlined in the Appendix based on data in Tables IA and IIA.

amount of capital required to produce them. This is called an Incremental Capital Output Ratio (ICOR). We use the same ICOR for traditional economic sectors as for agriculture (0.3), and an ICOR of 4.0 (estimated by Fry) for the modern sectors. In agriculture, about $115 million is needed for a wage fund to support people returning to agriculture, $130 million for traction to replace lost oxen and tractors, and perhaps $25 million for other inputs, for a total of $270 million.[30] The wage fund is the amount that is required to support agriculturists until they get their first crops. The transport sector will require about $70 million.[31] The livestock, handicraft, forestry, and trade sectors should have ICORs like those of agriculture (roughly 0.3) and thus will need about $80 million.[32] The other sectors have at least the 4:1 ICOR projected by some for the Afghan economy and will require about $140 million. This gives a total of about $560 million, which will be required to restore the capital stock, to which 20 percent might be added to account for the additional population to give roughly $670 million. This total is one-fourth below the roughly $900 million that the UNDP estimated.[33]

These figures do not provide for ongoing investment to cover depreciation of the amounts involved in sustaining growth. They are, in theory, one-shot inputs. They appear at some variance with the projections that emerge from a straight ICOR projection based on past performance. (The latter are contained in a later section of this report.)

These calculations abstract from any notion of increasing the income of one of the poorest countries in the world. That would require raising the sustained level of investment. Private investment levels will have to be far

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[30]We assume that because the sharecropper was traditionally allowed to retain 40 percent of the crop, that is the subsistence wage in agriculture. Because the 1978-89 shortfall in crop agriculture is about $290 million, a $115 million wage fund would correspond to that shortfall. Various estimates of the shortfall in traction circulate, but we estimate that tractors are down 1,000 and oxen, 200,000 pairs or 8,000 tractor equivalents. At a tractor cost of $14,000, this gives us $125 million to restore farm traction to its level in 1978. We assume $25 million might be required for other purposes, for example, restoring small-scale irrigation works.

[31]The transport sector's capacity is estimated to have declined 6 percent, which would equal 1,400 trucks. At $50,000 a truck that would be 3.2 billion Afghanis.

[32]The shortfall 1978-89 times 0.3.

[33]*Final Report: Afghan Macroeconomic Database Development (Appendices)*, Table A-VII-1, "Distribution of Proposed Capital and Technical Assistance by Main Economic Sectors."

higher than they were in 1978 to produce rapid and sustained per capita income growth in Afghanistan.

Investment

Determining the level of investment is an art, not a science. Making some assumptions about relationships, we have estimated current investment in gross terms. In 1988-90, gross investment was about $120 million (all figures in constant 1978 value terms), down less than 6 percent from about $240 million in 1978. However, only $2 million of the $120 million was in the private sector, mostly an estimate for agriculture and craft industry, versus about $50 million in 1978. The investment figures are in gross terms. Net investment in the private sector probably continues to be negative.

Three facts should be noted: First, investment in relative terms, particularly in the private sector (where it was probably most productive), was never high. Second, rapid disinvestment occurred immediately after 1978 but has tapered off. Third, as indicated in the previous section, the amounts of investment that will be required to restore capital stock and production, let alone set off sustained growth, are several multiples of those achieved in the private sector in the past. In 1978, according to our figures, private sector investment was about $50 million and public sector investment about 190 million. The private sector, where most investment should occur and where capital stock destruction is considerable, has been investing a fraction of what it did in 1978.

Public sector investment is to some extent an accounting artifact. Although some level of investment in the assets required for government services is undoubtedly required, it represents investment of a different type from investment in other sectors. The high transportation figure in the tables in the appendix is mystifying unless it reflects projects linking the Soviet and Afghan economy and military expenses. The investment in parastatals is, by all accounts, remarkably unfruitful. Afghanistan gets very low yields in production from very heavy public sector investment.

The credit needs of an economy, as defined in this report, are the difference between the self-financing capacity of enterprises and the level of investment needed to sustain some desired level of income growth. These are credit as distinguished from grant needs only if financial institutions exist to meet the needs on a sustainable basis, the borrowers are "bankable," and the lenders can remain solvent.

A postwar Afghanistan will certainly have grant as well as credit needs, and as we emphasize, the challenge is to meet them both without undercutting the financial system for credit.

Table 5-2. FORMAL SECTOR (Current Afs.)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
SOURCES OF DOMESTIC CREDIT																
Da Afghanistan Bank	10761	10922	12172	12809	15916	15669	19326	24861	16081	23890	27974	42295	60917	75874	94881	142527
Commercial Banks	2795	3020	3509	2743	2565	2720	3632	4315	4589	4194	5446	5956	5801	7234	9086	12778
Bank Milli																
Pashtany Tejaraty Bank																
Specialized Banks	444	647	1401	1597	1851	2203	2287	2737	2586	2403	2605	2848	3194	3334	3410	2870
ADBA	384	572	1021	1181	1398	1615	1767	2062	1830	1631	1796	1842	1897	1933	1715	1308
IDB			300	351	402	553	502	587	651	648	690	877	1158	1252	1520	1366
MCB	60	75	80	65	51	35	18	88	105	124	119	129	139	149	175	196
EPB																
APPLICATIONS OF DOMESTIC CREDIT																
Domestic Credit Total *	13556	13942	15681	15552	18481	18389	22958	29176	20670	28084	33420	48251	66718	83108	103967	155305
Claims on Government	9565	9651	9697	9222	11837	12885	16177	19198	11067	16191	20243	30867	43982	56195	70471	126635
Claims on Non-Financial State Enterprises	9	11	770	1313	400	11	11	188	0	1839	8069	10955	16730	18957	23419	14136
Claims on Private Sector	3982	4280	5215	5016	6243	5494	6770	9790	9603	10054	5108	6429	4789	6728	8773	12699
Money Supply	10826	11297	12502	14976	18322	23752	28652	34187	39779	45815	52982	61606	68638	76359	85113	131419
Demand Deposits	552	585	1043	2179	4020	2728	4961	4215	4540	7974	3778	4814	6027	8045	8998	13095
% of Currency Outside Banks	95%	95%	92%	85%	78%	89%	83%	88%	89%	83%	93%	92%	91%	89%	89%	90%
% of Specialized Bank Lending as % of Total Claims on Private Sector:	11%	15%	27%	32%	30%	40%	34%	28%	27%	24%	51%	44%	67%	50%	39%	23%

* Does not include Specialized Banks

Sources: "Afghanistan: The Journey to Economic Development", World Bank; March 1978
Government of Afghanistan Documents (Da Afghanistan Bank)
"The Afghan Economy"; Maxwell Fry, 1974

Note: Data of bank lending for the following years were not available:
ADB - 76/77,83/84,84/85; IDB - 74/75 to 77/78; MCB - 73/74 to 77/78, 83/84, 84/85.
For these years an interpolation was estimated.

In summary, an addition to capital stock of $670 million, which may be spread out over several years, is needed to restore per capita GDP to its 1978 level (see discussion on Credit and Savings). Alternatively, investment of a continually rising amount equal to 7 percent of GDP a year could sustain a 3 percent growth rate in GDP; this would amount to $136 million in 1990 in 1978 constant prices. (A 3 percent rate growth rate in income is likely to be slightly ahead of the growth rate for population.) To achieve a 5 percent growth rate would require a $147 million investment in 1990. Although $147 million appears to be no more than a 30-odd percent rise over current levels, it will be difficult to achieve. Investment today is largely based on Eastern bloc funds for public sector investment. This source will have to be replaced by other donors, who may have many other demands on their funds. Much of the needed investment will go to traditional agriculture, craft industry, trade, and small-scale transport. Beyond that, if modern technology is to be used to increase productivity, much of that investment will have to flow to small farms and workshops. Afghanistan has never been able to finance these sectors either extensively or efficiently. The challenge will be to provide such credit and see that it is used productively.

Investment in the traditional private sector in Afghanistan has, historically, been heavily self-financed. The proprietors have now lost most of their own assets (they have been decapitalized). The bulk of external finance for these traditional units came from their richer relatives, friends, and neighbors. These, too, have been decapitalized. The traditional economy received some financing from the money bazaar and traders, whose credit activities have been severely reduced since the beginning of the war. Finally the traditional economy received small amounts of credit from poorly functioning formal sector banks. The Agricultural Development Bank at its height reached less than 8 percent of the country's farmers, mainly the larger ones, providing credit for their modern input purchases, such as tractors and fertilizer.

All of these sources together were providing less than $45 million credit to the private sector in 1978 and certainly very little now. Expansion of institutional or informal credit of the volume required would destroy the credit markets that exist or that could be created. Conversely, widespread grant distribution could undermine them if not judiciously coordinated with credit. There is no easy solution.

Credit and Savings

The bulk of private sector investment, especially in agriculture was and continues to be financed from the investors' own funds. The beginnings of formal sector finance in agriculture (the ADBA) reached less than 8 percent of farmers at one time, but now reaches almost none. Public sector investment is supported through public sector commercial banks as well as through direct budget allocation. In a general sense, however, much of this public sector investment, both in 1978 and now, corresponds to foreign economic assistance: the government rarely generates savings by running a surplus, and institutional domestic sector savings are generally low. Sixty-five percent of the development budget is funded by foreign project assistance; foreign assistance amounted to 79 million current dollars in 1989.

Public sector investment was heavily financed by bank credit to the government and government entities. In 1988, total investment was estimated at $120 million in 1978 prices, or 6 percent of GDP. Public investment accounted for the bulk of this. Bank credit to the government increased by $730 million in 1988 in current terms, although this also finances nonproductive government deficits. Other uses of bank credit are relatively insignificant. Any revival of the economy will require development of both formal and informal institutions to accommodate the large investment flows needed.

Projections

We have made three projections of future income and investment. The first assumes a sustained rate of 3 percent GDP growth, little more than the rate of population growth and takes until 1998 to attain prewar levels. The second assumes a 6 percent rate of growth and reaches prewar levels by 1995. The third assumes a fluctuating rate but reaches the 1978 level in 1995 as well. Assumptions have been made about increasing private sector roles in various industrial sectors.

The first growth rate is optimistic if foreign assistance is not forthcoming. The second and third rates are not impossible, given Afghanistan's relatively rapid growth before the war and the usual catch-up quality of postwar growth. All three projections depend heavily on the rate of return of refugees.

Without knowing the plans of donors it is impossible to determine how the needed investment will be funded. As in the past, public sector investment will probably be donor financed—but a considerable portion of expanded private sector investment could come from the sector itself: reinvested profits, foreign capital contributions, and perhaps a rising volume of informal and formal sector credit.

Chapter 6

FACTORS LIMITING FINANCIAL DEVELOPMENT IN AFGHANISTAN

As indicated in the introduction to this report, a financial system plays critical roles in investment and growth of national income, especially if the economic system relies on markets for allocating commodities. The extent to which a financial system plays these roles contributes to the efficiency of the allocation of resources and savings in transactions costs. Also important are how the system influences and is correlated with economic development.

The effectiveness of a financial system depends on its financial development, usually indicated by the extent to which it intermediates economic transactions. One quantitative indicator is the relationship between the volume of financial transactions and national income. Financial development is typified by a variety of financial instruments and by financial institutions to manage them. Afghanistan has always had a small variety of such instruments and institutions, and thereby a low level of financial development.[34] Although government policy has often been inappropriate, the primary reason for this lack of development has been not financial repression but a prohibition on certain transactions.

The primary constraint to financial development in Afghanistan has always been country risk, and this has only been exacerbated by the current civil war. Next has come the country's low level of economic and social development, manifest in the limited skill of clients and financial agents in handling the instruments they do have. Country risk is the risk caused by instability in a country's social, political, and economic systems—and the excessive costs those systems may impose on investment. The level of corruption and lawlessness in Afghanistan has always been a constraint to investment. The rural areas were dominated by local elites, who made their own law, and by customary laws that were not necessarily adapted to the needs of a modern economy or easy to enforce. The hostility of the central

[34]Fry, passim, pp. 61-64.

government to private enterprise, particularly after 1978, only made the situation worse.

Financial systems are dependent on a certain level of trust and stability, though not necessarily one guaranteed by the state.[35] Informal systems rely heavily on nonstate guarantees of financial contracts; formal systems usually rely more heavily on state guarantees. In the current Afghan situation, civil war has ruptured the social ties on which informal contracts are usually based, while the Afghan state, with limited capabilities in the best of times, has lost almost all control. Minimal financial accommodation of the traditional kind—between the landlords, big farmers, and businessmen and the tenants and sharecroppers, smaller farmers, and clients—has reemerged in the liberated areas as they are resettled and probably continues even in areas occupied by the Kabul government.

The Swedish Committee's survey for 1988-89 reports that relatively large numbers of farmers are receiving credit in certain provinces (40 percent in Ghor, 34 percent in Kandahar, 33 percent in Helmand, 22 percent in Samangan, and Zone) and much lower numbers elsewhere.[36] USAID reports that some of its statistical surveyors report the reemergence of moneylending.[37] The saraf/hundi/havala system continues as a remittance mechanism, but its credit elements have been radically reduced because of perceived risk. Several informants reported using the services of the leading sarafs (shroffs), bazaar moneylenders and remitters, Daud and Taher, to remit money to their families in Europe. But the shroffs and other businessmen denied that much lending was occurring. Loans from state banks to private parties, never very solid even in the best of times, have frequently slipped into arrearage.

As in other areas of the Afghan economy since 1978, there has been a radical process of decapitalization and deskilling. Considerable informal sector capital has been either destroyed or taken out of the country; formal sector institutions—and the government in Kabul on whose support those institutions are based—are largely insolvent.

As the informal networks contract, the skills and attitudes that were important to them contract as well. People move elsewhere, and the personal connections on which the markets were based erode. However, precisely because informal financial relationships are based on other personal and social relationships there is reason to hope for their reconstruction.

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[35]Alexander Gerschenkron. "The Modernization of Entrepreneurship." In *Modernization*, Myron Weiner ed., New York: Basic Books, 1966.

[36]Swedish Committee for Afghanistan, Sixth Report, p. 130.

[37]Ms. Diana Stiles, USAID/Peshawar.

Professionals trained in the formal sector have left the country, and new cadres have not been trained for several years. The skills that do exist in Kabul-based institutions, such as they are, are not appropriate for the functions of banks in a market economy, but to the type of command economy the Kabul government was trying to develop.

Chapter 7

REMEDIES TO DEVELOP THE AFGHAN FINANCIAL SYSTEM

Long Term

The establishment of a new political order in Afghanistan would restore enough stability to reduce "country risk." As country risk declines, skills and capital in the informal market will grow. Even a standstill in the countryside should result in reduced country risk and increased informal financial activity.

The key question, however, is what measures can be taken by a government of Afghanistan, with or without outside help, to further the financial development of the informal and formal financial sectors.

Informal Financial Markets

The informal financial sector is far more important than the formal sector but is the one that, by definition, the government has a more difficult time relating to. As the Asian Development Bank noted in its recent piece on informal markets, governments can regulate, link, and mimic this sector.[38] The strategy will have to be experimental, but if any lesson can be learned from the prewar period, it is that a financial sector policy unlinked to the informal sector is futile. Any Afghan government will have a hard time enforcing regulations on this sector—except in a bargaining mode. That is, certain privileges may be extended to informal agents in return for their compliance with certain rules. Thus permission to publicly solicit savings might be dependent on registration, keeping public books, and certain financial ratios. Eligibility to remit funds to and from the government could be predicated on similar requirements. Enforcement of debt contracts through the courts will have to be dependent on certain formal requirements. However, informal

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[38] "Informal Finance in Asia." In *Asian Development Outlook 1990.* Manila: Asian Development Bank, 1990, pp. 187-215.

financial agents would still be able to function legally if they did not want to make use of the government's facilities.

Links between informal and formal financial sectors are critical. Previous Afghan governments have been led into all sorts of contortions by their rejection of such links. Formal sector banks will have to deal with informal sector paper and might well look on informal agents as logical links with the broader economy. A fair number of prototypes exist in India and Pakistan, as well as farther afield, for discounting sarafs' paper, refinancing trade credit, and so forth. We will outline a proposal for a unit that can begin linkages now for financing cross-border trade.

Eventually it would be desirable to encourage formal sector institutions to compete with informal ones, if they can sustain the competition. A certain level of competition will have to be accepted. Such competition will involve some mimicking of informal market devices such as group guarantees for agricultural loans, an item that the ADBA successfully used in the pre-1978 period.

Formal Sector Institutions

Any Afghan government will require a formal banking system. Theoretically, such a system is not necessary—premodern regimes did quite well with sarafs as their treasurers. The modern aid donors on whom Afghanistan will depend require formal sector institutions. The IMF would be incapable of dealing with a country without a central bank, despite or perhaps because of the monopolistic profits such institutions reap for their owners. (Profits were the original reason for establishing central banks—to relieve absolute monarchs of having to get taxes from their parliaments.)

Da Afghanistan Bank will be reorganized; the IMF will provide technical assistance; the bank will serve as the channel of foreign donations and whatever other funds the government has; and the bank will have a monopoly right to issue currency. The Federal Reserve may be part of this process. Experience suggests that the central bank not do commercial banking. Competitive bank systems often follow the U.S. model in separating prudential supervision of the banks from the overall guidance of monetary policy and provision of liquidity. Whether Afghanistan, where neither of these roles (monetary control or prudential supervision) is now performed, can sustain two separate institutions to direct a small number of banks must be considered.

The existing commercial and specialized banks will have to be restructured and will continue to function at some level. One or two foreign banks will come in, if permitted, or buy into the current banks. There will be pressures to have these commercial banks function as the distributors of subsidized funds to the politically favored. Aid donors ought to resist such pressures, but they may find themselves swamped by other, more eager donors. Donors' concerns should be (1) strict prudential supervision, (2) vigorous competition in financial markets from informal sector agents and from international financial markets, and (3) restraint of the normal monetary expansionist, and thus inflationary, tendencies of governments under pressure. The Afghani is already so inflated that in an inversion of Gresham's Law—bad money drives out good—the Afghani is being displaced by the Pakistani Rupee for internal payments in Afghanistan. This has created a difficult but unavoidable situation for both Afghanistan and Pakistan in which, as with eurocurrencies, neither country really controls its own money supply.

USAID Response

The sensible way for USAID to proceed will be to establish a financial sector mission—probably parallel to but coordinated, and not joint, with other donors. The mission should recommend changes in the legal and institutional framework and provide technical assistance inputs—to be coordinated with those suggested by other donors in order to ensure construction of a healthy financial sector.

The particular pieces of technical assistance that USAID should fund will depend on both its track record (USAID projects begun in the immediate future) and the convenience of all concerned. We suggest strategies to prepare cadres for both central and commercial banks. It is essential that <u>no</u> funds for credit, capital funding of productive enterprises, or financial institutions be extended without their being coordinated with the common donor financial sector program. This refers particularly to programs of agricultural credit and rehabilitation of industrial units, though not so much to credit programs for tiny enterprises through social welfare organizations. The latter rarely compete with the rest of the financial sector—but rather complement it.

First Steps

With this long-range plan in view, USAID might take several immediate steps to position itself and the Afghan economy for future financial development. These steps will permit USAID and others to learn more about the informal sector and its possibilities, experiment with certain instruments and institutions, and develop some capitalization and skill levels that might be used as the basis for future development.

The financial sector has been deskilled and decapitalized. One can begin now to develop skilled cadres and capital pools that can serve the economy as it is capitalized.

Alternative Approaches

Direct distribution of commodities and financing would prevent Afghans from learning how to operate a market economy. To develop a market rather than a dole economy, efforts must begin, however tentatively, to develop such an economy. A 1989 food assistance proposal by Richard Newberg and Frank Gillespie at AID/Washington contrasted four methods of providing food aid and concluded that the use of commercial channels has the broadest potential to get food to the right people and develop a functioning market (noting that food-for-work and targeted grants to the vulnerable could have at best marginal effects).

Since 1990 the USAID Cross-Border Program has moved to use more commercial channels. Currently 85 percent of A.I.D.'s planned food aid consists of commercial sales (monetization) of P.L. 480 Title II commodities. The Private Sector Agribusiness component of the Agricultural Sector Support Program is designed to accelerate commercialization and privatization.

USAID aima to restore normal commercial flows through these commercial channels, with elements of subsidy being limited to those necessary to overcome the artificialities connected with the protected and closed nature of Pakistan's economy. USAID should also take care to protect that economy from the impact of suddenly opening its borders.

There are two alternatives: (1) the goods themselves continue to be provided to identified recipients on a more or less subsidized basis—roughly the current system; or (2) commercial dealers are encouraged to provide these goods, and the elements of subsidy, if any, are provided through the wholesale-retail chain from the Pakistan side. The former involves a greater substitution of donor for consumer judgment, the latter considerable risk that the subsidy element will be entirely captured by the Pakistan-based merchants and not passed on down the chain. As the study cited above indicates, direct distribution does not lead to superior targeting of beneficiaries over commercial distribution.

Normal commercial channels have an existing financial system continuous with that which existed in Afghanistan before 1978 and, to some extent, manned by the same people. Two elements are (1) a system of trucks that are able to negotiate the difficult terrain of the roads that are open into the country and whose owners, including several public sector organizations and contractors such as Afghan Constructions and Logistics Units (ACLU), have achieved various sorts of accommodations with the local commanders and tribes through whose territories they must pass, and (2) a system of sarafs who can arrange the remittance of money to and from Kabul and perhaps other centers in the country. In principle, both systems could provide some element of credit, but at the moment most transactions involve cash in advance. The trucks are often purchased on an installment basis, although it is not clear who is providing the money. The goods involved themselves may be sold by the Pakistani and Afghan sellers on some sort of credit terms.

Factors To Consider

The development of financial systems to serve the Afghan economy must involve three factors: Islam, country risk, and low financial skills levels.

Islamic Banking

Any banking in postwar Afghanistan will probably have to include some form of Islamic banking.[39] Unfortunately, the immediately available model is the Pakistani one—which generally performs less well than for-profit Islamic banks that compete with and often serve different clienteles than standard ones.

As Clement Moore describes it

> "Islamic" banks distinguish themselves from the mainstream of banks operating in Muslim countries by rejecting the conventional banking practices of charging interest on loans and paying interest on deposits. . . . Instead of charging fixed rates to borrowers, they share in the profits—and risk of losses—of the borrowers' business transactions, and they divide their share of the profits in turn, with investors who have deposited funds in the bank. . . . The Islamic requirement to share business risks with borrowers has encouraged Islamic banks to devote most of their activity to short-term trade financing. . . . [Murbaha and Ijara versus mudaraba and musharika].[40]

The competitive Islamic banks initially started out with a higher return than did non-Islamic banks, based on their advantaged niche serving pious Muslims who had previously not dealt with banks. Their returns have since declined, because of poor loans and provisioning, suggesting that they have as much need for prudential regulation as other banks.

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[39]This was an early consideration in Afghan banking in the 1930s. Fry describes how it was dealt with at the time by separating interest and loan principal payments. (Fry, p. 84.) The 1930s solution would be unacceptable now.

[40]Clement Henry Moore. "Islamic Banks and Competitive Politics in the Arab World and Turkey." *Middle East Journal*, 44:2, Spring 1990, pp. 234-255.

The "mudarabas" in Pakistan are private firms that borrow from the public on a long-term basis and take what normally would be considered equity or venture capital shares in firms. Depending on the precise terms of their license, they can undertake almost any Islamic financial transaction in addition to mudaraba itself. These "mudarabas" may form a prototype for one Afghan financial institution.

In theory, Islamic financial instruments should work no differently from others but may incur somewhat higher costs because of the risk sharing they entail. In practice, when their prices are not manipulated as they are in Pakistan, they often compensate by the greater moral sanction and cheaper information network they build on. In postwar Afghanistan, where both moral sanction and information are likely to be at a premium, this may make Islamic banking not only necessary but desirable.

Country Risk

Afghanistan has always posed a high country risk. Considerable turmoil at the governmental center has been linked to weak control over the periphery. Repressive laws, widespread lawlessness, and corruption have all increased the risk of conducting any kind of business in Afghanistan. These factors were characteristic before 1978 and are likely to remain so in any future Afghan government. To the extent that USAID can support stability, the rule of law, and the enforceability of contracts—through policy dialogue or support for a central regime—it will be of great service to the country.

Skill Levels

The country has also been characterized by a low level of skills, in both general and commercial matters. This is true even though Afghanistan is a great crossroads for commerce and the Pashtuns are famous throughout the Indian subcontinent as businessmen and moneylenders. The inability to follow simple accounting procedures and send correspondence is a heavy handicap for commerce, and one that has been exacerbated by the large-scale deskilling caused by the civil war.

What To Do Now

USAID could start now to familiarize Afghans with financial market institutions and help them hone the necessary skills. The disorder caused by the war and the poverty of the country pose severe limits, but neither is an excuse for avoiding the introduction of markets. Slowly, cautiously, and experimentally the Mission should move to develop its experience dealing with financial market institutions.

Toward a Central Bank

Some of the cadres for a central bank should ideally be developed now, so they will be ready when a bank is created. The skills needed have more in common with those needed in a planning or finance ministry than those used by commercial bankers. We propose the development of an autonomous Afghan Economic Studies Group with a department concerned with macroeconomic management. Such an institution could now sustain itself by doing contract research for donors and others, but it would serve as a nursery for cadres for future macroeconomic management institutions like a central bank. At the same time, it could produce papers and conduct seminars to deal with the macroeconomic considerations a new Afghan government will have to face.

The institution would require an integrated program of overseas training and technical assistance and some initial capital to get started. Its success, like the financial unit mentioned further on, is predicated on its autonomy both from Pakistani and specific Afghan party control.

The precise details of where to locate such an Economic Studies Group are open. We had envisioned an organization that would operate primarily as a consulting firm, and thus might well be organized as such and seek contracts from donors and Afghan fund sources to do contract or grant supported research. It would originally need some seed money, and perhaps some initial contracts to work on, as well as links with American firms and perhaps universities and other research institutions.

Hundis for Remittances

The Mission could make some of its own remittances through hundis. The limitations of the hundi system are the very high costs dictated by the difficult terrain and the high degree of political risk as evidenced by the large amounts of money that are still physically trucked around the country.[41]

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[41]The limitations of this system and its possible use must be treated as a footnote, though it is potentially a channel for credit. It is not clear to what extent the system can reliably make payments to points in the liberated areas as distinguished from Kabul and Kandahar and the costs of such transmission. If reliable and reasonably priced remittance is possible, USAID could consider channeling some A.I.D. funds through hundis—to help develop them and to get a better feel for their possibilities.

The remittances are legal in Pakistan if denominated in Afghan currency; however, some coordination with Pakistani authorities is probably required. De facto, payments might be made in a currency other than the one of nominal remittance (but this is difficult to control with any remittance). In any case, counsel needs to be taken about the legality of the remittances—as well as investigations of their reliability and cost-effectiveness. Administrat-

Trade Credits for Cross-Border Trade

Another credit proposal has been made to the Mission as well. Cary Raditz explored the potential of private sector firms to channel fertilizer and farm machinery imports and agricultural exports from the liberated areas. He concluded that "credit to traders is not a constraint to increasing cross-border flows," but suggested that the Agricultural Sector Support Project may have to "stand behind many deals." This would involve, he indicates, using the Reflow Account with Habib Bank as a "backup." He recommends introducing specific traders to specific banks. One should note that Raditz supports "back-up" to bankable, cross-border traders with assets and reputations in Pakistan but not directly to farmers against whom recourse would be harder.[42]

A RONCO Consulting Corporation team headed by Galen Hull presented a Pilot Activity Document that reported considerable interest in business enterprises in the liberated areas—in transportation, food production, and construction—but did not recommend any credit-related activities.[43]

Banking Units

Activities such as those proposed by Raditz point to the potential for small banking units that could undertake trade financing for Afghan merchants for the cross-border trade, including those sponsored by USAID. The units might also provide some funds to participate with Afghan mudarabas in some of the financing that they undertake. The funds for such units could come from Afghan traders, but they would almost certainly require political and technical support as well.

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ively, of course, remittances might be a more reliable way to support purchases at in-country markets than is direct consignment of goods because more parties would be involved in the transaction.

Besides the learning value, A.I.D. would be supporting the extension of a payments mechanism and, potentially, a credit mechanism. If an effort of this sort is undertaken, it might form the basis for some sort of liaison with the Saraf's Association as an institution.

Because such an effort was not included in the original terms of reference for this study, it is only being treated in passing here. Further work would be required to undertake it.

[42]Cary Wingfield Raditz. "Financing Cross-Border Trade: Reconstructing Agriculture and Agribusiness in Afghanistan." Afghanistan Agricultural Support Project. September 14, 1990.

[43]Afghanistan Private Sector Development: Pilot Activity Document. RONCO, November 1990.

This kind of banking unit would promote the creation of a financial institution and skilled cadres for a postwar Afghanistan. Several similar competing units would be a considerable asset for a postwar Afghanistan. The parties involved in the credit discussed here are well known and typically have assets and, more important, a credit reputation on both sides of the border. It is critical that they all have considerable amounts of their own money at risk and that there be some Afghan co-financing in the institutions. Any defaults will then affect private as well as public creditors because the latter have low credibility with borrowers.

The easiest way to develop these financial units would appear to be to permit Afghan-staffed institutions located in Pakistan (perhaps in Pakistani banks) to extend further credit to Afghan traders or, better, to discount some portion of the trade debt of those who sell to the Afghanistan trade. Because responsibility would lie with firms with some presence in Pakistan, collection would be easier. One of the key difficulties for A.I.D. will lie in negotiations with the Pakistani authorities to permit such activity—even though it is ultimately in Pakistan's interest, activating Pakistan's potential trade with Afghanistan. Pakistani banking authorities have indicated informally that they are open to such a proposal. Undoubtedly, potential competitive networks already exist from Iran and India, as well as the official network between the Soviet Union and the Kabul regime. A prototype unit could take advantage of the excess liquidity in the Afghan trading community, train new banking cadres, and assist economic activity in the liberated areas.

Although the foundation of these banking units requires Pakistani consent, it is essential that their autonomy be protected, especially through Afghan equity ownership, Afghan personnel with diverse party representation, and an Afghan client base with as deep involvements inside the country as possible. As some of the tentative financing arrangements are undertaken—using hundis for remittance and promoting private finance of cross-border trade—a feasibility study might be undertaken of such a unit.

No Direct Credit in Afghanistan

For the moment, direct credit to farmers or others in Afghanistan would be difficult because of political risks and the difficulty of ascertaining what is occurring within the country. Interestingly, almost all the interviewed parties in Peshawar—Afghan and foreign—agreed on this point. None of the voluntary organizations was willing to undertake such a credit program. The Afghan Interim Government has been promoting a bank of its own that is meeting Pakistani resistance. This bank would be for meeting the government's payment needs rather than for financing purposes.

Agricultural Bank

After the relative success of the earlier ADBA, it too might be a prototype for a bank to be set up in the postwar period.

Research on the Informal Sector

If the A.I.D. Representative for Afghan Affairs intends to have more extensive involvement with cross-border private sector transport and finance networks over a longer term, it may be wise to invest in a detailed study of the transport and finance networks involved. The study would involve a long-term-resident, Pashtu/Dari-speaking investigator with an anthropologic approach to economic questions. The investigator would require firm sponsorship and introductions to all concerned parties because he would undoubtedly be the object of suspicion and incomprehension.

Macroeconomic Research

Another activity suggested by this study is an attempt to generate provincial level income, investment, and savings estimates based on direct survey and analysis, for selected, accessible provinces. This would permit the Mission to continually monitor these matters.

Summary

Afghan financial systems have always been characterized by high country risk and a low level of skills. This situation has been exacerbated by the deskilling and decapitalization caused by the war.

A postwar Afghanistan will require a stable political regime to reduce country risk, a revived informal sector to serve most of the economy, and a network of formal sector financial institutions. In addition to political stability, reduced country risk requires good macroeconomic management.

The informal sector needs to be linked to, as well as mimicked by and in competition with, the formal sector institutions. These formal sector institutions need to develop skilled cadres and prototype institutions and instruments. Experimental activities can begin now to prepare such cadres and prototypes—for example, (1) encourage the use of traditional means of remitting money, (2) provide support to privately owned institutions to allow them to discount cross-border paper, (3) provide support to Islamic financial institutions, and (4) aid the development of a prototype economic research unit from which a central bank cadre could grow. Now it is not desirable to support direct credit programs in Afghanistan.

Appendix A

METHODOLOGICAL NOTE ON ESTIMATING PRODUCTION AND INVESTMENT

Investment

Investment is the part of the Gross Domestic Product (GDP)—everything produced or provided in a country—devoted to increasing or maintaining the stock of capital. The portion that increases the capital stock is called net investment, the portion devoted to maintaining the stock, depreciation. In economic terms, the stock of capital refers to fixed assets such as buildings and equipment, the inventories of goods and raw materials which are kept by economic units, and the working capital funds used to support payroll, needs for cash, and so forth. For example, a farm needs a "wage fund," from which to pay its workers. Nonpaid family workers also draw on this fund for their subsistence. As the farm produces and sells produce, this fund is continually emptied and replenished. At any given point, however, it represents a part of the farm's capital stock.

There are numerous ways to determine an economy's level of investment. (1) A firm-level study can be made of an economy's economics activities, in which data is gathered on the surveyed units' actual investment. (2) GDP is composed of investment and consumption: consumption can be determined by survey and subtracted from GDP (which is determined on other bases). (3) Investment can also be determining the growth rate of the economy, again by other means, and the Incremental Capital Output Ratio (ICOR), the amount of investment corresponding to a given increase of income. (4) The stock of new capital goods put in service and the amounts in which they are used can be physically estimated.

Typically, a combination of these techniques is used for different sectors as we did in Afghanistan. We determined public sector investment from government documents produced in connection with the government planning and used two techniques to determine private investment. For agriculture we estimated the value of physical capital required to restore production to its 1978 level. For the other sectors we used an estimate of the economy's growth rate and sectoral ICORs (based on the physical stock of capital used in the agricultural and transport sectors) and an estimated ICOR for the other sectors (4 for the modern sectors and .3 for the more traditional sectors, such as agriculture.

In his book *Afghan Economy*, Maxwell Fry used the second ICOR-based approach to estimate private sector investment from the 1940s to 1972. It is based on the Harrod-Domar model, which states that

$$Y = K/k$$

If Y is GDP, K is the capital stock, and k is the ICOR, then

$$dY = dK/k \text{ and } dY/Y = (dK/Y)/k$$

where d stands for increment in, dY/Y is the growth in output, and dK is investment.

GDP Income Estimates

Official Government of Afghanistan estimates of national income are suspect, especially in the last few years. Even before the Soviet invasion the World Bank regularly corrected official production estimates. The turmoil of the past 10 years has exacerbated the situation, especially with respect to the agricultural sector, which has regressed to a subsistence state, and because of the growth of the informal economy. With two-thirds of the population and its production not under government jurisdiction, it is difficult to include its activity in official figures.[1]

For our purposes GDP at factor cost (i.e., net of subsidies and taxes) for the years 1972-73 is assumed to have increased at a rate of 7.3 percent a year, while from 1975-76 to 1977-78 it rose at a rate of 6 percent a year. These estimates are based on the World Bank's estimates for those years. An assumption was made that the proportional size of each sector would be the same as estimated for 1977-78. Estimates for the years 1987-88 to 1989-90 are based on estimates made by Abdul Ferogh for a Nathan/Berger project.[2] From 1979-80 to 1986-87 it was assumed that the economy declined at a constant rate each year.

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[1]Thomas Eighmy, *Afghanistan's Population, Inside and Out*. O/AID/REP, May 1990.

[2]Abdul Aziz Ferogh, *The Current Political and Economic Situation in Afghanistan*. Washington, D.C.: Nathan/Berger Afghanistan Studies Project, September 1990.

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Estimates of the Role of the Private and Public Sectors in Each Productive Sector

Estimates were made to assist in determining the role of the private and public sector in investment and production. All are rough approximations.

Agriculture

The agriculture sector continues to be the domain of the private sector even in the Kabul-controlled areas, so we estimated that the private sector accounted for 99 percent of the total. There were some attempts to set up state farms, but we understand that these have largely been abandoned.

Industry

In general, handicraft and smaller enterprises are privately run, even in the Kabul government areas, whereas all large-scale industry, mining, and energy are owned by the government. In the 1972 to 1978 period there were still a few large, partially privately owned firms, which were then nationalized. For that period we arbitrarily assume that 25 percent of large-scale industrial production was in the private sector. In our projections for the future, we increase the percentage of private investment and production.

Transportation and Communications

The transportation sector, primarily over-the-road trucking was traditionally privately run, although private sector dominance has decreased since 1978. Based on haulage estimates provided by Ferogh for the pre- and postwar periods, we have assumed that the private sector was responsible for 95 percent of road haulage before 1979, decreasing to 63 percent by 1987. We increase the private percentage in our future projections. There are, of course, a few other transportation enterprises. Ariana Airlines was government run throughout this period and ran a regular schedule of planes; nonmotorized haulage is important, particularly for local short hauls. We neglected these two smaller subsectors. Communications, which represented 5 percent of total transportation value added, has been exclusively public controlled throughout.

Trade and Distribution

The trade and distribution sector is inherently difficult to handle. The pre-1978 Afghan government already channeled through parastatals a large number of imports and exports, even though the level of smuggling was already large. The Kabul government has continued this channeling, especially the expanded trade with the Soviet Union, the Eastern bloc countries (especially Czechoslovakia), and by using some UN donations and has attempted to insert itself into the distribution of consumer goods in the city.

Conversely, the Kabul government has no control over two-thirds of the population, and lower-level retail and even wholesale trade remains private even in government areas. In the absence of firm data, we assume that the public and private sector shares are the same as for the economy as a whole, and we increase the private sector projections for the future.

Other

The "other" sector, which consists of construction, housing, and private sector services, is assumed to be 60 percent private and 40 percent public—assuming that there is a fair amount of public sector housing construction—though it is not clear to what extent private sector contractors may be used. Again we increase the private sector projections for the future.

Government Services

Government services are assumed to be 100 percent public sector—however, this category really should include the services of the shuras and commanders in the liberated areas.

Estimating Public and Private Sector Investment

As we indicated, our public sector investment figures are based on figures from government documents.

Agriculture

Investment in agriculture has traditionally meant investment in irrigation, such as that in the Helmand Valley, and irrigation still represents more than 50 percent of public investment in this sector. Total government investment in this sector has declined considerably since 1978, in both real and proportional terms. If one does not control area, there is obviously some difficulty in irrigating it. Public investment in this sector dropped from 25 percent of the investment budget ($47 million) in 1978 to 10 percent of the investment budget in 1987.

Industry

The importance of industry in the government development plan has changed little over the past 20 years. Public investment in this sector has averaged between 36 and 47 percent of the total development budget. Since 1978 almost all funding has presumably been for public sector units.

Transportation and Communications

Although the percentage of the total public investment budget going to this sector has been considerable throughout, it has been growing in recent years. It climbed from 10 percent of the budget in the Third Plan period to 20 to 30 percent in recent years.

Trade and Distribution

The expanded government role must have been accompanied by increased investment, but it is difficult to extract a figure from current government accounts.

Other and General Government Services

It is assumed that both the "other" and "general government services" categories are included under the Government of Afghanistan's investment category "Social Services." Funding for social services, which has increased considerably since 1978 to its current level of roughly 30 percent of total public investment, is primarily for health and education.

Estimates of Investment from the ICOR Model

Investment in Afghanistan ran an average of 16 percent of GDP between 1972 and 1978. The disruption caused by the war and the resulting decline in population resulted in a sharp drop in investment levels in the period extending through the early 1980s. Since that time investment has recovered somewhat and is now about 6 percent of GDP. Even this reflects the high level of Soviet economic assistance that has funded this investment and that will decline as it has in the last year. It also indicates a remarkably low efficiency of investment—because it has been accompanied by a fall in industrial production.

These estimates are considerably higher than those reported by Fry, who found the average investment rate to be around 7.5 percent for the Third Plan and 12.5 percent in the Second Plan. The difference in these two estimates is evident between Fry's estimated level of income growth and ours, even though we used his 4.0 ICOR for the modern sector. Fry's level of income growth was based on population growth at a level much lower than now generally accepted; ours is explained above.

The investment rate is not so out of line with other civil war-affected, aid-dependent countries like Ethiopia (14 percent), Uganda (12 percent), Mozambique (22 percent), and Chad (18 percent).

Explanation of Tables

The tables that follow present data from the discussion in the appendix. Tables A-1 and A-6 were compiled from various sources, noted in each case. In several cases data endpoints have been connected by straight-line projections. Tables A-2 through A-5 represent further extrapolation of the logic implicit in the relationships shown in Tables A-1 and A-6 and of assumptions made in the appendix. The next three sets of tables (IVA through IVC) represent judgments about the likely private-public allocations of production in various sectors, as discussed in the appendix. The so-called "random rate" is included to show the result of using a randomly fluctuating income growth rate that is more realistic than the smooth rates in the other two projections. As noted in the text, these data are somewhat artificial but may be helpful in understanding the overall logic of events in the Afghan economy.

TABLE A-1. NATIONAL PRODUCT (GDP) BY SECTOR

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Prices (1978=100)	77.4	69.2	76.3	85.3	85.8	92.4	100.0	125.8	126.9	133.1	140.9	136.7	147.2	312.8	306.2	362.6
GDP (in millions of 1978 US$)																
World Bank	78.2	87.5	94.3	97.1	103.2											
Macro Data Base							113.7	99.1	91.6	91.5	89.5	85.8	86.1	82.4	81.0	
Ferogh							116.2									89.0
GOA/IMF														150.4	154.9	139.0
Final Figures																
GDP (in millions of 1978 US$)	76.9	82.9	89.5	96.5	102.7	109.2	116.2	112.8	109.5	106.3	103.2	100.2	97.3	94.4	91.7	89.0
AGRICULTURE	40.9	44.1	47.6	51.3	54.6	58.1	61.8	58.4	55.3	52.3	49.4	46.8	44.2	41.8	39.5	37.4
Crops	27.8	30.0	32.3	34.9	37.1	39.5	42.0	40.1	38.3	36.6	34.9	33.3	31.8	30.4	29.0	27.7
Livestock	12.7	13.7	14.8	15.9	17.0	18.0	19.2	17.8	16.5	15.2	14.1	13.1	12.1	11.2	10.4	9.6
Forestry	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1
INDUSTRY	9.5	10.3	11.1	12.0	12.7	13.5	14.4	14.2	14.0	13.8	13.6	13.4	13.2	13.1	12.9	12.7
Handicrafts/small scale industry	6.2	6.7	7.2	7.8	8.3	8.8	9.4	9.1	8.8	8.5	8.2	7.9	7.6	7.4	7.1	6.9
Mining	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Energy	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Large scale	2.1	2.2	2.4	2.6	2.7	2.9	3.1	3.2	3.3	3.5	3.6	3.7	3.9	4.0	4.1	4.3
TRANSPORTATION & COMMUNICATION	2.2	2.5	2.7	2.9	3.1	3.3	3.5	3.4	3.3	3.2	3.1	3.0	2.9	2.8	2.7	2.6
Transportation																
TRADE & DISTRIBUTION	6.4	6.9	7.5	8.1	8.6	9.1	9.7	9.6	9.5	9.5	9.4	9.3	9.2	9.2	9.1	9.0
GENERAL GOVERNMENT SERVICES	3.0	3.2	3.5	3.7	4.0	4.2	4.5	4.9	5.3	5.8	6.3	6.9	7.5	8.1	8.8	9.6
OTHER	10.9	11.8	12.7	13.7	14.6	15.5	16.5	16.1	15.8	15.4	15.1	14.8	14.4	14.1	13.8	13.5
DEPRECIATION	3.8	4.1	4.4	4.7	5.0	5.4	5.7	5.5	5.3	5.1	5.0	4.8	4.7	4.5	4.3	4.2
ERROR	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6	1.0	1.2	1.3	1.3	1.2	0.9	0.5	0.0

Note: Projections are made between known and end point years.

Sources: Government of Afghanistan (GOA)
International Financial Statistics (IFS). International Monetary Fund (IMF)
"The Current Political and Economic Situation in Afghanistan", A.Ferogh, Nathan/Berger Joint Venture, September 1990 (Ferogh)
"Afghanistan Macroeconomic Database Development", Nathan/Berger Joint Venture, January 1990 (Macro Data Base)
"Afghanistan: The Journey to Economic Development", World Bank, March 17,1978

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TABLE A-2. SECTOR PERCENTAGE OF NATIONAL PRODUCT (GDP)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Final Figures																
GDP (in millions of 1978 US$)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
AGRICULTURE	53.2%	53.2%	53.2%	53.2%	53.2%	53.2%	53.2%	51.8%	50.5%	49.2%	47.9%	46.7%	45.5%	44.3%	43.1%	42.0%
Crops	36.1%	36.1%	36.1%	36.1%	36.1%	36.1%	36.1%	35.5%	35.0%	34.4%	33.8%	33.3%	32.7%	32.2%	31.6%	31.1%
Livestock	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	15.8%	15.0%	14.3%	13.7%	13.0%	12.4%	11.9%	11.3%	10.8%
Forestry	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%
INDUSTRY	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.6%	12.8%	13.0%	13.2%	13.4%	13.6%	13.8%	14.0%	14.3%
Handicrafts/small scale industry	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.0%	8.0%	7.9%	7.9%	7.9%	7.8%	7.8%	7.8%
Mining	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.3%
Energy	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Large scale	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.8%	3.0%	3.3%	3.5%	3.7%	4.0%	4.2%	4.5%	4.8%
TRANSPORTATION & COMMUNICATION Transportation	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.9%	2.9%	2.9%
TRADE & DISTRIBUTION	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.5%	8.7%	8.9%	9.1%	9.3%	9.5%	9.7%	9.9%	10.1%
GENERAL GOVERNMENT SERVICES	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	4.3%	4.9%	5.4%	6.1%	6.8%	7.7%	8.6%	9.6%	10.8%
OTHER	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.3%	14.4%	14.5%	14.6%	14.7%	14.8%	14.9%	15.1%	15.2%
DEPRECIATION	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.8%	4.8%	4.8%	4.8%	4.8%	4.7%	4.7%

Note: The unchanging sector percentages are an artifact based on projection techniques. Projections are made between known and end point years.

Sources: Government of Afghanistan (GOA)
International Financial Statistics (IFS), International Monetary Fund (IMF)
"The Current Political and Economic Situation in Afghanistan", A.Ferogh, Nathan/Berger Joint Venture, September 1990 (Ferogh)
"Afghanistan Macroeconomic Database Development", Nathan/Berger Joint Venture, January 1990 (Macro Data Base)
"Afghanistan: The Journey to Economic Development", World Bank, March 17,1978

TABLE A-3. INVESTMENT AND CAPITAL STOCK

		1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Final Figures																	
GDP (from table 5-1/IA)		76.9	82.9	89.5	96.5	102.7	109.2	116.2	112.8	109.5	106.3	103.2	100.2	97.3	94.4	91.7	89.0
Population Total		12818.5	13104.2	13396.3	13694.8	14000.0	14305.2	14617.1	14935.7	13890.2	12917.9	12000.0	12060.0	12120.3	12180.9	12241.8	12303.0
Rural		9613.9	9828.2	10047.2	10271.1	10500.0	10728.9	10962.8	11201.8	10018.9	8960.9	8015.0	8055.1	8095.4	8135.8	8176.5	8217.4
Urban		1922.8	1965.6	2009.4	2054.2	2100.0	2145.8	2192.6	2240.4	2469.3	2721.7	3000.0	3015.0	3030.1	3045.2	3060.5	3075.8
Nomad		1281.9	1310.4	1339.6	1369.5	1400.0	1430.5	1461.7	1493.6	1300.0	1131.5	985.0	989.9	994.9	999.8	1004.8	1009.9
Total Pop Growth (%)			2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	-7.0%	-7.0%	-7.1%	0.5%	0.5%	0.5%	0.5%	0.5%
ICOR(Ag+Traditional) =	0.3																
ICOR (Other) =	4.0																
Investment (Private)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment (Public)	(In millions of	5.6	5.3	6.1	7.1	13.4	10.8	8.5	5.7	9.6	8.1	8.4	8.5	9.0	5.3	7.8	6.8
Investment (Total)	1978 US$)	5.6	5.3	6.1	7.1	13.4	10.8	8.5	5.7	9.6	8.1	8.4	8.5	9.0	5.3	7.8	6.8
Investment (%age GDP)		7%	6%	7%	7%	13%	10%	7%	5%	9%	8%	8%	8%	9%	6%	9%	8%

Note: ICOR = Incremental Capital Output Ratio (explained in the appendix)

TABLE A-4. GDP BY SECTOR (PRIVATE VS. PUBLIC)

(%age)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP	76.9	82.9	89.5	96.5	102.7	109.2	116.2	112.8	109.5	106.3	103.2	100.2	97.3	94.4	91.7	89.0
Private (%age)	79%	79%	79%	79%	79%	79%	79%	76%	75%	74%	72%	71%	70%	69%	68%	66%
Public (%age)	21%	21%	21%	21%	21%	21%	21%	24%	25%	26%	28%	29%	30%	31%	32%	34%
AGRICULTURE																
Private (%age)	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%
Public (%age)	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
INDUSTRY																
Private (%age)	71%	71%	71%	71%	71%	71%	71%	64%	63%	61%	60%	59%	58%	57%	55%	54%
Public (%age)	29%	29%	29%	29%	29%	29%	29%	36%	37%	39%	40%	41%	42%	43%	45%	46%
TRANSPORTATION & COMMUNICATION																
Private (%age)	86%	86%	86%	86%	86%	86%	86%	83%	80%	77%	75%	72%	70%	67%	65%	63%
Public (%age)	15%	15%	15%	15%	15%	15%	15%	17%	20%	23%	25%	28%	30%	33%	35%	37%
TRADE & DISTRIBUTION																
Private (%age)	79%	79%	79%	79%	79%	79%	79%	76%	75%	74%	72%	71%	70%	69%	68%	66%
Public (%age)	21%	21%	21%	21%	21%	21%	21%	24%	25%	26%	28%	29%	30%	31%	32%	34%
GENERAL GOVERNMENT SERVICES																
Private (%age)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public (%age)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
OTHER																
Private (%age)	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Public (%age)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
DEPRECIATION																
Private (%age)	79%	79%	79%	79%	79%	79%	79%	76%	75%	74%	72%	71%	70%	69%	68%	66%
Public (%age)	21%	21%	21%	21%	21%	21%	21%	24%	25%	26%	28%	29%	30%	31%	32%	34%

Note: This table is calculated as outlined in the Appendix based on data in Tables IA and IIA.

TABLE A-5. GDP BY SECTOR (PRIVATE VS. PUBLIC)

(Millions US$)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP	76.9	82.9	89.5	96.5	102.7	109.2	116.2	112.8	109.5	106.3	103.2	100.2	97.3	94.4	91.7	89.0
Private	60.4	65.2	70.3	75.8	80.7	85.8	91.3	86.2	82.2	78.3	74.7	71.3	68.0	64.9	61.9	59.1
Public	12.6	13.6	14.7	15.9	16.9	18.0	19.1	20.5	21.0	21.6	22.2	22.8	23.5	24.2	24.9	25.7
AGRICULTURE																
Private	40.5	43.7	47.1	50.8	54.1	57.5	61.2	57.9	54.7	51.8	48.9	46.3	43.8	41.4	39.2	37.0
Public	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4
INDUSTRY																
Private	6.7	7.3	7.8	8.5	9.0	9.6	10.2	9.1	8.8	8.5	8.2	7.9	7.6	7.4	7.1	6.9
Public	2.8	3.0	3.3	3.5	3.7	4.0	4.2	5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.7	5.8
TRANSPORTATION & COMMUNICATION																
Private	2.0	2.1	2.3	2.5	2.6	2.8	3.0	2.8	2.6	2.4	2.3	2.1	2.0	1.9	1.8	1.6
Public	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.7	0.8	0.8	0.9	0.9	0.9	1.0
TRADE & DISTRIBUTION																
Private	4.7	5.0	5.4	5.8	6.2	6.6	7.0	6.8	6.6	6.4	6.2	6.1	5.9	5.7	5.6	5.4
Public	1.8	1.9	2.1	2.2	2.4	2.5	2.7	2.8	3.0	3.1	3.2	3.3	3.3	3.4	3.5	3.6
GENERAL GOVERNMENT SERVICES																
Private	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	3.0	3.2	3.5	3.7	4.0	4.2	4.5	4.9	5.3	5.8	6.3	6.9	7.5	8.1	8.8	9.6
OTHER																
Private	6.6	7.1	7.6	8.2	8.7	9.3	9.9	9.7	9.5	9.3	9.1	8.9	8.7	8.5	8.3	8.1
Public	4.4	4.7	5.1	5.5	5.8	6.2	6.6	6.5	6.3	6.2	6.0	5.9	5.8	5.6	5.5	5.4

Note: This table is calculated as outlined in the Appendix based on data in Tables IA and IIA.

Table A-6. FORMAL SECTOR (Current Afs.)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
SOURCES OF DOMESTIC CREDIT																
Da Afghanistan Bank	10761	10922	12172	12809	15916	15669	19326	24861	16081	23890	27974	42295	60917	75874	94881	142527
Commercial Banks	2795	3020	3509	2743	2565	2720	3632	4315	4589	4194	5446	5956	5801	7231	9086	12778
Bank Milli																
Pashtany Tejaraty Bank																
Specialized Banks	444	647	1401	1597	1851	2203	2287	2737	2586	2403	2605	2848	3194	3334	3410	2870
ADBA	384	572	1021	1181	1398	1615	1767	2062	1830	1631	1796	1842	1897	1933	1715	1306
IDB			300	351	402	553	502	587	651	648	690	877	1158	1252	1520	1368
MCB	60	75	80	65	51	35	18	88	105	124	119	129	139	149	175	196
EPB																
APPLICATIONS OF DOMESTIC CREDIT																
Domestic Credit Total *	13556	13942	15681	15552	18481	18389	22958	29176	20670	28084	33420	48251	56718	83108	103967	155305
Claims on Government	9565	9651	9697	9222	11837	12885	16177	19198	11067	16191	20243	30867	43982	56195	70471	126635
Claims on Non-Financial State Enterprises	9	11	770	1313	400	11	11	188	0	1839	8069	10955	16730	18957	23419	14136
Claims on Private Sector	3982	4280	5215	5016	6243	5494	6770	9790	9603	10054	5108	6429	4789	6728	8773	12699
Money Supply	10626	11297	12502	14976	18322	23752	28652	34187	39779	45815	52982	61606	68638	76359	85113	131419
Demand Deposits	552	585	1043	2179	4020	2728	4961	4215	4540	7974	3778	4814	6027	8045	8998	13095
% of Currency Outside Banks	95%	95%	92%	85%	78%	89%	83%	88%	89%	83%	93%	92%	91%	89%	89%	90%
% of Specialized Bank Lending as % of Total Claims on Private Sector:	11%	15%	27%	32%	30%	40%	34%	28%	27%	24%	51%	44%	67%	50%	39%	23%

* Does not include Specialized Banks

Sources: "Afghanistan: The Journey to Economic Development", World Bank; March 1978
Government of Afghanistan Documents (Da Afghanistan Bank)
"The Afghan Economy"; Maxwell Fry, 1974

Note: Data of bank lending for the following years were not available:
ADB - 76/77,83/84,84/85; IDB - 74/75 to 77/78; MCB - 73/74 to 77/78, 83/84, 84/85.
For these years an interpolation was estimated.

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Table IVA-1

Scenario #1 - Assumes a GDP Growth of 3%/Year

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Scenario: 1													
Growth rate:	NA	NA	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
GDP (in millions of 1978 US$)	88.2	88.9	91.6	94.3	97.1	100.1	103.1	106.2	109.3	112.6	116.0	119.5	123.1
AGRICULTURE	38.3	39.7	40.9	42.1	43.4	44.7	46.0	47.4	48.8	50.3	51.8	53.4	55.0
Crops	27.9	28.9	29.8	30.7	31.6	32.5	33.5	34.5	35.5	36.6	37.7	38.8	40.0
Livestock	9.9	10.3	10.6	10.9	11.3	11.6	11.9	12.3	12.7	13.0	13.4	13.8	14.3
Forestry	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
INDUSTRY	11.6	11.0	11.3	11.7	12.0	12.4	12.8	13.1	13.5	13.9	14.4	14.8	15.2
Handicrafts/Small scale industry	6.8	7.1	7.3	7.5	7.8	8.0	8.2	8.5	8.7	9.0	9.3	9.5	9.8
Mining	0.7	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Energy	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Large scale	3.8	3.5	3.6	3.7	3.8	3.9	4.1	4.2	4.3	4.4	4.6	4.7	4.8
TRANSPORTATION & COMMUNICATION	2.7	2.7	2.8	2.9	3.0	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.7
Transportation													
TRADE & DISTRIBUTION	9.1	9.2	9.5	9.8	10.1	10.4	10.7	11.0	11.3	11.7	12.0	12.4	12.7
GENERAL GOVERNMENT SERVICES	9.0	8.5	8.8	9.0	9.3	9.6	9.9	10.1	10.5	10.8	11.1	11.4	11.8
OTHER	13.5	13.5	13.9	14.3	14.8	15.2	15.7	16.1	16.6	17.1	17.6	18.1	18.7
DEPRECIATION	4.2	4.2	4.3	4.5	4.6	4.7	4.9	5.0	5.2	5.3	5.5	5.6	5.8
ERROR	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Table IVA-2. Sector Percentage of GDP

Scenario #1 - Assumes a GDP Growth of 3%/Year

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP (In millions of 1978 US$)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
AGRICULTURE	43.4%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Crops	31.6%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%
Livestock	11.2%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%
Forestry	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
INDUSTRY	13.2%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
Handicrafts/Small scale industry	7.7%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Mining	0.8%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Energy	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Large scale	4.3%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%
TRANSPORTATION & COMMUNICATION Transportation	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
TRADE & DISTRIBUTION	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
GENERAL GOVERNMENT SERVICES	10.2%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
OTHER	15.3%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%
DEPRECIATION	4.8%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%

Table IVA-3. Investment Estimates

Scenario #1 - Assumes a GDP Growth of 3%/Year

		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP		88.2	88.9	91.6	94.3	97.1	100.1	103.1	106.2	109.3	112.6	116.0	119.5	123.1
Population Total		12364.5	12426.4	12488.5	12550.9	12613.7	12676.7	12740.1	12803.8	12867.9	12932.2	12996.9	13061.8	13127.1
Rural		8258.5	8299.8	8341.3	8383.0	8424.9	8467.0	8509.3	8551.9	8594.7	8637.6	8680.8	8724.2	8767.8
Urban		3091.1	3106.6	3122.1	3137.7	3153.4	3169.2	3185.0	3201.0	3217.0	3233.0	3249.2	3265.5	3281.8
Nomad		1014.9	1020.0	1025.1	1030.2	1035.4	1040.5	1045.8	1051.0	1056.2	1061.5	1066.8	1072.2	1077.5
Total Population Growth (%)		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
ICOR (Ag+Traditional) =	0.3													
ICOR (Other) =	4.0													
Investment (Private)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment (Public)	(In millions of	5.4	5.4	5.6	5.7	5.9	6.1	6.3	6.4	6.6	6.8	7.0	7.3	7.5
Investment (Total)	1978 US$)	5.4	5.4	5.6	5.7	5.9	6.1	6.3	6.4	6.6	6.8	7.0	7.3	7.5
Investment (%age GDP)		6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%

Note: ICOR = Incremental Capital Output Ratio (explained in text)

Table IVA-4. GDP by Sector (Private vs. Public)

Scenario #1 - Assumes a GDP Growth of 3%/Year
(%age)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	88.2	88.9	91.6	94.3	97.1	100.1	103.1	106.2	109.3	112.6	116.0	119.5	123.1
Private (%age)	68%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Public (%age)	32%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
AGRICULTURE													
Private (%age)	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%
Public (%age)	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
INDUSTRY													
Private (%age)	59%	65%	65%	65%	70%	75%	75%	75%	75%	75%	75%	75%	75%
Public (%age)	41%	35%	35%	35%	30%	25%	25%	25%	25%	25%	25%	25%	25%
TRANSPORTATION & COMMUNICATION													
Private (%age)	63%	63%	63%	63%	68%	73%	78%	83%	88%	93%	98%	100%	100%
Public (%age)	37%	37%	37%	37%	32%	27%	22%	17%	12%	7%	2%	0%	0%
TRADE & DISTRIBUTION													
Private (%age)	68%	70%	70%	80%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Public (%age)	32%	30%	30%	20%	15%	15%	15%	15%	15%	15%	15%	15%	15%
GENERAL GOVERNMENT SERVICES													
Private (%age)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public (%age)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
OTHER													
Private (%age)	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Public (%age)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
DEPRECIATION													
Private (%age)	68%	70%	70%	70%	71%	72%	72%	72%	72%	72%	72%	72%	72%
Public (%age)	32%	30%	30%	30%	29%	28%	28%	28%	28%	28%	28%	28%	28%

Table IVA-5. GDP by Sector (Private vs. Public)

Scenario #1 - Assumes a GDP Growth of 3%/Year
(US$ 1978 Prices)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	88.2	88.9	91.6	94.3	97.1	100.1	103.1	106.2	109.3	112.6	116.0	119.5	123.1
Private	60.1	62.0	63.9	65.8	68.7	71.6	73.9	76.3	78.8	81.3	83.9	86.5	89.1
Public	24.1	22.6	23.3	24.0	23.8	23.6	24.2	24.7	25.3	25.9	26.4	27.2	28.0
AGRICULTURE													
Private	37.9	39.3	40.5	41.7	42.9	44.2	45.6	46.9	48.3	49.8	51.3	52.8	54.4
Public	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
INDUSTRY													
Private	6.8	7.1	7.3	7.5	8.4	9.3	9.6	9.9	10.1	10.5	10.8	11.1	11.4
Public	4.8	3.9	4.0	4.1	3.6	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8
TRANSPORTATION & COMMUNICATION													
Private	1.7	1.7	1.8	1.8	2.0	2.2	2.4	2.7	2.9	3.2	3.5	3.6	3.7
Public	1.0	1.0	1.0	1.1	0.9	0.8	0.7	0.5	0.4	0.2	0.1	0.0	0.0
TRADE & DISTRIBUTION													
Private	5.6	5.8	6.0	6.2	6.4	6.7	6.9	7.2	7.4	7.6	7.9	8.1	8.4
Public	3.5	3.4	3.5	3.6	3.6	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.4
GENERAL GOVERNMENT SERVICES													
Private	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	9.0	8.5	8.8	9.0	9.3	9.6	9.9	10.1	10.5	10.8	11.1	11.4	11.8
OTHER													
Private	8.1	8.1	8.3	8.6	8.9	9.1	9.4	9.7	10.0	10.3	10.6	10.9	11.2
Public	5.4	5.4	5.6	5.7	5.9	6.1	6.3	6.4	6.6	6.8	7.0	7.3	7.5

Table IVB-1

Scenario #2 - Assumes a GDP Growth of 5%/Year

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Scenario: 2													
Growth rate:	NA	NA	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
GDP (in millions of 1978 US$)	88.2	88.9	93.3	98.0	102.9	108.1	113.5	119.1	125.1	131.3	137.9	144.8	152.0
AGRICULTURE	33.3	39.7	41.7	43.8	46.0	48.3	50.7	53.2	55.9	58.7	61.6	64.7	67.9
Crops	27.9	28.9	30.3	31.9	33.5	35.1	36.9	38.7	40.7	42.7	44.8	47.1	49.4
Livestock	9.9	10.3	10.8	11.4	11.9	12.5	13.1	13.8	14.5	15.2	16.0	16.8	17.6
Forestry	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.9
INDUSTRY	11.6	11.0	11.6	12.1	12.7	13.4	14.0	14.7	15.5	16.3	17.1	17.9	18.8
Handicrafts/Small scale industry	6.8	7.1	7.5	7.8	8.2	8.6	9.1	9.5	10.0	10.5	11.0	11.6	12.1
Mining	0.7	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Energy	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Large Scale	3.8	3.5	3.7	3.9	4.1	4.3	4.5	4.7	4.9	5.2	5.4	5.7	6.0
TRANSPORTATION & COMMUNICATION Transportation	2.7	2.7	2.8	3.0	3.1	3.3	3.4	3.6	3.8	4.0	4.2	4.4	4.6
TRADE & DISTRIBUTION	9.1	9.2	9.7	10.1	10.7	11.2	11.7	12.3	12.9	13.6	14.3	15.0	15.7
GENERAL GOVERNMENT SERVICES	9.0	8.5	8.0	9.4	9.8	10.3	10.8	11.4	12.0	12.6	13.2	13.8	14.5
OTHER	13.5	13.5	14.2	14.9	15.6	16.4	17.2	18.1	19.0	19.9	20.9	22.0	23.1
DEPRECIATION	4.2	4.2	4.4	4.6	4.9	5.1	5.4	5.6	5.9	6.2	6.5	6.8	7.2
ERROR	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2

Table IVB-2. Sector Percentage of GDP

Scenario #2 - Assumes a GDP Growth of 5%/Year

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP (In millions of 1978 US$)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
AGRICULTURE	43.4%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Crops	31.6%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%
Livestock	11.2%	11.6%	11.5%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%
Forestry	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
INDUSTRY	13.2%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
Handicrafts/Small scale industry	7.7%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Mining	0.8%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Energy	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Large Scale	4.3%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%
TRANSPORTATION & COMMUNICATION	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Transportation												
TRADE & DISTRIBUTION	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
GENERAL GOVERNMENT SERVICES	10.2%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
OTHER	15.3%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%
DEPRECIATION	4.8%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%

Table IVB-3. Investment Estimates

Scenario #2 - Assumes a GDP Growth of 5%/Year

		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Final Figures													
GDP (millions of US$) (1978 Prices)		88.2	88.9	93.3	98.0	102.9	108.1	113.5	[illegible]	125.1	131.3	137.9	144.8
Population Total		12364.5	12426.4	12488.5	12550.9	12613.7	12676.7	12740.1	12803.8	12867.9	12932.2	12996.9	13061.8
Rural		8258.5	8299.8	8341.3	8383.0	8424.9	8467.0	8509.3	8551.9	8594.7	8637.6	8680.8	8724.2
Urban		3091.1	3106.6	3122.1	3137.7	3153.4	3169.2	3185.0	3201.0	3217.0	3233.0	3249.2	3265.5
Nomad		1014.9	1020.0	1025.1	1030.2	1035.4	1040.5	1045.8	1051.0	1056.2	1061.5	1066.8	1072.2
Total Population Growth (%)		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
ICOR(Ag+Traditional) =	0.3												
ICOR (Other) =	4.0												
Investment (Private)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment (Public)	(Millions of US$)	5.4	5.4	5.7	6.0	6.3	6.6	6.9	7.2	7.6	8.0	8.4	8.8
Investment (Total)	(1978 Prices)	5.4	5.4	5.7	6.0	6.3	6.6	6.9	7.2	7.6	8.0	8.4	8.8
Investment (%age GDP)		6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%

Table IVB-4. GDP by Sector (Private vs. Public)

Scenario #2 - Assumes a GDP Growth of 5%/Year
(%age)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	88.2	88.9	93.3	98.0	102.9	108.1	113.5	119.1	125.1	131.3	137.9	144.8	152.0
Private (%age)	68%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Public (%age)	32%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
AGRICULTURE													
Private (%age)	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%
Public (%age)	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
INDUSTRY													
Private (%age)	59%	65%	65%	65%	70%	75%	75%	75%	75%	75%	75%	75%	75%
Public (%age)	41%	35%	35%	35%	30%	25%	25%	25%	25%	25%	25%	25%	25%
TRANSPORTATION & COMMUNICATION													
Private (%age)	63%	63%	63%	63%	68%	73%	78%	83%	88%	93%	98%	100%	100%
Public (%age)	37%	37%	37%	37%	32%	27%	22%	17%	12%	7%	2%	0%	0%
TRADE & DISTRIBUTION													
Private (%age)	68%	70%	70%	80%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Public (%age)	32%	30%	30%	20%	15%	15%	15%	15%	15%	15%	15%	15%	15%
GENERAL GOVERNMENT SERVICES													
Private (%age)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public (%age)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
OTHER													
Private (%age)	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Public (%age)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
DEPRECIATION													
Private (%age)	68%	70%	70%	70%	71%	72%	72%	72%	72%	72%	72%	72%	72%
Public (%age)	32%	30%	30%	30%	29%	28%	28%	28%	28%	28%	28%	28%	28%

Table IVB-5. GDP by Sector (Private vs. Public)

Scenario #2 - Assumes a GDP Growth of 5%/Year
(Af.millions 78/79 Prices)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	88.2	88.9	93.3	98.0	102.9	108.1	113.5	119.1	125.1	131.3	137.9	144.8	152.0
Private	60.1	62.0	65.1	68.4	72.7	77.3	81.3	85.[illegible]	90.1	94.8	99.8	104.9	110.1
Public	24.1	22.6	23.7	24.9	25.2	25.5	26.6	27.8	28.9	30.2	31.4	32.9	34.6
AGRICULTURE													
Private	37.9	39.3	41.3	43.3	45.5	47.8	50.2	52.7	55.3	58.1	61.0	64.0	67.2
Public	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
INDUSTRY													
Private	6.8	7.1	7.5	7.8	8.9	10.0	10.5	11.1	11.6	12.2	12.8	13.4	14.1
Public	4.8	3.9	4.1	4.3	3.8	3.3	3.5	3.7	3.9	4.1	4.3	4.5	4.7
TRANSPORTATION & COMMUNICATION													
Private	1.7	[illegible]	1.8	1.9	2.1	2.4	2.7	3.0	3.3	3.7	4.1	4.4	4.6
Public	1.0	1.0	1.0	1.1	1.0	0.9	0.8	0.6	0.5	0.3	0.1	0.0	0.0
TRADE & DISTRIBUTION													
Private	5.6	5.8	6.1	6.4	6.8	7.2	7.6	8.0	8.4	8.9	9.4	9.8	10.3
Public	3.5	3.4	3.6	3.7	3.8	3.9	4.1	4.3	4.5	4.7	4.9	5.1	5.4
GENERAL GOVERNMENT SERVICES													
Private	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	9.0	8.5	8.9	9.4	9.8	10.3	10.8	11.4	12.0	12.6	13.2	13.8	14.5
OTHER													
Private	8.1	8.1	8.5	8.9	9.4	9.8	10.3	10.9	11.4	12.0	12.6	13.2	13.9
Public	5.4	5.4	5.7	6.0	6.3	6.6	6.9	7.2	7.6	8.0	8.4	8.8	9.2

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Table IVC-1

Scenario #3 - Assumes a Random GDP Growth Rate

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Scenario: 3													
Growth rate:	NA	NA	3%	4%	5%	4%	3%	4%	5%	5%	5%	4%	4%
GDP (in millions of 1978 US$)	88.2	88.9	91.6	95.2	100.0	104.0	107.1	111.4	117.0	122.8	129.0	134.1	139.5
AGRICULTURE	38.3	39.7	40.9	42.5	44.7	46.4	47.8	49.7	52.2	54.8	57.6	59.9	62.3
Crops	27.9	28.9	29.8	31.0	32.5	33.8	34.8	36.2	38.0	39.9	41.9	43.6	45.3
Livestock	9.9	10.3	10.6	11.0	11.6	12.0	12.4	12.9	13.6	14.2	14.9	15.5	16.2
Forestry	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8
INDUSTRY	11.6	11.0	11.3	11.8	12.4	12.9	13.3	13.8	14.5	15.2	16.0	16.6	17.3
Handicrafts/Small scale Industry	6.8	7.1	7.3	7.6	8.0	8.3	8.6	8.9	9.3	9.8	10.3	10.7	11.1
Mining	0.7	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Energy	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Large Scale	3.8	3.5	3.6	3.7	3.9	4.1	4.2	4.4	4.6	4.8	5.1	5.3	5.5
TRANSPORTATION & COMMUNICATION Transportation	2.7	2.7	2.8	2.9	3.0	3.2	3.3	3.4	3.6	3.7	3.9	4.1	4.2
TRADE & DISTRIBUTION	9.1	9.2	9.5	9.9	10.3	10.8	11.1	11.5	12.1	12.7	13.3	13.9	14.4
GENERAL GOVERNMENT SERVICES	9.0	8.5	8.8	9.1	9.6	9.9	10.2	10.7	11.2	11.7	12.3	12.8	13.3
OTHER	13.5	13.5	13.9	14.5	15.2	15.8	16.3	16.9	17.8	18.6	19.6	20.4	21.2
DEPRECIATION	4.2	4.2	4.3	4.5	4.7	4.9	5.1	5.3	5.5	5.8	6.1	6.3	6.6
ERROR	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2

Table IVC-2. Sector Percentage of GDP

Scenario #3 - Assumes a Random GDP Growth Rate

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP (In millions of 1978 US$)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
AGRICULTURE	43.4%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Crops	31.6%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%
Livestock	11.2%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%
Forestry	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
INDUSTRY	13.2%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
Handicrafts/Small scale Industry	7.7%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Mining	0.8%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Energy	0.5%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Large Scale	4.3%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%
TRANSPORTATION & COMMUNICATION	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Transportation													
TRADE & DISTRIBUTION	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
GENERAL GOVERNMENT SERVICES	10.2%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
OTHER	15.3%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%
DEPRECIATION	4.8%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%

Table IVC-3. Investment Estimates

Scenario #3 - Assumes a Random GDP Growth Rate

		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Final Figures														
GDP (in millions of 1978 US$)		88.2	88.9	91.6	95.2	100.0	104.0	107.1	111.4	117.0	122.8	129.0	134.1	139.5
Population Total		12364.5	12426.4	12488.5	12550.9	12613.7	12676.7	12740.1	12803.8	12867.9	12932.2	12996.9	13061.8	13127.1
Rural		8258.5	8299.8	8341.3	8383.0	8424.9	8467.0	8509.3	8551.9	8594.7	8637.6	8680.8	8724.2	8767.8
Urban		3091.1	3106.6	3122.1	3137.7	3153.4	3169.2	3185.0	3201.0	3217.0	3233.0	3249.2	3265.5	3261.8
Nomad		1014.9	1020.0	1025.1	1030.2	1035.4	1040.5	1045.8	1051.0	1056.2	1061.5	1066.8	1072.2	1077.5
Total Population Growth (%)		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
ICOR(Ag+Traditional) =	0.3													
ICOR (Other) =	4.0													
Investment (Private)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment (Public)	(in millions of	5.4	5.4	5.6	5.8	6.1	6.[illegible]	6.5	6.8	7.1	7.5	7.8	8.1	8.5
Investment (Total)	1978 US$)	5.4	5.4	5.6	5.8	6.1	6.3	6.5	6.8	7.1	7.5	7.8	8.1	8.5
Investment (%age GDP)		6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%

Table IVC-4. GDP by Sector (Private vs. Public)

Scenario #3 - Assumes a Random GDP Growth Rate
(%age)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	88.2	88.9	91.6	95.2	100.0	104.0	107.1	111.4	117.0	122.8	129.0	134.1	139.5
Private (%age)	68%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Public (%age)	32%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
AGRICULTURE													
Private (%age)	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%
Public (%age)	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
INDUSTRY													
Private (%age)	59%	[illegible]	65%	65%	70%	75%	75%	75%	75%	75%	75%	75%	75%
Public (%age)	41%	35%	35%	35%	30%	25%	25%	25%	25%	25%	25%	25%	25%
TRANSPORTATION & COMMUNICATION													
Private (%age)	63%	63%	63%	63%	68%	73%	78%	83%	88%	93%	98%	100%	100%
Public (%age)	37%	37%	37%	37%	32%	27%	22%	17%	12%	7%	2%	0%	0%
TRADE & DISTRIBUTION													
Private (%age)	68%	70%	70%	80%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Public (%age)	32%	30%	30%	20%	15%	15%	15%	15%	15%	15%	15%	15%	15%
GENERAL GOVERNMENT SERVICES													
Private (%age)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Public (%age)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
OTHER													
Private (%age)	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Public (%age)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
DEPRECIATION													
Private (%age)	68%	70%	70%	70%	71%	72%	72%	72%	72%	72%	72%	72%	72%
Public (%age)	32%	30%	30%	30%	29%	28%	28%	28%	28%	28%	28%	28%	28%
CORRECTION													

Table IVC-5. GDP by Sector (Private vs. Public)

Scenario #3 - Assumes a Random GDP Growth Rate
(Af.millions 78/79 Prices)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	88.2	88.9	91.6	95.2	100.0	104.0	107.1	111.4	117.0	122.8	129.0	134.1	139.5
Private	60.1	62.0	63.9	66.4	70.7	74.4	76.8	80.1	84.2	88.7	93.3	97.1	101.0
Public	24.1	22.6	23.3	24.2	24.5	24.6	25.1	26.0	27.1	28.2	29.4	30.5	31.7
AGRICULTURE													
Private	37.9	39.3	40.5	42.1	[illegible]	46.0	47.4	49.2	51.7	54.3	57.0	59.3	61.7
Public	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
INDUSTRY													
Private	6.8	7.1	7.3	7.6	8.7	9.7	9.9	10.3	10.9	11.4	12.0	12.4	12.9
Public	4.8	3.9	4.0	4.2	3.7	3.2	3.3	3.4	3.6	3.8	4.0	4.1	4.3
TRANSPORTATION & COMMUNUNICATION													
Private	1.7	1.7	1.8	1.8	2.1	2.3	2.5	2.8	3.1	3.5	3.8	4.1	4.2
Public	1.0	1.0	1.0	1.1	1.0	0.9	0.7	0.6	0.4	0.3	0.1	0.0	0.0
TRADE & DISTRIBUTION													
Private	5.6	5.8	6.0	6.2	6.6	7.0	7.2	7.5	7.9	8.3	8.8	9.1	9.5
Public	3.5	3.4	3.5	3.6	3.7	3.8	3.9	4.0	4.2	4.4	4.6	4.8	5.0
GENERAL GOVERNMENT SERVICES													
Private	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	9.0	8.5	8.8	9.1	9.6	9.9	10.2	10.7	11.2	11.7	12.3	12.8	13.3
OTHER													
Private	8.1	8.1	8.3	8.7	9.1	9.5	9.8	10.1	10.7	11.2	11.7	12.2	12.7
Public	5.4	5.4	5.6	5.8	6.1	6.3	6.5	6.8	7.1	7.5	7.8	8.1	8.5