

# Development Financing: Challenges and Policy Responses

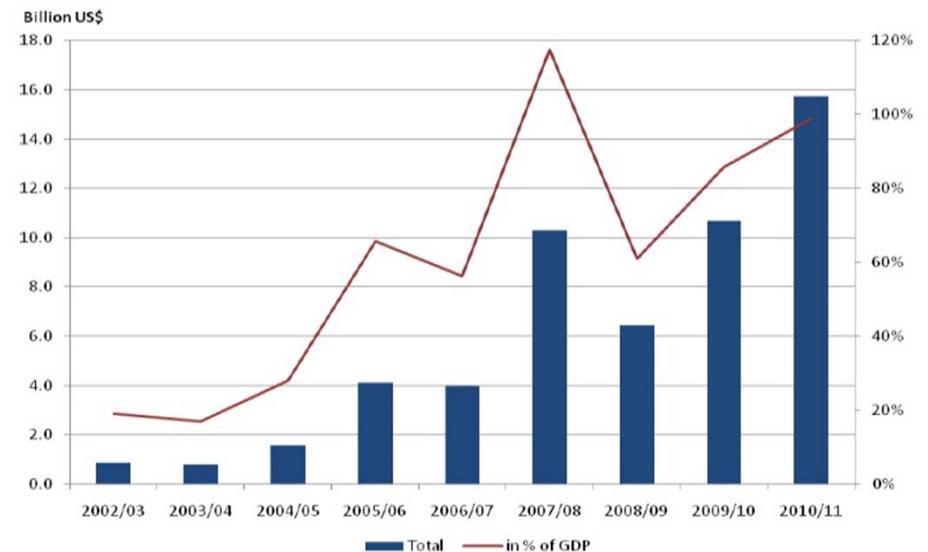
The Story of Afghanistan

# Economic & Development Overview

Selected Development Indicators	
Nominal GDP (2012, billion US\$)	19.8
Average Real GDP growth 2003 – 2012 (%)	9.2
CPI Inflation (2012 period average, %)	6.4
GDP per capita (2012, US\$)	595
Population (million, 2012 estimated)	33.4
Unemployment (2008)	7.1
Poverty Rate (2008, %)	36
Life Expectancy	49
Infant Mortality (per 1000 live births)	73
Literacy Rate	39
Gross primary enrollment	98

# Aid Dependency

- Afghanistan is an outlier in terms of dependence on development aid.
  - ODA estimated at nearly 40% of GDP.
  - Including security, aid stands at 98% of GDP
- Domestic revenue is 11.3% of GDP



# challenges

- Security: Cost estimated at 14% of GDP annually
- Large development financing gap
  - Without aid, development financing gap estimated at 11.2% of GDP annually
- Aid has low domestic economic content
  - Overall local economic impact of aid estimated at 38%
- An estimated 65% does not make use of the Country Systems.
- Limited alignment with national priorities
- Security Transition and declining aid levels

# Policy Response

- Measures that promise the highest pay-off with regard to revenue mobilization:
  - Creating an enabling legal and regulatory environment for private mining investment,
    - Can contribute revenue equivalent of 2 – 4 % of GDP
  - Introduction of the value added tax (VAT),
    - Estimated to generate 2% of GDP
  - Deep customs reforms to reduce opportunities for corruption and leakages at borders.

# Policy Response

- Measures that will increase the effectiveness of development aid
  - Afghanistan Aid Management Policy (AMP)
  - Tokyo Mutual Accountability Framework (TMAF)
  - Afghanistan National Priority Programs (NPPs)
  - The 50/80 bargain (50% on-budget, 80% aligned to national priority programs)
  - National Technical Assistance (NTA) strategy to better coordinate TA

# Policy Response

- Improving Regional Economic Cooperation
  - Regional Economic Cooperation Conference on Afghanistan (RECCA) agreed on regional infrastructure, trade and energy projects.
  - The “Heart of Asia” Conference agreed on a set of seven areas for cooperation including commerce, infrastructure and education.
  - Afghanistan joined the Central Asia Regional Economic Cooperation (CAREC) in 2005.
- FDI
  - Investment Incentive Policy adopted in July 2013
  - Mining Investment Law pending approval