

THE CHALLENGE OF POVERTY REDUCTION IN AFGHANISTAN

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Monitoring Socio-Economic Outcomes in Afghanistan – The NRVA

Significant progress over time in institutionalizing a monitoring system for socio-economic outcomes (including poverty!) in Afghanistan.

SOURCE OF DATA:

- NRVA (National Risk and Vulnerability Assessment);
- 2 rounds of data currently available: 2007-08 and 2011-12

METHODOLOGY:

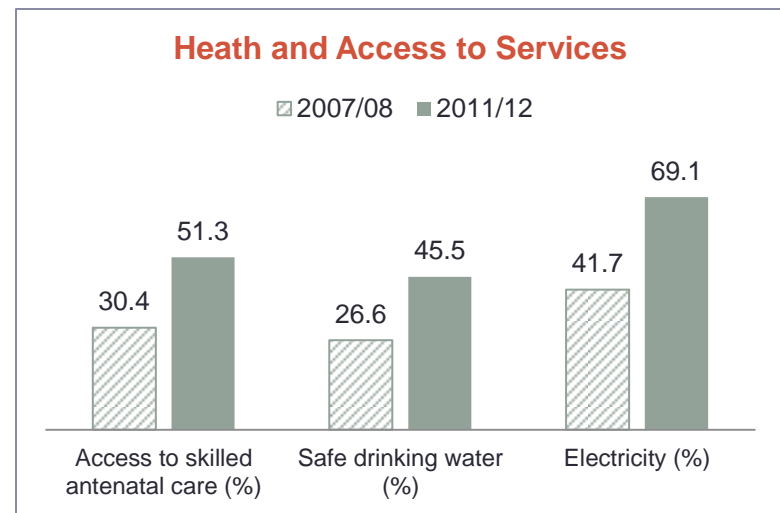
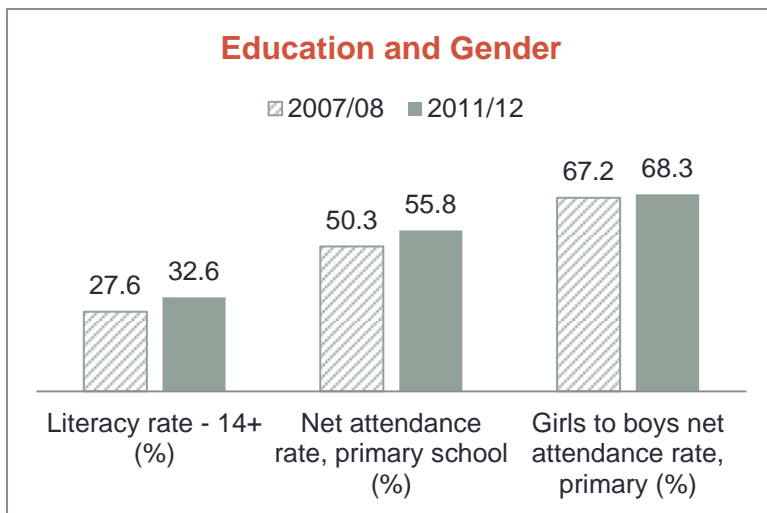
- Ensure comparability over time (data, instruments and definition of indicators)
- Security and data quality issues – two provinces excluded from analysis of poverty and food security (Helmand and Khost) due to data quality problems in 2011-12

OUTPUT:

- Compilation of indicators at the National and subnational level.

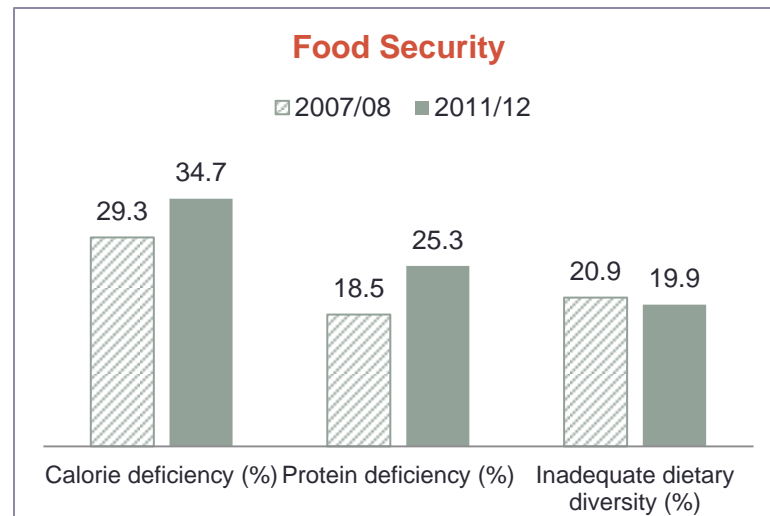
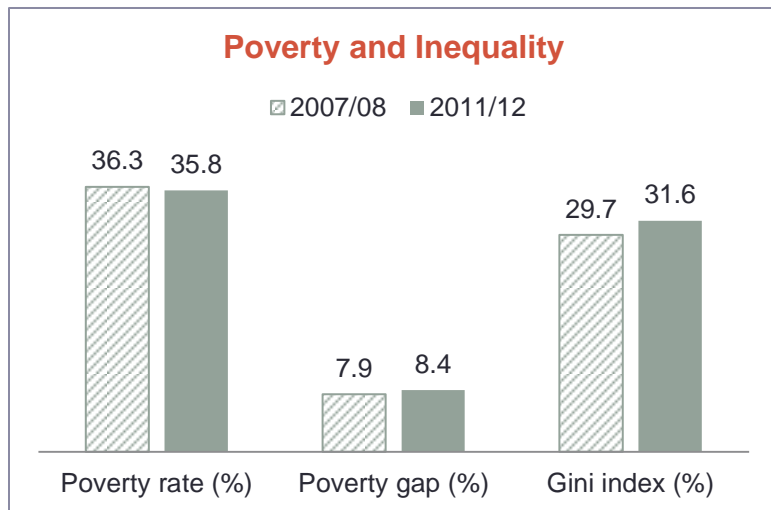
Development Trends: Key Facts (1)

Significant progress in human development outcomes (health and education), access to services and infrastructure



Development Trends: Key Facts (2)

Lack of significant progress in poverty reduction, increase in inequality and deterioration in food security.





Poverty Trends in Afghanistan

NO evidence of poverty reduction in Afghanistan “despite”

- High economic growth ~ 7% annual

- Substantial inflow of aid to the economy ~ 10 billion annual (civilian and military)

	Survey year		95% CI	
	2011-12	2007-08	2011-12	2007-08
Poverty headcount	35.77	36.27	[34.14, 37.40]	[34.94, 37.60]
Poverty Gap	8.44	7.86	[7.95, 8.94]	[7.45, 8.27]
Squared Poverty Gap	2.91	2.55	[2.69, 3.13]	[2.37, 2.73]

- i. *Poverty Headcount & Poverty Gap unchanged*
- ii. *Significant increase in Poverty Severity*



Scope of the poverty challenge

The “cost” of eliminating poverty (*if perfect targeting was possible*) is about 6 % of GDP;

Same order of magnitude than other Low income countries (Africa ~5%)

...but

High relative to the country's revenue capacity

	Survey year	
	2011-12	2007-08
Number of poor	9.1 million	8.5 million
Poverty Deficit ^(*)	5.5% GDP ^{**}	5.8% GDP ^{**}

(*) Annual, expressed in current prices, Afs.

(**) Non Opium GDP

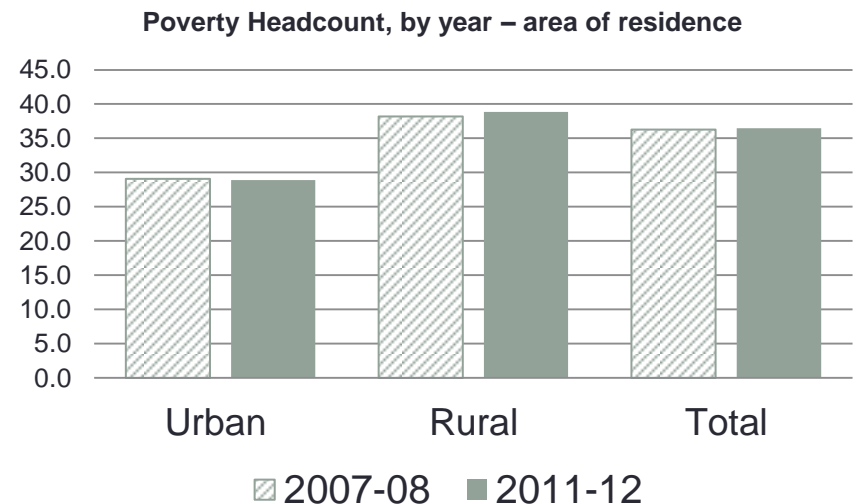
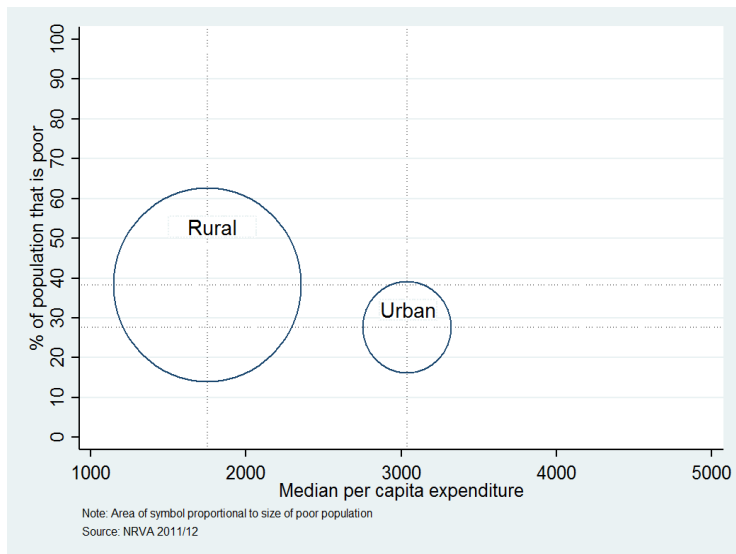
Number of Afghans living below the poverty line has increased at an annual rate of 1.6 percent

Poverty Deficit, i.e. the additional annual income that would, in principle, bring every poor person exactly up to the poverty line

Poverty in Afghanistan: Key Facts (1)

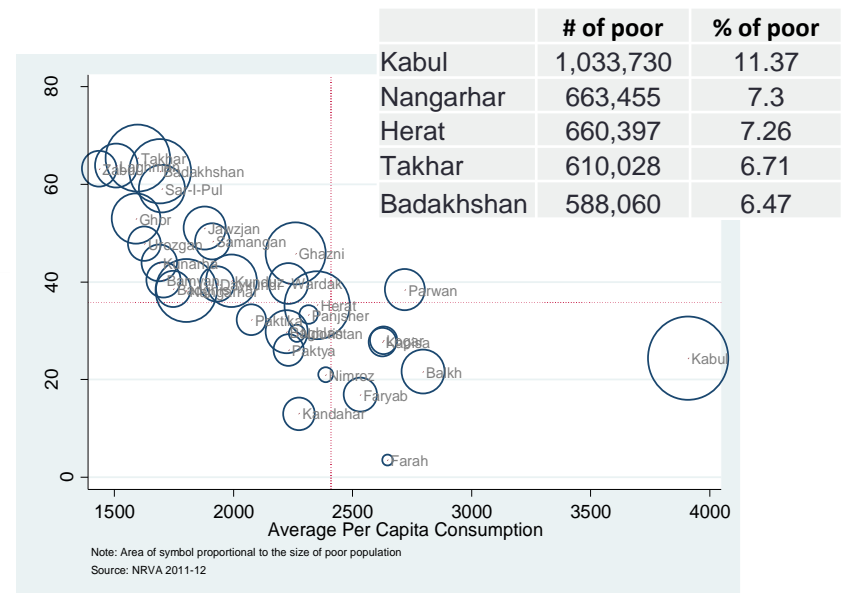
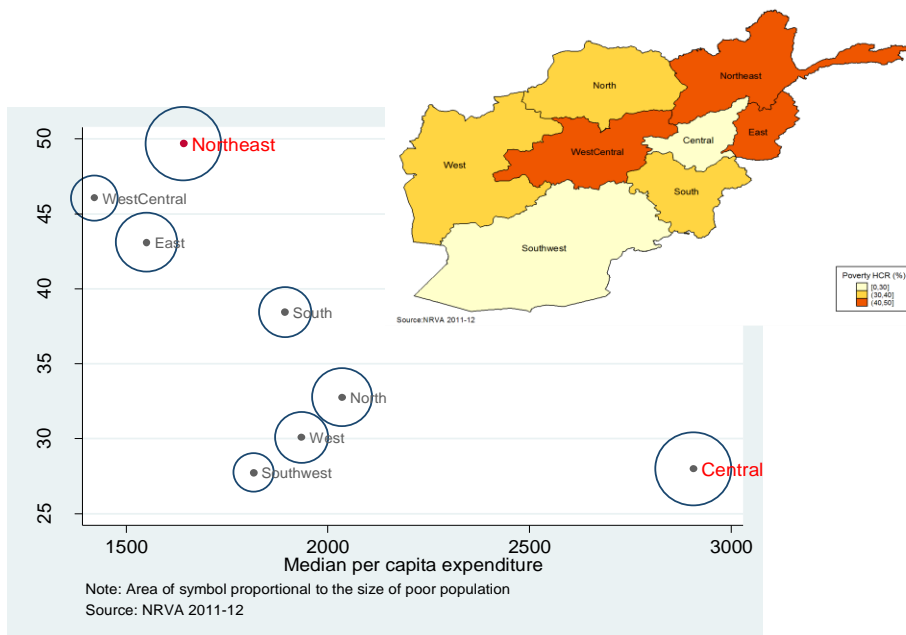
Large and persistent *urban-rural disparities*:

- **Rural areas:** higher poverty rates, lower level of wellbeing (pc consumption), lower level of inequality (gini)
- **Trends:** no change in urban/rural poverty rates, but increase in the number of poor living in urban areas (urbanization; 18% increase in urban pop)
- **Profile 2011:** **4 out of 5 poor people live in rural areas** (rural areas account for 82% of the poor and 76% of the population)



Poverty in Afghanistan: Key Facts (2)

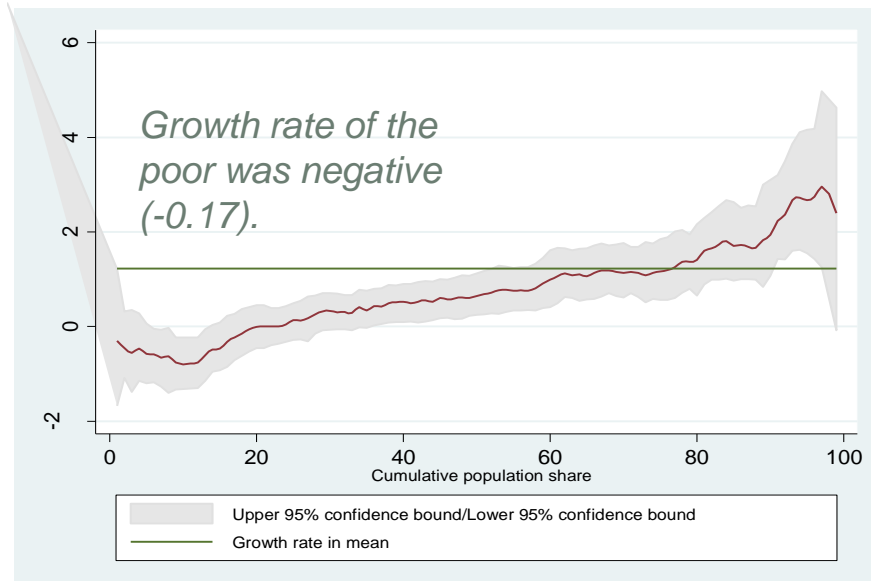
- Large **disparities at the subnational level:**
 - **Between Regions:** North East, West Central and East – **lagging regions:** high poverty rates and low levels of wellbeing
 - **Between Provinces:** Poverty concentration the highest in more urbanized/densely populated provinces (Kabul, Nangarhar, Herat) and in the most populated amongst poorest (Takhar, Badakhshan).



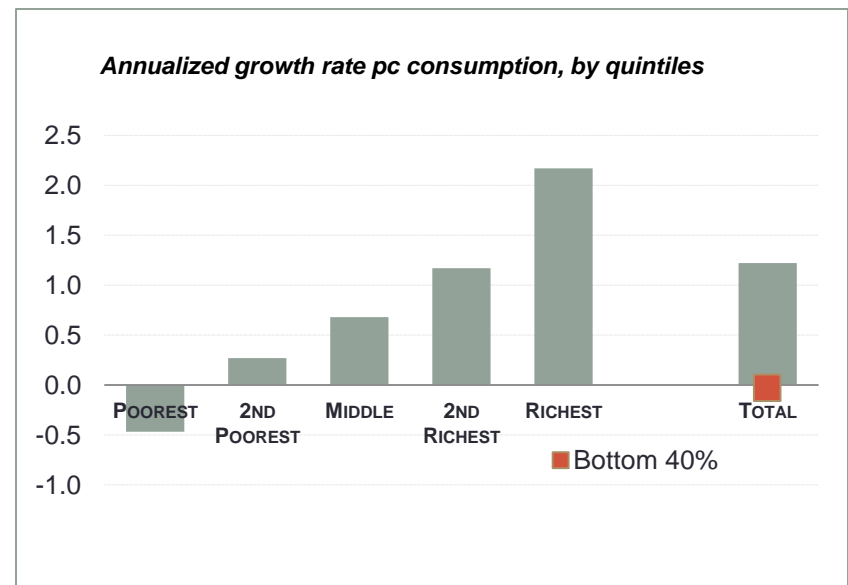
Why Growth did not contribute to poverty reduction?

Because growth had an **“un-equalizing effect”** – had growth been equally distributed, poverty would have declined by 4.4 percentage points.

Lack of pro-poor growth



No “Shared Prosperity”



Why hasn't growth reduced poverty?

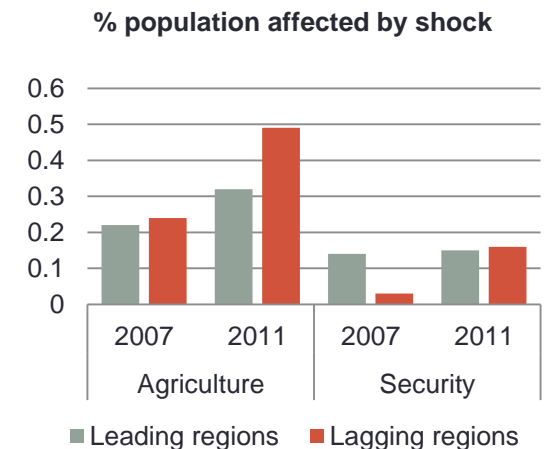
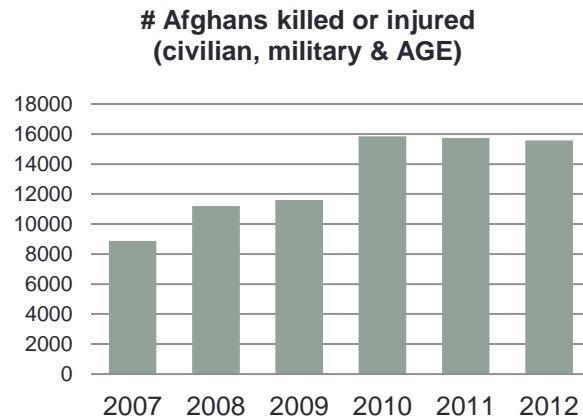
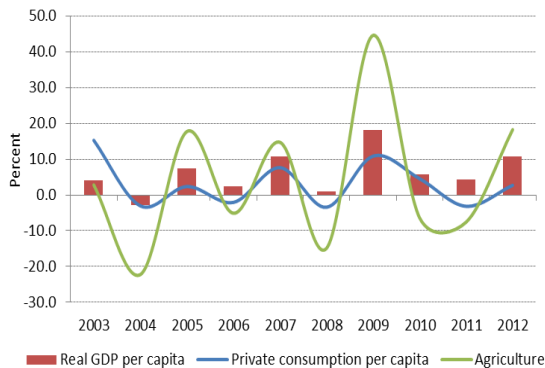
3 hypotheses:

- i.* **Was growth skill biased?** Poor people do not have human capital endowments – an increase in returns to education over time could explain lack of poverty reduction and widening inequalities. **NO**
- ii.* **Did growth increase urban/rural gap?** Poverty rates are higher in rural areas where most of population lives – an “urban” bias in growth could explain lack of poverty reduction and widening inequalities. **NO**
- iii.* **Did growth increase regional disparities?** Poverty has a strong spatial connotation – poorest regions lagging behind/not growing could explain lack of poverty reduction and widening inequalities. **YES**

Lagging regions, Poverty and Growth

Growth in Afghanistan is highly volatile and vulnerable to high incidence of shocks (agriculture, security). As poor people are more vulnerable to shocks, **lagging regions (NorthEast, WestCentral, East)**— having the highest % of poor – are likely to be “left behind”

1. Annual growth rate lagging regions -1.11% (1.97% rest of country)
2. Incidence of Shocks: 2011/12 was a drought year, security incidents increased over time
3. Lagging regions seem most affected by the increase in shock incidence between the two survey years



■ Leading regions ■ Lagging regions

Lagging regions: the North East

- Amongst the lagging regions, North East seems the region in which households are less able to cope with shocks: main evidence -
 - Average pc consumption dropped (no consumption smoothing)
 - Poverty increased from 36.3 to 49.7 while no change in poverty in East and West Central.

Hypotheses to be further explored: role of geography and aid in explaining widening regional inequalities.

- NE less connected than other lagging regions to the rest of the country
- NE households are less resilient to shocks
- NE receiving less aid than other regions

Towards a poverty reduction strategy

What do we know:

1. Lack of poverty reduction despite growth is due to widening inequalities across regions.
2. Lagging regions are not growing and poverty increased in the NE
3. High shocks incidence and volatility of growth

What needs further analysis:

1. Role of aid in explaining poverty trends and regional disparities
(*Data constraints*)
 - Main question: what would have been the evolution of poverty over time without aid?
2. Role of shocks vs geography in explaining existence of “lagging regions”
 - Main question: are some regions lagging behind because of transitory shocks or structural differences.