

PROSPECTS OF ECONOMIC DEVELOPMENT IN AFGHANISTAN

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INTRODUCTION

After 10 years of international assistance and the expenditure of billions of dollars, Afghanistan is still in a state of political and economic chaos and greatly in need of a viable, sustained, and sustainable economic development strategy. Today, Afghanistan has a service economy concentrated on cosmetic projects mainly driven by the donor community. It lacks a long-term strategy, which can bring economic peace and tranquility. Thirty years of war and conflict have destroyed the minimal economic infrastructure and institutions this country once possessed. In the past 10 years, no efforts have been made to either reinstate the economic structure of the past, or to develop new ones that can help build a modern state and developed economy. Instead, energy is wasted on projects and activities in the name of privatization and the free market, which have brought more harm than benefit to the country and the economy. Some political scientists, legal scholars, and economic analysts argue that for a state that lacks sovereignty over its territory and political legitimacy, economic development is impossible. I argue that despite the above-mentioned challenges, including legal ones, it may become possible if the government possesses administrative capacities to implement coherent policies. A sound and effective relationship between governance and economic development is essential for the future of any country, especially Afghanistan.

The donor-driven economy has not helped the economic and social infrastructure of Afghanistan and the development process remains ineffective. Furthermore, it has created an unequal economic power relationship between the small economic and political elite and the average Afghan. This has also created extreme conditions of exploitation, where the small ruling elite is able to make gains at the expense of the majority. The free market approach, which has been implemented in Afghanistan, is not succeeding in Afghanistan and the Afghan economy is not able to provide the

security people require.

The international community and the government of Afghanistan need to shift emphasis to focus on the complex issues of Afghanistan's economy and politics. In addition to focusing on infrastructure development, attention must shift to human resources development, institutional approaches, targeted and coordinated economic strategies, and transparent government policies and procedures. Rather than concentrating on a donor driven and service economy, the government of Afghanistan and the international community need to focus on agricultural and rural development, electricity, water, power supply, roads and transportation facilities, sanitation and disease control, local farm and non-farm industries, and natural-resources extraction. Implementing such policies will create markets for domestic agricultural goods, which on one side will be plentiful and on the other side cheaper than what is now available. Strong and large domestic agriculture markets will result in rise of income for farmers. It will also develop and increase manufacturing and would enable the processing industries to purchase raw materials in large quantities and profitable prices. This will help the economic cycle to start moving in a positive direction.

THE DATA

The data collected by The Asia Foundation about the economy and development and service delivery indicates that some progress has been made in urban areas but little attention is given to the rural areas of the country. It also indicates that most of what it achieved is not satisfactory and it is mainly donor driven. The data clearly shows that there is a lack of investment in the productive sectors of the economy. The economic development and progress reported mainly stems from services, and spending on security. The country suffers from a high level of unemployment and the absence of manufacturing strategies. Among other things, this also can be linked to the lack of focused government policies and deficiency in coordination of different sectors of the economy and polity. In response to the question, "What is the biggest problem facing Afghanistan as a whole?" the majority of people, in addition to security concerns (38%), were worried about the lack of economic development, i.e., poor economy, poverty, unemployment, reconstruction and rebuilding, electricity, roads, drinking water, irrigation water, high prices, lack of production companies, agriculture problems, and education-- all necessary ingredients of a developed economy. The table

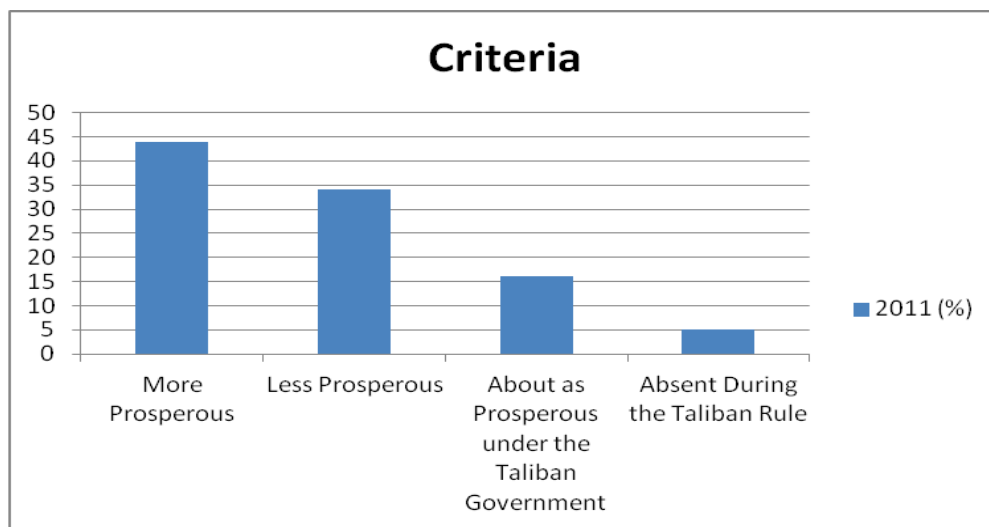
below shows the priorities of the people and their concern about the economy and their survival.

Questions 5a & 5b: What is the biggest problem facing Afghanistan as a whole? - Cumulative of two mentioned.

Column Percents	Total	Settlement		Monthly Household Income					Education			
		Villages	Urban	Less than 2,000 Afs	2,001 - 3,000 Afs	3,001 - 5,000 Afs (incl. refused and DK)	5,001 - 10,000 Afs	10,001 + Afs	Never went to school (incl. refused and DK)	1-6 grade	7-9 grade	10+ grade
Base: All Respondents	6348	4983	1365	551	1066	1240	1991	1500	3675	970	581	1122
Insecurity / attacks / violence/ terrorism	38%	37%	39%	37%	35%	39%	37%	40%	36%	38%	38%	41%
Poor Economy	10%	10%	13%	10%	9%	12%	10%	11%	10%	10%	10%	12%
Poverty	12%	12%	12%	17%	16%	14%	9%	10%	12%	11%	10%	12%
Unemployment	23%	20%	31%	26%	24%	21%	21%	24%	22%	22%	22%	27%
Reconstruction / rebuilding	1%	1%	1%	2%	2%	1%	1%	1%	1%	1%	1%	2%
Scarcity of electricity	3%	4%	2%	4%	3%	3%	3%	5%	3%	4%	3%	3%
Roads	1%	1%	1%	3%	1%	1%	1%	1%	1%	1%	1%	1%
Drinking water	1%	1%	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%
Water for irrigation	1%	1%	*	1%	1%	1%	1%	1%	1%	2%	1%	*
High prices	5%	5%	7%	4%	4%	4%	6%	6%	6%	5%	4%	5%
Lack of production companies	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Agricultural problems	1%	1%	*	1%	*	1%	*	*	1%	1%	*	1%
Education / schools / literacy	10%	10%	11%	11%	12%	11%	10%	10%	11%	10%	9%	10%

From the data we can identify that while 44% of the respondents in the survey reported they are more prosperous today than they were under the Taliban regime, 34% reported that they are less prosperous now than they were under the Taliban regime, and 16% reported no change in their life (5% of the respondents were not living under the Taliban regime). It is not clear, however, what prosperity means to them. Prosperity refers to the economic state of growth where there exists full employment, the profit for individuals and a rising market, and people having good fortune. This is obviously not the case in Afghanistan. Prosperity is also associated with peace and absence of economic worries. Comprehensively, prosperity includes the state of mind, health, and finances of the people. Furthermore, the data also does not show whether or not the money spent on commodities maintains the household's level of comfort, security, and satisfaction.

If you think about your family, would you say that your family is more prosperous, less prosperous, or about as prosperous as under the Taliban Government? (Q-13)



It may be true that there are more commodities available in the market but, except for the political and economic elite, the general population does not have the financial means to purchase these commodities. Consumption and consumerist thinking of the few rather than development and investment influence the prosperity presented in the survey. The progress and growth presented in the data mainly stems from the service and security spending on international community, multinational forces, and private security companies. "Behind the consumption growth, is the security economy that generated demand for goods and services, equipment and operation and maintenance

of the national army, as well as higher spending by donor[s], and their large share of budget contribution.”¹ This type of prosperity reflects short-term thinking, derived from false-assumptions and a bubble economy. According to Lochner Marias, the problem with this type of achievement, or progress, is that it is planned in the donor communities without consulting with a wide array of stakeholders, local communities, and local governments. As a result, donor communities are not able to assess the available data and draw appropriate conclusions.

Consequently, the business plans that are developed do not thoroughly evaluate the projects, and support

¹Growth in Afghanistan, Macroeconomic and Economic Growth, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/EXTSARREGTOPMACECOGRO/0,contentMDK:20592478~menuPK:579404~pagePK:34004173~piPK:34003707~theSitePK:579398,00.html>, (accessed 15 December 2011).

is provided to the wrong or unnecessary projects. This type of planning is an “input-driven, grant-funding scheme rather than a funder expecting a return on investment.”²

When the data is even more closely analyzed it becomes clear that not much has changed in the life of the average Afghan. Their economic well-being has not improved. Forty-eight percent of the people surveyed responded that their living standards have remained the same, and 9% stated that they are worse off than they were under the Taliban regime. Collectively, 57% of the people surveyed have stated that prosperity has not come to their lives.

An indicator of economic development is the level of employment in the country. The last 10 years have not brought much change to the employment status of the Afghan people. About half of the people surveyed (45%) complain that employment opportunities for them have remained the same as when they were living under Taliban rule. More alarming, 35% complain that their employment opportunities have diminished. It is worse than it was under the Taliban. Only 20% of the people are able to find employment opportunities.

Even though parts of the survey indicate that there are more products available in the market, it does not tell us for whom they are available. If we accept that products are more readily available, they are available only to 30% of the people. Forty-nine percent

of the people indicate that the quantity of the products is at the same level as it was during the Taliban era. In addition, 20% of the people complain that there are fewer products in the market then there were during the Taliban regime.

Related to the availability of products in the market is the quality of products and diet. Thirty-five percent of those surveyed, most likely the small number of elite and affluent people of the society, stated that the quality of their diet is better than before. There are commodities imported from the United States and European countries for consumption of the few, which obviously is of better quality than the products imported for the average Afghan. Afghanistan's agricultural production has not seen much improvement. The culture of consumerism and making quick money has also affected the Afghan farming sector.

Farmers are no longer producing high-quality products; they now use genetically modified crops, artificial insemination, chemicals, and many other tools to speed up the growing process. Respondents who reported that the quality of their diet improved may have purchased these products from the Western-styled stores and not from the neighborhood stores or local farmers. Forty-nine percent reported no changes in the quality of their diet, and 15% reported that the quality of their diet have moved in a negative direction.

<i>Question 14: Compared to one year ago, would you say that situation for your household has gotten better, remained the same or gotten worse with respect to ... (6348 People Surveyed)</i>				
Questions Asked	Better	Same	Worse	Don't Know
d: Quality of your food diet	35	49	15	1
Total of Worse and Same		64		
Total of Worse, Same, and Don't Know		65		

²Marias, Lochner, "Donor-driven local economic development in peripheral areas of KwaZulu-Natal: The Gijima Programme," *Development Southern Africa*, Vol. 27, No.4, October 2010, pp. 522-523.

Another important element in the data collected in the survey is the physical condition of the people's homes and dwellings, which is directly related to their economic capabilities. If their financial well being is in bad shape, with no employment opportunities to better their lives, then they will not be able to improve

or maintain the condition of their houses and dwellings. Thirty-one percent of the questioners stated that the physical conditions of their dwellings have improved, 52% see no changes, and 16% complain that the condition of their dwellings is deteriorating. Putting the result of the column “same” and “worse” together, 68% of the people are not satisfied with the living conditions of the places they live in.

With the international community involved and the billions of dollars spent in Afghanistan, one would expect that at least healthcare in Afghanistan should have improved and people must have better access to doctors, hospitals, and medicine. The data in the survey does not present a very optimistic picture. Only 38% of the people agree that their health conditions and access to medicine have improved. Forty-seven percent of the people are still waiting for their health conditions and access to medicine to improve. The change still has to come. Fourteen percent of the people are worried because their health conditions have deteriorated even compared to the Taliban regime.

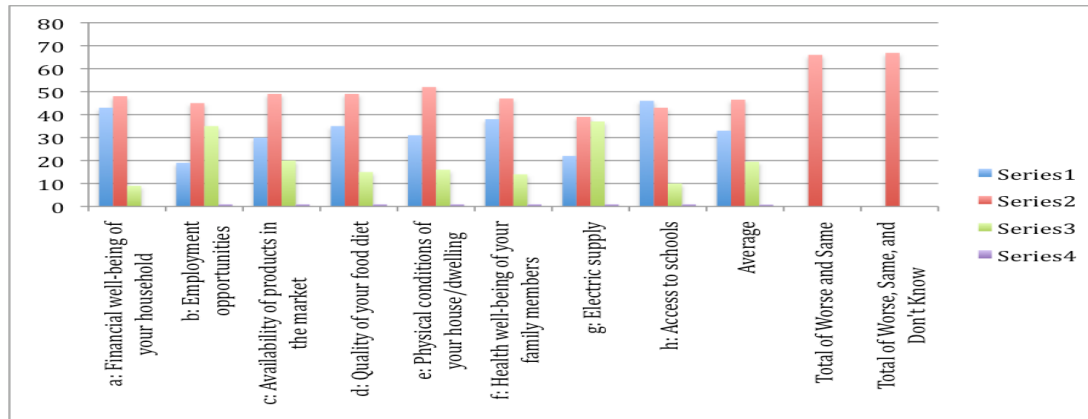
<i>Question 14: Compared to one year ago, would you say that situation for your household has gotten better, remained the same or gotten worse with respect to ... (6348 People Surveyed)</i>				
Questions Asked	Bet ter	Sa me	Wo rse	Don't Know
f: Health well-being of your family members	38	47	14	1
Total of Worse and Same		61		
Total of Worse, Same, and Don't Know		62		

Another primary component of economic development is the availability and use of energy. A healthy energy policy will outline solutions that are economically feasible and provide a perspective for economic growth. Of the energy resources, electricity is by far most the important affecting Afghanistan’s economic development. The Afghan government and the donor countries and agencies need to secure reliable and affordable electricity resources, fundamental to economic stability and development. In Afghanistan, very little attention is paid to the development of this sector of the economy. The Afghan government could not only repair the existing hydraulic dams, but the country also has great potential for building new ones. This lack of attention to infrastructure is likely why only 20% of the people report the availability of electricity in their household. Thirty-nine percent of the people report no change and 37% of the

people complain that their access to electricity has become worse than under the Taliban regime. Furthermore, the data indicates that the survey must have taken place in the centers of the provinces or cities throughout the country. If we were to include the countryside and suburbs, the number of people having access to electricity might be reduced to 10%.

Education is another primary and essential factor in development, especially economic development. No country can achieve sustainable economic development without investing in education. Education helps people to have a better understanding of themselves and of the world. Education enables people to improve the quality of their lives, and enhances broad social benefits. It also increases productivity and creativity and promotes challenges, entrepreneurship, and technological advances, and it secures economic and social progress. In the survey, education is the only sector where the people seem to have a positive image of the government's efforts. Forty-six percent of the people surveyed state that they have better access to schools than they had under the Taliban regime. At the same time, it is also alarming when 43% of the people complain that no change has taken place and their access to schools is at the same level when they were living under the Taliban regime. Furthermore, 10% of the people express opposing opinions and state that access to schools has become worse than in the Taliban era. Combining the last two, one could conclude that majority of the people are still not satisfied with progress made in the area of education.

Question 14: Compared to one year ago, would you say that situation for your household has gotten better, remained the same or gotten worse with respect to ... (6348 People Surveyed)				
Questions Asked	Better	Same	Worse	Don't Know
a: Financial well-being of your household	43	48	9	0
b: Employment opportunities	19	45	35	1
c: Availability of products in the market	30	49	20	1
d: Quality of your food diet	35	49	15	1
e: Physical conditions of your house/dwelling	31	52	16	1
f: Health well-being of your family members	38	47	14	1
g: Electric supply	22	39	37	1
h: Access to schools	46	43	10	1
Average	33	46.5	19.5	0.875
Total of Worse and Same	66			
Total of Worse, Same, and Don't Know	66.8			
	75			



ECONOMIC DEVELOPMENT AND THE ROLE OF THE GOVERNMENT

Economic development initiates the transformation of economic and social capabilities of individuals and the society, and enables them to pursue a life they desire. Access to the basic social needs and goods becomes easier and people are able to make choices in their personal and economic life. Consequently, individuals and communities take initiatives to make changes in their own lives, their communities, and their country. The people in a community form the building block of development when they start to identify, share, and integrate information they have on hand. The recognition and realization of these interdependent pillars help the economic sector to achieve the development they planned for. In this process everyone is a user and provider of goods, services, and information. The realization of these processes, systematic goals, and development is not a simple task. It requires that the government tackle formal and informal institutions to identify and define how economic resources and capabilities are distributed and managed. As Jörg Faust states, “the governments, as self-interested actors, can decide what share of their limited resources they will invest in providing public goods for society.”³ Economic development in Afghanistan, as in other places, requires structural changes. At the beginning of this process, the traditional agricultural economy needs to be improved. At the same time, plans have to be made to transform the traditional agricultural economy into a modern industrial economy.

Another factor, which is an important prerequisite and primary ingredient of economic development, but is lacking in Afghanistan, is public participation. With public participation, all aspects of human social and economic life are considered, the conflict between competing interests and goals is resolved, and the pace of economic development is accelerated. Intervention in the economy, either by the government,

donor communities, and investors is harmonized and conflict over policy reforms and distribution of goods and services is minimized, if not eliminated. Public participation also reduces the tension between the people, government, and donor communities. In Afghanistan, concerns have arisen about the last two being marked by high levels of corruption and illicit relationships between private businesses and the political elite. Public participation is also important because it articulates a variety of social interests and ensures openness in the democratic process, decision-making, and responsibility recognition. One of the main reasons why there is no public participation, an absence of communication and trust, and a high- level of corruption and illicit relations, is the lack of informal political norms, an important ingredient of any democratic regime.

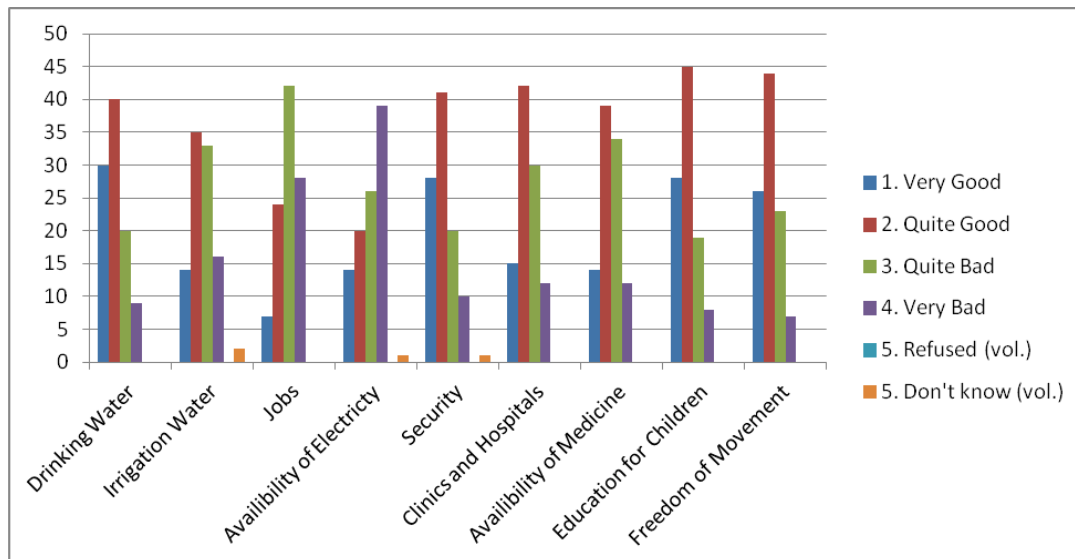
To develop the economy and improve the social strata of the Afghan people, the quality of the government of Afghanistan becomes the necessary element of economic development. Economic growth requires sustainable economic development strategy and planning. This is only possible if the government and the decision-makers possess legitimacy and capacity, and the country is governed by rule of law and security. The government sets up rules and characteristics, which are necessary to assure the functioning of the political and economic system. The identification and establishment of these sets of rules and characteristics at the minimum should include openness, accountability, transparency, effectiveness, efficiency, participation, inclusiveness, equality, and the rule of law. This will also address the question of “whether and in what quantities domestic resources and funds should be used to maintain and raise the level of consumption, or to increase the productive capacity of the country.”⁴ This will enable the government to efficiently and effectively allocate the resources and implement a plan of optimal growth of these resources over time.

The state must be capable of establishing internal order and external protection, which help secure a business environment where different economic and social actors can move freely and work with one

³ Faust, Jörg, “Policy Experiments, Democratic Ownership and Development Assistance,” *Development Policy Review*, Vol. 28, No. 5, 2010, p.518

⁴ Franck, Peter G., “Problems of Economic Development in Afghanistan,” *Middle East Journal*, Vol. 3, No.4, p. 422.

another. The free market approach the Afghan government and the international community have taken is not helping the development of economic sectors, because it lacks a regulatory framework, communication structure and oversight. In addition, economic development cannot function and proceed in a vacuum, but is closely linked and associated with education, healthcare, water, electricity, basic infrastructure, and sanitation. It is the obligation of the state to provide these basic services. The availability of these services along with a developed economy should be the foundation of modern economy and society in Afghanistan. The collected data confirms, in line with the statements above, that the Afghan economy is not improving. A total of 6,348 people were asked about the condition of their villages they live in. They were asked to grade it very good, quite good, quite bad, and very bad.



(Q 7 of the data)

When the United States launched its war in Afghanistan to topple the Taliban regime and eliminate al- Qaeda, it was able to defeat both, but the country did not advance toward peace, security, and sustained economic development. Despite the many billions of dollars aid money spent in Afghanistan, it still remains a war-ravaged, poverty stricken country. The war and foreign intervention did not produce conditions necessary for a normal life in Afghanistan. In addition to weak government institutions, lack of security, and an administration run by bribery and corruption, the country still suffers from a devastated economic infrastructure. This is one of the reasons why the Afghans show open belligerency toward the government, which they see as undermining the

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fragile political equilibrium established under foreign patronage. As a result, the people of Afghanistan are still waiting for their poor living conditions to improve.

For over 10 years, the international community has been involved in Afghanistan and its efforts have been to rebuild the country's devastated economic infrastructure and help the Afghan people. Yet Afghanistan remains ravaged by poverty and people have lost faith both in the Afghan government and international community. The "failure to address the Afghan people's basic needs and build strong foundations for sustainable social and economic development" may mean we "will see the country lost for another generation."⁵

⁵SENLIIS Afghanistan, *Stumbling into Chaos: Afghanistan on the Brink*, in The International Council on Security and Development Digital Library, http://www.icosgroup.net/modules/reports/Afghanistan_on_the_brink, (accessed October 5, 2011).

WHAT IS WRONG?

The Karzai administration lacks the political and economic capacities to respond to the needs of the Afghan people. The government is not able to provide basic public services, support day-to-day economic activities, and institute urgently needed measures to provide tangible economic and social results.

According to the World Bank's South Asia report, Afghanistan was ranked 160th, close to the bottom of the 183 countries.⁶ According to a Center for Strategic and International Studies (CSIS) report, "Afghans are losing trust in their government," because the violence is continuously escalating, and "public expectations are neither being met nor managed."⁷

Instead of engaging with the local communities and launching development projects that reflect the communities' priorities and needs, the Afghan government, the international community, and the nongovernmental organizations (NGOs) in Afghanistan have invested in unsustainable projects. Rather than investing money in the productive sectors, which will improve the economic well being of the majority of the Afghan people, attention is concentrated on the service side of the economy, which by itself is donor dependent. "The most dynamic service subsectors have been Communication (45% annual growth), Finance & Insurance (27%) and Transport (22%), with Wholesale and Retail trade lagging at a marginal 4% growth. In addition,

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Agriculture contributed 7.3 percentage points, driven mainly by a good cereal harvest and livestock.”⁸

Until now, the international community has spent an enormous amount of resources on workshops on gender balance, human rights, capacity building, women rights, etc., which has created a rift between the people living in the cities and people living in towns. This is not to suggest that attention should not be paid to these issues, but it is more important to realize what consequences these policies have in Afghanistan. The pursuit of these policies and the manners in which they have been undertaken so far, has not created social harmony, but has further divided the society. Social harmony, gender equality, and other rights of human beings are better achieved through an evolutionary process. This requires time and it is a social and cultural process that cannot be jumpstarted from outside. According to a SENLIS report, "where implemented, international development and reconstruction efforts have been underfunded and failed to have a significant impact on local communities' living conditions, or improve attitudes toward the Afghan government and the international community."⁹ By promoting lofty purposes such as democracy, a market economy, and federalism, the United States and the international community believe they can help to solve Afghanistan's political and economic problems. They have underestimated the consequences of 30 years of war, the applicability of Western benchmarks, and the perceptions shaping the social and cultural context of Afghanistan.

⁶ The International Bank for Reconstruction and Development: A co-publication of the World Bank and the International Finance Corporation (2010), *Doing Business in 2010: South Asia in World Bank Digital Library*, http://doingbusiness.org/Documents/DB10_Overview.pdf, (accessed October 5, 2011).

⁷ CSIS and PCR Project, *Breaking Point: Measuring Progress in Afghanistan*, in Center for Strategic and International Studies Digital Library, http://csis.org/files/media/csis/pubs/070329_breakingpoint.pdf, (accessed October 5, 2011).

⁸ Growth in Afghanistan, Macroeconomic & Economic Growth, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/EXTSARREGTOPMACCECOGRO/0,,contentMDK:205>

92478~menuPK:579404~pagePK:340

04173~piPK:34003707~theSitePK:579398,00.html, (accessed December 15, 2011).

⁹ SENLIS Afghanistan, Stumbling into Chaos: Afghanistan on the Brink, in The International Council on Security and Development Digital Library, http://www.icosgroup.net/modules/reports/Afghanistan_on_the_brink, (accessed October 5, 2011).

THE SOLUTION

As stated before, political conflict, poverty, corruption, poor governance, and foreign interference overwhelm the country. The current political and economic structure has broken down on all levels. Furthermore, the current security and economic conditions in Afghanistan indicate that the country will not recover very soon from the status of a failed state, and will continue to fail to establish security, law, and order needed for economic development and political progress. The Karzai government, therefore, needs to create political and economic capacities and policies to respond to the needs of the Afghan people. The state needs to provide basic public services, support day-to-day economic activities, and institute urgently needed programs, which can provide tangible economic and social results. The government needs to realize the political and economic realities of Afghanistan and transform the economic, social, and political structure to bring industrial progress to Afghanistan. The government also needs to build human, economic, and infrastructural capacities to build the industries and political infrastructure. In outlining policies for these goals, the government must consider international commitment and Afghanistan's financial capacities; it cannot be planned without considering how the costs and expenditures should be paid.

The government needs to engage with the local communities and launch development projects that reflect the communities' priorities and needs. The Afghan government, the international community, and the NGOs in Afghanistan should not waste money on cosmetic projects. The pursuit and implementation of economic policies will create economic and social harmony, and help unite the divided society. If centralized economic policies are implemented, however, the country will continue to suffer and lag behind in economic development as it has done for the past 10 years. At this stage, Afghanistan is ravaged by poverty and if constructive measures are not implemented, as it is stated by SENLIS Afghanistan, Afghanistan

will remain a failing state. The future of Afghanistan and its economic development on whether the government of Afghanistan, the global coalition, NGOs, and foreign contractors put together sustainable economic policy and a political structure that could bring real political and economic change.

CONCLUSION

The economic efforts launched in the past ten years by the government and the international community has been directed at national level infrastructure projects. What donors failed to prioritize, however, is the need to revive the local economic structure of Afghanistan. As a result, as The Asia Foundation Survey shows, in the eyes of the Afghan people, the international effort has brought little improvement in their lives. For Afghans, as elsewhere in the world, the most important indicator of economic growth and development is whether they or their family members have jobs. Economic reforms and modernization, and social transformation are still waiting. The Afghan government needs to launch programs that will bring a revision to the current economic strategy, launch an effective war against poverty, and transform the local economy in ways that it can provide jobs, increase the production of goods and services, and promote accountability. In implementing such a program, it is important to be concerned about the efficient allocation of scarce resources and sustain an economic growth that can improve the standard of living of the average Afghan. Public policy needs to be formulated and directed to bring about rapid economic growth and development.

To bring peace and sustainable economic development, and to improve the living standards of the Afghan people, the government needs to embrace a deeper understanding of Afghanistan's economic tradition, social values, and economic needs. The objective of the economic policy should be to bring a structural transformation of the economy and allow self-sustained economic growth and development to take place. Afghanistan needs to minimize and eventually eliminate reliance on foreign assistance, restrictions

(International Monetary Fund and World Bank), and import of foreign products. Only the development of domestic agriculture and the industrial sector can bring economic growth. The continuation of the current policy is leading to the alienation of large portion of the population and to increases in insurgency.

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