

The Impact of Economic Growth on Poverty in Afghanistan during 2001 to 2016

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Preface

Across the 101 countries, 1.3 billion people, that is 23.1 percent of the world population is multidimensionally poor according to the Global Multidimensional Poverty Index report of the United Nations Development Program released in July 2019. Half of 1.3 billion multidimensionally poor are children below age 18 years. In South Asia, the report claims that 10.7 percent of girls are out of school and live in multidimensionally poor households, this figure is 44 percent for girls in Afghanistan.

This report also raises the alarm for increasing global inequality. Inequality provides information about the distribution pattern of wealth and income and explains how far the bottom from those on top levels of income and wealth. If the bottom of the distribution rises, in other words, if the poorest improve the fastest, inequality will reduce, and so does the poverty.

Scholars from different disciplines and across the globe have extensively explored poverty and inequality. Even today, the first goal of Sustainable Development Goals (SDG) is to eradicate poverty in all forms. While some countries have leaped reducing poverty, others still suffer from the malaise of this chronic problem. Afghanistan is one among such countries

This dissertation contributes to the wider policy debate on poverty reduction and income inequality in the context of developing countries. The aim is to assess how poverty and income inequality evolves during economic growth in the context of developing countries, and what are the effects of economic growth on poverty and income inequality. The case of Afghanistan is of especial importance because of both high economic growth in the last decade, as well as a high poverty rate, and recently increased inequality- as the findings of this study reveal.

While this research is far from being perfect and inclusive, the main objective here is to explore the trend in poverty and income inequality in the country, in the aftermath of rapid economic growth between 2002 to 2012. This dissertation argues that rapid economic growth has failed to reduce the poverty rate in the country and resulted in increasing inequality. Data from households shows high levels of poverty in the sampled population in terms of standard 1.90 Dollar per day definition of poverty. Not only that, the rise in income inequality poses a further hurdle to tackle down the poverty rate, determined at 54 percent in 2019.

The main objective of this study is to provide policy recommendations to the government of Afghanistan, and other developing nations on how to tackle poverty, and take measures to reduce income inequality. Given that poverty is a multidimensional phenomenon, its solutions require the same multidimensional policies, such as improving education, health, public services, and implementing social programs.

Finally, the study contributes to a wider economic debate about how economic growth affects poverty and income inequality. The topics of equality of opportunity and economic inequality are mostly associated with the wider debate on social justice, towards which this dissertation makes a small contribution.

Summary of chapters

Chapter One - Introduction:

Inequality is a recent global problem, both in the developed and developing world. In the last half-century, the poverty rate has decreased more than half; however, inequality has been on the rise. In 1990 half of the population in developing countries lived in extreme poverty; by 2015, this decreased to only 14 percent. 1.9 billion people were living in extreme poverty in 1990; this figure decreased to only 836 million in 2015 (United Nations, 2015). On the other hand, the rate of inequality has risen to 11 percent on average in developing countries from 1990 to 2010. More than 75 percent of the population are living in societies where income is more unequally distributed than it was in the 1990s (The United Nations, 2016).

In this dissertation, the impact of economic growth on poverty and income inequality in Afghanistan is presented. The study considers periods from 2002 to 2016; a time marked by rapid economic growth due to the high influx of international aid to Afghanistan. Has economic growth reduced poverty? Has the economic growth resulted in increased income inequality? What are the main causes and policy solutions to eradicate poverty and income inequality? These are the main 3 questions this dissertation is engaged with.

In one of the first articles related to economic growth and income inequality, Kuznets (1955) argues that income inequality as measured by annual income in developed countries such as the United States, England, and Germany has decreased particularly since the 1920s and period before the first world war. However, recent studies by Stiglitz (2015) claims that the United States is among the most unequal countries in the world. There is no clear distinction if inequality is narrower in developed countries as compared to developing countries. The only difference could be that in developed countries, government policies are implemented more thoroughly and are implemented strictly, than those in developing countries. Such policies include minimum wage laws, tax systems, and the social security system.

One of the arguments in favor of accepting income inequality is the concept of capital formation. The proponent of this idea believe that it is fine if people have different levels of income. Those who are in the upper level of income could save and invest, which would not be possible otherwise. However, it has been proven that in societies with a higher level of inequality, the economic growth is much slower, compare to more equal societies.

David Ricardo and Karl Marx are the most influential economists of the nineteenth-century who believed that a small social group will inevitably claim a steady share of output and income (Piketty, 2014). Critics of these theories are that he did not consider technological advancement, and the interplay between demand and supply which could force to reach equilibrium, and alternative options. (Piketty, 2014).

One of the important indicators of income inequality is the division of income of the highest 10 percent on the lowest 10 percent (p90/p10) as calculated by Piketty (2015). Using this method, Germany Belgium, Sweden, and Norway have income ratios of 2.7 – 3, while the United Kingdom, United States, and Canada have income ratios of 3.8 – 5.9, the United States having the highest of 5.9 (Piketty, 2105). These calculations are based on deposable income. It is difficult to compare countries other than developed due to a lack of data and information.

Although it is considered that the main source of inequality is Capital inequality, the fact is that the main reason for inequality is due to income inequality (Piketty, 2015). Piketty, therefore, urges that to solve the problem of inequality, the focus should be given to income inequality. There is no need to abolish private ownership of Capital. The instruments to decrease income inequality are: taxation of top income and transfer to those in low incomes; policies to improve education and training; minimum wages, and measures to prevent employment discrimination (Piketty, 2015).

Afghanistan's economy:

Not much is known about the economy of Afghanistan during the period of the Taliban (1996-2001). However, A study by Rubin (2000) provides details about the political economy of Afghanistan during the Taliban period. The paper main finding is that due to the last 20 years of conflict, an open war economy was created, affecting Afghanistan and the surrounding region. Afghanistan has turned to the world's largest opium producer, and a center for arms dealing. The current level of poverty and inequality is not only the result of the last 15 years, rather Afghanistan's long history of internal war and conflict resulted in recent levels of poverty, deprivation, and inequality.

The internal war and conflict started with the communist coup in April 1978, Soviet Union invasion in December 1979 till February 1989, fall of Najibullah government in April 1992, Burhanuddin Rabbani government in 1992 until fall of Kabul to Taliban in September 1996 (Rubin, 2000). These historic events had a direct effect on how the economy of Afghanistan is shaped today.

Afghanistan is considered one of the most underdeveloped country according to Human Development Indexes even during the 1990s. Afghanistan ranked at the bottom of all human welfare measures, at 169 among 174 countries according to 1996 data (Rubin, 2000). Besides that, Life expectancy at birth was 44 as compared to 62 in developing countries in 1993, and adult literacy was 28% as compared to 68% in developing countries in the same year (Rubin, 2000). This already provides a proof that in the coming decades, the country would face huge challenges in terms of equal and sustainable socio-economic development.

Economic growth in Afghanistan was a by-product of international aid. The economy itself didn't grow at its own pace to a gradual increase in production, consumption, and income. Rather, it was the influx of aid that led to economic growth. Even such growth negatively harmed the country, rather than flourishing the benefit to everyone in the country. the reason is that in the first place, economic growth was not the main goal of the international community.

Poverty is highly concentrated in urbanized and densely populated provinces of Afghanistan. The largest three urban centers of Afghanistan host most of the poor population. Kabul, despite a low poverty rate (24 percent) accounts for most poor people (1.03 million), followed by Nangarhar (663 thousand) and Herat (660 thousand) provinces. Together with Takhar and Badakhshan – where the poverty rate is above 60% - these five provinces account for approximately 40 percent of the poor in Afghanistan (The World Bank, 2015).

Based on the available data, the economic growth has not resulted in poverty reduction, mainly due to inequality in the last 15 years in Afghanistan. Income inequality has risen during this period which was associated with rapid economic growth. Inequality is seen at regional as well as provincial levels. Several factors have resulted in such inequality, including unequal distribution of aid. Regions and provinces which are more insecure have received a higher level of foreign aid as compared to secure provinces.

Moving forward, the government has to find a sustainable source of economic growth that is not based on foreign aid. The government should have policies that promote inclusive economic growth based on the production of goods and services, rather than monetary expansion or inflow of foreign currency. Since most of the poor are located in rural areas, the agriculture sector should be more effective and efficient. Also, most Afghans are vulnerable to shocks. There is a need to have a safety net to make sure they are resistant to such shocks.

Chapter Two - Theories of Poverty and income inequality:

There are two methods of measuring poverty; measuring the outcomes and measuring the opportunity. Income inequality is the most widely cited measure of inequality of outcomes. It is measured by the Gini index, and tracking the changes in the share of the population's income in terms of decile/quintile. This analysis is supplemented by tracking wealth and assets. Inequality of opportunity is often measured by tracking health, education, human development outcomes, or access to basic service and opportunities (Dabla-Norris, Kochhar, Ricka, Suphaphiphat, & Tsounta, 2015).

Pigou (1932) is a proponent of income redistribution, and he justifies his point based on the total economic welfare. He argues that any action which will increase the absolute income of the poor, provided that the national income or dividend is not adversely affected, would increase total economic welfare. By adverse effect on national income, he means that the redistribution of income will not jeopardize the rich in terms of adverse effects to engage in economic activities.

Dalton (1920) sees the main problem, not in the first instance of inequality of income, but the effect it has on the total amount of economic welfare and its distribution, which is derived from income. That is the reason why income inequality matters. He explains his idea with the example of rainfall and its effect on crops. Cultivator may not consider the unequal distribution of rainfall on the crops, unless it affects the crops.

More than four decades ago, Sen (1973) argued that social welfare should be measured as income per capita times one minus the Gini coefficient. He argues that per capita income is not a good indicator of well-being. For example, the welfare of the society is one third higher if there are two individuals in a society and each earns 2, as compared to 1 and 3 (Sen, 1973).

Although poverty and inequality are very different phenomena, they are strongly related (Lopez, 2011). Lopes (2011) explains this in a simple term. For a given level of mean income, higher inequality will typically imply higher poverty levels. Also, for a given income growth rate, higher inequality will typically imply a lower rate of poverty reduction.

Income Inequality is defined as the distribution of relative income across the whole population (Bourguignon, 2004). Growth is the percentage change in mean welfare level (income or consumption) in the household or national level.

Global Inequality

World Bank (2016) report states that Latin America, the Caribbean, and Sub-Saharan Africa are the most unequal region of the world, though Latin America has been successful in reducing inequality. On the other hand, eastern Europe and Central Asia witnessed a rise in inequality after the fall of the Berlin wall in 1989, and since then has declined. During 2008 and 2013, inequality has declined in all regions except in the middle east, South Asia, and North Africa (World Bank, 2016).

Five low to middle-income countries covering Asia, Latin America, the Caribbean, and Sub-Saharan Africa demonstrated a strong reduction in inequality and poverty (World Bank, 2016). These countries are Brazil, Cambodia, Mali, Peru, and Tanzania.

(Franko & Witko, 2017) states that between 1981 to 2012, the share of the income of the top 1% in the United States grew from 8.2% to 19.3 %, while during the same period, the income of this class in Germany and France grew only by 2 percentage points and 0.5 percentage points. They also argue that the top 1 % of the wealthiest Americans hold 41 % of all the wealth of the country. Also, the heirs of the Walmart founder, Sam Walton, alone owned more wealth than the bottom 40% of the US families in 2012. The Forbes 400, the 400 richest Americans own as much wealth as the bottom 61 % of the wealth distribution.

China has been one of the poorest countries in Asia. However, poverty has decreased drastically after the china has opened its economy in 1979. There are different methods of measuring poverty. A study by Alkire & Shen (2018) used data from China Family Panel Studies (CFPS), which focuses on the Multidimensional Poverty Index (MPI), as compared to traditional money or income poverty. They find out that the Multidimensional poverty index (MPI) was 0.035 in 2010 and decreased significantly to 0.017 in 2014. The poverty headcount decreased from 8.2% in 2010 to 4.0% in 2014.

Chapter Three - Research Methodology:

The initial planned sample size was 100 families, while the conducted Household survey covered 110 Households. The sample includes households from two provinces of Kabul and Nangahar in Afghanistan. In Kabul, the Kabul city is selected as an urban area, while in Nangahar province, Surkh Road district is selected as a rural area. This would allow cross-comparison between poverty and income inequality in rural and urban areas.

Since the difference and heterogeneity between income levels (rich, medium, and poor) would be high, using a random sampling method with a relatively small sample size will provide biased and miss-leading results. “The greater the difference in the variable under study in a population, for a given sample size, the greater the difference between the sample statistic and the true population mean” (Kumar, 2014). Therefore, a stratified random sampling method, which overcomes this unnecessary difference in population variables, is used.

This study uses a mixed-method research. It collects quantitative, as well as qualitative data using data collection tools. Household Survey is used to collect quantitative data about the level of income, expenditure and wealth of the households. Key Informants Interview (KII) is used to collect qualitative data from the high government officials as well as key informants related to poverty and income inequality in Afghanistan.

Chapter Four - Household Survey:

In the sampled households, the average number of individuals in a family is 7 members; which is the same as stated in Afghanistan’s national surveys. About 50 percent of households have 7 or fewer members. The standard deviation is almost 3. The largest family in the sample size includes 15 members, which is mostly the case with joint families. And the smallest family has at least 2 members. This survey includes 787 individuals in 110 households.

In 110 households, a total of 175 individuals are employed, either full or part-time, and thus, earn an income. On average, every household has more than one person (1.6) as employed. Out of 110 households, 49 of them (44 percent) have at least one unemployed member in their family. A total of 96 persons (12 percent), out of the sampled 787 individuals are unemployed in the sample size

Household Income:

In the sampled population, the average family income (arithmetic mean) is 36,794 Afs. equivalent to (541 USD) per month. Meanwhile the lowest 50 percent of households (median) have an income up to 15,000 Afs. (220 USD) per month. If the given average for a household is compared with the median, we can conclude that about 50 percent of the households earn less than 50 percent of the average income. in another word, those who are in the bottom 50 percent of households, earn 50 percent less than the normal average income.

Households which are in the first quartile (lower 25 percent) earn an income of 8750 Afs. (128 USD). Those families which are in the second quartile (25 to 50 percent) have an income from 8750 Afs. to 15000 Afs. (220 USD). In the third quartile (50 to 75 percent), income raises to 38375 Afs. (564 USD). The fourth quartile (75 to 100 percent), is estimated at around 80,000 Afs. (1176 USD) per month.

On average, an individual earns 23,964 Afs. (352 USD) per month. the median value lays very low from the average income, at 12,000 (176USD) Afs. per month. That means that 50% of the individuals earn 12,000 Afs per month, which is 50 percent lower than average income. Similar results have been found for the difference between mean and median for household as a unit of analysis. This shows that income inequality at the individual levels of analysis also exists.

Gini Coefficient

The calculated Gini index is 62.70 (equivalent to the Gini Coefficient of 0.62) for the sampled population, indicating a high level of inequality. Using a different method, the Gini index is calculated at 64.54 points.

Robin Hood Index, which is another measure for income inequality has the same range from 0 (perfect equality) to 100 (perfect inequality). It measures the maximum distance between the Lorenz curve and the normal equality curve. It shows the amount of income that should be taken from the rich and given to the poor so that the income would be quality distributed. The Robin Hood index of the sampled population is 48.4. which is a considerable high figure.

The poverty rate in the sampled population is estimated at around 50 percent in the case of expenditure method, 54 percent in case of income minus expenditure methods. Using the income method at 1.25 USD per day, the poverty rate is estimated at 52 percent, and using 1.90 USD per day method, it is estimated at 66 percent.

Determinants of Poverty:

Education:

30 households, (27 percent) of the sampled households are illiterate. 26 percent of the household's head has either primary, secondary, or high school level of education. Also 30 households head (33 percent) have a bachelor's degree, only 3.6 percent have a master's

degree. This diverse sample size is useful to measure the relationship between the level of education and household income.

Based on average income comparison, there is a small difference between the average income of households which are headed by uneducated, high school, and bachelor's degree holders. The only difference is household heads who has a master's or doctoral degree, have a higher average income than the rest of the sampled population.

Those with no English language skills have an average income of 31,422 Afs. (462 USD) below the total average. Those who have primary level of English language understanding, earns an average income of 28,476 Afs. (418 USD) which is also below of total average. As the skill level increases to the intermediate level, the average income increases to 39,554 Afs. (581 USD) per month, which is above the total average. In case respondents are fluent in the English language, their income rises to an average of 51,380 Afs. (755 USD) per month; well above the total average. Also, Household heads with no computer skills have a lower average income of 29,798 Afs. (438 USD) compared to the total average.

Consequences:

Education:

Household who only allows boys to attend school, and does not allow girls, have an average income of 22,286 Afs. (327 USD) per month; which is well below the total average of the sampled population, but with little differences as compared to the first category of not sending their children to school at all. One translation of this finding is that income is not the only determinant of allowing the girls to attend school. Other factors, such as illiterate parents, social and cultural pressure, and lack of security or availability of girl schools near household location may also play a role.

The 89 percent of the sampled households, who send their children to school has a monthly average income of 37,955 Afs. (558 USD) which is just above the normal average income of the total sampled population. The majority of households who send their children to school are in the upper fourth quartile of income.

It worth mentioning that the children of poor households would work either forcefully or voluntarily to help the household meet their basic needs. child labor is a prevailing phenomenon in Afghanistan. As a result, some poor household's children would rather work to earn money, than to go to school.

17 percent of households send their children to private schools. 12 percent of families have children enrolled in both public as well as in private schools. The majority (71 percent) send their children to public schools, out of 58 households who provided this data.

Families with an average income of 70,000 Afs. (1029 USD) enroll their children in private schools. Those who have at least one child going to private school have an average income of 32,278 Afs. (474 USD) per month. on the other hand, families which send their children to public school have an average income of 29,907 Afs. (439 USD). This shows that income affects if the household would send their children to private or public schools.

Families that do not own a car have an average monthly income of 25,415 Afs. (373 USD); which is well below the total average. Those who own an auto has an average income of 64,615 Afs. (950 USD), higher than total average income, and more than double the amount of the income of households who has no car. All those who do not own a vehicle are below the average income line. Households who own a car, more than 50 percent of them have an income above the total average.

Consumption:

Household expenditure is 37 percent determined by the level of their income. There is a positive relationship between income and expenditure. A higher degree of income is associated with higher household income as compared to lower levels.

Living Condition:

Households are asked if their family income is enough to meet their basic food needs. 50 percent of households can fully meet their basic food needs, 32 percent partially, and the remaining 28 percent are not able to meet their basic food needs given their income.

The average income of families that are not able to meet all household needs from their income is 8,781 Afs. (129 USD) per month [Median 9,500 Afs. (139 USD)]. Those who partially afford have an average income of 18,023 Afs. (265 USD) [Median 10,700 Afs. (157 USD)], and those who afford all needs of the household have an average income of 81,214 Afs. (1,194 USD) [Median 53,000 Afs. (779 USD)]. Higher-income levels are associated with meeting all household needs.

Economic Perception:

45.5 percent of the households said that their living standard has decreased as compared to the last 5 years (the current year 2017). 21 percent said that their living condition remained unchanged, and 34 percent said that their living condition has improved during this period.

42 percent of households believe that their household income has decreased over the last 5 years. Only 27 percent believe that it has remained the same, and 30 percent of them believe that their income has improved. The responses to this question are quite similar to those about the living condition in the last 5 years.

40 percent believe that their overall economic condition has decreased in the last 5 years, 30 percent believe it remained stable, and 30 percent believe it has improved. 21 percent of the households are not satisfied with their current economic condition at all; 37 percent are little satisfied; 39 percent moderately; and only 4 percent are very much satisfied. This result is similar to the other perception questions result.

Chapter Five - Key Informants:

Mr. Guggenheim pointed out the number one problem that Afghanistan faces is insecurity, which also hinders government efforts not only in poverty reduction efforts, but in all other functions of the state. Afghanistan is in the focus of the world because of the long-lasting fight of the United States against Al-Qaida and the Taliban in the soil of Afghanistan. While there is no clear sign that this war will end after 19 years, security is still the main problem faced by people and the government. As a result, more and more resources, financially and strategically are being spent on security and fighting anti-government militias such as the Taliban and ISIS. This leads to little financial resources for other programs, including poverty reduction.

The second problem, as stated by Mr. Guggenheim is the weak private sector investment in the country which results in fewer jobs for the people. “The second big problem is the ability of the private sector to create new jobs here is not very strong. You can have a government that is very committed. You can do sort of government programs that support transfer to people, but if you don’t create jobs, you are not going to have a sustainable way to reduce poverty” he said.

Mr. Guggenheim proposes three solutions to this problem. First, to increase agriculture productivity; second, sustain private sector development; and third, to rebuild infrastructure. And as he said, “none of which is quick”. These solutions, however, do seem reasonable, given that the Afghanistan economy is based on agriculture and its productivity would increase the economic growth in the long run. The role of the private sector is also key, since so far, the government and international organizations are the main two employers in the country. Infrastructure, mainly the regional transportation and railways systems will connect the country to the wider region.

Mr. Guggenheim points out another reason why the poverty rate did not decrease over time. He said if there is a high population growth rate in the country, and if the economic growth rate is not increasing, the poverty “headcount” would always go up. He meant that the growth rate is not as high to catch up with a rather high population growth rate.

Corruption also plays a vital role, according to Mr. Farahi. He said that all these problems are almost the same in countries facing high poverty rate. Another problem according to him, is that even the projects funded by donors and implemented off-budget did not target the poor as beneficiary. As an example, he mentioned that agriculture-related projects only targeted those who had agricultural land, not the poor, and tenants who did not have agriculture land. As a result, poor who did not own land remain disadvantaged.

Mr. Nishat said that until 2014, “I don’t think poverty reduction was in the radar of government”. However, he said that with the establishment of NUG [National Unity Government], the idea of poverty reduction became a factor. Even after 2014, he said that there is no structured effort, and no coordination has been done to reduce poverty, except for a few activities.

Mr. Nishat brought up a new point that corruption could have resulted in an unequal distribution of funds. While the topic of this project is not related to corruption, though it might have its own impact on the distribution of wealth, such a topic is not widely discussed here. However, it is important to notice, that how corruption plays a rule in every aspect of the government, and it can affect almost anything in the country.

“We need to have an economic model for our country” Miss Sarabi said. what she meant is that we do not know exactly in which sector should we focus, rather doing all things at the same time. Mr. Guggenheim shares the same view as hers on this topic of concentrating in one area, and especially the one in which Afghanistan has a comparative advantage. She said that though

agriculture is the primary source of livelihood for the rural population, not much has been done in this regard. She said that even we are not self-reliant on wheat, a basic agricultural product and a staple part of daily food in Afghanistan.

Poverty and inequality could not be reduced unless those in the administration of development programs ensure that resources are being used for its intended purpose and that they are made accountable to delivery on the results based on good governance, said Mr. Narayanan. The gap is getting wider day by day because development administrators and implementers do not adhere to a standard of ethics and good governance. For him, he repeats it that “recognizing the importance of good governance and anti-corruption efforts right from the beginning is the only solution so that this malaise is addressed”

Chapter Six - Household Observation:

This part serves as a supplement to Household Survey and in contrast to this survey, it provides qualitative data at household level. It provides the background, information, and explains to the extent possible the situation in which households live and earn their livelihood. Quantitative methods mostly ignore the context of a household and only provide abstract figures. To compensate for this drawback, this part, which includes interviews with different classes of society provides an inside view on the daily life of people in the country.

The author believes that this part, is presented as a narrative of his field visit, both to Kabul and Nangarhar provinces is more interesting and informative to learn about the living condition of people, the dynamic in which they live, their family size, expenditure and the small story which lies behind each household makes it more colorful and easy to comprehend.

Chapter Seven - Test Hypothesis and Objectives of the Study:

As stated in the methodology chapter, the main question this dissertation pursues is: “how economic growth affects poverty and income inequality?” This question is answered based on the context of a developing country such as Afghanistan, where the rapid growth over the last 15 years has provided a perfect environment to study such phenomena. This study specifically investigates the following questions:

1. Has economic growth contributed to income inequality in Afghanistan? (correlation)

2. Has the poverty rate increased/decreased as a result of rapid economic growth?
3. What factors have resulted in increasing income inequality and what are the policy solutions?

The main objectives of the study are:

1. To determine the level of income inequality in the sampled population.
2. To find the correlation between income inequality and economic growth.
3. To understand the main causes and reasons for income inequality and provide policy recommendations.

Below is the main hypothesis of this dissertation:

Null Hypothesis: High economic growth does not affect income inequality.

Alternative Hypothesis: High economic growth results in a high level of income inequality.

In summary, the Null Hypothesis is rejected, and the alternative Hypothesis is accepted based on the findings of this study.

Chapter Eight Policy Recommendations:

The third objective of this dissertation is to provide policy recommendations to reduce poverty and income inequality. 30 policy recommendations are presented and discussed in Chapter five. The list of these policies is presented below.

List of policy recommendations:

1. Proposal: Anti-Poverty Programs
2. Proposal: Minimum wage
3. Proposal: Poverty rate determination
4. Proposal: Regional integration
5. Proposal: Agriculture and Climate change
6. Proposal: Microfinance
- 7 Proposal: Taxation
- 8 Proposal: Progressive Taxation on luxurious assets and wealth
- 9 Proposal: Volunteer Charity

- 10 Proposal: Zakat [Islamic Tax] Management
- 11 Proposal: Provision of basic food needs
- 12 Proposal: School enrolment of children
- 13 Proposal: Fundamental change in school curriculum and university programs
- 14 Proposal: National Health Insurance:
- 15 Proposal: Pension and Unemployment benefits

Policy Recommendation Based on Household Survey Findings:

- 16 Proposal: Income support for poor families
- 17 Proposal: Reduce dependency rate within families
- 18 Proposal: Increase labor participation in the labor market
- 19 Proposal: Increase women participation in the workforce
- 20 Proposal: Decrease the pay gap between male and female
- 21 Proposal: Equalize wage difference between rural and urban regions
- 22 Proposal: Poverty as a priority
- 23 Proposal: Provide Computer and English training
- 24 Proposal: Support for Poor families to send their children to school
- 25 Proposal: Provide basic and national healthcare

Proposals based on Key Informants Interview:

- 26 Proposal: encourage and allow private investment to create jobs
- 27 Proposal: Increase agriculture productivity
- 28 Proposal: Extraction of natural resources
- 29 Proposal: Eradication of Corruption
- 30 Proposal: Good Governance

Chapter One:

Introduction

Section I: Poverty and inequality

Section II: Afghanistan's Economy

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This chapter introduces the topic of poverty and income inequality to the reader. The chapter begins to explain how income inequality has gained importance as compared to poverty in recent years. Later, some basic theories and concepts related to income inequality are discussed to ensure readers comprehend the basic themes. In the last two sections, a brief review of Afghanistan's economy before 2001 is presented, followed by the recent updates on the topic of poverty and income inequality.

Introduction

Afghanistan is well known as a country devastated during decades of war and civil conflict. The fall of the Taliban in late 2001 marked a pivotal point in the history of this country. The international community helped the country in establishing democracy, peace, security, and a functioning government. After 16 years of foreign aid and security assistance is given to Afghanistan, it is time to ask the question, what has been achieved? Where does the country stand? And in which direction, the nation is moving?

There are obvious problems that the government and international partners understand and try to address. Security being the main challenge threatens the everyday life of the people. Widespread corruption at the government offices is another challenge that hampers the efforts toward development and service delivery. Other challenges are not that obvious. The government hardly notice them. If left unnoticed, such issues will further delay the efforts toward development and will have severe consequences. One of them is the rising inequality and economically divided society.

The issue of inequality in Afghanistan is a new trend visible only recently from available reports on economic indicators. The efforts to eradicate poverty in Afghanistan has hardly brought any result. The poverty level, despite rapid economic growth due to foreign aid, is not changed significantly. At the same time, a new issue of economic inequality has emerged due to the unequal distribution of income in wealth during the past 15 years.

Inequality is a recent global problem, both in the developed and developing world. In the last half-century, the poverty rate has decreased more than half; however, inequality has been on the rise. In 1990 half of the population in developing countries lived in extreme poverty; by 2015, this decreased to only 14 percent. 1.9 billion people were living in extreme poverty in 1990; this figure decreased to only 836 million in 2015 (United Nations, 2015). On the other hand, the rate of inequality has risen to 11 percent on average in developing countries from 1990 to 2010. More than 75 percent of the population are living in societies where income is more unequally distributed than it was in the 1990s (The United Nations, 2016).

Economic growth, therefore, has to be inclusive to eradicate poverty. The growth should benefit both rich and poor fairly if not directly proportionally to their wealth. To this end, the effect of the

economic growth on poverty reduction and inequality has been recently studied. The findings are mixed in different contexts and countries. In some countries, economic growth has left millions of people out of poverty, in other it had not. Some studies found that economic growth contributes to inequality, while others refuted this argument.

In this report, the impact of economic growth on poverty and income inequality in Afghanistan is presented. The study considers periods from 2002 to 2016; a time marked by rapid economic growth due to international aid to Afghanistan. The question of has economic growth reduced poverty? And has economic growth resulted in increased income inequality? These are the main objectives of this project.

Section I: Poverty and Inequality

Moving from poverty eradication to address inequality

Over the past several decades, the world's attention has been mainly concentrated on eradicating extreme poverty. This is visible in the United Nations Millennium Development Goals of 2000 to 2015; ranking extreme poverty eradication and hunger as the first goal out of eight (United Nations, 2015). The world has left more than one billion people out of poverty. In 1990 nearly half of the population of the world lived on less than \$1.25 a day; in 2015, the proportion dropped to 14 percent. Globally, the number of people living in extreme poverty has declined by more than half, falling from 1.9 billion in 1990 to 836 million in 2015 (United Nations, 2015).

Despite such gains, Ban Ki-Moon, Secretary-General of the United Nations, states that inequality persists, and the progress has been uneven. Among other shortcomings, the big gap between the poorest and richest households still exists (United Nations, 2015). The emerging post-2015 development agenda, including Sustainable Development Goals (SDG) will build on the achievements made so far. The first goal out of 17 goals of Sustainable Development Goals of the United Nations for 2016 to 2030 is "No Poverty by it's all types everywhere by 2030". In 2015, 836 million people still live in extreme poverty according to the United Nations (2015). Extreme poverty is measured as people living on less than \$1.25 a day.

Recently, the focus has been shifted from only eradicating poverty to addressing inequalities across and within countries. The United Nations added a new goal of "reducing inequality within and among countries" in the Sustainable Development Goals list for the coming 15 years. Among other types of inequalities such as health and education, income inequality is still prevailing. While the income inequality between countries may have been reduced, inequality within countries has risen (The United Nations, 2016). There is a growing consensus that economic growth is not sufficient to reduce poverty if it is not inclusive (The United Nations, 2016).

Based on these facts, it is obvious that eradicating poverty will not be successful if economic growth is not inclusive and addresses the issue of inequality. While the world has managed to reduce poverty, at the same time, income inequality has increased by 11 percent on average in developing countries between 1990 to 2010 (The United Nations, 2016). More than 75 percent of the population are living in societies where income is more unequally distributed than it was in the

1990s (The United Nations, 2016). There is a great amount of consensus among economists that inequality threatens poverty eradication, sustainable development, democratic processes and social cohesion (Stiglitz & Dolye, 2015).

Economists agree with the notion that inequality should be a priority for the world moving forward; some suggesting adding a new goal of “eliminating extreme inequality” to original eight of MDG (Stiglitz & Dolye, 2015). This has been considered in the new sustainable development goal of the United Nations to some extent.

Being unequal, is being not fair, irrelevant of the phenomena of income and economics. Those who received income lower than others tend to feel being threatened unfairly- given the fair rules of the game. Therefore, income inequality could have social, political and economic consequences.

Most of the economist agree that income inequality harms the economy. Income inequality decreases aggregate demand as the rich tend to spend a smaller fraction of their income than the poor which results in slow economic growth (Stiglitz & Dolye, 2015). Others found that economic growth is more sustained if there is a greater level of equal income distribution in a country (Berg, Ostry, & Zettelmeyer, 2012). Income inequality also results in economic inefficiency (Stiglitz & Dolye, 2015) among other social and political issues.

Economic Growth and Income Inequality

One of the early investigations on the topic of long term change in personal inequality is dated back to 1955. Kuznets (1955) posed questions such as “does inequality in the distribution of income increase or decrease during a country’s economic growth?” and “what factors determine such inequalities?” The focus of this article is more on secular income; which is free of cyclical and other transient disturbances.

Keznet's (1955) view of income inequality is to measure per capita income in fixed ordinal groups over a long period, for example over generation or 25 years. His idea is to measure the income of each unit in ordinal groups – percentiles, deciles, quintiles, and measure the movement of units from one group to another over time. For him, only categorizing units as “low” and “high” income

level does not make much sense if the reference is not made clear between the “residents” and “migrants” units within all ordinal groups over time. Merely measuring the size of the income of lower or upper groups of income does not convey enough meaning if individual units have moved from one group to another overtime or not.

While Kuznets himself agrees that such data is not available, and still it is more difficult to have such long-term data over generations to see the actual movements of the units from lower to upper class and vice versa. Even if such data is planned to be collected, that would be for a limited number of units of the study, and mostly based on a sample. National wide data on such topics is hard to be collected, if not impossible. Therefore, we need to rely on annual national income as a measure of the distribution of income in a country, rather than being able to measure the movement of individual units across such income groups. Kuznets (1955) finally agrees that he has no specific evidence or data to determine if there is a “migration” among different income groups. The effects of industrialization and urbanization on income inequality should be further investigated, because of a lack of data on this topic at that time.

In this one of the first articles related to economic growth and income inequality, Kuznets (1955) argues that income inequality as measured by annual income in developed countries such as the United States, England and Germany has decreased particularly since the 1920s and period before the first world war. In the United States, the share of lowest two quintiles rise from 13.5 percent in 1929 to 18 percent in the years after second world war (average of 1944, 1946, 1947 and 1950), and the share of top quintile declines from 55 to 44 percent, and the top 5 percent from 31 to 20 percent (Kuznets, 1955). In the United Kingdom, the share of the top 5 percent declines from 46 percent in 1880 to 24 percent in 1947 (Kuznets, 1955). In Germany, the relative income inequality drops from 1913 to 1920 due to war destruction and inflation (Kuznets, 1955). However, these data are based on income before direct taxes and exclude government contributions. Accounting for taxation and government contribution, the inequality gap would further narrow down.

However, recent studies by Stiglitz (2015) claims that the United States is among the most unequal countries in the world. There is no clear distinction if inequality is narrower in developed countries than in developing countries. The only difference could be that in developed countries, government policies are implemented more thoroughly and are implemented strictly, than those in developing countries. Such policies include minimum wage laws, tax systems, and the social security system.

Keznets (1955) identifies two forces that result in increasing inequality in developed countries. First, the concentration of savings in the upper-income group. This group is in a better position to save as compared to lower-income groups. In the United States, the top 5 percent of units account for two-thirds of an individual's savings (Keznets, 1995). The second force is mainly due to industrialization and urbanization. As the country moves toward industrialization, urban population receives higher income than those in rural agriculture areas. He further argues that the inequality in urban areas is more than in rural areas. It is assumed that the average per capita income of the rural population is lower than of the urban population. And the income distribution within rural areas is narrower than income distribution in urban areas.

One of the arguments in favor of accepting income inequality is the concept of capital formation. The proponent of this idea believe that it is fine if people have different levels of income. Those who are in the upper level of income groups could save and invest, which would not be possible otherwise. However, it should be made clear that the economy does not grow only through the cycle of income, saving and investment. Rather most other factors play a more vital role. It has been proven that in societies with a higher level of inequality, the economic growth is much slower, than those of equal societies. Stiglitz (2015) states that even the top 1 percent of society is adversely affected by inequality. Unequal societies tend to have lower demands for the goods and services produced by the businesses of the top 1 percent class.

While industrialization could be one factor of rapid economic growth in most of the developed countries, followed by a segregation of rural and urban population, the argument is not enough to accept inequality. Industrialization has also helped to increase the productivity of the agriculture sector through the use of advanced machinery and so on. Even in the stage of rapid economic growth due to industrialization, the government could implement policies to avoid unequal distribution of income in rural as well as in urban areas to protect the interest of the whole society altogether.

Kuznets (1955) believed that in the process of economic growth, the income inequality between urban and rural will not decrease because the productivity of labor increases more rapidly in urban areas than in the rural agriculture sector.

Theories of inequality:

The neoclassical economist views the distribution of income as a difference in the value added by labor, capital and land. The more productive a factor of production, the more reward it will gain. Kuznets seems to share the same idea, but there are flaws in this concept. It only explains how different factors of production are rewarded, it has nothing to do with the problem of inequality during economic growth. Different factors of production receive different rewards for their services. In the case of economic growth, the reward of such factors of production should increase proportionally all together. Meaning that the most productive factors of production should get a proportional increase in their rewards. Rather than only favoring the most productive. In the latter case, the less productive factors lose even if their reward is kept constant due to other factors such as inflation.

The most famous argument of Kuznets (1955) is that of the long swing in the inequality; that inequality is widening in the early phases of economic growth, becomes stabilized for a while and later narrows down. This long swing is mostly accompanied by the growth of population in the early stages, and decline in later stages. The same is the case with urbanization and capital formation over this period. Therefore, income inequality is part of a wide process of economic growth interrelated with similar movements (Kuznets 1955).

This theory is a starting point to further investigate the impact of economic growth on income inequality. The theory does not explain how much time this long swing requires if it is the same for developed or developing countries, and how the government could avoid income inequality right from the beginning of the economic growth to avoid negative consequences. It is also not clear if the inequality is self-regulating and will diminish over time. Therefore, in all these cases, there is a need for the government to take measures to tackle the problem of the inequality throughout the development process, rather than waiting until too late. That will have negative consequences.

Kuznets (1955) based on data from few developing countries such as India in 1949, Ceylon in 1950 and Puerto Rico in 1948 found that the developing countries have greater income inequality than developed countries after the second world war. The share of lower 3 quintiles is 28 percent in India, 30 percent in Ceylon, and 24 percent in Puerto Rico, compared to 34 percent in the United States and 36 percent in the United Kingdom (Kuznets, 1955). And the shares of the top quintile

are 55 percent in India, 50 percent in Ceylon and 56 percent in Puerto Rico, compared to 44 percent in the United States and 45 percent in the United Kingdom (Kuznets, 1955). Although these calculations are before tax and government transfers, even counting for these factors favors more further income inequality gap, since developed countries have a more progressive tax system and developing countries do extended social transfers.

While this comparison could be true during the early stages, it lacks concrete data to draw such a conclusion. Not only in the case of income inequality, but in every other aspect, India for example could not be a good comparison with the United States. There is a lot of social, political and cultural difference which could have resulted in such a huge gap in income inequality. However, one could still agree that developing countries are way behind in tackling the problem of inequality than those in developed countries.

A recent Book by Stiglitz has widely argued that there is huge inequality in the United States. Stiglitz (2015) in a famous article “of the 1 percent, by the 1 percent, for the 1 percent” states that the upper 1 percent of Americans are now taking in nearly a quarter of the national income every year. And that the top 1 percent controls 40 percent of total wealth. Compared with the last 25 years, the share of national income owned by the top 1 percent was 12 percent and 33 percent of the share of total wealth. He also claims that the top 1 percent witnessed their income rise by 18 percent over the past decade and those in the middle class have witnessed a fall in their incomes. All the growths have been gone to those on the top, and America is considered one of the most unequal countries in the world.

Comparing the theory of Kuznets and the recent findings of Stiglitz, it is clear that, even in well-developed countries such as the United States, inequality has not narrowed down and still is a huge problem. Stiglitz (2015) also states that income inequality is not inevitable, rather it is a choice made by the politician to be so. In His book, he explains a variety of government policies that have hugely contributed to inequality, including the United States respond to the 2008 financial crisis, Student loans, and even patent law.

So far, the marginal productivity theory has been the main explanation for such growing income inequality. According to this theory, higher productivity is associated with the higher income levels and thus inequality is justified

David Ricardo and Karl Marx are the most two influential economists of the nineteenth-century who believed that a small social group will inevitably claim a steady share of output and income (Piketty, 2014). Ricardo's theory as published in "Principles of Political Economy and Taxation in 1817" is that the price of land – as a fixed asset will increase considerably as the population grows in the future. This would enable a small group of "Landowners" to get a large share of national income. Since land, as the principle of scarcity explains, will receive a larger portion of national income. He also shared the view of the Malthusian Model about the growth of the population at an extraordinary rate. The only solution according to him was to impose a tax on land rents (Piketty, 2014). Critics of this theory are that he did not consider technological advancement, and the interplay between demand and supply which could force to reach equilibrium, and alternative options. (Piketty, 2014).

Karl Marx used the theory of Ricardo's price of Capital and principles of scarcity as a basis for the analysis of Capitalism. He believed that there is no limit to the amount of capital that could be accumulated in such a system. However, he also, as Ricardo, ignored the technological advancement that could take place, and the productivity of labor which later resulted in reduced income inequality (Piketty, 2014).

Theories developed by Malthus, Ricardo, Marx and many others about inequality had not provided any citation about the source and methods; until Kuznets (Piketty, 2014). Kuznets was among the first who provided calculation about the share of different income deciles. According to Kuznets, income inequality sharply decreased in the United States from 1913 to 1948 (Piketty, 2104). The share of the top 10 percent at the beginning of this period was 45-50 of the annual national income, and later it decreased to 30-35 percent. this reduction of inequality was good news and was publicly debated.

There are two contradictory positions about income inequality according to Piketty (2015). First, the right-wing free-market position, which accounts for market forces, individual initiative, and growth productivity as a determinant of the distribution of income, and requires government for little intervention in the market mechanism. The second position of the traditional left-wing position; stating that the only way to alleviate the misery of the poorest member of capitalist society is through social and political struggles; and through government control of the market mechanisms.

At the current state, either of the above two positions are applicable. We should find a way in between that best work for the market economy to operate, at the same time, take measures and implement policies which ensure social justice and to the extent possible equal distribution of income over the long run. Especially in the case of rapid economic growth, poor should be equally benefited from it. If not the same as the rich.

There are several types of income including wage, self-employment income, pension, transfers, Capital (income from Capital) and about 58.8 percent of total household income in France is from wages, two-thirds of income are from compensation for labor generally. Capital income is a small portion of the national income, therefore of less interest to the question of inequality (Piketty, 2015).

One of the important indicators of income inequality is the division of income of the highest 10 percent on the lowest 10 percent (p_{90}/p_{10}) as calculated by Piketty, (2015). Using this method, Germany Belgium, Sweden, and Norway have income ratios of 2.7 – 3, while the United Kingdom, United States, and Canada have income ratios of 3.8 – 5.9, the United States having the highest of 5.9 (Piketty, 2015). These calculations are based on disposable income. It is difficult to compare countries other than developed due to a lack of data and information.

Although it is considered that the main source of inequality is Capital inequality, the fact is that the main reason for inequality is due to income inequality (Piketty, 2015). Piketty, therefore, urges that to solve the problem of inequality, the focus should be given to income inequality. There is no need to abolish private ownership of Capital. The instruments to decrease income inequality are: taxation of top income and transfer to those in low incomes; policies to improve education and training; minimum wages, and measures to prevent employment discrimination (Piketty, 2015).

One of the basic theories of income inequality is that different workers contribute different amounts to a firm. Workers vary in their productivity. As a result, the inequality of living standards is also justifiable. This theory of Human Capital was promoted by Gary Becker in 1964. However, inequality could not only be explained by the productivity of the workers. The question goes further, that from where this inequality of productivity originates; and how education and training should be accessible to everyone equally (Piketty, 2015).

One argument against this concept is that the average wage in developed countries in 1990 was ten times what it was in 1870. It shows that only productivity could not be counted as the only reason for such an increase in the average income (Piketty, 2015). A different study shows that 60 percent of age inequality happens among the same group of workers; who have the same level of education, length of professional experience and age (Piketty, 2015). Other factors, such as demand for and supply of labor also play a role in income inequality. The theory of Skill-biased Technological change argues that the “technological process has placed a premium on individual qualities that have always been unequally distributed” (Piketty, 2015).

Methods of redistribution

Piketty distinguishes between two types of income redistribution:

A: Pure distribution, which is the primary tool for fiscal distribution, is considered to correct the inequality caused by unequal distribution of initial endowment, and market forces, without undermining the price system (Piketty, 2015).

Modern government fiscal redistribution takes different forms such as taxes (income tax, value-added tax, social charges) transfers (family allowance, unemployment insurance, guaranteed minimum income, and pensions), and directly paid expense by the government (health, education, and so on) (Piketty, 2015) .

The extent to which a country uses taxes and transfers is calculated from the sum of all taxes to a percentage of GDP. Obligatory tax rates amount to 30-35 percent of GDP in the United States and the United Kingdom, 45-50 percent in Germany and France, and 60-70 percent in Scandinavian countries (Piketty, 2015). Such data give us little information on how these taxes and transfers are redistributed.

A better method to measure fiscal redistribution is to use the effective average and marginal rate of taxation and transfer. The average rate of taxation and transfer of a given level of income is the sum of all taxes (or transfers) expressed as a percentage of gross income before taxes and transfers.

B: Efficient distribution, on the other hand is based on the theory of social justice. That everyone could be better off if collection action is taken, for example against discrimination in the labor market. In this case, it is not valid to provide fiscal transfer to the victim of such discrimination. Efforts to eliminate such type of inequalities should focus on eliminating the market failure responsible for it. Instruments such as affirmative action, minimum wage legislation, and other direct labor market intervention (Piketty, 2015).

Another view is the Keynesian Demand management for effective distribution. According to him, an increase in wages can stimulate demand for goods and services, and thereby increase output and raise the level of employment. It is the best solution since it is self-regulating and without any cost. However, this idea is criticized since price and wages do not change rapidly in the short term (Piketty, 2015).

The impact of economic growth on income inequality

The World Bank has conducted a study on measuring income inequality in 1996. Using the Gini coefficient on income shares based on data from 108 countries and 682 observations, they find out that there is no systematic link between growth and changes in aggregate inequality. However, they did find a strong positive relationship between growth and poverty reduction. (Deininger & Squire, 1996)

For the ninety-five growth cases, there was no systematic link between growth and inequality, however, there has been a strong positive relationship between growth and poverty reduction. Growth has benefited the majority (87.5 percent) of the cases. In five out of seven cases, economic decline disproportionately affects the poor. Testing for the Kuznets theory; the data provided little support for the existence of a Kuznets curve in about 90 percent of the countries investigated. (Deininger & Squire, 1996).

Regional differences in inequality: In Latin America and Sub-Saharan Africa, inequality is at the highest level with the country-level average of 50 Gini coefficient ranging from a 57 in Brazil to 42 in Bolivia. In Latin America, none of the countries have a Gini index of below 40. In Sub-

Saharan African countries, the index ranges from 28.9 in Rwanda to 62.3 in South Africa. In the Middle-East and North Africa regions, the Gini coefficient is in the 40s (Deininger & Squire, 1996).

In East Asia and South Asia, the Gini coefficient is in the 30s, lower as compared to Latin America and Sub-Saharan Africa. The highest number is in Malaysia and the Philippines, about 50 percent. The lower is in Taiwan which is below 30. Industrial and high income developing countries have a coefficient of low 30s (Deininger & Squire, 1996). There is a correlation between the Gini coefficient and income growth. As the income grows, the Gini coefficient tends to decrease.

Growth, Inequality, and Poverty

“The question of whether, or under what conditions growth is associated with changes in inequality has intrigued economists for a long time” (Deininger & Squire, 1996). The problem is that not enough time-series data is available to prove it Empirically. And only cross-sectional studies provide little information on the topic (Deininger & Squire, 1996).

The relationship between changes in overall income inequality and growth using data which spans at least one decade, has been studied by (Deininger & Squire, 1996) They found two main points. First, that there is little systematic relationship between growth and changes in aggregate inequality. Periods of aggregate growth were associated with an increase in inequality as often (forty-three times) as with a decrease in inequality (forty-five cases). Similarly periods of economic decline were associated with an increase in inequality five times, and with more equitable distribution in two cases. They conclude that “there is no strong relationship between growth and changes in aggregate inequality” (Deininger & Squire, 1996).

The main reason for not having a significant relationship according to the authors is whether average income is increasing or declining, changes in the Gini coefficient of inequality tend to be small. In this study, the annual percentage change in the Gini coefficient was 0.28 points compared with an average growth rate in per capita income of 2.16. (Deininger & Squire, 1996).

Some cases show little change in the Gini index because of growth. In the case of Taiwan (China), real income per capita increased fivefold from 1964 to 1990, whereas the Gini index barely

changed, declining from 32.2 to 30.1. In the United States, real income increased from US \$8,772 in 1950 to US\$ 17,594 in 1991, yet, the Gini index hardly changed from 36.0 to 37.9. In Brazil, real income increased from US\$ 1,784 in 1960 to US\$4,271 in 1989 while the Gini index moved from 53.0 to 59.6 (Deininger & Squire, 1996).

In cases where the Gini index is considerably changed, such as in Thailand, which moved from 41.3 in 1962 to 51.5 in 1991, the change in the index is smaller compared to a fourfold increase in real income. The author concludes that the data provided does not suggest any systematic link between inequality and aggregate growth and this idea has to be rethought (Deininger & Squire, 1996).

Although the author concludes that there is no significant correlation between aggregate growth and change in inequality, a strong correlation exists between aggregate growth and change in the income of all quintiles except the top one (Deininger & Squire, 1996). The authors found that in most episodes of growth in sampled data, although it was associated with an increase in inequality, it has resulted in an increased income of the member of the lowest quintile. “Aggregate growth was associated with the increase of incomes of the poorest quintile in more than 85 percent of the 91 cases” (Deininger & Squire, 1996).

The author concludes that there is no systematic relationship between the growth of aggregate income and changes in inequality as measured by the Gini coefficient. There is a strong link between overall growth and reduction in poverty. Economic growth benefits the poor in the large majority of cases, whereas economic decline generally hurts the poor (Deininger & Squire, 1996).

Countries such as Sweden, Belgium, and Germany reduced poverty over 70 percent through social insurance (unemployment and workers’ compensation, disability benefits, paid family leave. (Smeeding, 2004) The effects of government on inequality comes from two sources. First, the direct effect of redistribution or via indirect effects created by institutions and regulations such as minimum wages, unionization and collective wage bargaining. (Smeeding, 2004)

Section II: Afghanistan's Economy

Afghanistan's economy before 2001:

Not much is known about the economy of Afghanistan during the period of the Taliban. However, A study by Rubin (2000) provides details about the political economy of Afghanistan during the Taliban period. The paper main finding is that due to the last 20 years of conflict, an open war economy was created, affecting Afghanistan and the surrounding region. Afghanistan has turned to the world's largest opium producer, and a center for weapons dealing. The country helped in the smuggling of multibillion-dollar trade of goods from Dubai to Pakistan; which provided financial funds to the Taliban and their adversaries.

Afghanistan economy is widely divided between rural and urban sectors due to its terrain and geography. In the 1970s, 85 percent of the population lived from the rural economy (Rubin, 2000). Several factors, including security, economic factors and better access to basic services resulted in the urbanization of the country. However, not everyone could move to a bigger city and only those who had financial means did so. As a result, even today, the larger gap between regions and provinces are prevailing in almost all aspects of socio-economic life. Poverty is at highest in rural areas and the inequality gap between rich and poor is heavily affected by the geographic location.

The current level of poverty and inequality is not only the result of the last 15 years, rather Afghanistan's long history of internal war and conflict resulted in recent levels of poverty, deprivation, and inequality. The internal war and conflict started with the communist coup in April 1978, Soviet Union invasion in December 1979 till February 1989, fall of Najibullah government in April 1992, Burhanuddin Rabbani government in 1992 until fall of Kabul to Taliban in September 1996 (Rubin, 2000). These historic events had a direct effect on how the economy of Afghanistan is shaped today.

Afghanistan is considered one of the most underdeveloped countries according to human development indexes even during the 1990s. Afghanistan ranked at the bottom of all human welfare measures, at 169 among 174 countries according to 1996 data (Rubin, 2000). Besides that, Life expectancy at birth was 44 as compared to 62 in developing countries in 1993, and adult literacy was 28% as compared to 68% in developing countries in the same year (Rubin, 2000).

This already provides a proof that in the coming decades, the country would face huge challenges in terms of equal and sustainable socio-economic development.

The open war economy of Afghanistan meant that the source of income for the government was not through economic means, rather through informal sectors. Afghanistan's economy was based on transit trade, the drug trade, the gem trade, service industries for the three mentioned areas, and emission of currency (Rubin, 2000). According to this source, the Taliban controlled mainly the transit trade, which is the largest one, followed by Massoud controlling gems trade, and opium production benefited both sides. Taliban in 1999 controlled 97% of opium production in Afghanistan and Transit trade amounted to \$2.5 Billion in 1997, nearly half of Afghanistan's estimated GDP, which was controlled by the Taliban as well. Some estimates show that the Taliban earn less revenue from opium than from transit trade (Rubin, 2000).

Opium production in Afghanistan did not substantially benefit the Taliban as a source of finance. While Afghanistan produced 75% of the global opium production, Afghans, including the Taliban earned relatively little from this crop (Rubin, 2000). Super profits in the global drug market derive from the risk premium of marketing an illegal commodity in wealthy societies. However, it is still the second-largest source of financial support after road transportation.

There were not enough economic sources within the economy to pay for government expenditures. Therefore, even the Taliban were receiving financial assistance and aid from outside of the country. According to Rubin, (2000) The official budget in Kabul was partially paid by Pakistan (\$10 million in 1998), and few taxes from Kabul itself. Saudi Arabia provided financial assistance through subsidized fuel and direct grants until 1998. Later these were ended as protests over the failure of the Taliban to curb Usama bin Ladin. Bin Ladin himself provided wealth to the Taliban during the capture of Kabul in 1996 (Rubin, 2000).

The economy was not the only sector that was negatively affected by the rule of the Taliban. Besides a ruined economy, Afghanistan was characterized by violent conflict, war, lack of rule of law, destroyed infrastructure, and devastating health and education systems (Central Statistics Organization, 2016). The new interim government which took over the Taliban has to substantially transform the country towards prosperity and growth.

Current poverty status in Afghanistan

Introduction: In this part, we will examine a report of the world bank on the current state of Poverty in Afghanistan based on a comparison of two surveys conducted in 2007-8 to 2011-12. This report is the first of its kind to compare two-time intervals. Data used for this comparison is from Afghanistan's National Risk and Vulnerability Assessment survey series.

The economy of Afghanistan has been dependent on international aid for the past 15 years. Besides the influx of billions of dollars of aid, poverty is not reduced. Despite strong economic growth and international spending on military and civilian assistance, 36 percent of the population are poor according to the National Risk and Vulnerability survey conducted in 2007-8. The poverty rate has not changed substantially in the subsequent survey conducted in 2011-12 (The World Bank, 2015).

The question will arise that despite rapid economic growth due to foreign aid, why poverty has not changed over time. Poverty remained unchanged at the time when the economy experienced rapid economic growth starting from 2002. Finding underlying reasons requires a rigid and rigorous empirical research of the economy. Based on the empirical findings, the policy solution to reduce poverty in the future will guide the government of Afghanistan. An increase in inequality, corruption, and lack of equal opportunity is the potential explanations for the unchanged poverty rate in Afghanistan. Before reaching such conclusions, empirical research should provide evidence-based answers to these assumptions.

The period from 2007-8 to 2011-12 was characterized by strong economic growth, increased international spending, and increased level of conflicts. However, the poverty rate was stagnated despite such positive economic indicators according to World Bank (2015). The lack of poverty reduction despite strong economic growth is explained by an increase in inequality. It is visible from the Gini index which raised from 29.7 in 2007-8 to 31.6 in 2011-12. According to estimates, had the economic growth been more equal, poverty would have been declined by 4.4 percentage points (The World Bank, 2015).

The change in the Gini index shows that inequality has increased with the increase in economic growth. Kuznets's theory of inequality states that inequality rises at the early stages of economic

growth and would eventually decrease at later stages. However, to decrease inequality rapidly and as early as possible, it is of equal importance to find the underlying factors and causes of such inequality at the early stages. Policy solutions should be provided to make the recovery faster based on identified causes.

While inequality could be one of the reasons for the unchanged poverty rate, other factors might have played an equal role. The World Bank report (2015) found out that the main drivers of inequality are 19 percent rural/urban or regional difference, and 26 percent due to interprovincial disparities in 2011-12. Regional inequalities widened during the period of 2007-8 to 2011-12. East, West-Central and especially Northeast are the “lagging regions” with the highest rates of poverty as compared to the rest of the country (The World Bank, 2015).

Afghanistan’s geography and lack of proper infrastructure such as roads and highways restrict free movement of people and resources from one place to another. The terrain and lack of transportation infrastructure has made it difficult to have a more equal and inclusive growth. At the same time, unequal distribution of resources especially international aid worsened the situation in some regions. According to The World Bank (2015) widening the gap between the three “lagging regions” as compared to the rest of the country is due to regional differences in aid allocation and vulnerability to shocks. These regions benefited less than the rest of the country from increased intentional spending. Natural disasters and weather-related shocks are also common in these regions (The World Bank, 2015).

The Human Development Index is a good indicator of the situation of people in a country, and to some extent explains the degree of poverty and inequality. In the case of Afghanistan, a stagnating poverty rate happened at the time of improved Human Development Trends. School enrollment rate and access to public services (electricity, safe drinking water, and improved sanitation) has improved during the period of 2007-8 to 2011-12. However, since these developments were not uniform across groups and regions, there has been no visible impact on narrowing inequality (The World Bank, 2015).

Job creation and role of differences in human capital endowments

When new jobs are created because of economic growth, poverty will decrease. At the same time, there is the concept that inequality in income is due to differences in human capital endowments. Those who are well-educated, have professional skills and capabilities, are receiving higher income than others. To reduce inequality in income, equality opportunity should be given to all individuals regardless of their financial conditions, family status, gender, and ethnicity. That will enable members of the country to empower themselves for taking benefit of new employment opportunities and to uplift themselves from poverty.

The creation of a new job in Afghanistan did not benefit all Afghans equally. Most of the jobs were created in the labor market in the informal sector of the economy. Such jobs are seasonal, or poorly paid besides requiring hard physical work such as in the construction sector. Labor market saw improved outcomes in job creation during 2007-8 to 2011-12, approximately 490 thousand jobs were created for men age 25 to 50. Inclusive economic growth contributes to poverty reduction, through the creation of new jobs, especially for poor. In Afghanistan, however, the economic growth has not benefited all Afghan workers equally (The World Bank, 2015).

Even with an increase in the number of jobs during this period, the job requirements and available skills in the labor market were not matching, at least for the poor. The service sector was the primary driver of employment with 80 percent of new jobs in informal labor arrangements. Following the service sector, the Public sector, health, and education-related services were also key drivers of employment opportunities. However, jobs in these sectors required high skill workers and were formal jobs. Lacking the human capital to take advantage of better jobs, the poor substituted vulnerable employment in the agriculture and service sector (The World Bank, 2015).

Unequal economic growth and lack of equal opportunities for all Afghans have disadvantaged few, mostly the poor and favored the high skilled and rich groups of the society. The unequal economic growth has disadvantaged the poor more drastically than it benefited the rich. At the same time, while the poor lacked high skills and education, they could hardly benefit from the growing economy and labor market opportunities. Instead, they moved to jobs that are temporary, and labor-intensive.

Vulnerability to shocks is another aspect that is prevailing in Afghanistan due to rain-fed Agriculture, conflict and lack of safety net. Poor households and households in “lagging regions” are the most vulnerable to shocks that perpetuate inequality (The World Bank, 2015).

Policy direction: According to the World Bank Report (2015) Aid-led growth did not significantly reduce poverty in Afghanistan. The rapid economic growth between 2008 to 2012 was associated with an increase in military and civilian aid. Military aid targeting regions with high conflict, while civilian aid was targeted to improve education, health and infrastructure services. Due to this geographical targeting of aid and jobs that have been created as a result of such, aid-led growth increased income inequality and did not decrease poverty.

With the decline in foreign aid, Afghanistan has to find new sources of growth to ensure poverty reduction. The World Bank (2015) suggests the following three policy direction for broad-based growth to alleviate poverty in Afghanistan:

“I - Sustaining growth by strengthening agriculture;
II- reducing welfare inequalities by leveling the playing field for human development; and
III- protecting the poor from shocks by developing targeted safety nets” (The World Bank, 2015, p. 8).

Growth and Poverty reduction

Economic growth in Afghanistan was a by-product of international aid. The economy itself didn't grow at its own pace to a gradual increase in production, consumption and income. Rather, it was the influx of aid that led to economic growth. Even such growth negatively harmed the country, rather than flourishing the benefit to everyone in the country. the reason is that in the first place, economic growth was not the main goal of the international community. Would it have been the case, the flow of international aid would be more equal, transparent and with positive economic consequences across the country. As the World Bank (2015) states that international aid is not equally distributed across regions and provinces; rather, it is focused more on provinces that are affected by a higher level of conflict.

Afghanistan as a devastated country has widespread poverty. According to NRVA 2011-12, the poverty line in Afghanistan was 35.8 percent, meaning that 9 million individuals, three out of eight Afghans have consumption below the necessary level to satisfy basic food and non-food needs (The World Bank, 2015). Unfortunately, this figure of poverty is not very much different compared to a few years back. The poverty rate has been hardly changed besides the huge influx of intentional aid during these years. It is calculated that a one percent increase in aid per capita is associated on average with a 0.13 percent reduction in poverty level (The World Bank, 2015). However, in the case of Afghanistan, such improvement is hardly visible.

Poverty has spatial and geographical aspects in Afghanistan. A large population of Afghans live in rural areas, where poverty is highly concentrated. Four out of five poor Afghans live in rural areas and the expenditure of an average Afghan living in urban areas is almost double of that live in rural areas. The poverty level is 38.3 in rural areas, about 10 percent higher than in urban (The World Bank, 2015). Not only poverty but the development efforts seem to be heavily discriminatory across regions and provinces. This has resulted in an unequal society in urban and rural levels, as well as at regional and provincial levels.

Poverty has a regional aspect in Afghanistan too. Between 2007-8 to 2011-12, poverty declined in the North and West regions, while it increased substantially in the North East (The World Bank, 2015). According to the World Bank (2015) poverty headcount declined by six percentage points in the North, from 39 in 2007-8 to 33 percent in 2011-12. In the west, the poverty rate decreased from 34 to 30 percent in the same period. On the other hand, the northeast region witnessed a substantial increase in the poverty rate from 36 percent in 2007-8 to almost 50 percent in 2011-12. The difference in the poverty rate in regions is too wide that more than half of the poor lives only in northeast, Central and East regions in 2011-12.

At the provincial level, the difference in the poverty rate is also visible. In 2011-12, a person living in Kabul province consumed on average 3910 Afs. per month, 60 percent more than 1440 Afs. per month consumed by someone in Takhar province (The World Bank, 2015). The poverty rate varies less than 20 percent in Farah, Faryab, and Kandahar provinces, to more than 60 percent in Takhar, Badakhshan, Zabul and Laghman provinces. In general, the poverty rate did not change in 9 provinces, increased in 11 provinces and declined in 12 other provinces. Different poverty

rate across provinces reveals the fact that economic growth was unequal, and benefited one part of the country more than another.

Poverty is highly concentrated in urbanized and densely populated provinces of Afghanistan. The largest three urban centers of Afghanistan host most of the poor population. Kabul, despite a low poverty rate (24 percent) accounts for most poor people (1.03 million), followed by Nangarhar (663 thousand) and Herat (660 thousand) provinces. Together with Takhar and Badakhshan – where the poverty rate is above 60% - these five provinces account for approximately 40 percent of the poor in Afghanistan (The World Bank, 2015).

Other factors also determine poverty in Afghanistan. Lack of education, weak labor market opportunities and limited access to services has resulted in widespread poverty. Child poverty is another major challenge. More than half of the poor are children aged below 15 years. 75 percent of poor with an age above 15 years old were illiterate (compared to 63.4 percent of the non-poor), and only 7 percent have completed high school. Poor has limited access to basic services such as electricity, safe drinking water, and sanitation (The World Bank, 2015).

Kuchi (Nomads) population has the highest risk of poverty. In 2011-12 Kuchi poverty headcount was 51.8 percent, meaning that more than half of the Kuchi population consumed below the poverty line (The World Bank, 2015).

Inequality, growth and constrains to poverty reduction: The rapid economic growth after the fall of the Taliban has not reduced poverty considerably due to inequality. Growth was not inclusive and only some sectors and skilled workers have benefited at the cost of poor and unskilled. “Economic growth has not reduced poverty in Afghanistan because of increasing inequality” (The World Bank, 2015, p. 19).

It is clear that as the economy grows, the poverty rate declines because of an increase in production, consumption or income of the people. In the case of Afghanistan, the growth did not benefit everyone equally. If there was no inequality, the poverty rate would have reduced by 4 percent approximately, from 35.8 to 31.4 percent (The World Bank, 2015).

Gini index is an indicator of the level of income inequality in the country from the range of zero to one; one being the most unequal distribution of income. In the course of 2007-8 to 2011-12, the

Gini index increased from 29.7 to 31.6 percent (The World Bank, 2015). This inequality is also evident by looking at the per capita consumption pattern of the rich and poor. The quantile per capita consumption between the top 90th and bottom 10th percentile increased from 3.6 to 4, meaning that the consumption of the top 90th richest percentile is four times larger than the poorest 10th percentile (The World Bank, 2015).

The growth was not “pro-poor” and as a result it widened the gap between the poor and the rich Afghans (The World Bank, 2015). Per capita consumption of the poor decreased by -0.17 percent during the period of 2007-8 to 2011-12. While the poorest 20 percent of the population saw a 2 percent decline in their real per capita expenditure, the bottom 40 percent did not improve their per capita expenditure at all. On the other hand, the richest 20 percent experienced a 9 percent increase in their per capita expenditure (The World Bank, 2015).

Other than the effect of economic growth, the difference in assets such as Human capital, access to services and opportunities between poor and rich explains inequality in Afghanistan. Difference in urban/rural divide, among and between regions and provinces also plays an equal part in increasing inequality. During 2011-12, urban/rural differences accounted for 19 percent (as compared to 15 percent in 2007-8) and 26 percent in the case of interprovincial disparities (The World Bank, 2015).

Conclusion:

Based on the available data, the economic growth has not resulted in poverty reduction, mainly due to inequality in the last 15 years in Afghanistan. Income inequality has risen during this period which was associated with rapid economic growth. Inequality is seen at regional as well as provincial levels. Several factors have resulted in such inequality, including unequal distribution of aid. Regions and provinces which are more insecure have received a higher level of foreign aid as compared to secure provinces. Moving forward, the government has to find a sustainable source of economic growth that is not based on foreign aid. The government should have policies that promote inclusive economic growth based on the production of goods and services, rather than monetary expansion or inflow of foreign currency. Since most of the poor are located in rural areas, the agriculture sector should be more effective and efficient. Also, most Afghans are vulnerable to shocks. There is a need to have a safety net to make sure they are resistant to such shocks.

Chapter Two:

Literature Review

Section I: Theories of Income Inequality and Poverty

Section II: Empirical Research on poverty and income inequality in other countries

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Introduction:

This part of the chapter on the literature review serves two main purposes for the dissertation. First, it provides a brief overview of theories and concepts of poverty and income inequality based on academic literature. It highlights the work of the scholars on the topic of inequality and poverty reduction and their relation to economic growth. Second, it provides empirical evidence from different countries of the world facing the problem of poverty and inequality, and how they have been successful or unsuccessful tackling such issues. Different reports and papers which address the similar problem of inequality, as this dissertation does, are being reviewed and their findings and recommendations are briefly presented.

The first and second part together, provides a better understanding of the problem of income inequality both from the academic debate perspective, as well as in the real-life situation across the globe. This part of the chapter will deepen the understanding of the concept, and the main theories around the issue of poverty and income inequality, and how it should be measured, analyzed and understood. The empirical research supports the theoretical perspective by providing data from different countries. These two pillars of this report will help in formulating sound policy recommendations to reduce income inequality in Afghanistan, based on best-practices of other countries facing similar problems.

Finally, given the vast amount of literature and academic work on the topic, this part does not mean to be inclusive of all such literature, however, it provides a glimpse of some of the most profound theories and studies conducted in this area. For further details and information, the sources provided here could be reviewed.

Section I: Theories of poverty and income inequality

Measurement of Poverty and Inequality:

The measuring of poverty and inequality is widely discussed in the available literature. Different methods are being proposed to measure poverty and income inequality. Here, a summary of such measurements is presented:

There are two measures of income inequality according to Sen (1973). The first measure is the positive or descriptive, which does not consider any social welfare concept. Second, the normative measure notion, which uses the social welfare concept and considers the loss incurred from unequal distribution. The characteristic of positive measure is described in terms of range, mean deviation, variance, coefficient of variation, standard deviation of logarithms, Gini coefficient and Theil's entropy measures.

The normative measures are described in terms of Dalton's measure, Atkinson's measure, an axiom of additive separability and other general measures. (Sen, 1973) proposes that a mixture of both partially descriptive and partially normative consideration should be used, because each of them although they are complete in its term, they do not provide a full view of the notion individually.

Seth & Alkire (2018) argues that in measuring poverty, the three "I" of poverty (Incidence, Intensity, and Inequality) should be considered. They distinguish between three different approaches to reducing poverty. If poverty reduction is aimed at reducing the incidence of poverty, then those who are marginally poor will be lifted out of poverty, not the poorest of the poor. The problem still exists if the incidence and intensity of poverty is targeted, in which there is no incentive to target the poorest of the poor. Only when the issue of inequality is considered, the attention of lifting out the poorest will come into consideration. They also argue that poverty measures should be decomposable; so that it can be expressed as the sum of the total within-group inequality and between-group inequality (Seth & Alkire, 2018).

There are two methods of measuring poverty; measuring the outcomes and measuring the opportunity. Income inequality is the most widely cited measure of inequality of outcomes. It is measured by the Gini index, and tracking the changes in the share of the population's income in terms of decile/ quintile. This analysis is supplemented by tracking wealth and assets. Inequality of opportunity is often measured by tracking health, education, human development outcomes or access to basic service and opportunities (Dabla-Norris, Kochhar, Ricka, Suphaphiphat, & Tsounta, 2015).

Income inequality affects the pace at which growth enables poverty reduction (Ravallion, 2004). Growth is less efficient in countries with high initial levels of inequality or in which the distribution pattern of growth favors the non-poor. Moreover, Ravallion (2004) found out that as the economies may witness shocks over time, higher inequality makes a greater proportion of the population vulnerable to poverty.

The Poverty-Growth-Inequality Triangle:

Bourguignon (2004) argues that in deciding which development policy to choose, it is a false dilemma to focus either on growth, poverty reduction or inequality. Rather, he suggests that absolute inequality should be eliminated by all forms. To do so, he argues, that a country-specific combination of growth and distribution policies should be in place.

He defines absolute poverty as a poverty line with a fixed purchasing power to cover needs that are physically and socially essential. Absolute Poverty is changing over time and across countries, as different people have different basic needs. Relative poverty, according to his view is that the poverty line is established not based on some well-defined needs, but as a fixed proportion of income standard in the population, such as mean or median income (Bourguignon, 2004).

In terms of relative poverty, he argues, when the poverty line is fixed to average income, even if the standard of living of the poor has risen, it can show a rising poverty rate. With the help of these two definitions, Bourguignon (2014) argues that poverty reduction is determined by the mean income growth of a country in a given year, and the change in the distribution of income. he illustrates his idea in the following diagram.

The poverty-Growth-Inequality Triangle

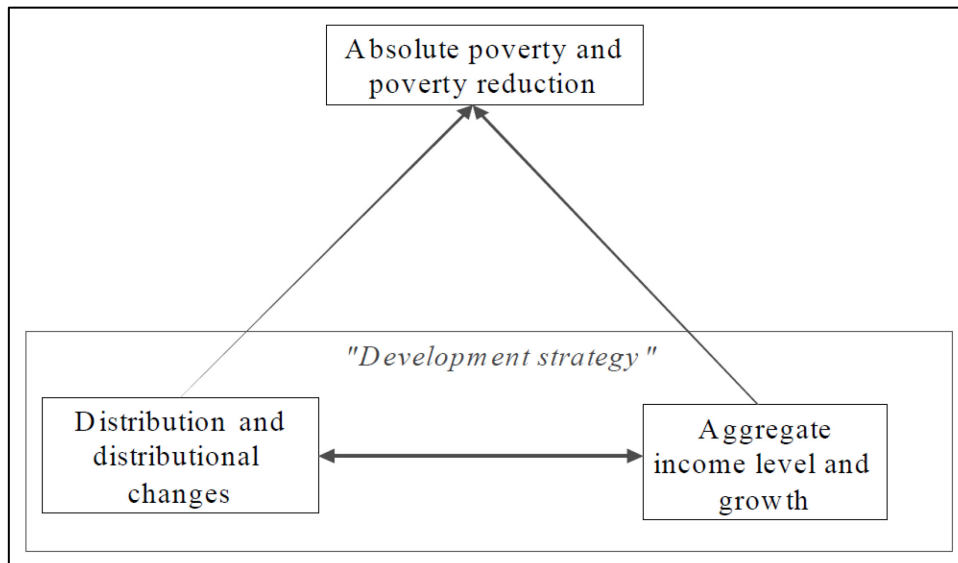


Figure 1 Source: (Bourguignon, 2004, p. 4)

The elasticity of poverty to growth is not constant, and it may vary; The same is the case with the elasticity of poverty concerning inequality indicators (Bourguignon, 2004). For him, the real challenge is establishing a development strategy for poverty reduction is the interaction between growth and distribution. The interaction between growth and poverty reduction and inequality is well established which is essentially arithmetic. He agrees that there is little argument among economists that growth reduces poverty, given a relatively constant level of income distribution. Also, he believes that there is enough evidence that widened distribution will worsen poverty reduction. The real question for development strategy formulation is that if growth and distribution are independent from each other, or they are inter-related (Bourguignon, 2004). He poses a question: Does fast growth reduce inequality or increase it? And could too much inequality will act to slow or increase growth?

(Bourguignon, 2004) states that in some microeconomic case studies, there is a strong relationship between growth and income inequality, however, cross-country regression analysis found no significant relationship between the two. The conclusion for him is that “growth is good for poor”, regardless of its nature and form.

A change in the distribution of income has two effects. First, an overall change in all income without affecting the distribution, as growth effect. Second, there is a change in the distribution of relative incomes, which is independent of the mean, as the distribution effect (Bourguignon, 2004).

Theories based on welfare economics

Theory of Pigou:

Pigou (1932) is a proponent of income redistribution, and he justifies his point based on the total economic welfare. He argues that any action which will increase the absolute income of the poor, provided that the national income or dividend is not adversely affected, would increase total economic welfare. By adverse effect on national income, he probably means that the redistribution of income will not jeopardize the rich in terms of adverse effects to engage in economic activities.

Pigou's second argument is that a large proportion of satisfaction of rich comes from relative income, rather than absolute income. In this case, their satisfaction would not be much affected if the income of all rich are diminished together [equally or proportionally]. The loss of satisfaction from the transfer of resources therefore would be less than the gain of satisfaction by the poor, given the law of marginal diminishing utility (Pigou A. C., 1932). Pigou's (1932) final argument is that as long as the total dividend is not diminished, any increase in the real income of the poor class at the expense of the equal decrease in the rich class will involve an addition to economic welfare.

Theory of Dalton:

One of the early works on measuring income inequality is carried out by Dalton in 1920, under the title of "the measurement of the inequality of incomes". His theories and work, along with Pigou on the topic of income inequality which appeared in 1932, is being referred to as Pigou-Dalton theory, which is widely used and is famous. Some of his theories are presented here.

Dalton (1920) sees the main problem, not in the first instance of inequality of income, but the effect it has on the total amount of economic welfare and its distribution, which is derived from income. So that is the reason why income inequality matters. He explains his idea with the example of rainfall and its effect on crops. Cultivator may not consider the unequal distribution of rainfall on the crops, unless it affects the crops.

The main argument of Dalton (1920) in his own words is as follows: "If a given income is to be distributed among a given number of persons, it is evident that economic welfare will be maximum, when all incomes are equal" (Dalton, 1920, p. 349). His argument is based on the following assumptions:

- a. The economic welfare of different persons is additive;

- b. The relation of income to economic welfare is the same for all members of the community;
- c. The marginal economic welfare diminishes as income increases.

Dalton (1920) then explains that income inequality is a ratio, between what a perfect distribution could achieve, given a specific amount of income; to the prevailing unequal distribution which may exist in a country. This ratio is equal to unity for an equal distribution and is greater than unity for all unequal distribution. According to him, it makes sense to define inequality as this ratio minus unity, but for comparative purposes this modification of definition is unnecessary. This idea looks similar to the Lorenz curve which measures the perfect equality to the actual prevailing inequality. Dalton (1920) therefore concludes that though inequality is defined in terms of economic welfare, it must be measured in terms of income.

His second argument is that if there are two income receiving persons, and a transfer is made from the rich to the poor, inequality is diminished. However, there is a limitation to it. That the transfer is not too large to reverse the relative position of the two-income receivers. The maximum result will be achieved, which is equality, when half of the difference of the income is being transferred from the rich to the poor (Dalton, 1920).

Dalton (1920) refers to three main principles of income inequality:

1. The principle of proportionate addition to income: it is suggested that proportion addition to or subtraction from all income will leave inequality unaffected, taking the concept of relativity in mind. But it appears, rather, that proportionate additions to all incomes diminish inequality, and proportionate subtraction increases it.
2. The principle of equal additions to income: equal addition to all incomes diminish inequality and equal subtraction increase it.
3. Proportionate additions to persons: inequality is unaffected if proportionate additions are made to the number of persons receiving income of any given amount.

Comparing the first two principles, Dalton (1920) concludes that inequality is smaller after equal additions being made, than after proportionate additions, given the total additional income being constant in both cases. However, both cases of proportionate addition and equal addition reduces inequality.

Theories of Sen:

Income inequality has received a lot of attention in the past. More than four decades ago, Sen (1973) argued that social welfare should be measured as income per capita times one minus the Gini coefficient. He argues that per capita income is not a good indicator of well-being. For example, the welfare of the society is one third higher if there are two individuals in a society and each earns 2, as compared to 1 and 3 (Sen, 1973).

Amartya Sen (1999) argues that poverty and development are best conceptualized in the space of capabilities – which show what each person can do and be. (Ahluwalia, 2011) argues that economic growth does not necessarily lead to the improvement of welfare.

Pro-Poor Growth:

Although poverty and inequality are very different phenomena, they are strongly related (Lopez, 2011). Lopez (2011) explains that in a simple term. For a given level of mean income, higher inequality will typically imply higher poverty levels. Also, for a given income growth rate, higher inequality will typically imply a lower rate of poverty reduction. The below diagram explains the relationship in a clear way.

Policies, growth, distributional change and poverty reduction

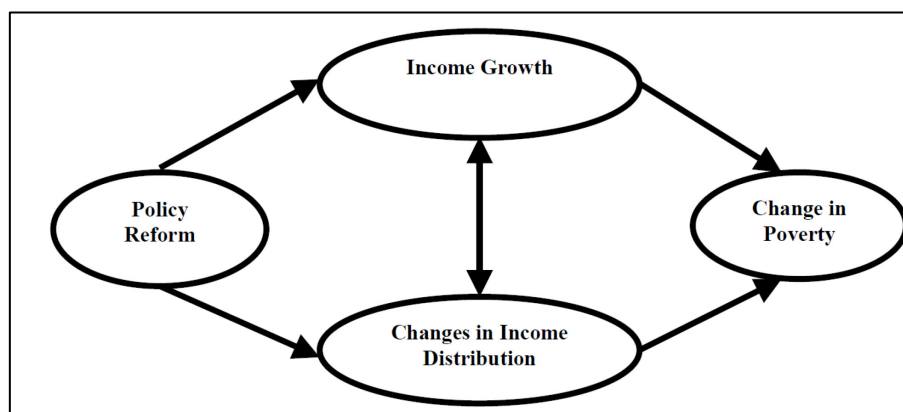


Figure 2 Source: (Lopez, 2011, p. 3)

Pro-poor growth is defined as growth that leads to a significant reduction in poverty according to OECD and United Nations definition (Lopez, 2011). However, there is a large debate about

how much growth should reduce poverty that it would be labeled as pro-poor growth. In this sense, two broader definition of pro-poor growth has emerged according to Lopez (2011).

White and Anderson (2000) as cited in (Lopez, 2011) states that when the growth rate of the income of the poor is greater than the average growth rate, such growth is considered to be pro-poor growth. Such growth will result in a fall in relative inequality according to Lopez (2011). A second definition is proposed by Kakwani & Pernia (2000) as cited in (Lopez, 2011), in which they find an index for change in poverty alone, keeping the inequality constant; to the change in inequality, taking the change in inequality into account. When such an index is greater than 1, the growth is defined as pro-poor.

These definitions have their limitations and might be misleading for policy formation in implementation because of two reasons according to Lopez (2011). First, the policy would prefer a growth rate, which is in favor of the poor, but not collectively optimal. In the example he concludes that an average growth rate of 2 percent, which the income of poor growth by 3 percent, will be preferred over an average growth rate of 6 percent, in which the poor growth rate is 4 percent only. Secondly, he argues that inequality reduction interventions would be always preferred regardless of its impact on growth.

Another definition is proposed by Ravallion & Chen (2003) as cited in (Lopez, 2011). According to them, growth is pro-poor if it reduces poverty. This definition has flaws, because even a growth rate of 6 percent which reduced poverty by 0.1 percent would be considered pro-poor, which is initially not the case according to (Lopez, 2011).

According to Ravallion (2004) as cited in (Lopez, 2011), a 1 percent income growth could reduce poverty as much as by 4.3%, in case of low inequality, and as little as 0.6 percent, in case of high inequality. He concluded that “Growth will be quite a blunt instrument against poverty unless that growth comes with falling inequality” (Lopez, 2011, p. 6)

Barro (2000) as cited in (Lopez, 2011) used regression of level of inequality on income, primary, secondary and higher education, rule of law, democracy and trade. He found that primary and secondary schooling would reduce inequality, whereas higher education would lead to greater inequality. He also found that rule of law results in lower income inequality, openness to trade will result in more inequality, but he did not find any significant effect of democracy on income inequality.

Lopez (2011) notices some of the policies that would reduce inequality. Education, Macroeconomic stability and infrastructure is not only good for growth, but also inequality. Also, he recommends that growth is fundamental for poverty reduction and in principle growth as such does not seem to affect inequality. For him, a growth accompanied by progressive distribution change is better than just mere growth. He believes that given an initial high inequality rate is like a brake on poverty reduction. Also, poverty itself is a barrier to poverty reduction (Lopez, 2011).

Lopes (2011) agrees that there is little understanding and knowledge about the impact of income inequality and redistribution on growth, and that some potential policies have effects on income inequality in general.

Theories of Income Re-distribution:

Pigou-Dalton transfer theory is widely used in income distribution and social transfer debates. This is a combination of the two concepts by Pigou and Dalton discussed above. The Pigou-Dalton principle became an axiom that any admissible measure of income inequality has to obey (Waymark, 2006). Below these two concepts are explained separately.

(Pigou A. C., 1912) argued that if there are two individuals in an economy, and a transference from the rich to the poor must increase the aggregate sum of satisfaction, because it will enable more intense wants to be satisfied at the expense of less intense wants. (Dalton, The measurement of the inequality of income, 1920) argument is as following: if there are only two income receivers, and transfer of income takes place from rich to the poor, inequality is diminished. There is an obvious limiting condition: the transfer must not be so large as more than that reverses the relative position of the income receivers, and it will produce the maximum result, which is to create equality. Such transfer may be equal to half the difference between the two incomes.

(Okun, 1975) “leaky bucket” argument which has received a lot of attention, as it was also the name of his book, argues that: if only a portion of the tax ends up being transferred, per capita income decreases. Meaning that if the tax system is inefficient, redistribution would decrease total welfare.

Problems or negative effects of transfer payment (Pigou A. C., 1932): First, if the richer individual employs poorer individual, a transfer from rich to poor will hurt poor, because the richer will not employ that many of poor people or will not be willing to pay much for the poor. Second, the poor may be ready to work in lower-wage rate, because some of his dire needs are met by the transfer.

Easterly and Rebelo (1993) and Perotti (1996) as cited in (Lopez, 2011) find that redistribution is likely to have a positive impact on growth.

Counter-argument for income redistribution:

Research has been carried out to evaluate the impact of income redistribution in different countries. Their findings, as it is anticipated are mixed. We briefly highlight some research that found both the positive and negative impact of income redistribution.

Stark, Kosiorowski & Jakubek (2018) found that a rich-to-poor transfer can induce a response in an individual's behavior, which exacerbates income inequality, rather than reducing it, as measured by Gini Index.

Stark et al (2018) argues that "a Pigou-Delton transfer from the richer individual to a poor individual weakens the latter's incentive to work hard because the income "deprivation" experienced by poorer individual is reduced". They also find out that the social welfare in the society will reduce, in contrast to the argument made by (Sen, 1973). However, they agree that the utility of the poor will still increase as a result of the transfer (Stark, Kosiorowski, & Jakubek, 2018).

(Ferreira, Filmer, & Schady, 2018) found that although conditional cash transfer for school program increase school enrolment of the children, it does not affect the school enrolment of their siblings. Such an outcome is because of both the positive effect of income of the household and the negative effect of displacement. The evidence is provided from the Cambodia CESSP scholarship program, in which conditional modest transfer for school enrolment for middle-school-age children was provided.

Growth and income inequality:

Income Inequality is defined as the distribution of relative income across the whole population (Bourguignon, 2004). Growth is the percentage change in mean welfare level (income or consumption) in the household or national level.

(Dabla-Norris, Kochhar, Ricka, Suphaphiphat, & Tsounta, 2015) found that there is an inverse relationship between income share accruing to the rich (top 20 percent) and economic growth. They found that If the income share of the top 20 percent rises by 1 percentage point, GDP growth reduces in the following 5 years by 0.08 percent. In contrast, they stated that an increase in income of the bottom 20 percent (the poor) is associated with 0.38 percentage point higher GDP growth.

(Gutierrez-Romeo & Medez-Errico, 2018) using the Global Entrepreneurship Monitor survey across 66 countries over 2005-2011 and data on income inequality from the 1800s concluded that although inequality increases the number of firms created out of need, inequality reduces entrepreneurial activities as in net term, businesses are less likely to be created and survive over time. The findings are even robust even if Latin America, the most unequal region of the world is excluded from the analysis.

**Section II: Empirical Research on poverty and income inequality
in other countries**

Global inequality:

A report of World Bank titled “Taking on Inequality” (World Bank, 2016), highlights recent trends in inequality globally. The report measures inequality in terms of the income or consumption of the bottom 40% to the rest of the population. The report argues, that the current goal to eradicate poverty by 2030 is not achievable given the current economic growth of the world, unless the share of income or consumption of the bottom 40 percent is doubled. Different scenarios are presented in the below chart to eradicate poverty by 2030, with different levels of average income of the bottom 40 percent of the population, denoted as “m”. An “m” value of 2 would mean that the growth of the bottom 40 percent exceeds 2 percentage points in each country.

Ending poverty, 10-year scenario, 2013-30

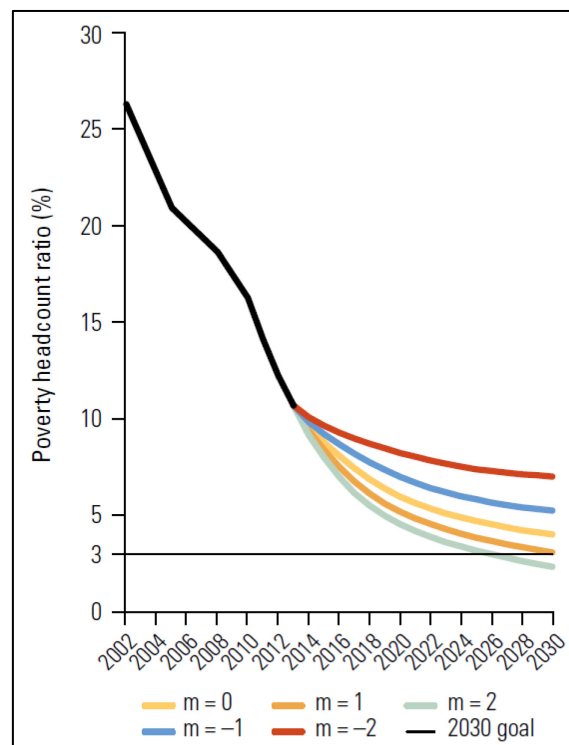


Figure 3 source: (World Bank, 2016) p. 9

World Bank (2016) report states that Latin America, the Caribbean, and Sub-Saharan Africa are the most unequal region of the world, though Latin America has been successful in reducing inequality. On the other hand, eastern Europe and Central Asia witnessed a rise in inequality after the fall of the Berlin wall in 1989, and since then has declined. During 2008 and 2013,

inequality has declined in all regions except in the middle east, South Asia and North Africa (World Bank, 2016). The below graph shows the trends in the Gini index of different regions.

Trend in average national Gini, by region, 1988-2013

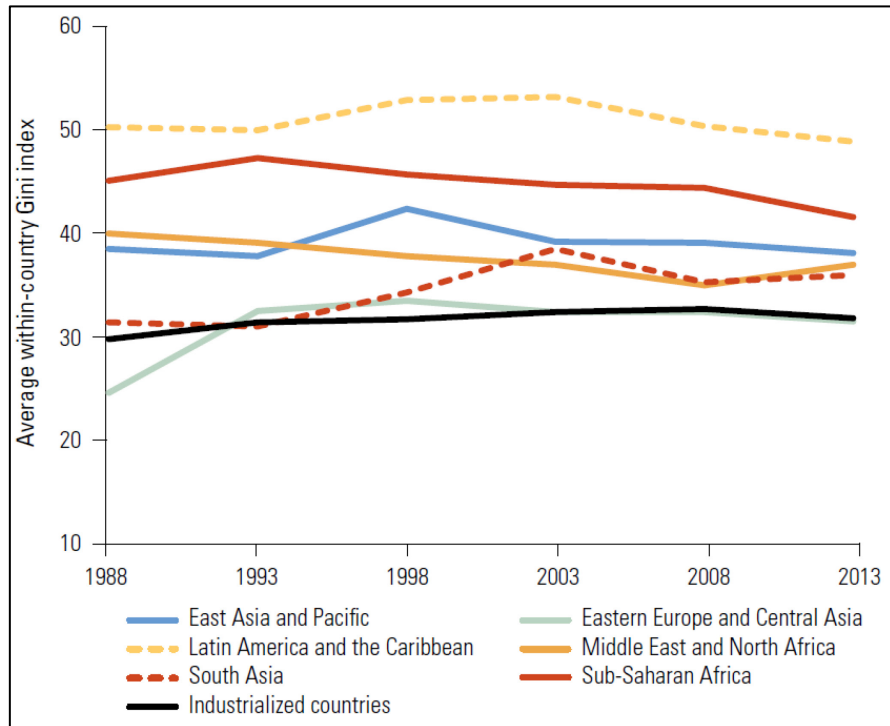


Figure 4 Source: (World Bank, 2016, p. 11)

Asia and Eastern Europe experience increase inequality, and countries in Latin America exhibits notable decline, although the region remains the most unequal in the world according to Dabla-Norris et al (2015). They calculated the Global inequality range from 0.55 to 0.70 depending on the measure used. Please refer to the below figure.

Global inequality and income distribution

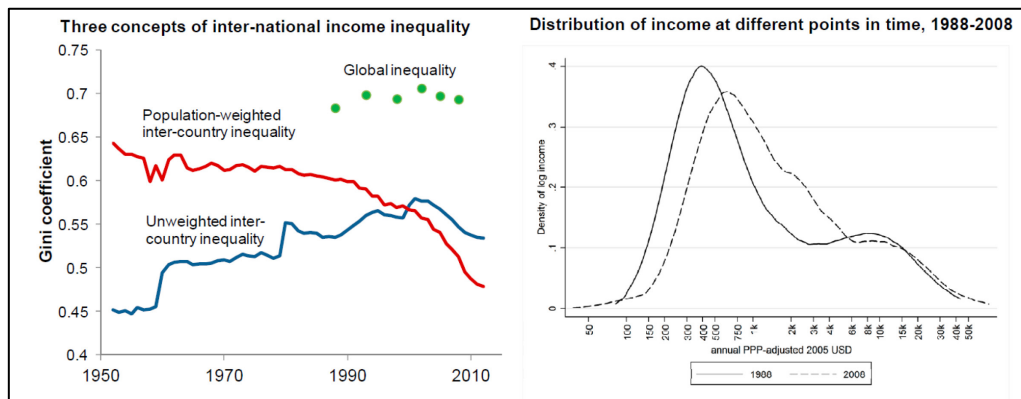


Figure 5 Source: (Dabla-Norris, Kochhar, Ricka, Suphaphiphat, & Tsounta, 2015, p. 10)

Below picture shows the change in Net Gini Index between 1990-2012

Change in net Gini index, 1990-2012

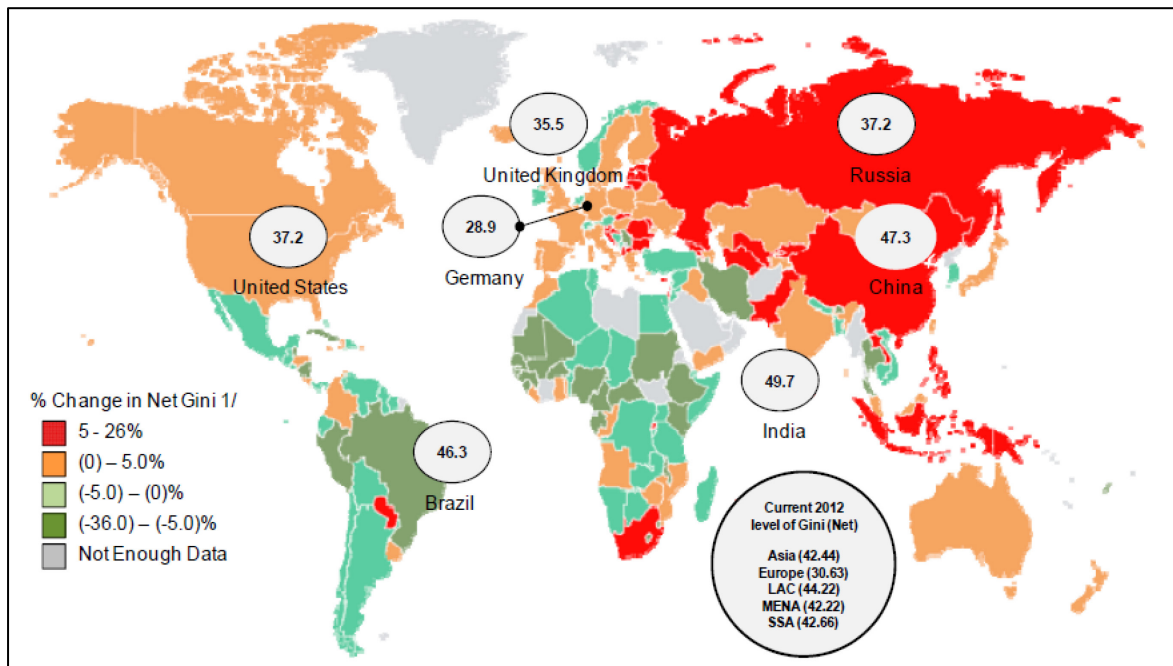


Figure 6 Source: (Dabla-Norris, Kochhar, Ricka, Suphaphiphat, & Tsounta, 2015, p. 11)

While poverty has been declining in developing countries, income inequality is on the rise in some countries according to Dabla-Norris et al (2015). The below figure shows a change in the poverty rate since 2000.

Poverty Rates by Regions

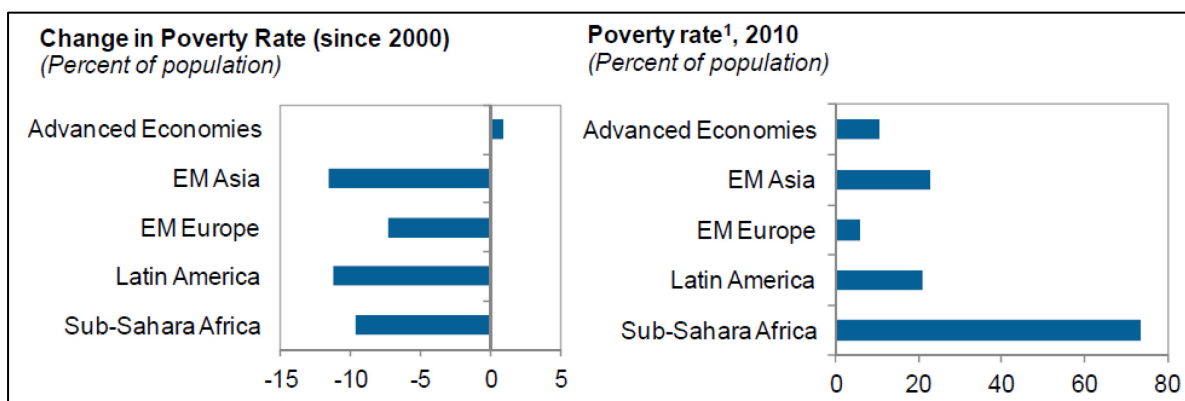


Figure 7 Source (Dabla-Norris, Kochhar, Ricka, Suphaphiphat, & Tsounta, 2015, p. 15)

In both developed as well as in emerging countries, income Gini is half of the wealth inequality Gini on average (Dabla-Norris, 2015). The reason is stagnant wages by the middle and lower class and lower propensity to consume by the rich. Please refer to the below figure.

Wealth and income inequality in advanced and emerging market economies, 2000

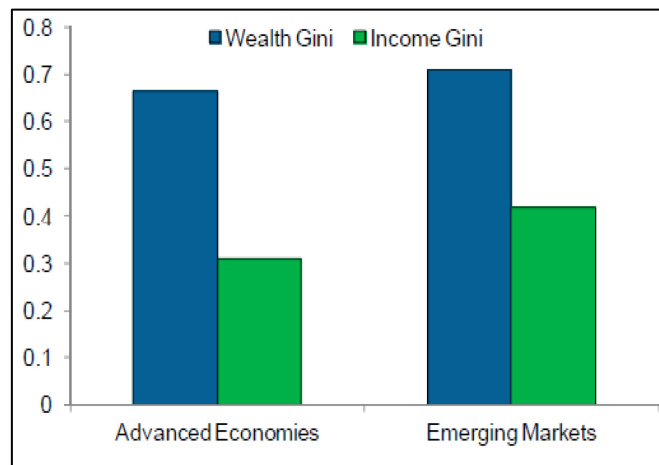


Figure 8 Source (Dabla-Norris, Kochhar, Ricka, Suphaphiphat, & Tsounta, 2015, p. 16)

Drivers of inequality

Dabla-Norris et al (2105) states different reasons which drive inequality. They state in their findings that changes in technology, international trade, and financial globalization are the main drivers of inequality. The change in technology increases the demand for skilled labor and less demand for low skilled labor, due to automation in the process of production for example. International trade, may also affect labor income, preferring the labor of exporting good/ and putting the income of the importing products in danger of lower-income and even loss of the job. However, there is a mixed result of international trade on income inequality.

Five low to middle-income countries covering Asia, Latin America, the Caribbean and Sub-Saharan Africa - which will be discussed below - demonstrated a strong reduction in inequality and poverty (World Bank, 2016). These countries are Brazil, Cambodia, Mali, Peru, and Tanzania, which are briefly discussed below:

Brazil 2004 – 2014:

According to the World Bank (2016) report on inequality; In 1989, Brazil was the second-highest unequal country in the world, with a Gini index of 63. From 2004 to 2014, the income of the less off surged amid rapid economic growth. As a result, the Gini index dropped to 51

in 2014, in the meantime the income of the bottom 40% grew at 6.8 percent per year, as compared to 4.5 percent for the rest of Brazilians population.

Policies: The World Bank report (2016) mentions that several policies have resulted in a reduction in inequality. The 1988 constitution laid off the ground for reducing inequality through basic social rights like free public education, free universal health care, pensions and social welfare and assistance. A macroeconomic framework in the 1990s resulted in curbing inflation, fixing the fiscal balance, and provided a ground for policies to reduce inequality. In the 2000s, a rise in commodity prices positively affected terms of trade. This combined with macroeconomic stability resulted in economic growth. Labor market dynamics, in terms of a wage premium for less skilled, more formal jobs and increasing minimum wages, along with social policies resulted in boosting the income of poor, according to World Bank (2016).

80 percent of the decline in inequality from 2003 to 2013 was due to two main factors according to the World Bank (2016) report. 41 percent decrease was due to labor incomes, and 39 percent due to non-labor income sources such as government transfers. The conditional cash transfer of Brazil, named Bolsa Familia alone explained a 10 to 15 percent decline in inequality during the 2000s.

Cambodia 2004 – 2014:

According to the World Bank (2016) report, Cambodia witnessed rapid economic growth on average 7.8 percent per year between 2004-14, making the country one of the most rapidly growing nations in the world. Poor harnessed and benefited from such economic growth through jobs in labor-intensive industries and services, diversifying their income from subsistence agriculture and higher return from traditional agriculture activities. The annual consumption of the bottom 40 percent grew at 6.3 percent between 2008 to 2013, twice as fast as the upper 60 percent of the population.

An increase in employment has expanded the garment, tourism and real state sectors. The income of the farmers almost doubled between 2004 to 2009 as a result of the increase in international agriculture product's prices. The reduction in poverty and inequality in Cambodia stemmed from the rural areas (World Bank, 2016).

Mali 2001 – 2010:

According to the World Bank report (2016), Mali had a steady growth rate of 5.7 percent between 2001 and 2010, after which a conflict erupted in the northern region in 2012. During the period of economic growth, inequality reduced by 7 points, and the income of the bottom 40 percent increased, while the mean contracted.

Agriculture has been the main driver for the poor population living in rural areas, which is the case for 73 to 90 percent of the Malians. As a result of high cereal production in the 2000s, demand for both on-farm and off-farm labor increased, which resulted in an increased income of the poor. However, the conflict which erupted in the north in 2012 has undermined the progress achieved over the last two decades (World Bank, 2016).

Peru 2004 – 2014:

According to the World Bank (2016) report, Peru has made a remarkable improvement in the living condition of the poor from 2004 to 2014 period. The rapid economic growth of 6.6 has resulted in a reduction in inequality from 51 in 2004 to 44 in 2014, and a reduction in the poverty rate from 12 to 3 percent in the same period. The main driver of such economic growth was macroeconomic stability, favorable external condition, and structural reforms. In the 2000s macroeconomic policies and high commodity prices attracted foreign direct investment especially in the mining sector. Labor market also played an important role, in terms of less inequality, closing the wage gap between formal and informal workers, high labor force participation and low unemployment. On the challenges side, Peru's spending on public education is questionable.

Tanzania 2004 - 2014:

According to World bank (2016) Tanzania also maintained a stable growth rate of 6.5 per year during this period. The poverty headcount fell from 34.4 in 2007 to 28.2 in 2012. The Gini index also fell from 39 to 36 during the same period. The consumption of the bottom 40 percent increase by 3.4 as compared to the top 60 percent which grow at 1.0 percent. The main driver of the growth was sectoral growth in communication, finance and construction. Growth in these sectors did not benefit or change the living condition of the poor and less educated. it was until

2007 when the retail trade and manufacturing of agriculture-processing in products such as food, beverages and tobacco benefited low skill workers. Tanzania's Social Action Fund, which encompasses conditional cash transfer, public work, and community-saving is expected to benefit the poor in terms of saving and investment.

Main Policies:

The world bank report (2016) concludes that the evidence from the five low, and mid-income countries which were mainly successful, does not provide precise policy prescriptions that are valid everywhere. However, it does provide evidence that inequality can be reduced in a diverse condition a country may have; such as in low and middle-income countries, rural economies, modern economies, as well as countries with long term history of conflict and inequality. The main building blocks of narrowing inequality however can be categorized in terms of sound macroeconomic policies, strong growth, functional labor market, and coherent domestic policies, focusing on safety nets, human capital and infrastructure.

The report states that while the building block may be put in place, it would require more effort to keep inequality low and sustain the progress made. To do so, the economy has to accumulate good quality human capital, diversify the source of income of the poor, safety net program, improve infrastructure, and connect the lagging regions to more economically vibrant regions and cities. The report concludes that countries that are willing to take appropriate policies are more likely to reduce inequality. Those who are not willing to make such policy choices will continue to suffer from the disadvantages of growing inequality.

Dabla-Norris et al (2015) recommends that there is no one-size-fits-all policy solution for inequality. They believe that fiscal policy stability and fiscal redistribution can reduce inequality and boost economic growth. Education policy, labor market policy and institutions, and reduction in informal jobs may also have a positive effect on reducing poverty according to Dabla-Norris et al (2015).

Income inequality in the United States

Franko and Witko (2017) in their book titled “The new economic populism: How States Respond to Economic Inequality” have extensively discussed the issue of inequality, and government actions and inactions at the policy level to reduce inequality in the United States. The book provides some statistics about income inequality in the United States, in comparison to other countries, and discusses how government action and inaction has not addressed the issue of inequality, and that the problem is rising and needs attention at the policy level.

(Franko & Witko, 2017) states that between 1981 to 2012, the share of the income of the top 1% in the United States grew from 8.2% to 19.3 %, while during the same period, the income of this class in Germany and France grew only by 2 percentage points and 0.5 percentage points. They also argue that the top 1 % of the wealthiest Americans hold 41 % of all the wealth of the country. Also, the heirs of the Walmart founder, Sam Walton, alone owned more wealth than the bottom 40% of the US families in 2012. The Forbes 400, the 400 richest Americans own as much wealth as the bottom 61 % of the wealth distribution.

(Franko & Witko, 2017) mention in their book that the issue of inequality has a long history, starting from the time of Aristotle in 1984; who believed that an extreme level of inequality is associated with a host of negative outcomes. Even in our current time, the authors argue that inequality is having undesirable consequences. They also believe that while some form of inequality is justified, to provide an incentive for economic struggle, the extreme level of inequality is not desirable.

The authors also discuss how states have failed to implement policies to reduce poverty. They mainly argue that the politicians are mostly influenced by the wealthy and rich class, and through lobbying, their benefits are protected at the expense of the poor and working class. Such policies, they mentioned, are minimum wages, which was not raised for a long time in different states. They conclude that there is a consensus among scholars that government activity and inactivity have played a vital role in expanding inequality in the last few decades. (Franko & Witko, 2017) believes that through redistribution such as taxes and minimum wages, the government can reduce inequality.

(Franko & Witko, 2017) then turn to the main reasons and challenges which contributed to increasing income inequality in the United States. Globalization, according to them has resulted in shifting the job to low-wage countries such as China, which affected the poor working class

in the country, at the expense of profits, and increased income of the shareholders and managers, who benefited from the globalization. Weak bargaining power of labor unions has also affected an increase in the salary of the managers and shareholders at the expense of low-wage working class. Finally, they refer to the financial crisis that the general population was the losers at the end of the deregulation in the financial system which benefited the rich at the expense of the working and poor class.

Hacker and Pierson (2010) as cited in (Franko & Witko, 2017) mention that wealthy beneficiaries of growing inequality are very skilled at using their money to lobby for policies that benefit the wealthy and block such policies that will harm them. They conclude that overall the federal government has not only failed to respond to inequality, but it has made it worse through different policies and means.

Poverty and income inequality in Eastern Europe

The world Bank has conducted an extensive review of poverty and inequality in Eastern Europe and Former Soviet Union countries in 2005 (Alam, et al., 2005). This report measures poverty and inequality during 1998-2003, and given the cold weather in the region, the poverty line is set at 2.15 \$ per day as compared to standard 1 \$ a day to compensate for additional needs, such as cold weather. The report found that more than 40 million people move out of poverty in Eastern Europe and former Soviet Union republics, which was due to improved income distribution especially in the Commonwealth of Independent States (CIS). Much of poverty reduction took place in Kazakhstan, The Russian Federation and Ukraine. In 2005, more than 60 million people were still poor, living on less than 2.15 \$ a day, and more than 150 million vulnerable as measured by an income of 2.15 to 4.30 \$ a day (Alam, et al., 2005).

The report divides the region into four different categories of the country (Alam, et al., 2005). The new eight-member states of the European Union (EU-8) have a low poverty rate, less than 5 percent. Countries of South-eastern Europe (SEE) and have a moderate level of poverty between 5 to 20 percent. In the Commonwealth of Independence States (CIS), the middle-income countries have the same level of poverty between 5 to 20, however, the low-income countries in the CIS have extreme levels of poverty; more than 40 percent.

According to the report by (Alam, et al., 2005); while poverty has decreased in almost all of these countries, the CIS countries witnessed high growth, as well as a significant decline in poverty in the region during 1998-2003. This region has also seen a decline in inequality, except in Georgia and Tajikistan. The reduction in poverty could be attributed to both the rapid economic growth, as well as reduction the inequality in this specific region. According to the authors of the report, the most important reason behind the significant reduction in the poverty rate in the CIS countries during this period is the high growth rate, combined with a moderate level of inequality.

Factors in poverty reduction:

The main factor which contributed to poverty reduction in this region is high growth rates especially in CIS countries (Alam, et al., 2005). Also, inequality declined since the growth rate in income was proportionately higher for the poor than the rich in CIS countries. In these countries, the income of the poor grew more rapidly than the income of the rich. in EU-8 and SEE regions, the growth was neither pro-rich nor pro-poor, depending on the country, and the results are therefore mixed.

Comparing the “growth share”; that is the contribution of poverty reduction due to mean income increase, and “distribution share”; that is the reduction in poverty as a result of distribution in income, the authors found interesting results. In Poland in 1998-99, 40 percent of the increase in poverty is attributed to the increase in inequality, while 60 percent is attributed to a decline in income growth. The distribution share in some CIS countries, where poverty was significantly reduced as a matter of growth, is more than 20 percent.

Social protection benefits also contributed to poverty reduction. Private transfers in low-income CIS countries and some SEE countries such as remittance exceeded public provided resources. In some cases, remittance contributed to more than 10 percent of GDP, which boosted consumption levels and helped reduce poverty (Alam, et al., 2005). The result of this public and private transfers on inequality is mixed according to the author. Some social programs such as the public pension program could be either neutral or regressive.

Public Policy: Accelerated and shared growth, reform in public service delivery and better targeting of social program is considered key in making progress both in income and non-income dimension of poverty reduction (Alam, et al., 2005). It is also important according to the author to monitor the progress made on poverty reduction. Economic growth could be sustained by sound economic policies, promoting investment, well developed financial system

and trade openness. Other policies to eradicate poverty and income inequality in eastern Europe according to this report are social security programs, minimum wage, reform of the old enterprises, promoting agriculture and rural growth and promoting greater opportunity in lagging regions (Alam, et al., 2005).

Economies of South Caucasian Countries (Armenia, Azerbaijan, and Georgia)

After the fall of the Soviet Union in the late 1990s, the economies of these countries collapsed. In the mid-1990s, these countries implemented economic reforms and as a result, the economic growth was rapid, often two digits growth rate between 2002-2008 (Deutsch, Silber, & Wan, 2018). By using the Caucasus Barometer surveys of 2009 and 2013 data and the concept of order of curtailment method, the authors have compared the poverty rate and the unidimensional measurement of poverty in Armenia, Azerbaijan and Georgia.

Azerbaijan GDP growth rate reached over 20% per year before 2007-8. The economic growth in Armenia was on average 13% and for Georgia around 8.5-9% from 2002 to 2007 (Deutsch, Silber, & Wan, 2018). Deutsch et al (2018) argue that the rapid economic growth had reduced poverty, which was widespread after the collapse of the Soviet Union. Income distribution as a result of rapid economic growth as measured by Gini Coefficient however is still quite high in 2013.

The main driver for such rapid economic growth in these countries was different. Azerbaijan benefited from high commodity prices being a resource-rich country. In the case of Armenia, the growth was driven mainly by remittances of migrant workers and to some extent foreign direct investment (FDI). In Georgia, a non-resource rich country, the growth had a broader base including growth in the service sector (such as trade, tourism, and transport), manufacturing sector, construction and mining (Deutsch, Silber, & Wan, 2018).

Despite the rapid economic growth, these countries remained vulnerable to external shocks according to this report. The authors also found that the financial crisis of 2008 and the slowdown of the Russian economy heavily affected these economies. The growth rate slows down to 1-2 percent. Armenia growth rate of 11 % before 2008 declined to minus 14.1% in 2009. In 2015, its annual growth rate was still very low only 3 %. The recovery of the world

economy from the financial crisis in 2010 helped these economies, but the growth rate remained very low as compared to the pre-crisis period (Deutsch, Silber, & Wan, 2018).

Poverty and income distribution

In these former Soviet Union republics poverty did not exist extensively before 1989. Poverty was only limited to specific marginalized groups such as single mothers, pensioners or disabled individuals, although these economies were among the poorest republics of former Soviet Union according to Habibov (2012). Within a few years after the fall of the Soviet Union, the poverty rate increased considerable and half of the population in Armenia, Azerbaijan and Georgia lived below the national poverty line in 2001 (Habibov, 2012). Inequality in the Caucasus region was very high. The Gini Coefficient in the region as a whole reached 55% (Habibov, 2012).

The poverty rate decreased drastically in the early 2000s. In Azerbaijan, poverty level decreased from 49% to 11.2 % between 2001 to 2009, in Georgia from 55% in 1999 to 27% in 2008 and Armenia from 53% in 2004 to 27.6 % in 2007; however, the poverty rate reduction was much slower after the financial crisis of 2008 as compared to the pre-crisis period (Deutsch, Silber, & Wan, 2018).

Reasons for poverty reduction:

There are several findings and explanations about the rapid decline in the poverty rate in these countries. (Falkingham, 2005) found that poverty during the early stages of transition was related to a significant shift in the composition of income, relating from the traditional factory working to more diverse and service-related employment. (Habibov, 2011) argues that the decline in the poverty level is largely attributed to macroeconomic stability and accelerated economic growth. The World Bank (2005) points out that the poverty reduction is because of the rapid increase in income of poor and unskilled workers as compared to skilled and rich.

Structural reformers led to the expansion of the service sector. It provided jobs for those who lost their jobs in the industrial sector after the collapse of the Soviet Union, and therefore poverty was reduced. Another reason was the increase in the prices of oil, which allowed the economy to finance its social protection programs. According to the World Bank (2005) social protection transfers played an important role in poverty reduction in former republics of the Soviet Union including the South Caucasus (Deutsch, Silber, & Wan, 2018).

Determinants of poverty:

Determinants of poverty include low education level, poor health, unemployment and living in households with a high dependency rate (Alam, et al., Growth, Poverty and Inequality: Eastern Europe and the former Soviet Union , 2005) . (Habibov, 2012) also found that those with bachelor and higher degrees have higher incomes in all three countries, while vocational education had little impact on incomes in Azerbaijan and Georgia, with no effect on individual income in Armenia. He also found that graduates and postgraduate education has the strongest positive effect on income in Azerbaijan, Armenia, and Georgia. Knowledge of English and Computer has a positive separate effect on income in these countries.

Lower-income is associated with females, elderly, not knowing English or not having professional skills (Habibov, 2011). He found that people have different perceptions about the causes of poverty. More than 50% of Armenian and Azerbaijanis view structural factors as an important driver of poverty. Georgians believe that individual and fatalistic factors were the major source of poverty.

Multidimensional Poverty Index in China from 2010 to 2014

China has been one of the poorest countries in Asia. However, poverty has decreased drastically after the china has opened its economy in 1979. While there are different methods of measuring poverty, as a study by Alkire & Shen (2018) used data from China Family Panel Studies (CFPS), which focuses on the Multidimensional Poverty Index (MPI), as compared to traditional money or income poverty. They find out that the Multidimensional poverty index (MPI) was 0.035 in 2010 and decreased significantly to 0.017 in 2014. The poverty headcount decreased from 8.2% in 2010 to 4.0% in 2014.

When the People's Republic of China was found in 1949, China was regarded as one of the poorest countries in the world. Per capita income was 27 Dollars in 1949, less than 2/3 of average income in Asia. According to Alkire & Shen (2018), 250 million people (30.7% of the population) lived in severe income poverty before china's reform in 1979. The poverty rate has drastically reduced in the 1980s. From 1978 to 2010, 250 million people moved out of monetary poverty by national definition; 439 million people moved out of extreme income poverty from 1990 to 2011 using 1.25\$ per day measurement according to these authors. The official rural poverty rate was 5.7% in 2015. Economic growth has been one of the factors in

reducing poverty. China's development-oriented poverty reduction policy played an important role (Alkire & Shen, 2018).

Determinants of poverty

Household characteristic: households that have heads with a higher level of education, are smaller in size, or have migrated are often associated with lower multidimensional poverty; while household that has divorced or widowed, members that belong to minority ethnic groups are more likely to be poor in China (Alkire & Shen, 2018).

Policy for China:

The "Outline of China's Rural Poverty Alleviation of 2011-2020" policy aims at removing worrier – food and clothing; and guarantees three things – basic healthcare, housing and access to compulsory education (Alkire & Shen, 2018). The authors believe that Economic growth does not necessarily go together with multidimensional poverty reduction. they also argue that there is a strikingly mismatch between households who experience monetary and multidimensional poverty, suggesting that monetary poverty does not tell the whole story of poverty (Alkire & Shen, 2018).

Conclusion:

This part of the thesis sheds light on the theory as well as the empirical aspect of poverty and income inequality in a global context. It explored different works of scholars and presented their theories and understanding of the topic from the early times to recent developments. The second part provided a glimpse of the poverty and income inequality in other countries and part of the globe, their main drivers, and policies which resulted in economic growth and reduced poverty. The two parts together will allow in providing policy recommendations to the government of Afghanistan, based on best practices from other developing nations as well as based on the prevailing work of the scholars in the region.

Again, while this work is a summary, it is not exclusive of all theories and empirical research related to the topic. It is a mere indication of the shared problem most of both developing and developed countries face, and the policy solutions that work to mitigate them. Given the diverse socio-economic dynamics of different countries, a conclusion is drawn that policies in this regard are not one-size-fits-all, but rather has to be adaptive to the context of each country and nation.

Chapter Three:
Research Methodology

Section I: Research Methodology

Section II: Field Research Methodology

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Section I: Research Methodology

Introduction to Research hypothesis

Economic growth is considered beneficial to an economy, and almost all nations in the world would prefer a modest rate of economic growth. A rapid economic growth, such as in the case of Afghanistan, over almost twelve years, may have a negative consequence on the economy, if the growth is not inclusive. One of the main issues that such economic growth may result in, is the increase in the inequality of income and subsequently in poverty. This also translates in simple terms as “poor are getting poorer and rich are getting richer”.

This is evident when the economy grows, those factors of production, in which the economy witnesses a higher growth rate, receives higher incomes. Put it another way, not everyone is equally benefited from economic growth. As a result, the rich, who are in better economic conditions, may benefit more than the disadvantaged poor. In such a case, even in the face of rapid economic growth, the poverty rate may not decrease, or even deteriorate, as witnessed in the case of Afghanistan.

The main question that this dissertation pursues is: “how economic growth affects poverty and income inequality?” To answer this question based on the context of a developing country such as Afghanistan - where the rapid growth over the last 15 years has provided a perfect environment to study such phenomena – this study will specifically investigate the following questions:

1. Has economic growth contributed to income inequality in Afghanistan? (correlation)
2. Has the poverty rate increased/decreased as a result of rapid economic growth?
3. What are the determinants and reasons of poverty in Afghanistan and what are the policy solutions?

The main objectives of the study are:

1. What are the significant determinants of poverty at the Individual and Household levels.
2. To find the correlation between income inequality and economic growth.
3. To understand the main causes and reasons for income inequality and provide policy recommendations.

Below is the main hypothesis of this dissertation:

Null Hypothesis: High economic growth does not affect poverty and income inequality.

Alternative Hypothesis: High economic growth results in a high level of poverty and income inequality.

Research design:

Data collection method:

To find an answer to the research question, a “Mixed method” of quantitative and qualitative methods is employed. Quantitative data is used to test the hypothesis and to provide a description of the income inequality of the sampled population. This approach is further supplemented by using qualitative methods such as “Key Informants Interviews” and “Participant Observation” to provide context and general information about the main causes and factors of poverty and income inequality. The mixed-method is considered to be relevant to the topic of this study. Only relying on quantitative method would lack the context and background of the issue, as well as the main reasons behind the issue. At the same time, only using the qualitative method would make it difficult to quantify the extent of income inequality and poverty.

Sources of data:

Primary data collection: Part II of this research methodology chapter provides a detailed description of primary data collection sources, tools, and methods used for data collection. The primary source of data for this research includes Household Surveys, Participant Observation, and Key Informants Interview.

Secondary Source of Data: Secondary source of data includes national surveys and studies conducted about poverty and socio-economic studies. It also includes data and information from government sources as well as international organizations, such as the World Bank. The data about growth rate and national poverty rate, are for example based on the World Bank data. Such information is beyond the scope of this study to obtain first-hand.

On the other hand, there is almost no or very little data on income inequality in Afghanistan for the selected period of this study. Even the poverty rate, which is considered one of the most important economic indicators for income inequality, is not consistently measured by the government every year. There have been surveys such as National Risk and Vulnerability Assessment (NRVA) which provides data on the poverty rate – however such surveys are not conducted annually.

So far 6 National surveys of Afghanistan National Risk and Vulnerability Assessment have been conducted in years 2003, 2005, 2007-8, 2011-12, 2013-14, and recently 2016-17. Data from this source is used as a secondary source, to provide a bigger picture of the extend of the issue being explored.

Unit of Measurement:

The unit of measurement for the primary source of data is at the Household level. Few specific information, such as age, gender, level of education, job, and income is also collected at the Individual level. This is also reflected in data analysis to find specific relationships, such as the effect of education and income levels. All sources of income that a family receives is calculated including transfer payments. Attention is given to interview the Head of the household or a member of the household who can provide financial information about the family. A household is considered as a family with a mother and father and children; or one parent, and at least one child. Joint families who live together, for simplicity will only focus on the family of the interviewed individual, regardless of the bigger family.

Data collection tools:

Part II of the research methodology chapter provides detailed information about data collection tools. A detailed Household questionnaire is developed to collect quantitative data from households. The main parts of this questionnaire include questions about demographics, education level, employment status, income and sources of income, and other socio-economic indicators. On the other hand, Key Informants Interviews are based on structured opened-ended questions, adjusted to the different respondent's area of specialty and organization.

Sample size:

The initial planned sample size was 100 families, while the conducted Household survey covered 110 Households. The sample includes households from two provinces of Kabul and Nangahar in Afghanistan. In Kabul, the Kabul city is selected as an urban area, while in Nangahar province, Surkh Road district is selected as a rural area. This would allow cross-comparison between poverty and income inequality in rural and urban areas.

Respondents are chosen from 3 income classes such as, Rich, Medium, and lower class. These classes are pre-determined for the sampling purpose, based on the socio-economic condition of households which are visible in the society. Detailed descriptions and procedures are in the second part of this chapter.

Below table provides a summary of selected actual sample size:

Selected Sample size

Kabul Province 76 Households			Nangarhar Province 34 Households		
Poor class	Middle class	Rich class	Poor class	Middle class	Rich class
20 households	27 Households	29 Households	16 Households	18 Households	(0 households)
12 Daily wage workers, 8 street-side business	22 students of Sayed Jamaluddin Institute, 5 students of Technical Construction Institute	10 students of American University, 9 students of Kardan University, 10 students of Afghanistan University	16 Different street-side business and daily wage worker	9 students of Cheknawori high school 9 teachers of District school	None (pre-determined)

Table 1 Selected Sample size

Sampling Method:

Stratified Sampling:

Since the difference and heterogeneity between income levels (rich, medium, and poor) would be high. Using a random sampling method with a relatively small sample size will provide biased and misleading results. “The greater the difference in the variable under study in a population, for a given sample size, the greater the difference between the sample statistic and the true population mean” (Kumar, 2014). Therefore, a stratified random sampling method, which overcomes this unnecessary difference in population variables, is used.

The population is divided into 3 different strata of (high, medium, and low) income levels, and the population of each strata are relatively homogeneous based on the level of income. The strata are based on the level of income, which is the main variable of this study, and thus it is relevant to make such

strata for acquiring accurate data. The sampling method is a disproportionate stratified sampling. In the second stage, sampling within each stratum is selected on the Simple Random Sampling technique. The below diagram explains how samples are selected.

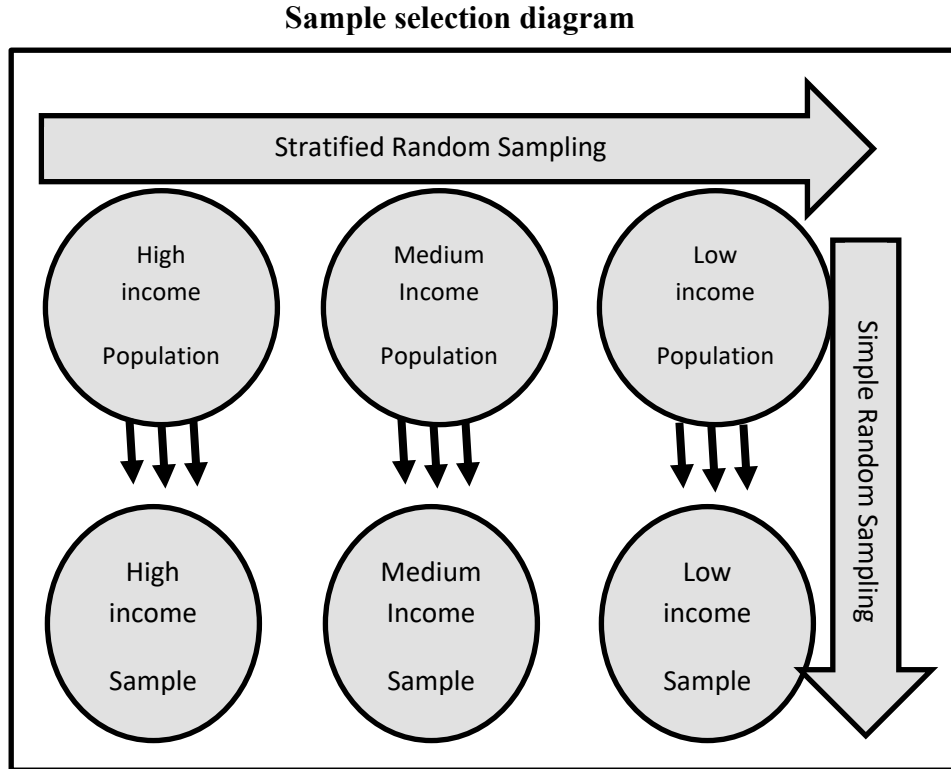


Figure 1 Sample selection diagram

Procedure for selecting Interviewees

Once different Stratas are recognized, the selection of interviewees were based on convenience. That is, those respondents, who relates to one of above mentioned stratas “High income, Medium Income and Low income”, were selected to be interviewed, which are easily accessible, both geographically, and physically. In Kabul for example, to interview the low income class, the author asked random street-side vendors in one locality of Kabul city, if they want to take part in the survey. In Nangarhar, the same method is used, however, due to security reasons, the location was restricted to one District only. Further detail about the repondents is provided in section II of this chapter. The limitation of convienicing sampling, includes selection bias and sampling error.

Operationalization of concept:

The below table provides how the concept of the thesis is being operationalized, into given indicators and variables, which are measurable through the survey. This table highlights how economic growth and income inequality is defined and measured.

Concept	Indicator	Variables	Decision Level
Economic Growth	<ul style="list-style-type: none"> - Increase in the real GDP over a year. - Amount of goods and services produced per capita over a year. 	GDP percentage increase/decrease over time.	Positive GDP growth level is considered economic growth
Income inequality	<ul style="list-style-type: none"> - Level of monthly income before taxes in the sampled population 	<ul style="list-style-type: none"> - Monthly income - Number of sources of income - Total value of assets 	Determine if the household is rich, medium or poor.
Poverty	<ul style="list-style-type: none"> - Number of sampled household below the poverty line 	<ul style="list-style-type: none"> - Income per month - Meeting basic household needs 	To measure the poverty rate in the sampled population.

Table 2 Concept operationalization

Variables

Independent variable: In this study, Economic Growth is an independent variable and it is considered to affect income inequality and poverty.

Dependent Variable: Income inequality and poverty are the dependent variables that is affected by the independent variable (Economic growth).

Extraneous Variable: Other factors in real life may also affect changes in dependent variables. These factors may increase or decrease the magnitude or strength of the relationship between the independent and dependent variables, which are not measured in the study (Kumar, 2014). Such

variables may include: Corruption, Level of Education, Family Background, Ethnicity, and other factors.

Statistical Tests and Analysis

A variety of statistical tests and analyses are used to provide the result of the survey. SPSS (Statistical Package for Social Science) software is used to analyze household survey data. These analysis and test are in following 3 categories:

1. Descriptive Statistics:

Most of the results are descriptive statistics as proposed (Sen, 1973), which is relevant to the analysis of poverty. Descriptive Statistics are widely used almost for all dependent variables. Descriptive statistics for a typical analysis include the following statistics: Mean, 95% confidence interval for mean with upper and lower bounds, 5% trimmed Mean, Median, Variance, Standard Deviation, Minimum, Maximum, Range, Interquartile Range, Skewness, and Kurtosis.

2. Standard Test specific to Poverty Analysis:

Lorenz Curve is the main tool for measuring poverty and inequality. Such analysis has been also undertaken to provide a clear picture of poverty and inequality rate in the sampled population. Gini Index is also widely used to provide a measure of poverty and income inequality in a country. Gini index is also calculated for the sampled population. Also, another measure called the Robin Hood Index is calculated for the sample size.

Advanced statistical analysis includes Pearson's Correlation Coefficient to measure the relationship between variables, calculated in few relevant cases, where the relationship between variables were important to explore.

3. Test of Significance:

One way ANOVA test of significance is used to report on robustness and level of significance of results. This method is a substitute for the regression analysis to explore the correlation of variables. The analysis for ANOVA includes results for: Sum of Squares, Degree of Freedom, Mean Square, F (Ratio of Mean Square value) and Significance.

For multiple variables, Tukey HSD test is used to find the correlation between multiple variables.

Study design: This study is a cross-sectional study, which collects information only once from the sampled population. It is also a non-experimental study; which means that data is collected on the real-life situation from responded and no variable is controlled for.

Limitation of the study design:

The study uses “after-only design experimental design”. This design implies only on data at the end of the intervention and thus lacks baseline information to compare. This limitation of not being able to compare the baseline with the end effect, is one of the limitations of this study. As a result, the findings are non-excludable for other extraneous variables that could affect the dependent variable. This method is however widely used in impact assessment studies (Kumar, 2014).

As mentioned above, a combination of statistical methods are being used, and it might have its limitations. Also, the sample size is limited to 110 households, and generalization to the whole population based on the small sample should be made carefully.

The analysis of Household data is mainly descriptive, and linear regression model is not used extensively. Instead, ANOVA test of variance has been used, which may have its own limitation. Since most of the independent variables of the Household survey are categorical data - rather than continues - ANOVA test is more suitable. Linear Regression model is more suited for continuous dependent variables. The use of ANOVA test as compared to Linear Regression has its own limitation, however both are used to compare the mean differences.

Meanwhile, given that the strata sampling method is used, as well as the limited number of observations “responses” from some variables in the survey, the linear regression model is not suitable to use. A regression model with few observations “responses” is not suitable for robust prediction.

Section II: Field Research Methodology

Mixed-Method Research

This study uses a mixed-method research. It collects quantitative, as well as qualitative data using data collection tools. Household Survey is used to collect quantitative data about the level of income, expenditure and wealth of the households. Key Informants Interview (KII) is used to collect qualitative data from the high government officials as well as key informants related to poverty and income inequality in Afghanistan.

While the quantitative data would help in describing households in terms of income, expenditure and wealth status, qualitative data provides in-depth analysis and discussions around the topic of poverty and income inequality. Household survey provides information at the household level, and KII provides information at the economy level. It engages with the key questions related to poverty and income inequality in Afghanistan, with top government officials and key decision-makers.

Both data collection tools are used in the first year of the project. The descriptive quantitative findings will help to understand the depth of the problem and to provide a description of the current level of inequality. The findings will be used to see how much income inequality exists now in the society, and how income is being distributed.

The reason for collecting and contacting key informants at the government is to have their viewpoint before starting the project and well in advance. Mostly, the findings of the surveys are shared at the end of the project with the government officials, and they have a completely different idea to start with. That is why government officials are asked about their views well in advance to incorporate their inside in any policy solution this project aims to offer. In this way, it would be more acceptable for the government if the final recommendation of the project is based on their initial view, and that their views are being considered and noticed well from the start.

The below chart explains how the mixed method is being applied to the project using the household survey and key-informants' interviews.

Mixed Research method diagram

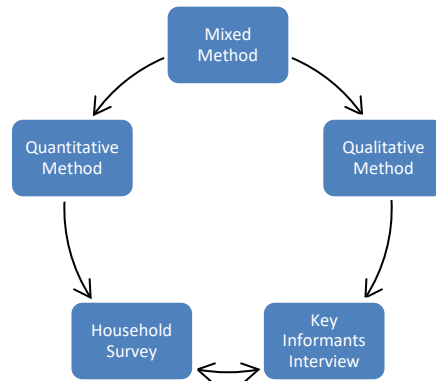


Figure 2 Mixed Method research diagram

Two data collection methods of Household Interview and Key Informants Interview are used to collect information for this project. Each of the tools used for this project are briefly presented below.

Household Interviews:

to understand the variance in income levels of households, 110 household interviews were conducted in two provinces of Afghanistan between August and October 2017. The survey was conducted in two provinces of Kabul and Nangarhar. The purpose of selecting these two provinces is to have a better understanding of the rural and urban patterns of household income, their expenditure, and overall living conditions. The survey included questions about the household's level of income, family size, wealth, saving, living expenditure, and their perception of the economic prospects of their households. such information is key in understanding the current economic condition of people in sampled provinces of Kabul and Nangarhar, both at rural and urban levels.

The sampling method used in this survey is the strata sampling method. Households were classified as "Poor", "Middle" and "Rich" groups or classes. The criteria on how these groups are identified are explained below. In each Strata "group", respondents were randomly selected.

This means that everyone in these predetermined groups had an equal probability to be interviewed. However, there were some pre-conditions to ensure that the sample size is representative of as many diverse participants from different income groups as possible.

The reason behind using the strata sampling technique was to avoid a large variance in the collected data. In this method, to avoid a huge variance in the data of the respondents, the sample size is divided into different groups, or strata. After that, selected numbers of interviewees are selected randomly from each Strata. So, the individuals who are selected in each stratum are completely random, however, their groups were pre-determined. For example, if the variance of the income is to be measured, in case there were no strata technique used, the difference would be very huge. However, when there are groups within the sample, the variance would not show a greater difference within each group. In this case, the variance within the poor group, will not be that large. This method makes it possible to compare the statistics between these three groups as well.

Since the project aim is to find the differences in the level of income of households, in sample size selection, the main reason for making strata sample was to have respondents from different classes, such as rich, middle and poor. These sample groups were pre-determined so that people falling under each category are interviewed. Based on my knowledge and understanding of the Afghanistan economy, and the different categories of the household main sources of income and their expenditure pattern; which are visible from outside, respondents were labeled under these three categories. The criteria behind this are explained below.

A- Poor class:

The majority of the poor households in Afghanistan are headed by illiterate and unskilled individuals. Those who could not attend school or were unable to do so are left uneducated and have not learned any specific skills. As a result, they are involved in low skill activities such as daily wage workers, street vendors, and other physical work activities with a minimum level of income for their households. Most such individuals earn relatively lower than the rest of the society.

The individuals who were interviewed under this class includes:

- 1- **8 respondents from street-side vendors in Kabul:** individuals interviewed in this category are those who are mostly uneducated unskilled. Most of them offer street-side vendors with very low capital. Their income is also supposed to be minimal as compared to the rest of the community. Some of the interviewed respondents are street-side fruit juice sellers, mobile top-up card sellers and money exchangers, shoe repairer and shoe polisher, pop-corn seller, car cleaner, toy, and sweet seller for children, and so on.
- 2- **12 respondents from daily wage workers in Kabul:** these groups of individuals are working as daily wage workers mostly in the construction sector. Most of them are either skilled or unskilled laborers who perform mostly construction work. They include mason, carpenter, painter, and unskilled laborer which are required in the construction of houses and buildings. The construction sector has been a growing sector in recent years and has attracted a lot of workforce.

This group is considered poor while their sources of income is not stable, and it is seasonal. They are not all the time employed. They stand on the streets early in the morning every day, so those who need them could approach and hire them for some days. Some of them may not find work for days and weeks, but they still come to this specific place in Charahi Haji Yaqoob in Kabul, every day in the hope of finding a daily work. There are many more such locations where people gather for finding a daily wage work in different parts of the city, however, in this survey, only one location is selected.

B- Middle class

Middle-class household respondents are the ordinary families living in the selected provinces of Kabul and Nangarhar. A typical family would have one or two working family members and cover the cost of living for their household. In Kabul, the common source of income for an ordinary resident is through salaries and working with government, national and international NGOs (Non-Government Organization), or by having a private business.

Most of the well-educated and skilled individuals would have a formal job. Females, although some of them are working in formal offices, the majority of middle-class women are either housewives or teachers at public or private schools. The majority of the middle-

class family children do go to schools, mainly to public school. The better-off middle class would prefer to enrolling their children in private schools, since their education system is perceived to be better as compared to governmental schools.

1- 27 Respondent in Kabul: Respondents were selected from the Kabul University, two separate institutes namely Sayed Jamaluddin Teacher Training Centre (22 Households) and Technical Construction Institute (5 Households). High school graduates are enrolled in these two centers after passing the government national exam. The requirements to enter to these institutes are average range grades. Students at these two centers study for 2 years and they graduate in the first case as a teacher, and in the later as assistance to construction engineer. Those who would graduate from these centers will not even have a bachelor's degree, rather a 14-grade certificate.

The reason why respondents are selected from these institutions is that they do not have to pay any tuition fees for their studies; which assembles the middle class, who would not be able to pay tuition fees for their children. It could be further assumed that in case they could manage to pay such fees, they would prefer going to a private university to obtain at least a bachelor's degree.

C- Rich Class, Upper class

The richer class families are the better off than the former two classes. A clear method to find respondents for such class is to identify them through their expenditures. To this end and for the consistency of all other factors, university students of private universities were selected in the sample size, who can pay at least a specific tuition fee in private universities which is relatively expensive for a middle or poor class to afford. Also, education, although is considered very much important, but still it is not a basic need, rather than a want from the economic perspective. Therefore, those studying in private universities are considered to be rich individuals, given that university fees are relatively high in Kabul.

Higher education in Afghanistan has a major importance for everyone. Most of the young generation is interested to have a bachelor or master's degree. However, the current higher education system of Afghanistan cannot accommodate all high school graduates into public universities due to a lack of capacity. As a result, many private higher education universities

have emerged since 2001. These private universities, although it has a relatively better education system, as compared to the classic and old-style teaching and lecture at public universities, they charge students a relatively high tuition fee.

- 1- **10 respondents from the American University of Afghanistan (AUAF):** Given the high range of different private universities, their tuition fees vary drastically. The top private University in Afghanistan is the American University of Afghanistan (AUAF). The university professors are mostly from abroad, namely the United States of America. This university is charging the highest rate in the country. Besides the admission and administrative cost, each credit point for a course cost 18,700 Afs. (275 USD) for bachelor and 26,500 Afs. (389 USD) for Master students. A course worth 3 credits for master students amounts to 79,500 Afs. (1,169 USD) per semester according to the website of AUAF (AUAF, 2017). So, this group of respondents are assumed to be the upper rich class in the society.
- 2- **9 Respondents from Kardan University:** Kardan University is the second well known and famous private university in Kabul. The fees are relatively lower as compared to AUAF. Students pay 3,000 Afs (44 USD) per credit course, which is 9,000 Afs (132 USD) per course of 3 credits in the bachelor program. The average monthly fee is calculated 8,625 Afs (126 USD), and a total bachelor's degree of four years would cost 422,000 Afs. (6,200 USD) according to the Kardan website (Kardan, 2017).
- 3- **10 Respondents from the Afghanistan University:** 10 respondents were selected from one another average rated university for diversity and better comparison.

Sample size in Nangarhar province:

Nangarhar province is one of the regional hubs in eastern Afghanistan. It is located in the east of the country, about 135 Km from Kabul. Nangarhar has a border with Pakistan and therefore considered as a regional economic hub, mainly due to trade with Pakistan. In Nangarhar province, there are around 22 districts. One district called Surkh Road has been selected for this study. given that the survey was conducted in rural areas, interviews were made with poor class and middle-class respondents. A total of 35 respondents were interviewed.

- 1- **16 respondents from the poor class:** which included small size businesses in the village such as shop keepers and metalsmith, as well as businesses related to agriculture.
- 2- **18 respondents from two different schools of the district:** interviewed were made with local schoolteachers and students of the Surkh road district, most of whom are considered to be middle-class families, with a decent government salary for teachers. One of the school name is Cheknawori High school (9 respondents), and the other one is the local district school (9 Households).

Description of Data collection tools

A- Household-level Survey

The questionnaire developed is more precise and has been tested several times, before the final version is prepared. It is a rapid assessment of a household which provides the economic and living condition information. The questionnaire was first made in English, and the final version was translated into Dari, the local language. The form is self-explanatory and provides direction to the responders so that they can fill-in individually if they are literate, otherwise, the person conducting the interview would fill in the form based on their responses. The main part of the questionnaire, and the expected use of this information are discussed in detail below:

1. Introduction and general information:

At the beginning of the questionnaire, a short introduction is given to the responders. This introduction is very useful in case if the respondent is filling the form individually by themselves, at home.. Similar is the case if the interviewer interviews respondents, this information would be explained to them before the interview.

The introduction part clearly explains and informs respondents, that this survey is about the household's income and expenditure. Their information would only be used for this dissertation and would not be shared with any third party. The introduction also explains that the questions should be answered based on the entire household, not the person who is interviewed, or who fills in the form. So, all the responses should be based on household-level facts.

Each form is assigned a serial number, so it is easy to track and keep a record of each form. Although it has no specific implication, but this number will help in keeping track of the hard copies and a serial number will be assigned to each household, based on the data entry of the forms. It is also easy to track back the hard copy in case of a discrepancy in the data at the later stage. Following that, is the current address of the respondents. The serial number also identifies the province of the respondent. In address, the district number, name of the area, and street address are included. The date on which the interview was carried out is also mentioned.

All the information provided in a Household survey is tracked by the name of the head of the household. Information about the head of the household includes their names, father's name, age, marital status as well as their gender.

2. Information about family members:

This part is the main and important section of the survey. It lists all the members of a family living together in a household. The information about each member of the household includes, their names, or the relationship to the household's head, age, gender, highest education level, occupation, and monthly income.

This information is key in several aspects of the study. First, it gives the number of household members living in a family. Second, with the age and gender, we could identify the number of persons who are eligible to work and if they are employed or not, segregated by gender. Also, dependent member of the household are identified, such as children below age 16 or elderly people aged 65 or above.

Information on the education of household members could provide us an inside on how the education level is important or relevant in determining the income of that a person. The occupation of each member of the household is important to co-relate if their jobs are in the field of their study.

At the bottom of the table for the household members, the total number of employed individual per household, total unemployed (Those who has no job but are actively searching for a job), the total number of dependent members such as elderly and handicap, total number of children below the age of 16 and total household income is provided by the respondents. The total income

of the family is the sum of the income for all family members which are earned in the form of wages and salaries. It excludes income from other factors of production such as land and entrepreneurship; unless the family member sole income is through being directly involved in land and entrepreneurship activities.

3. Head of household's education

According to the findings of the NRVA survey, most of the poor families are headed by illiterate individuals. The level of education of the head of the household is key in determining the economic and social prospects of the household. The living condition of a family depends on the income of the head of the family, and education is directly related to the level of income. Most of the educated household heads would have a formal job which is a sustainable source of income. Their chances to get employed is much higher, given that Afghanistan has the largest illiterate population. In this part of the questionnaire, data about the highest level of education of household head, the field of their education, and if they attended private or public school/university is collected.

English language skills along with computer skills have been the main determinant of having a well-paid job in the last 15 years in Afghanistan. Those who can speak English and can operate computers are mostly employed with international organizations and NGOs, which offer a well-paid job as compared to the government. While language and computer skills are not usually taught in schools, such skills are taught in private courses. Therefore, data about English and computer level of understanding is collected to measure if the head of the family would be able to get to or have a better-paid job. It is also a good indicator of the marketability of the household head in the job market.

In this survey, some proxy indicators are used to measure the future economic prospect of a household, based on the current situation. One of such indicators is if the school-aged children of the household go to school. most of the poor families cannot effort to send their children to school due to different reasons. If the children of a family can attend school, it is an indicator of a prosperous economic future for that specific household. In some cases, it happens that due to cultural and social barriers, only boys are allowed to attend schools. Mostly this is the case in the rural areas of Afghanistan. This survey captures such information too.

Some indicators are designed to be a proxy indicator for the current economic situation of the household. Concerning the point below, the head of the household is asked if their children attend public or private schools. In recent years, a large number of private schools were established to provide better education for the children and the new generation. Although their curriculum and teachers are not of high quality, private schools are still considered to be better than the public. Mainly because they teach English and computer programs at an early age, and that students receive more attention than in public schools. However, they charge a monthly fee for students, and not everyone – especially the poor – can afford to pay a monthly bill for a child or children of the household. Those who can afford private school would be either in the middle or upper class of the society.

4. Household wealth and other sources of income

Households may have different sources of income besides wages or normal salary. such income may take the form of the rent of land, entrepreneurship, or transfer in-kind. To understand if the family has any other sources of income, they have been asked if they own a house, a business, a car, or any other sources of income. Further, these questions are followed to see if their wealth/assets are used for personal or for generating income. In case of owning a house, which is one of the most important assets for a household, the household head is asked if they rent the house and generate revenue from it or if they are using the house to live themselves. If they have rented their house, how much rent they receive per month. in case of having a private business or company, they are asked about the total investment and the monthly profit from that business.

As the second important asset for most of the Afghans is having a car. Households are asked if they have a car, if yes which type. Respondents are asked if they use the car for private or for business purposes. Finally, any other source of income for the household is being asked such as in-kind transfer and transfer from abroad. In recent years, due to the high rate of Afghan migrants across the world, money transfer to family members in Afghanistan has been rising considerably.

In this part, both wealth of the family is assessed, in terms of how much wealth they have accumulated, as well as any other source of income from their wealth and assets. It worth mentioning that having a house in Kabul is very expensive and not everyone can afford to buy a

house. Differing based on the location, a house, or an apartment worth on average between 50,000 USD to 300,000 USD. Some houses might be inherited by the head of the household or might be shared with one or more households. A car may also have on average a worth of 5,000 USD to 15,000 USD depending upon model and year of production.

5. Household expenditure

Another important indicator of the household's economic condition and living standards, given their income, is their expenditure. It is a different approach to measuring poverty and inequality, and a relatively more specific than the income approach, since not all income is spent and therefore is not a perfect indicator of well-being or living standards. Expenditure on the other hand has a direct relationship with living-condition and economic situation. Keeping in mind that the propensity to consume is positively co-related to the level of household income.

Family expenditure is further classified for basic food needs, non-food needs, monthly rent, and total family expenditure. The pattern on how a family spends their money on food and non-food item, as well as on rent and other expenditure could also show some details about different levels of living standards between the three groups of poor, middle and rich class of the society.

6. Household saving

Saving of the household indicates if the income of the household is sufficient or more than the family's needs and wants. The income of the household is either spent on the basic needs and wants of the household, invested, or saved for future consumption. Saving also smoothens any fluctuation in the income of the household in case of losing a job or facing an unforeseen calamity in the long run, given that there is no social insurance or unemployment benefit by the government.

Information in this section is collected about if the family can save money from the income of their household, and if yes, how much per month. the family is asked if they have a bank account, to observe if they can save or willing to save in the future. Having access to the bank is an indicator of being able to save or have at least some deposit for any uncertainty. Due to privacy reasons, the amount of their saving in the bank is not included in the questionnaire. The

amount of money saved by the household was not shared by respondents during the test period of the questionnaire, so it was omitted in the final version of the questionnaire.

According to the literature review, most of the poor are the vulnerable households that have no last-resort to meet their basic needs in case of uncertainty. In other words, the poor are those who do not have a social security net to refer to in case of any calamities. While such a system is not present in Afghanistan, there is an alternative. In case of urgent need or calamities for a household, relatives and friends assist the family financially, given that they understand what has happened. In most of the cases it happens when a household is hit by a disaster or simply cannot afford basic family needs, relatives will step in and provide food and cash in the form of either debt or donation.

The level of indebtedness of the households is also measured. Questions include if they have received a loan from others, or paid loan to someone else. In the case of indebtedness, households may reduce their consumption so they can repay their loans, which influences their standard of living.

One portion of the income which is not spent could be either saved or further invested. Respondents are also asked if they have invested in the last month in any form, and if yes, how much.

7. Standard of living

Standard of living is measured in different ways. Income is one of the most important determinants of standard of living. However, the standard of living is much more than income, it is one way of measuring it. In this project, besides measuring the level of household income and expenditure, their perception of their economic condition is also measured.

First, and at most, it is important to know if the income of the family is enough to meet the basic food needs of the family. Respondents are asked if their income is fully sufficient, partially sufficient, or not enough for their basic food needs. Besides that, they are asked if the household's income is fully, partially, or insufficient for the overall household expenditures.

As a proxy indicator, respondents are asked if they would visit a private or public hospital when they are sick. In recent years, private hospitals have emerged in every part of the country. They

provide better health facilities are compared to public hospitals; which is free but of low quality and low standards. If a family is better off or at least in the middle class, they would prefer to get better treatment and health services in a private hospital, as compared to a public hospital.

Since this project aims to measure the impact of economic growth in the last 15 years, due to lack of data and secondary source of information, no baseline data is available. As an alternative, the re-call method of baseline is used in some questions. Since it would be difficult to recall the information from the last 15 years, respondents are asked to recall and compare their current living conditions and economic situation in the last 5 years to the present.

Respondents are asked how they would compare their current living conditions to the past 5 years. Their responses are although subjective, it is a good indicator of their perception of their living condition now. The respondents would consider any aspect which they think are important for them and provide a subjective response. Their responses would be; either their living conditions have improved as compared to the past 5 years, stayed the same, or deteriorated.

Another important indicator of the living condition is to know how people spend their free time. Although there is not that much of social and leisure activities available for the families, especially in rural areas, it is a good indicator of the living standards. This question was left as open-ended so the respondent could provide their answers. However, there were not any major findings about this indicator.

In the last part of the form, questions are asked to be responded in either 3 scale or 5 scale responses. First, how the income of the family has changed over the past 5 years. Has the income of the family, according to the viewpoint of the respondent, has increased, remained the same, or has declined.

In the next question, the overall economic condition of the household is compared with the past 5 years, from the viewpoint of respondents, to measure if their economic condition has either improved, remained the same, or deteriorated. Lastly, respondents are asked how much they are satisfied with their current economic situation of the household. Their responses are scaled by 5 Likert scale from very satisfied to not satisfied.

Limitation of the Household Survey

While the main purpose of this survey is to measure the income, expenses, and wealth of the households, this survey may not be able to capture all such information. The social system and living culture are quite complex topics and it is not easy to draw a line between the member of the households. Most of the families are living together and share their income as well as expenditure. Though it was made clear to respondents that the survey is for individual households, some overlap may still exist. Such cases, when identified are highlighted in the data analysis section.

Income is one of the sensitive information about anyone to obtain. Especially in the context that the surveyor randomly selects someone and ask about all the economic condition of his/her family. Therefore, while most of them were willing to share their economic well-being and income, it is still possible that not all of this data is as accurate as provided. Some of the respondents might have exaggerated or provided skeptical data about their income and expenditure. those cases identified, are either removed or highlighted in the data analysis section.

Also, according to statistics, the sum of errors will even up and there is the possibility to find the middle value of income, for example. So, there is the chance that the errors will cancel each other, and the main data, due to the power of large numbers, will indicate results near to the reality.

There might be some issues with filling in the forms, especially for those who filled in the form at their houses and by themselves. Some of them, due to either lack of understanding of the question, or not being able to provide accurate information, has provided inaccurate data. While the one which could be noticed is either amended or excluded, there might be unnoticed cases of such data.

Finally, as most of the survey faces the challenge, that it is not possible to have a fully representative sample of the population. While the sampling technique used here is to maximize the chance of each household to be represented in the sample. This sample is not extensively representative of the total population. Rather, it can be used as an indicator of how some families in the greater population earn their income.

Key Informants Interview

Key Informants interview is a great source of collecting qualitative data. The Household Survey provided mostly quantitative data at the household level. However, Key Informants Interview (KII) is used to obtain qualitative information from high government officials and informants. Since the survey design is a mixed-method, it is comprised of both qualitative and quantitative data. KII serves as a qualitative source of data for this dissertation.

Following Key Informants Interview has been conducted.

1- Mr. Scott Guggenheim, Senior Advisor to the President of Afghanistan.

Mr. Scott is a former colleague and a close friend of the Afghanistan current president Mr. Ashraf Ghani Ahmadzai. He has worked mostly with the World Bank in different South Asian Countries including Indonesia, where he pioneered community-driven development (CDD) programs. He was born in New York and has been working for a long time in Afghanistan.

2- Mr. Khyber Farahi, Senior Advisor to the President on Migration and Social Development

Mr. Khyber Farahi is an advisor to the president of Afghanistan on the issues of Migration and Social Development. He has previously worked in the Ministry of Rural Rehabilitation and Development in different capacities as well as in the Ministry of Finance. Although he is mostly engaged in migration-related programs, he is also involved in Social Development programs such as Citizens' Charter program, where he worked previously.

3- Mr. Zalmay Nishat Darayi, Strategic communication Advisor to the Chief Executive of the Islamic Republic of Afghanistan.

Mr. Zalmay Nishat is an advisor to Chief Executive Officer, Mr. Abdullah Abdullah. He is engaged in different programs that are followed and implemented by the Office of Chief executive. He has a BA degree in Politics from the School of Oriental and African Studies, University of London. He also has a MA from Essex University in London, where he currently serves as a researcher as wellⁱ.

4- Mr. Hafiz Khalil Baha, Head of Sustainable Development Goals (SDGs) Unit, Office of the Chief Executive of Afghanistan

Mr. Baha is the head of the SDG unit at the Office of Chief Executive. He studied Economics at Osmania University in India and has a master's degree in Public Policy from Luneburg University in Germany. He has worked as an Economic Policy Advisor in the ministry of Economy. He has also worked in the ministry of commerce and Afghanistan Investment Support Agency (AISA)ⁱⁱ.

5- Ms. Naheed Sarabi, Deputy Minister for Policy, Ministry of Finance of Afghanistan.

Ms. Sarabi has been recently appointed as deputy minister for policy at the ministry of finance in August 2017. She has a Bachelor of Arts in Political Science from Delhi University in India, a Master of Arts in Development Management at the University of Ruhr in Bochum, Germany, and has studied Applied Economics at the University of Western Michigan University. She has worked as a research officer in the office of President between 2007 to 2008, and in several positions at the Ministry of Finance, including Director of Afghanistan National Development Strategy between 2012 to 2013ⁱⁱⁱ.

6- Mr. Shankar Narayanan, Senior Social Development Specialist, The World Bank, Kabul, Afghanistan.

Mr. Shankar works as a Senior Social Development Specialist at the World Bank office. He has been working with the World Bank for several years in India in different capacities, before moving to Kabul in 2016. His field of study is Rural Management^{iv}.

Note: The author has contacted about 20 individuals at the decision-making level in government, national and international organizations. Only the above-mentioned individuals have responded and took part in this research.

ⁱ Website: <http://www.sussex.ac.uk/sussexasiacentre/people/associates/znd> [accessed on 15.11.2017]

ⁱⁱ Webpage: <https://www.facebook.com/Baha.Hafizullah> [accessed on 15.11.2017]

ⁱⁱⁱ Website: <https://www.linkedin.com/in/naheed-sarabi-2b026b29> [accessed on 15.11.2017]

^{iv} Website: <https://www.linkedin.com/in/shankarnarayanan1/> [accessed on 15.11.2017]

Chapter Four: Household Survey

**Data Analysis of Household Survey Conducted during September to October 2017
in Kabul and Nangarhar Provinces of Afghanistan.**

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Introduction

Afghanistan is among the poorest nations of the world. Decades of civil war and conflict has been the main reason that the country remained underdeveloped, while other nations at the same time were nourishing and growing socially and economically. The effect of decades of war, continue to influence living conditions in the country after the fall of the Taliban regime at the end of 2001. After more than 16 years, the country still faces major economic problems such as high poverty rate and income inequality, besides lack of security.

While the huge influx of foreign aid during the last 15 years was unprecedented, its effects cannot be neglected to transform the country. Afghanistan has revived politically, socially, and economically as compared to the situation in 2001. However, the progress made is still disputed. Had the foreign aid and assistance spent wisely, would the country be more economically and politically stable and peaceful as it is now?

The rapid economic growth period continued from the early 2000s until 2012. Since the economy was heavily dependent on foreign aid and military spending, withdrawal of the international forces by the end of 2014 had negatively affected economic growth. As a result, the economic growth declined to negative figures starting from 2013 and continued until 2016. In 2017 the economic growth started to grow at a slower pace again. After the withdrawal of international forces, there was an “economic chaos”, as put by some Key government officials. The rapid unequal economic growth until 2013, and sudden drop afterward resulted in widespread poverty. The poverty rate of 36 percent around 2012 fell to 55 percent according to a national survey conducted in 2016-2017 (ALCS, 2017). To understand the problem of poverty and income inequality better, this survey provides a gross-root level data about the household’s economic condition in the country.

Part one of this chapter describes the sampled 110 households from Kabul and Nangarhar provinces. In part two, a detailed analysis of poverty and its measurement is presented, as well as the distribution of income in these households. In part three, determinants of poverty and income inequality, such as education, health, English, and computer skills are analyzed and their effects on household income are explored. Part four provides an analysis of the consequences of poverty and income inequality on different aspects of a household’s life. Part five provides the perception of the household about their current and past economic condition and level of income. The final part provides a discussion of the main findings and its relevance to the topic of poverty and income inequality in the country.

The Household Survey data would provide a vivid picture of the current economic problem of households, such as poverty and income inequality. Based on the findings of this survey and Key Informants Interview, policy recommendations to the government of Afghanistan are made on how to reduce poverty and income inequality.

Section I: Description of the sampled population

To understand the extent of poverty and income inequality, and its effect on the standard of living, 110 households are interviewed in two provinces of Kabul and Nangarhar in Afghanistan during September and October 2017. These 110 households consist of 787 individuals within these households.

While the questionnaire is used to collect data about household - as an economic unit - individual-level data from each member of the household is also collected. These individual data include age, gender, level of education, occupation, and income of household members. All other information presented in this section is about households as a single economic unit of analysis.

Since most analysis which is key for answering the main questions posed in the study design are collected at the household level, individual-level data is used for identifying the number of members in each household, their age, education, and income contribution to the household.

From the total 110 households, 76 households (about 70 percent) are surveyed in Kabul province, and the remaining 34 Households (about 30 percent) are surveyed in Nangarhar province. Kabul city is divided into 22 administrative districts, and respondents of the survey participated from 11 different districts. However, in Nangarhar province, only one district (Surkh Road) was selected as a sample in this study. The main reason behind this was the lack of access and security concerns in other districts of Nangarhar province.

1. Distribution of respondents per Province

Provinces	Frequency	Percent	Valid Percent	Cumulative Percent
Kabul	76	69.1	69.1	69.1
Nangarhar	34	30.9	30.9	100.0
Total	110	100.0	100.0	

Table 1: Interviewed Households per province

Enough effort has been made to collect data from different geographical locations. The below table shows the number of household respondents in each 11 districts of Kabul and one district of Nangarhar province.

2. Distribution of respondents per District

Province and District numbers:	Frequency	Percent	Valid Percent	Cumulative Percent
Kabul:	9	8.2	8.4	8.4
10.	7	6.4	6.5	15.0
12.	1	.9	.9	15.9
13.	5	4.5	4.7	20.6
20.	1	.9	.9	21.5
3.	4	3.6	3.7	25.2
4.	19	17.3	17.8	43.0
5.	2	1.8	1.9	44.9
6.	3	2.7	2.8	47.7
7.	7	6.4	6.5	54.2
8.	4	3.6	3.7	57.9
9.	11	10.0	10.3	68.2
Nangarhar:				100.0
Surkh Road	34	30.9	31.8	
Total	107	97.3	100.0	
Missing 00	3	2.7		
Total	110	100.0		

Table 2 Distribution of respondents per District

Afghanistan map

Afghanistan is located in Southeast Asia. Kabul, the capital city and a province, is located in the central-eastern part of Afghanistan. Its population in 2015 is estimated at 4,372,977¹ and it has 22 districts. Kabul province population is projected to increase to 4,679,600² in 2017. Nangarhar is located in eastern Afghanistan, with an estimated population of 1,517,388³ in 2015 and an estimated population of 1,574,000⁴ in 2017. Nangarhar provinces has 23 districts,

¹ Website:

https://ipfs.io/ipfs/QmXoypizjW3WknFiJnKLwHCnL72vedxiQkDDP1mXWo6uco/wiki/Provinces_of_Afghanistan.html

² Website: <https://www.citypopulation.de/Afghanistan.html>, [accessed on 08.01.2017]

³ Website:

https://ipfs.io/ipfs/QmXoypizjW3WknFiJnKLwHCnL72vedxiQkDDP1mXWo6uco/wiki/Provinces_of_Afghanistan.html

⁴ Website: <https://www.citypopulation.de/Afghanistan.html>, [accessed on 08.01.2017]

and Jalalabad is the capital of the province. Selected provinces could be seen in the map highlighted as Kabul and Jalalabad. The orange color indicates highly populated provinces, and green color indicates less populated provinces.

Map of Afghanistan⁵

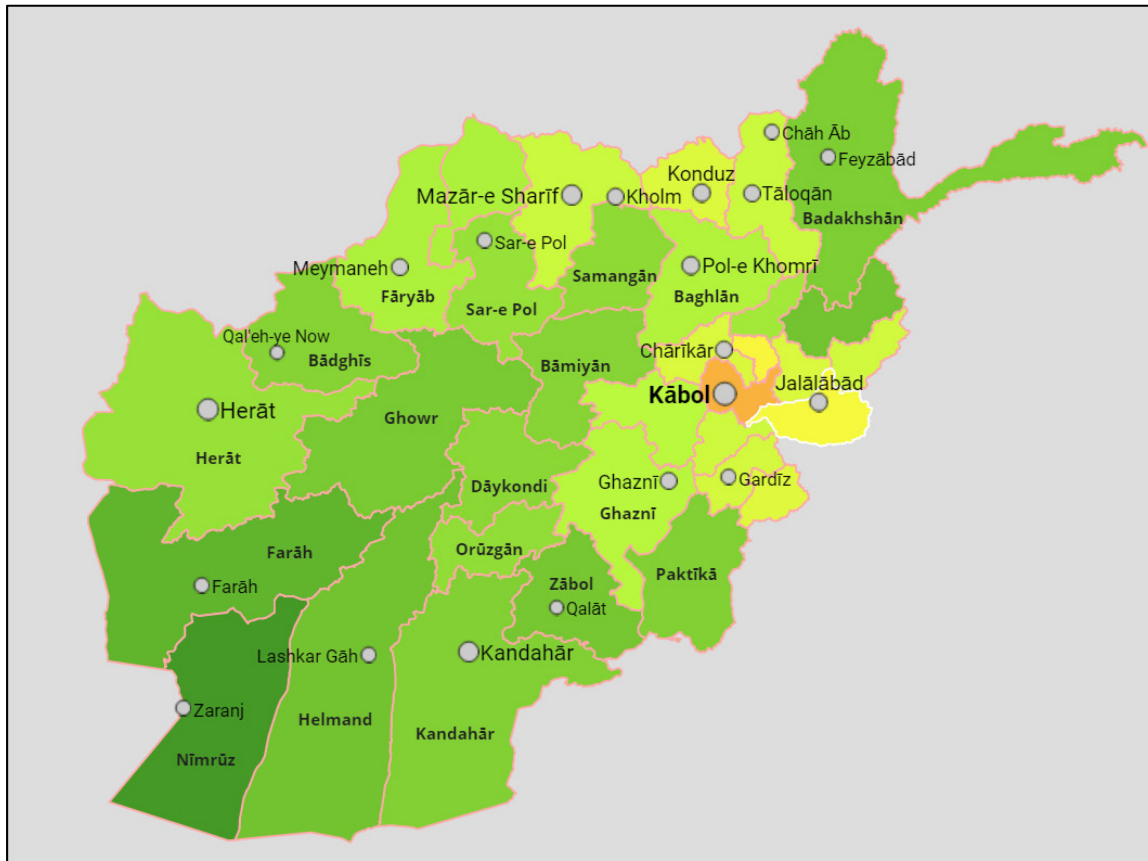


Figure 1 Map of Afghanistan source: <https://www.citypopulation.de/Afghanistan.html> [accessed on 08.01.2017]

Head of Household

Household, simply meaning a family, is the economic unit of analysis for this study. A household is mostly comprised of a husband and wife with their children. The Head of the household is mostly the one who is responsible for social and economic decisions affecting a household, and mainly the breadwinner, and caretaker of the family. Given the culture and social condition of Afghanistan, men are mostly the head of the household. Female-headed households are mostly poor, due to several reasons.

⁵ Website: <https://www.citypopulation.de/Afghanistan.html> [accessed on 08.01.2017]

a. Age:

The average age of the household's head is 44 years in the sampled households, though some heads of households are as old as 90 years, and as young as 17. Given the social and cultural structure of Afghan society, the father of the household would be still considered as the head of the household irrelevant of his age. In case the father of the family is not there, the oldest son would be the next responsible person for taking care of the family.

There are some exceptional cases such as the case of Hashmatullah. He is 17-year-old and also the head of his household, after the death of his father several years back. He is working as a car washer on the street side in Kabul, Macroryan region to support his family of 6 members.

3. Household's head age description

Valid	109
Missing	1
Mean	44.41
Mode	35
Minimum	17
Maximum	90

Figure 2 statistics about the age of head of household

b. Gender and Marital status:

Almost all heads of households are male and married. Only in rare cases, the household is headed by another member of the family. The sampled population shows that almost 94 percent of the respondents were married, and the remaining 6 percent are single as head of the household. Female-headed households were only recorded in two cases (less than 2 percent). One of them is the case of Mrs. Khadija, 60 years old who works as an office cleaner in a government organization. The second one is Mrs. Fawozia Kofi, 46-year-old, who is a member of Parliament (MP) of Afghanistan.

c. Education:

One of the most important determinants of a household income is the level of education of household head. Households headed by illiterate are most likely to have lower income and live

in poverty than the educated. Therefore, finding the relationship between the education level and income level of the head of the household is key in understanding income inequality. The sample size includes household heads with different levels of education. As the below table indicates, 27 percent (30 respondents) of sampled household heads are illiterate. 26 percent of household heads have either primary, secondary, or high school level of education, and 33 have a bachelor degree.

4. Highest Education level of household head

	Frequency	Percent	Valid Percent	Cumulative Percent
illiterate	30	27.3	27.3	27.3
Primary school	9	8.2	8.2	35.5
Secondary School	5	4.5	4.5	40.0
High school	15	13.6	13.6	53.6
14 Grade	2	1.8	1.8	55.5
Bachelor	36	32.7	32.7	88.2
Master	4	3.6	3.6	91.8
Doctor	1	.9	.9	92.7
Other	8	7.3	7.3	100.0
Total	110	100.0	100.0	

Figure 3 household head level of education

d. Private or Public Education:

Head of the households are asked if they have studied in private or public schools and universities. In recent years, private schools and higher education with a relatively higher standard emerged in the country. While the majority of the respondents attended public education, those who attended private universities have studied either 2 years diploma after high school or have completed their bachelor's degree. There are only 25 cases of household heads studied in a private institution.

Head of Household highest level of Education

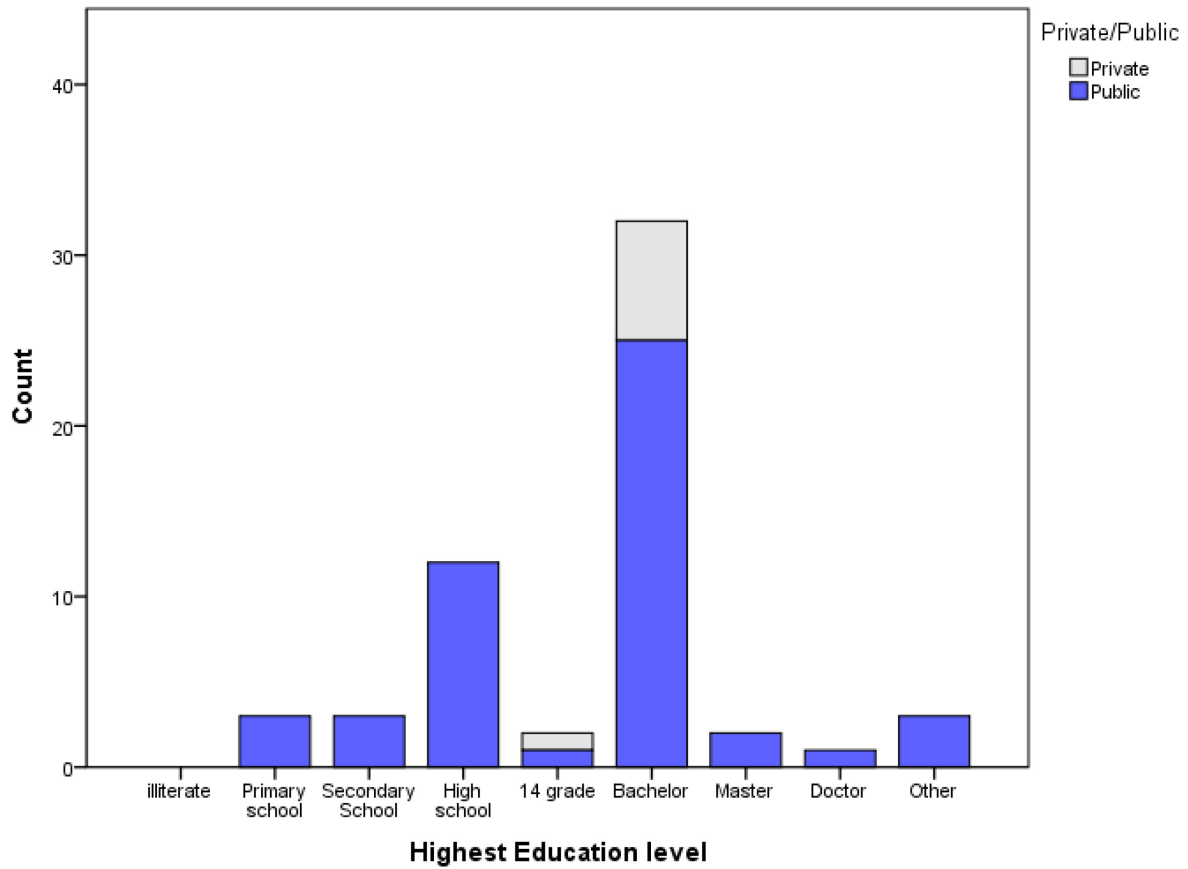


Figure 4 Head of Household highest level of Education in public vs private university

e. Employment:

One of the major sources of income for a family is through employment. Here, the employment is restricted to the reward in terms of wages for providing labor only. Of the total population, 8 household heads are jobless (7.3 percent) and in 4 cases, the head of the households is retired and or receives a pension (2.5 percent). Those who have a job, 60 percent of them work in the formal sector of the economy, and the remaining 40 percent in the informal sector.

The below list provides different occupations and jobs that the surveyed household heads are involved in.

5. Occupation of household head

Occupation, employment	Frequency	Percent	Valid Percent	Cumulative Percent
car washing	1	.9	1.1	1.1
cart - children stuff	1	.9	1.1	2.3
cart cigarette	1	.9	1.1	3.4
Cleaner	1	.9	1.1	4.6
Daily labourer	2	1.8	2.3	6.9
Driver	1	.9	1.1	8.0
Engineer in government	1	.9	1.1	9.2
foodstuff for kids in a cart	1	.9	1.1	10.3
Military	1	.9	1.1	11.5
government employee	7	6.4	8.0	19.5
hospital employee	1	.9	1.1	20.7
Jobless	4	3.6	4.6	25.3
Jobless	4	3.6	4.6	29.9
Kabul Governor office	1	.9	1.1	31.0
Mason	1	.9	1.1	32.2
Mason/ Day labour	4	3.6	4.6	36.8
Member of Parliament	1	.9	1.1	37.9
Metal worker	1	.9	1.1	39.1
Military	2	1.8	2.3	41.4
Public servant, MoPH	2	1.8	2.3	43.7
Money exchange	1	.9	1.1	44.8
municipality worker	5	4.5	5.7	50.6
office cleaner	1	.9	1.1	51.7
old metal collection	2	1.8	2.3	54.0
painter- house	3	2.7	3.4	57.5
painting house	1	.9	1.1	58.6

Pensioner	1	.9	1.1	59.8
Personal work	1	.9	1.1	60.9
Police officer	1	.9	1.1	62.1
Pop-corn seller	1	.9	1.1	63.2
Private business	4	3.6	4.6	67.8
private company	3	2.7	3.4	71.3
religious scholar	1	.9	1.1	72.4
Retired	3	2.7	3.4	75.9
shoemaker	1	.9	1.1	77.0
Shop keeper	2	1.8	2.3	79.3
Teacher	13	11.8	14.9	94.3
Teacher	1	.9	1.1	95.4
telecom AWCC employee	1	.9	1.1	96.6
tile- worker	1	.9	1.1	97.7
Tractor driver	1	.9	1.1	98.9
University Teacher	1	.9	1.1	100.0
Total	87	79.1	100.0	
Missing	23	20.9		
Total	110	100.0		

Figure 5 Type of occupation and employment

Household heads which have different types of occupation are selected to have a more diverse and heterogeneous sample size, as shown in the table above. Enough attention is given to include illiterate households, whose forms are filled-in by the interviewer.

Member of Household:

The sample size includes 110 households and 787 individuals within these households. While most of the data about income and expenditure are about households, some information, such as gender, age, level of education, and individual income is collected at the individual level. The reason is to observe the composition of the household as well as to provide some characteristics of households in detail.

a. Age:

Afghanistan is among the few countries which have more young population. The average age of household members in the selected sample size is almost 23 years. The average age varies with a standard deviation of 16.9. Data on age is based on the 568 cases with 219 missing cases. The reason behind that is due to cultural limitations, it is not always preferred to ask about the age of female household members. To the extent possible, such data has been collected. In cases where the respondents did not feel comfortable, such a question was not asked.

6 Household members Age Statistics

Valid	568
Missing	219
Mean	22.87
Median	20.00
Mode	5 ^a
Std. Deviation	16.948
Variance	287.241
Range	89

a. Multiple modes exist. The smallest value is shown

Figure 6 age statistics of household members

The below graph indicates the age of sampled household members. this shows that most of the Afghan household members are young, and the number of elders are relatively low.

Graph 7. Distribution of household members age

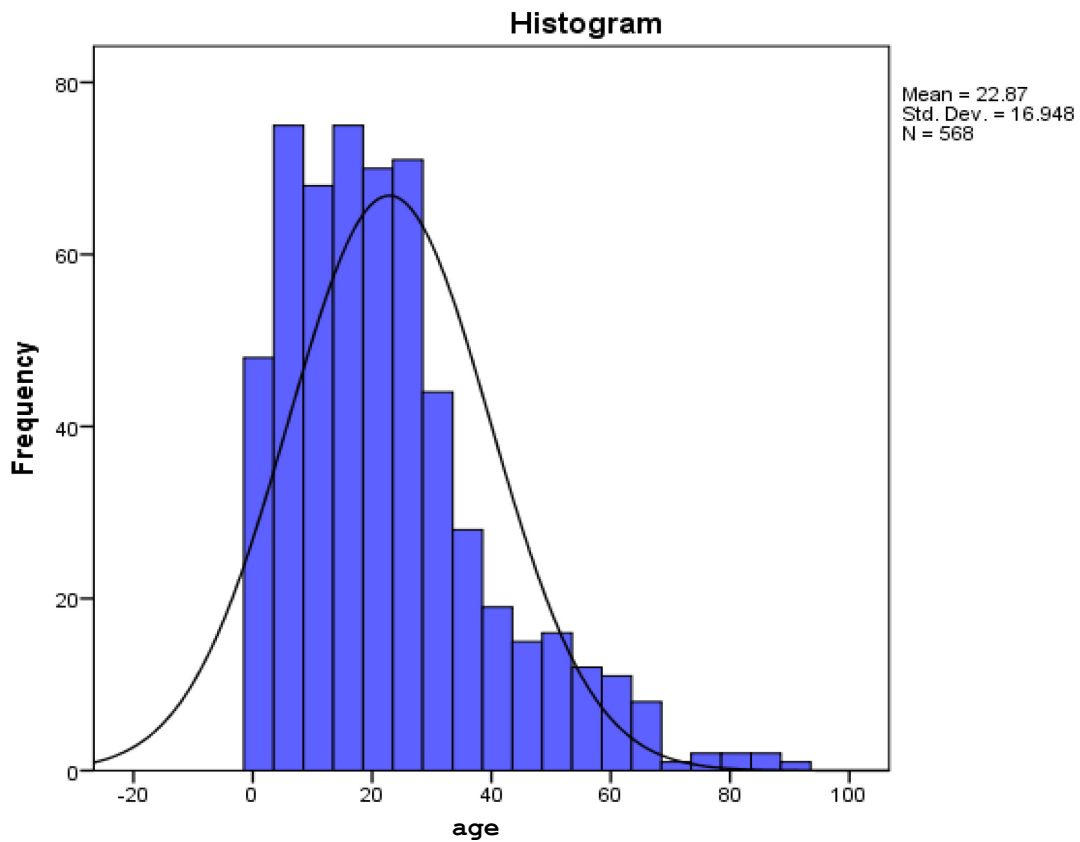


Figure 7 histogram, household members age frequency distribution

b. Gender

Female contributes to 42 percent of the household members, as opposed to 58 percent of male. Female figures are under-reported due to cultural sensitivity to name female members and provide data related to them, especially their age. 7.6 percent of the respondent’s gender is not reported in this case. However, 42 percent of female participation in the sample size is considered as an inclusive for both genders.

8. household members gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	306	38.9	42.1	42.1
Valid Male	421	53.5	57.9	100.0
Total	727	92.4	100.0	
Missing	60	7.6		
Total	787	100.0		

Figure 8 gender of household members

c. Education:

Respondents are asked about the highest education level that they have attained at this point. From all household members who responded to this question, almost 11 percent of members are illiterate, 24 percent have primary school and 17 percent have high school level of education. 23 percent of household members have a bachelor’s degree. This information is based on the data of the 48 percent who responded to this question.

9. Level of household members Education (partially provided data)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Illiterate	41	5.2	10.8	10.8
	Primary School	92	11.7	24.3	35.7
	Secondary School	8	1.0	2.1	37.8
	high school	65	8.3	17.2	55.0
	University Student	48	6.1	12.7	67.7
	14 grade	20	2.5	5.3	73.0
	Bachelor	86	10.9	22.8	95.8
	Master	15	1.9	4.0	99.7
	Doctor	2	.3	.5	11.4
	Religious study	1	.1	.3	100.0
	Total	378	48.0	100.0	
Missing		409	52.0		
Total		787	100.0		

Table 3 household member education (partial)

The below histogram indicates graphically the distribution of level of education in the responded household members in percentage.

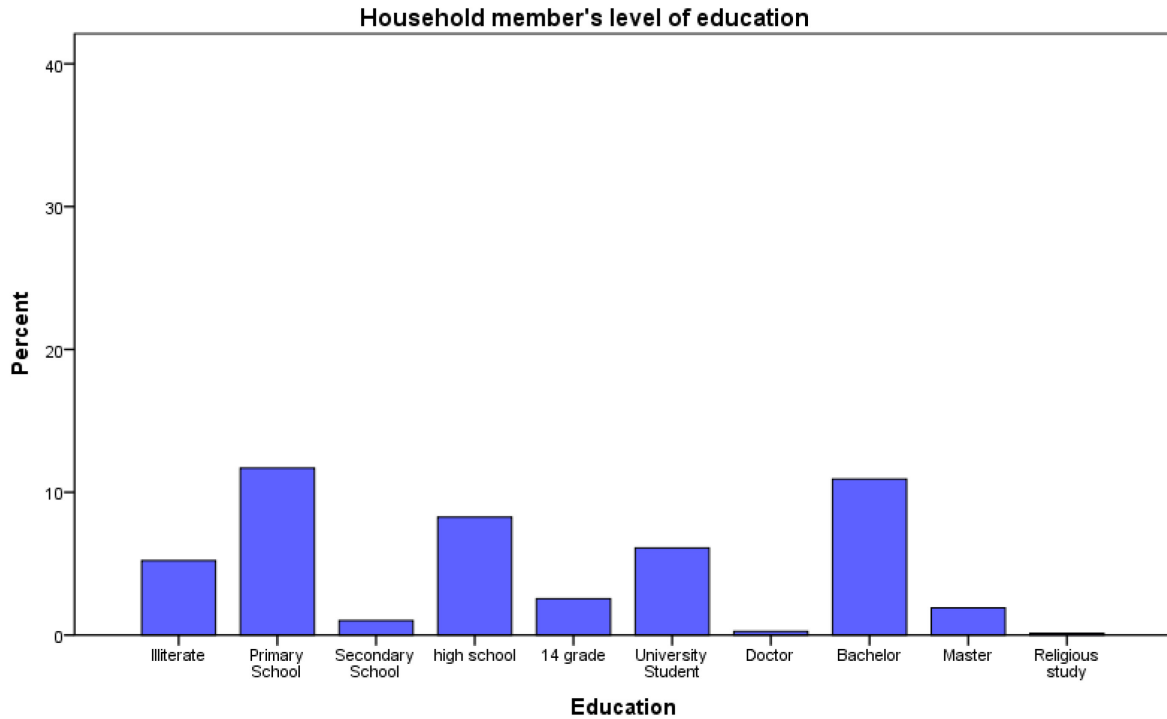


Figure 9 level of education of household members

Conclusion:

The above description of the household is to provide a background of the respondents of this survey. This demonstrates that the sample size is a good mix of all demographic characteristics of both heads of the household, as well as their members. It will allow the results to be more inclusive and representative of the actual Afghan households, thus making it more reasonable to generalize.

The data about the household itself will be presented below:

Household size:

In the sampled households, the average number of individuals in a family is 7 members; which is the same as stated in Afghanistan’s national surveys. About 50 percent of households have 7 or fewer members. The standard deviation is almost 3. The largest family in the sample size includes 15 members, which is mostly the case with joint families. And the smallest family has at least 2 members. This survey includes 787 individuals in 110 households.

Statistics

Number of members in a family

N	Valid	110
	Missing	0
Mean		7.17
Median		7.00
Mode		6
Std. Deviation		2.927
Variance		8.566
Range		13
Minimum		2
Maximum		15
Sum		787

Below table describes the number and percentages of different family sizes in sampled households:

Number of members in a Family

	Frequency	Percent	Valid Percent	Cumulative Percent
2	4	3.6	3.6	3.6
3	6	5.5	5.5	9.1
4	8	7.3	7.3	16.4
5	14	12.7	12.7	29.1
6	19	17.3	17.3	46.4

7	14	12.7	12.7	59.1
8	12	10.9	10.9	70.0
9	12	10.9	10.9	80.9
10	8	7.3	7.3	88.2
11	6	5.5	5.5	93.6
12	1	.9	.9	94.5
13	1	.9	.9	95.5
14	1	.9	.9	96.4
15	4	3.6	3.6	100.0
Total	110	100.0	100.0	

The above data is presented in the form of percentage in the graph below:

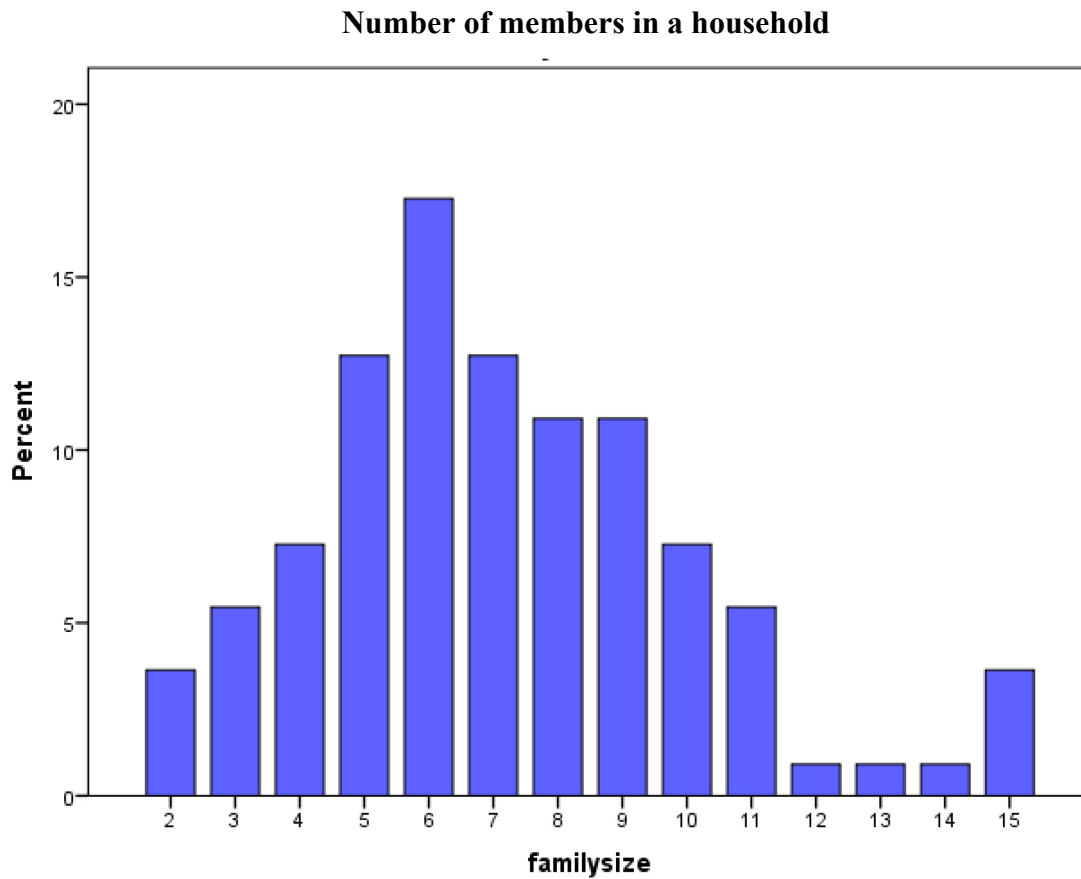


Figure 10: Number of members in a Household

Household Employment

In 110 households, a total of 175 individuals are employed, either full or part-time, and thus, earn an income. On average, every household has more than one person (1.6) as employed. 48% of the households have at least one employed member in a household. Only 22 percent of the households have two employed members, and 7.3 percent have 3 employed members. The number of employed individuals per household varies by (1.3). the range of the person being employed is 6; Meaning that some household has no employed individual, while another household has 6 employed individuals.

**Individuals employed per household –
Statistics**

N	Valid	110
	Missing	0
Mean		1.59
Median		1.00
Mode		1
Std. Deviation		1.294
Minimum		0
Maximum		6
Sum		175

Below table shows percentages of a number of employed individuals in households:

Individuals employed per household

Number of employed	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	14	12.7	12.7	12.7
1	53	48.2	48.2	60.9
2	25	22.7	22.7	83.6
3	8	7.3	7.3	90.9
4	4	3.6	3.6	94.5
5	4	3.6	3.6	98.2
6	2	1.8	1.8	100.0
Total	110	100.0	100.0	

Table 4 Number of Individuals employed per household

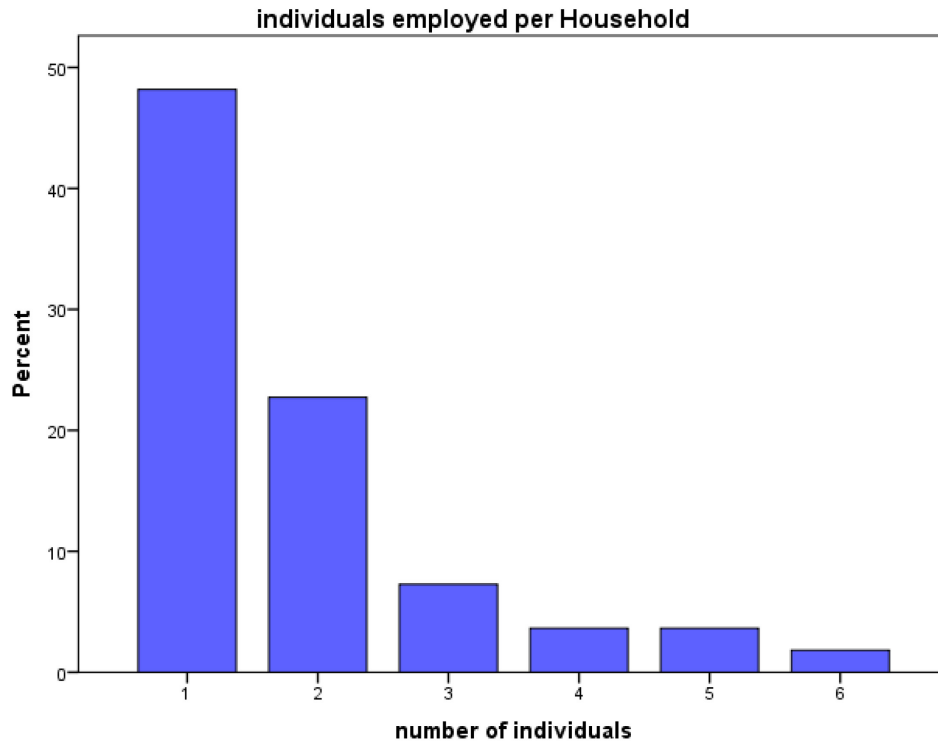


Figure 11 Number of working individuals per household

Dependency rate:

A further analysis has been carried out on the distribution of the family members, in terms of the number of unemployed, dependent, and children aged below 16 years. Such information gives a clear picture of how families are normally organized, and how the income of one or two working members of the family is used to supports the rest of the family - assuming that the income of the household is used for the basic needs and wants of all members.

Out of 110 households, 49 of them (44 percent) have at least one unemployed member in their family. A total of 96 persons (12 percent), out of the sampled 787 individuals are unemployed in the sample size. In more than half of the cases (27 households out of total 49), only one member in the household is unemployed. Almost 16 percent of households of those with an unemployed member has either 2 or 3 unemployed individuals.

Total unemployed

	Frequency	Percent	Valid Percent	Cumulative Percent
1	27	3.4	55.1	55.1
2	8	1.0	16.3	71.4
3	8	1.0	16.3	87.8
Valid 4	3	.4	6.1	93.9
5	1	.1	2.0	95.9
6	2	.3	4.1	100.0
Total	49	6.2	100.0	
Missing System	738	93.8		
Total	787	100.0		

Figure 12 unemployment in percentage

Below graph presents the number of unemployment in percentage:

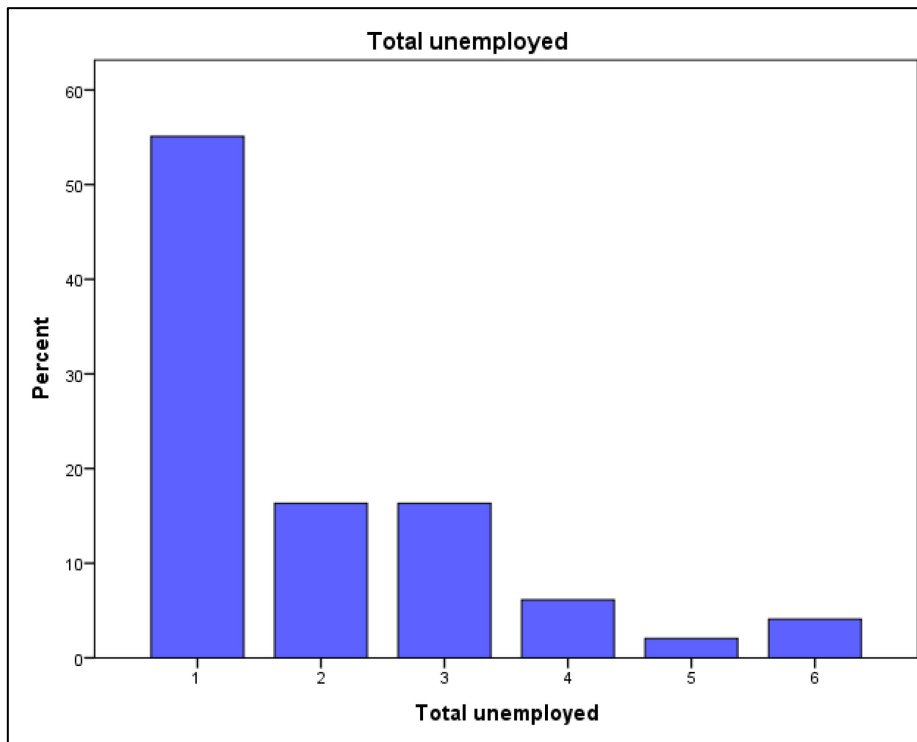


Figure 13 unemployment percentage

Total dependent:

410 individuals out of 787, which constitutes 52 percent of family members are labeled as dependent members of the family. 90 households out of 110 (81 percent) have at least one dependent member in the family.

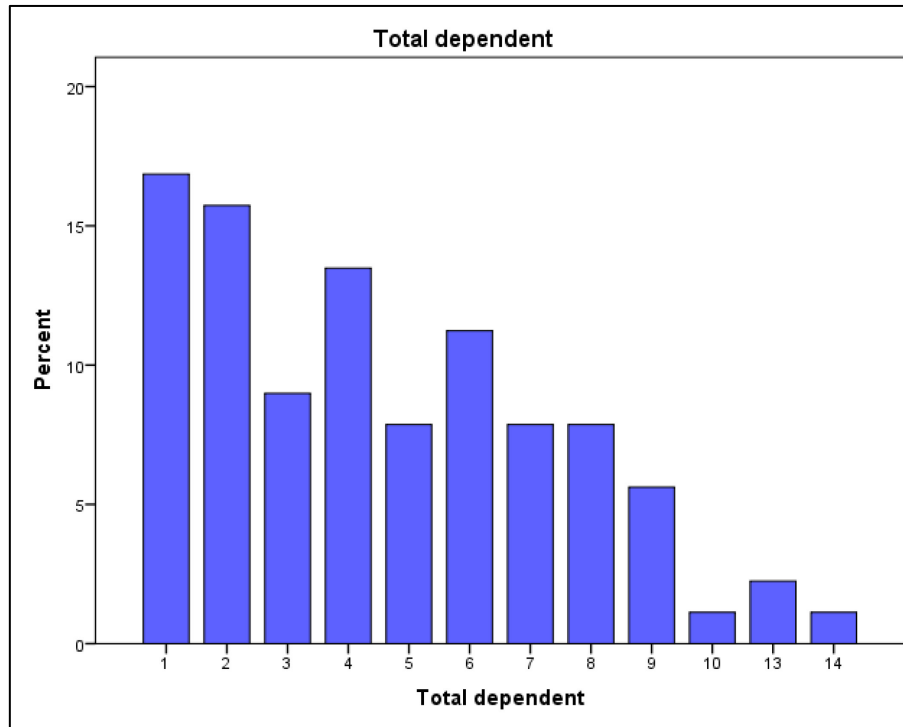


Figure 14 percentage of dependent members in Household

Children under age 16:

81 households (73 percent) of households have at least one child under the age of 16. about 234 children in the sample size are under the age of 16, which contributes to almost 30 percent of the sample population. 67 percent of the households have 3 or less than three children.

Children under 16

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	20	2.5	25.0	25.0
2	16	2.0	20.0	45.0
3	18	2.3	22.5	67.5
4	12	1.5	15.0	82.5
5	7	.9	8.8	91.3
6	4	.5	5.0	96.3
7	3	.4	3.8	100.0
Total	80	10.2	100.0	
Missing System	707	89.8		
Total	787	100.0		

Table 5 Number of children below 16

Below graph shows the percentage of children below age 16:

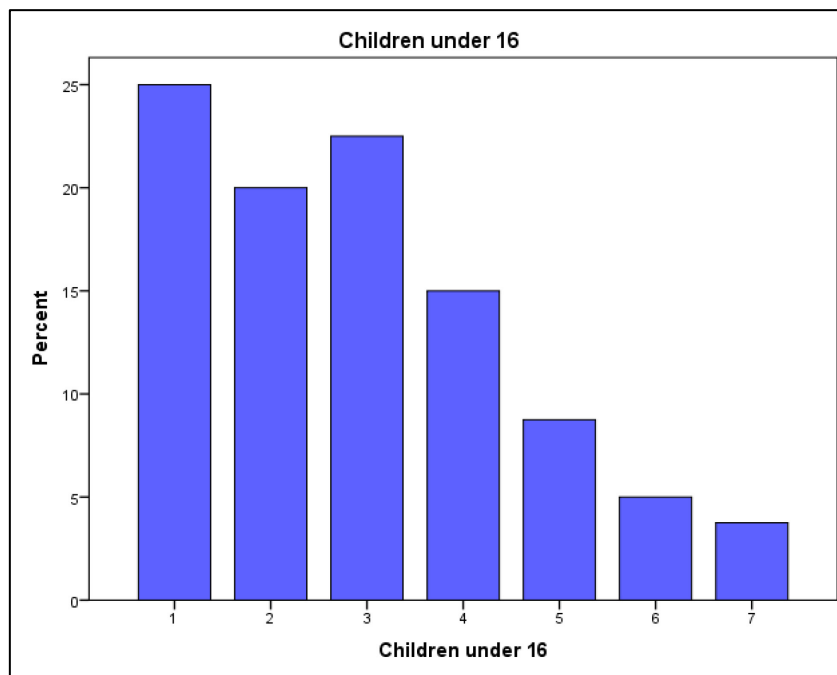


Figure 15 number of children below 16

Section II: Income inequality

The main part of this study is to assess income distribution across sampled households. The data is used to test if there is a significant variance in the distribution of income. The distribution of income is examined through the application of statistic methods. In some cases, correlation methods are used to measure the extent of the relationship.

Average income is compared with the distribution of income to find the difference in income of a household concerning an overall average. Even if the average income is not the best method to observe the difference in income levels, especially when data is asymmetrically distributed, a full statistic table would accompany most of the analysis to provide detailed statistics for better comparison and understanding. In some cases, a one-way ANOVA test is used to determine the level of significance.

Income quartiles are used to distinguish income distribution in quartiles. Quartiles would be used throughout the analysis to see the relationship of income distribution concerning other determining factors, such as level of education, household expenditure, and other economic well-being indicators.

It is worth mentioning that income here is defined as a reward to the factor of production of labor, the reward for providing mental and physical services.

Income is measured in terms of the Afghani currency labeled as [Afs]. The exchange rate at the time of the data analysis used 1 USD equals 68 Afghanis. The exchange rate has further deteriorated to 1 USD equal to 75 Afghanis, as of April 2019. All the income figures are reported in both Afs. and USD currency for easy comparison. However the exchange rate of 1 USD equals 68 is used for this report.

Household Income:

In the sampled population, the average family income (arithmetic mean) is 36,794 Afs. equivalent to (541 USD) per month. Meanwhile the lowest 50 percent of households (median) have an income up to 15,000 Afs. (220 USD) per month. If the given average for a household is compared with the median, we can conclude that about 50 percent of the households earn less than 50 percent of the average income. In other words, those who are in the bottom 50 percent of households, earn 50 percent less than the normal average income.

The standard deviation of household income shows a higher figure as compared to mean. It shows how much the income changes from the average, which is 58,142 Afs. (855 USD). The skewness of income, which measures if the normal distribution is skewed towards the tails, is 3.39 which is a significant figure. The same is true with Kurtosis of almost 14 points (3 being a normal distribution). As the below Histogram chart makes it visible, the income distribution has a positive skewness to the right side.

distribution of household income

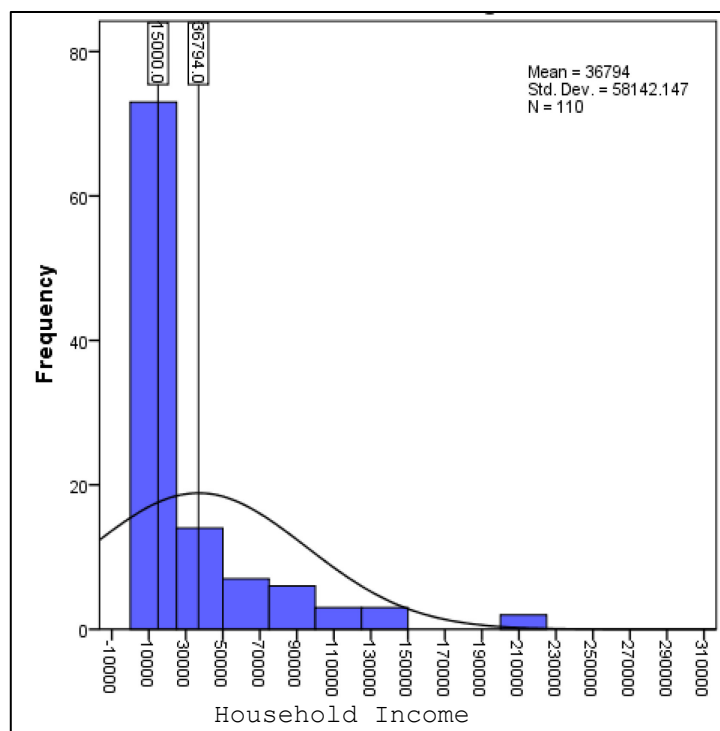


Figure 16 Distribution of Household income

The family size, and household income has been analyzed to measure if family size is correlated with the level of income a family may receive. Using the Pearson Correlation coefficient, although there is a positive relationship between family size and the level of income, this

relation is not significant ($r= 0.016$), using the T-test, this data is also not significant. R2 test indicates only a 0.06% dependency rate between family size and income of the household.

If the distribution of the income normally distributed, there would not be any difference between the average, median, and mode income of the household; which is not the case. The differences between mean and median are 21,794 Afs. (320 USD), the median is less than the mean value.

Below table presents descriptive statistics about income distribution:

Statistics

Household income

N	Valid	110
	Missing	0
Mean		55.00
Median		15000.00
Mode		0
Std. Deviation		58142.147
Skewness		3.393
Std. Error of Skewness		.230
Kurtosis		13.966
Std. Error of Kurtosis		.457
Minimum		0
Maximum		365000
Sum		4047340
Percentiles	25	8750.00
	50	15000.00
	75	38375.00

Table 6 Household income statistics

Since most of the analysis in the following part would be based on income, it is considered important to present the detailed distribution of income with their relative percentages. The below table indicates different levels of income and their both individual (Valid percentage) and cumulative percentage.

Household income frequency and percentage

	Frequency	Percent	Valid Percent	Cumulative Percent
0	9	8.2	8.2	8.2
3000	1	.9	.9	9.1
3190	1	.9	.9	10.0
5000	1	.9	.9	10.9
5500	2	1.8	1.8	12.7
5700	1	.9	.9	13.6
6000	3	2.7	2.7	16.4
6380	2	1.8	1.8	18.2
7000	1	.9	.9	19.1
7200	1	.9	.9	20.0
7500	2	1.8	1.8	21.8
7600	1	.9	.9	22.7
8000	2	1.8	1.8	24.5
9000	4	3.6	3.6	28.2
9100	1	.9	.9	29.1
9400	1	.9	.9	30.0
9500	2	1.8	1.8	31.8
9570	1	.9	.9	32.7
9600	2	1.8	1.8	34.5
9700	2	1.8	1.8	36.4
10000	7	6.4	6.4	42.7
10700	1	.9	.9	43.6
11100	1	.9	.9	44.5
11900	1	.9	.9	45.5
12000	1	.9	.9	46.4
13000	1	.9	.9	47.3
13500	1	.9	.9	48.2
15000	3	2.7	2.7	50.9
17000	2	1.8	1.8	52.7
18000	3	2.7	2.7	55.5
18700	1	.9	.9	56.4
19050	1	.9	.9	57.3
20000	3	2.7	2.7	60.0
21000	2	1.8	1.8	61.8
22000	3	2.7	2.7	64.5
23000	1	.9	.9	65.5
23700	1	.9	.9	66.4
25000	2	1.8	1.8	68.2
27000	1	.9	.9	69.1
28000	1	.9	.9	70.0
30000	2	1.8	1.8	71.8

33500	1	.9	.9	72.7
35000	1	.9	.9	73.6
37000	1	.9	.9	74.5
37500	1	.9	.9	75.5
41000	1	.9	.9	76.4
41470	1	.9	.9	77.3
42000	1	.9	.9	78.2
48000	1	.9	.9	79.1
50000	1	.9	.9	80.0
53000	1	.9	.9	80.9
55000	1	.9	.9	81.8
56000	1	.9	.9	82.7
68000	1	.9	.9	83.6
70000	1	.9	.9	84.5
73000	1	.9	.9	85.5
76000	1	.9	.9	86.4
80000	1	.9	.9	87.3
89000	1	.9	.9	88.2
91000	1	.9	.9	89.1
91600	1	.9	.9	90.0
93000	1	.9	.9	90.9
114000	1	.9	.9	91.8
115000	1	.9	.9	92.7
120000	1	.9	.9	93.6
132000	1	.9	.9	94.5
142500	1	.9	.9	95.5
148000	1	.9	.9	96.4
200000	1	.9	.9	97.3
204000	1	.9	.9	98.2
320000	1	.9	.9	99.1
365000	1	.9	.9	100.0
Total	110	100.0	100.0	

Table 7 Distribution of Household income - frequencies

Income Quartiles:

One main tool to understand the distribution of income in the sampled household is through the plot-box whisker method. Using this tool, the income of sampled households is distributed in four quartiles namely the first quartile (lowest 25 percent), second quartile, (between 25 to 50 percent), third quartile (50 to 75 percent) and fourth quartile (75 to 100 percent).

Households which are in the first quartile earns an income of 8750 Afs. (128 USD). Those families which are in the second quartile have an income from 8750 Afs. to 15000 Afs. (220 USD). In the third quartile, income raises to 38375 Afs. (564 USD). The fourth quartile is estimated at around 80,000 Afs. (1176 USD) per month.

Below graph shows income distribution in quartiles:

Distribution of income in quartiles

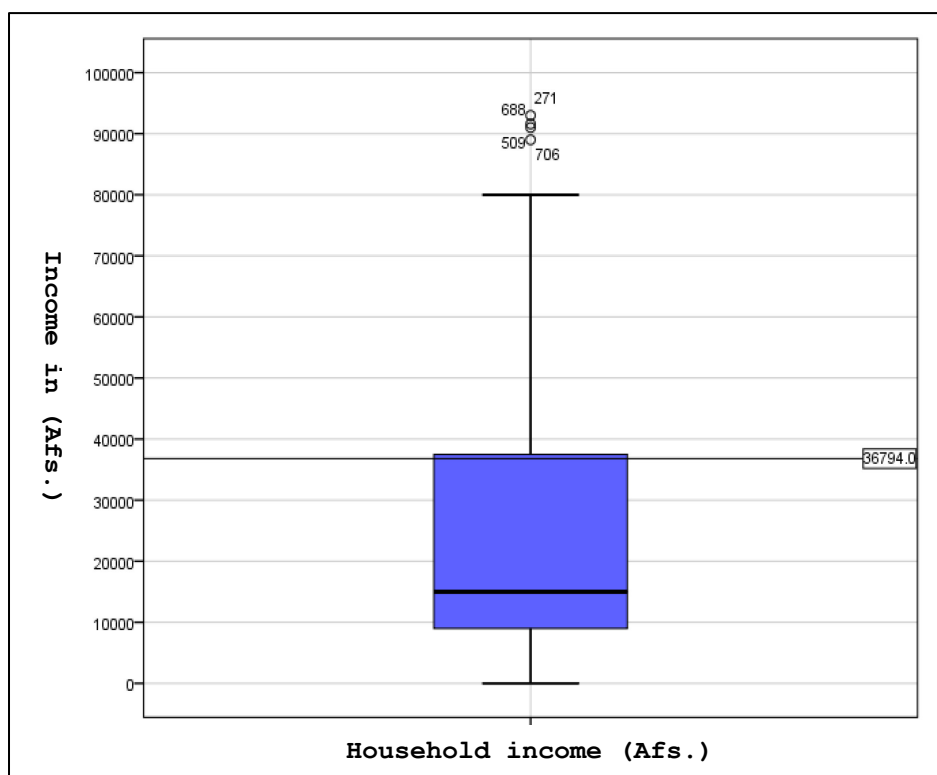


Figure 17 income quartiles

The difference in income between quartiles is relatively large. Moving from the first quartile to second, the income change is 71 percent, 6,250 Afs. (92 USD) taking the first quartile as a base. From the second quarter to the third, the difference is 23,375 Afs. (343 USD) or 156 percent times more than the lowest 2nd quartile. The difference between the third and fourth quartile is 41,625 Afs. (612 USD) or 108 percent times more than the lowest 3rd quartile.

Income percentile

Income percentile describes different percentages of income distribution in sample size. As the below table indicates, the lowest 1 and even 5 percent have no income at all, given that some households are unemployed in the sample size. At the lowest 10 percent, the income is 3,371 Afs. (50 USD) per month. 25 percent of households earn up to 8,750 Afs. (128 USD), 50 percent up to 15,000 Afs. (220 USD), and 75 percent up to 38,375 Afs. (564 USD) per month. At the 90 percent however, the income level jumps to 92,860 Afs. (1,365 USD) and at 95 percent, the income reaches up to 144,975 Afs. (2,131 USD). The top 1 percent of households in sample size earns an income of 360,050Afs. (5,295 USD) per month. comparing the income of the lowest 10 percent to upper 1 percent, shows a difference of almost 100 times.

Given the above data, it is not possible to compare the lowest 1 and 5 percent with the upper 1 and 95 percent, since the income of lower percentages is zero. The income starts at the lowest 10 percent, and at this level, the income is 3,371 Afs. Comparing it with the upper 90 percent of household income, which is 92,860 Afs. prevails that the income of 90 percent household is 26 times more from the lowest 10 percent. The lowest 10 percent receives only 3.6 percent of the income of the upper 90 percent.

Percentiles Statistics

Household income		
N	Valid	110
	Missing	0
Percentiles	1	.00
	5	.00
	10	3371.00
	25	8750.00
	50	15000.00
	75	38375.00
	90	92860.00
	95	144975.00
	99	360050.00

Table 8 household income in percentile

Income inequality by gender

In the sampled population, most of the household income earners are male members than female. Female employment, as compared to males, is relatively low. 146 males and only 29 females are employed, which shows that female contributes 16 percent of the employed members in the sample size. For every 5 employed males, there is only 1 female as employed. Female unemployment contributes both to lower income for the household as a whole; and it is considered as an economic waste of resources, since their labor services are not being utilized for the economic growth of the country.

Majority of female are either employed as a teacher or in some cases in other public or private jobs. Their contribution in terms of earning, as well as influence on the overall economic matters of the household is limited. Females usually do not have enough economic freedom, since money is earned by the male member of the household. As the below graph shows, female employment and income frequencies are much less than male counterparts.

Distribution of income based on gender

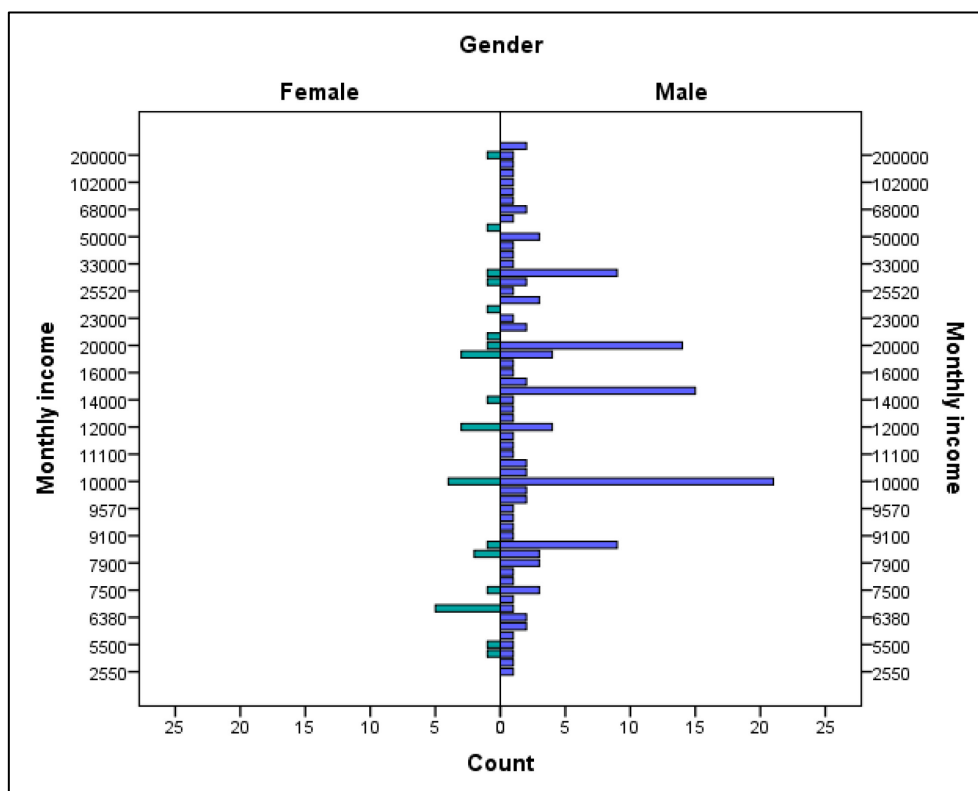


Figure 18 income distribution by gender

Comparing the statistics of income based on gender, there is a difference of 3,909 Af. (57 USD) per month on average between male and female monthly income. A similar trend is visible in median and mode values with a difference of around 3000 Af. (44 USD) less income

for female employed members of the household. Comparing the quartile data, a similar trend is visible for both gender, with females having lower values.

Statistics

Monthly income Male

N	Valid	146
	Missing	275
Mean		24612.60
Median		13750.00
Mode		10000
Minimum		2550
Maximum		300000
Percentiles	25	9600.00
	50	13750.00
	75	20000.00

Table 9 monthly income - male

Statistics

Monthly income Female

N	Valid	29
	Missing	277
Mean		20703.45
Median		10000.00
Mode		7000
Minimum		5000
Maximum		200000
Percentiles	25	7250.00
	50	10000.00
	75	19000.00

Table 10 monthly income - female

Income inequality by province

Please note that the below analysis is based on a relatively small sample size for both provinces (70 percent in Kabul and 30 Percent sample size from Nangarhar province), and may not be a good representative for comparison. Especially, not high-income families are being interviewed in Nangahar province. Though this analysis may give an inside into rural-urban differences in the household’s income.

Inequality has a regional and geographical aspect in Afghanistan. The divide between rural and urban areas has been widespread in terms of poverty, unemployment, and overall living conditions. One visible outcome of such a divide is seen by the rapid rural-urban migration,

mostly among the young generation, who are in search of a better and prosperous life in Kabul and other bigger cities across the country.

Since this survey covered both urban areas in Kabul and rural areas in Nangarhar province, the divide is visible in the household income. Families living in rural areas of Nangarhar province are having lower income as compared to those in Kabul.

Given that the sample is not that representative, even those who are in the lower-income level are high in numbers in Nangarhar as in Kabul. Below graph present the difference in income in both provinces:

Distribution of income in Kabul and Nangarhar provinces

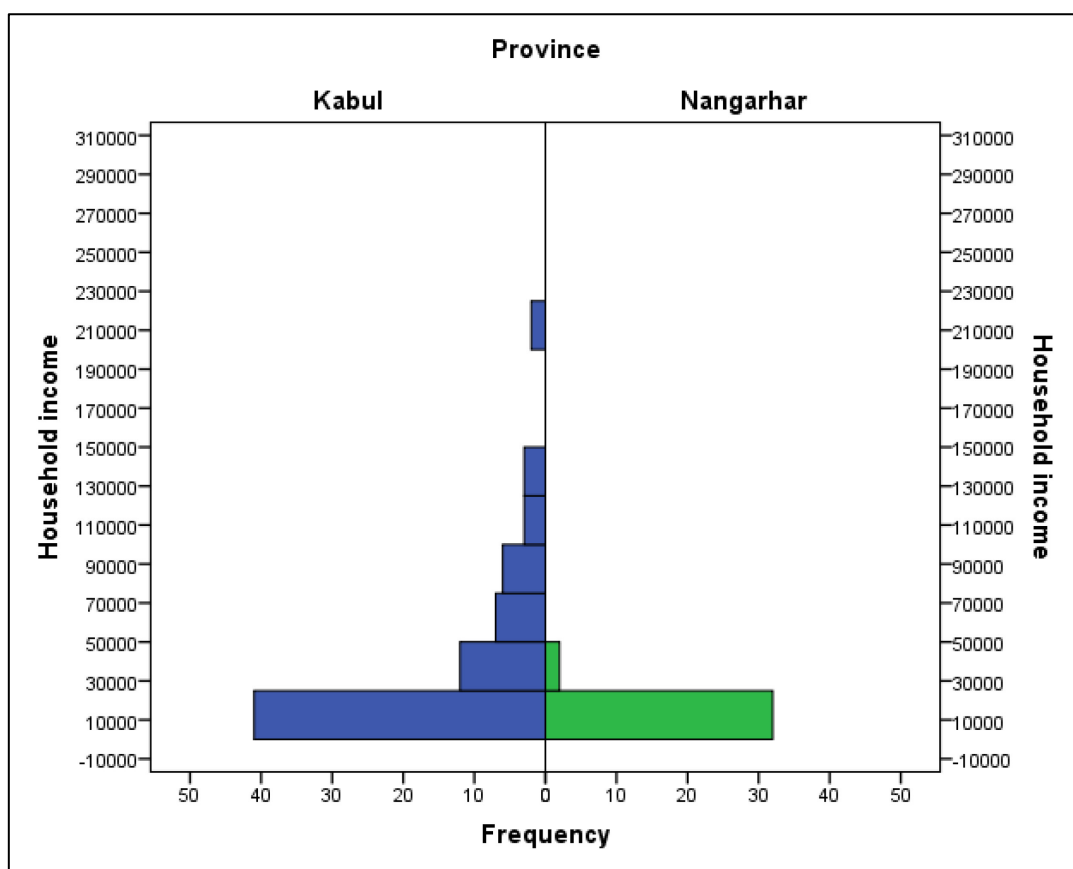


Figure 19 income distribution in Kabul and Nangarhar

As the below table indicates, the average income only in Kabul province is 48,584 Afs. (714 USD) per month, while in Nangarhar it is 10,439 Afs. (153 USD) given the sample size of 76 in Kabul and 34 in Nangarhar Province. These average differences in monthly income is about 4.5 times higher in Kabul as compared to Nangarhar. 50 percent of the population in Kabul has an income of 22,000 Afs. (323 USD) while this amount is 9,535 Afs. (140 USD) in Nangarhar.

Report

Household income by province

Province	N	Mean	Median	Std. Deviation
Kabul	76	48584.21	22000.00	66487.394
Nangarhar	34	10439.41	9535.00	9133.054
Total	110	36794.00	15000.00	58142.147

Table 11 household income in provinces

Individual Income:

There is a joint family structure in Afghanistan, and family members do share their income and expenditure. Below, the data about individual income is presented to observe any difference between household and individual levels of analysis. Here, statistics are all about individuals regardless of how their family might be structured.

22 percent (175 individuals) of household members in the sample size out of 787 has an income. The remaining 78 percent of individuals are either a child or a dependent member of the family or unemployed. This shows a higher rate of dependency rate for each employed individual in a household. These 22 percent employed individuals could be the only working member of the household, or one or two other members might be working from the same household.

On average, an individual earns 23,964 Afs. (352 USD) per month. the median value lays very low from the average income, at 12,000 (176USD) Afs. per month. That means that 50% of the individuals earn 12,000 Afs per month, which is 50 percent lower than average income. Similar results have been found for the difference between mean and median for household as a unit of analysis. This shows that income inequality at the individual levels of analysis also exists.

This finding is key in understanding how unequal the income in Afghanistan is distributed. 50% percent of the individuals employed received 12,000 Afs per month, while the average income is double the amount of the income of the lower 50% individuals. It means that on average, the lowest 50% of individuals receive 50% less income than the normal average income of individuals.

The fact that there is income inequality is supported by the standard deviation figure of 40,291 Afs. (592 USD). It means that the average income could vary by plus-minus 40,291 Afs. from the average of 23,964 Afs. (352 USD) per month, which is relatively high. So, an income would normally fall between 64,255 Afs. (944 USD), (average plus standard deviation), and 16,327

Afs. (240 USD) (average minus standard deviation) for an individual. It shows that income is very dispersed in the sample size.

The most repetitive monthly salary per month is 10,000 Afs (147 USD). 14 percent of respondents have the same salary of 10,000 Afs. per month. The minimum salary recorded is 2,550 Afs. (37 USD) and the highest as 300,000 (4,411 USD). The lowest case refers to Zeinudin, who is 18 years old and besides school, learns mechanic as an apprenticeship in a mechanic shop in Nangarhar province. He is a member of the household, and other members of the household also work and have an income. In the case of 300,000 income, there are two cases. In one the head of the household is illiterate and has a private business (business in Stone selling/exporting). In the second case, the head of the household is a military General in the army of Afghanistan. Both of these cases are in Kabul province.

All 175 individuals have a cumulative income of 4,193,840 (61,674 USD) in a month. This survey could be seen as how an income of that amount is being distributed among individuals, and later in household units in a month.

Below table shows statistics about individual income:

Individual income Statistics

Monthly income

N	Valid	175
	Missing	612
Mean		23964.80
Median		12000.00
Mode		10000
Std. Deviation		40291.009
Variance		1623365421.655
Skewness		5.014
Std. Error of Skewness		.184
Kurtosis		28.323
Std. Error of Kurtosis		.365
Range		297450
Minimum		2550

Maximum	300000
Sum	4193840

Figure 20 individual income statistics summary

The detailed income, frequency and percentage is given in the table below:

Individual Monthly income

Income in Afs. Per month	Frequency	Percent	Valid Percent	Cumulative Percent
2550	1	.1	.6	.6
3190	1	.1	.6	1.1
5000	2	.3	1.1	2.3
5500	2	.3	1.1	3.4
5700	1	.1	.6	4.0
6000	2	.3	1.1	5.1
6380	2	.3	1.1	6.3
7000	6	.8	3.4	9.7
7200	1	.1	.6	10.3
7500	4	.5	2.3	12.6
7600	1	.1	.6	13.1
7650	1	.1	.6	13.7
7900	3	.4	1.7	15.4
8000	5	.6	2.9	18.3
9000	10	1.3	5.7	24.0
9100	1	.1	.6	24.6
9400	1	.1	.6	25.1
9500	1	.1	.6	25.7
9570	1	.1	.6	26.3
9600	2	.3	1.1	27.4
9700	2	.3	1.1	28.6
10000	25	3.2	14.3	42.9
10500	2	.3	1.1	44.0
10700	2	.3	1.1	45.1
11100	1	.1	.6	45.7
11400	1	.1	.6	46.3

11900	1	.1	.6	46.9
12000	7	.9	4.0	50.9
13000	1	.1	.6	51.4
13500	1	.1	.6	52.0
14000	2	.3	1.1	53.1
15000	15	1.9	8.6	61.7
15950	2	.3	1.1	62.9
16000	1	.1	.6	63.4
17000	1	.1	.6	64.0
18000	7	.9	4.0	68.0
20000	15	1.9	8.6	76.6
20400	1	.1	.6	77.1
21000	2	.3	1.1	78.3
23000	1	.1	.6	78.9
24000	1	.1	.6	79.4
25000	3	.4	1.7	81.1
25520	1	.1	.6	81.7
28000	3	.4	1.7	83.4
30000	10	1.3	5.7	89.1
33000	1	.1	.6	89.7
35000	1	.1	.6	90.3
45000	1	.1	.6	90.9
50000	3	.4	1.7	92.6
56000	1	.1	.6	93.1
61200	1	.1	.6	93.7
68000	2	.3	1.1	94.9
70000	1	.1	.6	95.4
80000	1	.1	.6	96.0
102000	1	.1	.6	96.6
134000	1	.1	.6	97.1
135000	1	.1	.6	97.7
200000	2	.3	1.1	98.9
300000	2	.3	1.1	100.0
Total	175	22.2	100.0	
Missing	0	6	.8	

System	606	77.0	
Total	612	77.8	
Total	787	100.0	

Figure 21 individual income statistics details

The below chart presents the descriptive statistics of individual income:

Individual income distribution

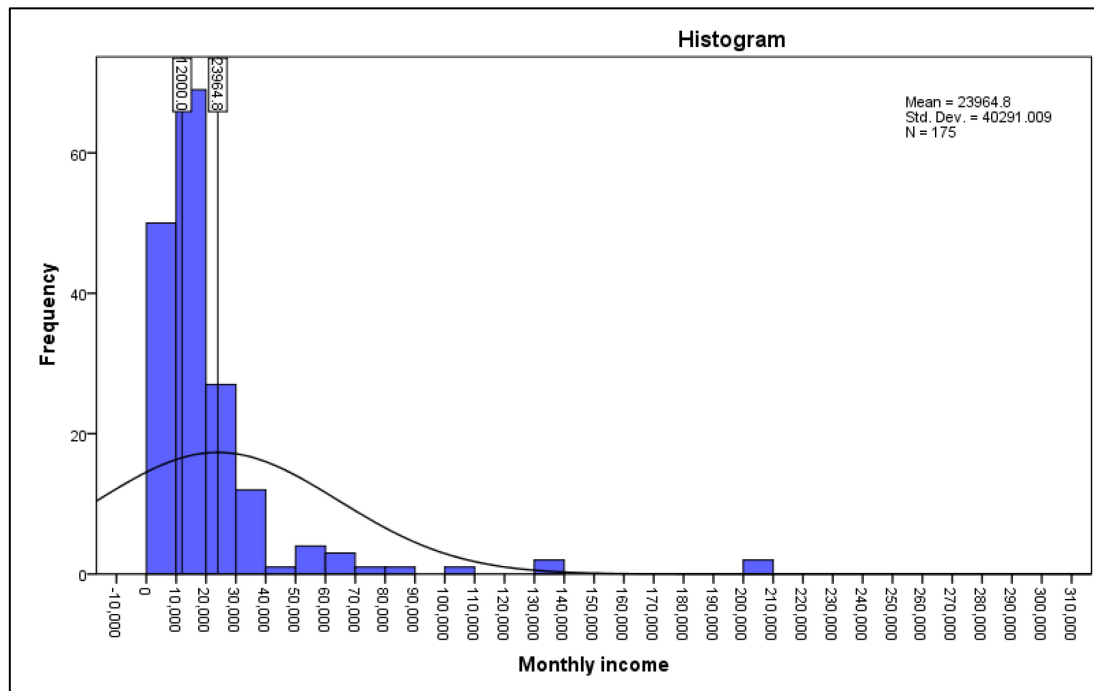


Figure 22 Distribution of individual income

The above graph shows the normal distribution curve which is skewed to the right side. Meaning that more of the sample size individuals earn less, and few of the individual earns much as their income. Also, the line indicating average (23,964 Afs) lies to the right of the median line (12,000 Afs) confirming an abnormal distribution of the income, skewed to the right. Both these statistics confirm that income is unequally distributed.

The below graph shows only the percentage of individuals having different levels of income. As stated above 14 percent of individuals have an income of 10,000 per month.

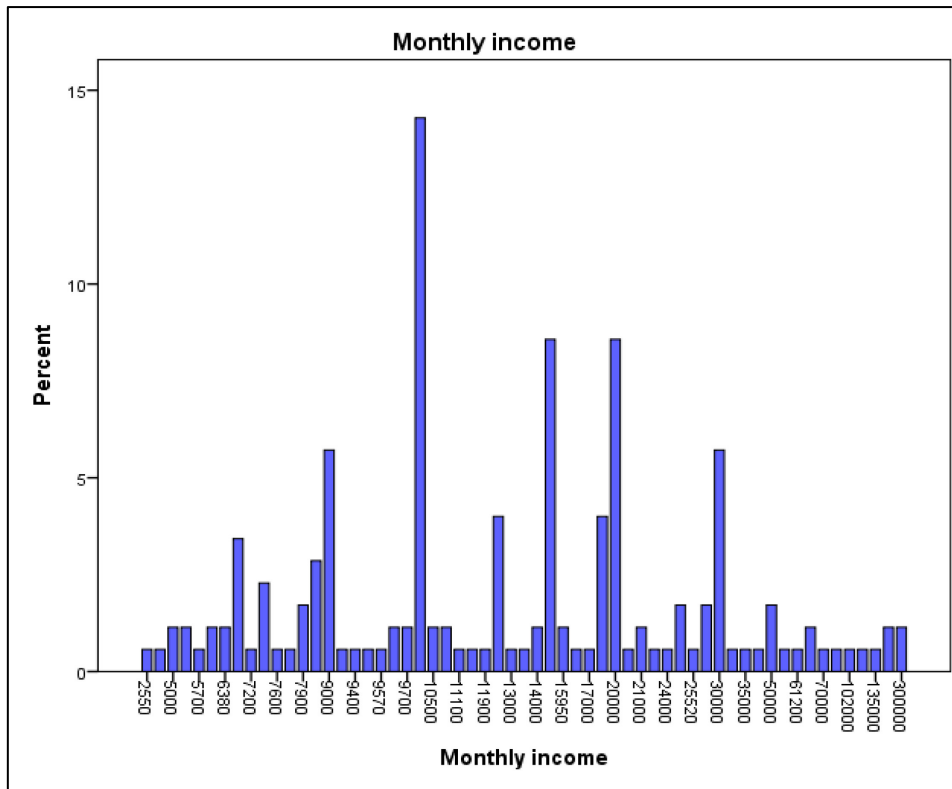


Figure 23 Individual members income in percentage

Based on the above analysis, several conclusions could be drawn:

- 50 percent of households earn less than 25 percent of the total income.
- 25 percent of the household earns 50 percent of total income.
- 25 percent of household has the equal income as of the remaining 75 percent.
- 25 percent of households have an income above average.
- The difference between the income of the first quartile and fourth quartile is almost 9 times.

Below diagram depicts the conclusion:

Income to population ratio

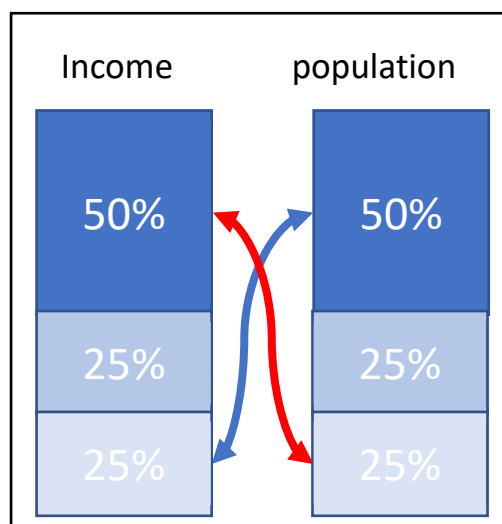


Figure 24 income to population ratio

Section III: Poverty rate

Gini Coefficient

The below graph represents the Gini Index and Robin Hood Index for the income inequality of the sampled population. The graph has been produced using the online calculation available at: <http://www.peterrosenmai.com/lorenz-curve-graphing-tool-and-gini-coefficient-calculator> [accessed on 26.01.2018].

The Gini index has a value from 0 indicating a perfect income equality to 100 showing a perfect income inequality. The 45-degree line in the below graph shows the line for perfect income equality. On the Y axes, income percentages are plotted, and on the X axes, the population is presented. The curved line below the 45-degree line represents the Lorenz curve for the sampled data. Each point on the curved line represents how much income is earned by what percentage of the population.

As it is visible from that chart, there is a large difference between the 45-degree line and curved line indicating income inequality in sampled data. The calculated Gini index is 62.70 (equivalent to a Gini Coefficient of 0.62) for the sampled population, indicating a high level of inequality. Using a different method, the Gini index is calculated at 64.54 points.

Different percentages of income received by different population provides more detailed information about such inequality. The poorest 10 percent receives 0.28 percent of total income and the lowest 20 percent of the population receives 1.99 percent of the total income of the sampled population. The lowest quartile, (25 % of the poorest) earns 3.2 percent of total income. The poorest 50 percent receive 10 percent of the total income. as we move towards higher income levels, 75 percent, or the second-lowest quartile of the population receives 26 percent of income. we can also say that the top 25 percent of the population receives 74 percent of income.

The lowest 90 percent of the population receives 54 percent of income. this statement could be re-written in a way that the top 10 percent of the population receives 46 percent of the total income. 95 percent of the lowest population earns 69 percent of income. re-stating this, would provide the detail that the top 5 percent of the population receives 31 percent of total income. the lowest 99 percent of the population receives 90 percent of income. the top 1 percent of the rich receive 10 percent of the total income.

Robin Hood Index, which is another measure for income inequality has the same range from 0 (perfect equality) to 100 (perfect inequality). It measures the maximum distance between the Lorenz curve and the normal equality curve. It shows the amount of income that should be taken from the rich and given to the poor so that the income would be quality distributed. As it is shown in the graph, the Robin Hood index of the sampled population is 48.4. which is a considerable high figure.

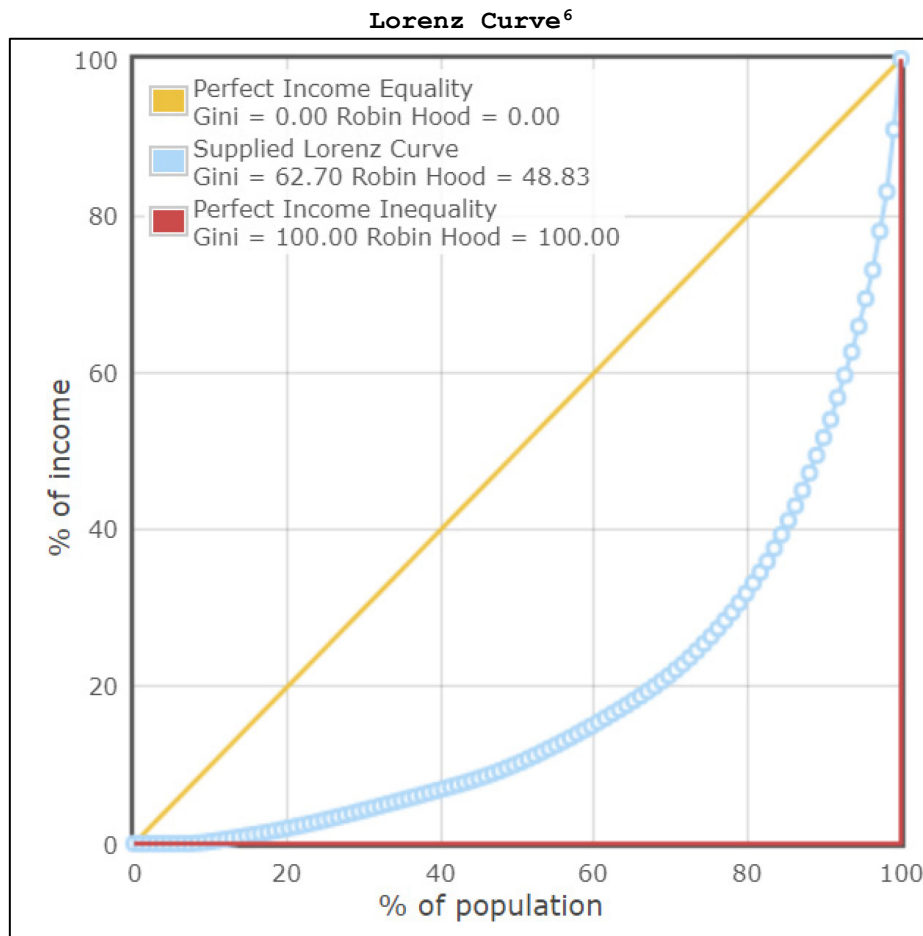


Figure 25 Lorenz Curve, Robin Hood Index

⁶ Used online calculator from website: <http://www.peterrosenmai.com/lorenz-curve-graphing-tool-and-gini-coefficient-calculator>

Poverty rate Estimation

The poverty rate is normally being calculated at the national level and by using different methods. Here, the poverty rate is estimated for the sampled population, using some of the basic and general methods of poverty estimation. These rates however should not be generalized for the whole population. Though national-level surveys such as ALCS have recently reported 55 percent of poverty rate in the country during 2016-17, the same period as this survey was conducted in the field. The results of this study could be compared with the national level to have a holistic as well as deep understanding of poverty.

International Poverty Line, The Income Method:

The World Bank calculates and sets the International Poverty Line. Since the World Development Report 1990, one dollar was considered as the poverty line. The calculation is based on the prices of goods and services in terms of Purchasing Power Party (PPP). As the rate of PPP changes over time, the new poverty line is introduced after several years. The one dollar a day poverty line used PPP of 1985. In 1993, the poverty line was increased to 1.25 Dollars a day based on changes in PPP, and later in 2005, to 1.25 Dollars a day. The poverty line is set to 1.90 since October 2015 based on the PPP of 2011 (Francisco Ferreira; Dean Mitchell Jolliffe; Espen Beer Prydz, 2018).

The survey collected data about household income and family size. Using the World Bank's International threshold of 1.90 USD per day as the poverty rate, the poverty rate is estimated for the sampled population. The household income is divided by the total family size, and then adjusted from monthly to daily income. The amount is later converted into USD amount from Afghani currency using the prevailing exchange rate of 2017 (1 USD=68 Afs.). Results show that about 66 percent of individuals have an income below the rate of 1.90 USD per day. By using the 1.25 USD per day as a threshold, the poverty rate is approximately 52 percent.

The below table provides the detailed amount of income per member of the household. Taking the threshold of 1.90 USD per day would start from the cumulative percentage of 66 percent. Taking the 1.25 USD per day as a measure of poverty, the poverty rate [cumulative percentage in the table below] is 52 percent. Note that this calculation is not based on the working population, but includes all members of the family including children, dependent members, and elders.

Individual daily income rate in USD

USD/Day	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .00	9	8.2	8.2	8.2
.16	1	.9	.9	9.1
.20	1	.9	.9	10.0
.22	1	.9	.9	10.9
.30	1	.9	.9	11.8
.31	1	.9	.9	12.7
.31	1	.9	.9	13.6
.33	1	.9	.9	14.5
.34	1	.9	.9	15.5
.37	1	.9	.9	16.4
.43	1	.9	.9	17.3
.45	1	.9	.9	18.2
.49	3	2.7	2.7	20.9
.52	1	.9	.9	21.8
.52	1	.9	.9	22.7
.55	1	.9	.9	23.6
.59	1	.9	.9	24.5
.59	1	.9	.9	25.5
.61	1	.9	.9	26.4
.62	1	.9	.9	27.3
.63	2	1.8	1.8	29.1
.64	1	.9	.9	30.0
.70	3	2.7	2.7	32.7
.71	1	.9	.9	33.6
.78	1	.9	.9	34.5
.80	1	.9	.9	35.5
.82	3	2.7	2.7	38.2
.83	1	.9	.9	39.1
.84	1	.9	.9	40.0
.87	1	.9	.9	40.9
.90	1	.9	.9	41.8
.92	1	.9	.9	42.7
.95	1	.9	.9	43.6
.98	3	2.7	2.7	46.4
1.09	1	.9	.9	47.3
1.15	1	.9	.9	48.2
1.16	1	.9	.9	49.1
1.17	1	.9	.9	50.0
1.23	2	1.8	1.8	51.8
1.29	1	.9	.9	52.7
1.32	1	.9	.9	53.6
1.39	2	1.8	1.8	55.5
1.47	1	.9	.9	56.4
1.53	1	.9	.9	57.3
1.55	1	.9	.9	58.2
1.61	1	.9	.9	59.1
1.72	1	.9	.9	60.0
1.76	2	1.8	1.8	61.8
1.80	2	1.8	1.8	63.6
1.83	1	.9	.9	64.5
1.84	1	.9	.9	65.5

1.85	1	.9	.9	66.4
1.96	1	.9	.9	67.3
2.21	1	.9	.9	68.2
2.35	1	.9	.9	69.1
2.45	5	4.5	4.5	73.6
2.64	1	.9	.9	74.5
2.70	1	.9	.9	75.5
2.72	1	.9	.9	76.4
2.94	1	.9	.9	77.3
3.02	1	.9	.9	78.2
3.04	1	.9	.9	79.1
3.06	1	.9	.9	80.0
3.43	1	.9	.9	80.9
3.73	2	1.8	1.8	82.7
4.33	1	.9	.9	83.6
4.46	1	.9	.9	84.5
4.58	1	.9	.9	85.5
4.76	1	.9	.9	86.4
5.15	1	.9	.9	87.3
5.35	1	.9	.9	88.2
5.60	1	.9	.9	89.1
5.96	1	.9	.9	90.0
6.41	1	.9	.9	90.9
7.05	1	.9	.9	91.8
8.06	1	.9	.9	92.7
8.17	1	.9	.9	93.6
8.73	1	.9	.9	94.5
10.00	1	.9	.9	95.5
11.64	1	.9	.9	96.4
12.94	1	.9	.9	97.3
17.43	1	.9	.9	98.2
19.88	1	.9	.9	99.1
32.68	1	.9	.9	100.0
Total	110	100.0	100.0	

Table 12 Individual income per day in USD

Consumption method

Another method of calculating the poverty rate is to determine the level of poverty by consumption of households. A household is considered poor, if they are not able to meet their basic needs, both food, non-food, and shelter. In the consumption method, there are two ways of estimating poverty:

A- Income minus expenditure Method:

this method abstracts total household income from their respective total household expenditure to find what percentage of household meets their basic needs from their income. one drawback of this method is that some households might not have a monthly income, but still they can pay for their household expenditure. These households may use other sources of financing such as

remittances, using past savings, or by obtaining loans from family and relatives. Therefore, such households are being excluded from this analysis.

According to the data, 54.2 percent of households are just able to meet their household expenditure from their household income. Households below the threshold of 54.2 percent are not able to meet their household expenditure, thus considered poor. the monthly expenditure of 44 percent of households exceeds their monthly income. as the below table indicates, only 56 percent of households can meet their household expenditure from their monthly income. On the other hand, only 44 percent of households can meet their household expenditure from their monthly income and have a surplus amount.

This result as compared to the estimation based on 1.90 USD per day per person shows a clear difference, though the overall rate around 54 percent is still prevalent. In the Income method, the unit of analysis used is individuals, however, in this method, households are the unit of analysis. Given the high rate of dependency rate and large family sizes, with children, calculating individual poverty rates may provide higher estimates as compared to the household as a unit of measurement. Other national surveys estimated poverty rate around 39 percent recently (Poverty Status Update, 2017).

Most of the poor households adjust their expenditure based on their income. In this case, where expenditure is adjusted to the income of the family, the poverty rate might be underestimated. since it is not easy for households to increase their income, they would rather cut on their expenditures as a coping mechanism. That would affect their nutrition, health, well-being, and overall standard of living negatively.

The below table indicates the frequency and percentages of the amount of money in Afs. after subtracting household total monthly expenditure from their respective total monthly income.

poverty level based on HH income minus expenditure

Income minus Expenditure in Afs.	Frequency	Percent	Valid Percent	Cumulative Percent
Valid -39300.00	1	.9	.9	.9
-36000.00	1	.9	.9	1.9
-28710.00	1	.9	.9	2.8
-27000.00	1	.9	.9	3.7
-25500.00	1	.9	.9	4.7
-22600.00	1	.9	.9	5.6
-18000.00	1	.9	.9	6.5
-17800.00	1	.9	.9	7.5
-14000.00	1	.9	.9	8.4
-12760.00	1	.9	.9	9.3

-12500.00	1	.9	.9	10.3
-12192.00	1	.9	.9	11.2
-12000.00	1	.9	.9	12.1
-11940.00	1	.9	.9	13.1
-10300.00	1	.9	.9	14.0
-10000.00	1	.9	.9	15.0
-9000.00	1	.9	.9	15.9
-8300.00	1	.9	.9	16.8
-8000.00	2	1.8	1.9	18.7
-7500.00	1	.9	.9	19.6
-7330.00	1	.9	.9	20.6
-7000.00	2	1.8	1.9	22.4
-6700.00	1	.9	.9	23.4
-6380.00	1	.9	.9	24.3
-5300.00	1	.9	.9	25.2
-5000.00	2	1.8	1.9	27.1
-3900.00	1	.9	.9	28.0
-3730.00	1	.9	.9	29.0
-3190.00	2	1.8	1.9	30.8
-3000.00	3	2.7	2.8	33.6
-2500.00	1	.9	.9	34.6
-2000.00	2	1.8	1.9	36.4
-1900.00	1	.9	.9	37.4
-1800.00	1	.9	.9	38.3
-1500.00	1	.9	.9	39.3
-1300.00	1	.9	.9	40.2
-1000.00	1	.9	.9	41.1
-500.00	1	.9	.9	42.1
-300.00	1	.9	.9	43.0
.00	12	10.9	11.2	54.2
1000.00	2	1.8	1.9	56.1
1500.00	1	.9	.9	57.0
1530.00	1	.9	.9	57.9
1950.00	1	.9	.9	58.9
2000.00	3	2.7	2.8	61.7
3000.00	4	3.6	3.7	65.4
3190.00	1	.9	.9	66.4
5000.00	2	1.8	1.9	68.2
5670.00	1	.9	.9	69.2
6000.00	1	.9	.9	70.1
7000.00	2	1.8	1.9	72.0
7500.00	1	.9	.9	72.9
10000.00	2	1.8	1.9	74.8
11000.00	1	.9	.9	75.7

13000.00	2	1.8	1.9	77.6
14000.00	1	.9	.9	78.5
16000.00	1	.9	.9	79.4
18000.00	1	.9	.9	80.4
20740.00	1	.9	.9	81.3
27000.00	1	.9	.9	82.2
30000.00	1	.9	.9	83.2
32000.00	1	.9	.9	84.1
40000.00	1	.9	.9	85.0
42000.00	1	.9	.9	86.0
45000.00	1	.9	.9	86.9
46000.00	1	.9	.9	87.9
51000.00	1	.9	.9	88.8
54000.00	1	.9	.9	89.7
62000.00	1	.9	.9	90.7
70000.00	1	.9	.9	91.6
72500.00	1	.9	.9	92.5
79360.00	1	.9	.9	93.5
90000.00	1	.9	.9	94.4
98000.00	1	.9	.9	95.3
109000.00	1	.9	.9	96.3
124000.00	1	.9	.9	97.2
146000.00	1	.9	.9	98.1
295000.00	1	.9	.9	99.1
310000.00	1	.9	.9	100.0
Total	107	97.3	100.0	
Missing System	3	2.7		
Total	110	100.0		

Table 13 Income minus expenditure - Poverty rate estimation

The below charts show the distribution of monthly income minus monthly expenditure of households in frequencies. It is visible that the majority of households are around the value of zero, indicating that their income and household expenditure are almost the same. One conclusion could be that they might be adjusting their household expenditure to their income, or that their income is just enough to meet their family expenditure.

In both cases, it applies that households are vulnerable to an economic shock. If their income is disturbed or the family faces and unforeseen economic shock, they are vulnerable to fall into poverty.

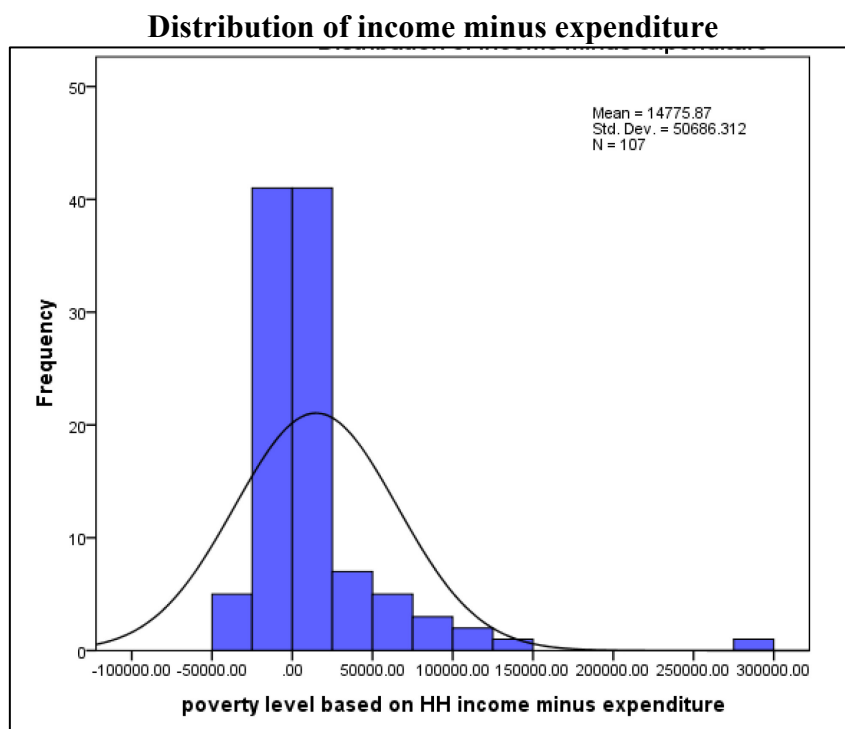


Figure 26 Distribution of income minus expenditure (Afs.)

B- Household expenditure Method:

In this method, households are explicitly asked if they can meet their basic food needs, non-food needs, and overall family expenditure. The below table shows the number of households who responded if they do not meet, partially meet, or do meet their family’s food needs.

18 percent of households are not able to meet their basic food needs using their monthly income. 32 percent are partially able to meet their basic needs. 50 percent of the sample size said that they can meet their basic food needs. with this data, the rate of poverty in the sample size is around 50 percent, which is still in the range of the calculated poverty rate by this study and other national surveys.

		Food needs			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	19	17.3	17.8	17.8
	Partially	34	30.9	31.8	49.5
	Yes	54	49.1	50.5	100.0
	Total	107	97.3	100.0	
Missing	System	3	2.7		
Total		110	100.0		

Table 14 Household meeting food needs

Conclusion:

The above few basic methods portrayed the extent of poverty in Afghanistan. While the sample size is too small to be generalized for the population, it provides a glimpse into poverty in the country. Meanwhile, different poverty estimation methods provide different but similar results. The poverty rate in the sampled population is estimated at around 50 percent in the case of the expenditure method, 54 percent in the case of income minus expenditure methods. Using the income method at 1.25 USD per day, the poverty rate is estimated at 52 percent, and using the 1.90 USD per day method, it is estimated at 66 percent.

This is in line with the results and findings of other national surveys which recently estimated the poverty rate at about 55 percent based on the data of 2016-17. In 2007, the poverty rate was estimated at 36 percent by the National Risk and Vulnerability Assessment (NRVA) in 2006-2007. However, the poverty rate increased drastically afterward. Data from the Afghanistan Living Conditions Survey (ALCS) of the Central Statistical Organization of Afghanistan shows an increase in the poverty rate from 36 percent in 2006-2007 to 55 percent in 2016-2017. While this study has only measured the poverty rate in 2017, the findings of this study are in line and comparable with the estimation of other national surveys conducted in the same period.

Section IV: Determinants of income inequality and Poverty

Education:

Education is considered one of the main determinants of income. In a country with a high rate of illiteracy, households which are headed by an educated member is less likely to suffer from poverty or severe living condition as compared to illiterate headed households. Educated family heads are most likely to have a formal job, which yields a relatively stable source of income. They also have a higher income as compared to less educated or illiterate household heads. 30 households, (27 percent) of the sampled households are illiterate. 26 percent of the household's head has either primary, secondary, or high school level of education. Also 30 households head (33 percent) have a bachelor's degree, only 3.6 percent have a master's degree. This diverse sample size is useful to measure the relationship between the level of education and household income.

Below table describes the education level of household heads in sample size:

Household head's Highest Education level

	Frequency	Percent	Valid Percent	Cumulative Percent
illiterate	30	27.3	27.3	27.3
Primary school	9	8.2	8.2	35.5
Secondary School	5	4.5	4.5	40.0
High school	15	13.6	13.6	53.6
Valid 14 Grade	2	1.8	1.8	55.5
Bachelor	36	32.7	32.7	88.2
Master	4	3.6	3.6	91.8
Doctor	1	.9	.9	92.7
Other	8	7.3	7.3	100.0
Total	110	100.0	100.0	

Table 15 level of education - Household head

Education and Household income:

There is a general perception, that education is key in mitigating the risk of poverty of a household. Households with uneducated household heads are more prone to poverty than those of educated ones. In this section, the relationship between household income (dependent variable) is compared with the household's head level of education (independent variable).

Based on average income comparison, there is a small difference between the average income of households which are headed by uneducated, high school, and bachelor's degree holders. the only difference is households who have a master's or doctoral degree has a higher average income than the rest of the sampled population. The below chart shows the average household income for different education level of household head.

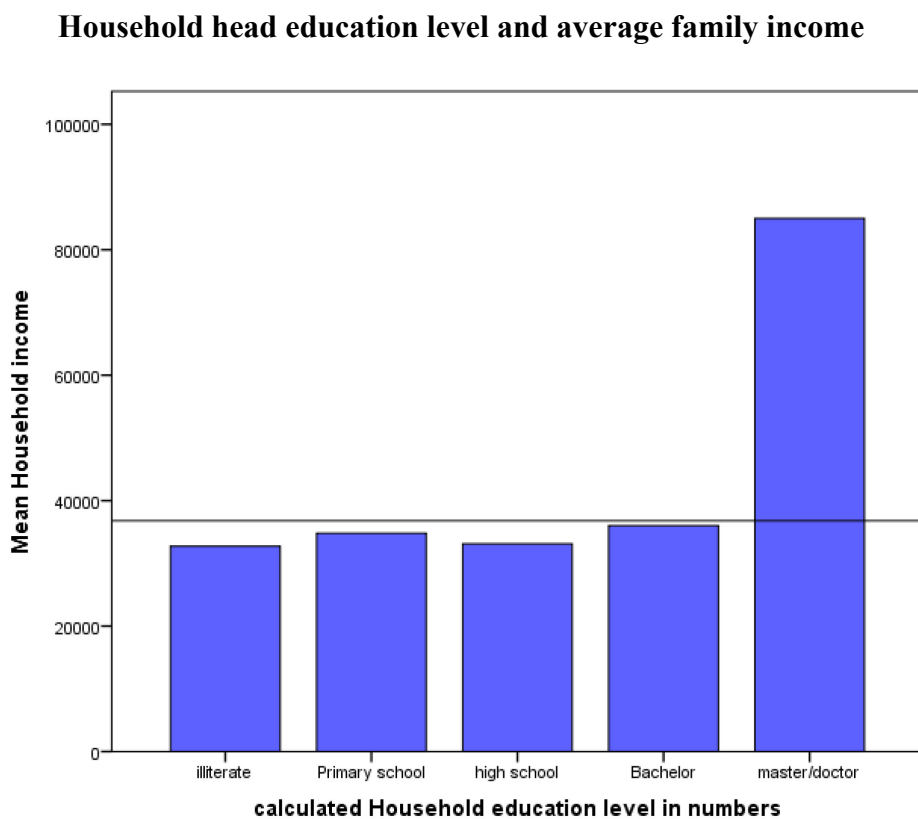


Figure 27 Household head education level and average income

While the above chart does not provide a clear positive relationship, the below methods provide a better picture of this relationship. The reason is that the average income method does not consider the variability in the data, while the median value points out the middle point of data, where 50 percent of data lies above, and 50 percent below of that median point. Boxplot bars have an advantage here since it shows the distribution in quartiles. Using the boxplot chart below, it is visible that uneducated household heads have an income below average than

educated household heads. The income of households headed by an uneducated person is way below the total average income of the sampled population. Those household heads which have either primary or high school level of education, has an income close to total average. On the other hand, a household headed by master and doctor receives income way above the total average. The below graph shows how household income differs for each level of household head education using boxplot bars.

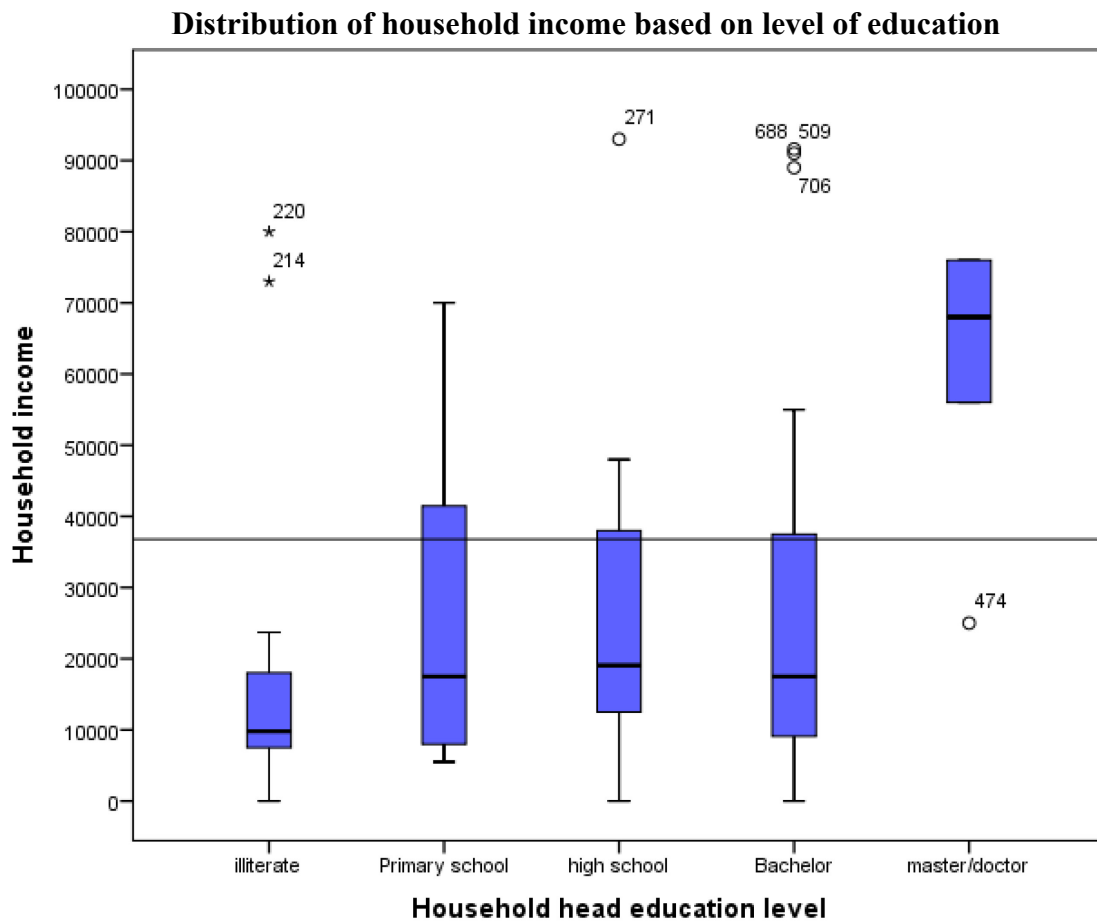


Figure 28 income distribution for level of education household head

It is visible from the above chart, that all four quartiles of illiterate headed households have a monthly income below the total average. In the case of primary, high school and bachelor's degree, households in the third quartile has the monthly income equal or above total average income. In the same category, households in the fourth quartile have an income above the total average. On the other hand, all four quartiles of the master and doctoral level headed households have an income above the total average income.

In the same way, the values of average income in each category is comparable with its median values, to highlight the inequality in the income. If the values of household average income for a different level of education is compared to the median, the huge difference is visible in these two figures. Illiterate household head has an average income of 32,728 Afs. (481 USD), while the median value for such household is 9,800 Afs. (144 USD). Household headed by “primary school” level of education, has an average income of 34,802 Afs. (511 USD), while the median income is 17500 Afs. (257 USD). “High school” graduate-level has an average income of 33,116 Afs. (487 USD) per month, and the median income of 19050 Afs. (280 USD). A bachelor’s degree household head has in average income of 36,010 Afs. (530 USD) and median income of 17500 Afs. (257 USD). However, a “Master or Doctor” level of education earns 85,000 Afs. (1,250 USD) with the median value of 68,000 Afs. (1000 USD) per month. The below table provides detailed statistics.

Distribution of income based on the level of education of household head

calculated Household education level		Statistic	Std. Error	
illiterate	Mean	32728.67	13473.240	
	95% Confidence Interval for Mean	Lower Bound	5172.80	
		Upper Bound	60284.54	
	5% Trimmed Mean	19068.89		
	Median	9800.00		
	Variance	5445845598.161		
	Std. Deviation	73795.973		
	Minimum	0		
	Maximum	365000		
	Range	365000		
	Interquartile Range	11625		
	Skewness	3.817	.427	
Kurtosis	15.352	.833		
Primary school	Mean	34802.14	10514.517	
	95% Confidence Interval for Mean	Lower Bound	12086.91	
		Upper Bound	57517.38	

	5% Trimmed Mean		31696.83	
	Median		17500.00	
	Variance		1547770895.055	
	Std. Deviation		39341.720	
	Minimum		5500	
	Maximum		120000	
	Range		114500	
	Interquartile Range		41008	
	Skewness		1.538	.597
	Kurtosis		1.226	1.154
high school	Mean		33116.67	10118.980
	95% Confidence Interval for Mean	Lower Bound	11413.61	
		Upper Bound	54819.72	
	5% Trimmed Mean		28574.07	
	Median		19050.00	
	Variance		1535906309.524	
	Std. Deviation		39190.641	
	Minimum		0	
	Maximum		148000	
	Range		148000	
	Interquartile Range		29000	
	Skewness		2.227	.580
	Kurtosis		5.079	1.121
Bachelor	Mean		36010.87	8179.295
	95% Confidence Interval for Mean	Lower Bound	19536.92	
		Upper Bound	52484.81	
	5% Trimmed Mean		27884.06	
	Median		17500.00	
	Variance		3077439657.005	

	Std. Deviation	55474.676	
	Minimum	0	
	Maximum	320000	
	Range	320000	
	Interquartile Range	29550	
	Skewness	3.449	.350
	Kurtosis	15.024	.688
master/doctor	Mean	85000.00	30029.985
	95% Confidence Interval for Mean	Lower Bound	1623.40
		Upper Bound	168376.60
	5% Trimmed Mean	81944.44	
	Median	68000.00	
	Variance	4509000000.000	
	Std. Deviation	67149.088	
	Minimum	25000	
	Maximum	200000	
	Range	175000	
	Interquartile Range	97500	
	Skewness	1.754	.913
	Kurtosis	3.599	2.000

Table 16 Household head level of education and income

There is a clear difference in median income of illiterate headed household, and those who are educated. The median income rises with the level of education.

ANOVA test of significance

Using the One Way ANOVA test of significance, there is no significant difference between the household head's education and household income. the level of significance is above p-value of 0.05, (.0459)

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12401498359.068	4	3100374589.767	.914	.459
Within Groups	356074016880.932	105	3391181113.152		
Total	368475515240.000	109			

Table 17 One-way ANOVA, Household head level of education and Household income

Testing for linearity, there is no significant linear association between the independent variable of education, and the dependent variable of household income ($R=0.123$).

Measures of Association

	R	R Squared	Eta	Eta Squared
Monthly income * new education category calculated	.123	.015	.283	.080

Table 18 measure of association between level of education and household income

Conclusion:

This model assumes that the income of the family is what the head of the household earns. This might be a weak assumption, since the head of the household is not necessarily the same person who earns the most of income for the family. Alternatively, there might be other members of the family who substantially contribute to the income of households. Therefore, the result at the household level did not find a significant result between education and income.

There is no significant difference between the household head level of education and household income in the sampled population. Comparing the average income of different levels of education shows a very small difference among illiterate, high school, and even bachelor's

degree holders. Only master and doctor level of education has a considerable high average income.

However, the distribution of income across these groups - which is visible from the boxplot model, shows a clear difference between income and level of education. Illiterate headed households have an income below total average income, high school graduate and bachelor's degree holders have an average income, and those with master and doctoral degrees earn above average income.

Comparing median values also depicts the difference in income of these households, which is an alternative way of measuring the difference in income in contrast to average values. The median income of high school graduates is more than twice as of those who are illiterate, those who have a master or doctoral degree have a median income of more than 5 times of those who are illiterate.

The one-way ANVOA test did not find any significant difference between the average income of different education levels. it is mainly because the mean difference between groups is much higher, than the difference within groups. In simple words, the income varies too much in each group of levels of education, as compared to the difference between groups of the education. for example, an illiterate person could earn as high as of those who are well-educated, and therefore the results are not significant using ANOVA.

Individual Level of Education and income:

A further analysis is presented below, which shows the effect of the individual level of education on his/her income. This analysis is different from the household head and the household income, because the united of analysis here is individuals, as compared to households, which was presented above. this analysis would help to directly measure the effect of education on income at the individual level.

There is an increasing trend in the level of income, as an individual's level of education increases. Those, who have at least a high school certificate or bachelor have more income than those who have not studied or only studied primary to secondary level of school. The income of master and doctor level of education is well above the total average, which is similar to the findings of the household's head level of analysis.

An illiterate individual in the sample size has a monthly income of 24,045 Afs. (353 USD) on average. The median income for them is 10000 Afs. (147 USD). Primary and secondary level of education has an average income of 13,410 Afs. (197 USD) per month with a median value of 10000 Afs. (147 USD) the same as an illiterate individual. High school graduate has an average income of 17,964 Afs. (264 USD) and a median of 15000 Afs. (220 USD). If we compare the mean values, high school graduates (264 USD) earn less than those who are illiterate (353 USD). The story changes if we compare median values. high school graduate (220 USD) earns 50 percent more than the illiterate one (147 USD).

Individual education and average income

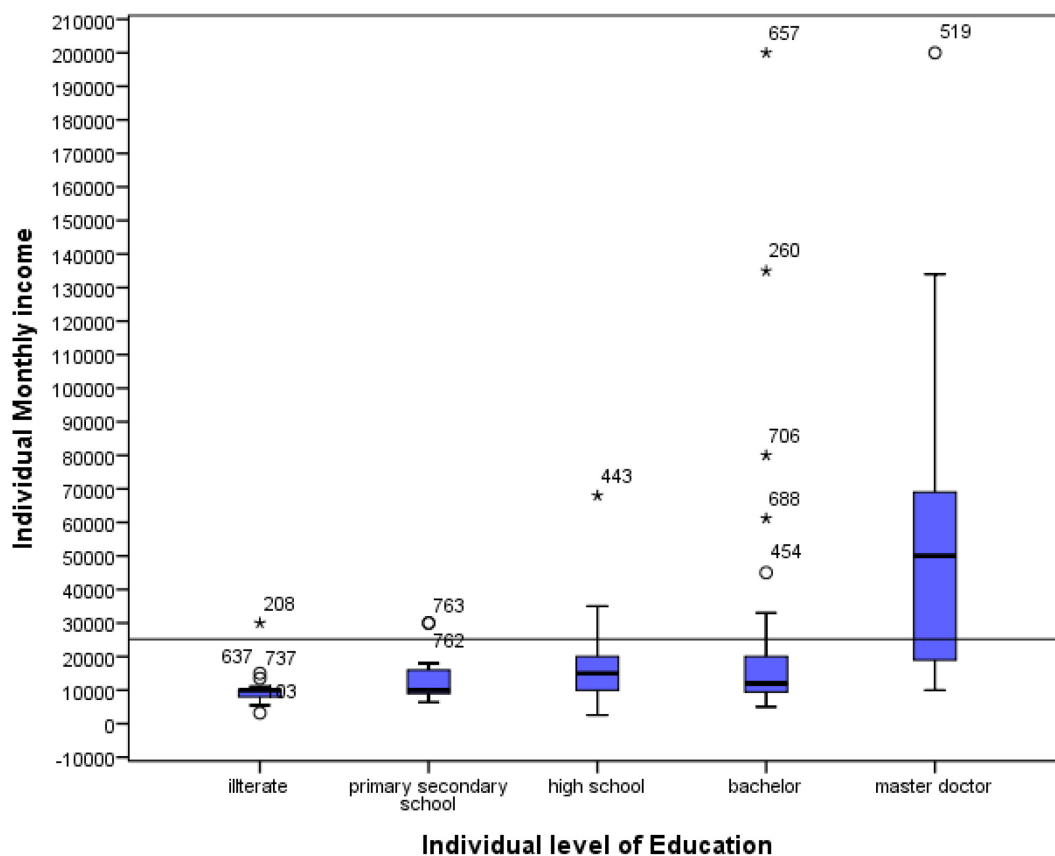


Figure 29 Individual income by level of education

A bachelor’s degree holder earns 23,380 Afs. (343 USD) on average, and the median income is 12,000 Afs. (176 USD). The average income for the bachelor’s degree holder is almost the same as the illiterate individual, however, the median income is 2000 Afs. (30 USD) higher. Master and Doctor degree holders have an average income of 56,625 Afs. (832 USD) per month and the median value is 50,000 Afs. (735 USD) which is 5 times more than the illiterate individual.

Below table provides a detailed statistic about the individual level of education and income:

Individual-level of education and monthly income

new education category calculated		Statistic	Std. Error
illiterate	Mean	24045.71	13844.251
	95% Confidence Interval for Mean	Lower Bound	-4832.89
		Upper Bound	52924.32
	5% Trimmed Mean	10581.75	
	Median	10000.00	
	Variance	4024928855.714	
	Std. Deviation	63442.327	
	Minimum	3190	
	Maximum	300000	
	Range	296810	
	Interquartile Range	2600	
	Skewness	4.533	.501
	Kurtosis	20.674	.972
primary secondary school	Mean	13410.67	1947.861
	95% Confidence Interval for Mean	Lower Bound	9232.92
		Upper Bound	17588.41
	5% Trimmed Mean	12879.63	
	Median	10000.00	
	Variance	56912435.238	
	Std. Deviation	7544.033	
	Minimum	6380	
	Maximum	30000	
	Range	23620	
	Interquartile Range	6950	
	Skewness	1.553	.580
	Kurtosis	1.625	1.121
high school	Mean	17964.29	3104.408
		Lower Bound	11488.60

	95% Confidence Interval for Mean	Upper Bound	24439.97	
	5% Trimmed Mean		16119.84	
	Median		15000.00	
	Variance		202384285.714	
	Std. Deviation		14226.183	
	Minimum		2550	
	Maximum		68000	
	Range		65450	
	Interquartile Range		10500	
	Skewness		2.363	.501
	Kurtosis		7.248	.972
bachelor	Mean		23381.33	4458.364
	95% Confidence Interval for Mean	Lower Bound	14512.22	
		Upper Bound	32250.43	
	5% Trimmed Mean		15949.40	
	Median		12000.00	
	Variance		1649791872.612	
	Std. Deviation		40617.630	
	Minimum		5000	
	Maximum		300000	
	Range		295000	
	Interquartile Range		10600	
	Skewness		5.255	.264
	Kurtosis		30.622	.523
Master/ doctor	Mean		56625.00	12857.512
	95% Confidence Interval for Mean	Lower Bound	29219.86	
		Upper Bound	84030.14	
	5% Trimmed Mean		51250.00	
	Median		50000.00	
	Variance		2645050000.000	

	Std. Deviation	51430.050	
	Minimum	10000	
	Maximum	200000	
	Range	190000	
	Interquartile Range	51000	
	Skewness	1.726	.564
	Kurtosis	3.126	1.091

Table 19 Descriptive Statistic: individual income and level of education

One-Way ANOVA Test of significance:

Individual-level of education and their respective income have been tested to see if the results are statistically significant. One-way ANOVA method is being used to test the level of significance. As the table below indicates, there is a statistically significant between the level of education and income at 0.05 % level. ($p=0.028$)

ANOVA

Monthly income					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	19287282398.2	4	4821820599.55	2.797	.028
	37		9		
Within Groups	260301720476.	151	1723852453.48		
	122		4		
Total	279589002874.	155			
	359				

Table 20 One-way ANOVA test, Individual education and income

Multiple comparison Tukey Test:

To find the level of significance at the specific level of education, the Tukey test of Post-Hoc is used in SPSS software. The result shows that only the category of Master and Doctor level of education is significantly different from primary/secondary, high school, and bachelor degree holders at a 95% level of significance. The below Table shows multiple comparison results using the Tukey Test as Post-Hoc.

Multiple Comparisons

Dependent Variable: Monthly income

Tukey HSD

(I) Ind Education Ranking	(J) Ind Education Ranking	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
illiterate	primary school	10635.048	14036.086	.942	-28118.85	49388.95
	high school	6081.429	12813.135	.990	-29295.88	41458.73
	bachelor	664.389	10141.870	1.000	-27337.50	28666.28
	master doctor	-32579.286	13777.844	.131	-70620.17	5461.60
primary school	illiterate	-10635.048	14036.086	.942	-49388.95	28118.85
	high school	-4553.619	14036.086	.998	-43307.52	34200.28
	bachelor	-9970.659	11648.725	.912	-42133.01	22191.69
	master doctor	-43214.333*	14921.939	.035	-84414.09	-2014.58
high school	illiterate	-6081.429	12813.135	.990	-41458.73	29295.88
	primary school	4553.619	14036.086	.998	-34200.28	43307.52
	bachelor	-5417.040	10141.870	.984	-33418.93	22584.85
	master doctor	-38660.714*	13777.844	.044	-76701.60	-619.83
bachelor	illiterate	-664.389	10141.870	1.000	-28666.28	27337.50
	primary school	9970.659	11648.725	.912	-22191.69	42133.01
	high school	5417.040	10141.870	.984	-22584.85	33418.93
	master doctor	-33243.675*	11336.229	.031	-64543.22	-1944.13
master doctor	illiterate	32579.286	13777.844	.131	-5461.60	70620.17
	primary school	43214.333*	14921.939	.035	2014.58	84414.09
	high school	38660.714*	13777.844	.044	619.83	76701.60
	bachelor	33243.675*	11336.229	.031	1944.13	64543.22

*. The mean difference is significant at the 0.05 level.

Table 21 Multiple comparison Tukey Test

Below is the graphic display of the results:

Individual-level of education and average monthly income

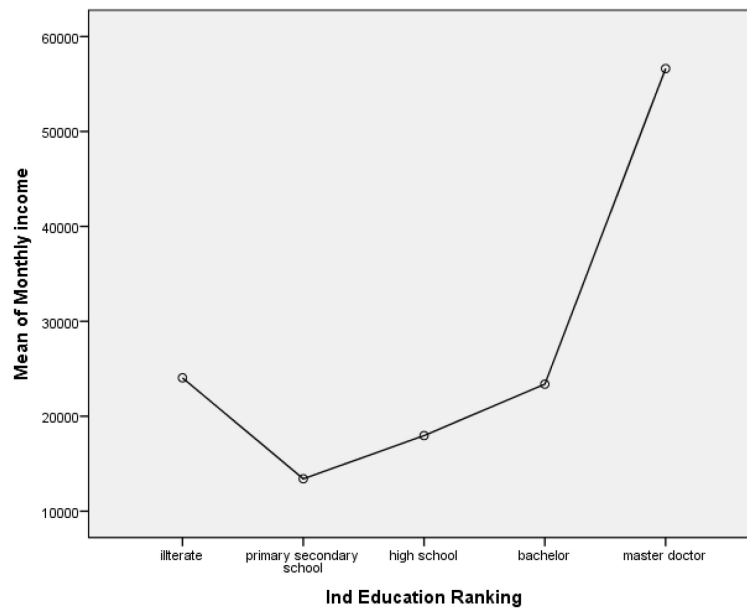


Figure 30 Individual level of education and income

Individual-level of education and Total Household income

Testing for individual education, and its effect on total household income show a very strong level of significance ($p= 0.000$).

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	81468329390.4 68	4	20367082347.6 17	6.240	.000
Within Groups	1217517565000 .008	373	3264122158.17 7		
Total	1298985894390 .476	377			

Table 22 One way ANOVA for individual level of education and household income

The multiple comparison Tukey test shows, there is a significant difference in average income of illiterate, primary and secondary school, high school, and bachelor's degree with those who have a master and doctor degrees at a 95% level of confidence. There is also a statistically difference between primary/secondary school and those who have a bachelor's degree as well. The below table provides more details.

Multiple Comparisons

Dependent Variable: household income

Tukey HSD

(I) Ind Education Ranking	(J) Ind Education Ranking	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
illiterate	primary school	7785.74878	10594.99680	.948	-21256.9276	36828.4251
	high school	-916.72045	11394.29680	1.000	-32150.4131	30316.9722
	Bachelor	-13538.72541	10033.52322	.660	-41042.3078	13964.8570
	master doctor	-60530.77475*	16480.89565	.003	-105707.6943	-15353.8552
primary secondary school	illiterate	-7785.74878	10594.99680	.948	-36828.4251	21256.9276
	high school	-8702.46923	9102.66365	.874	-33654.4083	16249.4698
	Bachelor	-21324.47419*	7328.03345	.031	-41411.8520	-1237.0964
	master doctor	-68316.52353*	14988.27566	.000	-109401.9195	-27231.1275
high school	illiterate	916.72045	11394.29680	1.000	-30316.9722	32150.4131
	primary secondary school	8702.46923	9102.66365	.874	-16249.4698	33654.4083
	Bachelor	-12622.00496	8442.51838	.566	-35764.3743	10520.3644
	master doctor	-59614.05430*	15563.56160	.001	-102276.4062	-16951.7023
bachelor	illiterate	13538.72541	10033.52322	.660	-13964.8570	41042.3078
	primary secondary school	21324.47419*	7328.03345	.031	1237.0964	41411.8520
	high school	12622.00496	8442.51838	.566	-10520.3644	35764.3743
	master doctor	-46992.04934*	14596.78178	.012	-87004.2945	-6979.8042
master doctor	illiterate	60530.77475*	16480.89565	.003	15353.8552	105707.6943
	primary secondary school	68316.52353*	14988.27566	.000	27231.1275	109401.9195
	high school	59614.05430*	15563.56160	.001	16951.7023	102276.4062
	bachelor	46992.04934*	14596.78178	.012	6979.8042	87004.2945

*. The mean difference is significant at the 0.05 level.

Table 23 Multiple Comparison of individual education and household income

Conclusion:

There is no statistical difference between the household head level of education and household total income. However, there is a significant difference between individual income and individual level of education, as well as the individual level of education and household income. The below table summarizes the main findings.

Test of significance summary for education level and household/individual income

Test of Significance:	Household Head Education	Individual Education
Household Income	Not Significant	Significant
Individual Income	N/A	Significant

Table 24 summary statistical test of significance

English language Skills

Those who have learned the English language and computer skills can be employed in well-paid jobs. English language and computer skills are necessary to get a job in government, national and international NGOs. Jobs that require such skills are well-paid. The relationship between English language and computer skills is compared with household income to observe if such a relationship exists.

English language skills and household Income

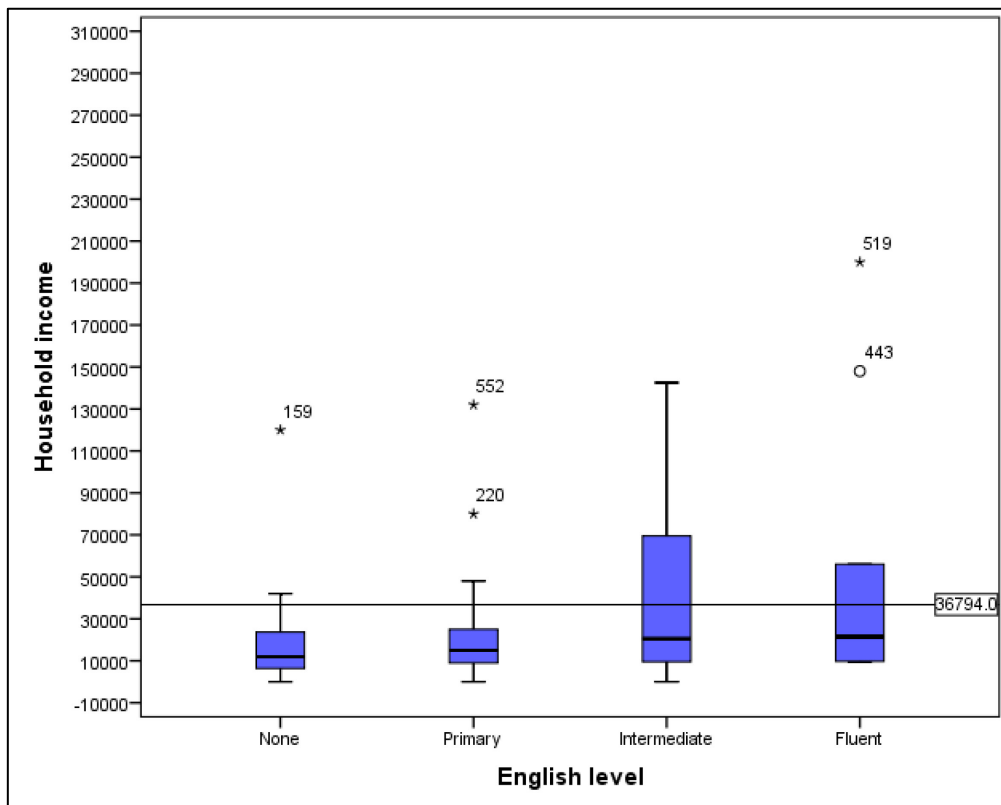


Figure 31 English language skills and household income

As the above graph indicates, there is a positive relationship between English language skills and family income. Those who do not have English language skills, earn an income below total average in general. Only the upper quartile of those who have no knowledge or have a primary level of English language earn an income around the total average. Those with intermediate and fluent level of English language skills earns a relatively high income. The upper two quartiles of the “intermediate” and “fluent” English language skills have an income round or above total average.

Those with no English language skills have an average income of 31,422 Afs. (462 USD) below the total average. Those who have primary level of English language understanding, earns an average income of 28,476 Afs. (418 USD) which is also below of total average. As the skill level increases to the intermediate level, the average income increases to 39,554 Afs. (581 USD) per month, which is above the total average. In case respondents are fluent in the English language, their income rises to an average of 51,380 Afs. (755 USD) per month; well above the total average.

Median income for “no English language skill” is 11,900 Afs. (175 USD); “primary”, 15,000 Afs. (220 USD); “intermediate”, 20,500 Afs. (301 USD); and for “fluent” is 21,500 Afs. (316 USD) per month. The median values show a positive trend between such skills and household income.

Below table provides detailed statistics about English language skills and level of household income

English Language skill and household income

English level		Statistic	Std. Error	
None	Mean	31422.07	12647.362	
	95% Confidence Interval for Mean	Lower Bound	5515.12	
		Upper Bound	57329.02	
	5% Trimmed Mean	18804.77		
	Median	11900.00		
	Variance	4638717395.567		
	Std. Deviation	68108.130		
	Minimum	0		
	Maximum	365000		

	Range		365000	
	Interquartile Range		22220	
	Skewness		4.561	.434
	Kurtosis		22.259	.845
Primary	Mean		28476.92	10555.647
	95% Confidence Interval for Mean	Lower Bound	5478.14	
		Upper Bound	51475.70	
	5% Trimmed Mean		24307.69	
	Median		15000.00	
	Variance		1448481923.077	
	Std. Deviation		38058.927	
	Minimum		0	
	Maximum		132000	
	Range		132000	
	Interquartile Range		29000	
	Skewness		2.091	.616
	Kurtosis		4.226	1.191
Intermediate	Mean		39554.17	8770.553
	95% Confidence Interval for Mean	Lower Bound	21410.89	
		Upper Bound	57697.44	
	5% Trimmed Mean		36287.04	
	Median		20500.00	
	Variance		1846142590.580	
	Std. Deviation		42966.761	
	Minimum		0	
	Maximum		142500	
	Range		142500	
	Interquartile Range		69925	
	Skewness		1.157	.472
	Kurtosis		.053	.918
Fluent	Mean		51380.00	21278.705

95% Confidence Interval for Mean	Lower Bound	3244.22	
	Upper Bound	99515.78	
5% Trimmed Mean		45455.56	
Median		21500.00	
Variance		4527832888.889	
Std. Deviation		67289.174	
Minimum		9400	
Maximum		200000	
Range		190600	
Interquartile Range		69300	
Skewness		1.744	.687
Kurtosis		1.932	1.334

Table 25 English language skill and Household Income

Test of significance:

One-way ANOVA test shows no significant difference between the level of English language skills and household income at a 95% confidence interval ($p=.0741$).

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4011177837.566	3	1337059279.189	.418	.741
Within Groups	230477645736.119	72	3201078413.002		
Total	234488823573.684	75			

Table 26 ANOVA result for English language skills and household income

There is also so significant difference between average individual income and individual level of education. Please see the table below

ANOVA

Monthly income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3959522689.929	3	1319840896.643	.537	.659
Within Groups	115561447325.758	47	2458754198.420		
Total	119520970015.686	50			

Table 27 Individual-level analysis for education and income

Computer skills:

Computer skills, the same as the English language is considered an important skill to find a job with higher pay. If someone can use a computer, chances are that the person could find a job in the formal sector of employment, especially in national and international organizations. the level of computer skills of the household head is compared to household income to find if such a pattern exists.

As the below table indicates, 49 percent of the sampled household does not know how to use a computer, 18 percent has basic and 18 percent has a moderate level of knowledge of computer skills. Only 15 percent can use Microsoft office programs such as Microsoft Word and Excel.

Descriptive of Computer level					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	37	33.6	48.7	48.7
	Basic	14	12.7	18.4	67.1
	Moderate	14	12.7	18.4	85.5
	Ms Office	11	10.0	14.5	100.0
	Total	76	69.1	100.0	
Missing	System	34	30.9		
Total		110	100.0		

Table 28 Computer skills statistic

As the below graph and table shows, household heads with no computer skills have lower average income of 29,798 Afs. (438 USD) compared to the total average. Only a small number of the upper quartile of this group earns an average income. Those with basic knowledge has a higher average income of 52,207 Afs. (767 USD) per month. those who are in third and fourth quartiles of this category, have an income around and above total average. Those with “Moderate” computer skills earn an average income of 25,800 Afs. (379 USD); and the upper two quartiles earn income around the total average. Those who are “fluent in using Microsoft office” have an average income of 38,718 Afs. (569 USD); which is above the total average income. The average income for this category lies between the third quartile of income.

Household income compared to the level of computer skills.

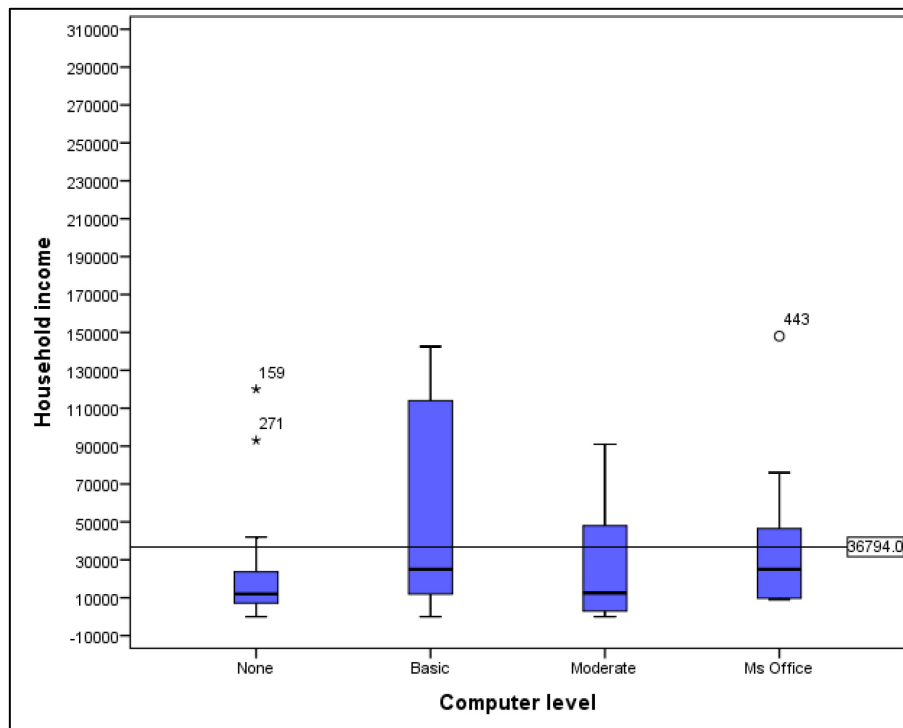


Figure 32 household income compared to computer skills

The below table describes the detailed statistics of the relationship between income and computer skills.

Household income as compared to computer skills - Descriptive

Computer level		Statistic	Std. Error
Household income	None	Mean	29798.38
		Lower Bound	9299.09

	95% Confidence Interval for Mean	Upper Bound	50297.67	
	5% Trimmed Mean		19085.29	
	Median		12000.00	
	Variance		3780098863.964	
	Std. Deviation		61482.509	
	Minimum		0	
	Maximum		365000	
	Range		365000	
	Interquartile Range		17250	
	Skewness		4.852	.388
	Kurtosis		25.932	.759
Basic	Mean		52207.14	14003.710
	95% Confidence Interval for Mean	Lower Bound	21953.97	
		Upper Bound	82460.32	
	5% Trimmed Mean		50091.27	
	Median		25000.00	
	Variance		2745454560.440	
	Std. Deviation		52397.085	
	Minimum		0	
	Maximum		142500	
	Range		142500	
	Interquartile Range		102825	
	Skewness		.764	.597
	Kurtosis		-1.238	1.154
Moderate	Mean		25800.00	8449.520
	95% Confidence Interval for Mean	Lower Bound	7545.92	
		Upper Bound	44054.08	

	5% Trimmed Mean	23611.11	
	Median	12500.00	
	Variance	999521538.462	
	Std. Deviation	31615.211	
	Minimum	0	
	Maximum	91000	
	Range	91000	
	Interquartile Range	46250	
	Skewness	1.339	.597
	Kurtosis	.638	1.154
Ms Office	Mean	38718.18	12716.230
	95% Confidence Interval for Mean	Lower Bound 10384.66 Upper Bound 67051.71	
	5% Trimmed Mean	34292.42	
	Median	25000.00	
	Variance	1778727636.364	
	Std. Deviation	42174.965	
	Minimum	9100	
	Maximum	148000	
	Range	138900	
	Interquartile Range	46300	
	Skewness	2.035	.661
	Kurtosis	4.398	1.279

In conclusion, there is a relationship between computer skills and household income. The income of households with no computer skills are below average, as compared to those who have some knowledge of computer.

Test of significance:

No significant difference between the mean income of different level of computer skills have been found at a 95% confidence interval.

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6462850400.5783	3	2154283466.859	.766	.517
Within Groups	202555524752.053	72	2813271177.112		
Total	209018375152.632	75			

Table 29 ANOVA test result for computer skills

Comparing at the individual level, computer skills, and income, also shows no significant difference in sample size.

ANOVA

Monthly income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	272223350.967	3	90741116.989	.048	.986
Within Groups	88304724311.778	47	1878823921.527		
Total	88576947662.745	50			

Table 30 individual ANOVA test

Conclusion:

While computer and English language skills are considered necessary to find a well-paid job, no statistically significant results have been found between such skills and household income in the sample size. However, the descriptive statistics show a positive association between household income and higher English and computer skills.

Summary

Variable	Test of Significance
English Language skills	Insignificant
Computer Skills	Insignificant

Table 31 summary significance test

Section V: Consequences of Income Inequality and Poverty

Introduction:

Poverty and income inequality are the two inter-related problems, which still deprives people to live their life in its full potential. Poverty is synonymously used to explain deprivation, a state in which people are deprived of their basic rights such as access to food, water, and shelter. inequality on the other hand, is the issue of fairness and social justice. It is more prevalent in developed nations such as the United States, Latin America, and some developing countries in Europe and Asia.

Poverty and income inequality are both social and economic problems. Poverty deprives people to live a dignified life with a decent standard of living. Poor families mostly have a poor diet, hygiene, housing, and overall poor living condition. Poverty not only affects the lives of poor people now, but it also determines their destiny and those of their offspring.

While the poverty rate has been relatively high in Afghanistan, its impact is visible from a different aspect of social life in the society. slums around the Kabul city is resulted because of the rising housing rent, which is not affordable by poor families. The quality of food and diet of poor families are poor, and their living conditions are way below those in the middle and upper class.

Poor households also have limited access to other social services, such as electricity, safe drinking water, and mobility. As a result, the poor are engaged in low skill and unhealthy work style to meet their basic needs. their diet, lifestyle, and living condition also affects their health condition.

Inequality in income has resulted in a social divide, between poor and rich. The living standard, given that Afghanistan has moved more towards the free market, is mainly determined by the amount of income and wealth a family has. Given the motive for profits and the demand and supply forces, wealthier families enjoy a better life, than the poor.

To better understand the impact of poverty and income inequality in the country, this section portrays the emerging problems and challenges which are caused by poverty and income inequality in the country. These problems might have several factors, and the most important one of them is incontestably the poverty and income inequality.

Moving forward, the government, international community, and actors should address the issue of poverty and income inequality, to minimize and reduce its negative consequences. Sound economic policies, and national programs should aim at reducing poverty, and sharing prosperity for the whole society. measures should take place to make sure that the income of both rich and poor rises with economic growth. Government policies should consider these issues to have inclusive growth.

Children's education:

Children's education is considered a key determinant of both the current and future economic and social well-being of a family. Most of the poor households cannot afford to enroll their children in school because of various reasons, including a lack of financial means. While public education is free in Afghanistan from primary school to university, some poor families still cannot afford basic needs such as clothing, transportation, and stationery of their children so they could obtain an education.

On the other hand, families with better economic conditions are most likely to enroll their children in school. many private schools are established around the country besides public schools in the last decade. Private schools provide better education and facilities as compared to public schools, by charging a monthly fee. Those who are financially well-off would be able to pay such fees for their children to receive a quality education.

According to the information from a private high school in Kabul, named "Shams London" school, the monthly fee starts from 1,500 Afs. (22 USD) per month for kindergarten, to 4,500 Afs. (66 USD) for 12 grade students. Besides that, the monthly transportation cost is 1500 Afs. (22 USD), and additional admission fees for stationery are charged yearly, around 7,500 Afs (110 USD) in total. A typical 5-grade student would pay 3,000 Afs. (44 USD) for monthly fee, 1500 Afs. (22 USD) for transportation and an estimated 1000 Afs. (14 USD) for other expenses. In total one child's education at a private school would cost about 5,000 (73 USD) to 6,000 Afs. (88 USD) per month, about 1,000 USD per year. Given that the average family size is 7, which means 3 to 5 children per household, enrolling each child in a private school is not affordable to every family.

The two questions in the survey asked respondents if their school-aged children are going to school or not. Due to cultural, illiteracy, security, and even lack of proper school in the nearby vicinity of households especially in rural areas, some families would only allow male children

to attend school, not girls. Respondents are asked if only boys of the family are allowed to attend school or girls as well.

To measure the economic well-being of the households, they are asked if their children are enrolled in public or private schools. This information could also provide details about the economic well-being of the household, if they can afford private school for their children. As a pre-assumption, families in the middle class and upper class would be able to send their children to private school, or at least one of their children. The main reason is that the quality of education is considered better in private as compared to public schools.

Those who attend private schools would have better chances of getting higher education, as compared to those in public high school. Between 2002 to 2005, most of the children and youths would normally attend public school, since mostly there was no such concept of private schools. private school is relative to a new phenomenon in Afghanistan.

School enrolment:

Out of 110 families, 80 have school-aged children (above the age of 6). Such households are asked if their children are enrolled in school, either in private or public. Respondents are explicitly asked if only boys are allowed to attend school, or girls as well. Out of 80 households, 4 households (5 percent) said that their school-aged children are not going to school. in 5 cases (6.3 percent), only boys are allowed to attend school, not the girls of the household. The remaining 89 percent of households have enrolled their children either in private or public schools.

The below table and chart provides statistics about school enrolment.

Children attending school					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	4	3.6	5.0	5.0
	Only boys	5	4.5	6.3	11.3
	Yes	71	64.5	88.8	100.0
	Total	80	72.7	100.0	
Missing		30	27.3		
Total		110	100.0		

Table 32 Children school enrolment

The below table shows the school enrolment of children in percentage.

Children school enrolment in percentage

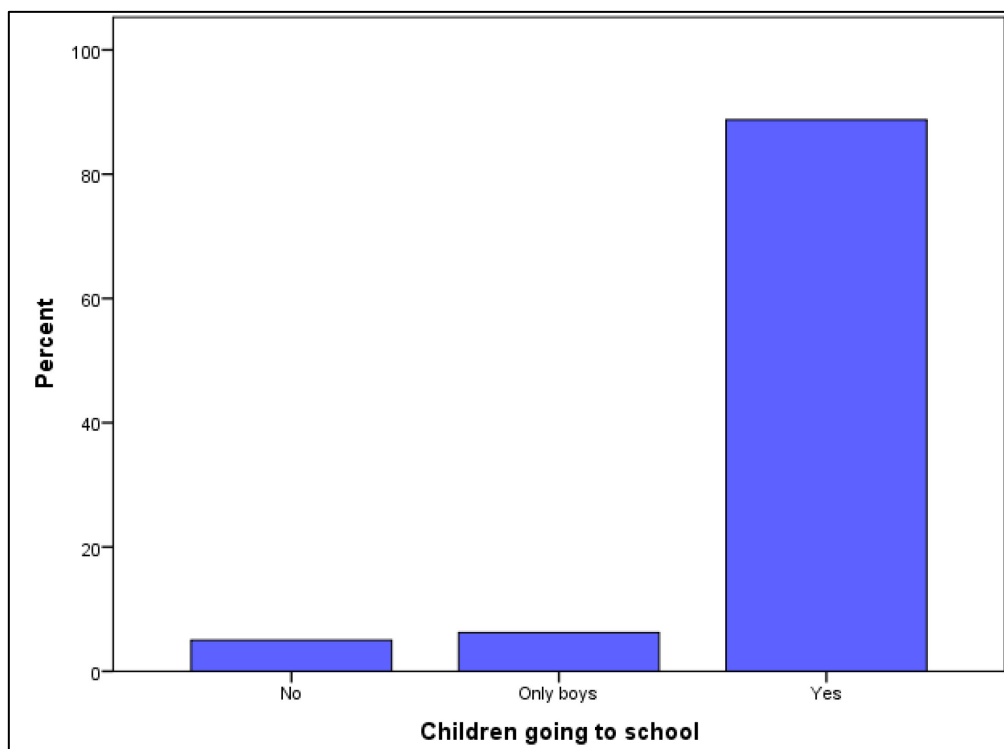


Figure 33 school enrolment by gender

Household income and school enrolment:

Education is one of the key basic rights of an individual to have a more prosperous life. Most of the poor households are headed by illiterate. Therefore, education is considered important to alleviate poverty. However, most poor households cannot afford education for their children. As a result, the circle of poverty continues over generations.

The purpose of this analysis is to see if the income of the households influences school enrolment.

Households whose children do not attend school have a very lower income, than those who send their children to school. The average income of households not sending their children to school is 8,025 Afs. (118 USD) per month, which is more than three times less than the total average income of the surveyed sample size (36,794 Afs.).

Household who only allows boys to attend school, and does not allow girls, have an average income of 22,286 Afs. (327 USD) per month; which is well below the total average of the sampled population, but with little differences as compared to the first category of not sending

their children to school at all. one translation of this finding is that income is not the only determinant of allowing the girls to attend school. Other factors, such as illiterate parents, social and cultural pressure, and lack of security or availability of girl schools near household location may also play a role.

below exhibits how the household income determines if the children of the family are attending school or not.

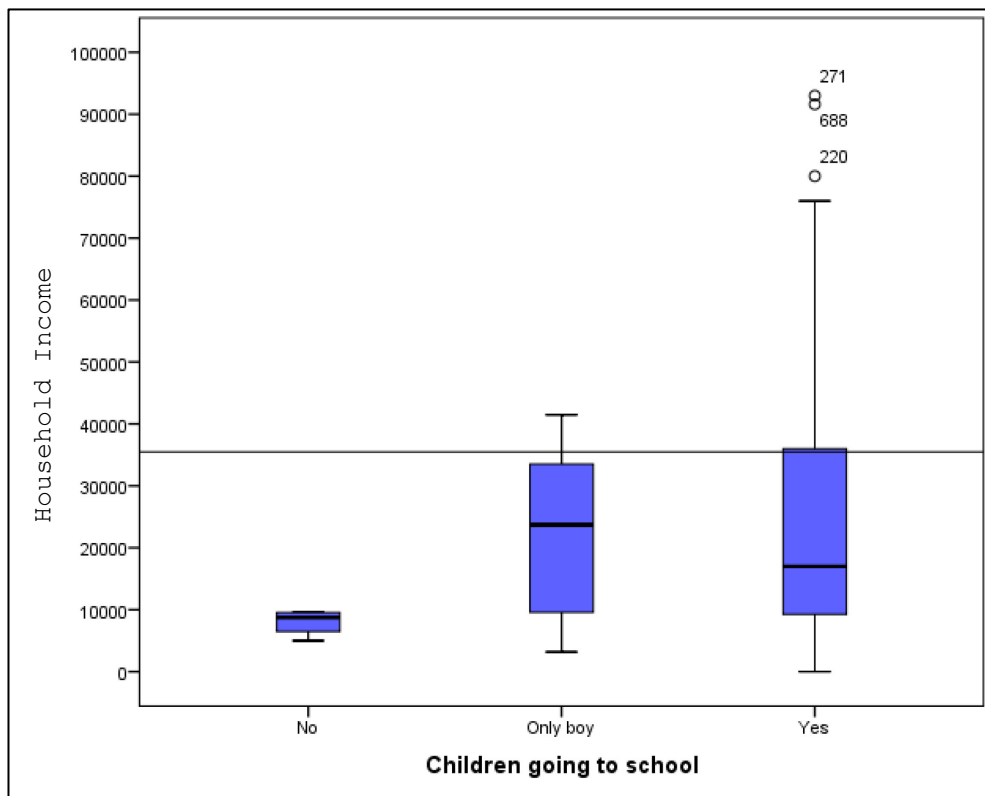


Figure 34 Household income and school enrolment by gender

As the above chart depicts, those households which do not send their children to school are way below the average household income. those who only send their male child to school, only the upper quartile of this group has an income close to the total average. On the other hand, those who send their children to school, the third and fourth quartiles of these households have an income above the total average.

The 89 percent of the sampled households, who send their children to school has a monthly average income of 37,955 Afs. (558 USD) which is just above the normal average income of the total sampled population. The majority of households who send their children to school are in the upper fourth quartile of income.

It worth mentioning that the children of poor households would work either forcefully or voluntarily to help the household meet their basic needs. child labor is a prevailing phenomenon

in Afghanistan. As a result, some poor household's children would rather work to earn money, than to go to school.

There is also a regional difference in allowing children to attend school. 3 out of 4 households, whose children are not attending school, lives in Nangarhar province. Also, all 5 households which only allow boys to school are in Nangarhar province too.

The data confirm that household income is a key determinant of children's enrolment in school, as families with lower income would not be able to support their children to attend school, while the better-off households can send their children to school. it could be concluded that household who does not enroll their children in school have a lower income as compared to those who have a higher income.

School enrolment and household income

Children going to school		Statistic	Std. Error	
No	Mean	8025.00	1072.672	
	95% Confidence Interval for Mean	Lower Bound	4611.28	
		Upper Bound	11438.72	
	5% Trimmed Mean	8105.56		
	Median	8750.00		
	Variance	4602500.000		
	Std. Deviation	2145.344		
	Minimum	5000		
	Maximum	9600		
	Range	4600		
	Interquartile Range	3825		
	Skewness	-1.388	1.014	
Kurtosis	1.389	2.619		
Only boy	Mean	22286.00	7148.891	
	95% Confidence Interval for Mean	Lower Bound	2437.50	
		Upper Bound	42134.50	
	5% Trimmed Mean	22281.11		
	Median	23700.00		
	Variance	255533230.000		

	Std. Deviation	15985.407	
	Minimum	3190	
	Maximum	41470	
	Range	38280	
	Interquartile Range	31105	
	Skewness	-.056	.913
	Kurtosis	-2.058	2.000
Yes	Mean	37955.35	7389.697
	95% Confidence Interval for Mean	Lower Bound	23217.07
		Upper Bound	52693.64
	5% Trimmed Mean	28086.54	
	Median	17000.00	
	Variance	3877140648.089	
	Std. Deviation	62266.690	
	Minimum	0	
	Maximum	365000	
	Range	365000	
	Interquartile Range	27900	
	Skewness	3.673	.285
	Kurtosis	15.644	.563

Table 33 school enrolment and household income - statistics

Those who cannot send their children to school are in the lowest 25 % of the income quartile. Also, families which do not allow the female child to go to school, have lower average income than the total average income.

Test of significance

Using a one-way ANOVA test, there is a statistically significance in the mean income of the household for children's school attendance at a confidence interval of 95% ($p=0.002$). the result shows a significant difference between child school enrolment and household monthly income.

ANOVA

Children going to school

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	16.888	57	.296	3.259	.002
Within Groups	2.000	22	.091		
Total	18.888	79			

Table 34 ANOVA test for children's education

Private vs. Public school enrolment:

The below analysis is based on data from 58 households, who have responded to this question. This analysis is not inclusive of all households, such as families who do not send their children to school, or do not have school-age children.

Well-off families would be able to finance private schools for their children as compared to worse-off. This question tries to identify which household can afford private schools for their children. Private schools are perceived to provide better quality education; however, families have to incur a monthly cost for their children's enrolment in such schools.

As the below table indicates, 17 percent of households send their children to private schools. 12 percent of families have children enrolled in both public as well as in private schools. The majority (71 percent) send their children to public schools, out of 58 households who provided this data.

Distribution of school enrolment, public vs private

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Both	7	6.4	12.1	12.1
Private	10	9.1	17.2	29.3
Public	41	37.3	70.7	100.0
Total	58	52.7	100.0	
Missing	52	47.3		

Total	110	100.0	
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Table 35 school enrolment, private vs. public

Below chart presents the results in percentage:

School enrolment, private vs public

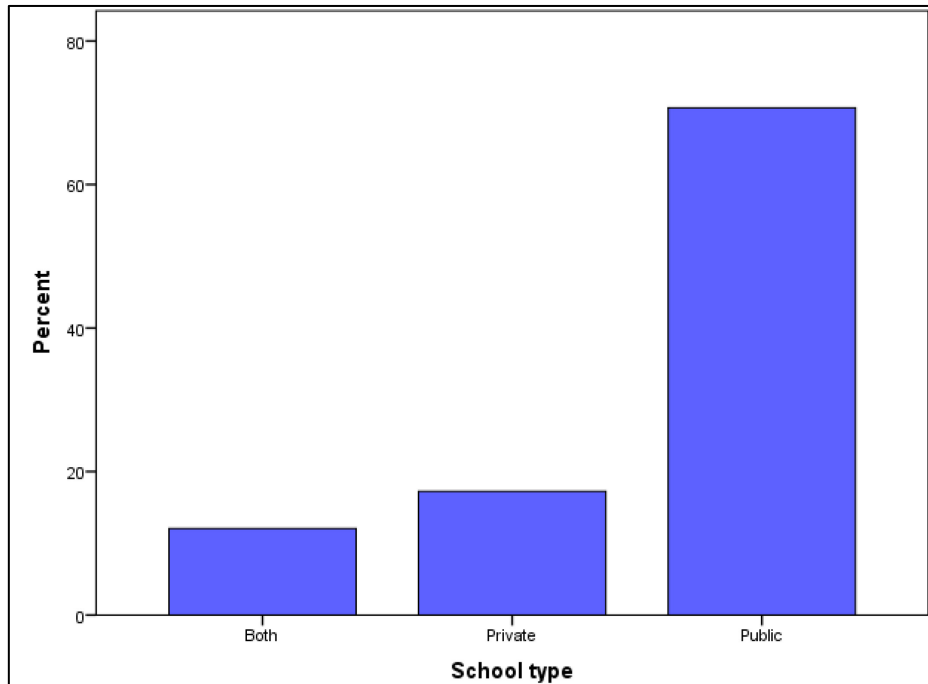


Figure 35 school enrolment, private vs public

The effect of income on private vs public school enrolment:

Families with an average income of 70,000 Afs. (1029 USD) enroll their children in private schools. Those who have at least one child going to private school have an average income of 32,278 Afs. (474 USD) per month. on the other hand, families which send their children to public school have an average income of 29,907 Afs. (439 USD). This shows that income affects if the household would send their children to private or public schools.

Child's education therefore depends upon the level of income of the household directly. A family with higher income determines that the child of the household will receive a better quality education in private schools, as compared to low-income families, who would send their child to public school. if the household income is too low, some families would not be able to or willing to allow their children to attend school, mainly because they cannot afford the associated cost, or the child would be helping the family financially through different means.

Household income as a determinant of the type of school child is enrolled

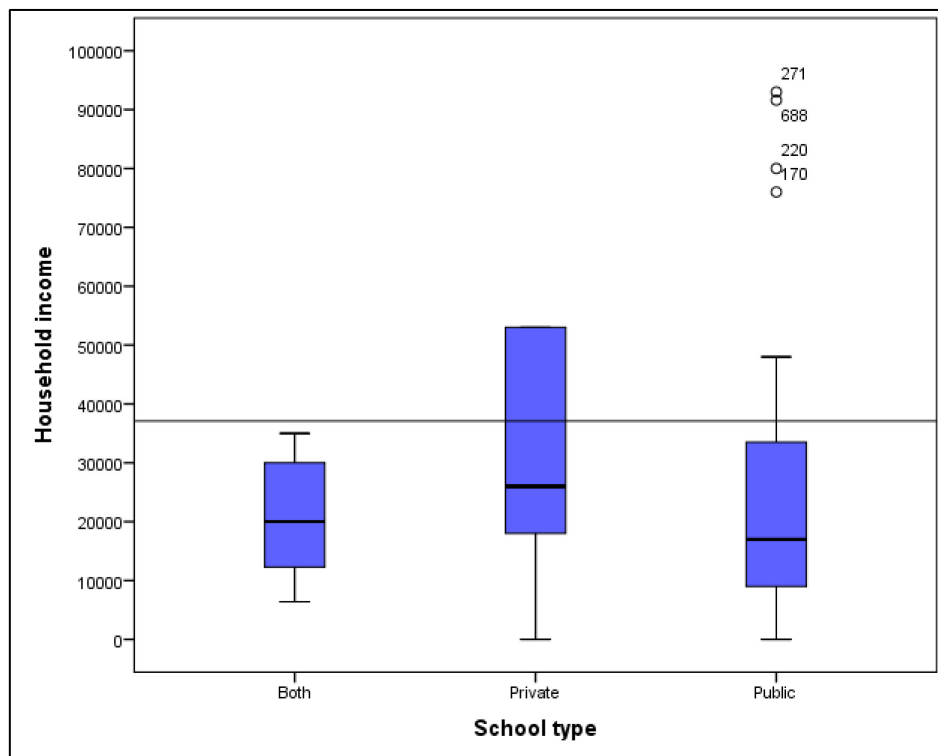


Figure 36 Household income as compared to school enrolment, private vs. public

As the above chart depicts, families sending their children to private schools, the third and fourth quartile of such families have an income close to the total average and above it. Those sending their children to public schools, only the fourth quartile of them have an income close to the total average. While in the case of sending children to both, all quartiles are below the total average.

The above data confirm that only families with higher incomes are willing to pay the tuition fee in private schools for better education of their children. On the other hand, those who have a lower income than the total average of the sampled population would send their children to public schools.

Those who are little better off would still prefer and enroll at least one or two of their children in a private school, which shows that there is a clear preference for private school. 50% of the families which has one or more child in the private schools, has income above 20,000 Afs. (294 USD) per month.

School enrolment type be household income

School type		Statistic	Std. Error	
Both (private/ public)	Mean	32278.57	14258.620	
	95% Confidence Interval for Mean	Lower Bound	-2611.01	
		Upper Bound	67168.16	
	5% Trimmed Mean	29121.75		
	Median	20000.00		
	Variance	1423157680.952		
	Std. Deviation	37724.762		
	Minimum	6380		
	Maximum	115000		
	Range	108620		
	Interquartile Range	25430		
	Skewness	2.302	.794	
	Kurtosis	5.580	1.587	
Private	Mean	70000.00	35118.609	
	95% Confidence Interval for Mean	Lower Bound	-9443.81	
		Upper Bound	149443.81	
	5% Trimmed Mean	57500.00		
	Median	26000.00		
	Variance	12333166666.667		
	Std. Deviation	111054.791		
	Minimum	0		
	Maximum	365000		
	Range	365000		
	Interquartile Range	58875		
	Skewness	2.539	.687	
	Kurtosis	6.650	1.334	
Public	Mean	29907.56	5511.662	
		Lower Bound	18768.08	

95% Confidence Interval for Mean	Upper Bound	41047.04	
5% Trimmed Mean		26242.82	
Median		17000.00	
Variance		1245514978.902	
Std. Deviation		35291.854	
Minimum		0	
Maximum		132000	
Range		132000	
Interquartile Range		28950	
Skewness		1.708	.369
Kurtosis		1.850	.724

Figure 37 household income and school enrolment (private vs. public)

Test of Significance:

Using one-way ANOVA, there is no significant difference between household income and type of school enrolment at 95% confidence interval, ($p=0.634$).

ANOVA

School type

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	23.931	41	.584	.889	.634
Within Groups	10.500	16	.656		
Total	34.431	57			

Table 36 ANOVA summary

Household wealth, Assets, and other sources of income:

While the main purpose of this survey is to examine the extent of income inequality in sampled households, other types of inequalities have also been explored to some extent. Besides income, wealth inequality is the second main determinant of overall economic inequality. To this end, questions related the wealth and assets of households are being asked in this survey.

This data would be useful in three different ways. First, it provides an overview of the inequality in wealth which may be prevailing in the sample size. Second, such data could be used as an indicator to find the effect of income on wealth accumulation. Income inequality would in the long-run contribute to wealth inequality as well. Therefore, some types of assets, such as owning a house and a car is compared with the current level of income to see if such a relationship exists.

Third, the wealth and assets are also a source of income for some households, if it is utilized in production, but not for personal use. A household, which owns a house could either live in that house or sublet it to generate income. the same is true for owning a car and other assets and capital. It is also a method of measuring other sources of income for the family. It is worth mentioning that the income from capital is not included in the above income inequality analysis of this study, since wealth inequality is a separate topic.

A household may not spend all of the income earned on the expenditure of the household. Thus, the remaining part of income after meeting family needs would either be saved or invested in a business, buying a house, car, etc. Those who are better off would be able to save more from their income and invest as compared to low-income households. Low-income families on the other hand would mostly be able to meet their family expenditure, thus with little or no saving and consequently little or no investment. As a result, their wealth accumulation is also lower than the higher-income households.

The main areas of concern in this survey are accumulated wealth in the form of a house, car, businesses, and land. Also, households are asked if they earn an income from such sources. For example, by renting their house, using a vehicle as a taxi to generate income, as well as their business which generates income in terms of profit.

Owning a House:

House is considered one of the most important assets for a family. The cost of a house in Kabul city is relatively expensive, ranging from 60,000 USD to 300,000 USD based on location, construction, facilities, and land area. A typical 3 room apartment in the Macroryan area of Kabul city would have a price of 120,000 to 150,000 USD. If a family is better off, and has some savings, they would buy a house as their priority. Because paying monthly rent is first very expensive, and second, it is a trouble to reallocate in a different part of the city every time. House is also considered as a save investment of money because of its immobility.

The notion that if a household has a house, but their income level is below the total average, should not label them as poor, is debatable. Their house might cost about 100,000 USD, while they might be earning a lower monthly income. This and similar questions would require additional exploration of wealth distribution and the extent of economic inequality, which is beyond the boundary of this study.

Poor families, on the other hand, would live in rented houses, mostly in remote areas from the city center. Because they are not able to pay high rent, they are most likely to live in slums or houses with poor construction and facilities. A large portion of the poor family's income goes to rent if a household does not own a house, especially in urban areas.

Out of 110 respondents, 102 of households responded to the question if they own a house. 46 percent of respondents do not own a house or apartment. Those who own a house (54), almost all of them use it for their personal use and living. Only in two cases, the house is on lease. The rent of their house, as a source of income, in one instance is 10,000 Afs (147 USD) and in another 100,000 Afs. (1,470 USD).

Only 25 percent of the interviewed has a private business. The average investment from the 11 respondents, is 54,0062 Afs. (795 USD) in their businesses. The average revenue generated from these businesses amounts to 35,000 Afs. (514 USD) per month, which is around the same range of average income.

Note: households whose only source of income is from their business, the profit of such business is counted as an income of the households. If such business is supplementary, it is not counted. The main reason is that this study focuses on income inequality, rather than wealth and other forms of inequalities.

The below chart shows if there is a relationship between household income and owning a house. As it is visible, the majority of those who have a house are those in the upper quartiles of income. Or those whose income is above the total average are most likely to own a house. Those who do not own a house, only the quartile is having an income above the average, but still they are not able to buy a house. On the other hand, almost 75 % of those who own a house have an income below the total average.

Household income as a determinant of owning a house

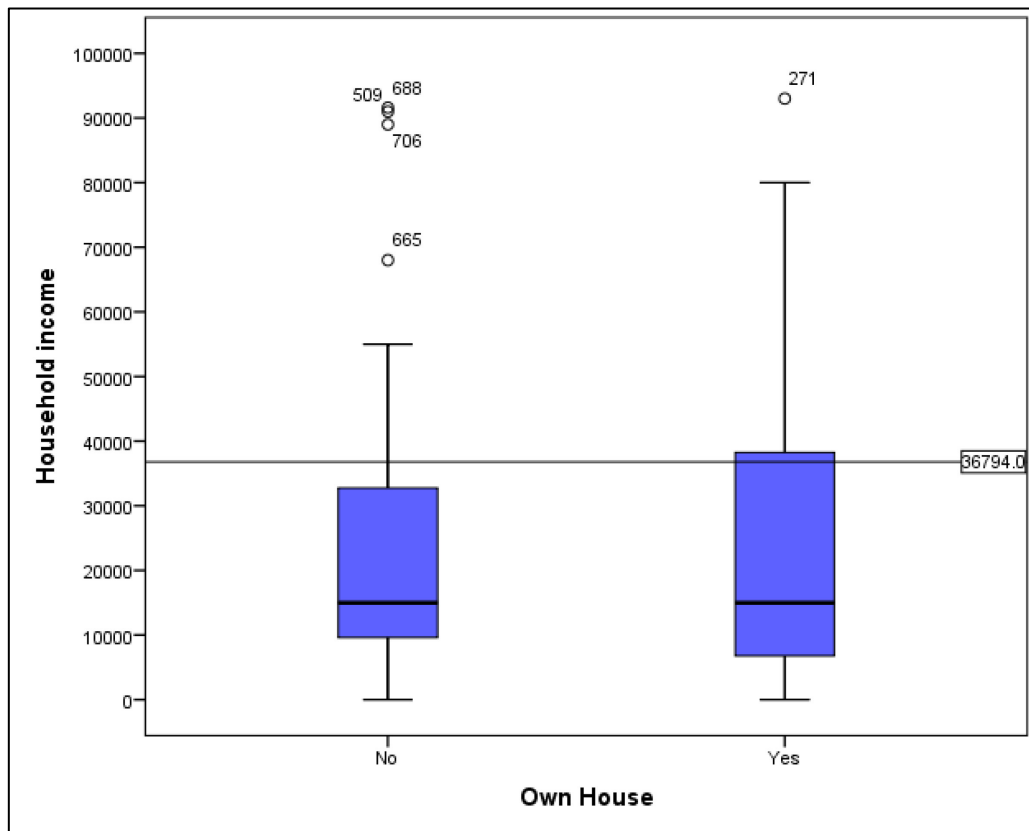


Figure 38 household income and owning a house

Those who do not have to own a house have an income just below the total average, 35,900 Afs. (528 USD), as compared to those who own a house, with an average of 39,741 Afs. (584 USD). It shows that the higher the household income, the more likely is the chance that the household would own a house. However, the difference in average income among both categories is minimum, and therefore, it would be hard to draw a conclusion based on this sample size on the relation of income and assets, such as owning a house.

There might be other factors as the main determinant of house ownership. One explanation could be that the house prices are too high, and it takes households a long time to save and buy one, even with average income. Other factors might be that owning a house in some cases is inherited from the parents, or it is a shared families house and income does not play a role.

Owning a house as a factor of income

Own House		Statistic	Std. Error	
No	Mean	35905.32	7108.445	
	95% Confidence Interval for Mean	Lower Bound	21596.76	
		Upper Bound	50213.88	
	5% Trimmed Mean	29251.77		
	Median	15000.00		
	Variance	2374909373.265		
	Std. Deviation	48733.042		
	Minimum	0		
	Maximum	204000		
	Range	204000		
	Interquartile Range	27900		
	Skewness	2.174	.347	
	Kurtosis	4.437	.681	
Yes	Mean	39741.64	9253.203	
	95% Confidence Interval for Mean	Lower Bound	21190.08	
		Upper Bound	58293.19	
	5% Trimmed Mean	28076.57		
	Median	15000.00		
	Variance	4709196654.680		
	Std. Deviation	68623.587		
	Minimum	0		
	Maximum	365000		
	Range	365000		
	Interquartile Range	35090		
	Skewness	3.475	.322	
	Kurtosis	13.338	.634	

Figure 39 household income as a determinant of owning a house

Test of Significance:

T-test is used to identify if there is a significant difference in the income of those who own, and those who do not own a house. The result shows an insignificance difference.

Test of significance of income and owning a house

Independent Samples Test									
Household income	Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
	F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
	Equal variances assumed	.361	.549	.320	100	.749	3836.317	11976.981	-19925.673
Equal variances not assumed			.329	96.918	.743	3836.317	11668.408	-19322.489	26995.123

Table 37 T-test for income and owning a house

Summary:

Indicator	Test of Significance
Owning a house as a factor of household income	insignificant

Owning a vehicle:

Vehicle is considered the second most important asset for a family in Afghanistan. While public transport is almost non-existing in the country, having one car at least for the whole family is considered as a need, rather than a luxury. Those who are in the middle class or above would be able to buy and use a car for their own transportation needs. On the other hand, the poor would use other alternatives or use general transport provided by individuals. A car depending on model and condition costs between 6,000 USD to 20,000 USD and above.

24 households (22 percent) in sample size own a car, and 31 households do not own a car, from those who answered this question. Only in two cases, the auto has been used as a taxi to

generate income. As compared to owning a house, there is a relatively strong relationship between average household income and owning a car.

Families that do not own a car have an average monthly income of 25,415 Afs. (373 USD); which is well below the total average. Those who own an auto has an average income of 64,615 Afs. (950 USD), higher than total average income, and more than double the amount of the income of households who has no car. All those who do not own a vehicle are below the average income line. Households who own a car, more than 50 percent of them have an income above the total average.

Household income and owning a car

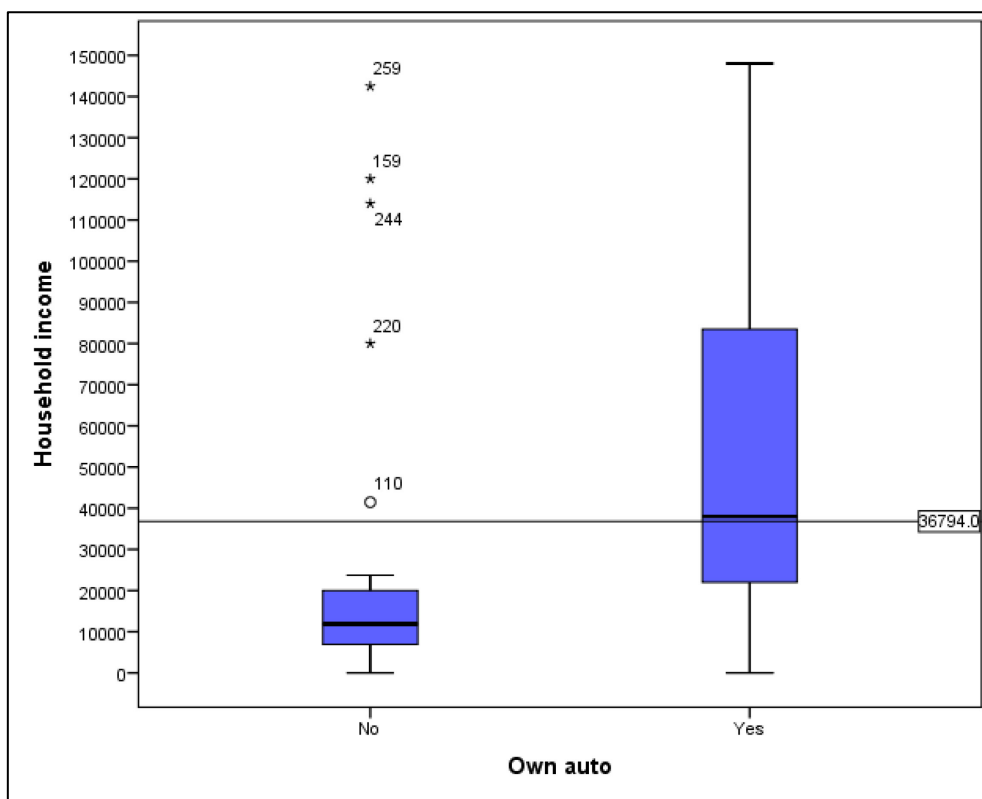


Figure 40 Household income and owning a car

Below table provides detail about household income who owns or does not own a car:

Owning a car as a factor of household income

Own auto		Statistic	Std. Error
No	Mean	25415.16	6572.795
	95% Confidence Interval for Mean	Lower Bound	11991.72
		Upper Bound	38838.60

	5% Trimmed Mean	20765.95	
	Median	11900.00	
	Variance	1339250839.140	
	Std. Deviation	36595.776	
	Minimum	0	
	Maximum	142500	
	Range	142500	
	Interquartile Range	13620	
	Skewness	2.319	.421
	Kurtosis	4.417	.821
Yes	Mean	64615.42	16374.837
	95% Confidence Interval for Mean	Lower Bound	30741.49
		Upper Bound	98489.35
	5% Trimmed Mean	52992.13	
	Median	38000.00	
	Variance	6435246747.645	
	Std. Deviation	80219.990	
	Minimum	0	
	Maximum	365000	
	Range	365000	
	Interquartile Range	65250	
	Skewness	2.659	.472
	Kurtosis	8.300	.918

Table 38 household income compared to owning a car

Test of Significance:

T-test is used to identify if there is a significant difference between the mean income of those who own a car and those who do not. the result is significant at 95% confidence level.

Independent Samples Test

Household income	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	5.867	.019	2.420	53	.019	39200.255	16201.422	6704.318	71696.193
Equal variances not assumed			2.222	30.403	.034	39200.255	17644.742	3184.925	75215.585

Table 39 T-test result for owning a vehicle

Summary:

Indicator	Test of Significance
Owning a car as factor of household income	Significant

Other Assets and sources of income:

Other assets owned by households as stated by the respondents is mostly agricultural land. Some of households receive a yearly or seasonally revenue from their land yields, which are mostly in rural provinces. However, agriculture land and its productivity highly vary based on location and the crops cultivated. Mostly, those who do not live in rural areas would give their land to tenants to cultivate and share the yield at the end of each season. Due to low agriculture productivity and prices of crops, generally income for agriculture crops is not very high.

Money Remittances from abroad are the most sited source of additional income for the sampled households. Remittances contribute to a greater portion of the household's income, who has at least some members of their family abroad. Since Afghanistan is a migration country, with the majority of the population dispersed in the whole world, money remittance is quite normal now, given the worsening economic condition in Afghanistan. Also, due to the high exchange

rate of US dollars and Euro in Afghani (1 USD= 68 Afs, 1 Euro = 82 Afs), it is attractive to send money from abroad and spend it locally.

36 households (32 percent) of the respondent has income from other sources rather than their income from labor. Only 10 respondents mentioned their income from other sources. The average income for other sources of income is 3,480 Afs. (51 USD) which is negligible given the number of respondents and the amount.

Note: Not all households would provide information about Remittances, as it was marked during the interviews. The exact amount was not asked explicitly from respondents in some cases.

The number of sources of income for families:

In the total sample size, there are 29 additional sources of income other than the income from labor. 26 households (23 percent) have at least one more source of income besides the income from their labor. Only in two cases, a family has two extra sources of income. The average income from other sources of income calculated based on information from 13 respondents, is 38,274 Afs. (562 USD); about 20 USD higher as compared to the average income.

Family expenditure:

A different method of measuring inequality is by using the expenditure of the household. The proponent of this method argues that in the income method, not all income is consumed through the purchasing of goods and services, thus some portion of income is saved. As a result, higher-income does not necessarily translate in higher living standards for households, given income as an indicator. Rather income could be saved for later consumption. In the expenditure method, it provides information about what the household or individual pay for the good and services. Using the expenditure method, the source of income is not important at all. This is a plus point, because a household may have several sources of income, which may not be fully reported, as measured in the income section. Thus, this method is more realistic and robust to measure the economic well-being of households.

This household survey also collected information about household expenditure. These expenditures are broken down for basic food expenditure, non-food expenditure, house rent, and other monthly bills. A total monthly amount for covering all household expenditure is also given by each household.

Basic food needs:

Out of the total 110 households, 50 of them provided their monthly food expenses data. The average amount of money spent on food is 17,040 Afs. (250 USD) per month. the lower 50 percent of the household however spends 12,000 Afs. (176 USD) per month for the basic food items. This shows almost 30 percent difference between the average and the median value of food expenses, taking the mean as a basis.

The majority of households said that their monthly food expenses are 20,000 Afs. (294 USD). This figure could go as low as 3,000 Afs. (44 USD), or as high as 80,000 Afs (1176 USD) per month for a single-family. Besides household income, other factors such as family size, urban or rural location may influence the amount a household may spend on food. Below is a summary of food expenses.

Household food expenses

N	Valid	50
	Missing	60
Mean		17040.00
Median		12000.00
Mode		20000
Std. Deviation		14928.346
Skewness		2.178
Std. Error of Skewness		.337
Kurtosis		5.865
Std. Error of Kurtosis		.662
Minimum		3000
Maximum		80000
Sum		852000

Table 40 Household expenditure on food

In the below graph, the amount of money spent on food items are presented with mean (17040 Afs) and median (12,000 Afs) values:

Household food expenditure

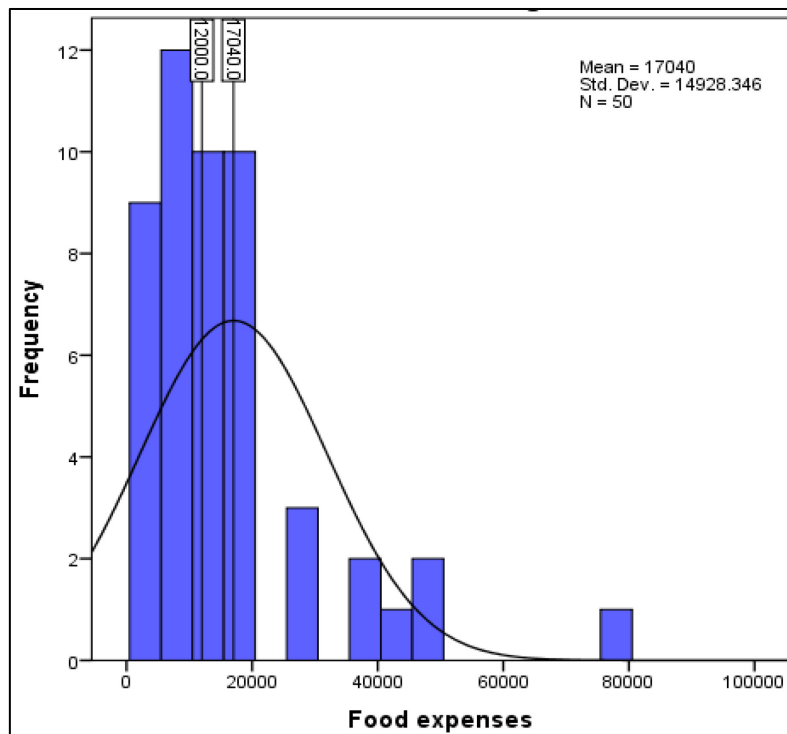


Figure 41 Household expenditure on food items

Household income and food expenses:

While food is considered a necessity, even household with no sources of income has to spent on basic food needs. As the income of the household increases, the family would spend more and more money on food items. This rate would marginally diminish as the expenses reach a certain limit. The effect of a marginal increase in income would be therefore less than before. As the below graph indicates, lower level income households spend less on basic food needs. Those who have an income below the total average spend fewer amounts on food, as compared with those who have income above the total average. In most cases, 3,000 Afs. (44 USD) per month is the lowest amount spent on basic food items regardless of the level of income of the family.

Households that earn below the average line would spend less than 20,000 Afs. (294 USD) per month on food needs. As the income increases, the amount of money spent on basic food increases as well.

Correlation test:

The R^2 result is 0.372, which means that household expenditure is 37 percent determined by the level of their income. As the line indicates, there is a positive relationship between income and expenditure. A higher degree of income is associated with higher household income as compared to lower levels. The below graph presents the correlation between household income and expenditure on food items.

Correlation: Household income and food expenditure

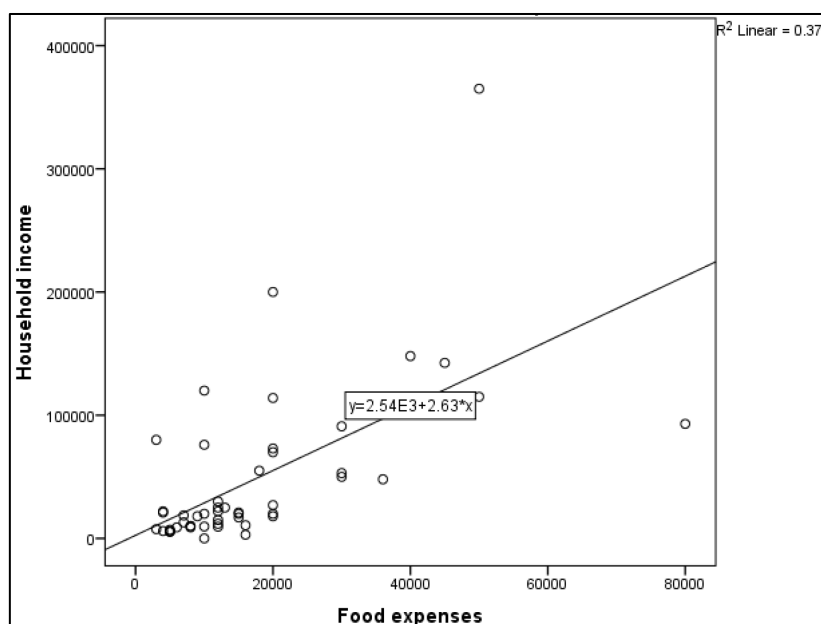


Figure 42 correlation: household income and food expenditure

The below graph represents how different income quartiles spend their income on basic food needs. Monthly expenses from 3,000 Afs. (44 USD) to 20,000 Afs. (294 USD) is associated with households that earn less than the average income. Households who spend more than 20,000 Afs. (294 USD) have an income above the average level. Below graph shows different income classes and their respective monthly expenditure:

Household income and food expenditure

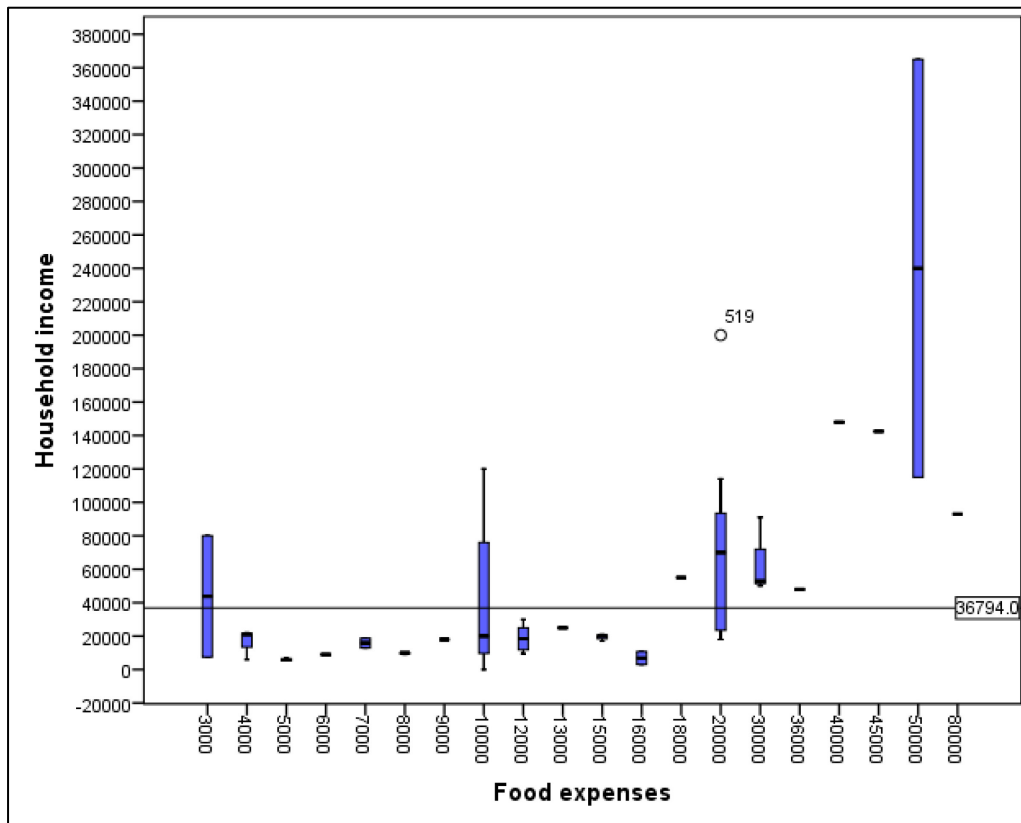


Figure 43 Household income and food expenditure

Test of Significance:

ANOVA test shows a significant difference between the average income and average expenditure on food.

ANOVA Table

	Sum of Squares	df	Mean Square	F	Sig.
Food expenses *Groups	10713920000.000	39	274715897.436	13.336	.000
Household income Linearity	4065584460.419	1	4065584460.419	197.358	.000

Deviation from Linearity	6648335539.581	38	174956198.410	8.493	.001
Within Groups	206000000.000	10	206000000.000		
Total	10919920000.000	49			

Table 41 ANOVA result for food needs and income

Summary

Indicator	Test of significance
Expenditure on food as a factor of income	Significant

Expenditure on non-food item:

41 households have provided data about their expenses on non-food items. The average non-food expenses, such as for clothes, shoes, and other general needs is 5,081 Afs. (75 USD) with a median of 3,000 Afs. (44 USD) per month for households.

Statistics

Non-food expenses

N	Valid	41
	Missing	69
Mean		5081.46
Median		3000.00
Mode		10000
Std. Deviation		4337.648
Skewness		1.249
Std. Error of Skewness		.369
Kurtosis		1.431
Std. Error of Kurtosis		.724
Minimum		500
Maximum		19140
Sum		208340

Figure 44 expenditure on non-food items

Test of significant:

One way ANOVA shows no significant difference between household income and Non-food expenses at a 95% confidence level.

ANOVA

Non-food expenses

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	672195845.528	33	20369571.077	1.773	.221
Within Groups	80411666.667	7	11487380.952		
Total	752607512.195	40			

Table 42 ANOVA test result for Non-food expenses

Summary

Indicator	Test of significance
Expenditure on Non-food as factor of income	Insignificant

House rent:

39 households have provided the amount of money they pay for monthly rent. The average rent for a household is 6,816 Afs. (100 USD), with a median of 5,000 Afs. (73 USD) per month of these 39 households.

These figures seem relatively lower than what would be the rent for a typical house/apartment in Kabul city at least. an average apartment with 3 rooms located in a nice neighborhood in Kabul would cost around 300 USD per month. one reason for such lower figures on rent could be that those who are well off, are having their own houses, and do not pay any rent at all. On the other hand, the poor families live in remote and not well-furnished houses, which has a relatively lower rent. Household living in rural areas mostly does not pay any rent since they would have their own houses.

Statistics

House rent

N	Valid	39
	Missing	71
Mean		6816.90
Median		5000.00
Mode		3000
Std. Deviation		8799.696
Skewness		2.673
Std. Error of Skewness		.378
Kurtosis		7.382
Std. Error of Kurtosis		.741
Minimum		0
Maximum		40800
Sum		265859

Figure 45 Household expenditure on rent

Test of significance:

There is no significant difference between household income and the monthly rent.

ANOVA

House rent

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2555393706.42	30	85179790.214	1.760	.205
Within Groups	387122679.167	8	48390334.896		
Total	2942516385.59	38			

Table 43 ANOVA test for rent

Summary:

Indicator	Test of significance
Household rent expense as a factor of household income	Insignificant

Monthly bills:

55 households provided the amount of their monthly bill which are fixed for every month. These bills may include monthly electricity bills, tuition fees for children's school, and university fees; excluding the rent and food and non-food expenses presented above.

The average monthly bill a family pay is 6,623 Afs. (97 USD), with a median of 3,000 Afs. (44 USD). There is a huge difference between the mean and the median and one reason could be that families that pay private school or university fees have higher monthly bills, than those who do not, given that some of the respondents to this survey are those who study in private universities.

Statistics

Other bills

N	Valid	55
	Missing	55
Mean		6623.24
Median		3000.00
Mode		10000
Std. Deviation		9898.173
Skewness		3.780
Std. Error of Skewness		.322
Kurtosis		17.230
Std. Error of Kurtosis		.634
Minimum		200
Maximum		60000
Sum		364278

Figure 46 household expenditure on monthly bills

Test of significance:

There is a significant difference between the amount of bills paid and household income.

ANOVA

Other bills

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5230190281.261	44	118867960.938	19.681	.000
Within Groups	60396666.667	10	6039666.667		
Total	5290586947.927	54			

Table 44 ANOVA for Household bills

Summary

Indicator	Test of significance
Household bills expenses as a factor of household income	significant

Total household expenditure:

The total household expenditure is the monthly amount of money a household spends to cover their both basic needs and wants. It is a lump-sum amount provided by the respondents to express their all expenditure on average in a month including on the items mentioned above, such as food, non-food, rent, and other bills. This amount is an estimation for a normal month, provided by the respondents, and may not correspond to actual expenditure of the household in each month for example. Also, since several members of the households contribute to the expenditure of the household, or some members might have extra individual expenses, this data should be considered an estimation. The statistics provided below has 1 missing case out of 110 households.

As the data shows, the average household expenditure is 23,892 Afs. (350 USD) per month. The lowest 50 percent of the households spent up to 17,000 Afs. (250 USD) per month, which shows a difference of 100 USD between mean and median. Most of families repeatedly mentioned that their monthly expenses are 10,000 Afs. (147 USD). The minimum amount is 4,500 Afs. (66 USD) with a maximum amount of 89,000 Afs. (1308 USD) per month.

The standard deviation, explaining how much data varies around the mean value, is 19,035 Afs. (280 USD). Standard deviation is quite large given the average expenditure of a household being 23,892 Afs. (350 USD). The total expenditure of all 109 households in a month equals to 2,604,322 Afs. (38,298 USD). This amount is well below total individual income, which is

4,193,840 Afs (61,674 USD) for 175 working individuals in the sample size. The difference amount could represent saving, which will further explore later.

Statistics

Total household expenditure

N	Valid	109
	Missing	1
Mean		23892.86
Median		17000.00
Mode		10000
Std. Deviation		19035.620
Skewness		1.635
Std. Error of Skewness		.231
Kurtosis		2.252
Std. Error of Kurtosis		.459
Minimum		4500
Maximum		89000
Sum		2604322
Percentiles	25	10000.00
	50	17000.00
	75	30000.00

Table 45 total household expenditure

Test of significance:

There is a significant difference between the total household expenditure and their monthly income. This means that household which have higher income, also spends much more in terms of total household expenditure as compared to low-income households. In low-income households, expenditure is mostly adjusted to income, since the level of their income may not be enough for all the needs and wants of the family.

ANOVA

Total HH expenditure

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	33006355959.888	71	464878252.956	2.807	.000
Within Groups	6127965451.048	37	165620687.866		
Total	39134321410.936	108			

Table 46 ANOVA for Household total expenditure

Distribution of expenditure in income quartiles

Here the difference in household expenditure is analyzed based on their income quartiles. The first quartile consisting of the lowest 25 percent of households has a monthly expenditure of 10,000 Afs, (147 USD) and the second quartile, 17,000 Afs. (250 USD) per month. The third quartile expenditure is up to 30,000 Afs. (441 USD) per month, and the top fourth quartile (the top 25 percent of households) up to about 54,000 Afs. (794 USD) per month.

comparing the total expenditure of lowest 25 percent (10,000 Afs), with the expenditure of upper 25 percent of households (54,000 Afs.), shows that the upper 25 percent has expenditure 5 times more than the lower 25 percent. The expenditure of the upper 25 percent is almost equal to the expenditure of the remaining 75 percent of households. This confirms the inequality in income with a similar result of 25 percent of households earning 74 percent of income (refer to Gini Coefficient analysis). Below graph shows expenditure distribution in 4 quartiles:

Household expenditure in quartile

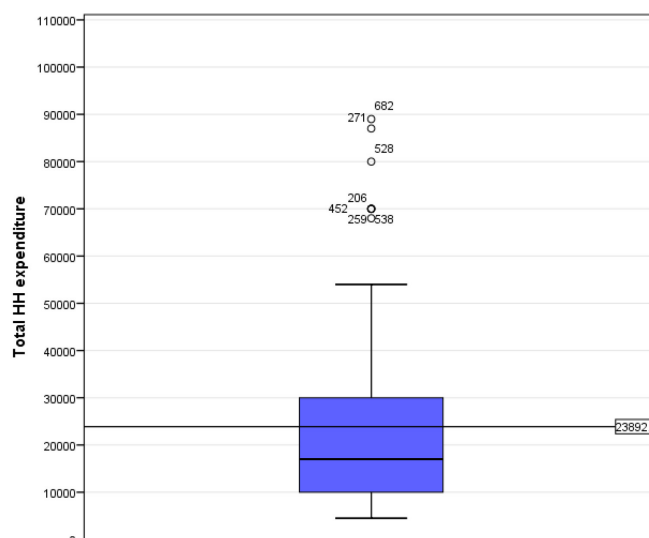


Table 47 household expenditure in quartiles

Below Histogram shows the distribution of household expenditure in frequencies, with mean (23,892 Afs) and median values (17,000 Afs.).

Total Household expenditure in frequencies

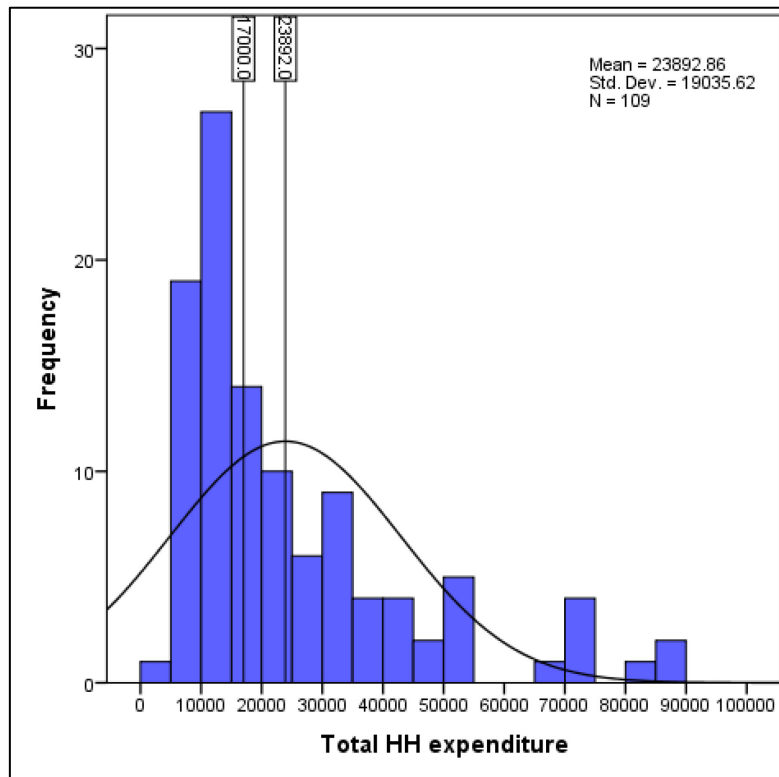


Table 48 total household expenditure in frequencies

Comparing household income and expenditure

Comparing household income and expenditure provides an inside on how families spend their income. It is also a good indicator to see how much households may save from their income, which is not spent at the moment, and would be used for future expenditure and investment.

Below, the household income and expenditure statistics are presented. The average monthly income is 36,794 Afs. (541 USD) and the average monthly expenditure for a family is 23,892 Afs. (351 USD). Based on this calculation, the average saving for a household would be 12,902 Afs. (198 USD) per month. It shows that on average, household saves 36 percent of their income, and spends the remaining amount for household needs and wants.

The lowest 50 percent of household earns up to 15,000 Afs. (220 USD) per month, however, the expenditure of the lowest 50 percent of households is 17,000 Afs. (250 USD) per month. It could be an indicator that those who are in the lowest 50 percent of income are not able to meet all their family needs through their income only. The lowest 50 % of the household can save, and even they might use their previous saving or other sources to complement their household's

monthly expenditure. There is a gap of 2,000 Afs. (29 USD) per month for each family to cover their family expenditure each month.

Quartile data could be very useful to compare income and expenditure. The first quartile who earns 8,750 Afs. (128 USD) has a corresponding 10,000 Afs. (147 USD) of monthly expenditure. This shows that the income of the lowest 25 percent household is not enough to meet their expenditure, and there is a shortage of 1,250 Afs. (18 USD) monthly.

As the income increases in the second quartile to 15,000 Afs. (220 USD), household expenditure also increases to 17,000 Afs. (250 USD). In the second quartile of income, there is still a gap of 2,000 Afs. (30 USD) per month to meet the household's expenditure.

This shows that there is a strong correlation between household income and expenditure. It also makes it clear that even the income of the lowest 50 % of the households are not enough to meet the expenditure of the household.

As the income group reaches the third quartile, their income is 38,375 (564 USD) Afs per month. Their respective expenditure of the same quartile is 30,000 Afs. (441 USD) per month. Only at the third quartile of the income, households can fully meet their household expenditure. Not only that, but they also have a surplus of 8,375 Afs. (123 USD) per month as savings.

The top 25 percent has an income of up to 80,000 Afs. (1,176 USD) and their corresponding level of expenditure in this class is around 54,000 Afs. (794 USD) per month. Even at this stage, an increase in income is associated with higher expenditure. the top 25 % of the households have an income surplus of 26,000 Afs. (382 USD) on average per month. the upper 25 % of households save 32 percent of their income. Although the saving percentage is lower than the total average of 36 percent, 32 percent of the large amount is more than the 36 percent of a smaller amount.

Below graphs compare household income and their respective expenditure in four quartiles. As we can see, the upper 25 percent of households have the largest share in both income as well as in expenditure graphs. The expenditure of the top 25 percent of households is almost the same size as the total of remaining lower 75 percent of households. In the case of their incomes, the top 25 percent receive an income more than the income of the remaining 75 percent households as well.

Income and expenditure quartile comparison

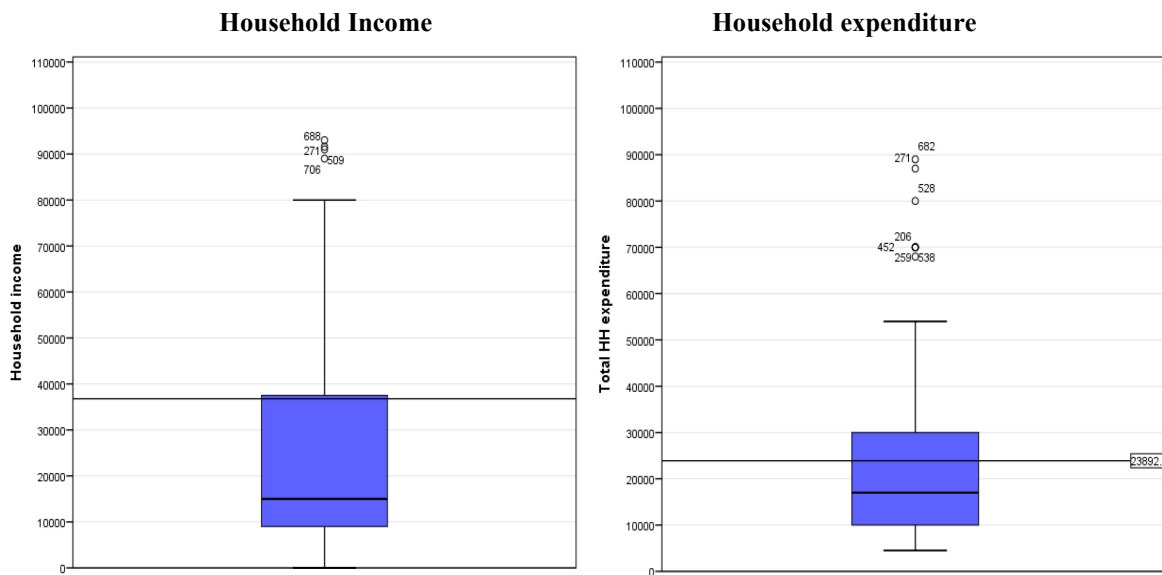


Table 49 Household expenditure and income in quartiles

Below table provides comparative statistics for both household income and expenditure:

Statistics			Statistics		
Household income			Total HH expenditure		
N	Valid	110	N	Valid	109
	Missing	0		Missing	1
Mean		36794.00	Mean		23892.86
Median		15000.00	Median		17000.00
Mode		0	Mode		10000
Std. Deviation		58142.147	Std. Deviation		19035.620
Skewness		3.393	Skewness		1.635
Std. Error of Skewness		.230	Std. Error of Skewness		.231
Kurtosis		13.966	Kurtosis		2.252
Std. Error of Kurtosis		.457	Std. Error of Kurtosis		.459
Minimum		0	Minimum		4500
Maximum		365000	Maximum		89000
Sum		4047340	Sum		2604322
Percentiles	25	8750.00	Percentiles	25	10000.00
	50	15000.00		50	17000.00
	75	38375.00		75	30000.00

Table 50 Household income and expenditure statistics for comparative analysis

Correlation between Household income and expenditure

Higher household incomes are associated with higher household expenditure. Households with lower expenditures are mostly below the average total income line. On the other hand, families with higher incomes have a relatively higher average expenditure as well.

Using the Pearson Correlation Coefficient, there is a significant (.501) level of correlation (p-value of 0.01) between household income and household expenditure. Pearson Correlation Coefficient denoted by (R), which is used to measure the extent and nature of the relationship between two variables, gives a result of (0.510), calculated on the data from 100 households. The results show a positive linear relationship between household income and expenditure. Using the Ordinary Least Square method (OLS), the slope of the line is 1.55 and the intercept is 49, confirming a linear positive relationship between these two variables.

Below two table provides the statistical tests and its result:

		Household income	Total HH expenditure
Household income	Pearson Correlation	1	.501**
	Sig. (2-tailed)		.000
	N	110	109
Total HH expenditure	Pearson Correlation	.501**	1
	Sig. (2-tailed)	.000	
	N	109	109

** . Correlation is significant at the 0.01 level (2-tailed).

Table 51 correlation between income and expenditure

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.501 ^a	.251	.244	16549.412

a. Predictors: (Constant), Household income

b. Dependent Variable: Total HH expenditure

Table 52 Model Summary income and expenditure

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17817.159	1881.837		9.468	.000
	Household income	.164	.027	.501	5.991	.000

a. Dependent Variable: Total HH expenditure
 Table 53 Coefficients income and expenditure

There is a positive relationship between household income and expenditure with a significant level of association p-value of 0.000.

The below graph shows the linear positive relationship between household income and expenditure. household expenditure is 25 percent explained by Household income as shown by R^2 result.

Correlation between household income and expenditure

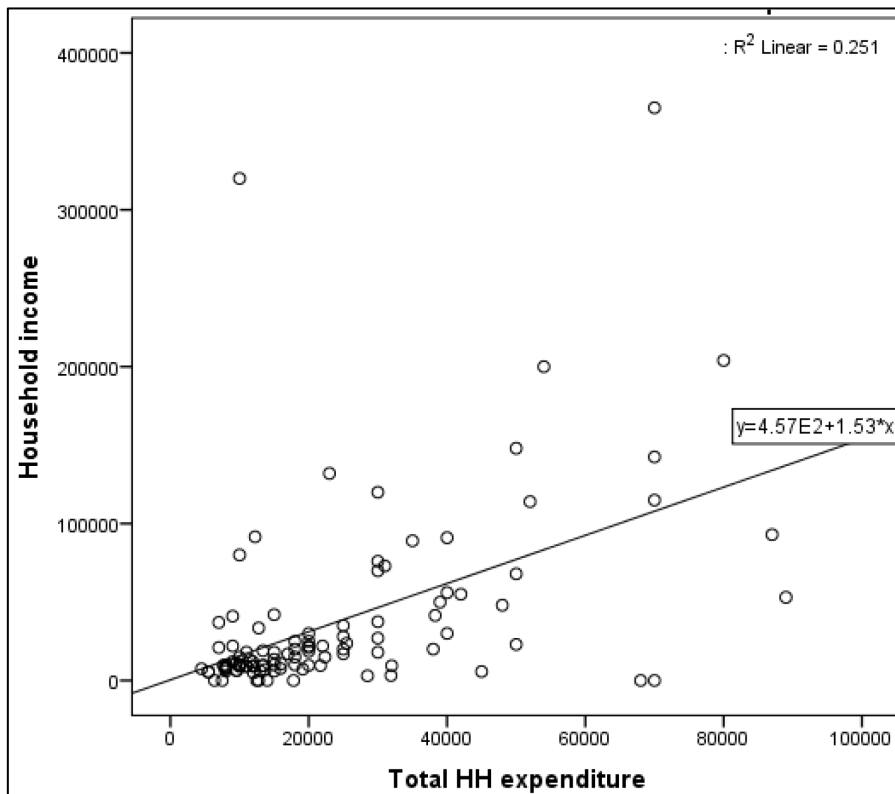


Figure 47 Correlation between income and total household expenditure

Household income and expenditure compared to average income

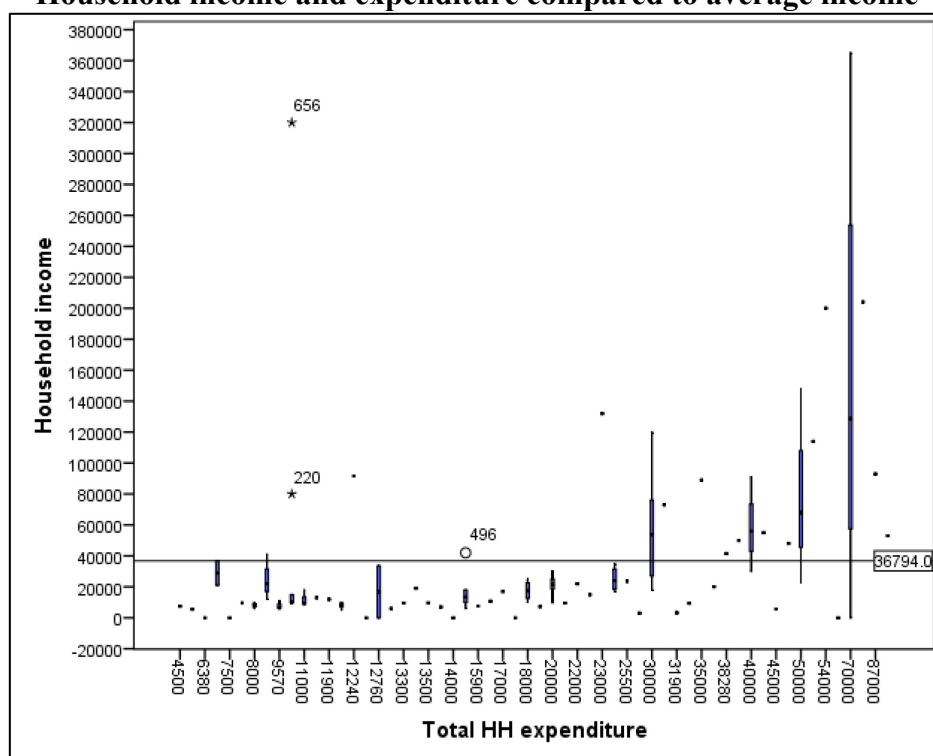


Figure 48 Household expenditure compared to mean income

The relationship between income and expenditure is already clear. However, the explanation above was to provide an overview that those with lower income are not able to meet their family expenses, or that their income has limited their ability to spend more on their household both food and non-food needs and wants.

It is also made clear that those earning below-average income have lower expenditures than those whose income lies above the average line. Meanwhile, it is obvious from the data that the lowest 50 percent of households spent a larger portion of their income on expenditure, while the upper 50 percent can meet their household expenditure and as well as save money from their income.

Indicator	Test of significance
Household saving as factor of household income	significant

Saving, investment and loan

Earned income would be either consumed, invested, or saved for future consumption. To understand what the remaining part of the income is being used after meeting household expenditure, households are asked about their monthly savings and investment. They are also asked if they have debts, or if they have given loan to others. Also, respondents are asked if they have a bank account in a bank, where they would save money, or at least have access to basic financial services provided by banks.

To understand more about the economic situation of households, they are asked if they have obtained a loan in the past or have given loans to others. In Afghanistan, it is common to ask for a loan from your relatives, family members, and friends, when you are in dire need of money. Most of the time, one would receive such loan for both short or long term, without paying any interest rate or any other charges. The repayment time of loan depends upon mutual agreement, and when the indebted is in position to repay the debt. The extended family of a household, therefore, serves as a safety net in cases of economic shock.

Relatives and family members are well aware of each other's income and economic conditions; therefore, it is easy for them to give loans to the family who needs it. Also, there is no need for any collateral among relatives and family members for obtaining loans, because of mutual trust and long-term relationships. In most cases, no interest is charged on such loans, as interest is prohibited in Islam.

One method to calculate the savings is to subtract total expenditure from their total household income. this method was used in the saving section of this report. Here, respondents were explicitly asked if they can save from their monthly income. Only 18 percent of respondents said that they have saved money in the last month. the remaining 82 percent have not saved money in the last month at least.

Savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	85	77.3	81.7	81.7
	Yes	19	17.3	18.3	100.0
	Total	104	94.5	100.0	
Missing		6	5.5		
Total		110	100.0		

Table 54 Monthly savings from income

When they are asked about the amount of the saving, only 9 households responded. The average saving of these 9 households is 27,388 Afs. (400 USD), with a minimum of 500 Afs. (7 USD) to a maximum of 100,000 Afs. (1470 USD) per month.

The below chart shows saving in different income quartiles. This calculation is based on the formula of saving equals total income minus total expenditure ($s=y-e$). since about 50 percent of respondents are not able to meet their expenditure from their monthly income, they have a negative saving.

The below analysis is based on the income minus expenditure model.

Household monthly savings (income minus expenditure)

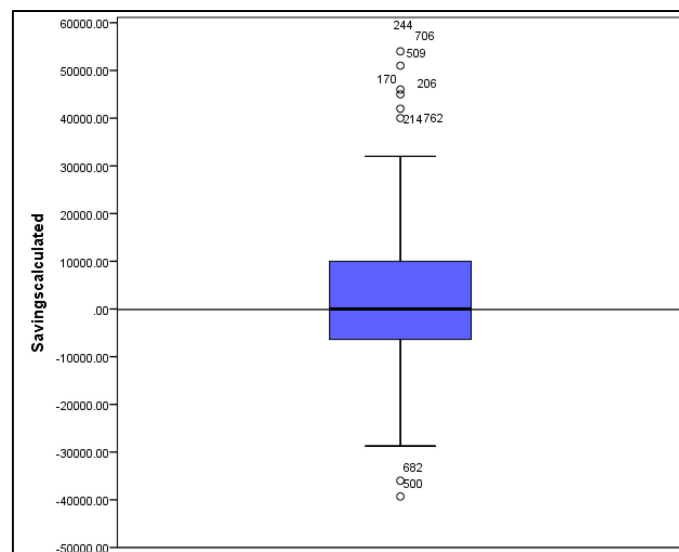


Figure 49 Household savings (calculated based on income and expenditure)

As the above graph shows, the lowest 50 percent of households have a zero saving, or either minus saving. Only households in the top two quartiles can save from their income using the income minus expenditure method.

Below table presents calculated statistics about savings in sampled households:

Statistics

Savings

N	Valid	9
	Missing	101
Mean		27388.89
Median		15000.00
Mode		500 ^a
Std. Deviation		32281.746

Variance		1042111111.
		111
Minimum		500
Maximum		100000
Sum		246500
Percentiles	25	3500.00
	50	15000.00
	75	46000.00

a. Multiple modes exist. The smallest value is shown

Table 55 calculated savings for households

Test of significance:

There is a statistically difference between the mean income of households and saving at a 95% confidence interval.

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Household income	Equal variances assumed	2.217	.140	2.663	102	.009	34509.300	12957.840	8807.486	60211.115
	Equal variances not assumed			1.859	20.491	.077	34509.300	18564.630	4156.455	-

Table 56 T-Test results for income and saving

Summary

Indicator	Test of significance
Household savings as factor of household income	significant

Bank account:

Several commercial banks are active in Afghanistan, which provides financial services. Most of formal jobs transfer the monthly salary of their staff through banks. Such banking facilities are mostly free of cost. The main reason behind asking this question was to see if respondents have saved in their bank account. However, since most of them did not feel comfortable sharing such information, the question was limited to be answered in “yes” or “no” form.

Out of 110 households, 64 households responded to this question. 75 percent of the household said that they do not have any bank account, and the remaining 25 percent said that they have a bank account. The amount of their savings in the bank was not provided by most of the respondents, therefore it is not presented.

Having a Bank Account

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	48	43.6	75.0	75.0
	Yes	16	14.5	25.0	100.0
	Total	64	58.2	100.0	
Missing		46	41.8		
Total		110	100.0		

Table 57 Having a Bank account by households

Test of significance:

There is a significant difference between having a bank account and household’s monthly income at a 95% level of significance.

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper

Household income	Equal variances assumed	11.221	.001	3.431	62	.001	51263.750	14943.057	21393.005	81134.495
	Equal variances not assumed			2.252	16.268	.038	51263.750	22760.568	3077.988	99449.512

Table 58 T-Test for having a bank account

Summary

Indicator	Test of significance
Having a bank account as a factor of household income	significant

Indebtedness:

46 households (42 percent) said that they are indebted and have obtained loans from a source. The average amount of debt per household is 37,820 Afs. (556 USD). That is a bit more than the amount of average income of the sampled household in a month. the minimum amount of loan is 5,000 Afs. (73 USD) and the maximum is 82,940 Afs. (1,220 USD).

Statistics Indebtedness

N	Valid	46
	Missing	64
Mean		37820.87
Median		32000.00
Mode		50000
Std. Deviation		23449.079
Variance		549859283.67
Minimum		5000
Maximum		82940
Sum		1739760
Percentiles	25	19500.00
	50	32000.00
	75	53450.00

Table 59 amount of debt

The below graph shows the level of income and level of debt that households have in comparison. There is a positive relationship $\{R^2 (0.025)\}$ between the level of income and indebtedness. This variable is defined at a lower percentage however.

Correlation between income and indebtedness

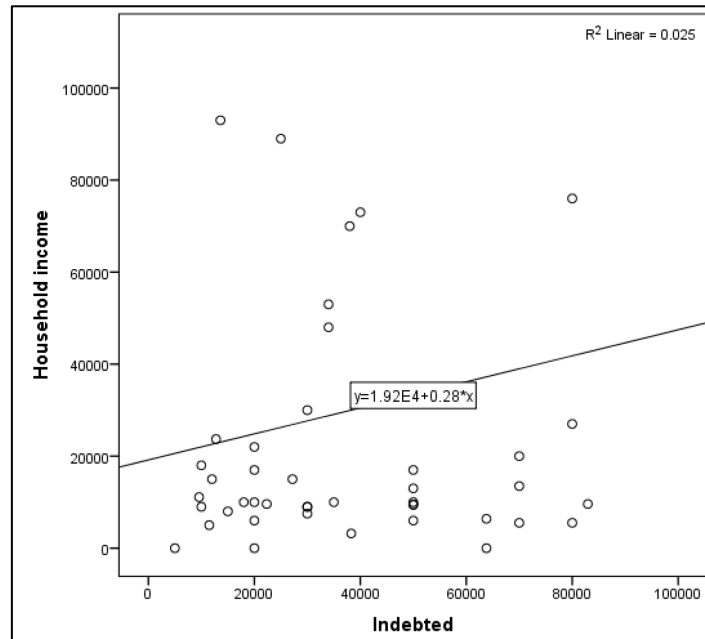


Figure 50 Correlation Household income to level indebtedness

Test of significance:

There is no significant difference between household income and indebtedness.

ANOVA

Indebted

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	19040985048.5	33	576999546.926	1.214	.374
Within Groups	5702682716.66	12	475223559.722		
Total	24743667765.2	45			

Table 60 ANOVA test for indebtedness

Summary

Indicator	Test of significance
Household indebtedness as a factor of household income	insignificant

Offering loan

Only 15 households have provided loans to others. The average loan given to the other is 134,733 Afs. (1,981 USD). The amount of loan given to others is much higher in general, as compared to average income or average loan obtained by households. Only a few households have provided loans to others which means that only a few household numbers are in a better position to pay a higher amount of loan to those in need.

Statistics

loan to others

N	Valid	15
	Missing	95
Mean		134733.33
Median		80000.00
Mode		20000 ^a
Std. Deviation		175180.620
Variance		30688249523
		.810
Minimum		7000
Maximum		700000
Sum		2021000
Percentiles	25	20000.00
	50	80000.00
	75	150000.00

a. Multiple modes exist. The smallest value is shown

Table 61 Loan to others

Test of significance:

There is no significant difference between household income and giving loans to others.

ANOVA

Debt to others

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	428022373333. 333	13	32924797948.7 18	20.411	.172
Within Groups	1613120000.00 0	1	1613120000.00 0		
Total	429635493333. 333	14			

Table 62 ANOVA test for giving loan to others

Summary

Indicator	Test of significance
Giving loan to others as a factor of household income	insignificant

Investment:

Only 4 households have mentioned that they used their saving for investment, which is negligible to be analyzed and presented.

Living condition:

Household's food needs:

Households are asked if their family income is enough to meet their basic food needs. 107 out of 110 households responded to this question. As the below pie chart indicates, 50 percent of households can fully meet their basic food needs, 32 percent partially, and the remaining 28 percent are not able to meet their basic food needs given their income.

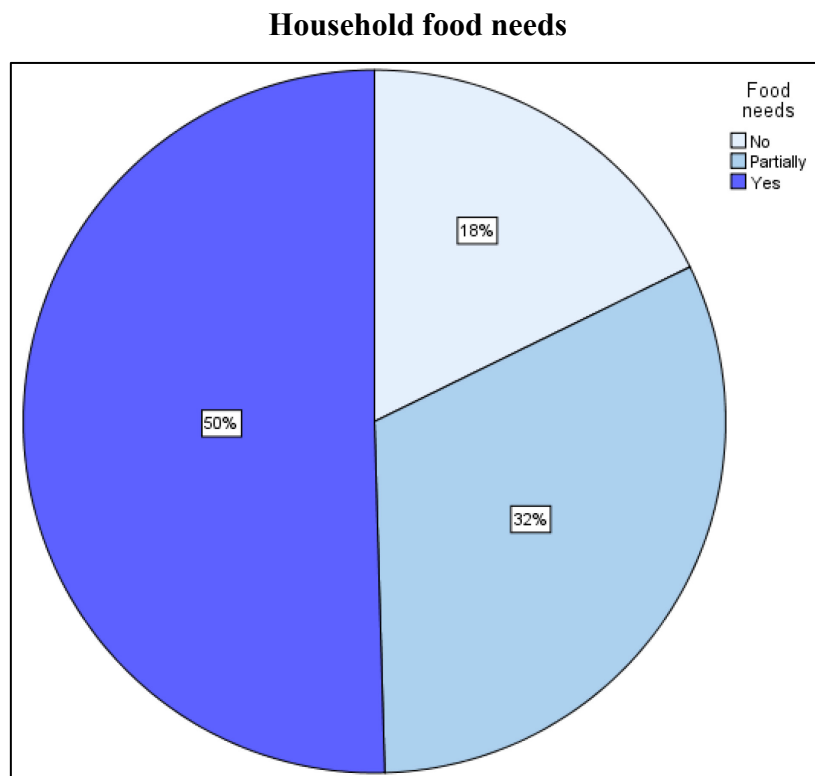


Figure 51 Affording Household food needs

This finding is in line with the estimated 50% or above poverty rate in the country, as it was calculated above in poverty rate estimation. Respondents were asked if they can support their families with their income in terms of meeting the basic food needs. their responses were categorized as “Yes”, “Partially”, and “No”.

Those who can partially meet their family food needs (32 %), might not have an appropriate diet and healthy living condition, however, they would still have a sustenance for their life. Those who said that their income is not enough for their food needs (18 %) would be the poor families, and live a miserable life, though most of them are working, but their income is not sufficient for their family's basic food needs. however, they might use an alternative source to feed their family, including taking a loan, depending on other larger family members, or any other source.

Household income and food needs:

When household income is compared to “meeting basic household’s food needs”, it is visible that families that have a lower income are less likely to meet their food needs. the average income of a household who does not meet their family’s basic food needs is 9,521 Afs. (140 USD) per month. those who partially meet food needs have an average income of 14,515 Afs. (213 USD) per month. Families that are in a position to meet family’s food needs have a higher average income of 55,850 Afs. (821 USD) per month. The average income of those who are not able to meet food needs is only 17 percent of the income of those who can meet their food needs. from this statistic, a conclusion could be drawn that income directly affects if a household can meet the basic food needs of a household or not.

Meeting household food needs compared to income

Food needs		Statistic	Std. Error	
No	Mean	9521.05	1368.112	
	95% Confidence Interval for Mean	Lower Bound	6646.76	
		Upper Bound	12395.35	
	5% Trimmed Mean	9412.28		
	Median	9700.00		
	Variance	35562865.497		
	Std. Deviation	5963.461		
	Minimum	0		
	Maximum	21000		
	Range	21000		
	Interquartile Range	5900		
	Skewness	.161	.524	
	Kurtosis	.021	1.014	
Partially	Mean	14515.59	2359.242	
	95% Confidence Interval for Mean	Lower Bound	9715.67	
		Upper Bound	19315.50	
	5% Trimmed Mean	12576.14		
	Median	9800.00		
	Variance	189244807.219		
	Std. Deviation	13756.628		

	Minimum		0	
	Maximum		73000	
	Range		73000	
	Interquartile Range		11043	
	Skewness		2.859	.403
	Kurtosis		10.021	.788
Yes	Mean		55850.19	8953.131
	95% Confidence Interval for Mean	Lower Bound	37892.48	
		Upper Bound	73807.89	
	5% Trimmed Mean		47467.28	
	Median		31750.00	
	Variance		4328561590.531	
	Std. Deviation		65791.805	
	Minimum		0	
	Maximum		365000	
	Range		365000	
	Interquartile Range		70475	
	Skewness		2.491	.325
	Kurtosis		8.514	.639

Table 63 meeting household needs compared by level of income

In the below graph, the difference in the level of income is compared if the households can meet their basic food needs using their household income. those who do not meet, or partially meet their household needs have an income below the total average. Almost 50 percent of those who meet their basic food needs have an income above the total average.

Household food need compared to income levels

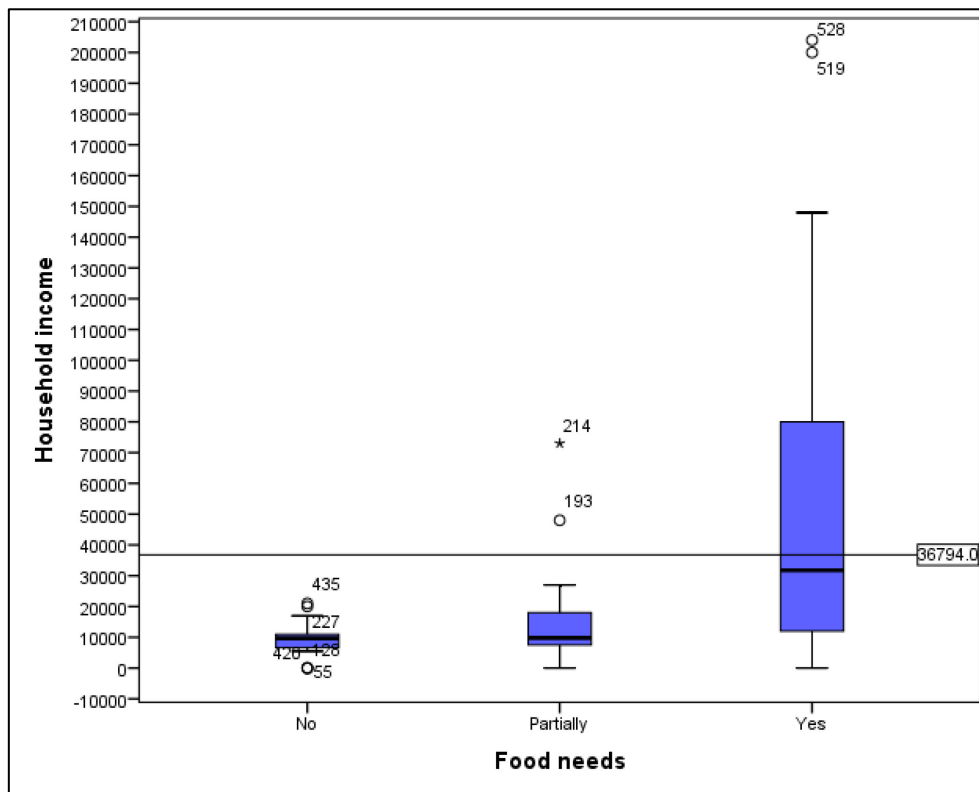


Figure 52 meeting household's food needs

As the above graph indicates, those families who cannot meet their basic food needs, or partially meet their food needs have an income below the total average of the sample size. It is clear that while those who have income, would definitely be able to purchase food, but they also have other expenses to cover, such as house rent, and medical expenses. As a result, their income would not be able to meet their food needs, if they have other pressing obligations, such as house rent. alternatively, these households may have other sources of income or ways of financing their food needs. Generally, there is a clear link between the level of income and meeting the food needs of the households.

It is should be obvious that these households would use other sources than income, or through the transfer of money from relatives in-kind, or any other means to feed their family. However, that would not be a sustainable and self-reliant living condition with dignity. The groups which are not able to meet their food needs (18 percent) and those who partially meet their food needs (32 percent) could be considered poor households (51 percent of households), because they are not able to meet their family basic food needs.

Test of significance:

There is a significant difference between the mean income of the household who does not meet, partially, and fully meet their household food needs at a 95% confidence level.

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	50048646108.968	2	25024323054.484	11.014	.000
Within Groups	236298974515.331	104	2272105524.186		
Total	286347620624.299	106			

Table 64 ANOVA meeting household food needs

Tukey test identifies that the significant difference in mean at 95% confidence level is positive for categories between “Yes” and “No” and “Partially”, Between “Partially” and “Yes”, but not for categories “No” and “Partially”.

Multiple Comparisons

Dependent Variable: Household income

Tukey HSD

(I) Food needs	(J) Food needs	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
No	Partially	-4994.536	13653.246	.929	-37458.31	27469.24
	Yes	-46329.133*	12714.579	.001	-76561.01	-16097.25
Partially	No	4994.536	13653.246	.929	-27469.24	37458.31
	Yes	-41334.597*	10435.644	.000	-66147.78	-16521.42
Yes	No	46329.133*	12714.579	.001	16097.25	76561.01
	Partially	41334.597*	10435.644	.000	16521.42	66147.78

*. The mean difference is significant at the 0.05 level.

Meeting household total needs:

Respondents are asked, to what extend their family income is enough to meet their household’s total needs. 2 respondents have not answered to this question out of 110 respondents. As the below table indicates, almost 15 percent said that their income is not enough for their family’s total needs. More than half (53 percent) said that their income partially meets their family needs, and only 32 percent said that their income is enough to meet all family’s needs.

Below graph shows the data in pie chart format:

Affording all household needs

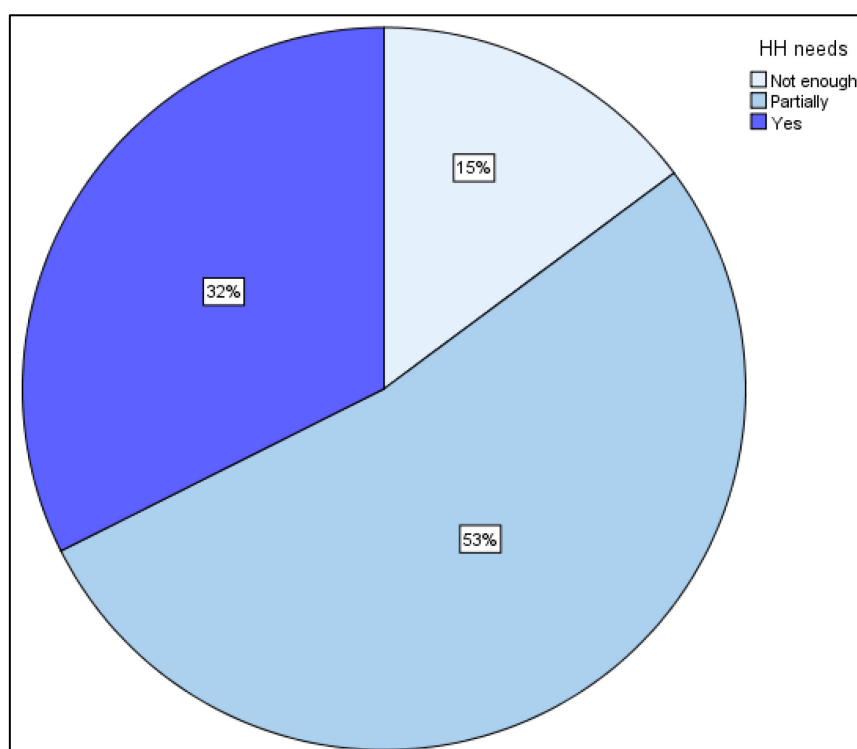


Figure 53 affording total household needs

The average income of families that are not able to meet all household needs from their income is 8,781 Afs. (129 USD) per month [9,500 Afs. Median (139 USD)]. Those who partially afford have an average income of 18,023 Afs. (265 USD) [Median 10,700 Afs. (157 USD)], and those who afford all needs of the household have an average income of 81,214 Afs. (1,194 USD) [Median 53,000 Afs. (779 USD)]. Higher-income levels are associated with meeting all household needs.

Below table provides detailed statistics about household income and meeting all household needs:

Descriptive statistic about household income and meeting all needs

	HH needs		Statistic	Std. Error	
Household income	No	Mean	8781.25	1376.082	
		95% Confidence Interval for Mean	Lower Bound	5848.20	
			Upper Bound	11714.30	
		5% Trimmed Mean	8718.06		
		Median	9500.00		
		Variance	30297625.000		
		Std. Deviation	5504.328		
		Minimum	0		

		Maximum	18700		
		Range	18700		
		Interquartile Range	4000		
		Skewness	-.133	.564	
		Kurtosis	-.051	1.091	
	Partially	Mean	18023.16	2749.869	
		95% Confidence Interval for Mean	Lower Bound	12514.51	
			Upper Bound	23531.81	
			5% Trimmed Mean	15034.50	
			Median	10700.00	
			Variance	431021471.99	
				2	
			Std. Deviation	20761.057	
			Minimum	0	
			Maximum	114000	
			Range	114000	
			Interquartile Range	13650	
			Skewness	2.912	.316
			Kurtosis	9.413	.623
	Yes	Mean	81214.86	14225.923	
		95% Confidence Interval for Mean	Lower Bound	52304.30	
			Upper Bound	110125.41	
			5% Trimmed Mean	71032.38	
			Median	53000.00	
			Variance	7083191308.0	
				67	
			Std. Deviation	84161.697	
			Minimum	0	
			Maximum	365000	
			Range	365000	
			Interquartile Range	87000	
			Skewness	1.935	.398
			Kurtosis	4.033	.778

Table 65 Household income and meeting household all needs

Test of significance:

There is a significant difference between the mean income of the households for the three categories (Yes, Partially, No) of household regarding affording their all household needs, at a 95 % confidence interval.

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	101689107885.802	2	50844553942.901	20.114	.000
Within Groups	265420171280.865	105	2527811155.056		
Total	367109279166.667	107			

Table 66 ANOVA test for household affording all needs

Tukey test identifies the statistically significant categories. There is a difference between the mean income of “No” and “Partially” with “Yes” responses, but no significant between “No” and “Partially” responses.

Multiple Comparisons

Dependent Variable: Household income

Tukey HSD

(I) HH all needs	(J) HH all needs	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
No	Partially	-9241.908	14224.478	.793	-43059.26	24575.44
	Yes	-72433.607*	15172.718	.000	-108505.31	-36361.91
Partially	No	9241.908	14224.478	.793	-24575.44	43059.26
	Yes	-63191.699*	10796.793	.000	-88860.05	-37523.35
Yes	No	72433.607*	15172.718	.000	36361.91	108505.31
	Partially	63191.699*	10796.793	.000	37523.35	88860.05

*. The mean difference is significant at the 0.05 level.

Table 67 Tukey test for affording all household needs

Hospital preference:

As a proxy indicator, households are asked if they would visit the public or private hospital in case of any sickness. In recent years, an increasing number of private hospitals are being established in Afghanistan, which provides relatively better health services as compared to the public. Private hospitals charge a higher fee for their services. Mostly, the poor would not be able to get a treatment in a private hospital due to the associated high fees; instead would go to a public hospital. Public hospitals, on the other hand, are crowded and the quality of services provided is much lower than private hospitals.

The below table indicates that almost 55 percent of the household would visit a public hospital in case of any sickness. The remaining 37 percent would prefer private hospitals. 8 percent

would go either to private or public, given the type of sickness or their preferences at a given time.

Below graph presents the percentage in pie chart format:

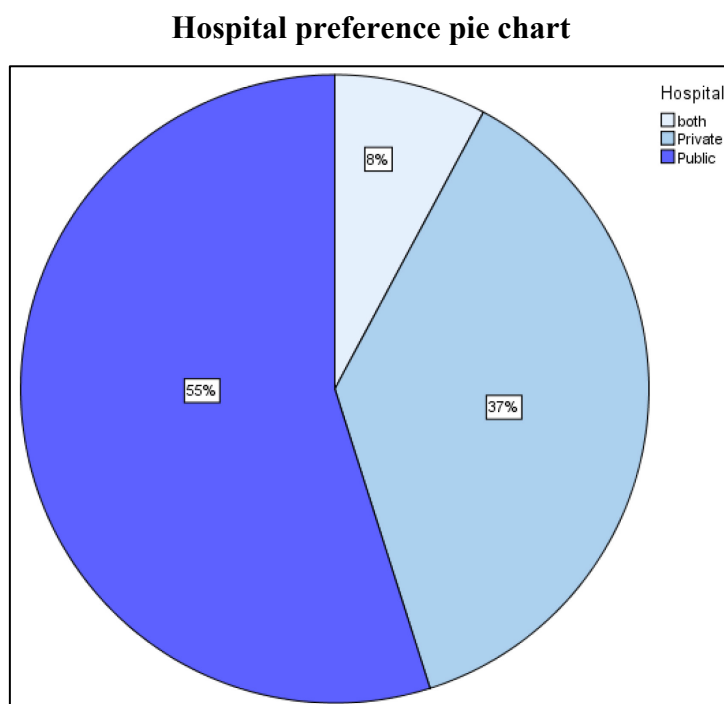


Figure 54 hospital preferences by percentage

That household who prefer private hospital has an average income of 55,022 Afs. (809 USD) per month [median 24,000 Afs. (352 USD)], and those who prefer public hospital has an average income of 23,213 Afs. (341 USD) [median 10,900 Afs. (160 USD)] per month. Those who would go to both public and private hospital has an average income of 28,848 Afs. (424 USD) [median 11,000 Afs. (161 USD)] per month. Higher-income households prefer private hospitals, as compared to low-income households.

The below table provides detailed statistics about hospital preferences by respondents.

Descriptive statistic about hospital preference based on income

		Hospital	Statistic	Std. Error	
Household income	both	Mean	28848.75	13949.356	
		95% Confidence Interval for Mean	Lower Bound	-4136.23	
			Upper Bound	61833.73	
		5% Trimmed Mean	26887.50		
		Median	11000.00		
		Variance	1556676155.35		
			7		

		Std. Deviation	39454.736		
		Minimum	0		
		Maximum	93000		
		Range	93000		
		Interquartile Range	68558		
		Skewness	1.377	.752	
		Kurtosis	-.078	1.481	
	Private	Mean	55022.89	12099.929	
		95% Confidence Interval for	Lower Bound	30506.11	
		Mean	Upper Bound	79539.68	
		5% Trimmed Mean	45095.61		
		Median	24000.00		
		Variance	5563514999.50		
			2		
		Std. Deviation	74588.974		
		Minimum	0		
		Maximum	365000		
		Range	365000		
		Interquartile Range	59698		
		Skewness	2.498	.383	
		Kurtosis	7.439	.750	
	Public	Mean	23213.93	3774.196	
		95% Confidence Interval for	Lower Bound	15650.27	
		Mean	Upper Bound	30777.59	
		5% Trimmed Mean	19499.60		
		Median	10900.00		
		Variance	797694897.013		
		Std. Deviation	28243.493		
		Minimum	0		
		Maximum	132000		
		Range	132000		
		Interquartile Range	17150		
		Skewness	2.252	.319	
		Kurtosis	4.945	.628	

Table 68 Hospital preferences by household income

Test of significance:

There is a significant difference between the mean income of those who prefer public to private hospitals at a confidence level of 95%.

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	23290421779.5 20	2	11645210889.7 60	4.424	.014
Within Groups	260620007404. 793	99	2632525327.32 1		
Total	283910429184. 314	101			

The Tukey test identifies that the significance is different for “Public” and “Private”, but not for “both” responses.

Multiple Comparisons

Dependent Variable: Household income

Tukey HSD

(I) Hospital	(J) Hospital	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
public	both	-5634.821	19392.654	.955	-51779.14	40509.50
	private	-31808.966*	10783.615	.011	-57468.30	-6149.63
both	public	5634.821	19392.654	.955	-40509.50	51779.14
	private	-26174.145	19958.523	.392	-73664.93	21316.64
private	public	31808.966*	10783.615	.011	6149.63	57468.30
	both	26174.145	19958.523	.392	-21316.64	73664.93

*. The mean difference is significant at the 0.05 level.

Free time:

Respondents were asked how they spend their free time. About 29 of them answered this question. their main activities are reading books and studying, playing sports, visiting friends and relatives, and tourism. The reason was to see if there is a relationship between income and the type of activities families are engaged in during their free time, and to see if income plays a role. However, no significant results have been found in this regard.

Section V: Economic Perception

Living conditions in the last 5 years:

Households are asked to compare their current living conditions with the last 5 years (referring to the period from 2012 to 2017). While this data is subjective, it shows how people perceive their economic prospects over the past 5 years, compared to the present.

45.5 percent of the households said that their living standard has decreased as compared to the past 5 years. 21 percent said that their living condition remained unchanged, and 34 percent said that their living condition has improved during this period.

Below pie chart shows the percentage of the perception of people about their current living conditions as compared to the past 5 years (9 missing cases).

Living condition in the last 5 years

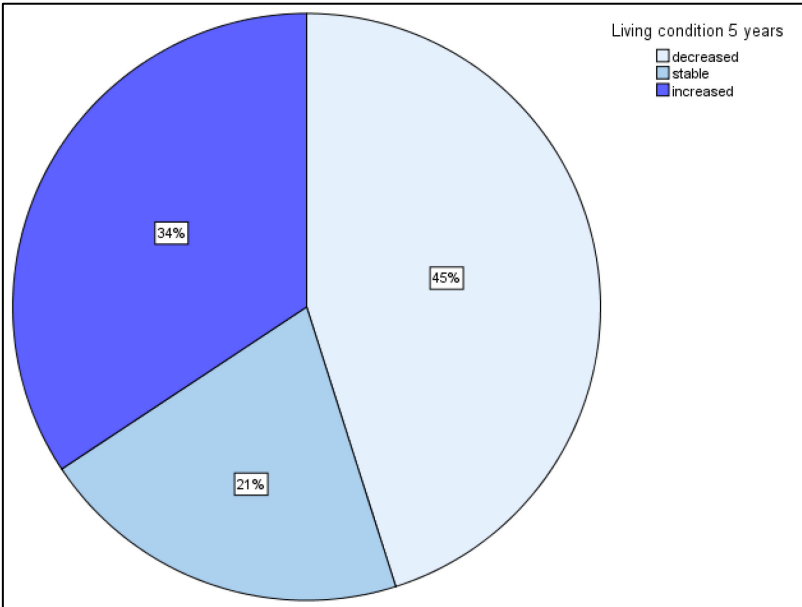


Figure 55 Living condition compared to the past 5 years

While it would be difficult to make a clear conclusion out of this subjective evaluation, it is visible that little less than half of the households do consider that their living conditions are getting worse in comparison to the last 5 years. They believe that they were better off in the past 5 years, as they are now.

From the discussions made with respondents during the interview, they would refer to this period as the time when Mr. Karzai (till the year 2014) was the president of Afghanistan. Most of them praised the time of Mr. Karzai as being more prosperous and had more business opportunities, than the current time of Mr. Ashraf Ghani Ahmadzai, who becomes president in 2014.

Below table shows that lower-income household considers their income being decreased in the last 5 years, as compared to those who have an income above average. Those whose income is above average believe that their income is either remained stable or has increased over the last 5 years.

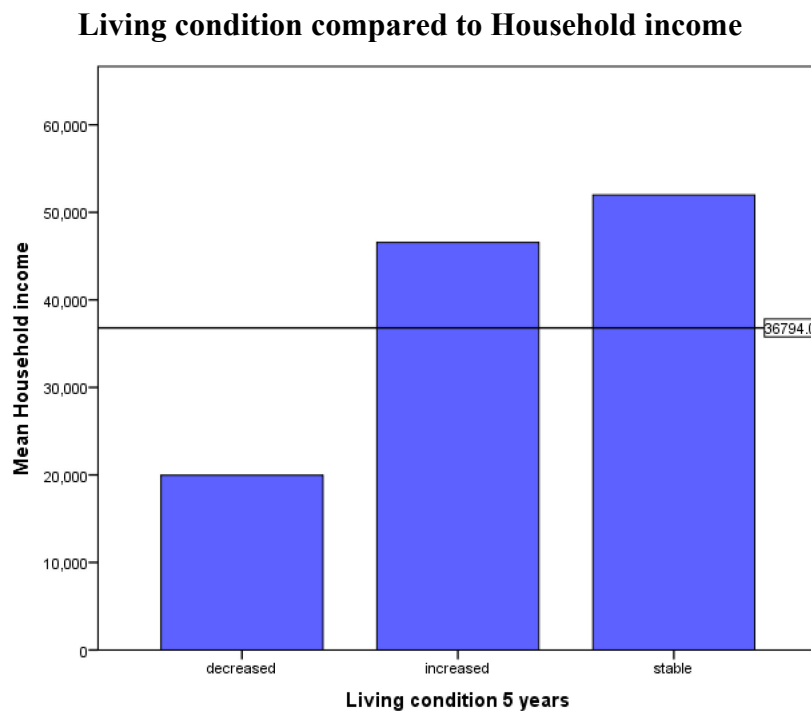


Figure 56 Household living condition perception compared to their income

Those 45 percent of households who reported a decrease in their living condition, have an average income of about 20,000 Afs. (294 USD) [median 10,000 Afs. (147 USD)]. 21 percent of households, which considers that their living condition remained the same as an average monthly income of 51,983 Afs. (764 USD) [median 23000 Afs. (338 USD)], and those 34 % households which consider that their living condition has increased in the last 5 years have an average monthly income of 46,570 Afs. (684 USD) [median 23000 Afs. (338 USD)]. This shows a clear relationship between income and living condition perception.

The below table provides descriptive statistics about the level of income and living condition perception.

Living condition in the last 5 years

	Living condition 5 years		Statistic	Std. Error	
Household income	decreased	Mean	19968.04	3586.535	
		95% Confidence Interval for Mean	Lower Bound	12744.39	
			Upper Bound	27191.70	
		5% Trimmed Mean		16727.78	
		Median		10000.00	
		Variance		591708664.97	
				6	
		Std. Deviation		24325.062	
		Minimum		0	
		Maximum		132000	
		Range		132000	
		Interquartile Range		11250	
		Skewness		2.901	.350
		Kurtosis		9.849	.688
	stable	Mean	51983.33	14057.423	
		95% Confidence Interval for Mean	Lower Bound	22660.06	
			Upper Bound	81306.60	
		5% Trimmed Mean		46436.51	
		Median		23000.00	
		Variance		4149833973.3	
				33	
		Std. Deviation		64419.205	
		Minimum		0	
		Maximum		204000	
		Range		204000	
		Interquartile Range		83300	
		Skewness		1.441	.501
		Kurtosis		1.004	.972
	increased	Mean	46569.71	11677.278	
		95% Confidence Interval for Mean	Lower Bound	22812.10	
			Upper Bound	70327.31	
		5% Trimmed Mean		36430.39	
		Median		23000.00	
		Variance		4636200293.8	
				50	
		Std. Deviation		68089.649	
		Minimum		0	
		Maximum		365000	
		Range		365000	
Interquartile Range		53425			

		Skewness	3.387	.403
		Kurtosis	14.429	.788

Table 69 Living condition in the last 5 years

Test of Significance:

The ANOVA test shows a significant difference between the mean income of the 3 categories of living conditions in the last 5 years, is significant at 95% confidence interval.

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	20968486403.451	2	10484243201.725	3.912	.023
Within Groups	262618179087.639	98	2679777337.629		
Total	283586665491.089	100			

Table 70 ANOVA test for living condition in the last 5 years

Multiple Comparisons

Dependent Variable: Household income

Tukey HSD

(I) Living condition 5 years	(J) Living condition 5 years	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
decreased	stable	-32015.290	13633.212	.054	-64460.20	429.62
	increased	-26601.662	11707.818	.065	-54464.44	1261.12
stable	decreased	32015.290	13633.212	.054	-429.62	64460.20
	increased	5413.627	14367.513	.925	-28778.81	39606.06
increased	decreased	26601.662	11707.818	.065	-1261.12	54464.44
	stable	-5413.627	14367.513	.925	-39606.06	28778.81

Table 71 Multiple comparison ANVOA test for living condition in the last 5 years

Household income in the last 5 years:

Households are asked how their income has changed as compared to the last 5 years. This question is also subjective and measures the perception of the respondents towards their household's income. 82 households answered to this question out of 110.

42 percent of households believe that their household income has decreased over the last 5 years. Only 27 percent believe that it has remained the same, and 30 percent of them believe that their income has improved. The responses to this question is quite similar to those about the living condition in the last 5 years. One explanation could be that the household's income is considered to be the main determinant of the household's living conditions, and respondents consider their income as a determinant of their living conditions.

Below chart shows the percentages of income comparison in last 5 years:

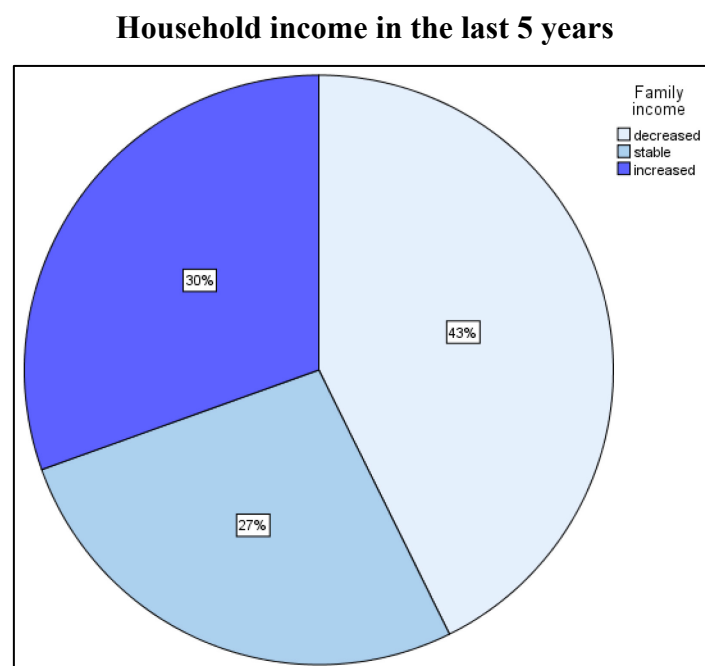


Figure 57 household income in the last 5 years

The below graph shows that those who believe that their household economic condition has decreased in the last 5 years, have an income below average, as compared to those who said that their household economic situation remained stable or increased. the graph is identical to the one presented in "living condition" section.

Household income compared to the last 5 years

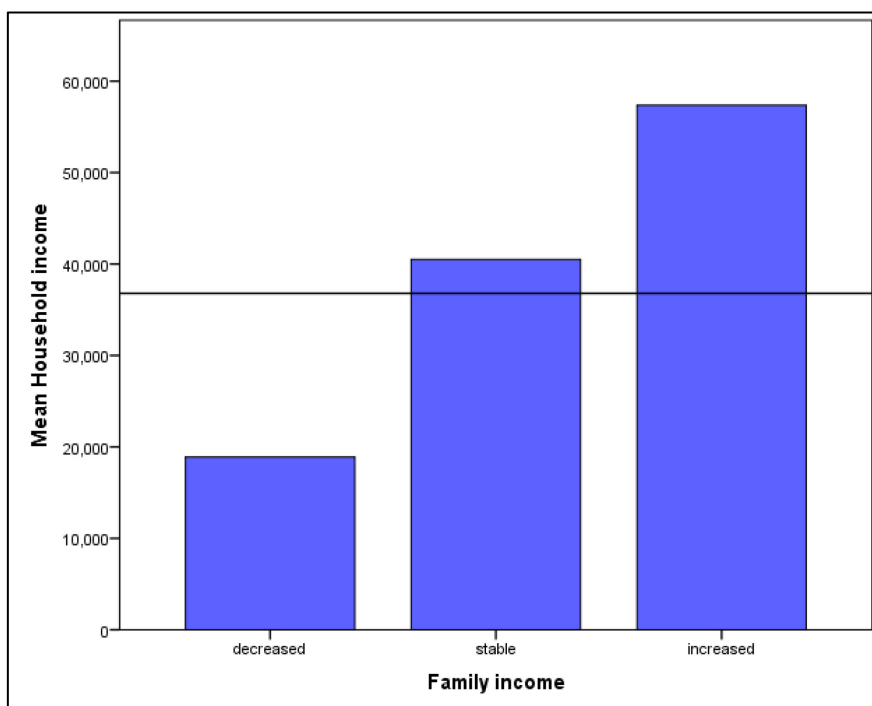


Table 72 Income comparison with the past 5 years, the average income

43 percent of households which stated that their income has decreased over the past 5 years, have an average income of 18900 Afs. (277 USD) [median 10,000 Afs. (147 USD)] per month. Those 27 percent of households with stable income have an average income of 40500 Afs. (595 USD) [median 16025 Afs. (235 USD)]. However, 30 % of households believe that their income has increased to have an average income of 57373 Afs. (843 USD) [median 20,000 Afs. (294 USD)]. The difference in income is quite visible.

The below table provides detailed descriptive statistics about household income changes in the last 5 years.

Descriptive statistic about household income in the last 5 years

	Family income		Statistic	Std. Error	
Household income	decreased	Mean	18901.43	4159.390	
		95% Confidence Interval for Mean	Lower Bound	10448.53	
		Upper Bound	27354.33		
		5% Trimmed Mean		15073.02	
		Median		10000.00	
		Variance		605518377.311	
		Std. Deviation		24607.283	

	Minimum		0	
	Maximum		132000	
	Range		132000	
	Interquartile Range		13000	
	Skewness		3.355	.398
	Kurtosis		13.361	.778
stable	Mean		40511.36	11064.002
	95% Confidence Interval for Mean	Lower Bound	17502.51	
		Upper Bound	63520.22	
	5% Trimmed Mean		34191.92	
	Median		16025.00	
	Variance		2693067126.623	
	Std. Deviation		51894.770	
	Minimum		0	
	Maximum		200000	
	Range		200000	
	Interquartile Range		54875	
	Skewness		1.878	.491
	Kurtosis		3.400	.953
increased	Mean		57373.60	16744.598
	95% Confidence Interval for Mean	Lower Bound	22814.45	
		Upper Bound	91932.75	
	5% Trimmed Mean		45259.56	
	Median		20000.00	
	Variance		7009539432.333	
	Std. Deviation		83722.992	
	Minimum		0	
	Maximum		365000	
	Range		365000	
	Interquartile Range		86415	
	Skewness		2.475	.464
	Kurtosis		7.041	.902

Table 73 Descriptive statistic about household income in the last 5 years

Test of significance:

There are statistically differences in the mean of household income as compared to change in income in the last 5 years at a 95% confidence interval.

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	22086103560.728	2	11043051780.364	3.555	.033
Within Groups	245370980863.662	79	3105961783.084		
Total	267457084424.390	81			

Table 74 ANOVA test change in income

The difference is significant for “decreased” and “increased” categories, but not for the “Stable” category.

Multiple Comparisons

Dependent Variable: Household income

Tukey HSD

(I) Family income	(J) Family income	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
decreased	stable	-21609.935	15163.174	.333	-57829.83	14609.96
	increased	-38472.171*	14593.842	.027	-73332.12	-3612.23
stable	decreased	21609.935	15163.174	.333	-14609.96	57829.83
	increased	-16862.236	16291.671	.557	-55777.74	22053.27
increased	decreased	38472.171*	14593.842	.027	3612.23	73332.12
	stable	16862.236	16291.671	.557	-22053.27	55777.74

*. The mean difference is significant at the 0.05 level.

Overall economic condition compared to the last 5 years:

Households are asked how they perceive their households overall economic condition as compared to the last 5 years. 29 households did not respond to this question.

40 percent believe that their overall economic condition has been decreased in the last 5 years, 30 percent believe it remained stable, and 30 percent believe it has improved.

The above data is presented in pie chart format below:

The overall economic condition in the last 5 years

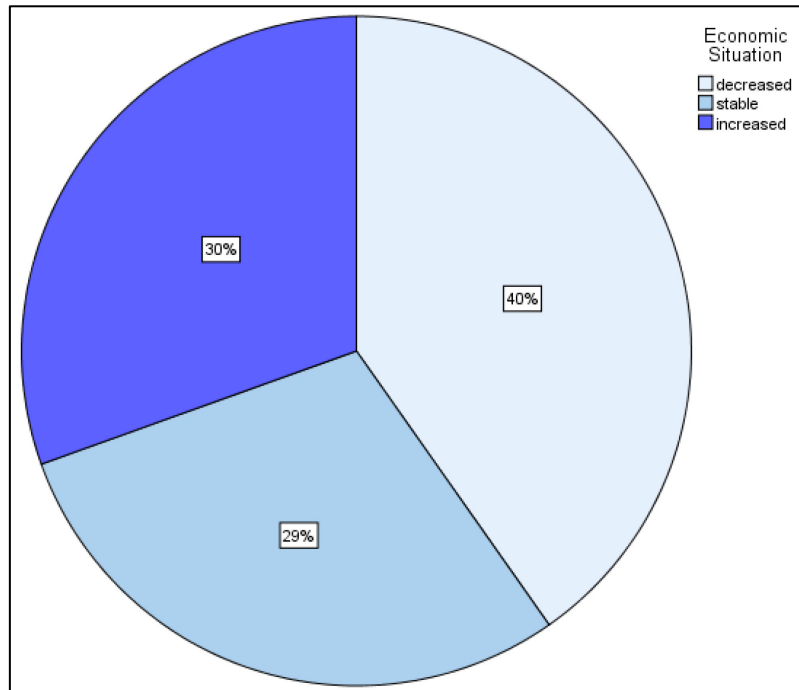


Figure 58 Economic condition compared with the last 5 years

Below bar chart indicates the average income of the respondent and their responses to the overall economic situation in the last 5 years. Households with decreased overall economic conditions are those who have an average income below the total average – less than 20,000 Afs. (294 USD) per month.

Economic condition compared to the last 5 years

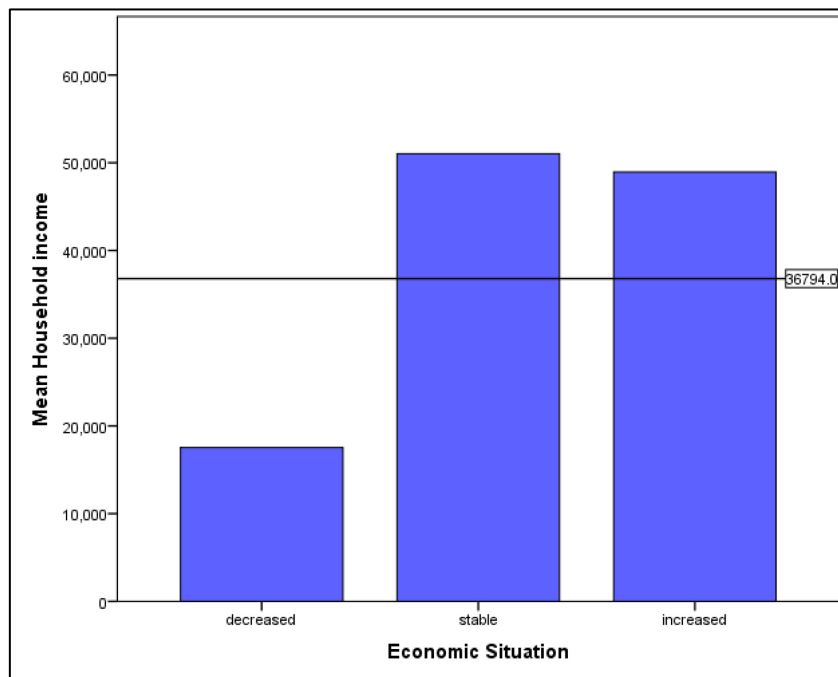


Figure 59 Overall economic condition compared to the last 5 years

40 percent of households which stated that their overall economic condition has decreased, has an average income of 17,533 Afs. (257 USD) [median 10,000 Afs. (147 USD)] per month. 29 percent with a “stable” response has an average income of 51,027 Afs. (750 USD) [median 25,850 Afs. (380 USD)]. Those who responded that their economic condition has improved have an average income of 48,952 Afs. (720) [median 18,000 Afs. (264 USD)] per month. higher income is associated with increased overall economic conditions.

The below table provides detailed statistics about the level of income for different categories of overall economic satisfaction.

Descriptive statistics about overall economic condition

	Economic Situation	Statistic	Std. Error	
Household income	decreased	Mean	17533.33	4040.043
		95% Confidence Interval for Mean	Lower Bound 9304.03	
			Upper Bound 25762.63	
		5% Trimmed Mean	13986.53	
		Median	10000.00	
		Variance	538624397.9	
			17	
		Std. Deviation	23208.283	
		Minimum	0	
		Maximum	132000	
		Range	132000	
		Interquartile Range	12185	
		Skewness	4.044	.409
		Kurtosis	19.223	.798
	stable		Mean	51027.92
		95% Confidence Interval for Mean	Lower Bound 26202.52	
			Upper Bound 75853.32	
		5% Trimmed Mean	45401.39	
		Median	25850.00	
		Variance	3456420095.	
			471	
		Std. Deviation	58791.327	
		Minimum	0	
		Maximum	204000	
	Range	204000		

	Interquartile Range	68725	
	Skewness	1.624	.472
	Kurtosis	2.020	.918
increased	Mean	48952.92	16446.505
	95% Confidence Interval for Mean	Lower Bound 14930.73 Upper Bound 82975.11	
	5% Trimmed Mean	36123.61	
	Median	18000.00	
	Variance	6491700943. 297	
	Std. Deviation	80571.092	
	Minimum	0	
	Maximum	365000	
	Range	365000	
	Interquartile Range	60950	
	Skewness	2.942	.472
	Kurtosis	10.206	.918

Table 75 descriptive statistic for overall economic satisfaction

Test of significance:

One-way ANOVA test shows a significant difference between the mean income of different category responses for overall economic condition at a 95% confidence interval.

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	20652707221.914	2	10326353610.957	3.274	.043
Within Groups	246042764625.000	78	3154394418.269		
Total	266695471846.914	80			

Table 76 ANOVA test for overall economic condition

Multiple Comparisons

Dependent Variable: Household income

Tukey HSD

(I) Economic Situation	(J) Economic Situation	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
decreased	stable	-33494.583	15067.210	.074	-69494.08	2504.91
	increased	-31419.583	15067.210	.099	-67419.08	4579.91
stable	decreased	33494.583	15067.210	.074	-2504.91	69494.08
	increased	2075.000	16213.149	.991	-36662.44	40812.44
increased	decreased	31419.583	15067.210	.099	-4579.91	67419.08
	stable	-2075.000	16213.149	.991	-40812.44	36662.44

Table 77 Multiple comparison ANVOA overall economic condition

Satisfaction from the current economic situation:

56 households responded to this question. 21 percent of the households are not satisfied with their current economic condition at all; 37 percent are little satisfied; 39 percent moderately; and only 4 percent are very much satisfied. This result is similar to the other perception questions result. For example, adding the “Not Satisfied” and “little satisfied” would be around 57 percent of households not being satisfied with their current economic situation.

Below pie chart presents the percentages of the current overall economic situation

Overall economic satisfaction

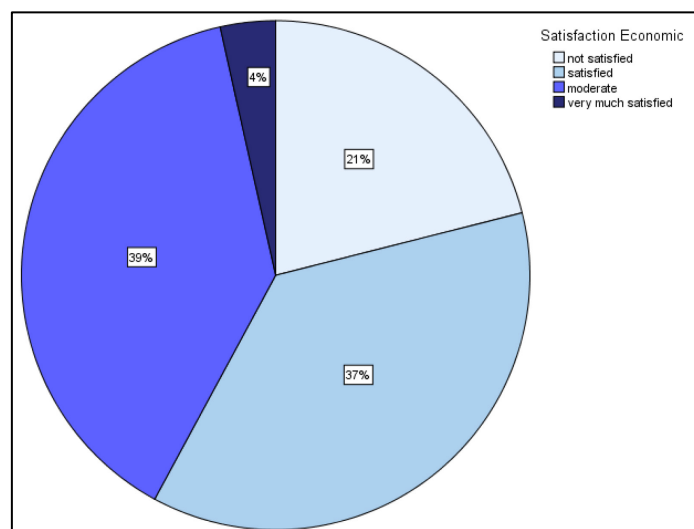


Table 78 Current Economic condition

The below graph shows the link between satisfaction from the current economic condition to the average household incomes. Households that are “Not Satisfied” and “little Satisfied”, have an income below the total average. Households that are “satisfied”, and “very much satisfied”, have an income above average. Their average income is around 60,000 Afs. (882 USD).

current economic condition satisfaction

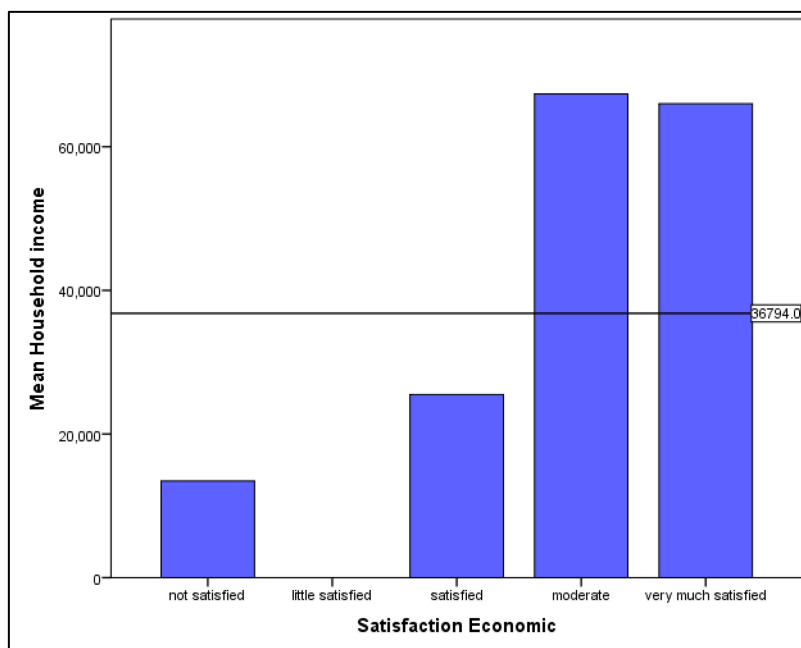


Table 79 Current economic satisfaction and average income

Families that are not satisfied with their current economic condition has an average income of 13,475 Afs. (198 USD) [median 9,850 Afs. (145 USD)]. those who are satisfied, have an average income of 25,505 Afs. (375 USD) [median 18,525 Afs. (272 USD)]. Those, however who are moderately and very much satisfied, have an average income of 67, 351 Afs. (990 USD) [median 20,850 Afs. (306 USD)] and 66,000 Afs. (970 USD) [median 66,000 Afs. (970 USD)] per month respectively. Higher-income is associated with a higher level of current economic satisfaction.

The below table provides detailed statistics about the current economic situation of the household based on their level of household income.

Descriptive statistic on current economic satisfaction

		Satisfaction Economic		Statistic	Std. Error
Household income	not satisfied	Mean		13475.00	3400.159
		Lower Bound		5991.30	

	95% Confidence Interval Upper Bound for Mean	20958.70	
	5% Trimmed Mean	12305.56	
	Median	9850.00	
	Variance	138732954.5	
		45	
	Std. Deviation	11778.495	
	Minimum	0	
	Maximum	48000	
	Range	48000	
	Interquartile Range	6000	
	Skewness	2.568	.637
	Kurtosis	7.890	1.232
satisfied	Mean	25505.50	6358.705
	95% Confidence Interval Lower Bound for Mean Upper Bound	12196.58 38814.42	
	5% Trimmed Mean	21950.56	
	Median	18525.00	
	Variance	808662573.4	
		21	
	Std. Deviation	28436.993	
	Minimum	0	
	Maximum	115000	
	Range	115000	
	Interquartile Range	25750	
	Skewness	2.108	.512
	Kurtosis	4.730	.992
moderate	Mean	67351.36	19727.355
	95% Confidence Interval Lower Bound for Mean Upper Bound	26326.08 108376.64	
	5% Trimmed Mean	55050.10	
	Median	20850.00	
	Variance	8561707507.	
		576	
	Std. Deviation	92529.495	
	Minimum	5700	
	Maximum	365000	
	Range	359300	
	Interquartile Range	96298	

	Skewness		1.979	.491
	Kurtosis		4.055	.953
very much satisfied	Mean		66000.00	10000.000
	95% Confidence Interval for Mean	Lower Bound	-61062.05	
		Upper Bound	193062.05	
	5% Trimmed Mean		.	
	Median		66000.00	
	Variance		200000000.0	
			00	
	Std. Deviation		14142.136	
	Minimum		56000	
	Maximum		76000	
	Range		20000	
	Interquartile Range		.	
	Skewness		.	.
	Kurtosis		.	.

Table 80 Descriptive statistic - satisfaction with the current economic situation

Test of significance:

There is a significant difference between the mean income of different categories of current economic satisfaction with a level of significance of (0.057). however it is not significant at a 95% confidence interval.

ANOVA

Household income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	30417820367.338	3	10139273455.779	2.678	.057
Within Groups	196886509054.091	52	3786279020.271		
Total	227304329421.429	55			

Table 81 ANOVA test for economic condition satisfaction

Conclusion:

The data of the household survey presented here serves one purpose – to give a true picture of the level of poverty and income inequality in the country. Of course, it is not a full representation of the total population, nor it is a perfect survey. However, it is presented here to show a vivid picture of the economic conditions of households. This part of the dissertation will enable us in understanding the extent and depth of the problem from one side, and from another side, help us form policy recommendations to reduce poverty and income inequality.

In the next chapter on policy recommendation, reference will be made to the findings of this survey to provide and discuss what can be done, how it should be done, and how much does it cost to implement such a policy intervention. At this stage, the reader is in a better position to first understand the economic dynamics at the household level, and second, be able to follow the arguments for policy recommendations in the next chapter.

Chapter Five
Key Informant's Interviews

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Introduction:

In this part of the empirical research chapter, the Key Informants Interviews (KII) are presented, analyzed, and discussed. The purpose of KII is to observe the current level of understanding of the issue of poverty and income inequality by the government and key actors on the ground. This information would be used as a building block and primary source of data for the next chapter, to provide policy recommendations on poverty reduction and reducing income inequality in Afghanistan. Respondents are key government officials, such as two Senior Advisors to the President Mr. Ashraf Ghani Ahmadzai, Two Senior Policy Advisors to Chief Executive Officer, Mr. Dr. Abdullah Abdullah, Deputy Minister of Finance, and representative of World Bank office in Kabul.

The interviews were conducted face to face, except with World Bank representative, which was completed in written and through email. The interviews were first recorded using a voice recorder, and later the transcript was prepared based on these recordings. Interviews were conducted in English and local languages of Dari and Pashto, which was later translated into English. The full transcript of these interviews is available in [Annex I](#).

A total of 6 Key Informants interviews have been conducted, from the list of 14 selected individuals and government officials to participate. Due to the limitation of time, access and availability, only the prioritized interviews are being conducted. These interviews took place between May 2017 to October 2017 in Kabul, Afghanistan by the author himself. The list of all individuals being contacted, and their contact information is presented in [Annex II](#).

Each respondent was asked 5 pre-prepared questions. These questions were open-ended and covered the main discussion areas of the topic, which were based on the literature review of the first part of this thesis. Minor changes were made in some questions to consider the organization and context of each respondent's field or area of work and expertise. These minor changes are visible in the Annex. The list of questions, as well as a brief introduction to the topic was sent to the respondents before conducting the interview. KIIs are presented in [Annex III](#).

The main five themes and questions asked from each respondent are:

Question one: Almost 40 percent [based on 2016 data] of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Question two: Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Question three: How well foreign aid and economic growth were distributed equally among the population?

Question four: According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Question Five: How poverty and inequality could be reduced in the future? What are the policy gaps?

These questions varied to a small degree, so that respondents from different field could refer to it. It was especially in the case with the representative of the World Bank, to have the viewpoint from the World Bank perspective on the topic.

Key Informants Interview: Mr. Dr. Scott Guggenheim

Name: Mr. Dr. Scott Guggenheim

Position: Senior Advisor to the President of Afghanistan

Date: 19 August 2017

Poverty reduction and its importance for the government of Afghanistan

Question 1:

Almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Answer 1:

While Mr. Scott states that poverty reduction is on the top of the agenda for the government of Afghanistan, he also says that, how poverty could be reduced, is the main issue. He points out two main problems that hinder government efforts in reducing poverty. The first main problem is insecurity in the country. He said that “The first is, as long as there is a state of conflict and war, the economy is going to be small. Nobody is going to invest or increase the economy”.

Mr. Scott has pointed out the number one problem that Afghanistan faces is insecurity, which also hinders government efforts not only in poverty reduction efforts, but in all other functions of the state. Afghanistan is in the focus of the world because of the long-lasting fight of the United States against Al-Qaida and the Taliban in the soil of Afghanistan. While there is no clear sign that this war has ended after 18 years, security is still the main problem faced by people and the government daily. As a result, more and more resources, financially and strategically are being spent on security and fighting anti-government militias such as the Taliban and ISIS. This leads to little financial resources for other programs, including poverty reduction.

The second problem, as stated by Mr. Scott is the weak private sector investment in the country which results in fewer jobs for the people. “The second big problem is the ability of the private sector to create new jobs here is not very strong. You can have a government that is very

committed. You can do sort of government programs that support transfer to people, but if you don't create jobs, you are not going to have a sustainable way to reduce poverty” he said.

Security directly affects private sector investment in the country. If there is no security, the private sector is not going to invest and create jobs. So, these two problems are intertwined and interconnected. Coming back to the question, it is visible here that the answer is deviated from the government as a responsible body for poverty reduction, to the market system, and especially by blaming the weak private sector investment and their role to create new jobs, which will reduce poverty.

The private sector, the same as in any other country, is motivated by profit, and their main aim is profit maximization, not poverty reduction or job creation, as seen by Mr. Guggenheim. However, his argument is still valid that the weak private investment has resulted in fewer jobs. The government should provide a better environment that promotes private sector investment. However, it was not the case in Afghanistan. The main problem for private investors and their investment is still lack of security in the country, besides other issues.

Mr. Guggenheim mentioned that government efforts, such as transfer programs are not a sustainable way of reducing poverty, unless the poor do not have a sustainable job. The best method from his point of view is to create sustainable jobs, and probably through the private investment so that poverty is reduced more sustainably. He mentioned government transfer programs, which he might be referring to the National Solidarity Program, later named as Citizen's Charter National Priority Program. That is the only government program of the government of Afghanistan to eradicate poverty.

Although Poverty reduction, from the government point of view is a priority, less effort has been put to this end, except the Citizen's Charter program. He does not mention any long-term government policies, which are needed to eradicate poverty, rather stressed on the bigger two issues of security - which is even beyond the control of the government - and second the private sector investment. The role of government to eradicate poverty is even not considered, let the question of “how” aside. He said that you can have a “very committed” government, but unless sustainable jobs are created, poverty reduction would not be sustainable. The problem is, that there is no committed government.

Mr. Guggenheim believes that the government is committed to eradicating poverty, the question is to set the conditions, so that poverty is reduced. Setting the condition is hard, as it was assumed to be. “There are tools to drive the causes behind that” he said.

He referred to the recent economic downturn in the aftermath of 2012, when the economic growth rate plunged from 10 percent to minus 2. According to him, military spending put away a lot of people from the agriculture sector to the service sector. And, later, as he put it “get rid of services”. As a result, there is a huge collapse in the employment rate, and a plunge in economic growth from 10 percent to minus 2 leading to a negative growth rate.

He was referring to the period after 2012, when the United States and its allies announced the withdrawal of ISAF and NATO forces by the end of 2014 from Afghanistan. As a result, the economic growth, which was mainly derived by the international military spending start to deteriorate. People, who were somehow benefiting from the service industry related to providing supplies and transportation to military forces, start seeing their businesses in trouble. As a result, the economic growth diminished starting in 2012.

The period of rapid economic growth up to 2012 is what most people refer to now as the golden era of Mr. Karzai, Former President of Afghanistan. The period after 2005-7 which witnessed an unprecedented increase in foreign aid and military spending in the economy. Most of the people, in a way benefited from the inflow of foreign aid as well as a large amount of spending made to maintain international forces in the ground. A lot of people would earn extraordinary profits when they are somehow involved in providing any type of service to international forces across the country. Such small businesses, most of them private, include transportation of oil, supplies from one part of the country to another, contracts for different services that the international forces may need in the local areas, from water to garbage removing services. After military withdrawal, all these businesses at a local level have stopped, which resulted in high unemployment and a low growth rate at the national level.

Mr. Guggenheim refers to this by indicating the aftermath which resulted in 50 percent of labor essentially left unemployed. And the question is, according to him how to reverse the situation. He said, “people thought that the recovery will be quick, but it is not”. data from other fragile states, such as Afghanistan shows that it requires 30 to 35 years for a full recovery according to him. And Afghanistan did not have that time. So, he thinks that the government “has not done a bad job”. However, there are no clear signs or even policies at place to be hopeful and optimistic about future changes in the structure of the economy.

So, from the government perspective, they accept that the unemployment rate has raised, and that the economy has collapsed. They put the burden on military spending, which took people out of the normal agriculture sector and placed them in the service sector; mainly for

international military forces. As these services were no longer required, it resulted in about 50 percent of the unemployment of the labor force. The government, on the other hand has not done a “bad job”, because it takes 30 to 35 years for recovery, and Afghanistan did not have much time till now. That is how it seems from Mr. Guggenheim's argument.

It is clear that “the economic mess” created by the spending of foreign aid and international military forces was beyond the control of the government at that time, and therefore, they do not think themselves to be blamed for the negative consequences it. It was till the last few years that government pressured international aid and assistance to be spent through “on-budget” which means through government accounts. Because of the lack of such a system being in place, and lack of proper tax policies for small businesses, people received extraordinary profit – given the high US to Afghani exchange rate - from the huge flow of money to the country. Now the government does not guarantee or provide any safety net or social security to those who are negatively affected.

For the recovery of the economy, Mr. Guggenheim referred to the problem of almost no tax system in Afghanistan. He said that “People do not pay taxes here”. Not only that, he said that there is no “Monetary Policy”. Monetary policy and changes in taxes are used in developed countries as tools for economic recovery and creating employment, both of which are almost non-existing in Afghanistan according to him. He said that the “Magic bullet” solution does not work here.

Mr. Guggenheim proposes three solutions to this problem. First, to increase agriculture productivity; second, sustain private sector development; and third, to rebuild infrastructure. And as he said, “none of which is quick”. These solutions, however do seem reasonable, given that the Afghanistan economy is based on agriculture and its productivity would increase the economic growth in the long run. The role of the private sector is also key, since so far, the government and international organizations are the main two employers in the country. Infrastructure, mainly the regional transportation and railways systems will connect the country to the wider region.

On the contrary, what appears, in reality, is that the ability of government to achieve these solutions are ambiguous. First, increasing productivity in the agriculture sector seems vague and unrealistic. Even If this happens, given that the main source of income for the rural population is agriculture, it would not create new employment. The agriculture sector already

is underemployed, and those who are working as farmers, have little income and work only part-time or seasonally.

To increase productivity in the agriculture sector; translates into either providing vocational training for farmers, improved seeds, or increasing the capital to labor ratio. While such types of activities have been carried out in the last 15 years, the results and share of the agriculture sector to total GDP, though has improved, has not brought more jobs in this sector. The value-added aspect of agriculture product was to provide market access at the national and international levels, especially for fresh fruits, in which Afghanistan has a comparative advantage. To this end, some achievements have been made by the government so far, such as direct air transportation of agriculture products to India.

To conclude this point, agriculture productivity though might be a suitable approach for improving economic growth - given that Afghanistan's economy is based on agriculture - it would not create additional jobs for a sustainable solution for poverty reduction. The additional productivity which might be generated, would only compensate for low income and underemployment of those who are already working in this sector and have lower income and are seasonally employed.

The two other solutions; private sector development, and improve infrastructure seems unrealistic at the moment too. The high rate of criminality, especially the abduction of businessmen and their family members over the last few years, resulted in capital outflow from the country. Due to lack of security, both for the investment of the private sector, their own life, and as well as the overall security situation in the country, does not allow investment at all. Even if the security problem is solved; which does not seem realistic in the coming several years; it will not solve the problem. Private investment is derived by profit. Since the economy is not growing, there is very limited scope for investors to invest and generate profit in the country. Some small investments, done by the local investors, such as in private schools, and small size entrepreneurs, who ignores such issues may continue to invest in small scale.

The effects of infrastructure improvement on poverty reduction is plausible in the long run. In the case of Afghanistan, the National Solidarity Program (NSP) was the main government initiative to eradicate poverty and build rural infrastructure. Small scale projects, such as digging drinking water wells, the pavement of rural roads, building new hospitals, clinics, and schools, as well as irrigation systems, provided short term employment for the rural population. Such infrastructure, though the quality could be debated, their sustainability and maintenance

were not considered, once such projects were completed. Reports from the NSP program has indicated that the sustainability of these projects and maintenance of these projects was missing after the project completion. The community contribution would hardly work to keep the project running; which brings the total investment made in the first place under question.

Effect of economic growth on poverty reduction:

Question 2:

In the last 15 years, we witnessed rapid economic growth in Afghanistan. On the other hand, poverty did not decrease, it increased from 36 to almost 40 percent. So, what didn't work?

Answer 2:

Mr. Scott answered this question by saying that "I think, the first thing that needs to be looked at, is how fake those growth figures were". According to him, the growth rate that Afghanistan has witnessed was fake, and "They were not about job creation or productivity, they were about international military spending". He said, "when you look at it, it was about 10 percent a year. Nearly all of them come from physical re-construction and support to international security forces". Thus, the growth figures were not realistic.

He acknowledges that the growth was based on the services provided to international military forces, and once such spending is stopped, these growth figures stopped too. He said "Whether it was PRTs [Provincial Reconstruction Teams], whether it was ISAF [International Security Assistance for Afghanistan]. So, when they stopped, growth drop to zero." He concludes that the problem is that such growth was not a realistic one, as most growth is associated with an increase in employment, productivity, and overall output. Instead the growth in Afghanistan, as put by Mr. Scott was an "unrealistic composition". He considers this a "root problem", why poverty was not reduced due to this rapid economic growth.

Mr. Scott is right. The growth was not about an increase in output as a result of increased productivity of labor and capital; rather it was based on international military spending. So, the composition, and from where this high growth rate of 10 percent per year came, was not realistic. It provided a fake growth digits, to put it explicitly. And he calls this as a root problem, which did not result in poverty reduction.

Even though he is right, that is not all sides of the story. Regardless of the origin and composition of the growth, an increase in the volume of economic output, even if it is used for military purposes, is also considered in the growth data. It does not matter, at first place from where the growth came. It might not have the perfect distribution from all sectors of the economy, but still such growth would generate more output, and employment. If the money is spent inside the country by the international military forces, it would go to someone's pocket either in the form of wages, or cost for the goods and services they have provided to these international forces; both of which are recorded in economic growth data.

The government can not only blame the international forces' spending which might have resulted in unequal growth in the economy. The government, itself was still functioning, and have been operational during this period. The government could take measures to fight poverty and inequality through its policies, regardless of international military spending. Military spending has contributed to some portion of the overall economic growth. But is not the only driver of the economy. Even if that was the case, the government could take measures to curb such growth and make it more realistic. If the government cannot control international forces spending, the government is independent to implement its policies to eradicate poverty and income inequality; instead of blaming the international forces spending that has contributed to such economic growth.

To this point, one could conclude that the government did not take poverty reduction seriously during the last 15 years. It failed to implement policies, and projects, except the only NSP program, to take the vast majority of people out of poverty. Would have been there no international military spending in the country, the poverty rate might have further sunk in the last 15 years.

Mr. Scott answer was clear. Now that the growth was not realistic, why should poverty go down, if productivity is not changed. He said, "if productivity is not changed, poverty would never go down". He is right, but he is not completely right. Economic growth is not only about productivity; it is an increase in the number of goods and services produced within a country in a given period. And it is mostly achieved by an increase in the productivity of the factors of production. In the case of Afghanistan, the international spending on the military could have employed thousands of people for the goods and services they needed. That also counts for the increase in the productivity of the labor, or possibly capital. Mr. Scott confirms that the people's job was to provided services to the international forces.

But it does not seem a realistic answer to blame foreign military spending as a reason why poverty was not decreased in the last 15 years. Even if they are the one who should be blamed, what was the role of the government in addressing this issue, or at least the government could have avoided the problem from happening, by different means.

Mr. Scott points out another reason why the poverty rate did not decrease over time. He said if there is a high population growth rate in the country, and if the economic growth rate is not increasing, the poverty “headcount” would always go up. He meant that the growth rate is not as high to catch up with a rather high population growth rate.

The argument seems plausible, that a higher population growth rate would harm economic growth. However, the population growth rate would affect economic growth figures, not on poverty headcount. Of course, when the population of poor increases, the poverty rate would also go up. But we cannot blame the high poverty rate, because of the rapid growth of the population only. If Afghanistan has a high population growth rate, it also witnessed a high economic growth rate.

In the case of other South Asian countries such as China, Vietnam, and Indonesia, Mr. Scott argued that they sustained 7 to 8 percent of economic growth over 20 years, and that is how they reduced poverty. A small economic growth of 1 to 3 percent indicates a big improvement in these countries. In the case of Afghanistan, even such growth figures would make the country more poor than richer, because of the high population growth rate, he argued.

In the last sentence of his answer, he mentioned that I do think that the government is thinking not only about growth, but inclusive growth, but first you must start to get growth. He was referring to the inequality part of the issue, which he considers comes at last and that is not as important as getting the growth rate first.

To conclude his points here, Mr. Scott does not appreciate the high economic growth of annual 10 percent at first, referring to it as unrealistic composition; mainly because it came from the spending of international military forces. In that sense, there is no growth from his point of view, which is measured by productivity. Second, because the population growth rate is higher than the economic growth rate, the country would get poorer not richer even if such growth rate would continue. In terms of inequality, he believes that the government thinks of inclusive growth.

Distribution of foreign aid

Question 3:

How well foreign aid and economic growth was distributed equally among the population?

Answer 3:

Answering this question, Mr. Scott started by answering “well, definitely it was not”. “There is nothing to argue about that” he mentioned. He also believes that the distribution of foreign aid was driven by security. He referred to the regional differences in poverty rate and aid spending, which happens to be correlated. North and South regions received a higher amount of aid, and at the same time, these regions have a high poverty rate. A World Bank report (Poverty Status Update, 2017) came up with similar regional differences in aid spending and poverty rate, as mentioned by Mr. Scott.

According to him, the unequal distribution of aid was driven by the security situation of different regions. Mr. Scott did not seem to be considering regional differences in aid spending and poverty rate as a big problem, as he stated, “But to me, a lot of this is arguing about small differences”.

It is interesting to notice how Mr. Scott uses pronouns such as “You” referring to me as the interviewer, but also with the meaning of “Afghans”; and “They” referring to foreigners and the United States; while he is an American.

He referred to the larger problem of aid effectiveness in his response. Using the pronoun of “they”, he said that 100 billion dollars have been spent by them, and still the economic growth rate was tiny. The aid was not spent on things that would be productive. He said that “the aid had lots of well-known problems”.

Here, he mentioned the problem of income inequality, but rather in the larger context and mainly not for Afghans, but for International workers and experts who worked in Afghanistan during this period and got extraordinary salaries and benefits. He said, “Everybody here was paid much more than your neighbors”. “Your daily rate of operating here, your consultant’s costs are higher than your neighbors” he said. He mentioned that if you don’t fix that, it does

not matter how much aid you are pouring in, it goes to consultants and donor projects. This, he said “it does not fix economic fundamentals”.

Mr. Guggenheim highlighted three main points: First, foreign aid was driven by security. That resulted in the unequal distribution of foreign aid and consequently economic growth; given that the main factor for economic growth was foreign aid and military spending. This finding is also confirmed by regional differences in aid spending and poverty data in these regions, by the World Bank report (Poverty Status Update, 2017).

The second problem according to him was billions of dollars of aid were spent on non-productive things, which resulted in a tiny change in economic growth. Third, there were obvious other problems associated with the aid spending including the high salary and cost of Consultants, especially those coming from abroad, as comparing it to the cost in neighboring countries. A large portion of foreign aid money would mostly go back to the international employees and consultants. This resulted that the aid was not used as efficiently and appropriately as it should be. According to him, unless these problems are not solved, economic fundamentals would not change in the country.

He said that having a 2 percent regional difference does not matter if one regional gets higher growth another. The focus should be on the bigger picture; which is that there is no growth. Aside from military spending, Mr. Guggenheim argues, the investment map shows a fairly balanced investment across the country. Depending on how you rate it, geographically, by population, as compared to most countries, “it is not bad” he said. “The root problem is that there is no growth.” Said Mr. Guggenheim.

The problem of economic growth comes as a priority for the government, and how to eradicate poverty and later inequality in subsequent. The country is now facing economic recession and unemployment, as shown by recent data, and that is what worries the country at most. Regional or the distribution of the economic growth, would not matter in this instance, given that there is no growth according to the definition of Mr. Guggenheim and in general definition terms. The fact that the regional differences are ignored, is that such difference has been there for a long time. The living standard of urban areas and city centers are not comparable at all. The difference is immense.

Poverty and income inequality, how they relate together

Question 4:

According to the Poverty Update report of the World Bank in 2015, they have said that poverty has not decreased in Afghanistan, due to inequality. How much do you agree with this statement?

Answer 4:

Mr. Guggenheim provided a direct answer in the first instance, "I think it is a silly statement". The world bank, according to him, makes a mistake of thinking inequality is the reason for poverty. For him, inequality is not a "thing", it is a relationship. "Inequality does not cause poverty, it just reflects the fact that there is poverty" he said. And the reason there is poverty is that there is no economic growth and an increase in productivity. "Inequality reflects poverty, reflects lack of access to a little bit of the growth" he said. "It does not cause them, it reflects them" he concluded.

Although Mr. Guggenheim has been a long-term consultant of the World Bank, he disagrees with this conclusion of the report on income inequality. He argues that poverty is caused by a lack of economic growth, which is because of a lack of productivity. Inequality merely reflects the fact that there is poverty, but it does not cause poverty. He thinks that the World Bank has made a mistake in this analysis. He separated the two questions; first, why there is no economic growth in the country, and second, if there is a little bit of growth, why is it not shared?. He does not see inequality resulting in poverty.

While he rejects the World Bank's report findings, he does not provide an alternative explanation for the high poverty rate in the country, except the fact that the economic growth was unrealistic. Inequality for him is only a reflection of the fact that there is a high poverty rate, and if there is a tiny bit of growth, why it is not shared.

The question could have been reformulated. If there is no economic growth, how it is possible that some people earn a higher income and gained a huge source of assets and money than others. Why that the income of the people shows a wide divide between rich and the poor, and that the society looks like economically divided, as found in the Household Survey of this Thesis. Regardless of thinking about the issue of growth and poverty, some people earn too little for meeting their family's needs, while at the same time, others are enjoying a luxurious

lifestyle in Afghanistan. If there is no productivity and economic growth, as Mr. Guggenheim concluded, then there should not be the higher upper class with extraordinary income, more than 9 or 10 times of the lower class, according to Household Survey result of this thesis. The notion that there is no real economic growth is in contradiction with the findings of the Household Survey conducted, in which some of the families reported higher income and better living conditions compared to the past 5 years.

If inequality only reflects poverty or it causes poverty, it does not change the fact that there is poverty and that there is a widening income inequality. Ignoring the 10 percent of economic growth, because of its origin, does not mean that we can blame the high rate of about 40 percent of poverty on the international spending. Whatever the causes may be, the government is in charge of setting a fair rule of the game.

Mr. Guggenheim did not provide any single policy, regulation, or efforts made by the government to reduce poverty or income inequality during this interview. All the questions were answered to blame others, and the government is put in a safe side. Security, high rate of consultant costs, and the high rate of population growth were the main argument of a high-ranking government official to defend the position of the government against the prevailing economically divided society.

Future policy direction for poverty and inequality reduction

Question 5:

How poverty and inequality could be reduced in the future. What are the policy gaps in the context of Afghanistan?

Answer 5:

According to Mr. Guggenheim, security is the number one priority. He referred to the fact that executives are kidnapped, and 50 percent of GDP is spent on the military in a small country, this goes nowhere in terms of poverty. He proposes a peace agreement, though it may not be the best option in terms of human rights, it will help the economy.

His second policy recommendation is to try to concentrate on a few areas, and not doing everything at the same time. He starts with the idea of agriculture and its productivity since

most of the poor population is located in rural areas where agriculture is the main source of income for households. Their productivity is very below. He also referred to how rainfall directly affects the poverty rate. This can go worse, as he warns, since there is no water storage in the country in case of rain-fed agriculture. And as climate change happens, one cannot rely on the rain as before. For him, the short-term action would be to concentrate and increase the productivity of the agriculture sector.

In the long term, Mr. Guggenheim emphasizes the rule of natural resource development. He says, "Now that is good for growth". He continued by saying that from the poverty side, mining does not need labor. "You do not need poor people to do mines" he said. he referred to outsourcing the mining sector to a big mining company, and they would extract the mines, not necessarily, employing the poor in the extraction process. As a result of the extraction, the government will get a share of the profit from the extraction. He does not believe that mine extraction would affect poverty reduction through job creation.

He, however believes that natural resources are key for generating growth. The government than can transform these resources to poverty reduction programs, and how to do so, is the question. here Mr. Guggenheim provides different models from the Asian region. In India, the top 5 percent have the wealth, money, and access to wealth and education, the remaining 95 percent is cheap labor according to him. The second model is like Sri Lanka, there is some growth, and huge investment in health and education systems, but no jobs. The next model, as he called it the "East Asian" Model, in which growth comes from the rural sector. The finance sector is used to move it into the industry. Domestic industries are protected and allowed local competition.

The model which is foreseen for Afghanistan is a mix of all models explained above, he said. He refers to the Brussels ANPDF, which outlines this model. This model states that "use institutional reform to go from a high level of growth to a high level of inclusivity". This model would focus on three aspects. first providing market access for Afghanistan. Access to markets could be achieved through the establishment of proper transportation and railway system, basically connecting Afghanistan with neighboring countries and the region. International treaties, alongside transportation, would increase productivity for Afghanistan as a whole, according to him.

The second step is to increase efficiency in big growth sectors. Mining for example, does not generate any revenue for the government [now], but there is potential, he said. The third step, is the planning process, which he calls it now as a “mess” and completely fragmented.

The above mentioned three steps or sets of actions seem plausible. Afghanistan is a landlocked country and is only connected by land to its neighboring countries. The security situation makes it hard to use ground transportation since it is insecure. Besides that, due to ongoing political conflict between Afghanistan and its neighboring countries, ground transportation is not always accessible for trade and exchange of goods and services. The establishment of railways, which connects Afghanistan with its neighbors is an important step towards growth.

Tapping on mining and natural resources would be the main source of economic growth in the future. However, this sector, like all other sectors managed by the government have not done a great job so far, and it is expected to be so for the coming years. The mine extraction and contracting it to other international and national companies have been troublesome. After 15 years, not a single mine and extraction of natural resources have taken place.

The planning process, or policy formulation remains challenging as said by Mr. Guggenheim. Unfortunately, the government and its structure are not consistent and reliable to implement and follow-up national plans. The government officials, especially ministers and provincial governors are changed several times within a year, which makes the implementation of national plans at their ministries challenging. Even at the top government official levels, political consensus and political will remains fragmented.

Mr. Guggenheim refers to the market system and how it works. The money from growth is channeled into health and education, which people demand daily. And in the market system, as people get wealthier, there is more demand, and investment which creates jobs. He reframes my question, in a sense that the question is about the role of the state which it plays, given a market economy. As is the case in any market economy, he mentioned that the role of the state is only in case if there is a conflict. He also states that the government has a role in planning and being the first mover on poverty, but nothing more than that. He provides an example that poor farmers do not have a market, and it is going to be a while before they have a private market. This example further exerts the point that the rule of the government is limited in the market economy as seen by Mr. Guggenheim. He puts more emphasis on the private system.

He refers to the government expenditure as a method for generating demand. He states that the government needs to feed 400,000 soldiers every day, and he asks the question of why the

government does not buy the products from the local farmers, instead of importing it from Pakistan. With that, he wants to demonstrate the role of public sector demand is key in increasing local supply. He gives an example of the demand for chicken which was all imported from Pakistan and Brazil before. Now since the government buys chicken from locals, it results in the creation of local poultry farms around Kabul. The main driver of such demand-driven supply is the government, or what he calls as “state-driven demand”.

He also refers to the cotton industry, which Afghanistan had before, and why do textiles are being imported from China. He said, “that there are a lot of arguments that the role of the public policy is very practical”. He then turns back to the need for infrastructure for developing local businesses. He said that if you want to bring back the textile industry from Pakistan back to Afghanistan, you need projects like CASA [Central Asia South Asia] 1000 power project.

From the above points, it is clear that Mr. Guggenheim states that the role of the government is to respond in cases of conflicts, or as a regulator. In poverty reduction efforts, the government is only a first mover. But how it does that, is not clear. As he confirmed, the planning process is a mess. The only role, according to him the government may have is the so-called “State-driven demand” to increase economic growth, local industry, and job creation.

In the end, Mr. Guggenheim re-confirms the model of getting the poor farmers to grow agriculture products, and the finance sector to bring-in more industries. And then the rural sector and finance sector are connected to increase productivity. That is the model that will encourage more people to come and invest. He conditions his statement by saying that all of that depends on some version of peace. He concluded by stating that “You don’t get peace, it is all a wasted time. That is the basic story.”

Main points:

The interview with Mr. Scott Guggenheim is a very important piece of this study. It depicts the government's stand on the issue of poverty, income inequality, and economic growth. As a Senior Advisor to the president, he seems to be well informed about the current economic situation of the country given his several years of work experience in Afghanistan and with the current president Mr. Ashraf Ghani. Such type of information, is hard to obtain from any other government officials, mainly because either they are not aware of the larger picture, or they are not willing to share such information.

The following are the main conclusion from this interview:

1. The growth rate in the last 15 years was unrealistic from a composition perspective, and it is attributed only to international military spending, not to an actual increase in productivity.
2. The current high unemployment rate stagnated poverty rate is also attributed to the withdrawal of the international military forces, which left almost 50 percent of the population jobless starting from 2012.
3. The poverty rate has not decreased because the growth was unrealistic, or it is composition was not across sectors. Also, because of the high population growth rate in comparison to economic growth, the poverty rate has not decreased.
4. The stagnated poverty rate is not resulted by inequality. Inequality only reflects high poverty, it does not cause poverty.
5. The role of the government in the market system is limited to resolving conflicts, planning, and being the first mover. However, the government could influence market forces by state-driven demand. This should be tailored to the use of local products and resources.
6. No information, plan, or policy about poverty reduction and reducing income inequality was referred to, or named to support government intention to eradicate poverty except ANPDF.
7. The growth model should consider agriculture, natural resource extraction, mining, infrastructure such as power grid, railway, and transportation as well as the improvement of the planning process.
8. Regional difference in the distribution of resources and poverty level does not matter, the bigger picture of getting economic growth matters for the government.
9. The main source of growth for the country is the natural resources. The mining sector may generate revenue for the government but is not the source of employment for the poor.
10. All the above happens in some version of peace, without which, it is all a waste of time.

Key Informants Interview: Mr. Khyber Farahi

Name: Khyber Farahi

Position: Senior Advisor to the President on migration and social Development

Date: 21 August 2017

The second key informant's interview was conducted with Mr. Khyber Farahi, Senior Advisor to the President of Afghanistan on migration and social development. The interview was conducted in Pashto local language and translated to English. The interview took place on 21 August 2017 at the Sepidar Palace in Kabul, Afghanistan.

This interview is relevant because of the background of Mr. Khyber Farahi, who has started his career from the Ministry of Rural Rehabilitation and Development, National Solidarity Program (NSP). NSP is the first and only poverty reduction national program of the government. Secondly, he is an advisor to the president on the issue related to migration and social development, in which the second area is directly related to poverty reduction. He has also served in the Ministry of Finance, before being appointed to his current position.

Question 1:

Almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Answer 1:

Mr. Farahi goes back to the early years of 2002 to answer this question. He said that poverty reduction was on the top of Agenda, with the establishment of the new regime. By the new regime, he meant the Afghanistan interim and transition government after the fall of the Taliban in early 2002. He supports his argument by naming the first and only long-standing Afghanistan National Development Strategy (ANDS), in which one of the pillars was poverty reduction in the country. While he mentioned that the implementation of this policy and how much it was successful is a separate debate, he points out that lessons are being learned from that. There are different reasons for a high poverty rate of 38 percent, despite huge investment in the country, Mr. Farahi argued. He however did not name any main reason at this stage.

He pointed out that poverty reduction is a fundamental part of the National Unity Government's development strategy. The National Unity Government (NUG) was established in April 2014. He referred to the Citizen's Charter Program, successor to NSP, as an example of government

efforts to eradicate poverty. He said that this is the fundamental program of the government for poverty reduction.

Afghanistan's National Priority Program Citizen's Charter (ANPPCC) is the subsequent program of the National Solidarity Program (NSP). It is implemented through government by the Ministry of Rural Rehabilitation and Development (MRRD), in consultation with other government organizations such as Independent Directorate of Local Governance (IDLG) and other relevant ministries. While several studies have been conducted on NSP and its impact, which is discussed and presented in the Literature section of this Thesis, ANPPCC is relatively new. It has recently renamed, or started with a bigger vision, which includes education and health as an additional package to the NSP program.

At this stage as the interview was conducted, little is known about the impact of ANPPCC, since it has recently started. Therefore, it would be early to comment on its success and achievements. The author has contacted two advisors, and the director of ANPPCC program, and visited MRRD, but was not able to reach them. By one email reply, they said that it is early to comment on the impact of ANPPCC on poverty reduction, though it is the successor of the NSP program which is the longest government program in the country since approximately 2003.

He turns back to the challenges that the government face in reducing poverty. The same as stipulated by Mr. Guggenheim, Mr. Farahi states that you cannot eradicate poverty in one or two years. What he means is that it takes a long time to eradicate poverty in a country. Second, the same as stated by Mr. Guggenheim, the population growth rate is much higher than the economic growth rate. However, He does not go into details of this argument, and says that "your growth is 50 % of the population growth". Though it is not clear what he meant in which direction the relationship goes. Adding to the list of challenges the government faces, security plays a vital role according to Mr. Farahi. However, he does not rank security as a number one obstacle for the government for poverty reduction efforts, which is in contrast to what Mr. Guggenheim argued.

While security is the main problem that the current government as well the last one was facing, it is affecting not only poverty reduction efforts, but all aspects of governance, and the day-to-day life of people. It harms every aspect of the life of people and government programs.

It is surprising that the only government program to poverty reduction, the NSP, and its current subsequent ANPPCC enjoyed a smooth operation in rural areas and was not directly affected

by security. The program works in rural areas, with the help of community elders and villagers to decide and implement development projects prioritized by themselves. In its almost more than 14 years of operation in rural as well as insecure areas, the program has hardly faced any major security problem. Only in rare cases, such incidents have been reported. Thus, the argument, as presented by Mr. Guggenheim and Mr. Farahi, is not as strong as it seems to be.

Mr. Farahi, after providing this background, comes back to the question and says that poverty reduction is a top priority for the government. He reinforces his argument that the government programs are very much focused on poverty reduction. He even referred to the background of the President, Mr. Ashraf Ghani, that he had a similar work experience or knowledge about poverty reduction, without explicitly naming his experience in different developing countries with the World Bank or field of education.

The solution for poverty reduction, according to him is very clear, specific, and practical. Here, he refers to the government recent strategy paper, ANPDF. Mr. Guggenheim also referred to this strategy paper for highlighting government policies about poverty reduction. Mr. Farahi explained that in this document, there are National Priority Programs (NPP) and a key of them is Citizen's Charter. There have been practical work done in this area, which could be linked to poverty reduction, he said, without explicitly naming any further government effort.

ANPDF has been reviewed to find out government policies to eradicate poverty which is presented in the Government Policy Review section of this Thesis. In brief this document does not specify specific programs, interventions, or activities that would result in poverty reduction. The only government effort mentioned in ANPPCC is that the government is committed to inclusive growth and poverty reduction, which remains only in written form.

Question 2:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Answer 2:

Mr. Farahi first replied that this is a general question. he said that there are several reasons behind it. The aid itself, he said, and the way foreign aid came, and how it was spent; created a fragile economy. He went on and said that inflation has increased, so does the fragmentation

in the administration system of the government. Although he did not explicitly say, that inflation and fragmentation in the government were as a result of foreign aid. His next point is that instead of spending donor money through government budget on National Priority Programs, it was spent off-budget (by international organizations themselves, and without involving the government). The project on which the money was spent, were short term and had only immediate impact.

Mr. Farahi started answering this question, by blaming the foreign aid, the same way as Mr. Guggenheim blamed international military spending for no effect on poverty reduction in the last 15 years. The reason for asking government officials this question is to know what the government has done to eradicate poverty. The answer received was mainly blaming others on the high poverty rate that Afghanistan faces now.

While the increase in inflation rate argument is plausible, as more and more money came into the country, the level of output has not increased in the same proportion. As a result, general prices for goods and services raised. this resulted in the poor being in a comparatively disadvantaged economic position, given their rich counterparts are in a better financial position to purchase goods and services. The price has raised, and the poor were further deprived.

The fragmentation of the government administration system does not seem plausible. If the money is being spent independently from the government on projects by the international organization for example, it has in some form performed the task of the government to help the society and rebuild the country. Even these projects were small scale or short term focused as Mr. Farahi said, the government is by no means disadvantaged by the implementation of these projects, which is in contrast with the argument of Mr. Farahi.

The issue of off-budget and on-budget has been in discussion for a long time now. The majority of aid came to Afghanistan in the aftermath of the fall of the Taliban in late 2001. The new interim and transition government was hardly functioning. The government, it's structure, and the system was re-established from zero. There were no institutional framework or government structures in place to allow service delivery to people. Everything, including financing of the government ministries and departments has to be rebuild from zero. In such a time, the government could not spend a huge amount of foreign aid through their system. not only that, even if such money were at the disposal of the government, it would have hardly any impact or be spent on service delivery to the people. Even until recently, government ministers are pushed by the Parliament because of not being able to spend their development budget of their

ministries. Also, as said by the consultant of World Bank, corruption in government administration has resulted in aid ineffectiveness, and thus hinders efforts by international organizations such as World Bank to combat and eradicate poverty in the country.

Mr. Farahi states that long term fragmentation in the government administration system is the second main reason, though it is still not clear what that means. He also referred to the point that the government started everything from zero after 2001, and it requires time to increase productivity and efficiency. Besides that, he refers again to a deteriorating security situation as another obstacle.

Corruption also plays a vital role, said Mr. Farahi. He said that all these problems are almost the same in countries facing high poverty rate. Another problem according to him, is that even the projects funded by donors and implemented off-budget did not target poor people as beneficiary. As an example, he mentioned that agriculture-related projects only targeted those who had agricultural land, not the poor, and tenants who did not have agriculture land. As a result, poor who did not own land have remained disadvantaged. He claimed that “if you evaluate all such programs, except Citizen’s Charter, which considers the principles of equity in their programs”. Although he did not complete his sentence, what he meant is that most of such donor projects have similar flaws in their design and did not target the poor.

Mr. Farahi named a different type of corruption, which he calls elite corruption. When funds were given to an area or sector, a limited circle of people [elite] would have benefited from such funds, without actually benefiting those in need. As a result, these programs did not contribute to poverty reduction efforts. He said that similar issues were with the efficiency of such programs.

While some of these claims are true and donor programs were not free from corruption, this point could not be generalized though. He puts Citizen’s Charter as an exception and as a model because it was implemented by the government of Afghanistan. Two points should be made clear here. First that even Citizen’s Charter is not the best program if we are in search of perfection, cases of miss use of funds, which went unrecorded at the communities could have happened. Second, not all projects and programs implemented by donors had corruption or design flaws. The question is, how the government could put more effort to eradicate poverty by itself or take measures to fill in such flaws and fight corruption, through the rule of law.

The effect of widespread corruption, as one of the greatest problems faced by the government, on eradicating poverty, could not be neglected. Corruption has been a long-lasting challenge,

and the government has tried its best to cope with it. Both corruption at government, and in international organizations implementing their programs and projects, are mainly remained undiscovered or not brought to justices.

In 2017 ranking by Transparency International, Afghanistan ranked 177 out of 180 countries, in the corruption globally¹. Only Somalia, South Sudan, and Syria are the three countries that ranked below Afghanistan.

Question 3:

How well foreign aid and economic growth was distributed equally among the population?

Answer 3:

Mr. Farahi states that the foreign aid was unequally distributed, the idea which Mr. Guggenheim also shares. He said, as put by Mr. Guggenheim, that much attention was given to the provinces with high-security issues. Mr. Farahi added that in provinces where security was not an issue, access to the population was difficult. In Badakhshan for example, which is a remote province and is relatively secure, not much work has been done as it needed to be. He iterates that on the other hand, the Citizen's Charter Program considers equity.

Question four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Answer Four:

Mr. Farahi provided only one sentence of response, probably due to a shortage of time. He said that "That is one reason that I have told, there are other reasons too". What could be concluded from this is that he might not disagree with this finding, otherwise, he would explicitly have said so.

Question Five:

¹ Transparency international (2017), CORRUPTION PERCEPTIONS INDEX 2017, url: https://www.transparency.org/news/feature/corruption_perceptions_index_2017

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

Mr. Farahi said that poverty reduction should be considered during the design of programs. He said that a lack of accurate data is another problem. Targeting the poor and providing what the poor needs are areas where policies could be improved in the future. He said that ANPDF is the Afghanistan government general policy in this regard.

Main Findings:

- The poverty rate has not decreased over the last 15 years, because of the foreign aid being spent off-budget, on short term projects and with only immediate or short term impact. Such programs had flaws in their designs and did not benefit poor people directly. Off-budget donor spending resulted in administration fragmentation in the government.
- Corruption, especially by elites have posed a problem for the poverty reduction efforts. Security played a vital role, and in some cases, having access to remote provinces and areas has been a challenge.
- Except for Citizen's Charter, no other government efforts are made or being discussed regarding poverty alleviation. ANPDF is considered the government's main policy framework for poverty reduction and it promotes inclusive growth.

Key Informants Interview: Mr. Zalmi, Nishat

Name, Last Name: Zalmi, Nishat

Position: Senior Policy Advisor

Organization: Office of Chief Executive

Date: 22/08/2017

Mr. Zalmi Nishat is a Senior Policy Advisor to Mr. Abdullah Abdullah, Chief Executive Officer of the government of Afghanistan. He is also a Ph.D. student at the Government Department at Essex University in the United Kingdom.

Question one:

Almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Answer One:

Mr. Nishat said that until 2014, “I don’t think poverty reduction was in the radar of government”. However, he said that with the establishment of NUG [National Unity Government], the idea of poverty reduction became a factor. Even after 2014, he said that there is no structured effort, and no coordination has been done to reduce poverty, except for a few activities.

Mr. Nishat’s point of view, represents the view of the Office of Chief Executive; which is established after coalition government between Mr. Ashraf Ghani Ahmadzai, the President; and Mr. Abdullah Abdullah, The Chief Executive Officer. Since NUG is established in 2014, and the Office of Chief executive is relatively new in the government structure, their view is almost in opposite direction compared to respondents at the Office of President and other governmental offices.

He said that no structured efforts have been done to reduce poverty by the government until recently, referring to the establishment of the new coalition government. He did not mention though, what efforts have been made after the NUG government, which sounds doubtful if such efforts have taken place by OCE (Office of Chief Executive) regarding poverty reduction, or by the government in general. Most of the other area which OCE is active is coordination among ministries and donor community given that the Council of Ministers is chaired by the

Chief Executive Officer. He noted that the lack of coordination in poverty reduction efforts, which is the same with most national programs and government efforts. The OCE has recently established different coordination Units to improve coordination between government, donors, and other agencies for better program implementation in the areas of Private sector development, women empowerment, migration, and so on.

Mr. Nishat said that there is no structural system in place to eradicate poverty. What he meant is that government is not putting efforts at both policy and implementation levels to eradicate poverty. There is no such responsible organization or department most probably which monitors and coordinates efforts on poverty reduction. He might also refer to what Miss Sarabi also mentioned, the strategic gap in which there was no government policy or strategy for the overall government to align their programs through a unified strategy between 2013; the end of ANDS, to 2017; when government announced ANPDF.

Question two:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Answer Two

Mr. Nishat provided a short answer, saying that during this period, a lot of funds come to the country, but it was unevenly distributed among the society and as a result, a gap between rich and poor has risen. This idea is somehow also shared by Miss Sarabi, who put these differently, saying that a group of people had access to resources. Mr. Nishat does not distinguish between if the growth was real or fake, as the other respondents did. But he agrees that the benefits of the growth were unequally distributed among the society, resulting in a class divide between rich and poor.

Question three:

How well foreign aid and economic growth was distributed equally among the population?

Answer Three:

Mr. Nishat directly responded to this as "It was not". Here, his point of view is the same as Mr. Guggenheim and Mr. Farahi, that the growth and foreign aid was not distributed equally. Not only that, but Mr. Nishat also said that most of the funds went to insecure provinces in the South and East region. This idea is also shared by Mr. Guggenheim that the distribution of aid

was driven by security, thus it was not equally distributed. Corruption, Mr. Nishat said did not allow an even distribution of funds.

Mr. Nishat brought up a new point that corruption could have resulted in an unequal distribution of funds. While the topic of this project is not related to corruption, though it might have its impact on the distribution of wealth, such a topic is not widely discussed here. However, it is important to notice, that how corruption plays a role in every aspect of the government, and it can affect almost anything in the country.

Question four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Answer Four:

Mr. Nishat also provided a short answer to this by stating that “In the light of my agreement above, I agree with this statement”. His viewpoint, as it was expressed in other's answers as well, agrees that there is inequality in the society. He agrees with the findings of the World Bank report. Meanwhile, this view was not explicitly shared by any other respondents.

Question Five: How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

Mr. Nishat recommended to have a coordination body to deal with this issue. He considers that bringing more coordination would help reduce poverty in the country, which might be a good solution to do at the policy level but will bring little fruit on the ground level. However, it is something positive to do at least by the coordination of such effort, given that such efforts do exist by the government and international organizations in the first place.

Mr. Nishat argues, that poverty reduction effort is a cross-cutting issue, and the government and donor community should be brought together to address poverty. He considers that this would solve the problem in the country.

Main Conclusions:

- Not enough efforts have been made by the government to eradicate poverty until 2014, and the aftermath is also not clear.

- Distribution of foreign aid and economic growth was uneven, and corruption resulted in an unequal distribution of funds.
- More coordination efforts would help reduce poverty in the future.

Key Informants Interview: Mr. Hafizullah Baha

Name, Last Name: Hafizullah Baha

Position: Head of SDGs [Sustainable Development Goals]

Organization: Coordination Unit, Office of Chief Executive

Date: 27/ 09 /2017

Mr. Baha has a master's degree in Public Policy from the University of Luneburg in Germany. Previously he has worked as Policy Advisor in the Ministry of Commerce. He has also worked in Afghanistan Investment Support Agency (AISA). At the time of this interview, he worked as Head of Coordination Unit of SDG (Sustainable Development Goals) Unit, at the office of Chief Executive.

Question one:

almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Answer One:

Most of Mr. Baha's answers are normative, and therefore, does not provide much information about the ground realities. However, it worth sharing his viewpoints on these questions here. Mr. Baha said that poverty reduction is significantly important both for people and the government of Afghanistan. He referred to this importance, by stating that an increase in income and capabilities will allow access to better education, health, and other services, which consequently results in the advancement of human capital development.

Question two:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Answer Two:

Mr. Baha agrees that sustained economic growth will result in poverty reduction and better life conditions, subject to distribution of such growth in the society. he argues that one of the reasons why poverty did not reduce, might be that the contribution of the poor and low-income citizens in the growth. This point, however does not seem to be profound and relevant to the topic of this thesis.

Question three:

How well foreign aid and economic growth was distributed equally among the population?

Answer three:

Mr. Baha shares the view of all other respondents that growth and foreign aid was not equally distributed in the country. The reasons for him is the widespread corruption and lack of social policies. He recommends a comprehensive analysis of how economic growth impacted income inequality in the country.

Question four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Answer four:

To some extent he agrees to this finding and added that other factors such as lack of inclusive growth and limited contribution of poor and low-income class in growth have also resulted in inequality and poverty.

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

Mr. Baha provides a list of recommendations such as Adopting social and pro-poor policies and increasing poor people's contribution to economic growth. He also considers other efforts such as promoting SME (Small and Medium Enterprises) development and general principles of good governance, transparency, accountability, citizen participation, and government effectiveness. Mr. Baha also proposes fighting corruption and decentralizing the government administration, particularly budget spending and sharing of national revenue.

Conclusion:

Mr. Baha provided a normative view on the topic. He promotes that the poor and low-income class should contribute more to economic growth, so poverty could be decreased. He provided other general good governance principles and fighting corruption necessary for having inclusive economic growth.

Key Informants Interview: Miss. Naheed Sarabi

Name: Naheed Sarabi

Position: Deputy Minister of Policy, Ministry of Finance

Date: 13 September 2017

Miss Naheed Sarabi is the deputy minister of policy, at the Ministry of Finance of Afghanistan. Ministry of finance is considered a key sectoral ministry, which not only prepares and executive budgets of all other ministries, but also have a policy and strategic body for government finance and its management. The ministry also coordinates donor contributions through the government budget for different programs. The Policy Deputy minister mainly has coordination rules at the ministry for national policies.

Miss Naheed Sarabi studied Political Science at Delhi University in India between 2004 to 2007. She has a master's degree in development studies from Ruhr University in Bochum, Germany. Later, she received a second master's degree in applied economics from Western Michigan University in 2013. Previously, she has worked with The Office of President, as ANDS sector expert, and later as Director of ANDS at the Ministry of finance between 2012 to 2013.

In her interview, since she has worked as Director of ANDS, she provided a detailed analysis of this strategy, which served as a poverty alleviation paper for Afghanistan. On the other hand, she had limited recommendations on the policy gap and how poverty could be reduced in the future. On a positive note, a new Council is being established on poverty alleviation and service delivery chaired by the President, as she shared the news during her interview.

Question one:

Almost 40 percent of Afghans live in poverty. How important is poverty reduction for the government of Afghanistan?

Answer one:

The same as Mr. Guggenheim and Mr. Farahi, Miss Sarabi confirmed that poverty reduction is a priority for the government of Afghanistan. She said, how much attention has been given to poverty reduction is a separate discussion though. She provided a detailed analysis of how ANDS was drafted, to serve as a Poverty Alleviation Paper for Afghanistan. The motive behind this strategy however was a pre-requisite for receiving funds from the World Bank and other donor countries, rather than a deliberate action from the government side to eradicate poverty in the country. It is obvious that the main motive behind having such strategy, poverty reduction being one of the main pillars, was developed to obtain funds from donors, rather than willing to solve the problem of poverty in the country.

She pointed out that during implementation in 2010, they have divided the policy into different sectors, and 22 National Priority Programs (NPP), as part of strategy implementation. The aim was, to reduce poverty and achieve the goals set in this strategy. She pointed out two problems as the strategy was translated into NPPs which faced objections. ANDS was a five-year strategic paper for poverty alleviation from 2008 to 2013.

First, as the strategy was translated into NPPs, attention was shifted from poverty reduction to economic growth and infrastructure programs. the argument was, that economic growth is a pre-requisite for the government to be self-sufficient and for its sustainability. She said that “we have slightly deviated from our goal which was poverty reduction in the first place.”

The second problem with the implementation of ANDS was that it had no monitoring and evaluation system in place, Miss Sarabi said. Such a system was necessary to track the progress toward achieving the goals. It is also necessary to observe the contribution of each program or NPP on poverty reduction, and to provide information about the success or failure of such programs. However, such an assessment, evaluation, or analysis has not taken place. She insisted that there is still a need for a full assessment of all projects implemented since 2002. As a result, she said, that we have limited our view of poverty reduction to some few indicators, such as access to health, education, and household income, and we are missing the bigger picture.

As the term of ANDS completed in 2013, there was a policy gap from 2013 till 2016, since there was no such strategy or policy in place by the government to direct national programs. She said that this period was a strategic gap for the country. This period was coupled with the transition of security from international forces to Afghan forces which took place by the end of 2014. This has further deteriorated the economy of the country since most jobs and businesses were related to such military presence, including foreign aid. The withdrawal of international military forces caused a high unemployment rate, which resulted in an increase in the poverty rate in the country. In this period, she said “Although we couldn’t work to reduce poverty, this has further deteriorated poverty rate”.

Finally, in 2017, the government prepared the ANPDF (Afghanistan’s National Peace and Development Framework). Miss Sarabi said that it is a framework, because in most part it is very specific on how the government achieve self-sustainability. Here, she noted that the focus has changed again from poverty reduction to self-sustainability and self-sufficiency. She noted that in some parts of the framework, they have provided a vision, which we could work on achieving it in the future.

In ANPDF, one of the main pillars is job creation and poverty reduction, said Miss Sarabi. Some programs, such as Citizen’s Charter and Women Economic Empowerment Plan are emphasized upon since these programs provide access to basic services, resulting in poverty reduction. Citizen’s Charter is the follow up of NSP, and Women Economic Empowerment Plan focuses more on how women in rural areas could be made self-sufficient and self-reliant. This program is more of a livelihood project, focusing on women in rural areas, rather than elite women, she said.

Another government program, which confirms that poverty reduction is a priority for the government is the Job for Peace program, said Miss Sarabi. The program aims to inject money to rural households, so they can sustain their living. This program is designed to be implemented through MRRD’s rural infrastructure maintenance program. These programs, she said, prove that the government is keen on poverty reduction.

We are currently working on establishing a Council on poverty reduction and service delivery, chaired by the President himself, said Miss. Sarabi. The main agenda of this newly established council is to track and monitor the progress of national programs. The main objective here, she said is the implementation, and to measure if the set goals for these programs are being achieved or not. One important topic of discussion for the council would be to find out the best

way of poverty analysis which suits the condition of Afghanistan. To see, if the internationally accepted poverty line is also applicable for Afghanistan as well or not. How poverty could be best described in its context in the country, is what the council would discuss.

A very good poverty analysis survey was conducted by MRRD, which is very practical, she referred. In this analysis, households are categorized in terms of how often they eat food per day, and if the children of the household go to school. The first category is the household whose children do not go to school, and they eat one meal per day. The second category, whose children go only to primary school and eat twice a day. The third category, whose children go to school and eat three meals a day. She sees this as a more practical, and according to the living circumstance of the people. She asks if access to land, access to housing, and drinking water should be included in the definition of poverty or not? she says not enough work has been done in this regard.

Miss. Sarabi criticized the surveys conducted by the National Statistic Organization (NSO), under the series of NRVA (National Risk and Vulnerability assessment] (later called, Afghanistan Living Condition Survey “ALCS”). She said that these survey reports are outdated, and they refer to a few years back once published, which does not reflect and provide information to current programs or does not serve as a useful tool for current programs.

Miss Sarabi also referred to the recent refugees and returnees’ crisis, as hundreds of thousands of Afghans are either deported or returned to Afghanistan from neighboring countries of Iran and Pakistan. She said that the immediate focus is to provide food and job for such households through an emergency plan. Other issues, such as access to land and housing and their integration, which requires time, could be addressed in the long-term. These efforts, as she said also affect poverty reduction.

Overall, Miss Sarabi provided a comprehensive analysis of the recent policies, programs aimed at poverty reduction, and how they are contributing to poverty reduction. she highlighted the challenges, as well as recommendations in poverty alleviation efforts of the government.

Question two:

In the last 15 years, Afghanistan witnessed a growth rate of around 9.2 percent on average, though slowed down in 2016 and 2017. despite economic growth, poverty did not decrease. What are the reasons for your point of view?

Answer two:

Miss. Sarabi pointed out to a new phenomenon in addressing the rapid growth that the country has witnessed in the last 15 years. She said that we have started from zero. What she means is that there was no formal economy before 2002, and the new government has to start everything from the ground. She refers to the period of rapid economic growth as a “Take-off” effect, which shows rapid economic growth at the early stages of the newly established government. She also pointed out the issues which followed, such as high population growth, rural-urban migration, and self-reliance in subsequent years.

Poverty, she said, did not receive enough attention during this period, the same as other development efforts. She also referred to this rapid economic growth as a “Fake economy”, meaning that the driver of growth was not realistic. She shares the same view as Mr. Guggenheim and Mr. Farahi, who argued that the economic growth was non-realistic, and mainly because of the military spending. However, she did not explicitly say that international military spending has resulted in this fake economy. She refers to the agriculture sector, as the main contributor to GDP, and says that we are not self-reliant in agriculture, and therefore, we do not have a healthy economy. Rural areas, which are the main driver of agriculture growth, lack basic infrastructure such as roads. It limits their role in being productive since they do not have access to markets.

Afghanistan’s economy was dependent on the donor’s money, and that is why we were not able to invest in productive sectors of the economy, said Miss. Sarabi. Another problem, she points out that due to a centralized policy system, based in Kabul, policies did not consider the needs and necessities of the local governments and rural population. We have to create jobs there and implement projects there, she said, referring to rural areas.

“I believe that there is a need for a comprehensive analysis of the programs and projects which were implemented since 2002 to find why their goals were not achieved” said Miss. Sarabi. She has been referring to this point several times during the interview and recommended that there is a need for a comprehensive review, evaluation, and assessments of all programs implemented since 2002. The assessment would consider which programs were how much successful and what objectives are being met and what are not. without such a comprehensive analysis, she said, it is very difficult to conclude why the poverty rate did not decrease despite rapid economic growth. The assessment would clarify if the problem is with our interventions, or it was due to other factors such as security and accessibility. She concluded that “Since we

do not have such analysis and evaluation of the programs, it is very difficult to say what are the main reasons.”

Question three:

Foreign aid and economic growth were not equally distributed among the population. Some people become very rich, others very poor. What is your point of view on this? Was the economic growth equal or how?

Answer three:

Regarding inequality, she referred that other Asian countries went through the same stages as Afghanistan. In take-off stages, “growth is never equal”, she said. “there are winners and losers” Miss. Sarabi said. she did not comment on foreign aid distribution and said that she does not have any data about it to comment. However, she said that most of the foreign aid spent was “off-budget” and not through government accounts. And since more than 50 % of the aid was spent off-budget, and there is no assessment or data available about this spending, it is hard to conclude if it was equally spent or not.

She provided an overview of how government budget is allocated, which is based on the grade of the provinces. Each province is graded as first, second or third, though there is no clear criteria or system to decide which province belongs to which category, for example by considering population size. As a result, budget allocation does not consider the population of a province. She provided an example to see how the budget allocated to one province is not comparable to another, or the total population of the country, because no such proper system of grading for budget allocation exists.

Some areas received much attention by the government such as service delivery like schools and basic health care services, she said. She referred to NSP projects in which the Community Development Councils decide on priority projects that they want to spend their allocated grant amount, which makes it more inclusive for decision making and sharing of benefits. However, marginal groups, such as women, minorities, vulnerable groups, displaced and returnees, their inclusion to receive basic services still require more government efforts, she argued.

Government planning, especially for budget allocation and considering such marginalized groups as the beneficiary has some flaws. This view is also shared by Mr. Guggenheim,

referring to planning as a “mess”. Miss. Sarabi pointed out that the other ministries failed to provide direct beneficiaries for their projects and program in the budget, and as a result, it is difficult to assess for example how much gender is being considered in the government budget.

Question four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Answer four:

Miss. Sarabi did not comment on the World Bank report, stating that she has not read the report, and therefore cannot comment. Overall, she said that I agree to some extent. Meanwhile, she stated that due to corruption, a class of people had access to resources, and as a result managed to get some benefits. Others, she said, were not able to have access to such resources and their condition remained the same. They might have received some access to basic services provided by the government.

In terms of inequality between different classes and different groups, she said it varies. Different class, she thinks arise because some people had access to more resource, without explicitly naming or determining what these resources are, or what she meant by saying “benefits” or “resources”. However, it could be assumed that these terms may refer to access to power and government positions, which lead to corruption and huge earnings by miss-use of power.

In terms of categories, she said that women were not able to get the fruits of economic growth. The same is the case with other vulnerable groups including returnees. And finally, she mentioned that there is no safety net or social security to take care of the disadvantaged groups.

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

She re-affirmed to fill the gap in service delivery and said that we should do cash transfer to households. This seems a very optimistic and short-term solution for addressing poverty which

requires long term policy solutions, rather than short term solutions such as cash transfer. She said, “That is the basic thing that government can do”.

Referring to ANPDF, Miss Sarabi said that the government is considering a 70 % to 30% split of national budget between investment (70%) and service delivery (30 %) such as education, health, and infrastructure. Rural roads, as a component of infrastructure, said to require attention to provide rural population access to other services such as health.

The second policy gap she says is the job creation. While she states that projects implemented so far might have resulted in more jobs, much efforts are required in this area. The solution from her point of view is not the large-scale mining projects, since they will generate income in the long term, and does not bring many jobs now. This view is shared by Mr. Guggenheim, who also thinks that mining is not a job-creating sector. She says the fruits of such investment will come after 10 to 20 years. Instead, she argues, attention should be given to small scale mining projects which generate jobs. She refers to a dilemma for the government between deciding on whether to create jobs now through small scale mining projects or invest in large mining which does not results in job creation immediately but generates revenue for in the long run.

Miss. Sarabi even thinks that infrastructure projects will also do not provide jobs in the short term, and they are long term investment. She argues, if the problem of poverty should be addressed, it should be through small cash grants, labor-intensive projects which have immediate results. She says, and then we can think about the long term.

In summary, she proposed two sets of policy actions. One for the short term, with immediate impact, and the other, long-term solutions. She referred to current government programs and objects that much could have been done. The response to the migration crisis, and land distribution, which did not take place so far. The short-term projects, she argues will boost the trust of people on government, and these projects and programs could be extended or translated into long term solutions later on. She also talked about generating revenue for the government, so the government is self-reliant, and then can invest in such projects by its own money.

Arguably, short term labor-intensive or cash grant would be a short-term solution for the unemployment rate and poverty reduction. to reduce poverty, sustainable jobs are required, which in turn depends on infrastructure development and investment by the government and private sector. Cash grants and cash transfers are mostly emergency projects such as in case of drought or famine. However, she prefers short term solutions for the immediate needs of

people, and what she later refers to boost the trust of people on government. This solution does not seem reasonable given the situation of Afghanistan, that poverty is a chronic problem and requires long term solutions.

“We need to have an economic model for our country” Miss Sarabi said. what she meant is that we do not know exactly in which sector should we focus, rather doing all things at the same time. Mr. Guggenheim shares the same view as hers on this topic of concentrating in one area, and especially the one in which Afghanistan has a comparative advantage. She said that though agriculture is the primary source of livelihood for the rural population, not much has been done in this regard. She said that even we are not self-reliant on wheat, a basic agricultural product and a staple part of daily food in Afghanistan.

Conclusion:

- The ANDS being the country’s poverty alleviation paper, though had some achievements, were later deviated from its intended purpose. As the strategy was implemented through NPP, more focus was given to economic growth and infrastructure, rather than the initial aim of poverty reduction. after ANDS ended in 2013, there was a policy gap in the government till 2016, which was also the period of international security forces withdrawal, resulting in more job losses and deteriorating economic conditions in the country.
- The rapid economic growth was due to take-off effect, and because the economy was started from zero. The economy was rather fake, and Afghanistan did not have a healthy economy.
- There is a need for a comprehensive analysis of governments program to evaluate the impacts of such programs and how much they were successful in achieving their set goals.
- Inequality does exist because some people had access to resources. The government and donor interventions did not target the population more equally and some marginalized groups, including women were left behind and received little benefit from the economic growth.
- Corruption has also somehow affected the class struggle.
- The government budget is not based on the population size of each province and does not reflect indicators such as the amount of money spent on women and other minority groups.

- Government policies should be both for immediate term and long term to address the current pressing needs of creating jobs and providing basic services, as well as having a long-term perspective. For the immediate term, small scale projects such as mining and cash grants and cash transfer could be used to boost the morale of the population. In a later stage, long term strategies could be formulated such as infrastructure, mining, and market development to provide a sustainable solution.
- The government however has to make a trade-off between small scale projects for immediate job creation, or long-term investment for generating more revenue in the future, but fewer jobs now.

Key Informants Interview: Mr. Shankar Narayanan

Name, last name: Shankar Narayanan

Position: Senior Social Development Specialist

Date: 28 /10 /2017

Organization: The World Bank, Afghanistan Office

Authors note: Mr. Narayanan noted that all the information provided here is based on his individual personal capacity and should not be attributed to the World Bank.

The author has met Shankar in person, but a face to face interview was not conducted. Responses are shared through email in written form.

Question one:

almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the World Bank in Afghanistan?

Answer One:

The goal of the World Bank in Afghanistan is to see Afghanistan free of poverty and improve shared prosperity, said Mr. Narayanan. This goal, he said is the main objective in preparation for the Strategic Country Diagnosis and Country Partnership Framework of World Bank in Afghanistan. This statement confirms the main goal of the World Bank internationally, to

eradicate poverty and shared prosperity in the developing world. The same is the case here in Afghanistan. This confirms that poverty reduction is the main agenda of the World Bank. Mr. Narayanan did not provide much information about how and to what extent it is a priority for the world bank here in Afghanistan.

Question two:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Answer two:

“Programs like the National Solidarity Program (NSP) have made a considerable impact on poverty reduction in the areas they have operated” said Mr. Narayanan. One of the main reasons why poverty did not decrease despite a period of rapid economic growth is a high rate of corruption according to him. Corruption has resulted in rich getting richer and prevented the benefits of development to reach the poorest, he said. NSP is mostly funded by and through World Bank and it is implemented by the government of Afghanistan.

Besides corruption, lack of good governance practices has hindered the path towards poverty reduction. “It has not been possible to address issues of good governance and address rampant corruption in a lot of the development expenditure in the country,” he said. unless these problems are addressed, there is little hope for the future, he concluded.

Question three:

How well foreign aid and economic growth was distributed equally among the population?

Answer Three:

Mr. Narayanan agrees that foreign aid and economic growth were not equally distributed, and he referred to the same ill governance and corruption as the main two reasons. And these two areas are the focus of the government now, he said. He also referred to Citizen's Charter program, which raises the demand from local communities for good governance through community development councils and said that such efforts could improve the situation.

Question four:

How world bank contributes to poverty eradication in Afghanistan?

Answer Four:

The World Bank, according to him invests in infrastructure and development projects such as NSP and Citizen's Charter Programs. These programs empower the community to take charge of their development and demand for the delivery of services from government agencies. Other efforts of the World Bank include programs targeted at "basic health, education, agriculture, water supply and sanitation, roads, irrigation, energy and extractives, etc" he said. He said that "the key issue is enhancing good governance systems and processes and preventing pilferage of financial resources meant for the poor for development".

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

Poverty and inequality could not be reduced unless those in the administration of development programs ensure that resources are being used for its intended purpose and that they are made accountable to delivery on the results based on good governance, said Mr. Narayanan. The gap is getting wider day by day because development administrators and implementers do not adhere to a standard of ethics and good governance. For him, he repeats it for the last time that "recognizing the importance of good governance and anti-corruption efforts right from the beginning is the only solution so that this malaise is addressed"

Conclusion:

Mr. Narayanan states that the main objective of the World Bank in Afghanistan is poverty reduction and improving shared prosperity. He said that World Bank is advancing toward achieving these goals, as set in the country paper, through investment in infrastructure and development programs such as NSP and Citizen's Charter. However, the main two problems resulting in high poverty and inequality are corruption, mainly at the administration and implementation of development projects which does not allow funds to be spent on its intended purpose, and lack of good governance. One solution, according to him is the Citizen's Charter which enables communities to be in charge of their development projects, and demand for the services they are entitled to from government agencies. Unless the problem of corruption and ill governance is addressed "there is no hope for the future" he concluded.

Conclusion:

The key informant's interview provided an in-depth analysis of the last 15 years of the economic condition of Afghanistan. Conducted with top government officials and key policymakers, both at government including office of the president, office of Chief executive as well as the ministry of finance and international organization such as world bank, provided diverse viewpoints on the topic. Here, the main conclusions and findings of these interviews are summarized.

From the government perspective, the economic growth was unrealistic and worthless, when they were asked about the impact of rapid economic growth on poverty reduction. they have objected to the economic growth itself, by stating that it was not realistic, fake and biased. Terms such as fake economy was also used to refer to such growth which they believe resulted from the spending of international military forces. Since it did not increase productivity, it is considered to be fake growth figures. International organizations on the other hand, such as the world bank, did not share such a view and did not discuss such attribution to economic growth.

On the efforts of the government to eradicate poverty, the government does not provide detailed policies and programs to eradicate poverty and reduce inequality, even after 16 years of its existence. At the policy level, the ANDS (2008-2013) and ANPDF (2017- 2020) are the two main policies during this period, both of which have their shortcomings. The policy gap between two periods from 2013 to 2016, coupled with the withdrawal of international military forces in 2014, has further deteriorated both economic growth and the little progress achieved before this time. The main government program to eradicate poverty is the only NSP later called Citizen Charter Program, which is also funded by the World Bank and other international organizations, thus it does not reflect government actions to eradicate poverty.

International organization, such as the view from one of the Senior Social Development Officer at the World Bank, sees the problem in the government system. corruption in administration and implementation of development projects, coupled with ill governance has resulted to hurdle efforts of World bank toward poverty reduction in the country, according to the statement of this consultant. They argue that unless the funds are spent on its intended purpose to help poor, and is not being wasted by corruption, this will take the country anywhere.

On the point of what to be done, several recommendations emerged. From concentrating on one sector than every sector, to increasing productivity of agriculture, mining, natural resources, and regional integration and large infrastructure projects are considered to benefit both the economy and create jobs for the poor. While some argue that short and long term policies and strategies are required, the ANPDF is the main government policy about self-reliance and self-sufficiency. This policy also calls for the eradication of poverty through the Citizen's Charter and talks about inclusive growth. How this could be achieved remains vague for the government.

In conclusion, it is argued that not enough efforts have been focused on poverty reduction during these past 15 years. Not only that, the negative effects and consequences of such rapid economic growth on the poor population cannot be ignored. As a result, society is economically divided and there is a gap between rich and poor. While some degree of inequality may arise during the period of economic growth as witnessed in other developing countries, in the case of Afghanistan, there is a need and a strong urge to implement national policy for minimizing the gap as soon as possible. This project aims at such policies based on the empirical research and context of Afghanistan according to international best practice on fighting poverty and income inequality.

Annex I: Full Text of Key Informants Interviews

Key Informants Interview 1: Scott Guggenheim, Advisor to the President of Afghanistan

Full text of the recorded interview



Figure 1 Mr. Scott Guggenheim (right) and Kanishka Wahidi (Left) after the interview, at Sapidar Palace, (2017) Kabul, Afghanistan

Thank you for taking the time for this interview. I am doing my PhD and this is part of my research for my PhD and I am doing it in Germany.

Scott: I know, good, congratulations.

First, I have read about your background also, and the work that you have done in Community Driven Development (CDD). I have also worked in NSP (National Solidarity Program) which was one of your Programs.

Scott: ah Okay, funny out there.

So my first question to you is: almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Scott: I think it is on top of Agenda, the question is not so much should they, it is how? And here we have problems as you know there are two big problems in Afghanistan in terms of poverty reduction. The first is as long as there is a state of conflict and war, the economy is going to be small. Right. Nobody is going to invest or increase the economy. So, you don't really have sources of jobs. So, until you don't fix the security problems, you are not going to reduce poverty by very much. That is the first big problem. The second big problem is the ability of the private sector to create new jobs here is not very strong. Okay, you can have a government that is very committed. You can do sort of government programs that support transfer to people, but if you don't create jobs, you are not going to have a sustainable way to reduce poverty. So, the question is not so much are they committed, they definite are, the question is how to set the conditions so you actually do it. And there it is a lot harder than the people thought it is going to be. So, you have tools for driving the causes behind that.

The first is in 2012, what the military system did was to pull people out of agriculture and put them into services. And then get rid of the services, so there is a huge collapse in employment, growth disappeared, went from 10 percent to minus 2 percent. And you have essentially 50 percent of the labor force suddenly left unemployed. So, the question is how do you reverse that. Right, and there I think the government has not done such a bad job. Everyone thought it will happen quickly, it doesn't happen quickly. Global experience on fragile states is that you need about 30 to 35 years for a full recovery. We haven't had that right. Everyone thinks it will fix tomorrow. In a rich country, you can do that with monetary policy or by changing taxes, but here people don't pay tax and you don't have a monetary policy. So, the magic bullet solutions don't really work. Here it has to be an increase in agriculture productivity. Start getting in some of the sustain private sector development. Get some of the infrastructure built. None of which is quick.

Thank you,

My second question is: in the last 15 years, we witnessed a rapid economic growth in Afghanistan. On the other hand, poverty did not decrease, it actually increased from 36 to almost 40 percent. So what didn't work?

Scott: I think, the first thing that needs to be looked at, is how fake those growth figures were. They were not about job creation or productivity, they were about international military spending. When you look at it, it was about 10 percent a year. Nearly all of them come from

physical re-construction and support to international security forces. Whether it was PRTs [Provincial Reconstruction Teams], whether it was ISAF [International Security Assistance for Afghanistan]. So, when they stopped, growth drop to zero. Right. So, your composition of growth was never realistic in the first place. So that is your root problem here. So, when you look at the rest of the question, why the poverty would go down? You didn't change productivity. You don't change that, then poverty is never going to be down. That is your bottom line. Right.

The people's job, kind of things they were doing was more service industry for the international forces, and this is about it. The footnote is your growth is counterfactual. You have a very high birth rate. So, if you don't change growth rates, poverty would always go up. So, it did not go up as much, but your growth was no near enough to be credible. You look at southeast Asian countries, in China, Vietnam, Indonesia; they grew at 7 or 8 percent a year for 20 years. that is how they reduce poverty. Here they think it a big improvement to go from 1 percent to 3 percent. But your growth rate, your population growth rate is higher than that. Even if they keep up with these rates, you will get poorer, not richer. That is your bottom line, you have to have higher [growth rate] than the population grows. I do think that the government is thinking a lot not just about growth, but inclusive growth, but you start to get growth.

The next question: how well foreign aid and economic growth were distributed equally among the population.

Scott: Well, definitely it was not. There is nothing to argue about that. It was very driven by security. So, you see more aid gets spent in the South and the North [region], and you see a higher poverty rate in the North and the South [region]. But to me a lot of this is arguing about small differences. They put in 100 billion dollars, and the growth rate was tiny. For the reason I said earlier, it was not invested in things that would be productive, it had a lot of well-known problems. Everybody here was paid much more than your neighbors. Your daily rate for operating here, your consultant's costs are higher than your neighbors. So, if you don't fix that, it doesn't matter how much aid you keep pouring in, it just goes to consultants and donor projects, but they don't fix the economic fundamentals. Whether it is 2 percent higher in the North or South than in the North, it is missing the bigger picture. You don't have growth. Unbalanced, if you look at investment maps, aside from the military spending, it actually is

fairly balanced. Depends how do you want to weight it, geographically, by population, but compared to most countries, it is not that bad. The root problem is that there is no growth.

My next question is according to the Poverty Update report of World Bank in 2015, they have said that poverty has not decreased in Afghanistan, due to inequality. How much do you agree with this statement?

Scott: I think it is a silly statement. Because they are essentially saying the same thing. What they are saying is that you see poverty, you also see inequality and with high inequality, you see high poverty. Inequality is not a thing, it is a relationship. So, it doesn't cause poverty, it just reflects the fact that there is high poverty. What causes poverty is a lack of growth. I hate to sound that I am hitting the same message but, in many ways, you are asking me the same question. Your real question is, why isn't there more productivity in Afghanistan. In a way there is productivity, why isn't it shared? Those are your two questions. And the [World] Bank report makes the same mistake as you do. Inequality reflects poverty, reflects a lack of access to a little bit of growth. It doesn't cause them, it reflects them.

And my last question is: how poverty and inequality could be reduced in the future. What are the policy gaps in the context of Afghanistan?

Scott: the biggest one, I want to come to the same basic point, when you are kidnapping executives, when 50 percent of GDP goes to military in a poor country, essentially you are being driven by security and military. This goes nowhere, in terms of poverty. So, the first thing is you need a peace agreement. It is not something good to do with human rights, you have no economy without this. That is the first big thing. The second thing is, instead of trying to do everything, try to do a few things. There is no question to have poverty, you are talking about agriculture. Most people are poor in rural. Rural productivity rates are very low. When the rain is good, poverty goes down. When the rain is bad, the poverty rate goes up. It is going to keep worse because you don't have water storage. So as climate change happen, you cannot rely on the rain as much as you used to. So, the short-term action is got to be the agriculture sector.

The long-term action is going to be natural resource development. Now that is good for growth. From the poverty side, the mining does not need labor. You don't need poor people to do mines.

You just give a contract to a big mining company. So, the government is getting a share of that. The question is going to be with the areas that are increasing growth, like natural resources, how do you turn that into poverty programs. And therefore, there is the public policy. So, you could do it like India did for many different years. that the top 5 percent keep all the money, we keep them all well-educated, healthy, and 95 percent are cheap labor. That is one model. You have the Sri Lanka version. This is that you have some growth, but you have a lot of health and education investments, but no jobs. That is another model. You can have the East Asian model, which is you get growth in the rural sector. You use the financing sector to move it into the industry. You are protecting industry domestically and make it compete. So that is another model. The model which we are trying to use in Afghanistan is a bit of the combination of all of those. This is what laid out in Brussels ANPDF; which is to use institutional reform to go from a high level of growth to a high level of inclusivity. What that would mean is, you read it in ANPDF.

The first thing you want to do is increase Afghanistan access to markets. Your railway, your transportation, your international treaties, will increase a lot of productivity for Afghanistan as a whole. The second thing all you want to do is get your big growth sectors working more effectively. So, mining right now doesn't actually give any revenue to the government, but it could. So, you fix those. The third part is you fix the planning process, which right now is a mess. It is completely fragmented. So, the money from growth areas gets channeled into health, education, thing that people experience on a day to day basis. And that sets off in the theory of virtuous circles and as people get wealthier, and there is a market, than more people invest higher and that creates jobs. The policy question that I think you are asking is what role do the state play. And here, the argument is a very very strong one. So, anything with conflict, the state is key. But we are also saying that it has a role in planning, it has a role in being the first mover on poverty.

Poor farmers do not have a market. It is going to be a while before they have a private market. But the state has to feed 400,000 soldiers every single day. So why don't they buy some of the products from the farmers instead of from Pakistan. So, the role of the public-sector demand for helping rural supply is actually quite an important strategy. The first example you see is we used to import all chickens from Pakistan and Brazil. And people didn't eat all that much chicken. When they change the diet of the army so that now you are eating chicken two times a week. Suddenly, all around the Kabul you see chicken farms. So that is the example of state-driven demand, where they need to do that in many sectors.

You used to have a good cotton industry here. You have 300,000 teachers who all need a uniform. Why you are buying it from China. Why not buy locally. So that is a lot of argument that the role of public policy is very practical. And how do you put together what poor people grow and where the markets are going to be. As you start doing more value-added domestically, you get a virtual circle, you need skilled people to run those small industries. If you want to move the textile industry from Pakistan back here, you need electricity. That why you need CASA 1000 [Central Asia South Asia] power project.

That would be your basic growth model. You get poor people growing more from agriculture, you get the finance sector to bring in more industry. You get links between the rural sector and financing sector to productivity, and the world at large. And that encourages more people to come back and invest in Afghanistan. All of that depends on some version of peace. You don't get peace, it is all a wasted time. That is the basic story.

Thank you so much for your time. It will really help me throughout my dissertation and research.

2. Full text of Key Informants Interview

Name, Last Name: Khyber Farahi

Date: 21/8/2017

Position: Senior Advisor to the President of Afghanistan on Migration and Social development



*Khyber Farahi, Photo from Khyber Farahi Twitter account:
<https://twitter.com/KhyberFarahi> [accessed on 21.02.2018]*

Author's note: The original interview which was recorded is being conducted in Pashto local language. Below the translation of this interview is provided.

Provided background to the respondent:

Afghanistan's economy has witnessed rapid economic growth since the establishment of the interim government in 2002. Afghanistan's GDP increased from 2.4 Billion USD in 2001 to 20.5 Billion in 2012 and 19.4 in 2016 (World Bank, 2017)². However, the poverty rate has not improved and even deteriorated during this rapid economic growth period. The poverty rate was 36% in 2007 and it is estimated 39.1 percent in 2014 (NRVA, 20116)³. There is the notion

² World Bank, 2017, website url: <http://data.worldbank.org/country/afghanistan>

³ Afghanistan Living Condition Survey 2016-2017- Mid-term result highlights, Central Statistical Organization.

that economic growth has resulted in increased inequality, and does not benefit everyone equally.

My research topic is: “The impact of economic growth on income inequality in Afghanistan from 2001 to 2016”. The main objective of my dissertation is to examine the relationship between economic growth and income inequality in the context of Afghanistan from 2001 to 2016.

Question one:

Almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Answer One:

I think with the start of the new regime [Afghanistan interim and later transition government, established in 2002], poverty reduction was at the top of the agenda. For example, when Afghanistan’s first strategy was developed [Afghanistan’s National Development Strategy (ANDS)], one of the pillars was poverty reduction. but what was the result of the implementation of this policy, is a different discussion. There are lessons to be learned from. There are different reasons why poverty is still high, around 38 percent, although there was a lot of investment.

With the establishment of the new government [National Unity government in 2014], poverty reduction is a fundamental part of their development strategy, which is unprecedented. And one vital example of government strategy to eradicate poverty is the Citizen’s Charter program. This is one of the fundamental programs of the government for poverty reduction. poverty could not be reduced in one or two years. Your growth is 50 % of your population growth. Security also plays a vital role here. So, related to your question, it is very much important, and it is a top priority. If you see the background of the president, and the current focus of the government, it is very much related to the poverty reduction.

The way to achieve poverty reduction is clear. It is very specific and practical, and that is ANPDF [Afghanistan’s National Peace and Development framework]. In this strategy, there are National Priority Programs [NPP], and of the key NPP is the Citizen’s Charter. And there have been practical work being done in this area, which could be linked to poverty reduction.

Question two:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Answer two:

It is a very general question, there are several reasons. The aid itself, and the way foreign aid was granted, are the main reasons. The way it was spent, created a fragile economy. The inflation rate has increased. Fragmentation in government administration also increased. Instead of spending the money from donors through government national budget and for National Priority Programs (NPP), it was spent off-budget, and mostly for short term projects which only had an immediate impact. Naturally this affects the growth rate.

That is one reason, and the second one is the long-term fragmentation in government administration system. Afghanistan started everything from zero since 2002, and until we reach the level to increase productivity and efficiency, it requires time. And deteriorating security situation imposes limitations. Corruption has a vital and main rule. These are the clear reasons in all the countries which are directly affected by poverty.

Even if you see the design of the donor's projects, such as in the agriculture sector, they are targeting those who have land. Again here, those who are poor and don't have land are not benefited. If you evaluate all such programs, except the Citizen's Charter, which considers equity in their program, most of the other programs have resulted in elite corruption. When funds were given to an area [sector], it would benefit a limited circle of the people and would not reach the poor. And it is clear that it has no effect on poverty, and the same was the efficiency of such programs.

Question three:

How well foreign aid and economic growth was distributed equally among the population?

Answer three:

There are clear problems with this. It was definitely not equally distributed. It is also difficult to define equal distribution and on which basis. Much attention was given to the provinces with high-security issues and high-security forces. And even in some provinces where security was not as much of the problem, access was an issue. Like in Badakhshan province which is a

remote province. And not much work, as it was required, was done there. Another Let me iterate that programs such as Citizen's Charter, they have considered the equity principle.

Question Four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Answer Four:

That is one reason that I have told, there are other reasons too.

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

As I have mentioned, we should consider this in the program design. Having accurate data is another challenge. Other, that we should consider better targeting based on the needs of the poor and what could be done for them. And the ANPDF is the general policy in this regard.

3. Key Informants Interview full text

Respondent: Mr. Zalmi Nishat

Position: Senior Policy Advisor, Office of Chief Executive

Question one:

almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Answer One:

Up until 2014, I don't think poverty reduction was on the radar of the government. However, after the establishment of the NUG [National Unity Government] the idea of poverty reduction has become a factor. But there is no structured effort and no coordination is done. There are some activities only in this regard.

Question two:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Answer Two:

During the past 15 years, a lot of funds came to the country. But funds were unevenly distributed within the society. this created a gap between non-rich and poor.

Question three:

How well foreign aid and economic growth was distributed equally among the population?

Answer three:

It was not. I think most of the funds went to insecure provinces in the south and east of the country. Corruption in these provinces did not allow an even distribution of funds.

Question four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Answer Four:

In the light of my agreement above, I agree with this statement.

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

A coordination body has to be established to specifically deal with this issue. The subject is cross-cutting and complex. Government agencies and donor communities are the stakeholders and they have to be brought together to effectively address this issue.

4. Key Informants Interview Full text



Figure 2 Picture: Mr. Hafizullah Baha, Head SDG, Office of Chief Executive, Kabul, Afghanistan [photo by author]

Respondent: Mr. Hazifullah Baha

Position: Head SDG [Sustainable Development Goals] Unit, Office of Chief Executive

Question one:

almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Answer One:

The reduction and eradication of poverty is significantly important for the people and government of Afghanistan. Raising the income and capability of the poor people will enable them to finance education, health, and so forth which in consequence will further advance human development and enhances their capabilities.

Question two:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Answer Two:

Sustained Economic growth is one of the important tools for reducing poverty and improving the quality of life in most of the countries. But the extent to which economic growth impacts poverty depends on how growth is distributed among different parts of the society. One of the reasons that growth has not impacted poverty reduction, might be that the contribution of the poor and low-income citizens in growth have been very limited.

Question three:

How well foreign aid and economic growth was distributed equally among the population?

Answer three:

Studies from some of countries indicate that growth can negatively and positively impact equality. In some other countries it had no impact all. However, it would be difficult to generalize these findings in the case of Afghanistan and other countries. To find how growth has impacted inequality in the country, comprehensive research is highly recommended. Additionally, my observation is that growth and foreign aid has not been evenly and equivalently distributed in the country. This might stem from widely spread corruption and a lack of social policies.

Question four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Answer four:

This statement is evident to some extent, however other factors such as lack of inclusive economic growth and limited contribution of poor and low-income citizens in growth have also impacted inequality and poverty in the country.

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

I propose the following policies to be adopted:

- Adopt social and pro-poor policies
- Increase the contribution of poor and low-income citizens in growth and GDP
- Pave the ground for small and medium-sized enterprises to grow
- Promote good governance; transparency, accountability, citizen participation, government effectiveness and so forth
- Fight against corruption
- Devolve and decentralize the administration to provinces; particularly the budget spending and revenue sharing

5. Full Text of Key Informants Interview

Name: Naheed Sarabi

Position: Deputy Minister Policy, Ministry of Finance

Date: 13 September 2017



Figure 3 Picture: Naheed Sarabi, Deputy Minister Policy, Ministry of Finance, Kabul, Afghanistan [photo by author]

Note: This interview was conducted in Dari, the local language, and below is the translation of the interview by the Author. Some small changes in wordings are made for better understanding.

Question one:

Almost 40 percent of Afghans live in poverty. How important is poverty reduction for the government of Afghanistan?

Answer one:

The issue of poverty is naturally a priority for the government. And how much attention has been given to poverty reduction at the policy level, is a separate discussion. That needs an assessment. When Afghanistan drafted its first national policy, the ANDS [Afghanistan National Development Strategy], it was decided that this policy would serve as a Poverty Alleviation Paper. This was a pre-requisite to obtain funds from the World Bank and other donor countries. First it was an interim strategy, which was later developed as a strategy. ANDS was divided into several sectors. In 2010, we have developed 22 National Priority Programs (NPP) based on ANDS. The aim was to implement this strategy through 22 National Priority Programs, to reduce poverty and achieve our strategic goals.

There were also objections to this policy. First, that this policy-focused much on economic growth and infrastructure, as the policy was translated into NPPs. Economic growth is a pre-requisite, because when there is no growth, it will be very difficult for the government to sustain itself. So, we have slightly deviated from our goal which was poverty reduction in the first place.

Second, we were not able to evaluate the implementation of ANDS. We should have had a monitoring and evaluation system, which could finally inform us how the implementation of the programs helped us achieve our targets. We have worked on collecting general statistics, such as access to health service, school enrolment, mortality rate, which at the end of the day was related MDGs [Millennium Development Goals]. However, there was no such a proper system or a matrix that could show how these programs helped us reduce poverty. In general, we have limited our view of poverty reduction to a few things such as access to health, access to education, and how much the income of the people has increased. As I have said, economic growth and infrastructure were more of the focus.

The ANDS term comes to an end by 2013. From 2013 to 2016, the government did not have any policy to prioritize its programs. In this period, there was a strategic gap. At the same time, the transition of security took place, which has affected the overall economy of the country. This transition resulted in increased unemployment, which further resulted in a high poverty rate. Although we couldn't work to reduce poverty, this has further deteriorated the situation.

Finally, in 2017, the Afghanistan government worked on ANPDF [Afghanistan's National Peace and Development Framework]. Why it is a framework? Because in most parts, it is very specific that how the government of Afghanistan can achieve self-sustainability goals. Here,

the aim has changed. We shifted from a poverty reduction framework to self-sustainability. How the economy of Afghanistan could be self-sustained? In some parts of the framework, they have provided a general vision, and later we can work on such programs.

One of the main pillars of ANPDF is job creation and poverty reduction. Some programs emphasize poverty reduction; such as the Citizen's Charter Program and Women Economic Empowering Plan. The emphasis on these two programs was because these programs provide access to basic services for people, which play a vital role in poverty reduction. Citizen Charter is a follow up of NSP, with some changes in the program and how it is implemented. Also, the Women Economic Empowerment Plan focuses on rural areas, not the elite class of females. This program for rural women aims to enable them to sustain their families at least. It is more like a livelihood program.

In conjunction with that, work has been done on the Job for Peace program. The aim of this program was on how to inject money at the household level so they can sustain their living. There was a program by the Ministry of Rural Rehabilitation and Development [MRRD] for maintenance of infrastructure, and it was intended to inject money in rural areas through such a program. These are all programs, which shows that poverty reduction is still a priority.

We are currently working on establishing a Council on poverty reduction and service delivery, which shows that poverty reduction is a top agenda for the government. A new Council on poverty reduction and service delivery will be newly established. Coincidentally, today we have been working on the TOR (Terms of Reference) of this Council, and the President [Mr. Ashraf Ghani] would call its first meeting on Saturday. The main task of this council would be to track the progress of national programs. what were their plans, and how much of them are being implemented? The main discussion here is on implementation. Will we be able to achieve the goals we have set or not?

One important topic that we will discuss in this Council is poverty analysis. In Afghanistan, poverty is not being analyzed unfortunately. To see if poverty is the same everywhere, or does it change by region, and to see what poverty means from our point of view. Is the international poverty rate, which is based on the poverty line, suitable for us as well or not?

A very good analysis has been carried out by the Ministry of Rural Rehabilitation and Development recently. From our perspective, it was very practical. They went to the rural areas and have interviewed people. In their definition of poverty, a poor family is the one whose children are not going to school and have only one meal per day. In the second category, there

were families in which children are going to primary school only, and they have two meals per day. A third category is the one in which the children are attending school until high school, and they eat three meals per day. This poverty definition fits the condition and circumstance that we are living in. for example should access to land, access to housing, drinking water, be included in the definition of poverty or not? Not enough extensive work has been done in this area.

The surveys which are carried out by Central Statistical Organization, NRVA [National Risk and Vulnerability assessment] [later called, Afghanistan Living Condition Survey (ALCS)], such surveys are mostly outdated. When these statistics are published, they refer to the past few years, which does not match or reflects current programs.

So, these are the plans that the government has in this area. First, there is a need to analyze poverty, to see if our programs are in line with it. In which area we require immediate attention or action, and in which area, we can plan for intervention in the long-run.

One another issue, which was an emergency case for Afghanistan, is the issue of refugees and returnees. One section is about livelihood. One issue is that returnees do not have land, and they should be given land, which requires time. For now, the issue is if a returning family has food to eat or not, do they have a job or not. we provide job opportunities based on an emergency plan. Their integration and land distribution are the issues that should be discussed later. All these affect poverty reduction as well.

Question two:

In the last 15 years, Afghanistan witnessed a growth rate of around 9.2 percent on average, though slowed down in 2016 and 2017. despite economic growth, poverty did not decrease. What are the reasons form your point of view?

Answer two:

Concerning economic growth, if you compare the economic growth with the population growth rate, considering the rural-urban migration, and how much the rural population is self-reliant, we indeed had economic growth. We have started from zero. It was the condition of “Take-off” which shows a high growth rate. But the issue of development, which includes poverty reduction, as I have said, did not get enough attention, as it was supposed to get. The main issue

was that it was a “fake economy”. If we look at GDP figures, Agriculture constitutes a greater portion of the GDP. If we assess how much agriculture is self-reliant, we would find out that we never had a healthy economy.

Rural areas; which are the main source of agriculture growth; lack the basic infrastructure. They lack access to the market, so they can sell their products. It requires linkages between rural and urban. These are the issues that resulted in unequal growth. One other main issue in the last few years was that we were dependent on the donor’s money. As a result, we could not invest in the areas/sectors which are beneficial to our economy. Another issue was that since most of the policies were centralized, the needs of local governments are not well considered. This was necessary to respond to the needs of the rural population, to create jobs there, and implement development projects.

I believe that there is a need for a comprehensive analysis of the programs and projects which were implemented since 2002 to find why their goals were not achieved. As I said, no such evaluation or analysis has taken place to say for example that this project was that effective. Therefore, it is very difficult to say why despite economic growth, we could not alleviate poverty. Were there the problem with our interventions, or other issues, such as security, due to which we could not have access to a different part of the country. Another issue is governance, which hindered to achieve the intended objectives from the investment being made. Now, since we do not have such an analysis and evaluation of the programs, it is very difficult to say what are the main reasons.

Question three:

Foreign aid and economic growth were not equally distributed among the population. Some people become very rich, others very poor. What is your point of view on this? Was the economic growth equal or how?

Answer three:

If you look at the other Asian countries, they have passed through such stages. At the take-off stage, economic growth is never equal. There are winners and losers. In terms of foreign aid, since I do not have data, I cannot confirm or reject this. Form the government side, most of the foreign aid was off-budget, which means it was spent outside from the government’s accounts. If you see the development budgets of previous years, at least more than 50% was off-budget.

Donors wanted to spend the money through their own accounts. And since there was no data for government, and unfortunately, we could not have that comprehensive assessment, and analysis; it is difficult for me to conclude how equally the aid was spent.

As far as the government budget is concerned, the distribution of budget is based on grades of provinces. There are differences based on the grade such as first grade, second grade, and third-grade provinces. This system is still not clear for us, how much population does a first-grade province has, and how these criteria for province grading is being developed. Recently, some work has been done in this regard. Therefore, it makes it difficult to prepare a budget according to the population size. For example, to compare if a few more million [money] should be given to Parwan province or Khost province, taking into consideration the population distribution.

In service delivery, the government has tried to use proper criteria to the extent possible. Such as school, health care services, or the projects implemented by local councils such as drinking water and road construction. They can prioritize and decide on the projects they want to spend their funds on [referring to Citizen's Charter Program]. In this area, some improvements have been made. As you have said about equal distribution among the population, you have to consider women, vulnerable groups, displaced and migrants. From this point of few, there are some problems. Since we don't have data, it is difficult to see how much of the aid is being spent on women, or vulnerable groups. We say that budget is based on gender, but there is no such system that could track how much money a project is being spent on women or other vulnerable groups.

If I may deviate from the topic, the main problem goes back to the government's planning. As we worked with ministries, and requested them to identify their targets, very few ministries would be able to know that who are their targeted beneficiary and in each activity/project. It is not always exact, but at least it is very difficult for them to provide an estimation. And when there is an issue in the planning stage, the system how the budget is allocated, how financial resources are made available, does it come from off-budget or on-budget, it is very hard to analyze. We have started from zero base, even if the economy has actually grown at a modest rate, some of the population benefited from it. To be honest, because we don't have data, we don't have a good planning system, it is very difficult to say that it has been distributed equally.

Question four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Answer four:

I have not read the report, so I do not know. I have to read the report and then, I can comment. As I said, I agree to some extent. Corruption itself has resulted that a specific group of people have access to financial resources, and every other resource. From the big contracts to bribery in its different forms. They could manage to get benefits somehow. Those who were not in this category, or could not have access, they were vulnerable, and remained in the same condition. The government has provided them with the basic services. They could somehow change their circumstances.

If we refer to inequality as the wealth distribution between high class or middle class, or inequality among different groups, it varies. Different classes, As I have said before, as they were near to the resources, they were in a better position. And different categories, I do agree that women were still behind in terms of getting the fruits of growth. Refugees, for example, disabled people, there is not any social security or safety net to take care of them. In that case, I still have to read the report, and then I can comment on their preposition. But this is the general idea I have.

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

[responded in English] I think the first gap that we need to fulfill, is to take care of basic services. And then transfer cash to households. Enable them to have more access to the creative economy, to take themselves out of the situation. That is the basic thing that government can do. As indicated in ANPDF, we clearly set 70 percent of the budget for investment projects, and 30% for basic services and ongoing investment of the government. With 30 percent we mean basic services like education, health, and access to the primary road which is the necessity of any household or individual. For example, if you go to rural areas if a person does not have access to a paved road if he or she gets sick in the middle of the night, or during the day, some

of them even have to travel several hours to a clinic or health center. How we can decrease this time, and that distance, that is one of the basic things we can deliver to people.

The second policy gap, as I mentioned before is job creation. many of these projects and programs that we have implemented till now have created jobs for people. A lot of emphasis has been in the mining sector, but the mining sector does not bring jobs shortly. If you talk about the big projects of mining, the fruits will come after 10 to 20 years. With smaller projects, which creates a little bit of jobs, those are small scale mining projects, that do not bring a lot of revenue. So, the government was in kind of tension, whether we want more revenues or jobs, because not both of them come together.

The same with infrastructure projects. They are very long-term, they do not create many jobs. For us, if you want to tackle the main problem of unemployment, it has to be small cash grants, labor-intensive projects, that can take care of the immediate needs of people. Then think about longer-term perspectives.

To sum up, there has to be two policy options. What is the immediate need, that we are facing right now, with more than 40 percent of unemployment, and what is the long-term perspective. What I have seen, it is not a trade-off; this or the other. It is just about having the right perspective and also taking care of your immediate needs.

A lot of investment could be done immediately, which did not take place, as quickly as possible. For example, the migration action plan. Last year we decided to work on an action plan, I was in the DiREC (Displaced and Returnees Executive Committee) meetings. Everything was finalized. It is one year from then, and nothing has happened. I don't think nothing has happened, but things are going so sluggishly. Land distribution, which is something in the hand of the government. They can immediately work on an interim plan, but that has not happened. So that kind of vision is needed. With some of the program which are short term, boost the trust of the people, but also couple it with long term regional projects that can create sustainable jobs for the country. With more revenue generation, that can have input to the self-sustaining of the government. For the government to be able to sustain its budget and then invest by its own money in some of the big economic projects. I think that is what is needed at this moment.

And another issue, we have never had a good economic model for the country. For us as a country, we must be able to say whether agriculture is the way to go ahead, mining, or any other sector. For us, it has been always all these sectors. We can't do that. Other countries have to go to a similar type of situation. They had green revolutions, white revolutions, working on

their agriculture, making it self-sustaining. But for us, it has never happened. Agriculture is the primary source of livelihood, but with very little attention. We have not been able to sustain ourselves even in wheat which is a primary staple for afghan people. We have been talking about it in the past couple of years, but few things have been going on in that area.

So, if the government pick one area and focus on it, wheat production, sustainable or self-reliance on wheat, that can boost the livelihood and economy a lot, rather than working across other sectors. So that for me would be a long-term vision, with some of the cash transfer programs to inject money into the economy. A very small construction project, for example some of the housing projects that we had with some countries, those can help immediately. To just boost the trust of people, that the government is doing something. And the people themselves, when they have some money, and some portion of the investment, the private sector itself will provide the environment for others.

6. Key Informants Interview full text

Respondent: Mr. Narayanan

Position: Senior Social Development Specialist, The World Bank, Afghanistan

Respondent's note: All the responses below are being provided in my individual personal capacity and none of these should be attributed to the World Bank.

Key Informants Interview questions:

Question one:

almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the World Bank in Afghanistan?

Answer One:

Poverty alleviation and seeing an Afghanistan free of poverty is the primary goal of the World Bank as is improving shared prosperity. It is the core objective for which we prepare our Strategic Country Diagnosis and the Country Partnership Framework to evolve agreed approaches for achieving poverty alleviation.

Question two:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

Answer Two:

Programs like the National Solidarity Program (NSP) have made a considerable impact on poverty reduction in the areas they have operated. However, one of the key reasons that poverty has not decreased in proportion to the rapid economic growth is the high levels of corruption that have made them rich, richer and prevented the benefits of development reach the poorest. It has not been possible to address issues of good governance and address rampant corruption in a lot of the development expenditure in the country. Unless this is effectively addressed, there is little hope for change.

Question three:

How well foreign aid and economic growth was distributed equally among the population?

Answer three:

Foreign aid and economic growth did not result in equitable impacts across the population for the reasons of ill governance and high corruption levels as stated above. Unless issues of effective governance and anti-corruption [are addressed] - that is currently the focus of the Government of Afghanistan - with focussed attention to good governance and enhancing the efforts at helping the local communities to raise their demand for good governance through programs like Citizen's Charter Afghanistan Program, things can be expected to improve.

Question Four:

How world bank contributes to poverty eradication in Afghanistan?

Answer Four:

In addition to investing in a range of infrastructure and development projects, the World Bank through large scale programs like National Solidarity Program and the Citizens Charter Afghanistan Program helps empower local communities to start taking charge of their development and raising their demands and ensuring that service delivery agencies deliver the services requested for. The World Bank also focusses its efforts on basic health, education, agriculture, water supply and sanitation, roads, irrigation, energy and extractives, etc. In each of these areas the key issue is enhancing good governance systems and processes and preventing pilferage of financial resources meant for the poor for development.

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Answer Five:

Poverty and Inequality can only be reduced if all those involved in the administration and governance of development programs ensure that the resources are used for the stated purpose and are held accountable for delivering on results through good governance mechanisms. The problem is that development administrators and implementers often do not adhere to the highest standards of ethics and good governance, thereby contributing to gaps that keep getting wider [day] by day. As I said earlier, recognizing the importance of good governance and anti-corruption efforts right from the beginning is the only solution so that this malaise is addressed.

Annex II: List of selected Key Informants Interview:

Number	Name	Position	Organization	Email address	Interview
1	Scott Guggenheim	Advisor to the President of Afghanistan	AOP	guggenheim1955@gmail.com	Completed
2	Khyber Farahi	Advisor to the President of Afghanistan	AOP	khyber.farahi@gmail.com	Completed
3	Zalmai Nisha	Advisor to the Chief Executive of Afghanistan	OCE	zalmai.nishat@gmail.com	completed
4	Mr. Baha	Head of SDG	OCE/ SDG	hafizbaha@gmail.com	Completed
5	Naheed Sarabi	Deputy minister of finance	Minister of finance	naheed.sarabi@gmail.com	Completed
6	Shankar Narayanan	Senior Social Development Specialist	World Bank	snarayanan@worldbank.org	Completed
7	Jovitta Thomas	Advisor Citizens' Charter Program	MRRD/CCNPP	j.thomas@ccnpp.org	Not completed
8	Ustad Masoud	Professor in Economic Department, Kabul University	Kabul University	N.A (contacted through Facebook)	Not completed
9	Ahmad Shekeb	Advisor to the Chief Executive of Afghanistan	OCE	ar_shekib@hotmail.com	Not completed
10	Dr. Mustafa Mastoor	Minister of Economy	Minister of Economy	mmmastoor@yahoo.com	Not completed
11	Abdul sattar Murrad	Former minister of economy	Ministry of Economy	absattarmurad@gmail.com	Not completed
12	Ismail Rahimi	Deputy minister of economy	Ministry of Economy	rahimi.ismail@gmail.com	Not completed
13	Wahidullah Noshier	First Deputy Governor of Afghanistan Central Bank	Afghanistan Central Bank	wahidnoshier@yahoo.com	Not completed
14	Abdul Wahid Rasouli	Director of Citizen's Charter Program	MRRD/CCNPP	r.rasouli@ccnpp.org	Not completed

Annex III: Key Informants Interview questions

Introduction to topic and 5 questions send to each respondent before Interview:

Key Informants Interview

Name, Last Name:

Position:

Organization:

Date: / /2017

Introduction:

Afghanistan's economy has witnessed rapid economic growth since the establishment of the interim government in 2002. Afghanistan's GDP increased from 2.4 Billion USD in 2001 to 20.5 Billion in 2012 and 19.4 in 2016 (World Bank, 2017)⁴. However, the poverty rate has not improved and even deteriorated during this rapid economic growth period. The poverty rate was 36% in 2007 and it is estimated 39.1 percent in 2014 (NRVA, 20116)⁵. There is the notion that economic growth has resulted in increased inequality, and does not benefit everyone equally.

My research topic is: "The impact of economic growth on income inequality in Afghanistan from 2001 to 2016". The main objective of my dissertation is to examine the relationship between economic growth and income inequality in the context of Afghanistan from 2001 to 2016.

Key Informants Interview questions:

Question one:

almost 40 percent of Afghans live in poverty. How important is poverty reduction in the agenda of the Afghan government?

Question two:

Despite rapid economic growth in the last 15 years, poverty has not decreased. What didn't work?

⁴ World Bank, 2017, website url: <http://data.worldbank.org/country/afghanistan>

⁵ Afghanistan Living Condition Survey 2016-2017- Mid-term result highlights, Central Statistical Organization.

Question three:

How well foreign aid and economic growth was distributed equally among the population?

Question four:

According to the Poverty Update Report (World Bank, 2015), poverty has not decreased in Afghanistan due to inequality. How much do you agree?

Question Five:

How poverty and inequality could be reduced in the future? What are the policy gaps?

Chapter Six:
Household Observation

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Introduction:

This part of the thesis presents the qualitative observation of some of the households who participated in the Household Survey, presented in the first part of this chapter. Data about income and expenditure of these households are analyzed and presented in the quantitative part of the Household Survey earlier. Here, some of these households are being observed during the interview and a detailed observation narrative of their living condition and quality of life is presented. The method used here is like story-telling, regarding the life of the respondents. The information presented here is based on the direct observation of the author during the Household interviews and based on the information shared by the respondents which are not and cannot be captured in survey forms. This part, therefore, supplements the Household Survey part, to provide a clear picture of the socio-economic condition of sampled households.

This part serves as a supplement to the quantitative analysis. It provides the background, information, and explains to the extent possible the situation in which households live and earn their livelihood. Quantitative methods mostly ignores the context of a household and only provide abstract figures. To compensate for this drawback, this part, which includes interviews with different classes of society provides an inside view on the daily life of people in the country.

Meanwhile, since Afghans have a joint family system, where one or more families share all household income and expenses, especially between parents and their children, or between brothers, it is necessary to understand the whole context of a household to evaluate their living condition. If two brothers for example live together with their own families, it should be considered that they would share both their income and expenditure among themselves in some cases. In this way, one family is dependent upon others, and maybe benefited indirectly from each other in case of severe financial problems. Or even if one brother is not earning, the other one could cover his family's basic cost of living. For this purpose, and to account for such a joint family, this analysis provides details of such a system and how it affects the pattern of income and expenditure.

While every household is unique, quantitative analysis may not provide accurate estimates of the household's living standards. A large family with many members would have more expenditure, as compared to a small one. A poor family would be more indebted for example if they are not able to meet their basic needs through their income. The level of the indebtedness

of the household could be a good indicator of the vulnerability of a household to financial shocks and coping mechanisms. This part provides a background for such prepositions.

The author believes that this part, is presented as a narrative of his field visit, both to Kabul and Nangarhar provinces is more interesting and informative to learn about the living condition of people, the dynamic in which they live, their family size, expenditure and the small story which lies behind each household makes it more colorful and easy to comprehend.

Authors Note: most of the currency nominator here is in Afghani currency (Afs.). 1 dollar is equal to almost (65 Afs.) at the time interviews were made.

Street-side vendors in Kabul city:

1. Jamshid:

On the 6th of September, I conducted my first Household interview. I interviewed Jamshid, a 16-year-old boy who sells pomegranate juice in a cart. He left school after 7-grade to help his father and family financially. He also learned tailoring before, but now he is working as a juice seller.



1 Picture: Jamshid, 16, District 9, Kabul Afghanistan

His business seemed quite simple and did not require much skill or investment. He buys pomegranates, 7 or 8 kilos, and by using a manual machine, extracts water of pomegranates as juice and sell it to the pedestrians and passengers traveling by car. His business is located in Macroryan 4 street, in district 9 in Kabul city. His location seems quite strategic, because it is close to the exit from the main Kabul-Nangarhar highway. That is how people would prefer having a juice at his vendor after two or more hours of drive, especially in summer.

He lives in a family of 14, with 5 brothers and 7 sisters. His father is illiterate and works as a taxi driver. Although he said that his father earns only 400 Afs to 450 Afs per day, being a fulltime taxi driver. In my view, his earning is underestimated according to my estimation of income of a taxi driver in Kabul city, which would be about 1000 Afs or less than that in a day. If he owns the taxi, it would have a value of 8000 to 10,000 USD on average. And a taxi driver can easily earn 1000 to 1500 Afs per day in Kabul city.

The interview started at around 5:00 pm and ended after 40 minutes. It took longer than usual because of the rush hour and that a lot of customers he had. He sold 5 glasses of juice, in 40 minutes, small size glass costs 50 Afs, large size 70 Afs; equivalent to one dollar. In less than an hour, he had a sale of 5X 50, about 250 Afs. (3.5 dollars). From my point of view, he would make at least a sale of 2000 per day, and a profit of around 1000 (14 USD) per day. That would suffice the total daily expenditure of his family which he said is 800 Afs per day. The income of his father could serve as a backup or other type of expense.

With his job, he was happy and was very much open-minded to talk and have a discussion. One of his customers was his relative, who order a glass of juice and offered a note of 500 Afs. Jamshid paid him back 400, and probably the rest they will calculate next time. I was still there that a couple came and asked for the price of the juice. Jamshid told them that the small size cost 50 and big 70 Afs. However, although the wife wanted, the couple didn't decide to order one, and they went away.

Staying there for a few minutes, and looking at how he was working, I have also learned how the juice is made. He would cut the top of three pomegranates and place it upside down in the juice machine. He would then turn the manual handle around, so the pomegranates are squeezed, and its water would flow down to a pot. He would then add some ice cubes and some salt to the juice and pour it into a glass. 3 pomegranates would make one glass of juice.

2. Lutfullah:

I moved on in the same street in Macroryan 4, District 9 of Kabul city, and interviewed Lutfullah son of Akhun Jan, who is also a street vendor and sells sugarcane juice. He is 26 years old man who is single, and lives in a family of 15, 8 men and 7 women. The family also has 2 children under age 5. He left school at age 7 due to financial reasons. He does not

understand English and does not know how to use a computer. He has received 6 months of carpenter training before.



2 Picture: Lutfullah, 26, District 9, Kabul, Afghanistan

He and his other 3 brothers do the same business in the same street and different locations. He has 7 brothers. He and his three other brothers earn on average 500 to 1000 Afs per day as he said, working full time. His other brothers have not studied in the school like him, only they have primary education. So, the total income of his family would be around 3000 Afs per day on average, that is about 44 USD per day. Calculating monthly, given that they work 6 days per week, except Fridays, would be 1147 USD per month for four of them. That is a lot of money for a family of 15. His household was able to save 10,000 to 15,000 per month. Their expenses on the other hand according to him are 700 Afs daily, 300 for food items, and 400 for the non-food item. They pay a monthly rent of 7500 (110 USD) per month.

He has never received assistance from the government or any NGOs. He thinks that he is getting richer as compared to the last 5 years, and that his income has increased. He has no expectations from the government, but the only thing he asks is peace and security. when I ask

him about his plan for the future, and how he could have a better life, he did not have any idea or plan, except saying that “What God will” it will happen.



3 Street View where Jamshid and Lutfullah have their carts on the street side in District 9, Kabul, Afghanistan

3. Najibullah:

On the main street of 2nd Macroryan, I met Najibullah Son of Ghuncha Gul, 28. He is selling mobile top-up cards, and also offers currency exchange services for pedestrians and car passengers crossing the street. Such street-side money exchange enables car passengers to buy mobile card or exchange money, without necessarily leaving their car. It is more like window shopping. His small card is conveniently on the side of the main street, and easily accessible by car passengers. He said that he has been working in the same location for almost 15 years.



4 Picture: Najibullah, 28, District 9, Kabul, Afghanistan

Najibullah has 3 brothers and lives in a family of 10. The head of his household is his elder brother, 33 years old who is a bus driver. He is earning 1000 to 1500 Afs per day. Recently, the government installed barriers on the main streets of Kabul city, to avoid large vehicles, such as buses to enter the city center, mainly because of security reasons. This has affected his brother's bus driving business. He and his brother has only studied till 5 class in school. His elder brother has 3 kids aged 3, 2, and a newly born baby. His other brother is 25 also and works as a car driver in Emergency Hospital in Kabul. His salary is 10,000 Afs per month. The youngest brother is 18 years and goes to high school.

I asked him if the total capital of his business. He said that the top-up card is from the company, given to him in advance, and he only sells it. He has a capital of 3000 USD for exchanging currency from Afghani to Dollars and vice versa. His revenue from selling cards is around 2000 per day, out of which he earns 150 as profit. Since he has recently got married, he got a debt of 38,000 Afs for that reason. He doesn't have any savings or bank account.

The total expenditure of his family is around 30,000 Afs per month, 20,000 Afs is for food items and 10,000 for non-food items. He is not paying any rent, since they own a house. He says that his income partially meets the need of his family. He also said that his business and income are negatively affected after Karzai's presidency ended in 2014.

4. Elias:

Moving towards Abdul Haq square from Massoud Square in district 9, 2nd Macroryan in Kabul city, I saw Ilias son of Ayazudin. He has a small cart next to the main street to sell cigarettes and beverages such as water and juice to pedestrians and car passengers. He only studied till class 6 and couldn't continue to study due to war and conflict in the country. He does not have the intention to study soon. But his children are going to school.

Due to rush hours the street was blocked for a while and a lot of cars piled up next to where his cart is located. In a few minutes, a car came and asked for 5 bottles of water, and chewing gum. The water bottle costs 20 Afs each and chewing gum maybe 10 Afs. Another soldier nearby bought some cigarettes as I was waiting for him. In less than 10 minutes, he has sold around 200 Afs worth of goods. It might be because of the rush hours for his business.

However, he said that his daily income is between 500 to 700 Afs. which I believe is underestimated. He lives in a family of 10 members with his parents, and three brothers, and 4 children. One of his brothers is 25 and sells cloth in a market and earns 9000Afs per month. The second brother is 23 and he is a high school student. He said that one of his sons has a chronic illness and he has to get a loan for his son's treatment. He has a debt of 80,000 Afs.

His total investment in his business is around 30,000 Afs. His total sale is 4000 Afs daily, out of which 400 to 500 Afs. is his net profit. He does not have any other sources of income, except his brother's income who also works. He thinks that his income has decreased over the last 5 years. And he has never received government or international NGO help and assistance.

The total family expenses for food and non-food items are 30,000 Afs, including 8000 Afs in monthly rent. His income only covers some part of his family expenditure. As an indicator of living conditions, his children go to public school as he can't afford private school. In case of any sickness, he would rather go to public hospitals than private.

5. Mohamad Ishaq:

On the other side of the street of 3rd Macroryan in Kabul, I saw a shoe repairer, shoe polisher setting on the ground, and busy with sewing a lady's shoe. His younger son visible in the below photo is around age 5 and wanders around his father shop. I asked him for a short interview, and he started complaining about the worse economic situation he faces.



5 Picture Mohamad Ishaq, 26, District 9, Kabul, Afghanistan

He was sewing a lady shoe, that would have earned him about 50 to 100 Afs, with about 20 Afs being the cost of thread maximum. At that moment, another man stopped by to polish his shoes. Polishing a shoe cost 20 Afs. The customer said that I don't have change, I have a note of 500Afs. He said that I don't have change either, and the man changed somewhere else, before getting his shoes and give a note of 100 to the shoe repairer. That gives him an income of 100 Afs with a 20 Afs as cost in a few minutes.

His name is Mohamad Ishaq son of Shamsudin. He is 26 but looks much older, given that he has 4 children, the younger aged 5. He lives with his mother, wife, and children together. He said that he earns 300 Afs. daily on average. He only studied till grade 5. But his children are

going to school, he said. However, I am not sure if the boy, sitting next to him goes to school in the morning or he helps his father with his work.

His total investment in his small street-side business, which includes a small rug, and a box full shoemaking equipment is about 4000 Afs. From his income, he neither can save, nor invest in his business, at least in the last month. He has a debt of 10,000 Afs to pay.

His family expenditure is 12,000 Afs per month, 6000 of which is for food and he has to pay 2,500 Afs. for house rent in a month. His income partly covers their food expenses and other basic needs. His income has decreased in the last five years, and he did not receive any assistance from the government or other NGOs.

6. Abdul Wahid:

Moving on to a park in the 3rd Macroryan area, I met Mr. Abdul Wahid son of Mohamad Gul. He is 35 years old and sells popcorn in the middle of Macroryan residence park, where people come out and meet friends and neighbors. When I first asked him for an interview, he refused. Maybe he was ashamed of, or not willing to share information about his business. Later, I explained the purpose of my interview, and he took part in the survey.

He is the head of a family with 8 members, including his wife and 6 children below the age of 10. Although he did not study at all due to war and conflict, his children are going to school. His income is 400 Afs to 500 Afs per day, 15,000 Afs per month approximately. A plastic bag of popcorn would cost 10 and 20 Afs. He sold three or four plastics of pop-corn in just 15 minutes, during the interview.

His total investment is 20,000 Afs; which at first, I found too much for a small cart with a popcorn machine. He then explains the cost of each part including the batteries and the glass box prices which are expensive. His total sales in a day is around 1000 Afs, out of which he earns 300 to 400 Afs per day. According to him, his income has decreased over the last 5 years.

He has a debt of 70,000 Afs. He is working every day except Friday, for the last 5 years. He said that he has to work and it is not an option for him not to work. His family expenses are around 15,000 Afs per month, almost the same as his income. The only thing is that they have a shared house and thus do not pay any rent. His family food and overall expenses are partly

met by his income. He is the only working member of his family. In terms of living conditions, his children go to public schools, and in case of sickness, they would prefer public hospitals.

7. Habibullah:

moving on I met Habibullah son of Sayed Hakim. He is 43, and sells toys, sweets and biscuits for children. A cart full of various mostly products of Pakistan is what he is earning an income from. He comes early in the morning to his work and leaves late in the evening. He has a family of 6, including his wife and 4 children aged below 12. His daily income is 200 to 250 Afs, 7,500 Afs per month. Form his total revenue, he gives 200 or 250 Afs. Every day for his family's daily expenses, and with rest, buys additional stuff for his shop. While he has not gone to school, he is also not sending his children to school now. He said that they will be enrolled soon.



6 Picture: Habibullah, 43, District 9, Kabul, Afghanistan

His total investment is 17,000 Afs, and the amount of his daily sales to 1800 to 2000 Afs and the net profit is 200 to 250 daily. He does not have any other source of income, and he does not save money either, although he works every day. He also gives a monthly rent of 3000 Afs.

His income partially meets his family food and other basic expenses. He said that his income as compared to the last 5 years has increased.

8. Hashmatullah:

Moving toward the 3rd Macroryan market, I saw a man standing next to the street, with a two basket of water, and a cleaning pad on his shoulder. I asked him for an interview and at the same time, a new Toyota car which cost around 20,000 USD stopped nearby. The driver was a woman, which is a rare case in Kabul for women to drive. Inside the car were children and seemed like a family. Hashmatullah, said told me to wait for a few minutes. Then he went to the car and started cleaning it with his pad, without actually asking for permission or reaching a deal with the car owner. The car driver and other members of her family were still inside the car as this man was cleaning the windshield and the body of the car, without paying any attention. Sometimes, he had to step up to reach the roof of the car. In the end, the women gave some money to him, as I was waiting nearby so he finishes his work.

His name is Hashmatullah son of Ghulam Rasoul, 17 years old - Although he looked much older for his age. He is married and has two kids. His father has died years back and he is the head of his family of 7 members. His two brothers, one aged 32 also works as day labor and earns 300 Afs, daily if he finds work. His other brother is 16. His mother also lives with him. He earns about 300 to 400 per day, 12,000 Afs per month approximately. If he cleans a car, he gets from 50 Afs to 100 Afs per car, depending on the type of cleaning he does. His family expenses are 4,000 Afs per month, plus 3,000 Afs of monthly rent, 7,000 Afs in total on average. His income partially meets his family's food and basic needs expenses, according to him.



7 Picture: Hashmatullah, 17, District 9, Kabul, Afghanistan

Day laborer, Skilled and unskilled workers:

on 21 of September 2017, I visited Shar-e-Naw, Haji Yaqoub Square in Kabul, District 4. The square is one of the several spots across the city, where daily job seekers, around 100 or more individuals, are waiting to find a client. Those on the other hand, who need such types of labor, could come to this place, bargain the wage, and take the person mostly for construction work with themselves. Most laborers are skilled or unskilled day laborers, such as mason, carpenter, unskilled labor, painter, plumber, and so on. Most of them are working in the construction sector such as construction of houses, both as skilled and unskilled laborer, transportation of construction material to the construction site, or skilled labor like electricians, painter, and carpenter needed for construction work. They are categorized as active job seekers.

I went among their crowd and sat next to one of them and asked him if he can take part in the interview. His Name is Mahbob son of Ghulam Haidar, 46-year-old. He accepted my request, and we start talking. In a matter of minutes, as I had the questionnaire paper and pen in my hand, tens of the other workers rushed and made a big circle around us. I have told them that I

collect this as part of my studies, and it is nothing to do with getting a job or any financial assistance, but they didn't leave. I told them that If you want, I can interview you all, but please give us some space as we are talking about personal matters of the interviewee. However, due to rush and too much attention which we got, I could not complete the two-page questionnaire with this respondent. Those surrounded us thought that probably I am an employee of an NGO, and would either hire them or help them financially.

Soon the situation got worse, and people would not leave us alone, and I couldn't complete my questions. I hardly managed to finish one questionnaire, and by the time I wanted to select the next person, some tension was raised among them. Hearing different disturbing words from some of them, like one said to another, "keep my part of the money also to yourself". And people making the queue behind me. I decided to stop the second interview unless there is no disturbance. One of them told me that a guy, who wanted to distribute cash to them, was even beaten up and got injured as he wanted to distribute cash to them in the form of charity.

The situation shows how dire the people are to find work, money, or to be helped. They all are coming early in the morning around 5 AM or even before that, and spend the whole day waiting there so someone could come and they could find a job for a day or two. Even there is a local Samawar [café in local language] in the same spot, which provides tea and breakfast for the people who came early in the morning and wait most of the day there.

Although I have explained to them the purpose of my questionnaire to be for academic purposes, they would still try if they could be somehow benefited from it. After explaining several times, and the rising number of people around me, I felt insecure and decided to stop the interview and change my location. One guy asked to move to a nearby mosque, so it is quite there to do the interview. So, I and the one person who I was interviewing went there, and then I saw a ground of 10 to 15 people following us to the mosque too. I then came out of the mosque and went further and we set again next to a shoemaker/polisher next to the wall of the mosque. There although it was quiet for a while, more people from the same group followed us and it was not comfortable.

I finally took my stuff and left the place. I was not comfortable with the situation as one person said, "that it happens that some people come here to help these job seekers, and want to give them dollars, but he got injured by the crowd". I felt disappointed that I could not successfully interview this target group for my study, as I was walking back towards my home. I walked almost for 5 minutes or so from that place and it was far from where the groups were. I heard

the sound of a man from my backside, as I was feeling disappointed, saying that “here it is quiet, and no one can disturb us”. I looked back, and he was the same person whose interview was incomplete. I smiled, and we set in the corner of the road nearby to finish the interview. I saw four other guys still coming toward us from the day-laborer group. It was both a good sign that I have some people to interview, and a worrying sign that they still followed me. So I managed to interview a few of them at least, which is presented below:

Authors Note: According to some statements a skilled labor earns from 700 Afs to 1000 or even 1500 Afs per day depending on their type of skills. That seems a relatively high amount for a daily wager worker. However, the actual wage depends upon the mutual agreement of the worker and the client.

9. Mahboob:

Mahboob Son of Ghulam Haidar is 46 years old, who come to Haji Yaqoob square every day to find a day labor work. He is a skilled labor and fixes tile/marble on the floor of new buildings. He is the head of a family of 9, which includes 4 sons - the older is 18 and he is a university student - 2 daughters, his wife, and his mother. He is the only worker in his family, and his income is about 10,000 Afs. per month according to him.

He is illiterate and only visited school till grade 4, with no knowledge of either English or computer. While he has no hope to start studying, his children are going to school. He has no other source of income, except that he owns a private house, and does not pay monthly rent.

While he cannot save from the money he earns, he has a debt of 500,000 Afs to pay. He is a daily laborer and works 3 to 7 days per month as he said. The reason is that he comes to this place to find work, but there is not enough demand for workers, so he cannot work every day. For almost 20 years, that is the type of work he has been doing.

His daily family expenses are adjusted to his income, and that is 10,000 per month. His income partially fulfills his family expenditure. His children go to public schools, and in case of health problems, his family would visit a public hospital. According to him, his income has diminished over the last 5 years.

10. Farukh Shah:

Farukh Shah son of Adel shah is 42 years old who is a mason. He has four sons aged 17, 16, 8, and 7; and three daughters. While he is illiterate, his children are going to school. His income

is 8,000 to 10,000 Afs. per month depending on how many days he finds work in a month. He has no other sources of income and he is the head and main supporter of his family, with no other member of the family working.

He said that he works 5 days per month as a day labor which I think is non-realistic. I believe that he might be working more days per month than this. He has been doing this job for the last 17 years. His family expenditure is also 10,000 per month.

11. Mayel:

Mayel son of Adel Shah is a 35-year-old who works as a painter. He is the head of the family and has three sons and two daughters all of them below the age of 14. His monthly income is between 8,000 to 10,000 Afs. per month, with no other source of income. He has a debt of 18,000 Afghanis because he could not work to feed his family during the winter season. He works about 15 days in a month. He has been doing this work for the last 13 years.

His family expenditure is around 7,000 to 10,000 Afs. per month, and he cannot save from his monthly income. He pays an additional 3,000 Afs. per month in house rent. His income partially meets his family expenditures. His income has decreased in the last 5 years.

12. Sayed Agha:

Sayed Agha son of Hamed Ahmad is 48 years old, whose interview was disturbed by others, and then we could do it again in a different location. He is a day laborer and unskilled, who earns 350 Afs per day. In his family, three daughters and three sons below age 16 and his wife are live together.

He works 15 to 17 days per month due to a lack of demand for labor in the labor market. He has recently come to Kabul for the last 8 months probably from Pakistan. He pays a rent of 7,000 Afs. per month and his total household expenditure is 15,000 Afs per month. His income is partially sufficing his family's needs.

13. Malik Shah

Malik Shah son of Adil shah is also a house painter. He is married and has a family of 7, with his two daughters and 3 sons and his wife. his income is also 10,000 to 8,000 Afs. per month.

And he has a debt of 350,000 Afs. that he got because of the medical expenses of a family member. He works 15 days per month due to a lack of demand. He has been working as a painter for the last 25 years. His family expenditure is 7,000 to 8,000 Afs per month and he pays an additional 5,000 Afs for house rent per month. His income partially suffices his family food and other basic expenditures.

14. Gul Rahman:

Gul Rahman son of Abdul Rahman is 30 years old, married, and works as a painter as well. He has two daughters and one son below age 5. He is the only earning member of his family with an income of 500 to 800 Afs per day, 10,000 to 8,000 Afs per month. He has no other source of income, and on top of that he is indebted 20,000 Afs. He works 10 days per month and has been working as a painter for the last 7 years.

His family expenditure is 10,000 Afs per month, with 1000 being fees and other monthly bills. He does not pay any rent. His income also partially suffices his family's needs.



8 Malik Shah and Gul Rahman (house painters) in Haji Yaqoob Square, Kabul, Afghanistan

Municipality workers:

In the Shar-e-naw area, one of the most famous and main parts of the new city center in Kabul, I met a group of orange uniformed workers of Kabul Municipality. There are sweepers, cleaning the city roads, from dust and garbage. They are considered to be the poorest working class in Kabul city, because of the type of hard work that they are doing, and the lower government salary that they are receiving. Most of them are illiterate and unskilled workers, but very heterogeneous in terms of age, which has both youths as well as old male and female workers. There are different working shifts from early in the morning till late in the night. I asked one old man from them, who had his broom at his hand, and a cart in front of him to collect garbage for an interview. I explained to him about the survey, and he was not sure and did not get it fully, until a young boy, who was their supervisor came and I explained to him.

I interviewed two of them while we were standing, later as I moved on to the same road, I met a few more of them taking their mid-day break. I also sat with them using a packet paper to sit on, on the side of the road. They were amazed that someone is talking with them and asking about their lives, and how many people live in their family. They were also eager to take part in the interview one after another.

I came to know from their supervisor that they are hired by a UN organization called UN-Habitat. They receive a monthly salary of 132 USD (8976 Afs.) per month for their daily work as city cleaners. Only because this group is hired by an NGO, others receive very low government salary which may range from 5,000 (minimum government salary) Afs. to 7,000 Afs. or a maximum of 12,000 Afs. per month.

15. Abdul Chajo:

His name is Abdul Chajo [Chajo means a person who brooms, that is how he got his nickname] son of Abdul Ghafoor. He is 42, but still did not marry, and lives with his brother and his family. His income is 8,000 Afs per month or presumably 8,976 Afs. as said by the supervisor of their team. He has a debt of 150,000 Afs. His expenses are 8,000 per month. With no house rent.



9 Picture: Abdul Chajo, 42, [right] and Mirwais, 32, [left], Share-e-naw, Kabul, Afghanistan

16. Mirwais:

Mirwais son of Amir Mohamad is 32 and married [left in the above photo]. He has two sons and one daughter below age 8 years. He only studied till 5th grade, and his income is 8,000 Afs. per month as a municipality worker. His children do not go to school, although his son is 8 years old. With no other source of income, he pays 2,000 Afs. as house rent, and 1,000 Afs. as bills per month. His house expenses are 8,000 per month in total, which means that he adjusts his expenses based on his monthly income. He has a stable/constant income in the last 5 years.

17. Karim Dad:

Karim Dad son of Khaliq is 40 years, married and lives with his wife and one daughter. He went to school only till grade 11th and now works as a municipality worker. His income is 132 USD, which is the case with most of them that I have interviewed. This salary is provided by UN-HABITAT. He owns a house and does not pay monthly rent. He has a debt of 30,000 Afs.

from the government somehow. His family expense is between 7,000 to 8,000 Afs. per month and his income partially meets his family's needs.

18. Mohamad Hamayon:

Mohamad Hamayon Son of Aqa Mohamad is 46 and married. He has a son aged 16 and he goes to school. His income is 132 USD per month. He has a debt of 67,000 Afs and pays a monthly rent of 6,000 Afs per month. His total family expenditure is 10,000 Afs. per month. and according to him, his income partially could cover his family's expenses.

19. Hamid:

Hamid son of Zmaryalai is a 17 years old boy and he is single. He lives with his parents, one brother and two sisters. his father is also a municipality worker and both of them earn 132 USD per month each. Their family expenses are 11,000 per month, and he says that their income of him and his father is enough for the food and other expenses of their family. The children in their household go to public school and in case they fall sick, they would go to a public hospital. He says that the income of their family has increased in the last 5 years, mainly I would assume that two persons are working in the same family.

20. Azmudin:

Azmudin son of Haider Ali is 38 years old. He is married and lives in a family of 8 including his sister and four kids below the age of 12. His monthly salary is 132 USD per month. his children go to school. He has a debt of 300,000 Afs. that he has to pay. His family expenditure is 10,000 Afs. per month and he does not pay any house rent. His income partially fulfills his family needs. He has a constant income for the last 5 years.



10 Picture: Kabul Municipality workers interviewed, Shar-e-naw, Kabul, Afghanistan

Middle-Class Households:

21. Government Employee, Samiullah:

on 17 of September 2017, around 4 pm, Samiullah Son of Najibullah, 28, was waiting for their shuttle bus to go home after work. He is working in the Ministry of Public health, which is located near Masoud Square in district 9, Kabul. Samiullah was waiting with three of his colleagues on the street. The area was crowded because of the end of official working hours of the ministry. I asked him for an interview.

He lives in a family of 6 persons; his parents, two brothers, each 31 and 32, and his little sister aged 5 years. His father, 65 is retired, and his two brothers have a private business. Both of his brothers have a bachelor's degree and earns around 15,000 Afs per month each. Samiullah has studied Accounting for two years after graduating from high school. He is a government

employee and has a monthly salary of 7,000 Afs, (102 USD) which is the normal salary for a typical government employee. His contribution to household income is 50 percent less than his two elder brothers each of whom has a private business.

In a household of 6 persons, 3 are employed, and have a monthly income of around 37,000 Afs (544 USD). I even think that his brothers might earn higher, but since their type of business was not given, it is hard to guess. His total family expenditure per month according to him is from 20,000 to 25,000 Afs. His family is not paying any rent, which means they own a house. He said that his income is hardly enough to meet the food needs of his family, and that his salary is not enough for his family only. The one child in the family is going to government high school, which indicates that the family cannot effort private schools, which are mostly favored by families. The good thing is that his salary is stable, and he has job security.

On the good note, he is studying a bachelor's in computer science now, besides having a job. That means that he might be studying in a private university and would pay a fee of equal to his salary. It will take him 4 years to complete a bachelor's and then enough experience to get income from the new skill he has learned. So far, he is single and would manage it somehow.

22. Government Employee, Shah Wali:

I then interviewed another employee of the ministry of public health, who was also standing in a few meters of distance. He is Shah Wali Son of Ghulam Essa, and 36 years old. He is married, and has 5 children, two boys aged 7 and 4, and three daughters aged 9, 5 and 2, and his wife 32. He also studied two years of Business School after graduation from high school. He is the only working member of his family of 7 members, 5 of which are under the age of 16. The total family income which is the salary of him is 9,100 Afs. as he said it in exact numbers.

Due to financial issues, he could not continue his studies, but he is willing to study further later. He has an intermediate level of English language and can operate a computer. He also knows how to use Microsoft Office programs. He has graduated from Business and Accounting school. He sends his kids to school. Unfortunately, I could not complete the interview with him, since their bus arrived. As I have introduced the part of my questionnaire at the beginning, he knew what I was asking for. As he was running to his bus, he said it loudly that I borrow 2000 to 2500 Afs each month. That answers the question that he is not able to meet the basic needs of his family of 6 with his salary, and that is why he is borrowing money.

Private University Students interview (Middle Class):

Private higher education in Afghanistan is on the rise in the last 15 years. Mainly because of the limited capacity of public universities to accommodate the growing number of high school graduates, and those who are desperate to continue their higher studies. It has been a good business for private investors and entrepreneurs at the same time. Most of the private universities are taught by foreign professors hired from neighboring countries such as Pakistan and India, as well as from Iran. The American University of Afghanistan have professors from the United States. Kardan University is among the first few private universities which started operating in Kabul and other provinces across the country since 2003.

Private university students are targeted for this interview because they can pay a relatively high fee of around 120 USD per month for a longer period to get higher education. This is a good indicator of the income and wealth of a family, whose son/daughter is studying at a private university. This criterion is deliberately selected as a proxy indicator for a middle to upper-class families.

As the survey initial findings show, most of the students' families or themselves have a sustainable source of income. Some of them are working themselves to pay their tuition fees. For others, their parents may pay their fees. In some cases, tuition fees and family expenses are financed through cash transfers from abroad. Some of the interviewees were sons of the upper class, including military Generals, and high government officials. Such households can afford paid higher education, than those will low income.

Below, interviews that are made with the students of private universities are presented. It is considered that they are in the middle or upper class according to their expenditure on education.

23. Haroon Rasheed:

Haroon Rasheed son of Shah Mahmood is 21 years old who studies Civil Engineering at Kardan University in Kabul. He lives in a family of 7 persons, with his parents and four brothers. His father is a police officer and earns 23,000 Afs per month. One of his brothers has a master's degree, but he is unemployed. His other brothers are students too. He understands

English well, and he is also familiar with computer programs. His family's income according to him is constant in the last 5 years.

Another source of income as well as wealth for his family is the 20 Jireb (4 Acre of land) that his family owns. His family has paid 200,000 Pakistan rupees (127600 Afs. equivalent to 1,876 USD) on loan. They also own a private house and does not pay any rent. A private house based on location may have a value of 50,000 USD up to 150,000 USD depending on size and construction. On his working intention, he said that he does not want to work, and he is not in search of a job, rather wants to study.

Their family expense is 50,000 Afs per month, though their income partially covers the need of their family. However, the children of the family go to private schools, and in case of sickness, they visit private hospitals, both of which are an indicator of well-off households.

24. Qudrat Allah:

Qudrat Allah son of Bismillah, is a 26 years old student at Kardan University, studying Political Science. He is single and lives with his parents and one brother and two sisters. His father is retired and has no income. His brother has a bachelor's degree, but he is unemployed, and he is an employee of the Ministry of Interior. His monthly salary is 30,000 per month. Another source of their family income is from the rent of the house that they own, which is 10,000 Afs per month.

His family cannot save from their income, rather, they have a debt of 300,000 Afs to pay. In the last 5 years, he was unemployed for 2 years. According to him, his family expenditure is 20,000 Afs, including paying off 8,500 monthly university fees of himself. His income partially meets the expenses of his family, although he says that his family income has increased in the last 5 years.

25. Ahmad Zia:

Ahmad Zia son of Mohamad Hashim is 22 years old, and studies political science at the university of Kardan. He is in his first year of university. The head of his household is his older brother, aged 30. His brother has a bachelor's degree and works in a private firm, with a monthly salary of 80,000 Afs per month. He does not have any job, and his mother is a teacher

with a monthly salary of 9,000 Afs. per month. They are a family of 5 persons, including the wife and the son of his brother, and his mother.

Although they don't have any other sources of income, they can save around 15,000 Afs monthly, and he said that they also have money in their bank account, which its an amount he did not want to share. He has a debt of 45,000 Afs himself. He is actively searching for a job, since he is unemployed for the last 7 months.

His family expenditure per month is 35,000 Afs including 8,500 Afs. for his university tuition. While his family income is enough for his family's food and overall expenditure on basic needs, they would rather go to the public hospital when needed than private. According to him, the income of his family has increased as compared to the past 5 years.

26. Mansoor:

Mansoor Son of Abdul Samad, 23, also studies Political Science in Kardan and he is in his 2nd year. He is 23 and head of his household. He does not have a job, neither he is searching for one. He lives with his mother and 3 sisters. the only source of their income is the money that his father sends from abroad, which is [approximately] 1000 USD per month (equal to 68,500 Afs). Another source of wealth for this family is two houses that they own. Each according to my estimation would cost on average from 50,000 USD to 100,000 USD. The rent may vary from 200 USD to 500 USD per month depending on size and location.

Their family expenditure is also 1,000 USD per month including his university fees of 8500 AFs. He says that the income through money transfer from abroad is enough for their family's income. And their level of income has been constant in the last 5 years.

27. Mohamad Fawad:

Mohamad Fawad son of Abdul Samad is 20 years old and a student of civil engineering. His father has a bachelor's degree and works in a private telecom company of AWCC and has a monthly income of 30,000 Afs. He also works in a private company and earns 7,500 Afs. per month, which is relatively low for a full-time job. His two brothers and sister are under the age of 15, and they are students. They don't have any other sources of income. Their income has been constant in the past 5 years.

Their family expenditure is approximately 30,000 Afs, including 9,000 for his university fee. His family income is enough to meet his family's needs. His siblings go to private school, and in case of sickness, they would go to private health centers.

28. Ahmad Haider:

Ahmad Haider son of Mohamad Zafar is 22, and studies Engineering at Kardan University. His father works in a private company and earns 900 USD per month, he also works in a private firm, with a monthly salary of 10,000 Afs. One of his sisters is working in a private business and she earns 300 USD per month. His other two sisters and two brothers are students. Their family also receive a money transfer from abroad, [approximately] 800 USD every two to three month; on average 250 USD per month. They can save money and they have money in the bank as well. He is familiar with computer programs and understands English well. He only has been jobless for 6 months. Their income has been constant in the last 5 years. His family expenditure per month is 1,800 USD per month, which for me is not that realistic. Their income suffices his family expenditures.

29 Emran:

Emran son of Rezwan Allah, 21, studies computer science at Kardan University. His father, 50-year-old works in Kabul Governor's Office. His father's salary is 20,000 Afs per month. He works in the ministry of urban development and has a monthly income of 33,000 Afs per month. His two sisters, and one brother and mother are the other member of their family. He understands English and have good knowledge of computer programs. Another source of family income is money transfer from abroad. His brother sends 300 USD per month from abroad. His family income according to him has increased over the last 5 years.

Their family has a debt of 5,000 USD. family expenditure is 30,000 Afs per month for food items, and 10,000 for the non-food item. They also pay a rent of 600 USD with is considered very high for such a small family though. The other expense is his monthly university fee of 8,500 Afs per month. He said that their income is enough for their family food and overall expenditures. The children in their family go to private schools and in case of need, their family will go to private health centers.

30. Mehr Awar:

Mehr Awar son of Delawar is 28 years old, married, and studies engineering at Kardan University. His father is an employee of the Ministry of Interior Affairs with a monthly salary of 20,000 Afs per month. He is also working in Kabul Municipality and earns 16,000 Afs per month. One of his sisters also works in a private bank and earns 12,000 Afs. His mother is a teacher in a school and earns 7,000 Afs. The other family members are two brothers one sister, one stepmom and wife, and a son aged 7 months. In total, there are 10 members in the family, and 4 sources of income. He also has another bachelor's degree in science and this is his second bachelor that he is currently studying.

While they don't have any other sources of income, they do save money. Their family expenditure is 18,000 Afs. on food items, 2,000 Afs. on non-food items and 10,000 of house rent. They also pay monthly bills of 12,000 in total. Their income suffices their expenditure. The children of the family go to public school, and they would prefer to go to public hospitals. He said that their family income has decreased over the last 5 years.

31. Samim:

Samim son of Mohamad Qasim is 20 years old studying civil Engineering at Kardan University. His father is 60 and has a master's degree and works in a private business. His father's salary is 1,000 USD per month. He has one brother and three sisters who all live together with their parents. While they don't have any other source of income, they can save money. He also left his job, so he can study. His family income has increased in the last 5 years.

His family expenditure is 50,000 Afs per month, including 15,000 Afs. in tuition fees. Their family income suffices their family basic food and non- food needs. The children of the household go to both public and private schools, and they visit a private health center when needed. He said that he has studied in a program that was funded by USAID, and that is how he find a job later.

32. Mohamad Mussa:

I met Mohamad Mussa, Son of Mohamad Dawod. He is 20 years old and studies political science. His father, 56, is a military General, and his income though was not that clear to his

son, is about 300,000 to 400,000 Afs. (4400 USD to 5880 USD) according to him. He also has private work and has an income of 20,000 Afs per month. They live in a family of 9 members. They also own a house. Their family expenses according to him is around 100,000 Afs per month, which does not seem much realistic.

Conclusion:

We can understand that only those who have a higher position and highly paid jobs could send their children to private universities for obtaining higher education. Mostly, those who are studying in a private university are having several sources of income, either through formal jobs, or money transfer from abroad. To the extent that some even do not look for a job, given that they might be able to work during the day time, and attend the university in the evening time, which is most common.

The survey with the university students shows that in most cases, their family income is sufficient for their family needs, and they can pay an additional 120 USD per month to send their children to schools for a longer period. Some respondents had accumulated wealth in terms of owning a house or land.

Upper-class households

On the 28 of September 2017, I was invited to take part in a panel discussion about how to obtain a Ph.D. degree, at the American University of Afghanistan (AUAF). The university is located in Darul Aman road in Kabul city. In the early years of establishment, it had a relative medium-size campus on the one side of the Dar-ul-Aman street. Unfortunately, the university was once targeted by the insurgents and was badly attacked by insurgents. AUAF is the top university in Afghanistan, which is managed and being taught by professors from around the world mainly from the United States. They have to build a new campus in the same area, which looks more like a military compound than a university, at least from the outside. The new campus is huge, and modern.

In the local taxi, I asked about the new location of this university, and a young boy said that I study there, and I will show you. In the way, he said that he studies in his undergraduates and second semester. He said that he could not study for one year, because of the attack on this

university, which resulted in the closure of the university for one year. He was happy to resume his studies again.

It was a rare opportunity for me to enter this campus, as they do not allow non-students to enter the campus, mainly because of security reasons. At the entry, which is heavily guarded, there is a biometric system. Students are identified by their fingerprints, and then they are allowed to enter the campus. One has to go through high-security checks, probably 3 different posts and check-points before entering to the main campus.

Inside the campus, there are several new and well designed-buildings with high standards and modern outlook. The environment inside the campus gives a feeling of being in a university in Europe or the United States of America. Almost all professors are foreigners. Students are also well dressed and seemed charming around the campus. On the other side of the building, there is a table tennis where students play in their free time. I had the chance to set with one of them who was waiting for his turn to play and interviewed him.

Most of the students, especially females from the other provinces are given a fully-funded scholarship, as well as resident houses inside the campus to come to Kabul and study. Others receive scholarship with different percentages from the university and different foundations. Students studying in this high-ranking university are either well qualified and received financial assistance from the university or come from upper-class families who can afford such high fees for a longer period.

The university fee is calculated by the number of credits each course has and the number of courses one takes. Most of the subjects are 3 credits and each credit cost 14,600 Afs. per semester. On average a student may take 12 credit points per semester. That sums to 175,000 per semester which equals to 2,573 USD, without any other cost such as course material and books, as well as admission fees.

Students of AUAF which are being interviewed are briefly presented below:

33. Fardeen:

His name is Fardeen, son of Fraidoon Umar. He is 19 years old and studies in his undergraduate at the AUAF. He lives in a family of 8, including his parents, three brothers and two sisters.

His father is a high school graduate, and now works as a taxi driver. He could not say how much he earns, but a taxi driver may earn about 15,000 to 30,000 Afs on average per month. He does not work, but his younger brother, who graduated from high school works in a Call Center and earns 10,000 to 1,2000 Afs. per month. other members of the household do not work. There are three children below age 16 in their family who are going to private school.

His family owns a house, and they use it for their residence. A house in Kabul may cost from 50,000 USD up to 150,000 USD depending on construction and location. A normal 3 room apartment in Macroryan costs 80,000 to 100,000 USD approximately. They don't have any other business. They do own a car which is used as a taxi by his father. The other source of their family income is money transfer from abroad. Which according to his calculations, amounts to 3000 to 4000 Afs per month. This amount is considered too low for a money transfer from abroad. But what we could conclude that the family receives remittance, and probably in greater amounts, since the university charges a very high fee and a normal household would not be able to afford it.

Their family expenses include 4,000 Afs. of monthly bills and family expenditure of 8,000 Afs to 9,000 Afs per month, which I think is relatively underestimated, given that they live in a family of 8 persons. I believe he had a scholarship to study at the University. His family can also save money from their monthly income. They don't have a bank account, neither they owe to someone, nor they are indebted.

According to him, their family income suffices for their food and all family needs and expenditures. As an indicator of a wealthy family, they would go to private as well as public hospitals in case of need. Their family's living condition has improved as compared to the past 5 years according to him. Although he said that their family income has decreased and that the economic situation of their household is deteriorating for the last 5 years. He was to some extent happy with their family's current economic situation. I would consider that their living standard might have been decreased as shown by their decrease in income and deteriorating economic condition of the household. But overall, they are happy with their current situation.



11 AUAF Campus view, Darul Aman, Kabul, Afghanistan

34. Farid Ullah:

Next, I met Farid Ullah, Son of Besmellah Khan, who lives in District 8 of Kabul. His elder brother, aged 35 is the head of the household, as his father is too old to manage the financial aspect of the household. He speaks Pashto, which is the second official language of Afghanistan, and we conducted the interview also in Pashto. His older brother is a high school graduate and works as Saraf (Dari word for money exchanger, those working in the currency exchange market) and earns about 35,000 to 30,000 Afs per month.

I strongly believe that his income is underestimated. Those working in currency exchange are considered to be among the upper class who has a lot of capital and earns from exchanging local and foreign currencies and earn by the margin change in the exchange rate. Mostly, they would have a huge capital to hold assets in local as well as foreign currency, necessary to operate in this market.

He is 23 years old and studies bachelor's in economics and does not have any work besides studying. There are 10 members in his family, including his parents, and the wife and 5 children

of his elder brother, only one of the children above age 16. His brother is the only working member of the household.

One source of their income is from his brother's money exchange business. They also own a shop and they earn a monthly amount of 23,000 Afs. from that. Their children go to both private as well as public schools. His family owns a house where they live. They also own a car, which is used for private purposes. A car may cost from 5,000 USD to 15,000 USD on average.

On the expenses side, he pays a fee of 70,000 Afs each semester (4 months). His family expenses are 25,000 Afs. per month according to him. While they cannot save or invest money from their income, they have given loans to others, worth of 100,000 Afs.

Their income is sufficient for their family food and family expenditure. They would visit a private hospital in case of a health problem. Their living standard has improved over the past 5 years, however, the income of their family and the economic situation of his family remains the same. He is moderately satisfied with the current economic situation of his family.

35. Nazi:

On the campus, near to the tennis table, a girl student was sitting with her book under the sun umbrella. I went and asked her for a short interview, as it is always difficult to find a female respondent, unless it is a secure place like on the campus of the university. She was the third female respondent so far, though I interviewed a couple of other girls too at this university later.

Her name is Nazi, and she came from another province of Afghanistan. She got a scholarship to study at the AUAF. she lives in the dorm which is located inside the university. It is typical for girls of remote and insecure provinces to get scholarships and study there because the American university provides scholarships for such girls, who come from remote areas and provinces. They also have a hostel for girls where they live on campus.

Her father name is Mohamad Yousuf, son of Safar, 63 years old. He does not work. Nazi, herself is 27 years old and studies Business Administration in her undergraduate. There are 12 persons in her family, including his parents, two brothers, one of whom is married and has 3 children, and her two sisters. The married brother is 37 and has graduated from high school. He works in Border Police in the procurement section and has a monthly salary of 17,000 Afs

per month. her sister, who is 33 years old has a bachelor's and works as a physiotherapist in Red Cross in their province and has a salary of 24,000 Afs per month. her other 13 old brother is a student.

They don't have any assets such as a house, nor their family owns a business. However they do have a car that is used for personal purposes. They also have agriculture land which is another source of income for their family, a total of 9 Jirebs (5 Jirebs equals 1 Acres of land). His brother also sends money from Iran, about 30,000 Afs in every 3 months.

She could not give an amount of the monthly family expense of her family, the only thing she could say is that they pay around 9,000 Afs. of bills per month. and her family also sends her money for her expenses. Their income suffices her family's expenses, both the overall needs as well as food needs. in case of health problems, they would go to private clinics. According to her, their living condition has improved over the last 5 years, as well as their family income. The economic situation of her family has improved, and she is satisfied with the current economic condition of her family.

36. Abdul Rashid:

on the next table, a young man, well dressed, was setting and was busy with his Apple MacBook computer. Apple computer is not that common in Kabul, though most of the people own I-phone. He is Abdul Rashid, son of Mohamad Kazim, and currently studies business and economics in his undergraduate. He has recently received a partial scholarship for his studies at the AUAF. He works in a private company and earns 28,000 Afs per month. which I believe is underestimated. Given that he did not have a scholarship before, it would have been impossible to pay an average fee of 2500 USD per semester. He is married and has a 3 years old daughter. His parents also live with him. His father is 63 and does not work.

He understands English very well, as well as how to use a computer. They do not own a private house, and his family also does not have any other source of income except the private company. He has a car though and it is used for personal purposes.

His family expenditure is between 25,000 Afs to 35,000 Afs per month, plus 10,000 of monthly rent. He cannot save from his income but adjusts his expenditure to his income to be flexible, according to him. His income suffices his family expenditure though. He goes to a nearby government clinic in case of health problems and he prefers that than a private one.

He believes that his living standard has deteriorated as compared to the last 5 years, mainly because his brother, who was once his partner in his business and that they lived together, has left the country, and now he is the single working member of his family. He also thinks that his family income has decreased since the last 5 years, though his economic situation remains stable. He is satisfied with his current economic situation.

37. Mohamad Ihsan:

Mohamad Ihsan is a 24 years old student of Business Administration. His father Abdul Khalil is 63, and works in the ministry of interior, Secret Service Unit. His father's salary is 30,000 Afs per month. his younger brother, Sulaiman is 26, and has a master's degree from abroad. He works in the Ministry of Foreign Affairs and has a monthly income of 1,500 USD. His sister is a student in 12th grade.

He said that we do not have a private house, nor any other business or source of income. Their family expenses, what he could say is that they pay a monthly rent of 15,000 Afs. he pays 23,000 Afs per month for the university fees, though he has got 50% of scholarship. He pays 87,000 Afs. per semester in tuition fees. but the total family expenses were not clear to him. What he could say is that their income is enough and it suffices the needs of his family.

They would go to public clinics in case of need, and he believes that his family's living conditions have decreased over the 5 years. His family income according to him has also decreased, as well as the economic situation. He said that he is not satisfied with the current economic situation of his family. I hardly believed his points, given the high income of his family.

38. Marmarin:

I met Marmarin, 23, daughter of Abdul Basir in the lounge of the campus and asked her for a short interview. She received a scholarship to study her bachelor at the AUAF. Her father is 45 years old and has a bachelor's degree in Pharmacy. He is an employee of a hospital and has a monthly salary of 20,000 Afs. Marmarin has 3 sisters aged 15, 13, and 3. One of her brothers is aged 18 and he is a university student, the other brother is aged 13 and he is a student. Her mother is 43 and has a bachelor's degree in literature and works as a teacher in a school. Her

salary is 10,000 Afs per month. his father, the head of the household understands the medium level of English and a basic level of computer. The children in this household go to private schools.

About the level of their family's wealth, they do own a house where they live. His father also owns as medicine producing company or business and earns about 1500 USD from this business. They also own a car that is used for private purposes. Her family also receives money from abroad from relatives, the exact amount of which is not clear to her.

While her family does not pay rent, and she has a scholarship, their family expenses are around 40,000 per month. they can also save money from the total household income. Their income meets all food and family expenses. They would go to a public hospital in case of health issues. She believes that their living standard has improved over the past 5 years, as well as the income of her family. Her family's economic condition has also improved, and she is satisfied with her family's current economic situation.



12 Picture: AUAF students playing beach volleyball inside the campus, AUAF, Darul-ul-Aman, Kabul, Afghanistan

39. Ahmad Jawad

I met Ahmad Jawad son of Saleh Mohamad, who speaks Pashtu and is 25 years old and undergraduate student. He secured a scholarship from one of the board members of the university. His father is 60 and he is a religious scholar and head of a tribe. His father is not working, neither Ahmad Jawad himself. His brother Haroon is 17 and he is a student. He has two sisters, one of whom has a bachelor's degree but does not work.

He said that they do not own a house, nor they have any business, even not a car. They do have agriculture land, approximately 400 Jirebs, (5 Jirebs "2000 m²" equals 1 Acre of land). Their major source of household income is the agricultural products cultivated in this vast agricultural land. According to his calculation, while the harvest is collected seasonally, they earn about 80,000 Afs. monthly.

Their family expenditure on the other hand is 400 USD (27,200 Afs.) per month, 8,000 Afs of monthly bills. Total household expenditure is a month of the family would amount from 80,000 Afs. to 60,000 Afs.

Their household income suffices their food and all family needs. they visit private hospitals in case of any sickness and their family income has increased over the last 5 years, as he said more and more land has been brought under cultivation. His family's income has improved, so does the economic situation. He is satisfied with the current economic situation of his family.

40. Samiullah:

Nearby was another Pashtoon (tribe), Pashtu speaking person, who is originally from Zabul province, but lives and studies in Kabul. His name is Samiullah Son of Ezatullah, 22 years old. His father, Ezatullah is 90 years old, has not studied, and does not work anymore. He only studies and does not work. His brother is 31 and has a master's degree and is head of Zabul Provincial University. Another brother is 33, also has a master's degree, and works at the Ministry of Borders and Tribal Affairs. He has five sisters, two of them have bachelor's degrees, and one of them is a student.

Their family income is mainly from the salary of his two brothers, the one who is head of Zabul university earns 70,000 Afs. and the other who works at the ministry earns 134,000 Afs. per month. They have agriculture land in their home province of Zabul. The products of their land

contribute an additional income of average 40,000 Afs. per month. They do not own a house, nor any other business in Kabul, though they might have a house in Zabul province.

His expenses are rent of house which is 16,000 Afs per month, as well as his tuition fee which is 60,000 Afs per month at the AUAF. His family expenses amount to 80,000 Afs per month. besides this, they also have a debt of 700,000 Afs. to return.

They would visit a private hospital in case of need. Their family income has been stable over the last 5 years. Their household income has improved during this period, though their economic condition remains stable. He is satisfied with the level of his family income.

41. Abdul Badi:

Abdul Badi son of Abdul Hadi is 24 years old student of AUAF. His father is 56 and he is a government employee and has a salary of 5,000 Afs. per month, which I assume is underestimated. His brother is a doctor in a hospital, whose income he does not know. His two other sisters are students in public school. His mother is a teacher in a school. She earns 10,000 to 12,000 Afs per month. he does not work beside study.

They own a house where they live. They don't have any other source of income, such as from a private business or land. He pays 2,500 USD per month for his tuition fees at AUAF, and their family expenses are 20,000 to 30,000 Afs per month. they also have a debt of 50,000 Afs. He said that their income is not sufficient for their family expenditures. They would go to a public hospital in case of need. Their living standard is decreasing since the last 5 years according to him. The income of their family has also decreased over the last 5 years, so does their economic condition. He is still satisfied with their household's current economic situation.

42. Shahra:

Surprisingly enough, It was late in the evening, and I saw two girls sitting together at one corner of the university. I asked if they could participate in my interview and they accepted my request. I start filling in my forms. Her name is Shahra, daughter of Fawozia Kofi. Fawozia Kofi is one of the famous Members of Parliament (MP) from Badakhshan Province. Her mother, Kofi has a master's degree in International relations from Switzerland and currently [2017] serves in

Parliament. She has one brother, named Shahzad aged 19, who is also a university student. His father has passed away, and his mother is now the head of the household.

Her mother earns 200,000 Afs. per year, [though it has to be verified as MP salaries are regulated by the government]. That is the only source of their family's income. Mrs. Kofi understands English and computer programs as well. They do not have a house, neither any other type of business. However, they do own a car for personal use. She pays a fee of 70,000 Afs per semester at AUAF. Other family expenses are around 20,000 Afs per month.

Their family income suffices their family expenditures. They would go to a private hospital in case of any need. Their household income and economic situation remained stable over the last 5 years. She is satisfied with her family's current economic situation.

Nangarhar Province, Surkh Road District:

From 28 September 2017 to 1st October 2017, I had a field trip to Nangarhar province in the eastern part of the country, about 130 Km far from Kabul city. Nangarhar is the center of the eastern region and is considered among the big regional provinces, which is economically and politically important, and it borders with Peshawar, Pakistan. Turkham is the main border from where goods are transported to and from Pakistan. In recent years, most of the Afghans residing in Pakistan have either voluntarily returned to Afghanistan or being expelled from Pakistan, most of whom settled in Nangarhar province.

I have conducted household interviews in Surkh Road District, in the north part of the Nangarhar, about half an hour of a drive with a car from the city center. While most of the remote part of the district is still insecure, the selected village of Mirzayan is closer to the Jalalabad city. Interviews were conducted with participants who live in this district. Most of the interviewed individuals were from Mirzayan Village, or they have their small business there. In total, 35 Household interviews were conducted in Nangarhar province.

Note that since this province of Afghanistan borders with Pakistan, the Kaldar, Pakistani currency is widely used in daily transactions. Most of the respondents have provided their income and expenditure in Kaldar, which are later converted to Afghani currency for consistency.



13 Picture: A local shop keeper selling local pomegranates in Kabul- Nangarhar highway

43. Mohamad Anwar:

Mohamad Anwar son of Bismillah is 45 years old who works as a skilled labor in construction works. He is a mason and earns about 7,656 to 9570 Afs. (converted from Pakistani Kaldar to Afghani). 11 people live in his family including four of his sons, aged 15 and below. He also has 4 daughters aged 16 and below, who are not going to school. only his sons are going to school. given the situation and security problems in this district, I did not explicitly ask about the reason why his daughters do not go to school.

His assets include a house in which they live. Also, they own a small shop next to their house, selling basic food and other necessary grocery items. the total investment in this shop is 31,900 to 38,280 Afs. The exact return of this investment is not clear, but he said that their household basic expenses could be covered from the profit of their shop. He also owns a motorbike.

His household's monthly expense is 13,300 Afs. and they don't pay house rent. they also have given 30,000 Afs. on loan to someone else. His income suffices for all the expenses of his family.

According to him, his living standard has improved since the last 5 years, as he has returned from Pakistan. His household's income, as well as the economic condition, has also improved compared to the last 5 years, and he is satisfied with the current economic condition of his family.

44. Mosleh:

I met Mosleh son of Jan Alam, who is 18 years old and owns a small shop in the corner of the street and front of their house. [Mohamad Anwar is one of his brothers]. His father, 58, is illiterate and does not have any job. His two brothers, one of them 25 years old has a bachelor's degree, the second is 22 and he is a university student, and works partially in this shop. He is a 12th-grade student. His income from this shop is 7,656 Afs. monthly. He also has 6 sisters, which make their household of 11 persons.

It seemed that they have a strong family bond, since all brothers share the same business. This household is currently constructing a new building for a bigger shop just next to the current one. It seems to be a big investment since the construction was from bricks and cement which is expensive. the children in their family go to public school. They also own a house just behind his shop and his family lives there. they also own agricultural land.

Their total family expenditure is 16,000 Afs. monthly. His family's income partially suffices their food and family expenditures. They would visit a public hospital in case needed. He believes that his living condition as compared to the last 5 years has improved and that his family's income, as well as the economic situation, has improved. He is satisfied with the current economic condition of his household.

45. Ghulam Nabi:

on the next road, I saw two labors working on cementing a wall. Of them is Ghulam Nabi, son of Ghulam Sakhi, 35 years old and married. He is an illiterate and works as a day laborer and earns 320 Afs. per day. He works 25 days per month, depending on the availability of such

work and his monthly income is estimated 8,000 Afs. per month. in his household, his 8 years old daughter and 3 years old boy and his wife live all together. Three of his brothers, and his parents, and one sister also lives with them together, but it is not clear if they share the cost of living and income or not. His father is a handicap. Two of his brothers, aged 25 and 30 also work as day labor and has a similar income as his. One brother is learning a car mechanic and works as an apprenticeship. Only boys at his household go to public schools, girls are not. the reason for which I did not ask.

They live in a big garden [probably abandoned garden, which is no longer used by the owner] and they do not pay any rent there. In the summertime, he would sell ice cream in a cart to earn money. His family has been returned from Pakistan over the past few years. They do not have any other source of income or assets. His total family expenses are about 25,500 Afs. per month, and they pay 1,000 Afs for his father expenses per month. He can save 3,075 Afs per month and he has a debt of 12,760 Afs to return.

His family income partially suffices his family's food and other expenses. His household would go to a public hospital in case of need. His family's living conditions remained the same as before. Also, his income level of his family and the economic situation remained the same over the last 5 years. He is satisfied with his family's current economic condition.



14 Picture: Ghulam Nabi, 35, Mason, Nangarhar Province, Afghanistan

46. Rahmatullah:

The other person working along with Ghulam Nabi, is Rahmatullah, 22 years old and a skilled laborer. His wage depends on how much area does he plaster with cement, and it is calculated as 44 Afs. per square meter. His income is estimated at 446 Afs. per day 11,150 Afs. per month. there is no one else in his family except his wife. He had a child, but they died at an early age. He has no assets such as a house or any other source of income.

His family expenditure is between 6,380 Afs to 9,570 Afs. per month. He does not pay any rent and lives together in the same big garden as Mr. Ghulam Nabi. He cannot save from his income. He has a debt of 6,380 Afs. because of the cost of the burial of his father. While his income suffices his family's food needs, it could only partially support the family's other expenses. He would visit a public hospital in case needed. His living conditions remained the same over the last 5 years. Also, his household income as well as economic condition has not changed much over the last 5 years. He seemed to be satisfied with his family's economic condition.



15 Picture: Rahmatullah, 22, mason, Nangarhar province, Afghanistan

47. Sher Rahman:

Sher Rahman son of Ghulam Hazrat is 33 years old, married, who works as a shop keeper in Surkh Road District. He has studied till 10th grade only. His income is 6,380 Afs. per month. other members of his family are his wife, one son aged 4, daughter aged 5, and his parents. His father does not have a job and he is the only working member of his family. He has a house just across the road where his small shop for selling shoes and children's cloth is located. He has an ice cream machine in his shop too, which is used for making and selling ice cream during summer, given that the weather is hot in this province. His total investment in his shop amounts to 51,000 Afs. They also own land in his place of origin.

His family expenditure is 25,520 Afs. according to him, though he has no other expenses such as rent or monthly bills to pay. This amount is relatively high and could be the combined household expenditure of his and his bigger family, since in rural areas, mostly the family system is joint, which includes parents and even brothers and their families.

His income partially suffices his family's expenditure. He would go to a public hospital in case needed. His living conditions remained the same over the last 5 years. Though his family's income and economic situation has decreased over the same period. He seems satisfied with his family's income.



16 Picture: shop of Mr. Sher Rahman, Nangarhar province, Afghanistan

48. Shir Haider:

Shir Haider son of Ghulam Hazrat is 40 years old, married. He is the brother of Sher Rahman and also owns a small shop next to the unpaved road in Surkh Road district. In his family, he has three sons aged 11 and below, who are students, and 7 daughters. Although he is married and has children, it seems that they have a strong family bond, since they still live with their parents and brothers and their families, and as indicated by his brother too. This means that these two brothers might be living together, though they are married and have lots of children each. He has studied till grade 10, his children are going to both public and private schools.

His family asset includes a house in which they are living, as well as the shop which has an investment of 63,800 Afs. They do not own a car, but they do have agriculture land in their home town. His family expenditure on the other hand sums to 9,570 Afs. per month, without any rent or monthly bills. He has a debt of 63,800 Afs. to be paid.

His income suffices his family's food and basic needs. he might visit a public hospital in case of need. However, he believes that his living standard, as well as household income has been decreased since the last 5 years. He also said that before, he had a lot of customers and everyone would buy everything from his shop. Now, their customers are few, and some take loans for their purchases of household needs since they have become poorer.

49. Salim:

On a traditional sofa in front of Sher Ali's shop, a young man was sitting as I interviewed Sher Haidar. His name is Salim son of Farooq, 23 years old and married. He used to work as a taxi driver before, but recently become unemployed. He worked as a Taxi driver, driving a car that belonged to someone else. Now does not have the car and does not work. He lives with his wife and 5 years old daughter. He has been unemployed for the last 7 months. He is illiterate and has never been to school.

He owns a house where they live but does not have any other source of income such as agricultural land. His family expenditure is 5,700 to 7,656 Afs. per month. He also has a debt of 63,800 Afs. He does not have any income so that he could pay for family expenses. He might go to a public hospital in case of need. His living standard, as well as income, and financial status has decreased over the last 5 years.

50. Mohamad Talib:

On the main street from Nangarhar to Surkh Road district, I saw some metal workshops. They prepare shovel and axes and all other metallic tools and equipments needed mostly for agriculture and farming purposes. I went to interview one of them. His name is Mohamad Talib, son of Haji Gulab shah, 50 years old. He was standing and hitting the metal with a hummer and was busy with his work as I approached him.

He works as Ahangar, Dari word to describe one who works with metals, and sharpens the metallic tool such as a shovel, axes, and other traditional farming equipment. He went to school till grade 12th. He earns 320 to 380 Afs. per day, 9,570 to 11,484 Afs. per month. He pays a monthly rent of 638 Afs. for his small street-side shop that he uses.

His family is rather large and has a total of 15 members. He has four sons aged 26 and below. His younger son is a veterinary physician and has a private work, who earns around 6,380 to 7,650 Afs. per month. His other sons are students. He has 5 daughters aged 25 and below, and one of his sons is married and has two children. Only two persons are working in a family of 15 members.



17 Picture: Mohamad Talib, 50, in his metal workshop, Nangarhar province, Afghanistan

He is rather an old man with a long white beard. He is still doing such a hard and physical work which requires strength and stamina. He is all the time standing on his feet during the work, which is necessary to hit with a hummer on metal. Beside where he stands is a small fireplace, where he puts the metal first before working on it. As he was talking to one another guy, he complains about having shoulder pain and that his shoulder was being wrapped with a plastic band. He also wore a broken glass, which was tied with a string. One of his young son, aged 14, who does not go to school also work with him as his helper at work.

He does not own a house. His only asset is his metal workshop which he has invested only 3,190 Afs. His family does not have any land or car either.

His family expenditure includes a monthly rent of 1,276 Afs. 13,380 per month for other expenses. His family also has a debt of about 200,000 Afs. to pay. Their income partially meets their family's basic needs and expenses. They would go to a public clinic in case needed. Their living standard has decreased over the last 5 years. His income though remained the same for the same period. The overall economic condition of his family has deteriorated. He is satisfied with his current economic condition of his family though.

51. Zabiullah:

Zabiullah son of Farooq is 27 years old and a married man. he returned from Pakistan since last one year. He has a motorcycle that is connected to a cart and he uses it to collect and buy old metallic stuff by traveling street to street. He also buy second-hand equipments such as old household items from houses and resale it. He also sells dishes and plates, sometimes in exchange for old items. He earns 320 to 445 Afs. per day, that is 9,600 to 13,000 Afs per month. one of his three sons, aged 9 also helps him with his work. He has four other daughters and has a family of 9. His children are not attending school.

Returnees from Pakistan are given a certain amount of 10,000 Afs per household as they cross the border. He said that he was asked for a bribe of 3200 Afs. to get this 10,000 Afs. which he refused to give. He said that in a sense that the government is not doing anything for returnees. He purchased his motorbike on a loan from relatives so he can work and start earning money for his family. He seemed to be happy during living in Pakistan, as he faces uncertainty now about himself and his family, including his residence place, that they might be pushed to leave.

He does not have any house, any other business, nor a car or land. His expenses include monthly rent of 1,600 Afs, and daily expenses of 7,656 Afs. per month. He has a financial debt of 83,000 Afs for buying the motorbike for his work.

His income partially suffices his family needs. He would visit a public hospital in case of sickness. His family's living standard has deteriorated, as he compares it with his time in Pakistan. His income as well as the economic condition of his family has decreased compared to the last 5 years. He is to some extent happy from his current family economic condition.

52. Noor dil:

Noor dil son of Barat is a 50-year-old man, who works as a night guard in the nearby place and also sells and buys old metals. He earns 9,500 to 11,500 Afs. per month. He has a family of 12, including three sons, the youngest is 16 who also works with him as day shift guard. he has 10 daughters, but only 7 of them live with him. He is illiterate.

He said that he recently has to shift his house because he was not able to pay higher rent asked by the owner of the house. He is now living in a low-quality house that does not have a proper window and doors, but he couldn't afford a better one. He explained how difficult it was to move from one house to another during the night, without using a vehicle. He has a large family, and being an old man, he works in the night as a guard, and has the shop during the day, which makes life hard for him.

He has no other assets such as a house, business or car. His family expenditure includes 2,500 Afs. as monthly rent and other expenses expenditure around 13,000 Afs. per month. He also has a debt of 223,000 Afs.

His income partially meets his family's food and other basic expenses. The living standard of his family has also decreased, as well as the income and economic condition. He is somewhat satisfied with his family current economic situation.

53. Shah Mohammad:

Shah Mohammad son of Raza Mohamad is 30 years old man. He has a small cart in which he sells a small item for children. He travels through the streets and roads and sells small items such as popcorn, candies, and so on. His two sons, one of them aged 15 years old has mental

illness also works with him. The second, who is 13 and had only studied till 3rd grade also works and walks around his father through the streets. He no longer goes to school. the man also said that his wife is a handicap. He earns about 4,700 to 5,700 Afs. per month. He also has one daughter and she is not going to school either.

He does not have a house, nor any other asset. The only asset is his cart and the very cheap stuff that he sells either in exchange for money or old metal and old household items. His investment in this small card is about 400 Afs. I could only see a bag of popcorn and one another type of eating stuff that children like to eat in his cart.



18 Picture: Shah Mohammad and his two sons and his cart, Nangarhar province, Afghanistan

On the expenses side of his family, he pays a monthly rent of 950 Afs. and his daily family expenditure 11,000 to 13,000 Afs. per month. He has a debt of 114,000 Afs. His income pays partially for the food need of his family, and partially pays for the other basic expenses of his family. His living standard has decreased over the last 5 years, so is his family income and economic condition. He is neutrally optimistic about his current economic situation.

54. Esmatullah:

Esmatullah son of Ubaid Ullah works as assistance to excavator machine driver. His father is 40 years old and has no job. He has a monthly salary of 3,200 Afs. per month. He also has a 50% share of the excavator machine and receives an additional dividend from it. He has three sisters, and two brothers, the younger one is aged 17 and goes to school. they live in a family of 8 persons. In his family, only boys are attending school, not girls.

His family's asset includes a house in which they live. They also have land and an excavator, from which he earns an additional 25,500 Afs. per month. He stays in a pump station day and night and lives away from his family. His family expenditure is about 31,900 Afs. per month. Their family has a debt of 319,000 Afs. He has given a loan of 11,000 Afs. to someone else.



19 Picture: Esmatullah, assistance to Excavator Driver, Nangahar Province, Afghanistan

His family income suffices the food need of his family, as well as partially other expenses of his family. His family would go to both public or private hospitals in case needed. His family income as well as economic condition has been deteriorating over the last 5 years. Though he is still satisfied with his current economic situation.

55. Abdullah:

Abdullah son of Haji Abdul Sattar is the co-owner of the excavator machine with Esmatullah, He is 26 years old and married. He has a 1-year old daughter and he lives together with his parents, 5 brothers aged 27 and below, and one sister. He is the driver of the excavator and earns 16,000 Afs. per month. his brother, aged 27 is also an excavator driver and earns 25,000 Afs. per month. they are the working two members of the family of 12 people. He has only studied till 7th grade. In his family, only boys are allowed to go to school and they go to public school.

His family asset includes a house in which they live. They also own a car that they use for personal use. They also own 4 to 5 Jirebs (1 Acre of Land) of agriculture land. The excavator machine might be owned by his family, but I am not certain.

His total family expenditure per month is 35,000 to 38,000 Afs. per month. He is also able to save from their family income to some extent. His family income suffices their family food and other expenses. They would go to a public hospital in case needed. His family's living conditions remained unchanged over the past 5 years. They have returned from Pakistan to Afghanistan. Their income has been improved over the last 5 years, though their economic condition remained the same. He is satisfied with his family's current economic situation.

56. Ahmad Din:

Ahmad Din, son of Mirab Din, is 52 years old and lives in Surkh Road District, Merzayan village. He has studied till 11th grade. He works as a mason and earns 638 Afs. per day and works about 25 days per month. His income is estimated at 16,000 Afs. per month. His younger son is 28 and works as a taxi driver. He earns about 10,000 Afs. per month. Zainudin is his second son who is 18 years old and learns mechanic work in a workshop. He earns 2,550 Afs. per month. they have two other brothers, and they are a family of 7 persons. In their family too, only boys are allowed to attend school, and they go to public school.

As I asked if they own the house in which they live, He said that it is not our house, but I presume that they do own the house. He did not mention any other asset, but I presume that the

brother who works as a taxi driver would also own the car, which is mostly the case for taxi drivers.

His family expenses according to him is 12,700 Afs. per month. Their income is sufficient for their family food and basic needs. they would also go to a private hospital in case of any sickness. According to him, their family income and economic situation has deteriorated over the last 5 years. However, he is satisfied with the current income level of his family.

57. Sefatullah:

I met Sefatullah son of Aziz ullah, 20 years old married man and lives in Mirzayan village of Surkh Road District of Nangarhar province. He has graduated from high school and then studied Pharmacy for 2 years. In the last 2 years, he is unemployed. He used to work in a pharmacy before. In his family, his wife and his two kids aged 2 and 1 year old live together.

His family asset includes a house in which they live. they own some land which belongs to his father, and his part would be 1 Jireb of it. His family expenses are 6,380 Afs. per month. Since he does not have a job, his living standard has decreased over the past 5 years. His income as well as the economic situation of his family has been deteriorating. He is neutrally satisfied with his family's income.

58. Mohamad Arif:

Mohamad Arif son of Mohamad Zarif is 28 years old married man who also lives in Mirzayan village in Surkh Road district. He finished high school and currently works as a government employee. His monthly salary is 15,000 Afs. He lives with his parents, two brothers and two sisters. his brother and sisters including his father are unemployed, and he is the only working member of a family of 9 members. He studied in public high school and understands the medium level of English and computer programs. The children of the family visit public school.

They own a house in which they live. They also have a Pharmacy that generates an income of 16,000 Afs. per month. They also own 3 Jirebs (less than 1 Acre of Land) of agricultural land. Their household's expenses are 1,600 Afs monthly bills and other expenses of 23,000 to 25,000 Afs. monthly. While he cannot save money from their income, the family has a debt of 4000 USD. His income is enough for the food needs of his family, and partially pays for the expenses

of his family. His living standard, as well as household income and economic situation, has been deteriorating over 5 years. He is satisfied with his current economic situation.

Conclusion:

This part of the thesis provided a detailed analysis of household-level economic conditions. It provides the full picture of how families live economically, and what are the typical sources of income and amount of expenses. The main idea here is to see if their income is enough for their expenses, and how it has changed over the last 5 years. Some indicator is used to provide an indirect perspective on household assets and expenditure.

The information is quite necessary in two ways. First, it provides a background and detailed and related information to the Household Survey data, which constitutes about 50 percent of the participant from the same Household Survey. Second, It provides necessary details, context, and other relevant information that might be missing using the quantitative analysis in the Household survey.

Mostly those who have at least one working member in a household, can meet the very basic needs of their household such as providing food and shelter. however, the quality of life, the amount spent on food and non-food items is directly related to the level of household income. Those having higher incomes spend more on food, non-food, and other household expenses, as compared to those who have no or low income. As a result, the standard of living is changing dramatically for different income levels. These changes include access to education for the children of the household, and quality health for example. These two indicators are being used as a proxy to provide such detail.

The conclusion would be that the level of income, as well as economic situation and satisfaction with the current economic situation of the household are widely distributed. There are people, who despite the recent economic downturn, still enjoy an increase in their income in comparison to the last 5 years. The number of households, who have reported increased income, and those who reported that their income has decreased, are almost the same. It implies that given the current situation, there are people who receive a higher income, and at the same time, others receive lower income in comparison to the past. This is an indirect way of showing the economic divide and income inequality in the society.

The detailed analysis here would be used for policy recommendations and possible scenario calculations in the next part of the thesis. Such information would be the basis and building block for any policy proposal or recommendation to the government of Afghanistan to reduce poverty and income inequality in the future.

Chapter Seven:
Test Hypothesis and Objectives of the Study

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Introduction:

As stated in the methodology chapter, the main question this dissertation pursues is: “how economic growth affects poverty and income inequality?” This question is answered based on the context of a developing country such as Afghanistan, where the rapid growth over the last 15 years has provided a perfect environment to study such phenomena. This study specifically investigates the following questions:

1. Has economic growth contributed to income inequality in Afghanistan? (correlation)
2. Has the poverty rate increased/decreased as a result of rapid economic growth?
3. What factors have resulted in increasing income inequality and what are the policy solutions?

The main objectives of the study are:

1. To determine the level of income inequality in the sampled population.
2. To find the correlation between income inequality and economic growth.
3. To understand the main causes and reasons for income inequality and provide policy recommendations.

Below is the main hypothesis of this dissertation:

Null Hypothesis: High economic growth does not affect income inequality.

Alternative Hypothesis: High economic growth results in a high level of income inequality.

In summary, the Null Hypothesis is rejected, and the alternative Hypothesis is accepted based on the findings of this study.

Hypothesis 1: has economic growth contributed to income inequality in Afghanistan?

While there is no baseline available on the income inequality about the sample size, or the overall economy, it is difficult to present the change in income inequality without using time series data. Therefore, a recall method is used to see how households observe their current economic condition in comparison with the past 5 years (2017 as the current year). The data provides a qualitative view of the signs of increasing inequality in the aftermath of the long-lasting economic growth witnessed in the country.

Meanwhile, even in the case of not considering the baseline, the argument remains valid. In the aftermath of the rapid economic growth over several years, there is income inequality prevailing in the society now, which is proofed by the data presented here. The economic growth has resulted in income inequality, and it is proofed by the prevailing income inequality in the country.

While no data on the change of this inequality could be presented quantitatively, because of lack of baseline, data presented here provide evidence of the current inequality in the income of households, which could be attributed to the impact of the long-term growth in the economy.

Income inequality, as measured by the Gini coefficient index is 62.70 (0 being perfect equal and 100 perfectly unequal) in the sampled population in 2017. This figure is based on the very small sample size of 110 households and may not be the best representative of almost 6 million of the population of the selected two provinces in this study, or 33 to 35 million of the total population of the country. However, it provides a glimpse of the increasing income inequality.

The 62.70 Gini Coefficient Index is much more than any other country in the world in terms of comparison. though, the survey design used the strata sample method focused on bringing the two extremes of high- and low-income groups on the same page to provide evidence and allow comparison. Of course, if the sample size would have been randomly selected, and would include more and more households, the results would have been more moderate.

Hypothesis 2: Has the poverty rate increased/decreased as a result of rapid economic growth?

The topic of poverty reduction as a result of the rapid economic growth could be also rejected based on the sampled data. Using different methods of poverty measurement, it has been found that almost 50 percent of the population is not able to meet their basic food needs. the poverty rate was estimated at around 38 Percent in 2005-7 by other national surveys, which indicates that poverty has increased during the rapid economic growth and in the aftermath of it. Other national surveys recently also estimated the poverty rate at 54 percent in the country. In this study, similar findings of deprivation form basic services, such as health and education are evidenced, in which poor households are disadvantaged, as compared to rich. This confirms the hypothesis that even after the rapid economic growth period from 2001 to 2012, poverty has not decreased during this period, and in the coming few years after this period. Rather poverty has increased as witnessed by this study in 2017.

One should be mindful of the length of the study covering the period from late 2001 to the end of 2016. There could be families jumping in and out of poverty or between and among income groups yearly. Thus, before any conclusion is drawn, this has to be kept in mind that during this period, some families might have moved out of poverty to middle or even rich class. Meanwhile, there could be rich families who moved to the middle or poor class.

In General, regardless of movement of families to different classes, this paper argues that poverty is prevailing widespread now, even after the rapid economic growth in the country. It should not bother the policymakers if these poor families were poor 15 years ago or become poor now as a consequence of such a pattern of economic growth. What matters now is that poverty was not eradicated even if the country went through a rapid economic growth phase. And now policies should be in place to reduce poverty and income inequality for the time ahead. The sooner such policies are in place, the better and more effective poverty would be reduced in the long term.

The reader should also keep in mind the pattern of growth during this period. The economic growth did not remain stable. After 2001, the economy grew modestly until 2006, and later with a higher growth rate of averaged 10 percent until 2012, when the economy plunged to minus 2 percent of growth rate. The trend continued until 2014, and lately, the economy recovered at a modest growth rate of around 1 to 2 percent after 2015.

Afghanistan GDP growth rate

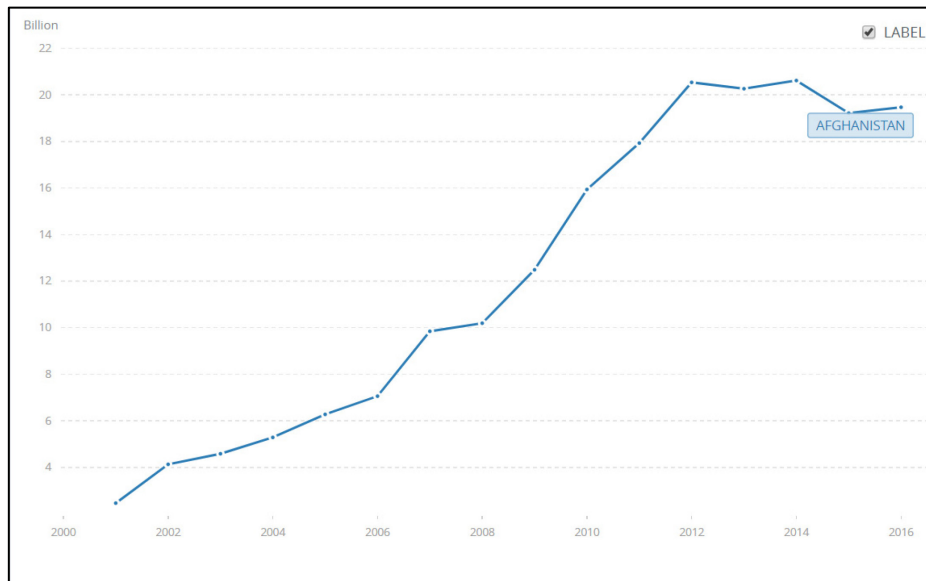


Figure 1 Afghanistan GDP growth rate 2000 - 2016. Source: The World Bank Website [accessed on 22.05.2018]

Would it be the case that the economic growth was equally distributed, there would be no such income inequality in the country and a higher rate of poverty now. Therefore, it could be concluded that the growth was not inclusive and did not benefit the society equally. As a result, the gap between the income has increased, and poor families either stayed in poverty during this period, and/or some other families fell into the poverty trap.

Not all of income inequality could be attributed to the rapid economic growth. Income inequality to some degree is considered important for society to operate. It acts as an incentive mechanism to achieve better living conditions. However, in the case of Afghanistan, this limit has passed. It is witnessed by the wide divide of poor and rich households, with no or little efforts to minimize the gap by government.

Given that the current economic system of Afghanistan is market-based, the government may not be able to take decisive measures to implement redistribution policies. However, this dissertation argues that the alarming point has reached for the government to notice this growing hidden economic problem in the society and develop policy tools to minimize the negative consequence of inequality. Even though policies may not give a 100 or 80 percent result in the short-run, having a clear policy now will solve half of the problem in the future.

Objective 3: What factors have resulted in increasing income inequality and what are the policy solutions?

The answer to this objective is broad and its mostly discussed across chapters 4 to 6. In chapter 4 and 5, both in the household survey and Key Informant's Interviews, the main reasons and factors behind increasing income inequality has been explored. Different indicators, such as education, skills, demographics as well as rural/urban settings of households are compared with their income, so that the main determinants of income inequality is determined. However, there is not any single answer to this question, rather there are multiple factors that work simultaneously that perpetuate income inequality. Among others, corruption, lack of rule of law and nepotism are factors, which are behind the scope of this study. The main factors are been discussed across chapter 4 to 6.

This list of policy recommendations to eradicate poverty is also diverse and complex, as are the causes behind such inequality. There is no single policy that could be attributed as a magic bullet. However, a combination of social welfare programs, proper taxation, and tax collection, as well as other government policies to promote equal access for basic services, such as education and health are necessary policy tools for reducing income inequality. The complete list of policy recommendations, both in general, as well as based on the findings of this study are presented in chapter 7.

Summary:

Comparing poverty rate figures, with the rate of economic growth, provide an answer to the hypothesis of this thesis. Below are the main conclusions.

1. Despite the period of rapid economic growth, the poverty rate has not decreased over the last 15 years (2001- 2016).
2. The rapid economic growth from 2006 to 2012, has not decreased the poverty rate.
3. The poverty rate has increased from the pre-period of rapid economic growth of 2006 from 36 percent to almost 55 percent in 2016-2017.
4. Rapid economic growth has resulted in increased income inequality. The gap between poor and rich has increased, as shown by the higher rate of the Gini Index of 62.7 (Gini Coefficient 0.62).

The above conclusion is drawn based on the analysis of the sampled population. The data collected about poverty and income inequality reflects these facts. These findings are also in line and supported by other national survey results such as Afghanistan's Living Conditions Survey (2016-17) of the government of Afghanistan.

Conclusion

The purpose of this study is to present an in-depth analysis of the income inequality problem in Afghanistan. The sample size, though covered 110 households, may not be a full representative of the whole population, as well as the extent of the inequality which exists in the country might not be fully reflected. However, this analysis presents a good starting point to raise the alarm and awareness of the policymakers, decision-makers, and politicians about the increasing economic divide in the society.

From the scientific aspect, it has been argued that the rapid economic growth in the last 15 years was not inclusive, which resulted in inequality among the population. This is further supported by the fact that the poverty rate has not decreased during this period. Meanwhile, the divide, as presented in this study, has risen further in the aftermath of rapid economic growth.

While there are different normative views about inequality, and how one may perceive this problem, the political philosophy provides a range of views on this issue. The utilitarian approach, aiming at maximizing the total utility of the population may justify income redistribution, as well as the libertarian school of thought. On the other hand, the libertarian would completely disagree with the redistribution of income. regardless of what type of school of thought one may align themselves with, the problem of inequality is still an issue and needs policy solutions. Especially when inequality is seen in a society with a high rate of poverty.

Poverty rate - a tool to measure how income is unequally distributed - is a sign of the rising inequality rate in Afghanistan. 38 percent of poverty rate in 2005-7, has risen to 54 percent in 2017 which is a witness for increasing inequality (Poverty Status Update, 2017). additional studies conducted also found that inequality is the main reason for the high poverty rate in the country.

While inequality provides an overview of how income is distributed, policy solutions should be directed towards the poor, and how to uplift them from their current situation. Those, who are in high-income class, regardless of the reason behind their success, are presented here for the two main reasons. First, that if the government imposes a tax on the rich class progressively, the problem of the inequality could be reduced. Second, that even if there were periods of economic downturn, e.g. in the aftermath of 2012, some individuals still earn a higher income. This supports the view that inequality is still prevailing in the country.

While both sides of the theory of income inequality, and income redistribution could be argued, the purpose of the study is to give a clear picture of those who are suffering from the negative consequences of such inequality. This consequence, as presented in the study, deprives the poor to access quality education, food and nutrition, quality health services, and also to accumulate wealth. As a result, the poor are pessimistic about their economic situation, especially when they compare themselves with those in the upper class of the society.

Finally, the issue of inequality could be seen from the greater perspective of fairness, inclusiveness, and just society. A society where resources are more equally distributed is coherent, productive, and more attractive to live in. on the other hand, the economically divided societies are witnessed by increased violence, high crime rate, and more deprived people causes a larger cost to the society as a whole. In the case of Afghanistan, financial inequality could be one of the main causes behind increased violence, insecurity, and unpeaceful society. To have a prosperous, equal and coherent society, the basic rule of justice and fairness should be obeyed.

Chapter Eight: Policy Recommendations

Section I: Discussion on Empirical Research findings

Section II: 30 Policy Recommendations

Section III: Evidence-Based and Empirical Policy recommendations

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Section I: Discussion on Empirical Research findings

Economic Rationale behind income inequality:

Chapter four provides an inside on how households earn and spend their income. The chapter also reflects how income varies from one household to another, and how certain factors such as characteristics of the head of household, family size, level of education and type of employment determines the level of household income. The Household survey provides an inside view on the consequences of income inequality in terms of access to education, health, and owning certain assets such as house and car. Family perception, on how they view their income, economic condition now, and in comparison, to the last 5 years is also assessed. Such indicators provide evidence on the change in the distribution of income over time.

Economic inequality is quite a recent field of study. This problem is faced by both developed and developing countries equally. Income inequality, and wealth inequality both contribute to the greater term of economic inequality, however, the former is more prominent and widely debated, as compared to later. Mainly because income inequality could be regulated by the government to some extent, and for wealth inequality, there are few policy tools to influence and regulate such inequality. Economic inequality also contributes to the greater debate of equality in opportunity, where everyone in the society, regardless of their socio-economic condition, has equal opportunity to access certain goods and services.

The problem of inequality rises from the type of market system a country may adopt. Efficiency is the desired outcome of the market system, and equality in the case of a centralized system. The market system, or the capitalist way of running the economy will allocate resources based on the principle of efficiency. Resources - based on the law of supply and demand, and prices of goods and services working as a signal for the producers and consumers – are put in its most efficient use. However, such market outcomes are not always equal. On the other hand, centralized economies allocate resources and factors of production more equally, but not necessarily efficiently.

In the centralized system, the government mostly decides, who gets what and to what amount. That is why, this system tends to be more equal for the population as compared to the market system, in which the market decides who gets what and to what amount. Both systems have their drawbacks. In a centralized economy, resources are shared more equally, but not efficiently. In the market economy, resources are allocated more efficiently, based on the laws

of demand and supply, and the price mechanism, but such distribution of resources may not be an equitable distribution of resources.

Even the market economy, is not all the time free of challenges. There are instances in which the market system does not provide efficient results and creates, what is called “externalities”. For example, a firm would produce goods and services and sell the product which the consumer wants at a given price. As a result, the total utility earned from the production and consumption of these goods, measured in terms of consumer and producer utility, is maximum at the prevailing market price.

In this case, while the production and consumption are efficient, it may have negative externalities, which the firm and consumer did not keep into account. Air pollution that the firm makes in the process of production is not accounted for, neither from a producer point of view, nor of the consumer. Such negative externality prevails, which requires government regulation on air pollution. Regulation might not be in the best interest of the firm or even consumer, but collectively it would benefit everyone in the society.

To address the problem of such externalities, or market failure, when the market system fails to account for all aspects of resource allocation, the government is supposed to step in and correct such issues. Policymakers and the government are in a better position to regulate the market system, and the allocation of resources to make sure externalities are accounted for. The government intervention is justified since it would benefit the society as a whole to make sure that the market economy does not negatively hurt the society.

While almost all countries in the world now operates a free market system, or at least has some elements of the free-market system, the problem of equity is one of the major externalities which such system produces. It is not because the market system is bad, but because it is too efficient that it ignores the principle of equality. Therefore, governments have to formulate policies to ensure that such externalities are minimized. There are benefits to the whole economy when resources are distributed more equitable, the same as it has to be distributed efficiently. Therefore, there should be a balance between both extremes of efficiency and equity.

To this end, the government levy different forms of taxes on production, consumption, and income mainly for two reasons. While one reason is to collect revenue for the government’s expenditure on the rule of law and other social services it provides, it is also a tool for reallocation of resources to be more equitable. Mostly, those who earn higher incomes pay

higher income taxes as compared to those who earn less, given that such a tax system is being adopted.

While the argument that the market regulates itself is no longer valid, given the aftermath of the financial crisis of 2008 in the United States and around the world, some economic mechanisms come as a bi-product of change in some economic variables. One example of such an economic variable is the inflation rate or increase in the general price level of goods and services over a period in a country. Inflation, in a sense acts as a re-distribution of wealth, as it reduces the purchasing power of the money, for those who hold it. As a result, those who hold a lot of money, a higher inflation rate would reduce their wealth accumulation, in proportion of the money that they might be holding. This term is called an inflation tax.

Discussion on Household Survey findings

In this survey, the problem of income inequality is assessed in the sampled population. This sample size could not be generalized to the total population of Afghanistan; however, it provides an inside into the issue under the study. Much attention is given to have an inclusive and diversified sample as possible; however, due to lack of resources and time, the sample size is limited to 110 households. Attention is also given to include diverse families, from illiterate households, to those who have higher education, and from the very poor to the very rich, as well as the middle class. This information could provide a typical model on how household earns their income, what are the patterns of their expenditure, and wealth status. Such data is analyzed and presented to provide a picture of the extent of income inequality.

Since income inequality is one way of measuring economic inequality, data about expenditure, and wealth of the households are also collected, analyzed, and presented in this report. With the expenditure data, the report investigates if there is inequality in the expenditure of the household, an alternative method of calculating inequality. meanwhile, data about wealth and assets of households give an inside if there is an inequality in other forms also exists, such as wealth inequality. However, income inequality is given more significance because of the limited time and resources to cover both topics.

Finally, this discussion provides a narrative of the results of the survey findings, and what these results mean for policymakers. The discussions are made on the findings of the survey to

provide an empirical basis for discussion and possible policy solutions that the government of Afghanistan may consider for improving the status quo and avoid any future negative consequences of income inequality. It may also solve the other problems, such as internal conflict and insecurity the country has been suffering for more than 40 years. The author believes that economic motives play an important role in having a peaceful, prosperous and developed Afghanistan.

Description of Household

Household head:

Head of the household is mostly the male member (husband/father) of the family. The average age of the head of the household is 44 years old. They are mostly male and married, with some exceptions. Given this information, it is important to know more about the head of the household, because mostly, they provide financial support to the household. If there is no head of household in a family, such as the male member, or the father of the family, it would be difficult for a family to have a sustainable source of income. poor families are mostly headed either by a female member of the household, or they do not have a household head at all.

The education of the household's head is considered detrimental to the level of income a family would earn. Most of the poor households are headed by the illiterate member as found out by other studies in Afghanistan. Taking the average age of 44, there is almost no motivation for the household head to attend school or university which would later result in better employment and income. Therefore, the education of the head of the household is detrimental.

The majority of the population earns their income through formal and informal employment. They could be either employed in the formal sector or have their own business. The majority of household heads (60 percent) in this study are formally employed. The government itself is considered one of the main employers for the country, due to weak private business and entrepreneurship employment. Also, the private sector has not developed to provide employment opportunities. Except for some companies which are well established and provide jobs, such as in banking and telecommunication sectors.

While most well-educated would have formal jobs, those who are uneducated are mostly involved in private business and informal sectors of the economy. The formal jobs are mostly

permanent in the case of government, and high government offices and international NGOs give higher salaries, as compared to the private sector. Illiterate household heads are normally involved in small scale activities with little assets and investment. As a result, their income is much lower than the rest. In most cases, their income would be hardly sufficient for their household expenditure. There is almost no business development or investment in their work, which results in low income in the long run.

Household members:

Household members are mostly young, with an average age of 23 years. Afghan families have 7 members in a household on average, as found in this study and confirmed by other studies. A typical family would include parents and their children, as well as some dependent members, such as parents of the household head or close relatives. The number of children in a family varies, from none to more than 10 children in a family. The gender ratio in the sample size is 42 to 58 percent, which might be underestimated in favor of man. The reason is that most families do not provide information about the female members of their household due to cultural reasons and sensitivity.

Most Afghans have a joint family system of living and share their income and expenditure of the household. One or more members of the family may also work and earn an income besides the household head. On average, in every second family, two members of the family are employed. The second working member of the family might be either the female head of the household, or a son or daughter of the family. In some cases, more than two members work which increases the overall income of the household.

There is no significant relationship between the size of the family and their income according to this study. mostly because of the two opposite forces working at the same time. Using the R^2 regression method, family size is less than 1 percent (0.06 percent) related to their income, based on the data of 102 households. This finding is contrary to the traditional belief, that having more children means having more earning hands for the family.

Normally, large families, with a higher rate of dependents tend to be poor and have lower incomes. meanwhile, larger families might also have working members who may contribute to the income of the households. As a result, there is no clear significant pattern of correlation

between family size and household income. It is though clear from other national surveys that large households with higher dependency rates are poorer than small families.

Income inequality:

The calculated Gini index is 62.70 (Gini Coefficient 0.62) for the sampled population. Gini index ranges from 0 as completely equal to 100, being completely unequal distribution of income in the population. Other statistic calculations for the income is the average income of the household, which is 541 USD per month. However, the median, or 50 percent of households have an income of 220 USD per month. Comparing these two statistics make it clear that the income is not equally distributed. The lower 50 percent of households earn 50 percent less than the total average income. It means that few households earn a higher income than the total average, and there are those which constitute more than 50 percent of households but earn less than the total average.

The third descriptive statistics used to see the difference in income is the standard deviation. This figure explains how much the data varies normally from the average. The figure for the standard deviation is 855 USD. Showing a high amount, even higher than the average income. This means that income is not equally distributed in sample size.

By comparing the different quartiles, it is visible that inequality exists between the total sampled population and between different quartiles and percentiles. While there is no standard method of comparing the inequality level, the differences between quartiles are calculated. Also, the 90-10 percent ratio is calculated which shows the difference between the income of lowest 10 percent households (the lowest 10 percent of poor) and the upper 90 percent (the highest 10 percent of rich). The income of the upper 90 percent is 26 times more than the lowest 10 percent. The lowest 10 percent (the lowest 10 percent poor) income is only 3.6 percent of the highest 90 percent (the highest 10 percent rich) income.

What these statistics confirm is that majority of the sample population earns a smaller portion of income, as compared to a minority of the population earning much more than the total average. While the income of the upper class is not a big issue, government policies should focus on ensuring better income for the lower class. Major causes which contributed to income inequality should be identified, so that relevant policies are formulated and implemented.

Given the international definition of poverty line of 1.90 USD per person per day, this could be applied to the data to determine how much of the households live below the poverty line in the sampled population. As a result of the calculations, 66 percent of the individuals have an income below 1.90 USD per day in the sampled population. The income of the total family is divided by the number of persons in a household, adjusted for the exchange rate, and on a daily basis.

Poverty is widespread in Afghanistan, especially in rural areas. One contested reason for the high poverty rate despite rapid economic growth in the first decade of the twenty-first century, is the increased inequality. The extent of which is prevailing in recent years, and as the findings of this survey indicate. To reduce poverty there is a need for a more broad-based approach to economic growth which is inclusive.

While it would have been very helpful to find out the root causes of this prevailing inequality in income, this survey examines different factors that might have contributed to the growing inequality in Afghanistan. Some of the determinants are discussed below:

Determinant of income

Education:

Education is considered a key to having a prosperous life. This study, however, could not find any significant relationship between household income and education of household's head; though illiterate headed household has a lower income than the rest of the sampled population. Median values of income show an increasing trend with higher levels of education. Considering the individual income and level of education, the results change in favor of educated individuals. Individual-level of income is statistically significant for master and doctor level of education, as compared to primary/secondary, high school and bachelor levels of study.

Several factors might affect this relationship between education and income. First, since education starts at an early age, those who have not studied for example and now they are head of a household after several years. There is a huge time gap between quitting school for example and becoming head of a household, because the average age of household head is 44 years in the sampled population. Therefore, the illiterate head of the household may have

learned another skill or have established a business for a long time by now. As a result, they can have an income which mostly is in the same level as those who studied.

On the other hand, those who have studied at the bachelor or high school level, may not necessarily have high paid jobs, especially if they are employed by the government. It is not enough to only be educated or have a bachelor's degree to get a well-paid or even a normal job in Kabul for instance. As a recent report indicates, there are 400,000 new youth entering the labor market in Afghanistan every year (Poverty Status Update, 2017). To compete for the limited available jobs, one should have other skills and relevant work experience, such as English and computer skills. Therefore, the gap between the income of educated and uneducated are not significant at the household's head level.

Those who have a bachelor's degree and are employed in the official governmental organizations will also have an income below average, especially at the entry-level of jobs. Government jobs are paid too low for the majority of government servants, that they might be even considered as poor households. Most of the government employees have a very low wage, especially if they recently entered into government system or are recent graduates.

The average salary for a government employee is not more than 300 USD per month, starting maybe around 100 USD per month (7600 Afg. "111 USD" For entrance level position). Those who have a bachelor's degree, if employed in government, or are at their early stages of career, would have almost similar income to those illiterate household heads who have been working for years in their private business or as skilled/unskilled labor. As a result, the survey does not find evidence for the existence of such a correlation. An exception is those who have a master of doctor level of education, who earns an extra high salary compared to the rest of the sample size.

There is no human resource development plan for the country. The skills needed in the labor market are not what the university is offering to the university students. The university system is mostly using an old model of subjects and fields of study, which are no longer demanded in the labor market. As a result, those who are graduated from university are not able to find a job according to their field of study and skills that they have learned. So, youths who are recently graduated from the university have to learn other skills, such as English and computer to be able to apply for jobs which are demanded in the labor market. It would also take them years to have experience and to qualify for a well-paid job.

In the last 15 years however, the well-educated youths had an extraordinary salary. Those who were equipped with skills needed in the labor market were able to find a well-paid job and earned higher income, as compared to those well-educated, relatively old male/female counterparts, who have higher education, but lacked these vital skills such English and Computer. This enabled the educated youth to further invest in their education at bachelor or later at master levels in private and public universities. Mostly parallel to working full time, they were able to study at the private university during evening hours. Private universities, considering the demand for such working class, provided programs that are taught after official working hours in the evening or early in the morning. This was the case mostly in Kabul.

The youth class who had a well-paid job and had basic skills, such as computer and English, received a higher reward from investing in their education. On the other hand, those youths who did not have such skills, and attended public universities had less job perspective and have a relatively lower income; even if they could find a decent job.

Computer and English was a key skill to have after the fall of the Taliban in 2002 and onwards. In every corner of the Kabul streets, private courses would offer English and computer courses with flexible schedule hours. Youths, knowing the reward for having such skills would attend and learn English and computer as mandatory skills for finding a job. Mostly because English and computer are not taught at the public schools and universities. They had to learn it by their expense and arrangement outside of schools and universities, mainly in the private education centers.

International Non-Governmental Organizations (NGOs), and their projects, as well as the Provincial Reconstruction Teams (PRT), which were established in most of the provinces by the International Security Assistance Force (ISAF), was the major source for employment. The demand for Afghans to work in projects was extra-ordinary, given that more than 50 percent of the aid was spent off-budget from government records, by such an independent and foreign organizations. These projects were implemented by national and international NGOs, which would hire Afghans as their employee, either based on projects or as staff of their organization. The computer and English language were the basic two requirements even at lower-skilled jobs.

English is necessary, so they can write reports, fill in forms which are in English. The official language of most INGOs and NGOs were English, since the top management would be a foreigner. Also, computer skill was necessary because these reports and forms had to be entered

into the computer for sharing and informing the top management, as well as for email writing and daily work.

While the period of rapid economic growth was over by 2014, the government could learn from the past to include such skills in university and school curriculum. With time, there is an increasing interest in learning English and computer skills. However, in the past, only those who were economically well-off, could go to a private computer and English language education centers, which led them to better-paid jobs. The youths of the middle or lower-middle-class have little chance of learning these skills, neither in the past, nor now.

The same concept is now being used by private schools to attract students away from public schools. Private schools provide computer and English language classes starting from the early classes, even at the kindergarten level. English and computer are part of their education curriculum. In some private schools, the language of teaching is English, and they have adopted the so-called “Oxford” education system to attract more students.

While the contribution of private schools in educating the new generation is plausible; their actual quality of teaching may not be as perfect as one may think. First, most of the schools are operating on a small scale, and they are not efficient. Second, they give a very low salary to their teachers, but charges very high fees on students, thus making extraordinary profits, from education. long teaching hours for teachers with lower pay make the job less attractive and only those who cannot find a full-time job would prefer to be a teacher in a private school. The teacher turnover rate is also high, and they are pushed to spends more hours in classes than their capacity, which reduces their level of productivity and a better education environment inside the classroom.

Wealth inequality:

The study tried to collect data about wealth inequality, as a supplement to the inequality in income; both of which account for economic inequality. While the main purpose of this study is income inequality, the wealth inequality part is not extensively explored. Main assets, such as owning a house, car, or a business has been explored, with the potential of income generation from these sources of wealth. Wealth data is also compared with the level of income to find if long term inequality in income would contribute to wealth inequality.

The study did not find a significant correlation between household income and owning a house. One explaining reason is that the normal income would not be enough to buy a house, which costs 60,000 to 200,000 USD on average. It would take almost 9 years for an average income earner to be able to buy a house, putting all the income in savings, regardless of the inflation rate and other calculations. That is why, income would not be a good predictor for owning such assets.

On the other hand, relatively smaller assets such as owning a car; provides a clear link between different income receivers. Those who have a lower income below average does not own a car, while those who have higher income would do. Car is considered rather as a need or want in most cases, while only for some rich class, owning a luxurious car would be a luxury item.

It could be concluded that income inequality would also contribute to inequality in wealth in the long- run, especially for assets of medium value such as a car (worth on average between 6000 USD to 10,000 USD). However, for owning a house, not such a clear relationship could be established. There is also no significant result if such assets would further generate income, such as in the case of a car. The only benefit would be that such a household would use the car as a taxi to earn income.

The inequality in wealth is more visible in Kabul than inequality in income. It would be hard to predict, how much an individual or household earns per month from outside, unless asked explicitly. On the other hand, in most cases, it is very easy to tell, if a household has more assets and wealth from outside. Some factors which are covered in this study are examples of such indicators. A car model for example owned by a household provides such information, in a way that low-income households would own convenience and old model cars, while the upper class would own new and luxurious cars. Although information about the type of car owned by households is also collected, due to the limited number of respondents, it is not further analyzed.

During the last 15 years some families have earned an extraordinary profit, or what is termed as economic rent. Regardless of the informal economy which exists in the country, such as drug trade, corruption also played a major role in wealth inequality in Afghanistan. Since the topic of wealth inequality and corruption is beyond the boundaries of this study, these areas require separate and rigid assessment.

There are limited public policy tools to influence wealth inequality than income inequality. Therefore, exploring the wealth inequality, which is considered relatively difficult, would be

of little use, even if fully understood. On the other hand, the government would be able to implement policies in addressing income inequality more easily to minimize the negative consequence of such a social divide in the future.

Besides security, which is the priority of the current and future governments to come, the second biggest challenge would be the economy. The latter may also contribute to deteriorating the former, since there is always a financial motive behind such insecurities at grass-root level. Most of those who join anti-government movements might be uneducated and unemployed for a long time. Joining such anti-government movements would be the only way out of poverty or hunger in the rural part of the country. The increasing amount of inequality, both in income and wealth drives people to find alternative ways of having access to wealth and income. Thus, a prosperous, just and equal society is more likely to be peaceful, rather than the socially and economically divided.

Economic perception of Households

Families with lower incomes than the average consider that their income has decreased in the last 5 years. About 40 to 50 percent of all respondents share a negative view about their current overall economic condition and similar indicators. That means that the economy has started to show the signs of the divide between people in the aftermath of the rapid economic growth periods witnessed up to the year 2012.

From the perception indicators, two main conclusions could be drawn:

First, households who have a lower income than the total average, have a negative perception about their current economic condition and level of income. The divide is around 45 to 50 percent generally in all indicators with decreasing or negative perception. Those who have low income now, and those whose income has decreased as compared to the last 5 years, have a negative perception of their current economic condition.

The second conclusion which could be drawn from this is that the level of income has decreased over the last 5 years, at least 43% of sampled households. As a result, the income of the poor might have decreased too, and more drastically than the rich. Since in all perception questions, there are gainers, whose income has either increased or remained stable over the past 5 years, regardless of the overall economic situation in the country. The actual movements of individual

households from poor to rich class and vice versa, is difficult to measure. Since it requires household observation over a long period. So, it is hard to conclude if the same households were poor before, or some of them have moved to upper classes now or some have fallen into poverty over the last 15 years.

The negative perception of the households is supported by other national data too. International aid and foreign assistance have decreased since 2012, in the wake of ISAF potential withdrawal of all forces by 2014. The growth rate plunged since then and has hardly recovered during the following years. Such an economic downturn has made an actual impact on the economic condition at the household level.

When the economy is in recession, those who are around the poverty line are most likely to fall in poverty. Households around the poverty line would not have sufficient savings, safety net, or enough assets to go through successful recovery during such recession periods. As a result, a small economic shock can have bigger consequences for the poor.

The negative perception of the household about their economic perspective now, as compared to the past, confirms that inequality has risen. The income of the poor class, which now earns below the total average, has decreased as compared to 5 years. Meanwhile, there are still households who consider that their income has increased over this period, and their income is above average at the time this study is conducted. So even in the call of economic recession, some households are either have a stable income, or witnessed an increase in their income, as witnessed by their current perception in comparison to the past 5 years. This also confirms that the economic divide is taking place.

Section II: Policy Recommendations

General Policy Recommendations

The below 15 Policy recommendations are general, and they are based on the empirical research and literature review carried out for the purpose of this research. Proposal 1 to Proposal 15 are therefore not directly based on the findings of this research. Proposal 16 to 30 are based on the findings of Household Survey and Key Informants Interviews.

1. Proposal: Anti-Poverty Programs:

Problem Statement

There is no anti-poverty program being implemented by the government of Afghanistan. In the last 15 years, while billions of dollars of aid have been spent in Afghanistan, also to reduce poverty, the government has done little on this front. The only government program labeled to reduce poverty is the National Solidarity Program, later called Citizen's Charter. This program aims at rebuilding small infrastructure projects in rural areas and now in urban areas, without directly benefiting the poor. Its impact, as it is expected, would be to provide the playing ground for the social and economic development of the country, through the provision of infrastructure, and now health and education to rural and urban communities. However, this program is not exclusive to the poor. Other short-term donor-supported projects, might have benefited poor, such as Cash for Work or in-kind support for women and vulnerable families, however, such programs were not sustainable and were very limited in scope, coverage, and duration.

Policy recommendation:

There is a need for a long term poverty reduction program funded by the government. Such a program should be targeting explicitly the poor, and very poor families, through directly benefiting them either in terms of in-kind or in cash transfer. Even developed countries such as the USA have implemented and are still implementing such programs like "Food Stamps" later known as Supplemental Nutrition Assistance Program "SNAP". Such programs will provide for the basic needs of the poor family, in terms of nutrition and food based on their vulnerability. Similar programs have been implemented in other countries, such as in Brazil the "Rural Poverty Alleviation Program (RPAP)", in Mexico, the "Oportunidades, Prospera, Crusade" to reduce poverty over a long-run.

Expected Impact:

The program will target the most poor and vulnerable families and support them to achieve the minimum intake of food and basic needs. such a program will be a "safety net" for the most

disadvantaged families and households. The program will also have positive consequences on other aspects of living standards such as school enrolment and school attendance, as well as on the health conditions of the people.

Challenges:

While the government has only limited experience in understanding and implementing such programs, it will take time, and there should be a responsible government body to implement such programs, which is currently non-existing. Also, funding will be another challenge for the government to provide financial means for such a program. The main reason is the lack of proper taxation and tax evasion, as well as low economic growth in recent years.

2. Proposal: Minimum wage

Problem statement:

There is no minimum wage law in Afghanistan. The labor market is left mainly unregulated by the government, and it is mainly based on the supply and demand for labor in the open market; which gives the demand side an upper hand in settling the wage rate. It happens because of the weak bargaining power of individual workers, who in case refuses to accept the offer, will be rejected to get the job, and the employer will approach the next one who is ready to accept such low wage. As a result, due to a lack of collective bargaining power, or lack of labor union, the market for labor is inefficient. The problem mainly arises because of the “working poor” class in the country. Since the supply of unskilled labor exceeds the demand in the market, it has negative consequences on the bargaining power of the working class in favor of the employer.

Policy recommendation:

The government of Afghanistan should establish the minimum wage law. This law will set a minimum wage for the labor, which will be in line with the market demand, and the calculation of the basic needs of an individual or a household. Such law, which may not be fully applicable in the first few years but will set the floor for a fair labor market, in which the labor rights are protected in terms of minimum wage. The amount of pay per hour would not matter in the earlier years but could be used as a policy tool in the future to regulate the labor market.

Expected Impact:

Once the minimum wage law is enacted, the working class will be insured a minimum income if they are employed or working. They will be confident that their pay is just and that they can

have a decent living standard. The work they are doing well provide them with a basic sustenance for them and their family. It will also regulate the market, in which the bargaining power of the employer is limited to some extent in favor of the employee.

Challenges:

The minimum wage has its proponents and opponents. While the benefit of the minimum wage is that it provides a decent living standard for the working class, especially unskilled labor, opponents argue that setting the price of labor above the market equilibrium level, will result in a reduction of demand for workers, as the price of labor increases. However, such an argument is based on the elasticity of demand for labor, which is mostly inelastic in case of unskilled labor; meaning that the effect of such policy on labor demand would be minimum. Others argue that minimum wage, in the long run, will also result in unemployment, since the firms can switch for more capital-intensive method of production.

In the case of Afghanistan, even government employees, receive the lowest salary, sometimes a government clerk will earn far less than a day-laborer because of the low wages. Such policies could be first implemented for government officials, so the necessities of the working class are met. Later, the policy could be expanded to include firms, companies, and even local businesses over time.

3. Proposal: Poverty rate determination

Problem Statement:

There are different methods of examining poverty, none of which is easy to measure. Recent development in the area of poverty reduction has made a distinction between income and non-income aspects of poverty. The first refers to setting a poverty line, such as 1.90 dollars a day as the poverty line. The later considers much more and other aspects of poverty, which is not necessarily determined by income, such as having access to certain basic services, education, health, nutrition, housing, and social welfare. This concept has evolved as a Multidimensional Poverty Index (MPI) developed in 2010. There is a need for MPI poverty analysis in Afghanistan to determine the root causes of poverty, to mitigate poverty.

Evidence:

The headcount method, which is simply the ratio of poor individuals over non-poor, has received a lot of criticism in reflecting the actual level of poverty. According to a study in India by (Padhi, Mishra, & Khan, 2015) as cited in (Heshmati, Maasoumi, & Wan, 2015) the author argues that this method does not necessarily reflect the extent and the true picture of poverty in India. Since the headcount method is a ratio of poor to non-poor population, an increase in the rich population would show a reduction in poverty through this method, while poverty has not changed at all. Therefore, it is argued that the incidence, intensity, and inequality (also called three “I”) of the poverty should be examined for better policy formation.

Policy Recommendation:

In the case of Afghanistan, there has been no proper data, survey, or study focusing mainly on poverty. The only national survey is Afghanistan’s Living Conditions Survey (ALCS). This survey is conducted every two to three years, and by the time it is published, it is outdated. Such a survey is hardly useful for policy implications, and the income of households is not part of the study. There is a dire need for in-depth analysis of poverty, both from income and non-income aspects, and through using the latest development in the field such as MPI and Non-income poverty indicators to first understand poverty, its dimensions, and root-causes, and later design and implement policies for its reduction.

Expected Impact:

Once the true picture of poverty is studied and analyzed, the government would develop policies and programs that directly address the root causes of poverty, both in absolute and relative terms of poverty. The policy would also consider the exact context of the country and would be in-line with the ground realities. Government programs could be easily designed to be pro-poor. such an analysis of poverty will also allow measuring the progress in reducing poverty over time.

Challenges:

It would be difficult for the government to commission such a study and evaluation of poverty in the country, given its limited resources, financially and due to lack of professional staff. One variation would be to make the ALCS survey more comprehensive that covers MPI indicators and collect more details about both income and non-income aspects of poverty in the country. The survey has to be consistent over time, to allow measuring progress and enable policy modification in a lesser period, such as on an annual basis.

4. Proposal: Regional integration:

Problem Statement:

The difference in living standard of urban and rural households is huge. Poverty is mostly concentrated in rural areas, where not many economic opportunities are available. While some families migrated to city centers and regional economic hubs in the country, such mobility has either improved their living and economic condition, or they remain still poor in large cities, contributing to urban poverty. This case is visible in Kabul, where lots of households migrating to Kabul cannot find a job and economic opportunities, thus cannot effort high living costs. As a result, they settled in slums and have a worsened living condition than they had in rural areas.

Evidence:

According to the Poverty Update report of World Bank (2015), the rise in the poverty rate is due to inequality, and this inequality is mainly having a regional aspect. Some regions are flourishing over time, while others dip into poverty. Thus, regional inequality is a problem in fighting poverty and income inequality in Afghanistan.

Policy recommendation:

Based on the evidence from Sri Lanka as presented by (Kumara, 2015) as cited in (Heshmati, Maasoumi, & Wan, 2015) following policies are recommended to reduce the urban-rural gaps and high poverty rate in rural areas. The policies are in line with the context of Afghanistan, given that Sri Lanka is also a developing country and its located in the region. The authors suggests:

1. connecting the lagging regions to growing regions, or economic hubs. This is achieved through connecting roads and transportation, electricity and communication infrastructure, and improving investment climate in rural areas.
2. Improve the quality of schooling through the provision of better training and resources for remote areas.
3. Remove barriers to labor mobility such as regulation in labor and land markets.

Expected Impact:

The recommended policies will help reduce regional differences and inequality. While the rural Afghanistan population is mainly involved in agriculture, both public and private investment

in production and bringing in small and medium-size businesses to rural areas will flourish rural economy. This requires long term commitment by the government to provide an investment-friendly environment for business in terms of infrastructure and connectivity. Lack of human capital in rural areas might be a challenge, though labor-intensive businesses will benefit from cheap local labor.

Improving schooling and the establishment of universities in rural or provincial capital will address the challenge of a lack of human capital in rural areas for private business. Improving the quality of education, and having skilled teachers is a challenge for the government. Human capital mobility and regulation are almost non-existing in Afghanistan.

Challenges:

While security and influence of militants in rural areas poses a direct threat for private business in rural areas to be established, lack of proper infrastructure remains the second biggest challenge. It will require time and huge investment from the government, which is not foreseen in the short term. The high dependency rate, agricultural dependent economy, and illiterate labor force in rural areas may be hard to overcome in the short term.

5. Proposal: Agriculture and Climate change

Problem Statement:

Afghanistan's economy is heavily dependent on agriculture. Not only that, but the majority of the poor population lives in rural areas, where agriculture is the main source of income. Most of the rural population are farmers, and their only source of income is from the yield of the land, without having an additional source of income. As a result, the income of the rural population is heavily dependent on agriculture, and any change in climate, heavily undermines the well-being of the rural population. Drought in most regions of Afghanistan has been witnessed in the last few years, as recent as in 2018. As a result, the agriculture output decreases, and those whose livelihood is entirely based on agriculture, become more vulnerable and fall into poverty.

Evidence:

A study on the impact of climate change on poverty and well-being has been conducted in India by (Kar & Das, Climate Change, Agricultural Production, and poverty in India, 2015) as cited

in (Heshmati, Maasoumi, & Wan, 2015). They have found a discerning impact of climate change on the net revenue and well-being of the rural population. The authors argue that there is a need for adaptation and mitigation strategies such as financial incentives for improving land management, maintenance of carbon content, and efficient use of fertilizers and irrigation.

Policy recommendation:

While a lot of work has been done in the agriculture sector in the last 16 years, it is time to diversify the income of the rural population, and beside agriculture, create additional sources of income for the rural population. Diversification of the rural economy, by any means would result in less dependency on agriculture and ultimately in the climate change – that is beyond control. This does not justify ignoring and improving the agriculture sector further as the main source of income of the rural population.

Diversification may take different forms, such as increasing investment and bringing new businesses, factories, and production plants to rural areas, which is now completely concentrated in big cities. The main reason for such concentration is the availability of energy, such as electricity, and easy transportation to the huge consumption population in the same and nearby region. Improving infrastructure - such as road and highways, as well as providing energy to rural areas, such as electricity and other necessary tax incentives - will enable a rural environment for investment and use of idle and cheap labor available in rural areas.

Expected Impact:

Through diversification, the rural population will not be heavily dependent on agriculture, and therefore, not vulnerable in case of climate change effects such as draught. Besides that, the rural population will have an additional and alternative source of income or opportunities to generate income, in case such calamities struck. The investment in rural infrastructure will provide market linkage, as well as better access to other services, such as health and education, besides supporting investment in rural areas.

Challenges:

It will take a long time for such infrastructure investment to take place in rural areas of Afghanistan. To make businesses and production possible in rural areas, which is considered as a huge endeavor, requires both resources as well as long term planning. However, it will be a great starting point towards more equal development across the country.

6. Proposal: Microfinance

Problem Statement:

Lack of capital is one major reason why the poor remains in poverty for a long time, even if they are striving and working hard. The poor may be deprived of both human and physical capital, which is the main two sources of increasing productivity and a prerequisite for higher income. While human capital development could be achieved through the provision of education and skill training, raising capital for the poor is not an easy task.

Since the income of the poor is too low, and most of them are having a sustenance living condition, it is hard for them to save at first instance and invest later. Lack of saving is either due to low income, or the urgency of meeting the basic needs. This has a dramatic consequence because most of the poor households interviewed have been doing the same small-scale business for years (in some cases 10 to 15 years), without any small expansion of their business.

Evidence

A study by (Habib & Jubb, 2015) cited in (Heshmati, Maasoumi, & Wan, 2015) analyzed poverty alleviation through the provision of microfinance in Bangladesh. Using 297 household data from both participants of MFI (Microfinance Institutions) who obtained loan and control groups, who have never participated in MFI. They find that members of MFIs are better off almost in every aspect of material well-being, including income, ownership of assets, saving, food intakes, housing security and quality, and more income sources than non-MFI participants.

They found that on average MFI members earn 1.7 times more income than the control group. Also, those who have remained a member for 8 years, have almost double the income of those who remained in the program for 4 years. About 79 % of MFI members have two sources of income, as compared to 24% of non-MFI members. The expenditure level of MFI members is also higher than the non-MFI members. The authors conclude that MFI membership is associated with poverty alleviation.

A study conducted in Pakistan by (Khan & Sulaiman, Does Microcredit Help the Poor and Financially Marginalized Communities? Experience of Pakistan, 2015) as cited in (Heshmati, Maasoumi, & Wan, 2015) which consists of 2070 respondents shows that microcredit in Pakistan may not be helpful for the extreme poor. They argue that the disbursement of credit to the lower quartile income poor does not increase their income. while the program has

resulted in a 7.76 % increase in income, the lower quartile poor, or ultra-poor has not benefited from such change. Only 25 % of the beneficiaries of microcredit institutions are poor by the definition of the poverty line. They conclude that microcredit is not equally beneficial to all segments of the poor.

This shows that such programs are not targeting the poor directly, and one reason provided by the study is that such poor households have high default risk. The author justifies this issue either to avoid default risk by the poor, or their inability to pay the interest rate. The author argues that microcredit does not target the extreme poor and marginalized segments in its operational areas in Pakistan, because less than 25 percent of the total credit is allocated to the poor, while the 75% are disbursed among the vulnerable to poor, quasi-poor and non-poor. They, therefore, argue that microcredit may not be an appropriate way to reduce poverty and improve the living condition of the poor, since such a program does not increase their income.

Policy recommendation

The provision of MFI or loan to the poor by the government would solve the problem of lack of access to financial assets. If managed properly, the poor households, once identified, could apply for government loans. A financial institution, such as the central bank, or agricultural bank, could be established to assess, identify, and provide short and long terms interest-free loans for poor households. The loan should be interest-free since it is not allowed in Islam to charge any interest, and people, therefore, do not obtain loans from the available banks and MFIs in the country. Only the government has the possibility and the means to provide interest-free loans. If funds are not available by the government, such funds could be raised by the public in terms of saving to these government institutions. However, there should be an incentive, besides interest rate, so people could put their saving into such institutions.

Expected Impact:

Given the high rate of poverty and a wide range of low-income classes, providing financial capital would result in increased income for the poor. The poor, especially the working class will be able to invest in their small-scale businesses or begin a new start-up business. This also generates economic growth for the country, as the small businesses start to grow, and the benefits would affect the growth of the economy in a wider range, given the multiplier effect of investment.

As a result of financial resource availability, the poor would be able to combine their labor with capital to produce goods and services in the economy. The income of the poor would grow over time, and more people would be lifted out of poverty, with the help of themselves, and with the support of the government in terms of addressing the lack of capital and financial means.

Challenges:

There are already a lot of private and public banks and financial institutions which provide loans as well as microcredits in Afghanistan. Even though some of them provide Islamic banking, to avoid interest rates, people hardly obtain loans from such institutions. Based on my personal experience and meeting with BRAC Afghanistan, one of the active MFI institutions in the country, due to the very sensitivity of interest rate and its prohibition in Islam, most people do not even think of obtaining loans from such institutions. Only the medium and large-scale businesses, may approach them for loans, not the poor. Therefore, it is necessary to provide such funds completely interest-free and based on collaterals.

7 Proposal: Taxation

Problem statement

The taxation system is almost non-functional in the country. The tax system is mainly flawed, and it is hardly paid by the small and medium enterprises, and businesses, mainly due to the lack of proper tax management system. The government is not able to generate funds for social as well as poverty reduction programs. This negatively affects and undermines government ability to tax the rich; which will reduce inequality and use the proceeds of the tax for social welfare programs. As a result, the poverty rate continues to rise, and so does the rate of economic inequality in the country.

The government should revise and update its tax structure. Even before that, there is a need for tax enforcement and a proper system to collect taxes. Corruption hinders government efforts to collect tax from the public, to make the government more efficient and self-reliant. Not only that that, collecting utility bills, such as electricity bill payment also faces a similar challenge, because of security and because some prominent individual avoids paying the bills.

Policy recommendation:

The government has to dramatically swift and implement the taxation system, which is capable of and in the position to collect taxes, from individuals, firms, and corporations. Tax collection is necessary for the survival of the government and to meet the needs of the government from the internal sources of finance, which has been hardly the case in Afghanistan. Income taxes are mostly collected well in case of government and other organization offices, since the tax is paid by the organization on behalf of an employee from the payroll. A recent tax on the use of telecom has also generated revenue for the government, though it faced controversial responses from the population on its transparency and use.

The solution would be to establish an effective tax management system in the country. The tax should be collected on the imports of goods and services in borders, as well as on the other forms of services, such as employment tax and corporate taxes.

Expected Impact:

Once a proper taxation system is in place, the government would be able to quickly and efficiently implement fiscal policies, which will result in reduced inequality and poverty. Taxation has both the effect of reducing inequality among the population, as well as generating income for the government to implement welfare programs. The important part is the later, in which such funds are being used to uplift the most needy and poor population of the country.

Proper taxation will make the economy more sustainable and will generate revenue for the government. It will also be a sustainable and internal source of revenue for the government. Not only that, but the government can also design and implement policies which are supporting the poor using taxation and other forms of government intervention. Also, the government can fund poverty alleviation programs from the proceedings of taxes, which will have both the effect of reducing poverty, and equalizing the society in economic terms:

Challenges;

Corruption and lack of commitment by government and social awareness about paying taxation are the main challenges. There are claims that firms sometimes can escape high tax burden just

by bribing to tax collecting officers. Also, not having a clear mechanism on collecting taxes, from both labor income as well as from import and export of goods and services in customs, have resulted in a low-income generation for the government from taxation as internal sources of finance. It has therefore affected the role of government to implement a poverty reduction program from the proceedings of such taxes.

The government is still trying to establish a taxation system in the country. The process is hard and time-consuming and will take more and more effort in coming several years to be able to have a functional tax system. Corruption inside the government is the main challenge. The rule of law to punish such illegal actions of government employees are still weak, which could reduce the issue. On the other hand, weak economic prospects in the country will not also generate lots of funds from taxation, as the businesses are shrinking, and investments are leaking out of the country.

8 Proposal: Progressive Taxation on luxurious assets and wealth

Problem Statement:

The unequal economic growth during the last 15 years has contributed to inequality, both of income and mainly of wealth in the country. As a result, the rich have accumulated wealth and assets, such as businesses, houses, vehicles, land, and so on. Besides progressive taxation, the government may impose other types of taxes as well, especially on the wealth. Such taxes can take the form of taxation of luxurious assets, as well as constructing new houses and buildings, and purchasing of land of higher values.

Policy Recommendation:

The government should implement a more progressive tax on luxurious items such as luxurious vehicles, purchase, and construction of luxurious houses and buildings. The government should and could also impose taxes on wealth, such as owning a house and land. Some economist such as Thomas Piketty has proposed wealth tax to reduce wealth inequality. A more progressive tax on luxurious items would also reduce imports of such items and may benefit the balance of payment of the country.

Expected Impact:

The expected outcome of this policy, once identified and imposed, will both generate revenue for the government, and it will be a method of reducing wealth inequality in the country. It will also help to reduce the use of capital in unproductive ways, such as buying luxurious vehicles and luxurious housing. The city of Kabul has witnessed a surge in the number of high buildings used for housing, mostly by private companies. A more tax on property would reduce the high demand for housing in Kabul city for example.

Challenges:

Such taxes on imports of luxurious goods may be comprehensible for the general public, however, wealth taxation may not be an easy option to adopt. Especially taxes on wealth is new to the people, and it is also not that common in other countries, unless such wealth is being transferred from one person to another or in the case of inheritances. In such a case, the inheritance tax may be used in other countries. This case would be difficult to implement in Afghanistan.

9 Proposal: Volunteer Charity**Problem Statement:**

Based on the sample population calculations, the lowest 50 percent of households are short of 2000 Afs. (30 USD) per month, and the lowest 25 percent household requires 18 USD to fully meet their household needs. On the other hand, the top 25 percent of the households, save 382 USD per month, after meeting their household total expenditure. It could be concluded that if less than 5 percent of the savings of the top 25 percent are transferred to the lowest 25 percent of the households, they would be able to meet their basic needs. Regardless of the size of the top 25 percent household income earners, it would take 8 percent of the savings to cover-up the gap in expenditure of the lowest 50 percent of households. Such transfer could be voluntary by the rich people to the poor. It is encouraged by Islam to support and give charity to those in need and the poor.

Policy Recommendation:

Rich families and households can give charity to the poor directly. A less than 8 percent of their savings per month will enable the lowest 50 percent of households as calculated in the Household Survey to meet their basic food needs. Paying charity is highly encouraged by Islam, and it is rewarded by Allah. If the rich would contribute and give charity to the poor, the poverty rate may decrease or at least the short-term effects of poverty will be dealt with.

Expected outcome:

The poor families would be able to meet their food needs if voluntary charity is given by the rich class of the society. This does not require any government intervention, except encouraging such in-kind transfers of money, as well as food and non-food items to poor households. Such charities will also to some extent decrease the difference in the living condition, as well as expenditure of the poor and rich class.

The reward and motivation of such transfer are well justified by religious beliefs. Almost all populations of Afghanistan are Muslim and paying charity is one of the main rewarding acts for Muslims. Paying charity is very much encouraged in the Quran as well.

Challenges:

Unfortunately, most of the rich people do not support the poor. While there is no explanation for that, motivating and facilitating mechanisms that will ensure transparency and accountability which would help to encourage such activities. Also, the lack of social welfare organizations in the country makes it difficult for the rich to spend and give charity to those who are in need. Religious scholars could have an influential role in this regard to influence people to help the poor and those in need.

10 Proposal: Zakat [Islamic Tax] Management**Problem Statement:**

Given that almost all population of Afghanistan are Muslim, there is no proper government system to collect Zakat or Islamic Taxes. While the government is allowed under Islam to facilitate tax collection and its effective spending on poor and needy families, no such efforts have taken place. Instead, there are small welfare organizations and small groups recently emerging in the country as a charity organization, which does this job for the people. While

their work is limited and at a personal level, the government could establish a central Zakat collection authority, so people could give their Zakat to that authority, and the government could use it for social welfare programs in the country to support poor.

Policy Recommendation:

The government could establish an independent organization for Zakat collection. The payment by the general public would be voluntary and without any pressure on the general public to pay them. Although some countries do intervene in Bank account of individuals and withdraw such taxes, or at least have some methods in place to manage such funds; there is no such authority in Afghanistan. Establishing a central Zakat authority will be more efficient and the government is legitimately allowed to do so in the interest of the general public.

Expected outcome:

The government would be able to fund some projects and programs for the poor using the proceeding of Zakat, paid by the general public. It will be a facility for the general public, as well as a proper source of revenue for welfare projects in the country. The organization will be independent from the government and its accounts, however, will be under the oversight and control of the government, to make sure the money is spent on its intended purpose.

Challenges:

The establishment of Zakat authority will not be a big issue for the government. The voluntary payment of the Zakat by the general population is also not hard, given that such money could be transferred by the bank, or paid in-person. However, proper accountability system should be in place to gain the trust of people, and to report back on the contributors of such fund.

11 Proposal: Provision of Basic Food Needs

Household expenditure:

Measuring inequality in the expenditure of households provides a different perspective of inequality in Afghanistan. While income is considered the main determinant of the economic well-being of the household, expenditure provides a real picture of their standard of living and economic condition. Expenditure provides a monetary value of how much goods and services a household consume, which contributes to their well-being and economic satisfaction. Income may not be fully spent for such purposes and could be saved for future consumption. That is

why consumption method is considered more realistic as compared to the income method of analyzing economic well-being.

Expenditure on food and nutrition is the main part of household expenditure. Regardless of monthly income, households spend on their food needs. Therefore, everyone should have access to basic food needs, regardless of their level of income. However, the study finds that the level of income plays an important role in the amount of money spent on food items. The expenditure of a household is 37 percent determined on how much income a family earns. Those who have lower average income consumes less than those who have a higher income.

The total household expenditure, which includes both food, non-food, bills, and house rent shows that income is a key determinant of household expenditure. The poorest 50 percent of households spend monthly 100 USD less than an average family in the sample size. Comparing the amount of expenditure by households to different quartiles, it is visible that as income rises, so does the amount of money spent by households. The top 25 percent of the household's expenditure is 5 times more than the lower 25 percent of the poorest households. The monthly expenditure of the top 25 percent is almost equal to the monthly expenditure of the rest 75 percent of households. This confirms a similar divide of 25 to 75 which was the case in measuring income inequality.

Problem statement

The problem which requires government action and policy solution is the fact that not all households can meet their basic needs. This is confirmed by the fact that the lowest 50 percent of households cannot fully support their household's expenditure and their income falls short of their expenditure. 18 percent of households said that their income is not enough for their food needs. The lowest 50 percent has to find other sources, such as loans or using savings for covering the gap between their income and expenditure, which is amounted to 30 USD on average per family.

The problem is even more complicated when the income and expenditure of the poor households are compared. Those who have a lower level of income, spend less amount on their expenditure, as compared to those who have high income; which means that their expenditure is determined by how much they earn, rather than how much food they need. As a result, they spend less money on their household expenditure.

Since expenditure is determined by income, family members may not get enough nutrition, a balanced diet, and healthy food, besides better living conditions. The poorest 25 percent spend less than double the average expenditure of the sampled population. The average expenditure of a household in the sample size is 350 USD, while the poorest 25 percent expenditure is 147 USD per month.

Meanwhile, those in the upper quartile can save a relatively larger portion of their income after meeting their all food and non-food needs. A family in the top 25 percent would be able to save about 382 USD per month or 32 percent of their monthly income. Although this difference in consumption is not accounted for the actual goods and services the rich may spend money on as compared to the poor. This is visible from the fact that the rich class spends more than the poor, though the exact distinction is not accounted for in this study.

Consequence:

While one aspect of the consumption inequality for the upper class could be of less interest for policy formation; the poor might be on the harmful side of the spectrum. One of the important consequences is that on the nutrition and diet of the poor family. Those who have lower income, adjust their expenditure to their income, which would mean compromising on the quantity and quality of food consumed by the family. Children of such households might be adversely affected by malnutrition.

Policy Recommendation:

The government must support those who are adversely affected by the rising inequality in the country. The government could have two possible methods of helping those in dire need of financial assistance to meet their basic food needs, pay for clothing, and have a decent roof above their head; to put it in simple words.

Government assistance could take either of the following two forms:

1. Income support program:

Those who have a lower level of income, and cannot meet the needs of their families, has to be supported by the government programs. Income support could take the forms of supplementary income besides the lower-income a household earns, or in case there is no income, jobs should be provided, which would serve as a source of income for the family. The details of determining the level of income support, and how to create jobs has to be decided by government programs

themselves. The findings of this study would help in determining for example the average family expenditure on food and so on.

2. Supplemental food and non-food item program:

Such programs would aim at reaching a minimum amount of food, non-food a member of the family or household may need, and fill in the gap, which family is not able to do. There are a variety of programs throughout the world, such as food stamps in the United States which supports households with lower income to ensure that they can meet basic food needs. additional programs, such as the provision of shelter and better living conditions for poor households could be provided as complimentary.

Sources of funding such program:

There are two main sources of funding such as programs, depending on the intention of the government.

A. Taxation on rich class:

A more sustainable way of financing such a project would be taxation of those who earn more income or on the rich class of the country. As the calculations made in this study, such transfer of money would not be a huge amount for the rich class to pay. It only requires around 5 percent of tax only on the savings of the 25 percent rich class; as calculated based on average data of this study. Another benefit of taxation would be that the economy would grow more equally and the gap between rich and poor would be minimized in the long-run.

B. Government funding

While the main source of government funding would still not be that different from the taxation, this approach does not necessarily require taxation of the rich to support the poor. The government would have other sources of income such as government direct budget. In the case of Afghanistan, the country receives a large amount of foreign aid and assistance in government budgets, though the amount has decreased drastically after 2012. A loan from the International Monetary Fund, World Bank, or other bilateral loans and grants would be a secondary option.

12 Proposal: School enrolment of children:

Problem statement:

The data shows that a small percentage of households do not send their children to school. Those who do not send their children to school has relatively low income, as compared to those who do. Meanwhile, some families do not allow their female members, especially young girls to attend school and obtain an education. It has been especially the case in rural areas, where women's education is not well-valued by the general society or by household head. Living in rural areas of Afghanistan is mere a life of sustenance, without considering the positive aspects of how life could be made better.

While some problems might be at the household level, such as their level of income and ability to support their children to attend school, the government role cannot be ignored. Education is one of the main key factors for personal, individual, and social development, which should be taken seriously by the government. Every child in the country should have access to primary and secondary quality education, equally, regardless of their social, cultural, and economic class of their family. A child's birth in the rich or poor family should not determine what type of education he or she may obtain. Their ability to attend school and obtain knowledge, should not be undermined by the social, economic, and cultural values of their parents or the society. Rather, the state should safeguard children and their basic rights to access quality education.

In the context of Afghanistan, the education sector has not reached its full potential. From lack of well-qualified teachers to lack of school buildings, classrooms, and basic equipment, these problems still exist both in the capital Kabul and more profoundly in other provinces, especially in rural areas. Besides security, and rule of law, there is no other sector of the country, which is as important as education, given that majority of the population are still illiterate.

While the rise of the private schools may supplement government efforts to educate more people, the private sector investment, unfortunately operates only based on the profit maximization concept. Their main motive - the same as any other business model - is profit maximization, rather than bringing more people out of illiteracy.

It is witnessed, by the fact that most of these schools are in city centers and in the area where there is already a public school available for the children to be enrolled in. In rural areas for example, no private school would be established, because of the low school enrolment which may not be profitable. On the other hand, in city centers and capital, there is a very tough

competition between private schools. Most of them have a branch in each area of Kabul city so they can attract more and more students, the main purpose being maximizing their profit.

Policy Recommendation:

To streamline the efforts of eradicating illiteracy, the government should consider the following:

- Provide access to education for all girls and boys equally. By equally, it is meant that regardless of their urban/rural location, and household circumstances, children should go to school. school enrolment, especially for the primary and secondary should be enforced by law as mandatory at least. Families who cannot support their children to attend school, should approach the government for assistance, so that the poverty circle does not continue through generations. The government, on the other hand, should implement programs to support children who have access to schools, such as providing nutrition and even other needs such as clothing for them; given that their household is not able to provide them.
- Child labor should be banned completely. Children are being miss-used because of the poverty that their family is suffering. While their parents might be poor, the children should not bear the consequences of supporting the family at an early age, compromising with his / her future and education. The child labor phenomenon is obvious, and it is happening in the center of the capital Kabul and provinces. An enforcement body should be established to help children have access to school and primary education, regardless of their parent's economic condition.
- Equal education should be provided across the country. A child who is born in rural areas should have equal access to school as a child born in urban centers. It is the responsibility of the government to expand the public education system to rural areas where everyone has access to education. the quality should not be compromised, especially in rural areas, due to lack of control or observation by the government.
- Enough attention should be given to female education. Women, which are lift behind in almost all aspects of life, should have equal access to education. Families should be educated to allow their girls to attend school. The government must ensure the security and assess for their education.

- A more unified education system across the country should be implemented, regardless of the school is public or private. A system that is presented by the government and which is according to the demand of the country, considering all values. The curriculum of private schools must pass government standards.

13 Proposal: Fundamental change in school curriculum and university programs:

Problem statement:

Due to low-quality education at government schools and universities; there has been a rise in the private education system. While private education also contributes to the human skill development of Afghans, the main problem with this model is that not everyone has equal access to such education. Private schools and universities; which deemed to have quality education; are only available for the upper and rich class families, not the normal or middle-class families. Those who are in the middle and lower class, cannot afford to get enrolled in private schools because of the high fees being charged.

While it is understandable that few Afghans can have access to better quality education in private schools and universities, those who cannot afford would be at a complete disadvantage. As a result, those who are poor would remain poor, and the rich will get richer, resulting in a class gap between the two. Such a divide stems from the type of education they may receive at the early ages of their life.

Policy Recommendations:

- A unified education system, for both public and private schools and universities, should be developed and adopted nationally by all schools and universities by the government. As a result, the development of human skills, would be equal and uniform, regardless of what type of education system one may prefer.
- Update the curriculum and provide quality education in both public schools and universities. There is a dire need to review the public school and university curriculum. Updated knowledge, and skills should be taught at the school and universities of Afghanistan, so that everyone could have equal access to obtaining a quality education.

education and skill development should be based on the market need, and practice-oriented.

- Inclusion of updated skills and methods of teaching at the public schools and universities: The skills and techniques which are used in private universities and schools could be adopted in the public model of education. by improving government systems, it is much more sustainable and more efficient than the private education system.
- Match skills and education to market demand for labor: There should be a central organization that would prepare human development strategies to match the demand for and supply of both skilled and unskilled labor. The education system should be adjusted to the market demand, and that the quality of education remains the same across the whole education system.
- More control and supervision over private education institutions in terms of ensuring quality and fairness on fees they charge should be put in place. The government should have awareness and approve the curriculum and quality of education provided at the private education system. While some of them do provide better quality education, it is not the case with all. And as the government has the means to influence and inform constituencies. The role of the government could not be ignored in regulating the education curriculum of the private institutions. It has been witnessed over the last few years that some private universities and schools operated for a long time before it was made clear that such institutions are even not registered with the ministry of higher education.
- Enough attention should be given to poor households, to make sure that their children can attend school. while there is no social security or any means to support poor families, government programs should aim to support poor families, so they can enroll their children in school. The government should make sure that children have all the means necessary to attend school, such as health, nutrition, and other basic needs, regardless of their parent's socio-economic condition. Education should be a universal right.

14 Proposal: National Health Insurance:

Problem Statement:

There is no health insurance system in Afghanistan. All health services are provided either by public hospitals, or private hospitals and individual doctors, who run their private clinics. As a result, the health system is quite fragmented, and there is no proper regulation of health provision. A person in need of treatment, would either go to a private doctor, and pay in cash, or to a hospital, which could be either a private or public. However, public hospitals provide low-quality health services, and they are most overcrowded. Private hospitals on the other hand are expensive, and the poor may not be able to afford it. The fees vary according to the popularity and general preferability of hospitals and doctors. The fees are not regulated by the government, and any doctor can ask for an amount they wish.

On the other hand, private hospitals are more arranged and provide a range of health services under the same roof for patients. They provide different services, such as diagnoses, laboratory examination, X-rays, and in-patient and out-patient treatments. The problem with such a health care provider is that the quality is not regulated. One gets a different type of treatment in different hospitals, and their cost varies as well. Even there are foreign private hospitals, in which doctors are foreigners, such as from India, Pakistan, and even Germany. These hospitals are known by nationalities of doctors, such as the German Hospital. These private international hospitals provide high-quality health services, as perceived by the general public, and they also charge patients in Dollars, a very high amount as compared to other private hospitals.

The third option would be to approach public hospitals. The public hospital, though it provides health services almost free of cost, their quality is considered very poor, and even accessing such health services is challenging, due to high demand mostly by poor households. They also lack proper diagnostic equipment and new technology, as well as medical supplies. Doctors hired in public hospitals are employed by the government, and the hospital is also administered by civil servants.

Policy Recommendation:

This would be still very early to claim that a national health care system should be established in Afghanistan. However, there is a dire need for such a system, and to regulate and make the health system functioning. National health insurance would be an ideal case; however, it seems

quite impossible for the coming few years to implement. The problem may be traced back to the general circumstance in the country, and the amount of financial as well as human capital needed to implement such policies. Even not all population of the country is being officially registered, or there is no such mechanism to distribute National Identity card, or any other method to track the population. So, a functioning health insurance would require that as a pre-requisite, and several years of commitment and hard work.

Expected Impact:

The national health insurance will provide a safety net for the poor, as well as the rich class of the society. It is also a method of redistributing income if implemented in such a way that those who have higher income contributes more as compared to the poor, while both receive the same services. Not only that, a healthy society will be more productive and attractive to live in. A healthy labor force is more likely to contribute to the economic growth and development of the country.

Challenges:

The main challenge for this policy would be that pre-requisites for implementing health insurance is non-existing in the country. This includes having a proper record and registration of the population across the country, and being able to track and distribute such insurance national wide. There are hardly any national programs or projects that have been implemented in the last fifteen years, except national elections or vaccine campaigns. So, having a national coverage of any program would be costly and time-consuming.

Financing and provision of health services, and a system to manage such insurance, as well as lack of health facilities across the country are other challenges to name a few. The proposal here is to start working on this front early-on, so that such a system could function in the coming years.

15 Proposal: Pension and Unemployment benefits

Problem Statement:

The same as all other social welfare programs, there is no unemployment support program. The only thing which exists, is the pension system for government employees, and that is also not

efficient and properly functional. The pension benefits are too low and are paid annually, however, it takes several months to be able to apply and receive such pension benefits. Only the very poor would go through this hard process to get some money as pensions.

No government department would provide advice, support, and guidance for unemployed to find a job. Finding a job is mostly individual struggle, and happens mainly through searching job search websites, or through having personal connections to get informed and apply for vacancies.

Private businesses are not obliged to offer any kind of pension or retirement schemes for their employees, except some international organizations and international NGOs such as the United Nations. People would prefer such a job, as a security for their future and their families, however getting such a job is not easy, especially for poor and disadvantaged families.

There is a need for offering at least consultation and guidance for the labor force about labor market opportunities, and some basic guidance on how to find a job.

Policy Recommendation

The government should establish pension and retirement as well as unemployment funds. Both government and private employees should contribute to such funds during their employment period, and get benefited in case they lose their jobs, or are retired from their work. Such benefits should not be limited to the government employment only but also cover private jobs as well.

Expected outcome:

Such benefits will serve as a safety net for those who are working as well as unemployed. The program may be self-sufficient if managed in a proper way, in which both employers and employees contribute to such funds. It will also increase the morale of employees, as well as their tenure to stay longer in their jobs and labor market, to obtain such benefits in their later stages of life.

Challenges:

This policy should be also considered as a long-term policy. Afghanistan is not in a position to implement such a scheme in the short run; however it is a vital policy to implement in the long run. The main issue would be in covering private jobs and employment, which goes mostly off

the government records. Besides that, the management of such funds, and its implementation would be a hard task requiring government commitment.

Policy Recommendation Based on Household Survey Findings:

The following Policy Proposals are based on the Empirical Research of this study. Proposals 16 to 24 are based on the Household Survey, and 25 to 30 based on Key Informants Interview.

16 Proposal: Income support for poor families

The income of poor families should be supported by the government. The survey found that the lowest 10 percent of households earn 3,371 Afs per month, while the highest 10 percent of households earn 92,860 Afs per month[Household Survey: Income Percentile, Page:133]. This shows that the income of the upper 10 percent of households is 26 times more than the income of the lowest 10 percent of families. In other words, the lowest 10 percent receives only 3.6 percent of the income of the upper 10 percent of the households.

17 Proposal: Reduce dependency rate within families

The survey found that 78 percent of individuals are dependent members of the family and does not have an income[Household Survey: Individual Income, Page: 137] , which results in poverty. government may encourage policies that will reduce the dependency rate in households, or support dependent family members in terms of childcare support, pension, or taking care of disabled individuals. The study found that 52 percent of family members are dependent members of the family. 90 households out of 110 (81 percent) of households have at least one dependent member in the family, this includes underage children or elders.

18 Proposal: Increase labor participation in the labor market

Not all labor force is active in the labor market. Only 22 Percent of individuals have an income [Household Survey: Individual Income, Page 137]This might be because they cannot find a job or they are not looking for one. Government policies could encourage labor participation in the labor market in terms of incentives and provide on the job training so that the idle human resources are being utilized for economic growth purposes. The survey found that 44 percent of households have at least one unemployed member. 12 percent of sampled individuals were

unemployed and in more than half of the cases (27 households out of total 49), only one member of the households is unemployed.

19 Proposal: Increase women participation in the workforce

Women are not active in the labor market, and their participation rate in the labor force is very low as compared to their male counterparts. Only 16 percent of women are employed, as compared to male members [Household Survey: Income inequality by Gender, Page: 134]The government can encourage women to participate in productive businesses and utilize their potential in contributing to the economic development of the country. The survey found that female contributes only 16 percent of employed members in sampled households. For every 5 employed males, only 1 female counterpart is employed. This also contributes to the income inequality based on gender in households.

20 Proposal: Decrease the pay gap between male and female

Not only a few females are employed as compared to males, but their pay is also very low in comparison. There is an income gap of 3,909 Afs (57 USD) per month between male and female on average [Household Survey: Income inequality by gender, Page: 134]The government can introduce payroll and salary regulations to reduce the gender pay gap. This is particularly important when females perform the same job as male but are still underpaid. The study found that females are paid on average 57 USD less per month as compared to male counterparts.

21 Proposal: Equalize wage difference between rural and urban regions

There is a huge difference between the average wage in Kabul, the capital, and rural regions as found by the study. The average differences in monthly income is about 4.5 times higher in Kabul (Urban) as compared to Nangarhar (Rural) [Household Survey: Income inequality by Province, Page: 135] The government may implement incentives to support wages in rural areas or to normalize incomes between rural and urban regions. The study found that the average income in Kabul province is 48,584 Afs. (714 USD) per month, while in Nangarhar it is 10,439 Afs. (153 USD) given the sample size of 76 households in Kabul and 34 in Nangarhar Province. The average difference in monthly income is about 4.5 times higher in Kabul as compared to Nangarhar province for example.

22 Proposal: Poverty as priority

The study found that based on the sampled population, the poverty rate is between 52 to 66 percent in the country [Household Survey: Poverty rate Estimation, Page: 145]. Results show that about 66 percent of individuals have an income below the rate of 1.90 USD per day. By using the 1.25 USD per day as a threshold, the poverty rate is approximately 52 percent. Therefore, poverty is an issue in the country and requires government attention and effort to reduce poverty. poverty should be a priority of the government, after secure peace and stability.

23 Proposal: Provide Computer and English training

Computer and English language skills are considered vital to find a well-paid job. However, almost half (49%) of the sampled households does not know how to use a computer. [Household Survey, Computer Skills, Page 172]The study found that there is a positive association between household income and higher English and computer skills. The government could provide such skill training courses for youths and those who are in search of a job. This will reduce poverty and increase the income of poor families.

24 Proposal: Support for Poor families to send their children to school

Poor families are more likely not to send their children to school, as compared to better-off families. The study found that Households whose children do not attend school have a very lower income, than those who send their children to school. The average income of households not sending their children to school is 8,025 Afs. (118 USD) per month, which is more than three times less than the total average income of the surveyed sample size (36,794 Afs.) [Household Survey: Household Income and School enrolment: page: 181]. Therefore, the government may support poor families so they can send their children to school.

25 Proposal: Provide basic and national healthcare

The study found that income plays an important role in determining the types of health services one may receive. Those who are well-off prefer private hospitals that are more well equipped and provide better services as compared to the public [Household Survey: Hospital Preference, Page 232]. The income of the household should not determine the type of health services one may receive. Poor people are disadvantaged in accessing health services due to the high cost if

obtained privately. Therefore, the government may implement regulations to allow equal access to the health care system in the country.

Proposals based on Key Informants Interview:

26 Proposal: encourage and allow private investment to create jobs

The main argument of Mr. Scott has been to support private investment and job creation in the country. He said that “The second big problem is the ability of the private sector to create new jobs here is not very strong [Key Informants Interview, Page: 255]. You can have a government that is very committed. You can do sort of government programs that support transfer to people, but if you don’t create jobs, you are not going to have a sustainable way to reduce poverty”. Therefore, encouraging the private sector to invest and create jobs should be a policy option for the government to reduce poverty.

27 Proposal: Increase agriculture productivity

Since Afghanistan is an agrarian country, increasing the productivity of the agriculture sector which employs the rural population is a proposition made by Mr. Scott. He proposes to increase agriculture productivity [Key Informants Interview, Page: 258], besides sustaining private sector development and rebuilding infrastructure.

28 Proposal: Extraction of natural resources

Mr. Scott also proposes that in the long term, natural resources should be extracted, and the resulting revenue could be used to support social government programs for poverty reduction [Key Informants Interview, Page: 267]. He believes that natural resource extraction is good for economic growth. He also has the idea that mining does not need labor, but the revenue from the natural resources could be used to eradicate poverty.

29 Proposal: Eradication of Corruption

Corruption is a hidden enemy to the economy. It has been a long time since that government is trying to solve the issue of corruption both within the government structure, as well as in the judicial system. While some achievements have been made so far, there is more room for

improvement. Corruption hinders service delivery to people, and also results in miss-use of the financial resources.

While government officials hardly talk and mention such issues, Mr. Farahi said that “corruption, especially by elites, has posed a problem for the poverty reduction efforts”, Also, Miss. Sarabi mentioned that corruption has also affected the class struggle in a way in the country., Mr. Shankar Narayanan said that “ the main two problems resulting in high poverty and inequality is corruption, mainly at the administration and implementation of development projects which does not allow funds to be spent on its intended purpose, and lack of good governance.” [Key Informants Interview, Page: 322]

The government should continue to eradicate corruption at all levels of government. This will allow the utilization of funds for its intended purpose and will ensure that resources are used in its best possible way.

30 Proposal: Good Governance

The importance of good governance practices to have a transparent and inclusive government is well established. However, developing countries, including Afghanistan still struggles to fully benefit from such mainstream principles. Good governance ensures transparency, accountability, and inclusion of people in decision making at the local as well as national levels. Mr. Narayanan mentioned that “Beside corruption, lack of good governance practices has hindered the path towards poverty reduction”. He added that “It has not been possible to address issues of good governance and address rampant corruption in a lot of the development expenditure in the Country.” [Key Informants Interview, Page: 322] Moreover, he added that “unless these problems are addressed, there is little hope for the future”.

Therefore, the government should continue to implement principles of good governance at the national and provincial levels, which would ultimately influence poverty reduction efforts.

**Section III: Evidence-Based and Empirical Policy
recommendations**

Afghanistan's Current Policies regarding income inequality and poverty

1. Afghanistan's National Peace and Development framework (ANPDF)

Afghanistan's National Peace and Development framework (ANPDF) provides a roadmap for the future of Afghanistan from 2017 to 2021. The document envisions Afghanistan as a self-reliant country providing increased welfare for its people. It envisions that the private sector is promoted, and money is put at its best use. The economic growth would be inclusive, balanced and fruits of economic strategies will be shared equally. Investment is made in the health and education of the people. It also aims at eradicating poverty in the country (Afghanistan National Peace and Development Framework, 2017)

ANPDF has identified that inequality is existing in the country, and that the growth should be more balanced and inclusive. This requires implementing proper economic policies and financial framework. It will require hard work and lots of investment in the country to bridge the gap that has been created in the last 15 years.

The framework states that nearly 40 percent of the population falls below the 1.25 USD per day global poverty threshold. According to this document, poverty has increased during the past four years, mainly due to geographical imbalance in off-budget spending, and lack of investment in real economics which could foster sustainable and inclusive growth.

This framework understands that economic growth has to be inclusive to reduce poverty. It further elaborates that there have been regional differences during the rapid economic growth which resulted in leaving some regions worse off than others. To address this issue, the framework recommends focussing more on economic growth, job creation, and provision of education and health more equally across regions.

The government of Afghanistan implements different programs to eradicate poverty in the country. National Solidarity Program (NSP) was once of the flagship program of government aimed at eradicating poverty through the provision of block grants to communities. The communities would themselves decide where the grant money should be used; mostly in infrastructure projects. The Citizen's Charter is a follow-up program for NSP with a similar mandate and includes health and education services besides rural infrastructure and agriculture services, and it is also implemented in urban areas.

2. Afghanistan's National Economic Policy 2013

The aim of the government of Afghanistan through this policy is to promote economic growth and development to ensure the social welfare of the people of Afghanistan. This policy was developed in the year 1392 (2013). One of the main objectives of this policy is to eradicate poverty and improve the living standard of the people. This policy also incorporates Sustainable Development Goals (SDG) into government policies and regulations.

The overall objectives of this policy are:

- sustainable economic growth and development, especially for production sectors such as Agriculture, energy, transportation, telecommunication, mines and human capital;
- Full employment which will also reduce poverty;
- economic sustainability through price stabilization of good and services, as well as currency, and balance of payment
- poverty eradication; and
- social justice.

This policy sets goals and objectives for different sectors of the economy; and sets indicators to track progress made in each sector. These sectors are Agriculture, Production, Energy, Transportation and telecommunication, urban development, mines, human development, private sector, and good governance.

This policy mandates itself to social justice, especially from an economic perspective. It promotes access to basic services for both males and females, eradication of poverty, and addressing the problem of income inequality. It is mentioned that although it is difficult to conduct a yearly survey about the poverty rate, it is estimated that one-third of the population is under the poverty line and that half of the population has no food security (National Economic Policy of Afghanistan, 2013).

This policy is very brief and general. It does not elaborate on how such objectives would be achieved and who are the responsible bodies to implement them. Poverty reduction is merely a co-product of job creation, private sector involvement, and job creation. There is no specific section in this policy that talks about poverty reduction. The policy mentioned the term “income inequality” only once.

The economic policy; which is prepared by the ministry of the economy provides policy direction to all other ministries of Afghanistan. A lack of interest in the topic of poverty reduction at the national economic policy level is a major challenge. This policy serves as a main policy for all other economic policies of the government and paying not enough attention to the topic of poverty and inequality is questionable.

Although below two documents below are national surveys, the purpose of mentioning it here is that it informs policymakers. Therefore, it shapes how poverty is perceived and what are the national statistics.

3. Afghanistan Living Condition Survey 2013-14

Afghanistan Living Condition Survey (2013-14) confirms that poverty has increased compared to the last survey conducted in 2011-12. The percentage of population below the poverty line has increased from 36.5 percent in 2011-12 to 39.1 percent in 2013-14. Not only that, the poor population's per-capita consumption has declined more drastically than for the better-off population, confirming the existence of inequality (ALCS 2013-14).

Characteristics of the poor remain the same as found in previous surveys. Poor are mostly households relying on child labor, illiterate head of household, and head of households working in the informal sector such as in agriculture and construction. Large household size and households with more young children are poorer than others.

4. Afghanistan's Living Conditions Survey 2016- 2017

Afghanistan's Living Conditions Survey 2016-17 reports on the living condition of Afghans from different perspectives. It is the follow-up survey of the Afghanistan Living Condition Survey, with a new name. The survey highlights a high rate of dependency; for every 100 productive persons age 15 to 64 there are 101 dependent individuals aged below 15 or above 65. The average family size is 7.8 members per family, and more than half of the population lives in families with nine or more than nine members.

According to this survey, labor participation is 80.5 for men as compared to 26.7 for women. 43.5 percent of the working population is employed. 34.3 percent can't find adequate work and is either unemployed or underemployed; 51.1 percent for female. 45 percent of households

have agriculture as a source of income, and 28.5 percent say that agriculture is their main source of income. 43 percent of households own or have access to land. 38.6 percent of youth are outside of economic activity, education, and training. This figure is 65.4 percent for females.

ALCS (2017) found that the adult (15 years of age and above) literacy rate is 35.4 percent for males and 20.3 percent for females. Youth (15 to 24 years) literacy rate is 53.5 percent for males and 38.9 percent for females. As a health indicator, 64.7 percent of the population has access to safe drinking. The percentage of births attended by skilled health personnel is 56.4 percent.

5. Afghanistan Poverty Status Update 2017

Afghanistan Living Condition Survey is the only national survey that is conducted every two years, and it is the only source of information about the socio-economic situation of Afghans. While the survey has been conducted for several years now, it has its limitations in providing accurate data, especially about poverty. The poverty rate is being forecasted using statistical regression models based on previous surveys. Another drawback of this survey is that it does not collect data about the food consumption of households; which is the main tool for defining poverty levels. This information, which is a key determinant of the living condition is missing in this survey.

Since no consumption data on food has been collected in the 2013-14 survey, a Survey to Survey Imputation (SSI) method was used to estimate the poverty rate. The model uses regression on existing data to estimate missing data. Per- capita income of the year 2011-12 is used to estimate the poverty rate using the SSI model in 2013-14, which is estimated at 39.1 percent.

Using estimation to find the poverty rate might not be an accurate method. Regression models are used to estimate the link between two or multiple variables when inferences are needed to be made about a single or a few missing data sets, based on the available data. However, estimating all of the data about the poverty rate based on the last two years data, would not provide accurate results.

On the positive note, the survey does provide consistent data on other indicators over time and covers both rural and urban populations. In the last edition of the 2013-14 survey, provided

data is differentiated for the rich and poor; for example, in access to education, health, and other basic services.

The world bank, using the data from ALC has published Afghanistan Poverty Update Report in 2017. In May 2017, the second edition of the survey is released. The Poverty Update Report, using ALCS data, provides a comparison of the socio-economic condition of Afghans, with a specific focus on poverty. The data and analysis are distinguished in some cases between poor and rich. It also highlights the problem of inequality which co-exists along with poverty and hinders poverty reduction efforts.

The survey of 2013-14 is considered to be a “transition period” since the international forces planned to leave the country by the end of 2014. Overall the transition period is seen as a time of economic downturn after a period of rapid economic growth in the last decade in Afghanistan. Most of the macroeconomic indicators, such as employment, poverty, access to education, health and other basic services, have either seen negative progress, or the process has de-accelerated compared to previous years.

The main finding of the report indicates an increased poverty rate as compared to last year survey. The poverty rate has risen from 36 percent in 2011-12 to 39.1 percent in 2013-14. As the previous report indicated, this report reaffirms that growth is not sufficient to reduce poverty if it is accompanied by widening inequality. Increased inequality and lack of shared prosperity are considered the main reason for the high poverty rate in Afghanistan (Poverty Status Update, 2017).

another important finding of this report is that the transition period has witnessed many inequalities among the population of Afghanistan. These inequalities, between regions, cities, rural and urban areas, rich and poor Afghans, men and women, and boys and girls, has fractured the Afghan society.

“Notably, the transition crisis magnified once again the many inequalities-between regions, cities and rural areas, rich and poor Afghans, and between men and women and girls and boys-that fracture Afghan society.” (Poverty Status Update, 2017, p. 6)

Due to low economic growth and increased conflict, especially in rural areas, where most of the poor live, 1.3 million more people fall in poverty during the period between 2011-12 and 2013-14 (Poverty Status Update, 2017). Poor, who lives in rural areas are increasingly affected by conflict and lack of employment opportunity. The poverty rate in rural areas increased by

14 percent to 43.6 percent, compared to 26 percent of poverty in urban areas (Poverty Status Update, 2017).

The unemployment rate in 2013-14 is estimated at 22.6 percent. 1.9 million Afghans are unemployed as compared to the initial survey time in 2007-8. Unemployment is mainly affecting the rural population, especially youths without education (Poverty Status Update, 2017).

While this period is marked by a high rate of conflict and security issues, it has adversely affected access to basic services and service delivery, especially in rural and conflict-affected areas. School rate enrolment for children has decreased compared to the last survey in 2011-12. Those affected are mostly in rural areas, especially girl school attendance and enrolment (Poverty Status Update, 2017).

The growth rate in 2014 is 1.3 percent; which slightly increased to 1.5 percent in 2015. The economy is projected to grow at a rate of 1.2 in 2016 and up to 5 percent by 2030 (Poverty Status Update, 2017). Given the statistics, it is foreseen that economic growth won't be able to reduce poverty soon. To reduce poverty, the report provides 5 key messages as below (Poverty Status Update, 2017):

1. Broad-based and inclusive growth; focusing more on agriculture, access to market, and rural-urban linkages.
2. Creating jobs, especially for the growing number of youths, which is estimated 400,000 annually.
3. Focusing on providing basic services such as education and health,
4. closing the gap between poor and rich in accessing services. Service delivery in conflict-affected areas would be a challenging task.
5. Helping Afghan households to cope with shocks and reduce their vulnerability to fall into poverty, due to conflict, natural disaster, or economic shocks beyond their control (Poverty Status Update, 2017).

Poverty reduction policies and practices in developing Asia

Several studies have been conducted on poverty reduction policies and practices in developing Asia under the series of inequality, social exclusion and well-being by Asian Development Bank in 2015 (Heshmati, Maasoumi, & Wan, 2015). This document provides recent studies on the issue of poverty reduction in Asia, and analyses policies implemented by different countries in the region to reduce poverty. The main studies and their findings are briefly presented below. The purpose of this part is to provide the context of poverty in the region of Asia, and how Afghanistan can learn from such policies. These policies are also recommended for Afghanistan, as discussed in this chapter.

1. Microfinance in Bangladesh:

Microfinance Institutions (MFI) provides short- and long-term loan based on securities, especially for poor and rural population. the purpose of MFI is to provide the labor, with the necessary capital, so they are more productive and able to contribute to their economic well-being. While some such institutions are private and based on the interest that the recipient pays, in some countries, the government has also established similar institutions, especially to help financial access to rural farmers.

Bangladesh has been one of the pioneering countries in eradicating poverty through MFIs. (Habib & Jubb, 2015) analyzed the effect of MFIs on poverty alleviation based on evidence from Bangladesh. Using a Quasi-Experimental approach on 297 households, members of MFI institutions are interviewed, and their result is compared to those who have not participated in MFI. They found that in almost every material aspect, such as income, ownership of assets, better housing condition, saving and food intake, members of MFI are significantly better off than non-members as examined by a univariate basis. in a multivariate basis, they found that MFI membership is associated with household income and household wealth, and long-term membership of MFI is associated with saving. The authors conclude that MFI membership is associated with a reduction in the poverty rate.

2. Microcredit in Pakistan:

The same concept of MFI is analyzed by (Khan & Sulaiman, 2015) in the context of Pakistan, to observe if microcredit benefits the poor and financially marginalized communities. They have used data from 2,070 respondents who are members of a microcredit organization and

used descriptive statistics, multiple regression, and mean difference models. They have found that microcredit program is not helpful for the extreme poor in Pakistan, because it does not yield fruitful income change. Although there is an overall positive change of income (7.76%), there is weak evidence that such a program benefits the lower quartile of the community during the study period. They have concluded that microcredit is not equally beneficial to all segments of the poor.

The authors justify their finding because such an organization will extend credit to those who are relatively better-off and can pay back the interest and will not default. Such people will be able to receive a loan, but not the extreme poor, who does not qualify based on this criterion. First, the extreme poor have a higher risk of default on capital, and second, they may not be able to pay the regular interest rate. Instead the fund goes to the more middle class of the society. They found that less than 25 % of targeted households were poor according to the official definition of poverty in Pakistan. They also found that the household's earning of the lowest quartile, has not changed after the program. The authors, therefore, conclude that microcredit is not a proper tool to improve the socio-economic condition of the extreme poor.

3. Climate change and agriculture in India

Climate change has recently impacted Asia and the agriculture sector. Since most of the poor are located in rural areas and their main source of income and living in agriculture, climate-induced change in agriculture output and subsequently the price of such items, has a direct effect on the poor. In a study by (Kar & Das, 2015) on the impact of climate change on agriculture and poverty in India, such a conclusion is being confirmed. They have explored the effect of climate change on farmland value and the use of counterfactual measures of the farm revenue on rural consumption expenditure. they have found a discerning impact of climate change on the net revenue and well-being of the rural population. they propose that strategies for adaptation and mitigation are required which may include financial incentives for improving land management, maintenance of carbon content, and efficient use of fertilizers and irrigation are required.

4. Urban Poverty, income and non-income dimension

Poverty is mostly measured in terms of the income of an individual or household. If the individual or household earns above a certain threshold, say 1.25 \$ per day, the person is not

considered to be poor. however, poverty is multi-dimensional, and it encompasses not only income or consumption of food, it includes other non-income dimensions as well. In a paper by (Samanta, 2015) the author argues that to understand urban poverty in Asia, and even in the broader world, the focus should move from income poverty to non-income dimensions of poverty. The income dimension would only focus on the income or consumption of households, while the non-income dimension is much broader, and it encompasses access to shelter, basic infrastructure, health, education, and social welfare. The author argues that to overcome this challenge, the first step is to broaden the threshold of poverty to account for access to such benefits and capabilities.

In another study by (Ahmad, 2015) about housing poverty and inequality in urban India, they found that the difference in poor housing quality is not because of the difference in endowments, but in the difference in the “rates of return” to these endowments. The author suggests that to enhance housing consumption, there is a need for skill up-gradation and provision of stable employment, besides improvement in the income of the urban poor population.

5. Rural Poverty Reduction:

(Mukherjee, 2015) analysis of the effectiveness of crop diversification for ensuring greater availability of food and nutrition in rural areas, under different irrigation and infrastructure settings in India. The author found an adverse relationship between crop diversification and calorie intake per capita. In the areas where it is hard to develop irrigation and due to soil issues, farmers are forced to diversify from traditional water-intensive crops to ensure a minimum level of consumption, but they still cannot avoid poverty and malnutrition. On the other hand, in areas where farmers can develop private irrigation, crop diversification allows them to maintain a reasonable level of consumption and positive net income. the author suggests that there should be a direct policy intervention to ensure the effectiveness of crop diversification as a strategy to reduce poverty.

6. Foreign labor migration and poverty reduction in Nepal.

Nepal, though had a low economic growth of 4 % annually, poverty has declined in the last decade (Sunam, 2015). according to this author, while one third (29%) of the selected sample of 386 households escaped from poverty, 7% of households have fallen in poverty in the last

two decades. Foreign labor migration, small business, and access to land define movement out of poverty, while the loss of land, cultural burdens, and health costs are the main cause for families who fell into poverty. The author, therefore, proposes separate poverty reduction policies for both issues of lifting people out of poverty, and policies which will avoid falling of the households into poverty. In the case of Nepal, about 60% of the sampled household who escaped poverty in the last 22 years, reported that they have used labor migration to Gulf countries, such as Qatar, UAE, Saudi Arabia and Malaysia to improve their livelihood (Sunam, 2015).

Reducing inequality in developed countries

Anthony B. Atkinson (2015) is one of the scholars in the United Kingdom who has extensively explored the concept of poverty and income inequality throughout his career. One of his books titled “Inequality; What can be done?” published in 2015 lays down the main argument about the issue of poverty and income inequality in the developed world, including the United Kingdom, The European Union, and the United States of America. This book provides an extensive view of the issue of inequality and it is considered to be an invaluable asset in this field in recent years.

Atkinson (2015) provides 15 proposals in his book to reduce inequality and poverty. These proposals are mostly considered in the case of the United Kingdom, or more broadly in the case of OECD countries, which may not fully apply to the case of Afghanistan or other developing countries. However, it is important to notice these proposals for the reduction of inequality and poverty, so that the same problem is not faced by developing countries in the future. These policies are:

“Proposal 1 (Atkinson, 2015): policymakers should explicitly consider the direction of technological change. Such consideration should allow to increase the employability of workers – rather reducing jobs – and that the service industry includes the human dimension to their services – rather than relying only on technology.

Proposal 2 (Atkinson, 2015): Public policy should aim at a proper balance of power distribution among stakeholders in three areas. (a) introduce a distributional dimension to competition policy. (b) ensure legislation that allows trade unions to

represent workers on level terms. (c) establish a Social and Economic Council which involves social partners and other non-governmental bodies.

Proposal 3 (Atkinson, 2015): The government should explicitly target for preventing and reducing unemployment by offering guaranteed public employment at the minimum wage to those who seek it.

Proposal 4 (Atkinson, 2015): there should be a national pay policy consisting of two elements: a statutory minimum wage set at a living wage, and a code of practice for pay above the minimum.

Proposal 5 (Atkinson, 2015): The government should offer via national saving bonds a guaranteed positive real rate of interest on savings, with a maximum holding per person.

Proposal 6 (Atkinson, 2015): there should be a capital endowment (minimum inheritance) paid to all at adulthood.

Proposal 7 (Atkinson, 2015): A Public Investment Authority should be created, as a sovereign wealth fund with the aim of building up the net worth of the state through investment in companies and properties.

Proposal 8 (Atkinson, 2015): return to a more progressive rate structure of personal income tax, up to a top rate of 65 percent, accompanied by a broadening of the tax base.

Proposal 9 (Atkinson, 2015): The government should introduce into the personal income tax and Earned Income Discount, limited to the first band of earnings. The same as Earned Income Tax Credit or (EITC)

Proposal 10 (Atkinson, 2015): receipts of inheritance and gifts inter vivos should be taxed under a progressive lifetime capital receipt tax.

Proposal 11 (Atkinson, 2015): there should be a proportional or progressive, property tax based on up-to-date property assessments.

Proposal 12 (Atkinson, 2015): child benefit should be paid for all children (regardless of parent's income level) at a substantial rate and should be taxed as income.

Proposal 13 (Atkinson, 2015): a participation income (similar to basic income, based on active participation in the labor market, training or volunteer work; rather than citizenship) should be introduced at a national level, complementing existing social protection (not replacing it as in case of universal basic income), with the prospect of an EU-wide child basic income.

Proposal 14 (Atkinson, 2015) (alternative to proposal 13): there should be a renewal of social insurance, raising the level of benefits, and extending their coverage (such as unemployment benefits).

Proposal 15 (Atkinson, 2015): Rich countries should raise their target for Official Development Assistance to 1 percent of Gross National Income.” Source: Atkinson (2015)

Flat tax on capital by Thomas Piketty

(Piketty, 2015) in his book on “The economics of inequality” discusses the issue of inequality in France, with comparison to the United States, United Kingdom, and western Europe. His ideas are mostly related to the divide in the income of capital and labor. According to him, the reward to capital and income historically has a split of two-third to labor, and one third to capital, of the total national income in the United States, France, and the United Kingdom (Piketty, 2015, p. 41).

(Piketty, 2015) also refers to the problem of the imperfect capital market, in which the capital is not easily movable from the rich countries to the poor, to reduce the economic gap between the two. Conversely, he argues that the capital from the poor countries are moved to the rich countries. He also explains the issue of “moral hazard” and “adverse selection”, which does not allow equal distribution of capital, or the flow of capital from the rich countries to the poor. He even argues that the mobility of labor is much more flexible geographically, than the mobility of capital internationally.

Much of his work also discusses how redistribution could be achieved between the reward to the labor and capital. Not only that, he examines the direct redistribution and indirect distribution of income from capital to labor. He also examines which method is better in which case. Also, he explores the incidence of taxes and social payments by the employer, which

mostly ends up being paid by the labor; rather than by the owner of the capital- which is the primary goal of such policies.

To overcome such issues, (Piketty, 2015) proposes a Flat tax on capital income, as wide and extensive as possible. The tax rate is flat which means it is the same rate all over the places, and it should be posed internationally to avoid fiscal competition. The tax has to be levied on capital income, rather than on the income of the labor. He, however, does not propose a specific percentage of tax to be charged.

Inequality of Labour income

Piketty (2015) in his book “Inequality” states that to reduce inequality, it is not just a transfer of money from the rich to the poor. Today, reducing inequality takes other forms of policy interventions. These questions are rather posed as “taxation of top incomes and fiscal transfers to those with lower incomes; policies to improve education and training; minimum wage; and measures to prevent employment discrimination, strengthen unions, and establish wage schedules” (Piketty, 2015, p. 66).

According to him, one should understand the underlying causes of income inequality, which is not the mere distribution of reward to capital or income. To do so, one has to accept that the prevailing inequality does exist in the income of labor, and ways should be found to avoid it in the future.

The simplest theory of wage inequality is that different workers contribute a different amount to a firm’s output, known as the theory of human capital or productivity of labor (Piketty, 2015). This theory was popularized by Gary Becker and his ultra-free market position from the University of Chicago. According to this theory, the different income of each labor is therefore justified, as so is the difference in the standard of living. Such theories have received criticism as well, since not all increase in wages could be related to equal productivity of labor. Take the examples of billionaires, their increased wealth of a thousand times than a normal wage, cannot be interpreted that their productivity is thousand times more than a normal worker.

Another theory explaining the income inequality is “skill-biased technological change” in which the skilled labor receives more income due to change in the technology (Piketty, 2015). A third theory goes by the name of “globalization” in which low skill work is being outsourced to other countries, where labor is cheap. Its criticism however says that the total export and

import percentage of GDP is too low in such countries, and that such phenomena are hardly justifiable (Piketty, 2015). While these theories have their drawback, another explanation for existing of inequality is the discrimination in the labor market, as well as lack of labor unions.

Redistribution Instruments:

Piketty (2015) distinguishes between two types of distribution; Pure and efficient. Pure distribution is primarily achieved by fiscal redistribution, to reduce inequality raised due to the initial endowment and market forces, while at the same time, allowing the price system to operate without any influence. Efficient redistribution is mostly related to the social justice principle. That the human resources could be utilized for the benefits of all. Examples include discrimination and monopsony power in the labor market and efficient social insurance.

To determine if a certain redistribution system is just or not, Piketty (2015) talks about the social justice point of view, as suggested by John Rawls. According to him, redistribution is just if it increases the welfare of the least better off. This concept of Rawls is called the “Max-min” principle.

Piketty also discusses the causes of high taxes which may reduce revenue, as it discourages workers to work harder or additional hours. However, such a conclusion has to be made empirically and it is dependent on the elasticity of marginal increase in tax and revenue.

Other policies mentioned by Piketty (2015) are:

1. The Earned Income Tax Credit (EITC) as in the case of the United States:

EITC is a tax credit that benefits people at the low end of the wage spectrum. In 1996 in the United States, a tax credit was 40 percent of earned income on income below 9.000 USD a year, decreasing gradually to 20 percent on income up to 29.000 USD a year. A person who earned 9.000 USD a year in 1996 received a tax credit of 3.600 USD, which was “reimbursable” and payable by a check. This policy will have its effect on reducing the unemployment rate; however, their success may vary from country to country.

2. Negative income Tax and Basic Income:

The concept of Basic income emerged in 1960 and 1970, as suggested by Milton Friedman that each adult citizen should receive a certain lump sum every month, regardless of their income or labor market status. The main idea behind this is to reduce the interference of government

in the market system and replace the social protection system with a single modest allocation. This concept was later proposed as basic income by (Van Parijs, 1995) as cited in Piketty (2015). The positive note on this policy is that it treats everyone the same and does not discriminate. However, similar objectives can be achieved by universal transfers to the poor (Piketty, 2015).

3. Efficient Social Insurance:

According to Piketty, the private system fails to provide unemployment insurance, because they are not in the position to track and understand how much one earns. This market failure could be overcome by the government since it can acquire information on the individual income, and thus in a position to determine the claim for unemployment insurance. The problem of moral hazard, and adverse selection results that social insurance, such as health insurance is universally implemented, though one may not receive the same amount of benefit as they contribute.

Health, as well as education expenditures, are considered pure redistribution, since it is financed by the proportional tax to income, whereas most reimbursements for care, hospital fees and the like are the same for all. such redistribution takes the form of government spending, rather than monetary transfer (Piketty, 2015). Therefore, such universal social insurance is a key redistributive policy.

4. Keynesian Demand theory:

According to Keynes, an increase in wages can stimulate demand for goods, and services, and thereby increase output and raise the level of employment. According to Piketty (2015), this is the most perfect solution for redistribution, because everything improves at the same time, and nobody is paying for it. However, such theory has limited empirical grounds. Keynesian theory is now understood differently by economists. They argue that prices and wages do not adjust sufficiently rapidly in the short term, because nominal wages are sticky. So, the only way to increase the level of employment is to lower real wages by way of inflationary stimulus. This concept is far away as perceived initially for redistributive purposes, which is based on the distribution of purchasing power.

Poverty and inequality in Sociology

The topic of poverty and inequality is also discussed in sociology books. There are some arguments that the issue of poverty and inequality is an interdisciplinary problem, which overlaps between the fields of economics and sociology. While some efforts have been made to bring both fields together to provide an inside view on the issue, little work has been done in this regard. One such effort is the book titled “Poverty and Inequality” by (Grusky & Kanbur, 2006).

In brief, as presented by (Grusky & Kanbur, 2006), poverty and inequality are considered in sociology as a “class model”, or in the context of a society, rather than an individual phenomenon. In contrast to economics, which observes poverty and inequality through income, sociologists observe it as an issue more than just income and consider it as a multidimensional phenomenon. The poor are the underclass of the society, which has maladapted themselves, and consider themselves as excluded from the labor market, to put it in simple words.

(Grusky & Kanbur, 2006) argue that there is a need for both disciplines to work together when it comes to inequality. In economics, more attention is given to the inequality of outcomes (such as income) rather than inequality in endowment (such as education). The authors argue that since both outcomes and endowments are individual preferences, the policy should focus on equalizing of the endowments, not the outcomes. Even in the evaluation of poverty, the authors argue that inequality first is measured in terms of “social value” of endowments, and later-on regressed on the outcome (income) to estimate poverty. Therefore, the sociologists prefer the capabilities-based measure of inequality.

Conceptualizing and measuring poverty by Amartya Sen:

Amartya Sen is one of the famous scholars in the field of poverty and inequality. His name is mostly associated with the concept of “Capabilities” for measuring poverty and inequality. His main argument is that income is not the perfect “Space” to measure poverty. Instead, he argues, that the same as we measure development, we should consider the quality of life and freedom to enjoy life the way one wants. Such things, according to him are “being able to live long, to be in good health, and be able to read and write and so on” (Sen, 2006, p. 34). He, therefore, argues that poverty and inequality should be measured based on the capabilities that one has or

can obtain, then mere the income, the latter being only a means to achieve the bigger phenomenon of capabilities.

He supports his arguments based on evidence from China, and how it has drastically reduced poverty recently. He argues that such change is not only because of China's liberation in 1979, but the efforts, such as education and health that has already started before the liberation period. Sen (2006), also quotes Aristotle and Adam Smith, referring to income or money as a means for achieving something, rather it has little or no value by itself.

In such a reference to Adam Smith, he argues that poverty cannot be measured individually, as he puts it "that no person is an island" to be assessed individually. He argues that the relative living standard and income of other peers in the community matters as well. One person in New York according to him might have a miserable life, but still he/she will be much better off with the same income in Bangladesh or Ethiopia.

Sen's argument and criticism goes on to the issue of the characteristic of poverty and inequality measurement. He argues that some measure of poverty is not decomposable, such as the Gini index. By decomposability, it means to be able to segregate between-group and within-group levels of poverty and inequality; which some measures such as Gini do not qualify. Not only that, other measures such as aggregate squared poverty gap" (P2), which overcomes this drawback faces other challenges; such as the analysis of every individual separately, or as an "Islands" rather than considering the relativity aspects of them as mentioned by Adam Smith earlier.

Sen (2006) states that the currently used methods of measuring poverty and inequality are defective, based on the reasons provided above. Such methods focus on income only, not considering the relative aspects of it, and it lacks decomposability. However, he does not provide any alternative method that satisfies his prepositions. He iterates that today's world is highly connected and informed about the living conditions of others is easily available, which affects how the standard of living is being set in relative terms, for example to those living in different countries. He concludes his topic by stating that "there is a long way to go still to make adequate social sense of economic measures" (Sen, 2006).

The above-mentioned argument of Sen is a good example of conceptualizing poverty and inequality from a sociological point of view. This provides a new perspective on the topic of poverty and inequality. One may agree to some extent about the criticism that he poses on the measurement of poverty and inequality used by economists. However, in recent years, there

have been changes in the way poverty is being measured in economics. A major change, as noticed by Sen, is the “Space” of income as the main factor in determining poverty. There is already a lot of research and empirical data on the Multi-dimensional Poverty Index (MPI) in different countries, as well as the use of the Human Development Index used by the UNDP report since 2010 to provide a better measurement of poverty.

The issue of decomposability is also being widely discussed and debated by economists, and it is considered key in understanding poverty. Not only that, but there have also been efforts to measure panel data of the same households to see the movement or migration out and into poverty, for example. However, the topic of evaluating individuals separately, rather than in relative terms, is something that economists could learn and build on. In conclusion, one would agree that the economic measure of poverty and inequality would be hard to make adequate sense for sociologists.

Martha C. Nussbaum (2006)

(Nussbaum, 2006) is another critique of the economic analysis of poverty and the way it is defined. While she mostly favors the Sen’s definition of capabilities to define poverty, she even takes one step further and fills the gap left by the Sen’s argument. Nussbaum’s main argument is that GNP per capita is a “crude” measure of economic growth and development, which even does not consider the issue of inequality in measuring economic growth. Not even that, it even sends wrong messages about how the economy of a country is doing; without considering the widening inequality that may exist. She also argues that GNP does not consider health, education, gender, and racial justice.

To counter these arguments from an economic perspective, GNP is not developed to answer every question about a country, one wishes to ask. It is merely a tool, used to measure the production, consumption, or income of an economy. It will never be able to respond to every question one could ask, including living standards. So, if a person wants to measure education, gender, and health, he/she might refer to other disciplines that deal with such topics. However, this does not mean that GNP is not worth measuring or reporting. It is one of the most important indicators of how an economy is doing (with its definition of economy and factors which are considered), which allows international comparison of countries around the world.

Nussbaum's second critic is about the utility approach of measuring well-being. She argues that deprived people frequently exhibit "adaptive preferences" that they have adjusted to their second-class status. Thus, the utilitarian approach proves to be inadequate to confront issues of justice. She also argues that preferences are often shaped by unjust background conditions.

While the utility approach of well-being, as the economists are aware of its assumptions and limitations, is a hypothetical way of measurement, the issue of adaptive preferences as mentioned by Nussbaum does not fully reflect the issue in measuring utility from an economic perspective. Even if a second-class status individual has lower desires or wishes, they still have the same level of utilities for every good/service as anyone from other classes. To give an example, while a second class may buy a bicycle to ride to work, he still prefers an auto to a motorcycle, or an expensive car model to a cheap one. Contrary, their utility is much more than those of the first class. For example, a person who rides a bike (as an example of second-class) will have gain more utility if he gets an expensive car, as compared to the one who already has a cheap car (as an example of upper-class) and gets an expensive one. Therefore, the utilitarian approach is not dependent on which class one may refer to.

In sociology, the issue of poverty is mainly assessed from the social justice perspective, the same as class structures, gender issues, and disabled and marginalized people. In economics however, poverty is only seen as a case in which an individual or household is not able to meet their basic needs; and based on that provides measures to address this problem. In sociology, the argument goes that such an act of being poor for example is not just, and it has to be addressed from a justice point of view.

Nussbaum (2006), while agrees with the Sen's argument about capabilities, she highlights that Sen's argument gives us only a general sense of what societies ought to be striving to achieve, without providing substantial guidance on such capabilities. For example, what level of education or health is just for a society to be entitled to. Such guidance, according to Nussbaum is missing in Sen's work. To complement Sen's theory; Nussbaum (2006) comes up with a list of "Central Human Capabilities". There are 10 capabilities such as: "

1. *Life (being able to live to the end of a human life of normal length....)*
2. *Bodily health (being able to have a good health....)*
3. *Bodily integrity (to be secure from violent assault....)*
4. *Senses, imagination, and thought (being able to use the senses, to imagine, think, and reason)*

5. *Emotions (being able to have attachments to things and people outside ourselves....)*
6. *Practical reason (being able to form a conception of the good and to engage in critical reflection about the planning of one's life)*
7. *Affiliation (being able to live with and toward others, to recognize and show concern for other human beings....)*
8. *Other species (being able to live with concern for and in relation to animals, plants and the world of nature)*
9. *Play (being able to laugh, to play and enjoy recreational activities)*
10. *Control over one's environment (being able to participate effectively in political choices that govern one's life...)*" (Nussbaum, 2006, pp. 58, 59)

Nussbaum states that this list is open-ended, and nations could choose to add, delete, or define it for themselves.

Counterargument by Economist, Francois Bourguignon:

(Bourguignon, 2006) provides an analysis of the proposal made by Sen and Nussbaum from an economic perspective. He evaluates and tries to find the answer to the proposal of measuring poverty through capability and endowment approach and to highlight that the task is not as easy as it is proposed. He provides sound arguments, mathematical models and positive economic analysis which shows that such expansion of the model of poverty measurement, though well justified, is not easy to implement in real life.

(Bourguignon, 2006) argues that while the past twenty-five years of work has enriched the income poverty and inequality paradigm, the critique of the paradigm has also become much clear and more elaborate. He understands that there is no argument about a multidimensional set of endowments to analyze poverty and inequality. However, according to him, the challenges in making alternative concepts to the income poverty paradigm truly operational remains vague – referring to the endowment and capabilities approach proposed by Sen.

While the importance of the multidimensionality of the problem is clear for all, Bourguignon argues that "it is important to reduce the dimensionality of the problem and to have a more unified view that would allow easier decision making about important trade-offs". Such as investing a marginal dollar in education or health care. The same applies, according to him to the identification of individual endowments that permit going beyond the concept of income. The challenges he sees are "lack of analytical and operational progress in the last decade: data

on intergenerational transmission remain scarce; distinguishing preferences from endowments or pure random events remain very imprecise” (Bourguignon, 2006). However, he agrees that some improvements are possible.

An Islamic View on the topic of Poverty and Inequality:

Poverty and inequality; beyond theory and empirical debate:

The topic of livelihood and income, and wealth has been on the heart of scholarly debates in different fields of studies, such as sociology and economics. It goes back to the fourth century BC to the time of Aristotle, who argued that income and wealth are only instrumentally valued, and the main ends are much deeper, that is rich human life and human freedom (Sen, 2006). Also, Buddha’s view in the search of enlightenment two centuries earlier than Aristotle is that income and wealth are incapable of removing illness, old age, death, ignorance, and lack of enlightenment (Sen, 2006). In later time, for example, Adam Smith (1776), considered as the father of economics, highlighted the concept of relativity of position in the society in terms of poverty and deprivation as “being able to appear in public without shame and being able to take part in the life of the community” (Sen, 2006).

Coming back to the recent scholarly debate on poverty and inequality, several explanations and theories are being put forward to explain the reasons behind such poverty and inequality. While in detail, these theories are more plausible to some extent to explain poverty and inequality, there are two main views, from an economic and sociological point of view. Economists mostly explain poverty and inequality as a lack of income or wealth; though the concept has recently changed to include and account for other dimensions of poverty such as access to education and health. On the other hand, the recent discussion from the sociologist is that poverty is the result of a lack of capabilities or endowments, rather than a lack of outcomes such as income (Sen, 2006). The later idea is mainly put forward by Amartya Sen (2006). Other scholars go on and provide a long list of the reasons for poverty and income inequality and how it could be achieved, through proper taxation, and government intervention for example as proposed by Atkinson (2015).

Below I would like to present some of my understanding of the topic, based on Islamic knowledge. Though it is related to Islam religion, the reader is not bound to believe in the religion itself to understand and to debate the concept. The main source of these statements is the Holy Book of Quran and it is mentioned here only as a reference, so that it is not the only

self-claimed idea of the author. For citation, the two number inside brackets shows first the number of Surah (Chapter) and second, the number of Ayah (verse).

Preposition:

The sustenance and livelihood of all human beings are pre-determined by God (Allah). And according to Islam, Allah determines and provides the livelihood and sustenance of all living creatures including human beings. In Quran Allah says: “There is no animal on the earth, but that its sustenance lies with Allah, and He knows its [enduring] abode and its temporary place of lodging. Everything is in a manifest Book [11:6]”. Allah’s provision is solely decided by him, he gives to whom he wishes to, and he takes from whom he wishes to. Allah says in the Quran: “You [Allah] make the night pass into the day and You make the day pass into the night. You bring forth the living from the dead and You bring forth the dead from the living, and You provide [sustenance] for whomever You wish without any reckoning. [3:27]”

In Quran, the issue of inequality in sustenance is also acknowledged, and Allah asks those who are bestowed with wealth to give charity to the poor, so they both equalize each other. In Quran, Allah says “Allah has granted some of you an advantage over others in [respect of] provision. Those who have been granted an advantage do not give over their provision to their slaves so that they become equal in their respect. What, will they dispute the blessing of Allah? [16:71]”.

Argument:

There is no clear rule on how one can become rich, or escape poverty. I agree that education, health, skills, capabilities, and every other small and big factor do contribute to reduce poverty or to become rich, however, there is no single answer. The scholars have extensively and empirically evaluated the issue of poverty and income inequality throughout history and provided different theories and explanations. So, the assumption, I argue will be valid here to say that not all factors are known which will affect poverty and inequality. However, it does not mean that we should not explore possible solutions at hand, which can partially avoid the problem from exacerbating.

To put it in simple words, the most talented and well educated cannot be the richest, if the education is the main reason for escaping out of poverty and becoming rich. Nor does having the best physical and mental health is the sole determinant of being rich if we consider health as a prominent factor. Also, those who have the highest IQ and are the smartest people, not

necessarily the richest one. In conclusion, we could agree that while some factors may explain the economic welfare of individuals, not all factors are known. This leaves room for divine knowledge to provide further explanation, and according to Islam, the sustenance, or the wealth is decided by Allah, and to whomever He wishes, He gives, and from whomever he wishes, he takes away.

In Quran Allah says in this regard “Say, ‘O Allah, Master of all sovereignty! You give sovereignty to whomever You wish, and a strip of sovereignty whomever You wish; You make mighty whomever You wish, and You abase whomever You wish; all good is in Your hand. Indeed You have power over all things. [3:26]”

Coming to the argument of Amartya Sen, who claims that capabilities are the main determinants of being poor or rich, and that should be a measure of poverty measurement. While his argument that income for example is an outcome to such capabilities or endowments, not all capable people are rich. There are very capable and very talented individuals, in their respective fields, which even cannot find a job. Or there are professionals in their field who have all the capabilities required to earn enough money are living a sustenance life. Not only because they are not capable of doing a job, but rather due to the simple rules of supply and demand of labor, which does not match all the time. Or to put it more openly, they do not have the luck to become rich.

While I do not provide any alternative theory against those presented by current scholars, I do believe that their theories are also not complete, and it will never be so. Of course, every new knowledge and addition to the understanding of the problem of poverty is valuable, it is still not all-inclusive.

Therefore, the solution of reducing poverty and income inequality would be not only to find the right reason and factor behind it, but rather the solution is already given on its own. While our situation or “space” as referred by some scholars (education, job, health and living standard) may not be 100 percent accountable for our standard of living, the only solution is to share what we have to those who are not as fortunate as we are.

It is also justified in Quran, that one should give charity, Zakat (2,5% to 10 % of wealth each year, after qualifying for a certain amount of wealth or assets, such as a number of sheep or cows owned and so on), to those who are in need (among others the poor, orphans, relatives, travelers). It is only the rich who can help the poor, and by doing this, Allah says that Allah will return their charity to them in multi-folds. This concept is true, since the money and wealth

given to the poor will result in more economic activity in the economy and which ultimately benefit even the rich. Stiglitz (2015) argues that a more equitable economy will benefit everyone including the rich class as well.

The transferor charity of wealth and money from rich to poor, voluntarily is the only solution to help the poor. State can also act as a mediator, to collect such charity from the rich and pay it to the poor in a just way, which was the case in early Islamic times. However, now the tax is being used on all other expenses of government, except helping the poor, which is the main reason for collecting taxes from constituencies at first instance in my point of view.

Based on my empirical research on Afghanistan, if the rich people pay only less than 6 percent of their monthly income to the poor, there will be almost no poor in the country, and everyone will have a decent income, around average or above the poverty line.

The charity should be given to the people whom you know, in the first instance such as your relatives. This way, one is more aware of their suffering and condition, since they know their whole life background and life story. Through this method, those who are in dire need will be helped first.

So, the solution of poverty and inequality both lies in the hand of the rich, and their willingness to help the poor and needy people. It could be in terms of tax on their income or wealth, collected by the government and transferred to the poor households. Or the rich themselves dedicate a portion of their wealth/ income to the poor and to help them. However, most of the taxes and wealth collected by the government are used in other areas of state expenditure, not to helping the poor directly; which initially contradicts the initial purpose of taxing incomes. That is to reduce income inequality among people.

Additional arguments:

1. while some factors such as capability (Sen, 2006), or income may determine our standard of living to some extent, there is no clear direction or list of factors which lead to either richness or poverty. The reason for that, if we believe in the above concept, is that our sustenance and livelihood are predetermined by God. Of-course education and better health for example will enable us to find a better job or be able to work, but our main sustenance is pre-determined.
2. It is not only our sustenance, but also the sustenance of all living beings on earth which is predetermined and managed by Allah, as mentioned above.

3. The sustenance provided to us is dynamic, and it may expand or contract as Allah will, over time, so it may be a time in which our sustenance is expanded, and other times in life which our sustenance is contracted. And it is itself a test from God on how we behave in both situations.
4. There is a trail on human beings on how they use the wealth that has been given to them. In fact, in our children, health and everything that we possess, it is given to us to be tested with, if we use it in the right way (for example giving charity to poor) or not. So, wealth is something given by God, and we are only the trustee of God on what he has given us, and we will be accountable for what we do with it according to Islam. Not only the wealth, but everything that we possess, such as children, assets, our own body and health, and so on.
5. Our wealth and children are also used as a punishment for us in this world, in case a calamity befalls on our wealth or asset or family, it is a type of punishment and test on us, if we return to Allah after that, or if we keep patience after that or not, which is again a test on its own. Such tests are to differentiate between good and bad people, or those who firmly believe in God and those who do not.

Tax on wealth and income in Islam

There are two types of charities in Islam according to the understanding of the author. Zakat is a mandatory tax to be paid on wealth. It is the 4th pillar of Islam, besides accepting that there is only one God, prayer, Hajj, and Fasting. Allah says in Quran that: “And maintain the prayer, and give the zakāt, and bow along with those who bow [in prayer] 2:43”. From this Ayah, it is clear that giving Zakat is mandatory, the same as praying.

The Zakat should be paid on all wealth, after meeting a certain point including on Gold, Silver, Money, and so on. In general, it is 2.5 percent of the value of all assets one has in the last one year. There is no clear-cut point when one has to pay their Zakat, but most people do that annually during the month of Ramadan/ Fasting month.

The second form is called Sadaqa, which is a voluntary charity. Volunteer charity is encouraged, and Allah will give reward for that. It could be assumed that Sadaqa is a tax on income, and Zakat is a tax on wealth, according to the understanding of the author. In Quran, Allah says “And in whose wealth there is a known right. for the beggar and the deprived.

[70:24-25]” Regarding charity, Allah says, “Spend in the way of Allah, and do not cast yourselves with your own hands into destruction; and be virtuous. Indeed Allah loves the virtuous. [2:195]”.

Poverty in the Holy Quran:

Poverty and poor are the two words that are mentioned several times in the Quran. Poverty is mainly used as a curse, or a state of suffering, or even something frightening, according to the understanding of the author. In one narration, poverty is said to even astray people away from their religion. So, the topic of poverty is quite important from a religious point of view.

The second narration is about the poor people. The words poor and rich are being used to compare two groups of people. It is also mentioned that one should not kill their children, as it was the case in that period before or during the revelation of the Quran, because of the fear of poverty. Allah says, that it is Allah who gives you and your children the sustenance, and all whatever living beings are in the world. Allah encourages the poor to get married, and that Allah will bestow them, so being poor should not stop one from getting married. In Quran Allah says “[6:140] They are certainly losers who slay their children foolishly without knowledge, and forbid what Allah has provided them, fabricating a lie against Allah. Certainly, they have gone astray and are not guided.”

The third narration is about helping the poor. It has been mentioned several times, to pay the poor-rate or charity. Giving charity (both Zakat and Sadaqa) is among the most beloved way of worship, such as praying, fasting, and pilgrimage. By paying Zakat and Sadaqa, Allah would forgive the bad deeds and sins of the believer. A compensation of some religious orders is actually to feed the poor people. For example, one could compensate to feed a poor person each day, if he/she is not able to fast himself/herself. It is also mentioned in the Quran that the Zakat and charity should be given to poor people, among others.

Below, some translation of verses of Quran related to Poverty is presented. While there is a need for a more rigorous study and understanding of the topic from a religious study point of view, it should give some more inside about the topic.

The word Faqr (فقر) means poverty is 14 times mentioned in the Quran, though the meaning may differ based on context. Below only relevant verses related to poverty, livelihood and sustenance are also mentioned. [source of translation: <http://al-quran.info>].

1. [2:268] “Satan frightens you of poverty and prompts you to [commit] indecent acts. But Allah promises you His forgiveness and grace, and Allah is all-bounteous, all-knowing.”
2. [2:271] “If you disclose your charities, that is well, but if you hide them and give them to the poor, that is better for you, and it will atone for some of your misdeeds, and Allah is well aware of what you do.”
3. [2:273] “[The charities are] for the poor who are straitened in the way of Allah, not capable of moving about in the land [for trade]. The unaware suppose them to be well-off because of their reserve. You recognize them by their mark; they do not ask the people importunately. And whatever wealth you may spend, Allah indeed knows it.”
4. [3:181] “Allah has certainly heard the remark of those who said, ‘Allah is poor and we are rich.’ We will record what they have said, and their killing of the prophets unjustly, and We shall say, ‘Taste the punishment of the burning.’”
5. [4:6] “Test the orphans when they reach the age of marriage. Then if you discern in them maturity, deliver to them their property. And do not consume it lavishly and hastily lest they should grow up. As for him who is well-off, let him be abstemious, and as for him who is poor, let him eat in an honorable manner. And when you deliver to them their property, take witnesses over them, and Allah suffices as a reckoner.”
6. [4:135] “O you who have faith! Be maintainers of justice and witnesses for the sake of Allah, even if it should be against yourselves or [your] parents and near relatives, and whether it be [someone] rich or poor, for Allah has a greater right over them. So do not follow [your] desires, lest you should be unfair, and if you distort [the testimony] or disregard [it], Allah is indeed well aware of what you do.”
7. [9:28] “O you who have faith! The polytheists are indeed unclean: so let them not approach the Holy Mosque after this year. Should you fear poverty, Allah will enrich you out of His grace, if He wishes. Indeed Allah is all-knowing, all-wise.”

8. [9:60] “Charities are only for the poor and the needy, and those employed to collect them, and those whose hearts are to be reconciled, and for [the freedom of] the slaves and the debtors, and in the way of Allah, and for the traveler. [This is] an ordinance from Allah, and Allah is all-knowing, all-wise.”
9. [24:32] “Marry off those who are single among you and the upright among your male slaves and your female slaves. If they are poor, Allah will enrich them out of His grace, and Allah is all-bounteous, all-knowing.”
10. [35:15] “O mankind! You are the ones who stand in need of Allah, and Allah—He is the All-sufficient, the All-laudable.”
11. [47:38] “Ah! There you are, being invited to spend in the way of Allah; yet among you there are those who are stingy; and whoever is stingy is stingy only to himself. Allah is the All-sufficient, and you are all-needy, and if you turn away He will replace you with another people, and they will not be like you.”
12. [59:8] “[They [charity] are also] for the poor Emigrants who have been expelled from their homes and [wrested of] their possessions, who seek grace from Allah and [His] pleasure and help Allah and His Apostle. It is they who are the truthful.”
13. [51:4] “by [the angels] who dispense [livelihood] by [His] command:”
14. [78:11] “and make the day for livelihood?”
15. [7:24] “Get down, being enemies of one another! On the earth shall be your abode and sustenance for a time.”
16. [11:6] “There is no animal on the earth, but that its sustenance lies with Allah, and He knows its [enduring] abode and its temporary place of lodging. Everything is in a manifest Book.”
17. [14:32] “It is Allah Who created the heavens and the earth, and He sends down water from the sky, and with it, He brings forth crops for your sustenance. And He disposed the ships for your [benefit] so that they may sail at sea by His command, and He disposed the rivers for you.”

[Source: Holly Quran, different chapters and verses]

Conclusion:

The purpose of this chapter is to provide policy recommendations to reduce poverty and income inequality. This chapter also provides a brief discussion on the findings of the Household Survey discussed in Chapter 4. Also, a more Scientific debate about poverty reduction from a diverse perspective of recent scholars have been presented and discussed. The economic rationale behind government intervention role in the free market was presented briefly. In the last section, poverty from an Islamic point of view is presented and the solutions according to the Quran is mentioned in terms of Zakat and charity.

Given the complexity and the multi-faceted issue of poverty and income inequality, there is no single solution to this problem. Neither there is a short-term solution. Rather, the government has to address this from different dimensions, some of which are beyond the field of economics. However, Policies are mostly designed in such a way, which has the highest impact and proves to be more efficient as compared to other policies. The list of policies provided here is merely a hint about different policies that the government should and could implement.

Given the context of a developing country such as Afghanistan, the relevance of these policies may vary from country to country. However, these policies cover three major areas; social welfare, economic and non-economic areas. social welfare is a safety net created by the government to safeguard its population in cases of uncertainties, such as unemployment, health issues, and pension schemes. Economic policies are directly related to policies in which an economy operates; while the non-economic policies relate to the area other than economics, such as education, health, and agriculture.

The period for implementing these policies is categorized in short, medium, and Long term. Short term policies could be implemented between 1 to 3 years; medium from 3 to 6 years, and long from 6 to 10 years. It may also take longer than anticipated here. However, the main idea is to start working on them as early as possible, so results could be achieved in the near future.

These policies may have a direct or indirect impact. Policies that are directed aimed at poor families are supposed to have a direct impact, while other policies may indirectly influence poor families. Poverty reduction programs are one example of direct impact, while school enrolment has an indirect impact on poverty reduction.

The extend of relevance, as well as costs associated with implementing the proposed policies varies as well. Some policies are more relevant and appropriate to eradicate poverty and

inequality, others may have less relevance and importance; however, they cannot be ignored. The best policies would be that of high relevance, and maximum impact with limited costs. Some trade-offs may be made in favor of one to another.

Annex I: Proposal Matrix provides a summary of the characteristics of each proposed policy. The list could be adopted, and the attributes assigned to each proposal are arbitrary and may vary by subject, and these are merely a guideline to support the selection of better policies among many.

Annex I: Proposal Matrix

Policy Proposals:	Category: (Social Welfare, Economic, Non-Economic)	Period: (Short-term, Medium Term, Long Term)	Impact (Direct, Indirect)	Relevance (“+++”, “++”, “+”)	Associated Cost (“+++”, “++”, “+”)
1. Proposal: Anti-Poverty Programs:	Social Welfare	Short-term, Medium	Direct	+++	+++
2. Proposal: Minimum wage	Social Welfare, Economic	Medium, Long Term	Direct	+++	+
3. Proposal: Poverty rate determination	Economic, non-economic	Short-term, Medium,	Indirect	++	+
4. Proposal: Regional integration:	Economic	Medium, Long term	Indirect	++	++
5. Proposal: Agriculture and Climate change	Non-economic	Medium, Long term	Indirect	++	++
6. Proposal: Microfinance	Economic	Short-term, Medium	Direct	+++	++
7 Proposal: Taxation	Economic	Medium, Long term	Direct	+++	+
8 Proposal: Progressive Taxation on luxurious assets and wealth	Economic	Medium, Long term	Direct	++	+
9 Proposal: Volunteer Charity	Non-Economic	Short term, Medium	Direct	+	+

10 Proposal: Zakat [Islamic Tax] Management	Non-Economic	Short term, Medium	Direct	++	+
11 Proposal: Provision of Basic Food Needs	Non-Economic	Short term, Medium	Direct	+++	+++
12 Proposal: School enrolment of children:	Non-economic	Medium, Long term	Indirect	++	++
13 Proposal: Fundamental change in school curriculum and university	Non-Economic	Medium, Long term	Indirect	+	++
14 Proposal: National Health Insurance:	Non-Economic	Long term,	Indirect	+	+++
15 Proposal: Pension and Unemployment benefits	Economic,	Long term	Indirect	++	+++

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Annex: Research Proposal:

The impact of economic growth on income inequality in Afghanistan during 2001 to 2016

Introduction:

After the fall of Taliban in 2001, the Afghan economy has started to prosper over one and a half decade. The growth was unprecedented and had an external factor - international development and assistance aid by international community to the government of Afghanistan. Billions of Dollars of aid and development assistant has been spent through government, international organizations, and International and National NGOs that resulted in increased national income.

However, the poverty has not changed over time since then, according to a recent survey funded by European Commission Delegation to Afghanistan, National Risk and Vulnerability Assessment (NRVA) 2011-12. The report states that while average per capita consumption has increased over time, one of the explanations for stagnating poverty over time is widening inequality, with consumption of richer parts of the population growing faster. According to this report, the top consumption quintile has experienced annual growth rates more than three times higher than the bottom one since last survey conducted in 2007-8. At the same time, inequality measured by the Gini index has increased from 29.7 to 31.6 (NRVA, 2014).

Poverty is strongly correlated with household size and demographic composition, being the highest in households with higher dependency ratios. Education and employment status of the household head are matched with wide differences in poverty vulnerability. About 70 percent of the poor population belongs to household headed by illiterate or uneducated individuals (NRVA, 2014).

The European Union Delegation to Afghanistan confirms that poverty has not improved over time. According to a Press release regarding the launch of Results from The National Risk and Vulnerability assessment of Afghanistan 2011-12, EU confirms that although improvements in education, health has seen, other development areas such as food security and poverty level stagnated or even deteriorated in recent years. (The EU Delegation to Afghanistan, 2014)

Data from the World Bank also confirms widespread poverty and gap in income inequality. In Afghanistan, shared of income held by top 20 percent is (37.5 percent), while the lower 20

percent held only (9.4 percent) of income in 2007 according to World Bank (2015). Meanwhile, the poverty gap at national poverty line has widen from 7.9 percent in 2007 to 8.4 in 2011. (The World Bank, 2015)

In a more recent survey “Afghanistan Living Conditions Survey 2014” (2014), The proportion of unemployed and under employed has increased since 2011-12. two out of five persons (39 percent) in the labor force cannot find adequate work, and for female it is one out of every two persons (50 percent). The recent estimated unemployment rate is 24 percent (ALCS, 2014).

While the economy of Afghanistan – which has been stagnated over the dark period of Taliban – has witnessed an unprecedented improvement, not everyone benefited from this growth equally. As the above literature shows, fast economic growth had resulted in increased income inequality. Moving forward, the government has to identify this problem, its underlying causes and implement policies to mitigate the future negative consequence of such increased income inequality in the society.

The new interim government of Afghanistan established in late 2001, has received attention from the world to help a country torn by decades of internal war and conflict. Billions of dollars have been committed by international community to help restore government institutions, infrastructure, education, health and the economy overall. Meanwhile, the newly established government did not have the capacity to utilize the inflow of unprecedented amount of assistance to this country. This raised the need for spending the aid off-budget of the government accounts, through other non-governmental organizations.

Consequently, the high demand for limited number of labor such as well-educated and professional employees, as well as for land and capital resulted in increased income for only such class of the society, leaving behind others who could not meet the demand in the market. This resulted in income inequality and widening gap between rich and poor in the society during 2001-2016 and continues to be so in the future.

Several factors have caused inequality in income in Afghanistan. Lack of basic and higher education has resulted in widespread illiteracy. With the establishment of the new government, the level of national income increased unprecedentedly, while output couldn't catch up with the speed of increased income resulting in inflation. Inflation has worsened the situation for the poor and those who were not benefited from the rapid economic growth. The growth was unbalanced and was concentrated in only few sectors of the economy. There has been a regional imbalance in economic growth across the country too. For example, in North east region,

poverty headcount increased from 36.4 to 50.9 percent and in the North it declined from 39.4 to 31.7 (NRVA, 2014).

Rapid economic growth has benefited only a portion of the population. Those who managed to be well educated and acquired new skill direly needed in labor market such as English and Computer skills are the winners of such economic growth. Some also had the spirit of entrepreneurship that yielded them a huge success and extra profit. However, these factors require rigorous study and scientific evidence before designing any policy solution in the future.

Afghanistan now witness the negative consequence of such income inequality. Poverty has been widespread along with unemployment and lack of sustainable source of income for households. Especially with the withdrawal of foreign aid and assistance, the problem will worsen the current situation in Afghanistan. Beside others, income inequality would be a major challenge for government of Afghanistan to tackle moving forward. There has been almost no policies in place to promote balanced growth and equal distribution of income. Lack of proper tax policies, and tax evasion by rich and small and medium enterprises have been practiced over this period. Uncontrolled Inflation, on the top of other problems has adversely affected the poor and contributed in income inequality. Moving forward, government should considers all such factors to design policies for having a more prosperous, equal and just society.

Besides economic conditions, income inequality had its negative impact on societies in terms of differentiated social status for rich and poor. Standard of living has been also affected by income inequality. Those with higher income enjoys better services in terms of education, health and leisure compared to poor. On the other hand, poor individuals are lacking behind in education, access to high quality health and overall quality of living. Therefore, poor remains poor and the vicious circle of poverty continues across generations. If such situation continues in the coming decade or so, there is a fear of class struggle in the Afghan societies that would challenge the social and political stability of the country.

Research Questions:

Has economic growth resulted in income inequality in Afghanistan during 2001 to 2016? What are the causes of and policy recommendations for increased income inequality and poverty gap

during the rapid economic growth in Afghanistan between 2001 to 2016? What are the consequences and how could government policies mitigate this problem moving forward? What would be the negative consequences if such problem is not solved by government in future?

The research will find the relationship between the increase in national income and income inequality during 2001 to 2016 in Afghanistan. The research will also explore the main causes of income inequality, its consequences and policy implications for the future.

Research Methods:

In order to solve the research questions, the research project would rely on primary as well as secondary data. Primary data would be collect about the level of income of individual based on sampling in 4 regions of Afghanistan. The survey would target individuals from 3 groups of high, middle and low income. The questionnaire would include both qualitative as well as quantitative data. Secondary data would be used on government national output, inflation rate, rate of poverty and poverty gap over the period of 2001 to 2016. Such secondary data would be collected starting from the first year of the project and would continue till end of second year.

Test Statistic: The research project will develop a hypothesis to be tested for the relationship between increased national income to income inequality. Using Regression Analysis (either Ordinary Least Square or Pearson Correlation Coefficient), such relationship would be tested and the degree to which income inequality could be explained by independent variable of national income.

Timeframe: The project will be planned for three years. In the first year, besides attending courses, I would be working in development of theoretical framework, literature review and collection of secondary source of data. In second year, I will design, test and collect data from individuals from 3 different categories of rich, middle and poor classes. I would travel to field in 4 different region of Afghanistan to collect data. The third year of my project would be related to development of model, data analysis and report writing.

Output: The research will prevail the importance of income inequality to the decision makers and policy maker in the government of Afghanistan. I believe that this is an important issue and needs to be addressed by the government moving forward. My project report would therefore provide evidence from the ground about the potential existing of income inequality in Afghanistan and policy intervention to mitigate the problem in the future.

Applicant's Experience:

My both academic and professional interests are in the field of macroeconomics; especially in poverty reduction and economic growth. I studied Economics in Kardan University in Kabul from 2008 to 2012 and received Gold Medal from the minister of Higher Education. In 2014, I received DAAD scholarship to study Master of Public Policy in Willy Brandt School of Public Policy at the University of Erfurt. I completed my master degree in September 2016. My Master thesis is about Sub-national Governance in Afghanistan "A Critical Evaluation of Sub-National Governance Policy from Good Governance Perspective. I look forward to do research in the field of economics focusing on the developing countries such as Afghanistan. I want to be a future leader of my country through serving the poor and vulnerable population of Afghanistan.

I have worked with several government ministries and Insertional NGOs for more than 5 years. I have worked as Program Deputy Coordinator for Economic Recovery and Development Program with International Rescue committee. Later, in 2012, I worked with The Asia Foundation, as Manager for a projected named Performance Based Governance Fund (PBGF II). I was directly involved in evaluating the performance of PGO offices and ranking them based on their performance – that would later affect the amount of budget each PGO would receive. From October 2012 to March 2014, I worked with the ministry of Rural rehabilitation and Development, National Solidarity Program (NSP) as Head of Evaluation and Research Unit. I was responsible for conducting and managing all external and internal evaluations conducted on NSP. I have the opportunity to work with the researchers from Harvard, MIT and University of York; including the Randomized Impact Evaluation of NSP II program conducted over three years (www.nsp-ie.org). I also had the chance to design, conduct, and analysis internal studies on program impact and report to the management of this program. All such experience will help me to complete my PhD research in a scientific and professional method.

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