Afghanistan Inequality Report

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October 2019

Executive Summary

Data
Two datasets on wealth and status distribution in Afghanistan were analyzed: the 2015 wealth factor scores and distribution of agricultural land from the USAID Demography Health Survey (DHS).

Results
Despite Afghanistan’s poverty, it does not have severe overall inequality. However, there is severe inequality in agricultural land ownership, making this segment of the population extremely risk acceptant.

Significance for Risk Taking and Stability
The distribution of agricultural land touches on a defining issue of Afghan inequality, namely the urban-rural divide that heavily impedes Afghanistan’s progress in modernization. A poor, highly risk acceptant rural population is ripe for Taliban recruitment, where it has the most allegiance, and directly contributes to the rampant illicit opium economy.

Implications for US Interests
Urban-rural inequality dynamics are of significant concern to US interests in Kabul’s stability, because they serve to undermine the legitimacy of President Ashraf Ghani’s administration and the abdication of hostilities with the Taliban. Minimizing inequality in rural areas can increase the popularity of the Ghani government, reduce the Taliban’s recruitment ability, and diminish the informal and black economies of Afghanistan.

Implications for China’s Interests
China shares similar interests to the US, insofar as advancing general political stability and counter-terrorism. Urban-rural inequality will be of concern to Beijing in the context of safeguarding China’s agenda of integrating Afghanistan into the Belt and Road Initiative (BRI), and destitute, risk-acceptant rural populations do not help in this regard. Furthermore, China is also concerned with Taliban recruitment among such rural populations.

Implications for Russia’s Interests
Afghanistan’s inequality is of less concern to Russia than either the US or China, and risk acceptant populations are favorable to Moscow in the context of undermining US presence, and unfavorable with regard to increased terrorist activity within their geopolitical periphery.
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Introduction

This is a summary report on inequality in Afghanistan compiled as part of the Aggrieved Populations project conducted in support of the 2019 Strategic Multilayer Assessment (SMA) Future of Great Power Competition and Conflict project conducted for the JS-J39.

This report provides background on why the country was chosen, relevant historical background, literature review concerning inequality in the country, synopses of empirical data sources and analyses, and a concluding section that summarizes the findings. It is not intended to provide a comprehensive analysis of inequality and grievance in the country, but to place the empirical analyses conducted on this country in their social and political context and to highlight interesting cases of inequality pertinent to risk acceptance and great power competition. The analyses focus on the measurement of population risk sensitivity as a function of measured inequality using the Arrow-Pratt measure of risk aversion, whose positive values indicate risk aversion and negative values indicate risk acceptance. Studies have shown that risk acceptance is associated with social unrest, terrorism, and other forms of social disruption (Kuznar 2007; 2019). The full explanation of the underlying method and theory is presented in the summary report, *Inequality, Risk Sensitivity and Grievance in Context: Summary of Aggrieved Populations Country Reports*, submitted as part of this SMA project. This report is intended to be supporting material to that report and presumes familiarity with it.

In order to create an inclusive and more representative set of countries, an effort was made to analyze countries from each major region of the world (Africa, Central Asia, East Asia, Europe, Latin America, the Middle East, North America, South Asia).

Why Afghanistan?

Afghanistan was chosen for four reasons: 1) It is the location of current US war efforts, 2) it has a high degree of inequality and poverty, 3) its high levels of violence are a driver for immigration, affecting domestic politics and national interests, and 4) both China and Russia are seeking influence in the country and region.

Great Power Interests in Afghanistan

Afghanistan has historically been a battleground for great powers (infamously known as the “Graveyard of Empires”). The US, China, and Russia have recently had significant multilateral-diplomatic involvement in the Afghan peace process that has culminated in trilateral meetings in Moscow where all three powers have agreed in a joint-statement for an “orderly and responsible withdrawal of foreign troops from Afghanistan as part of the overall peace process” (US Department of State, 2019). While all three nations have different underlying interests in the Afghan peace process, all three parties are extensively interested in counter-terrorism and counter-narcotic efforts, preventing the spillover of instability, and increasing their influence in Afghanistan and across the region (Gopalaswamy et al., 2018).

The US currently has stationed around 14,000 troops in addition to 8,400 NATO troops from 38 partner countries in the US’s longest running war in history (Thomas, 2019). The Trump administration’s strategy has been to empower the Afghan government to bring the “Taliban to the negotiating table, and to subsequently end the conflict” (Gopalaswamy et al., 2018). A US withdrawal has understandably been an important issue for the Trump administration as the Afghan conflict has been extremely costly for the US,
with $745 billion from 2001-2018 invested in combat operations alone (Thomas, 2019). The Trump administration has also emphasized that the core of US interests in Afghanistan is in counter-terrorism and bringing a stable, self-governed Afghanistan into the international fold (Thomas, 2019). While ending conflict in Afghanistan is a premier interest for the US, retaining influence is also of importance to Washington, and maintaining a presence in Afghanistan “to keep an eye on China”\(^1\) will remain through the next decade (Idrees & Anwar, 2017).\(^2\)

China’s interests in Afghanistan are economic-centric due to Afghanistan’s geography along the Belt and Road Initiative (BRI), and Afghanistan’s proximity to the Chinese-Pakistan Economic Corridor (CPEC).\(^3\) The spread of instability via transnational Sunni-extremism throughout the region is of significant concern for Beijing as such extremism has creeped into China’s Xinjiang province, where elements of Uighur militant groups cooperate with the Taliban and seek refuge in the lawless Afghan areas as a base of operations (Marty, 2019). Moreover, “China is the biggest foreign investor in Afghanistan” with a $3 billion USD copper extraction contract, and seeks to integrate Kabul into such regional multilateral organizations as the Shanghai Cooperation Organization (SCO), and the Quadrilateral Group Cooperation (QGC) (Pandey, 2019). All of these interests cannot be achieved without a stable government in Kabul that is free from devastating insurgency and conflict, and are the inspiration for Beijing's support of an “inclusive, Afghan-led peace process” (Pandey, 2019).\(^4\)

Given Afghanistan’s proximity to Russia’s peripheral security complex in Central Asia as well as Moscow’s efforts to “deepen relations with Pakistan,” Russia is increasingly involved in Afghan peace talks (Stratfor, 2018). Russia’s involvement in the Afghan peace process is the most ambivalent among the great powers, and also the most ambiguous, given that there have been numerous reports of Moscow providing assistance and possibly materiel support to the Taliban (Thomas, 2019).\(^5\) Russia shares interest in counter-terrorism and counter-narcotics, but also does not want “the peace process to result in a long-term US military presence in the region” (Gopalaswamy et al., 2018). Moscow can diminish US influence in Afghanistan by supporting multilateralism via diplomatic resolutions hosted in Russia, and by “bringing both Kabul and the Taliban to the same table” (Stratfor, 2018).

**Literature Review on Inequality in Afghanistan**

Afghanistan faces enormous economic issues and crippling widespread poverty, with an estimated 16 million Afghans (out of 35 million) living in poverty (Central Statistics Organization of Afghanistan, 2018). While there are generally large gaps of data regarding inequality in Afghanistan\(^6\), there has been more than a 100% increase in the poverty gap ratio\(^7\) from 2007 (7%) to 2016 (15%) (Central Statistics Organization of Afghanistan, 2018). Interestingly, there has been a disproportionate loss of wealth among the wealthiest 20%, suggesting that “inequality in the country has declined” (Central Statistics Organization of Afghanistan, 2018).

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\(^1\) In addition to other competitors such as Russia and Iran.

\(^2\) Idrees & Anwar noted that the US signed an agreement with Kabul to maintain a “presence there for the next ten years.

\(^3\) In an interview with Qazi Humayun, a former Pakistani ambassador to Afghanistan, he commented that in the future, “In future, the Chinese want to extend the China Pakistan Economic Corridor to Afghanistan as well” (Bokhari, 2019).

\(^4\) Meaning multilateral with the US, Russia, Iran, and Pakistan.

\(^5\) Here, Russia and Iran are both accused of doing so by “multiple US commanders” over the past two years (Thomas, 2019).

\(^6\) Critically, measures of wealth and inequality in the top 1% and top 10%.

\(^7\) The poverty gap ratio measures “the intensity of poverty as the average distance between the per-capita expenditure levels of the population and the poverty line—assuming the non-poor have a zero shortfall—and is expressed as a percentage of the poverty line” (Central Statistics Organization of Afghanistan, 2018).
Organization of Afghanistan, 2018); this likely speaks to the overall poor economic status of Afghanistan incurred by decades of conflict and instability.

Afghanistan ranks among the most corrupt countries in the world, ranking 172/180 according to Transparency International (2018). Transparency International and the Special Inspector General for Afghanistan Reconstruction (SIGAR, 2018a) also reported that reforms instituted by President Ashraf Ghani’s government have fallen short of their commitment to the UN’s Sustainable Development Goals. Such corruption has made bribery a common practice, and compounds with the patronage culture of the tribal Afghan society, where Afghans paid and estimated 1.65$ billion USD in 2018 alone (Integrity Watch Afghanistan, 2018). Such corruption is indelibly linked to Afghanistan’s grey economy, struggling economy, and poor governance (Aviles & Bragg, 2019).

There are also significant socio-economic cleavages among the urban-rural divides of Afghan society, where there is a concentration of poverty in rural areas in a nation where “four out of five poor people live in rural areas” (World Bank, 2013). Informal economic activity and underemployment is also highly concentrated in rural areas (83% in rural areas compared to 55% in urban areas), denoting the vulnerability of rural employment opportunities (Central Statistics Organization of Afghanistan, 2018). Conversely, the Gini coefficients are slightly better in rural areas (.31 in urban areas vs .25 in rural areas), likely pointing to greater wealth in urban areas and therefore more opportunity for inequality (Central Statistics Organization of Afghanistan, 2018). The vast majority of Afghans live in rural areas (approximately 70%, (Asey, 2019)) and the urban-rural divides encourages Afghanistan’s dependence on its informal economy and hinders economic growth.

Country-Level Measures of Inequality in Afghanistan

Afghanistan was initially assessed with a collection of country-level metrics. These metrics provide measures of the country’s inequality compared to other nations, inequality within the country, social conditions that may be consequences of that inequality, and the prognosis for stability in the future (Table 1).

Afghanistan is among the poorest countries in the world, with a per capita GDP of $569, and is also one of the most unstable countries in the world, ranking in the top two of the terrorism index and probability of mass killings respectively. Afghanistan also has a large informal economy (estimates ranging from 80-90% of the total labor force and GDP) that ensures that the majority of Afghans are vulnerable to economic shocks (Aviles & Bragg, 2019). This informal activity is also heavily tied to Afghanistan’s opium economy where there is an estimated 590,000 full-time equivalent jobs in addition to “a substantial number of off-farm jobs in trade, transport, processing, and security” in the production and trafficking of opium (SIGAR, 2018b). Interestingly, the opium economy helps alleviate inequality, especially in rural areas where the opium economy has helped in the following ways:

- By “creating secondary jobs as farmers accrue capital to spend on food, medical care, and other consumer products.”
- By “providing increased purchasing power for households, allowing them to improve food quality, or pay for unexpected expenses.”
- By supplying the means for “of generating capital for larger purchases, providing both access to credit and a means to pay off debts, and as a durable store of value.”
• In addition, the secondary effect of households being able to “send children to school and finance the purchase of capital assets that enabled them to leave opium poppy cultivation.” (SIGAR, 2018b).

While all these factors help combat inequality in Afghanistan domestically, on the macro-scale it contributes to the potential for Afghanistan to suffer from “Dutch Disease”\(^8\) (SIGAR, 2018b).

Table 1. Afghanistan: Basic Statistics on Inequality

<table>
<thead>
<tr>
<th>Measure</th>
<th>Value</th>
<th>Rank</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inequality Compared to Other Nations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per Capita GDP 2018</td>
<td>$569</td>
<td>178 of 187</td>
<td>WB</td>
</tr>
<tr>
<td><strong>Country Measures of Inequality</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inequality-adjusted Human Development Index (IHDI) 2018</td>
<td>0.350</td>
<td>124 of 151</td>
<td>UN</td>
</tr>
<tr>
<td>Gini Coefficient</td>
<td>.29</td>
<td>161 of 184</td>
<td>WB</td>
</tr>
<tr>
<td>Informal Employment as % of Total Employment</td>
<td>~80-90%</td>
<td>--</td>
<td>SIPRI</td>
</tr>
<tr>
<td><strong>Measures of State Instability</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fragile States Index</td>
<td>106.6</td>
<td>9 of 175</td>
<td>FFP</td>
</tr>
<tr>
<td>Terrorism Index</td>
<td>9.391</td>
<td>2 of 160</td>
<td>IEP</td>
</tr>
<tr>
<td>Probability of Mass Killing</td>
<td>0.134</td>
<td>2 of 161</td>
<td>EWP</td>
</tr>
<tr>
<td><strong>Risk Sensitivity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Arrow-Pratt Measure</td>
<td>--</td>
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<td>This Study</td>
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</tbody>
</table>


- The Inequality-adjusted Human Development Index (IHDI) is a UN measure of well-being and is a scale based on per capita GDP, life expectancy and education levels of the population.
- The Fragile States Index is based on twelve conflict risk that include security apparatus, factionalized elites, group grievance, economy, economic inequality, human flight and brain drain, public services, state legitimacy, human rights and rule of law, demographic pressure, refugees and IDPs, and external interventions. The potential range of the index is zero (no fragility to 120 total fragility).
- The Terrorism Index scores each country on a scale from 0 to 10; where 0 represents no impact from terrorism and 10 represents the highest measurable impact of terrorism.

**Prognosis for Change to 2029**

Afghanistan has arguably faced the largest degree of instability and conflict in the 21st century in every meaningful dimension, and while there is hope for reconciliation with the Taliban and a cessation of hostilities, much remains uncertain. A January 2019 SIGAR report contends that in some regard, “insurgents are in control of or contesting more territory today than at any point since 2001” as well as twice-postponed presidential elections that followed “inconclusive parliamentary elections” in October of 2018 (Thomas, 2019). This political and physical insecurity threatens the little economic progress Afghanistan has achieved, where the GDP is growing at the same rate of the population and the

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\(^8\) The SIGAR report explains the Dutch Disease as a “situation where foreign exchange inflows from the drug trade or a natural resource lead to an appreciation of the real exchange rate” contributing to Afghanistan’s economic woes and inequality in the international economic system.
aforementioned concerns are “hurting confidence, investment, private sector development, and job creation” (International Monetary Fund, 2018).

Politically, the upcoming 2019 presidential elections have significant impact on the 10 year prognosis for change as Afghan stability hinges on foreign aid, and donor confidence will be further diminished if the same tension and violence that occurred in last year’s parliamentary elections impacts the coming September election (International Monetary Fund, 2018). Domestic political uncertainty is speculatively linked to progress (or lack thereof) in the US-Taliban negotiations, and some observers contend that the establishment of an interim government “might be necessary to accommodate the reentry of Taliban figures into public life and facilitate the establishment of a new political system” (Thomas, 2019). Such political instability would inspire a lack of confidence domestically and internationally, diminishing any success in a peaceful settlement with insurgents. In light of all these dynamics and apprehension, Afghanistan is at a critical juncture without even considering great power competition and interests in the country.
Empirical Data on Inequality in Afghanistan

Dataset 1: USAID DHS 2015 Afghanistan Wealth Factor Score

The USAID wealth factor score data demonstrates a society where wealth is distributed unequally with an “S” shaped curve similar to typical income distributions. The top quintile of the USAID wealth factor curve is nearly double the lowest quintile, highlighting that there is inequality in Afghan society in this data. The risk sensitivity dataset paints Afghanistan as risk acceptant with a mean Arrow-Pratt score of -1.10, where the highest 50% of the population is risk acceptant and the lowest 50% is risk adverse. The middle quintile of Afghan society shows the most disparity where the lower end of the quintile is highly risk adverse and the wealthier end of the quintile is highly risk acceptant.

Summary Dataset 1: USAID DHS 2015 Afghanistan Wealth Factor Score

Wealth Factor Score is an alternative approach of measuring socioeconomic status. Instead of using income, education or occupation as a measure of status, a household’s status is measured by assets such as home construction material, house size, appliances, vehicles, agricultural land, and services such as domestic servants, water availability and electricity. A full description of the approach and its methodology is found in Rutstein and Johnson (2004): https://dhsprogram.com/pubs/pdf/cr6/cr6.pdf
**Summary Dataset 2: USAID DHS 2015 Afghanistan Agricultural Land Ownership**

This dataset presents a highly risk acceptant society with a mean Arrow-Pratt score of -13.12. However, of this USAID DHS survey, over 7,107 (51%) of 13,914 households (88% being rural households) reported owning no land; this resulted in a large and completely flat section of the wealth distribution curve, which in turn resulted in numerical artifacts when calculating the risk sensitivity scores. By excluding the 51% of zero Ha agricultural landowners, the algorithm of this study worked, and the results are presented in the risk sensitivity curve in Figure 2. Theoretically, the flat, excluded 51% of non-land-owning households should result in risk aversion. As for the top 49%, they are predicted to be increasingly risk acceptant, as the exponential increase in land ownership would suggest.
Findings on Inequality in Afghanistan

Relevance to Instability and Social Cleavages
Afghanistan does not hold conventional forms of high income and wealth inequality, but this is due to Afghanistan being an extremely poor country overall such that the Afghan wealthy are comparatively impoverished compared to elites in most other countries. Furthermore, decades of instability and conflict has led to capital flight numerous times throughout Afghanistan’s history, further impoverishing those Afghans who remained. There is also extreme inequality in the ownership of agricultural land, and the lack of governing capability to distribute land and adjudicate land disputes significantly contributes to inter-societal tension. This tension impedes the confidence and ability for international donors to assign foreign aid, further undermining the Ghani government. The Taliban is then able to apportion land according to Islamic and tribal custom, as well as provide land for profitable opium production (Giampaoli & Aggarwal, 2010). The production of opium also has a nuanced influence on inequality in Afghanistan, where the “majority of the farm-gate value of opium (2017 estimate of $1.4 billion), was spent on basic consumption by rural households” (SIGAR, 2018b). This provides a much needed influx of capital to poverty-stricken rural households and diminishes inequality; however, the macroeconomic effects (such as the “Dutch Disease”) and all the corresponding concerns of an illicit economy harm Kabul’s ability to introduce reform and effectively govern.

The urban-rural divide is the starkest social cleavage in Afghan society and has contributed significantly to political instability and a lack of economic progress. According to previous NSI work, this urban-rural divide compounds with the high level of informal economic activity to create cyclical impediments overcoming instability and a slow economic growth. The rural, lawless areas provide a safe haven for Taliban insurgents and maintain “significant influence” that diminishes the governing capability of the Ghani government (Jackson, 2018) and also serves as an important recruitment ground for the Taliban (Fazli, Johnson, & Cooke, 2015). These disparities are problematic for the legitimacy the Ghani government as Afghanistan is a very ethnic, racial, and religiously diverse country based on tribal structures. A recent survey conducted by the Afghanistan Independent Human Rights Commission (AIHRC, 2018) found that 25.4% of Afghans have been “faced repeatedly with tribal, religious, and linguistic discriminations” where some of the citizens surveyed have blamed such discrimination for endemic violence.

Opportunities and Pitfalls for the US and Adversaries
Given the US’s substantial investment in Kabul, the dynamics of inequality in Afghanistan are of significant concern to the US and its allies. Cracking down on opium production in rural areas will likely exacerbate the urban-rural divide and contribute to the Taliban’s presence and ability to recruit in non-urban areas. Economic reforms and aid programs that fail to address the unequal distribution of agricultural land also has the potential to overlook the positive effects of opium production and subsequently magnify urban-rural inequality. If the Ghani administration can institute effective land reform and decrease the urban-rural divide, then the perception of corruption and racial discrimination is likely to not be as consequential for the governing capacity of Kabul.

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10 Notably in 2014 following the Kabul bank crisis and scandal and US military drawdown (International Crisis Group, 2016).
11 See “Afghanistan’s Grey Economy” by Mr. Weston Aviles and Dr. Belinda Bragg.
China
Beijing stands to benefit from Afghanistan’s economic prosperity and political stability, especially if Kabul is able to effectively mitigate transnational Sunni-extremism. Urban-rural inequality dynamics are also concerning to China as much of their investments and infrastructure projects in Afghanistan and their vision of Kabul’s integration into the BRI is impacted by the stability of rural areas (SIGAR, 2018b). Corruption is also a concern to Beijing, as Afghan officials have been accused of accepting Chinese bribes for investment agreements (SIGAR, 2018b). If such cases continue to occur, the latent inequality of Afghanistan can cultivate anti-Chinese investment that can not only hurt China’s economic ambitions in Afghanistan, but can also incur terrorist activity on Chinese projects and even into China itself.

Russia
Given Russia’s apparent ambivalence to Afghan stability (despite their diplomatic overtures), there is little relevance on Afghan inequality towards Russian interests. If Russia were to intensify its disruption options to US/NATO peace efforts in Afghanistan, it could potentially exacerbate the perception of racial/ethnic discrimination and inequality in Afghanistan that would severely hamper the Ghani administration, and by proxy US interests. Nevertheless, Russia’s interests and military hegemony in Central Asia can be undermined by rampant, transnational extremism that can spread from Kabul; however, Moscow is ill-positioned to competently address inequality and social cleavages in Afghanistan.
References


