

# **THE COST OF CONFLICT AND VIOLENT EXTREMISM IN AFGHANISTAN**

**AN ESTIMATION OF THE ECONOMIC AND FINANCIAL  
COSTS OF ONGOING CONFLICT AND VIOLENT  
EXTREMISM**

## ABOUT EPD

EQUALITY for Peace and Democracy (EPD) is a nonprofit, non-governmental organization dedicated to empowering women and youth at the community and policy levels in Afghanistan. EPD was established in early 2010 by Ms. Nargis Nehan, the Executive Director of EPD. EPD works to build the capacity of women and youth in order for them to articulate their needs in the development, peacebuilding and democratic processes. EPD further aims to mobilize women and youth to contribute to overcoming the challenges of instability that Afghanistan is facing.

EPD has established platforms for women and youth to come together, establish networks, build trust and confidence, and strive jointly toward transforming Afghanistan into a democratic country free of all forms of violence and discrimination. EPD's Afghans' Coalition for Transparency and Accountability community-led networks monitor service delivery and advocate for good governance and are based in Herat, Bamyan, Nangarhar and Kabul. EPD's Provincial Women's Network community-led networks identify and address issues that are of concern to women in the community and are based in Herat, Bamyan, Nangarhar, Faryab, Kunduz, Kandahar and Kabul.

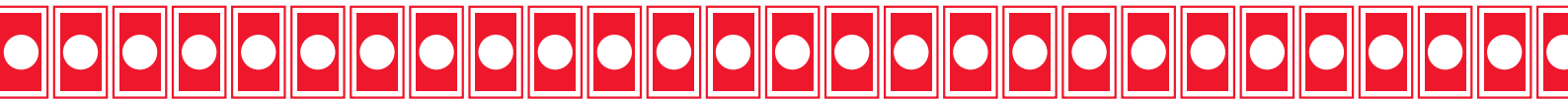
Furthermore, EPD is one of the lead civil society organizations in Kabul building alliances with other civil society organizations and groups, monitoring government policy-making in the areas of peace and good governance, ensuring human rights and advocating for engagement of civil society. EPD's team, beside traveling around the country and interacting with people to understand their concerns, is also organizing meetings and debates in the center with policy-makers to voice people's concerns. EPD's leadership is attending international events and advocating for effective and sustainable engagement of the international community in Afghanistan.

## ACKNOWLEDGEMENTS

EPD would first and foremost like to express their gratitude to the stakeholders who participated in the consultations across Afghanistan, without whose contributions this research would not have been possible. EPD would also like to thank the United States Institute of Peace for providing funding and support for this project. EPD would additionally like to thank external reviewer William Byrd, PhD for his invaluable insights and feedback and Dr. Pam Green for editing the report. EPD would like to acknowledge Marie S. Huber and Maurits Rade for authoring this report, and appreciation to Palwasha Hashimi and EPD's Provincial Coordinators for their support in the data collection. Lastly, a special thanks to the entire EPD team for their support throughout this project.

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# EXECUTIVE SUMMARY



Much research has been done in Afghanistan on the costs of insecurity and violent extremism in terms of loss of life and physical safety and security. However, insecurity and violent extremism also have a financial and economic cost. In the 2014 Survey of the Afghan People from The Asia Foundation, 34% of respondents cited insecurity, attacks, violence or terrorism as the biggest problem facing Afghanistan as a whole. 32% of respondents in the 2014 survey still stated that they had ‘a lot’ or ‘a little’ sympathy for armed opposition groups. These findings indicate that for those who support AOGs and violent actors, rights-based approaches may not be enough to garner support for peace. This project aims to address the potential lack of will for countering insecurity and violent extremism as a driver of conflict, by providing an alternative to the rights-based approach to countering violent extremism by calculating the costs in economic and financial terms.

This research has broken these costs down into eight calculable categories—security, reintegration, compensation for casualties, human capital and earning potential, injury and disability, education, loss of infrastructure, and conflict-induced displacement and refugees. This study estimates the costs of violence and instability in Afghanistan 2014. Within this scope, this study also includes estimations of future costs incurred due to violence within this timeframe, such as loss of lifetime earnings. It only assesses costs to Afghanistan, and does not account for spending by international actors in Afghanistan.

There are various approaches to costing exercises. Generally, measuring the economic costs of conflict is done through one of two methods—accounting or modeling. This research utilizes impact costing, which measures socioeconomic impacts of a specific problem through the accounting method. Impact costing measures the direct and indirect, tangible and intangible, costs of violence and instabilities to victims, their families, the communities, and society at large. In this research, this is done through an additive approach, where the separate channels through which conflict incurs costs and impacts the economy are assessed separately.

# IN 2014, VIOLENT EXTREMISM COST AFGHANISTAN: **9.09 BILLION USD**

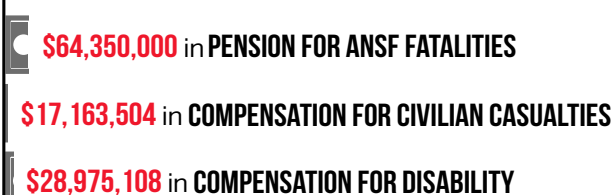
## SECURITY SPENDING



## REINTEGRATION



## COMPENSATION FOR CASUALTIES



## HUMAN CAPITAL AND LOSS OF LIFETIME EARNINGS



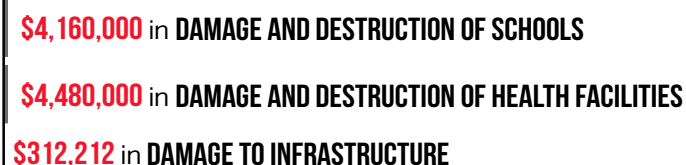
## INJURY AND DISABILITY



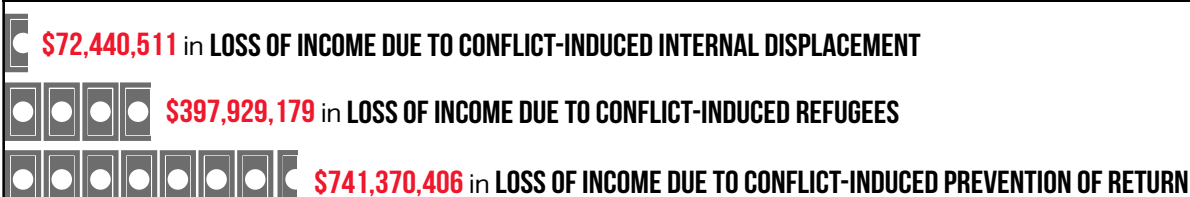
## EDUCATION



## LOSS OF INFRASTRUCTURE



## CONFLICT-INDUCED DISPLACEMENT AND REFUGEES



= 100,000,000 USD

# ACRONYMS

|         |                                                             |
|---------|-------------------------------------------------------------|
| AIHRC   | Afghanistan Independent Human Rights Commission             |
| ANA     | Afghan National Army                                        |
| ANBP    | Afghan New Beginnings Program                               |
| ANP     | Afghan National Police                                      |
| ANSF    | Afghanistan National Security Forces                        |
| AOG     | Armed Opposition Group                                      |
| APRP    | Afghanistan Peace and Reintegration Programme               |
| ASOP    | Afghanistan Social Outreach Program                         |
| DDP     | District Delivery Program                                   |
| DDR     | Disarmament, Demobilization, and Reintegration              |
| DIAG    | Disbanding Illegal Armed Groups                             |
| ERW     | Explosive remnants of war                                   |
| HPC     | High Peace Council                                          |
| HWC     | Heavy Weapon Cantonment                                     |
| IDLG    | Independent Directorate of Local Government                 |
| IDP     | Internally Displaced Person                                 |
| IED     | Improvised explosive device                                 |
| MoD     | Ministry of Defense                                         |
| MoEd    | Ministry of Education                                       |
| Moi     | Ministry of Interior                                        |
| MoLSAMD | Ministry of Labor, Social Affairs, Martyrs and the Disabled |
| MoPH    | Ministry of Public Health                                   |
| MoPW    | Ministry of Public Works                                    |
| MRRD    | Ministry of Rural Rehabilitation and Development            |
| NDS     | National Directorate of Security                            |
| NRAP    | National Rural Access Program                               |
| NSC     | National Security Council                                   |
| NSP     | National Solidarity Program                                 |
| P&RTF   | Peace and Reintegration Trust Fund                          |
| PPC     | Provincial Peace Council                                    |
| PTS     | Takhi-e solh, or Strengthening Afghan Peace                 |
| UXO     | Unexploded ordnance                                         |

# 1. INTRODUCTION

Afghanistan has experienced over three decades of foreign occupation, civil war, and insurgency since the Soviet occupation of Afghanistan in 1979.<sup>1</sup> What followed was a decade of resistance to the Soviet invasion, after which Afghanistan devolved into civil war among rival factions of the mujahideen and regional strongmen, followed by the Taliban regime arriving in Kabul in 1996 and controlling most of Afghanistan until 2001.<sup>2</sup> Though Afghanistan has been widely considered as “post-conflict” since the fall of the Taliban regime, it remains a country plagued by conflict and instability, mostly at the hands of violent extremists and armed opposition groups (AOGs).<sup>3</sup> Since 2001, the total for all categories of direct war violence in Afghanistan approaches 92,000 people. Around 26,270 civilians have been killed, and more than 29,900 civilians have been injured.<sup>4</sup> Afghanistan still ranks 161 out of 162 in the 2014 Global Peace Index, which is composed of 22 qualitative and quantitative indicators encompassing a wide range of issues related to peace and conflict, including social safety and security, political instability, political terror, displacement, domestic and international conflict, internal conflict, relations with neighboring countries, and militarization.<sup>5</sup>

Much research has been done in Afghanistan on the costs of insecurity and violent extremism in terms of loss of life and physical safety and security. However, insecurity and violent extremism also have a financial and economic cost. The public resources invested in security are diverted from much-needed public services such as education and healthcare. Spending on security infrastructure and equipment detracts from resources that could be used to build roads, schools, and other critical public infrastructure.<sup>6</sup> Internal conflict and instability has been

1 William Byrd, “Lessons from Afghanistan’s History for the Current Transition and Beyond,” United States Institute of Peace, 2012, <http://www.usip.org/sites/default/files/SR314.pdf>.

2 Thomas Barfield, “Afghanistan: A Cultural and Political History,” Princeton, NJ: Princeton University Press, 2010.

3 Anila Daulatzai, “What Comes after the After? Notes on a ‘Post-Conflict’ Afghanistan,” Cultural Anthropology, 24 March 2014, <http://www.culanth.org/fieldsights/503-what-comes-after-the-after-notes-on-a-post-conflict-afghanistan>.

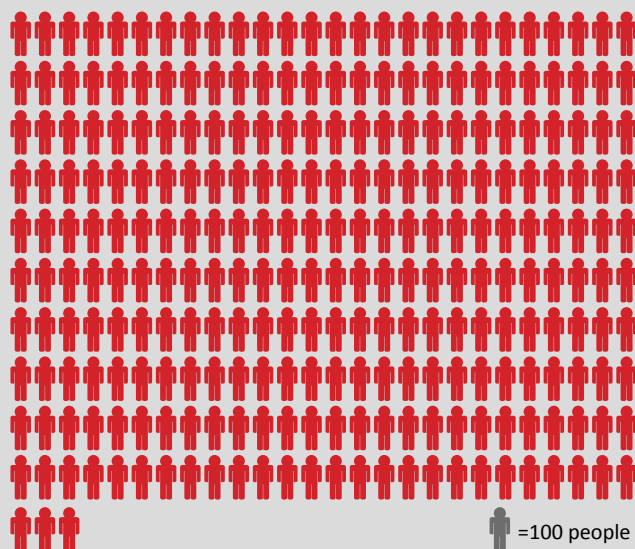
4 “Costs of War Research Shows War Related Deaths in Afghanistan and Pakistan ad 149,000,” Watson Institute of International and Public Affairs, Brown University, 2 June 2015, <http://watson.brown.edu/news/2015/costs-war-research-shows-war-related-deaths-afghanistan-and-pakistan-149000>.

5 Neta C. Crawford, “War-related Death, Injury, and Displacement in Afghanistan and Pakistan 2001-2014,” Costs of War, Watson Institute for International Studies, Brown University, 22 May 2015, <http://costsofwar.org/sites/default/files/articles/14/attachments/War%20Related%20Casualties%20Afghanistan%20and%20Pakistan%202001-2014%20FIN.pdf>.

6 “Global Peace Index 2014: Measuring Peace and Assessing Country Risk,” Institute for Economics and Peace, 2014, <http://www.visionofhumanity.org/sites/default/files/2014%20Global%20Peace%20Index%20REPORT.pdf>.

7 Goran Lindgren, “The Economic Costs of Civil Wars,” Paper for the Ninth Annual International Conference on Economics and Security, 23-25 June 2005, Burwalls Centre, Clifton, Bristol, <http://carecon.org.uk/Conferences/Conf2005/>

SINCE 2001, AROUND **26,270** CIVILIANS IN AFGHANISTAN HAVE LOST THEIR LIVES DUE TO **CONFLICT AND VIOLENT EXTREMISM**



shown to have a negative impact on investment and savings, as well as economic growth.<sup>7</sup> Research has shown that a failure to meet citizens’ needs and expectations can result in support for non-state groups, such as the Taliban or other insurgent groups, when they are viewed as a potential alternative to a weak or corrupt state.<sup>8</sup> This can create a vicious cycle where spending meant to facilitate increased security could potentially contribute to sympathy for AOGs by diverting resources away from service delivery and good governance.

There are different types of costs—direct and tangible, indirect and tangible, direct and intangible, and indirect and intangible. Direct tangible costs are actual expenses paid, representing real money spent. Indirect tangible costs have monetary value in the economy, but are measured as a loss of potential; examples are lower earnings, and profits resulting from reduced productivity. These indirect costs are also measurable, although they involve estimating opportunity costs rather than actual expenditures. Direct intangible costs result directly from

Papers/Lindgren.pdf.

“Impact of Conflict,” The World Bank, presentation, February 2007, <http://siteresources.worldbank.org/PSGLP/Resources/ImpactofConflict.pdf>.

“The Economic Cost of Violence Containment: A Comprehensive Assessment of the Global Cost of Violence,” Institute for Economics & Peace, 2014, <http://www.visionofhumanity.org/sites/default/files/The%20Economic%20Cost%20of%20Violence%20Containment.pdf>.

7 Goran Lindgren, “The Economic Costs of Civil Wars,” 2005.

8 Sukanya Podder, “Non-State Armed Groups and Stability: Considering Legitimacy and Inclusion,” Contemporary Security Policy 34, no.1 (2013): 16-39.

the violent act but have no monetary value; examples are pain and suffering, and the emotional loss of a loved one through a violent death. Indirect intangible costs result indirectly from the violence, and have no monetary value; examples are the negative psychological effects on people who witness violence, but cannot be estimated numerically.<sup>9</sup>

Though violent extremism and armed opposition are often considered as external to the control of the state, policies, resource allocations, and rhetoric from a multitude of state actors can create either an enabling or unreceptive environment for insecurity. Furthermore, in Afghanistan, at the local level a number of actors such as religious leaders are instrumental in establishing and maintaining order. They liaise with the government, local communities, armed local actors, or violent extremist groups such as the Taliban. Religious and local leaders often act as norm entrepreneurs, and have the authority to shape or influence local perceptions. While the potential of religious and local leaders to promote peace has been widely acknowledged, it is important to recognize that they also have the authority to make their community an enabling environment for insecurity and violent extremism.

In the 2014 Survey of the Afghan People from The Asia Foundation, 34% of respondents cited insecurity, attacks, violence or terrorism as the biggest problem facing Afghanistan as a whole. 7% specifically cited the presence of the Taliban, and 6% suicide attacks. While sympathy for armed groups has decreased dramatically since 2009 (56%), 32% of respondents in the 2014 survey

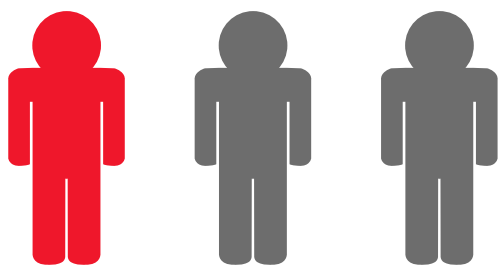
still stated that they had ‘a lot’ or ‘a little’ sympathy for armed opposition groups. The report also found that residents from rural areas sympathize with AOGs at a higher rate, and men from insecure areas had significantly higher levels of sympathy.<sup>10</sup> These findings indicate that for those who support AOGs and violent actors, rights-based approaches may not be enough to garner support for peace. This project aims to address the potential lack of will for countering insecurity and violent extremism as a driver of conflict, by providing an alternative to the rights-based approach to countering violent extremism by calculating the costs in economic and financial terms.

## 1.1 METHODS AND METHODOLOGY

Prolonged conflict such as that in Afghanistan tends to be complex, and the general climate of instability hinders data collection.<sup>11</sup> As such, there is no one-size-fits-all model for calculating the cost of conflict.<sup>12</sup> There are various approaches to costing exercises. Generally, measuring the economic costs of conflict is done through one of two methods—accounting or modeling. This research will utilize impact costing, which measures socioeconomic impacts of a specific problem through the accounting method. Impact costing measures the direct and indirect, tangible and intangible, costs of violence and instabilities to victims, their families, the communities, and society at large. In this research, this is done through an additive approach, where the separate channels through which conflict incurs costs and impacts the economy are assessed separately.

This research takes a mixed-methods approach, utilizing both quantitative and qualitative research methods. For this research, a number of primary and secondary sources of data were utilized. Primary data was collected through key stakeholder interviews in seven provinces — Kabul, Bamyān, Herat, Faryab, Kunduz, Nangarhar, and Kandahar. In each province, interviews were conducted with the Director or Deputy Director of the Departments of Interior, Defense, Economy, Public Health, Education, Public Works, and Rural Rehabilitation and Development. Additionally, in each province one interview was conducted with a doctor at one hospital, and an administrator or teacher at one school, as well as a member of the Provincial Peace Council (PPC). Additionally, six in-depth case studies were collected in each province, according to a set criterion of scenarios. The case study scenarios were: a family member where the head of household (civilian) has died due to AOG violence; an individual or family member of someone who is disabled due to AOG violence; the family member of an ANSF personnel who has died due to AOG violence; a parent in an insecure area on the impact of insecurity on education and school attendance of

**1 OUT OF 3 PEOPLE IN  
AFGHANISTAN HAVE SOME  
SYMPATHY FOR  
ARMED OPPOSITION GROUPS**



9 Dr. Tanis Day, Dr. Katherine McKenna, and Dr. Audra Bowlus, “The Economic Costs of Violence Against Women: An Evaluation of the Literature,” 2005, <http://www.un.org/womenwatch/daw/vaw/expert%20brief%20costs.pdf>.

10 “Visualizing Afghanistan,” The Asia Foundation, 2015, [www.afghansurvey.asiafoundation.org](http://www.afghansurvey.asiafoundation.org).

11 Hamid E. Ali, “Estimate of the Economic Cost of Armed Conflict: A Case Study from Darfur,” *Defence and Peace Economics* 24, no. 6 (2013): 503-519.

12 Ibid.

children; a shopkeeper or business owner in an insecure area on the impact of insecurity on business and the economy; an internally-displaced person (IDP) who has been displaced because of conflict or insecurity. In total, 100 semi-structured interviews were conducted for this research at the provincial and central levels.

Secondary data was collected through publically available reports and figures, as well as through data collected from institutions including UN agencies and government institutions. The sources of secondary data are noted throughout the report.

## 1.2 SCOPE AND LIMITATIONS

This study is aimed at measuring the economic costs of violent extremism. As such, it will focus only on violence and instability stemming from AOGs, and will not address issues such as criminality and physical violence perpetrated by individuals or non-affiliated groups. It also looks to the impact of violence caused by AOGs or in interaction with AOGs, and as such will not look to violence and casualties from international forces or the Afghan National Security Forces (ANSF—Afghan National Army (ANA) and Afghan National Police (ANP)) that does not involve AOGs. Furthermore, given the complexity and prolonged nature of the conflict in Afghanistan, this study only estimates the costs over a period of one year, rather than an aggregate for the entire conflict. As such, this study estimates the costs of violence and instability in 2014, or most recent figures where figures from 2014 are unavailable.

Within this scope, this study will also include estimations of future costs incurred due to violence within this timeframe, such as loss of lifetime earnings. In the calculation of future costs, a social discount rate was applied. This procedure is a way of calculating costs that occur in different time period and adjusting costs over a long time period to reflect their present value. Discounting future costs and benefits is based on opportunity costs, where the cost of spending at the present time is what it would have produced in its alternative use. It is accounting for the productive potential of capital, and is meant to adjust future values to account for financial resources having a higher value at present than in the future.<sup>13</sup>

Developing countries generally apply higher social discount rates than developed countries, usually between 8-15%. Starting from an estimated base of 12%,<sup>14</sup> the social discount rate applied here also accounts for inflation at a

rate of 4.6%,<sup>15</sup> and GDP growth at a rate of 2%,<sup>16</sup> using a final discount rate of 5.4%.

In calculating any future costs throughout this report, the following calculation was applied:

$$\sum_{i=0}^t = \text{Present Value } (1/1 + .054)^i$$

In this equation, t is the total amount of time for which the value is being calculated.

It is important to note that estimates based on Afghanistan's national budget utilize figures from what was allocated in the 1393 (2014) national budget. However, figures regarding infrastructure are drawn from the development budget, which was not included in the published national budget from 1393, and as such these figures are drawn from the 1394 (2015) national budget. Additionally, this study makes no distinction between donor and government financial resources as such a distinction was determined to be peripheral to the overall objective of the research.

As this study is interested in the economic costs, it will only focus on direct and indirect tangible costs that can be numerically valued for calculating financial and economic costs of violence and instability. However, intangible costs will be addressed through qualitative interviews and case studies. The additive approach has a risk of double counting, where costs are directly or indirectly assessed in more than one category. However, this was mitigated through careful design of the research and a thorough review of each category and calculation prior to beginning fieldwork and data collection.

Modeling approaches for calculating macroeconomic implications of conflict and instability are difficult in Afghanistan, due to the prolonged state of war and conflict that does not allow for the analysis of a time series counterfactual of economic growth in the absence of conflict. Some models assume growth is a function of government military spending combined with other economic factors. However, in Afghanistan such a model would be inaccurate due to the amount of foreign spending and international support through off-budget expenditures that would be unaccounted for in the model. Additionally, developing a model utilizing data from other countries is beyond the scope of this research. Therefore, the cost calculation will be limited to costs that can be estimated using the additive approach; other possible economic implications, such as economic growth and loss of revenues through foreign direct investment and trade, are assessed qualitatively.

<sup>13</sup> Mark Harrison, "Valuing the Future: the social discount rate in cost-benefit analysis," Australian Government Productivity Commission, Visiting Researcher Paper, April 2010, <http://www.pc.gov.au/research/completed/cost-benefit-discount/cost-benefit-discount.pdf>.

<sup>14</sup> The rate of 12% is commonly used in other geographically and contextually similar countries such as India, Pakistan, and by the Asian Development Bank (Mark Harrison, "Valuing the Future: the social discount rate in cost-benefit analysis," 2010).

<sup>15</sup> World Bank data for 2014

<sup>16</sup> World Bank data for 2014

There is a considerable limitation to the approach of this research in that it rests on a number of assumptions, which are noted throughout the report. In the absence of credible data, many of the figures are calculated based on figures derived from proxy indicators, the details of which can be found in Appendix A. It is important to reiterate that the facts and figures presented throughout this report are meant as an approximation, rather than an actual accounting of expenditures, especially where indirect tangible costs are estimated. Because of the necessity of a number of assumptions, costs of conflict estimates are often controversial. As such, throughout the report great care has been taken to be thorough and transparent regarding the calculations and figures utilized. This is done to allow readers to assess the calculations themselves and contextualize the findings as they see fit.

It is also important to acknowledge that within this approach, the research does not assume that money that is spent on security would necessarily be allocated to other sectors if security were to improve. For example, improvement in security and a reduction in allocations for the Ministry of Defense does not mean that the same

funds could be utilized for building schools or roads. This is especially important to keep in mind in consideration of the level of donor assistance that is provided through the core budget, where it cannot be assumed that donors will inherently provide a certain level of financial assistance, regardless of the sector it is allocated to.

*See Appendix A: Cost Calculations*

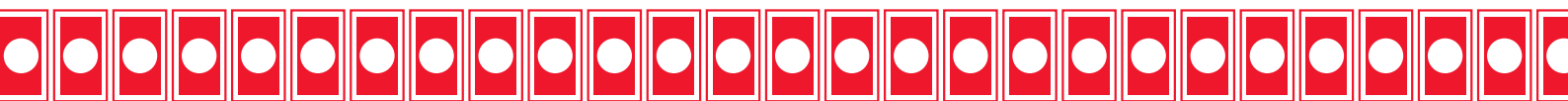
## 1.3 KEY CONCEPTS AND DEFINITIONS

Violent extremism can be defined as violence associated with radical political, social, cultural, and religious ideologies and groups.<sup>17</sup> For the purposes of this research, violent extremism in Afghanistan is viewed as including all AOGs directly engaging in violence.

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<sup>17</sup> Georgia Holmer, "Countering Violent Extremism: A Peacebuilding Perspective," United States Institute of Peace, September 2013, <http://www.usip.org/sites/default/files/SR336-Countering%20Violent%20Extremism-A%20Peacebuilding%20Perspective.pdf>.

# 2. THE COSTS OF VIOLENT EXTREMISM



After the end of the Cold War and with the eruption of conflicts across the globe, many economists and social scientists – primarily from Europe and the United States – started devoting more time to conflict analysis in order to provide insight into the drivers and consequences of conflict that were directly or indirectly affecting Western nations. Utilizing economic theory to analyze war and conflict emerged concurrently<sup>18</sup> as rational choice and methodological individualism became the default epistemology in both policy circles and the social sciences.<sup>19</sup> Since the imperative of wars and nation states is directly related to economics, and considering the devastating costs of conflict, conducting research to estimate the economic costs of conflicts seems a logical consequence. However, the exercise of estimating the costs of conflict as well as violent extremism is by no means a foregone conclusion as it entails overcoming many ethical and methodological issues.

## 2.1 ETHICS AND MOTIVATIONS

Before embarking on a research project to estimate conflict costs, from an ethical point of view it is essential to address the motivations that drive such research endeavors. While a Ministry of Defense might be interested in forecasting the economic costs of a possible war in order to assess budget requirements, an academic or a non-governmental organization might be interested in assessing the economic costs of war as a means to advocate for peace. The purpose of estimating costs of conflict is important as it influences the decision-making in what and how to calculate. In the literature this difference is best exemplified by the juxtaposition of the interests of those who conduct research on the peace dividend (i.e. arguing the benefits of peace) and war financing (i.e. calculating the costs of engaging in war for a government or society).<sup>20</sup>

The practice of calculating the costs of conflict also requires scrutinizing the specific techniques involved, as the determinants of what constitute costs vary depending on the researchers' ethics and worldviews. The decision to use or dismiss certain indicators, such as differentiating the costs and benefits of conflict for different groups in society or assessing the costs of a human life in a high-income country versus a low-income country, is by

definition an ethical question. How do you incorporate the gendered effects of war? How do you calculate the costs of a human life in different societies? The existing literature on the economic costs of conflict and violent extremism rarely take these concerns of ethics into account (besides a few exceptions)<sup>21</sup> as the focus is on methodology and calculation techniques. The philosophical underpinnings of the methods used are generally left unspoken in the existing literature in favor of the equally important technical debates.

## 2.2 METHODOLOGICAL DEFICIENCIES AND CHALLENGES

In the literature, there is no conclusive agreement on how to estimate and calculate the costs of different forms of conflict, but there are a range of methods that are often used. The majority of authors focus on direct costs of conflict (be they civil wars or external wars) instead of indirect costs, due to the difficulty of making calculations for the latter. Direct costs usually consist of budgetary expenses, while indirect costs include items such as economic factors. In terms of methods, one strand in the literature employs conventional accounting techniques, while another strand utilizes counterfactual analysis to assess the gap between a conflict-free counterfactual outcome and the existing conflict situation. Both methods have their deficiencies.

Among the most commonly referenced counterfactual analyses is a case study of the Basque Country.<sup>22</sup> The authors of this research assessed the costs of the conflict by creating a counterfactual conflict-free Basque Country with similar characteristics as the actual Basque Country. This allowed them to conduct a comparative study between the actual and an artificial Basque Country, thereby serving as a proxy for the costs of war in terms of productivity losses. Even if the research is credible and well executed, as was the case with the above example, methodological issues, such as the many assumptions in counterfactual analysis, remain problematic. For example, a counterfactual analysis requires that accurate data is available<sup>23</sup> and that there is an easily identifiable cut-off time to indicate the beginning and end of a conflict. Other issues are related to the theoretical model used for the economy, the estimates for the hypothetical indicators

18 With the exception of Keynes' "Economic consequences of the peace" publication in which the economist/politician warned that a vindictive peace after World War I would endanger the security of Europe as a whole.

19 Christopher Cramer, "Homo Economicus Goes to War: Methodological Individualism, Rational Choice and the Political Economy of War", 2002.

20 Ron Smith, "The Economic Costs of Military Conflict", 2013.

21 Ibid.

22 Javier Gardeazabal and Alberto Abadie, "The Economic Costs of Conflict: A Case Study of the Basque Country", 2003.

23 Stergios Kaperdas et al., *The Costs of Violence*, World Bank, 2009.

in the counterfactual case<sup>24</sup> and technicalities in terms of econometrics and modeling.<sup>25</sup>

Accounting techniques employed in calculations to estimate the costs of conflict and violent extremism equally have their deficiencies, despite being more straightforward and less econometric-heavy methods. A large part of estimating direct costs revolves around budgetary expenditures in the past, present and future. While estimating current budgetary costs such as military expenses is not difficult, it is not necessarily always accurate in terms of conflict costs, as a Ministry of Defense will likely also exist in a non-conflict environment because of assumed continuing or external threats. Future costs are particularly difficult to calculate as it involves developing an alternative future scenario such as a peace deal, protracted struggle, or something in between – ways to redress this would be to have probability-weights assigned to different scenarios when employing a regression analysis.<sup>26</sup>

Another issue is related to the assumption of opportunity costs with expenditures such as military spending, which argues that these expenditures are diverted away from spending on social welfare such as education or health. However, as is the case in several conflict-stricken countries, spending on security can be tied to specific donor considerations or the interests of the political bureaucracy. Other issues can concern questions of aggregation (how many years of disability to include in the calculation and how should future costs be included?), causation (how to include the costs to human capital?) and specific calculation (how to assess the loss in economic value with a ‘brain drain’?).

## 2.3 FOCUS OF THE REPORT

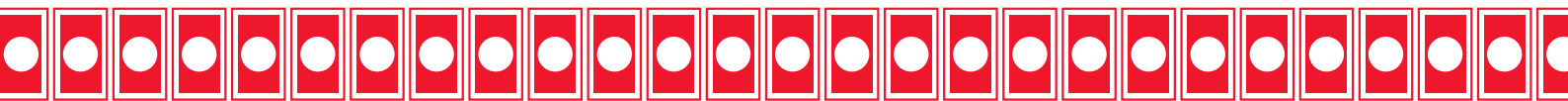
Considering the challenges of counterfactual analysis and the availability of data in Afghanistan, the decision was made to use an accounting mechanism to estimate the costs of violent extremism. Direct and indirect costs have been incorporated in this research in order to fully grasp – to the extent that is possible – the economic costs of the country’s damage caused by violent extremism and to avoid negating non-budgetary losses. Insecurity significantly impacts the government budget, which falls under direct tangible costs, but data used for this report shows that the negative impact to infrastructure (in terms of damage), education (in terms of loss of education years due to insecurity), public health (in terms of injuries and loss of life), human capital (in terms of a person’s economic potential) and different peoples’ livelihoods (such as refugees and IDPs) is equally significant and therefore included in this report.

24 Ron Smith, “The Economic Costs of Military Conflict,” 2013.

25 Olaf de Groot, “A Methodology for the Calculation of the Global Economic Costs of Conflict”, DIW, 2009.

26 Joseph Stiglitz and Linda Bilmes, *Estimating the Costs of War: Methodological issues, with Applications to Iraq and Afghanistan*, 2012.

# 3. ADDING UP THE COSTS



## 3.1 DIRECT TANGIBLE COSTS

### SECURITY EXPENDITURES



Globally, military expenditure is the largest single contributor to the economic impact of violence containment.<sup>27</sup> Military expenditures typically increase in the context of conflict and terrorism, and tend to remain high even after the violence has ended. Higher security spending can affect public spending by decreasing resources available for productive items such as health and education, and it can affect the long-term sustainable growth rate.<sup>28</sup> After military spending, police and security spending is the second highest cost in global violence containment.<sup>29</sup>

In the 1393 national budget, security spending accounted for 44% of the core national budget, including allocations for the Ministry of Defense (MoD), Ministry of Interior (MoI), National Security Council, National Directorate of Security, Presidential Protective Services, and Ministry of Foreign Affairs. The budget for the Ministry of Defense alone constituted 24.5% of the national budget, and for the Ministry of Interior 15.6%. The total wages of personnel in the security sector constituted 52.4% of the total Code 21 (Wages and Salaries) expenditures. Comparatively, only 14% of the core national budget was allocated to infrastructure and natural resources, 12.9% to education, and 4.3% to health.<sup>30</sup>

However, in calculating the costs of conflict and violent extremism, it cannot be assumed that an absence of

violence would entail an absence of security spending. Additionally, though police are traditionally responsible for activities such as enforcing the rule of law, maintaining law and order, and protecting human safety, in Afghanistan, the ANP have generally been a critical component of the security agenda as a part of the Afghanistan National Security Forces (ANSF). As the Ministry of Interior has acknowledged, the ANP have been used to fight insurgency and have participated in combat operations.<sup>31</sup> As such, these figures aim to quantify the amount of military and security spending due to insecurity versus that which would be required if Afghanistan had a high level of peace, based on a counterfactual (detailed in Appendix A).

The Afghan National Security Council (NSC) was established by presidential decree to advise the President on security-related issues, develop and coordinate security policy, liaise between security sector line ministries and the executive, and oversee the implementation of security policy, while acting as a coordinating body for security sector reform.<sup>32</sup> Since it was established in 2002, the NSC has engaged in diplomacy with insurgent groups, meeting with Taliban officials on an individual level in an effort to bring them into the peace process.<sup>33</sup> The National Directorate of Security (NDS) is Afghanistan's internal security and intelligence service, which operates independently and is active in preventing attacks and targeting insurgent networks and logistics.<sup>34</sup> NDS has other

27 "The Economic Cost of Violence Containment," Institute for Economics & Peace, 2014.

28 Sanjeev Gupta, Benedict Clements, Rina Bhattacharya, and Samit Chakravarti, "Fiscal consequences of armed conflict and terrorism in low- and middle-income countries," *European Journal of Political Economy* 20, no. 2 (2004): 403-421.

29 "The Economic Cost of Violence Containment," Institute for Economics & Peace, 2014.

30 "1393 National Budget Statement" Ministry of Finance, Islamic Republic of Afghanistan, 2014.

31 "Ten-Year Vision for the Afghan National Police: 1392-1402," Ministry of Interior Affairs, Islamic Republic of Afghanistan, 2013, <https://ipcb.files.wordpress.com/2013/06/13-04-02-ten-year-vision-english-final-version.pdf>.

32 Mark Sedra, "Security Sector Transformation in Afghanistan," Geneva Centre for the Democratic Control of Armed Forces, n.g.

33 "Negotiating Reconciliation in Afghanistan," Public International Law & Policy Group, December 2011, <http://publicinternationallawandpolicygroup.org/wp-content/uploads/2011/10/Background-Briefing.pdf>.

34 "Report on Progress Toward Security and Stability in Afghanistan," United States Department of Defense, Report to Congress, December 2012, [http://www.defense.gov/news/1230\\_Report\\_final.pdf](http://www.defense.gov/news/1230_Report_final.pdf).

responsibilities as well according to its mandate, including countering organized crime and corruption.<sup>35</sup> As NDS currently primarily focuses on terrorism and preventing attacks, all of the expenditure can be characterized as conflict and violent extremism-related.

According to these estimations, the Ministry of Defense budget would be approximately 1.598 billion USD less in the absence of conflict and violent extremism, and the budget of the Ministry of Interior would be approximately 1.197 billion USD less. Given the mandate of the NSC and their engagement on issues of insurgency and the peace process, the entire NSC budget of 1.580 million USD is taken as a direct cost, as well as the budget for NDS of 200.348 million USD in 2014. Taken together, security expenditures in direct relation to ongoing conflict and violent extremism cost Afghanistan approximately 2.997 billion USD per year.

According to government officials, the main categories of government spending on security are machinery and equipment, training, salaries, and weapons and ammunition.<sup>36</sup> Other costs include food for ANSF personnel, uniforms, transportation and logistics, and recruitment.<sup>37</sup> Estimates of the costs of maintaining ANSF operations and personnel from MoI and MoD government interviewees ranged from 500 AFN per day per person<sup>38</sup> to 70,000 AFN per month per person,<sup>39</sup> depending on the level of conflict and insecurity and the rank of the officer.

On the one hand, Afghan government officials felt that high security spending is a necessity in that it creates an enabling environment for other things,<sup>40</sup> such as education or development projects, though this opinion was notably more prevailing among security actors interviewed from the MoI and MoD.<sup>41</sup> This was also a more prevalent opinion in less secure provinces where interviews were conducted—namely Nangarhar, Kunduz, and Faryab. A number of government officials also questioned the effectiveness of the high levels of security spending given that there have only been minimal achievements in terms of actually establishing security and insurgents remain unwilling to join the government, and questioning whether high or increased security spending can actually bring security.<sup>42</sup> However, government interviewees were

also nearly unanimous in that security spending has a negative impact through reducing resources available for other sectors, and that spending less on security would have positive impacts in all other areas, especially health, education, and development.<sup>43</sup>

## REINTEGRATION

 **\$58,092,000** in **PEACE AND REINTEGRATION TRUST FUND**  
 = 100,000,000 USD

Reintegration is defined by the UN as the process by which ex-combatants acquire civilian status and gain sustainable employment and income.<sup>44</sup> In Afghanistan, ‘reintegration’ refers to efforts to provide incentives and support to insurgent fighters to encourage them to stop fighting.<sup>45</sup> In Afghanistan, reintegration is facilitated through the Afghanistan Peace and Reintegration Programme (APRP), which works to promote peace, reconciliation and security in Afghan communities through outreach, reintegration, and community recovery.<sup>46</sup> The High Peace Council (HPC) is the body that oversees the implementation of the APRP and progress regarding the reintegration of non-combatants, and most of APRP implementation occurs at the subnational level under the provincial governors and Provincial Peace Councils (PPCs).<sup>47</sup>

In Afghanistan, reintegration activities are meant to include skills training, relocation and resettlement support, basic and vocational education, and assistance in finding employment.<sup>48</sup> The APRP has three pillars—security; governance, rule of law, and human rights; social and economic development. The Security Pillar of APRP consists of providing security for villages and districts participating in the APRP through the MoI (ANSF) and ISAF/Coalition Forces. The second pillar—governance, rule of law, and human rights—focuses on ensuring the transparency of the APRP process and compliance with the Afghan Constitution, as well as coordination with the Independent Directorate of Local Governance (IDLG) Afghanistan Social Outreach Program (ASOP) and District Delivery Program (DDP) and a social outreach plan led

35 “US Reconstruction Efforts in Afghanistan Would Benefit from a Finalized Comprehensive US Anti-Corruption Strategy,” Office of the Special Inspector General for Afghanistan Reconstruction, 5 August 2010.

36 Mentioned in 10 interviews with MoI and MoD senior officials at the subnational level.

37 Interviews with MoI and MoD at the subnational level.

38 Interview with senior official from MoD in Faryab

39 Interview with senior official from MoD in Kunduz

40 Interviews with senior officials from MRRD in Faryab, Kandahar, and Kunduz; MoPH in Bamyan, Kunduz, and Herat; with hospital personnel in Nangarhar, Kunduz, Faryab, and Kabul; with educators in Nangarhar, Faryab, and Kunduz; MoEd in Herat, Nangarhar, and Bamyan; PPC in Kunduz, Herat, Faryab, and Nangarhar; MoPW in Bamyan, Faryab, Kandahar and Nangarhar

41 Interviews with senior officials from the Ministry of Interior in Nangarhar, Kunduz, Kandahar, and Bamyan, and with senior officials from the Ministry of Defense in Kunduz and Faryab.

42 Interviews with senior officials from MRRD in Herat and Kunduz; MoPH in Faryab; MoPW in Herat

43 Interviews with senior officials from MoI in Bamyan and Kandahar; MoD in Faryab, Herat, and Kandahar; MoEc in Faryab, Kandahar, and Nangarhar; MRRD in Bamyan, Faryab, Herat, Kabul, Kunduz, and Nangarhar; MoPH in Faryab, Herat, Kabul, Kandahar and Kunduz; hospital personnel in Bamyan, Faryab, Kabul, Kandahar, and Kunduz; MoEd in Bamyan, Faryab, Herat, Kabul, and Kunduz; MoPW in Bamyan, Faryab, Herat, and Kabul.

44 Phillip Arthur Njuguna Mwanika, “Reintegration and Reconstruction in Post-war South Sudan,” International Peace Support Training Center, 2012, [http://www.ipstc.org/media/documents/Occasional\\_Paper\\_04\\_2013.pdf](http://www.ipstc.org/media/documents/Occasional_Paper_04_2013.pdf).

45 Stina Torjesen, “Towards a theory of ex-combatant reintegration,” International Journal of Security and Development, 11 December 2013, <http://www.stabilityjournal.org/articles/10.5334/sta.cx/>.

46 “APRP 2014 Progress Report,” UNDP, 2014, <http://www.af.undp.org/content/dam/afghanistan/docs/crisisprev/APRP/APRP-APR-2014.pdf>.

47 “APRP Programme Document,” National Security Council, July 2010.

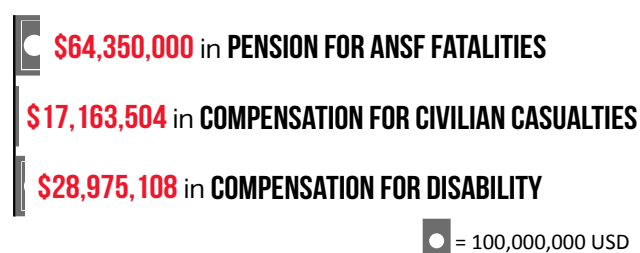
48 Matt Waldman, “Golden Surrender? The Risks, Challenges, and Implications of Reintegration in Afghanistan,” Afghanistan Analysts Network, 2010, [http://www.afghanistan-analysts.org/wp-content/uploads/downloads/2012/10/2010\\_AAN\\_Golden\\_Surrender.pdf](http://www.afghanistan-analysts.org/wp-content/uploads/downloads/2012/10/2010_AAN_Golden_Surrender.pdf).

by the HPC. The Social and Economic Development Pillar outlines the development of a National Community Recovery Program as a component of the National Solidarity Program (NSP), and further facilitation through the Ministry of Rural Rehabilitation and Development (MRRD) with the National Rural Access Program (NRAP).<sup>49</sup>

According to the PPC members interviewed for this research, the main expense category is providing transitional support to reintegrated fighters in the form of a time-limited stipend,<sup>50</sup> as well as vocational support.<sup>51</sup> Other expenses include development projects associated with the APRP, providing security support to reintegrated fighters, and travel and staff for negotiating with AOGs.<sup>52</sup> The PPC members interviewed characterized their activities as having the overall objective of establishing security and stability, echoing similar assertions to those related to security spending in that spending in this sector facilitates an enabling environment for other sectors such as infrastructure, education, and health.<sup>53</sup> All of these activities are financed through the Peace and Reintegration Trust Fund (P&RTF),<sup>54</sup> which in 2014 cost Afghanistan 58.092 million USD.

As the scope of this research only covers financial costs in 2014, this figure regarding expenses to Afghanistan on reintegration activities is likely very conservative, as it does not account for the millions of dollars spent on previous programs, such as the Afghan New Beginnings Program (ANBP) for Disarmament, Demobilization and Reintegration (DDR) from 2003 to 2005, Heavy Weapon Cantonment (HWC), Disbanding Illegal Armed Groups (DIAG) from 2005 to 2011, and Program Takhi-e sohl (PTS, or Strengthening Peace Program) from 2005. It also does not reflect the financial resources allocated to the Afghanistan Independent Human Rights Commission (AIHRC), which can likely also be, at least in part, attributed to conflict and violent extremism in consideration of their extensive work providing support and documenting human rights violations related to past and ongoing conflict.<sup>55</sup>

## COMPENSATION



49 "APRP Programme Document," National Security Council, July 2010.  
 50 Interviews with 5 PPC members  
 51 Ibid.  
 52 Interviews with PPC members.  
 53 Interviews with PPC members in Kandahar, Faryab, and Herat  
 54 "APRP Programme Document," National Security Council, July 2010.  
 55 Ibid.

Compensation for fatal and non-fatal casualties is also a considerable direct expense related to conflict and violent extremism in Afghanistan. Generally, these payments fall into three categories—pension for ANSF fatalities, compensation for civilian fatalities, and compensation for conflict-related disability. According to Ministry of Labor, Social Affairs, Martyrs and the Disabled (MoLSAMD) policy, if a uniform sector employee dies during his/her service while performing their formal job (service-related death), their survivors will be paid an amount equal to 78 times the final wage, plus allowances as pension benefit, without consideration to length of service. The survivors may choose whether to receive the pension in a lump sum payment or in installments.<sup>56</sup> Estimates for ANSF fatalities in 2014 are not exact, but the government of Afghanistan confirmed that there were over 5,000 fatal ANSF personnel service-related casualties in 2014. Using the figure of base pay for ANSF of 165 USD per month,<sup>57</sup> pension benefits for service-related deaths cost the Afghan government in the region of 64.350 million USD in 2014.

This figure is likely a conservative estimate, given that it utilizes the base pay amount, though a mid-level officer earns somewhere between 275 USD and 415 USD, and a general can earn from 945 USD to 1,095 USD per month.<sup>58</sup> Additionally, this figure only accounts for fatal casualties, and does not include compensation for service-related disability. MoLSAMD guidelines state that those who are disabled during combat operations will receive benefits according to the same provisions outlined below regarding civilians who are disabled due to fighting. Though there are no figures on the number of injuries to ANSF personnel in 2014, considering that there were over 5,000 fatalities, and that 6,849 civilians were injured in 2014, there were likely a high number of ANSF injuries, of which a percentage most certainly resulted in disability.

In addition to pension for ANSF fatalities and service-related disability, the government has a number of mechanisms meant to provide support for civilian fatalities (martyrs) and casualties. Generally, these funds are provided through MoLSAMD and the President's "Code 99" fund; civilians are eligible to apply for and receive funds through both mechanisms. Families of civilians killed or "martyred" as a result of the conflict are eligible to receive 100,000 AFN (2,000 USD) through the Code 99 fund, with no conditions.<sup>59</sup> From MoLSAMD, dependents of martyrs receive 1,500 AFN (30 USD per month, totaling 18,000 AFN (350 USD) per year. However, applicants are

56 "Handbook for Military Personnel Officers for Implementation of the Pension Regulation for Arrangement of Pension Benefits of Officers, Saatan-mans and Breedmal," Ministry of Labor, Social affairs, Martyrs and the Disabled, Islamic Republic of Afghanistan, May 2011, <http://molsamd.gov.af/Content/files/retirement/July,%202011%20Military%20Handbook%20FINAL.pdf>.

57 Ian S. Livingston and Michael O'Hanlon, "Afghanistan Index," Brookings, 20 May 2015, <http://www.brookings.edu/~media/Programs/foreign-policy/afghanistan-index/index20150520.pdf?la=en>.

58 Ibid.

59 "Caring for Their Own: A Stronger Afghan Response to Civilian Harm," Center for Civilians in Conflict, 2013, [http://civiliansinconflict.org/uploads/files/publications/Afghan\\_Report\\_2013\\_smaller\\_final.pdf](http://civiliansinconflict.org/uploads/files/publications/Afghan_Report_2013_smaller_final.pdf).

## THE HUMAN AND FINANCIAL COSTS OF ANSF CASUALTIES: MANGALA'S STORY

My son was 15 or 16 years old. He was assigned in Lashkar Gah, but after one year he was killed in fighting with the Taliban, who hurled his dead body into a river. After three days the government found his body and it was transported here after a week. One evening, someone came to our home and asked about the father of my children. I thought he was a friend of my son and wanted to see him, so I told him that my husband had gone to mosque. He found my husband and told him about the death of our son. When he heard this news he fell to the ground and he was unconscious for some time.

My son's death affected all of us, especially his father who died because of grief and deep sorrow a year and a half after his son's death. Once my husband asked me for money saying that he wanted to see the place where our son was killed. I told him not to go there, because there are Taliban along the road and they will capture and kill you, but he insisted on his decision and went. When he met our son's friends and commander he again became unconscious. On his return the commander gave him 3000 AFS and sent him in a military plane. Five days after his return from Lashkar Gah he passed away.

We lost both breadwinners and now we do not have anyone except God to support us. I have five daughters; two are married and the remaining three live with us. I also have two sons but they are small and aren't able to work in order to help in supporting the family. Now I work in our shop, but my husband's brothers are not happy with my work in the shop, and once they came and beat me. They also beat me because I would not allow them to sell our home, which is a memory of my husband that we built ourselves. They wanted to take us to Laghman, but I refused to go with them so they do not provide us any assistance. They wanted to prevent my children from going to school and intended to bring my daughters and me under their control. I went many times to the Department of Martyrdom and the Disabled with written instructions from the provincial governor, but they refused to give me any help. I used to wait there until early evening to have my work done, but I did not succeed. It made me very disappointed so I stopped asking them for support. Then my relatives and neighbors motivated me saying that it was my legal right to get financial help from the government. When my son was killed the government paid us 55,000 AFS as financial compensation, and now we receive 5,000 AFS each month as my son's monthly martyrdom pension.

The death of my son and husband has caused me depression, and sometimes I want to throw myself from the Behsood Bridge into the river. A few days ago my two daughters were arguing with each other over something. I told them if they did not stop right then I would throw myself into the river and let people say that her son was killed by the Taliban, her husband died to due grief over the death of his son, and now their mother committed suicide by throwing herself into the river.

only eligible to receive this stipend if they do not have another male over the age of 18, and a percentage of this assistance is deducted for each male child that turns 18 and when girls are married.<sup>60</sup> There were 3,699 conflict-related civilian fatalities in 2014.<sup>61</sup> Estimating a payment of 2,000 USD per fatality from the Code 99 fund, and 350 USD per year for an estimated 10 years through MoLSAMD, with an applied discount rate of 5.4%, civilian fatalities due to conflict and violent extremism cost Afghanistan 17.164 million USD in 2014.

Civilians who suffer war-related injuries are eligible to receive 50,000 AFN (1,000 USD) through the Code 99 fund. Through MoLSAMD, those who are disabled or injured as a result of the conflict are eligible to receive between 750 AFN (15 USD) and 1,500 AFN (30 USD) per month, depending on the level of injury determined by provincial health officials. In some areas, the MoLSAMD also provides room and board, a daily meal stipend, and a job and vocational training to those who are disabled. This assistance is distributed on a monthly, quarterly, or annual basis, and seems to be unconditional.<sup>62</sup> 6,849 civilians

suffered conflict-related injuries in 2014.<sup>63</sup> Estimating a payment of 1,000 USD for each civilian injured through the Code 99 fund and 270 USD per year for an estimated 20 years from MoLSAMD with an applied discount rate of 5.4%, civilian injuries due to conflict and violent extremism in 2014 cost Afghanistan 28.975 million USD.

It is important to note that there is a considerable limitation to calculating these costs, as the process for requesting payments is long and complicated, and payments are often not received. For example, to request a Code 99 payment, first the ANP/NDS investigate, then a Code 99 application form must be obtained from the governor's office, after which the applicant must get the signature of the provincial ANP office, NDS office, provincial health office, and a doctor or health clinic. After obtaining these confirmation signatures, the applicant must return the form to the governor's office with a photo of the victim and the governor must approve the application, after which IDLG reviews the application and, if approved, it is sent to the OAA to prepare the form for the President's signature. Only after the President signs and approves the application, will the Ministry of Finance disburse the funds to the provincial finance office and the Code 99 payment is issued to the applicant.<sup>64</sup> The procedure of requesting and obtaining payments through MoLSAMD follows the

60 Ibid.

61 "Afghanistan Annual Report 2014: Protection of Civilians in Armed Conflict," UNAMA, February 2015, <http://unama.unmissions.org/Portals/UNAMA/human%20rights/2015/2014-Annual-Report-on-Protection-of-Civilians-Final.pdf>.

62 Ibid.

63 Ibid.

64 "Caring for Their Own," Center for Civilians in Conflict, 2013.

same process, except the applications are reviewed by the provincial MoLSAMD office instead of the provincial governor, and MoLSAMD reviews the applications at the central level instead of the President.<sup>65</sup>

It is widely noted that receiving these funds is difficult, especially for women who have lost their husband or have no male family member to follow the process on their behalf. These payments are also more likely to be made in high-profile or large-scale incidents, as they are more difficult to obtain in smaller-scale cases that do not receive widespread publicity.<sup>66</sup> According to the government, it is not their responsibility to contact eligible recipients. Rather, the applicant must follow the process and request updates, which further complicates actually receiving these payments for survivors or victims who are also likely suffering psychological trauma due to their loss or injury.<sup>67</sup> As such, these cost estimations reflect the level of compensation that ANSF personnel and civilians are entitled to receive according to the mechanisms and procedures in place, rather than those that were actually paid in 2014.

65 Ibid.

66 Ibid.

67 Ibid.

## 3.2 INDIRECT TANGIBLE COSTS

### HUMAN CAPITAL AND EARNING POTENTIAL

 **\$67,113,276** in **LOSS OF LIFETIME EARNINGS**

 = 100,000,000 USD

Fatal casualties are devastating human costs of conflict and violent extremism. However, the value of human life is not only in critical emotional, familial, and social connections; a component of the value of human life is also human capital in terms of productivity and foregone earnings. As Jean-Baptiste Say asserted, “War costs more than its expense; it costs what it prevents from being earned.”<sup>68</sup> This financial cost seriously impacts on individuals, families, households, communities, and the economy at large. This type of cost is particularly damaging, as it can never be recovered, even after violence has ceased. The loss of human life does not only result in human loss and its psychological effects; it entails not only immediate loss of earnings and productivity, but also loss of lifetime earnings of the individual who has been killed.<sup>69</sup>

68 Lester R. Kurtz, *Encyclopedia of Violence, Peace, and Conflict*, Amsterdam; London: Elsevier, 2008.

69 Hamid E. Ali, “Estimate of the Economic Cost of Armed Conflict,” 2012.

## THE HUMAN AND FINANCIAL COSTS OF CIVILIAN CASUALTIES: SIMA'S STORY

I lost my husband, his brother, and my two sons in a suicide attack during the Eid al Adha prayer. My husband was the head of our household and my family along with his brother. My brother-in-law was also disabled, and they were both shopkeepers.

We have lost our family's breadwinner and my children demand new clothes, shoes, school uniform and stationeries but I am not able to afford these things for them. My mother-in-law and I are working in order to provide for my family and my children. We are weaving rugs and carpets now. Our financial situation has been changed a lot, because before my husband was responsible for providing for all household expenses but now I have to do all these duties. We received some support from two NGOs—some money and some basic food. The government has provided some financial compensation, but it was all spent on my husband's funeral and nothing is left for us, since the rest was paid to people who had loaned my husband money. My husband had a small shop and after he died I wanted to keep it for my sons, but we lost it. Now we have no source of income; we just take money from people as debt and also buy basic foods like oil and rice from shops. We requested support but no one has provided us with further assistance so far. I went to the governor's office ten times to ask for help but I failed and couldn't meet him to apply for some financial support.

Losing my husband affected us all very badly emotionally. We are all devastated and I have had depression and spend a lot of time crying. My children are so sad about their father and their two brothers. The social impact of losing my husband has been really bad; people don't even trust a penny to us and we are suffering lots of troubles. I am worried about my own security because I am a young widow, especially at night. It has affected my mobility because before I could go anywhere easily with my husband, but now I can't go out freely. My youngest son is 7 years old now and I want all my children to study their lessons and do their best in order to become a teacher, doctor, or an engineer, and put a stop to our suffering one day.

I never want to remarry because I spent 10 years with my husband; that is enough for me. Until the end of my life I will remain a widow. My son is sick, and I am not able to take him for treatment because a doctor has asked for 20,000 AFN to cure him. Of course, if his father was alive, we could treat him very well; he would even take him to India and Pakistan for treatment. I ask the government to help treat my two sons; I am worried about them. I also ask the government to provide us basic food, since we are not able to afford all these alone.

It is difficult to value life in monetary terms, but each individual has a value to society tied to their ability to contribute to production.<sup>70</sup> Earnings are dependent upon a number of things, including personal, market, and environmental variables.<sup>71</sup> However, for the purposes of this research and based on the availability of data, GDP per capita was used as the per capita income figure. ANSF and civilian fatalities are considered together rather than separately, and the per capita income figure is applied to ANSF as well, even though their earnings are higher, due to lack of availability of data on rank of ANSF fatalities. Casualties during the war tend to be young, both as a result of soldiers being young and due to the increased vulnerability of children.<sup>72</sup> As such, the loss of lifetime earnings was calculated based on an estimated average 20 years of income, based on calculations from similar studies.<sup>73</sup> There were approximately 8,699 ANSF and civilian fatalities in 2014; considering a GDP per capita of 644.80 USD for an estimated 20 years with an applied discount rate of 5.4%, ANSF and civilian fatalities in 2014 cost Afghanistan approximately 67.113 million USD in current and future earnings.

It is necessary to acknowledge that of civilian fatalities, only 72% are the responsibility of the Taliban, 14% are the responsibility of the government, and 2% from international military forces.<sup>74</sup> However, considering that those caused by the government and international military forces are likely civilian casualties incurred while fighting AOGs and violent extremist groups, these casualties are considered as a result of conflict and violent extremism.

## PUBLIC HEALTH, INJURY, AND DISABILITY

 **\$93,238,224** in **OUT OF POCKET EXPENDITURES FOR CONFLICT-RELATED INPATIENT HEALTH TREATMENT**

 **\$33,444,146** in **GOVERNMENT EXPENDITURES FOR CONFLICT-RELATED INPATIENT HEALTH TREATMENT**

 **\$205,688** in **LOSS OF INCOME DUE TO NON-FATAL INJURIES**

 = 100,000,000 USD

Another tangible cost of conflict and violent extremism is the burden it places on individuals, families, and the public health sector to provide healthcare to those who sustain conflict-related injuries. Conflict has an impact on health in a number of ways, including diseases, malnutrition and food security, mortality, injuries, and disabilities. In conflict contexts, displacement can lead to new pathogens,

overcrowding to quicker transmission, and the breakdown of the health system can result in limited care. While the most obvious impact of conflict is in direct deaths due to violence and warfare, research has found that indirect deaths due to disease and illness are the main cause of death in conflict contexts.<sup>75</sup> Additionally, conflict causes psychological trauma that requires treatment and can contribute to severe loss of productivity in financial terms, on top of the unbearable emotional and mental health burden it places on individuals, families, communities, and societies. Many of these indirect costs are difficult to estimate, and as such it is easiest to estimate the direct costs to the public health sector in terms of out-of-pocket and government spending directly resulting from conflict-related injuries. However, it is important to note that actual costs in terms of financial health costs and loss of human capital are likely much higher.

Government officials from every sector in every province asserted that conflict has a negative impact on health, in general terms and in terms of service delivery and health infrastructure.<sup>76</sup> Health was the third sector most widely perceived to suffer due to conflict and violent extremism, after infrastructure and development, and education. According to the MoPH and hospital personnel interviewed for this research, conflict and violent extremism affect health in many ways. In terms of how it affects the public health sector, health officials reported that there are many patients with emergency cases who are injured in attacks, and they are given priority so there is no time for routine or preventive care.<sup>77</sup> Health workers are overloaded, under extreme pressure, and the nature of the injuries has a negative psychological impact on employees.<sup>78</sup> One MoPH official felt that insecurity affects both the availability and quality of services, in that it is difficult to cover remote or insecure areas, and when they do it is challenging to send personnel there for control and monitoring.<sup>79</sup> Several others echoed this issue, noting that insecurity prevents patients from seeking treatment.<sup>80</sup> One health official gave the example that if a pregnant woman goes into labor, if the security situation is bad she will not go to the hospital and instead will give birth at home, likely without the assistance of a skilled

75 Chiara Altare, "The burden of armed conflict: a public health approach," Centre for Research on the Epidemiology of Disasters, Presentation for the Microcon Conference, Brighton, 30 June 2011.

76 Interviews with senior officials from MoI in Kunduz and Nangarhar; MoD in Faryab, Herat, and Kandahar; MoEc in Faryab, Kandahar, and Nangarhar; with MRD in Bamyan, Faryab, Herat, and Nangarhar; with MoPH in Bamyan, Faryab, Herat, Kandahar, Kunduz, and Nangarhar; with educators in Herat, Kabul, and Nangarhar; with hospital personnel in Bamyan, Faryab, Kabul, Kandahar, Kunduz, and Nangarhar; with MoEd in Faryab, Kabul, and Nangarhar; with PPC members in Bamyan, Faryab, Herat, Kabul, Kandahar, and Nangarhar; with MoPW in Faryab, Herat, Kandahar, and Nangarhar

77 Interview with senior official from MoPH in Kandahar; hospital personnel in Herat

78 Interview with senior official from MoPH in Kandahar; hospital personnel in Kandahar

79 Interviews with senior official from MoPH in Herat, Nangarhar

80 Interviews with senior official from MoPH in Faryab, Bamyan, and Nangarhar; hospital personnel in Kunduz

70 Lester R. Kurtz, *Encyclopedia of Violence, Peace, and Conflict*, 2008.

71 Robert J. Willis, "Reinterpretation of Human Capital Earnings Functions," in *Handbook of Labor Economics, Volume I*, Ed. O. Ashenfelter and R. Layard, Elsevier Science Publishers, 1986.

72 Lester R. Kurtz, *Encyclopedia of Violence, Peace, and Conflict*, 2008.

73 Hamid E. Ali, "Estimate of the Economic Cost of Armed Conflict," 2012.

74 "Afghanistan Annual Report 2013: Protection of Civilians in Armed Conflict," UNAMA, February 2014, [http://unama.unmissions.org/Portals/UNAMA/human%20rights/Feb\\_8\\_2014\\_PoC-report\\_2013-Full-report-ENG.pdf](http://unama.unmissions.org/Portals/UNAMA/human%20rights/Feb_8_2014_PoC-report_2013-Full-report-ENG.pdf).

birth attendant, which can lead to serious complications or even death.<sup>81</sup>

Though one official noted that health workers are viewed as neutral actors and AOGs leave them alone because they also go to hospitals and require treatment,<sup>82</sup> others noted that insecurity impacts hospital activities in that personnel do not come to work when there are security threats, or due to general insecurity at certain times of day.<sup>83</sup> Additionally, as will be addressed in the next section on infrastructure damage, health facilities are not immune from being targeted by AOGs and violent extremists. Other officials noted that sometimes health clinics have to shut down due to insecurity, or health campaigns for children such as vaccinations are limited due to security issues.<sup>84</sup>

There was a general consensus that IEDs and suicide attacks are the main causes of civilian injuries, followed by ground engagements.<sup>85</sup> For these three types of injuries, treatment varies. It is important to note that though public health services are meant to be provided free of charge, it is estimated that the out-of-pocket (OOP) burden of healthcare is around 73.6% of healthcare costs in Afghanistan,<sup>86</sup> though some interviewees claimed that emergency treatments are generally provided free of charge. For superficial injuries, patients may be discharged on the same day, and may only have to pay an expense of around 50 AFN (1 USD) for bandaging. However, upper estimates soared, with treatment for serious injuries averaging from three to six months, up to several years in the case of paralysis or serious injuries requiring repeat surgeries or physical therapy.<sup>87</sup>

For serious injuries, treatment can cost from 30,000 AFN (500 USD) to 50,000 AFN (830 USD) on average, or even higher at 3,000 to 5,000 USD for spinal cord injuries.<sup>88</sup> Furthermore, several alluded to major costs incurred when patients can be required to seek treatment outside of Afghanistan.<sup>89</sup> Additionally, often in emergency situations patients have to be transported to a major city to receive the care they need.<sup>90</sup> Public health experts interviewed estimated that anywhere from 5% to 15% of patients require follow-up treatment.<sup>91</sup> Follow-up care can entail only medicine, or sometimes repeat surgeries.<sup>92</sup> There was a prevailing opinion that treatment in emergency situations or long-term care in private hospitals is much

more expensive for patients, sometimes costing up to 100,000 or 200,000 AFN (1,600 to 3,200 USD).<sup>93</sup>

The HMIS report from the first quarter of 1393 reports the percentage of hospitalizations according to injury type—of which 13% were considered weapon-wounded.<sup>94</sup> According to a report from 2011-12, total health expenditures were 1,500,975,945 USD in Afghanistan, of which private sources (households and non-profits serving households) bore 73.6% of the cost, with the central government and donors bearing the additional 26.4%. According to the same report, 58% of total health expenditures (THE) was on inpatient curative care, and 0.9% on rehabilitative care.<sup>95</sup> These figures were used to calculate a general proxy estimate of public health costs due to conflict and violent extremism only in consideration of those who were weapon-wounded, both in terms of its cost to households and its cost to the government and donors. According to this calculation, conflict and violent extremism cost the people of Afghanistan approximately 93.298 million USD in 2014, and the government and donors approximately 33.444 million USD.

It is important to note that this figure is likely very conservative, in that the estimation is only based on those who were weapon-wounded, and does not necessarily account for other types of injuries sustained due to conflict. This figure also doesn't account for follow-up health visits, conflict-related outpatient health treatment, or private health care. What's more, this figure does not address the potential health complications and deaths due to lack of treatment caused by overloaded facilities or inaccessible or low-quality healthcare related to insecurity.

Injuries also have a financial cost in terms of lost productivity. According to MoPH and hospital personnel interviewed in seven provinces for this research, the average estimated minimum number of days of treatment provided for the three most common types of conflict-related civilian casualties was 17 days. Assuming individuals are unable to work during their initial treatment for conflict-related non-fatal injuries, this figure estimates that loss of earnings due to missed work from conflict-related injuries cost Afghanistan approximately 205,688 USD in 2014. Again, this figure is likely very conservative in that it utilizes the average minimum number of days. While some treatments are only a few days, others last from 3-6 months, considerably increasing the amount of earnings lost.

81 Interview with senior official from MoPH in Faryab

82 Ibid.

83 Interviews with hospital personnel in Kabul and Kunduz

84 Interviews with senior official from MoPH in Bamyan, Nangarhar

85 Interviews with MoPH and hospital personnel in all seven provinces.

86 "Afghanistan National health Accounts with Subaccounts for Reproductive Health 2011-2012," Ministry of Public Health, Islamic Republic of Afghanistan, October 2013, [http://www.healthpolicyproject.com/pubs/262\\_AfghanistanNHAReportFINAL.pdf](http://www.healthpolicyproject.com/pubs/262_AfghanistanNHAReportFINAL.pdf).

87 Interviews with hospital personnel in Kabul, Faryab, Herat, Bamyan, Nangarhar, Kunduz, and Kandahar; MoPH in Herat, Bamyan, Kunduz, and Kandahar

88 Interview with senior official from the MoPH in Herat

89 Interviews with MoPH in Herat, Bamyan, ; hospital personnel in Herat,

90 Interview with senior official from MoPH in Bamyan

91 Interview with senior official from the MoPH in Herat

92 Interview with hospital personnel in Herat

93 Interview with senior official from the MoPH in Kandahar

94 "Hospital Report, Quarter 1 1393," Ministry of Public Health, Islamic Republic of Afghanistan, 2014, <http://moph.gov.af/Content/Media/Documents/HospitalReportQ1-13936122014102412997553325325.pdf>.

95 "Afghanistan National health Accounts with Subaccounts for Reproductive Health 2011-2012," Ministry of Public Health, 2013.

## THE HUMAN AND FINANCIAL COSTS OF CONFLICT AND VIOLENT EXTREMISM-RELATED DISABILITY: ABDULLAH'S STORY

Two years ago I was injured in my leg and abdomen in a suicide attack. I am disabled and walk with much difficulty, but I am the only supporter of my six family members and live in a rented house, so I have to do my best to work even though I'm disabled. Now I walk with a stick or use a wheelchair. My injuries affected me a lot personally because before I was a perfect man, but now I'm not and I can't perform my duties as a healthy person does. Before I was able to work more and make a lot of money, but now I can't. Before I could earn 35,000 to 40,000 AFN per month, but now I mostly earn 17,000 AFN per month, which isn't enough to meet my family's expenses and our house rent. There has been a 50% decrease in my income since I was injured and hurt my leg.

Our family didn't ask the government for financial compensation because they were busy taking me to the doctor in Mazar-e Sharif and I was in treatment for almost three months. There was financial help from the President's office that was brought to those who were injured in the suicide attack but I didn't get that support either because I was in Mazar-e Sharif, and when we asked about it later, there was nothing left and we haven't received anything yet. While I was in the hospital some people helped us and gave about 16,500 AFN, but I don't want to ask people for money because it's not my habit to ask for something for free. I do suffer problems and work hard, but I won't ask people for charity.

When people see me, they feel about me that once upon a time I was a sound person but now I lost a part of my body. Fortunately people are not seeing me with bad intentions or something else; to them I am the one whom they saw before. It has affected my personal security because I am disabled and can't walk well. I just wish that Almighty Allah brings peace and stability to our country to see my fellow countrymen safe and happy.

## EDUCATION



● = 100,000,000 USD

According to a paper commissioned by the Education for All Global Monitoring Report, conflict and insecurity affect education in many ways. At its most extreme, conflict can lead to the death or displacement of teachers, staff, and students. War and conflict also destroy physical educational infrastructure, such as schools. Conflict can result in decreased access to schools by causing them to close, threatening children's security while they are on their way to and from school, increasing teacher absenteeism, and affecting students' enrollment and attendance. Conflict-induced displacement also impacts education, where students may not have the necessary documents or language skills to attend school in the area they are displaced to. Conflict can increase the dropout rate and reduce educational survival rates due to a myriad of indirect consequences of conflict, such as displacement, military recruitment, and economic hardship, where educational attainment beyond the primary level often suffers most. Conflict has an impact on the quality of education, as it can exacerbate existing marginalization where the most vulnerable children are taken out of school in order to work and sustain families'

livelihoods, and girls often suffer disproportionately out of fear of violence against female students.<sup>96</sup>

Government officials from every sector in all provinces where interviews for this research were conducted asserted that conflict has a negative impact on education, in general terms and in terms of service delivery and education infrastructure.<sup>97</sup> Education was the second sector most widely perceived to suffer due to conflict and violent extremism among the 59 government actors interviewed for this research, after the infrastructure and development sector. Educators and Ministry of Economy officials in every province noted the impact that security

96 "The quantitative impact of conflict on education," UNESCO Institute for Statistics, September 2010, <http://www.uis.unesco.org/Library/Documents/QuantImp.pdf>.

97 Interviews with senior officials from MoI in Kunduz and Nangarhar; MoD in Kandahar; MoEc in Faryab, Kandahar and Nangarhar; MRRD in Bamyan, Faryab, Herat, and Nangarhar; MoPH in Bamyan, Faryab, Kandahar, Kunduz, and Nangarhar; educators in Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar; hospital personnel in Faryab and Kabul; MoEd in Bamyan, Faryab, Herat, Kabul, Kunduz, and Nangarhar; PPC members in Bamyan, Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar; MoPW in Faryab, Herat, Kandahar, and Nangarhar

has on children's enrollment and attendance.<sup>98</sup> Officials in every province also noted that girls are particularly vulnerable.<sup>99</sup> One MoEd official explained:

It is a well-known fact when students' minds are not calm and they do not feel secure, they are not able to continue their education effectively. Recently we visited schools in districts where the security situation is poor. Due to insecurity many parents do not allow their sons and daughters to attend school because their safety is not guaranteed. The negative impacts of insecurity impact primary education more compared to secondary and higher levels, because they are children who are more vulnerable and frightened by security incidents. It has negative effects on both girls and boys, but girls are more affected by it.<sup>100</sup>

Several education officials noted the psychological impact of insecurity on children and the effect that fear has on students' ability to both attend class regularly and learn.<sup>101</sup> In 2014, UNICEF recorded 21 students killed and 61 injured,<sup>102</sup> and insecurity also leads to school closures as well as threats or kidnapping of teachers.<sup>103</sup> In 2014, there were 10 recorded incidents of abducting education personnel, 7 recorded cases of intimidating education personnel, and 46 cases of injuring or killing education personnel.<sup>104</sup> Insecurity and conflict can also make it difficult to staff remote schools.<sup>105</sup> It was also noted that conflict has an impact on education in that children leave school to work after losing their family provider,<sup>106</sup> and that conflict reduces access to materials for education.<sup>107</sup>

In some provinces, education officials reported that no schools are currently closed due to insecurity. However, in other provinces, estimates ranged from only one or two schools to 40-60% of schools in rural areas.<sup>108</sup> In 2014, UNICEF documented 543 schools were closed due to insecurity.<sup>109</sup> There were 42 recorded incidents of placement or presence of unexploded ordnances (UXOs) at schools, but no recorded incidents of explosive remnants of war (ERW)/improvised explosive device (IED) detonation at schools.<sup>110</sup> There were 14 recorded cases

of occupying and using school buildings, and 19 raids on schools.<sup>111</sup>

Some educators and MoEd officials reported that even if there are attacks on teachers or students, they try to keep schools open and coordinate with district and provincial officials to try to address security issues. One educator reported effective cooperation with local officials, providing an example of being warned when insurgents had planned to poison a well that was used by teachers and students for drinking water.<sup>112</sup> Sometimes, security is provided for the school when there is a threat or attack by ANSF personnel.<sup>113</sup> One educator asserted, "No one has the right to close our school even if it gets burned," proposing that any threats would be addressed through contacting local elders to mediate with insurgents and prevent attacks.<sup>114</sup> However, others reported that if there is a threat or attack, the school would be closed, but the duration of the closure would depend on the nature of the incident. Additionally, it was also reported that sometimes schools are closed for only a few days, other times weeks, and sometimes up to six months, several years, or permanently.<sup>115</sup>

Nationally, 2.1 million students at the primary level, 2.5 million at the secondary level, and 2.4 million at the tertiary level were not involved in school. 6% of these students at the primary level are not attending school because of insecurity, 5% at the secondary level 5%, and 6% at the tertiary level.<sup>116</sup> Therefore, according to figures from the 2011-12 NRVA, 126,000 students were not attending primary school due to insecurity; 125,000 at the secondary level; 144,000 at the tertiary level. However, this figure does not account for the re-entry of school-aged children who discontinued their education because of insecurity. If security improves, or at least the perception of security, children might re-enter school at some point in subsequent years, which could offset the loss in future earnings if they complete the level of schooling they had initially missed due to insecurity. Although data on the re-entry of children to school is not available,<sup>117</sup> data on the percentage of students whose grade level in school does not correspond to their age, indicating re-entry or enrollment at a later stage for any reason, is available. In light of the unavailability of data, this percentage was used as a proxy for re-entry, as insecurity has been found to have a considerably negative effect on school attendance in conflict-stricken countries such as Afghanistan.<sup>118</sup> In the

fied incidents

111 Ibid.

112 Interview with senior official of MoEd in Kabul

113 Interview with senior official of MoEd in Bamyan

114 Interview with educator in Kabul

115 Interview with educators in Herat and Nangarhar

116 "National Risk and Vulnerability Assessment 2011-2012: Education," Central Statistics Organization, 2013, <http://cso.gov.af/Content/files/Chapter8%20EDUCATION.pdf>.

117 UNOCHA stated in a personal correspondence with EPD that such data on the re-entry of children to primary school (because of insecurity or other reasons) is not available in Afghanistan according to UNICEF.

118 According to a UNICEF global report, children of primary school age in conflict-stricken environments are nearly three times more likely to not

98 Interviews with educators in Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar; MoEd in Bamyan, Faryab, Herat, Kabul, Kunduz, and Nangarhar

99 Interviews with senior officials from MoEd in Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar; educators in Herat, Kabul, Kandahar, Kunduz, and Nangarhar

100 Interview with senior official from MoEd in Nangarhar

101 Interviews with educators in Herat and Kandahar; MoEd in Faryab, Herat, and Nangarhar

102 Aggregate data provided by UNICEF; includes both verified and unverified incidents

103 Interview with educator in Kabul; MoEd in Kabul and Nangarhar

104 Aggregate data provided by UNICEF; includes both verified and unverified incidents

105 Interview with senior official from MoEd in Faryab

106 Interview with educator in Herat

107 Interview with educator in Kandahar

108 Interviews with educators and MoEd officials

109 Aggregate data provided by UNICEF regarding the number of schools closed as of December 2014

110 Aggregate data provided by UNICEF; includes both verified and unverified incidents

## THE HUMAN AND FINANCIAL COSTS OF CONFLICT AND VIOLENT EXTREMISM TO EDUCATION: SALEHA'S STORY

I have four children, aged 12, 11, 9, and 5 years old—three girls and one boy. They are all enrolled in school, except our youngest, who is not old enough to go to school yet. We send our kids to school in order to receive education and have a brighter future. My parents-in-law were telling us that sending girls to school is not right, but I shared my concerns with my husband and he convinced his parents.

Security affects my decision to send my children to school or not to a large extent. For instance, there was an explosion near the school where my children are studying, and because of this, we could not send our children to school for two weeks. There were two girls killed in the explosion. I insisted a lot to my husband to send the children back, and finally he accepted it and sent our children to school. It is different for daughters and sons; daughters are not allowed to attend school in critical conditions but sons are because daughters are more vulnerable than sons. I fear a lot for my children when they walk to and from school. I wait at the gate for the children when they return a little bit later. I pray for them to come safe and on time. I have enrolled them at school and I would be asked in case they face any problem including kidnapping etc. I am afraid of Taliban and suicide bombers attacking the school.

There are two madrasas some blocks away from us, and people do not let their daughters attend due to insecurity and people that spread rumors about girls that attend school. For instance, there was a girl a few blocks away from us who was attending school every day, but one day, some guys—so-called Taliban—blocked her way and killed her. After that, a lot of families stopped their girls from attending school. Six months ago, Afghan soldiers themselves fired upon a girl. The main point is that even our soldiers try to stop girls from attending school.

Education is very important. Our children learn a lot, from ethics to physics and chemistry, there at school. We have to go to a male doctor if we have any problem; I hope my daughters will become doctors one day. It would be good if we could go to a female doctor in our own country, instead of going to male doctors inside the country and female doctors in Pakistan. Education has an impact on the future earnings of my children. Uneducated people cannot have any job and most of them are unemployed. Educated people can have jobs and earn money; they can be doctors, engineers, teachers and so on. For instance, a girl in our neighborhood has lost her father and she has no one except her mother and a little brother, but she is a midwife and she has a good income and supports her family financially. This is the benefit of receiving education.

NRVA report's chapter on education, it is stated that at all levels of education, including both boys and girls, 30 percent of the students do not have the official age for their respective levels.<sup>119</sup> As such, the number of children out of school due to insecurity was reduced by 30% to account for possible future re-entry.

According to The Asia Foundation 2014 Survey of the Afghan People, the average household income of someone who has some primary education is 2,157 USD per year; someone who has completed primary education earned on average 2,289 USD per year; completed secondary 2,974 USD per year; completed tertiary 4,957 USD per year. Using these figures, estimating loss of lifetime income in terms of average annual income lost if the student had completed the level of education that they discontinued due to insecurity for a number of years, calculated as the retirement age minus the average age of a student who completes that level of education with an applied discount rate of 5.4%, the students who were

attend school than children in other developing countries. Conflict also causes children to drop out at a much higher rate with only 65% of children in conflict-stricken countries reaching the final year of primary school compared to 85% in other developing countries; <http://www.uis.unesco.org/Education/Documents/oosci-global-report-en.pdf>.

119 "National Risk and Vulnerability Assessment 2011-2012: Education," Central Statistics Organization, 2013, <http://cso.gov.af/Content/files/Chapter8%20EDUCATION.pdf>.

not attending school due to insecurity at all three levels in 2014 cost Afghanistan 4.052 billion USD in future earnings

In 2014, 543 schools were closed due to insecurity.<sup>120</sup> 279 of these were primary schools, one madrasa, 49 secondary schools, 114 high schools, and 61 unspecified. 58,470 students were not attending primary school due to school closure; 21,830 secondary; and 27,328 high school. Again, the number of children out of school due to school closure was reduced by 30% to account for possible future re-entry. Applying the same calculation as for those not attending school due to insecurity with an applied discount rate of 5.4%, school closure due to insecurity at all three levels in 2014 cost Afghanistan an approximate additional 458.963 million USD in future earnings.

Conflict also has a financial cost to education in the loss of teacher salaries for days when schools have to close. There were a total of 226 incidents against schools in 2014.<sup>121</sup> Based on the wide range of estimations for the duration of a school closure in the case of an incident, this calculation is based on an approximated one-week closure per incident, which would affect approximately

120 Aggregate data provided by UNICEF regarding the number of schools closed as of December 2014

121 Aggregate data provided by UNICEF; includes both verified and unverified incidents

12 teachers per school based on the average derived from the total number of teachers and general education schools in Afghanistan. Based on this estimation, approximately 13,560 teacher days were lost in 2014 due to conflict. Considering an average annual teacher salary of 888 USD,<sup>122</sup> lost teacher days due to conflict and violent extremism cost Afghanistan approximately 50,172 USD in 2014.

## DESTRUCTION OF INFRASTRUCTURE AND IMPACTS ON DEVELOPMENT

**\$4,160,000** in **DAMAGE AND DESTRUCTION OF SCHOOLS**

**\$4,480,000** in **DAMAGE AND DESTRUCTION OF HEALTH FACILITIES**

**\$312,212** in **DAMAGE TO INFRASTRUCTURE**

 = 100,000,000 USD

One of the most obvious costs of conflict and violent extremism include damage and destruction of infrastructure, and stunted development due to insecurity and instability.<sup>123</sup> Often in conflict, communication and support lines such as telecommunications, airports, roads and bridges are targeted. Additionally, housing, schools, and health facilities are often looted, attacked, or destroyed.<sup>124</sup> The damage and destruction of infrastructure can also have catastrophic secondary effects; for example, transportation costs increase as infrastructure and security deteriorate.<sup>125</sup> Electricity grids that are destroyed can result in the stoppage of water and sewage pumping, which can create serious health problems.<sup>126</sup> Infrastructure is also an important determinant of economic growth; therefore destruction of resources on a large scale is likely to reduce incomes and affect economic growth.<sup>127</sup> Reconstruction of physical infrastructure can often take precedence over social development objectives, and can limit resources available for things like education and public health.<sup>128</sup> However, this is assuming that reconstruction and rehabilitation ever happen at all, considering war-affected countries generally have poor economies and these tasks are often beyond their financial capacity, and continued unrest makes it unlikely that private investors will invest in infrastructure projects.<sup>129</sup>

**Government officials interviewed for this research felt**

122 “Education Sector Strategy for the Afghanistan National Development Strategy,” Ministry of Education, Islamic Republic of Afghanistan, 2007, [http://planipolis.iiep.unesco.org/upload/Afghanistan/Afghanistan\\_MoE\\_strategy\\_English.pdf](http://planipolis.iiep.unesco.org/upload/Afghanistan/Afghanistan_MoE_strategy_English.pdf).

123 Anke Hoeffler and Marta Reynall-Querol, “Measuring the Costs of Conflict,” 2003.

124 Ibid.

125 Paul Collier, “On the Economic Consequences of Civil War,” Oxford Economic Papers 51 (1999): 168-83.

126 Ibid.

127 Ibid.

128 Ibid.

129 Anke Hoeffler, “Challenges of Infrastructure Rehabilitation and Reconstruction in War-Affected Economies,” African Development Bank, Economic Research Papers, no. 48, 1998, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/00157630-EN-ERP-48.PDF>.

that conflict and insecurity has the greatest impact on infrastructure and development.<sup>130</sup> There was a prevailing observation that conflict and instability affects the decision to build development projects and their implementation.<sup>131</sup> Particularly regarding donor-supported projects, several interviewees felt that insecure areas miss out on development because the areas are considered non-permissive for donors and their staff, and are viewed as risky investments.<sup>132</sup> Conflict and instability resulting in incomplete or delayed projects was also noted.<sup>133</sup> Interviewees explained that conflict and instability impacts the scale of projects, in that only short-term and small-scale projects are implemented in the context of instability.<sup>134</sup>

Officials from the Ministry of Public Health (MoPH), MRRD, and the Ministry of Public Works (MoPW) felt that conflict affects the cost of development projects.<sup>135</sup> Insecurity affects the working hours possible for those who staff projects,<sup>136</sup> and there are inflated costs for providing security, logistical support, and monitoring throughout. Conflict and violent extremism were also found to have a large impact on monitoring and the quality of projects,<sup>137</sup> which can consequently lead to less projects in insecure areas where monitoring is not possible.<sup>138</sup> Additionally, one official explained that even when projects are completed in insecure areas, sometimes they are unable to staff them because of insecurity, providing the example of a clinic that was built but no doctors were willing to work there.<sup>139</sup> One interviewee explained that conflict and instability facilitate corruption in that implementers can either not implement projects at all or implement them at a subpar standard because they are not monitored or they have insecurity as an excuse for poor performance.<sup>140</sup>

Several government officials also cited physical destruction of infrastructure and public resources as **a cost of conflict** and violent extremism.<sup>141</sup> Damage

130 Interviews with senior officials from MoI in Kunduz and Nangarhar; MoD in Faryab, Herat, Kandahar and Kunduz; MoEc in Faryab, Kandahar and Nangarhar; MRRD in Bamyan, Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar; MoPH in Bamyan, Faryab, Kandahar, and Kunduz; educators in Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar; hospital personnel in Bamyan, Faryab, Herat, Kabul, Kunduz, and Nangarhar; PPC members in Bamyan, Faryab, Herat, Kandahar, Kunduz, and Nangarhar; MoPW in Bamyan, Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar

131 Interviews with senior officials from MoEc in Nangarhar; MRRD in Bamyan, Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar; MoPH in Bamyan; MoEd in Herat and Kabul; MoPW in Bamyan, Faryab, Herat, Kabul, Kandahar, and Kunduz

132 Interview with senior official from MRRD in Bamyan

133 Interviews with senior officials from MRRD in Bamyan; hospital personnel in Kunduz; MoPW in Bamyan, Faryab, Herat, and Nangarhar

134 Interviews with senior officials from MRRD in Nangarhar; MoPW in Bamyan

135 Interview with senior official from MoPW in Herat

136 Ibid.

137 Hamid E. Ali, “Estimate of the Economic Cost of Armed Conflict,” 2012.

138 Interview with senior official from MRRD, Herat

139 Interview with senior official from MRRD in Bamyan

140 Interview with senior official from MoPW in Bamyan

141 Interviews with senior official from MRRD in Bamyan, Faryab, Kunduz and Nangarhar; educators in Faryab, Herat, Kabul, Kandahar, and Nangarhar; hospital personnel in Kandahar; MoEd in Faryab, Herat, Kabul, Kunduz, and Nangarhar; PPC member in Kunduz; MoPW in Herat and Kabul

and destruction of schools was commonly discussed in interviews with educators and the Ministry of Education (MoEd), most commonly the burning of schools, as well as IEDs and explosions, or attacks on schools when the Taliban or AOGs occupy them. Other government officials noted the destruction of bridges and roads by AOGs, disconnecting electricity lines as a result of explosions, damage to buildings during ground engagements, and the destruction of clinics and other public facilities. In the context of weak operations and maintenance (O&M) funding structures,<sup>142</sup> often the government is unable to repair moderate to severe damage independently, and relies on funding from donors or other sources for reconstruction.

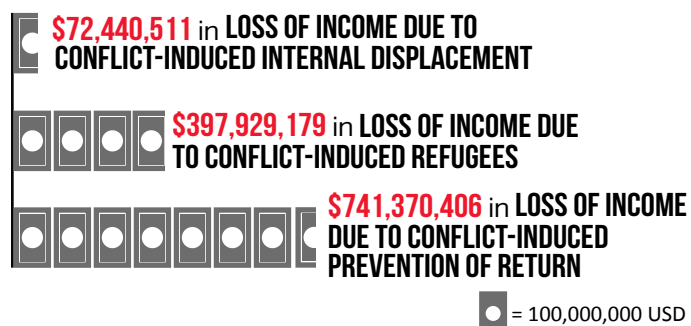
In 2014, there were 11 recorded cases of school buildings being burned, and 93 recorded cases of damage to schools.<sup>143</sup> Based on a review of the 1394 national development budget, an average 8 classroom school is budgeted at 200,000 USD.<sup>144</sup> In the absence of data on severity of damage, this calculation assumes damages equivalent to approximately 20% of the school's value, on average. Applying this to 104 incidents in 2014, destruction of schools cost Afghanistan 4.16 million USD.

In 2014, there were 64 recorded incidents related to health workers or facilities.<sup>145</sup> Based on a review of the 1394 national development budget, a 30-bed clinic is budgeted at around 350,000 USD.<sup>146</sup> In the absence of data on severity of damage, this calculation assumes damages equivalent to approximately 20% of the clinic's value, on average. Applying this to 64 incidents in 2014, destruction of schools cost Afghanistan 4.48 million USD.

Figures available regarding damage to infrastructure in 2014 were provided by MRRD, though the figures are incomplete and therefore likely quite conservative. The only documented damages in 2014 were the destruction of a slab culvert in Kapisa province with an estimated damage cost of 3,500 USD, destruction of three slab culverts in Parwan, two of which had an estimated damage cost of 4,500 USD each and one at 3,500 USD, and the destruction of a bridge in Khost province with an estimated damage cost of 12,000 USD. In the absence of complete data, the Provincial Conflict-Related Risk ratings from the 2015 Humanitarian Risk Profile Guidance Note (reflecting conflict incidents, civilian casualties, conflict-induced IDPs in 2014) issued by UN OCHA<sup>147</sup> was used to calculate an

estimated damage cost for each province based on the figures reported by MRRD, totaling an estimated damage cost in terms of damage to infrastructure in Afghanistan at 312,212 USD in 2014.

## CONFLICT-INDUCED DISPLACEMENT AND REFUGEES



A very apparent cost of conflict and is displacement and refugees, particularly so in Afghanistan, where after decades of conflict figures regarding displacement and refugees are among the highest in the world, and numbers of voluntary returnees among the lowest. On average, one out of every four refugees worldwide is Afghan. Though Afghanistan is “post-conflict,” the number of internally displaced and refugees due to conflict remains high, with 964,000 conflict-induced IDPs in Afghanistan as of May 2015. The human and economic consequences of displacement and refugees are extensive and well documented. Displacement has been linked to high levels of sexual and gender-based violence (SGBV), domestic abuse, increased susceptibility to diseases and illnesses, mental health issues and negative psychological impacts, increased child mortality and fertility, poor reproductive and maternal health, crises of identity, physical insecurity, food insecurity, decreased livelihoods and economic status, and unemployment. Displacement often comes with loss of land, assets, and property, and a consequent reduction in household resources and economic stability.

Displacement does not only affect those who are displaced or refugees, but also their host communities, host countries, country of origin, and stayees. Displacement places stress on resources and services, can lead to social tensions, violence and crime, has environmental implications, and impacts local economies. While there are some acknowledged benefits arising from refugees' remittances to their country of origin and the stayee population, displacement and refugees affects short- and long-term national capacity and labor market outcomes, and widespread displacement and return can impact political stability. The financial cost of providing support to displaced and returnee populations is often very high, and displacement and return in rural-urban patterns can place extreme stress on infrastructure, housing, economies, and

es/risk\_profile\_guidance\_note\_-\_afghanistan\_hrp\_2015\_-\_20150601.pdf.

142 Marie S. Huber, Maurits Rade, and Shamsia Noori, “Independent Review of Afghanistan 1394 Draft National Budget,” EQUALITY for Peace and Democracy, November 2014, [http://www.epd-afg.org/wp-content/uploads/2014/03/1394-Budget-Snapshot\\_English.pdf](http://www.epd-afg.org/wp-content/uploads/2014/03/1394-Budget-Snapshot_English.pdf).

143 Aggregate data provided by UNICEF; includes both verified and unverified incidents

144 “1394 National Budget Document,” Ministry of Finance, Islamic Republic of Afghanistan, 2015, [http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1394/1394%20National%20Budget\\_English%20Version.pdf](http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1394/1394%20National%20Budget_English%20Version.pdf).

145 Aggregate data provided by UNOCHA violent extremism

146 “1394 National Budget Document,” Ministry of Finance, 2015.

147 “Humanitarian Risk Profile: Afghanistan Humanitarian Needs Overview 2015,” UN OCHA, 2015, <http://reliefweb.int/sites/reliefweb.int/files/resource>

service delivery, as can be seen in the rapid urbanization of Kabul and Afghanistan's major cities, and the demands placed on urban service providers and increasing numbers of urban poor.<sup>148</sup>

According to the displaced individuals and families interviewed for this research across Afghanistan, there are serious impacts, ranging from the economic impacts of poverty and loss of land and property to lack of documentation, child labor, and psychological impacts. All of the displacement case studies for this research noted serious economic impacts. Several were employed prior to displacement or owned land and property, some productive land used for agricultural and livelihoods purposes, but all noted a decline in income and considerable economic decline at the household level. Many had owned their homes, and were now forced to rent or live in temporary accommodation, with little means to generate financial resources necessary to meet even basic needs such as housing, food, and clothing. Some noted that they were unable to access credit or loans because their social support networks had been disrupted. Though the primary reasons for moving varied, and included factors such as for economic reasons, every single case study found that the displaced person and their family claimed that even if all other factors were the

148 Nassim Majidi, "Urban Returnees and Internally Displaced Persons in Afghanistan," Middle East Institute, 25 January 2011, [http://www.refugeecooperation.org/publications/afghanistan/pdf/01\\_majidi.pdf](http://www.refugeecooperation.org/publications/afghanistan/pdf/01_majidi.pdf).

same, they would not have left their homes if their lives had been secure there.<sup>149</sup>

Displacement and refugees entail a number of financial costs, both direct and indirect. However, in consideration of the scope of this research, this section only addresses financial costs in terms of loss of income, both in terms of loss of individual income and loss of economic productivity for Afghanistan from those who leave the country. It is important to acknowledge that remittances are a considerable offset for these costs, but in the absence of complete and credible figures remittances have not been included here.

A study from the Norwegian Refugee Council showed that household income decreases by 21% on average in displacement. As of May 2015, there were 964,000 conflict-induced IDPs in Afghanistan.<sup>150</sup> Assuming the average household size of 9.5 people the same NRC research in displacement settings in Afghanistan, and assuming an average duration of displacement of five years based on findings from the same report<sup>151</sup> with an applied discount rate of 5.4%, loss of income due to decreased household

149 Case study interviews with IDPs in Bamyan, Faryab, Herat, Kabul, Kandahar, Kunduz, and Nangarhar

150 "Afghanistan IDP Figures Analysis," Internal Displacement Monitoring Centre, 2015, <http://www.internal-displacement.org/south-and-south-east-asia/afghanistan/figures-analysis>.

151 "Challenges of IDP Protection: Research study on the protection of internally displaced persons in Afghanistan," Samuel Hall Consulting, 2012, [http://www.nrc.no/arch/\\_img/9154086.pdf](http://www.nrc.no/arch/_img/9154086.pdf).

## THE HUMAN AND FINANCIAL COSTS OF CONFLICT-INDUCED DISPLACEMENT: SHAH GUL'S STORY

We have been displaced for one year, living in temporary accommodation. There were Taliban bombarding our area so we had to leave and move to the city. If there were no security problems, we would not have moved. We had a life, family and friends there. Five of our family members are displaced together. All of us are unemployed, and we don't receive any support from the government, NGOs, or other actors.

We had land, property and a home before we were displaced, which we weren't able to sell, and we haven't been able to return to our locality yet due to insecurity. We had a better life where we were before. We had land and garden and my children were working alongside their father on the land and garden when they came home from school. All of the members of our family were working on the land. Now we are in a very bad position; we do not even have enough food and we are not able to pay the rent of the house. We had everything there; we did not have to pay for house, land and property. But no one here is familiar with us and I do not think they would lend us anything.

Both of my sons were enrolled in grade 10 and 6, but now as we do not have anyone to work and earn money for us, they do laboring and earn a living for us and they do not attend school. They earn 100-200 AFN per day. My one girl is studying at grade 1 now, but we could not bring the children's school documents, so they cannot be enrolled in school here.

My children and I are not so healthy. I am depressed now. We had deep water well, clean water and food there but here we have no healthy water and food. We are lacking a house, furniture and everything now, and it affects me emotionally and psychologically very negatively. After being displaced, my husband had a sore throat for six months. Every time I look at my children, I become so disappointed. If security is provided well, and the Taliban are removed and the bombarding is stopped, we would return to our home. Otherwise, we will not return there. If we had money, we would go to Pakistan or Iran very soon. The reason for leaving the country is that we do not have a good living and my children cannot pursue their education anymore. Therefore, I prefer to go abroad in order for my children to receive education and have a comfortable life in the future.

income due to displacement cost Afghanistan 72.441 million USD in current and future earnings in 2014.

Additionally, Afghanistan loses economic productivity due to refugees who leave Afghanistan and are no longer contributing economically. According to a recent UNHCR report, 59,500 Afghans requested refugee status in 2014—a 65% increase from previous years. Again using GDP per capita as an income per capita figure, and assuming that around 80% of refugees do not want to return to Afghanistan<sup>152</sup> so therefore accounting for an estimated average 20 year earning figure with an applied discount rate of 5.4%, refugees leaving Afghanistan in 2014 cost Afghanistan 397.929 million USD.

A study among Afghan refugees in Pakistan in 2011 found that 42.73% cited a lack of security as an obstacle to return.<sup>153</sup> According to UNHCR, there are 2,690,775 refugees originating from Afghanistan globally.<sup>154</sup> Applying the figure from Afghan refugees in Pakistan, we estimate roughly 1,149,768 Afghan refugees are at least to some extent prevented from returning to Afghanistan due to insecurity. Only accounting for one year of lost economic productivity, prevention of return due to insecurity cost Afghanistan 741.370 million USD in 2014.

### 3.3 VIOLENT EXTREMISM AND THE ECONOMY

In the literature, there is no consensus on the impact of conflict and violent extremism on economic performance. There is agreement on observing negative economic effects resulting from conflict, but issues of reverse causation, poor or unavailability of data, geopolitical differentiation, calculation and modelling, and even long-term “benefits” in terms of institutional development (Europe being the prime example) have caused much debate since the start of the new millennium. The plausibility of reverse causation in particular makes it more difficult to formulate credible arguments underscoring the correlation between conflict and economic deprivation. Econometric research has shown that there might be a correlation between low per capita incomes and higher propensities for conflict<sup>155</sup> as well as between the occurrence of economic recessions and the probability of conflict.<sup>156</sup>

Despite these issues regarding conducting an economic cost analysis of conflict, evidence has been brought to the fore in the literature that clearly indicate the severe microeconomic and especially macroeconomic

consequences of conflict. An article using cross-country data, for example, found that conflict – specifically, a civil war – reduces a country’s growth by 85% in the first five years with signs of recovery after the initial stage(s) of fighting.<sup>157</sup> It should also be noted that financial inflows in the form of military, development and humanitarian aid has spurred an unprecedented record of back-to-back growth rates, peaking as high as 21% in 2009, which has effectively created an aid economy as the boom was mostly caused by the “unearned income” of foreign aid. However, with the NATO withdrawal pending, growth rates have slumped since 2013 and reached a low point of 2% in 2014.<sup>158</sup> This indicates that, in a context of reduced financial inflows, the economic costs of violent extremism will most likely even further escalate as the offsetting benefits of foreign aid are not likely to be present at the same levels as during the ISAF period.

### MICROECONOMICS AND MACROECONOMICS

The majority of existing research focuses on the macroeconomic impact of violent conflict using mostly cross-country analysis, but microeconomic effects have generally been under-researched. Neither microeconomic nor macroeconomic research with regards to Afghanistan has yet been published, or at least is not publically available. One publication on microeconomics argues that households suffering from “intensive” conflict in Rwanda have lower levels of consumption in comparison to those households that have experienced less intensive conflict. Geographical difference and the endogeneity of violence are taken into account in their econometric calculations, but other factors such as infrastructure, institutions and technology are left out.<sup>159</sup> This research represents one of the first endeavors undertaken that seeks to understand the economic impact of conflict at the microeconomic level. At the time of researching this report, the economic effects of conflict on firms, however, have not yet been the subject of a publication (according to the authors’ knowledge).

The macroeconomic effects of conflict have been more widely researched, and the topic is becoming an increasingly important subject in the literature on conflict analysis. This includes analyzing the impact of conflict on asset markets, domestic revenue, taxation, investment, growth and the economy of neighboring countries. These are generally cross-country analyses using econometric modelling instead of case study analyses utilizing qualitative research methods. It has already been earlier mentioned that conflict has a significant impact on growth,<sup>160</sup> but research has shown that conflict also affects

152 “Population Profiling, Verification and Response Survey of Afghans in Pakistan 2011,” UNHCR and the Government of Pakistan, March 2012, <http://unhcrpk.org/wp-content/uploads/2012/11/PPVR-Report.pdf>.

153 “Population Profiling, Verification and Response Survey of Afghans in Pakistan 2011,” UNHCR and the Government of Pakistan, March 2012.

154 “2015 UNHCR country operations profile—Afghanistan,” UNHCR, 2015, <http://www.unhcr.org/pages/49e486eb6.html>.

155 Christopher Blattman and Edward Miguel, “Civil War”, 2010.

156 Brock Blomberg and Gregory Hess, “The Temporal Links between Conflict and Economic Activity”, 2002.

157 James Murdoch and Todd Sandler, “Civil Wars and Economic Growth: Spatial Dispersion”, 2004.

158 World Bank data base accessed on the 22<sup>nd</sup> of July: <http://data.world-bank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/AF?display=graph>.

159 Marijke Verpoorten en Pieter Serneels, “The Impact of Armed Conflict on Economic Performance: Evidence from Rwanda”, 2012.

160 Other research on the impact of growth: Solomon Polachek and Daria Sevastianova, “Does Conflict Disrupt Growth? Evidence of the Relationship

a country's output with an average 18 percent output contraction at the early stages of conflict.<sup>161</sup> Research also suggests that these negative impacts on growth and output are mostly driven by a decline in investment.<sup>162</sup> It has also been found that conflict provides constraints in the state's ability to mobilize domestic revenue as war often causes the collapse of revenue collection mechanisms<sup>163</sup> when revenues tend to drop to low levels once conflict has erupted.<sup>164</sup> Besides negative impacts on a national economy, conflicts can also have spillover effects to neighboring countries.<sup>165</sup>

## VIOLENT EXTREMISM AND THE ECONOMY IN AFGHANISTAN

Although it was beyond the scope of this research to calculate the impact of violent extremism in Afghanistan in terms of micro- and macroeconomic indicators (e.g. consumption, investment, growth, employment, revenue), this section attempts to make a qualitative assessment by corroborating data collected from the field with national economic statistics from the Afghan government, World Bank and other institutions. It should serve as a mapping exercise that provides insight into the broader trends of how conflict impacts economic performance in Afghanistan.

### *Development Projects, Investment and Domestic Revenue*

The interviews conducted with senior officials, civil servants and other government representatives for this research clearly indicated that the impact of conflict on the economy in terms of infrastructure and development projects is a widely shared concern, as it was the issue most frequently raised.<sup>166</sup> Several interviewees emphasized that insecurity has a direct negative effect on the local economy, as specific infrastructure and development projects, ranging from mining to industrial parks, were stalled or cancelled due to an insecure work environment, decline in investment or other security-related factors.<sup>167</sup> This perception corresponds to the changes in budgetary commitments made by the Afghan government in the last few years. The allocation of government funding appropriated for infrastructure and natural resources

declined from 23% in 1390 (2011) to 14% in 1393 (2014), while funding for security increased from 29.6% in 1390 (2011) to 44% in 1393 (2014)<sup>168</sup> as security deteriorated with more Afghan soldiers and civilians being killed each year.<sup>169</sup>

In terms of investment, the impact of conflict was also perceived as significant according to a number of interviewees. Several government officials, as well as PPC members, mentioned that foreign and national investments have been declining over the last few years as security further deteriorated across Afghanistan,<sup>170</sup> thereby negatively affecting economic growth. This was reiterated by a senior MoEc official from the center in Kabul. He stated that an increase of AOG violence since 2008 – which is a debatable starting point as INSO numbers indicate 2011 as a turning point<sup>171</sup> – has been accompanied by a steady decline in national and foreign investment, as more secure investment climates in regional countries like India and Turkey have proven to be more appealing alternatives.<sup>172</sup> In terms of Foreign Direct Investment (FDI), the most recent data from the World Bank, showing a decrease from 0.5% of GDP inflows in 2010 to 0.3% inflows in 2013,<sup>173</sup> supports this view.

Domestic revenue is another economic indicator that has shown to be negatively influenced by conflict, since taxation is dependent on economic activity and the government's ability to collect taxes in both secure and insecure areas. Due to an increase in insecurity, according to a senior MoF official in the center of Kabul, the tax base in Afghanistan is underperforming. He gave Kandahar as an example where tax collection is lower than the expected tax revenue because tax collectors cannot venture into many insecure districts.<sup>174</sup> This inability to collect taxes due to insecurity also prevents the government from building its tax base through additional taxes such as the Value Added Tax (VAT), which has yet to be implemented.<sup>175</sup>

### *Employment and Small Businesses*

The cross-cutting theme that emerged from the interviews was the impact of conflict on employment, which was linked to a decline in investment, infrastructure and development projects, and education opportunities. Direct impact of conflict on unemployment can be attributed to injuries suffered from AOG attacks, leading to less

between Political Instability and National Economic Performance", 2010; Kwabena Gyimah-Brempong and Marva Corely, "Civil Wars and Economic Growth in Sub-Saharan Africa", 2005.

161 Valerie Cerra and Sweta Saxena, "Growth Dynamics: The Myth of Economic Recovery", 2008.

162 Tim Besley et al., "Conflict and Investment", 2011.

163 OECD, *Fragile States 2014: Domestic Revenue Mobilization*, 2014.

164 Tony Addison et al., "Taxation and Revenue Reform in Conflict-Affected Countries", 2002.

165 Paul Dunne and Nan Tian, "Conflict, Economic Growth and Spatial Spillover Effects in Africa", 2013.

166 It was mentioned in 11 interviews; Senior MoEc officials from Kabul, Faryab, Kandahar; Senior MoPW officials from Bamyan, Nangarhar, Kandahar, Herat; PPC member from Kandahar; Educator from Kandahar; Senior MRRD officials from Nangarhar, Faryab.

167 PPC member in Kandahar; Senior MoEc official Kandahar; Senior MoPW official Nangarhar; Senior MoPW official Herat.

168 Maurits Rade, Marie Huber and Chuck Thiessen, *Building a Better Budget: Assessing National Budget Efficiency and Service Delivery in the Ministries of Education and Public Health*, Equality for Peace and Democracy, 2014.

169 "Annual Report on the Protection of Civilians in Armed Conflict," UNAMA, 2015.

170 Senior MoEc official in Kunduz; Senior MoD official in Herat; PPC members in Kunduz, Herat.

171 INSO presentation shown during NGO roundtable meeting. Data cannot be shared due to confidentiality.

172 Senior MoEc official in Kabul center.

173 World Bank website, accessed on 17<sup>th</sup> of June: <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS>.

174 Senior MoF official in Kabul center.

175 Ibid.

productivity or the loss of work, according to interviewed MoPH officials and hospital staff.<sup>176</sup> The indirect impact of conflict on unemployment has several origins, such as the cancellation of development projects, a decline in government expenditures, or the lack of investment, which was mentioned throughout most of the interviews. A direct correlation between conflict and unemployment cannot be made due to the unavailability of accurate data. It is nevertheless clear that unemployment remains high in Afghanistan, and is possibly increasing. Statistics on unemployment vary as a large section of Afghans work in the informal sector, but a senior official from the central MoEc in Kabul stated that 51% of the labor force (starting from 16 years of age) is unemployed, of which 80% are men and 20% are women,<sup>177</sup> indicating a low participation level of women in the job market.<sup>178</sup>

The impact of conflict on small businesses has not been the subject of research in the literature on Afghanistan or other countries. However, the interviews conducted for this report suggest that local entrepreneurs such as shopkeepers do suffer economically from violent extremism in their respective communities. The interviewees mentioned a range of negative economic effects that are the result of AOG violence, including

the destruction of property, decline in profit, inability to import goods, loss of products and forced closure.<sup>179</sup> Some of them mentioned they had become IDPs as a result of AOG violence and were therefore forced to relocate their businesses elsewhere in the same or another province, suffering from considerable losses in terms of clientele and property.<sup>180</sup> Opening hours had also been adjusted,<sup>181</sup> with many potential clients refrained from traveling to their shops due to insecure roads.<sup>182</sup> Insecurity was thus mentioned as affecting most aspects of running a small business from importing goods to finding clients.

The aforementioned corroborated information suggests a positive correlation between conflict and economic deprivation when looking at the indicators of development projects, investment, domestic revenue, employment and small businesses. However, this does not necessarily mean that the economy would suddenly experience a boom and government expenditures would be allocated to non-security sectors in the absence of high-intensity conflict – as was suggested by a MoD official in one of the interviews.<sup>183</sup> This is dependent on many variables such as the considerations of foreign donors, investors and the political representatives at the time.

176 Hospital staff in Kabul, Kandahar, Kunduz, Herat; Senior MoPH official Kandahar.

177 Senior MoEc official in Kabul center.

178 The National Union of Afghanistan Workers even mentioned an unemployment rate as high as 60% in 2014: <http://wadsam.com/afghan-business-news/afghanistans-unemployment-rate-hits-56-232/>. The Ministry of Commerce and Industry mentioned an unemployment rate of 33% in 2013 in the Afghanistan Trade Review 2009-2013: <http://moci.gov.af/Content/files/MoCI-Report-En-120115.pdf>.

179 This was mentioned in 5 interviews with shopkeepers from Faryab, Herat, Bamyan, Kandahar and Nangarhar.

180 Shopkeeper in Bamyan, Faryab, Kandahar.

181 Shopkeeper in Bamyan, Faryab, Herat.

182 Shopkeeper in Kandahar.

183 Senior MoD official in Herat.

## THE IMPACT OF CONFLICT AND VIOLENT EXTREMISM ON LOCAL BUSINESS AND THE ECONOMY: MOHAMMAD YASER'S STORY

WPreviously, we had a shop where we used to sell goods and food items we transported from the city to other shopkeepers. All of them would come to our shop to buy rice, cooking oil, sugar, as well as tea and household goods from us. We continued that business for about 4 years. Thank God, our business was going well and we made 25,000 AFS or 30,000 AFS every month.

When we decided to open our business security was maintained to some extent, and we were thinking that it would improve day by day. However, now we see that security situation worsens and people's concerns in this regard increase with each passing day. It has negative impacts on businesses because people cannot buy or sell their goods on time. They feel scared about their money and do not know where to keep it safely. If they supply their shops with a lot of goods and articles they would not be able to sell them due to insecurity, and it will cause them to lose their money. Now we do not have a shop and I, along with my family, moved to the city. We have left everything including our home, land and other property, because life is more important than businesses and wealth.

At that time when we used to conduct this business, sometimes armed individuals would come to our shop to take money from us by force. Every day rumors were spread about different types of armed groups and their illegal activities, which had negative effects on our business and we were not able to continue it in a normal way. They were armed and powerful people, and we could not refuse their illegal demands. They used to appear suddenly and threatened us with their weapons in order to compel us to give them money and goods. We often were not able to open our shop and run our business in the morning and late afternoon, because security was not maintained and the government was not able to help us in resolving security problems, which we used to face every day. We also closed our shop during the day when fighting happened between government security forces and the insurgents. Sometimes, mines were even planted on the roads that we

used when we were going to and from the bazaar. Due to the existence and activities of AOGs and insurgents in the area, sometimes we were not able to open our shop for weeks. It caused a lot of our goods and items to get spoiled and useless. Since security situation was getting worse day by day and we were not able to continue our business safely, we sold our shop and migrated into the city. When I sold my shop along with its goods and items, it caused me a loss of 800,000 or 900,000 Pakistani rupees (PKR).

When security is not maintained somewhere it affects all people living and working there. The lives of all shopkeepers were insecure and all of them used to feel unsafe. It had very negative impacts on people's businesses and economic state. However, it is also well known that when security is maintained in a community or an area, and people's lives and property are protected, they will be able to continue their businesses and daily activities as usual to improve their financial conditions and support their households.

Lack of security affects all things, including trade and transportation. For instance when we had a shop every driver wanted to come to the city and transport our goods, because the security situation was better then. Now drivers are not willing to carry shopkeepers' goods and items, because they worry about their safety as well as about their vehicles. AOGs commit any types of illegal activities including stealing and robbery because they do not want Afghanistan to improve its economy and other sectors. I have seen with my own eyes many shopkeepers who were robbed and beaten by the insurgents. Once I was sitting in my shop when 7 or 8 insurgents came and took 35,000 PKR from me. They took several bags of flour, rice, sugar and cooking oil. We could not say anything because they threatened us with their guns and weapons. However, now I live in the city where I want to open a new business. I have been looking for it for several days. I am trying to find a business that I can run with the money I have. Everyone wants to do something to make profit and improve their economic state. I think it would be helpful for me to run the same business that I did in the past, because I have experience in it.

# 4. CONCLUSION

The ongoing conflict and violent extremism have already created considerable financial and economic costs for Afghanistan, the region, and the international community. This research has addressed the costs borne by the Afghan government and the country of Afghanistan, as a means of assessing additional costs that will be incurred as long as conflict and instability continue.

For Afghanistan, without calculating macro-economic implications, the cost of one year of conflict and violent extremism was calculated at 9.091 billion USD, or approximately 24.906 million USD per day. This figure is the equivalent of 44% of Afghanistan's GDP.<sup>184</sup> It is approximately 113% of the total of Afghanistan's 1394 national budget, and amounts to roughly four times the Afghan government's revenue collection target for 1394.<sup>185</sup>

In Afghanistan, the average price of rice is 87.3 Afs/Kg,<sup>186</sup> with the average person needing 400 grams of rice per day in a country like Afghanistan where rice is a staple food.<sup>187</sup> What Afghanistan loses to conflict and violent extremism in just one year could feed the entire population for about 1.37 years. Based on the average price of road construction projects in Afghanistan,<sup>188</sup> the cost of violent extremism in one year could be used to build around 25,973 kilometres of new roads, or finance the construction of over 18 million wells for drinking water.<sup>189</sup> It could build over 2 million new schools,<sup>190</sup> or pay every current teacher in Afghanistan's salaries for over 18 years (assuming the highest salary level for all teachers).<sup>191</sup> It could build over 60,000 Basic Health Centres (BHCs),<sup>192</sup> or pay to fully vaccinate over 243 million Afghan children.<sup>193</sup>

186 World Food Programme, Vulnerability Analysis and Mapping (VAM)-Afghanistan, Initial Market Price Bulletin for the month of December 2014." World Food Programme, January 2015, <http://documents.wfp.org/stellent/groups/public/documents/ena/wfp271447.pdf>.

187

188 "Handbook: Contracting out government functions and services in post-conflict and fragile situations," OECD, 2010.

189 Based on cost of constructing a new well, 1394 National Budget

190 Based on cost of 8 classroom school, 1394 National Budget

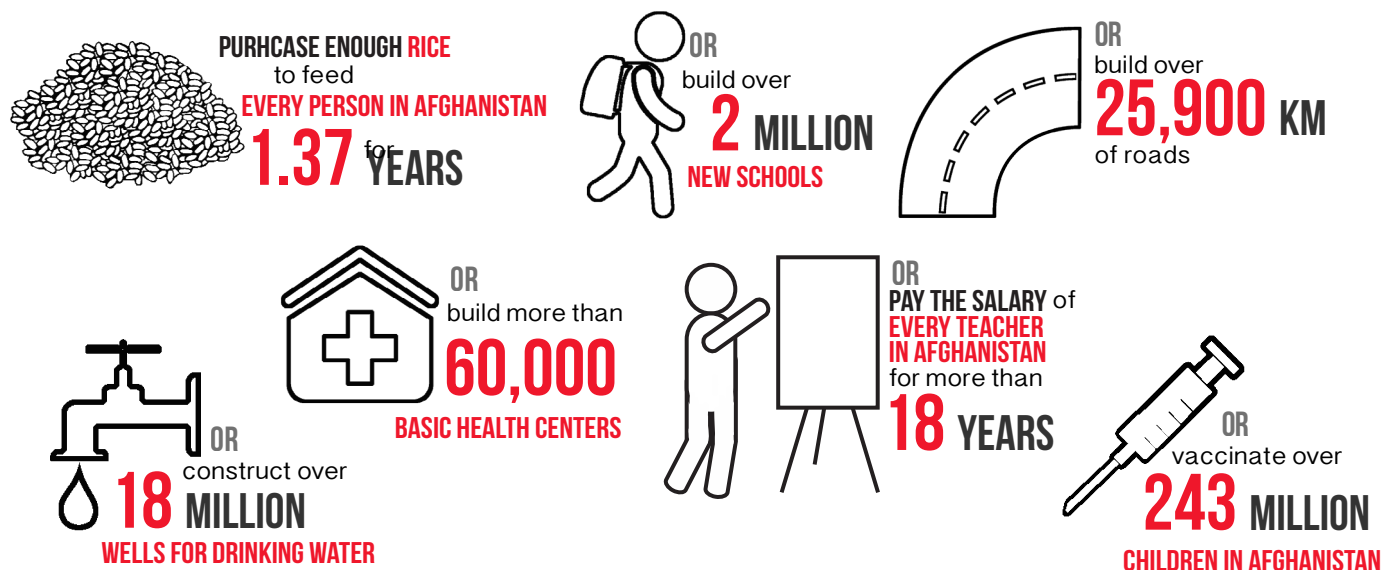
191 Sayed Tariq Majidi, "Government Launches Housing Scheme for Kabul Teachers," Tolo News, 9 June 2015, <http://www.tolonews.com/en/afghanistan/19930-govt-launches-housing-scheme-for-kabul-teachers>.

192 <http://www.swedishcommittee.org/sca-constructs-basic-health-centers-in-remote-areas-of-samangan>

193 5.955E+08

184 "Data- Afghanistan," The World Bank, 2015, <http://data.worldbank.org/country/afghanistan>.

185 Marie S. Huber, Maurits Rade, and Shamsia Noori, "Independent Review of Afghanistan 1394 Draft National Budget," 2014.



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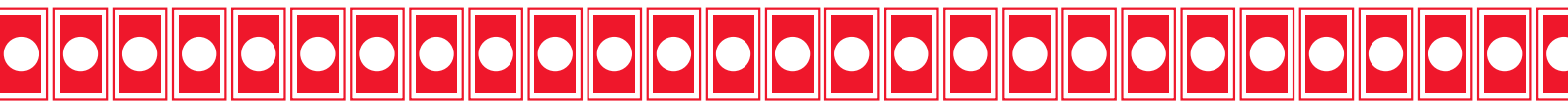
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# APPENDIX A: COST CALCULATIONS



## DIRECT TANGIBLE COSTS

### SECURITY EXPENDITURES

#### *Ministry of Defense Excess Budget*

Military expenditures are a basic component of calculating the costs of violent extremism. However, the absence of insecurity does not necessarily entail an absence of security expenditures. As such, this figure was calculated to reflect an estimation of the level of military spending that is in excess of what would be required if there were a high level of peace in Afghanistan. In order to estimate the level of necessary security spending, this research looked at the level of peace and military expenditures as a percentage of government spending of other countries in the region that share similar characteristics to Afghanistan to varying degrees in terms of economic development, geography, population, human development, and security.

A database was developed for countries in South and Central Asia<sup>194</sup> including military expenditure from the SIPRI Military Expenditure database and 2014 Global Peace Index scores (excluding Tajikistan, Turkmenistan, and Uzbekistan, for which military expenditure data was unavailable). A regression model using 2014 Global Peace Index values as a predictor of FY2013 military expenditure produced  $R^2=.733$ ,  $F(6, 7)=16.434$ ,  $p<.01$ . The model MilExPeace as a percentage of government spending is based on a Global Peace Index value of 2.01, the Global Peace Index value of a state with a High level of peace. The regression yielded the following model:

$$\text{MilExPeace} = -(14.165) + ((\text{PeaceIndex})(10.615))$$

Therefore, if PeaceIndex = 2.01, MilExPeace should be approximately 7.17% of government spending.

The total national budget of FY1393 was 7,649,616,770 USD,<sup>195</sup> therefore if Afghanistan had a high level of peace, MilEx could be estimated to be around 280,278,000. The total operating and development budget for the Ministry of Defense in 1393 was 1,878,142,250 USD.

#### *Ministry of Interior Excess Budget*

Traditionally, police are responsible for activities such as enforcing the rule of law, maintaining law and order, and protecting human safety. However, in Afghanistan, the Afghan National Police (ANP) have generally been a critical component of the security agenda as a part of the Afghanistan National Security Forces (ANSF). As the Ministry of Interior has acknowledged, the ANP have been used to fight insurgency and have participated in combat operations.<sup>196</sup> As such, in the absence of data to calculate a similar counterfactual as for military expenditure, considering the role of the ANP in security provision in Afghanistan, this research used the same estimated share of government spending in a peaceful Afghanistan for the Ministry of Interior as for the Ministry of Defense. In 1393, the MoI budget accounted for 15.6% of government spending. Therefore, the amount of MoI budget that is due to insecurity was calculated as the difference between 15.6% of government spending and an estimated peacetime figure of 7.17%.

#### *National Security Council Budget*

The Afghan National Security Council (NSC) was established by presidential decree to provide the President advice on security-related issues, develop and coordinate security policy, liaise between security sector line ministries and the executive, and oversee the implementation of security policy, while acting as a coordinating body for security

194 Including Afghanistan, Bangladesh, India, Kazakhstan, Kyrgyzstan, Nepal, Pakistan, and Sri Lanka, based on the availability of data from the SIPRI Military Expenditure database and their geographic divisions.

195 <http://data.worldbank.org/country/afghanistan>

196 "Ten-Year Vision for the Afghan National Police: 1392-1402," Ministry of Interior Affairs, Islamic Republic of Afghanistan, 2013, <https://ipcb.files.wordpress.com/2013/06/13-04-02-ten-year-vision-english-final-version.pdf>.

sector reform.<sup>197</sup> Since it was established in 2002, the National Security Council (NSC) has engaged in diplomacy with insurgent groups, meeting with Taliban officials on an individual level in an effort to bring them into the peace process.<sup>198</sup> Considering this and the body's security mandate, this research has counted the entire 1393 operating budget of the NSC as a cost related to conflict and violent extremism.<sup>199</sup>

## REINTEGRATION

The Afghanistan Peace and Reintegration Programme (APRP) works to promote peace, reconciliation and security in Afghan communities through outreach, reintegration, and community recovery. The APRP is financed through the Peace and Reintegration Trust Fund (P&RTF), which consists of three windows. Window A allows contributions to a Ministry of Finance Special Account and to the Afghanistan Reconstruction Trust Fund. Window B channels resources through UNDP. Window C is managed by a private trustee, and payments are made to the Afghan Central Bank, commercial banks, or other recipients as required for the purposes of the program.<sup>200</sup> Payments through each of these windows can only be made under the instruction of the Financial Secretariat, under the direction of the Financial Oversight Committee.<sup>201</sup>

As the APRP program works exclusively with combatants who previously sided with armed opposition and extremist groups,<sup>202</sup> the entire P&RTF has been counted as a cost of violent extremism. The figure utilized in this research is the total P&RTF expenditures in 2014, according to the amount of the approved budget for all three windows from the Financial Oversight Committee.<sup>203</sup> This figure does not account for any expenses associated with disarmament or Disarmament, Demobilization, and Reintegration (DDR) programs, which concluded prior to 2014 in Afghanistan.

## INTELLIGENCE

The National Directorate of Security (NDS) is Afghanistan's internal security and intelligence service, which operates independently and is active in preventing attacks and targeting insurgent networks and logistics.<sup>204</sup> According to its mandate NDS has other responsibilities as well,, including countering organized crime and corruption.<sup>205</sup> However, considering the scope of their work related to insurgency and violent extremism, the figure utilized for this research includes the total 1393 NDS budget (operating and development).<sup>206</sup>

## COMPENSATION

### *Pension for ANSF fatalities*

Estimates for ANSF fatalities in 2014 are not exact, but the government of Afghanistan confirmed that there were over 5,000 ANSF personnel fatal service-related casualties in 2014. Therefore, this figure is calculated based on 5,000 ANSF fatalities, and using the figure of base pay for ANSF of 165 USD per month<sup>207</sup> times 78 as the value of pension benefits for service-related deaths.

### *Compensation for civilian fatalities*

The figure for civilian fatalities was taken from UNAMA data. Code 99 payments were estimated at the number of fatalities times the 2,000 USD payment provided through this fund. MoLSAMD payments were also calculated using the number of civilian fatalities times the 350 USD per year payment provided through the fund. Given the conditions associated with the MoLSAMD payments and in the absence of demographic data on civilian fatalities such as age, marital status, and number of children, these payments were calculated for an estimated ten years. Compensation for civilian casualties cost 1,294,650 in 2014, so the social discount rate of 5.4% was applied to this figure for ten years.

197 Mark Sedra, "Security Sector Transformation in Afghanistan," Geneva Centre for the Democratic Control of Armed Forces, n.g.

198 "Negotiating Reconciliation in Afghanistan," Public International Law & Policy Group, December 2011, <http://publicinternationallawandpolicygroup.org/wp-content/uploads/2011/10/Background-Briefing.pdf>.

199 "1393 National Budget Statement" Ministry of Finance, Islamic Republic of Afghanistan, 2014.

200 <http://www.af.undp.org/content/dam/afghanistan/docs/crisisprev/APRP/APRP-APR-2014.pdf>

201 Ibid.

202 Steven A. Zyck, "Peace and Reintegration in Afghanistan."

203 <http://www.af.undp.org/content/dam/afghanistan/docs/crisisprev/APRP/APRP-APR-2014.pdf>

204 "Report on Progress Toward Security and Stability in Afghanistan," United States Department of Defense, Report to Congress, December 2012, [http://www.defense.gov/news/1230\\_Report\\_final.pdf](http://www.defense.gov/news/1230_Report_final.pdf).

205 "US Reconstruction Efforts in Afghanistan Would Benefit from a Finalized Comprehensive US Anti-Corruption Strategy," Office of the Special Inspector General for Afghanistan Reconstruction, 5 August 2010.

206 "1393 National Budget Statement" Ministry of Finance, Islamic Republic of Afghanistan, 2014. [http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1394/1394%20National%20Budget\\_English%20Version.pdf](http://www.budgetmof.gov.af/images/stories/DGB/BPRD/National%20Budget/1394/1394%20National%20Budget_English%20Version.pdf)

207 <http://www.brookings.edu/~media/Programs/foreign-policy/afghanistan-index/index20150520.pdf?la=en>

## Compensation for disability

The figure for civilian injuries was taken from UNAMA data. Code 99 payments were estimated at the number of fatalities times the 1,000 USD payment provided through this fund. MoLSAMD payments were also calculated using the number of civilian injuries times the 270 USD per year payment provided through the fund, taken as the average between payments for minor (15 USD) and severe (30 USD) injuries for twelve months. This payment was calculated for an estimated 20 years. Compensation for disability cost 1,849,230 in 2014, so the social discount rate of 5.4% was applied to this figure for 20 years.

# INDIRECT TANGIBLE COSTS

## HUMAN CAPITAL AND EARNING POTENTIAL

### *Loss of lifetime earnings*

ANSF and civilian fatalities (8,699) x GDP per capita 644.8<sup>208</sup> x estimated 20 years earning figure<sup>209</sup>

For the purposes of this research, loss of lifetime earnings is calculated as a simple function of fatalities, GDP per capita, and an estimated 20 years of earnings. The use of GDP per capita as a per capita income figure at 644.80 USD per year is likely an accurate proxy measure, considering the average monthly household income in the 2014 Survey of the Afghan People was 11,280 AFN (190 USD), or 2,280 USD per year, and the average household size was 10.32, including children.<sup>210</sup> Loss of earnings in 2014 was estimated at 5,609,115, so the social discount rate of 5.4% was applied to this figure for 20 years.

The application of loss of lifetime earnings to all casualties could be criticized in that women in Afghanistan participate in the formal economy and income generation at lower rates than men;<sup>211</sup> however, to assume that women could not be economically productive would be false, so the calculation was applied equally to all fatalities regardless of gender.

## INJURY AND DISABILITY

### *Out of pocket, government, and donor expenditures for conflict-related inpatient health treatment*

The Q1 HMIS report from 1393 estimates the percentage of hospitalizations according to injury type—of which 13% were considered weapon-wounded.<sup>212</sup> According to a report from 2011-12, total health expenditures (THE) were 1,500,975,945 USD in Afghanistan, of which private sources (households and non-profits serving households) bore 73.6% of the cost, with the central government and donors bearing the additional 26.4%. According to the same report, 58% of THE was on inpatient curative care, and 0.9% on rehabilitative care.<sup>213</sup>

As the most applicable available data and in the absence of more current data from the HMIS and on OOP health expenditures, these figures were used to develop a general proxy estimation of OOP and government/donor costs on public health related to injuries due to violent extremism. This estimation was calculated as the percentage of THE spent on curative inpatient care, times the percentage of hospitalizations that were for weapon-wounded (based only on the percentage of weapon-wounded from the first quarter of 1393, assumed to remain generally constant throughout the year), plus the percentage of THE spent on rehabilitative care. The resulting figure was then broken down into out-of-pocket spending and government/donor spending, according to the overall breakdown of burden of healthcare costs.

### *Annual loss of income due to non-fatal injuries*

Assuming individuals are unable to work during their initial treatment for conflict-related non-fatal injuries, this figure estimates the loss of earnings due to missed work from conflict-related injuries based on 6,849 injuries in 2014,<sup>214</sup> and GDP per capita (644.8) divided by 365 days per year, times 17 days, based on interviews conducted with public health officials for this research.

208 <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD/countries/AF?display=default>

209 <http://www.tandfonline.com/doi/pdf/10.1080/10242694.2012.723154>

210 "Visualizing Afghanistan," The Asia Foundation, 2015.

211 Marie S. Huber, "Afghanistan Gender Equality Report Card," EQUALITY for Peace and Democracy, 2015.

212 <http://moph.gov.af/Content/Media/Documents/HospitalReportQ1-13936122014102412997553325325.pdf>

213 [http://www.healthpolicyproject.com/pubs/262\\_AfghanistanNHAReporFINAL.pdf](http://www.healthpolicyproject.com/pubs/262_AfghanistanNHAReporFINAL.pdf)

214 <http://unama.unmissions.org/Portals/UNAMA/human%20rights/2015/2014-Annual-Report-on-Protection-of-Civilians-Final.pdf>

## EDUCATION

### *Loss of future earnings due to missed schooling for children who do not attend due to insecurity or school closure*

Level of education and average household earnings are strongly positively related.<sup>215</sup> Though the causal relation cannot be definitively asserted, based on similar studies<sup>216</sup> it is reasonable to assume that increased education leads to an increase in earnings. To calculate an estimated loss of lifetime earnings for missed education, the NRVA figures regarding the number of students who self-reported being out of school at the primary, secondary, and tertiary levels due to insecurity. As explained in the body of the report, these figures were reduced by 30% to account for possible re-entry at a later time. Regarding average earnings, the TAF 2014 data was used to calculate average monthly household income for those who had not completed primary school and those who had completed primary, secondary, and tertiary education. The loss of income was calculated as the loss of earnings if the student had finished the level of education they had dropped out of, for a number of years computed as the retirement age minus the age most students would complete that level of education, with the 5.4% social discount rate applied.<sup>217</sup>

According to The Asia Foundation 2014 Survey of the Afghan People, the average household income of someone who has completed some primary education is 2,157 USD per year; someone who has completed primary education earned on average 2,289 USD per year; completed secondary 2,974 USD per year; completed tertiary 4,957 USD per year. The retirement age was set at 65, as stipulated in the Labor Law.

Loss of earnings due to school closure was approximated using the same calculation. In 2014, 543 schools were closed due to insecurity.<sup>218</sup> 279 of these were primary schools, one madrasa, 49 secondary schools, 114 high schools, and 61 unspecified. 58,470 students were not attending primary school due to school closure; 21,830 secondary; and 27,328 high school. These figures were also reduced by 30% to account for possible re-entry. For the 61 unspecified schools, the figure was calculated at the lowest possible loss of income (primary level) based on the average number of students in the 279 primary schools for which such data was provided.

There are well-established models for wage determination, which is generally a function of many variables, which always includes but is not limited to level of education. Human capital earnings functions (HCEF) are generally utilized to derive these estimations, which also account for factors such as years of potential experience, age,<sup>219</sup> or other personal, market, and environmental variables through to influence wages.<sup>220</sup> However, given the availability of data, these methods were not chosen for this research. It is also important to acknowledge the limitation in calculation of loss of earnings in that The Asia Foundation earning figures reflect household, rather than individual, incomes. However, as the figures at all levels are for household and the strong correlation suggests a relationship between level of education and household earnings, these figures can still be considered to be reasonably reflective of the costs of lack of education in terms of loss of earnings.

### *Loss of teacher days*

This calculation estimates the amount of lost wages paid to teachers due to school closure. It is calculated according to the total number of attacks or threats on schools or teachers in 2014 according to data provided by UNICEF. Based on the wide range of estimations for duration of school closure in the case of an incident, this calculation is based on an approximated one-week closure per incident. The number of teachers affected per closure was calculated according to the total number of teachers (195,000 teachers<sup>221</sup>) divided by the total number of general education schools in 2014 (16,150 general education schools in 2014<sup>222</sup>), which averages to approximately 12 teachers per school.

## LOSS OF INFRASTRUCTURE

Figures regarding the number of cases of attacks and damage to schools and health facilities was obtained from UN records. However, these do not note the level of severity of the damage or destruction. These calculations are based on the assumption that attacks that were serious enough to be reported and recorded likely incurred at least a moderately

215  $r(6777) = .133, p < .001$

216 [http://www.unicef.org/publications/files/Investment\\_Case\\_for\\_Education\\_and\\_Equity\\_FINAL.pdf](http://www.unicef.org/publications/files/Investment_Case_for_Education_and_Equity_FINAL.pdf)

217 <http://www.classbase.com/countries/Afghanistan/Education-System>

218 Aggregate data provided by UNICEF regarding the number of schools closed as of December 2014

219 Thomas Lemieux, "The 'Mincer Equation' Thirty Years after Schooling, Experience, and Earnings," Center for Labor Economics, University of California Berkeley, Working Paper no. 62, 2003, <http://eml.berkeley.edu/~cle/wp/wp62.pdf>.

220 Robert J. Willis, "Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions," in Handbook of Labor Economics Volume 1, Ed. O. Ashenfelter and R. Layard, Elsevier Science Publishers BV, 1986.

221 <http://www.worldbank.org/en/country/afghanistan/overview>

222 1393 national budget

severe level of damage, and as such the figure of 15% of the average value of the infrastructure based on projects reported in the 1394 development budget were utilized. It is necessary to note that the figures regarding damage to health clinics included attacks on health workers. However, as such incidents regarding damage to facilities are likely underreported, the full figure was utilized.

Figures regarding the estimated damage costs for infrastructure were provided by MRRD for three provinces — Kapisa, Parwan, and Khost — though these figures are likely incomplete due to underreporting and lack of documentation of conflict-related infrastructure damage. The provincial Conflict-Related Risk rating developed by UN OCHA<sup>223</sup> was utilized to scale the estimations of infrastructure damage provided by MRRD for each province. A constant (based on the Conflict-Related Risk rating equal to one) was calculated based on the damage costs provided for the three provinces, then scaled to each province according to their risk rating. The total estimation of infrastructure damage is a sum of the infrastructure damage estimations for all 34 provinces.

## CONFLICT-INDUCED DISPLACEMENT AND REFUGEES

### *Loss of income due to conflict-induced internal displacement*

A 2012 NRC study showed that household income decreases by 21% on average in displacement. This is the most reliable figure upon which to estimate loss of income due to conflict-induced displacement. This approximation was calculated according to the total number of conflict-induced IDPs divided by the average household size among IDPs, times GDP per capita minus 21%. This was calculated for an estimated average 5 years of displacement with the social discount rate of 5.3% applied, based on a review of findings from the same NRC report.<sup>224</sup>

### *Loss of income due to conflict-induced refugees*

This figure was calculated according to the number of refugees in 2014 as reported by UNHCR, multiplied by GDP per capita. Refugees are defined by the 1951 Refugee Convention as someone who has a well-founded fear of being persecuted and is unwilling to avail themselves of the protection of their country; as such, all of these refugees are considered conflict-related for the purposes of this research. This figure was calculated as 80% of refugees in 2014 times GDP per capita for 20 years, with an applied social discount rate of 5.3%

### *Loss of income due to conflict-induced prevention of return*

A study among Afghan refugees in Pakistan in 2011 found that 42.73% cited a lack of security as an obstacle to return.<sup>225</sup> According to UNHCR, there are 2,690,775 refugees originating from Afghanistan. Applying the figure from Afghan refugees in Pakistan, this research estimates that roughly 1,149,768 Afghan refugees are at least to some extent prevented from returning to Afghanistan due to insecurity. As the costing exercise only addresses 2014, the loss of economic productivity was only calculated as the number of refugees prevented from returning due to insecurity in 2014 multiplied by GDP per capita. Though future loss of income will likely also occur, this figure only represents the costs to Afghanistan for 2014 since the future loss is less certain as refugees may choose to return in the future if security improves.

223 "Humanitarian Risk Profile: Afghanistan Humanitarian Needs Overview 2015," UN OCHA, 2015, [http://reliefweb.int/sites/reliefweb.int/files/resources/risk\\_profile\\_guidance\\_note\\_-\\_afghanistan\\_hrp\\_2015\\_-\\_20150601.pdf](http://reliefweb.int/sites/reliefweb.int/files/resources/risk_profile_guidance_note_-_afghanistan_hrp_2015_-_20150601.pdf).

224 Average duration of displacement estimated based on NRC/Samuel Hall data

225 <http://unhcrpk.org/wp-content/uploads/2012/11/PPVR-Report.pdf>