Official Development Assistance as Driver of Socio-Economic Inequality: The Case of Afghanistan

Context: economic situation in Afghanistan

When President Ashraf Ghani of Afghanistan was inaugurated into office in September 2014, he vowed to make economic growth and job creation the two most important priorities of his mandate. President Ghani made clear that the economic and security agenda of the country were strictly entangled, as there could be no peace without alternative and viable livelihoods for the many Afghans that had been involved in the country's long string of civil and international wars. He clearly needed addressing two separate yet inter-related sets of problems: on the one side, economic survival over the short term; on the other, structural adjustment of economic and fiscal issues. The two set of issues vied for the same limited resources: whatever was "invested" in creating short-term, contingent jobs and buying social peace, could not be used in creating long-term reforms aimed at adressing low fiscal revenues, poor public finance management practices, lack of investments and poor business regulatory frameworks.

Around that time, the already poor short-term economic outlook of the country was just about to worsen, showing how there could be no sustainable planning without short-term financial survival. In the preceding months, Afghanistan's fiscal capacity had been severely affected by an extremely lengthy Presidential electoral process; weak enforcement of revenue collection; progressively shrinking Official Development Aid (ODA), Other Official Flows (OOF) and Private Flows (PF) disbursements and; the international military disengagement spearheaded by the US military withdrawal. Such negative trend was confirmed by the worsening of all risk and sustainability indicators in the course of 2014, including the domestic revenue to operational spending ratio; the salaries to total spending ratio and; the grants to total revenues ratio. The consequences of such short-term downturn had already become evident in the months before and were to result in the Afghan Ministry of Finance declaring a fiscal shortfall for the fiscal year 2014 of USD 537 Million. This financial gap was subsequently plugged by the international community, which advanced the disbursement of payments that were already forecasted for 2015 and lobbied the Afghan Government to introduce some austerity measures in the following budgets. International requests for increased budget coordination and transparency, including fight against corruption, revised fiscal norms and improved business regulatory frameworks were also part of the international response.

Beyond the immediate fiscal crisis and short-term financial needs, President Ghani faced more structural problems. Since the NATO invasion, the international community had channelled USD 450 Billion to Afghanistan via ODA, OOF and PF;[1] despite this massive effort, the economic situation of the country remained grim. In 2014, the latest version of the National Risk and Vulnerability Assessment (NRVA), which was based on assessments carried out in the period 2011/12, had found that food security in the country was worsening, with 30.1% of Afghans (up from 28.2% in 2007/08) having an insufficient calorie intake to sustain a healthy and active life; that poverty levels were remaining stubbornly high, with 36.5% of the population having a consumption pattern below the poverty line; that job opportunities were not being created, with 6.6 Million employed people down from 7.45 Million in 2007/08 and; that inequality was widening, with the GINI coefficient up to 31.6% from 29.7% in 2007/08.[2]

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[1] Source: ODA QWIDS. This is the sum of ODA OECD-compliant funds (complying with the following conditions: grants or loans undertaken by the official sector; promotion of economic development and welfare as the main objective and; concessional financial terms – e.g. if loans, they need having a grant element of 25% at least), Other Official Flows (transaction by the official sector which do not meet the conditions for ODA, either because not primarily aimed at development – e.g. military spending or because loans with a grant element of less than 25%) and Private Flows (flows at market terms financed out of private sector resources – e.g. changes in holdings of private long-term assets held by residents of the reporting country and private grants – or grants by non-governmental organizations and other private bodies, net of subsidies received from the official sector). Source: OECD DAC Glossary http://www.oecd.org/dac/stats/dac-glossary.htm#OOF

[2] National Risk and Vulnerability Assessment 2011/12, Central Statistic Organization, Kabul, February 2014.

These data were in stark contrast with the rhetoric of "Afghan success" trumpeted both by the previous Karzai administration (2004 – 2014) and a large part of the international community. In international media, the rhetoric of successful intervention in Afghanistan had been defended on the ground of dramatic improvements in the rights enjoyed by the Afghan population, and particularly by Afghan women. These claims were perhaps part of State propaganda on both sides, but were no lies. Compared to previous editions, the 2011/12 NRVA portrayed remarkably positive results in a number of social indicators, including: i) education, with net primary attendance ratios for girls and boys at 48% and 64% respectively, up from 29% and 43% in 2005 and 42% and 60% in 2007/08; ii) reproductive health, with the proportion of women served by skilled birth attendants increased to 40% compared to 16% in 2005 and 24% in 2007/08 and under five mortality rate down to 91/1000 from 161/1000 in 2007/08; iii) use of improved drinking water sources, with 46% of the population having access to safe drinking water compared to 27% in 2007/08 and; iv) access to electricity, with 69% of households having had access to some source of electricity in the month preceding the survey, up from 23% in 2005 and 42% in 2007/08.

How a catastrophic macroeconomic, fiscal and employment situation could exist side by side with remarkable advancements in some social indicators was a question that left many a development practitioner puzzled. Yet, the NRVA itself provided some insights as to how these two antonymous dynamics could coexist in Afghanistan.

On the one side, agriculture contributed for 27% of the Afghan GDP, despite representing a source of income for half of the total population (49%). This discrepancy suggested that Afghan agriculture was marred by low productivity (subsistence farming, no mechanization), lack of specialization (strong prevalence of crop) and lack of access to credit facilities and outlet markets, both domestically and internationally. This was hardly surprising after more than three decades of war and the consequent loss of agricultural capacity, know-how, networks, resources and structures. The report further suggested that the secondary sector's contribution to the GDP was marginal (14.2% of the GDP), thus reflecting an economy with little to no manufacturing capacity and therefore extremely low value-adding opportunities. This picture was also confirmed by the Afghan trade structure, indicating that all high value-added products in the domestic market were imported, while all exported products were either at the raw stage or had gone through limited processing/transformation – such products included dry fruits, carpets, medicinal plants and animal by-products such as wool and skin.

On the other side, the NRVA picked-up a burgeoning service sector (54.4% of the GDP), despite the fact that it employed only 28.4% of the active population. These figures reflected the weight of extremely profitable service industries, including real estate; security; communication; supplying; logistics and; transport. To the insiders of the Afghan economy, it appeared however evident that booming figures were more related to business opportunities granted by the international presence and Government spending – often time via heavily corrupted procurement systems – than to anything else. These businesses and job opportunities, along with their handsome profits, had long benefited selected economic players close to Governmental circles, with little trickle down effects to the majority of the population, which remained mostly engaged in the first and secondary sectors.

Clear unbalances further showed from comparing the evolutions of the GDP structure with the labour structure (since 2002, the GDP percentage of the agriculture and manufacturing sectors had been shrinking, while services and construction GDP percentages had been growing - however, the service sector continued employing a relatively small share of the labour population, while most jobs remained in the agricultural sector); from the trade balance (USD 376 Million of exports against USD 6.39 Billion of imports); and from the Current Account (which, despite the massive ODA inflows, has remained negative in 3 of the last 6 fiscal years).[3] Inwards Foreign Direct Investments (FDI) levels were also low, with 747 Million USD officially entering Afghanistan between 2007 and 2014.[4]

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[3] The Afghan current balance was +510 Million USD in 2007; -1,619 in 2008; -1,828 in 2009; -2,688 in 2010; +398 in 2011 and +800 in 2012. Source: UNCTAD

[4] Ibid.

In sum, the NRVA depicted a dual economy. The first, which can be considered the 'real Afghan economy', where the vast majority of Afghans lived, was failing to create national productive capacity, jobs and, ultimately, sustainable fiscal resources to promote poverty reduction. Many Afghans living in this economy were enjoying social services financed, engineered, provisioned and monitored by foreign agencies (national development agencies, international organizations, non-governmental organizations, think tanks and private corporations), but remained at bay from the possibility of contributing towards or benefiting from an expansion of 'their' economy. The second economy, which could be called the 'foreign-steroidized economy', was the war and ODA/OOF economy, fuelled by a mixture of resources, mostly made available by the international community via military and development spending, but also by the insurgency via opium trade, arms smuggling and terrorist activities. The relatively few Afghans that could access this economy, in the good or the bad, enjoyed salaries and networking opportunities the others could only dream of.

Under the push of the 'foreign-steroidized' economy, both the nominal GDP and social indicators grew at enviable rates throughout the 2000s. While service delivery was improving steadily via ODA/OOF spending and social elites were enriching themselves by providing contracts to foreign agencies financing those services, little budged in the real Afghan economy, which remained largely dependent upon subsistence farming, petty trade and hand manufacturing. While the burgeoning 'foreign-steroidized economy' travelled on a fast lane powered by dozens of millions of USD injected on a daily basis, the real Afghan economy was running its own course on a much slower lane. The two lanes intersected at times, for example when foreign agencies hired locals, purchased services from local companies or sustained the Afghan public budget in maintaining a large, inefficient and rent-seeking administration. These 'intersections' also allowed for some trickle-down effects. Yet, most Afghans only interacted with the fast lane by enjoying services provided by an exogenously-financed and implemented welfare system, while the real Afghan economy they lived and worked in was not creating sustainable jobs or businesses opportunities.

The long-standing role of war and development aid in the Afghan economy

Such a peculiar situation had not suddenly fallen from the sky, being rather the result of complex interactions between natural and cultural factors; domestic policies and; relations with the international community. President Ghani himself, as a previous Minister of Finance (2002 – 2004) and Chancellor of Kabul University (2004 – 2008), had the opportunity to witness many of these dynamics at work, including the implications of foreign spending upon employment and security levels in the country.

In fact, the new National Unity Government (NUG) that President Ghani begun leading in 2014, immediately suggested that a key factor in and likely contributor to the protracted lack of security in the country had exactly been the little opportunities for non-war, non-foreign aid related jobs. In the period 2001 – 2014, security-related activities and ODA/OOF represented the most dynamic national economic sectors, whether seen in terms of aid-delivery; state defence budget; foreign military contributions and procurements; military insurgency groups or; opium cultivation. Collectively, these activities continue today to account for the largest part of the Afghan GDP and provide direct or indirect livelihoods to the other public sector, the socio-economic elites and a vast network of clients.

A number of elements had contributed in creating an economic vacuum in which war-related activities and management of foreign aid were allowed to become the largest national industries, while contributing to the structural economic weaknesses of other sectors. These elements can be grouped under two headings: i) domestic factors, including geopolitical, demographic and cultural factors and; ii) international factors, including foreign financial injections and Afghanistan's international alliances.

National factors

Afghanistan is a land-locked, Least-Developed Country (LDC) in the heart of Asia. The geography of Afghanistan has set the course of its political and military history for millennia, characterized by invasions from Iran, Central Asia and India. In contemporary history, Afghanistan became first a land of contention between the British and Russian empires within the larger 'Great Game' aimed at controlling Central Asia (1813 - 1907) and later the theatre of one of the most dramatic Cold War chapters (1979 – 1989), with a bitter proxy war fought on behalf of the Soviet Union and the United States. The current NATO-supported political system (2001 -) emerged from a failed State that had been controlled for more than a decade by warlords and their ethnic-tribal networks, which allowed substantial access and protection to radical Muslim jihadists, from the Gulf and beyond.

Afghanistan's history of invasions and protracted wars has contributed, among other factors, to low levels of capital accumulation and investments, two elements that have been compounded by a virtual absence of manufacturing or industrial traditions, poor interconnectivity with the region and scarce infrastructures. Since the 1960s, social and economic poverty has settled in Afghanistan notwithstanding the many comparative advantages the country could have leveraged – including by exploiting its geostrategic position, mineral wealth, climatic variety, extraordinary amounts of water and pockets of exceptionally fertile land. A parcelled and unequal distribution of land, poor public administration, diversified ethnic composition and lack of national standards along with scattered governmental control over the territory – a situation masterfully portrayed by the 'Swiss cheese' metaphor of Thomas Barfield – further contributed in shaping a structurally weak national economy.[5]

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[5] Thomas Barfield notices that, with its dispersed rural population organized in self-governing villages centred on clans and tribal groups, Afghanistan lacks the consistency of control of the territory that characterizes Europe and North America. This situation was inherited from the Turk-Persian world, where '[…] Empires were cobbled together with large stretches of sparsely populated territory separating the main centers of agriculture and urban life. Rulers here sought direct control of these centers and lines of communication among them while largely ignoring the rest. They employed a Swiss cheese model of the polity that did not assume uniformity across the landscape or their control over it'. In Barfield, Thomas (2010). *Afghanistan. A cultural and political history*. Princeton: Princeton University Press, p. 68

Afghanistan's traditionally large uneducated young population has also done little good to national development, serving instead as a generous reservoir of fighters for insurgency groups of all faiths and political affiliations. Today, Afghanistan continues having one of the youngest age structures in the world; in the last 5 years, over 5 million new-borns have come to represent roughly 20% of the population and pushed upward an already unsustainable dependency ratio: for every 100 persons in the working age 15-64, there are 104 persons in the less productive ages of under-15 and 65 and over, who are dependent for income and subsistence. The dependency ratio in Afghanistan is worsened by the fact that only 19% of working-age females are active in the labour market. This means that, both in the past and in the future, any potential GDP/per capita gain that the country may achieve as a result of increased productivity is likely to be statistically 'eaten away' by the large wave of new-borns, on top of a still large proportion of working-age population being unemployed or underemployed.

Cultural elements also contributed in driving the Afghan economy to where it is today. Since ancient times, Afghanistan has been characterized by a culture of tribalism and ethnic clienteles. Contacts with the British administration in the XIX Century have furthered a bribe culture and a social acceptance of corruption.[6] Today, Afghanistan is ranked as the fourth-most corrupted country in the world according to the 2014 Corruption Perception Index.[7] Deviation of public resources by local powerbrokers, commercialization and sales of public positions and widespread corruption at all levels of government and society remain normal features of the Afghan society.

Vast corruption among the public ranks goes hand in hand with weak professional and national identities across the society. Since 2002, the lack of a sense of national responsibility among the political elites and the wealthier strata of the population showed from their unwillingness to translate profits deriving from the war economy bonanza into investments favouring the Afghan society at

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[6] Barfield (2010: 122)

[7] Transparency International (2014). Corruption Perception Index

large. Afghanistan's incapacity to generate fresh and sustainable jobs hints to the fact that the beneficiaries of the war economy failed to re-invest their profits in national activities. Booming profits for a selected minority active in the service sector coupled with lack of re-investments in labour-intensive sectors is what contributed to widening inequality levels. Although capital flight estimates in Afghanistan are not readily available, anecdotic evidence suggests that unrecorded overseas transfers of financial assets – particularly towards Dubai, Istanbul and other Islamic financial centers – represented a large phenomenon throughout the last decade.

International factors

When it comes to international economic factors, some of them seem having played a peculiar role in the economic history of Afghanistan and its current situation, while others could be easily related to common features in the politico-economic relations between high and mid-income countries on the one side (donor community) and low-income and least developed countries (beneficiaries) on the other.

Since the NATO invasion of 2001, Afghanistan has witnessed exceptionally high financial inflows, given both by military spending and ODA/OOF disbursements and trickle-down effects. To date, development aid efforts in Afghanistan remain unmatched in the history of ODA. Much to the credit of the donors' community, some remarkable results have been achieved, including in the education, health and infrastructure sectors, as well as in the advancement of women's rights.

These results should not be taken for granted: ODA/OOF disbursements in Afghanistan have faced an extraordinary set of challenges. Exceptionally large financial flows have translated in higher than normal donor coordination problems, high chances of suboptimal outputs, endemic corruption and a general state of isolation from economic reality.[8] Also, following the NATO occupation, the country has been divided by NATO forces in four sectors and a number of sub-sectors. These areas have been subsequently assigned to different NATO members for civilian and military supervision; faced with the task of directly administering occupied regions for a limited period of time, foreign Provincial Reconstruction Teams (PRTs) have naturally privileged short-term results over long-term development strategies.

Other elements yet are entangled with the nature of development aid more generally, in Afghanistan as elsewhere. Typically, OECD ODA compliant aid programmes focus on service delivery; distribution of consumable goods; infrastructure development and; improvements in the legal and economic regulatory environment. Almost no ODA funds are channelled towards capital investments; sizeable entrepreneurial ventures; market acquisition/consolidation or; technology transfer.

This is also the case in Afghanistan: between 2002 and 2014, the World Bank's Afghanistan Reconstruction Trust Fund has channelled some 5.16 Billion USD in programmes promoting service delivery,[9] including the National Solidarity Project (NSP) and the Afghanistan Rural Access

[8] Kabul-based journalists Matthew Atkins provides a witful account of life in Afghanistan during the aid-bonanza years: '[…] Out of the $104 billion appropriated [by the US] since 2002 for rebuilding the country, $64 billion was earmarked in the past four years – this in a country with an annual GDP of $20 billion. There was so much money in Kabul that even with all the waste and corruption – by 2011 up to $60 billion was lost to fraud and mismanagement in Iraq and Afghanistan – much of it went unspent. Organizations were desperate to up their "burn rate" and clear out their budgets before the year's end so they could ask for more the next year. It was so easy to make money in Kabul that it felt like we were all citizens of some Gulf oil state. If you could string a few coherent sentences together into a grant application, odds were that there was some contracting officer out there who was willing to give you money, no matter how vapid your idea. Want to put on a music festival in Kabul? Here's a few hundred thousand. Shoot a soap opera about heroic local cops? A million for you. Is your handicraft business empowering Afghan women? Name your bid'. Matthew Atkins (2014), Last Tango in Kabul, Rolling Stones.

[9] ARTF Financial report from 04/08/2002 to 11/30/2013: total receipts USD 6,891,985,806; total disbursement USD 5,160,734,795

Programme (ARAP) (rural infrastructures and capacity building); the System Enhancement for Health Action in Transition Project (SEHAT) (health services and capacity building); and the Education Quality Improvement Programme (EQUIP) (educational services and capacity building). Similarly, UN-administered programmes have disbursed an average of USD 715 Million/year worth of emergency job programmes and welfare services,[10] including through the Law and Order Trust Fund for Afghanistan (LOTFA) (police training, services and infrastructures, 7.03 Billion USD disbursed between 2002 and 2014); the National Area Based Development Programme (NABDP) (rural infrastructures and capacity building, 199 Million USD disbursed between 2002 and 2014); and the Afghanistan Sub-National Governance Programme (ASGP) (institutional capacity building, 100 Million USD disbursed between 2006 and 2014).

While the debate on ODA priorities and development strategies remains open among development economists, there is little doubt that service-delivery programmes in Afghanistan have contributed in improving living condition but failed to create productive capacity, jobs and, ultimately, sustainable poverty reduction. This shows from the data seen above, and particularly from the little or even negative changes between 2007 and 2012 in employment levels (in 2007/08 the employed population was 7.45 Million people against 6.6 Million people in 2011/12);[11] from the low value-added content of national agricultural (wheat, maize, potatoes) and manufactured (bricks, textiles, soap, furniture, shoes, fertilizer, apparel, food-products, non-alcoholic beverages, mineral water, cement, hand-woven carpets and a still under-exploited mining sector) products; and from the absence of national value-chains worth of notice.

[10] UNDP expenditure 2010: 769 Million USD; 2011: 744 Million USD; 2012: 633 Million USD Dollar. Source: Audit of donor relations in UNDP Afghanistan, 17 July 2013

[11] Since the definition of employment/underemployment/unemployment is not fully consistent between the NRVA 2007/08 and 2011/12, the two indexes are not fully comparable. However, the absolute number of employed persons (fully employed + underemployed) reported above; the absolute number of unemployed person (568,000 in 2007/08 against 600,000 in 2011/12); and the employment-to-population ratio (the proportion of the working-age population that is employed, 62% in 2007/08 and 45.7% in 2011/12) suggest that the employment situation has worsened.

While some ODA activities focus on productive activities, these programs are usually marginal both in size and in their positioning within the OECD donors' development strategies. This is also true in Afghanistan: private sector development (Afghanistan Rural Enterprise Programme), micro-credit (ARTF micro finance support for poverty reduction) or market agriculture (Comprehensive Agriculture and Rural Development Facility) programmes only mustered limited financial support. Larger 'hybrid' programmes – e.g. welfare-like programmes with some productive component – such as the NABDP are unlikely to promote a virtuous cycle of increased value-adding activities, sustained demand, larger investments and, ultimately, sustainable and inclusive growth.

A direct consequence of the welfare bias of ODA programmes is that they do not create sustainable economic demand. Lack of jobs means a weak tax basis and little disposable income, which translates in low consumption. This is particularly true in Afghanistan, where the largest part of private consumption is directly (militaries, NGOs, diplomatic personnel) or indirectly (services to foreigners) commanded by the international community. Since roughly 70% of the State budget is financed through domestic revenues, international grants are also behind the largest part of the Government's investment and consumption capacity.[12]

Under such scenario, it is little surprising that the massive withdrawal of militaries and civilian contractors and the scaling down of ODA/OOF expenses has immediately impacted existing levels of GDP growth: since 2014, the Afghan economy has witnessed a remarkable slowdown, passing from an average growth rate of 9.4% per year in the 2003-12 period, to 2% in 2014. Paradoxically, since the trickledown effect from the service sector has not happened, Afghan poor are mostly remaining insulated from the negative effects of the current sluggish growth.

[12] This has been the case for the Afghan budgets relating to fiscal years 2014; 2015 and; 2016.

The Afghan developmental case in comparative context

Are these national and international factors enough to explain the current economic situation in Afghanistan and are their constitutive elements sufficient to determine its economic future? We argue that, while they must be part of any balanced analysis, they do not necessarily represent the only explanation for the predicament in which the Afghan economy is – at least if considered singularly.
The academic literature of disparate disciplines – including development economics, geopolitics, law, anthropology and political science – offer a wealth of examples of nations which, having experienced similar conditions, have still managed to engage in public policies eventually leading towards improved economic and social conditions for their population.

Botswana and Kazakhstan are land-locked countries enjoying higher GDP per capita levels and social standards than the average regional trading blocs they sit into, which include countries with access to the sea. Although Switzerland, Austria and Luxembourg developed in a different century and under different structural economic conditions, they also bear testimony as to the different economic specializations that land-locked countries can potentially tap into. Liechtenstein is one of the only two double-land-locked countries in the world and at the same time one of the wealthiest States in the world.

Worldwide, high fertility rates correlates positively with low capital accumulation and low GDP per capita levels. Yet, most Muslim resource-rich countries, including Iraq, Oman and Saudi Arabia, have managed to couple relatively high Total Fertility Rates (TFR) with medium to high GDP per capita levels.[13] Smaller countries such as Laos have managed to achieve relatively high living standards despite high TFRs and low nominal GDP per capita levels. The capacity of national Governments to put in place measures aimed at curbing demographic pressure – from draconian measures in China to milder policies in India – should also not be underestimated.

[13] According to the World Bank, Iraq has a TFR of 4.1; Oman 2.9 and; Saudi Arabia 2.7.

Countries like China, Brazil, Spain and Italy all shared a culture of corruption in the years before their economic booms – such cultures have stubbornly persisted *during* the boom years. In fact, Chinese President Xi Jinping's recent clamp down on the culture and practices of State corruption in China has been positively associated to slumps in economic growth not only in Mainland China if not in a number of satellite economies, including Hong Kong and Macau. Corruption has at times worked as oil greasing the clog wills of fast-expanding economies: leakages were tolerated as long as the engine continued performing well. The major difference between these countries and Afghanistan – or large chunks of Sub-Saharan Africa for that matter – is the capacity of the political system to control and use corruption rather than being overwhelmed by it.

Some countries that have long been beneficiaries of large ODA inflows between the 1960s and the 1990s have managed a remarkable degree of emancipation from social phenomena and cultures that are too often correlated to aid, including dependency, corruption and polarizing wealth within the society. Examples include Ethiopia and Vietnam, two countries which passed from being ODA-dependent States in the 1980s to becoming successful promoters of major investment and manufacturing public programmes in the 2000s.

On the other side, there are few cases in history, if any, of a country managing to increase wealth and advance sustainable social development during protracted civil or international wars. The GDP boost associated to Western countries entering the First and Second World War was more the result of a planned, ordinate and timely set of public policies – including full occupation, state-led investments and war financing – than to the inordinate chaos in which civil wars in low-income countries normally happen. Afghanistan is no exception and the almost uninterrupted state of war in which the country has plunged since 1979 has not only prevented successful policy making, but also disrupted the little that had been built before.

Hence, with the remarkable exception of war, which in Afghanistan has represented a long-standing feature in its contemporary history and a compelling element of its national economy since 1979, most of the elements considered above do not necessarily determine a nation's fate. There is nothing structural in the Afghan economy that warrants a deterministic predicament for the country. Yet, several contingent variables have come to overlap and have at times interacted in a mutually-reinforcing fashion. Insecurity has fed a political system and an economy whose management and beneficiaries have much to gain from a state of protracted war or volatility. Because the region Afghanistan sits into is prized by world-powers, it also stands good chances of receiving sustained levels of interest in the future. For different reasons, the national and international elements bearing influence upon politico-economy setting seem to have staggered the cards against the development of Afghanistan.

The Ghani administration's economic strategy

Since September 2014, President Ghani has taken firm steps on some of the policy variables discussed above. Among the very first acts right after taking oath, there have been a forceful prosecution of people involved in major cases of embezzlement of public money, including in the Kabul Bank case, and the subsequent devise of a more articulated *jihad* against corruption. Exceptionally among Governments of Least Developed Countries with strong political and diplomatic ties to the donor community – and particularly with the US and EU –, the Ghani administration has recognized that part of the country's economic problems lie with the ties it entertains with its OECD allies. President Ghani has identified 'the root cause of Afghanistan's current economic weakness in the country's dependence on aid and military expenditures rather than on a vibrant, functioning real economy'.[14] According to him, '[...] this has happened because of the way aid has been delivered so far'.[15]

[14] Islamic Republic of Afghanistan (2014), *Realizing self-reliance – commitments to reforms and renewed partnership*. London Conference on Afghanistan, December 2014, p.12. Ashraf Ghani also expanded on this point in a public lecture: '[…]

On the basis of his interpretations, the Presidency has long mulled a fairly innovative intervention programme. Part of this programme buys into the traditional liberal-economic agenda,[16] being largely compatible with Washington-inspired reforms, including via an IMF Staff Monitored Programme (SMP) and the planned opening of an IMF Extended Credit Facility (ECF).[17] However, there are signs that Afghanistan is also seeking economic and political space from more heterodox measures.

President Ghani's economic recipe seems being inspired by a specific breed of theoretical thinkers and historical experiences in development practices,[18] and few people in the Afghan administration have

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The economy got distorted because ISAF/NATO became the largest economic actor in the country. The unintended presence of a very large military organization was a major economic distortion [...] the transport sector grew to account for an amazing 22% of GDP because trucking for supplies was Afghan. [Same for] The construction sector [...] [on the other side] every year the percentage of agriculture in the GDP has declined. A lot of cash came but it did not become capital [...] given all this, when we started the security transition I wrote a paper arguing that the economy would face very significant challenges. Unfortunately our colleagues in the development community did not buy my argument. They were very optimistic, and their projections [...] I argued that the rate of growth could come down to 2% or approach 0, and that's where we've reached', Chatham House, 4 December 2014.

[15] Realizing self-reliance, p. 7.

[16] 'The proper solution to what will otherwise be periodic cycles of fiscal imbalance is for the Afghan state to provide the private sector with clear and secure property rights (both urban and rural), a reliable system of justice to protect them and increased global and regional market access'. Realizing self-reliance, p. 13

[17] On 20th March 2015 the IMF announced having reached a staff-level agreement with the Afghan authorities on macroeconomic policies and structural reform agenda, which have subsequently been supported by a nine-month Staff-Monitored Program (SMP). Structural reforms are focusing on: (i) revenue mobilization, expenditure control and repayment of arrears; (ii) financial sector reform to deal with weak banks, promulgate and implement the new banking law, amend the central bank law, strengthen banking supervision, and address weaknesses in state banks; and (iii) better economic governance by strengthening anti-corruption, anti-money laundering and countering the financing of terrorism.

[18] In public fora, meetings with the international community and past academic work, Ghani has directly referred to or indirectly showed influence from the works of Peruvian economist Enrique de Soto; Professor Kim Song Tan at the Singapore Management University; and Professor Mohammad Humayon Qayoumi of San Jose State University. The developmental experiences of South Korea, Taiwan and Colombia are often cited as potential models for emulation.

shown the technical background or political willingness to counter his arguments.[19] Such recipe prioritizes the role of the State in pushing for investments in agriculture, mining and regional connectivity.

The Afghan Presidency sees the agriculture sector as the largest source for job creation and poverty reduction and is aware of the need for large, multi-sectoral investments and diversification away from crops. The baseline is dismally low, both in terms of domestic value-added (50% of the Afghan population derives some income from agriculture, but agriculture only contributes for 27% of GDP) and international trade (in 2013, total exports in all merchandise categories amounted to USD 515 Million against USD 8,724 Million of imports in the same category, with licit agriculture roughly accounting for half of Afghan exports in goods).[20]

The extractive industry, which theoretically has enormous potential as estimates place the country's mineral riches at 1 Trillion USD, is identified as the second key sector. Yet, it remains unclear who the key players will be. Ghani is on the record despising western mining companies.[21] He has no special sympathy for Chinese State-Owned Enterprises (SOEs) either - suggesting that Afghanistan will avoid falling for the poor contractual terms that a number of African countries have accepted with Beijing. However, he seems to be more appreciative of some 'very productive' Chinese investments in

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[19] To have a sense of the superficiality of some Afghan institutional analyses, suffice it to say that, with 70% of the budget depending upon direct foreign financing and the remaining 30% depending upon taxes largely raised on imports paid through foreign financing, the budget 1394 takes pain to explain that 'according to predictions of MoF, any additional expenditure of the government amounting [to] Afs 140,600 (USD 2,450) will result in [one] more employment opportunity within the economy' – as if the job-creation recipe of a bankrupt government could simply consist in raising public expenditure.

[20] Data: UNCTAD Stats; The observatory of economic complexity.

[21] '[…] mining companies in the west did horrors everywhere in the world, and we are learning from those. Look at some of the same companies, now they talk of corporate responsibility, but their histories are written in blood and toil'. Chatham House, 4 December 2014.

Latin America. He promised to act to 'make sure that Afghanistan gets a reasonable share of the rents from extractive industries'.[22]

Accordingly, Afghanistan is set to become a tough negotiator for international investors, both on legal provisions that have already been adopted and on ongoing business negotiations. The Mining Law adopted by the Karzai administration in May 2014, which has since come under criticisms from different angles,[23] has been scrutinized by the new administration with the intention of introducing amendments. At the same time, the Afghan Ministry of Finance has been re-thinking the strategy for mining and exploring the appetite of local and international banks to support small Afghan mining companies.

The government negotiates however from a position of weakness: no capital, fragile political unity, high regional fragmentation and an informal/illegal mining exploitation well underway. Arguably, such a weak negotiating position already reflects in the existing Mining Law, which seems to leave more bargaining power to investors than to investees. In particular, the Law's Article 83 on royalty payments does not set basic rules to ensure that royalties are paid based on the full and fair market value of minerals extracted; article 110 establishes relatively weak local procurement rules; and there is no requirement on the debt-to-equity ratios of investing mining companies.[24] China, which has long been re-negotiating the initial generous terms offered in 2007 to secure mining rights at the Aynak copper mine, is possibly trying to capitalize on these Afghan protracted weaknesses.[25] Fact is that the

[22] Realizing self-reliance, p. 17.

[23] including by the civil society for lack of transparency on bidding and awarding procedures; lack of obligations in publishing ordinary exploitation and exploration contracts (contrary to large mineral development contracts); and weak provisions on conflicts of interest between certain categories of people (including MPs and judges) and indirect interests in mining licences.

[24] High debt-to-equity ratios in the mining industry are seen as a standard corporate trick to minimize tax liabilities.

[25] Reportedly (Adam Smith International), the Metallurgical Corporation of China (MCC) offered to pay royalties as high as 35% (but a Financial Times article refers to 19.5% max, in line with the standard mining royalty rate in Afghanistan), as well

mismatch between Afghan aspirations and conditions has already prompted the Minister of Mining to suggest that little will happen in the next ten years.

The NUG also places great importance upon Afghanistan's potential to become a transition and logistic hub for central and southern Asia. Focus has been put on transport, energy, telecommunications and logistic. The Presidency indicates investments for infrastructures aimed at regional integration as a fundamental part of the economic strategy: Central Asia South Asia 1000 (CASA 1000); Trans-Afghanistan Pipeline (TAPI); Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan electricity trade (TUTAP); Heart of Asia; Lapis Lazuli Corridor and; Silk Road Corridor are all initiatives high in the Government agenda. Infrastructure development is a capital-intensive sector: Ghani lamented the high costs of projects attached to foreign grants ('[…] neighbouring countries are developing the same infrastructures for much less!'),[26] but the government has no fiscal capacity to build these infrastructures outside the ODA framework, which comes with its built-in costs and which is set to diminish anyway from 2017 onwards.

On trade, the NUG has given signs of being aware that theoretical no-trade restrictions granted by OECD partners have little if any commercial value at all for the Afghan economy. Access to the WTO in 2016 is unlikely to change this scenario. At present, Afghanistan does not have the expertise, manufacturing capacity or capital goods necessary to produce and export goods or services to hard-currency markets. The Government has requested assistance from global corporate players, asking them to source primary products from Afghanistan while stopping financing 'symbolic activities' with little or no commercial value – fair trade initiatives, embroidery, work-from-home trainings and similar. Instead, Afghanistan is asking to start integrating small national agri-producers and

as building a 400 megawatt power plant, construct vital infrastructure and provide social amenities like schools, clinics and mosques. The Chinese are now negotiating substantial reductions on royalties as well as educational, health, and housing services to employees. Previous experiences from oil negotiations in Angola suggest that Chinese SOEs may routinely recur to overly generous offers to secure highly competitive bids, to subsequently re-negotiate from a position of strength.

[26] Ghani – UN Meeting, Kabul, 2014.

manufacturers into global value chains. Similarly, Ghani has belittled the logic and finalities of micro-credit, asking instead for real, sizeable investments.

On direct state economic intervention, being aware of the political risks of a stagnating employment market, the NUG is pushing the international community to sponsor a large labour-intensive programme (Jobs for Peace). The Ministry of Education has signalled that 60% of the 200,000 Afghan students graduating every year from secondary school (grade 12th) do not pursue further education and look for technical jobs that the market is unable to offer. Thus, the Ministry of Economy has been looking at opportunities to add 'entrepreneurship' as a subject in the Afghan curriculum, hoping to turn some of these youngsters from job-seekers into small entrepreneurs and employers.

The NUG economic strategy seems to have taken on board most of the recommendations made by the Afghan business community on the side of the December 2014 London conference. In particular, Afghan entrepreneurs plead for: i) prioritizing agriculture and rural development, with a focus on vast irrigation projects and promotion of agro-processing rather than support to subsistence farming; ii) focus mining investments in the infrastructures necessary for its development (railway, roads and electricity) rather than on issues relating to creation/regulation/control of investments; iii) supporting private investments, start-ups and SMEs by way of rationalizing/simplifying the business regulatory environment; creating a qualified labour supply, also by strengthening technical and vocational education and training and; facilitating access to credit and protection of investments with a particular attention to the electricity sector; iv) promote direct economic state intervention via publicly-funded industrial parks and Public-Private Partnerships (PPPs).

While it remains unclear whether the NUG economic strategy will yield concrete results, it is increasingly clear that all economic operations are carried out under stringent timelines. Stagnant economic results in 2014 and 2015 have immediately translated in declining popularity for the President and the NUG. If the recent economic slowdown is directly related to a long-scheduled international disengagement (and the prized rhetoric of Afghanistan's recovered sovereignty) is something that remains largely irrelevant to 'real people in real streets', who are simply looking for improved livelihoods and are prone to blame Government performances for the recession. The mid to long-term sustainability of the economy may therefore not represent the most vital of the problems in a country where the political imperative of surviving tomorrow carries ontological, chronological and logical priority over anything else.

Conclusion: Afghanistan's long-way towards economic self-sustainability

Two interlinked inferences can be drawn from the above analysis. The first is that Afghanistan will not achieve any degree of sustainable economic development until the security situation has been addressed. This should not only be understood in the relatively simplistic and yet crystal-clear terms of liberal economics – no peace no investments – but also in terms of the current incentives that the war and aid economy is providing to a heterogeneous class of Afghan politicians, businessmen and job-holders. Until the ground has been cleared from the mechanisms and actors profiting from the 'foreign-steroidized economy', there will be little chances of development in the 'real Afghan-economy'.

Both the international conjuncture and the NUG are working in weakening these incentives: ODA/OOF injections are shrinking; the administration is clamping down on predatory behaviours and nepotisms in the public administration; national policies and programmes have been introduced to favour national investments and production, in the hope that this could lead to some degree of import substitution and access into foreign markets. The fundamental issue of security spending remains however open, as NATO/OECD countries might decide to continue engaging fresh resources to avoid losing Afghanistan to ISIS or to the Talibans.

The second, interlinked, inference is that Afghanistan will not achieve any degree of sustainable development through the economic policies underpinning the ODA/OOF agenda. Mid to long-term economic problems, in Afghanistan as elsewhere, remain largely unaddressed by ODA/OOF. Programmes specifically targeting sustainable economic growth and sustainable job creation remain rare in the world of development aid. In Afghanistan, ODA data organized by National Development Strategies (ANDS) priorities show that only 3.5% roughly of the total on-budget external assistance the country received between 2002 and 2010 went to private sector development, the rest being provisioned to service delivery in sectors with limited or only indirect capacity to generate growth, including infrastructures; (subsistence) agriculture; governance; social protection; education and; health.

A possible reason for this is the donor community's risk-aversion in supporting more politically difficult measures, including moving away from service delivery to take financial and reputational risk on the more complicated economic agenda. Another reason could be its intention to displace worrisome effects (channelling external financing into long-term investments will take away welfare resources currently used by the Government to provide basic essential services, to buy the political support of its constituencies and to survive tomorrow) at a time in which Afghanistan will not be on the international priority agenda anymore.

Fact is that over the mid to long-term, Afghanistan needs a strong programme of public intervention in the economy. This may happen via state-owned or participated companies; public incentives; public-private partnerships or; market distorting measures in whatever sector will prove most cost-effective: mining, energy, transport, agro-processing, low-technology manufacturing or else. If the Government does not spearhead this process, no one else will do it, except perhaps major foreign mining companies, at conditions that will likely keep the Afghan elites happy while leaving a pittance to the population. In the interest of its future, Afghanistan needs today substantial public capital investments, not social welfare.

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