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**SUB-COMMITTEE ON
TRANSATLANTIC ECONOMIC RELATIONS**

**FINDING WORKABLE SOLUTIONS IN
AFGHANISTAN: THE WORK OF THE
INTERNATIONAL COMMUNITY IN BUILDING A
FUNCTIONING ECONOMY AND SOCIETY**

REPORT

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“War is always a mixture of different, conflicting stories, depending on whether you are crouching in a ditch or sipping tea at the presidential palace.” Ahmed Rashid, Journalist

“The Afghan War is an exercise in armed nation building and anyone who denies this is simply a fool or a liar.” Anthony Cordesman, Defense Analyst, Center for Strategic and International Studies

“It is one thing to be able and willing to serve as emergency responders: quite another to always have to be the fire chief.” Admiral Mike Mullen, Chairman of the US Joint Chiefs of Staff

“The pessimists fail to understand how badly the Afghan state had failed in 2001 and thus are blind to how much it has improved in many areas -- particularly in economic and political reconstruction.” ... *“Although Afghanistan remains poor, violent, and poorly governed, it is richer, freer, and safer than it has been in a generation.”* Paul D. Miller, former director for Afghanistan on the US National Security Council

“With all these individual elements of the United States' existing Afghanistan policy in serious trouble, optimism about the current strategy's ability to meet its objectives reminds one of the White Queen's comment in Through the Looking Glass: 'Why, sometimes I've believed as many as six impossible things before breakfast.'” Ambassador Robert D. Blackwill, former US Ambassador to India.¹

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I. INTRODUCTION

1. Occasionally, in matters of public affairs, serious people with shared values and aspirations will look at the same problem and come to fundamentally different conclusions about how it should be addressed. Undoubtedly, the war in Afghanistan poses one such problem. Any reviewer of recent writings published by an array of senior strategic thinkers will immediately note how varied perspectives are, not only on conditions in that country, but also regarding the policy mix needed to achieve an outcome with which everyone can live. In itself, this is hardly a good sign as it suggests a fracturing of elite opinion on a matter of fundamental security policy as well as a lowering of expectations about the ultimate outcome of that war. In many ways, the war in Afghanistan is beginning to divide “us”. Some observers suggest that a shroud of pessimism now hangs over a desperately unstable and impoverished country, which is seething with insurgent violence, tribal rivalries, corruption, and drug production. It must also cope with a not entirely coherent international presence that often seems out of its depth. Others believe that recent policy changes have begun to turn the tide. As is so often the case, the truth probably lies somewhere between these divergent outlooks.

2. If there is any area of consensus in the Western countries about Afghanistan, it might lie in the general recognition that fundamental mistakes in Western military and political strategy were made between 2001 and 2008, and that these are at least partly responsible for the situation in which we now find ourselves. Our governments, our alliance, and the international community carried out lowest common denominator policies that were overly ambitious in intent, yet poorly-coordinated, under-resourced, and tactically inappropriate in practice. This ultimately helped

¹ Ahmed Rashid, “The Way Out of Afghanistan,” *The New York Review of Books*, 13 January 2011; Anthony H. Cordesman, “How to Lose a War - and Possibly How to Win One,” *Afghan Metrics of the Center for Strategic and International Studies*, 12 January 2010, <http://csis.org/publication/afghan-metrics>; Adm. Mike Mullen cited in Max Hastings, “Heroism Is No Substitute for an Afghan Strategy,” *Financial Times*, 21 December 2010; Paul D. Miller, “Finish the Job: How the War in Afghanistan Can Be Won,” *Foreign Affairs* (January/February 2011); and Robert D. Blackwill, “Plan B in Afghanistan: Why a De Facto Partition is the Least Bad Option,” *Foreign Affairs* (January/February 2011).

reopen the door to a Taliban insurgency which mounted over time and which has rendered parts of the country virtually ungovernable. In the view of many, these shortcomings have spawned a nightmarish policy quandary with military, governance, political, diplomatic, humanitarian, developmental and economic dimensions – all of which now must be addressed through a “comprehensive” approach which, in fact, is an armed nation-building project in all but name.

3. It was, however, the collective recognition that serious mistakes have been made and that the war effort was failing, that drove recent changes in the international community’s objectives and tactics. In December 2009, the United States and its coalition partners embarked upon a mid-course correction. It included a military and civilian surge of personnel, a counter-insurgency military strategy predicated more largely on civilian protection although counter-terrorism was not abandoned, a significant increase in foreign assistance with a renewed dedication to better coordinating this aid and targeting these resources – both financial and human – on institutional capacity building. The increase of the Western military presence in Afghanistan would hypothetically – and perhaps paradoxically - better prepare Afghan society and its still underdeveloped institutions for assuming responsibility for the country’s overall security. At the same time, however, Western leaders have sought to dampen down expectations. Admonitions that nobody should expect the emergence of a Swiss democracy are now frequently made at conferences dedicated to the fate of this country.

4. Moderating expectations is especially important now that the United States and its Allies have announced that they will gradually withdraw troops from Afghanistan. In June 2011, President Obama announced plans to withdraw the first 10,000 troops from Afghanistan by the end of 2011. The remaining 20,000 troops from the 2009 “surge” of forces are to be withdrawn by summer 2012. According to its timetable, the United States aims to hand over the country’s security to Afghan authorities by the end of 2014.² Shortly after the US decision had been made public, France announced a “progressive” and “proportional” pullout plan, along a timetable roughly similar to that of the United States. Germany also announced its intention to decrease its presence in Afghanistan, and in early July Canada completed its fighting mission in the country.³ The announced drawdown, however, comes at a time when the security situation in Afghanistan seems to be deteriorating. According to the United Nations Assistance Mission in Afghanistan (UNAMA) the first six months of 2011 saw the highest death toll of Afghan civilians since the start of the war.⁴ In July 2011, shortly before the beginning of the handover, a series of attacks targeting President Hamid Karzai’s closest allies, demonstrated the sheer fragility of the security situation in Afghanistan’s. In early August US troops suffered their deadliest day in the history of the decade-long war when the Taliban shot down an American transport helicopter. Thirty US servicemen and eight Afghans died in that attack. These are only some of the latest of a series of setbacks for coalition forces, whose numbers are set to decline over the coming months.⁵

5. It is now also broadly recognised that there will be no purely military solution to the many challenges Afghanistan confronts. We will likely measure success by improved governing institutions so that most citizens recognise the state’s legitimacy; some kind of limitations on still rampant and highly corrosive corruption; a functioning economy that provides adequate living standards to most Afghan people; and improved civilian security, not only from Taliban attacks, but also the depredations of criminals and particularly certain local warlords-criminals, often allied with

² Mark Landler and Helene Cooper, “Obama Will Speed Pullout from War in Afghanistan,” *The New York Times*, 22 June 2011.

³ Elaine Ganley and Jamey Keaten, “Europeans Hail US Drawdown from Afghanistan, as French Jump on Board, Others Mull Pullouts,” *AP*, 23 June 2011.

⁴ United Nations Assistance Mission in Afghanistan (UNAMA), “Shifting Tactics Drive Record High Afghan Civilian Death Toll in First Half of 2011,” *UNAMA News*, 14 July 2011, <http://unama.unmissions.org/Default.aspx?tabid=1741&ctl=Details&mid=1882&ItemID=14449>.

⁵ Kevin Sieff and Greg Jaffe, “22 Navy SEALs among 30 U.S. Troops Killed in Afghanistan as NATO Helicopter is Shot Down,” *The Washington Post*, 6 August 2011.

elements within the government, who have acted with great impunity against the interests of the Afghan people. We will also need to recognise that none of these will likely be fully achieved and that some of these goals may be contradictory. And, finally, all of this must eventually lead down a path to national reconciliation – a process that would likely involve negotiations with all but the most hardened extremists (such as al-Qaeda and those working closely with it).

6. The recognition of past failure has thus helped trigger a more honest and realistic discussion about the nature of the challenges both ISAF and the Afghan government confronts and the metrics by which we ought to measure success. The good news is that appropriate strategy ultimately depends on such honest appraisals; certainly the United States and its allies have now adjusted their expectations and approach based on a frank assessment of previous policies. The bad news is that there are many who doubt that even the new strategy has any realistic chance of success or even that an approach that is so all-encompassing in scope can even be implemented given the natural and indeed growing limitations on public funds, political will and actual leverage that outsiders can exercise over Afghanistan's traumatized and terribly divided people. Indeed, a debate is already unfolding about what to do should the new *strategies* of NATO/ISAF, the United States, and the international community broadly fail to yield acceptable results. That we employ the term "strategies" here is indeed part of the problem. Indeed it is an acknowledgement that there are still real divisions among the players. NATO member countries no doubt perceive critical challenges in working with the Afghan government, other allies, partners, quasi-partners like Pakistan and India, rivals like Iran, international organisations and NGO's. The coalition is now relying on many actors to pull the oars in unison. Not only are there many oarsmen in the boat, there are myriad boats in the river. The problem is they are not all headed in the same direction and some likely never will be. This alone suggests that we are moving towards a sub-optimal resolution of the crisis.

II. MEETING THE HUMANITARIAN AND DEVELOPMENT CHALLENGE IN THE MIDST OF ARMED CONFLICT

7. This report on Afghanistan's humanitarian and development challenges must begin with the rather gloomy observation that defining exactly how development policy fits into the security equation is still a subject of considerable expert debate, despite the apparent comity among NATO member states. First of all, some development experts suggest that the term "development" best not even be used in a situation of ongoing conflict, as development itself cannot really commence until there is a modicum of stability in place. It is worth rating in this regard that since the Taliban was overthrown, 90 per cent of the international assistance has gone to the security sector and of the remaining 10 per cent, 70 per cent has gone to actors besides the government. This could be one explanation for the failure to develop the capacity in an Afghan state at war.⁶ Normal market behaviour is exceedingly rare in the high risk environment of civil war and short-term survival calculations tend to predominate over long term vision. Real development requires a degree of social peace.

8. Afghanistan's development challenges are thus formidable, and would be even in peacetime. It is one of the poorest countries in the world and accordingly suffers from some of the world's worst social indicators. Afghanistan has the world's highest infant mortality rate, the second highest maternal mortality rate and is the only country in the world where women have a shorter life expectancy than men. Access to safe drinking water, sanitation, electricity and social services are also among the lowest in the world. The literacy rate is under 30 per cent and only 25 per cent of

⁶ Masood Aziz "Effective Initiatives towards Local Economic Development and Empowerment," in *Afghanistan 2011-2014 and Beyond: From Support Operations to Sustainable Peace*, ed. Luis Peral and Asheley Tellis (Paris: European Union Institute for Security Studies and Carnegie Endowment for International Peace, February 2011).

rural children go to school. Afghanistan occupies the second to last slot on Transparency International's Corruption Perceptions Index, and suffers extremely high levels of violence, pervasive human rights violations and gender discrimination. It is also extraordinarily vulnerable to natural disaster because it has virtually no risk mitigating institutions, policies and infrastructure in place. The country is landlocked and its access to world markets is limited by the lack of transportation links and a pervasive climate of insecurity.⁷

9. The absence of security is casting a dark shadow over Afghanistan's longer-term development prospects. It is currently the world's only complex emergency where virtually all major national donors are also belligerents in the conflict. This creates a unique set of challenges for the country, for donors and for the international community more broadly. Not coincidentally, this war is also the only complex emergency where the UN's Office for the Coordination of Humanitarian Affairs (OCHA) cannot negotiate with both sides in the conflict. Insurgents now link the UN directly with ISAF and thus treat it and its employees as enemies. The perceived link between the UN and ISAF has thus made it very difficult for the UN to play its humanitarian function. In contrast, the International Committee for the Red Cross (ICRC) has managed to keep open channels with insurgent groups, but this is because it has rigorously adhered to its neutrality principles. The World Health Organization (WHO) has relied on the ICRC's channels to conduct successful immunization campaigns throughout the country. This is one of the most impressive humanitarian advances in recent years.

10. Over the decade of the crisis, there has also been a tendency to categorize Afghanistan as a post-conflict society when this was not at all the case. OCHA was closed down in 2002 for this very reason and was only re-opened again in 2009 when it became very apparent that the conflict in Afghanistan had worsened. OCHA has consequently been hampered by a lack of contacts on the ground and scarce data on the depth and breadth of the humanitarian crisis.⁸ It is now working to catch up.

11. Humanitarian groups generally operate under the following five core principles of neutrality.

- The principle of humanity is the commitment to save lives, alleviate human suffering, and uphold human dignity.
- The principle of the humanitarian imperative is the right for the international community to provide humanitarian assistance wherever it is needed.
- The principle of independence is the freedom of humanitarian organisations from political goals or ideologies. NGOs make their own decisions, programme plans and strategies.
- The principle of impartiality is the distribution of goods and services regardless of the identity of those suffering.
- The principle of neutrality is the commitment humanitarian NGOs make to not take sides in political or military struggles.⁹

12. The view from many important humanitarian groups is that if they are portrayed as working in concert with ISAF or the Afghan government, they will no longer be positioned to respond to the country's humanitarian needs. Aid workers have been attacked by insurgents, partly because they are seen as the civilian wing of the government/ISAF effort. There is a widespread perspective in Afghanistan that development missions are linked to NATO because NATO forces have gotten into

⁷ Mohammad Ehsan Zia, "Afghan Aid That Works," *The Christian Science Monitor*, 18 May 2008; and Antonio Donini, *Afghanistan Humanitarianism Unraveled*, (Boston: Feinstein International Center of Tufts University, May 2010), Briefing Paper.

⁸ Donini, *Afghanistan Humanitarianism Unraveled*.

⁹ Lisa Schirch, "The Civil Society-Military Relationship in Afghanistan," *Peace Brief 56*, United States Institute of Peace, 24 September 2010.

the development game. This is making life particularly difficult for genuine development agencies operating in the country. The ICRC recently warned that access for humanitarian workers in Afghanistan was at its lowest level in 30 years.¹⁰ Yet, NATO, the governments in the coalition and the UNAMA are all calling for greater co-ordination among the military, developmental and humanitarian missions.¹¹ This is a genuine contradiction and it is too frequently swept under the carpet rather than openly discussed.

13. To cope with the problem, OCHA is now working to expand the space for humanitarian operations. There are indications that some elements in the Taliban may be more accommodating on this front. One suggestion is that both sides ought to adopt humanitarian confidence-building measures which would be of immediate benefit to the most vulnerable people. The Afghan Ministry of Health has also recognised the need to engage with the armed opposition to ensure the success of immunization campaigns. Here, too, the Taliban has recently shown more flexibility. Advances here could help pave the way for a broader dialogue which many believe will ultimately be necessary to end this war.

14. Many parts of southern and eastern Afghanistan have experienced heavy fighting in recent years. Civilians in those regions are necessarily more focused on survival than engaging in the kind of economic behaviour that might lead to sustained economic growth and development. Simply put, highly traumatized people are not in a position to invest in their future. Moreover Taliban occupation has essentially cut off some of these lands and people from most of the international community. Because of the conflict's intensity, humanitarian and development workers are increasingly constrained in their movements throughout much of the country. The Taliban and other insurgent groups have killed hundreds of these brave workers in recent years, and this has seriously limited their mobility; such attacks dramatically reduce the space in which they can operate.¹² Increasingly compelled to hunker down behind blast walls in Kabul and other cities, the international development community now finds it very difficult to operate in the field and to undertake the kinds of projects that would be possible in an atmosphere of greater peace and stability. They are expending scarce resources on self-protection rather than providing assistance, and much of the field work can only be carried out by local staff.¹³ In recent years, moreover, the area of insecurity has increased. Taliban infiltration into the northern and western reaches of the country, where coalition forces are far less concentrated, has unsettled areas which were previously assumed to be stable, beyond the reach of the insurgency, and embarked upon a sustainable development path. Taliban fighters have also swarmed into cities like Kandahar where they have run intimidation campaigns to discourage citizens from collaborating with local or national government authorities.¹⁴

15. Sustained economic and social development also requires reasonably reliable state institutions, a minimum level of government capacity, adequate judicial and policing structures, and some kind of capacity to limit corruption. Afghanistan has enjoyed none of these over the past 30 years. According to National Defense University (NDU)'s Paul D. Miller, under Taliban stewardship, Afghanistan suffered "Somalian-like anarchy, Haitian poverty, Congolese institutions, Balkan fractiousness, and a North Korean-style government." Certainly there have been some improvements since the overthrow of the desperately dysfunctional and cruel Taliban regime. The question today is if these have been sufficient to foster security and loyalty to the Afghan state. So far, the answer to that question is "no", although conditions are generally better in most of the country than they were during the years of Taliban rule. That said, some Afghans are looking at the years of Taliban rule with ascertain nostalgia for the so-called order that they imposed. That in itself is a sign that governance must be improved. It is not surprising that the Taliban frequently

¹⁰ Matthew Green, "Afghans Resist IMF Pressure to Sell Off Bank," *Financial Times*, 2 February 2011.

¹¹ Schirch, "The Civil Society-Military Relationship in Afghanistan".

¹² Donini, *Afghanistan Humanitarianism Unraveled*.

¹³ Donini, *Afghanistan Humanitarianism Unraveled*.

¹⁴ Yaroslav Trofimov, "Afghan Push Sends Taliban into City," *The Wall Street Journal*, 3 November 2010.

trumpets its own incorruptibility and the blind, harsh frontier justice administered by its Sharia courts in Taliban controlled regions.

16. NATO's strategy in Afghanistan has most recently been premised on the notion of "shape, clear, hold, and build". In a few words, this sequential approach to the challenge implies that the coalition must shape the field of military engagement, clear insurgents from the area in question, hold that area and prevent it from falling prey to infiltration and then begin the process of reconstruction and development.¹⁵ It is a strategy recognizing that genuine development is not possible until security has been established, but it also acknowledges that consolidating security ultimately does require reconstruction and development. Of course, security demands far more than this. It also needs a functioning state that can earn a modicum of legitimacy for itself. The challenge for Afghanistan is not only its clear lack of governmental capacity, but also that it must build this capacity in parallel with what has become, in effect, a civil war, which is imposing other burdens on its scant capacity. The current strategy takes into account the fact that the "interconnectedness" between military and non-military facets of the challenge and thus lays out for the alliance a Herculean task of constructing a context for self-sustaining security in a fundamentally insecure region of the world.

17. Increasingly though, voices from the US strategic community are putting forth the idea that ambitions need to be reduced radically. Ambassador Robert Blackwill, the former National Security Council Deputy for Iraq under President Bush, has recently advocated an outright ISAF retreat from Pashtun regions because he believes the war there is unwinnable. He argues that NATO ought to focus instead on defending the North and the West of the country while making it a top priority to improve governance and institutions in those regions and in Kabul itself so that the state does not succumb to an insurgency rooted in deep frustration. He also notes that "you are only as good as the government you are supporting" and adds that the Afghan government is administering a "gangster state."¹⁶ ISAF has, in fact, retreated from some of the more exposed and isolated valleys in these regions in order to defend population centres but there is no indication that coalition leaders are prepared to follow Blackwill's suggestions, which are certainly controversial. Ahmed Rashid, among others, has suggested that no Afghan would accept the division of their country and that any attempt to allow a *de facto* division would lead to massive bloodshed and instability.¹⁷ Many of the other critics simply suggest that ultimately Afghanistan itself must work out its own fate as western intervention only engenders negative reactions.¹⁸

18. Nation-building occurs most successfully when it is the culmination of a long series of discrete historic advances that together forge both a national consciousness and an institutional and governmental framework tightly bound to an emerging national identity. What is being attempted in Afghanistan is armed nation-building in which external actors of all kinds aspire to play a galvanizing role and domestic players pursue a range of conflicting agendas. This is posing a daunting array of problems that developed democracies, like the United Kingdom, for example, had centuries to work out. In Afghanistan's case, time is a luxury which neither the government nor the international community enjoys. Indeed, the clock is ticking; 2014 is right around the corner and there are no guarantees whatsoever that the situation on the field of battle and in the halls of Afghan government will conform to NATO timelines.

¹⁵ Steve Bowman and Catherine Dale, "War in Afghanistan: Strategy, Military Operations, and Issues for Congress," *CRS Report for Congress*, R40156, Congressional Research Service, December 2009.

¹⁶ Blackwill, "Plan B in Afghanistan: Why a De Facto Partition is the Least Bad Option."

¹⁷ Ahmed Rashid, "We Divide Afghanistan at Our Peril," *Financial Times*, 4 August 2010.

¹⁸ Heinz Theisen, "Exit Strategy for a Cultural War," *IP Global Edition* (January/February 2010).

III. THE MILITARY EFFORT AND DEVELOPMENT

19. The idea that development can not really begin without some modicum of stability has become a central axiom of the development community operating in Afghanistan and in other conflicted areas of the world. The war there has taken a turn for the worse since 2005 and this has engendered a high degree of pessimism among development specialists. The NATO-led coalition, of course, has sought to address the problem. On 1 December 2009, The US President announced that an additional 30,000 US troops would be deployed to Afghanistan in 2010 and that population protection would be a top priority for the mission.¹⁹ This represented a repudiation of the “light footprint” approach that had focused the military effort on anti-terrorism and essentially under-resourced capacity building and governance efforts, something that USAID all but admitted in a 2007 review of its own efforts. The war in Iraq had drawn US resources and military power to the Middle East. The Afghan theatre was meanwhile put on the back burner. Although the light footprint was essentially conditioned by the US’s onerous obligations in Iraq, it proved utterly insufficient to the task of building security in Afghanistan. Indeed, it could not even uphold the existing security status quo.

20. Over the past five years, insurgents managed to broaden their area of operations, challenging central and local government authority, establishing regional shadow governments and court systems and undermining the general security climate. Insurgents are also engaging in a range of criminal activities, attacking local leaders and those seen as collaborating with the government and the coalition. They destroy government buildings and schools and are responsible for serious human rights violations including summary executions, kidnapping, child recruitment and sexual abuse.²⁰ The NATO effort was also troubled and had difficulties adjusting to changing conditions on the ground. Coalition operations were hardly unified as so many national forces were subject to mission caveats as to render the broader effort incoherent and often counter-productive. Rotation schedules often moved troops out of theatre just as they were coming to understand battlefield conditions, local mores and the nature of the collective challenge.

21. The problems, of course, were not simply military in nature. The notion of a light footprint was partly a euphemism to obfuscate the lack of funding and political will to underwrite institutional reinforcement in the country. The Afghan Research and Evaluation Unit, an NGO, suggested in 2006 that public administration reform had been “cosmetic with superficial restructuring of ministries and an emphasis on higher pay rather than fundamental change.”²¹ At one point, the Afghan government had, for example, estimated that it would cost \$600 million to implement its National Justice Sector Strategy; yet, by the end of 2006 donors had only provided \$38 million in total to underwrite that effort. This was emblematic of the international community’s lack of commitment. This failure of imagination and political will created an opening for the Taliban which it fully exploited after 2005. The security situation in the country deteriorated steadily as a result.

22. To its credit the Alliance has recognised the mistake and the coalition is now seeking to remedy the problem. President Obama announced a military and civilian surge soon after taking office and, at the NATO Lisbon Summit in December 2010, allies committed themselves to helping position the Afghanistan state, its military and its police to assume ever greater roles in defending national security with the goal of helping it assume full control in 2014. Additionally, US officials have let it be known that they are prepared to keep troops in the country beyond then if necessary, signalling that the US commitment is a long-term one. They have also suggested that the promised

¹⁹ David A. Gordon, Andrew C. Kuchins and Thomas M. Sanderson, “Afghanistan: Building the Missing Link in the Modern Silk Road,” *The Washington Quarterly* (April 2010).

²⁰ Afghanistan Rights Monitor, *ARM Annual Report on Civilian Casualties of War January-December 2010* (Kabul: Afghanistan Rights Monitor, February 2011).

²¹ Miller, “Finish the Job: How the War in Afghanistan Can Be Won.”

drawdown, which began in July 2011, may be much smaller than originally thought.²² The fiscal crisis in the United States and Europe, however, could well change the views of NATO governments, which are under increasing pressure to find budget savings.

23. Over the short-term, the troop surge is intended to provide the security space needed to help Afghan authorities reinforce governmental institutions while bolstering the state's capacity to meet its own security and economic requirements. The goal is to better position the Afghan state to assume ever greater responsibilities over the course of the announced "transition". In some provinces, the transfer of leadership to Afghan hands is slated to start in early 2011 while Afghan National Security Forces (ANSF) should ideally exercise full control of Afghan territorial security by the end of 2014. The Afghan Army is slated to number approximately 300,000 by the end of 2011. Their operational capabilities and sustainability in the field, however, remain a serious concern although progress has been made in building a coherent and ready force.²³ The problem is that the security situation in the country remains very tenuous, and the question is whether by 2014 Afghan forces will be prepared to play the leading role in the war with support from coalition forces, which is a direct reversal of the manner in which the war has so far been conducted.

24. Currently, 48 countries are contributing to the international community's presence in Afghanistan. ISAF's total strength amounts to approximately 132,381 troops. The United States currently has deployed 90,000 troops, the United Kingdom 9,500, Germany 4,812, France 3,935, Italy 3,880, Canada 2,922 and Poland 2,560. Twenty seven Provincial Reconstruction Teams (PRTs), units that perhaps best symbolize the integration between the security and development mission of ISAF, are operating throughout the country. The new line of argument is that in a war entering its tenth year, the United States and its allies in Afghanistan are finally dedicating the resources to put the Afghan state on a solid and secure foundation. In early 2010, General Petraeus, the then commander of US and NATO forces in Afghanistan, claimed to have the military forces, intelligence assets and civilian programmes needed to conduct a comprehensive and successful counter-insurgency campaign. This was not necessarily heartening given that the war is entering its tenth year, there is now however an explicit recognition that serious mistakes were made in the early years of the conflict.²⁴ Petraeus had pointed to the improved security situation in and around Kabul, and recent progress in gaining and holding ground in Helmand and Kandahar provinces.

25. US Special Forces are also conducting missions targeting insurgent commanders on both sides of the Afghanistan-Pakistan border. The May 2nd raid on Osama Bin Laden's compound in Abbottabad, Pakistan, pointed to potential benefits of these operations. At the same time, however, coalition casualty figures are still substantial, suggesting that the level of violence remains very high.²⁵ In the words of one analysts, there is still "a fully active insurgency not only all over the country but also along the whole spectrum of insurgent activities, from terrorist attacks and guerrilla activities to the political and shadow governance dimension [...]. The bottom line is that it is very difficult to assess the local successes that NATO talks about and, at a broader level, results are still, at best, mixed and open to interpretation. Whether conditions on the ground are improving or deteriorating, one thing is quite clear: the war has not substantially changed and is still going on."²⁶

²² Daniel Dombey and Matthew Green, "US Troops Set for Longer Afghan Stay," *Financial Times*, 18 February 2011.

²³ Cordesman, "How to Lose a War - and Possibly How to Win One."

²⁴ Matthew Green, "Petraeus Sets Afghan Triumph in His Sights," *Financial Times*, 8 February 2011.

²⁵ Icasualties.org, *Operation Enduring Freedom* (2011), <http://icasualties.org/OEF/index.aspx>.

²⁶ Etienne De Durand, "Is There a Transition Taking Place in Afghanistan?" in *Afghanistan 2011-2014 and Beyond: From Support Operations to Sustainable Peace*, ed. Luis Peral and Asheley Tellis (Paris: European Union Institute for Security Studies and Carnegie Endowment for International Peace, February 2011).

26. The NATO Training Mission in Afghanistan has also dedicated far more resources and manpower to train up Afghan soldiers and police. The expectation in NATO circles is that this serious effort will help Afghan leaders both assume ever greater responsibility for their country's internal and external security and take full control by 2014. The general consensus, however, is that the military is much further along in its transition than are the police. The latter are beset by corruption and illiteracy and their predatory practices have done a great deal to undermine the rule of law and respect for the state in the country. Correcting this serious deficiency is itself a major development challenge as the low level of literacy among the police as well as the questionable loyalties of some in the police simply reflects a broader social-capacity problem as well as political and tribal fragmentation in Afghanistan.

27. There have already been some tentative signs of success with the new approach. ISAF forces with their Afghan counterparts have pushed into Taliban strongholds in the south, including regions east of Kandahar. Rather than abandoning these forward positions, they are now digging in at strategic points to prevent any re-infiltration of insurgent fighters. The expectation is that the return to stability behind these defensive lines will allow a degree of economic development to unfold. Greater stability and a modicum of economic activity will then help turn opinion in these regions against the insurgents. An effort is accordingly underway to bolster assistance in liberated regions and provide compensation for those who have suffered property damage due to combat. A "cash for work" programme has also begun in these largely Pashtun zones, but they have sprung up throughout the country. In Balakh and Jawjan provinces the European Commission's Humanitarian Aid Office supports the Action Aid's Cash for Work programme. In Kunar province - the Kunar PRT runs the Cash for Work programme in the region, which is funded by the Commander's Emergency Response Programme. USAID is also administering Cash for Work programmes in the country.

28. Nevertheless, according to the latest International Crisis Group (ICG) Report on Aid and Conflict in Afghanistan, despite billions of dollars invested in aid, Afghan state institutions remain fragile and unable to provide good governance, deliver basic services to the majority of the population or guarantee human security. The Report also maintains that despite progress in the southern theatre (or because of it), insurgency is spreading into areas, which were previously considered relatively safe.

29. Pakistan remains an integral part of the puzzle but co-operation with that key country has been extremely difficult, even more so since the US special forces killed Osama Bin Laden on Pakistan territory. Pakistan continues to harbour Taliban and its military was extremely unhappy that the Obama Administration chose to act unilaterally in the operation against Bin Laden. The Administration could not be confident that elements in the Pakistani intelligence and military communities could be trusted to support that operation and there was a potential that Bin Laden would have been tipped off before the operation were actually launched. In any case, that decision has adversely effected co-operation with Pakistan. Sanctuaries in Pakistan's remote tribal regions along the Afghan border constitute a persistent problem, and no transition will be possible if the Afghan government is unable to enhance its effectiveness and if elements within the state of Pakistan continue to urge the Taliban to resist overtures for dialogue with the government in Kabul.²⁷ That will not be easy; it is not even clear that the Pakistani military is capable of controlling its borderlands with Afghanistan as its troop strength has always been so concentrated along the borderlands with India.²⁸

²⁷ Julian E. Barnes, Matthew Rosenberg and Habib Khan Totakhil, "Pakistan Urges On Taliban," *The Wall Street Journal*, 5 October 2010.

²⁸ Gilles Dorronsoro, "A Negotiated Agreement with the Taliban Must Entail Proactive Pakistani Engagement," in *Afghanistan 2011-2014 and Beyond: From Support Operations to Sustainable Peace*, ed. Luis Peral and Asheley Tellis (Paris: European Union Institute for Security Studies and Carnegie Endowment for International Peace, February 2011).

30. Since Pakistan made the decision to support the United States and NATO in the war in Afghanistan, at least nominally, the key supply route (delivering both lethal and non-lethal items) has been running through its territory. Up to 700 large trucks travel from the Karachi port through the Khyber Pass into Afghanistan. Due to growing insurgency on the Pakistani-Afghani boarder as well as attempts by the Pakistani government to use the route as a bargaining chip, in 2006 ISAF started negotiating other possible supply routes with Afghan's neighbours. Two years later, the Northern Distribution Network (NDN) was established – a new supply route starting either in Latvia or Georgia, continuing through Russia and crossing one of the Central Asian states bordering the north of Afghanistan. So far, the route has only been used for transporting non-lethal items.²⁹ This arrangement might, need to be re-negotiated in the near future should relations with Pakistan continue to deteriorate.

31. The security situation in Afghanistan thus remains very worrisome. Both combatant and non-combatant casualties reached record numbers in 2010. According to the Afghan Ministry of Interior, 6,716 security incidents, including ambushes, roadside bombings, suicide bombings and rocket attacks were registered in 2010.³⁰ That same year, approximately 2,421 Afghan civilians were killed and over 3,270 were injured (on average 6-7 civilians killed daily and 8-9 wounded) as a result of the deteriorating security situation throughout the country.³¹ Afghanistan's Armed Opposition Groups (AOGs - Taliban, Hezb-e-Islami and the Haqqani Group) caused most of these deaths (63 per cent), 21 per cent were attributed to US/NATO operations; and 12 per cent of deaths were attributed to Afghan government troops and their local militia allies. According to the UN, insurgents' attacks rose by 66 per cent in 2010³²; and the number of civilian casualties jumped 20 per cent from 2009³³. Coalition military fatalities in Afghanistan have also risen from 295 in 2008, to 521 in 2009 and to 711 in 2010.³⁴

32. As many as 380 coalition troops have been killed during the first eight months of 2011, suggesting that the battle is far from won.³⁵ According to UNAMA's Midyear Report on Protection of Civilians in Armed Conflict, 1,462 civilian deaths were documented within the first six months of 2011, which represents 15 per cent increase in comparison to the same period in 2010.³⁶ Moreover according to the United Nations refugee agency, an estimated 150,000 Afghans were displaced over the past year, a 68 per cent increase compared to the previous year. In all there are roughly 437,810 displaced Afghans now living in the country.³⁷ These displaced and often desperate people are a recruiting target the Taliban. Finally, the number of attacks on UN workers jumped 133 per cent in 2010, and at least 100 aid workers were killed in Afghanistan during 2010, the most ever in that conflict.³⁸ Most of the victims worked for aid contractors employed by NATO countries, with fewer victims among traditional non-profit aid groups.³⁹

²⁹ Shanthie Mariet D'Souza, "Northern Distribution Network (NDN) and the Afghan Insurgency," *Al Arabiya*, 20 July 2011, <http://english.alarabiya.net/articles/2011/07/20/158541.html>.

³⁰ Michelle Nichols and Hamid Shalizi, "Afghan Violence in 2010 Kills Thousands: Government," *Reuters*, 3 January 2011.

³¹ Afghanistan Rights Monitor, *ARM Annual Report on Civilian Casualties of War January-December 2010*

³² Yaroslav Trofimov, "U.N. Maps Out Afghan Security," *The Wall Street Journal*, 26 December 2010.

³³ Nichols and Shalizi, "Afghan Violence in 2010 Kills Thousands: Government."

³⁴ Icasualties.org, *Operation Enduring Freedom* (2011).

³⁵ Icasualties.com, *Coalition Deaths by Year* (2011), <http://icasualties.org/OEF/ByYear.aspx>.

³⁶ UNAMA, *Afghanistan: Midyear Report 2011 – Protection of Civilians in Armed Conflict, 2011* (Kabul: UNAMA, July 2011).

³⁷ Jack Healy, "In Afghanistan, a Village is a Model of Dashed Hopes," *The New York Times*, 9 August 2011.

³⁸ Rod Nordland, "Killing of Afghan Relief Workers Stirs Debate," *The New York Times*, 13 December 2010.

³⁹ Nordland, "Killing of Afghan Relief Workers Stirs Debate;" and Holly Fox, David Levitz and Martin Keuebler, "Merkel Condemns Deadly Attack on German Aid Worker in Afghanistan," *Deutsche Welle*, 25 December 2010, <http://www.dw-world.de/dw/article/0,,14735707,00.html>.

33. There has also been increasingly sharp criticism of the practice of using armed forces as aid administrators. Although winning hearts and minds is an admirable political objective, militaries are largely structured and trained for achieving “kinetic” solutions. Militaries may have glossy and highly optimistic PowerPoint briefings about their developmental missions, but they are generally not structured to carry those out successfully,⁴⁰ although they can and do make critical contributions when responding to humanitarian emergencies. The Western militaries are now playing a leading role in Afghanistan policy formation and implementation, and this has led it into the realm of development assistance.⁴¹ NATO countries need to think more rigorously about this trend because of the military’s low capacity in these specialised sectors.

34. The US military’s Commander’s Emergency Response Program, for example accords battalion level commanders the power to use development assistance and aid in their counter-insurgency efforts. This programme has recently come under fire. The US government’s own reports suggest that many of the 16,000 humanitarian projects implemented over the last 6 years quickly fell into a state of neglect after they passed on to Afghan control, suggesting that scant attention was paid to project sustainability. The Afghans had serious problems maintaining half of the 69 projects reviewed in Eastern Lagham province according to a special inspector’s report. The US government Accountability Office has cited a lack of monitoring by the Pentagon, particularly once projects are turned over to the Afghans. This violates good development practice and it threatens to engender resentment and disdain rather than legitimacy and support for the state and for western troops.⁴² A recent Oxfam report has strongly asserted that far too much aid is being channelled through military forces and that such aid tends to focus on quick fixes in an effort to win hearts and minds rather than on producing long-term transformative results. In 2007 Afghan authorities estimated that international military forces had by then delivered \$1.7 billion of development and humanitarian aid. Much of this support has been channelled through the 27 PRTs, the Combined Security Transitional Command for Afghanistan and the Commanders’ Emergency Response Program.⁴³ Oxfam and other NGOs also take umbrage at the notion that aid is, as one US military handbook suggest, “a non-lethal weapon”. This implies a degree of politicization and indeed militarization that can easily backfire. Moreover, it threatens to unwittingly cast development workers in the role of quasi-belligerents.

35. Non-Afghans, and particularly those with a military rather than development training, are not well-positioned to judge what kinds of projects are locally sustainable. Foreign military donor perspectives are often clouded by notions of what might be sustainable in their own countries or what project might purchase a short-term military advantage rather than contribute to long-term developmental benefits. This is precisely why genuine Afghan input and administration is essential, even if this poses other kinds of problems including the perennial risk of corruption and strains on the country’s limited human and financial capacity.

36. To be fair, even experienced development agencies are also having problems in Afghanistan. The United States has spent an estimated US\$732 million to improve Afghanistan’s electrical grid since 2002. The \$300 million Kabul generating plant may not function at capacity simply because the central government cannot afford the diesel fuel needed to operate it. Last year, USAID’s inspector general said delays and contracting problems at the project had cost nearly \$40 million, out of the total expenditure of \$300 million. The Kabul plant is often idle as current prices for diesel fuel trucked into a war zone have driven its operating costs to roughly 40 cents per kilowatt-hour, as compared to 6 cents that a kilowatt-hour imported over transmission

⁴⁰ Hastings, “Heroism Is No Substitute for an Afghan Strategy.”

⁴¹ Daniel Dombey and Matthew Green, “US Focuses on 2010 Handover,” *Financial Times*, 15 December 2010.

⁴² Josh Bock, “U.S.-Funded Infrastructure Deteriorates Once Under Afghan Control, Report Says,” *The Washington Post*, 5 January 2011.

⁴³ Ministry of Finance, Islamic Republic of Afghanistan, *Donor Financial Review* (Kabul: Ministry of Finance, November 2009).

lines from Turkmenistan, Uzbekistan or Tajikistan.⁴⁴ Cultural blind spots and lack of familiarity with the country's geology also pose problems. Some newly constructed villages for refugees, financed by donor nations and the UN, have been located far from water sources and these homes have not been surrounded by walls. This makes it difficult for women to go outside due to prevailing cultural mores so different from those of the West.⁴⁵ Again these problems raise compelling questions about project sustainability and cultural as well as economical appropriateness.⁴⁶ These failures have political costs.

37. Delays and rising costs have undermined many development projects due, in part, to poor oversight and planning as well as the country's lack of security and corruption, according to the US Office of the Special Inspector General for Afghanistan Reconstruction, which unfortunately, was only created in 2008. There are also problems with private contractors, many of which are operating on a strictly for profit basis and which are structured to maximize their own profit, not to ensure the development impact of their work. In tough wartime conditions, contracts are often rewarded on a no-bid basis and this lack of competition only exacerbates project cost overruns.

IV. GAUGING DEVELOPMENT IN AFGHANISTAN

38. Despite the billions of dollars that have been poured into Afghanistan in recent years, it remains one of the poorest countries in the world with a per capita income estimated at \$500 a year. Growth in the country has fluctuated wildly in recent years, ranging from 3 per cent in 2008/09 to 21 per cent the following year. This particular increase was driven by record harvests, a boom in the service sector and foreign aid. Inflation has risen from 5 per cent in 2010 to 18.4 per cent in January 2011 as a result of soaring food prices and loose monetary policy.

39. Between 2006 and 2008, government revenues, at 8 per cent of GNP, were among the lowest in the world. This figure had risen to 11 per cent in 2010/11 due, in part to improved tax collection, but government spending stands at 20 per cent of GNP and the gap has been made up by aid - one of many indications that the state is not yet operating in a sustainable fashion. Public enterprise reforms have advanced only slowly, and a run on the banks precipitated by overt corruption has undermined market confidence.⁴⁷

40. The weakness of the Afghan economy is tightly bound to the security situation and to the exceedingly low capacity of the state. NATO new strategy hinges on the transition of responsibility to Afghanistan for its own security by 2014, implying that the state's capacity will have to increase substantially. In many respects, this may be a greater challenge than the military mission of clearing Taliban forces from their positions in the Pashtun regions of the country. The announced timeframe has precipitated an effort by the UNAMA to ensure that multilateral and bilateral aid is both far better aligned with Afghan priorities and structured to help the state shoulder ever greater burdens and responsibilities. Another Bonn conference is scheduled for November 2011 to generate new revenues to support this effort.

41. Among the reasons most often cited for the worsening security situation in Afghanistan has been the exceedingly slow process in strengthening governing institutions and ensuring some degree of accountability to the citizens they serve. Patronage and corruption are clearly the coin of the Afghan realm, but they are also a source of serious public alienation and anger both in Afghanistan and among tax payers in coalition countries. In Afghanistan itself, the state is

⁴⁴ Glen Zorpette, "Struggling for Power in Afghanistan," *The New York Times*, 5 July 2011.

⁴⁵ Healy, "In Afghanistan, a Village Is a Model of Dashed Hopes."

⁴⁶ Marisa Taylor, "U.S. Spending in Afghanistan Plagued by Poor U.S. Oversight," *McClatchy Washington Bureau*, 15 January 2010.

⁴⁷ International Monetary Fund (IMF), *The Islamic Republic of Afghanistan* (Washington, DC: IMF, 5 April 2011), IMF Program Note.

increasingly perceived with both hostility and fear. Corrupt officials operate at every level, the justice system is bordering on the dysfunctional, police are poorly trained and paid, often illiterate, widely perceived as highly corrupt and are generally both loathed and feared. Their poor performance and parasitic behaviour has done much to undermine loyalty to the state.

42. The problem of poor governance is both a manifestation of under development and a hindrance to progress. It is also a problem exacerbated by Afghanistan's tribal divisions and government efforts to transcend them. In an effort to extend its reach, the government has co-opted regional warlords, some of whom double as drug kingpins and smugglers, sometimes by granting them senior positions in the government. From their newly-won governmental perches, these figures are able to expand their reach and run criminal operations and private armies with impunity while tapping into public funds for their private benefit. Their approach to "government", however, undermines the rule of law, the national justice system and security. Kabul itself is overrun with the palaces of narco-kingpins, warlords and corrupt officials who typically plough their profits into local real estate markets rather than investing in productive industries. Their garish palaces are widely seen as symbols of official decadence and a betrayal of the public trust.

43. Undoubtedly, stolen aid money has helped line the pockets of some of these operators. Indeed, the lack of accountability and transparency within the Afghan state has made this country a paradise for rent seekers of all kinds. Corrupt officials are able to skim resources at all levels of official transactions – undermining the effectiveness of the state, angering donors, and poisoning the state's reputation with the Afghan people and donor country tax-payers. This has had a series of negative effects. One is that it encourages donors to employ non-Afghan contractors to carry out local projects – a practice that obviously limits the developmental impact of these projects. Western contractors invariably lack the local knowledge to make culturally sensitive and economically viable decisions. Their motivations, moreover, are profit not development-driven and their earnings are invariably repatriated, which again lowers the multiplier effect of international assistance. Finally, relying on foreign contractors means that fewer locals are trained up to administer and carry out such projects. Relying on Western firms is thus a paradoxical response to the lack of capacity but it also perpetuates the problem in country.

44. In response to this paradox, the international community has pushed for more local engagement in development projects while encouraging donors to work through the Afghan state budget in accordance with the priorities laid out in the Afghan National Development Strategy (ANDS). That strategy lays out three priority areas in the development agenda: 1) governance, peace and stability, 2) sustainable livelihoods, and, 3) basic social services underpinned by issues like human rights, gender equality, environment, mine action and counter-narcotics.⁴⁸ The idea is that channelling aid through the state budget allows the Afghans themselves to establish development priorities which they see as most appropriate to their long-term needs. It theoretically also provides them the means to carry out these projects and to gain governance experience as a result.

45. Many Afghans and development experts also feel that Afghanistan has been overwhelmed by a welter of national, international and NGO led projects which are poorly co-ordinated, not always appropriate to local conditions and which collectively have the effect of taxing the very capacity of the Afghan state and society, making it very difficult to put them to good developmental use. The international community continually vows to address the problem and indeed important strides have been taken to deepen such co-ordination, but the problem persists.

46. President Karzai is now demanding that his government exercise financial oversight over all development projects in the country. At the Munich Security Conference in February 2011 he

⁴⁸ UNAMA, *United Nations Development Assistance Framework: In support of the Afghanistan National Development Strategy 2010-2013* (Kabul: UNAMA, 2009).

argued that infrastructure projects, aid to district authorities, and development work performed by Provincial Reconstruction Teams represent “an impediment to the Afghan government” when these programmes and their funding are not first passed through the federal government budget. President Karzai has called these parallel structures and argued that these are undermining the authority of the state.⁴⁹ He has also called for an end to the practice of private security firms defending development projects. This is strongly opposed by the United States government which argues that these security firms are needed to protect development workers, recently built infrastructure and development projects that are underway.

47. In 2009 foreign assistance accounted for 90-95 per cent of the Afghan state budget.⁵⁰ Clearly, the Afghan state has far to go before its operations become financially sustainable. The current military budget alone is approaching 50 per cent of GNP and obviously could not be sustained without Western support. Indeed, a key priority for the international community has been to enhance the state’s capacity to generate domestic revenues and ultimately reduce its dependence on foreign assistance. As a first capacity building step, there has been a commitment to channel more aid funds through the Afghan state budget in order to bolster the state’s legitimacy, to give it greater latitude to define and implement its own spending priorities and to help administrators learn to manage public funds. Yet, most aid funds continue to be delivered outside government channels. Between 2001 and July 2009 most foreign aid (77 per cent) was channelled outside of the Afghan government’s reach, in part, due to concerns about corruption and also because donors have their own priorities for the use of such funds. The UK government’s Afghan aid policy is an exception in this regard as it channels approximately 80 per cent of its aid through Afghan governmental channels. The Obama Administration has recently decided to move most of its aid through the Afghan-managed budget process. It is concurrently demanding greater accountability and transparency on the Afghan side.⁵¹

48. Coalition governments thus confront a tricky dilemma. Their own taxpayers hold them accountable for ensuring that aid money is properly spent and effective. When the recipient government’s institutions cannot provide these guarantees, there is a natural inclination to operate outside of them. But a “Catch 22” is at play here. As long as donors work outside of the recipient state’s institutions, they reduce the accountability of the central government, slow the development of its capacity to deliver to its people, and thus undermine the state’s legitimacy in the eyes of its people.

V. COMMUNITY PROJECTS

49. One area of foreign aid that has been relatively immune from these particular criticisms is community project financing where locally elected councils are directly engaged in project management and, indeed, are held directly accountable for the execution of these projects. The National Solidarity Program (NSP) has such a community-led approach to rural development and has had great success in empowering people and strengthening public participation in local decision-making. Where these programmes work best, they forge vital links among the central government, communities and citizens. Importantly, though, it is the community rather than the central government that ultimately develops and implements its own projects. This creates a sense of ownership and helps ensure project effectiveness in meeting local needs. Because key

⁴⁹ Patrick McGroarty, “Karzai Seeks Broader Financial Oversight,” *The Wall Street Journal*, 7 February 2011.

⁵⁰ Astri Suhrke, “Upside-down State-building: The Contradictions of the International Project in Afghanistan [draft],” *chapter prepared for an anthology on the rule of law in Afghanistan*, eds. Whit Mason and Martin Krygier (Cambridge: Cambridge University Press, forthcoming), <http://www.cmi.no/publications/file/3684-upside-down-state-building.pdf>.

⁵¹ Colin Cookman and Caroline Wadhams, *Governance in Afghanistan: Looking Ahead to What We Leave Behind* (Washington, DC: Center for American Progress, May 2010).

decisions are made by directly elected Community Development Councils (CDCs), the NSP has helped foster a climate of inclusive and democratic decision-making. Very importantly, women are well-represented in these councils and are providing an essential perspective to local development projects. It is also worth noting that corruption is rarer where decisions are made through local councils as accountability is easier to achieve if administration and decision making are local and when the public is directly engaged in the projects.⁵² The NSP is largely supported by the World Bank and has helped forge a positive link between the public and the central government at a time when the public perception of the state has generally not been positive. Members of the Economics and Security Committee saw similar programmes achieving powerful results in Tigray, Ethiopia.

50. Despite the myriad difficulties and security setbacks the development community has confronted over the past decade, Afghanistan has made progress. Most human development indicators show signs of improvement. By 2008 80 per cent of the population had access to some basic health services, compared to 8 per cent in 2001. In 2008 Afghan children were being immunized at a rate higher than the rest of South Asia. The infant mortality rate has fallen by a third and life expectancy is somewhat longer. School enrolment rose from 1.1 million students in 2001 to 5.7 million in 2008 – a third of whom are female. This could triple the country's literacy rate over the next ten years and help the country cope with its capacity shortfalls. The most recent and most comprehensive public opinion survey conducted by the Asia Foundation suggested that nearly half of the Afghan people felt the country is moving in the right direction as opposed to 38 per cent in 2008 due to a perception of better security, construction and rebuilding projects and school openings. But that survey also showed acute recognition of outstanding challenges including ongoing security problems, unemployment and corruption.⁵³

51. Afghanistan's infrastructure has also improved despite countless setbacks. USAID alone has built 1,600 miles of roads, and three-quarters of the main highway from Herat to Kabul has been rebuilt. Thirty three per cent of all roads in the country were paved in 2008 as compared to 13.3 per cent in 2001. Afghanistan has the same rate of access to telecommunications as most of its neighbours and 27 per cent of the population now has access to clean water.⁵⁴ These are all consequential changes but they must also be set against the violence and insecurity in the country and persistent problems of governance, corruption, opium production and wasted development efforts including particularly egregious failings in delivering energy to a country where it is desperately needed.

VI. CORRUPTION AND OPIUM TRAFFICKING

52. Transparency International's 2010 Corruption Perceptions Index 2010 places Afghanistan second to last (no. 176) in its global rankings alongside Myanmar. Polls suggest that the Afghan people rank corruption as their country's third greatest challenge after insecurity and unemployment. Seventy per cent of Afghans reluctantly recognise corruption as the cost of conducting business with the state and holding together the various tribal groups that support it. This suggests a pervasive sense of resignation in the face of the challenge. They consider the security apparatus (police), the judiciary, and municipalities as the state's most corrupt state institutions. Corruption undoubtedly undermines state legitimacy, fuels insurgency, and foments social conflict. Half the Afghan people are convinced that corruption is a leading factor in the Taliban's rise as it shockingly enjoys a more pristine image today among many Afghans than when

⁵² Zia Ur Rehman, "Afghan Economic Improvements Lures Back Refugees," *Central Asia Online*, 14 December 2010, http://centralasiaonline.com/en_GB/articles/caii/features/pakistan/2010/12/14/feature-02.

⁵³ Karl F. Inderfurth and Theodore L. Eliot, "How the Afghans See it," *The International Herald Tribune*, 19 November 2010.

⁵⁴ Miller, "Finish the Job: How the War in Afghanistan Can Be Won."

it misruled the country. The Taliban has exploited sentiment by using its Islamic court system to try corruption cases. The insurgents also adroitly exploit official corruption in their own propaganda and recruiting efforts. Afghans consider weak accountability systems (63 per cent), low civil servant salaries (57 per cent), and the very large sums of capital in circulation (49 per cent) as the key drivers of corruption. Corruption flourishes in war-torn and post-conflict societies and the influx of foreign assistance and high levels of security spending present enormous opportunities for malfeasance, particularly when state institutions are weak and accountability systems are virtually non-existent.

53. There are, of course, myriad links between opium production, corruption and institutional crisis in Afghanistan. According to the UN Office on Drugs and Crime's (UNODC), most of the opium poppies cultivated today in Afghanistan are grown in the war-torn provinces of Helmand and Kandahar. Not coincidentally, these are the regions most subject to insurgent activity, active ISAF military operations and its here where the deficit of central state authority is most pronounced. The correlation between insecurity and opium cultivation thus remains strong. The total area of poppy cultivation in 2010 remained the same as in 2009 – 123,000 hectares. Opium production, however, fell by 48 per cent due to a plant disease which struck Helmand and Kandahar provinces. Robust demand conditions, however, meant that total farm-gate income from poppy production rose from US\$438 million in 2009 to US\$604 million in 2010.⁵⁵ The rise in opium prices combined with falling wheat prices last year encouraged more farmers to move into opium cultivation and the earning differential between the two crops has moved from 3 to 1 to 6 to 1.⁵⁶

54. Opium thus remains an attractive cash crop, particularly given that traffickers will pick the product up at the farm gate. The worsening security environment has helped move farmers into one of the very few businesses that seem to flourish as security degenerates. Accordingly, opium remains a pillar of the Afghan economy and may be generating as much as one-third of Afghanistan's GNP. According to the UN, nearly half a million Afghan farmers are directly engaged in the opium trade. The more serious problem is that many of the captains of this industry have close links to the state, and in some cases, may be operating from inside it. The real dilemma for the coalition is that targeting some of these regional and national leaders could push them back into the insurgency.⁵⁷ Once again, it is a very difficult choice for the coalition. A crackdown could further undermine government support in the countryside, as regional powerbrokers linked to the opium trade are fickle allies who could easily move into the Taliban camp.

55. It is possible that currently soaring global food prices might help divert cultivation back into food production. This will largely hinge on government and coalition success in stabilizing the provinces of Kandahar and Helmand, the government's capacity to encourage participation in the legal economy and the development of the infrastructure and institutions to create viable food markets. Here again, the real driver is security and stabilization. Opium production flourishes in conflict regions simply because of the general breakdown in law and order. For all of these reasons, fighting the opium trade may well be a second order priority for the coalition, although its links with matters of governance and security cannot be discounted. Providing positive incentives to move into legal farming, including developing foreign markets for Afghan goods is probably the superior option.

56. Corruption has also struck the financial sector. Kabul Bank, Afghanistan's largest financial institution, gave large ill-advised loans to well connected businessmen and politicians and nearly collapsed as a result. Several current and former ministers purportedly received improper

⁵⁵ United Nations Office for Drugs and Crime (UNODC), *Afghanistan Opium Survey 2010: Summary Findings* (Kabul: UNODC Country Team, September 2010).

⁵⁶ Ted Galen Carpenter, "U.S. Can't Stop Afghanistan's Opium Economy," *The National Interest*, 11 October 2010.

⁵⁷ Carpenter, "U.S. Can't Stop Afghanistan's Opium Economy."

payments from the bank. The Central Bank has taken control of that institution, and the IMF has insisted that the government put the bank into receivership.⁵⁸ But the head of the Central Bank, Abdul Qadir Fitrat, resigned during a June 2011 visit to the United States, claiming that his life was at risk due to testimony he had given in Parliament about the problems of the Bank. The government subsequently issued an arrest warrant for the former governor, claiming that he himself was responsible for the crisis.⁵⁹

57. Another banking scandal last year involved the New Ansari Exchange Hawala. Investigators uncovered evidence that this traditional bank was helping to launder opium trade profits and money earned by the Taliban through extortion. Following the money lead in both cases has apparently demonstrated that many powerful political and commercial lenders including relatives of President Karzai may have been engaged in corrupt financial dealings. Many Afghans and foreign observers felt that the investigation led by the Afghan Sensitive Investigative Unit was a cover up. Between January 2007 and February 2010 couriers working for New Ansari carried \$2.78 billion out of the country, much of it to Dubai. US investigators suggested that some of these funds were diverted Western aid and logistics money, opium profits and Taliban funds. It is estimated that the capital outflow is, in fact, much larger than this and the scandal caused the US Congress to freeze non-urgent aid to the country.⁶⁰

58. Corruption thus constitutes a massive problem in Afghanistan and it is deeply embedded in the political bargains holding the country together. Western leverage on corruption is limited despite countless efforts to advance the case for clean government. This is a fundamental paradox, and it must be recognised that the international presence in the country has also been a factor in the spread of corruption. One German study suggested that of the 80 million euros of German development aid to Afghanistan, in 2006 less than 25 million euros actually went to projects; the rest disappeared in salaries and “administrative” costs.⁶¹ Development aid money is highly fungible and it has helped fuel corruption despite explicit entreaties from Western countries that they do not do so. It seems likely that the massive presence of Western countries in Afghanistan has itself been an inducement to corruption. If this is the case, rethinking the dimensions of that presence must be part of the international community’s reassessment. It should also be noted that the greatest successes in development aid have been at the village level where citizens have participated directly in deciding how funds are allocated and directly overseen disbursement. That may provide an essential clue to resolving this paradox, or at least, learning to live with it.

VII. THE LACK OF INVESTMENT CAPITAL

59. Reliable foreign direct investment (FDI) statistics for Afghanistan are currently unavailable due to inadequate data collection. According to the United Nations 2009 World Investment Report, FDI into Afghanistan in 2008 represented an estimated 11.3 per cent of GDP.⁶² According to the 2010 Investment Climate Statement on Afghanistan published by the Bureau of Economic, Energy and Business Affairs, the government has adopted new trade and investment policies involving currency reform, rationalized customs tariffs, and a simplified tax code precisely to provide an improved investment climate. But sustaining domestic and foreign investment in the country is

⁵⁸ Green, “Afghans Resist IMF Pressure to Sell Off Bank.”

⁵⁹ Rupert Cornwall, “Whistleblower or Fraudster? Afghan Bank Chief Flees to America,” *The Independent*, 29 June 2011.

⁶⁰ Matthew Rosenberg, “Afghanistan Money Probe Hits Close to the President,” *Wall Street Journal*, 13-15 August 2010.

⁶¹ Theisen, “Exit Strategy for a Cultural War.”

⁶² Bureau of Economic, Energy and Business Affairs, United States Department of State, 2010 *Investment Climate Statement – Afghanistan* (May 2010), <http://www.state.gov/e/eeb/rls/othr/ics/2010/138776.htm>.

highly challenging, and there is a clear gap between the law as written and the law as practiced. Both foreign and domestic investors seek to mitigate uncertainty and will not invest where uncertainty defines the political, legal and security climate. A country hampered by a weak state and caught up in a civil war and, to some extent, a regional one is not likely to prove a particularly attractive destination for investors.

60. There are also a range of formal and informal barriers to investment in sectors, which ideally could attract investor interest. Mining and hydrocarbons are two examples of very underinvested sectors that have enormous potential but are hindered by daunting barriers to market entry. Bureaucratic obstacles to investing in Afghanistan are formidable, and the rules of the game are opaque. Business law is highly under-developed and the judicial system is subject to political interference and bribery, both of which undermine essential property protection. Local business leaders often cultivate strong connections with warlords and militias and use these links to block competition in areas such as fuel transport or construction. In addition to these formidable obstacles, the exceedingly high rate of illiteracy among Afghanistan's adult population (only 28 per cent of people over 15 year-olds are literate) effectively puts a cap on the availability of skilled labour. Indeed, many of the most skilled workers are already gainfully employed by the international community in Afghanistan or are, themselves, engaged in ultimately unproductive rent-seeking behaviour.

61. The mining sector in Afghanistan has tremendous potential and apparently has one of the world's largest deposits of iron and copper as well as rare earths like lithium which is needed for cell phones.⁶³ The Hajigak iron ore fields are utterly underinvested because of high risks and entry costs. The country also has large reserves of gold, cobalt as well as myriad gemstones and is seeking investors in all of these fields to help the country develop its potential. Again, the problem is grave uncertainty surrounding the military situation, insurgent violence, corruption and a lack of critical infrastructure needed to bring these minerals to market. Nevertheless, a number of Western, Chinese and Indian firms are seeking to play in the market, but allegations of corrupt bidding have slowed down preparations to begin mining in Hajigak where in 2008 China promised to invest \$3.5 billion to develop the Aynak copper mine. Exporting mined ore will pose yet another set of potentially even greater challenges. The Chinese firm MCC has committed to build a \$6 billion railway to move copper ore from the Aynak mines, but security concerns have held this up as well.⁶⁴

VIII. CONCLUSIONS

62. Transition to Afghan responsibility for security by the end of 2014 is a realistic goal but will require not only a higher level of security in the country but far faster and deeper progress on the governance front. This in turn, is an essential prerequisite to catalyze economic and social development in Afghanistan. The obstacles to improving State capacity, however, remain formidable. Until recently, both the war and development efforts were systematically under resourced. The good news is that steps were finally taken to address these problems. The bad news is that it is late in the day, the insurgency has grown more entrenched, the state has become more corrupted, Pakistan is more unstable and more hostile, and a number of development projects have been squandered by very poor donor, government and civil society co-ordination. Moreover, economic crisis and fiscal crisis in Western countries threatens to deprive the effort of essential resources needed to complete the mission.

63. There is no choice now but to learn from and correct previous mistakes. But even then, improving the situation is likely to prove extraordinarily difficult. The coalition must brace itself for

⁶³ Aziz "Effective Initiatives towards Local Economic Development and Empowerment."

⁶⁴ Matthew Green, "Kabul Pins Hopes on Vast Iron Deposits," *Financial Times*, 11 October 2010.

sub-optimal outcomes at a time when domestic politics and fiscal realities in NATO member countries are simultaneously pushing governments to draw down their presence in Afghanistan. Allied countries and their partners in that country need to be realistic about what is achievable in Afghanistan.

64. That said, were the international community to withdraw precipitously, it would lead to a human and strategic catastrophe. It is the responsibility of all players now to ensure that the situation improves so as to give Afghanistan the opportunity to live in relative peace. Otherwise, the regional rivalries, the cross-border nature of the insurgency, the deep tribal and ethnic divisions, the country's weak institutions and the ubiquitous narcotics trade will conspire to overwhelm any effort to build greater security, stability and economic development. The 9/11 attacks provide ample illustration of allied stakes in the outcome.

65. Efforts need to be undertaken to ensure that humanitarian groups are accorded as much space as possible to operate throughout Afghanistan. The requirement has become even more compelling since the recent surge of coalition forces. It is a fundamental pillar of humanitarian action that those providing humanitarian assistance be allowed to operate in a neutral fashion. This allows them to work on all sides of a conflict in order to provide vital assistance to people in need. This imperative needs to be respected and negotiations with insurgent groups ought to be considered as a means to build a broader humanitarian consensus that creates more space for aid workers. This could also be part of a confidence-building exercise that might be the first step in a more difficult and complex effort to explore potential political solutions to the crisis. It is worth noting that in June 2011, then Secretary of Defense Robert Gates revealed that preliminary contacts had been made with the Taliban.

66. More efforts are needed to collect data on the humanitarian crisis in Afghanistan. This has not been a priority for military actors. The UN, which has the capacity to conduct this vital work, needs now to fill this gap. More information about the level and precise locations of humanitarian crises is essential to devise a proper response to these challenges. ISAF forces also need to better understand the humanitarian situation on the ground and to take measures to mitigate the crisis. Failure here would not only represent a moral failure, it would also deal a terrible blow to the political case ISAF is seeking to make.

67. The UN Office for the Coordination of Humanitarian Coordination (OCHA) should take the lead in improving humanitarian conditions in Afghanistan. It should not be part of UNAMA's remit; however, as that branch of the UN has become too closely identified with the Afghan government and ISAF. In other words, the UN itself may have to build "Chinese Walls" between its humanitarian and political operations in Afghanistan. A humanitarian consortium of NGOs might also be formed to provide greater coherence to their efforts, to distinguish themselves from other actors more closely identified with the belligerents and to stress their humanitarian mission and neutral status to those on both sides of the conflict and to the Afghan people.⁶⁵

68. There is a broader imperative to demilitarize the aid and development process. Militaries are not efficient aid donors and insofar as it is possible should be relieved of responsibilities for managing aid projects. Of course, in civil emergencies, they can play an essential part in providing humanitarian relief, but in general terms, development ought to be left to other actors. Militaries are not structured to administer aid projects, have no real systems of project assessment, lack the local knowledge needed to ensure project sustainability, and stand to be blamed when well-intended projects turn into "white elephants" that prove to be more a burden than a help to local populations.

⁶⁵ Donini, *Afghanistan Humanitarianism Unraveled*.

69. Improving governance and the capacity of the Afghan state to deliver security and development are critical to successful transition to Afghan government responsibility. Military victories in the field will only buy time but they will not solve the underlying problems which lie at the root of the insurgency. To this end, the aid effort must be far better focused and co-ordinated. As much as possible, international donors should run aid through the Afghan government budget and efforts are needed to help Afghanistan eventually put its budget on a sustainable basis so that it is less dependent on foreign financial support - a fundamental if not often discussed dimension of its transitions. To take one example of the problem, it costs an estimated \$8 billion per annum to cover the costs of the Afghan National Security Force. This is 50 per cent of that country's GDP and obviously this is a burden that Afghanistan is not ready to shoulder. This quandary perfectly reflects the development-security nexus.

70. Ultimately revenues must be generated through trade, mining, agriculture, construction and the introduction of vastly improved tax collection methods. These are critical sectors where Afghanistan needs support. Yet the path of development must be outlined by Afghans themselves working particularly closely with the World Bank and the IMF.⁶⁶ Some of the larger donors, including the United States, have had many agencies and various branches of the military involved in providing development support. For these countries, it makes sense to have a single reconstruction agency to eliminate confusing redundancy and interagency rivalries that ultimately only penalize Afghanistan. In Iraq, for example, 62 different agencies including the US Defence Department, the US State Department and USAID were involved in US rebuilding efforts. This was intensely wasteful and imposed huge burdens on Iraq. Yet plans to centralize the reconstruction process are being strongly resisted in the Department of Defense and the State Department.⁶⁷ This problem is probably most serious in the United States, but other countries could also do a better job co-ordinating their own efforts.

71. NATO and, more importantly, NATO member militaries thus need to improve their capacity to be led by others in those areas like state building where national militaries have little experience and know-how. There is a temptation to deploy Western soldiers and their "can do" spirit in state building and development operations best left to local authorities and development agencies. Equally it is essential to work at communal levels and not simply to concentrate capacity building in the capital city. Successful institutional development must be a bottom up rather than a top down process; working locally can reduce the potential for corruption.

72. The international community should remain focused on gender related economic and social development. This works against some of the mores of traditional Afghan culture, but it must be remembered that erasing women from the economic and political map of that country is precisely what the Taliban did, and it proved a recipe for sociological and economic disaster. The international community, however, must find local partners to advance perspectives which both respect traditions but ensure fundamental improvements in conditions in that country. The oppression of women will only impede Afghanistan's development across a broad range of indicators. Education in general and education of women in particular should be priorities of international development support. Only 34 per cent of the population is literate but only 12 per cent of women over 15 can read and write.⁶⁸

⁶⁶ Claire Lockhart, "Only the Afghan Economy Can Make Afghanistan Self Sustaining," in *Afghanistan 2011-2014 and Beyond: From Support Operations to Sustainable Peace*, ed. Luis Peral and Asheley Tellis (Paris: European Union Institute for Security Studies and Carnegie Endowment for International Peace, February 2011).

⁶⁷ Timothy Williams, "Report Seeks Sole Agency to Rebuild War Zones," *The New York Times*, 22 February 2010.

⁶⁸ Shannon Scribner, "Achieving Long-term Development in Afghanistan with Low International Dependence," in *Afghanistan 2011-2014 and Beyond: From Support Operations to Sustainable Peace*, ed. Luis Peral and Asheley Tellis (Paris: European Union Institute for Security Studies and Carnegie Endowment for International Peace, February 2011).

73. Afghanistan remains highly vulnerable to natural disasters and has few resources and infrastructure for coping. Such disasters can be all the more devastating because the population is already highly vulnerable. Although governance is a key priority for the donor community, improving Afghanistan's capacity to cope with natural disasters should also be seen as a related priority area.

74. The opium trade is deeply ingrained in the Afghan economy and has flourished most where instability reigns. For that reason, it should be seen as a second order rather than first order priority. Farmers need alternatives to opium production, they need the means and the infrastructure to move their produce to local and international markets, and the state itself must be strengthened before it will be able to cope with the full range of challenges linked to opium production. Expectations about progress on this front ought to be dampened as fundamental changes are needed elsewhere before this particular challenge can be comprehensively addressed. Ambassador Richard Holbrooke had wisely recognised the importance of building up Afghanistan's agricultural capacity as the best way to counter the scourge of opium. The international community ought to build on his legacy. Developing Afghanistan's agricultural potential, in fact, is fundamental to Afghan well being as 80 per cent of the population relies on it for their living.⁶⁹ But this also makes its transition a delicate challenge as the interests of the most vulnerable people must also be protected. Developing basic social safety nets should therefore be linked to agricultural reform.

75. Equally, a more comprehensive strategy for coping with corruption, some of which is intimately linked to the opium trade, must be developed. Yet, we also need to be realistic about what can be achieved on this front. Corruption is an element of the grand political bargain among the myriad groups that at least nominally support the Afghan state. One analyst describes the problems this way, "When multiparty systems emerge in clan cultures, they only strengthen corruption. As long as this can be financed, a level of satisfaction takes hold, which explains the early successes in Afghanistan until 2006. As soon as resources waned, political pluralism generated corruption and war."⁷⁰ At the same time, many of the security problems in Afghanistan derive from the lack of public loyalty to a state that is seen as both inept and corrupt. Those problems must be addressed if the transition is to have any chance to succeed. But, Western leverage here is frankly limited, and the best it can do is work to ensure that at least its own development funds are properly spent and put to good use. It can expose Afghans to best practices, but the Afghans themselves will ultimately be responsible for adapting these to their own cultural setting - or rejecting them as foreign impositions. We, in the West, believe that positive reform and better governance will facilitate efforts to reconciliation, which are key to stabilizing Afghanistan. But this means nothing if Afghans themselves do not embrace this logic. In any case, they will need to come up with the terms of the bargain that hold the country together and create a modicum of stability. Those terms may not be to our liking but these are decisions for the Afghans to make not the international community.

76. Although the operative frame of reference for the transition suggests that by 2014 key security responsibilities must be shifted back to the Afghan state, in reality that country will still be in great need of international support. Our governments and our people must therefore gird themselves for a long-term commitment to that country even after ISAF troop levels are lowered. At the same time, the international community and the Afghan government must work hard to encourage a genuine national dialogue and reconciliation in Afghanistan as there is no purely military solution to this insurgency. The political problems driving it must be taken up. But even this may not prove sufficient as this war has an essential regional dimension. Indeed, an increasingly unstable and alienated Pakistan continues to harbour key elements of the insurgency and some in its security services believe that a stable Afghanistan somehow poses a threat to it. Pakistan's

⁶⁹ Scribner, "Achieving Long-term Development in Afghanistan with Low International Dependence."

⁷⁰ Theisen, "Exit Strategy for a Cultural War."

military and its security services are using the Taliban and groups like the Haqqani Network in North Waziristan and Lashkar-e-Taiba as proxies in their struggle for regional influence - a struggle that is largely driven by a long-standing rivalry with India over Kashmir. Pakistan, which has been in the midst of tremendous domestic turmoil, must also be made part of the solution, and efforts are needed to make its positive engagement demonstrably in its own interest. That will not prove easy because Western leverage there remains limited and relations with the United States have worsened since US seals killed Osama Bin Laden in Pakistan without consulting officials from that country - thereby demonstrating deep mistrust of Pakistan's Inter-Service Intelligence (ISI).

77. For better or worse, the fiscal crisis pervading many Allied countries has become a central factor in how allied countries view national security matters. There are calls in many countries to pull out of Afghanistan and governments will be challenged to make the case for their commitments to that country even as a draw down is now an official policy goal. It is vital, however, that the Alliance not abandon this impoverished and unstable country, even as they withdraw military forces and lower expectations about what can actually be achieved in this distant country. To simply abandon Afghanistan to its fate would threaten to further undermine security in what is a very dangerous part of the world.

78. Finally, very serious thought must be given to the lessons learned from the decade-long experience in Afghanistan and this assessment must include a reappraisal of the limits of Western power, the proper relationship between values and security policy and the often unreasonable expectations imposed on Western militaries. Ultimately, we need to reassess what can be achieved through military intervention in countries like Afghanistan.
