Afghanistan: Nurturing Political Space for Development

Summary

• Afghanistan has made major albeit uneven development progress since 2001 – high economic growth, improvements in social indicators, some investments in government institutions and infrastructure, but weaker performance in agriculture and the urban sector, and deteriorating governance.

• Where progress has been achieved, the ingredients of success have been effective Afghan leadership and management teams in key ministries; ‘political space’ for them to take forward development initiatives; and containment of corruption in the sectors and activities concerned. However, political space for development has shrunk in recent years with the consolidation of an entrenched political elite and worsening corruption.

• The new Afghan administration may have a window of opportunity to arrest negative trends and restore or expand political space for development. Conducive political incentives, longer time horizons, and the appointment of competent, empowered leadership and management teams in key ministries will be crucial in this regard.

• The international community will need to support and help nurture political space for development and facilitate the necessary prioritization of increasingly limited aid resources. The Tokyo Mutual Accountability Framework could, through a focused set of policies and actions, provide a foundation to support progress, secure international funding and constructively hold the new Afghan government accountable for its commitments.
Development since 2001 and lessons learned

The past 12 years have seen considerable development progress in Afghanistan. While it has been uneven across different sectors, the significant achievements during this relatively short period of time are undeniable. Economic growth has averaged over 9% per year despite large year-to-year fluctuations; even though the benefits of economic growth have accrued unequally, rises in daily wage rates and household expenditures suggest that much of the population has benefited at least to some extent. Inflation has been largely contained after the hyperinflation of the 1990s, the exchange rate for the Afghan currency has been stable, and macroeconomic management has been sound. Human development indicators, such as life expectancy, maternal and child mortality, and school enrolment rates, particularly for girls, have improved sharply from very low levels at the beginning of the 21st century. Road-building and rehabilitation, as well as mobile telecommunications, are notable success stories in the area of infrastructure. And from a state-building perspective, the ambitious targets of the December 2001 Bonn Agreement were largely achieved in a timely manner, two cycles of elections have been held according to the constitutional schedule, and considerable government capacity and functionality have been built up. Some of the development programmes designed and implemented in Afghanistan over the past dozen years compare favourably with those in any other country, and progress in strengthening public financial management (PFM) has been impressive. Set against these achievements are some serious failures. The agricultural sector has been relatively neglected despite its great importance for the economy and livelihoods, and it is striking that no new major water conservancy projects have been undertaken, even though water is the scarce physical resource in Afghanistan. Urban infrastructure and services have made less progress than the more successful rural programmes. Private-sector development has been skewed by dependence on foreign contracts, exports have been anaemic, and the banking sector has been devastated by the massive theft and fraud at Kabul Bank and the bank’s subsequent failure. By all indications corruption has burgeoned from moderate levels during the 1990s Taliban regime and early post-2001 years. In addition to associated massive waste, inefficiency, losses and delays, corruption has undermined the credibility and legitimacy of the government vis-à-vis the population. And efforts to curb the opium economy as well as other illicit economic activities have made only limited progress, which is currently being reversed.

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Moreover, the sustainability of the progress achieved since 2001 is in doubt. Public investments, service delivery and indeed state functionality have largely relied on international funding, which is now declining. Political uncertainty during the ongoing transition and deteriorating security in parts of the country also may put gains at risk. The sustainability of high-level Afghan human capacity in the government, currently being paid at much higher than regular civil service salary levels, could be at risk, and more generally exit of talent from the country and continuing or increasing capital flight during the transition would pose a serious threat to Afghanistan’s development prospects.

What explains the successes and failures in different areas, and also changes over time within the past dozen years? While inherent sector-specific factors (e.g. mobile telecommunications seems to work even in the most difficult environments), and to a small extent the amount and quality of international support, may have made some difference, the following three related factors appear to have been key determinants of developmental success:

- **Quality of government leadership and management teams at sector/ministry/agency level.** This was far more important in contributing to development progress than external factors such as the ex ante level of funding or extent of donor coordination. Why the Ministries of Public Health, Finance, and Rural Development succeeded, for example, and others such as Agriculture, Energy, Finance, and Rural Development.

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3. Afghanistan’s ranking in Transparency International’s Corruption Perceptions Index is currently tied as worst in the world, and its rating for Control of Corruption in the Worldwide Governance Indicators is similarly very poor. See also corruption reports by Integrity Watch Afghanistan (http://www.iwaweb.org/ncs/index.html).
5. See Byrd, *Responding to Afghanistan’s Development Challenge*, p. 22 and Table 2.
and Urban Development made much less progress is in large part attributable to the quality of their leadership and management teams.

- **Political scope for such leaders and teams to pursue development initiatives and implement effective programmes.** This was generated in several ways, including the leadership of the agency carving out space for development, and/or sometimes the absence of much political and patronage-related attention owing to the existence of other, far more lucrative sources of funds during this period.

- **Some at least moderately effective checks against the most egregious, developmentally debilitating forms of corruption in the concerned sector/ministry/agency.** In the early post-2001 years when some major development programmes were initiated and considerable progress was achieved, corruption was widely seen as less of a problem and less pervasive than it is today, particularly in the more reform-oriented institutions.

These factors – whose essence consists of government competence and the ‘political space’ for it to pursue development – came together in a positive way in perhaps as many as half a dozen Afghan government ministries and agencies, and the result was significant development progress in the areas for which they were responsible (and more often than not, limited or no progress in other areas). ‘Political space for development’ refers to the country’s political configuration providing scope for the state to engage, at least to some degree, in development-oriented policies and investments supporting economic growth and improvements in social indicators. Precise modalities differed, and progress was far from linear, but clear successes were achieved. Moreover, the above enabling factors set in motion positive dynamics and attracted ample donor funding, so financial resources did not become a binding constraint in an overall situation of growing aid.

Current challenges, opportunities, obstacles and risks

Afghanistan’s longer-term development challenges are well known, and are similar to those faced by other low-income countries with a history of conflict and characterized by state weakness. However, in Afghanistan such challenges manifest themselves in acute form. Despite economic growth and other progress since 2001, the country remains among the poorest, and its social indicators are among the least improved in the world. 6 Precise modalities differ, and progress was far from linear, but clear successes were achieved. Moreover, the above enabling factors set in motion positive dynamics and attracted ample donor funding, so financial resources did not become a binding constraint in an overall situation of growing aid.

In more recent years there has been some erosion in all of these areas, and hence the ‘space’ for development has shrunk – new development initiatives are facing a more uphill battle than in the past, and current successes are running into limits and facing risks of backsliding. A squeezing of policy space for development is understandable during the current election season (similar phenomena would be observed, at least to some extent, in most countries). However, there are also troubling signs that adverse developments over the past five years or so represent more than a temporary glitch and may point towards continuing trends. This would have serious implications for Afghanistan’s development and for the sustainability of gains achieved. The concern is that the first half of the post-2001 period represented an unusual window of opportunity which was only partly exploited, and that the recent deterioration marks a movement towards a political economy equilibrium among elites that arose during the long period of conflict and that have become increasingly entrenched politically and economically. The international intervention, with its enormous financial inflows during the past five years, has unfortunately contributed to these adverse trends. Whether the current election cycle will significantly change this pattern is doubtful, and stresses emanating from factors such as the Taliban insurgency, international exit or actions by neighbouring countries could also be inimical to development.
the worst, in the world. Private-sector development has been distorted by enormous aid inflows, and Afghanistan is not able to compete economically with neighbouring countries. The challenge of generating jobs and incomes for the rapidly growing labour force will be daunting in a country where unemployment and underemployment are already over 50%, according to available data.8

The ongoing security and political transition, and its economic implications, provide opportunities but also major risks for Afghanistan depending in part on how they are managed. Declining international military presence and expenditures, falling civilian aid, lower-profile international political attention to and engagement with the country, the presidential election and possible regional geopolitical changes – all will have implications for development prospects.

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Given that Afghanistan’s political economy is evolving but does not appear to be changing in fundamental ways as existing elites have become more entrenched, factors that provided political space for development over the past decade will continue to be relevant after 2014, even though the level and profile of international support will be lower. (It should also be remembered that, unlike during the recent ‘surge’ years, international financial assistance to Afghanistan in the early years after 2001 was widely seen as inadequate, even though most of the successful development programmes were initiated and achieved positive results during that time.) But more recent adverse trends also reflect worrying underlying political economy dynamics which can be expected to persist. Reversing such trends will thus be a major challenge.

Nevertheless, there may be a window of opportunity in the months immediately after the new government takes office to institute improvements and restore and expand the space for development-oriented policies and investments. Thus while recognizing the many obstacles and constraints that the new government will face, it will also be important to take advantage of opportunities that arise and openings for change in the post-election period. Possible examples include the opportunity that the reduction in international funding may provide to contain and reduce corruption; the potential for greater government control over a smaller aid budget of which a larger proportion goes through national budget channels; and, on the international community’s side, the potential for greater focus and leverage that lower levels of overall funding may provide.

Priorities for the post-election Afghan government

The new government, expected to emerge from the first peaceful transfer of power from one Afghan leader to another through an election, will face daunting immediate challenges. Nevertheless, it will be important to break out of past patterns of governing by day-to-day ‘crisis management’ and develop a focused agenda of short-term actions and medium-term directions, including in the development sphere.

A first priority will be to put in place competent leadership and management teams in key ministries and a strong economic team; experience has shown that this will be essential for success in the Afghan context. While political jockeying and horse-trading over ministerial and other top government positions is inevitable (and may already be going on), some of those likely to be involved are well-qualified reformers and technocrats with good track records. It is important that such individuals are appointed to positions of authority in key ministries. Moreover, even where the minister lacks technical or managerial expertise, a competent and empowered management team immediately below this position will be crucial for success. Fortunately there is a critical mass of talent in all ethnic and political groupings to fill ministerial leadership and top management positions.

Understandings reached in the cabinet about key areas of development policy, and more generally regularization and improvements in the functioning of the cabinet, would also be helpful in fostering a development orientation – for example, scheduling in advance and setting clear agendas for cabinet discussions and decisions on important policy issues, or circulating in advance short policy papers outlining the issues concerned and likely political, economic and fiscal implications of decisions. The new government will also have an opportunity to make changes in the Office of the President to enhance its functioning and effectiveness.

8 According to the National Household Survey of 2007–2008, open unemployment was estimated at 6.8%, but 48% of those employed worked less than 35 hours per week on average and were considered underemployed. Underemployment was especially high in rural areas and among the self-employed (World Bank, Afghanistan in Transition: Looking Beyond 2014, pp. 61–62).
Turning to the substance of policies, depending on near-term developments economic stabilization may be an immediate priority. Sound macroeconomic management will need to be maintained. Stemming and, over time, reversing the massive capital flight out of Afghanistan, and preventing precious human resources from leaving the country, will also be a priority. To achieve this, confidence-building, meaningful signals of political stability, and constructively building a post-2014 partnership with the international community will be needed – not trying to impose controls and restrictions which in any case would not be effective. Indeed, the very large amount of Afghan private financial capital currently held in other countries, as well as the large number of expatriate Afghan businessmen, professionals and other skilled individuals, whose return should be encouraged, represent an extremely important opportunity over the medium term.

Although Afghanistan will continue to be heavily dependent on aid, reversing the recent deterioration in the mobilization of domestic revenue will be both substantively and symbolically important. It will increase the government’s freedom of action and, together with prospective increases in aid channelled through the Afghan budget, its control over public resources. Robust growth of domestic revenue will also send a strong signal to donors about the seriousness of the Afghan government’s commitment to progressively reducing aid dependency in the medium term.

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Meaningful actions to contain, mitigate and, over time, reduce burgeoning corruption will be a key priority for the next Afghan government. However, the need for modest expectations must be recognized, along with the likelihood that in the current political configuration lubricated by patronage and pay-offs, significant corruption will persist. Moreover, conventional responses to fight corruption (e.g. setting up anti-corruption agencies) are often ineffective or counterproductive. But by all indications corruption in Afghanistan appears to have spiralled out of control, to the point where it has become one of the most important threats to the country’s development prospects. A change of tone, and strong actions on some egregious cases (e.g. Kabul Bank), would send a clear signal of the new government’s intent in this regard. This would need to be followed up with a modest yet meaningful set of anti-corruption measures.

Fostering transparency and enhancing the public’s access to information about public-sector actions and activities would be a core element of any anti-corruption strategy. Other options with positive anti-corruption impact (even though not necessarily falling under the narrow definition of anti-corruption measures per se) could include:

- **Further strengthening of public financial management systems, processes and capacity**, building on the impressive progress already made;
- **Procedural simplification** to reduce vulnerabilities to corruption in regulatory processes, recognizing that this will be resisted by corrupt systems;
- **Striving for minimum standards and a degree of ethnic ‘mixing’ in government appointments**, rather than for fully ‘merit-based’ appointments (impossible under current circumstances); and
- **Where possible, putting in place mechanisms with built-in checks and balances to limit corruption**.

Private-sector development needs to be put on a sounder footing. Greater transparency of government contracting and government tendering of smaller mineral resources to Afghan companies would both strengthen private-sector development and limit vulnerabilities to corruption. Public disclosure of the beneficial ownership (i.e. shareholders) of companies that bid on government and international

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9 Technical measures such as the initiation of a value added tax are part of Afghanistan’s IMF-supported programme (see IMF Program Note, Afghanistan, 30 September 2013).

10 In addition, it will be extremely important to contain and reduce corruption in the customs and tax administration.

11 Various studies have found that most specialized anti-corruption agencies in developing countries do not achieve their desired objective of reducing corruption. See, for example, John Heilbrunn, *Anti-Corruption Commissions: Panacea or Real Medicine to Fight Corruption*? (World Bank Institute, 2004) and other sources cited there.

12 For a review of the criminality and corruption associated with Kabul Bank, see Independent Joint Monitoring and Evaluation Committee (MEC), *Report of the Public Inquiry into the Kabul Bank Crisis* (Kabul, 15 November 2012). As noted by MEC and other observers, the subsequent convictions of several principals and officials of Kabul Bank on minor charges did not aid in recovering the losses and thefts totalling close to $1 billion, whereas if they had been convicted on money laundering charges the Afghan government could have pursued recovery of stolen assets from bank accounts and property held in other countries.

13 For some ideas on how to approach addressing corruption in fragile and conflict-affected situations, see Michael Johnston, ‘First, Do No Harm – Then, Build Trust: Anti-Corruption Strategies in Fragile Situations’ (Background Paper for the 2011 World Development Report: Conflict, Security, and Development, World Bank, September 2010). Also see World Bank, *Fighting Corruption in Afghanistan: Summaries of Vulnerabilities to Corruption Assessments* (May 2009), which put forward some areas for focus and recommendations.

14 Asset declarations by top government leaders and senior officials (called for in Afghanistan’s constitution and in legislation) also could be a productive option to enhance transparency in the public interest, provided that the requirement is effectively enforced even at the highest levels, and that declarations are reviewed by a credible, independent entity for obvious omissions and oversights.

15 In addition to transparency and public information, repeated transactions and reimbursements – with subsequent payments genuinely contingent on previous performance – can be a powerful tool, as can projects and activities that include a transparent fixed budget combined with local control and accountability, as in the National Solidarity Programme.
contracts, mining concessions etc. would be very helpful in this regard. The current widespread perception that political linkages are essential for building a successful business in Afghanistan needs to be changed. More generally, the broader private-sector development agenda has been articulated at various times, including at a high-level 'enabling environment' conference in 2007.

With regard to sectoral priorities, it will be important first and foremost for the new government to engage in meaningful prioritization, something that has been missing from both the government side and the international community approach. Declining funding will force major reductions in spending on development, and it will be far better if these reductions occur in a planned and managed way rather than in a disorganized and ad hoc manner. Given the multiplicity of donors as well as different funding channels and bureaucracies within some of the larger donor governments, only the Afghan government can effectively lead and coordinate prioritization. Priority will need to be given to maintaining past gains in critical areas to the extent possible, and to salvaging what can and should be salvaged from the enormous investments made over the past dozen years, rather than engaging in numerous ambitious new initiatives which will compete with and detract from one another and are likely to founder for lack of funding.

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Looking beyond early decisions and initial foundation-building that will be needed to enable the government to make sustained development progress, a small set of medium-term priorities (probably no more than half a dozen at most) should be articulated. Examples of priority areas include fostering sustained job-creating private-sector-led growth; maintaining and further expanding delivery of core basic social services; operating and maintaining key infrastructure (while recognizing that much lower-priority infrastructure will inevitably fall into disuse); focusing on a very small number of top-priority new public infrastructure projects including in previously neglected water conservancy; and developing sustainable core human capacity and systems in government.

Support priorities for the international community

Modest expectations and recognition of its own limitations on the part of the international community are called for. Nevertheless, while meaningful longer-term international commitment to Afghanistan will be an important anchor for the country’s stability and development, the international community may in some respects have a degree of enhanced leverage and ability to encourage development after 2014. There will be much less money available for Afghanistan (especially less bilateral off-budget and unaligned aid and military contracts), which could mean enhanced impact for leveraging remaining funds. But on the other hand, the lower profile of the international engagement and exit of most foreign troops may also weaken this potential leverage.

Understandably, the Tokyo Mutual Accountability Framework (TMAF), agreed between the Afghan government and the international community in July 2012, may be regarded as having limited relevance during the election period and while the Bilateral Security Agreement between Afghanistan and the United States remains unsigned. Nevertheless, the TMAF’s broad provisions are sensible, and it could provide a foundation for supporting progress, securing international funding and constructively holding the new Afghan government accountable for its commitments. The primary focus of the TMAF is appropriately on governance improvements, which should be pursued through a focused set of key policies and actions. It should not be overloaded with numerous minor and procedural benchmarks, as exemplified by the government’s ‘anti-corruption’ decree of late July 2012, which included some 150-plus action points, thereby detracting from focus on key priorities for governance improvements.

The international community should also judiciously support efforts to maintain and expand political space for development, which will be essential for the implementation of substantive policies and development priorities. Exercising financial leverage is challenging and can easily backfire, as is amply demonstrated by experience internationally and in Afghanistan. However, some international funding could be linked not just to the TMAF or to the inputs and outputs of development programmes, but to the enabling factors for development. So funding could respond to quality leadership and

15 Politically connected shareholders appear to be a common phenomenon in such companies, including in some cases shareholdings by family members, relatives or other associates of political leaders – but who actually has an ownership stake and shares in the profits is not disclosed or made public. See, for example, Weeda Mehran, ‘Criminal Capture of Afghanistan’s Economy’ (Integrity Watch Afghanistan, December 2013).
17 The Office of the President of Islamic Republic of Afghanistan, Decree on the Execution of Content of the Historical Speech of June 21, 2012 in the Special Session of National Assembly.
management teams in key agencies; political space for them to implement effective policies and programmes in critical areas for development; and preventing the most egregious and debilitating corruption (anti-corruption is also one of the themes of the TMAF). This approach, though challenging, is appropriately targeted at underlying success factors and may have a better chance of nurturing space for development on a sustained basis.

Unlike in the recent past, financial resources will be a serious and binding constraint on development activities in the future. Domestic revenue mobilization and revenue growth over time will therefore be an even more important performance indicator for the Afghan government than in the past. Thus the linkage of aid with revenue performance (and contributing factors) should be further strengthened, particularly in view of the deterioration in revenue in the last few years.

Overall, the international community needs to be supportive while encouraging the new Afghan government to engage in meaningful, even if modest, pro-development policies and investments. A ‘do no harm’ approach also is important – for example, avoiding inadvertent detraction from government efforts to prioritize development programmes and funding. Preventing and responding effectively to corruption or other irregularities in its own ranks is an extremely important element of a ‘do no harm’ approach by the international community. More generally, donors must also ensure that the Afghan government’s responsiveness to the priorities and concerns of the international community does not detract from its accountability towards its own population.
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William A. Byrd has a PhD in Economics and an MA in East Asian Regional Studies from Harvard University. During a long career at the World Bank he worked on China, India, Pakistan and Afghanistan. From 2002 to 2006 he was stationed in Kabul, where he served as the World Bank’s country manager for Afghanistan and then as economic adviser. He has published widely on Afghanistan and was one of the authors of the major World Bank study on Afghanistan’s transition, published in 2013. Since April 2012 he has been a senior expert at the US Institute of Peace, where he has produced a number of publications on the transition, including lessons from international experience and Afghanistan’s history, aid issues and mutual accountability, the opium economy, exploitation of the country’s mineral resources and political economy dimensions.

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