Chair: Development Institute. I’ll just begin by saying that although it is Chatham House, Chatham House rules don’t apply. The remarks that Dr Ghani will make will make in a moment are on the record. Many of you will know our speaker. If you don’t know him personally, you will know his work and I’ll just begin by introducing him. He’s a native of Kabul, where he is now the Chancellor of Kabul University. His early academic career has included periods at the Beirut University, Columbia University and then subsequently with teaching appointments at Berkeley and Johns Hopkins. In 1991 he began 11 years at the World Bank, where he became the lead anthropologist. He also became involved with the United Nations, acting as a special advisor to Mr Lakhdar Brahimi, then the UN [SOSG? 00.59] to Afghanistan and when the Taliban fell, Dr Ghani returned to Kabul, at President Karzai’s request, to become his chief advisor. From June 2002 to 2004, he served as the Finance Minister for the Government of Afghanistan and in this post he developed a seven-year public investment programme, entitled “Securing Afghanistan’s Future”, which many of you may be familiar with and that formed the framework for international development engagement with Afghanistan. The subject that he’s going to speak to us today about is “Confronting the Challenge of State-Building in Conflict-Affected Countries” and I can think of no-one better to address the problem.

I would ask you please, after he has finished speaking, to identify yourself as you ask your questions and keep those questions short but I’ll come back at the end
and remind you of that. Ashraf, over to you.

Speaker: Good evening. Thank you very much for that introduction. General McColl was the most popular man in Afghanistan when [unclear 02.18] was held. He had the record for the longest applause which shows that the fourth encounter with Team Britain in Afghanistan actually was concluded not only peacefully but brilliantly (laughter).

Chair: The first three didn’t go too well if you remember (laughter), from a British point of view.

Speaker: Why do states fail? The answer is simple, they lose legitimacy. But what are indicators of loss of legitimacy? The first of these is loss of legitimate use of violence. Other groups feel impelled to resort to violence and justify their use of violence. Legitimate monopoly of means of violence has been long held as the single most important criteria of statehood. But what happens when a state loses its legitimacy? The erosion of that monopoly follows. This is quickly accompanied by loss of administrative control. Large chunks of territory disappear from the control of the central government. Multiple administrative systems come to being. In turn, public finances cease to be wealth-creation exercises and depend – become dependent on external mobilisation independent of parts of the country. Expenditure, which is the other side of mobilisation of public finances, does not reach large segments of the population with services. Expenditures on health and education become ineffective. Citizens are treated as subjects, not as bearers of rights, and in turn treat the state not as the holder of their trust but as a predator. Infrastructure ceases to be a main driver of economic development. Therefore, illegality, informality and criminality in economies increase. Instead of legitimate economies becoming the means of empowerment of people, illegality, informality and criminality dominate the field of the economy. External relationships, particularly in the regional context, get to be much more complicated because a territory that has lost these characteristics soon becomes a field of operations, of neighbours and other interests. The net result is loss of trust of citizens in the state and we now know that the glue that binds people is trust and when loss of trust takes place, the consequences are quite important.

So if this is why states fail, the next question is, when does state failure happen? I would offer a very quick classification. First is institutional disintegration of a centre. The centre of government loses its capacity to represent or speak for the
country or the nation. Accompanied with this loss of the will to govern at the centre are syndromes of institutional disintegration. One institution after another disintegrates. Second, is separatist movements. Breakup of multi-ethnic polities is a particular example of this because the glue that was holding people together now becomes the mechanism of division. Instead of crosscutting ties reinforced into the cement of citizenship, now you get separations. Other cases are where persistent conflict bring about disintegration of the state, either because of mineral wealth or fights over control of specific pieces of territory that are revenue producing. The counter centrist tendencies increase.

Then there's also the case of counter-revolutionary states. These are states that are distinctly controlled by minority interests and dedicated to repressing other groups, instead of entering into dialogues with them. El Salvador and Central America, the Sudan until recently and Africa are prime examples of this. One modality in a country characterised with immense diversity, one model is held to be dominant and force is used to exclude others and then of course we have the classic case of foreign invasions, prime example being my country. In all these cases a government that fails to perform state function on an even-handed effective basis loses the trust of the citizens and thereby fails to have an agenda of citizenship. Either by design or default, at least one segment of the population is either excluded or feels excluded.

What is at stake here? I'll first deal with threats and deal with opportunity. First, a number of people, approximately 700 million people, live in countries characterised as fragile and this is expanding, not contracting, approximately 40 to 60 countries or places where the 700 million people live. What is often not remarked but is blindingly obvious is that authoritarian regimes that were propped up by Cold War and were based on repression, now deprived of their crutches, are facing crises of governance. During the heyday of Cold War, the only thing that mattered was the foreign policy alliance and left and right both engaged in forms of violence internally and failed to negotiate citizenship. With the end of the Cold War, it’s not surprising that we’re seeing the failure of the state manifest itself. Every single one of these fragile or failing states has exacerbated poverty. It has created large scale destruction of human capital and it has produced migration, internal displacement and refugees. The largest number of refugees in the world belong to failing states. So the human loss is unbelievable and there are areas and these are the areas, the areas of fragile states, that have become breeding grounds for movements of violence that threaten global security. Afghanistan was the first; it's not going to
be the last, unfortunately.

What is opportunity? First, is that for the first time in over 200 years in the OECD countries there is a consensus, a two-fold consensus. The first is on the economy that capitalism is the organisational, the best organisational form of the economy. Second, is over the form of the polity, that democracy and rule of law are the best organisational characteristics of the polity. This consensus, however, is fragile. This consensus covers a billion people. Five billion people are not within this consensus. Another two billion, India and China, are likely to be brought to one or the other but the issue is whether both. They're good candidates for moving forward but three billion people are excluded from this consensus and the question is, can this global consensus hold while it excludes three billion people?

But that precisely is the opportunity. The opportunity for the first time in history is to actually argue for a global middle class. Democratic countries have had two characteristics. One, none of them has experienced famine, as [unclear 12.25] has pointed out. Second, they have rarely gone to war with each other and if security is to be talked through now in global terms, rather than in national terms, it allows this very threat, allows for the opportunity to rethink the art of statecraft in politics on new premises. It allows us to rethink the nature of the state, so that patterns of the past can be avoided.

How do we rethink the nature of the state? [Unclear 13.15] and I have been working on this and we would like to propose a series of functions that are performed by the state. The characteristic of the state – the chief characteristic of the state, as I mentioned, has been legitimate monopoly of means of violence but since 1919 Max Weber's celebrated essay on "Politics as a Vocation" has been the dominant paradigm but this is not sufficient. It is necessary but not sufficient. We would argue that we can divide the functions of the state into three orders and in total there are ten functions that should be performed by the state today. These three domains are constitutional and political order, social order, and economic order.

On the first, constitutional and political order, its monopoly of means of violence, legitimate monopoly of means of violence, administrative control and public finances. These are characteristics of the state from 16th to 19th centuries. That's the classic ground of the European nation state. The social order is citizenship rights and investment in human capital. Imperial Germany was the first initiator of this process but post-World War Two, the consensus that it produced, the social
question in Europe, involved provision of upward social mobility through education. The language of class gave way to the language of citizenship precisely because large scale middle classes were produced. The third order is economic order, infrastructure services, regulation of the market, public borrowing and management of public assets but the cross cutting theme across these three orders is rule of law. Predictability regarding rule of law is now not only necessary to social – to political stability, it is also necessary to social stability and economic development. A particular test of this is whether rulers are subject to rules because there are places where rule of law is provided for subjects but rulers themselves are not subject to it but the critical test of this is whether rulers are subject to rules and the indication of that is orderly succession to office. When succession to office is not orderly and predictable, it produces politics and personalities rather than programmes.

Wealth creation, again, is through creation of predictable roots. Key resource is not financial now but rule based. Why is it that the bulk of development, investment money, actually takes place between America and Europe? The largest mutual flows are between North America and Europe, not between either of them in emerging markets. Then again, within emerging markets it’s places where there’s predictability. What is really interesting here is that military planners, NATO military planners, have demonstrated this empirically in Afghanistan. The thing that they demonstrated empirically was most important for security were two things: credible institutions and public finances, not the size of the military or the police as such and I’d like to thank General McColl particularly for that. This view of functions that we’ve articulated was recently endorsed in a conference by leaders of people who have participated in transitions, largely from Africa but also from Latin America and the Pacific.

So the next issue, if there is a question articulation of functions, is how do we go to measurement? The capability of the state to perform these functions can be measured. That’s our first proposition. We are proposing a sovereignty index of functionality of each state, which could be presented on an annual basis. The reason to emphasise the annual basis is that today developing countries are asked to produce thousands of reports for their donors. In Tanzania this amounted to 7,200 reports a year. It was reduced, blissfully, to 1,200 reports a year. This is not the way to run a relationship. A single report that can be issued prior to the meeting of the General Assembly of the United Nations and the World Bank IMF Report will attract everybody’s attention and simplify the task of the relationship.
So if sovereignty is defined as the degree of capability of the state to perform the above functions then we have an obvious gap in sovereignty between the de jure definition and the actual practice. The international system is premised on sovereign states fully being capable of to perform certain functions, particularly to be legitimate at home and abroad, not to be a threat to the citizens of other countries or to be a threat to their own citizens. This in turn raises the questions regarding models of sovereignty and I think here the example of Europe is extremely important. Europe has managed to negotiate the notion of shared sovereignty. The lesson that Keynes so brilliantly emphasised after World War One was that Versailles Treaty failed to offer alternatives. That was a failure of leadership. Post-World War Two Europe was able to transform some of the most difficult and intransient conflicts of the day into cooperation through renegotiating the notion of sovereignty from an absolute to one of shared relationships and if Europe, the original home of the nation state, could rethink from absolute sovereignty to shared sovereignty, there’s a lesson for the rest of the world.

So what would be the mechanism? We’re proposing a double compact. What does this mean? This means that first of all we have to take the right time horizon. The problems of failing state cannot fit into the electoral cycles of developed countries. They require minimally ten to 20-year horizons. These problems cannot fit into annual budget cycles of international financial institutions because by the time money is mobilised half of the year is gone and then it has to be spent. That results in waste. An objective should drive the process, not the process an objective. The way is for a double compact, meaning that on the one side international community stands to agree on a sufficiently long-term horizon to bring about stability in inclusion, on the other side, the rulers of these countries enter into a compact with their own citizens.

Critical to this is the nature of the peace agreements that are entered, particularly in the wake of conflicts. What characterised the Bonn Agreement in Afghanistan as different from other agreements, that it had benchmarks. Because it had benchmarks, people could mobilise around them. Everybody knew what was the next phase and each phase brought about more inclusion ‘til sovereignty was transferred to the people of Afghanistan. The problems of Afghanistan are far from over but the issue of legitimacy, a legitimate centre which was at the heart of the conflict, has been solved, with an elected president for the first time in our history. Unfortunately, only with 55.4 percent of the vote and not the 88 percent. Afghans cannot be told to 88 percent. I would never have believed it (laughter).
What would be the heart of this is mutual accountability regarding generation of wealth and delivery of services. If the parliament and citizens of developed countries are to have trust in this process, there must be an exit strategy. Aid cannot be an indefinite compact. Every single one of these countries can generate more wealth than the aid they receive. The key is to get the right strategies in place but this in turn requires that the stovepipes that we inherited after World War Two be overcome. What are those stovepipes? UN does politics, NATO does security, the World Bank and IMF the economic development. The degree of complexity in this countries towards an objective of state-building is not such to render itself to this need, division of labour. Coordination among these entities becomes the critical objective of the day. Without that coordination resources are wasted but much more importantly, trust is lost. Coherence can be found, therefore, through agreement on long-term state-building strategies and the end product of this will be trust, both among states and between states and their citizens because that is what will give us overall security, to all of us.

In conclusion. Britain and Europe have a particular role to play in this. Britain because, as President of G8 in European Union, it is in a particularly good position to revitalise the UN, World Bank and NATO into a coherent agenda, with the necessary medium-term time horizon. In Europe because Yugoslavia is still with us and Europe is surrounded by fragile states. The question of fragile states is not a case of charity, it’s a case of investment. The bill for operations in Afghanistan, military operations, runs between 12 and 14 billion dollars a year now. What’s the bill in Kosovo? What’s the bill in Bosnia? Compared to that expenditure, a strategy that coherently pursues by agenda of state-building will indeed be an investment but will have multiple dividends for all of us. Thank you (applause).

Chair:

Well, Dr Ghani, thank you. An illuminating description of the problems of failing states, the criticality of addressing all the lines of the situation as we address those problems and the supreme importance of sovereignty and then a framework within which we can address those issues. Stimulating stuff and I’m sure there’ll be many questions. Could I ask you, please, as you ask your questions to identify yourself as you do so? Do we have a couple of microphones? We do, which will be passed round and could I ask you to keep those questions as succinct as possible? We’ll take them one at a time to begin with. If there are too many, we may group you up in twos and threes but we’ll start over here on my left, please.
Question and Answers

Participant: It is very easy to see [unclear 27.06] not in Kabul really. It is very difficult to see him in Kabul (laughter) but easy to see him here. The question really which I want to raise, which is really one of the conflict agenda in Afghanistan after the election, which went very well and the debate will be – the big debate and everybody look to it is the curb of cultivation and production of opium, which is really one of the, I think, as you know is 60 percent of the gross production of Afghanistan and, unfortunately, you see, nobody help. I stay longer in Afghanistan. I am [unclear 27.57] representative in Afghanistan for many years, from 1992 to 2000, and I notice really there is many effort of poor farmers to get rid of this business to have any replacement or any compensation but nothing is done really, comparing with the arms business and all of these sort of things. There is one group now. I like to be short really, I cannot do. There is one group which is now think tank group about the international drug policy group. I think they will meet in Kabul.

Speaker: They will meet at Kabul University.

Participant: Yes. I think is very essential if you elaborate more about to because they want to develop, you know, sort of system, legalised, you know, the production and at least to be used in drug like morphia and cocaine and other drugs. I think this is will be sensible and I think the best one to answer this question is Dr Ghani. Thank you very much indeed.

Chair: Thank you.

Speaker: Do you want me to comment? Okay. On drugs. First an observation. Drug production is a male activity. Afghan women are not engaged in production of drugs. The only case that I know is last year when some members of the household were actually paid in cash because of a shortage of labour. So the first point actually begins with women’s production. Women’s production is not commoditised and unless women really become the centre of development, you’re not going to find a solution to this. In China, two-thirds of the income of a rural household comes from non-farm activities and it’s really important to focus on them, to have strategies that look at the overall household situation, rather than the income of men and a household looks at its total income and the first part here is Afghan women, for instance, are among the best embroiderers in the world but all their products go to hospital auctions. What we need is a strategy
that produces a made-in-Afghan-woman label that is sold, whose products are sold in the hundred top supermarkets in Europe and in North America, in East Asia. The answer is back in your hands as consumers, to rethink the value chain.

You know, if you invest 600 million dollars in repression and give it to one of the American security companies that now has become a global business, all you're doing is exacerbating the problem.

The second is that development agencies, militaries and others do not know how to create jobs. People who know how to create jobs are global corporations. What we need is an engagement with 50 top global corporations to produce jobs. The key weakness, the Achilles heel, of the drug system is labour. Cotton will not compete with drugs but the T-shirt will. So the trade relationship — renegotiation of trade relationship with Europe and America is essential. Give us zero percent tariff and I'll get you four billion dollars to six billion dollars in investment in textile industry within six months. It's a mobile industry. The other is jewellery. Jewellery could produce a million-and-a-half jobs, quite easily. So we need to think outside the box.

Third observation, I'll stop there so to allow for other questions, is urban job creation is key to overall growth and the urban sector has not received attention. The urban sector has phenomenal amount of money into it. If the money was harnessed — in Kabul alone one-point-six billion dollars [has gone into? 32.10] investment in housing in the last four years. We need to be able to have a strategy of urban growth to connect [unclear:32.21] — I'm sorry, I forgot one part of your thing and that is to look straight and overcome the politics of hypocrisy. It takes two to deal with drugs, the consumer and the producer. The issue has been unilaterally placed on the shoulder of the producer. How is it, I ask, that the price of heroin is cheaper than a cappuccino in the United Kingdom? How does it get here? Why is it that despite billions of expenditure on security, still everybody who wants it can reach it? This requires rethinking and part of it is an answer, like India, Australia and France, for certain part of country of legal growing of opium, in order for it to be transformed to morphine and other products and that's the purpose of the conference in Kabul.

Chair: I'll just move over to the other side and come back in a moment. On the right, please. Thank you.

Participant: Thank you very much. Andy Bearpark of the Nation Building Association. How would you reconcile, if indeed you would, the assertion that the state has a
monopoly on the use of violence with the presence in Afghanistan, other theatres like Iraq, of many thousands of heavily-armed men from private security companies?

**Speaker:** That is very simple, you know, in a context of failed state. The state does not have a monopoly of means of violence. It is precisely to create the conditions for a monopoly of means of violence that we engage an exercise. General McColl was instrumental in creating the First Division of the National Afghan Army. When he served as the first Commander of ISAF, one of the things that we requested him was to put together a strategy for creating an Afghan National Army. That army now is 30,000 strong but one has to think through strategies of transition precisely with that goal. When the state collapse that monopoly cannot suddenly be bought, one. Two, that monopoly is not invested alone in the security purchase, if you do not have a strategy of investment human capital or infrastructure or others. Nine-tenths of the legitimacy of the state now comes from performance of those nine other functions. Only one of it comes from [unclear 34.58]. An army is there not to be used. It’s the threat of use of force that characterises a stable regime, not its actual use.

**Chair:** Thank you.

**Participant:** I’m Martha Jean Baker from the Women’s International League for Peace and Freedom and I have to say I found your comments very interesting on a lot of different levels. I believe I heard you say that it was not the size of the army that was important but the economic and financial stability of the country and I found that an important thing, particularly in the context of what you just said about the army is not there as force but as a threat of force. The other thing that you said that I thought was interesting was that – particularly interesting was aid should not go on forever. So putting this in the context of your answer to the first question, do you see – there’s this whole debate over fair trade versus free trade and it seems to me that the kinds of things that you were advocating would fall more into the fair trade issue but I wondered what your thoughts were there and when you talked about the role of women, particularly in the household economy, I wondered if you had any comments to make or any thoughts on the UN Security Council Resolution 1325, which talks about women being involved in peace-making, peace-building, decision making and things like that and what kind of role that would have and whether we can dream of a day when the armies will be used for things like helping citizens and not for force and threat of force. Thank you.
On the issue of women. I'm unabashedly trained by my grandmother to obey women (laughter) and still feel that a lot of the characteristics of Muslim societies in particular are totally off the mark. Are totally off the mark. I dare a man who could go to the presence of my grandmother who controlled 3,000 acres of land and say that he was a man and, therefore, she should listen to him. She had six sons who were devils outside and all of them were [whipped? 37:37] to go to school. I think it really matters to think about the economic basis of women's part. This is not an issue of culture; it is an issue of resources. As Virginia Woolf pointed out, you know, all the buildings of government were male until the end of the century, of 19th century. So the opportunity in a place like Afghanistan is precisely not to have stereotypes. I had the privilege of working with two women of the Ministry of Finance. One, under 30, was Director of Treasury. In a single year she created the unified single treasury account in the country. The contrast is there are 60,000 banking accounts still in Indonesia and that is the Director of the Budget, who's here. No Afghan men had any difficulty obeying these two very strong women. I think the issue is that we ignore it. Kabul University now has 20 percent women only. My goal in six years is 50/50 but until I gathered the statistics, nobody had paid it any attention and I think gender is one of those areas where we see a lot of rhetoric from developed countries and actually very little action. Afghan women do not want [microcredit? 39:13]. They want access to the supermarkets. They want access to the value chain that would allow them to think through of becoming rich. Not shifting from a dollar a day to two dollars a day. This is ridiculous. Why should they be thinking of two dollars a day as their horizon? It is important to get two dollars a day but if that's the horizon, I think we are cheating ourselves of an opportunity and another Afghan woman chaired all – practically 60 percent of the sessions of our constitutional convention and nobody had the slightest problem with it. So it's important not to give way to a construct that automatically creates gender segregation and it'd be very important to act on the UN resolution and being able to go forward.

On the trade issue. The question is that the practice and preaching of OECD countries differs enormously. All OECD countries preach to us, the developing world, to have free trade, to remove barriers and yet you have a common agricultural policy that militates against us. I don't want aid, I want trade. Aid is not going to solve the problem. Trade is going to create the necessary – one dollar of private sector investment in Afghanistan is worth ten to 20 dollars of aid because it circulates and it's important to recognise the difference and lastly the issue is mental models. We either have a model of redistribution, where we say, we take from a limited pie and the issue is how to cut the pieces of the pie or we
have a model of wealth creation, where we say wealth is indefinite and it depends on us. After all, Silicon Valley turns sand into the largest basis of development and we have to be able to think through these relationships in terms of a range of access. Of course, it’s not going to happen overnight. One has to understand the politics of this but realistically, that’s the modality to release trade.

**Chair:** Thank you.

**Participant:** Thank you. My name is Brinley Bruton. I’m a journalist. I spent much of the last year in Afghanistan and I’m really interested in how you would characterise the government within the paradigm you just described, how the government is dealing with regional commanders? How does it work within the paradigm you’ve described and do you agree with the way President Karzai is dealing with these commanders, many, many of whom are still armed and powerful and working independently of the central government?

**Speaker:** Thank you. I’ll give you an example of how power is reconfigured. There’s a programme called National Solidarity. It involves giving [unclear 42:29] [grants? 42:30] of 20,000/60,000 villages. It’s the first thing that I ever did when I joined the government. Ten thousand villages are covered by this programme, which is half of the country. In another two years, all the villages in the country will be covered by this. Every single one of these villages has to have an elected council that is elected on the basis of a secret ballot election, where men and women both participate and where they make the decisions. Three districts in every province are covered by this, which are again selected by computer. Two months ago I had the privilege of seeing six hundred of these representatives. They’ve marginalised the commanders at the village level, where these programmes exist. This is the first legitimate pressure group in Afghanistan that I know. They didn’t have ethnic divisions, they didn’t have gender divisions, they didn’t have linguistic divisions. They were coming with a coherent agenda’s accountability from the government and the next phase of this programme is going to be about wealth creation. Those villages have managed to implement 6,900 projects. Schools alone, they’ve built over five thousand schools and to each one of these schools they’ve contributed eight to ten thousand dollars. By contrast USAID has built eight schools. So I think power can be configured and the issue is modality.

The second is the original sin. The original sin was not making of President Karzai or of the Afghans. The coalition made a decision in October of 2001 to save lives, which I think is very valuable. Only 21 Americans
soldiers die in Afghanistan in 2001 but the corollary of that was reinventing commanders. Now the process is a gradual one, it is to reinvent roles so they all can be brought within a new set of relationship. I wrote a piece on 26th September, 26th September 2001 that was actually published here in the “Financial Times” arguing will you act wisely or will you act quickly? The decision was taken to act quickly. The consequence of that is that the state-building project, along the lines that I’ve articulated, is going to take much longer but this is a complicated relationship, you know, twenty thousand soldiers in Afghanistan is a drop in the bucket. The only reason those soldiers are there is because of the goodwill of the Afghan people. This is not Iraq. In Afghanistan, NATO, the coalition, Britain, United States are extremely popular. That is what is accounting for these twenty thousand people becoming the lynchpin of a system. NATO’s function is to prevent coups, to bring about an order that is rule bound but the process is going to be gradual.

We outlined a vision in Berlin; it’s called “Securing Afghanistan’s Future”. There’s a seven-year programme but you also need to appreciate, 25 years nobody knew how to administer, most people had given up. By 1998, I think all Afghans were convinced that it would take a miracle to change the situation and without September 11 it would have been inconceivable to embark on a project of state-building in Afghanistan. So people are new to the art of governance. It is going to take time, you know, somebody becomes a minister without any previous experience. But what other choices are there? Again, I think the critical issue – one reason I refused to work in the cabinet, after December the president was going to offer me a post, was I think human capital is going to be the story. I spent three months consulting with the students in Kabul University and I am impressed. I saw only 8,860 of them. These are bright people, incredibly bright but it isn’t a double-edged sword. They want to be part of the globalised world and have a role in it but if they are not given a role they will lead the movements of protest against it. So the story of Afghanistan is far from finished. I think it’s still a story of hope but it’s also a story of threats.

Chair: Perhaps, could I just follow up on that? This question of the balance between the centre and the regions has been a conflict in Afghanistan since 2001/2002. How do you think that process has been affected by the recent elections? Do you think that’s going to assist the process that you just described or do you think it’s going to slow it down to a degree?

Speaker: Well, I think the first part let me if I may build something of an answer that is – a
technical space of governance is to be invented in Afghanistan and the heart of that is going to be reporting. Meaning that every province, every district is to report to the centre on a regular basis. When I came to the Ministry of Finance there was zero persons reporting on revenue and expenditure. By the time I left, 65 percent of the provinces were reporting within ten days. All provinces were reporting within 30 days. We have to develop matrices of governance, where a mechanism of binding the province to the centre takes place. Second is infrastructure, infrastructure – you can't govern a country without infrastructure and it is very important in this. Parliamentary election could go either way because they are non-party based there could be tendencies towards over-individualisation or groups. We could have 249 new ministers interfering in the work of governance.

You know, I run Kabul University by throwing out ministers and forbidding them to come to the university. No, I do, I literally do. At the president's special order. I have an order from President Karzai that nobody can interfere at Kabul University. I don't change the children of people from one school to another. It is strictly enforced and this technical criteria is extremely important to [unclear 49.21]. Had I not had that authority, in the wake of [unclear 49.24] Kabul University would have been burned. A space of trust requires a space of rule-bound behaviour. I've expelled only three students during this year but it's been rule-based and because of it, students are behaving but it's also a question of lowering expectations.

The expectations of [unclear 49.49] people cannot be satisfied. I just give you two statistics. 225 members of the [unclear 49.55] spoke. I costed what they said. This was in January of 2004. Their immediate expenditure, they wanted between 80 and 120 billion dollars. It's not unreasonable. Afghanistan lost 240 billion according to estimates of the World Bank between 1978 and 2001 but what was available that all that we could get in Berlin was 8.4 billion. So the expectation are tenfold actual capability and expectations have to be lowered. The dynamic is to shift to internal generation of wealth because people should realise that we are not going to be the [unclear 50.35] of the world. We need to get our own act together and be able to move. Unfortunately, for the ordinary people it is really characteristics. I mean, unlike former Soviet Union, you don't see Afghans waiting on street corners. Everybody is working. That gives me ground for hope but parliament could produce a potential stalemate in governance because of lack of coherence.

Chair: Thank you. In the centre. I think we've got enough time for about two more questions. Behind you, I think. Thank you.
Participant: Karin Christiansen from the Overseas Development Institute.

Speaker: Hi, Karin.

Participant: I have a huge amount of sympathy with the structure and the proposal of the plan and I think vast solutions are in this, not just for either fragile states or conflict-ridden states but actually, this goes a lot broader and applies to a lot more countries. I guess my fears arise more around the ability of the international community to configure in itself a way to deliver it. You mention three institutions, the UN, NATO and the IFIs, four I guess. In practice of course we all know what we’re talking about is more like 7,000 and the ability of seven, eight, ten different agendas, ranging from counter-narcotics, to counter-terror, to our trade agendas et cetera, et cetera. How can a system be created that can generate that kind of objective-based coherence, applied at a country level, rather than to the supply side of Whitehall being coherent or – which is irrelevant in Afghanistan, whether Whitehall is coherent? What’s relevant is whether Whitehall coheres with everybody else that’s there and I guess the next question is, is there an attraction for this in the US because they’re going to be the big player that actually does or doesn’t in many of these countries allow these types of strategies to develop?

Speaker: Well, thank you for two very difficult questions (laughter). I welcome those. The first issue is that the record after World War Two gives one ground for optimism. The record after World War One gives one ground for pessimism. Keynes pointed out right after World War One what were the consequences of Versailles. He was not listened to. After World War Two there were people with leadership skills and imagination to be able to come forth. The issue is not the obstacles. Yes, there are seven thousand or ten thousand bureaucrats, international bureaucrats in the way but they can be given a golden handshake. I don’t have much sympathy for that, you know. I mean, they can be retired if they don’t invent themselves. The issue is what is in global interest. I think that September – an agenda like this before September 11, Madrid, London, Istanbul, Morocco would have been inconceivable. When there were too many interests cohering in other ways. [Certain? 54.05] agendas were going, their attention was not focused but this has been an awakening. A world of order is confronting networks of violence that are directed towards civilians. This forces everybody to think outside the box. How soon the coherence will come is anybody’s guess but what [unclear 54.31] and I have found very interesting has been that it’s been an open door for discussions across the board, whether it’s been at the UN or the United States or
in other places, a lot of the obstacles that we initially thought were there actually were not there. So I'm cautiously optimistic but you know me, I'm a pessimist optimist. I know the difficulties and then forge ahead.

Chair: Okay. Yes. In the centre over there, please. Keep going. There we are. Thank you.

Participant: James Birch from Goldman Sachs. I wonder if you could comment on to what extent either Iran or Pakistan are likely to contribute or hinder long-term progress in Afghanistan.

Speaker: I was afraid you'd ask me that (laughter). Both of these countries have a great deal of difficulty in defining national interest. The history of Pakistan has been a history of failure to define its national interest coherently. In 2001 they were wrong on every single prediction that they made regarding Afghanistan and this is after September 11. On the other hand, the benefits of peace in Afghanistan are manifest. Pakistan exported 26 million dollars a year to Afghanistan [unclear 56.09]. The deal that now Prime Minister Shaukat Aziz, he's been Finance Minister, Shaukat Aziz and I made resulted in an annual export last year of 1.3 billion dollars of exports from Pakistan to Afghanistan. Afghanistan's development is at least responsible for one to two percent rate of GDP growth in Pakistan. So we have a [unclear 56.36] to rethink and I think it requires imagination and patience to rethink but the degree of internal fissures, fractures within Pakistan need to be thought seriously and seen. The jury is out. I'm not pessimistic but one needs to watch and see. Today there isn't a province of Pakistan that is not benefiting from development in Afghanistan and they are major stakeholders, with a voice, largely through the economy, instability in Afghanistan. What is clear is that Pakistan and Afghanistan are joined at the hip. Each requires the other to be stable and it requires major rethinking how to transform an open border into a zone of cooperation. I think the relation between Peru and Ecuador, for instance, could be a model of sort of seeing how to turn a conflict zone into a zone of cooperation. Even is in a different posture, you know, with the rising price of oil, a lot of the reforms on the economy that would have otherwise taken place would be postponed. As is Russia, oil-producing countries both have a blessing and a curse because so much comes from rent. It is incredibly difficult to rethink the nature of these relationships.

It is too early to say what the posture of Iran will be because Iran had a divided government. Now, that division is over. The president and the key leader see
eye to eye. What the implications of this regionally, I think to a large degree will depend on the relationship of Iran to the rest of the world and Afghanistan will be part of a much broader chess game. Iran is not going to move in Afghanistan in isolation from its relationship with the rest of the world. If there are sanctions, for instance, on Iran, as a result of its nuclear policy, then we would deal with a rather difficult scenario in Afghanistan. If the relationship of Iran with the rest of the world improves, that would be different. What is critical is, again, Iran had a much more clearer definition of national interest in Afghanistan. They are seriously interested in containment of drugs. Iran spends between five and eight billion dollars a year to fight drugs. That is a huge addiction problem. So drug containment is a common agenda. Iran disliked very intensely the Taliban because they were sectarian. Iran intensely disliked the role that was being played by Pakistan during those years. So they played a very constructive role in the Bonn process. That constructive agenda should again be pursued and I hope that we can come – particularly in the economic arena, we again depend very heavily on each other and I hope that that relationship can be consolidated and a lot more stakeholders in Iran can [unclear 60.10] peace in Afghanistan but Iranians have generally much less knowledge of Afghanistan than Afghans do of Iran and it’s true of our other neighbour too.

Chair: I do regret that we are already five minutes over the time that we’ve been allotted. So I regret we’re going to have to bring this to a close but I’ll just briefly – the problem of bringing coherence to international engagement in failing states is huge, very difficult to get one’s head around and one’s arm around but I do think the framework that Dr Ghani has laid out has given an approach which I personally find compelling. I find it all the more compelling because of his personal engagement, not just as an academic but also as a practitioner. I think you’ll all agree it’s been a very stimulating talk. Thank you very much (applause).

For those of you who were unable to ask your questions, I would encourage you, there is a reception upstairs, I think. Is that right? A reception upstairs and you have the opportunity to ask those questions on a one-to-one basis there if you’d like to. Thank you.

[Recording ends]