



SPECIAL PRESENTATION

**“FIXING FAILED STATES:
THE CASE OF AFGHANISTAN”**

INTRODUCTION BY:

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DISTINGUISHED SPEAKER:

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MS. GAYLE SMITH: Good morning, everybody, and thank you for joining us on a Friday morning at 9:00 a.m. I promise you it will be well worth it.

We invited Dr. Ashraf Ghani here this morning to speak for four reasons. The first is that we thought it was important at this point in our political history of the United States to inject some substance into the debate on national security.

The second is that we run a program here called “Sustainable Security,” which is about the simple premise that we can’t rush from crisis to crisis in the hopes of keeping the lid on, but instead that we’ve got to use the full range of our powers to achieve slow but steady progress over time.

And there is no one better at putting this concept into practice than Dr. Ashraf Ghani. He’s probably known to many of you. He served at the World Bank, at the U.N. He is a brilliant, wonderful professor, a great writer. I will now unashamedly plug his book, *Fixing Failed States*. I can’t recommend this strongly enough. Failed states is something we hear about often, but very rarely do we read about solutions, and that’s what this is about. Dr. Ashraf Ghani, with Claire Lockhart, who I’d like to welcome here today, have produced an important book, and also founded something called the Institute for State Effectiveness.

The third reason is that Dr. Ashraf Ghani has just returned from Afghanistan. I think we’ve all seen the evidence that Afghanistan is not doing better over time, and that there are huge challenges ahead, and nobody better than a man who is not only from there and has served as finance minister, but has just spent six weeks in many far corners of the country looking at what’s happening now.

Fourth, and finally – and I know we have a number of students here today, and I want to welcome all of you – Ashraf is a really good teacher. I tend to think that I know a lot about development and state-building and failed states. It’s what I do – what I’ve done for 30 years. Every time I listen to him, I learn something.

So I would ask you all to be students and join me in welcoming Dr. Ashraf Ghani.

(Applause.)

MR. ASHRAF GHANI: Good morning. Thank you for that very generous introduction. It’s wonderful to have such good friends and guidance. It’s a pleasure to be with you on the day after 9/11. Our lives have inextricably changed and been joined together. Before 9/11, we could have had an argument that there were two worlds: a world of OECD countries, secure within their borders, and a world of dysfunctionality.

After 9/11, tragically but importantly, we realized that we all live in one world. Afghanistan was the second-poorest country in the world on 9/11, yet the threat to the United States emanated from hijacking of that country by a network of violence.

State-building is not easy, but we have to get it right, because today, globally, we have no option but to bring security to the 40 to 60 countries where state crisis is at the core of the series of global threats that the U.N. panel described as threats that do not have a passport.

But today, I want to focus on Afghanistan, and I've really been – so I want to give the report of a student. I was in a seminar for six weeks starting roughly at 7:00 a.m. and ending up at 11:00 p.m. for my benefit. And the reason I'm starting like that is that we have too many assumptions about Afghanistan that are actually not valid, both inside the country and outside the country. Every characteristic of treatment of Afghanistan is that people are frozen at various moments in time. So clash of perspectives comes from firmly held beliefs, rather than validation, and this is characteristic of both international actors and national actors.

Because of that, I would first like to summarize the current conditions on the ground, and my point of departure is, first, loss of trust. This is characterized, first, in terms of the loss of trust of the population in the government; second, loss of trust within the political elite; three, increasingly, loss of trust of the population in the intentions of the international community.

What is becoming dangerous is that loss of trust is not about a person, a group, but about the process. The very Bonn process that got us to produce a legitimate center and a legitimate process is now being questioned by the population, and this needs to be registered.

Second is lack of will of the government to govern. A critical insight of the first generation of counterinsurgency literature is that in order to have a successful counterinsurgency, the governing elite must be committed to govern. Afghanistan does not display today a commitment to good governance. Corruption has become a cancer that is eating through society; criminalization of the economy is widespread; and short-term gains are substituting for medium to long-term commitments.

Three is the expansion of the insurgency. A relatively minor phenomenon has now become a major threat. A couple dimensions of this – first, the (ring road?) is now at the beck and call of the insurgency. Afghans now lack freedom of movement and a basic characteristic of civilized life, or secure life, is freedom of movement. The capability of the insurgency to impose tolls both on construction and on transport has diversified their financial base. Kabul from three sides is choking, and the psychological mood is that the insurgency is on the expansion. And an insurgency counterinsurgency – (inaudible) – the critical issue is the direction and the ratio. The ratio is in the wrong direction.

Fourth is the challenge of coordination, of international coordination. First, the international community lacks a common definition of the problem. There are many, many competing definitions and competing priorities. What is critical, again, to a counterinsurgency is unification of the definition of the problem and a single approach. That is far from the case.

This is manifested, of course, first, in regard to coordination between the military and civilians. It's interesting to note that the U.S. Army is actually engaged in very intense reflection producing (COIN?) – the counterinsurgency doctrine. No similar reflection has taken place on the civilian side. On the civilian side, we are still in the usual business of proposing solutions that we know, rather than devising measures that fit the situation.

But second, on the military side, we need to recognize that NATO is not a unified command, but an organization whose commander needs to be a chief diplomat probably half as much time as being a commander because every single action regarding national components has to be negotiated through national caveats and that poses major issues. The overall issue is use of force that is deployed. The forces that are currently deployed are not sufficient to the task, as General McNeil clearly – the last commander – indicated. But also we need to recognize that this war cannot be won from there, and ultimately would need to become an Afghan war that ends up stopping people from fighting.

Last observation: this insurgency is not the definition of insurgency that is put together in COIN. The ultimate objective is not takeover of state power in Afghanistan, but use of Afghanistan as a theater by a network of violence as part of a much larger and broader agenda, where Afghans become casualties, rather than people who need to be governed by a particular project.

What is remarkable is that these developments have taken place between 2006 and now because in today's flurry of commentary we think that Afghanistan has always been unstable and the direction was going wrong, but actually, if we look into the situation between 2001 and 2005, the direction was the opposite. So what is it that explains the fundamental difference? Simply put, abandonment of a strategy of state-building that was on course, both by the Afghans and by the international partners.

So what were some of the elements that it produced, because if you look in the wake of 9/11, in the first four years you did not receive bad news from Afghanistan, particularly from the press. On the contrary, people were surprised by the pace of change.

So let me explain some of the key elements. First was the political process. The Bonn process was the first benchmark process in the history of peacemaking in the sense that we began with an unrepresentative group of people, but launched a process where the political process became more and more inclusive through a series of designated phases: transfer of power, creation of an interim administration, holding of an emergency Loya Jurga, grand council whose members were elected, election of the president, creation of a

transitional government, creation of a constitutional commission; holding of a constitutional Loya Jurga, where real bargaining took place on the rules of the game, presidential elections and parliamentary elections.

All this was done in three years. No decision was delayed more than two weeks. There was a benchmark process, and hence decision-making had to take place, and because the process was becoming more inclusive, people decided to prefer ballots to bullets.

Second was to use the budget as an instrument of policy-making. When people hear the word budget, they usually yawn and I'm here not talking as a finance minister. I want to talk as a social scientist. The budget is where social rights meet social obligations. And the ultimate point is either a country has the capability to underwrite its future or it doesn't. And in the case of a country like Afghanistan – because when I became finance minister, we had exactly the royal sum of zero cents in the treasury – was to coordinate the aid system.

Aid is an asset, but also it's a curse because it is an uncoordinated system and the key to getting it right in Afghanistan was to put a series of rules to bring coordination to it. These rules were very simple. No donor could be more than three sectors. In order to gain into a sector, they have to pay 30 million. It sorted everybody out very rapidly, but still, I had to spend 60 percent of my time coordinating the donors. Dealing with the donors is a really time-consuming activity, but the key was creation of a multi-donor trust fund with a set of rules that enabled support for the Afghan budget. That's the positive side that allowed us – this enabled us to launch a series of programs that were called National Programs.

Let me – because what is the key to a national program? It is to create a state function in a credible way and to create the governance arrangements for it. So let me illustrate these.

First is the National Solidarity Program. It's a program of block grants to villages where between \$20,000 and \$60,000 were given to villages to decide upon. Ninety percent of the Afghan villages have been covered by this program and wherever there is an – (unintelligible) – the degree of trust in the government and the international community is higher than when it has not been. It has proven remarkably resilient.

If you want the last evidence, look at the op-ed by President Bob Zoellick of the World Bank who went and personally visited, and also from the floor of the Senate, Senators Levin and Durbin have spoken about this. And for the first time, the United States is making a commitment to this program. It is a process of building governance from the bottom up and meeting top-down a set of arrangements. The core of this idea was to treat villagers as citizens rather than subjects, which meant transferring real decision rights over priorities to them and the decision as to how to implement.

A second program was Telecom. We went from 100 mobile phones in 2002 to over five million today. The telecom sector has become the largest single taxpayer in the country. And it's again the question of rules, a set of transparent rules where two licenses were granted for three years and then two other licenses. And the stakeholders have become the companies in building the capability.

A third example is the Afghan National Army and what it took to create an Afghan National Army was to cut down 400,000 militia to 8,000 through the Ministry of Finance in two years. They threatened to blow up the Ministry of Finance, but we reached an agreement. I thought that that was a bad idea, that I should not be blown up. So we reached agreement, but the difference with ANA and the police is that the police never went through such an exercise. Hence, \$6 million of investment in the police from the United States has produced the result that not a single unit of the police, according to the Government Accountability Office, is still – (unintelligible). The contrast with ANA is quite instructive.

And then there's a program in Health and Finance. A national program approach differs very significantly from a project approach or the structural adjustment approach that is imposed from the outside, because this is a coalition-building approach to governance and it brings networks together. And accountability is produced through those mechanisms, but more significantly, leaders arise from a system approach, rather than from a charismatic view of leadership. Because when you have a charismatic sense of leadership, the minute the charismatic person goes, the system collapses. A system-building approach has proven far more resilient.

Every single one of these programs is still in operation, even though – so design matters. And within this, what is significant is that the model of co-production was fully in effect because the Afghan government did not have the money except in the case of Telecom where we had the decision rights, so we translated the rules into resources. The rest involved co-producing, and two parts of the co-production are really important. One is UNAMA, the U.N. political mission in terms of the political process; and second is that segment of the donor community like the World Bank, DFID, the Scandinavians and the Dutch, who are interested in a system approach.

Now, if that was the success, where was the failure? And the failure is double. First, is the creation dual bureaucracy. We had 240,000 civil servants in Afghanistan in 2002, January. The Afghan government was given \$20 million to pay for the salaries, operations, maintenance of this government. The U.N. agencies who had a very small number, under 100, were given \$1.6 billion to build our capacity and of course, that capacity has to be yet built. We have not had a report on how this money was spent. We've been asking for seven years. There is no website; there is no report made to the Afghan citizens; there's no report to the donors on as to how these resources were used.

But what did it result in? Creation of a second bureaucracy that was being paid 50 to 200 times the wages of the Afghan bureaucracy. So it literally sucked away all the key talent from the bureaucracy that was supposed to carrying the effect to the second

bureaucracy. Professors at Kabul University became drivers for the U.N., for USAID, and for others. So aid in this regard is not benign – it is damaging. And it's the result of that denuding of the state capacity that has been an unintended consequence of a policy decision that needs to be looked back upon.

Second, no investment in the capabilities of Afghans took place. Instead, we were given the Beltway bandits. Isn't it interesting that close to \$400 million at least has gone to support of economic governance in Afghanistan and Afghanistan has slid 20 positions at least in the transparency International Index, now becoming one of the ten most corrupt countries on earth? Where is the cause and effect? How do you govern that technical assistance industry that is supposed to provide good governance or is it the revolving door?

Second is the salami slicing of funding. U.S. assistance is particularly apt to be captured in this regard, because between the primary contractor and the Afghan contractor, ultimately, implements a project that could be five layers, and each, of course, takes a successive slice. The net result, out of \$1 generously allocated by the American citizen to support stability in Afghanistan, up to 80 cents can come back ending in Washington. So \$1 is actually worth 20 cents, and then, if 10 cents of that goes to security, then it's worth 10 cents.

On a cost-effectiveness basis, four months of my work with the Afghan merchant class could result in a lot more sustainable revenue. So people need to choose. Is this kind of aid what the United States intends and what the recipient should actually agree to receive, because we really have to see this in a balance sheet.

Third is a project-centered approach which involves hundreds of what are so-called quick-impact projects. Claire Lockhart and I reviewed 400 of these so called quick-impact projects in 2002. We found eight to minimally meet the standards of the World Bank, and those are not very high standards, even though I'm a former employee of the organization. The rest were really not up. They were just put together because an appeal was made.

But the most significant impact of projects is that they undermine a sense of rule of law because there's no accountability. It's not that sense of rights and obligations of building citizenship. And the other part of this, as I've argued, is the outsourcing of implementation through technical assistance. In the case of United States assistance, outsourcing now has reached the point where the regulator cannot regulate the outsourced organizations. Both USAID and other parts of the U.S. government need a substantive revision of the set of rules and capabilities to hold contractors back out.

And last but most significantly, there was improvisation instead of coherent strategic thinking. Everybody had access to some resources, so they moved on. Now, that's the negative balance sheet. Where are the assets – so I can finish within 10 minutes.

First, there's a clear bipartisan U.S. commitment. This has taken time, but it's a very, very significant asset. Second, there's a recognition of the need to rethink the problem and the parameters for U.S. engagement. There is a positive sense of learning in there, and this is welcomed – better late than never, but quite significant.

Third, there's a recognition of the necessary time horizon of 10 to 20 years. State-building cannot be done on the cheap or in a rush. The time horizon needs to be appreciated. Fourth, there's a recognition of the regional dimensions of the problem, as Admiral Mullen clearly indicated two days ago. Afghanistan is not an island. It's a landlocked country in a difficult region, and it requires a regional approach. And fifth is the potential for an enhanced partnership with both Europe and the Gulf. The Gulf can play a very important role in the economic revival, and so can Europe.

(Inaudible) – the critical Achilles of the current corruption in this governance cannot be dealt through use of force alone. Force is going to be a necessity, but we need an economic strategy, and Europe and the Gulf are going to be critical to that economic strategy, and there's major potential here.

There are also significant national assets. First is the success of the National Program approach. They've proven enduring, so they can be scaled up and expanded. Second is there's a substantive increase in the capabilities of the younger generation. They're bootstrapped, but they're – (unintelligible) – now. Eighty percent of the current civilian technical assistance capability will not be acquired in Afghanistan. Afghans need to assume responsibility, and if the process was tailored to their capabilities, they will be able to manage.

Third is the emergence of a significant national construction sector. We don't need international contractors as a primary vehicle of construction. This may, again, seem like a technicality, but in all the cases that we have studied in fixing failed states, emergence of a national construction industry has been a critical factor to absorption effect. There are 100 countries around the world at least that have an expenditure constraint, meaning that they cannot spend the money, and unless this capability emerges, they will remain confined to not being able to spend money. Iraq is the worst, but there are many countries that cannot spend money. So those who keep advocating more aid need to realize that the expenditure constraint needs to be met.

Fourth is the desire of the population for order and rule of law. It is not the strength of the insurgency. It is the weakness of the government. This population knows what the Taliban brought to the country. They are taking an insurance policy because they cannot be made secure, but they are not ideologically committed to that agenda. And this is the key foundation because the key inside – (unintelligible) – is that people are the base. My discussions with hundreds of villagers, with nomads, with intellectuals, others, all across – particularly the youth, who constitute 65 percent of Afghans are under 25 and they are committed.

Lastly, the country is potentially rich. The geology is excellent, and can have – (unintelligible) – as the potential location. If we are going to go toward a new approach, what we need first between now and the next year's presidential election is stabilization to regain momentum. For legitimacy, it is imperative that the current government finishes a term, legally, and that transfer of power takes place through constitutional mechanism. This is imperative for retaining order.

But what is it that they need? First, I think we need to filter all interventions in Afghanistan through three filters: law and order. Law and order is broader than security. Security is a component of law and order that if one attempts to impose security without a project of law and order, it's not going to prove sustainable. So we need a law and order president.

Second is jobs. Forty percent of the youth – 40 and 60 percent in some cities – are unemployed, so there will be no shortage of new recruits. And thirdly, a sense of national identity, an identity that includes sub-identities, but also brings a new definition of what does it mean to be an Afghan in the 21st century? Concretely, this will entail launching of six new national programs within the next four months.

Second, focus on six provinces to provide sites of change. Afghanistan has 34 provinces. All 34 cannot be changed, but one needs to create a set of models. Two provinces in the north, one in the center, Kabul and two provinces in the south can be transformed within one year to provide a sense of regaining momentum and a model for those that are suffering in terms of saying what their future will be.

Third would be enhancing a regional approach. The key basis of this economically is going to be trade, power from Afghanistan for transit from Pakistan, and then the wider region, and then an expanding set of cooperation.

And fifth, firm commitment to elections because there should not be any uncertainty regarding election as a mechanism of legitimate transfer of power. That means the security of the election has to be guaranteed. Securing the country for the election is a different proposition than securing the country forever and this may mean staggering the election so NATO forces can move over a period of months to ensure security.

In terms of a five-to-ten year approach where – I'll end up so we can have discussion – I have two main propositions. One is key to success in Afghanistan is winning back the trust of the Afghan people to a state-building strategy. That's where we have a consensus. We wanted a functioning state that would be centered on the needs of the citizens, not warlords, not the criminal mafia, not an elite that is not responsible. And all reflections show that people are key to winning against insurgencies.

And second is an implementation of a developmental and rule of law strategy through regional and global integration. We're a producer of poppy, but it's the consumption habit of the West, the middle class in the West that feeds our poppy

cultivation. It is our problem, but it's not our problem alone. It's a global problem. Either legalize poppy, Afghanistan's comparative advantage will disappear overnight; or if the political will does not exist here and it's being transferred to us to deal with it, then come with a coherent partnership that is going to be long-term and women are going to be critical to this. The bulk of the poppy is a male crop. It's the commoditization of women's labor in creation of opportunities for women that is critical, in my judgment, to an alternative strategy.

To conclude, one has to have an exit strategy in mind during this tenure. Without articulating a clear exit strategy for international forces, we will not be able to focus on what needs to be done. In here, I briefly touch on four things – one, assumption of primary responsibility for Afghans for security within the next five years; two – consolidation of rule of law. We have to begin from rules of game, and unfortunately, during the next five years, there's going to be a lot of violence, but it has to end and that means we need a rule of law approach to consolidate. It cannot be done through the use of force alone. Three – a sustainable public finance base. Without that base, we will, again, be assuming obligations that we will not be able to fulfill. And last, but most significantly, increased regional cooperation for mutual dependence.

Thank you.

(Applause.)

MS. SMITH: Thank you very much. What's so interesting about this to me is that the debate we see in the press about Afghanistan has almost exclusively to deal with troop levels and the fighting of a military battle which, yes, is part of the equation, but I think what we've heard here this morning is all of the other pieces which we tend to discount, but you certainly persuaded me would make all the difference.

We'd like to open it up for questions. We've got a microphone that will move around. If you could identify yourself – and would you prefer I take a few at a time or one a time?

MR. GHANI: Let's take a few.

MS. SMITH: Let's take a few. Let's take three at a time. We'll start with you.

Q: Richard Weitz, Hudson Institute. Thank you so much for your excellent comments. A question about the regional cooperative dimension – could you specify, inasmuch as you're able to, the roles of Pakistan and Iran within that framework?

MS. SMITH: Please, right here.

Q: Hi. I'm Yasmine Al-Amri (ph) from the Saudi Press Agency, and my question actually goes along with that. You mentioned the Gulf States a bunch of times – if you don't mind expanding just on what they would contribute.

MS. SMITH: Sure. And we'll take one more right here and then we'll do another round after this, so just hold on.

Q: Ku Ma (ph) from Amnesty International. Mr. Ghani, I have a two-part question. First is, you mentioned 80 percent of USAID is basically coming back to Washington. Do you have any specific recommendations that you can give? Second is about the regional cooperation. It's no secret that the U.S. is pretty much on the opposite side of Iran, and also Central Asia is being on the other side of the fence. And now because the U.S. is planning to go to, or already have gone into Pakistan, it's a real danger that Pakistan will be also lost. So how do you think in this scenario, all the regional countries have been basically marginalized by U.S. policy, how do we address this? Thanks.

MR. GHANI: Thank you. Should I start? Thank you. Let me first take the question of USA because then the three other questions are on regional cooperation. The first thing that needs to happen is change of rules regarding contractors. Change the building code and produce contracts in the local languages, 40 percent of the problem disappears just with those two changes. Specify then that subcontracting can be limited to one or two layers – then the salami effect is taken out.

Second, which Congress is now discussing, is either fund through the multi-donor trust fund or create a credible vehicle where Afghan government finances are subject to a systematic system-wide audit by the Office of Technical Assistance of U.S. Treasury, and when a government department meets those standards, then funding goes through it. This is what can be done in the short term immediately.

The long term – of course, Ms. Smith and others have been engaged in a wide-ranging debate on restructuring of USAID, and that debate, of course, will continue because there are different models, and does one adopt a different type model with the department or a significant reinvestment? What is welcome is that actually, a lot of thinking is taking place within USAID and other groups. So it is important to recognize that the situation that I was describing is being reflected upon, but now the key is to be able to bring Congress, the administration and the aid community, generally, together to be able to bring some fundamental changes.

And lastly, it's increasing the supervisory regulatory capacity. USAID, for instance, was limited to eight individuals in Afghanistan. There was no way for them to supervise a several billion a year budget, even though, as individuals, they were extremely dedicated.

Now on regional dimensions – so let's begin with the difficult one: Pakistan. Pakistan has a fundamental sense of insecurity and this sense of insecurity needs to be addressed. Pakistan has been courted by the West only during regional crisis. I think what is imperative is to be able to put Afghanistan and Pakistan on a 10-to-20 year horizon simultaneously, so some of the fundamental uncertainties of Pakistan regarding

its relations with the West can actually be systematically dealt with. This is going to require then a benchmarking approach where fundamental change toward governance in both Afghanistan and Pakistan takes place through this co-production model that I've outlaid.

Within that larger umbrella, a series of regional issues need addressing. Where we begin with is water. Water and power are critical to this agenda. Afghanistan only uses 10 percent of its water. To be drought-free, we need minimally to use 30 percent of our water. Our water in the next 10 years is going to become as valuable as oil, because given the trend of global warming, we need to focus on resource water management as a regional issue. A fantastic treaty on the Nile is just ready for signature after 10 years of investment. Again, Ms. Smith has been very involvement in that.

We need a similar approach on the one side to Nepal, China, India, Bangladesh, and on the other side, to Afghanistan, Pakistan, Central Asia. This is going to be critical to this dimension to produce a win-win type of situation. Afghanistan has the potential to become one of the largest producers of electricity in the region and Pakistan and India are going to need massive electricity for their modernization.

So a regional approach – to begin with, the way we dealt with coal and steel in Europe as the foundation of a different regional approach now has to come with power, water and transit. Afghanistan cannot survive as a landlocked country without access to the ocean. That means our goods at times are delayed by as many as three to six months in the port of Karachi. The impact of that racketing down is enormous and I think it's critical to be able to reach this.

Then, the critical issue that's on your minds – (unintelligible). It cannot be turned into closed frontier in the 21st century. It has to become a zone of mutual cooperation. A real good example exists in the example of Peru and Ecuador after their Soccer War. They've transformed the region into a zone of cooperation and we need to imaginatively deal with this.

For the frontier to quiet down, Kabul and Islamabad have to be on the same page, history has shown, and that is the direction we should be moving. There's a lot of bad history, but if we become victims of the history, we're not going to move forward and I think it's important to rethink these dimensions.

In terms of the Gulf, the first issue is – the Gulf is investing \$2 billion a day in the world economy, the exact amount of money that the United States is now borrowing. The largest single sovereign fund is the Abu Dhabi fund in the world. Kuwait, of course, created its first sovereign fund in 1953, long before the word was known – a small portion of that investment, because the Gulf has the opposite problem of the United States. It has a major surplus of resources. So one is this dimension, particularly in terms of funding of regional infrastructure, and investment and natural gas pipelines – (unintelligible).

Second is that the Gulf is a major market for a variety of things. First, it's the largest single source of employment in the frontier area of Afghanistan and Pakistan. There are 60,000 people from (Khost?) right next to Waziristan, and are lying again, alone. So the Gulf is the key source of livelihood, and a labor migration strategy that is coherently directed will release a lot of the tensions.

And third is the product. The Gulf now has emerged as one of the most sophisticated consuming markets. This might be an exaggeration, but I have heard that the flour bill alone in the Gulf is about \$3 billion a year.

And lastly, the Gulf is looking for investments in agriculture in the region, because given world food prices, there's a significant change, and Afghanistan's agricultural modernization is a major, major potential. So those are some of the examples.

MS. SMITH: All right. We'll take you and then we'll go back to you in the pink, and then – excuse me, sir, let me point at you, you in the striped shirt, but let's start up here and then we'll go back. We'll do three again.

Q: Hi. I'm Fatima Suma (ph) with Senator Casey's office. And you had mentioned during your talk the distinction between the ANA and the ANP and I was wondering if you could elaborate a little bit more on that.

MS. SMITH: Right back here, please. Sure, go ahead.

Q: I'm Brian Grzelkowski from Mercy Corps. I'm curious about how you address the conundrum of trying to build up the Afghan government's technical abilities and ability to process the money that's being put through it, and the fact that most of the ministries still don't have the capacity to do that, and donor strategies which are increasingly focused, almost exclusively on putting money through, as you said, the multilateral pool of funds or the Afghan government, and the fact that, as you also said, the population itself is becoming quite disillusioned with the fact that they're not seeing many results from long-term investment.

MS. SMITH: And we'll take one more right back there. Excuse me.

Q: Amanda Usak (ph), the George Washington University. You touched briefly on poppy cultivation, and assuming that the West will not likely legalize poppy consumption, I was wondering if you could expand on the unified strategy you suggested that the international community bring to Afghanistan.

MR. GHANI: Thank you. First, on the ANA, Afghan National Police, I recommend two reports that have been issued, both on June 28th, 2008, by the government accountability office. These reports indicate the following: one, \$6 billion has been spent on the Afghan National Police through security contractors. Not a single unit of the police is ready. Two, there is still no database as to how many police there are

in Afghanistan. Their identities have not been verified. Three, there are still major problems in paying the police. Four, corruption is extremely rife.

What has emerged out of – and I talked to thousands of Afghans during – and a program on national television in Afghanistan really captures the state of the play in a tragicomic way. There was a program by the municipality to kill mad dogs in Kabul, literally, and these were concentrated in very poor neighborhoods. All of a sudden, a series of calls started to the television saying, for God’s sake, do not get rid of the dogs. They are our only means of security against the police robbing us. So that really puts the state of the (play?). The Afghan National Army, by contrast, has become functional.

But two observations, again, from this report are worth reflecting on. One, 50 percent – because it’s a volunteer army – of the rank and file do not renew their contracts after three years. So a major part of the investment that goes needs to be renewed. Second, there’s a very dangerous statement. Of these 50 percent that do not renew, what happens to them? There’s a statement without further explanation. Some go to security companies; some join the insurgency. So I think we really need a fundamental rethinking of the security strategy in terms of saying what the implications are.

But the contrast between the two organizations is that the Ministry of Defense, not having militias to deal with, now is focused on the core mission of the National Army. The Ministry of Interior is a deeply problematic organization that has been accused of massive corruption and involvement in facilitating of the narcotics traffic. We need credible mechanisms of investigation to actually find this and bring people to justice, but no high-ranking official has been indicted or even named through a credible investigative process.

In terms of the question on capacity, isn’t it the chicken-and-egg situation? First, the question of capacity is not an option; it’s not a black and white one. National solidarity, we got done; Telecom, we got done; Health, we got done. The issue is the political will to design a program that is going to pay. So my first submission to you is that there’s at least 5,000 Afghans that I can identify in Kabul that are much more competent than all the NGOs operating in the country. If they were allowed clear mandate and discretion, they’ll be able to implement programs.

Two: it’s the eighth year. Not a single university has been transformed to meet even regional standards. In 1960s, the school of engineering of Kabul University had an affiliation with Harvard, MIT, Purdue, and produced standard graduates whose qualifications were higher than Iran and Pakistan. Why is it that we devote \$1 billion to technical assistance and not put \$400 million into higher education in Afghanistan? Isn’t this a perpetuation of dependency?

And three: again, as the emergence of the Afghan construction industry shows, the capability for bootstrapping is really enormous. I mean, let’s contrast the private sector with the government and the donor community, including the NGOs. First, on the NGOs, the NGOs have not disclosed, as a community, their income and expenditure. We

repeatedly asked them to match the transparency of the Afghan government when I was in the government. They never came with a programmatic disclosure of what they were spending their money and what was the value for money. So the burden I think is both sides.

Two: if you are looking at the implementation of specifics, then you have to tailor to that context as to how you can mobilize that set of capabilities and in this regard, look at the communication industry. Ten television channels are now operating in Kabul. They are completely staffed by Afghan men and women. Within four years, they learned all the technical aspects.

Look at the Telecom. Telecom is massively staffed, again, by Afghans, young men and women who've risen. The hotel industry – 75 percent of – (unintelligible) – are Afghans within two years. We need to have an approach that shows that the opportunities are created, but the question of the capacity of the government goes back to that double failure. The Afghan government has to develop the will to govern and the international community must have the capability to partner regarding governing. Both sides today have not had this capability.

In terms of poppy, the one side is security and one can explain the naming and shaming – poppy is now is not a poor man's crop. It's a cartel. According to a study conducted by the World Bank and UNODC, the U.N.'s drug office, 20 individuals now are the core of a cartel running the poppy trade. The report has existed now for two years. Why are their names not being disclosed by major consuming countries? So one has to begin with naming and shaming, and a process of international indictment and investigation. This also has a role for investigative journalism. With the resources of major media, they really have to be able to investigate credibly, so that side.

But my key emphasis is on the economic side. The economic side cannot be alternative livelihoods and at the micro-level projects that are going to produce cloth for textiles for hospital auctions. That does not produce livelihood. The breaking point in terms of moving away from poppy is \$1,000 legal income per capita; that once you produce a strategy that can produce that type of income, the shift occurs, because it's – the weakest and the strongest part of the poppy is the same: labor. It's very labor-intensive, does not require much water, but the other side is back-breaking labor.

So once one has a strategy of development – that's why I was saying, in part, the Gulf strategy of migration that I was proposing in an organized way, and again with Europe and other places, or East Asia – could be a very important part of that development, but you begin with markets.

The European Union is potentially the greatest source for Afghan exports. If we are going to develop a viable export-oriented commercial agriculture, we have to aim first at NATO as a consuming force. NATO is not buying anything from Afghans and meeting those standards is the first thing.

Second is the Gulf; third is India and China; fourth is Europe; fifth is the United States. Each of these areas, as key consumers of the drugs, have a role to play to provide and help us with alternatives. A consortium of land-grant colleges in the United States would be a critical part of designing a viable agricultural strategy that would enable us to move. And water and power management again are going to be critical. So there are a series of things that begins with value change, market orientations, instead of capabilities.

And I've been urging for years – a lot of people pay lip service to women's rights. For seven years, I've been advocating a made-by-Afghan-women labor that the major fashion houses of Europe and the United States would collaborate with us. Where are the takers? We hear a lot about women's rights. Where are the concrete mechanisms to empower our women?

The problem is not the law. A woman's life in Afghanistan does not fundamentally change unless her access to economic resources changes. Law is there. In theory, there are lots of rights, but embodiment of those rights has to come through concrete mechanisms and those are the sorts of discussions that take place. You know, I wrote an op-ed in *New York Times* in 2004 that then questioned the application of the Colombia-type strategy to Afghanistan, and unfortunately, I proven right. That strategy didn't work. So we need to think through and go with something new.

MS. SMITH: Still a couple of more questions, and then we'll tie it up. Yes, the gentleman with your glasses on your head and the woman with your arm way straight up. (Laughter.) Sorry, her arm was so straight, just like shot to –

Q: Yes, I'm Colonel Bill Butcher. I'm a senior fellow with the Atlantic Council. Just some thoughts – you talked, sir, about the integrated strategy, the need for an integrated strategy. Could you just please define how you might better use the Afghan Compact and the Afghan National Development Strategy for an implementation framework for that? And then if you could relate that to counterinsurgency because one of the concerns that I have at this point is the government's recognition, the government of Afghanistan's recognition, of a counterinsurgency strategy as well. Thank you.

Q: My name is Leeta Dolsa (ph). I'm part of the Washington Semester Program at AU, and I was wondering if perhaps you could address the issue of paramilitary and security companies? I know that you mentioned contractors, and as there is no current international definition for PMSCs, I was wondering if you could address how you would recommend going about regulation? Thank you.

MR. GHANI: Okay. Thank you. Let me take them in reverse order. First, the U.S. Army, according to Secretary Gates, laid off 10,000 procurement specialists between 1991 and 2001. The key to regulating this is building back, as the secretary is doing now, the capability of the army for that career. That career is essential to regulating this type of company.

Second is a benchmarking standard in performance contracts that can actually say whether they are capable. I'm very doubtful that the national police can be created through a security company because creating a national police requires other type of capabilities. We are in the territory organization of the Ministry of Interior in Afghanistan without any gains and a lot of that has been imposed to the recommendations of a security company. So I think it's a debate that needs to take place in Congress in terms of full hearings and seeing, but supervision capability, I think is critical to this.

In terms of the integrated strategy and then tying it to counterinsurgency, phases need to be differentiated. So my immediate issue was – I met on August 31st with President Karzai – (unintelligible) – and I was proposing six programs – one, a national emergency program for the winter. Five million people are at risk this winter. If we go through the usual method of food for aid, U.N. agencies, et cetera, the backlash is really going to be quite enormous. So the key mechanism of implementation should be the National Solidarity Program in rural areas, and building on that so that supervisory capability can take place.

Two is to link the national emergency program to our national agricultural program because particularly the north renders (its?) south during winter and part of the south to building full civil works. This becomes a second important part. I went to five provinces in the north; agriculture has gone backward. Yet the potential to generate, particularly with the current agricultural prices, a major shift in rural Afghanistan is really there for the taking.

Third is water and power. To be able to move water, you need regional agreements, except for small water. Two hundred and fifty dams can be constructed fairly rapidly if the Army Corps of Engineers and some of the PRTs were remobilized in terms of design, rather than supervising construction of the wells that any number of (engineers?) and Afghan contractors can do. We are not using the PRTs to the best design capabilities, because particularly U.S. PRTs have phenomenal engineering capabilities. If they were networked together and supported from the Army Corps of Engineers and a set of schools, I think we could move the water situation fairly rapidly.

Power, at first instance, can be done without regional cooperation, and I think for the Afghan population, the question of power takes two forms, micro-hydro, which about 35 to 40 percent can really be provided within two years. Nepal has done this. Ms. Lockhart and I have done a detailed review and are in the process of discussion. Micro-power does not aid regional agreements because you can put the water back, and we need to untie unbundled water and power, initially, to move power forward.

Fourth is Kabul – 75 percent of Kabul roughly is consigned or confined to informality because of a Soviet-era master plan. Legalization of these property rights, particularly if joint ownership were given to men and women, could unleash a fairly significant amount of investment and a model of new NSP, like the National Solidarity Program in the urban area is really possible.

Two other areas is one, we need an Afghan human development strategy that has a 10-to- 20 year horizon. How many engineers do we need? How many mining experts do we need, et cetera, so that it drives a strategy that eight years from now, we don't have the same discussion as earlier. And that means putting about \$2 billion into higher education and vocational education.

And lastly is the private sector. The Afghan private sector can be moved. It is at a critical point where it is very insecure. It has acquired a certain type of capabilities, but it's also very insecure because of security and related concepts. And restructuring of the contracting arrangements could reinforce this.

So that's an illustration of what can be done realistically within a year. Three of those will have short-term impacts within a year. The programs could be designed and the first impacts are seen within six months. The others will come within 18 months to two years to follow, depending on the nature, and then one can expand the horizon.

In terms of counterinsurgency, the first issue is to realize that with the current crop of governors and district administrators, we cannot fight a counterinsurgency. There are five key lessons from Malaysia. One, the government must have a commitment to govern. That means the cabinet, the governors, the district administrators have to have a coherent world view regarding counterinsurgency and not engage in a mutual blame game.

Two, there must be a rule of law approach, meaning decisions have to be done in writing and a command chain has to be established – the information management systems that conveys information up and down. Three, there must be a coherent plan. Fourth, you begin with focusing on the people, rather than the insurgents. And fifth, you start consolidating your areas of control and expand outward.

As a result of this, I would propose that first, we need the six-province model. Let's turn six provinces into a model of good governance, because today, if somebody from Helmand comes and asks us, what would my future be? What do I look into? Kabul? Kabul is not governed. Which province is a model of my future? We need to be able to answer this question in very concrete terms.

The other part is two parts regarding counterinsurgency. One, the south needs a distinctive approach that one can discuss in further detail, but first, we need to pre-empt the insurgency from taking place in the north and northwest. North and northwest are very vulnerable today. It is very easy to pre-empt the insurgency from getting hold there. A year from now, it will not be so easy. Second is the east. The east is going to be subject to a lot more pressure.

Third is Kabul and five surrounding provinces. A government in Afghanistan does not fall from an insurgency in the provinces. That's not our history. The government falls from the center. So the vulnerability of Kabul, particularly five provinces surrounding it, as the noose is tightening, now requires a massive shift.

We have a major asset that we have not used. There was a major group of officers and men between 1988 and 1991 who secured urban Afghanistan. We need to vet them very carefully in terms of their human rights credentials and others. But they were tricked, and I think a force of 20,000, 25,000, still can be recruited from them. I found sadly, 4,200 police officers have been put on reserve list during the last two years, while \$6 billion has been spent on the police. We are not making best use of our human capabilities.

And lastly, rural Afghanistan requires working back with the commander's group of the Mujahedin and with communities without coming to specific recognition of the role of communities in collective arrangements, but this is a careful art. What can be done in the east cannot be done in the south, et cetera, but it's that combination that can produce a counterinsurgency strategy.

Thank you.

(Applause.)

MS. SMITH: Please join me in thanking Dr. Ashraf.

(END)