



# Turning the Tide on Afghanistan

## Building a New U.S.-Afghanistan Economic Compact

By Ariella Viehe and Aarthi Gunasekaran March 17, 2015

Next week, Afghan President Ashraf Ghani and Afghan Chief Executive Abdullah Abdullah will visit Washington, D.C., as part of the first official visit to the United States by the newly created national unity government, or NUG—a power-sharing deal that created Abdullah’s new chief executive position after a months-long stand-off over a disputed run-off vote. In the months since their deal, security issues continue to dominate the news on Afghanistan with reports of a weakened army,<sup>1</sup> high-profile Taliban attacks on the police,<sup>2</sup> and self-declared affiliates of the Islamic State of Iraq and Al-Sham, or ISIS, operating across the country.<sup>3</sup>

While security in Afghanistan is essential, the backbone of Afghanistan’s future—its economic growth and stability—has been consistently neglected. The visit of Ghani and Abdullah—both of whom have heralded Afghanistan’s economic potential and warned of its pitfalls—offers the United States and Afghanistan a critical opportunity to elevate economic discussions. At a time of security uncertainty, a renewed economic compact between Afghanistan and its largest international donor would signal strong support for the new government and instill confidence in the Afghan people.

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### Why the economy matters now

An international economic package is not new for Afghanistan. In 2011, the Bonn Conference on Afghanistan recognized Afghanistan’s fragile economy and its deep financial needs that would continue beyond 2014.<sup>4</sup> The international community pledged to support Afghanistan in its “Transformation Decade,” a 10-year commitment from 2015 to 2024 to maintain development assistance “at or near the levels of the last decade.”<sup>5</sup> The commitment sought to reinforce confidence that Afghanistan would have a soft-landing for its economy as security responsibilities transition from U.S. and NATO troops to Afghan National Security Forces, or ANSF.<sup>6</sup> In order to cement this commitment, international donors pledged \$16 billion from 2012 to 2015 at the follow-up Tokyo Conference in 2012.<sup>7</sup> This pledge was an important step toward putting a solid monetary sum behind the political commitments.

This earlier international commitment sought to transition Afghanistan through the most crucial phase from 2014 to 2015. During this time, international troops planned to drawdown to a train, advise, and assist mission, handing security to the ANSF. The extension of pledges through 2015 sought to match this transition timeline. But it also offered a timely reflection point to assess Afghanistan's own commitment to economic development and donor nations' political support for Afghanistan.<sup>8</sup>

2015 is a pivotal year for an Afghan economy that relies on donor support. With pledges ending this year, Ghani and Abdullah have sought to rally donor support and address past concerns. At the London Conference on Afghanistan in December 2014, Ghani laid out an ambitious reform agenda, titled "Realizing Self-Reliance." The agenda centered on economic and social improvements necessary for a stable economic future. In it, he also prioritized issues close to donors' hearts, such as women and youth empowerment, education, and anticorruption. To be successful, however, Ghani and Abdullah must move beyond a plan and a conference; they must actualize their reforms and initiate the programs. This reform agenda presents a unique opportunity for the United States and the international community to reframe the donor compact around these reforms, while holding Ghani and Abdullah accountable for their agenda.

Indeed, Ghani and Abdullah bring a strong commitment to reform. Both of their campaigns called for countering corruption and rapid economic gains.<sup>9</sup> Both Ghani and Abdullah have served in the Afghan government before as finance minister and foreign minister, respectively.<sup>10</sup> Prior to his return to government in Afghanistan, Ghani spent decades as a World Bank-trained development expert and economist. In creating Chief Executive Abdullah's new position, the two leaders agreed Abdullah would be responsible for driving policy implementation.<sup>11</sup> These roles give both men the necessary political capital and bureaucratic experience to pursue their ambitious reform agenda.<sup>12</sup>

Domestically, Afghanistan's trends also support a prioritized focus on economic development. Sixty-eight percent of the population is under 25.<sup>13</sup> Many of these young Afghans grew up entirely in a war-centric environment, and a majority possess varying levels of basic education.<sup>14</sup> Those in urban areas are linked to the outside world through the Internet and even those in rural areas use mobile communications.<sup>15</sup> These trends highlight the potential for a young skilled labor force that could be the engine of growth that Afghanistan desperately needs. However, with more than 70 percent of Afghanistan's population working in agriculture and the absence of other economic opportunities, market and security developments are unfortunately leading to a steady return to poppy production—up 7 percent in 2014—and a subsequent increase in the illegal opium trade.<sup>16</sup> Given the youth population, Afghanistan is also likely to experience growing urbanization, demands on government services such as health care and education, and pressures for job creation.<sup>17</sup> Large youth populations can also be potentially destabilizing, particularly with a lack of economic opportunity.<sup>18</sup> The economic programs and reforms discussed by Ghani and Abdullah acknowledge the opportunities and threats presented by these trends, particularly the need for job growth and private-sector development.

Regionally, nascent opportunities are appearing to develop trade routes and resource wealth for both Afghanistan and its regional neighbors. China has slowly shifted gears over the past 10 years and now views Afghanistan as an investment and political partner.<sup>19</sup> Pakistan and Central Asian partners are seeking ways to build on the new connections with Afghanistan for economic, not just military, purposes.<sup>20</sup> The Gulf nations, China, and India see investing and partnering with Afghanistan as the better alternative to isolation and war by recognizing shared interests in agriculture, trade, and border security.<sup>21</sup> The much-needed frameworks to integrate Afghanistan into the region's economic future are now in place through the Heart of Asia process—one of the many regional conferences meant to galvanize cooperation in Afghanistan's neighborhood—as well as other initiatives such as China's Silk Road Economic Belt,<sup>22</sup> Turkey's Silk Road Initiative,<sup>23</sup> and the Central Asian Regional Economic Cooperation, or CAREC.<sup>24</sup>

Just as these Afghan political and economic trends are improving, U.S. assistance to Afghanistan is facing significant challenges. As U.S. troops drawdown, U.S. development assistance to Afghanistan has also declined from \$1.8 billion in 2013<sup>25</sup> to \$1.1 billion in 2014.<sup>26</sup> The FY 2015 assistance has not yet been allocated for Afghanistan, according to FY 2016 Congressional Budget Justification. The U.S. presence in Afghanistan in both troops and embassy personnel has diminished markedly from 432 in March 2012 to less than 100 in 2014.<sup>27</sup> U.S. civilians at Provincial Reconstruction Teams, or PRTs, have consolidated into the embassy in Kabul, meaning that economic support programs outside of Kabul will rely on contracted or nongovernment personnel.<sup>28</sup> This reduced U.S. support is reflected in other donor budgets as well, limiting Afghanistan's ability to seize the opportunities above.

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## Incentivizing change

In 2016, the Obama administration requested \$1.5 billion for developmental assistance to Afghanistan,<sup>29</sup> an increase linked to the “new reform-minded government” and their “comprehensive reform plan.”<sup>30</sup> This request can form the basis for a new U.S.-Afghanistan compact that can spur additional international support. It can also form the basis for accountability of the new Afghan government.

First, the United States must urge the national unity government to prioritize the plethora of reforms and goals laid out in “Realizing Self-Reliance” report. The NUG took a significant step in developing its own goals and plans, but the scope is enormous. It will be extremely important for the United States—and for other donors—to encourage and signal potential financial and technical assistance for prioritized actions stemming from the report's recommendations. Such support would reinforce political stability and push the NUG to follow through on its political commitments.

An area of critical importance to the economic, political, and security future is the NUG's prioritization of anticorruption efforts. Anticorruption was the first priority in both Ghani and Abdullah's campaigns, and these efforts resonate with many Afghans.<sup>31</sup> It will be critical for the government to establish norms of accountability and transparency across the Afghan ministries in ways that reinforce checks and balances in spending and procurement policies, as well as in decision-making practices, to ensure that steps are taken to combat Afghanistan's culture of cronyism. Further, the U.S.-Afghanistan joint statement for this visit should highlight anticorruption support and create a systematized platform for high-level dialogue on corruption issues.

Afghanistan's economy needs systemic reform, ranging from better financial management of the incoming foreign assistance and modest revenue collection to private-sector regulations to attract much-needed foreign direct investment. A commitment to financial transparency and meeting financial management best practices will allow for a greater volume of international assistance in the Afghan budget. Afghan ministries can gain unique expertise in the necessary kinds of reforms and regulations from U.S. agencies and departments. They can also build enduring diplomatic relationships at a fraction of the cost of contractors, whose work in Afghanistan has had mixed results, according to the Special Inspector General for Afghan Reconstruction. The Obama administration should ensure funding and staffing of a robust embassy of U.S. government technical advisors to all levels and ministries of the Afghan government.

With technical expertise, the Afghan government and its donors should begin to assess the trends and implications for Afghanistan's development. The population, urbanization, education, and employment data remain scarce and difficult to analyze, owing to the politicization of census data, but there is also minimal capacity to gather the information. The United States should support Afghanistan to use programs such as the National Solidarity Program, which operates in every province and more than 34,000 communities to help provide such data.<sup>32</sup> With the data, U.S. advisors and their Afghan counterparts can analyze changes and anticipate adjustments to economic programs that harness these trends.

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## Conclusion

Ultimately, concrete U.S. programs that reinforce Afghanistan's economic development will achieve greater security than defense cooperation alone and will bolster political compromise through inclusive economic opportunity. It will also reinforce President Ghani and Chief Executive Abdullah's platform of reform and development. While security progress is essential, it will be a bold and carefully crafted economic agenda that will create a positive future for Afghanistan—one in which it can fund its own security, as well as its own development. To succeed, the United States must use 2015 to reinforce and underpin the national unity government reform agenda by developing a new international assistance compact centered on accountability and effects.

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The views expressed in this article by Ariella Viehe are those of the author and do not necessarily represent the views of the U.S. Department of State or the U.S. government.

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