

A strategy to help Afghanistan kick its habit

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The president of France, the prime ministers of the UK, Italy and Australia and the US defence secretary all visited Kabul to meet President Hamid Karzai last month. Deteriorating security was the paramount issue. The increase in troops and equipment that these leaders pledged, though, will not suffice to stop the Taliban's resurgence. Afghanistan urgently needs an effective strategy for economic reconstruction.

Lack of productive alternatives has driven farmers to turn to growing poppies. Drug-traffickers support farmers by advancing credit and sharing some of the risks of production. Some farmers can survive only by selling their crops in advance. If the crops fail, they become in debt to the traffickers, creating a vicious circle.

The United Nations Office on Drugs and Crime reckons Afghanistan is now growing about 93 per cent of the world's total poppy production and converting 90 per cent of its 8,000 tonnes of raw opium into heroin.

Since US military intervention and the Bonn agreement of late 2001, government tax revenue has averaged only about 5 per cent of gross domestic product. Warlords have been left to control a large percentage of customs revenues collected at the borders. Furthermore, donors channel a large part of their aid - up to 75 per cent at times - outside the government budget or control. As a result, the Karzai government has been unable to provide basic services and lawful employment. Un-fulfilled expectations of better living conditions and the thriving drug business have put the Taliban back into control of large parts of the territory.

The international community is not helping Afghanistan to stand on its own feet. After three decades of war and several years of severe drought, Afghanistan started the transition to peace with a per capita annual income of about \$200. Humanitarian aid was needed to save lives and feed the population but it was not accompanied by sufficient and effectively channelled reconstruction aid. Without reconstruction aid there cannot be the development of businesses, the productivity growth and the sustainable employment that enable people to support themselves and have a meaningful life.

In the transition to peace, countries have an even chance of reverting to war. Avoiding this should be the first and foremost consideration in policymaking. Because of the extra budgetary burden of economic reconstruction, the optimal economic policies of classical theory are often neither immediately attainable nor even desirable.

The independence of the central bank and the "no overdraft" rule for budget financing adopted in Afghanistan - a desirable policy framework for countries in the normal process of development - has proved too restrictive. In the absence of well-funded

development banks, the existing framework has deprived the country of any financing flexibility to carry out critical activities that could have contributed to the consolidation of peace.

The main sources of growth in the economy relate directly to the large presence of the international community and indirectly to the illicit drug economy. This does not offer any possibility of genuine economic development, and will never allow the country to get out of its aid dependency.

Is it possible to turn the entre-preneurial spirit of the Afghans away from producing drugs into lawful production such as cotton and textiles? Crop eradication - which often kills subsistence crops and pollutes water at the same time - has proved ineffective in controlling drug cultivation. It has proved to be a way to create huge profits for criminal and armed groups. It is likely to increase the power of the Taliban further.

The replacement of the illicit economy requires viable options. Both the US and the European Union assist their farmers through loan and price support programmes and other incentives. If donors want to "do good", they should support a two-pronged economic reconstruction strategy.

First, donors should channel reconstruction aid through the budget to enable the government to provide subsidies or other incentives (such as price support programmes) to replace poppies with lawful crops such as cotton, which was produced in the past. The UK government is at present considering price support for Afghan farmers. Other donors should do the same.

Second, once production of lawful crops increases, donors should provide know-how, technical support and credit for the local industrialisation of such crops. At the same time, donors should open their markets through special preferential tariff treatment to light, labour-intensive manufactures from Afghanistan, including textiles.

Such a strategy - or any similar one producing and adding value to fruits, vegetables, grains, lavender or anything else that Afghans can produce - could help the country to stand on its own feet. By increasing dynamism and social inclusion this strategy would create a good economy. It would also be a way of establishing the legitimacy of the Afghan government and decreasing the attractiveness of the Taliban.

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