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Looney, Robert

Monterey, California. Naval Postgraduate School

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Strategic Insight

Rebuilding Afghanistan

by [Robert Looney](#)

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June 1, 2002

Following the September 11 terrorist attacks the United States has revamped many of its foreign aid programs. Prior to that date the administration's top foreign aid initiatives for the 2002 fiscal year had been combating the spread of HIV/AIDS and other infectious diseases, fighting poverty, broadening the public/private partnership in aid programming, and expanding the counter-narcotics campaign in the Andean region. These issues, while still a concern, have taken a back seat to the war on terrorism.

Attention is now focused on devoting resources -- humanitarian, developmental and strategic -- to support for the campaign against terrorism. The United States has announced over one billion dollars in new aid to Pakistan and to assist refugees in Afghanistan and that country's neighbors. More aid is flowing to a broader set of nations backing the U.S. anti-terrorism campaign, especially the countries of Central Asia.

While Pakistan and the Central Asian Republics are to be major new recipients of aid, Afghanistan will be by far the largest beneficiary of terrorism related assistance. Specifically, the United States and other Western nations have promised to essentially underwrite Afghanistan's recovery from two decades of drought, war and dislocation. For its part the United States has vowed to lead an international effort to rebuild Afghanistan on the model of the Marshall Plan for Europe after World War II. In addition U.S. foreign assistance is being utilized as a highly visible tool in the early days of the anti-terrorism campaign. The price will not be cheap. Initial studies suggested that the "going rate" for comparable nation-building exercises is about one billion dollars for every one million people. Including the four million Afghans living outside its borders, Afghanistan has a population of about 25 million.

Current Plans and Estimates

To date an unprecedented multilateral aid package has been assembled, with 25 donor nations contributing to it. Donations range from the European Union's pledge of \$500 million, down to \$5 million from Turkey. Despite these generous contributions the rough calculations above suggest much more will be ultimately needed. The reconstruction plan now underway, developed by the World Bank, the United Nations Development Program (UNDP) and the Asian Development Bank (ADB), carries a base price tag of \$14 billion, spread out over a 10 year period. This plan was sponsored by the Steering Group for the Reconstruction of Afghanistan, whose members include the European Union, Japan, Saudi Arabia and the United States.

In order to coordinate the aid programs, both public and private, the Afghanistan Interim Administration presented in April 2002 a draft of its National Development Framework (NDF). All projects and programs of aid within Afghanistan will be expected to be anchored into the NDF. The Afghanistan Assistance Coordination Authority (AACA) has emphasized that government ownership of the reconstruction process is imperative and that a "joint partnership" between the interim authority and the aid community is essential. Transparency and accountability by all partners in the aid effort has been emphasized.

In general terms, the Afghan developmental strategy includes three pillars: using humanitarian assistance and social policy to create the conditions for people to secure their lives and lay the foundations for the formation of sustainable human capital; using external assistance to build the physical infrastructure that will lay the basis for a private sector-led strategy of growth; and the creation of sustainable growth where a competitive private sector becomes both the engine of growth and the instrument of social inclusion through the creation of opportunity.

Since the World Bank/UNDP/ADB reconstruction plan was released at a Tokyo summit meeting in January, more details have emerged regarding four main areas of concern:

1. *Governance and economic management.* The estimated cost of funding government and economic management over the next ten years comes to \$1.9 billion. Funds would be used to pay for day-to-day government operations, restoration of private sector development, and the reestablishment of a legal system. Funds would also be used to re-establish a central bank and finance ministry, with a regulatory framework creating a sound investment climate to support a revitalized private sector. The reconstruction plan also calls for a complete re-integration of women into the country's social fabric. One of the first areas where this will be seen is in the country's civil service, which had been around 43 percent female prior to the Taliban regime assuming power.
2. *Social protection, health and education.* The planned 10 year cost of the social protection, health and education sections of the plan come to \$2.6 billion. The reconstruction plan calls for the creation of a major public works program to serve the dual purpose of building the national infrastructure while providing social protection for women, refugees, war disabled and orphans. The plan also calls for a dramatic campaign to re-open schools, with an emphasis on getting school-age girls back to the classroom. Finally the program aims to revive and improve the country's public health system.
3. *Infrastructure.* The 10 year cost for the infrastructure component of the plan comes to around \$6.9 billion. The largest single expenditure envisaged in the reconstruction plan is aimed at rebuilding ground transport, civil aviation, water and sanitation systems, and telecommunications.
4. *Agriculture and natural resources management.* Under the plan, the ten year cost for agriculture and natural resource management would come to around \$1.4 billion. Much of this cost represents the restoration of war-damaged irrigation systems and the development of a natural resource management system.

Many experts believe the success of the reconstruction plan depends not only on the inflow of aid dollars, but the speed with which the Afghan government can restore a civil society based on the rule of law. It is also generally felt that if the political will is there an effective national legal system can be operational within three years. On the other hand many experts feel the plan's 10 year cost figures will soon need to be revised upwards. For example, the cost of restoring the agricultural sector will also have to include significant financial inducements to farmers who would otherwise devote their land to opium production. The biggest revision will probably be needed in the telecommunications sector. The current plan allocates only \$120 million in donor assistance, anticipating that the real capital investments needed to build a national grid (estimated upwards of \$2 billion) would be financed by the private sector.

The World Bank itself cites a high case 10 year cost figure of \$18.1 billion. But given the additional infrastructure costs, unlikely to be taken up by the private sector investors, many experts now see the total required aid package reaching \$42 billion.

Challenges Ahead

While the reconstruction plan sounds well thought out, there are still concerns in many circles surrounding the appropriate volumes of aid and relief assistance. Clearly, aid can easily be wasted if recipient governments do not create conducive economic and legal environments. On the other hand, relief and assistance aid has certainly reduced levels of child and maternal mortality, improved literacy rates, and accomplished other noble aims in most places where it has been attempted.

A related concern has been expressed over Afghanistan's real capacity to absorb billions of dollars of reconstruction money. For example the United Nations estimates it will cost \$600 million to remove most of the millions of landmines that litter the country. U.N. experts feel that even if the money were available there is simply not the means to clear these mines in a year. In fact, most experts see this as a 12 year program. Next year only \$43 million is budgeted for mine clearing, reflecting the country's limited ability to implement a program of this sort.

There are also serious economic issues raised by the prospective influx of such huge amounts of cash into a subsistence economy. Even absorbing the estimated \$70 million the U.N. estimates is needed to pay civil servant back-pay and salaries for the next five months will prove difficult. The problem is how to manage this inflow of cash without igniting a surge in inflation. To mitigate the likely inflationary effects on food prices of suddenly paying 200,000 civil servants and police six months' back-pay, the U.N. is discussing with the interim government the possibility of issuing food coupons. But some U.N. officials think the government will have no choice but to print yet more Afghani notes, thus risking perhaps triple digit inflation.

Hence, while it is tempting to make an analogy with the post-WWII Marshall Plan in Europe, the situations are clearly different. Post-war Europe already had institutions and skilled workers; what it really needed was vast sums of cash. Afghanistan needs money for food and health aid but it especially needs the kind of sustained care and security that will allow institutions to be built and Afghans trained to run them. Hopefully these concerns will be addressed once the initial humanitarian and relief needs are met.

Whether donor nations will be able to meet the challenges remains to be seen. Clearly though, many donors feel that it is not a matter of choice. They believe that to eradicate terrorism the conditions that allow terrorism to take root must be eliminated. Hopefully as the Marshall Plan prevented the spread of Communism to Western Europe in the post-war years, the NDF despite obvious differences will be as effective in combating the reemergence of terrorist groups in Afghanistan and bordering countries. A note of caution is in order however: to date, South Korea has probably been the only case outside of Europe in which aid flows have both shored up an ally against a strategic threat to the United States and prompted the creation of a successful democratic, capitalist nation.

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Further Reading

["Afghanistan World Bank Approach Paper,"](#) World Bank, November 2001.

["The Aid and Reconstruction Agenda for Afghanistan,"](#) by Michael E. O'Hanlon, Analysis Paper #13, Brookings Institution, December 19, 2001.

["Bush Emphasizes Long Term Commitment in Afghanistan,"](#) U.S. Department of State, April 18, 2002.