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Prospects and Economic Priorities for a Durable Peace in Afghanistan

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Afghanistan Institute for Strategic Studies



Prospects and Economic Priorities for a
Durable Peace in Afghanistan



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Nematullah Bizhan

2. INTRODUCTION

A protracted armed conflict has imposed heavy economic and human costs on Afghanistan. Despite a desire for *muzakirah barae khatm-e jang* (in Dari/Farsi) or a negotiated settlement to end the conflict, there has been no major record of success. After more than a decade and a half of mainly violent insurgency by the Taliban group (hereafter the Taliban), which was reorganised following its overthrow in 2001, the Afghan government, the US government and the Taliban agreed to enter into negotiations to reach a political settlement to end the conflict. The US government signed an agreement with the Taliban on 29 February 2020 which is expected to follow direct negotiations between the Taliban and the Afghan government to work towards a political settlement and permanent ceasefire. The process is, however, complicated and a range of difficult questions remain. How might the US-Taliban agreement and a potential Afghan Government-Taliban agreement translate into a comprehensive settlement framework and how could they be sustained economically? Without a comprehensive economic investment and a sustained flow of international grants to Afghanistan, any post-settlement order is unlikely to be sustainable.

In a post-settlement order, there will be a pressing need to sustain the gains already made in areas, such as education, women's rights and freedom of expression, and to ensure the continuity of state institutions, to revive the economy for expediting a path to self-reliance, and to integrate ex-combatants from all sides into civilian life (including those who fight against the government, the Taliban fighters, and those allied with the Afghan government but operating outside the security apparatus). In addition, given that Afghanistan is a major producer of opium, neglecting the illicit economy will undermine prospects for long term stability. As Afghanistan is not financially self-reliant yet, the availability of grants will be essential for political stability and sustainability of a reduction in violence that may follow a negotiated settlement.

Given the prevailing conditions, Afghanistan may take different directions. In *a worst-case scenario*, conflict intensifies, growth slows down and domestic revenue collapses, while in *a best-case scenario*, there will be a significant reduction in violence, rapid economic growth, an increase in domestic revenue and an investment boom. Between 2020 and 2024, Afghanistan will need on average between US\$6.3 billion in grants and US\$3.1 billion in domestic revenue annually in the latter case, while US\$8.2 billion in grants and US\$2.2 billion in domestic revenue in the former.

The availability of international grants will be crucial but not adequate without quality government. As a neopatrimonial state, Afghanistan is exposed to industrial level corruption and waste. Moreover, in light of uncertainty arising from the negative effects of the COVID-19 pandemic on the world economy and the US, one needs to reassess all previous assumptions, anticipating further slowdown in economic growth and the availability of grants to Afghanistan. Lack of financial resources, in particular, will not only undermine stability but will also put any negotiated settlement at the risk of collapse. The consequences will be dire.

On the other, political instability have adversely affected the economy and prospects for investment. On 18 February the Independent Election Commission declared incumbent Ashraf Ghani president, securing 50.64 percent of the vote on 28 September 2019, while Chief Executive Abdullah Abdullah secured 39.52 percent of votes. However, Abdullah contested the final results and later announced a parallel government. This process increased political tension until Ghani and Abdullah signed an agreement on 17 May 2020, according to which Abdullah assumed the role of President of High Council for National Reconciliation. Ghani and Abdullah would choose an equal number of ministers and agree on the appointments of provincial governors. Earlier, the US government put pressure on the Afghan

government by threatening significant conditional cuts in its aid grants to Afghanistan based on whether Ghani and Abdullah would form an inclusive government to overcome the political tensions.

As far as violence and social order are concerned, a closer description of the current situation in Afghanistan could be that it is a fragile limited access order. The ruling elites in government have a monopoly over power and resources and limit access to others. However, the situation is fragile as they are challenged by the Taliban use of violence and, to a lesser extent, by other armed groups, such as the Islamic State, also operating in the country. A desirable pattern, in this case, would be a transition from a fragile limited access order to a more stable limited access order where political space is broadened for participation in national decision making processes. However, the situation in Afghanistan seems to be more complicated. While the ruling elites have access to formal power and resources, the Taliban has largely maintained a monopoly over an illegal economy. The type of settlement that is likely to take place will be far from a stable limited access order. On both sides, those who feel excluded from power are less likely to accept the outcomes and are more likely to challenge the new arrangement. This situation may further weaken the existing fragile limited access order. It will remain an essential issue for a stable polity how inclusive the process is and how the outcomes of a

political settlement can be seen to be legitimate by domestic actors, Afghan citizens and influential external actors. Reduction of conflict is more likely to result in relatively rapid economic growth and investment. However, it is also crucial whether the post-settlement order will lead to inclusive development, sharing the fruits of growth with all and building government quality.

This paper aims to examine economic prospects and challenges for a negotiated settlement in Afghanistan. In doing so, it explores the state of the economy and conflict, prospects for a political settlement, priorities and the political economy. The paper uses primary and secondary data from the Afghan government, the World Bank and other international institutions. It also builds on 15 semi-structured interviews with a broad category of people and recent developments in the process of negotiations for a political settlement in Afghanistan. The interviewees were not exclusively economists as the intention was to assess the current state of the economy and conflict by interviewing key actors and observers in the field. The paper uses a political economy approach. In particular, it employs the concept of social orders and political settlement to offer an explanation about the negotiations for peace in Afghanistan, while also recognising the limits of conceptual framing and complexities of the process.

The paper is divided into eight sections. The first section discusses the state of economy and conflict. The second and third explore prospects for a political settlement and priorities. Evidence from political settlement in Vietnam and Colombia is covered in the fourth section. Section five and six discuss constraints and opportunities and projected scenarios for a post-settlement order respectively. The seventh section focuses on the political economy to explore some possible explanations for a political settlement in Afghanistan before the last part summarises the key findings.

3. The State of Economy and Conflict

Conflict has imposed heavy economic and human costs on Afghanistan. A recent report by the United Nations Assistance Mission in Afghanistan shows that 2019 was the sixth consecutive year in which civilian casualties topped 10,000.¹ The total number of war-affected disabled people is estimated at close to a million.² The economic cost of violence, as a percentage of GDP, after Syria, was the second-highest in the world, accounting for 63 percent of GDP, in 2017. The economic impact of violence, which includes the direct and indirect costs of violence as well as an economic multiplier applied to the direct costs, is estimated to be US\$67.8 billion in purchasing power parity.³ In addition to its social and political impact, war has imposed substantial economic costs. It has not only destroyed private and public infrastructures, but also undermined future investment and development. Evidence shows that there is a negative correlation between war and development. In other words, the less peaceful a country gets, the less developed

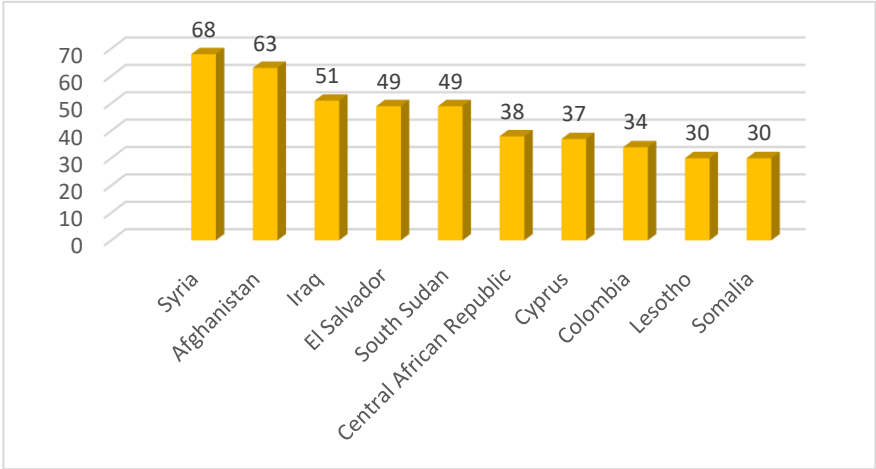
¹ "Afghanistan: Civilian casualties exceed 10,000 for sixth straight year," 2020, accessed 22 February, 2020, <https://news.un.org/en/story/2020/02/1057921>.

² Rasad News Agency, "Ba khatir tawzie maash, malolin biometric mishawand," *Rasad News Agency* 1394 (2015), <http://www.rasad.af/1394/09/12/handicaps-in-afghanistan/>.

³ Institute for Economics and Peace, *The economic value of peace 2018: Measuring the global economic impact of violence and conflict* (Sydney, 2018), 31.

it will attain,⁴ which is evident in Afghanistan, which remains one of the least developed countries in the world.⁵

Figure 1: Economic cost of violence (rank by % GDP, 2017)



Source: See footnote⁶

Since the military coup executed by the communist Democratic Republic Party of Afghanistan in 1978, through the subsequent invasion by Soviet troops in 1979, the war among different *mujahidin* groups (1992-1994), and the rise of the Taliban to power (1996-2001), Afghanistan has continuously suffered from violent conflict, the degree and nature of which differed and transformed

⁴ Institute for Economics and Peace, *Positive peace report 2019: Analysing the factors that sustain peace* (Sydney, 2019).

⁵ UNDP, *Briefing note for countries on the 2019 human development report: Afghanistan* (New York, 2019).

⁶ Institute for Economics and Peace, *The economic value of peace 2018*, 31.

over time. In 2002, the World Bank estimated the total cost over the previous two decades of conflict, measured in terms of lost growth and the cost of humanitarian assistance and military expenditure, to have amounted to about US\$240 billion.⁷ By then, both the economy and public institutions were shattered.

In addition, Afghanistan is subject to natural hazards such as flooding, earthquakes, landslides, snow avalanches, and droughts because of its geographical location and environmental degradation. Since 1980, natural hazards have affected about one-third of the population and have caused over 20,000 fatalities. In 2017, natural disasters internally displaced 44,000 people.

After 2001, a new political order was established based on the principles of liberal democracy, which also accommodated national traditions and Islamic values. Preservation of women rights and human rights became an integral part of national policies. The government also introduced a market economy. Neither the government nor the society was adequately prepared for this sudden economic change. Prior to 1978, Afghanistan had what could be referred to as a mixed-guided economy.⁸ Thus early

⁷ World Bank, "Two decades of conflict cost US\$240 billion: Now Afghanistan will need US \$27.5 billion to recover," (Press Release), March 30, 2004, <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20186600~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html>.

⁸ SIGAR, *Private sector development and economic growth: Lessons from the US experience in Afghanistan* (Arlington, 2018), IX, 23, 25

signs of resistance against the post-2001 reforms were apparent, and corruption became a major national problem.

Nevertheless, following a period of economic regression and stagnation, the disintegration of core state institutions and one of the worst human tragedies in the late 20th-century, post-2001 was generally a time of hope and revival. The government, with massive aid from its development partners and allies, invested in building public institutions and expanding public services.⁹ In the area of economic management, attempts were made to establishing macroeconomic stability, curbing inflation, overhauling the currency, creating sound fiscal and monetary policies as well as drafting laws and regulations, including a new public financial management law. These reforms helped to create an enabling environment for the development of the private sector. The economy grew at a promising pace for a decade while health services and access to primary and secondary education significantly expanded. GDP per capita increased from US\$179 in 2002 to US\$556 in 2017.¹⁰ Also, in a decade and a half since 2001, domestic revenue as a percentage of GDP increased from 3.3 percent to 11.9 per cent; life expectancy increased from 44 to 61

⁹ See Nematullah Bizhan, "Aid and state-building, Part II: Afghanistan and Iraq," *Third World Quarterly* 39, no. 5 (2018).

¹⁰ World Development Indicators, (Washington, DC: World Bank, 2020).

years; school enrolment increased from 0.8 million to over 8 million; gender equity improved substantially.¹¹

However, despite the economic growth, estimated poverty, unemployment and underemployment increased. The poverty rate rose from 36 percent in 2011/12 to 39.1 percent in 2013/14 and up to 55 percent in 2016/17, with a growing number of people at serious risk of falling into poverty. The unemployment rate also increased to 22.6 percent in 2013/14, an increase of about 1 percent since 2011.¹²

International assistance and investment were major drivers of economic growth (see Figure 1). Afghanistan development partners allocated an estimated US\$112 billion in development and security assistance between 2002 and 2015.¹³ However, much of the aid to Afghanistan flowed out through international contractors and expatriates and the remaining aid was largely ineffectively allocated and spent. At the same time, Afghan individuals and private companies were investing in the country, but it is difficult to confirm the total amounts, though the figure seems to have been

¹¹ World Bank, *Afghanistan to 2030: Priorities for economic development under fragility* (Washington DC, n.d.), 9.

¹² "Afghanistan poverty status update – progress at risk," accessed on 16 April, 2020, <https://www.worldbank.org/en/country/afghanistan/publication/afghanistan-poverty-status-update-report-2017>; World Bank, *Country update: The World Bank group in Afghanistan* (Kabul, 2020).

¹³ World Bank, *Afghanistan to 2030*, 11.

quite significant. In addition, at the onset of the last decade, international support and consensus on Afghanistan boosted the confidence of consumers and private investors. Many Afghans either returned to Afghanistan or sent money to invest in housing. In some sectors, such as telecommunication and services, investments were also significant. Two telecommunication companies, Afghan Wireless and Roshan, are notable examples. Since 2003, Roshan has invested US\$700 million in the country.¹⁴ Between 2002 and 2016, the highest added value to GDP in annual percentage included services, agriculture, manufacturing, and industries respectively.¹⁵ Overall, domestic investment has been greater than international investment in the country.¹⁶

However, a new form of conflict has emerged, dominated by insurgency and extreme forms of violence. The Taliban group, with support from Pakistan's government in terms of logistic, intelligence and safe havens, has reorganised as an insurgent group. The insurgency and insecurity have diverted a large portion of resources from investment in much-needed areas such as education and health and infrastructure, to security. It has also significantly increased the cost of development and investment. Insecure areas

¹⁴ Roshan, "About roshan," accessed 6 April, 2020, <https://www.roshan.af/en/personal/about/about-roshan/>.

¹⁵ World Development Indicators.

¹⁶ See SIGAR, *Private sector development and economic growth*.

and those under a greater Taliban influence have been left behind in benefiting from the expansion of public services. The conflict in Afghanistan has also imposed a huge cost on the US. The cost of Afghanistan conflict and the US troops deployment in Afghanistan from 2001 to 2019 is estimated to have cost around US\$975 billion.¹⁷

While a positive socio-economic trend was being adversely affected by the Taliban campaign of violence, attacking major urban centres and highways, the situation was further complicated by the rise of the Islamic State and an expanding narcotics industry. There, however, was also other factors such as widespread corruption and politics of patronage that undermined the national economy and institution building. Aid management and allocation were also problematic, making foreign aid less effective and in some cases counterproductive.¹⁸ A large portion of aid by the international community bypassed the Afghan state, arguably because of corruption and state weakness, which had minimal impact on the national economy and undermined state building.

¹⁷ Niall McCarthy, "The annual cost of the war in Afghanistan since 2001 [infographic]," *Forbes* 2019, <https://www.forbes.com/sites/niallmccarthy/2019/09/12/the-annual-cost-of-the-war-in-afghanistan-since-2001-infographic/#4496e7521971>.

¹⁸ See Nematullah Bizhan, *Aid paradoxes in Afghanistan: Building and undermining the state* (Abingdon: Routledge, 2017).

Aid effectiveness thus will continue to remain crucial for a successful transition even in a post-settlement order.

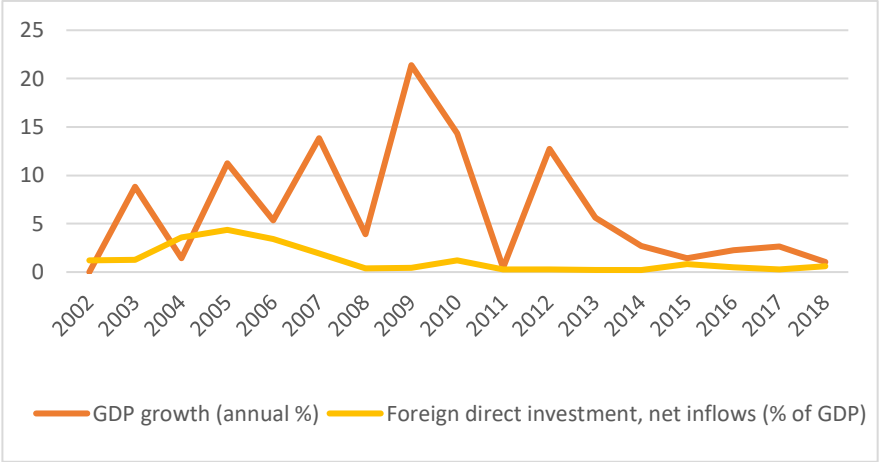
Conflict has had a major impact on investment and continues to do so as the future remains unclear. A political party member interviewed for this study said, 'If we have money we will not invest in situations of war. Investing in such a situation means burning your money. Thus, in the absence of security, we witness capital outflow, brain drain and migration of youth.'¹⁹ The negotiations between the US and the Taliban and the prospective negotiations between the Afghan government and the Taliban have triggered uncertainty rather than confidence in the future. According to a former senior government official, 'As long as we do not reach an agreement with the Taliban, there will be confusion. That situation will discourage investors as they will wait. But if the Afghan government and the Taliban reach an agreement and the agreement is upheld, it will encourage investment. In the past, we had the experience of similar agreements which were not implemented.'²⁰ Others call the period during which negotiations are underway 'a false hope period', making the case that those Taliban who negotiated with the US and who will negotiate with the Afghan government do not have

¹⁹ A political party member, personal interview, Kabul, 2 February 2020

²⁰ A former senior government official, personal interview, Kabul, 3 February 2020

control over their fighters in the field, who have vested economic interest in the illegal economy.²¹

Figure 2: GDP growth and foreign direct investment in Afghanistan (As % of GDP), 2002-2018

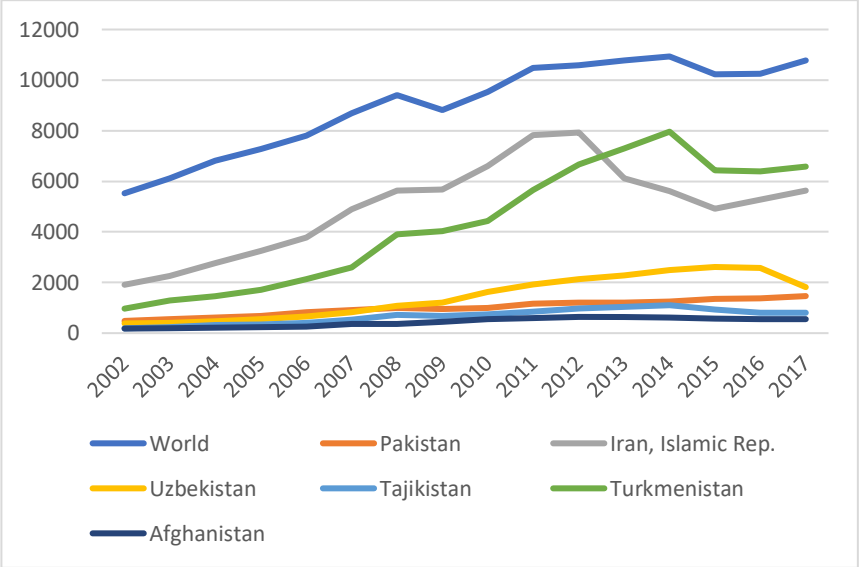


Source: World Development Indicators, 2020

While the economy grew significantly since 2002, Afghanistan still lags behind its neighbours and, except 2017, has experienced a deep sustained slowdown since 2012 (see Figure 2).

²¹ A Professor of Economics at Kabul University, personal interview, Kabul, 28 October 2019.

Figure 3: Average GDP Per Capita in Afghanistan, its Neighbours and World, 2002-17



Source: World Development Indicators 2020.

Insecurity and conflict have put increasing pressure on public expenditure because of the destruction of infrastructure and rising cost of development, which as a result also consumes a large portion of the national budget. As Afghanistan has heavily relied on foreign aid because of lack of adequate economic surplus and revenue from domestic sources, a large portion of security expenditure was funded by aid. Between 2002 and 2015, overseas development assistance (ODA), excluding military aid, measured as a percentage of gross national income (GNI), on average stood

at 38 percent (See Figure 3).²² Between 2002 and 2011, out of US\$57 billion aid disbursed in Afghanistan, 51 percent was spent on the security sector.²³ Similarly, in subsequent years, a significant portion of aid was allocated to security. In 2018, 60 percent of total international grants were allocated to security.²⁴ Without the resolution of conflict, fiscal pressure imposed by security sector will continue to increase. This situation if accompanied with a decline in the flow of grants will divert large amounts of resources from the civilian and development sectors.

Another major issue is that Afghanistan has a large informal and illicit economies. The former includes economic activities mostly in the agriculture sector, while the latter is huge and is dominated by the opium industry. Eighty to ninety percent of Afghanistan's economic activities take place through the informal sector, including illicit activities, mostly as part of the local economy.²⁵ Afghanistan is the largest producer of opium. As a single most important cash crop, it occupies 10 percent of irrigated land.

²² Also see Nematullah Bizhan, Building legitimacy and state capacity in protracted fragility: The case of Afghanistan, LSE-Oxford Commission on State Fragility, Growth and Development (London, 2018), 15. National budget 1398

²³ Bizhan, Aid paradoxes in Afghanistan, 155.

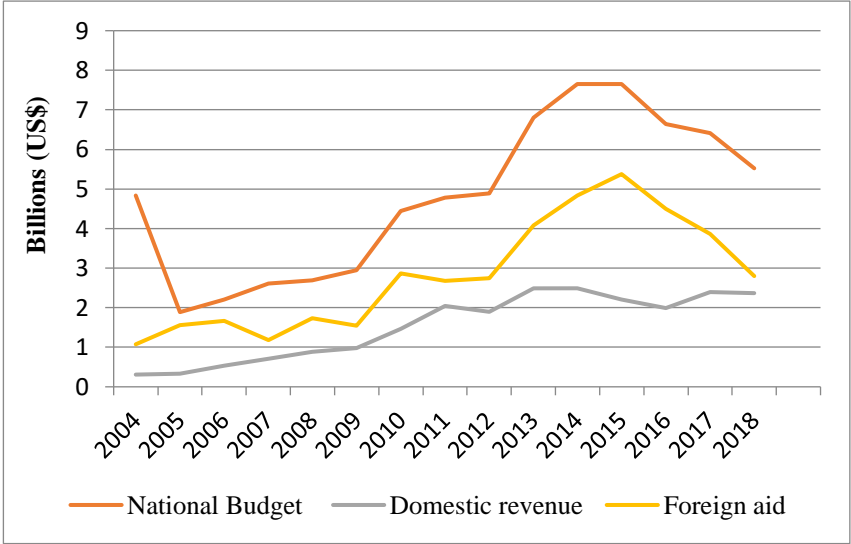
²⁴ World Bank, Post-settlement economic initiatives: To support peace and inclusive growth in Afghanistan, 2019.

²⁵ International Labour Organization, Afghanistan: Time to move to sustainable jobs, study on the state of employment in Afghanistan, summary report (Kabul, 2012), 3, https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_182252.pdf.

Opium accounted for 4.5 percent of GDP in 2016, providing a source of income for many poor and landless farmers. Opium export is estimated at US\$2 billion.²⁶ The opium industry offers sources of revenue to the insurgents as well as income to poor and landless farmers. The opium harvest expanded during the cold war in Afghanistan to sustain the war against the Soviet-backed government in Kabul (1978-1992), which now has revived and supports the Taliban. It has proven difficult to displace it, as it is driven by multifaceted factors including lack of rule of law, easy access to key trade routes, and the absence of alternative livelihood for farmers. The future of any political settlement in Afghanistan will be significantly affected by the opium industry, which has been overlooked since 2001.

²⁶ World Bank, *Afghanistan to 2030: Priorities for economic development under fragility*, 43, 64.

Figure 4: National budget and sources of funding, 2004-2018



Source: Ministry of Finance of Afghanistan, 2019.

The effects of conflict on development could be observed through a number of mechanisms such as increasing the cost of development, extortion by the Taliban from businesses and trades in the form of illegal taxation, illegal extraction of mines by the Taliban and other illegal armed groups, boom in opium industry, and destruction of infrastructures.²⁷ A senior government official,

²⁷ For more information on the taxation system in Afghanistan see Nematullah Bizhan, Identity, norms, narratives, and state bureaucracy: Evidence from tax administration in Afghanistan, LSE-Oxford Commission on State Fragility, Growth and Development (London, 2019).

who has worked on major economic and investment programs, interviewed for this study argues:

The security cost of [development] is quite high. Because of the government economic problems, it offers mining and energy contracts to private companies who demand that the government should provide security in the field. These companies need to invest in security, such as purchasing security cameras and paying private security contractors for protection. The Taliban take *baaj* (ransom) from these companies and has established a parallel system of taxation. The Taliban even uses technical terms in dealing with mining companies. Once a Talib asked for a royalty payment from a government-owned enterprise. Often the group destroys electricity towers and paved roads.²⁸

Insecurity has significantly increased the cost of development in general and of doing business in particular. In the words of a senior official working on the peace process, “The positive impact that the Taliban had has been on the growth of opium economy and smuggling in Afghanistan.”²⁹ In comparison to other groups such as the Islamic State, ‘the Taliban has imposed the greatest harm to security in the country.’³⁰ Most of the big projects with multiplier

²⁸ A former senior government official.

²⁹ A Professor of Economics at Kabul University.

³⁰ A journalist, personal interview, Kabul, 30 January 2020.

economic impacts did not much progress mainly because of insecurity. ‘Mines in insecure areas are illegally extracted and exported, pouring money in the pockets of the Taliban.’³¹ A professor of economics at Kabul University interviewed for this study argues:

In my opinion, the illegal economy is the main source of the war. The majority of the current opposition groups fighting the Afghan government are for economic resources. The war in Afghanistan is not religious and ideological but is for economic benefits, and religion is used to justify it. These benefits include the production and trafficking of [illicit] drugs, mines, extortion, transportation, forced *zakat* (religious obligation or tax) from the people, and extortion from telecommunication and electricity companies and [some of] the goods that are exported [through land from Pakistan] to Afghanistan. In short, the war in Afghanistan has an economic origin, and as long as the groups have economic interests, they will continue to fight, and there will be no peace. The current slogans are just a game with public opinion. It can be said that economy is one of the most important elements for peace and war in the country.³²

³¹ A ministry advisor, personal interview, Kabul, 19 November 2019.

³² A Professor of Economics at Kabul University.

While the economy is one of the most important factor for understanding and resolving the conflict, other factors such as ideology, power rivalry, external intervention, ethnic diversity and polarisation and state weakness and patronage should not to be overlooked in Afghanistan.

4. Prospects for a Political Settlement

It is crucial to take a historical approach by examining previous attempts at reaching a political settlement to assess the prospects for a negotiated settlement. Reaching a political settlement has, by and large, been a major national issue for the last four decades but there has been no sign of a major breakthrough. President Najibullah's national reconciliation policy initiated in the 1980s was rejected by the *mujahedin* tanzims (Islamist armed organisations) as they deemed his government illegitimate. Following the capture of Kabul by the Taliban in 1996, talks between the Taliban and the *mujahedin* government, under the leadership of President Burhanuddin Rabbani, who was pushed out of Kabul and other major cities, did not produce any tangible results even though these attempts involved mediation by the UN and Afghanistan neighbours.

Attempts at political settlement and the likelihood for their success were complicated by rivalry among major regional and global powers, the Soviet Union and the US, Pakistan and India, and Saudi Arabia and Iran.³³ These states all aimed to expand and safeguard their influence and interest in Afghanistan. Pakistan, in particular, has been the main spoiler who has fuelled and sustained the insurgency in Afghanistan to limit the influence of India in Afghanistan and expand its trade route to Central Asia through Afghanistan. Besides, dispute between Pakistan and Afghanistan over the Durand Line has remained a major source of hostility. Afghanistan does not recognise the Durand Line, a boundary established in the Hindu Kush in 1893 running through the Pashtun tribal lands between Afghanistan and British India, marking their respective spheres of influence, as Pakistan's territory. Such ongoing cross border issues and rivalries will continue to be a significant obstacle to resolving the conflict in Afghanistan.

Nevertheless, reaching a political settlement has remained a priority post-2001. The government though used the term national reconciliation instead of political settlement until 2018.

³³ For more information on the role of regional power rivalry see Motwani, Nishank, and Srinjoy Bose, "Afghanistan: Spoilers' in the regional security context," *Australian Journal of International Affairs* 69, no. 3 (2015/05/04 2015): 266-84.

Interactions between the former President Hamid Karzai (2001-2014) and the Taliban key leaders even took place in early 2001 and 2002. The Taliban credible leaders reached with a reconciliatory gesture to surrender in return for amnesty,³⁴ which was opposed by the US government. In 2010, following a three days National Consultative *Jirga* (a grand assembly of representatives of people, both elected members of the national assembly and traditionally elected ones), Karzai announced his government's reconciliation policy with the Taliban. This initiative also failed to produce any tangible outcome. Even a messenger from the Taliban leaders who came to Kabul in September 2011 turned out to be a suicide bomber. He assassinated the chairman of the High Peace Council and the former President of Afghanistan, Rabbani. These events increased distrust in efforts to find a common ground with the Taliban to reduce the level of conflict.

In 2014, the National Unity Government of Afghanistan initiated yet another reconciliation attempt. This time, President Ghani offered the Taliban unconditional talks to negotiate a political settlement. The process this time was supported and, according to some analysts, initiated by the US, who then engaged in direct talks with the Taliban, something that the Taliban had been

³⁴ Steve Coll, *Directorate s: The CIA and America's secret wars in Afghanistan and Pakistan* (Penguin Books, 2019), 101.

demanding.³⁵ The US framework for talks with the Taliban focused on:

...withdrawing US troops in phases, with those phases conditioned on three other elements: Taliban cooperation to act against the Islamic State and Al Qaeda and preventing them from using Afghanistan as a base under the territories that the Taliban control; intra-Afghan dialogue including the Afghan government and the Taliban to reach a settlement on the country's political future; and a permanent ceasefire.³⁶

However, the Taliban responded by intensifying its campaign of violence, killing hundreds of civilians, including ten candidates in the parliamentary election and their supporters in late 2018. The Taliban also refused to talk to the Afghan government. After nine rounds of the US-Taliban talks, a draft deal was prepared for signature between the US and the Taliban. US President Donald Trump, however, cancelled the deal on 9 September 2019, after the Taliban admitted being behind an attack in Kabul city, which killed 12 people including an American soldier.³⁷

³⁵ Nematullah Bizhan, "Fixing Afghanistan's flawed peace process," *Project Syndicate*, 2018.

³⁶ SIGAR, *Reintegration of ex-combatants: Lessons from the US experience in Afghanistan* (Arlington, 2019), vii.

³⁷ BBC, "Trump cancels secret US meeting with Afghan taliban," 8 September 2019, <https://www.bbc.com/news/world-asia-49624132>.

The talks between the US and the Taliban, however, resumed in early 2020. After a week-long reduction in violence, President Trump's Envoy for Peace in Afghanistan, Zalmay Khalilzad, and the Taliban deputy Mullah Abdul Ghani Baradar signed an agreement referred to as an agreement for bringing peace to Afghanistan.³⁸ The agreement includes four key parts, as follows:

- Guarantees and enforcement mechanisms that will prevent the use of the soil of Afghanistan by any group or individual against the security of the United States and its allies.
- Guarantees, enforcement mechanisms, and announcement of a timeline for the withdrawal of all foreign forces from Afghanistan.
- After the announcement of guarantees for a complete withdrawal of foreign forces and timeline in the presence of international witnesses, and guarantees and the announcement in the presence of international witnesses that Afghan soil will not be used against the security of the United States and its allies, the Taliban will start intra-Afghan negotiations with Afghan sides on 10 March 2020.

³⁸ Agreement for bringing peace to Afghanistan between the Islamic Emirate of Afghanistan which is not recognized by the United States as a state and is known as the Taliban and the United States of America, (Doha 2020).

- A permanent and comprehensive ceasefire will be an item on the agenda of the intra-Afghan dialogue and negotiations. The participants of intra-Afghan negotiations will discuss the date and modalities of a permanent and comprehensive ceasefire, including joint implementation mechanisms, which will be announced along with the completion and agreement over the future political roadmap of Afghanistan.

A range of difficult questions remain, however. How might the US-Taliban agreement be translated into a comprehensive settlement framework, and how could it pave a way to lasting stability? In the light of heavy criticism by experts on Afghanistan and former US policymakers, the US tried to ensure that the process was carefully sequenced and to make the agreement conditional on a week-long reduction in violence. Yet the US bypassed the Afghan government, and the agreement neglects the role of Pakistan and the safe havens it provides to the Taliban. The bypass tactic in the past had hindered the state building process in Afghanistan, and is likely to undermine peace building. In addition, the agreement makes no mention of human rights, women's rights, the Afghan government, and any mechanism to guarantee the implementation of the agreement. These issues are expected to be discussed during a prospective intra-Afghan dialogue, starting on 12 September 2020. Also, the economic sources of war, such as narcotic industry

are overlooked. Without taking firm measures to address the narcotics industry, the risk of continued conflict will remain high.

The presence of the US troops in Afghanistan increased from 1,000 in late 2001 to its peak at 100,000 in 2010, while the overall number of foreign troops in Afghanistan stood at 150,000. The US troops level, however, had declined to 34,000 in 2014 and 8400 in 2017. The US President Trump, however, has announced that he will fully withdraw the American troops from Afghanistan by the day of US Presidential election on 3 November 2020, even before the agreed date under the US-Taliban agreement.³⁹ This sudden change might have adverse implications on the security situation as well as the prospects for the US-Taliban agreement, the outcome of which can be observed in the coming months.

However, the US-Taliban agreement is criticised because if it fails, it may further undermine stability and the gains achieved since 2001 in Afghanistan.⁴⁰ The critiques had some merit. After the agreement, the Taliban resumed their attacks, an unexpected development which has increased concerns over their true intentions. Even though the Afghan government and the UN called

³⁹ The New York Times, "Trump wants troops in Afghanistan home by election day," 26 May 2020, <https://www.nytimes.com/2020/05/26/world/asia/afghanistan-troop-withdrawal-election-day.html>.

⁴⁰ See John R. Allen, "The US-taliban peace deal: A road to nowhere," *Brookings*, 5 March, 2020; Susan Rice, "An Afghan bargain likely to fail," *New York Times*, 2020.

on the Taliban for a humanitarian ceasefire because of the outbreak of COVID-9 in Afghanistan, the Taliban refused to agree to a ceasefire. It is thus an area of concern whether the US-Taliban agreement can be translated into a feasible framework for ending the conflict and whether stakeholder will uphold it. In addition, for a successful transition, Afghanistan will need a comprehensive economic investment and availability of significant amounts of international grants, as discussed in the following sections.

5. Priorities for a post-settlement order: Sustaining the gains, reviving the economy and reintegrating the ex-combatants

If donors significantly reduce or (totally) cut their aid, the Afghan government will not be able to sustain itself financially. This shift will be an irresponsible action by foreigners [donors]. They fought here for about two decades and now abandons Afghanistan.

A political party member.

In a post-settlement arrangement, priorities will be multidimensional. The first will be how to sustain the gains already made and ensure continuity of state institutions. For this, the country will need a sustained flow of aid at least at the current levels. The evidence from the recent history of Afghanistan shows

that availability of aid has been a major source of stability, and will remain so for a successful transition in a post-settlement order.⁴¹ It is predicted that the level of grants to Afghanistan, as measured by the previous year's flow of aid, will reduce significantly. If in a potential post-settlement order the flow of aid is significantly reduced, this will ignite a sense of uncertainty and will seriously undermine the state capacity to deliver basic services, maintain law and order and overcome the challenges arising from the Islamic State and narcotics industry. Significant reduction or termination of grants will also put the prospects for a negotiated settlement at risk.

The second priority includes the reintegration of ex-combatants both who fight against the Afghan government, the Taliban fighters, and pro-government local militates who are part of the people's uprising. If the war ends, according to an estimate by the US Special Inspector General for Afghanistan Reconstruction, more than 60,000 Taliban fighters will need to find new livelihoods and to be integrated into civilian life.⁴² This number will further increase if pro-government militias are also added. The reintegration efforts will increase the demand for job creation and expansion of public services.

⁴¹ Bizhan, *Aid paradoxes in Afghanistan*.

⁴² SIGAR, *Reintegration of ex-combatants*.

Job creation is important after a settlement is reached. We should invest in those areas that can generate jobs quickly. A long-term employment generation program is thus necessary. In the past the government twice initiated such a program—in post Bonn 2001 and in 2010, but they were not successful. The government did not have a comprehensive program, but donors and foreign governments had their own programs, creating a job for a day [short period] which would terminate the next day [soon].⁴³

The previous attempts for the integration of ex-combatants were not successful. The four previous reintegration programs, two of which targeted state-aligned and non-state armed groups (Disarmament, Demobilization, and Reintegration program from 2003-2005 and Disbandment of Illegal Armed Groups program from 2005-2011), and the second two targeting Taliban insurgents (Program Tahkim-e Sulh from 2005-2011 and Afghanistan Peace and Reintegration Program from 2010-2016) did not achieve the intended outcomes. Reintegration assistance included agricultural and livestock packages, vocational training courses, support to start small businesses, and teacher training. Some of the shortcomings in the process were lack of a comprehensive framework for a

⁴³ A former senior government official.

settlement and lack of political will, insecurity, corruption, and poor monitoring and evaluation.⁴⁴

Any prospective reintegration program is inevitably complicated and risky.⁴⁵ Any failure to meet anticipated economic needs may encourage ex-combatants to join (or continue their links with) drug syndicates and criminal and terrorist groups for employment opportunities. Unlike the previous reintegration attempts, this time the challenges and constraints are greater by and large because there are alternative sources of income through illicit activities and opportunities to join established armed organisations, such as the Islamic State, drug cartels and possibly a group of the Taliban who may not support the settlement. In addition, if funding for reintegration programs is not available, this may pose a risk of yet another failure. The program will also be problematic if it focuses only on a single group, the Taliban, and remains exclusive of other armed groups.

The third priority is how to maintain rapid economic growth to pave the way to self-reliance. To date, the investments of the Afghan government and the international community have predominantly focused on projects that had a short horizon. Insecurity has been a key driver of this approach. The country,

⁴⁴ SIGAR, *Reintegration of ex-combatants*, 13.

⁴⁵ *Ibid.*

however, needs investments on projects with a long horizon, such as mega infrastructure projects which can have multiplier economic effects, generating jobs and revenue. In particular, in the last five years, the Afghan government has lagged behind to operationalise projects such as the copper mine in Logar province and the coal mine in Bamyán province, both of which could generate much-needed employment and revenue. This area requires careful planning and strategic intervention. As a prospective resource-rich country, Afghanistan has the potential to become self-sufficient financially. But to reach such a stage of development, there is a need to make substantial investment in infrastructure and enforcement of a rule of law to support effective development. Politicisation of the formal economy, corruption and nascent crony capitalism, which are on the rise, however, hinder such a transition. A former senior government official interviewed states:

In case if I do not have a strong political connection, I would not invest in post-settlement in Afghanistan. [Excessive] bureaucracy and insecurity are the two major challenges. We witnessed projects for which the government signed the contract and then terminated it due to political considerations. An investor will have a long-term view as megaprojects will sometimes take up to 50 years to deliver. If an investor thinks

that he or she knows someone in the government to support him or her to secure a contract now but in the future, if that government supporter is not in power, the contract will be terminated that investor will not invest in the country. Afghanistan economy is increasingly getting politicised. Our legal system is very weak.⁴⁶

Poor governance and pervasive corruption eroded the quality of and the trust of citizens in government. Afghanistan has a neo-patrimonial state, where resources are by and large exchanged for political support,⁴⁷ which does not foster lasting stability. In addition to economic reforms, there is a need to improve the quality of government and strengthen checks and balance.

Economic prospects in a post-settlement order will thus be critical to sustaining the gains made to date and a reduction in violence in a post-settlement order. The pandemic of COVID-9 has, however, triggered economic recession in Afghanistan, the US and the world. On 30 April 2020, the Afghanistan Chamber of Commerce and Investment announced that the private sector in Afghanistan lost more than a billion US dollar as a result of the COVID-19

⁴⁶ A former senior government official.

⁴⁷ For more discussion on the type of state see Nematullah Bizhan, "Aid and state-building, Part I: South Korea and Taiwan," *Third World Quarterly* 39, no. 5 (2018); Bizhan, "Aid and state-building, Part II: Afghanistan and Iraq."

outbreak.⁴⁸ The US government has already announced a possible cut of a billion US dollar in aid to Afghanistan in 2020 and possibly another billion in 2021. Amid the outbreak of COVID-19, these developments have increased concerns about the sustainability of a state building project and a potential political settlement in Afghanistan.

If the process for a negotiated settlement is to progress well on the political front and for parties to uphold their prospective commitments, Afghanistan will need between US\$6.3 billion to US\$8.2 billion a year in international grants between 2020 and 2024 to sustain the gains achieved since 2001, revive the economy, and integrate the ex-combatants into civilian life. In addition, there will be an urgent need for reorientation of national priorities to improving stability and delivering inclusive development.

⁴⁸ BBC Persian, "Corona: Tajiran Afghan yak-o nim milliard dollar zian dida and (Corona: The Afghan traders has lost a billion and a half dollar)," 30 April 2020, <https://www.bbc.com/persian/afghanistan-52475448>.

6. Evidence from Political Settlement in Vietnam and Colombia

6.1 The Vietnam Peace Accords

After five years of negotiations, the US, Democratic Republic of Vietnam (North Vietnam), Republic of Vietnam (South Vietnam), and Provisional Revolutionary Government, representing indigenous South Vietnamese revolutionaries agreed on a peace treaty which was referred to as the Paris Peace Accords, on 27 January 1973. The principal negotiators were the US National Security Advisor, Henry Kissinger, and North Vietnamese Politburo member, Le Duc Tho. The treaty aimed to end the Vietnam War and assure the withdrawal of US armed forces from Vietnam under increasing public pressure in the US and around the world.

However, the accord was repeatedly violated by both the North and South and no effective mechanism was in place to guarantee its implementation. In March 1973, fighting broke out again and North Vietnam broadened its offensive. By 1975, the North had conquered the South and paved the way for the unification of the country under a communist regime. The human loss and suffering from the Vietnam War were enormous. An estimate of the war dead included 2 million civilians on both sides; 1.1 million North

Vietnamese and Viet Cong fighters; 200,000-250,000 South Vietnamese soldiers; and 57,939 members of US armed forces.⁴⁹

While the Paris Peace Accord does not offer a parallel to the ongoing peace process in Afghanistan, it can be compared with the Geneva Accords signed in 1988 which mandated the subsequent withdrawal of the Soviet troops from Afghanistan. The Accord was signed between Afghanistan and Pakistan with the Soviet Union and the US serving as guarantors. However, the Accord excluded the *mujahidin tanzims* who refused to accept the terms of the Accord which established a timetable for the full withdrawal of the Soviet troops from Afghanistan and termination of the supply of the weapons to the *mujahidin tanzims* through Pakistan. As with the Paris Peace Agreement and US withdrawal from Vietnam, US, the Accord was negotiated at a time when there was an increasing public discontent at the Soviet Union's engagement in Afghanistan. It was also at a time when the Soviet Union was experiencing a major transition that led to its collapse. From the early days of the Soviet invasion of Afghanistan, the policy of the US and its allies to turn Afghanistan into the Soviet's Vietnam had been realised. The Soviet troop withdrawal was completed in

⁴⁹ Ronald H. Spector, "Vietnam war," in *Encyclopedia Britannica* (2020). <https://www.britannica.com/event/Vietnam-War>; George C. Herring, *America's longest war: The United States and Vietnam 1950-1975. (5th ed.)*. (New York: McGraw-Hill Higher Education, 2013).

1989. The War resulted in 1-1.5 million Afghan deaths and the lives of 35,000 Soviet soldiers.

The Soviet-backed government in Kabul collapsed in 1992, and the *mujahidin* government took control, subsequently leading to civil war between different *mujahidin tanzims* (1992-1994) and witnessing the rise of the Taliban (1996-2001). Nearly two decades of conflict had shattered the national economy and institutions, with agriculture being the most affected. Both the Vietnam Peace Accords and the Geneva Peace Accords failed to achieve their intended outcomes, in part because neither addressed the economic, social and political realities on the ground and the lack of genuine commitment of the parties to the conflict.

6.2 Colombia's Peace Deal

In August 2016, the Colombian government and Revolutionary Armed Forces of Colombia (FARC), a major guerrilla group, agreed after four years of negotiations on a political settlement to end fifty-two years of conflict. Over 260,000 people were killed and 7 million were forced from their homes in a conflict between left-wing rebels, government forces and state-aligned paramilitaries. While a referendum to ratify the deal in October 2016 was unsuccessful, the Colombian congress approved a subsequently revised peace deal. The agreement was a

breakthrough.⁵⁰ While it did not end the insurgency, it helped to reduce the level of violence significantly. Even though FARC has officially demobilised, some of its fighters refused to give up the fight, and are now fighting with paramilitary groups, some of which arose from the right-wing paramilitaries that demobilised in the early 2000s. These include the National Liberation Army (ELN), a Marxist militia that resisted the Colombian government's offer of a separate peace deal and criminal bands vying to take over FARC's illicit economy.⁵¹ In 2019, Ivan Marques and Jesus Santrich, former demobilised commanders of the Colombian rebel group, criticised the Colombian government for not keeping its end of the deal. Marquez stated, "This is the continuation of the rebel fight in answer to the betrayal of the state of the Havana peace accords. We were never beaten or defeated ideologically, so the struggle continues."⁵² Despite such challenges, the level of violence has significantly reduced after the peace agreement.

While Colombia peace deal is distinctive and yet to be implemented in full, it can offer some insights for Afghanistan.

⁵⁰ Arturo Munoz, "Bringing FARC in from the cold," *The Rand Blog*, 2015, <https://www.rand.org/blog/2015/10/bringing-farc-in-from-the-cold.html>.

⁵¹ Shlomo Ben-Ami, "Colombia's peace agreement is under siege," *Project Syndicate* (2018).

⁵² Joe Parkin Daniels, "Former FARC commanders say they are returning to war despite 2016 peace deal," 30 August 2019, <https://www.theguardian.com/world/2019/aug/29/ex-farc-rebels-announce-offensive-despite-peace-deal-colombia-video>.

Both countries have a significant illegal economy. Colombia is the world's largest producer of cocaine.⁵³ Afghanistan is the largest producer of opium. Income from cocaine and opium respectively has funded and sustained insurgency in both countries. However, unlike Colombia, the nature of insurgency in Afghanistan is much more complex. External actors have invested in reviving and sustaining the Taliban insurgency. Pakistan has provided safe havens and significant support, which was not the case with FARC in Colombia on the same scale. In addition, the Colombian peace process was by and large inclusive with the Colombian government in a leading position and Colombians having a say about the process through a referendum. However, in Afghanistan, the peace process was led by the US government. The Afghan government was bypassed at the initial stage, thereby delegitimising an elected government. A major lesson from the case of Colombia would be that a negotiated settlement will not end the violence, but it can help to reduce the level of violence significantly. In addition, a political agreement thus has to be accompanied with comprehensive economic initiatives which can foster inclusive development and constraints the illegal economy as well as offering employment to the ex-combatants.

⁵³ BBC, "Colombia cocaine production acreage at 'record level'," 2018, <https://www.bbc.com/news/world-latin-america-45578492>.

7. Constraints and Opportunities

Afghanistan will be extremely constrained by the availability of revenue from domestic sources and international grants in the first years of a potential post-settlement order. Under the best-case scenario, an average annual requirements for domestic revenue and international grants will be US\$3.1 and US\$6.3 respectively between 2020 and 2014. The availability of financial resource, as has been historically the case, will be a determining factor in shaping the prospects for lasting stability. If the conflict subsides, it will more likely boost domestic and international investment as well as economic activities. If fiscal resources are available and the settlement helps to reduce the conflict, it can put Afghanistan on a path to long term stability and development. In addition, fundamental reforms are also required to promote the preconditions for investment and private sector development to capitalise on opportunities that may arise from a reduction in violence. A senior government official interviewed for this study argues:

Security is essential, but not adequate, for investment. Investments will have positive effects on employment generation, which the government facilitates. The investors will come and get licence. There is also a psychological aspect of security. In the cases of corruption in public administration, if

someone is working in a department and does not have confidence that his or her income is sustainable in that case, that person will engage in corruption. Another factor in our efforts is our international environment that we cannot focus on a single priority because our priorities are identified in reaction to such a situation. For instance, when the US President Donald Trump tweeted [to suspend the talks with the Taliban], the Afghan government development plans for peace paused.⁵⁴

In addition, improved security will increase government control over border customs and in return will increase its revenue collection capacity. Security on the highways will also increase economic activities generating much needed employment. However, to be pragmatic, the subsequent impacts of a political settlement also may depend on the type of settlement that may occur. A senior member of the High Peace Council interviewed for this study says, '[Peace] will have a positive impact if we negotiate as a united team and that way the positive impact of the process will be greater. However, if we are factionalised and engage in talk as different groups, the impact will be little. Without a political consensus, each group will try to use local resources and mines [for their own interest] in their constituencies.'⁵⁵ If the outcome of the

⁵⁴ A senior government official, personal interview, Kabul, 10 November 2019.

⁵⁵ A senior official of High Peace Council, personal interview, Kabul, 23 February 2020.

process is leading into institutional and political fragmentation that may further undermine the national economy and stability.

Currently, however, new uncertainties are arising from the recent pandemic which has increased concerns about economic activities, investment prospects and the flow of international grants to Afghanistan. Any optimism about economic prospects should not be assessed without a thorough consideration of the changes in a world which is affected by a pandemic and the types of settlement that may prevail. While one should have a conditional expectation of the outcomes and its economic prospects, there are certain priorities, as discussed in the previous section, which can be projected based on the earlier attempts at peace building and state building in the country to sustain the gains and a reduction in violence. The US Inspector General for Afghanistan Reconstruction John Sopko stated on 19 September 2019:

One of the biggest problems we highlight is the poor state of the Afghan economy. Joblessness, for example, would present a major hurdle to successful reintegration [of ex-combatant]. Unemployment stands at over 23 percent, and at 31 percent for the more than one-fifth of Afghanistan's population between the ages of 15 and 24. An estimated 400,000 youth enter the job market each year. For fighters to come in from the cold and re-join society, they will need access to a stable job, or they may

return to fighting or enter one of Afghanistan's many illicit economic sectors, such as the narcotics trade.⁵⁶

In addition, with the subsidence of conflict, the return of Afghan refugees will upsurge. A large number of Afghan refugees mainly living in Iran and Pakistan will return to Afghanistan. The outbreak of COVID-19, particularly, in Iran, has already expedited the return of Afghan refugees from that country. The return of refugees and reintegration of ex-combatants will add increasing pressure on the national budget as well as the economy. These two processes may help to increase the number of skilled workers in the case of former and reduce the level of violence in the latter. A professor of economics at Kabul University says, 'The role of the economy for peace is very important [in Afghanistan] because the poor and people with low-income are attracted to the military, including the Afghan army. The main pillar of the Taliban's military force is poor people.'⁵⁷ Thus, if economic interventions are to be conflict sensitive and inclusive, they must be driven by balanced initiatives that can generate jobs and hope.

A report by the World Bank states, 'Recent analysis has shown that investment and business activity are deterred by violence, with

⁵⁶ John Sopko, "Prepared remarks of John F. Sopko Special Inspector General for Afghanistan Reconstruction," news release, 2019.

⁵⁷ A Professor of Economics at Kabul University.

business activity reducing in areas that experience frequent security incidents.’⁵⁸ The report also states, ‘Firms are often subject to informal taxation in areas where territorial control is contested. Insecurity has been an important constraint to international investment in major extractives projects.’⁵⁹ Informal tax mostly takes the form of extortion. The Taliban in areas under their control force businesses to pay tax and even charge a fee on trucks passing highways. In addition, corruption by government officials could be seen as a form of tax on businesses. These payments add up to the formal taxes that companies pay to the government, making the cost of investment high and the environment less favourable for private sector development. Political instability, insecurity and poor governance remain major constraints to investment. Firms spend about 3.2 percent of their annual sales on security and also pay informal taxes.⁶⁰ A sustained reduction in violence could encourage domestic and international investment; evidence from other countries shows that improved security can trigger additional domestic investment, facilitate investment, and support the repatriation of capital from overseas.

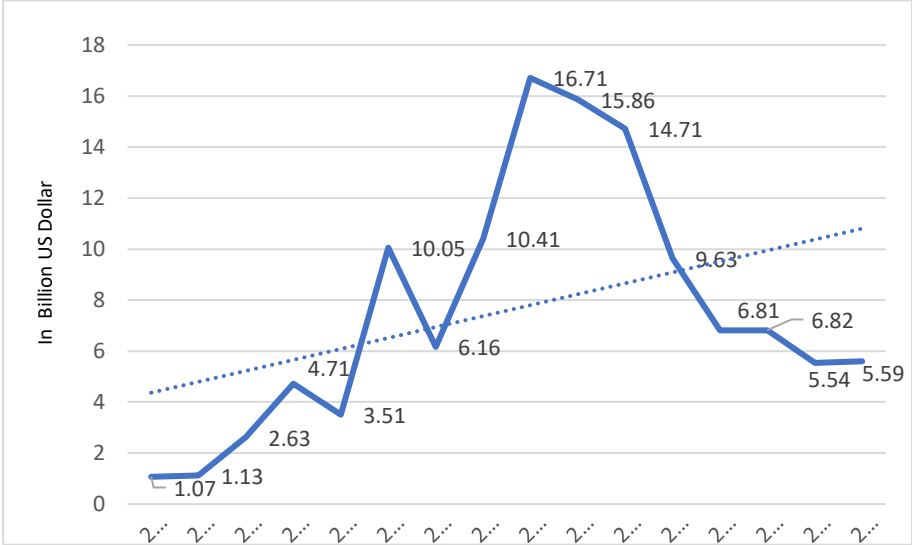
⁵⁸ World Bank, Post-settlement economic initiatives, 19.

⁵⁹ Ibid.

⁶⁰ Ibid.

The US has remained the most important ally and donor to Afghanistan. It appropriated US\$121 billion in security and non-security assistance between 2002 to 2017 (Figure 5). The flow of such aid has been volatile, mostly responding to the security situation in Afghanistan and the US government's policy. However, the trend shows that US aid has gradually declined, and more aid cuts are predicted in the coming years especially with a potential economic recession in the US as a result of the COVID-9 outbreak and the US troops withdrawal from Afghanistan. A significant cut in US aid will put Afghanistan's future at risk. In a time when the country will need additional financial resources to sustain the gains and a reduction in violence, any significant aid cuts will have adverse implication for stability and a potential settlement.

Figure 5: US government appropriations to Afghanistan by fiscal year, 2002-2017



Source: SIGAR, 2019.

In addition, the type of settlement that may prevail will have major implications. A significant setback will be if a post-settlement order neglects human rights, women rights, expression of freedom and the rights of minorities, which the Taliban violated under their rule. It will trigger not only a new form of conflict but also a potential loss of international grants. Afghanistan development partners and traditional donors will be less likely to support such a political order, which in particular promotes gender apartheid and remains repressive.

There is a growing awareness in Afghanistan that international grants to Afghanistan will be declining and that the Afghan government needs to find alternative sources of revenue. Even some of the interviews for this study shared their concerns about the government strategy to substitute for the loss of foreign aid by increasing tax rates thus hindering economic activities. A Journalist interviewed argues, ‘We are witness that since the National Unity Government (2014-2019) came to power, it tried to increase the national revenue [government revenue] by increasing taxes on people. This policy hurts the national economy.’⁶¹ Also, there is a strong feeling that without adequate financial support from the international community, the ‘peace process’ may collapse. A university lecturer in Kabul interviewed argues, ‘if the international community significantly reduce or cut their aid to Afghanistan, not only the country will fail to develop sustainably, but a potential peace agreement will also collapse.’⁶² Barnett Rubin in a recent article at Foreign Policy warned that aid cuts to Afghanistan would lead to ‘food scarcity and shortages of other essential commodities; even higher unemployment, especially among educated youth; and a massive exodus....’⁶³ While the

⁶¹ A journalist, personal interview, Kabul, 30 January 2020.

⁶² A lecturer in economics at a private university, Kabul, 28 January 2020.

⁶³ Barnett R. Rubin, "An ailing America must not abandon Afghanistan," 2020, <https://foreignpolicy.com/2020/03/26/afghanistan-aid-taliban-ailing-america-must-not-abandon/>.

county has to become financially self-reliant, but that transition will take a much longer time.

8. Projected Scenarios for a Post-Settlement Order

In a post-settlement arrangement, four scenarios could be projected: *a status quo scenario*, *a mid-case scenario*, *a best-case scenario* and *a worst-case scenario*. The overall projection is that security and non-security grants will decline from US\$8.5 billion in 2018 to US\$5.5 billion in 2024.⁶⁴ Under the *best-case scenario*, the country will more likely be on a path to stability and rapid growth. According to an estimate by the World Bank, in addition to the current level of grants, Afghanistan will need US\$5.2 billion more in grants from 2020 to 2024 to fund new economic initiatives to maintain the current level of public services, revive the economy and sustain the reduction in violence. However, under the worst-case scenario, the conflict will intensify, and the government will be constrained to finance the three priorities in post-settlement--sustaining the gains, reviving the economy and reintegration the ex-combatants. It thus will endanger the future of the country.

In the case of the *status quo scenario*, conflict will continue at the current level, and economic growth will only accelerate to 3 percent per annum. Domestic revenue will slightly increase from around US\$2.5 billion in 2019 to US\$2.9 billion by 2024 (Figure 6). Projected annual average grant requirements will be US\$7.6

⁶⁴ World Bank, Post-settlement economic initiatives.

billion between 2020 and 2024. Under the *mid-case scenario*, the conflict will continue at the current level, but significant progress will be made. The economy will grow at 4.5 percent annually over this period. Following the implementation of value added tax, the domestic revenue will increase from US\$2.5 billion in 2015 to US\$3.4 billion in 2024, including US\$300 million from transit infrastructure projects (Figure 6). Under the *best-case scenario*, there will be a significant reduction in violence, and economic growth and tax administration improve substantially. Economic growth accelerates to around 6 percent per annum, and domestic revenue increases from around US\$2.5 billion in 2019 to around US\$4.2 billion by 2024. The projected grant requirements will be US\$6.3 billion annually in this period between 2020 and 2024 (Figure 7).

However, under the *worst-case scenario*, the conflict intensifies, governance and institutions are weakened, and revenues are collapsing. Economic growth will be 1.5 percent per annum, and revenue falls quickly from US\$2.5 billion in 2019 to US\$1.7 billion in 2020 (Figure 6). The average grants requirements will increase significantly to 8.2 billion per annum (Figure 7) between 2020 and 2014. However, if considering the projected effects of COVID-19 pandemic on the world economy and the US, in general, and Afghanistan, in particular, further slowdown in economic growth

and reduction in availability of international grants to Afghanistan can be projected. The world economy is projected to slow down by 0.5 percent in 2020.⁶⁵

There is thus increasing uncertainty about the future of the economy and the flow of foreign aid to Afghanistan. While in 2019, the assessment of economic prospects for a post-settlement arrangement was modestly positive, the recent pandemic of COVID-19 has undermined such prospects. According to the Johns Hopkins University, the US, Afghanistan's major donor, has 13,09164 confirmed cases of COVID-19 by 10 May 2020, the highest number in comparison to other countries in the world, with 78,746 deaths.⁶⁶ The US is experiencing major economic and humanitarian challenges, which can have implications on the US's flow of grants to Afghanistan. Following the US Secretary of the State Michael Pompeo's visit in Kabul to mediate between President Ghani and former Chief executive Abdullah that they can form an inclusive government, and lack of any progress, the US department announced major aid cuts to Afghanistan.

⁶⁵ OECD, *OECD interim economic assessment coronavirus: The world economy at risk* (2020), <https://www.oecd.org/berlin/publikationen/Interim-Economic-Assessment-2-March-2020.pdf>.

⁶⁶ "Corona virus resource center," accessed 10 May, 2020, <https://coronavirus.jhu.edu/map.html>.

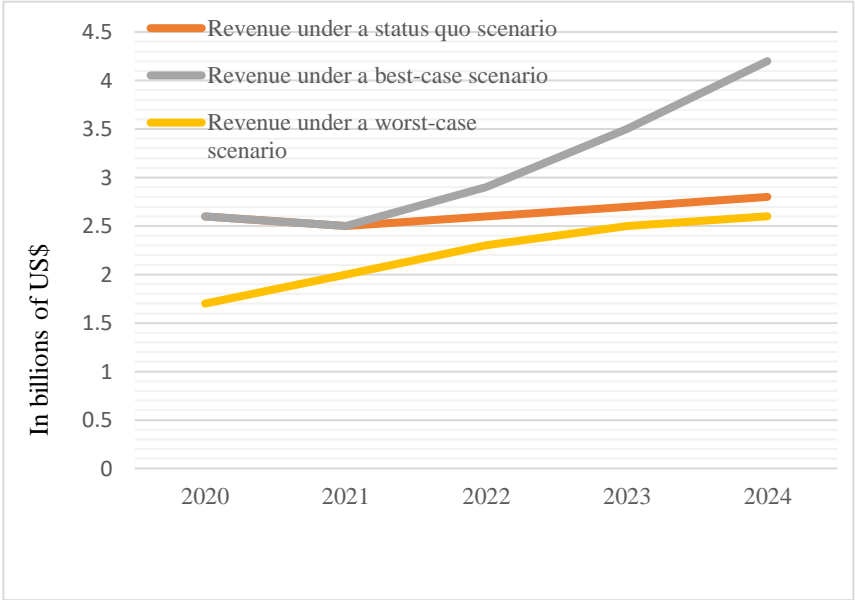
The United States is disappointed in them and what their conduct means for Afghanistan and our shared interests. Their failure has harmed US-Afghan relations and, sadly, dishonours those Afghan, Americans, and Coalition partners who have sacrificed their lives and treasure in the struggle to build a new future for this country. Because this leadership failure poses a direct threat to US national interests, effective immediately, the US government will initiate a review of the scope of our cooperation with Afghanistan. Among other steps, we are today announcing a responsible adjustment to our spending in Afghanistan and immediately reducing assistance by \$1 billion this year. We are prepared to reduce by another \$1 billion in 2021.⁶⁷

Even if the decision is reversed as Ghani and Abdullah later agreed to form an inclusive government, a significant decline in the flow of US aid to Afghanistan is more likely, having adverse implications for continuity and the peace process. Under the *worst-case scenario* and the three others, cost saving and improved efficiency of public administration remain crucial. This could take place through a number of mechanisms including reducing of unnecessary costs, curbing corruption and promotion of

⁶⁷ US Department of State, *On the political impasse in Afghanistan* (2020), <https://www.state.gov/on-the-political-impasse-in-afghanistan/>.

meritocracy as well as promoting investment and economic growth. However, downsizing of military and civil administration in response to any reduction of financial resources does not seem plausible at this stage as they will further increase the unemployment rate and may trigger political instability. In addition, it is expected that the demand for public services will increase if the conflict subsides, requiring additional state capacity for delivering basic services.

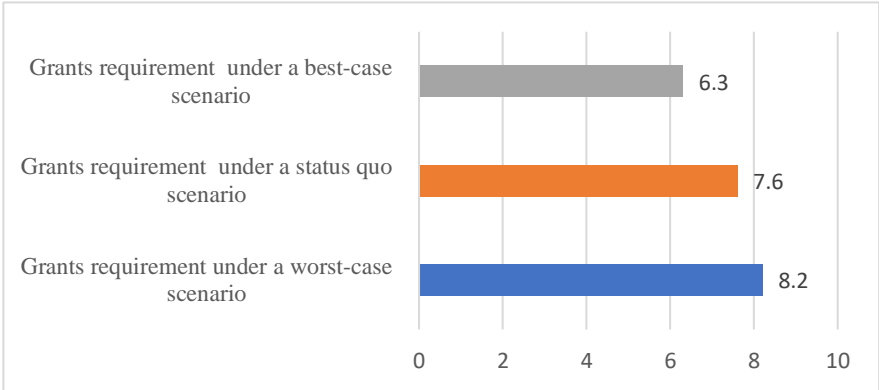
Figure 6: Projected domestic revenue, 2020-2024



Source: World Bank 2019.⁶⁸

⁶⁸ World Bank, *Financing peace: Fiscal challenges and implications for a post-settlement afghanistan* (2020), 14-7.

Figure 7: Current grant and average annual future grant requirements by scenario, 2020-2014 (in billions of US\$)



Source: World Bank 2019⁶⁹

Under different scenarios, Afghanistan will need US\$6.3 billion to US\$8.2 billion in grants and US\$2.2 billion to US\$3.1 billion in domestic revenue annually between 2020 and 2014 to sustain the gain and a reduction in violence. If the current level of international grants to Afghanistan (US\$8.5 billion) is maintained, out of which 57.6 percent is allocated to security, it will meet the financing needs. However, under a *worst-case scenario*, both a potential peace agreement and the future of Afghanistan will be put at risk.

⁶⁹ World Bank, *Financing peace: Fiscal challenges and implications for a post-settlement afghanistan*, 22.

9. The Political Economy

An important aspect for understanding the prospects for a negotiated settlement in Afghanistan would be to unpack the problem. If focusing only on the question of what caused the insurgency in post-2001 Afghanistan, we may overlook what has sustained the conflict. Causes of the conflict and the conditions that sustain it are multidimensional. Seth G. Jones argues that the collapse of governance after the overthrow of the Taliban regime was a precondition for insurgency. ‘The Afghan government was unable to provide basic services to the population; its security forces were too weak to establish law and order; and too few international forces were available to fill the gap.’⁷⁰ Some would refer to injustice as a source of the Taliban insurgency. Norah Niland, for instance, argues, ‘It is not realistic to envisage an end to armed conflict and the development of democratic and accountable state institutions while impunity reigns.’⁷¹ Governance, as Jonathan Goodhand argues, is also perceived to have been at the heart of the Afghan wars.⁷² Others perceive

⁷⁰ Seth G. Jones, "The rise of Afghanistan's insurgency: State failure and jihad," *International Security* 32, no. 4 (Spring 2008).

⁷¹ Norah Niland, "Impunity and insurgency: A deadly combination in Afghanistan," *International Review of the Red Cross* 92, no. 880 (2020).

⁷² Jonathan Goodhand, "Getting the politics right: Beyond ‘good governacne’ in Afghanistan," in *Afghanistan—challenges and prospects*, ed. Srinjoy Bose, Nishank Motwani, and William Maley (London: Routledge, 2017).

resource and power politics as the main drivers of insurgency. There is also a strong view that the Taliban act as Pakistan's proxy, waging an undeclared war on behalf of Pakistan against Afghanistan.⁷³ What might have been the causes of conflict in Afghanistan, the war economy perpetuates it.

There could be three dominant types of negotiated settlements. A negotiated settlement to end interstate or intrastate armed conflict. A new and transformed political order born of crisis and achieved through elite cooperation and the interdependent arrangement of political power and institutions on which a regime is based. The case of Afghanistan largely fits in the latter. A political settlement is portrayed as both the circuit-breaker for conflict, and a platform for state building. It establishes the conditions to end a conflict, and it forms the core, or cornerstone, or foundation of every political order.⁷⁴ This case is evident in post-2001 Afghanistan, where a new

⁷³ Ashraf Ghani, "There is a country to build": Afghanistan's president Ashraf Ghani gives an exclusive interview to time," interview by Times, 2017, <https://time.com/4781885/ashraf-ghani-afghanistan-president-interview/>.

⁷⁴ Alan Whaites, *States in development: Understanding state-building*, 2008, DFID; Verena Fritz and Alina Rocha Menocal, *Understanding state-building from a political economy perspective*, DFID (London: Overseas Development Institute, 2007); OECD, *Supporting statebuilding in situations of conflict and fragility: Policy guidance* (2011); OECD, *Do no harm: International support for state building* (Paris: OECD, 2009). For more discussion on political settlement see Sue Ingram, *Political settlements: The history of an idea in policy and theory*, The Australian National University (Canberra, 2014).

political order was shaped through a political settlement, though excluding the Taliban which had been removed from power.

Mushtaq Khan defines a political settlement, ‘As an interdependent combination of a structure of power and institutions at the level of a society that is mutually ‘compatible’ and also ‘sustainable’ in terms of economic and political viability.’⁷⁵ This definition is aligned with the thesis of North Douglas *et al* on social orders. They argue, ‘the upper-income, advanced industrial countries of the world today all have market economies with open competition, competitive multi-party democratic political systems, and a secure government monopoly over violence.’ However, open access orders are not the only norm for a social order. They assert that the middle and low-income developing countries can be understood as limited access orders, maintaining their equilibrium in a fundamentally different way.⁷⁶

A common feature of limited access orders is that political elites divide up control of the economy, each getting some share of the rents. Since outbreaks of violence reduce the rents, the elite factions have incentives to be peaceable most of the time.

⁷⁵ Mushtaq H. Khan, *Political settlements and the governance of growth-enhancing institutions*, 2010.

⁷⁶ Douglass C. North et al., *Limited access orders in the developing world :A new approach to the problems of development*, World Bank (Washington DC, 2007).

Adequate stability of the rents and thus of the social order requires limiting access and competition-hence a social order with a fundamentally different logic than the open access order.⁷⁷

The existing situation in Afghanistan, can be defined as a fragile limited access order. The elite in power have access to economic resource and political power and have little incentive to fight each other at least temporarily. However, the system is challenged by the Taliban who are deprived of formal power and resources, but still have access to illegal economy and alternative form of coercive power. A plausible settlement in Afghanistan can pave a path to a more stable limited access order. The perspective settlement and the existing arrangement, however, are not compatible with the values established in post-2001, tending to pave a path for an open access order.

In addition, Paul Collier, Anke Hoeffler and Dominic Rohner research findings make a case for the primacy of feasibility of civil war, which can also be largely applicable in the case of other forms of armed conflict. They argue that the basic division between theories of civil war are those that focus on feasibility, and those

⁷⁷ North et al., *Limited access orders in the developing world :A new approach to the problems of development.*

that focus on motivation, which in turn has two variants, 'greed' and 'grievance'. Their findings point to the primacy of feasibility over motivation, which proposes that where rebellion is feasible it will occur: 'motivation is indeterminate, being supplied by whatever agenda happens to be adopted by the first social entrepreneur to occupy the viable niche, or itself endogenous to the opportunities thereby opened for illegal income.'⁷⁸ In the case of Afghanistan, the primacy of feasibility over motivation could be observed. Whatever motivation, such as revenge and ideology, for the Taliban to reorganise after being overthrown from power, access to illegal economy and income from extortion, support from and safe havens in Pakistan made their transition into an insurgent group viable.

Military stalemate, while not adequate, has created a minimum precondition for a negotiated settlement to end the conflict in Afghanistan. The existence of a weak state with limited reach, though, may call for a rethink about informal institutions and their interaction with the formal ones in a post-settlement order. By looking at the cases of settlement in developing countries, Khan emphasises on the role of informal institutions. He argues:

⁷⁸ Anke Hoeffler and Dominic Rohner Paul Collier, "Beyond greed and grievance: Feasibility and civil war," *Oxford Economic Papers*, no. 61 (2009): 24.

If there are significant sources of power that are not based on formal institutions, the exercise of power in developing countries cannot simply be focused on the protection and operation of formal institutions. This explains why informal institutions structurally operate on a different scale in all developing countries. The most important 'informal institutions' are a polite way of describing the significant exercises of informally organised political power to generate distributions of benefits that could not be sustained by the operation of formal institutions alone.⁷⁹

The settlement in Afghanistan will not be an exclusive elite bargain. During potential negotiations, both direct parties of the conflict, the Afghan government and the Taliban will represent their supporters. For the Afghan government, constitutional values, such as pluralism, human rights, freedom of press, women rights and the right of minorities constitute the cornerstone. On the other hand, the Taliban will emphasise their interpretation of Islam, something that they enforced while they were in power, which had deprived women of education and work and minorities of their basic rights. The political economy of conflict and peace is therefore crucial both during and after negotiations.

⁷⁹ Khan, Political settlements and the governance of growth-enhancing institutions, 5.

No single theory can thoroughly explain the situation in Afghanistan, however. Unlike the theory of limited access order, the Taliban are not deprived of either power or economic resources. They have access to significant income from the illicit economy and extortion and enjoy unconstrained power in the areas under their control. Economic prospects for a durable peace in Afghanistan are more likely to be affected by the existence of a huge illegal economy. Thus, there will be a space for the re-emergence of other militant groups to challenge a post-settlement order. Insurgencies have been ended through negotiated settlements in the world. But in Afghanistan at this juncture, the question is not only about reaching an agreement, but also how to sustain it.

10. Conclusion

While there has been a desire to end the conflict through a negotiated settlement in Afghanistan, no major armed conflict has ended through such a mechanism. Despite such a reputation problem, this time, the democratic polity which has proven to be more resilient and flexible, may increase the likelihood of a breakthrough. To sustain a potential political settlement between the Afghan government and the Taliban, Afghanistan will need international guarantees and support, comprehensive economic investment and the flow of substantial amounts of international grants. The country in particular will need to sustain the gains, which were achieved in about the last two decades, ensure continuity of state institutions, revive the economy to expedite a path to self-reliance, and reintegrate the ex-combatants into civilian life. Given that Afghanistan is the major producer of opium, a holistic national program is also required to strengthen the counternarcotic efforts and alternative livelihood programs.

While four scenarios could be projected in post-settlement Afghanistan, under two extreme cases, a *worst-case* and a *best-case* scenario, Afghanistan would require significant amounts of domestic revenue and international grants to sustain a post-settlement order and a reduction in the level of violence. In

addition, political support from the international community will remain crucial. *Under a best-case* scenario, there will be a significant reduction in violence, and economic growth and tax administration improve substantially. However, under *a worst-case scenario*, the conflict intensifies, governance and institutions are weakened and revenues collapsing. Economic growth further slows down, and the requirements for the international grant will increase significantly. However, given the projected adverse effects of COVID-19 pandemic on Afghanistan and the world, one can project further slowdown in economic growth and availability of international grants to Afghanistan.

To mitigate the risks, public institutions and polity will need to be fundamentally reformed to promote inclusive political participation and development, curb corruption and foster investment. However, if the required financing is not available, it will not only undermine stability but will also put a post-settlement order at risk. Such a situation is observed in Afghanistan's recent history, where the termination of foreign aid had seriously undermined regime stability. The consequences will be dire both for Afghanistan, the region and the world.

The dynamic of the current situation in Afghanistan by-and-large represents a fragile limited access order. A desirable pattern, in this case, would be a transition from such a situation to a more stable

limited access order. If successful, this transition may pave a path for building a lasting open access order in the long run. However, the situation in Afghanistan seems to be more problematic. While the ruling elites in government have access to formal power and resources, the Taliban has also maintained a monopoly over the illegal economy and a more informal power base. The type of settlement that is likely to take place will be far from a stable limited access order. While for a transition to an open access order attempts were made since 2002 to building institutional arrangements towards impersonal relationships among the elites, the same institutions were bypassed by the Afghan government and donors, who supported the same institutions, thus perpetuating institutional weakness.

Whether a post-settlement order will create incentives that can institutionalise open access elite organisations will depend on how inclusive the settlement process and post-settlement order would be.⁸⁰ On both sides, those who are excluded are more likely to reject and challenge the outcomes. While in the case of elites in government, the challenge by a potential opposition is more likely to be political, in the case of the Taliban it is more likely to be violent, something which Colombia is experiencing but at a lower

⁸⁰ For more information, see Douglass C North, John Joseph Wallis, and Barry R Weingast, *Violence and social orders: A conceptual framework for interpreting recorded human history* (Cambridge University Press, 2009).

level. If Afghanistan goes through this path, it may further weaken the existing order or may lead to the emergence of yet another but relatively more fragile limited access order. To build a more stable polity and to pave the way for building an open access order, it is important how inclusive the process for the political settlement is and how the outcomes can be seen legitimate by the influential actors and Afghan citizens.

To build a lasting peace, it is important how to sustain a post-settlement order. Afghanistan needs to sustain the gains achieved to date, ensure continuity of state institutions, revive the economy, and reintegrate the ex-combatants into civilian life. The country will require a continued international engagement and financial support, which needs to be effectively allocated and managed. Subsidence of conflict is projected to result in rapid economic growth and investment. The viability of the post-settlement order will also depend on whether it is inclusive enough and leads to inclusive development, building government quality, and whether elites in Afghanistan will uphold to their commitments and the international community will politically support and finance the peace in Afghanistan. The trajectory from war to peace in Afghanistan will be far more complicated than was the case from peace to war.

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