
Does Official Development Assistance Contribute to Long-Term Growth and Stability in Afghanistan?

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Since 2001, the United States and the international community have pledged \$90 billion towards reconstructing Afghanistan's infrastructure, education system, healthcare, and public institutions. With more than half of the disbursed aid spent on military and peacekeeping operations, the \$57 billion in official development assistance (ODA) already disbursed represents only a fraction of the \$90 billion promised. Although the international community has explicitly made economic development a priority, the use of disbursed aid for security purposes proves otherwise. In order to analyze the impact of the ODA pledged so far, this article seeks to address the question: *Does official development assistance contribute to stable economic and political institutions that can sustain economic activity and long-term economic growth in Afghanistan?*

Donor countries reassure the international community that their aid will positively impact the lives of millions of Afghans. According to the report released by the International Crisis Group, "[a]ccess to education has improved, with 6.2 million children attending school, 85 percent of all Afghans now have access to some form of healthcare, compared to 9 percent in 2002."¹

¹ "Human Rights in Afghanistan," Aid and Conflict in Afghanistan 210 (2011), The International Crisis Group, August 4, 2011, accessed October 13, 2013.

However, the bulk of this aid is spent on security operations: the United States alone is spending \$36 billion a year on security-related issues, resulting in \$57 received per capita per Afghan citizen.² By relying on NGOs and foreign contractor companies, the donor community does not directly disburse ODA to the central government of Afghanistan, but rather directs the bulk of the aid to private contractors. Consequently, the Afghan people are not the beneficiaries of ODA. Instead, NGOs and contractors conducting projects are utilized on behalf of foreign donors. As a result, the pledged aid does not address the long-term development of Afghanistan's economy. It does not address the lack of public institutions and the enforcement of the rule of law. The international community has failed to "adequately support state institutions such as parliament and the judiciary, that could provide a check on the power of the executive."³ ODA provided directly to domestic public institutions would lead to better development outcomes in Afghanistan. Long-term economic growth is a realistic outcome only when ODA ownership shifts from that of the recipient to the host country. The technical assistance provided by the international community coupled with state ownership of ODA contributes to an educated labor force in the long-term.

<http://www.crisisgroup.org/en/regions/asia/southasia/afghanistan/210aid-and-conflict-in-afghanistan.aspx>.

² Matt Waldman, "Falling Short: Aid Effectiveness in Afghanistan," Oxfam, March 2008, accessed on October 13, 2013.

https://www.oxfam.org/sites/www.oxfam.org/files/ACBAR_aid_effectiveness_paper_0803.pdf.

³ "Human Rights in Afghanistan," The International Crisis Group.

UNDERSTANDING OFFICIAL DEVELOPMENT ASSISTANCE

There is a lack of consensus on the role of official development assistance. Daron Acemoglu and James Robinson, in *Economic Backwardness in Political Review*, stress that development aid primarily benefits the political elite, those individuals close to the governing body.⁴ These individuals are ready to incur any costs to stay in power and sometimes “may block technological and institutional development” to do so.⁵ This argument emphasizes the “political replacement effect,” in which those in power or close to the governing body want to maintain the status quo due to the destabilization of the existing system.⁶ The fear of losing power forces the ruling class to decide whether they will adopt technologies and institutional changes that would undermine their control or not. Similarly, their model suggests that interest groups or monopolists seek to protect their interests by taking advantage of weak government institutions, and a lack of rule of law enforcement.

Claudia R. Williamson highlights, in *Exploring the Failure of Foreign Aid: The Role of Incentives and Information*, the purpose of foreign aid and its implications for both the donor and the receiving state. She points out that “despite a large amount of time and resources devoted to development assistance, two competing theories have emerged: public interest versus the public choice perspective.”⁷

Public interest theory, “argues that foreign aid is necessary to fill a financing or investment gap, and this will in turn lift countries out of a so-called poverty trap.”⁸ The public choice theory “contends that foreign aid is ineffective and possibly damaging to recipient countries.”⁹ The public interest theory holds that those involved with the distribution of aid seek to advance their narrow institutional interests. Williamson highlights three forms of aid channels that result from such special interest incentives. “Tied aid” is a regimen that “requires recipients to purchase a certain percentage of goods from the donor country, often overcharging recipients from being able to purchase goods cheaper elsewhere.”¹⁰ For the U.S., this means about 75% of all aid spending has to go to back to U.S. companies.

Food aid is another channel that Williamson highlights as a way for donors to benefit from the exchange at the expense of the recipients. The aid is “mainly in-kind provision of foods that typically could be purchased much cheaper in recipient local markets.”¹¹ As for technical assistance, she holds that it is often not beneficial for the host country because “donors usually require these technicians to be from the donor country.”¹² Instead of training the local and national capacity of the developing country, the recipient of the aid must make do with consultants who may or may not understand the political and cultural landscape of the region. And should the programs fail to meet their goals, a donor may act “as a budget maximizing bureaucracy calling for increases in foreign aid in order to increase its own budget and thus increase its agency” rather than adjust the programs.¹³

⁴ Daron Acemoglu, and James A. Robinson, “Economic Backwardness in Political Perspective,” *American Political Science Review*, February 2006, accessed on October 13, 2014.
<http://3A%2F%2Feconomics.mit.edu%2Ffiles%2F4471>.

⁵ Ibid.

⁶ Ibid.

⁷ Claudia R. Williamson, “Exploring the Failure of Foreign Aid: The Role of Incentives and Information,” *The Review of Austrian Economics* 23, no. 1 (2010), accessed October 13, 2013.

<http://dri.fas.nyu.edu/docs/IO/12361/WilliamsonRAEAid.pdf>.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid., 5.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

Simply redirecting the aid to domestic institutions may not solve the problem. Actors within the recipient country, like the NGOs and special interest groups from the international arena, may have their own political agendas. Much of the disbursed aid goes to corrupt institutions. “Under the guise of official development assistance,” foreign aid “is aiding the ability of dictators to remain in power.”¹⁴ As a result, the Good Samaritan dilemma emerges, in which the “recipients believe that future poverty will increase the likelihood of more foreign aid, aid could actually worsen incentives to invest” while “citizens now face an even stronger incentive to consume and become dependent on the donors.”¹⁵ Accordingly, foreign aid has little to no effect on infrastructure and long-term development efforts. Acemoglu, Robinson, and Williamson all imply that foreign aid compromises state’s institutions and the rule of law. Since the involvement of foreign aid introduces external actors in the form of consultants and special interest groups, the competing interests of multiple actors does not allow for the state to follow policies that best address the economic needs of the people and the state as a whole.

On the other hand, NGOs and international organizations have indeed contributed significantly to the development of Afghanistan. This was made possible in part by the Paris Declaration on Aid Effectiveness. It is a practical, action-oriented roadmap to improve the quality of aid and its impact on development. It ensures that recipient countries utilize their own strategies to better outline their needs, whilst improving the overall quality of public institutions. With the help of NGOs and other international organizations that adhere to the Paris Declaration principles, developing countries have been able to better coordinate efforts to avoid duplicating services. Less developed

countries such as Afghanistan have been able to increase their standard of living and improve national healthcare partly due to such efforts.

Nonetheless, in his book *The End of Poverty*, Jeffrey Sachs explains that the reason certain countries are rich and others are poor is because of multitude of barriers preventing the poor from climbing the economic ladder.¹⁶ These barriers include: poverty and fiscal traps, physical geography, weak institutions and governance failure, cultural and trade barriers, lack of innovation, and the demographic trap. All of these factors demonstrate the intense complexity of obstacles that threaten to preclude economic development efforts in the world’s poorest countries. This further delineates the importance—but also the limits—of foreign aid. The proper implementation of development aid initiatives is of critical importance when domestic institutions and NGOs alike seek to navigate the above-referenced challenges to socioeconomic development in poor countries.

THE FRAMEWORK OF AID TO AFGHANISTAN

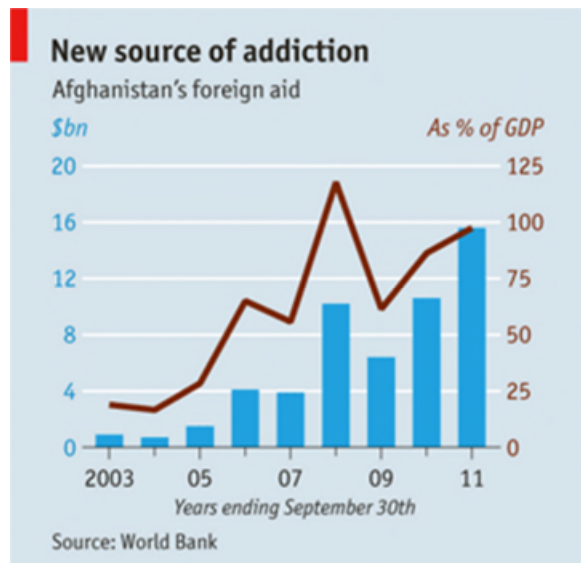
With multiple channels of aid opening up to assist the Afghan Interim Authority in winter 2001, the international community, at the January 2002 Conference on the Reconstruction of Afghanistan in Tokyo, “pledged more than \$4.5 billion in aid for the next five years, increasing to \$9.7 billion for 2001-2003.”¹⁷

¹⁴ Ibid., 6.

¹⁵ Ibid., 6.

¹⁶ Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time* (New York: Penguin, 2005).

¹⁷ “Human Rights in Afghanistan,” The International Crisis Group.



Subsequently, in April 2004 at the Berlin Conference, “the international community increased its commitment to \$8.2 billion over three years.”¹⁸ At the same time, U.S. non-military pledges rose from \$250 million in FY2003 to \$720 million in FY2004.¹⁹ At the 2006 London Conference in 2006, donor countries pledged a further \$10.5 billion, and then \$21 billion at the Paris Conference two years later.²⁰ Since 2002, the external assistance flowing into Afghanistan increased exponentially but without proper justification of how and where the ODA was needed and spent. The rise in ODA as a percentage of Afghanistan’s GDP conveyed the notion that the Afghan Central Government had successfully implemented programs to address the economic challenges.

However, the overall amount of ODA given to Afghanistan has failed to distinguish between humanitarian, rehabilitation, and reconstruction needs. “[A]s a result, by 2006, roughly one-third of funds were directed towards humanitarian assistance rather than reconstruction or development projects that would have helped rebuild and revive a

devastated infrastructure and economy and the state’s capacity to deliver basic services.”²¹ And since the U.S. led the international community in providing both military and humanitarian or economic assistance, most of the aid was channeled through local proxies. These proxies included local warlords, special interest groups, and NGOs with connections to the inner circle of the Afghan presidential office. By concentrating power into the hands of these few, political figures received the aid and then channeled it to the most politically rewarding destinations.

Moreover, the establishment of non-military structures to channel funds throughout the 34 provinces of Afghanistan has created a loophole in which contractors and government officials have been able to operate without proper oversight from the international community. Since one of the primary objectives of international assistance is to make sure Afghanistan does not unravel into a series of fiefdoms, the conjoining of military and humanitarian assistance led to the creation of the Provincial Reconstruction Teams (PRT). The PRT program was established to “assist the Islamic Republic of Afghanistan to extend its authority in order to facilitate the development of a stable and secure environment in the identified area of operation, and enable Security Sector Reform and reconstruction efforts.”²² The funding of these teams is solely up to its eleven donor countries. Therefore, the level of coordination between the Afghan government and its donors is often weak and heavily influenced by the political relationships with the donor country. Coupled with weak oversight, a majority of the PRT projects have produced poor results due to subcontracting or the transfer of large-scale projects to unqualified individuals. Because of this, the PRTs “have slowed the emergence and development of state institutions at local level, which

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

jeopardizes the broader prospects for medium to long term state-building.”²³

This also “hinders efforts to increase Afghan ownership of the development process,” when ownership of aid plays a key role in the long-term economic growth of a state. Stated as the central element of the Paris Declaration on Aid Effectiveness, “national ownership is critical to achieving development results.”²⁴ Hence, the Afghan government stresses the ownership of ODA, yet more than “two-thirds of foreign assistance bypasses the Afghan government.”²⁵ One consequence of this lack of ownership is that it “limits ability of ministries to recruit and retain qualified staff as they are attracted by higher salaries with donors or donor-funded projects.”²⁶ With majority of the funds being channeled through the external budget, instead of the “core” budget, the Afghan national government cannot build the human capacity needed to strengthen and maintain public institutions.

MISUSE OF AID BY BOTH DONORS AND RECIPIENTS

At the state level, international assistance to Afghanistan has yet to produce sustainable economic results. Lack of government accountability is still a major concern for citizens and international NGOs. According to an Integrity Watch Afghanistan (IWA) survey, “one in seven adults paid a bribe in 2010, 28 percent were to obtain a public service, including health and education.”²⁷ At the international level, NGOs and private contractor workers have taken advantage of weak regulatory institutions and a lack of legal enforcement. They have funded

many state-building projects that are not properly assessed or do not meet state requirements. With the addition of high oversight budgets, the lack of oversight resulted in contract workers receiving disproportionately high salaries. For example, 282 foreign advisors (including 120 contractors) within the Afghan Interior Ministry are “absorbing a total of \$36 million a year,” and “international staff reportedly outnumber the Afghans they advise by 45 to fourteen” in the ministry’s logistics arm.²⁸

There is a self-perpetuating cycle here. Donor countries rely heavily on private contractors and NGOs to implement the majority of the ODA. In return, these groups exercise oversight of donor-funded projects since the Afghan government lacks the capacity to monitor all development assistance. Between 2007 and 2009, “USAID obligated 53 percent of its construction funds (\$2 billion of \$3.8 billion)” to just two American contractors: the Louis Berger Group and Development Alternatives.²⁹ The overcharging and misuse of billions of dollars in administrative fees and personnel compensation has failed to produce public benefits and strengthen the rule of law. These projects, initially given to international construction firms have been subcontracted to either Afghan or other private firms in return for a percentage of the overall budget. In some large contracts, there were multiple layers of subcontractors, in each case taking a 10-20% profit.

Contractors and NGOs requiring substantial administrative fees coupled with billions of dollars in subcontracting profits are wasting much of the ODA requisitioned to complete national projects throughout Afghanistan. The Kabul Bank fraud, for example, highlights the “susceptibility of international assistance and the need for vigilant oversight in a corrupt and insecure

²³ Waldman, “Falling Short: Aid Effectiveness in Afghanistan.”

²⁴ Ibid.

²⁵ Ibid.

²⁶ Ibid.

²⁷ “Human Rights in Afghanistan,” The International Crisis Group.

²⁸ Ibid.

²⁹ Ibid.

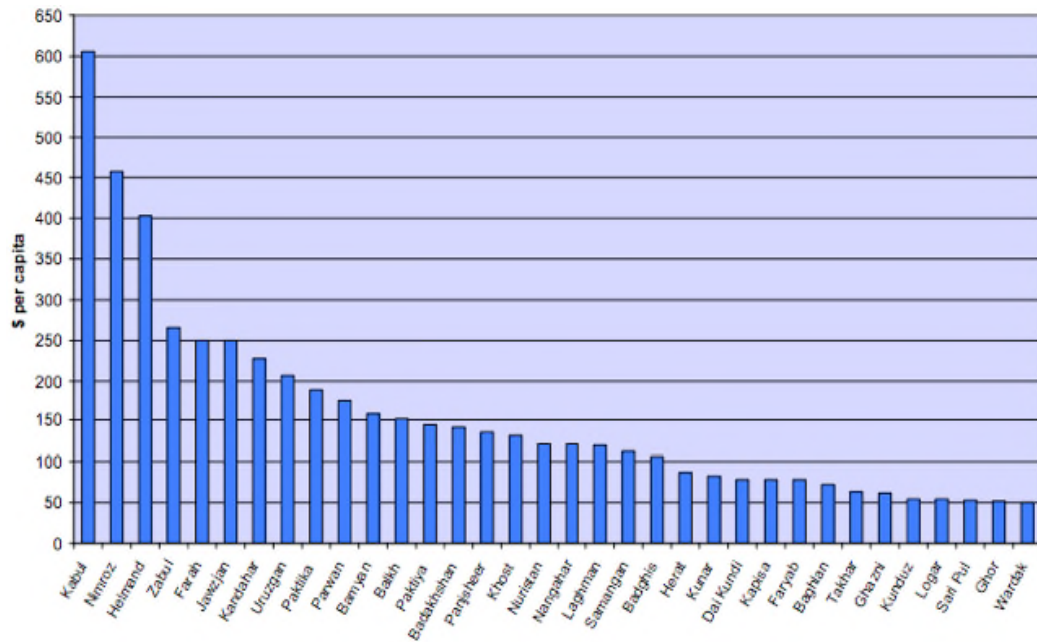
environment.”³⁰ Providing both logistical and technical assistance to USAID, Deloitte Consulting was the lead organization in capacity building and supervision at Afghanistan’s Central Bank. However, Deloitte “failed to warn authorities” about the rampant corruption with the Kabul Bank.³¹ The reconstruction of the Khair Khana maternity hospital in Kabul is a striking example of the misuse of aid. In order to double the hospital’s capacity, the Italian government contracted UNFPA with \$2.2 million for the work. It was first subcontracted to the UN Office for Project Services (UNOPS), then an Italian contractor, and, finally, a local construction firm. This arrangement ultimately consumed about half of the project’s finances, and what was left was spent on poor quality building materials that posed a health hazard.³² A further example of this sort of problem is the

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³⁰ Ibid.

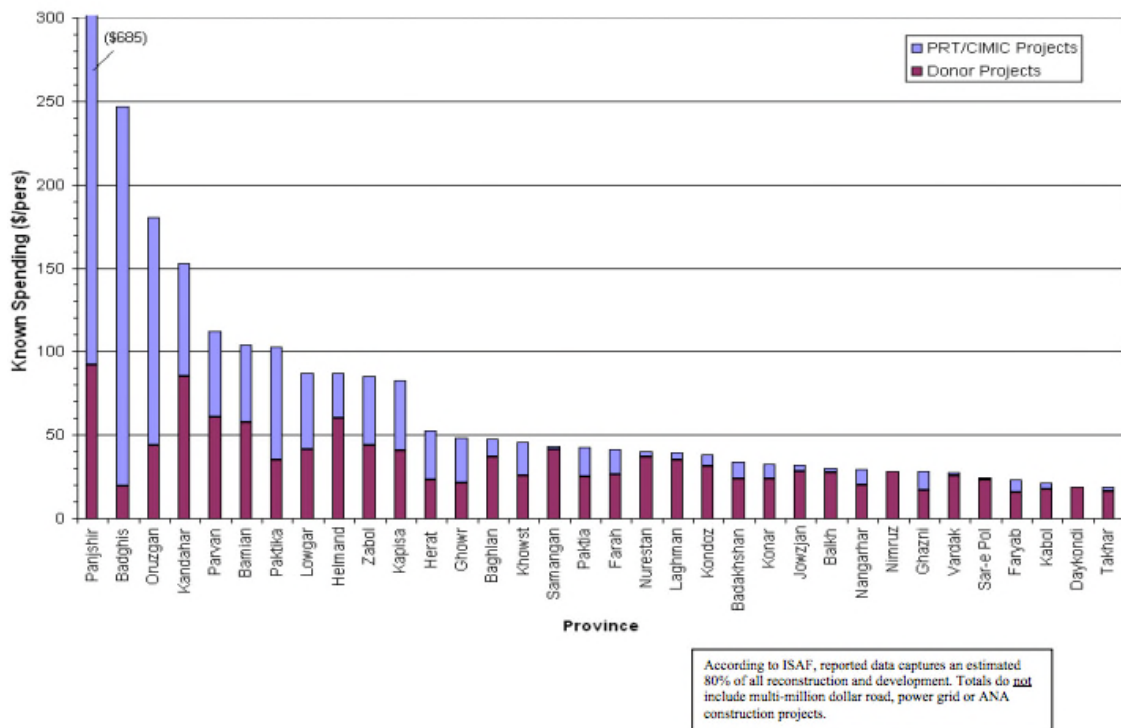
³¹ Ibid.

³² Waldman, “Falling Short: Aid Effectiveness in Afghanistan.”



Total planned and committed government and donor spending per capita, per province in 2007

Data Source: Oxfam. Afghan Ministry of Finance



Completed, ongoing, planned and funded PRT spending per capita, per province

Data Source: Oxfam. ISAF, May 2007

construction of a short stretch of the road in the province of Badakhshan, linking the town center to the area airstrip. In an unfortunately familiar pattern, the road “was subcontracted to a private company by USAID for just under half a million dollars,” then “again subcontracted to an Afghan private construction company for a cost of just \$250,000.”³³

AFGHANISTAN CASE STUDY

The disbursement of aid plays a vital role in impacting the lives of the Afghan people. In order to analyze whether official development assistance contributed to the economic growth throughout the provinces of Afghanistan, the study will assess the Afghan central government’s implementation of ODA separately from the international donor community.

The difference in the amount of spending per capita throughout the provinces, as illustrated in both of the charts above, signifies the difference between the Afghan government and the international communities’ priorities in the provinces that need the most assistance. The security spending does not significantly help because it is spent in ways that only exacerbate unaccountability and donor preferences over local needs and rule of law. The amount of spending per capita by the PRTs in each of the 34 provinces, primarily led by international donors and private contractors, takes into account military and administrative costs for the total amount of spending.

The regional disparity in ODA shows that the international community is looking to fund provinces that are the least militarily secure in the short term. The main focus of the PRTs and international assistance is in the south and southeast regions of Afghanistan,

areas where the Taliban’s insurgency is strongest. Provinces with the smallest populations, such as Badghis and Uruzgan, received the highest amount of PRT assistance. Meanwhile, the central government’s core budget spending mainly focuses on centralizing power in the provinces closest to Kabul. Although they emphasize development efforts in areas that are the least secure, they do not neglect provinces in the northern parts of the country to the same degree as international donors do. For example, the Afghan national government spent more in the provinces of Faryab and Badakhshan, installing irrigation systems and building agriculture infrastructure to help the local farmers of the region. The PRTs and the international community spent well below \$50 per capita in the same provinces. The northern provinces of Afghanistan have fertile soil and a climate more suitable for agriculture. By providing farmers the technical aid they need to maintain their crops year-round, the Afghan government’s technical assistance encourages the growth of the agriculture sector of the economy.

The emphasis on quick impact projects led by the PRTs has not been accompanied by a strengthening of the Afghan government’s capacity to sustain the goals of these projects over time. The limited provincial development funds “undercut the government’s credibility, since districts or provinces might attract aid but have no funds to sustain projects once they are transferred to local authorities,” leading to the perception among Afghans that these projects are just another tool being used by external forces to impose control over them.³⁴ The multiple channels of funding are creating a rift between the provinces and the central government, both fiscally and ideologically. Shortsighted

³³ Ibid.

³⁴ “Human Rights in Afghanistan,” The International Crisis Group.

development efforts have been difficult to sustain due to the PRTs and international communities' biased funding mechanisms. Consequently, once the drawdown of foreign contractors, advisors, and security personnel began in December of 2014, provincial leaders lacked adequate funding to maintain development projects. The lack of skilled native talent overall, and within government offices in particular, due to the overrepresentation of foreigners and skewed hiring practices of locals is contribution to the unraveling of more than ten years of ODA to Afghanistan.

FINDINGS AND CONCLUSION

After spending \$57 billion on humanitarian assistance over the past fourteen years in Afghanistan, the international community is looking for answers as to why Afghanistan's dependence on aid has not fallen at a rate the World Bank and the international donor community had hoped it would. Afghanistan now more than ever, needs economic and technical assistance to ensure that it does not collapse into the same state it was a decade ago. The Taliban have once again started to rise in the southern provinces of Afghanistan. Furthermore, it is crucial to note that since the international community led the majority of the development efforts, the infrastructure has been built for their own security purposes, not civil reconstruction. As the younger generation of Afghans start to take advantage of the greatly expanded education system, the need for a coherent economic development effort is vital to reduce high unemployment.

In the case of Afghanistan, Williamson's "public choice perspective" can best describe the effort to rebuild Afghanistan's weak and dependent economy. Weak rule of law and the lack of accountability have created an environment for private contractors and NGOs to reap millions of dollars in profits from ODA

without creating sustainable infrastructure. As a result, national public works projects that can benefit millions of Afghans have been poorly managed and in some cases have not even been implemented. Weak oversight coupled with high corruption have led to backdoor deals between the political elite and the international donor community, marginalizing Afghan citizens in dire need of humanitarian assistance. The Karzai Administration has been under scrutiny by the World Bank, IMF, and the United States for taking advantage of Afghanistan's weak financial regulatory bodies by using millions of dollars of foreign aid for personal gains.³⁵

Ownership of ODA plays a significant role in the long-term economic growth of Afghanistan. Since most of the aid bypasses the Afghan government and is directly disbursed to private firms and NGOs, provincial governments and the central administration cannot build the capacity they need to operate with the proper funding to attract and train native talent. Instead of using contractors and NGOs, both the Afghan government and international aid agencies must take greater advantage of the local talent, and work to cultivate it. By doing so, national projects will be far more effective and sustainable because the morale of the people will change from that of being a recipient state to that of a developing state.

The ODA given to Afghanistan has been utilized for short-term gains in security and economic development: as a result, neither has been advanced in the long run. Long-term security and economic growth in Afghanistan are most likely to occur when the international community accepts that the Afghan people have a greater part to play in development efforts.

³⁵ James Risen, "Karzai's Kin Use Ties to Gain Power in Afghanistan," *The New York Times*, October 5, 2010, accessed on October 13, 2013. http://www.nytimes.com/2010/10/06/world/asia/06karzai.html?pagewanted=all&_r=0.



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