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'Economic depression' looms in Afghanistan

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Afghanistan could be plunged into a deep economic depression when foreign troops leave in 2014, according to a new US congressional report, which warns that much of the \$18.8bn in US civilian aid to the country has been poorly spent on short-term projects.

The report, released on Wednesday after two years of research by Democratic staff members from the Senate foreign relations committee, focuses on aid distributed by two civilian agencies: the US state department and the US Agency for International Development (USAID).

It does not cover military aid programmes, though it suggests some of them "deserve closer scrutiny".

The report found that 80 per cent of the civilian aid has been spent in southern and eastern Afghanistan, and the majority of that has financed "short-term stabilisation programmes".

Many of these programmes will be unsustainable if foreign aid dries up, the report argues, because of funding shortfalls and a shortage of trained Afghan administrators.

"We should follow a simple rule: Donors should not implement projects if Afghans cannot sustain them," the report concluded. "Development in Afghanistan will only succeed if Afghans are legitimate partners."

Unsustainable economy

The World Bank estimates that 97 per cent of Afghanistan's gross domestic product is "derived from spending related to the international military and donor community presence".

Most of Afghanistan's government spending is also financed by foreign countries. The government has annual revenues of roughly \$2.5bn, but the cost of funding its security forces alone is estimated at between \$6bn and \$8bn.

The Afghan government and economy, in other words, will be totally unsustainable without long-term foreign aid.

Afghan officials had hoped that large-scale mineral deposits will provide a new source of government revenue, but the Senate committee concluded that "we do not see any signs of near-term revenue generation" from minerals.

"Afghanistan could suffer a severe economic depression when foreign troops leave in 2014 unless the proper planning begins now," the report noted.

Civilian aid to Afghanistan has increased sharply in recent years, growing from \$2.8bn in fiscal year 2009 to \$4.2bn in fiscal year 2010. The aid has begun to taper off slightly - the Obama administration requested \$3.2bn in fiscal year 2012 - but still represents a massive infusion of cash into a troubled economy.

"The dependency on foreign donors seems to have gotten worse," said Joshua Foust, a fellow at the American Security Project and former military analyst.

As recently as 2008 and 2009, the figure for aid dependence was 47 per cent, according to the World Bank.

Distorted incentives

So-called capacity-building - efforts to strengthen Afghan government ministries - has become a popular buzzword, but the Senate report suggests that international aid has actually helped to reduce the capacity of many ministries.



A \$100m dam now generates power used to irrigate poppy fields, one of the unintended results of aid [EPA]

Employees in Afghan ministries are typically paid between \$50 and \$100 per month. But Afghans working on international aid projects - drivers and translators, for example - can clear more than \$1,000 per month.

The disparity leaves little incentive for qualified Afghans to keep their government jobs.

Hundreds of the best-qualified Afghan bureaucrats receive "salary supplements" of between \$3,000 and \$5,000 per month from the US government, the report found - essentially a bribe to keep them in their jobs.

But the Afghan government would likely be unable to pay those "supplements" without foreign aid.

Foreign donors have also invested little time and money in educating and training would-be Afghan government employees: The Afghan education ministry has a budget of just \$35 million for vocational training and higher education.

"Instead of investing in vocational and higher education that would have given Afghans the skills to run their country, donors hired technical advisers to do these jobs at roughly 10 times the cost," the report said.

Those technical advisers typically cost between \$500,000 and \$1m per year, the report found, and often make little effort to train the Afghan employees working under them.

Unintended consequences

Other aid programmes have been plagued by waste and mismanagement, the report found.

The document highlights the Kajaki dam, a \$100m effort to rebuild a hydroelectric dam in a remote part of northern Helmand province. Two of the dam's turbines are now operational - but part of the electricity they generate is now helping the Taliban pay its bills.

"Half of its electricity went into areas where the insurgents control the electric grid, enabling the Taliban to issue electric bills to consumers and send out collection agents with medieval

instruments of torture to ensure prompt payment," the report found, noting that the electricity is also often used to irrigate fields which grow poppies.

Meanwhile, in Helmand's Nawa district, USAID has spent \$30m on agricultural programmes - this in a district with a population of just 75,000. The agency's per-capita spending in Nawa, \$400, is greater than Afghanistan's average annual household income.

Few of the report's conclusions are new; indeed, many Afghanistan analysts have spent months or years criticising international aid programmes.

The Washington-based Center for a New American Security suggested in December, for example, that cutting foreign aid could reduce corruption and improve governance. Meanwhile, Afghan bureaucrats have warned for years that "off-budget" aid programmes make their own jobs more difficult.

"We have known about the waste and abuse of development assistance for some time," said Caroline Wadhams, a security analyst at the Centre for American Progress.

But the Senate report is the most authoritative assessment to date, at least within the US government, and could have implications for aid spending in an increasingly unpopular war.

The White House and the International Security Assistance Force did not respond to requests for comment on the report.