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Policy Dialogue on Peace & Economics

February 17, 2020

Proceedings Report



This report summarizes the deliberations of the Policy Dialogue on Peace & Economics. The Dialogue was held in native languages and this document provides translated summary of the discussions in English. Statements, viewpoints, and opinions reported in this paper do not constitute endorsement or agreement by the Biruni Institute.

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Biruni Institute and the United States Embassy in Kabul co-organized the “Policy Dialogue on Peace & Economics” in February 17, 2020 in Kabul. The event brought together a large and diverse group of participants from the Government, donors and diplomatic missions, members of the parliament, business community, academia, senior representatives from the media, civil society, and former members of the Taliban movement.

The Policy Dialogue on Peace & Economics offered an opportunity to discuss the economic benefits (or costs) of a potential peace agreement, its fiscal implications, and the business environment fundamentals and economic policies necessary to stimulate economic recovery in the immediate aftermath of a peace settlement.

The peace talks between the United States and the Taliban, which will be followed by intra-Afghan negotiations, have so far been limited to political discussions. Economic policy issues such as aid dependency, existing financing gap, tax regime, low economic growth, capital flight, weakened business and consumer confidence, or the illicit economy, to name a few, have largely been ignored.

So far, no debate has taken place on the economics of peace, neither in informal public dialogue settings, nor in formal discussions among the negotiating parties. Biruni Institute believes that economic arrangements in a peace deal, as well as policy measures in the immediate aftermath of a peace settlement, are critical for the success of a peace process and for the post-settlement economic recovery. Although peace negotiations are a political process in nature, the links between economic outcomes and political stability cannot be ignored.

Economic realities in Afghanistan make it even more important to discuss economic policies & fiscal arrangements in parallel to the political discussions of a peace process. First, since the completion of the security transition in 2014 (i.e., the withdrawal of most of the US and NATO troops from Afghanistan), business and consumer confidence has been gravely weakened. Economic growth therefore declined from an average of 9 percent over 2003-2013 to about 2 percent in post-2014, resulting in poverty and unemployment rates reaching unprecedented levels of 55 percent and 39 percent respectively.

Capital flight – particularly to Gulf states – has intensified, and private investment has stalled in the wake of heightened political uncertainty and ambiguity with respect to the implications of a potential peace deal for investment and trade in the country. Adherence to international development and financial arrangements (relations with the International Monetary Fund and the World Bank), international commercial treaties

and trade agreements (e.g. Afghanistan’s World Trade Organization membership, the South Asia Free Trade Agreement, the TIR Convention on international transport of goods, etc.), economic freedom for doing business (absence of barriers for private investment), provision of access to finance (i.e., existence of conventional banking sector), and a stable, predictable, and unified tax regime – are some of the critical prerequisites for business confidence to be restored. Absence of a clear commitment to the above values under a peace agreement will not help with the economic recovery, even if a peaceful political resolution is reached with the Taliban.

Second, the economy remains heavily dependent on donor grants, which currently finance around 75 percent of total public spending in Afghanistan, including on- and off-budget public expenditures. The current financing gap is nearly USD 8 billion, equivalent to 37.5 percent of the GDP. Analysis by the World Bank and the Biruni Institute shows that the financing gap will decline to only 18 percent of GDP (but still equivalent to \$8 billion) by 2030, meaning that the country will continue to rely on donor assistance for the foreseeable future even under optimistic scenarios for economic growth. Hence, absence of discussions on the future of aid commitments – so far, no commitments have been made by the international community for the period of 2020-2024 – may pose huge fiscal risks for the country which may eventually threaten a potential peace process. Therefore, a better understanding of the fiscal prospects of the country by the negotiators is essential not to make any commitments in the intra-Afghan peace agreement which would be fiscally unsustainable; rather any commitment should be fully costed and sustainable over the long-term with potential support from donor community.

Failure to secure agreements on critical economic agenda items in a peace agreement could jeopardize potential economic recovery in the country, which in turn could weaken political stability. The risk of falling into a ‘conflict trap’ after a peace settlement, where poor economic outcomes lead to public discontent which in turn exacerbates political instability, is substantial in the case of Afghanistan.

Against the backdrop of these considerations, the “Policy Dialogue on Peace & Economics” was convened to stimulate a public discussion on key economic policy issues and investment climate. The Dialogue also aimed at increasing awareness – both among the public and all parties to the negotiations – of fiscal challenges and economic issues that the country is faced with.

The event hosted around 70 participants from the Government, donor community, academia, civil society, media, and the Taliban movement (sympathizers and/or former members). The plenary session, moderated by Mr. Abdullah Azada Khenjani, former head of 1TV News and Founder of Democratic Society, included the following dignitaries as distinguished speakers:

- H.E. Mohammad Mustafa Mastoor, Minister of Economy
- H.E. Dr. Anwar Ul-Haq Ahady, Politician & Former Cabinet Minister
- H.E. Dr. Hazrat Omar Zakhilwal, Former Minister of Finance
- Ms. Manizha Wafeq, CEO, Afghanistan Women’s Chamber of Commerce and Industry
- Mr. Zabihullah Ziarmal, First Vice Chairman, ICC-Afghanistan





The US Ambassador, Mr. Ross Wilson, stated in his opening remarks that the United States and its allies would remain engaged in Afghanistan to support the country. He added: *“Unlike when the Soviet Union fled this country and abandoned it to a new cycle of war and violence in the early 1990s, this time, the European Union, the United States, such partners as Norway, Japan, Australia, many others I can identify, the entire apparatus of the United Nations and its various agencies, the World Bank, a*

variety of non-governmental organizations, at least a couple of which are represented here, all of those remain engaged here as strong supporters to help this country and its leaders, including you.”

On behalf of the Biruni Institute, Nazir Kabiri, the Executive Director of Institute, welcomed the participants, and stressed on the importance of the Dialogue on Peace and Economics as a foundation to increase awareness in the public, and among potential ‘negotiators’ in both sides of the intra-Afghan peace talks.

Subsequent to the main plenary, the interactive parallel sessions included:

1. *“Fiscal costs of a peace deal and prospects for fiscal sustainability”, Moderated by: Tobias Haque – Senior Economist, World Bank;*
2. *“Investment climate reforms for post-peace economic recovery and employment generation”, Moderated by: H.E. Sadat Mansoor Naderi, former Minister of Urban Development, and CEO of Insurance Corporation of Afghanistan;*
3. *“Trade and Financial Development”, Moderated by Khan Afzal Hadawal, Former Acting & Deputy Governor of Central Bank;*
4. *“Fighting poverty in a post-peace Afghanistan”, Moderated by Zahid Hamdard, former Deputy Minister for Finance, Ministry of Finance;*
5. *“Governance reforms for fighting corruption”, Moderated by H.E. Ambassador Mahmoud Saikal, former UN Permanent Representative for Afghanistan;*

This paper summarizes the discussions, insights, and recommendations that were produced by participants in the event. All statements, reports, and analyses are reported without modification, even if some might constitute point of views or there might be questions about their accuracy. Any statements or viewpoints reported in this paper do not necessarily indicate endorsement by the Biruni Institute.

2. Summary of Discussions

2.1. How should peace be perceived and defined?

Peace should not simply mean a temporary end to conflict and violence. Otherwise, the peace process will not necessarily be conducive to economic recovery. In fact, 'stability' and 'sustainability' of a peace process are important elements. Peace should be perceived in a broader sense where it not only means an end of conflict, but also demonstrates political stability and legal and economic freedom necessary for business activities to pick up and economic recovery to materialize.

While the on-going peace negotiations offer an opportunity for Afghanistan, they also represent huge uncertainties. Will there be a regime change, a new political system, or a new model of economic development for the country after the peace settlement? Such questions represent the uncertainties which entrepreneurs, households, and political actors are faced with. As long as there is no clarity around such questions, the political environment will remain ambiguous and uncertain for economic decisions.



Furthermore, peace needs to be complemented with a resolution of political tensions within the country (among the political actors), and a resolution of geo-political tensions in the region (with the neighboring countries). Sustaining peace in Afghanistan will strongly depend on how we would manage our relations with our neighbors.

A. Fiscal Challenges

Peace can help free up the resources that are currently being allocated for military expenditures. Currently, one-third of the budget is allocated to fighting the war, another third on rehabilitation and reconstruction of the assets destroyed by the conflict, and only one-third is allocated to economic development. A potential peace settlement would mean that more resources will free up and be allocated to those activities that would be supportive of economic growth and development.

However, freeing up of more fiscal resources as a result of a potential peace settlement does not mean that we could achieve fiscal self-sufficiency by 2024. This assumption is based on the fiscal projections that were produced in 2012, and disregarded the escalation in violence that peaked in 2016 and 2017. A lot of projections in 2012 did not materialize, for instance it was projected that Afghanistan would start receiving between \$2 and \$3 billion annually in mining revenues by 2020, which has of course not been materialized.

Currently, foreign aid finances around half of the budget and 90 percent of security spending. In many ways, grants are what is holding the economy together at the moment, and fueling the marginal economic growth that the country is experiencing.



It is therefore obvious that Afghanistan will not transition immediately towards self-sufficiency and it will remain dependent on foreign aid for the years to come. However, there needs to be a discussion about how donor grants will be provided, the underlying conditions for aid, and whether parties to the peace negotiations would need to make any concessions that might be necessary to maintain grant support. Of

course, no side has an interest in a rapid decline of grants, given that it would undermine public service delivery and the overall macroeconomic stability of the Afghan economy.

While there have been questions about the efficiency of foreign aid in Afghanistan in the past two decades, aid can of course be used more efficiently than in the past. The costs of delivering projects can be rationalized, and Afghanistan can deliver more with the amount of money that it is provided with.

There are speculations that a government that involves the Taliban might be more effective at revenue collection. Especially if that revenue collection could be in some ways decentralized or devolved regionally. Bringing the Taliban's organizational capacities into the revenue collection could lead to substantial revenue increases and reduce some of the revenue loss that we see at the moment. Reports suggest that the Taliban members in some districts collect substantial tax revenues, including municipality taxes, and overall collect around 20 percent of the electricity bill. Hence, it is important that discussions take place on the arrangements for revenue collection and on the tax regime after a potential peace settlement; a unified, stable, and a predictable tax regime is critical for fiscal and economic stability.

B. Investment Climate and Economic Recovery

Conflict and violence hinder business activities and hold back new investment decisions. In a conflict, contract enforcement and investment protection are poorly sustained by the government, which further increases the risks to investment. Therefore, as conflict intensified and political uncertainty heightened in the past four to five years, Afghan entrepreneurs increasingly took their capital out of the country, particularly to Dubai and Istanbul. While peace cannot change everything out of a sudden, it can however a pre-condition for the investment climate to improve.

It is also important to have a nuanced perspective on the role of peace versus the government's performance in business climate reforms. While peace does bring in new opportunities, one should not blame all shortcomings in the investment climate in the past two decades on the lack of peace. Despite significant developments in the expansion of markets, emergence of new industries, and a lot of successful stories of private sector



development in Afghanistan, the government failed to develop a regulatory environment fully conducive to private investment in the country. Hence, if peace is materialized but if the government's attitude towards investment climate remains as 'business as usual', then we cannot be very hopeful of an immediate economy recovery in the aftermath of a peace deal.

A market economy is a pre-requisite for business activities and private investment. It is thus essential that commitment to a market-based economic system is upheld in the peace agreement. Although the Taliban continued to commit to a market economy during their ruling in late 1990s, the misperception nowadays is mostly around the degree to which the economy should be or can be regulated/controlled.

Finally, jobs and employment should be central in the peace talks. Whether that is demobilization of combatants on both sides, or whether that is employment opportunities for returning as refugees and internally displaced people, there will be pressure for employment creation to avoid the resurgence of conflict. So any kind of agreement on the economic model needs to be employment intensive and public resources need to be available to create sustainable jobs.

C. Trade & Financial Development

Poor access to credit remains one of the most binding constraints to private investment in the country. Going forward, as the peace talks progress, there are questions on how conventional banking services will be perceived by the Taliban.

There is lack of consensus among Islamic scholars on the role of conventional banking. The dominant opinion holds that interest could be justified, at least, for investment loans or credits, but is impermissible for consumer loans. During the Taliban regime, commercial banks continued to operate, although they were not allowed to charge interest on the credits they extended. Nonetheless, the best model for Afghanistan would be that of Malaysia and Saudi Arabia where both Islamic banking and conventional banking services are offered.

Trade remains an essential source of economic growth for the landlocked Afghanistan. Despite a large of number of initiatives and huge amount of attention by the government on trade & regional connectivity in the past two decades, Afghanistan is struggling in securing a stable trade regime with South Asia and

Central Asia. Regional trade agreements have never been properly respected by countries in the region. The Afghanistan-Pakistan Transit Trade Agreement (APTTA), in particular, has not been properly implemented.

Further, intra-regional foreign direct investments have never been part of the RTAs. Going forward, it is important not to ignore the role of FDI – particularly the FDIs from regional countries – in long-term economic stability, and as an import substitution policy to encourage investment and production inside Afghanistan rather than importing the merchandise from partner countries in the region.

D. Poverty

In the past two decades, development programs and government policies failed to be adequately inclusive. Although infrastructure projects and rural development projects benefited the poor, the rich however benefited more than the poor. Economic benefits of development programs, in general, were disproportionately distributed.

Going forward, it is important that the ultimate objective of the government be to seek an ‘inclusive economic growth’ rather than to maximize economic growth. All public spending programs must have an element of targeting the poor. Access to basic service delivery to all residents, and access to employment should become the core objectives of public policy programs.

E. Anti-Corruption and Governance Reforms

Participants in the working group discussion on Anti-Corruption and Governance Reforms noted the following:

- Culture of impunity exists amongst a good number of elites in Afghanistan.
- Reforms for decentralization and combating corruption are often undermined and even challenged by the Government.
- One reason for not being able to combat corruption has been lack of justice, where the corrupt are not penalized and those reporting corruption (i.e. whistleblowers) are not protected.
- Corruption has been nearly institutionalized, in a sense that corrupt officials are not only protected but are also granted favors (either political favors such as being appointed as Ambassadors, or monetary favors such as being offered benefits).
- The fight against corruption has been selective, partial, and biased.
- Previous strategies had too much emphasis on bureaucratic processes for anti-corruption but neglected human qualities such as honesty, integrity and credibility as principles for fighting corruption.
- On the topic of illicit economy, the participants noted that the drug economy is substantial in Afghanistan. Reports indicate that around 70 percent of the narcotics and opium in the country is controlled by the Taliban. Despite it being a source of financing for war and terror, opium is also a source of employment and income for poor farmers. Moving from a war economy to a peace economy, the best option might be to legalize opium, as it is the case in Turkey. Legalizing opium would also represent an alternative livelihood for demobilized Taliban fighters and would therefore help with their economic integration.

3. Conclusion

The Policy Dialogue on Peace & Economics convened a forum to discuss economic agenda for the peace process, and produced invaluable insights and suggestions from a diverse range of participants. The event was a first of its kind to be held in Kabul in joint collaboration between the United States Embassy and the Biruni Institute which is an Afghan-led economic policy think tank.

The concluding session was chaired by Kawun Kakar, CEO of Kakar Advocates, and Mawlawi Qalamuddin, former senior Taliban member.

Participants in the Dialogue reiterated that lessons must be learnt from the previous rounds of transitions, where the focus was on political transition and all parties ignored the 'economic transition'.

Peace negotiations should not remain limited to political discussions only, but should also include discussions around the economic agenda. Economic policy issues, international diplomacy for the receipt of



foreign aid, fiscal implications of potential economic benefits that are granted, adoption of a market-based economic system, conventional versus Islamic banking services, fiscal decentralization, jobs and employment, and the role of private sector, to name a few, are important issues that should be discussed in parallel to the formal political negotiations.

Participants also suggested that non-confidential details of the peace talks should be instantly shared with the public as they become available, so that the government, the civil society, and other actors can better plan for and take necessary preparations.

Consensus among participants was that the right to elect the leader, freedom of speech, and civil rights are important elements of a democratic system, which must be preserved in the next government involving the Taliban.

It was also acknowledged that the Taliban have been running a military institution, and have not had experience in economic management and public policy. The intra-Afghan negotiations should therefore focus on the arrangements in which the Taliban would join the upcoming government, and whether or not that would entail the Taliban getting involved in economic management and policymaking activities.

Finally, participants from all sources unanimously appreciated the importance of convening such dialogues on the economic aspects of the peace process, and strongly suggested that the Dialogue series be continued with the future events focusing on the specific topics that were collectively raised during the discussions. The Biruni Institute will hold the upcoming events in the series on a narrower set of topics that were identified in this very first policy dialogue event.

Watch the video recordings of the *Policy Dialogue on Peace & Economics*

Opening Session - part 1 of 3

<https://www.youtube.com/watch?v=ldZIS88FrjI&t=526s>

Main Plenary - part 2 of 3

<https://www.youtube.com/watch?v=sCPtKqlf4q8>

Outcomes of the Moderated Roundtables - Part 3 of 3

<https://www.youtube.com/watch?v=Ln5YU38UEjk>

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