Afghanistan: Foreign Aid and State Building, 2001-2009

Nematullah Bizhan

A Thesis Submitted for the Degree of Doctor of Philosophy of the Australian National University

November 2013
Declaration

I declare that this thesis is my own original work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person, except where due acknowledgement is made in the thesis.

Nematullah Bizhan

Date: November 26, 2013
Abstract

Sources of state revenue have major implications on the patterns of state formation. While this issue has been increasingly attracting attention in academia, its impacts have been little explored in aid-dependent contexts, particularly in terms of how the delivery mode of revenue shapes the impacts.

Accordingly, this thesis studies Afghan state building in relation to its sources of revenue as it has experienced many experiments since 1747, with tribute, subsidies, and foreign aid playing a striking role in the development of state institutions, and consequently the formation of state-society relations. However, the amount of foreign aid received by Afghanistan in the post-2001 dwarfs that received during any previous period. Although scholars have extensively examined Afghanistan’s politics, society and its relations with external powers, very little attention has been directed to the economy, to the sources of state revenue or to the specific relationship between revenue sources and state building.

This thesis examines how foreign aid and its delivery mode have affected Afghanistan’s state building from 2001 to 2009. It analyses the particular effects of aid on taxation, budget transparency and state-society relations. The relationship between state building and external revenue is a distinct feature of Afghanistan’s modern history; the study therefore situates state building in a historical context.

This thesis argues that, between 2001 and 2009, externally aided state building reiterated a historical path of dependency, in that foreign aid reinforced building of a rentier state and had mixed effects. Foreign aid has contributed to economic growth, the promotion of education, and the expansion of health services. However, these improvements remained largely dependent on continued foreign aid inflows and were not supplemented with effective institution building and improvements in state-society relations. The inflow of huge amounts of aid outside of Afghanistan’s own state mechanisms, together with a concentration on military priorities and a general lack of coordination or coherence amongst the aid donors and the pre-aid socio-political dynamics and institutions, have thus contradicted the initial goal of state building. As a result, the focus of government accountability has shifted from the Afghan legislature and the citizens of Afghanistan to international donors, resulting in poor budget transparency. Tax reforms have also failed to achieve the development of a social contract around taxation, despite the strong desire of Afghanistan’s taxpayers for such contract. These factors have further weakened state-society relations.
Acknowledgements

Many people contributed to this thesis and provided inspiration for this long project. I begin by expressing my sincere gratitude to my supervisory panel. I would like to thank my supervisor Professor Amin Saikal for his support and insightful advice, and his deep knowledge and interest in Afghanistan. The practical and sound guidance and support of my advisor, Dr Peter Larmour, was invaluable as was that of Professor Mark Evans, my second advisor. I am grateful to each member of the panel for seeing me through to the final submission.

I also owe a debt of gratitude to Professor William Maley whose good advice and friendship have been important throughout. He read most of my chapters and always provided me with perceptive feedback. He also allowed me access to his library which included a large collection on Afghanistan. I am also thankful for the friendship, tireless support and advice of Dr Peter Quinn.

I am grateful also to Professor James Piscatori for his significant contribution and support in the early stage of my research; Dr Krill Nourzhanov for his kindness and support; Dr Mathew Gray for his insightful discussion and feedback on rentier state theory; and Dr Zahra Tahiri who was always kind and ready to offer assistance. I also owe thanks to Professor Stephen Howes for his advice, among other things, on issues related to aid and international development, and to Professor Valerie Braithwaite whose advice on tax compliance was also indispensable.

Undertaking my PhD research programme has also required strong administrative backing. The staff at the ANU’s Centre for Arab and Islamic Studies unfailingly provided me with their support to smoothly manage this project. Carol Laslett, Lissette Geronimo, Leila Kouatly, Anita Mack, Kerry Pert and Tamara Leahy all deserve my special gratitude.

It would not have been possible to complete this research without receiving the Australian Leadership Award Scholarship. I thank AusAID and the Australian taxpayers for this contribution. I also thank Gina Abarquez, Manager of the AusAID liaison office at the Australian National University, and her colleagues, for their assistance and support in difficult times.

The Department of Treasury, Revenue Management Division in Canberra, provided an internship in 2010 to study the dynamics of taxation on governance. I would like to thank the department head and staff for their valuable support.

Many other people have helped me along the way. These include scholars and policymakers, former colleagues in Afghanistan including international advisers and aid officials some of whom were interviewed during fieldwork in Afghanistan or otherwise provided comment on my research. I thank all of them but can mention just a few by name.

Dr Ashraf Ghani, the former Minister of Finance of Afghanistan who was extensively engaged in the post-2001 Afghanistan reforms and who discussed with me his views, shared his experience, and commented on the research project. Professor Ishaq Naderi from New York University and former chief economic advisor to President Karzai, Dr Michal Carnahan, AusAID’s Chief Economist and a former colleague from the Ministry of Finance of Afghanistan; Dr Barnett Rubin from New York University; and Clare
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Last but not least, it would have been impossible to complete this project without the support which I received from my family. My brothers and sisters, nephews and nieces all provided support and encouragement. My daughters, Hadia and Diwa, and my son, Ali Sina, particularly, made this project less exhausting by distracting me with their childhood concepts and dreams. Most of all, I cannot thank enough my caring wife, Dr Safia Bizhan, without whose love, support and understanding the writing of this thesis would not have been possible.

Although my mother, who lived in Afghanistan was unwell, she endured my absence and was extremely kind and supportive. She always declared “son don’t worry about me and make sure to finish your studies.” News of her loss in February 2013 was one of the saddest times I ever remembered. She will always remain within my heart and memories and I dedicate this thesis to her memory.

Despite the advice and assistance of so many, the failings of this thesis are, of course, entirely my own.
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Abbreviations

AACA  Afghanistan Assistance Coordination Authority
AC    Afghanistan Compact
ACCI  Afghanistan Chamber of Commerce and Industries
ACD   Afghanistan Customs Department
ADB   Asian Development Bank
ADF   Afghanistan Development Framework
AICC  Afghanistan International Chamber of Commerce
AISA  Afghanistan Investment and Support Agency
ANA   Afghan National Army
ANDS  Afghanistan National Development Strategy
ANP   Afghan National Police
ARTF  Afghanistan Reconstruction Trust Fund
ASF   Afghan Security Forces
ASI   Adam Smith International
ASP   Afghanistan Stabilization Programme
ASYCUDA Automated System for Customs Data
BRT   Business Receipt Tax
CDCs  Community Development Councils
CEO   Chief Executive Officer
CGs   Consultative Groups
CGSC  Consultative Groups Standing Committee
CIA   Central Intelligence Agency
CSO   Central Statistics Organisation
CSOs  Civil Society Organisations
DDR   Disarmament, Demobilization and Reintegration
<table>
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>DRC</td>
<td>Democratic Republic of Congo</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
</tr>
<tr>
<td>FPU</td>
<td>Fiscal Policy Unit</td>
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<tr>
<td>GCC</td>
<td>Government Coordination Committee</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
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<td>GPR</td>
<td>General Presidency of Revenue</td>
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<td>I-ANDS</td>
<td>Interim Afghanistan National Development Strategy</td>
</tr>
<tr>
<td>ICD</td>
<td>Inland Customs Depot</td>
</tr>
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<td>IDLG</td>
<td>Independent Directorate of Local Government</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>ISAF</td>
<td>International Security Assistance Force</td>
</tr>
<tr>
<td>IWA</td>
<td>Integrity Watch Afghanistan</td>
</tr>
<tr>
<td>JCMB</td>
<td>Joint Coordination and Monitoring Board</td>
</tr>
<tr>
<td>LOTFA</td>
<td>Law and Order Trust Fund</td>
</tr>
<tr>
<td>LTO</td>
<td>Large Taxpayers Office</td>
</tr>
<tr>
<td>MoCI</td>
<td>Ministry of Commerce and Industries</td>
</tr>
<tr>
<td>MoMP</td>
<td>Ministry of Mines and Petroleum</td>
</tr>
<tr>
<td>MP</td>
<td>Member of the Parliament</td>
</tr>
<tr>
<td>MTO</td>
<td>Medium Taxpayers Office</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-governmental Organizations</td>
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<tr>
<td>NPPs</td>
<td>National Priority Programmes</td>
</tr>
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<td>NSP</td>
<td>National Solidarity Programme</td>
</tr>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>Abbr.</td>
<td>Description</td>
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<tr>
<td>ODI</td>
<td>Oversees Development Institute</td>
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<tr>
<td>OECD</td>
<td>Organisation for Development Cooperation</td>
</tr>
<tr>
<td>PDPA</td>
<td>People's Democratic Party of Afghanistan</td>
</tr>
<tr>
<td>PDPs</td>
<td>Provincial Development Plans</td>
</tr>
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<td>PFML</td>
<td>Public Finance Management Law</td>
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<tr>
<td>PRR</td>
<td>Priority Reforms and Restructuring</td>
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<td>PRT</td>
<td>Provincial Reconstruction Teams</td>
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<tr>
<td>RST</td>
<td>Rentier State Theory</td>
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<tr>
<td>SAF</td>
<td>Securing Afghanistan's Future</td>
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<tr>
<td>SIGAR</td>
<td>Special Inspector General for Afghanistan Reconstruction</td>
</tr>
<tr>
<td>SRSG</td>
<td>Special Representative of the (United Nations) Secretary General</td>
</tr>
<tr>
<td>STO</td>
<td>Small Taxpayers Office</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNAMA</td>
<td>UN Assistance Mission for Afghanistan</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNICEF</td>
<td>United Nations Children Fund</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>USAID</td>
<td>US Agency for International Development</td>
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<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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### Glossary

<table>
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<tr>
<th>Term</th>
<th>Translation</th>
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<tr>
<td>Amir al-Muminin</td>
<td>commander of the faithful</td>
</tr>
<tr>
<td>arbakays</td>
<td>local tribal militias</td>
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<tr>
<td>ausolī daftarī</td>
<td>administrative principles</td>
</tr>
<tr>
<td>Bank-i Milly</td>
<td>National Bank</td>
</tr>
<tr>
<td>barāt</td>
<td>draft bill of exchange</td>
</tr>
<tr>
<td>bayt ul-māl</td>
<td>public property</td>
</tr>
<tr>
<td>bighār</td>
<td>unpaid compulsory work</td>
</tr>
<tr>
<td>chirāgh</td>
<td>lamp</td>
</tr>
<tr>
<td>Da Afghanistan Bank</td>
<td>Refers to the Central Bank of Afghanistan</td>
</tr>
<tr>
<td>darbār</td>
<td>court</td>
</tr>
<tr>
<td>dasterkhvān pūli</td>
<td>table money, meaning business allowance</td>
</tr>
<tr>
<td>dastūr ul-amal</td>
<td>edicts</td>
</tr>
<tr>
<td>hakīms</td>
<td>the rulers of provinces</td>
</tr>
<tr>
<td>jagirdārs</td>
<td>local rulers who were granted state land in exchange for military service.</td>
</tr>
<tr>
<td>jam bast</td>
<td>a term for tax assessment based on a tribal community</td>
</tr>
<tr>
<td>jihad</td>
<td>holy war, however, the word has wider implications.</td>
</tr>
<tr>
<td>Jirga</td>
<td>tribal assembly</td>
</tr>
<tr>
<td>Shurā</td>
<td>council, a term with Islamic root</td>
</tr>
<tr>
<td>jazayah</td>
<td>special poll-tax levied on non-Muslim inhabitants</td>
</tr>
<tr>
<td>kār-i hashar</td>
<td>collective work</td>
</tr>
<tr>
<td>khālīsa</td>
<td>crown lands</td>
</tr>
<tr>
<td>khānahdudah</td>
<td>Chimney tax</td>
</tr>
<tr>
<td>Loya Jirga</td>
<td>traditional grand assembly</td>
</tr>
<tr>
<td>madrasses</td>
<td>Islamic religious schools</td>
</tr>
<tr>
<td>malyat</td>
<td>taxes</td>
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<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Mantīqa</td>
<td>shared locality</td>
</tr>
<tr>
<td>Mujahidin</td>
<td>Islamic resistance fighters</td>
</tr>
<tr>
<td>mulk</td>
<td>private property</td>
</tr>
<tr>
<td>Mullā</td>
<td>religious clergy</td>
</tr>
<tr>
<td>mūstūfiat</td>
<td>provincial finance directorate</td>
</tr>
<tr>
<td>Pashtunwāli</td>
<td>Pashtun tribal code of conduct</td>
</tr>
<tr>
<td>qawm</td>
<td>kin, village, tribe or ethnic group</td>
</tr>
<tr>
<td>qāzi</td>
<td>Islamic Judge</td>
</tr>
<tr>
<td>Sadr-i Azam</td>
<td>prime minister</td>
</tr>
<tr>
<td>sar dar gūmi siāsay</td>
<td>political confusion</td>
</tr>
<tr>
<td>sargālah</td>
<td>cattle</td>
</tr>
<tr>
<td>Sarrāfs</td>
<td>money changers</td>
</tr>
<tr>
<td>Sharia</td>
<td>Islamic Law</td>
</tr>
<tr>
<td>shuraka-i dawlat</td>
<td>partners of the state</td>
</tr>
<tr>
<td>shārvālī vulāyatay</td>
<td>provincial municipality</td>
</tr>
<tr>
<td>shārvālī vulūs‘valī</td>
<td>district and rural municipality</td>
</tr>
<tr>
<td>si-kot</td>
<td>one-third</td>
</tr>
<tr>
<td>sufi</td>
<td>practitioner of Sufism</td>
</tr>
<tr>
<td>tāhweel</td>
<td>tracts of land held as grants</td>
</tr>
<tr>
<td>tanzīms</td>
<td>organizations</td>
</tr>
<tr>
<td>tashkīl</td>
<td>Staffing establishment and list of sanctioned posts</td>
</tr>
<tr>
<td>ulamā</td>
<td>Islamic religious scholars</td>
</tr>
<tr>
<td>valāyat</td>
<td>province</td>
</tr>
<tr>
<td>valī</td>
<td>governor</td>
</tr>
<tr>
<td>vulūs‘valī</td>
<td>district</td>
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<td>waq‘f</td>
<td>religious endowment</td>
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Wolūsi Jirga  
Lower house

Zakat  
an obligatory Islamic tax, one of the five pillars of Islam
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The US Library of Congress transliteration system is used for names, places, and terms rendered in Dari (Persian) and Pashtu. However, for common names such as provinces and terms, officially used, the most common forms are employed.

As Afghanistan uses the Solar Hijri calendar, the dates are converted to Gregorian. Because a new Solar Hijri year starts on March 21, a complete year corresponds with two Gregorian years; the first year corresponds with the first nine months while the second corresponds with the last three months. Thus, where the dates are converted from Solar Hijri calendar to Gregorian, they show two years. However, for the analyses of the data available in the Gregorian calendar, the data of the first year is used as it corresponds to most of the months. The Ministry of Finance of Afghanistan also uses this method.

For 2001 and 2009 data, the unit of currency of Afghanistan, the Afghani, is converted to the US dollar. To do so, the average annual exchange rate of Da Afghanistan Bank is used. However, in Part 1 of the thesis the currency is mostly in Kabuli and Indian rupees as the analyses are in percentage.
Figure 1: Map of Afghanistan

Source: Google Maps, November 24, 2013.
Introduction
State Revenue and State Building

The fiscal history of a people is above all an essential part of its general history. . . our people have become what they are under the fiscal pressure of the state.¹

Joseph Schumpeter(1883-1950)

Max Weber, who largely shaped the early twentieth-century ideas about the state, underestimated the role of revenue and taxation when he distinguished the modern state from its predecessors. Weber focused on the organizational means employed by the state rather than the functions it performed or the motivations that drove state governing elites. He said little about the latter issues and almost nothing about revenue and taxation.² Weber argued that:

A compulsory political organization with continuous operations ...will be called a “state” in so far as its administrative staff successfully upholds the claims to the monopoly of the legitimate use of physical force in the enforcement of its order... [The modern state] possesses an administrative and legal order subject to change by legislation, to which the organised activities of the administrative staff, which are also controlled by regulations, are oriented. This system of orders claims binding authority, not only over members of the state, the citizens, most of whom have obtained membership by birth, but also to a very large extent over all action taking place in the area of jurisdiction. It is thus a compulsory organization with territorial basis.³

However, Weber’s contemporaries and intellectual rivals, Joseph Schumpeter and Rudolf Goldscheid, recognized the role of revenue and taxation and challenged Weber’s view on the state. Schumpeter and Goldscheid termed their approach “fiscal

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Nematullah Bizhan

Introduction

sociology". They explored the historical shift in Europe from the "demesne state," which largely lived from royal properties, to the "tax state" that resourced itself by taxing its citizens. The important contribution which the "tax state" made was that it employed many people, created a dynamic of state expansion, and became the driver of social change. This notion provided inspiration for the work of other scholars, notably the historical work of Charles Tilly on the effects of war and the search for revenue on state formation in Western Europe.

Tilly's work concentrated on state formation in the Western European countries which largely derived their revenue from taxes. However, in the current age, natural resource and strategic rents such as oil and foreign aid are important sources of revenue for most developing countries. State building therefore takes on different characteristics, depending in part on the nature and sources of state revenue and their interaction with the pre-rent dynamics. The literature highlights that taxation and rents can shape the course of state building differently and produce particular political and institutional outcomes.

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5 Ibid., 400.


Since the nineteenth century, foreign aid has been given for different strategic, economic and humanitarian reasons.\textsuperscript{8} However, following the terrorist attacks of 11 September 2001, aid has largely concentrated on reducing global poverty and war on terror in fragile (disrupted and failed) states.\textsuperscript{9} These states, according to the World Bank, suffer from "widespread poverty and inequality, economic decline and unemployment, institutional weakness and poor governance, violence, lawlessness, and persistent conflict."\textsuperscript{10} Further, "[b]y default, aid has become the chosen instrument for influencing the political and institutional development of these societies."\textsuperscript{11} Although donors first aimed to end persistent civil wars in recipient countries, this was later redefined to rebuilding legitimate political institutions to prevent further violence.\textsuperscript{12}

While the Marshal Plan was a major success for the recovery of post-war Europe and inspired the subsequent aid programme,\textsuperscript{13} recent donor intervention have not lead to successful state building.\textsuperscript{14} The outcomes of interventions have largely depended on the specific socio-political contexts and the nature of aid. Attempts at state building in situations of aid dependency have tended to create their own problems, such as state


\textsuperscript{9} For more discussions for example see Francis Y. Owusu, Post-9/11 U.S. Foreign Aid, the Millennium Challenge Account and Africa: How many Birds can One Stone Kill?, 2004, Iowa State University.


\textsuperscript{11} Miles Kahler, "Aid and State Building," in \textit{Annual Meeting of the American Political Science Association} (August 30-September 2, 2007), 3.

\textsuperscript{12} Ibid., 1.

\textsuperscript{13} See Stephen Browne, \textit{Foreign Aid in Practice} (London: Pinter Reference, 1990), 1.

\textsuperscript{14} Kahler, "Aid and State Building," 2.
autonomy from society, shifting government accountability from citizens to donors, and reducing budget transparency. A greater flow of aid outside the state system may exacerbate these adverse impacts of aid on state building. These are not the sole product of aid dependency but the interplay with the pre-aid socio-political conditions and institutions.

However, while much aid is aimed at state building, very little attention has been paid to aid directly given to the state (on-budget) or to projects bypassing the state (off-budget) and how they can have different effects on institution building. Off-budget aid in particular has been widely criticized for being counterproductive to state building, but is still poorly explored in the academic literature.

Thus, the approach of state formation, though important, is of limited use for examining state building in economies not based on taxation but rather on oil revenue and aid. In response to the two oil boom periods in the mid-1970s, rentier state theory (RST) was developed to explain the effects of oil revenue on governance and state-society relations. Eventually, the different sources of state revenue captured more attention in the literature. RST argues that a rentier state is relieved from citizens’ pressure for accountability. This situation largely occurs because the state derives a greater share of its revenue from external resources in the form of rent instead of domestic taxation, thereby increasing the state’s autonomy from the society. While RST predominantly

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16 Matthew Gray, A theory of "Late Rentierism" in the Arab States of the Gulf, Georgetown University School of Foreign Service in Qatar, Qatar, 2011, 2.

17 Beblawi and Luciani, The Rentier State; Gray, A theory of "Late Rentierism" in the Arab States of the Gulf.
has focused on oil-producing countries, it can also explain the effects of foreign aid on state building.

**Revenue and State Building in Afghanistan**

Over the course of Afghanistan's modern history since 1747, a number of factors have been important in shaping the process of state building. These have included the geostrategic location of the country and its land-locked nature; its subsistence-based economy; and foreign interference and invasions as a by-product of the rivalry between imperial powers and neighbouring states in the region.¹⁸ The ethnic diversity of Afghan society,¹⁹ ideological extremism,²⁰ civil wars and the drug economy (especially since the late twentieth-century) have also influenced state building.²¹ However, throughout this period, the availability (or absence) of external revenue in the form of tribute, subsidies and foreign aid has been a dominant factor that has shaped public institutions and the relations between these institutions and society.²²

Historically, Afghanistan has had a weak taxation system, and it has to different degrees relied at various times for its state building projects on external revenue. In particular, from the mid-twentieth century until the 1980s the high dependence on aid and the sales

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of natural gas led to the emergence of a rentier state. In this context, governments were less accountable to their citizens. This is something which, along with poor administration, weakened state-society relations.

Securing reliable financial resources was long a key problem in the political economy of Afghanistan. Continued dependence on external financing not only preoccupied the rulers with the need to comply with donor policies, which were linked with donor geostrategic interests in Afghanistan, but also reduced the necessity for them to build an effective taxation system which might generate revenue and promote a fiscal social contract between the state and its citizens. This situation also hindered both the integration of the state and society, and the rulers' accountability to the citizens of Afghanistan.

Following the removal of the Taliban theocratic regime by the US-led military intervention in late 2001, developments in Afghanistan took place in an aid-dependent context, with foreign aid playing a critical role. Not only did this situation restore Afghanistan's dependence on aid, but the way in which aid was delivered also had a significant impact on state building and consequently on state-society relations. This period is characterized by a significant relationship between aid and state building which makes study of the impact of aid on state building unique in this era.

Between 2001 and 2009, the effects of foreign aid upon the state building were mixed. It prompted the expansion of public services and economic growth, and contributed towards reforms in the area of taxation and budgeting. However, these developments

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were not accompanied by the creation of an effective tax system, budget transparency and improved state-society relations which are important elements of state building and, especially, in the reduction of aid-dependency.

The Importance of the Study

According to the Organisation for Development Cooperation (OECD), between 2009 and 2011, 144 out of 193 countries in the world officially received aid, although the amount of aid that they receive differs. Aid has, therefore, become an important source of revenue for recipients; especially for those countries which cannot deliver public services without foreign aid. Additionally, in some of these countries with weak institutions a greater amount of aid bypasses the state through off-budget channels, producing distinctive outcomes.

Although academics have undertaken numerous studies of the conflicts, wars, ethnography, state, society and politics of Afghanistan, there have been relatively fewer attempts to understand Afghan state building in relation to its sources of income. This study, therefore, contributes to the state building literature in two ways. Firstly, it unpacks the effects of aid dependence on state building. Secondly, it fills a gap that exists in the literature about how the way in which aid is delivered shapes these dynamics. In particular, it enhances the understanding of the effects of foreign aid upon Afghan state building between 2001 and 2009.

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The Thesis Questions

This thesis examines the effects of aid on state building in Afghanistan. It does so by exploring the following central question:

How has the high dependence of the state on foreign aid impacted upon Afghan state building between 2001 and 2009?

To explore this question, the thesis addresses a subsidiary question:

What have been the effects of foreign aid and its delivery mode between 2001 and 2009 on tax reforms, budget transparency, and state-society relations?

However, the study of this period in isolation from the history of state building in Afghanistan is not adequate to study state building and its relationship with foreign aid. Therefore, the thesis also examines a second main question:

What have been the main sources of Afghan state revenue since 1747 and how have they affected state building?

Hypothesis

The identification of the research questions leads to the formulation of the following hypotheses to be tested throughout the thesis.

A range of historical factors, such as poor economy, weak institutions, conflict and invasions (by powerful states), contributed in Afghan history to a pattern of both (a) low tax mobilization and (b) seeking external support, resulting in aid dependence.

Historically, these have contributed, along with geopolitical factors, to persistent weak state-society relations in Afghanistan.

The events in post-2001 (and particularly the scale, and counter terror objectives of aid) created a situation of (a) high aid-dependence, and (b) off-budget and uncoordinated pathologies to that aid.

These two conditions resulted in poor performance in taxation and transparency.

Aid dependency and off-budget, along with poor performance in taxation and transparency, further weakened the state-society relations.

Research Methodology and Approach

The thesis uses a mixed qualitative and quantitative methodology. Information on tax revenue, aid and budgets, as well as macroeconomic data, were collected from the Ministry of Finance and other Afghan government departments as well as foreign
donors in Afghanistan. Where necessary, the data were cross-checked with the World Bank, International Monetary Fund (IMF) and other agencies. The quantitative data were used to examine a simple correlation between different financial variables, such as aid and tax revenue, and to validate a situation of high aid-dependency in Afghanistan.

Thirty-five semi-structured interviews were conducted in Kabul from March to August 2011. The interviewees were asked some broad and less-guided questions that allowed them to discuss issues which they considered important. These interviewees included government ministers and former ministers, presidential advisers, leaders of political parties, civil society activists, donor agency officials, foreign advisers who worked with government, provincial officials (including governors and müstufis or provincial financial directors), private sector representatives, and academics at Kabul University. It should be noted that the interviewees were sometimes hesitant about sharing their views on sensitive political issues. Assurances of keeping their identity anonymous overcame this challenge. The knowledge of the country, including familiarity with local languages (Dari and Pashtu), and earlier experiences of the author in Afghanistan, were crucial in building trust while conducting the interviews.

Additionally, informal discussions were held with income-tax payers, shopkeepers and members of local communities to get a broader picture of the situation and validate some of the questions which emerged during the fieldwork at that level. Published and unpublished works (in Dari and Pashtu) and original Afghan government and donor documents were consulted. Moreover, the author participated in two important national events in Kabul to observe the fiscal dynamics of state building and government-donor relations. These were a seminar held by the Ministry of Finance (April 2011), attended by its financial, accounting and administration managers to assess achievements and challenges; and a conference which was organized by the “Transition Coordination Commission” (June 29-30, 2011) to discuss the transfer of security responsibilities from
the North Atlantic Treaty Organization (NATO) and International Security Assistance Force (ISAF) to the Afghan security forces in seven provinces, as well as the economic implications of such a transition.

There were two major challenges in collecting the financial data. Firstly, there was a lack of reliable primary data on the sources of state revenue during the early years of state building in Afghanistan. In order to overcome this, credible secondary resources such as published materials were consulted. Secondly, despite the fact that in the post-2001 period the financial data in Afghanistan were well documented, there were several shortcomings. The available data were subject to large margins of uncertainty and incompleteness, especially due to changes in the classification of information particularly in relation to domestic revenue. In addition, different sources at various times offered diverse figures. Some of them, which the government produced, did not match the ones that, for example, the World Bank made available. To overcome this challenge in relation to government figures, the World Bank data were used. It should be noted that sometimes the variation among these figures was significant.

The thesis uses the approach of political economy by applying RST to analyse the effects of foreign aid on state building in Afghanistan. Although RST mainly describes the effects of rents on governance and state-society relations, the thesis argues that it could also explain the effects of aid. It does so by identifying the similarities and differences between aid and oil revenues and proposes a modified rentier framework.

**Thesis Outline**

The thesis is divided into three parts: definitional and conceptual framework (Chapter 1), historical context (Chapter 2) and empirical analyses (Chapters 3, 4, 5 and 6).

Chapter 1 examines how tax revenue and rents (oil revenue and foreign aid) have different implications for state building. In so doing, it defines state, state building and state-society relations and discusses the impacts of taxation, oil revenue and aid upon
state building. Finally, the chapter examines how RST can be used to describe the effects of aid on state building in situations of aid-dependency.

Chapter 2 focuses on Afghanistan and examines the state sources of income from external revenue (tribute, subsidies and aid) and taxation. It looks at how these along other factors have shaped state building over the course of Afghanistan’s modern history. This Chapter offers the background for the research presented in the third part.

Chapter 3 examines the development of aid-dependency between 2001 and 2009. It focuses on donors’ involvement in state building and how aid became the main source of revenue for the Afghan state and shaped the subsequent developments. This provides the basis for considering how aid affected tax reforms, budget transparency and state-society relations.

Chapter 4 explores how foreign aid affected tax reforms between 2001 and 2009. In this, it addresses three questions: What kind of incentives were created through aid for reforming the tax system? What reforms were initiated and how were they implemented? What were the deficiencies in the reforms and how did they affect state-society relations?

Chapter 5 focuses on the role of aid in budget transparency. It explores how aid shaped the budgeting process, and the measures taken to make the budget transparent to the citizens of Afghanistan.

Chapter 6 looks at state-society relation in Afghanistan and how foreign aid and its delivery mode affected it between 2001 and 2009. It explores the impacts on the relations between donors and the Afghan government and donors and societal actors.

Finally, the Conclusion assesses the hypothesis and pulls together the major findings of the thesis.
PART 1

A DEFINITIONAL AND CONCEPTUAL FRAMEWORK
Chapter 1
Revenue and State Building: A Definitional and Conceptual Framework

Introduction

This chapter examines how sources of state revenue, such as taxation and rents, oil revenue and foreign aid, have different implications for state building. Taxation has been an important factor for the development of states. In particular, after the seventeenth century, taxation contributed to the emergence of representative institutions and the increased capacity of states in Western Europe. Since the mid-twentieth century, however, the dependence of the states on oil and foreign aid for revenue has altered the taxation based pattern of state building and produced different political and institutional outcomes.

The chapter establishes a definitional and conceptual framework through which to understand major sources of state revenue and how they impact on the patterns of state building. In this, it uses the approach and concept of state formation and modified renter state theory (RST). The chapter first defines state, state building and state-society relations, and explores the role of taxation, oil revenue and foreign aid in state building process. Finally, it modifies RST and illustrates the effects of foreign aid on state building.

Definition of Key Terms

The State

Before defining state building, it is imperative to briefly assess the three main concepts of state. The first, in the tradition of Hobbes, Rousseau and Locke, the state is viewed as
a social contract.1 Accordingly, “the authority of the state rests upon an agreement among the members of a society to acknowledge the authority of a set of rules or a political regime.”2 This emphasizes the state and society relationship in a way that suggests not only submission of all members of society to the state, but also a responsibility by the state to deliver public goods in return.3 The second concept, formulated by Max Weber, defines the state as “a human community” that monopolizes the legitimate use of force within a given territory,4 whether that legitimacy derives from charisma, tradition or law. This approach emphasizes a state’s means instead of its ends.5 The third approach focuses on juridical statehood, not on the de facto attribution. Thus according to the 1933 Montevideo Convention the key characteristics of a state include “a defined territory”, “a permanent population”, “an effective government” and “the capacity to enter into formal relations with other states”.6


2 Ibid.


5 Ibid.

6 Einsiedel, "Policy Response to State Failure," 15. The Montevideo Convention, in full Montevideo Convention on the Rights and Duties of States, was signed at Montevideo, Uruguay, on December 26, 1933. It established the standard definition of a state under international law and indicated that all states were equal sovereign units consisting of a permanent population, defined territorial boundaries, a government, and an ability to enter into agreements with other states. Among the convention’s provisions were that signatories would not intervene in the domestic or foreign affairs of another state. See Encyclopaedia
Weber's view largely shaped twentieth-century ideas about the state. He distinguished the modern state from its predecessors by focusing on the organizational means it employed, rather than the functions it performed or the motivations that drove the state elites. In doing so, he mentioned little on the latter issues and almost nothing about revenue and taxation. However, Weber's contemporaries and intellectual rivals, Joseph Schumpeter and Rudolf Goldschmidt, noticed the gap. "They argued the case for what they termed ‘fiscal sociology’, and asserted with vehemence the central role of the mode of financing in driving socio-economic change." Schumpeter particularly called on "the students of public finance to take a comparative and historical approach to their subject, and to treat tax policy as both a “symptom” and “cause” of large-scale political and economic changes."

State Building

State building mostly refers to “interventionist strategies to restore and rebuild the institutions and apparatus of the state.” State institutions include bureaucracies, legal system and the military. The focus on institutional aspect of state building—how the state “builds” itself through its institutions—rather than state as polity, “pit[s] the state

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and society directly against each other in their attempt to shape the contours of power and to elaborate a vision of what a political community should look like."

There are two approaches to understanding the role of local (national) and external (international or foreign) actors in the state building process. First, the "exogenous" school of thought views state building as an intervention by external actors to reform or consolidate a stable, and sometimes democratic, government over an internationally recognized territory. Thus, the United States (US) interventions in Afghanistan (2001) and Iraq (2003) are referred to as state building. The second views state building as an "endogenous" or national process driven by state-society relations. Accordingly, the role of external players is limited, although they can foster or hinder state building. The supporters of this view argue that if state building is to be legitimate and sustainable, the efforts that shape it and lead it should be local, while the external actors should only play a facilitating role in the state building process.

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13 See Scott, Literature Review on State-Building, 7-8.


15 See ibid.


17 Eric M. Uslaner, *Corruption, Inequality, and the Rule of Law: The Bulging Pocket Makes the Easy Life* (Cambridge: Cambridge University Press, 2008), 7. Richard Caplan, for example, argues that state building denotes the "set of actions undertaken by national and/or international actors to establish reform and strengthen state institutions where these have been seriously eroded or are missing." Richard Caplan, *International Governance of War-torn Territories: Rule and Reconstruction* (Oxford: Oxford University Press, 2005), 13.
However, by considering the means and objectives, Deborah Brautigam et al. provide a more elaborate definition of state building. They define state building "as the process of increasing the administrative, fiscal and institutional capacity of governments to interact constructively with their societies and to pursue public goals more effectively."\(^{18}\) This definition is used in this thesis.

Nation building, state building and governance are the three terms that often create confusion. Although some scholars use nation building and state building interchangeably, there is much misconception over these two terms.\(^{19}\) Nation building refers to the "establishment of a common national identity within a given geographical area based on shared language and culture."\(^{20}\) State building is an essential element of nation building\(^{21}\) and historically it has played a crucial role in nation building, creating a nation that falls within defined boundaries.

Systems of governance operate at many different levels such as international, national and local. The state only represents the territorial organizational form of governance. "Governance is concerned with the way power is exercised and the sets of rules that govern behaviour in different arenas to pursue collective goals and interests."\(^{22}\)

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\(^{19}\) Scott, Literature Review on State-Building, 3.


\(^{21}\) Scott, Literature Review on State-Building, 3.

Although both state building and governance are concerned with making institutions function more effectively, "state building is about constructing the foundations of the very (government) edifice within which governance ought to operate." Without prior construction of this edifice, governance interventions are likely to have only limited impact.

**State-society Relations**

State building has major consequences for state-society relations. However, the explanation of such relations is diverse in the literature. Scholars use various approaches based on the definition of society-centred states and state-centred societies to explain the state-society relations. Marxists and several schools of pluralism argue, though in different ways, that society is the dominant term in the relationship which shapes and even determines the character of the state. In contrast, the approaches of so-called neoliberal, elitist and institutional statists argue that the state has the central role in shaping the nature of society. They assert that "the state acts in pursuit of its own interests and may well have an independent role in shaping the nature of society." The third approach, according to Timothy Mitchell, claims that "the state should not be taken as a free standing entity, whether an agent, instrument, organization or structure,

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23 Ibid., 49-50.


26 Ibid.
located apart and opposed to another entity called society. The proper object of consideration in explaining the state-society relation should not be either state or society, but rather the ways in which their unstable division is demarcated. This approach indicates a convergence in the explanations of state-society relations as it emphasizes a dynamic relationship between state and society.

Other scholars, such as Loren B. Landau argues that contemporary studies must consider state-society relations beyond the domain of domestic states and their societies. He asserts that it is important to consider the relationship in the light of other political processes and political trends, such as decentralization—the process of redistributing, for example, functions and powers away from a central authority, globalization—the process of international integration, and state collapse—where the structure, authority, law, and political order falls apart, because:

[Decentralisation, globalisation and state collapse] are generating new political configurations that question the validity and utility of a perspective privileging dyadic relations between state and societies. Throughout much of the world, a dual process is taking place in which the authority and responsibility once vested in central states is (1) being shifted to subnational political or administrative unites (e.g. provinces, regions, and municipalities), and (2) being voluntary or involuntary ceded to supranational, regional, and global bodies.


28 Ibid.


31 Encyclopedia of Governance, s.v. "State-society Relations."
In many low-income countries, aid redefines the patterns of decision making and affects citizen’s relation to domestic authorities. On the one hand, it improves ties between government and societies by assisting governments to regulate or assist their citizens. On the other, it requires or encourages officials to implement policies to be developed without popular consent. Even if participation ought to be required, input may be structured in ways that minimizes critical debate and participation. The impact of international actors is not yet fully realized in state-society relations, although it seems not to be uniform. Eventually the impacts may depend on factors such as the capabilities of domestic states and international players, including resources at their disposal.32

Accountability is an important aspect of the state-society relationship which arises through state-society interactions. Francis Fukuyama refers to accountable government where “the rulers believe that they are responsible to the people they govern and put the people’s interests above their own.”33 Accountability can be achieved in different ways. It can arise from moral education (as has been the case, for example, in China) and formal political system (as is largely the case in the Western political system) mostly referred to as procedural or formal accountability.34

Revenue and State Building

Sources of state revenue are key in determining the trajectory of state building. Margaret Levi observes that:

32 Ibid.


34 Ibid.
The history of state revenue production is the history of the evolution of the state... One major limitation on rule is revenue, the income of the government. The greater the revenue of the state, the more possible it is to extend rule. Revenue enhances the ability of rulers to elaborate the institutions of the state, to bring more people within the domain of those institutions, and to increase the number and variety of the collective goods provided through the state.  

How revenues are collected—the compromises rulers make with their citizens to collect them, which institutional capacity the state develops to achieve this task, and the extent to which the institutional arrangements reflect the interests of both rulers and ruled—are some key questions for every political system.  

The literature highlights the fact that states can have access to different sources of revenue but that these can have different implications on the patterns of state building. Some prominent scholars such as Hossein Mahdavy, Hazem Beblawi, Giacomo Luciani, Levi, Jonathan Di John, Mick Moore and Brautigam argue that the sources of state revenue, taxation or rents (e.g. oil revenue and aid), shape the patterns of state building and produce particular political and institutional outcomes. In the

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35 Levi, Of Rule and Revenue, 1,2.

36 Vandewalle, Libya Since Independence: Oil and State-building, 17-8.


38 Levi, Of Rule and Revenue; Moore, "Revenues, State Formation, and the Quality of Governance in Developing Countries."; John, The Political Economy of Taxation and Tax Reform in Developing Countries; Brautigam, Fjeldstad, and Moore, Taxation and State-building in Developing Countries: Capacity and Consent; Brautigam, "Building Leviathan: Revenue, State Capacity, and Governance."; OECD, Do No Harm: International Support for State Building; Beblawi and Luciani, The Rentier State; Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran."
contemporary developing world, broadly, sources of state income can be classified into
tax revenue and rents.

Taxes are defined as “regularly paid compulsory levies on private units to produce
revenues to be spent for public purposes.”¹³⁹ Taxpayers do not necessarily receive the
direct benefit of their payments. Rent in general indicates the “income derived from gift
of nature.”¹⁴⁰ It exists in all economies in different degrees. Accordingly, a state, which
largely derives its revenue from taxation, is referred as a “tax state”.¹⁴¹ While if the
major source of revenue is derived from rent, it is called “a rentier” or “allocation”
state.¹⁴² The state has to put in political and organizational efforts working with its
citizens, to collect tax revenue.¹⁴³ Tax revenue has been a basic source of income for
governments since the emergence of early states.¹⁴⁴ However, rents, mostly as a recent
phenomenon, derive from one or a few sources. They require little political and

¹³⁹ Rudolf Braun, "Taxation Sociopolitical Structure and State Building: Great Britain and
Brandenburg-Prussia " in The Formation of National States in Western Europe, ed. Charles Tilly

¹⁴⁰ Hazem Beblawi, "The Rentier State in the Arab World," in The Rentier State, ed. Hazem
Beblawi and Giacomo Luciani (London: Croom Helm, 1987), 49.


Beblawi and Giacomo Luciani (London: Croom Helm, 1987), 63-82.


¹⁴⁴ For more discussion on the history of taxation see David F. Burg, A World History of Tax
Rebellions: An Encyclopaedia of Tax Rebels, Revolts, and Riots from Antiquity to the Present
(New York: Routledge, 2004). There are different kinds of taxes: The terms “direct taxes” and
"indirect taxes” distinguish between taxes, which are levied when income is earned, and when
income is spent respectively. Sales taxes, import taxes and value added taxes (VAT), for
example, are different forms of indirect taxes, while taxes on income and land are different
forms of direct taxes. See Arye L. Hillman, Public Finance and Public Policy: Responsibilities and
Limitations of Government (Cambridge: Cambridge University Press, 2003), 493. Borrowing is
another way through which a government can obtain income. For details on this see Hugh
organizational efforts for collection, and involve little interaction between the state institutions and the citizens. Natural resource rents and strategic rents are two main kinds of them. The dominant forms in the contemporary world are oil revenue and foreign aid.\textsuperscript{45}

States can have access to other sources of income such as domestic borrowings and non-tax revenues which necessitate examining them in detail, although these are beyond the scope of this research. The focus here remains on the major variations between states that are largely dependent on tax revenue and those which derive the bulk of their revenue from rent.

**Taxation and State Building**

Historically, tax revenue has not only been a major source of state income, it has also had a central role in development of the state. This could be observed from Anoshyrvan, a Sassanian ruler (A.D. 531-579), who said that "royal authority exists through the army, the army through money, money through taxes, taxes through cultivation, cultivation through justice..."\textsuperscript{46} The statement highlights the relation between state and citizens and how taxes can be instrumental in the existence of a state and in the

\textsuperscript{45} See Moore, "Political Underdevelopment: What Causes Bad Governance," 401-02. Also, Adam Smith made a distinction between rent and other sources of income: namely wages and profit. "Rent", says Smith "enters into the composition of the price of commodities in a different way from wages and profit. High or low wages and profit are the causes of high or low price; high or low rent is the effect of it." Adam Smith, *The Wealth of Nations* (London: Everyman’s Library, 1960), 412. Meanwhile, Ricardo argues that a rent is not merely an income from lands but generally a reward for ownership of all natural resources, “mines as well as land”. David Ricardo, *Principles of Political Economy and Taxation* (London: Everyman’s Library, 1962), 590. quoted in ; Beblawi, "The Rentier State in the Arab World," 49. ibid.

provision of effective governance. Taxes of some kind appear to have existed since emergence of advanced civilizations. Governments of the ancient states of Persia, Greece, Egypt, Rome and China, all, for example, levied taxes on property, on the sales of goods, on inheritances and customs duties to finance their expenditure. However, until the eighteenth century, taxation was not accepted as a regular compulsory levy. Before this, tax collection was very often "expedient in times of emergency and even an abuse which as soon as possible should be replaced by income from public property, particularly domains, and by voluntary contributions." It was only later that taxation came to be accepted as a permanent institution and as the "inseparable twin of the modern state", when it was justified to fund public goods.

The ability of states to collect revenue had a significant impact on state development. As Schumpeter notes "[t]axes not only helped to create the state, they helped to form it." Or as Michael Mann argues, between the eighteenth and mid-twentieth century,

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47 Burg, A World History of Tax Rebellions: An Encyclopaedia of Tax Rebels, Revolts, and Riots from Antiquity to the Present, x.

48 Ibid.

49 Braun, "Taxation Sociopolitical Structure and State Building: Great Britain and Brandenburg-Prussia", 244.

50 F. Karl Mann, "The Sociology of Taxation," The Review of Politics 5, no. 2 (1943): 225. For example, in the time of Julius Caesar Roman citizens did not pay tax. Instead, the people of occupied territories by Romans were held responsible for paying the cost of military operations and other revenue required for the Roman Empire. Only indirect taxes were raised in Rome itself. Dora Hancock, An Introduction to Taxation: Policy and Practice (Great Britain: Chapman and Hall, 1995), 2.

51 Mann, "The Sociology of Taxation," 225.

“Western states originated as war making monarchies.” Similarly, Tilly argues that war and perceived threats had a central role in the emergence of modern states in Western Europe by creating a demand for revenue. Taxes and conscription were heavy because armies were large and costly and wars were frequent. As the tax extraction grew larger, popular resistance against it strengthened. However, that did not succeed in reducing the tax burden because wars continued and became even larger and more expensive. The resistance in the eighteenth and nineteenth-centuries led eventually to representative government, making bureaucracies responsible to legislatures. This development was based on “perceptions of mutual interest between controllers of state (monarchies) and larger taxpayers, especially merchants and others whose assets were mobile.” The demand for no taxation without representation led towards democratization.

The expansion of rulers’ bargaining power in relation to powerful constituents during the thirteenth and fourteenth centuries in France and England resulted in the establishment of a national tax system. The development of military technology increased the costs of conflicts and improved the bargaining power of monarchs. War helped to justify taxation because it was defined as a collective good. Although rulers


57 Levi, Of Rule and Revenue, 120.
did not make war to justify taxation, they used it to increase their power and demand for revenue. Accordingly, war laid the ground for social contract theory of state, “in which rulers collected taxes to enable them to act on behalf of the common good.”

There can be two kinds of relationships between interstate war and revenue bargaining. Firstly, the perceived threat of war by a state leads to the search for higher state revenue. Secondly, this may encourage revenue bargaining between the state and taxpayers. Although in some parts of the contemporary world like Africa, the absence of perceived external threats to the state has reduced the incentive to raise revenue. For example, the *de facto* international guarantee of borders in Africa by the UN system after decolonization in the 1960s and the end of the Cold War since 1991 has made some African states “unmotivated to rule their frontiers and all their populations very actively, and therefore relatively unmotivated to tax widely.” The amount of aid they received also contributed to such lack of motivation.

Taxation also fostered state capacity. Since the eighteenth century, the need for revenue due to war and perceived threats created political incentives to establish a functioning bureaucracy in Europe which in turn had to collect the needed revenue. This prompted

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58 Ibid.


60 Ibid. 53.


rulers to strengthen their government’s extractive capacity. The legislature in Britain used their “power of the purse” to hold the government accountable for the use of citizens’ tax revenue by asking for regular reports. Government departments became more skilled and sophisticated in responding to demands from the legislature. Hence, accountability increased the demands for capacity. 63

However, Tilly’s thesis of “war making state making” raises the question of whether war is necessary to create effective and accountable states. Despite the fact that war has been a significant factor in the development of the states in Europe, in more recent times, war did not make states, especially as it has been financed by other sources such as debt rather than increases in taxation. For example, case studies of eleven Latin American countries, in four of the five geopolitical zones in Latin America (La Plata, Basin, Pacific Littoral, Northern Andes and Mexico) in the nineteenth century, show that external threats did not prompt leaders to raise taxes, but instead they relied on debt. 64 Miguel A. Centeno argues that the “availability of external resources, state organizational capacity, and alliances with social actors are shown to help determine the political response to armed conflict.” 65 Similarly, Moore argues that in the developing world, war and external threats are no longer a major source of motivation for building states. He asserts that contemporary state elites are judged by their citizens based on their performance, and in terms of some combination of democratic or popular


64 See Miguel A. Centeno, "Blood and Debt: War and Taxation in Nineteenth-Century Latin America," American Journal of Sociology 102, no. 6 (1997). The case studies included all the countries in four of the five geopolitical zones of Latin America. These were Argentina, Uruguay (La Plata Basin), Chile, Peru, Bolivia (Pacific Littoral), Ecuador, Colombia, Venezuela (Northern Andes) and Mexico.

65 Ibid., 1565.
legitimacy and delivery of public benefits. The elites are therefore enthusiastic to reduce poverty, curb inflation or maintain high levels of employment, which places contemporary governments and regimes under clear threat of replacement through internal pressures if they fail. In East Asia such internal pressures motivated governments to construct effective developmental states in the late twentieth-century.

**Taxation and State-society Relations**

Taxation forms the nexus of state-society relations especially how the state taxes the society. The modern state, as Pierson argues, "... could not normally hope to extract resources by force alone, not least because the costs of compliance might make such a regime counterproductive." Authority and legitimacy of the modern state are important for compliance of people. Even if the possibilities for coercion by the state are at their greatest, people can always exercise some level of non-compliance. Acceptance of its rule by most people most of the time, for whatever reason, is a requirement of a stable state.

Although the bulk of income tax is deducted at source from civil servants and others employed by the formal sector, the government capabilities in collecting other types of taxes depend on the people’s willingness to pay them. Issues related to the coercive

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69 Ibid., 22.

70 Governments rely on withholding taxes for easy collection of individual income taxpayers.
capacity of the state and some social factors are important in assessing the collection capacity of government. The former include the risk of detection and punishment and impact of penalties on taxpayers, and the latter emphasize in "the sense of moral obligations; the perception of tax system’s fairness and, in particular, the perception that other taxpayers are also paying."\textsuperscript{71} This is compounded by taxpayers’ belief that governments spend their tax money wisely and that would benefit them.\textsuperscript{72}

Taxation is "in a sense, a mirror of state-society relations and depends on other state functions: the provision of security and the rule of law."\textsuperscript{73} It determines the strategic link between the state and society and in this aspect the character of a society, the notion of fiscal contract and the embeddedness remains essential.\textsuperscript{74}

Although states tax societies, they do not do it equally. Those who exit the tax net tend to be from the lower income earner groups, which are exempt, or from the top ones which evade taxes.\textsuperscript{75} Furthermore, in many developing countries the informal sector, which comprises most of the labour force and operates out of the purview of state scrutiny, remains outside the tax net.\textsuperscript{76} This type of relationship misses to improve governance by bringing together the government and the informal sector.

\textsuperscript{71} Brautigam, "Introduction: Taxation and State-building in Developing Countries," 6.

\textsuperscript{72} Ibid.

\textsuperscript{73} OECD, \textit{Do No Harm: International Support for State Building}, 99.

\textsuperscript{74} Brautigam, "Introduction: Taxation and State-building in Developing Countries," 24.

\textsuperscript{75} Ibid., 25.

While taxation seems to encourage bargaining between the state and society, the relationship is not a unilaterally positive one. It depends on how state and society negotiate (or fail to negotiate) to raise revenue.  

If the state uses coercive measures for collecting taxes, it may provide revenue for the state, but at the same time it will create a perception of injustice and arbitrariness. Thomas P. Bernstein and Xiabo Lu argue that if revenue-raising aims to make a lasting contribution to increase state capacity, governments need to limit extraction and secure societal cooperation.

How states spend tax money can affect their legitimacy to demand revenue from taxpayers, indicating a fiscal contract between the state and society. Citizens, as Levi emphasizes, understand that they need to pay for services, whether security or other public goods. However, there is mixed evidence of whether the payment of taxes in developing countries can be seen as an exchange for better services. For example,


Brautigam, "Introduction: Taxation and State-building in Developing Countries," 2. Also the tax history highlights that taxes have been key in stimulating the rebels. For example, the 1974 “Whiskey Tax Rebellion” in the United States; the 1898 “Hut Tax War” in the hinterlands of Sierra Leone; the 1908 “Anti-Tax Rebellion” among Islamic peasants in West Sumatra. Ibid., 24.


Levi, Of Rule and Revenue.

Anne Mette Kjaer’s research in Uganda did not support the existence of a fiscal contract based on taxation,\(^{81}\) whereas, the study of local governance in South Africa by Odd-Helge Fjeldstad found that tax compliance was associated with services.\(^{82}\) The South Africans were more likely to pay local service charges if they felt that the government was collecting the taxes in a fair manner and providing services equitably. In addition, the research on Latin America supports the service-based fiscal contract. Marcelo Bergman compared the high degree of tax evasion in Argentina with the low levels of evasion in Chile, and found that taxpayers who were satisfied with public services such as security, public education or infrastructure, were also more willing to pay taxes.\(^{83}\)

Taxes also allow businesses and states to bargain and negotiate over policies and strategies which strengthen their relations.\(^{84}\) The acceptance of taxes enables states and societies to overcome collective problems such as upgrading of a sector, vocational training, and monitoring a project. Such a process may build trust, in that it “eases monitoring” and the “exchange of information”.\(^{85}\) This is evident with the very successful coffee federation in Colombia since the 1920s. The federation had the right to collect taxes, allowing it to use the resources for resolving a typical collective-action

\(^{81}\) Kjaer, "Institutional History or Quid-pro-quo? Exploring Revenue Collection in Two Ugandan Districts ".


\(^{85}\) Brautigam, "Introduction: Taxation and State-building in Developing Countries," 30.
dilemma. This increased the federation’s political influence. Similarly, in Chile between 1880 and 1930, nitrate producers bargained with the government. They used their nitrate tax revenues to solve their “collective action problems”; both enforcing producer quotas and facilitating their efforts to market their nitrate abroad.

Although the impacts of taxation on state building depend on different conditions and how societies are organised, overall it provides the state with revenue, can foster the capacity of the states and increases the state-society interactions.

Overall, taxation has an important role in state building, providing the state with revenue, fostering the capacity of states and contributing to the state formation process by facilitating state-society interactions. However, its impact on state building depends on different pre-conditions and how societies are organized. In the contemporary world, many developing countries are largely dependent on oil revenue and foreign aid. This seems to shape the patterns of state building differently from the earlier “tax states”. As such, the following section discusses how rents affect state building in general and foreign aid in particular.

Rents and State Building

Dependence of states on oil revenue and foreign aid shape the patterns of state building differently from that of tax states. In order to explain the effects of rents on state-society


relations and governance of states that largely derive their revenue from rents, scholars have developed RST. RST emerged when scholars began to explore the impacts of the two oil boom periods that began in the mid-1970s in the Middle East. Mahdavy used the term “rentier” for the first time in 1970 in his scholarly piece on Iran and is considered to be the first scholar to lay out the fundamentals of rentierism.

The impact of oil in the region was that the state and local institutions emerged not to extract wealth but to spend it, allowing local rulers to miss the historical extractive process typical of productive economies. Rulers in rentier states, Dirk J. Vandewalle argues, do not have to “arrive at social contracts with their citizens against a backdrop of coercion; they can often buy out elites and social coalitions and convince them to trade power for wealth.” However, state dependency on a small number of income providers is vulnerable to unexpected disturbance of those sources. When oil revenue shrinks, for example, the state adjusts to alternative foreign sources, downsizes the state apparatus or imposes coercive taxation (especially when the existing taxation infrastructure is weak) without time to negotiate with the population. This in turn undermines political stability.

In a rentier state, rent is a predominant factor in the economy. A few are engaged in the generation of rent while the majority is involved in its distribution and utilization. Government is the principal recipient of external rent. Such a role of the government, it is argued, allows only a few to control the rent and to be able to seize and hold political

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88 Gray, A theory of "Late Rentierism" in the Arab States of the Gulf, 1.

89 Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran."

90 Vandewalle, Libya Since Independence: Oil and State-building, 8.
power.\textsuperscript{91} As the relationship between rentier states and their people involves distribution of rents by the state, instead of the payment from the people to the government in the form of taxes, this makes rentier regimes financially independent of society. This type of relationship, is argued, creates the problem of “state autonomy” which enables the elites to create and reshape institutions.\textsuperscript{92}

The classic concept of RST, however, is simplistic and overstates the role of rents. Non-rent factors such as pre-rent socio-political relations and institutions, the type of rents earned by the state, and regional security problems or conflicts are all important in describing state formation in rentier states.\textsuperscript{93}

Considering the developments in rentier states,\textsuperscript{94} scholars classified RST into different phases. Mathew Gray, for example, classifies RST into classical RST, specialized and conditional RST, and late rentierism.\textsuperscript{95} For example, he, criticizes the classic RST and argues:

\begin{quote}
[H]istorical experience and the unique social or developmental conditions of a particular state were ignored by the very mechanical methodologies and generalizations in first phase RST [classic RST]. States might be rentier and share certain characteristics in being distant from or unaccountable to society,
\end{quote}

\textsuperscript{91} Beblawi, "The Rentier State in the Arab World," 51-2.


\textsuperscript{93} See Pete M. Moore, "Late Development and Rents in the Arab World," in \textit{the Annual Meeting of the American Political Science Association} (Chicago September 2, 2004), 18-9; Gray, A theory of "Late Rentierism" in the Arab States of the Gulf.

\textsuperscript{94} ———, A theory of "Late Rentierism" in the Arab States of the Gulf, 4.

but such states and their rentier dynamics, the argument goes, did not come into being the day that oil began flowing from the wells; the state or a ruling elite and at least some institutions of the state pre-date rents. For some scholars, therefore, RST needed to incorporate the pre-rent state-society dynamic into an analysis of post-rent political order and relationships, and problems of state formation needed to be included in considerations of specific states’ experiences. 96

While the different stages of RST broadly validate the principles of rentierism, they affirm that the study of rentier states should also take into account the non-rent factors. Although it may be tempting to explore a detailed discussion to examine the different stages of RST, it is out of the scope of this study, as the discussion on the principles of rentierism meets the aim of this research.

The Effects of Rents

The broad effects of rents were outlined in the previous section, however, the following section further discusses these effects in more observable ways for which Moore uses the term “political pathologies”. 97 These include autonomy from citizens, susceptibility to external intervention, the likelihood of coups and rebellions, ineffective civil service, lack of motivation to improve civic politics, and lack of transparency in public expenditure. 98

First, the assured source of income enables governments and politicians to decide, independent of their citizen-taxpayers, for example, to establish “mega projects” under state control. They also tend to use some of the revenue to “buy off” citizens, who can otherwise cause trouble, and to maintain powerful armies and intelligence agencies in

96 Gray, A theory of “Late Rentierism” in the Arab States of the Gulf, 12.

97 See Moore, "Revenues, State Formation, and the Quality of Governance in Developing Countries," 306.

98 Ibid., 306-8.
order to keep the others in line.\textsuperscript{99} The degree of state autonomy might differ in different contexts, however, it is unlikely for a state to have complete autonomy from their citizens.\textsuperscript{100} The state may need to negotiate with certain societal actors who have the power to challenge its authority.

Second, external rents make the state vulnerable to external intervention and \textit{coup}s. The security of oil supply, as a strategic commodity, has motivated the wealthiest nations to political and military intervention in the governance of oil-producing countries. Such relationship has further increased the autonomy of oil states in relation to their citizens. As such, those who are not at the centre of power have the motivation to take over the state by force because the returns are very high in these countries and foreign support can be acquired, especially when there is a geopolitical competition over access to oil supplies. The state responds by using a vast amount of its resources to protect itself against \textit{coup}s, often relying on foreign mercenaries who are less likely to lead \textit{coup}s.\textsuperscript{101}

Third, dependence on oil revenues reduces the possibility for citizens to engage in politics in a civic manner. Moore elaborates that civic politics is "deliberative, institutionalised, and compromise prone",\textsuperscript{102} which works through two mechanisms. The first is that in the absence of direct taxes citizens will feel that they have less right to influence how the state spends their money. The second is that when discussion over practical issues such as taxation decreases, conflict over issues such as morality and

\begin{itemize}
  \item \textsuperscript{99} Ibid., 306.
  \item \textsuperscript{100} See Gray, A theory of "Late Rentierism" in the Arab States of the Gulf, 10.
  \item \textsuperscript{101} Moore, "Revenues, State Formation, and the Quality of Governance in Developing Countries," 306-7.
  \item \textsuperscript{102} Ibid., 307.
\end{itemize}
values may increase. These issues can create permanent differences and “ill feeling” among people and is less likely to be compromised than the issues of who pays how much tax for what purpose.\textsuperscript{103}

Fourth, the failure of a state to tax the bulk of its populations can make the state open to influence by armed insurgents, guerrillas or private armies which are dependent on the narcotics and armed trades, and other non-state movements of diverse kinds.\textsuperscript{104}

Taxation, aside from raising revenue, keeps the state machinery active and the general population connected to the political process. When the revenue-raising function of the state declines, it leaves it open to the threat from more committed and organized predators.

Fifth, when the public revenue comes from a small number of external sources such as a mining enterprise and foreign oil companies, it is easy for revenue and expenditure to remain untransparent or to be hidden from public view.\textsuperscript{105} George Kopits and Jon Craig define transparency as “openness towards the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections.” It also “involves ready access to reliable, comparable information on government activities.”\textsuperscript{106} Transparency is believed to be a “preventative remedy” for corruption.\textsuperscript{107} The degree of

\textsuperscript{103} Ibid.
\textsuperscript{104} Ibid.
\textsuperscript{105} Ibid.
fiscal transparency, however, may depend on the regime type. Many democracies, such as Brazil, New Zealand and Norway make their oil revenue public, while undemocratic oil producers, such as Saudi Arabia, and some partially democratic ones, like Iran and Venezuela, keep the oil revenues out of the public view.\textsuperscript{108}

Lastly, there is little incentive for the government to build up an effective civil bureaucracy, since the financial existence of the state is not dependent on it. In civil bureaucracy the jobs will be mostly allocated for patronage purposes rather than for merit. Instead of building an effective bureaucracy the focus shifts toward building the military and intelligence apparatus of the state.\textsuperscript{109}

Aid-based Rentier Dynamics

Although RST has focused on oil exporting countries, the rentier state phenomenon is not necessarily limited to them.\textsuperscript{110} This theory can also be applied to states which largely derive their revenue from foreign aid. In doing so, it is imperative to explore what differences and similarities exist between oil revenue and foreign aid.

Foreign Aid

According to John Alexander White “aid indicates transfer of resources from rich countries to poor countries; and the effectiveness of which is publicly or hypocritically


\textsuperscript{109} See Moore, "Revenues, State Formation, and the Quality of Governance in Developing Countries," 307-8.

\textsuperscript{110} See Luciani, "Allocation VS. Production States."
assessed in terms of benefit to the recipient.\textsuperscript{111} Aid-dependency, as Brautigam argues, refers to "a situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise."\textsuperscript{112} For measuring the level of aid dependency, a measure of aid "intensity" is used.\textsuperscript{113} Brautigam suggests a threshold of 10 per cent of the share of gross national product (GNP) or above. Since 1975 aid dependency has been on the rise. As of 1977, aid equalled about 10 per cent or more of GNP in more than 30 countries with population of more than one million, although aid-dependency somewhat stabilized after 1992.\textsuperscript{114}

Foreign aid is largely perceived as a post-World War II phenomenon, although the flow of financial assistance, such as subsidies and foreign aid, from patron states to the client states existed before the War. Since the nineteenth century, foreign aid was given for different reasons. These included aid as donor largess for political control in the colonial domain; for the economic recovery of Western Europe under the Marshal Plan in the 1950s; to induce industrialization of the 1960s; to address the poverty in the 1970s; as a tool for stabilization and structural adjustment in the 1980s; and to enhance democracy and governance in the 1990s.\textsuperscript{115} Following the terrorist attacks of 11 September 2001, aid has been concentrated on reducing global poverty and financing the war on terror in


\textsuperscript{112} Deborah Brautigam, \textit{Aid Dependence and Governance} (Stockholm: Almqvist and Wiksell International, 2000), 2.

\textsuperscript{113} Ibid.

\textsuperscript{114} Ibid.

fragile (disrupted and failed) states. These states suffer from “widespread poverty and inequality, economic decline and unemployment, institutional weakness and poor governance, violence, lawlessness, and persistent conflict.” Furthermore, “[b]y default, aid has become the chosen instrument for influencing the political and institutional development of these societies.” Although donors first aimed to end persistent civil wars in recipient countries, this was later redefined to rebuilding legitimate political institutions to prevent further violence.

The Marshal Plan had a fundamental role in the economic success of post-war Western Europe and became an inspiration for subsequent aid programs. In the late 1940s three processes had significant impact on the rise of foreign aid. Firstly, there was a need to repair the widespread human, physical and economic devastation in post-World War II Europe. An atmosphere of “hope and renewal” existed among the Allies that favoured major initiatives in international cooperation like bringing the United Nations and the Bretton Woods organizations, the International Monetary Fund (IMF) and World Bank (WB), into being. Secondly, the beginning of a struggle for influence between two major economic powers, the US and the Soviet Union, led to early bilateral flows of aid with the political and strategic objective of assuring the pledge of

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116 See Owusu, Post-9/11 U.S. Foreign Aid, the Millennium Challenge Account and Africa: How many Birds can One Stone Kill?
119 Ibid., 1.
120 For detailed discussion on Marshal Plan Aid see Eliot Sorel and Pier Carlo Pdoan, eds., The Marshal Plan: Lessons Learned for the 21st Century (OECD,2008).
allegiances from the aid recipients. Thirdly, many colonized countries also gained their independence, creating the demand for the transfer of funds in the form of aid.

The Plan was designed formally for the European recovery programme which proved to be a considerable success largely for two reasons. First, the Plan provided generous and concerted aid. From 1948 to 1951, the US made available a total over US$13 billion in aid—US$100 billion in today’s dollar terms with 90 per cent in grants. Second, Western Europe was well endowed with human resources and skills, but was chronically short of capital, making the aid timely and appropriate. In addition, the aid under the Plan was bilateral with a single donor, the US, and it never exceeded more than three per cent share of Gross Domestic Product (GDP) of the recipient countries.

Some of characteristics of the Marshal Plan aid have been missing in the contemporary relationship of donor and recipient countries, however. On the donors’ side, the current recipients have to deal with dozens of bilateral and multilateral donors, multilateral organizations and hundreds of non-governmental organizations (NGOs). This involves hundreds of donors funding and managing projects. In addition, aid consists of a higher percentage of the current recipient’s GDP, especially in situation of aid-dependency. More importantly, the contemporary aid recipients are not only short of

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121 Browne, *Foreign Aid in Practice*, 1.


123 Browne, *Foreign Aid in Practice*, 12.


capital, but also short of human resources and skills. Recent donor interventions therefore have not been as successful as expected.¹²⁶

The Effects of Aid on State Building

State building seems to be more complex in aid-dependent contexts than in states largely dependent on oil revenue. As discussed later, in order to use RST to explain the effects of aid, Table 1 below shows some similarities and differences in the nature and impacts of oil revenue and foreign aid concerning share of the state income, reliability, conditionality, state control and discretion, state autonomy from citizens, government accountability to people, the state of fiscal transparency and level of tax revenue collection.

Table 1: Oil- and aid-based Rentierism

<table>
<thead>
<tr>
<th>Similarities and Differences between Aid and Oil-revenue</th>
<th>Oil-based Rentier States</th>
<th>Aid-based Rentier States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>Oil is more reliable.</td>
<td>Aid is not reliable.</td>
</tr>
<tr>
<td>Conditionality</td>
<td>No conditions.</td>
<td>Conditions attached.</td>
</tr>
<tr>
<td>Discretion and control</td>
<td>State is the main recipient and have full discretion over oil-revenue.</td>
<td>State is not the only recipient of aid and does not have full discretion and control over foreign aid.</td>
</tr>
<tr>
<td>Autonomy from society</td>
<td>Yes</td>
<td>More limited than oil-dependency.</td>
</tr>
<tr>
<td>Fiscal Transparency</td>
<td>Suffer from fiscal secrecy (especially in undemocratic regimes).</td>
<td>Suffer from low state of budget transparency, especially where budget structure is fragmented.</td>
</tr>
<tr>
<td>Taxation</td>
<td>Often weak</td>
<td>Mixed</td>
</tr>
</tbody>
</table>

Source: Author’s analysis.

Unlike oil revenue, generally aid is conditional and the recipient does not have full discretion over it, this could broadly differentiate the aid and oil-based revenue. Both

¹²⁶ See Kahler, "Aid and State Building," 2.
aid and oil income creates a situation where the state becomes independent of domestic taxpayers, which enables it to exist without much political and organizational effort required to deal with citizens in terms of taxation. However, in situations of aid-dependency, governments are required and encouraged to negotiate with donors and to build up skills in ways that could attract more aid. This preoccupies the governing elites with donors at the cost of long-term domestic priorities. However, the government has to meet the revenue targets identified through negotiation with donors. This, as Florens Lauoga argues in the case of Tanzania, may result in distortions of formal procedures for tax collection and misuse of power, as the effective protection of taxpayer rights is weak.\textsuperscript{127}

Although in aid-dependent contexts the state is the principal recipient of aid which creates the same autonomy problem from citizens, it does not have discretion and full control over the allocation and management of aid, “not even [on] general budget support or other less conditional types of aid”.\textsuperscript{128} Such increased autonomy is more limited than that of the dependency on oil-revenue. Unlike the past practices in which state was the sole recipient of aid, in more recent contexts, and as the third section of the thesis on Afghanistan demonstrates, donors directly allocate and manage the bulk of their aid through projects which bypass state and national mechanisms, referred to as “off-budget” aid, and earmark most of their budget support. The former may outweigh the cost if state capacities are severely limited. NGOs, private companies and firms receive direct funding from donors for implementing projects. While “aid funds are

\textsuperscript{127} See Florens Luoga, "Taxpayers' Right in the Context of Democratic Governance: Tanzania," \textit{IDS Bulletin} 33, no. 3 (July 2002).

\textsuperscript{128} Ole Therkildsen, "Keeping the State Accountable: Is Aid No Better Than Oil?," \textit{IDS Bulletin} 33, no. 3 (2002): 2.
never completely controlled by the recipient governments"; the extent to which they are controlled by the state can be used for buying political patronage.

However, the off-budget aid on the one hand may improve service delivery, but on the other it also constraints institution building. This allows the international actors to play a much greater role in configuration of the state-society relations. The academic literature, however, has paid very little attention to this. Scholars, such as Ashraf Ghani, and international organizations such as the Organisation for Economic Cooperation and Development (OECD), argue that off-budget aid has negative implications on state building. This process may exacerbate some of the adverse effects of aid on state building as will be shown in the third section of the thesis in the case of Afghanistan.

Another similarity between aid- and oil-dependency is their association with transparency in public expenditure, though, the degree and nature of it may differ. The evidence suggests that there is a converse relationship between aid-dependency and budget transparency. Although there is a similar relationship in situations of oil-revenue dependency, budget transparency is much more complex in aid dependent contexts. Whilst donors are the legitimate stakeholders in the budget process of

129 Ibid.

130 Stephen Knack, "Aid Dependence and the Quality of Governance: Cross-country Empirical Tests," *Southern Economic Journal* 68, no. 2 (2001): 313. Furthermore, the aid flow is locked into the budget system of the donor countries, while the priorities of these countries may change over time in order to assure their interests. Hence, it is difficult for the recipients to secure multi-year assistance from donors.

131 Ghani et al., "The Budget as the Linchpin of the State."; OECD, *Do No Harm: International Support for State Building*.

132 See Paolo de Renzio and Diego Angemi, *Comrades or Culprits? Donor Engagement and Budget Transparency in Aid Dependent Countries*, Institut Barcelona D'Estudis Internationals (IBEI), 2011.
recipient countries as they are accountable to their domestic constituencies, such processes may distort local accountability in aid-dependent countries. Donors press governments to improve fiduciary control and make available their budgetary information to donors. However, this neglects the imperative of budget transparency towards the citizens of recipient countries. It should be noted that the level or lack of budget transparency is not uniform in aid dependent contexts with fragmented budget along with government budget (on-budget) and off-budget components.

Additionally, foreign aid is not as reliable as oil revenue because there is a smaller number of “sellers” and many potential “buyers”. It is also predominantly linked with geostrategic circumstances which may change suddenly, something which is not likely with oil. Thus, aid can shift from one country to another according to donor preferences. Another major difference is that aid often comes with conditions, while oil rents do not. Aid donors, frequently seek to influence the recipient government’s domestic policies, which can potentially have a damaging impact on governance and may reconfigure state-society relations and conceivably undermine the emergence of a domestic social contract. Donors, for example, influence the taxation practices of the recipient governments by providing technical assistance and funds with strings attached. These include “conditional demands for specific policies on tax or other issues, sometimes [aid is] tied to signals about withdrawal of funding in cases of non-compliance.”

133 Vivek Ramkumar and Paolo de Renzio, Improving Budget Transparency and Accountability in Aid Dependent Countries: How Can Donors Help?, IBP (International Budget Partnership), 2009.


135 Therkildsen, "Keeping the State Accountable: Is Aid No Better Than Oil?," 3.
Unlike some oil-producing states where the taxation function is weak and revenue collection is low,\textsuperscript{136} the impact of aid on revenue collection is mixed.\textsuperscript{137} A study by OECD found that between 2000 and 2006 in Afghanistan, Bolivia, Democratic Republic of Congo (DRC), Nepal, Rwanda and Sierra Leone, which were highly dependent on aid, the revenue collection, with the exception of Bolivia, was less than 14 per cent, with Afghanistan having the lowest level of 5.3 per cent.\textsuperscript{138} A negative relationship between tax revenue and aid is suggested by Moss et al. using the four-year average of tax revenue (excluding trade taxes) as a share of GDP against the four-year average of aid as a share of GNI for 55 low and middle income countries between 1972 and 1992. Although there is variation among the findings such as incidences of high-aid and low tax and low aid and high tax, there is not a relationship such as high-aid and high-tax (when aid consists of more than 10 per cent of GNI and tax revenue comprise

\textsuperscript{136} See for example Nazih Ayubi, “Arab Bureaucracies: Expanding Size, Changing Roles,” in The Arab State, ed. Giacomo Luniani (London: Routledge, 1990), 144. There is no clear indication that what level of taxation is optimum. John, The Political Economy of Taxation and Tax Reform in Developing Countries, 4. However, still in some oil producing countries tax revenue as a percentage of GDP is low. For example, in 2009 the domestic taxation was one per cent share of Kuwait’s annual GDP. World Bank, “World Data Bank: World Development Indicators,” September 2, 2013, http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS/countries?display=default.


\textsuperscript{138} Net ODA (official development assistance) disbursements (the sum of grants, capital subscriptions and net loans—loans extended minus repayments of loan principal and offsetting entries for debt relief) in 2005 were almost 40 per cent of gross national income (GNI) in Afghanistan, around 50 per cent in the DRC and 25 per cent or more in Rwanda and Sierra Leone. OECD, Do No Harm: International Support for State Building, 101-02.
above 18 per cent of GDP). However, the result of a number of country studies is mixed. For example, a negative relationship between aid and domestic revenue mobilization was found in Pakistan (1998), Zambia (2004) and Cote d'Ivoire (2003). In contrast, a positive relationship between aid and revenue collection was found in Indonesia (1990), Ghana (2003), Uganda and Malawi (2004).

Aid also detaches the state from dependence on its citizens and it may redirect the state’s priorities toward donor policies. It may have a damaging impact on domestic legitimacy and resource extraction especially if the motivation for donor intervention differs significantly from local needs and ambitions. Last but not least, another associated difference is that in the oil model, government accountability seems to disappear, while in aid-dependency situations aid may shift government accountability from citizens to foreign donors.

Conclusion

Sources of state income (tax revenue and rents, such as oil revenue and foreign aid) have major implications for the patterns of state formation; however, it is not the only determining factor. The interplay of rent with non-rent factors, such as pre-rent socio-


140 Ibid.

141 See ibid., 13, 28.


143 Knack and Rahman, Donor Fragmentation and Bureaucratic Quality in Aid Recipients.
political relations, institutions and conflict, can better explain the complexity of rentier states. This chapter demonstrates that considering pre-rent dynamics the ways in which a state largely derives its revenue can have significant implications for institution building and, consequently, state-society relations.

Since the seventeenth century, taxation was essential for the development of representative institutions and state capacity in Western Europe. States access to rents, from oil revenue and foreign aid, however, has produced different outcomes from taxation based patterns of state building. In order to explore the effects of rents on governance and state-society relations and, especially, to examine states’ weak accountability to their people, scholars developed RST. By drawing on RST, the chapter has argued that aid-dependency may produce some adverse political repercussions or “unintended consequences” and the outcome of which depends on pre-aid socio-political relations and institutions. Aid-dependency, especially where it is accompanied with institutional weakness and conflict, may result in the problem of state autonomy from citizens and shift governmental accountability from citizens to donors. Moreover, public expenditure in these contexts is likely to be less transparent than in non-aid-dependent countries. A greater off-budget aid spending is likely to exacerbate these adverse impacts of aid-dependency.
PART 2

HISTORICAL CONTEXT: REVENUE AND STATE BUILDING IN AFGHANISTAN, 1747-2000
Chapter 2
Revenue and State Building in Afghanistan, 1747-2000

Introduction

Ever since its emergence as an identifiable political entity from 1747, Afghanistan has had a weak taxation system and has significantly relied on external revenue in the form of tribute, subsidies and foreign aid. It lacked a viable economy and effective institutions and suffered from conflicts. In this, given the geopolitical importance of Afghanistan, external revenue has been made available under geostrategic considerations. This fiscal circumstance has had major implications upon state building. Although Afghanistan has historically shown resilience in maintaining its independence, it has failed except for a brief period under the reign of Amanullah Khan (1919-1929), to pay for state expenditure from domestic revenue. Hence, finding an external source of revenue has been a top priority for Afghan rulers to overcome their financial constraints. Accordingly, external revenue has played a major role in sustaining and reshaping the state building process and producing particular outcomes as a result of the interplay with the pre-external revenue dynamics and the geopolitical factors, determining the availability and type of revenue. The loss of external revenue, at various times, has undermined the stability of the state.

While the dependence of various Afghan regimes on external revenue differed over time, Afghanistan became a rentier state after the mid-twentieth century, especially as the share of domestic revenue from direct taxation declined considerably. The external revenue has increased governments’ autonomy from the society and allowed them to finance the army and implement projects without facing increasing pressure to tax the rural population. Prior to 2001, except for the aid to Mujahedeen groups, the government was the sole recipient of subsidies and aid which played an important role in maintaining the integrity of institutions and superiority of the rulers, however, such
method for delivery of external assistance did not render accountability of the rulers to people.

This chapter analyses state building in Afghanistan in relation to its sources of revenue from 1747 until the US-led intervention of 2001. The relationship of Afghan state building and external revenue is covered during three distinctive periods: The Durrani Empire (1747-1824), where the tribute arising from its conquests was crucial for the state building process; following the collapse of the Empire until the early-twentieth century, when British subsides partially replaced the tribute; and from the mid-twentieth century until 2001, when foreign aid replaced subsidies and played a marked role in the state building process.

The Society: An Inheritance of History

Landlocked Afghanistan is often portrayed as a “highway of conquest” for migratory peoples and expanding empires, a “roundabout” for various trade paths linking Europe with the Far East and the Indian subcontinent, and a crossroads of civilizations and religions. The country was previously called Arianna (1000 BC) and Khurasan (after the seventh century) which comprised a much larger territory than today’s Afghanistan. Its geography has been important in determining the course of Afghanistan’s history for millennia as the entry point for invaders from Iran or Central Asia into India as well as the launching path for the country’s own offensive campaigns on a number of occasions. Cyrus the Great, Alexander the Great, Mahmmud of Ghazni, Changyz Khan, Timurlane, and Babur, are some examples. Under these circumstances Afghanistan was either ruled by outsiders as part of different empires or became the centre of its own

Empires. The sharp racial, ethnic, and linguistic differences throughout the country also point to its unique historical and geopolitical position. It was only in the mid-eighteenth century that the country emerged as a recognizable political unit in a much larger territory than what it is today.

The mosaic nature of Afghan society highlights a number of “divisive” factors, which underscore the difficult legacy of Afghanistan. As Vartran Gregorian puts it, this difficult legacy is significantly disclosed in its ethnic mosaic and socioeconomic structure. “Linguistic, racial, cultural and religious diversities, coupled with the country’s predominantly semi-feudal, tribal, and nomadic social organization, presented great obstacles to the development of a modern state [in Afghanistan].” The major ethnic groups that are living in Afghanistan range from Pashtuns to Tajiks, Hazaras, Uzbeks, Turkmen, and Aimaqs. About ninety-nine per cent of the population are Muslim (of which 80 per cent are Sunni and 19 per cent are Shia). Since Afghanistan’s inception in 1747, the Pashtuns were the dominant political power. There is no reliable census available on Afghanistan’s population and its different ethnic groups. Population statistics are loosely validated more by repetition than by any reliable data.

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3 ———, *The Emergence of Modern Afghanistan*, 10.

4 Ibid., 25.


1970s, the government estimated the total population to be around 16 million,\textsuperscript{8} while in 2008 the population was estimate at around 25 million.\textsuperscript{9} The people mostly converse in one of the two languages, Dari and Pashtu, which are recognized as the official languages of the state by the 2004 Constitution of Afghanistan. However, other languages, spoken around the country such as Uzbeki, Turkmani, Baluchi, Pashai, and Nuristani, are considered the third official language in areas where they are spoken by a majority.\textsuperscript{10} Around one and a half million Afghans are estimated to be living either a fully nomadic or semi nomadic existence.\textsuperscript{11} They are the \textit{Kuchi} and are mostly Pashtun, who move as a group from summer to winter pasturages and back again.

Although only 12 per cent of the land is arable,\textsuperscript{12} the vast majority of the population relies directly on agriculture for their livelihoods. Thus, Afghanistan’s economy is dominated by agricultural and pastoral activities. As a consequence of the problem of water scarcity, the already limited area of arable land is not entirely cultivated each year. Armed conflict and drought from 1980s worsened this situation. While about 3.6 million hectares of land was irrigated in the 1970s, this number declined to 1.6 million hectares in the 2000s. The way the land is used affects how local communities organize

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\textsuperscript{8} Barfield indicates that the total population was estimated around sixteen million during 1970s and 1990s. Ghubār, using the 1962 census of the Afghan government, estimates the total population of Afghanistan at around fifteen million (15,271,687). See ibid., 23. and Ghubār, \textit{Afghanistan Dar Masyr-i Tārykh}, 11. Even to date there is no precise population census available in Afghanistan. The Afghan government and donors use different estimations.


\textsuperscript{12} Ibid., 137.
themselves. Since almost 80 per cent of the population live in small villages and are engaged in subsistence agriculture and farming, this way of living has provided these villages with significant autonomy.

Tribute and State Building

The Importance of External Revenue to the Durrani Empire (1747-1824)

From the rise of the Durrani Empire in 1747 until 1809, revenue, mostly in the form of tribute from its conquests in what is now in India and Pakistan, remained the major source of income for the Empire, comprising about three-fourths of its revenue. However, the availability of tribute depended on the military strength of the Empire and its ability to assure the transfer of the tribute. The Empire did not have “an elaborate, institutionalised administrative and security apparatus which could provide for what could resemble a governmental system in the modern sense of the term.” While the Empire imposed taxes on its constituencies, its taxation system was weak and complex, granting tax exemptions to favour certain groups while heavily taxing others. The fiscal base of the Empire compounded with institutional weakness had perverse implications for the development of state institutions.

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After Nadir Shah Afshar, Persian King (today's Iran) was assassinated in 1747, Ahmad Khan Abdali (later Ahmad Shah Durrani, 1747-1773), a commander in Nadir's army, returned to Kandahar and a tribal Jirga (grand assembly) declared him Shah (King). He successfully assembled the Pashtun chieftains and subsequently formed a grand Afghan ethno-tribal confederation, founding the Durrani Empire in the vast region extended from the rivers Oxus to Indus. Ahmad Shah reign coincided with successful revenue mobilisation from external sources largely in the form of tribute. This relieved him of the problem of taxing those on whom he relied for military strength on the one hand, while helped him to fund his initial alliance and military efforts on the other. Ahmad Shah's army captured a caravan transporting Nader's taxes to Persia after his assassination. The value of the caravan was about 260 million rupees (of which 20 million rupees were in cash and the rest included precious jewellery); almost nine times the annual income of Ahmad Shah's treasury in the last years of his reign.

The "economic foundation of the Durrani Empire was the feudal state’s ownership of land, ... the state collected rent-tax from the territories under its suzerainty." The conquest of new territories therefore supplied the state with significant amounts of revenue, which was fundamental in cementing the Afghan tribes together on the one hand.
hand, and relieving them of the heavy burden of the tax-payment on the other. As revenue from outside its territories was vital to the Empire, Ahmad Shah therefore relied on an expansionist policy of enlarging and maintaining its territorial control.

The Durrani Empire depended excessively on the personalized politics and the charismatic leadership of Ahmad Shah. It took the form of a “nomad and conquest empire” where the ruler temporarily and partially succeeded in transforming it into a patrimonial state. For the tribes who allied with Ahmad Shah, the aim of the state apparatus was to “administer their conquests” but not themselves to be governed. Ahmad Shah in the east annexed Kashmir, Sindh, and part of the Punjab, while in the west he took Herat and Mashhad. He also incorporated Kabul and the north of today’s Afghanistan as far as the Oxus, into his Empire. These developments were rapid due to the dissolution of the Safavid Empire in Persia and that of the Mughuls in India. In addition, Russia under the reign of Catherine II (1762-1796) did not carry out a planned

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21 Ghubār, Afghanistan Dar Masyr-i Tārykh, 368.


24 Ibid.


26 The present frontiers of Afghanistan were established at the beginning of the twentieth century. The frontier with the Indian subcontinent was denounced in 1893 by the Durand line, which has become the main source of conflict between Afghanistan and Pakistan. The frontier with Russia was settled in 1896 (with minor adjustments in the 1920s, the 1930s, and 1948s), and the final correction along the frontier with Iran (originally defined between 1903 and 1905) was made in 1935. Gregorian, The Emergence of Modern Afghanistan, 10.
campaign towards Iran and Central Asia which could have had an impact on the expansion of the Durrani Empire. 27

In the absence of a detailed account of the Durrani Empire’s sources of revenue and expenditures, the study of the Empire taxation and tax system by Yuri Gankovski can serve as a reliable source. 28 The Empire, according to this study, collected over three-fourths of its revenue from its conquests of India, especially Punjab and Kashmir. 29 The Empire did not directly rule most of these territories. However, the flow of revenue was mainly dependent on the continued military domination of the Empire over them. 30 The wealth that flowed to Afghanistan in this period did not have an economic base in the country, nor was it invested to enhance economic activities. Instead, the resources were used largely for buying land or given to Indian sarrāfs (money changers) to be taken care of in Kabul and Kandahar. The Indian sarrāfs mostly invested these funds outside Afghanistan. 31

**The Durrani Empire Tax System**

The Empire used the existing Safavid administrative apparatus. However, the Durrani monarchs’ power was balanced by a strong class of Pashtun Khans (tribal chieftains). 32

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28 See Gankovski, "The Durrani Empire: Taxes and Tax System, State Incomes and Expenditures."

29 Ibid., 90.


who played an important role in the rise and fall of the Empire.\textsuperscript{33} Four types of relationship existed between the central government and the provinces. Firstly, the former rulers of the provinces were allowed to remain in power in return for yearly tribute and pledges of allegiance. Secondly, Afghan military commanders acted as the overlords of the local power-holders. Thirdly, the local Khans undertook to supply the government with military contingents but otherwise remained autonomous. Fourthly, governors were directly appointed by the crown to exercise power over provinces.\textsuperscript{34} In the first three cases, the local rulers preserved their power, but in the fourth, if the governor was a member of the royal family or a prominent Pashtun Khan, he would resist dismissal by the Shah, bringing the central government into conflict with the provinces. The governors’ control over provincial revenue and the military would increase the likelihood of turning such resistance into acts of riot and armed conflict.\textsuperscript{35} As such, the balance of the forces between the Shah and the Khans was such that neither side could effectively subordinate the other. In 1775, because of a contentious relation with Pashtun Khans and tribal leaders, Timur Shah (1773-1793) shifted the capital from Kandahar to Kabul to reduce their influence.\textsuperscript{36}

The Durrani Empire also collected taxes from its constituencies. However, its tax system was weak and dysfunctional and biased in nature, favouring certain groups while penalizing others. Land-taxes made up the major portion of the state revenue. Taxes were predominantly paid in kind, which consisted of direct and indirect taxes—called

\textsuperscript{33} Encyclopedia Iranica, s.v. "Afghanistan: Administration."

\textsuperscript{34} Ibid., Here 3:10.

\textsuperscript{35} Ibid.

\textsuperscript{36} See ibid., Here 2:10.
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Chapter 2

malyat-i divân. Taxes in cash were paid directly to the treasury, while in-kind taxes were delivered to state storehouses.\(^{37}\) The main categories of land ownership that existed in the later half of the eighteenth century generally consisted of crown lands (khâlisa), private property (mîlk), and religious endowment (w'âqf). The state lands, which were in the Shah’s possession such as khâlisa, and the land of divân, increased during the first years of the Empire’s existence because of its successful conquests.\(^{38}\) According to Ashraf Ghani, in the eighteenth and nineteenth centuries most of the lands were in the possession of private landowners.\(^{39}\) Taxes on private lands were paid by landlords with rates which varied in different provinces.

In addition, other taxes existed in the latter half of the eighteenth century. Taxes were levied on water, which was sometimes collected in cash from the owner of the canal. However, if a canal belonged to the state, the tax was collected on the plot of irrigated land. The tax rate on water was determined by the productivity of the land. Chimney (Khânahdudah) tax was also imposed (e.g. it accounted two rupees per house in Kandahar). Cattle (sargâlah) tax was paid in cash or kind per head of cattle. Mill tax was usually levied in kind (half of milled harvest of grain a year). Extraordinary requisition was paid in kind for upkeep of the army. In addition, taxes for maintenance of qâzi (Islamic judge) and the village elder were levied. The population had to report for unpaid compulsory work (bighâr), for construction and repair of palaces and fortresses, bridges and roads, and cleaning and digging of canals. The inhabitants were


\(^{38}\) See ibid.

also obliged to provide carting facilities and the means of transportation for the Shah’s messengers and officials. There was also a special poll-tax (jazyah) levied on non-Muslim inhabitants.\(^{40}\)

In town, taxes were collected from craftsmen with the rates determined on the basis of the value of goods they produced.\(^{41}\) While mines belonged to the state, they were farmed out. For example, the mining of salt was contracted out to merchants and craftsmen who had to pay a tax amounting to one-fifth of their income annually.\(^{42}\) Road taxes and customs, at the rate of two and a half per cent of the value of the goods, made up a significant portion of the state revenue. However, the rulers of provinces (hakīms) sometimes arbitrarily raised these taxes to five per cent or more. The customs duties were heavy for merchants because they were collected at multiple points and more than once. There were also small taxes and duties imposed on the population. For example, people who were entering Kabul had to pay chirāghi (chirāgh-lamp) a fee for lighting the customs houses.\(^{43}\)

Although in some cases tax farmers were Durrani Khans, usually they were Indian merchants and usurers.\(^{44}\) The merchants provided loans to the Afghan Khans and the government at high interest rates. For the loans, provincial taxes were used as a


\(^{41}\) Ibid., 80.

\(^{42}\) Ibid., 81.

\(^{43}\) Ibid.

\(^{44}\) Ibid., 84.
security. The tax farmers had arbitrary power in collecting taxes, especially if they were close to the Shah’s court and were major landlords. They acquired a substantial amount of wealth by extracting extra taxes from the population. The tax farmers and officials would extract as much as possible from the population by using government armed forces. The officially determined tax rates were seldom put into practice and the provincial authorities and department of finance arbitrarily introduced extra taxes. This would often lead to harsh exploitation of some peasants, merchants and craftsmen. For example, the Tajiks and Aymaks were pleased if the tax collectors extracted only twice as much as was due under the law, especially as they were too militarily and politically weak to resist. This situation largely resulted from the weakness of central government and absence of fixed salaries for government employees, especially the tax officials.

The Durrani taxation system exempted a certain category of population while heavily taxing others. Neamatollah Nojumi et al. observe, “Government authorities and military leaders have long provided preferential access to land as a reward to certain population groups and supporters, and have levied heavy land taxes against groups who were in political or social disfavour.” Many Pashtun tribes were exempt from taxes in exchange for military services. The jagirdārs (local rulers who were granted state land in exchange for military service) were immune from taxes. Many of the w’aqf lands

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45 Ibid.

46 Ghubār, Afghanistan Dar Masyr-i Tārykh, 391.


48 Ibid., 84.

were tax-free. Ahmad Shah abolished or lowered many taxes like land tax, taxes on cattle, orchards and vineyards, and chimney duty on the Pashtun tribes, in particular the Durrani tribe, to which the Shah himself belonged. For example, the tax on arid lands was lowered considerably for the Durrani tribes, while it was increased for the non-Pashtun peasants, who had to pay one-tenth of their gross harvest to the Shah’s treasury. The Pashtun tribes were also not treated equally by the taxation system, which privileged the Durrani tribe.

The provinces under the Durrani Empire’s suzerainty were sending a percentage of their revenue to the Durrani Shah’s treasury, while the rest was used to cover their expenditures. This percentage varied between different provinces on the basis of their annual revenue and expenditure. The total annual income of the Shah’s treasury reached 30 million rupees by the end of his rule (1773). However, during Timur Shah’s reign (1773-1793) the figure decreased drastically and in the 1780s the total annual income did not exceed 10 million rupees.

The major revenue came from the eastern provinces of the Empire (Kashmir, Multan, Derah Ismail Khan, Deh Ghazi Khan, Shikārpur, Muzaffarābād, Attok, Indian Hazara and Sukkur), including the tribute from Sind, Bahawalpur and Layah. It comprised about three-fourths of the Empire’s central treasury annual revenue, while the rest came from the western provinces of the Empire (Kabul, Peshawar, Jalalabad, Ghūrband, Bangashat, Ghazni, Kalāt-i Ghilzai, Chārikār and Panjshir, Kandahar,
Farah, Herat, Bamyan and Hazarajat). The tribute from Indian conquests was an important source of income, although it was neither paid in full nor paid regularly. External revenue and tribute was coming directly to the treasury of the Shah and Shah had full discretion where and how to spend it. They largely sustained the institutions and the polity of patronage, which existed before the creation of the Empire and access to the external revenue, and transformed some of the institutions based on the imperative that the Empire should maintain its military domination over the territories it ruled in order to secure the flow of external revenue.

The major items of the Durrani Shah’s treasury expenditure (1793-1809) consisted of military expenditure (31.6 per cent), palace services (25.3 per cent), and the Shah’s personal expenses (26 per cent). A very small portion of expenditure around 4 per cent went to construction, and another 4 per cent were allocated for subsidies for Balkh and Aqcha provinces. These two provinces were not sending revenue to the Shah’s treasury, but instead they were receiving subsidies as they were tasked with the defence of the northern area of Afghanistan against the attacks from Amir of Bukhara. The state revenue shrank further under Zaman Shah (1793-1801) and it was reduced to 6.7 million rupees. The annual maximum revenue under Shah Shuja (1803-1809) was estimated at 10 million rupees.

However, within two generations after Ahmad Shah’s death, the Durrani Empire lost

53 Ibid., 88-9.
54 Ibid., 85.
55 See ibid.
56 Ibid., 93-94.
57 Ibid., 86.
its Indian territories due to internal decay and expansion of regional powers such as the Sikhs and British, leading to a substantial loss in state revenue and increase in tribal rivalry.\textsuperscript{58} The Empire therefore no longer had the alternative of territorial conquest and resource extraction from abroad. The decay of the central government also resulted in the loss of state lands to \textit{Khans}. Only in Kandahar, for example, could the influential Durrani \textit{Khans} seize approximately half of all tax-levied lands.\textsuperscript{59} The Empire therefore failed to establish a reliable source of revenue in its home territory to sustain its institutions, such as the army.

Subsidies and State Building

The Loss of Tribute and Search for Alternative Revenue (1824-1879)

The loss of tribute from the Indian conquests forced the new ruler of Afghanistan, Dost Muhammad Khan (1826-1839 and 1843-1863), to look for new sources of revenue within the limit of his kingdom. While Dost Muhammad Khan inherited the structure of an Empire, his government had very little revenue. Hence, he imposed taxes on the Pashtun \textit{Khans} and tribes who were exempted earlier or lightly taxed.\textsuperscript{60} This policy was applied more "out of desperation than a choice."\textsuperscript{61} Dost Muhammad Khan, however, was not able to introduce major changes in the tax system which he inherited from the

\textsuperscript{58} Rubin, \textit{The Fragmentation of Afghanistan: State Formation and Collapse in the International System}, 46. In the early nineteenth-century under Qajar Iran reclaimed some territories in the west of Afghanistan, while Murad Big, an Uzbek Chief, occupied the territory claimed by Bukhara in Afghan Turkistan.

\textsuperscript{59} Gankovski, "The Durrani Empire: Taxes and Tax System, State Incomes and Expenditures," 95.


\textsuperscript{61} \textit{———}, \textit{Afghanistan: A Cultural and Political History}, 113.
At the beginning of his reign, the government revenue was about a half-million rupees collected from Kabul and the territories in the north. Although this increased to two and a half million rupees by the 1830s, this was less than 10 per cent of the annual revenue of Ahmad Shah’s reign. Therefore, the inhabitants of Afghanistan had to pay for the state’s expenditure. Despite Dost Muhammad khan’s success in consolidating his power, he was not able to back it with a centralised administration to tap local resources efficiently and only a small fraction of local surplus reached the central administration by way of revenue payment.

Although the administration was already downsized, the need for revenue led to its re-expansion. Dost Muhammad Khan therefore imposed heavy taxes and relied on harsh methods of collection. The rural population often resisted arbitrary government tax collection that was supported with mounted troops. The imposition of heavy taxation also discouraged the development of greater economic activities in the urban centres. Since the state income was inadequate to finance governance expenditures, Dost Muhammad Khan began looking for British subsidies. In his second reign, he signed a friendship and alliance treaty with the East India Company in 1855 and two years later followed with another treaty. Accordingly, the British provided him with an annual

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63 Barfield, Afghanistan: A Cultural and Political History, 112.


subsidy of 1.2 million Indian rupees and weapons.\textsuperscript{67} This fund was conditional on the defence of Herat from Russian-backed attacks from Persia. The British justified the subsidy as part of their anti-Russian strategy in Afghanistan, Iran, and Central Asia.\textsuperscript{68} Considering the size of domestic revenue, the amount of the subsidy was significant in helping Dost Muhammad Khan consolidate his power. The British annual subsidies made up about 18 per cent of the total annual state income in 1863.

**Institution Building**

The British subsidies to Dost Muhammad Khan were given to support him “against internal dissent and external threats that were invariably deemed to be inspired by Russia,”\textsuperscript{69} and as a condition he was required to strengthen his army. The fiscal weakness of the state further increased the vulnerability of Dost Muhammad Khan to British influence. For example, although domestic revenue was very low, almost half of it was spent on the upkeep of the military and almost another half was spent on the allowances to the numerous members of the royal family. The soldiers did not have regular salaries and thus they often resorted to plunder for their upkeep, which became a source of insecurity and fear for people. In addition, the royal family members occupied the government senior positions, using them for making money, and government lacked a solid official recording system.\textsuperscript{70} The government officials were working from their

\begin{footnotes}
\item[67] Ahmad Shayeq Qassem, *Afghanistan’s Political Stability: A Dream Unrealised* (Farnham: Ashgate 2009), 29.
\item[69] Ibid.
\item[70] Encyclopedia Iranica, s.v. "Afghanistan: Administration."
\end{footnotes}
homes and were reporting to Dost Muhammad Khan while keeping the papers in their pockets. 71

The major state building initiative in this period took place in the military field. Between 1830 and 1836, Dost Muhammad Khan employed three foreign advisors to modernize the army—a former Qajar officer, a British officer, and an American doctor. The assistance from these advisors helped him to introduce British-type uniforms and European pattern-type drills into the army. During the second reign of Dost Mohammad Khan, the Cavalry officially consisted of 15,300 men and the entire infantry amounted to 9250 men. 72

In 1839, in order to expand its influence in Afghanistan in response to the expansionist policy of Russia, 73 the British invaded Afghanistan and displaced Dost Mohammad Khan from Kabul and his brothers from Kandahar and Herat. This terminated the reforms which Dost Mohammad Khan had initiated. The British installed Shah Shuja, an exiled Durrani prince and a former ruler of Afghanistan (1803-1809) as the new ruler. Subsequently, the British focused on restructuring the state and its financial system. However, these interventions had paradoxical impacts. For example, while the British abolished state grants, for example, to notables and Khans, they distributed cash to those who cooperated with them. The flow of British cash increased the power and influence of those who engaged in trade, providing needed commodities and services. It also “undermined the social and political standing of those whose influence was based


72 Ibid., 259-60.

73 Ghubār, Afghanistan Dar Masyr-i Tārykh, 549.
on feudal obligations to the state, or who owned unproductive landed estates. The British total cost over the three years of war was estimated around eight million British pounds, including the cost of occupation and distribution of cash. Although the British troops did not face resistance at the beginning, the people of Afghanistan soon rose against them declaring *jihād* (holy war). The British failed to repress the popular uprising and withdrew, creating Britain’s “greatest military humiliation of the nineteenth century” in 1841. They lost their entire army in Afghanistan.

During his second reign (1843-1863), Dost Muhammad concentrated on consolidating his power over all Afghanistan. In 1963, the annual state revenue rose to 7 million rupees. Dost Muhammad Khan farmed out the provincial tax collection to his sons alone. They in turn sublet the tax farming of the districts to individuals of their choice. The government system in this period was based on the ties between a father and his sons where the father’s rule remained unchallenged by the sons. This system of governance collapsed after Dost Muhammad Khan’s death. When his son Sher Ali Khan (1863-1866 and 1868-1879) tried to impose his authority over the whole country, it resulted in a civil war between him and his brothers from 1863 to 1868.

Whilst receiving subsidies from the British, Sher Ali Khan too sought reforming the government taxation system. Between 1863 and 1869, he received a total of 1.2 million rupees.

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74 Barfield, *Afghanistan: A Cultural and Political History*, 120.


77 Barfield, *Afghanistan: A Cultural and Political History*.

78 Encyclopedia Iranica, s.v. “Afghanistan: Administration.”
rupees in British subsidies. However, the British neglected Sher Ali Khan’s petition to increase the transfer of the subsidies to strengthen his army, deeming it strategically insignificant for their interest. Later they became suspicious of Sher Ali Khan’s relations with Russia. Unlike his father, Sher Ali Khan did not allow his sons to take over the administration of the provinces and relied on those whom he trusted. He abolished the three months advanced tax payment on actual agriculture production that was imposed in the first three months of the New Year and the barāt (draft bill of exchange) for the army and government employees that the peasants and craftsmen were to reimburse against their tax dues. Although not a great deal of information about the overall system of taxation is available, the reports on a number of districts suggest that the revenue on land was assessed on the basis of sī-kot (one-third of production) and jam bast (assessment based on a tribal community). The government would take one-third of the produce in the former case while a fixed amount was assessed in the latter. A lighter rate was imposed on the private land than on the khālisa.

Additionally, Sher Ali Khan established a council of twelve members, directly appointed by him, to advise him on state affairs. This later became the state cabinet. He


80 Ibid., 99-100.

81 Qassem, Afghanistan’s Political Stability: A Dream Unrealised, 30-1.

82 Encyclopedia Iranica, s.v. "Afghanistan: Administration."


created the office of *sadr-i azam* (prime minister) and assigned ministers for war, foreign affairs, interior, finance and treasury as well as a general secretary. In order to improve government linkages with the periphery, he also established a department of post and communication in Kabul and provinces with a branch in Peshawar. Sayyid Jamāl ad-Dīn al-Afghānī (lived-1837-1897), a prominent Islamic reformist who advised Sher Ali Khan, inspired most of these reforms.\(^85\)

The army salary became fixed (seven rupees per month) and was paid directly from the government’s treasury. The army’s permanent bases were kept outside the cities, something not commonly practised before. The total number of the standing army was 50,000 men who were placed in Kabul, Ningarhar, Paktia, Kandahar, Herat, Maimana, and Balkh on the border areas of the country.\(^86\) In order to collect taxes and implement the reforms, the administration had to grow. To pay for the new employees of the government, Sher Ali Khan increased existing taxes and introduced new ones. Yet the government was unable to have direct control over the entire country. It controlled only those cities where troops were placed. The tribes, mainly those of the frontier regions, remained autonomous. *Pashtunwālī* (Pashtun tribal code of conduct) and *Sharia* (Islamic Law) were the basic platforms for solving their problems.

Although the reforms were important for institution building, yet “the ties between [Sher Ali Khan] and subjects were still personal in character rather than institutional.”\(^87\)

In 1878, the second British invasion of Afghanistan due to Sher Ali’s growing

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\(^86\) See ibid., 618-20.

relationship with Russia terminated these reforms\textsuperscript{88} and facilitated the rise of a modern buffer state. The British invasion, as noted by the Viceroy of India in a communication to the secretary of state of India at that time, had “left the civil government and the military resource of the Afghans in a state of dilapidation which [would] require a long time to repair.”\textsuperscript{89}

Consolidation of a Modern Buffer State (1880-1919): The Significance of Subsidies and External Military Support

The two Anglo-Afghan wars (1839-1842, 1878-1880) imposed a major cost on the country, with agriculture and trade declining significantly. Although the British military campaigns ended after the second invasion of Afghanistan, the British retained control over the foreign relations of Afghanistan (1879-1919). This isolated the country from the rest of the world and became a major obstacle for its development.\textsuperscript{90} The defeat of the British military after their invasions of Afghanistan led to a shift in their foreign policy towards Afghanistan.\textsuperscript{91} The British therefore found it desirable to support an Afghan ruler who would be dependent on them for resources, be prepared to subdue the peoples of Afghanistan, and be strong enough to defeat rivals.\textsuperscript{92} They therefore

\textsuperscript{88} Encyclopedia Iranica, s.v. "Afghanistan: Administration."

\textsuperscript{89} Ibid.

\textsuperscript{90} See Ghubar, Afghanistan Dar Masyr-i Tärykh, 669. Jafar Rasuly argues that Afghanistan's foreign policy has been a major cause of its underdevelopment. This has been very much shaped by the existence of strong powers in the region, surrounding Afghanistan. See Jafar Rasuly, "Täsir-i Síasati Khârîjî Bar Tawseah Nayâftagy-i Afghanistan (The Impact of Foreign Policy on Afghanistan's Underdevelopment)," (Kabul: Maiwand, 1384 Solar Hijra Calendar (2005)).


recognized Abdur Rahman Khan’s (1889-1901) accession to the throne as the Amir of Afghanistan. He compromised with the British, agreed to British having control over the foreign policy of Afghanistan, and later signed the territorial agreement establishing the Durand Line (1893). This line fixed the spheres of influence between British and Afghan interests. Afghanistan subsequently became a buffer state between the British Empire that ruled much of South Asia, and the Russian Empire, which ruled most of Central Asia.

After the British assured Abdur Rahman Khan of its regular subsidies and protection against external aggression, Abdur Rahman Khan focused on centralizing government and bureaucratizing affairs. The British granted him a yearly subsidy of 1.2 million Indian rupees in 1882, which was raised to 1.85 million by 1897. During his reign, he received a total of 28.5 million rupees in cash from the British. Abdur Rahman Khan remained the sole recipient of the British subsidies and military assistance which helped build his government’s coercive capacity and consolidated his rule. However, it did not contribute to making him accountable to his people or any other authority. Abdur Rahman Khan opposed political participation and abolished the Cabinet system which was established under Sher Ali Khan and replaced it with a system centred on

93 Abdur Rahman Khan provided the British with “the necessary opportunity for a face-saving withdrawal.” He was son of Mohammad Afzal Khan and grandson of Dost Muhammad. In 1868, after his defeat bySher Ali Khan (half-brother and arch-rival of his deceased father), Abdur Rahman Khan lived in exile in Samarkand and Tashkent for twelve years. He was then impressed by centralizing policies of Czarist Empire. In February 1880, the Russians, believing him to be pro-Russian, assisted his return to Afghanistan. He mobilized the support of Afghanistan’s northern Khans and Begs (Uzbek and Turkmen leaders) and rallied to Kabul. In the absence of any other strong leader, the British found it desirable to support his accession to the throne. See Saikal, Modern Afghanistan: A History of Struggle and Survival, 35; and Ashraf Ghani, "Islam and State-building in a Tribal Society, Afghanistan: 1880-1901," Modern Asian Studies 12, no. 02 (1978): 272.
himself.94 As will be discussed in the next section, he remained autonomous in formulating his tax and distribution policy. The availability of a supply of weapons and cash partly freed him from having to rule in alliance with local power holders such as the tribal chieftains and religious establishment. Yet the resources were not generous enough to make the state fully independent of the society. Abdur Rahman Khan used the subsidies to strengthen his army.95

Although Abdur Rahman Khan was aware of his financial constraints, Afghanistan’s natural resources and the potential benefit that he could gain from European technical assistance, he relied on British subsidies, domestic taxes and income derived from a few government-run factories in Kabul.96 As the British subsidies were not enough, Abdur Rahman Khan heavily taxed the population. He did so by using the army and harsh coercive measures. In this period, the country remained subsistence-based and “in terms of transport, communications, industry, or education, little distinguished the Afghanistan of 1800 from that of 1900, beyond a few government-run factories in Kabul."97

In order to mobilize support for his centralizing policies, Abdur Rahman Khan used Islam “as an ideology of state building in a country inhabited by diverse ethno-linguistic groups…. "98 He mobilized some ulamā (Islamic religious scholars) to interpret Islam to justify his policies. He used Islam to stress the duty of the unconditional obedience of

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94 Ghubār, Afghanistan Dar Masyr-i Tārykh, 670.
95 See ibid., 677-84.
96 Gregorian, The Emergence of Modern Afghanistan, 134.
97 Barfield, Afghanistan: A Cultural and Political History, 165.
his subjects. Abdur Rahman Khan deprived ulamā of their earlier economic privileges and instead offered them a regular allowance from the state treasury. This made them dependent on the state, obliging them to propagate Abdur Rahman Khan’s doctrine.

He declared taxation as a religious duty and replied to a dignitary that “exemption from paying taxes was equivalent to disobedience to God’s commands, and that since the country was threatened by the infidels it was the duty of every Muslim to contribute to the strengthening of the Islamic state.” Thus, “subjects not paying their taxes and officials guilty of corruption are, indeed, betraying the religion.” This type of approach to taxation, defining it as a mandatory religious duty and payment, therefore would not entitle the taxpayer to a say in state affairs.

Accordingly, taxpayers had to pay their due without failure; if not, tax was realized from their nearest relatives or tribe. Abdur Rahman Khan argued that the revenue belonged to bayt al-māl (public property) and it was collected for the protection of the borders and the honour of the religion and the nation. He ordered that everyone, even

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99 See ibid. For example, Abdur Rahman Khan was propagating through religious publications that “if a king becomes tyrannical towards his subjects, they are not to rise against him but show patience in bearing his excesses.” Where “[t]he oppression and injustice of the rulers is “ a result of our sins and not of faults on the parts of kings.” Resala Mawoza, (Kabul: Government Press, 1311 Solār Hijri Calendar (1932)), 63, and Abu Bakr, Taqwim Din, 2 ed. (Kabul: Government Press, 1306 Solār Hijri Calendar (1927)), 116, quoted in Ghani, “Islam and State-building in a Tribal Society, Afghanistan: 1880-1901,” 281.

100 Ibid., 274.


religious groups which had held free-rent lands should pay tax. Despite the appeal to religious obligation, some taxpayers resisted the tax policy in the form of non-payment of taxes and appeals, leading to confrontations between them and the government. However, the resistance to tax policy did no help to reduce the tax rates. The imposition of taxes was so heavy that a number of people emigrated to neighbouring countries. The system was inflexible and sometime poor taxpayers had to sell their lands, property and even their children to pay their due taxes.

In order to pay for government wages and maintain the large army, Abdur Rahman Khan modified the taxation system. As security was considerably improved in this period, the government was able to extract significant amounts of tax from landowners, which formed the bulk of the state domestic revenue. He raised the rates of land taxes, introduced new ones, and imposed tax on rent-free lands. In order to improve tax collection he developed a new system of collection, whereby the taxpayers had to pay their taxes by a predetermined date. The arrears were then collected by mounted troops. Tax farming was practised as before. He used taxation to penalize his political opponents. For example, he imposed higher tax rates on Ghilzai Pashtun tribes than on the Durrani ones because the former supported his rival cousin, Ayub

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105 Ibid., 75.

106 The people who were not able to pay their tax dues and escaped the country were, estimated to be around hundreds of families. They were mostly constituents of beyond the Hindu Kosh (Baghlan, Ghuri, Qataghan, and Badakhshan). See ibid., 87-8.

107 Ghubār, Afghanistan Dar Masyr-i Tārykh, 675.

Khan (1857-1914), the ex-governor of Herat and the victor of the Maiwand battle (1880) against the British.\footnote{Barfield, Afghanistan: A Cultural and Political History, 148.}

\textit{Hakims} were in charge of revenue collection in provinces, which were issuing receipts to taxpayers after they paid their taxes.\footnote{Kakar, A Political and Diplomatic History of Afghanistan, 1863-1901, 50.} The proportion of tax in kind and cash was not fixed, Abdur Rahman Khan himself ordered that taxes could be collected in cash or kind based on the availability of grain or the need for coin. The new systems of tax collection, like \textit{kūt} and \textit{gīrīb}, increased the role of government officials in tax collection and expanded the administration.\footnote{---, Government and Society in Afghanistan: The Reign of Amir’Abd al-Rahman Khan, 78.} However, this allowed government officials to exact unofficial fees and bribes from taxpayers.\footnote{See ibid., 77-8.} State revenue increased to 50 million rupees in 1891 from 14 million in 1889.\footnote{Kakar, Government and Society in Afghanistan: The Reign of Amir’Abd al-Rahman Khan, 90.} The major items of spending were on the army (about one-third of the annual revenue) and the court.\footnote{Ghubār, Afghanistan Dar Masyr-i Tārykh, 675.} Although Abdur Rahman Khan occasionally provided the British government with the statement of revenue and expenditure of Afghanistan,\footnote{Kakar, Government and Society in Afghanistan: The Reign of Amir’Abd al-Rahman Khan, 90.} he did not account to his people.
The annual subsidy of the British consisted of about 3.5 per cent of the state annual revenue, using the average of domestic revenue in 1889 and 1891 and the average of the subsidies. The British also granted a significant amount of weaponry to Abdur Rahman Khan, who, in addition purchased further supplies of weapons from the market in Europe, using domestic revenue and income from government factories. Gubār observes that he took a month’s salary from government employees each year to purchase weapons in order to strengthen the defence of Afghanistan. This challenges Barnett Rubin’s view that under Abdur Rahman Khan Afghanistan became a rentier state by financing about 40 per cent of its expenditure from subsidies and in the form of weapons from the British. However, a generous estimation of the weapons granted to Abdur Rahman Khan from 1880 to 1895 in terms of value, on average, could have amounted to 20 per cent of annual state revenue and by including the subsidies this amount could have become 25 per cent.

Civil and Military Administration

Abdur Rahman Khan established a centralized unitary state, which was administratively unified and governed directly by a centralized authority based on superior military rule, with internationally recognized boundaries. He established fairly

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117 Ghubār, Afghanistan Dar Masyr-i Tārykh, 672.


119 Between 1886 and 1889, the price of a rifle was about Rupees 25-40. Accordingly, the price of 33,302 rifles, for example, which was granted to Abdur Rahman Khan between 1880 and 1895, could have been, on average, ninety thousand rupees per year. See Tim Moreman, "Arms Trade on the N.W. Frontier 1890-1914," November 24, 2013, http://www.king-emperor.com/page27.html. Rubin, The Fragmentation of Afghanistan: State Formation and Collapse in the International System, 49.

120 Barfield, Afghanistan: A Cultural and Political History, 160.
well defined and universally applied administrative and judiciary rules and regulations which helped to transform an indirect rule which had been instituted under the Durrani Empire on the basis of feudal ties.\footnote{Shahrani, ed. State Building and Social Fragmentation in Afghanistan: A Historical Perspective, 39.} He bureaucratized all “spheres of administration, involving the clear demarcation of spheres of responsibility based on principles of accountability, hierarchy, and record keeping”, and the administration was mainly conducted through written mediums. The different edicts (dastūr al-amal) that he issued were essential in formalizing these changes.\footnote{Encyclopedia Iranica, s.v. “Afghanistan: Administration.”} To maintain security and achieve stability, Abdur Rahman Khan did not rely on hakīm, or civilian qazī. Instead, he depended on a trained standing army of around 96,400 men,\footnote{Ghubār claims that the estimated number of troops under Abdur Rahman Khan’s reign was around 96,400, while Ghani notes that this number was around 79,000. However, Abdur Rahman Khan in his autobiography highlighted the need for a million armed men to defend the country from foreign invasions. Therefore, Ghubār’s figure seems to be a closer estimation. See Ghubār, Afghanistan Dar Masyr-i Tārykh, 671; Encyclopedia Iranica, s.v. “Afghanistan: Administration.”; Abdur Rahman Khan, Tāj ul-Tawārikh (Amir Abdur Rahman Khan’s Autobiography), 2 vols. (Kabul: Maiwand, 1387 Solar Hijri Calender (2008)), 446.} whose authority was superior to that of hakīm.\footnote{Kakar, Government and Society in Afghanistan: The Reign of Amir’Abd al-Rahman Khan, 39.} In addition, since 1887 Abdur Rahman Khan relied on a conscription system called bist nafārī (twenty-person system) whereby 20 families were required to identify and provide a soldier for a year at their own expense (except for food).\footnote{Ghubār, Afghanistan Dar Masyr-i Tārykh, 672.} The government army mostly engaged in subduing rebellions and combating
the Amir rivals, and according to Abdur Rahman Khan, the army participated in four
civil wars and one hundred major and minor revolts under his reign.\footnote{126}

Abdur Rahman Khan divided the country into six provinces (\textit{vulāyats})\footnote{127} to enhance
central government authority. In each province, a network of small administrative units
was established. They were “strong enough to control their constituencies, but not with
sufficient power to pose any threat to Kabul’s pre-eminence.”\footnote{128} In addition, each
province was divided into smaller units. For example, Kabul province was divided into
districts, mostly independent of each other, such as Jalal Abad, Kunar, Laghman, and
Ghazni (Khost was part of Ghazni). These districts sent their revenue directly to Kabul.
Such division of traditionally independent provinces into smaller administrative units
gave Abdur Rahman Khan direct control. There was no systematic cooperation among
these districts, except in cases of military cooperation in putting down rebellions.
However, if larger forces were required Kabul would supply them, while Abdur
Rahman Khan himself closely controlled such processes. The administrative units were
headed by \textit{hakīms}.\footnote{129} There was a \textit{qāzi} in each administrative unit under the jurisdiction
of \textit{hakīm}.\footnote{130} In the Pashtun tribal areas the administration came into conflict with tribal

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\begin{itemize}
  \item[126] Tarzi, "A Tax Reform of the Afghan Amir, 'Abd Al-Rahman Khan,'" 40; Abdur Rahman Khan, \textit{Tāj ul-Tawārikh (Amir Abdur Rahman Khan's Autobiography)}.
  \item[127] Encyclopedia Iranica, s.v. "Afghanistan: Administration."
  \item[128] Gregorian, \textit{The Emergence of Modern Afghanistan}, 37.
  \item[129] Tarzi argues that all the governing heads of administrative units under Abdur Rahman Khan were called \textit{hakīm}. The word \textit{hakīm} has its root in Arabic verb \textit{hakama} (in command). See Tarzi, "A Tax Reform of the Afghan Amir, 'Abd Al-Rahman Khan,'" 38.
\end{itemize}
authorities because the main platform to the tribes for bestowing justice was *Pashtunwālī* through *Jirga* (tribal assembly).\(^{131}\)

**State-society Relations**

Abdur Rahman Khan’s state building project significantly reshaped state-society relations. He acted as a despotic reformer, and he showed little or no concern for human lives. During his reign “violence committed in the name of state was without parallel in Afghan history.”\(^{132}\)

He destroyed and subordinated the regional elite in the north, west, and south who had previously challenged the national government’s primacy in the nineteenth century to such an extent that one could be forgiven for thinking that they had been wiped from the map. The tribal structure of the Pashtun areas in the east remained intact, but [Abdur Rahman Khan] had so brutally repressed their rebellions that the Pashtuns withdrew from national politics entirely. The Islamic clerics and sufi *pirs* who had played such an independent political role at the end of the Second Anglo-Afghan War were reduced to being either arms of the state or apologists for it.\(^{133}\)

Those who directly confronted the government, especially the Hazaras, were suppressed brutally by the army and suffered the most.\(^{134}\) Abdur Rahman Khan governed the country through fear by heavily relying on coercive measures. For instance, when Mirza Amir Abu al-Hassan, a senior government official, learned that his father was under

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\(^{131}\) Tarzi notes that Abdur Rahman Khan by the end of his reign succeeded in replacing the judicial authority of the tribe with the justice of *Quran* and *qazi*’s court, at least in Khost. Tarzi, “A Tax Reform of the Afghan Amir, ‘Abd Al-Rahman Khan”,


arrest by order of Abdur Rahman Khan, he killed himself because he was afraid that he would also be punished.\textsuperscript{135}

Abdur Rahman Khan used a redistribution policy to reshape the structure of the elite polity. However, this policy remained biased by favouring Abdur Rahman Khan’s clan—Muhammadzai—whom he made “partners of the state” (\textit{shuraka-i dawlat}).\textsuperscript{136} He ordered a regular annual stipend of 400 rupees for each male and 300 rupees for each female of his clan, which on average was almost three and a half times higher than the annual salary of an infantry officer in the army.\textsuperscript{137} They were also able to receive land on easy terms.\textsuperscript{138} His clan dominated power for about eighty years following his death in 1901.\textsuperscript{139} His state building also produced a new class of national elites who were dependent on state patronage. These elites had a much narrower social, political and regional base than those of the nineteenth century. Although they were mostly dominated by Muhammadzais,\textsuperscript{140} the elite also included members of other groups such as urbanized Tajiks and other ethnic minorities based in Kabul. This widened the gap between a rising elite in Kabul and the inhabitants of the countryside and provincial cities. Although the national elites were smaller in number, their influence was greater

\textsuperscript{135} Ghubār, \textit{Afghanistan Dar Masyr-i Tārykh}, 682. \textit{Mirza} was used as a title for a civil office or military rank, usually under monarchies and emirates.

\textsuperscript{136} Barfield, \textit{Afghanistan: A Cultural and Political History}, 167.

\textsuperscript{137} Ghubār, \textit{Afghanistan Dar Masyr-i Tārykh}, 671.

\textsuperscript{138} Barfield, \textit{Afghanistan: A Cultural and Political History}, 167.


\textsuperscript{140} Muhammadzai (meaning son of Muhammad in Pashtu) is a subtribe from Barakzai branch of Durrani tribe. From 1826 to 1978 most of the Afghan rulers were Muhammadzais. See for example Nabi Misdaq, \textit{Afghanistan: Political Frailty and External Interference} (London: Routledge, 2006), 53-5.
because they dominated state institutions. They advocated for state reforms while the provincial elites were suspicious of change.

Abdur Rahman Khan’s heavy reliance on the military and intelligence improved the security for the trade and businesses. But in the long run it undermined national consciousness and courage among the people. In order to repress the rebels on many occasions he mobilized one ethnic group and used them against another. This further complicated the relationship among these groups, and between them and the state.

**Amanullah Khan’s Reforms: The loss of Subsidies, Budget Surplus and Fiscal Decline (1919-1929)**

After the death of Abdur Rhaman Khan, his son Habibullah Khan (1901-1919) largely followed his state building policies. Annual government revenue under his reign increased to 80 million rupees, while still being in receipt of the regular British subsidies. However, following the assassination of Habibullah Khan in 1919, Afghanistan experienced a dramatic change under the reign of his son, Amanullah Khan (1919-1929). In this period three interrelated events happened which shaped the politics of state building and state-society relations. Firstly, Afghanistan gained control of its foreign policy from the British, referred to as independence. Secondly, Amanullah Khan lost the British subsidy. Thirdly, the new regime initiated comprehensive socio-economic and political reforms to modernize Afghanistan. Although these events increased the Amanullah Khan regime’s dependency on its citizens for their tax revenue

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141 Ghubār, Afghanistan Dar Masyr-i Tārykh, 675-82.

142 For details see ibid., 690-700.

and political legitimacy, the reforms brought it into conflict with the most conservative segments of the society such as ulama and tribal leaders. As a result of their revolts the state was deprived of the bulk of land and livestock revenue.

A number of Afghan reformists and nationalists, mostly young and headed by Mahmud Tarzai, dominated Amanullah Khan’s regime and backed the reforms in order to transform the socioeconomic structure of Afghanistan. Gaining Afghanistan’s independence in 1919 increased Amanullah Khan’s prestige and legitimacy among the people. Afghanistan became the only Muslim member of the League of Nations. Although Afghanistan received some military and technical aid from the Soviet Union, Turkey, Germany, France and Italy, it did not replace the British regular subsidy and establish a reliable external source of revenue for the state. The government improved and centralized the administration by unifying the legal system and introducing a new tax law. The tax system was regularized and tax farming was abolished. The taxpayers had to pay their taxes in cash to the government. The rates of direct tax on land and livestock increased, which together accounted for around three-fifths of the government’s domestic revenue. The government simplified the customs duties, however, collection was a problem and brought the government into conflict with landowning Khans and with the border tribes who largely benefited from smuggling on the border. Additionally, the government abolished jazya on non-Muslims to


145 Ibid.

146 Ghubār, Afghanistan Dar Masyr-i Tārykh, 850.

promote equal rights and responsibilities for all citizens, which was promised in Article 16 of the first Constitution of Afghanistan (1921).\textsuperscript{148} The Constitution established the \textit{Loya Jirga} (grand assembly) as the highest representative organ of the state and Amanullah Khan convened it three times.\textsuperscript{149} The first budget was introduced in 1922 and the Afghani became the new unit of currency in 1923. Bank-i Millay (National Bank) was established in 1928.\textsuperscript{150} The establishment of an \textit{aīsulī daftarī} (administrative principles) school in Kabul helped to build up the government financial management capacity by appointing its graduates to key financial positions. Moreover, Amanullah Khan founded a well-structured cabinet/ministers’ council headed by himself.\textsuperscript{151}

Under the social reform agenda, Amanullah officially abolished slavery and expanded the education system. This included formal education for women and reformation of the \textit{madrasses} (Islamic religious schools). Universal conscription was imposed. The government tried to curtail polygamy, child marriage, and \textit{bad} (exchange of women for settling disputes among Pashtun tribes). Additionally, a written code of law defined family matters,\textsuperscript{152} allowing the government to intervene in the private sphere of family life, something which was not practised before.

\textsuperscript{148} Ghubār, \textit{Afghanistan Dar Masyr-i Tārykh}, 853-4.


\textsuperscript{150} For further discussions on Amanullah Khan’s reforms see Ghubār, \textit{Afghanistan Dar Masyr-i Tārykh}, 847-61; Saikal, \textit{Modern Afghanistan: A History of Struggle and Survival}, 73-90; Gregorian, \textit{The Emergence of Modern Afghanistan}, 239-74.

\textsuperscript{151} Saikal, \textit{Modern Afghanistan: A History of Struggle and Survival}, 73.

\textsuperscript{152} Barfield, \textit{Afghanistan: A Cultural and Political History}, 182-3.
The economic reforms led to increased revenue collection. At the beginning of Amanullah Khan’s reign, revenue increased to 180 million rupees. The major portion of the revenue came from land taxes (44 per cent of total revenue), cattle tax (14 per cent of total revenue), and customs duties (22 per cent of total revenue). The major expenditures of the government were 22 per cent on the army, 11 per cent on the King’s darbār (court), and around 8 per cent on education. The government even produced a budget surplus. Therefore approximately 37 per cent of the annual revenue was allocated for contingency expenditures and savings.\footnote{Ghubār, Afghanistan Dar Masyr-i Tārykh, 850. The exchange rate in this period was at 100 Kabuli rupees to 60 Indian rupees. Ibid., 850.}

The main problems of the reforms arose from the attempts to extend central government power into provinces where they affected people’s lives directly. These came in three ways: “taxation, conscription and perceived interference in family life.”\footnote{Barfield, Afghanistan: A Cultural and Political History, 183.} However, it was the cost of these reforms which made the people feel the most pressure because they were financed through taxation. A “combined weight of taxation and administrative abuses encouraged brigandage in the countryside and contributed to social disturbances.”\footnote{See Gregorian, The Emergence of Modern Afghanistan, 271 Also see Ghubār, Afghanistan Dar Masyr-i Tārykh, 848.} A remarkable example was in 1927, when some 30 peasants attacked the finance minister.\footnote{Gregorian, The Emergence of Modern Afghanistan, 271.} The government heavily taxed both the peasants and the urban population. Duties on exports and imports increased hitting the merchant class. For example, customs duties ranged from 10-14 per cent on useful or necessary items and to 100 per cent on luxury items, but in practice it ranged from 20 per cent to...
200 per cent.\textsuperscript{157} Even internal trade was subject to a five per cent tax. Furthermore, a poll tax was imposed on the inhabitants of Kabul city. The low salary of government officials and the new method of tax collection in cash made it difficult for Amanullah Khan to realize his anti-corruption measures,\textsuperscript{158} particularly as it was easy for tax collectors to pocket the cash in comparison to in kind payments.

The reforms, however, led to changes that seriously disturbed the relationship among the Afghan governing elites and with the other social actors such as religious establishments and the different ethnic groups, as it reconfigured the structure of polity and the state role in Afghanistan.\textsuperscript{159} This seriously undermined the relative stability which existed for the previous four decades, and consequently Amanullah Khan faced revolts from the countryside.\textsuperscript{160} In 1924, the Khost revolts cost the government about two years of its income. The Khost rebellion was because of Amanullah Khan’s administrative code (\textit{ni\^anm\^ama}), which he passed in 1923. Among other things, in particular this policy attempted to liberalize the position of women and to allow the government to regulate various family problems. A few traditionalist mullâhs (clergies) deemed the administrative code to be contrary to instructions of Islamic law and the spirit of the Quran. The rebellion continued for more than nine months.\textsuperscript{161} Because of the social pressure the government was not only deprived of the resources to fund the reforms, but had to modify some parts of the reforms too.

\textsuperscript{157} Ibid.

\textsuperscript{158} Barfield, \textit{Afghanistan: A Cultural and Political History}, 183-4.


\textsuperscript{161} See Gregorian, \textit{The Emergence of Modern Afghanistan}, 254-5.
The instability from the reforms was exacerbated by the British interference and occasionally blockage of Afghanistan trade route to the outside world through India. British granted subsidies to some tribal chieftains and clergies and encouraged them to undermine Amanullah Khan’s legitimacy. When, for example, Amanullah Khan was in desperate need of weapons during the uprisings, the British did not allow any weapons to be transited in a timely manner to Afghanistan.\(^\text{162}\)

In 1928, violent anti-government demonstrations and rebellion by conservative leaders spread across the country. This situation deprived the government of 30 per cent of land tax.\(^\text{163}\) The rebel leaders gave Amanullah Khan an ultimatum, among other things, to abolish the family law, reduce taxes and restore the *ulamā* to their previous positions of distinction.\(^\text{164}\) Although Amanullah Khan was prepared to comply with these demands in order to secure the throne, the general decay in the central government and the constant revolts led to the fall of his regime. Subsequently, Habibullah Kalakani, an ethnic Tajik and a former army non-commissioned officer and later highwayman from Kalakān district of Kūhdāman (north of Kabul), took power after his militia forces overthrew Amanullah Khan in 1929.\(^\text{165}\)

Although Amanullah Khan failed to implement his reforms and lost the throne, most of the reforms initiated under his reign was gradually implemented by the *Musahiban* family and inspired subsequent leaders, except Habibullah Kalakani Kalakani whose anti-reform stand was the basis for his legitimacy among the most traditional and

\(^{162}\) For more discussion see Ghubār, *Afghanistan Dar Masyr-i Tārykh*, 847-61.

\(^{163}\) Gregorian, *The Emergence of Modern Afghanistan*, 270.


\(^{165}\) Ibid., 88.
conservative segments of the society. Nonetheless, the reforms paved the way for limited modernisation of administration and expansion of secular public education.

However, Habibullah Kalakani held the throne of Kabul for only a short period (17 January to 13 October 1929) and his reign was associated with political instability and severe economic dislocation. His rule did not extend beyond the major urban centres. He soon promised to eliminate all of his predecessor's reforms, which he deemed anti-Islamic. Habibullah Kalakani cancelled compulsory military service, shut all modern schools, and liquidated taxes imposed by Amanullah Khan. He used 750,000 British pounds that he captured in the royal palace to consolidate his power temporarily through patronage. But his regime soon faced financial crisis due to a decline in agriculture and trade caused by unrest and he was forced to break his promises. He not only retained the previous taxes levied under Amanullah Khan, but levied new ones as well. Habibullah Kalakani forced merchants and citizens of Kabul to contribute to his treasury. This cost him the support of peasant masses and merchants and added to their increased discontent arising from a lack of security and high inflation. He soon lost the support of some of the Pashtun tribal allies. The lack of revenue for his government, either domestic or external, accelerated the fall of his regime.

Foreign Aid and State Building

Reshaping the State Building Process (1929-1978)

In 1929, Nadir Khan, the former war minister of Amanullah Khan, who lived in exile,

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166 Ibid., 96.


overthrew Habibulah Kalakani and captured Kabul. He was aided by the British and supported by trans-border Pashtun tribes. The leaders of a 12,000 strong tribal army crowned him Shah (king) in a Jirga.\textsuperscript{170} To institute his programme and consolidate the rule of his dynasty, Nadir Khan relied on his brothers and on the cooperation of the religious establishment and the Afghan tribes. “His government was virtually a family circle.”\textsuperscript{171} Between 1929 and 1978, Nadir Shah and his four brothers, referred as the Musahiban family, as well as their descendants remained in power.\textsuperscript{172} Although they shared to some extent the goal of modernization with Amanullah Khan, they shifted their domestic policy from Amanullah Khan’s radical modernization to a policy of gradual modernization and development. They concluded from Amanullah Khan’s experience that the balance of forces in the country prevented a “state-imposed global transformation.”\textsuperscript{173} Although they compromised with traditional actors, the tribes and religious establishment, they forged their links with the international state system and the market. The latter steadily facilitated a “state-dominated export enclave centred in Kabul.”\textsuperscript{174} The state became less and less dependent on the peasant-tribal society which largely remained fragmented, and the

\begin{footnotes}
\item^{170} Ibid., 97; Dupree, Afghanistan, 458-59.
\item^{171} See Gregorian, The Emergence of Modern Afghanistan, 294.
\item^{172} Encyclopedia Iranica, s.v. “Afghanistan: Administration.” During the reign of Amanullah Khan four families played a dominant role in shaping the politics. They were his royal family, the Musahiban family whose head was Nadir Khan, the Charkhi family led by Ghulam Nabi Khan Charkhi and the Tarzi family headed by Mahmud Tarzi. Abdur Rahman Khan exiled the Musahiban and Tarzai families. However, Habibullah Khan allowed them to return to Afghanistan and gave them the positions of honour and influence. Leon B. Poullada, Reform and Rebellion in Afghanistan, 1919-1929; King Amanullah's Failure to Modernize a Tribal Society (Ithaca: Cornell University Press, 1973), 35-6.
\item^{173} Rubin, “Lineages of the State in Afghanistan,” 1200.
\item^{174} Ibid.
\end{footnotes}
state-society relationship was mediated through local notables.\(^{175}\)

Nadir Shah divided Afghanistan into nine areas, consisting of five major provinces around the major urban centres, Kabul, Kandahar, Herat, Mazar-i Sharif, Qataghan, and Badakhshan; and four minor provinces that included Farah and Maimana and the eastern and southern provinces. These provinces and sub-provinces were divided into three classes of prefecture (first, second and third) based on their size and importance. Governors (valīs) headed provinces.\(^{176}\) After World War II the British withdrew from the region leaving Afghanistan with a new international order and Pakistan as a new country, after its partition from India in 1947, on its border. The Afghan government thereafter opposed Pakistan because of Afghanistan’s claim of sovereignty over Pashtun tribal areas separated by the Durand Line from Afghanistan. However, Afghanistan also became depended on Pakistan for its link to the international market.\(^{177}\)

The Musahiban family reduced the state’s economic pressure on the countryside in return for a greater political obedience from the rural population.\(^{178}\) The new Constitution, which was adopted in 1931, provided an opportunity for representation of tribal Khans and gave a concession allowing the ulamā to review laws prior to approval. Consequently, “no government in such an arrangement since then has

\(^{175}\) Ibid.

\(^{176}\) Gregorian, *The Emergence of Modern Afghanistan*, 298.

\(^{177}\) Rubin, "Lineages of the State in Afghanistan," 1203.

succeeded in persuading the legislature to raise land and livestock taxes." This type of arrangement decreased the share of agriculture and livestock tax revenue which was historically the main source of state income. Although the tax was collected in cash, it continually diminished and the share of domestic revenue from agriculture and livestock fell significantly from 62.5 per cent in 1926, to 18.1 per cent in 1953, and then to 7 per cent by 1957, and in the 1970s to less than 2 per cent. These changes demonstrate the state's inability to penetrate the society. However, the state instead largely relied for its revenue on trade tariffs, government monopoly enterprises, and (especially in the last two decades of Musahiban reign) foreign aid in the form of grants and loans. During this period, the proportion of indirect taxes, particularly taxes on foreign trade, was higher in Afghanistan than in other countries at similar stages of development. This put the country at some economic disadvantage in the area of domestic production. Afghanistan's tax efforts (the ratio of potential revenue versus that collected) seemed to be the last, after Nepal, in a comparison of 55 developing countries.

Such low tax performance resulted because of the fear of the government from a popular reaction against government tax in the countryside and Afghanistan's

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182 Fry, *The Afghan Economy: Money, Finance, and the Critical Constraints to Economic Development*, 169-70. Taxes on exports were high. For instance in 1944, taxes at the rate of 51.8 per cent were imposed on cotton exports, 50.9 per cent on wool exports and 43.4 per cent on Karakul. See ibid., 226.

183 In the initial comparative study of 49 countries, where taxable capacity was calculated Afghanistan was not included. Fry later added Afghanistan in the assessment. See ibid., 183.
economic structure—which was largely agriculture based with the industrial sector contributing little to the economy. Moreover, tax collection was hampered by weak administration as well as corruption. Last but not least, the government’s reluctance to strengthen its taxation system was exacerbated by the availability of economic assistance from the east and west after the 1950s.184

The Rise of a Weak Rentier State

During the early 1950s and 1960s, the Cold War strengthened Afghanistan’s bargaining position for receiving economic aid from the US and the Soviet Union, both of which sought to influence the country through economic assistance. This type of relationship, however, disrupted state-society relations in the subsequent decades by making Afghanistan highly dependent on the Soviet Union, especially when the US refused to increase its economic assistance and provide military support because of the US alliance with Pakistan, and the refusal of Afghanistan to join the US-sponsored military pacts of Baghdad (1955) and its successor, the Central Treaty Organisation (CENTO, 1964). The Afghan government declined to join these military pacts as it “deemed it to be in the general interest of Afghanistan to perversely with its traditional policy of neutrality in world politics; and thus avoid any complication in its relations with the Soviet Union in the absence of all-ground goodwill on the part of the [US].”186 The US reluctance to respond to Prime Minister Daud Khan’s request


for support (1953-1963), prompted him to accept a longstanding offer from the Soviet Union of significant military equipment and aid.\textsuperscript{187}

Foreign aid funded state building, increasing the autonomy of the government and undermining "old patterns" of social control in Afghanistan.\textsuperscript{188} It relieved Daud of whatever incentive he might have had to make his government accountable to his people.\textsuperscript{189} At the same time, it allowed him to implement his state building policy to:

- centralize control of the means of violence in a strong, well-equipped and trained modern army;
- to strengthen commercial agriculture and exports by investing in economic infrastructure such as dams and roads;
- to make state enterprises rather than private joint stock companies the main sources of capital accumulation;
- to expand modern education to train personnel necessary for the new institutions;
- and to create a national transportation and communication network. To help run development projects, the schools, and the military, foreign advisors entered the country by the thousands, especially the Soviets.\textsuperscript{190}

This period therefore became an exceptional era for socio-economic progress in Afghanistan’s history. The government also developed “close ties with, and ideological vulnerability to, the Soviet Union.”\textsuperscript{191} Yet the government had difficulty in paying for 20 per cent of projects earmarked for domestic financing and for operating costs after projects were in place.\textsuperscript{192} A major portion of aid was invested in infrastructure, such as transport and communication, which counted for 54.2 per cent


\textsuperscript{188} Rubin, The Fragmentation of Afghanistan: State Formation and Collapse in the International System, 75.

\textsuperscript{189} Ibid.

\textsuperscript{190} Rubin, "Lineages of the State in Afghanistan," 1204.


\textsuperscript{192} Rubin, "Lineages of the State in Afghanistan," 1204.
of all government allocations during the government’s first Five-Year Plan (1956-1961). The new asphalted highways and air links connected the main cities of the country and provided better access to neighbouring countries such as Pakistan, Iran, and the Soviet Union. A credit of US$100 million in economic aid that was granted to the government of Afghanistan by the Soviet Union in 1955, and the US$350 million of US aid that followed it, led to an increase in the number of civil servants from 10,000 in 1955 to 60,000 in 1963. Foreign aid and revenue from gas exports increasingly became important for state building. Between 1958 and 1968 and again in the 1970s the state financed over 40 per cent of its budget from foreign aid and the sales of natural gas to the Soviet Union (see Table 2). Consequently, Afghanistan became a rentier state. The Government concentrated on managing aid as well as building patronage networks with aid and services.

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195 Encyclopedia Iranica, s.v. “Afghanistan: Administration.”

196 Ibid.


Table 2: Sources of Afghan State Revenue and Public Expenditure (1952-1988)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (millions of Afghanis)</th>
<th>Expenditure</th>
<th>Domestic Revenue Excluding Gas (%)</th>
<th>Sales of Natural Gas (%)</th>
<th>Foreign Aid (%)</th>
<th>Reimar Income (%)</th>
<th>Domestic Borrowing (%)</th>
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<tr>
<td></td>
<td>Total (%)</td>
<td>Development (%)</td>
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</tbody>
</table>


\(^a\)First half of the year. \(^b\)Second half of the year. \(^c\)First half of the year.
Since the activities and size of the state expanded, it needed new forms of legitimation among the intellectuals and traditional actors. This was envisaged in the new Constitution adopted in 1964 which introduced aspects of representative government. The government therefore permitted limited freedom for intellectuals during the two parliaments (1949-1952 and 1964-1973). However, the government did not grant intellectuals access to real power (see Chapter 6). King Zahir Shah did not sign into law the bill to legalize parties so that they could effectively exercise power.

The state was not accountable to the people for its policies in a meaningful sense. The ruling elites were fragmented severely at a time when "expectations of state performance were rising" and a dysfunctional bureaucracy was inherited. M. Hassan Kakar noted that "Afghan civil servants are probably among the lowest paid in the world," making it difficult for them to have a decent life in the absence of other sources of income. Kakar observes, "Corruption and embezzlement [were] accepted facts of Afghan bureaucratic life and [were] objected to only when excesses [were] committed."

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199 Rubin, "Lineages of the State in Afghanistan," 1205.

200 Ibid.

201 Ibid., and Encyclopedia Iranica, s.v. "Afghanistan: Administration."

202 Maley, The Afghanistan Wars, 12.


204 Ibid.
Decline in Foreign Aid

Unlike the oil-rich states, which can control their sales volume, Afghanistan had no control over foreign aid, which declined after 1963. This caused increasing levels of unemployment and under-employment among high school and university graduates. In addition, the elites became polarized along ideological lines, ranging from traditional conservatives to Islamists and Marxists, shaping the power struggle of the coming decades. The famine of 1971 and 1972 was a notable event which left around 50,000 deaths. The poorest regions, such as the highlands of Hazarajat were most affected. Following a government appeal, the US provided 200,000 tons of wheat, though much of it was wasted through "pilfering, profiteering and a corrupt and inefficient administration." In the process thousands of peasants lost their lands to money-lenders.

In 1973, while Zahir Shah (Daud Khan’s cousin) was in Italy, Daud Khan seized power through a military coup and proclaimed Afghanistan a republic, with himself as the first president. The decline in foreign aid had already alerted the government to seek alternative revenue from domestic and external sources. In 1976, the government introduced a progressive land tax policy under its Graduated Land Tax Law. However, it was not implemented due to the fall of the regime in 1978.

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207 Ibid., 60.

208 Rubin, "Lineages of the State in Afghanistan," 1206.

Daud Khan had become acutely aware of the perverse impact of Afghanistan’s overreliance on the Soviet Union for economic aid and technical assistance. By 1978, the total of Soviet Union aid to Afghanistan stood at US$1.265 billion which was in the form of soft loans with a low interest rate (2-3 per cent) and long term repayment (usually up to 12 years). The Soviet aid was three times higher than the US aid to Afghanistan (US$471 million) in the same period. While Afghanistan was the third main recipient of Soviet Union aid among the developing countries, it ranked thirteenth in the developing countries in terms of the US assistance to it. In order to reduce the Soviet Union influence and maintain the flow of external revenue, Daud Khan looked to other sources for aid.

The US agreed but on condition that Afghanistan would join in a regional grouping dominated by Iran. This resulted in a billion US dollar promise of Iranian investment in Afghanistan, although it did not materialize due to regime change in both Afghanistan and Iran (1979). However, this shift in Daud Khan’s foreign policy and his suppression of opposition parties, such as the People’s Democratic Party of Afghanistan (PDPA) toward the end of his reign in particular, led to a military coup by the PDPA in 1978. The coup resulted in the death of Daud Khan and his immediate family members. The incoming PDPA regime held power until 1992.


\[211\] Rubin, "Lineages of the State in Afghanistan," 1207.
The State and the Mujahidin Tanzims (organizations) and Sources of Revenue: Conflict in State-society Relations (1978-2000)

As the PDPA regime faced increasing resistance from people in the cities and countryside, Soviet troops invaded Afghanistan in 1979 to prevent its fall. This changed the earlier attitudes of the Soviet Union and the US towards Afghanistan. They replaced the process of economic competition for influence over Afghanistan to competition through military domination by supporting their local allies. This situation led to a “rentier conflict” which was entirely funded externally. The Soviet Union supported the PDPA regime, while the US, Saudi Arabia, China, Iran and Pakistan funded and provided military equipment to its armed opposition, the mujahidin (Islamic resistance fighters), who were mainly based in Pakistan. Between 1986 and 1990, about US$5 billion worth of weapons were supplied to the mujahidin tanzims, while the Soviet Union sent weapons worth about US$5.7 billion to the PDPA regime in the same period. Such aid to PDPA regime and the mujahidin tanzims largely remained secret.

The way assistance was channelled had an impact on the polity of the PDPA regime and the tanzims. As the Soviet aid was channelled from a single source to a single organization (the party-state), it brought with it an artificial unity to that which was in effect a fragmented PDPA between Khalq (masses) and Parcham (banner) factions. At the same time, aid to mujahidin tanzims, of which 15 were recognized by Pakistan and Iran, came from various sources to different organizations, exacerbating their existing

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disunity and creating new conflicts.\(^\text{214}\) While the government in Kabul used its systems to account for the aid, though not perfectly, transactions to the *mujahidin tanzims* remained secret and was managed through Pakistan's Inter-Services Intelligence (ISI).\(^\text{215}\) The situation, to borrow from Rubin, made the "tension between state and society into a part of the struggle between the East and West."\(^\text{216}\) Thus, the attempt to depose the PDPA regime diluted the weak state itself.\(^\text{217}\) This conflict transformed the role of traditional actors (tribal and village leaders, *mullās* and *sufi* figures) and replaced them with commanders (*mujahidin*), who emerged as new types of strongmen, having links with sources beyond the traditional establishments such as Islamic groups, foreign countries and international organizations. Aid and military assistance increased their autonomy from local populations,\(^\text{218}\) making a political settlement far more difficult. Because of the conflict, the Afghan society was devastated and the state continued to disintegrate. Out of a population of fifteen to seventeen million people, about one million were killed, over five million people became refugees in Pakistan and Iran and two to three million were internally displaced.\(^\text{219}\)

Since the reign of Abdur Rahman Khan, it was the first time that violence had emerged as a decisive factor in state-society relations. Due to increasing resistance in the countryside after 1987, the PDPA regime abandoned its plans for social transformation


\(^{215}\) Ibid.

\(^{216}\) Ibid., 279.

\(^{217}\) Ibid.

\(^{218}\) For details see ibid., 179-83.

\(^{219}\) Ibid., 1.
of the rural area. Instead of using military force to disarm qawm (kin, village, tribe or ethnic group) based formation, it relied on patronage financed by the Soviet Union.\textsuperscript{220}

The PDPA regime increasingly became dependent on the Soviet aid and the sales of natural gas which on average financed about half of the government total expenditure between 1978 and 1988 (see Table 2). Between 1978 and 1992, the PDPA regime received around US$10 billion Soviet soft loans.\textsuperscript{221} The dependence of the state on rents in this period indicates similarity with the 1958-1963 period, when on average 52 per cent of the government total expenditure was funded by aid. However, in 1988, the state was able to fund only 24 per cent of the government expenditure from domestic revenue, while 32 per cent came from sales of natural gas (6 per cent) and foreign aid (26 per cent), and 44 per cent from domestic borrowings (see Table 2). The domestic revenue further deteriorated in this period because of armed conflict and social unrest.\textsuperscript{222}

In 1989, the Soviet Union troops withdrew from Afghanistan due to resistance against them and international pressure. Subsequently, agriculture and trade revived. Yet much of the agriculture production took the form of heroin growing, heroin processing, and smuggling. The enterprise was organized by a combination of internal and external actors, including Afghan armed militia groups under the mujahidin tanzims, Pakistani


\textsuperscript{221} The record at the Ministry of Finance of Afghanistan shows that Afghanistan in total received US$11 in soft loans from the Soviet Union. However, most of the loan was given to Afghanistan under the PDPA regime.

military officers, and Pakistani drug syndicates. The opium revenue further complicated the relationship of the actors who were dependent on it and the local communities. However, following the disintegration of the Soviet Union in 1991, the PDPA regime lost the Soviet aid and collapsed in 1992.

The *Mujahidin* Government Financial Crises and Pakistani Aid to the Taliban

After the fall of the PDPA regime, the US abandoned Afghanistan, and the US and Soviet Union rivalry was replaced by competition between Afghanistan’s neighbours Pakistan and Iran, as well as Saudi Arabia which supported Pakistan’s policy towards Afghanistan. They sought to broaden their military and political influence in Afghanistan. Although the *mujahidin* groups formed a coalition government in 1992 without the US and Soviet Union aid, it had almost no reliable source of revenue. The major source of revenue for the new government was from provincial customs which were under the control of strongmen in the provinces who spent the revenue locally without accounting to central government.

The regional *mujahidin* commanders retained their autonomy from the central government of President Rabbani. The government maintained its connection with them through cash transfer as means of patronage. In the absence of a unifying political

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vision,\textsuperscript{228} the \textit{mujahidin} leaders fought each other and a civil war erupted among them in 1992. Thus, the government failed to provide basic services, including security, to its people, turning Afghanistan into a seriously disrupted state. Absence of substantial external revenue neither resulted in such reforms that could bolster the economic base of the state nor improved the bargaining of the government with the society. This situation instead further weakened the decay of the state institutions and undermined what internal administrative accountability was practiced earlier.\textsuperscript{229}

The failure of the \textit{mujāhidin} groups to stabilize Afghanistan, and Pakistan’s ambition to assert its influence over Afghanistan, contributed to the rise of the Taliban, a cross border movement led by Afghan Pashtuns trained in Pakistani \textit{madrasas} (Islamic religious schools). The Taliban first took control of Kandahar in 1994 and then captured Kabul in 1996, expelling the \textit{mujāhidin} government. By the end of the 1990s, they controlled most of the country.\textsuperscript{230} In the south, the Taliban promised to improve security and property rights which were poor but as they were well established, they implemented their radical and oppressive policies and consolidated their theocratic rule under the banner of Islam.\textsuperscript{231}

The Taliban resorted to some of the Abdur Rahman Khan’s state building approach and they attempted to interfere in every walk of the people’s life and impose the same system across the country. Likewise some other parallels can be drawn. The Taliban

\textsuperscript{228} Ibid., 249-50.


\textsuperscript{230} Barfield, \textit{Afghanistan: A Cultural and Political History}, 255.

\textsuperscript{231} Ibid., 257.
remained overwhelmingly dependent on Pakistan instead of British-India for logistic and financial support, they governed the country through fear and the military remained their core strength. While they were virtually independent, they conducted their foreign policy through Pakistan, as was the case under the reign of Abdur Rahman Khan. They established a theocratic regime and called it the Islamic Emirate of Afghanistan, headed by Mullah Muhammad Omar, who fought against the Soviet troops, referred by the Taliban as *Amir al-Muminin* (commander of the faithful). Their extreme interpretation of Islam inspired a "new extremist form of fundamentalism across Pakistan and Central Asia, which refused to compromise with traditional Islamic values, social structures or existing state systems."  

The Taliban officially banned women from employment and education, especially depriving 25 per cent of the government women employees from access to employment. They banned pictures, television and recreational activities (such as kite running), and ordered all males to grow long beards. They committed a series of war crimes by killing civilians and targeting minority groups such as the Hazaras while fighting to capture different cities. These crimes further isolated Afghanistan from the rest of the world and Afghanistan became a rogue state. Only Pakistan, Saudi Arabia and United Arabs Emirates (UAE) recognized it, although UAE and the Saudi and withdrew their recognition in 1998.

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Although the Taliban enhanced revenue collection, the economy was devastated and thus government income did not much improve.\textsuperscript{234} The average revenue during the Taliban regime was not clear. They imposed a 10 per cent Islamic tax (\textit{zakāt}) on public and private income and \textit{Müstufiats} (provincial financial directorates) were charged to enforce this tax. Furthermore, taxes were levied on imported goods, agriculture production and landholdings. The Taliban forced people to repay their customs duties which they already had paid in the north of Afghanistan, such as at Balkh under regional commander Abdul Rashid Dustum. They deemed the financial arrangements under commanders like Dustum unlawful.\textsuperscript{235} The budget under the Taliban rule was kept in various contingency funds and was allocated to a very small number of ministries without clear mandate. For example, 80 per cent of the 2000 budget seemed to be in contingency, while the state budget was more of a general policy statement.\textsuperscript{236}

Pakistan played a central role in the rise and survival of the Taliban regime\textsuperscript{237} as its financial and military support was vital in changing the Taliban militias into a dominant military actor in Afghanistan. Pakistan’s involvement was very intrusive to the extent that the Afghan leaders in post-2001 called it a “hidden occupation”.\textsuperscript{238} After Saudi

\begin{itemize}
  \item \textsuperscript{235} A Confidential Source, A Taxpayer, Interview by Author, Kabul, June 15, 2011.
  \item \textsuperscript{236} Carnahan et al., \textit{Reforming Fiscal and Economic Management in Afghanistan}, 5.
  \item \textsuperscript{237} Wahid Muzhda an Afghan writer, who worked under the Taliban regime in Afghanistan, argues that as with many other movements in Afghanistan, the external support was essential in the rise of the Taliban. Wahid Muzhda, \textit{Afghanistan Wa Panj Sal Salta-i Taliban} (Kabul: Maiwand, 1381 Solar Hijri Calender {2002})),
  \item \textsuperscript{238} President Karzai in most of his speeches has stated that Afghanistan has been continuously occupied, referring to the Taliban era as a “hidden occupation” by Pakistan. Even before 2001, the Afghan resistance movement against the Taliban objected to Pakistan’s support of the Taliban militias. For example, in 1998 the Afghan Ambassador to Moscow
\end{itemize}
Arabia and the United Arab Emirates stopped supporting the Taliban, they remained dependent on Pakistan, which saw them as their strategic asset to counter the Indian influence in Afghanistan. However, Pakistan’s support of the Taliban was limited in financial terms and could not substitute for the revenue derived from richer countries on which the earlier Afghan regimes were dependent. The Taliban turned to the United Nations (UN) for assistance, but their request was not met (except for some humanitarian assistance). This was mainly because of their violation of human rights and women’s rights. 239

Although by the end of 1990s the Taliban took most parts of the country, a momentous but small force, called Jabha-i Mutahid-i Islāmī Barāī Najāt-i Afghanistan (the United Islamic Front for the Salvation of Afghanistan), under the military leadership of Ahmad Shah Masoud (who was assassinated on September 9, 2001), resisted them. Following the horrific attacks by Al Qaeda on 11 September 2001 on New York and Washington, the US in alliance with the Islamic Front commanders in the north and commanders in other parts of Afghanistan, deposed the Taliban regime, which had hosted Al Qaeda’s leader, Osama Bin Laden. 240

Conclusion

This chapter demonstrated that Afghanistan historically suffered from a poor economy to pay for state expenditure, weak institutions, conflicts and invasion by powerful states.


The reliance of the state on tribute, subsidies and foreign aid in this complex environment were crucial in sustaining and reshaping institutions and the state-society relations. Since 1747, except for a brief period in the 1920s, external revenue has comprised a substantial portion of state income and has been an important source of income for state building in Afghanistan. The degree of state dependence on it has differed over time and its absence has undermined the stability of states.

As shown in Diagram 1 below, tribute from the Indian conquests under the Durrani Empire, the British subsidies following the collapse of the Empire until the early-twentieth century, and foreign aid after the mid-twentieth century until 2001 made up a significant portion of state income. However, in all these cases, external revenue was not reliable and was available only on geostrategic conditions.

**Diagram 1: Percentage of Afghan State Income from External Revenue as Share of Total Annual State Revenue (selected years)**

![Diagram showing percentage of Afghan state income from external revenue](image)

Source: See footnote. In 1919, the Afghan government did not receive substantial subsidies or aid.

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External revenue increased the domestic autonomy of the governments but not enough to make them fully independent of the society. A large portion of the external revenue was spent on building the army, helping the rulers to suppress their rivals, improving stability and more importantly diffusing the external threats posed by the rivals of the patron/donor states. External revenue did not contribute much in the building of more inclusive institutions which could foster accountability.

The availability of external revenue was associated with increases in domestic revenue. The process was such that external revenue funded the army which in turn helped to improve security the state capacity for coercive tax enforcement. Improved security fostered trade and increased the government revenue. The termination of external revenue to a great extent led to reshaping the state building priorities and harsh taxation arrangement.

The loss of the tribute after the collapse of the Durrani Empire challenged Dost Muhammad Khan to reform the army and taxation system. His tax policy, however, remained extractive and he heavily taxed the rural and urban population without negotiating with them or allowing their participation in government, whereas the government virtually remained in the hands of his immediate family members. His government not only failed to change the patronage system inherited from the Durrani Empire but also created its own patronage system. The British invasion in 1838, however, disrupted Dost Muhammad Khan’s state building efforts and exposed Afghanistan into a new international dynamics, which subsequently played a key role in Afghan state building.

In the late nineteenth-century, subsidies and military assistance from Britain became important for Abdur Rahman Khan’s state building project. Abdur Rahman Khan’s superior army, which was assisted by the British subsidy and weapons, made possible the extraction of unprecedented taxes to fund the state building project. However, he did not address the taxpayers’ demands to reduce the tax rates, nor did he negotiate with them on tax policies. This widened the gulf in state-society relations. This type of arrangement did not foster an effective taxation system to buy in taxpayers’ compliance which could strengthen state-society relations and accountability by promoting a fiscal social contract between the state and society.

This fiscal dynamic largely altered under Amanullah Khan’s reign as a result of his ambitions to modernize Afghanistan and the loss of the British subsidies (see Diagram 1) and the pressure which he asserted to fund his comprehensive reform programmes. This made the state increasingly dependent on people for their tax revenue and brought it into direct contact with them, especially using Loya Jirga. Due to the weakness of the state to negotiate with the people and the existence of a weak tax administration, the state failed either to negotiate with or coerce the society. Subsequently, Amanullah Khan was overthrown. After a brief instability, the Musahiban reign fostered state autonomy by accessing international markets and foreign aid. As such, from the mid-twentieth century Afghanistan became a rentier state as a result of its dependence on foreign aid and the sales of natural gas.

The failure of Daud Khan’s government to maintain a balanced relationship between the US and the Soviet Union, and its increasing reliance on Soviet economic and military assistance, exposed Afghanistan to US and Soviet Union Cold War competition. Following the Soviet invasion of Afghanistan in 1979, foreign aid therefore instead of building the economy and financing state building efforts, funded and sustained the
conflict. This process helped the emergence of commanders as a new form of strongmen who replaced the old ones, making a political settlement far more difficult and state and society relations more contentious which in turn reinforced the rise of the Taliban.

While Abdul Rahman Khan, the Musahiban family, and the PDPA regime were the sole recipient of the subsidies and foreign aid, playing an important role in maintaining the integrity of institutions and superiority of the rulers, such method for delivery of external assistance did not render accountability of the rulers to people. However, delivery of Western aid to the Mujahedin groups through fragmented channels reinforced and institutionalised the differences among them. The Chapter also found that the absence of external revenue and dependence on taxation, though important, does not necessarily guarantee accountably of the government to its people.

Historically, external revenue has played a major role in sustaining and reshaping the state building process and producing particular outcomes as a result of the interplay with the pre-external revenue dynamics and the international context, determining the availability and type of the revenue. The loss of external revenue, at various times, has undermined the stability of the state.
PART 3

EMPIRICAL ANALYSES

FOREIGN AID AND STATE BUILDING, 2001-2009
Chapter 3
Aid-dependency and State Building, 2001–2009

Introduction

In 2001, following the fall of the Taliban regime in Afghanistan the “war on terror” dominated the nature of the donors’ engagement, and state building remained significantly dependent on external military and financial support—more so than during any other period since 1747. Foreign aid became the main source of state revenue, determining the behaviour of policy makers and shaping the development of state institutions. The Karzai government therefore became largely preoccupied in dealing with donors to access aid. High aid-dependency and the way in which aid was delivered subsequently played a key role in shaping the state building process. In particular it reinforced the building of a rentier state. It also largely resulted in the accountability of the government to donors rather than to the Afghan public. Between 2002 and 2009, foreign aid on average comprised about 71 per cent of gross domestic product (GDP) which financed more than 90 per cent of public expenditure through on- and off-budget mechanisms, of which four-fifths bypassed the Afghan state through the latter. As such, aid to Afghanistan concerning state building was ineffective.

This chapter examines the effects of foreign aid from 2001 to 2009 in relation to the development of the state institutions, the emergence of aid-dependency and fiscal management.

Political Developments

Since the mid-eighteenth century, the US was the third external force to enter Afghanistan to remove an existing regime so that it could protect its interests in the region and the world. Unlike the previous invasions of the country, the intervention of
the US and its North Atlantic Treaty Organisation (NATO) and non-NATO allies in Afghanistan reconnected the country with the rest of the world. The focus of the US was primarily on the “war on terror” and re-building of the “failed state”\(^1\) of Afghanistan as a liberal democracy. As Diagram 2 (below) shows, after 2001 state building was highly dependent on aid and the centrality of aid was reinforced by the very limited portion of domestic revenue in comparison to foreign aid as a share of annual GDP.

**Diagram 2: Foreign Aid and Domestic Revenue as Percentage of GDP in Afghanistan, 2001-2009**

![Diagram showing foreign aid and domestic revenue as percentage of GDP in Afghanistan, 2001-2009.](image)


In assessing the impact of aid on state building, the amounts of foreign aid, its nature and conditions on which aid was given to Afghanistan are some key factors to unfold the complexities in Afghanistan’s state building process. Ashraf Ghani, makes a similar observation by arguing that while analysing the effects of foreign aid on Afghan state building “the question is not foreign aid, but the type of aid [for example on-and off-"

budget funding] to Afghanistan."² Alastair McKechnie, the former World Bank Director for Afghanistan (2001-2008), observed that since Afghanistan began from a very low base the overall impact of foreign aid was positive on service delivery and economic growth (see Diagram 3). But he also noted that a lot of problems emerged in the area of politics and security which in turn undermined the gains on the economy and services.³

**Diagram 3: GDP Growth Rate, 2002-2009**

Source: Da Afghanistan Bank 2011.

Aid-dependency reiterated a historical pattern of building the state with significant amounts of external revenue. It, however, comprised the highest percentage of state income after 2001 of any other period of Afghanistan's modern history. Karl W. Eikenberry, the former US ambassador to Afghanistan (2009-2010), argued in this regard that "virtually the Afghan state is on 'life support', provided by the international

² Ashraf Ghani, Former Finance Minister (2002-2004) and a Presidential Candidate (2009), Interview by Author, Kabul, August 4, 2011.

³ Alastair McKechnie, Senior Research Associate at Overseas Development Institute (ODI) and Former World Bank Country Director for Afghanistan (2001-2008), Interview by Author via Skype, Bethesda, April 17, 2013.
community, especially the US; therefore the main challenge is how to remove this [aid-dependency], which can have a crucial [negative] impact."  

The conditions upon which aid was made available also largely shaped state building priorities, especially as the relationship between Afghanistan and donors was formed upon security imperatives. This can be noted in the Karzai government’s vision presented to the international community in 2004.

[The] international assistance to Afghanistan should be looked on as an investment in stability, peace-building, and development at local, regional, and global levels. It is not charity. It will enhance regional stability; reduce the global threats of drugs and terrorism, and lower the associated defence and security-related costs of many nations.  

**Restoration of the State Institutions**

Even before 1978, Afghanistan was among the least developed countries in the world, and two decades of armed conflict following the Soviet Union invasion of 1979 added to the country’s problems and devastated its institutions and caused a huge humanitarian and economic loss to the country.  The total cost over the conflict, as measured in terms of lost growth and the cost of humanitarian assistance and military expenditure, was estimated by the World Bank to be US$240 billion. In 2003, with an average per capita income estimated at less than US$200, Afghanistan was among the least developed

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countries in the world. State institutions did not function, and therefore failed to protect the people and provide basic services (see Chapter 2).

After the Taliban regime was ousted, a group of Afghan politicians who represented different political and military organizations, and mainly dominated power after the collapse of the PDPA regime (not including the Taliban), met under the auspices of the United Nations (UN) in Bonn to agree on a post-Taliban political order. They signed the Bonn Agreement on December 5, 2001. The Bonn Agreement emphasized the right of people to democratically determine their political future according to the principles of Islam while promoting national reconciliation, stability and respect for human rights. It also urged the UN, the international community and donors to support the rehabilitation of Afghanistan and guarantee its national sovereignty. This process was supported by the deployment of international assistance security force (ISAF), which were authorized by the UN Security Council (first in Kabul), and the flow of foreign aid that was pledged at a conference in Tokyo in January 2002. The focus of the agreement was on the creation of a central authority around which a state could be reconstructed with external military and financial assistance. However, the agreement


34. In 2001, the Afghanistan Human Development Index (HDI) rank was 89, the last after Niger. UNDP, Human Development Report 2001, Making New Technologies Work For Human Development (New York: Oxford University Press, 2011), 151. In 2002, the 225 members of the constitutional Loya Jirga expressed their demands for reconstruction of Afghanistan which (according to estimation by the Finance Minister) amounted to around US$80 billion. This in comparison to US$240 billion, the cost of destroyed infrastructure and as well as the lost opportunities due to the decades of war, did not seem to have been ambitious.

9 The states and aid agencies engaged with the government of Afghanistan were generally called the international community.

did not include any provisions for domestic revenue or how state building should be sustained in the long run.

The Bonn Agreement also included provisions for the formation of new Afghan security forces, judicial and legal reforms, and the establishment of an independent human rights commission, the formation of a civil service commission and the creation of an independent central bank, all with international assistance. However, it did not project timelines for any of these goals. It established a collaborative governance framework between the international community and the Afghan government and reflect their interests. Accordingly, the political system was restructured around liberal democracy, while also emphasising the country’s Islamic and traditional values, and replacing the planned economy with a market one. These priorities were later enshrined in the Constitution of 2004.

Accordingly, the power was transferred from President Rabanni, head of the mujahidin government to an interim administration headed by Hamid Karzai (an ethnic Pashtun, from the Popalzai-Durrani sub-tribe). Six months later, an emergency Loya Jirga (traditional grand assembly) was held to decide on the government leadership. The Jirga elected Hamid Karzai, as the head of state for a period of two years. A new Constitution was written and approved by a Loya Jirga in January 2004. Presidential and Parliamentary elections were held in 2004 and 2006 respectively and Karzai was elected President in 2004.

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11 Although Afghanistan already had a Central Bank (Da Afghanistan Bank), the Bonn Agreement envisaged reorganizing it as an independent state organization.

12 Ministry of Justice of Afghanistan, "Qānɔnī Aṣāsī Afghanistan."
The challenges which the government faced were enormous. Amin Saikal observes some of them:

The challenge ahead [for the government] [was] to establish an appropriate legal-rational framework and culturally relevant processes and institutions to ensure the development of a governmental system and polity, whose operations would be underpinned by principles of public participation, transparency, accountability, administrative-bureaucratic efficiency, social equity, observation of basic human rights, and promotion of merit rather than family connection and ethnic affiliation as the basis for governmental appointments.\(^13\)

As Chapter 4, 5 and 6 will show, the Karzai government failed to overcome these challenges. It remained preoccupied with donors to attract foreign aid. To borrow from Paul Collier, the “business of government [became] dominated by the need to satisfy donors, replacing the need to satisfy citizens.”\(^14\) Hence government accountability to citizens was severely undermined. The government vision exhibits how the accountability process was shaped. For example, in the 2002 Tokyo conference, Karzai stated: “Our vision is of a prosperous, secure Afghanistan ... our government shall be accountable to its citizens as well as to the international community.”\(^15\)

However, high aid-dependency, the flow of a greater portion of aid outside of state and national mechanisms, and the conditions set by different donors which subordinated the local needs to that of the donors, largely shifted government accountability from the citizens to donors. This type of relationship became more articulated through the Afghanistan Compact, which succeeded the Bonn Agreement, in 2006 as a blueprint for

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cooperation between the international community and the government. The Compact aimed to improve Afghan living conditions and security by achieving 43 five-year benchmarks between 2006 and 2010. These were based on the three priority pillars: security; governance, rule of law and human rights; and economics and social development. While the Afghan government committed to the Compact goals, the international community undertook to provide financial support for its implementation. A Joint Coordination and Monitoring Board (JCMB) was established by the international community and the government to oversee the Compact implementation. Although the Compact enhanced government and donors relations, it neglected the rule of the legislature as it increased government accountability to donors. The legislature neither had an oversight role nor did the government have to report to it on the Compact implementation. For example, between 2006 and 2009, nine meetings of the JCMB were held; two outside Afghanistan and the rest in Kabul, where the government basically reported to and bargained with donors.

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18 Although the Afghanistan Compact included a benchmark on capacity building of the National Assembly, it did not mean that the Legislature had a in the monitoring of the Compact implementation.

Development and National Planning

The government prepared development plans and strategies in response to the influx of foreign aid to Afghanistan. It did so to identify its priorities so that aid could be effectively utilized which was modestly successful. Donors for their part were interested to know what the government’s priorities were to align their funding where they matched donors’ interest. Western donors (such as the US, the UK and Canada), as well as World Bank and the United Nations Development Programme (UNDP) provided financial and technical support to the government to develop the plans and strategies. These, except for the Afghanistan National Development Strategy (ANDS), were prepared through an extensive consultation process between the government and donors. The public had little say in shaping them. Hitherto, this was not something new. Even in the past, when the four Five Year Plans had been developed (1956, 1961, 1967 and 1972), the public were excluded from the planning process.

In 2007, the government launched a subnational consultation for development of the ANDS involving the public in the process for the first time. This was a one-time exercise and did not help to institutionalise public participation in the planning process. While Afghans led preparation of these plans and strategies, they were mainly assisted by foreign advisors/experts. The plans and strategies were approached as a technical process and written in English before being translated into Dari and Pashtu. As several of the interviewees noted to the author, such a process restricted the ability of

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the public and local media to comment on the earlier drafts. As this approach largely aimed to attract foreign aid by presenting the government priorities to donors, it ignored the importance of public participation in planning. These plans were to a great extent supply driven and shaped by the availability of foreign aid.

Between 2001 and 2009, four main strategies and plans were prepared. These were: the Afghanistan Development Framework (ADF) in 2002; Securing Afghanistan’s Future (SAF), which was presented at the Berlin international conference in 2004; the Interim Afghanistan National Development Strategy (I-ANDS) in 2006; and Afghanistan National Development Strategy (ANDS, 2008-2013), and a five-year development plan presented at the Paris international conference in 2008. Donors fully funded the development component, and partially financed the operating cost of the strategies. The Afghan government was able to only fund the operational budget partially. However, the plans were neither fully funded nor implemented in full. ANDS, for example, required about US$10 billion a year, a total of US$50 billion for five years. While it was estimated that domestic revenue would provide US$7 billion, US$43 billion was

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requested from donors in aid for financing the ANDS.24 Between 2002 and 2009, the average annual foreign aid to Afghanistan stood at US$5.7 billion (see Chapter 4). The way in which the government maintained its bargaining position with donors to finance the plans resulted in a de facto contract between government and donors.

Yet donors continued to have their own strategies, policies and even projects which were parallel to those of the government. In many cases, instead of deciding on the projects, the government had to only track these projects and include them in what was called the national budget, including on- and off- budgets items. For example, out of the five lessons mentioned in the ADF report, four were on how to utilize aid and only one was on the importance of market and private sector for sustainable growth in Afghanistan.25 Although references were given on how to lessen aid-dependency, inadequate attention was paid to strengthen the tax system. This could have been because of the government’s generous international patrons and strong adversaries26 that reduced incentives to raise domestic revenue as it is discussed in Chapter 4.

Thus, funding of the government operating budget from domestic revenue was defined as an indicator of fiscal sustainability and an aid-exit model for Afghanistan. The World Bank also had a similar view about fiscal sustainability in Afghanistan.27 This notion


25 Interim Administration of Afghanistan, "National Development Framework (Draft for Consultation)," (Kabul: Afghanistan Assistance Coordination Authority (AACA), April 2002), 5-6.


27 McKechnie, Senior Research Associate at Oversees Development Institute (ODI) and Former World Bank Country Director for Afghanistan (2001-2008), Interview by Author via Skype, Bethesda, April 17, 2013.
subsequently impacted on government’s economic and fiscal policies. The strategies projected that the domestic revenue should fund the entire government operating budget within a decade. However, the increase in security expenditure made this target unrealistic within a projected timeframe.28

Chaotic Aid Coordination: A Constraint on State Building

The excessive number of donors, their diverse interests in dealing with Afghanistan’s problems, and the aid modality adopted, made aid coordination a daunting task in the country. While in theory each international actor had a distinct role to play in Afghanistan, in practice many overlapping systems emerged. Donor agencies, multilateral financial institutions, the United Nations (UN) development agencies, and international NGOs participated widely in development and state building efforts. Unlike the Taliban regime which restricted the activities of development agencies in Afghanistan, the Karzai government opened up the space for them.29 Among the international actors there were 60 governmental donors, 47 countries contributing military forces and many international NGOs (2000 local and international NGOs in 2004) which mushroomed with the flow of aid to Afghanistan.30 Since the number of


international actors with diverse and even sometimes conflicting interests rapidly increased, coordination of aid became a major problem which was ultimately exacerbated by the use of off-budget mechanisms which bypassed the state. Mostly donors were concerned with their own interests in Afghanistan and, in some cases they had conflicting views on how best to approach the post-2001 Afghanistan situation. For example, Iran, the US, India and Pakistan, were all providing assistance to Afghanistan, while each had its own views and strategies on such issues as the presence of NATO in Afghanistan and the “war on terror”.\footnote{Iran in most of the multilateral meetings on Afghanistan raised its concern on the presence of NATO and the US forces in Afghanistan by calling them a destabilizing force in the region. Pakistan also in many occasions remained distrustful of Indian growing influence in Afghanistan. Fieldwork Interviews by Author, Kabul, March-August 2011.}

Each donor country sponsored a particular sector and programme. The US took the lead in building the Afghan National Army (ANA); Germany led the development of the Afghan National Police (ANP); Italy, the Justice system; and the UK, counter narcotics. The United Nations Children Fund (UNICEF) was engaged in technically supporting primary and secondary education while Japan became the lead donor for Disarmament, Demobilization and Reintegration (DDR) of illegal armed groups. In the meantime, NATO took the lead in the ISAF. In addition, Provincial Reconstruction Teams (PRTs) of concerned donors followed their military presence in the provinces to deliver basic construction projects such as bridges, schools and clinics for local communities for the purpose of “winning the hearts and minds” of the population.\footnote{See for example Paul Fishstein and Andrew Wilder, Winning Hearts and Minds? Examining the Relationship between Aid and Security in Afghanistan, Feinstein International Centre, Boston, 2012.}
International Monetary Fund (IMF) worked closely with the Ministry of Finance and the Central Bank of Afghanistan (Da Afghanistan Bank), focusing on public financial management and macroeconomic issues. The United Nation Special Mission for Afghanistan (UNAMA) assisted and monitored the implementation of the Bonn Agreement and took the diplomatic lead.\(^{33}\)

Russia and India readjusted their aid and policy to the Post-Taliban order, as did Iran and Pakistan. However, Pakistan was playing a contradictory role because of its past and ongoing support for the Taliban,\(^{34}\) undermining security and state building efforts. The US remained the single most important foreign military and economic actor as it contributed about two-thirds of the total aid to Afghanistan between 2002 and 2010 (see Table 3). International NGOs and international consulting companies and contractors also participated in a range of activities such as implementing projects and assisting the government. When the Interim Administration was set up in 2001, some of the consulting companies such as Adam Smith International (ASI), Bearing Point and Crown Agents were contracted to deliver services which included financial management and procurement.\(^{35}\) These actors dealt directly with different ministries and departments, as well as with local communities, depending on their expertise and interests.

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The ways in which each external actor allowed a project to be delivered had a significant impact on its cost. The construction of a national ring road in Afghanistan is an important example. While this was financed by different donors and implemented through different companies “[s]tandards for different components of the ring road also differed from each other, and there were] major variations in costs.” Additionally, projects were often subcontracted many times with each subcontractor taking a percentage of the funds for overhead costs, lowering the benefit to direct beneficiaries.

Technical assistance projects also suffered from poor coordination. In 2007, a review of the technical assistance programme by the World Bank found that “the widespread use of uncoordinated and non-strategically targeted technical assistance is neither fiscally nor politically sustainable.” Donors funded projects that they deemed to be important to individual countries. For example, India financed the construction of a 218 km Zaranj to Delaram highway in 2008, facilitating the movements between Afghanistan and Iran, and built the 220 KV DC transmission line in 2009, bringing power from northern border countries such as Uzbekistan to Afghanistan. These projects were likely to decrease the economic dependency of Afghanistan on Pakistan and help further Afghanistan’s relations with India via the Chabahar port of Iran.

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concentrated on the rehabilitation of the Turkham Jalalabad road, thus facilitating movement between Afghanistan and Pakistan, although Islamabad only delivered less than two per cent of its aid committed to Afghanistan between 2002 and 2011 (see Table 3).\textsuperscript{41} The major portion of the US assistance concentrated on building the security sector and infrastructure. Iranian assistance focused on the infrastructure sector in its border area with Afghanistan (see Chapter 6, Table 4).\textsuperscript{42}

A large number of bilateral donors, such as the US and Japan, prepared their own strategies, policies and projects. The UN also had its own reconstruction strategy for the country. Many of these strategies and policies were not aligned with Afghanistan's needs and priorities as identified by the government through its strategies and plans.\textsuperscript{43} The government and the international community established diverse mechanisms to improve aid coordination. These were Consultative Groups (CGs) at technical level, Consultative Groups Standing Committee (CGSC, until 2005) and the JCMB at the policy and strategic levels.\textsuperscript{44} Government institutions, aid agencies and civil society organizations were attending the CGs meetings and the outcomes were presented to the higher level meetings such as the subcommittee of the Cabinet, the Afghanistan National Development Strategy (ANDS) Oversight Committee, and the JCMB.\textsuperscript{45}

\textsuperscript{41} Also see Islamic Republic of Afghanistan, "Pakistan's Participation in the Construction of Afghanistan: Progress Report," (Kabul: Ministry of Finance, n.d.).


\textsuperscript{44} See ANDS Secretariat Archive, The London Conference on Afghanistan: The Afghanistan Compact.

Although these mechanisms were important for donor coordination, their management would keep most of the skilled staffs of the ministries occupied with report writing and analyses (especially if there was lack of progress), constraining them to focus on their own institutions’ priorities. In these meetings donors were unwilling to share information about off-budget expenditures or engage different actors in debating the challenges in allocation and implementation of the off-budget aid. The coordination mechanisms focused on short-term gains without addressing the structural problem of coordination, be that the government institutional arrangement or aid architecture. The reporting and interaction between the government and donors through the coordination mechanisms, substantially increased government accountability to donors.

Lack of continuity in government policies also undermined a consistent donor and government relationship based on a long term vision. The Ministry of Finance especially suffered in this respect due to changes in its leadership. For example, in 2002, the ministry established some principles for donors’ investment in Afghanistan. These included utilization of the national budget as an instrument of policy making; limiting operation of donors to a maximum of three sectors (unless at least US$30 million was allocated to each sector), emphasizing the channelling of aid on-budget, providing timely information on allocations and disbursements, and reporting to the Afghan public. While donor compliance with these principles was weak, they were soon abandoned when Anwar-ul Haq Ahady replaced Ghani as the minister of Finance in the

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46 Fieldwork Interviews by Author, Kabul, March-August 2011.


new Cabinet of 2005. Additionally, unlike 2003-2004 the government budget committee did not involve donors in budget preparation in the “development budget hearings”. As a result donors were attending the many sectors in which they had an interest. It seemed that they were largely doing so for the sake of keeping themselves up to date about various sectors rather than investing in them.

**Access to Foreign Aid: A Prime Focus**

As the Karzai government was extremely short of the financial capability to finance reconstruction and stabilization efforts, access to foreign aid remained its top agenda. Advocacy, bargaining, management, reporting and monitoring of aid preoccupied the government leadership. This undermined the development of the government core institutions and the role of state in the society, allowing domestic spoilers such as the strongmen and corrupt officials to utilize the vacuum for their own interest. Although aid was necessary for institution building and reconstruction of Afghanistan, the ways in which aid was managed and channelled undermined the development of institutions and accountability. In 2002, because of inadequate funding in the government treasury to pay public sector employees’ wages, the Minister of Finance had to repeatedly approach donors in order to secure payment for government employees. The Minister therefore spent nearly half his time approaching donors rather than focusing on the management of internal issues.

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49 The budget committee was chaired by finance minister and the ministers for foreign affairs, planning and reconstructions, and the head of the tashkil (staffing establishment or list of sanctioned posts) of the “Office of Administrative Affairs” were members.

50 See Ghani et al., "The Budget as the Linchpin of the State." 158; Carnahan et al., *Reforming Fiscal and Economic Management in Afghanistan.*
The state’s dependence on aid and external military support rapidly increased over time. This, in fact, reinforced the historical pattern of building a rentier state in Afghanistan. It “discouraged the state from generating domestic revenue and building local administrative capacity.”\(^{51}\) Despite the growth of domestic revenue collection over time, which started from a very low base, it funded only a small portion of public expenditure because of the rapid increase in the public spending and weakness of the economy and tax system. In this context, the Karzai government organized 10 international conferences from 2001 to 2010 (all in donor countries, except for one in Kabul in 2010), in which the government sought to attract more international assistance. Despite the pledges that were made by donors,\(^{52}\) there was a wide gap between what they promised and the actual amount disbursed. As Table 3 below demonstrates, a total of US$90 billion in aid was pledged for Afghanistan through these conferences and supplementary promises for the period 2002 to 2013. However, less than two-thirds had been disbursed by 2010. A high priority was given to security, which accounted for 51 per cent of the total aid, while the rest supported development efforts.\(^{53}\)

In addition, the foreign military operations expenditures were increasing along with the “war on terror” and counterinsurgency activities. By 2010, total foreign military operations in Afghanistan had cost in excess of US$ 243 billion.\(^{54}\) The US military expenditure comprised the bulk of it. By the end of June 2010, the US Department of


\(^{53}\) See ibid., 31.

\(^{54}\) Lydia Poole, Afghanistan: Tracking Major Resource Flows, 2002-2010, Global Humanitarian Assistance, A Development Initiative, January 2011, 2.
Defence (DOD) reported that the cumulative total of war-related expenditure for Afghanistan was US$ 217 billion, including funds appropriated for Afghanistan Security Forces.  

---

<table>
<thead>
<tr>
<th>Rank</th>
<th>Donor</th>
<th>2002-2013 Pledge</th>
<th>2002-2011 Commitment</th>
<th>Total Disbursement</th>
<th>On-budget Disbursement</th>
<th>Off-budget Disbursement</th>
<th>2002-2010 On-budget Disbursement (as percentage)</th>
<th>2002-2010 Off-budget Disbursement (as percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States of America</td>
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<td>44,556</td>
<td>37,118</td>
<td>2,455</td>
<td>34,663</td>
<td>7</td>
<td>93</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>7,200</td>
<td>3,152</td>
<td>3,152</td>
<td>900</td>
<td>2,252</td>
<td>29</td>
<td>71</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>5,029</td>
<td>2,130</td>
<td>762</td>
<td>287</td>
<td>475</td>
<td>38</td>
<td>62</td>
</tr>
<tr>
<td>4</td>
<td>European Union European Commission</td>
<td>3,688</td>
<td>2,083</td>
<td>2,594</td>
<td>774</td>
<td>1,820</td>
<td>30</td>
<td>70</td>
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<tr>
<td>5</td>
<td>United Kingdom</td>
<td>2,897</td>
<td>2,222</td>
<td>2,222</td>
<td>881</td>
<td>1,381</td>
<td>39</td>
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<td>6</td>
<td>World Bank</td>
<td>2,000</td>
<td>2,137</td>
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<td>1,700</td>
<td>0</td>
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<td>Asian Development Bank</td>
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<td>1,256</td>
<td>491</td>
<td>765</td>
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<tr>
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<td>India</td>
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<td>1,216</td>
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<td>759</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Norway</td>
<td>958</td>
<td>775</td>
<td>636</td>
<td>222</td>
<td>404</td>
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<td>1,015</td>
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<td>Italy</td>
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<td>212</td>
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<td>Iran</td>
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<td>0</td>
<td>377</td>
<td>0</td>
<td>100</td>
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<tr>
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<td>438</td>
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<td>744</td>
<td>656</td>
<td>112</td>
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<td>Spain</td>
<td>305</td>
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<td>194</td>
<td>84</td>
<td>110</td>
<td>45</td>
<td>57</td>
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<td>18</td>
<td>United Nations</td>
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<td>446</td>
<td>102</td>
<td>2</td>
<td>100</td>
<td>1</td>
<td>99</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
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<td>Saudi Arabia</td>
<td>268</td>
<td>140</td>
<td>103</td>
<td>25</td>
<td>78</td>
<td>24</td>
<td>76</td>
</tr>
<tr>
<td>21</td>
<td>China</td>
<td>250</td>
<td>139</td>
<td>38</td>
<td>0</td>
<td>58</td>
<td>0</td>
<td>100</td>
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<td>4</td>
<td>145</td>
<td>3</td>
<td>97</td>
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<td>23</td>
<td>Switzerland</td>
<td>197</td>
<td>118</td>
<td>102</td>
<td>7</td>
<td>95</td>
<td>7</td>
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<td>24</td>
<td>Agha Khan Development Network</td>
<td>190</td>
<td>140</td>
<td>140</td>
<td>0</td>
<td>140</td>
<td>0</td>
<td>100</td>
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<td>Finland</td>
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<td>160</td>
<td>160</td>
<td>48</td>
<td>112</td>
<td>30</td>
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<tr>
<td>26</td>
<td>Turkey</td>
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<td>213</td>
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<td>United Arab Emirates</td>
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<td>Islamic Development Bank</td>
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<td>17</td>
<td>17</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>30</td>
<td>South Korea</td>
<td>85</td>
<td>116</td>
<td>83</td>
<td>6</td>
<td>77</td>
<td>7</td>
<td>93</td>
</tr>
<tr>
<td>31</td>
<td>Others</td>
<td>337</td>
<td>395</td>
<td>283</td>
<td>59</td>
<td>224</td>
<td>21</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>89,981</td>
<td>69,252</td>
<td>56,805</td>
<td>10,142</td>
<td>46,663</td>
<td>18</td>
<td>82</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, 2010\(^{56}\) and calculation by author.

The four-fifths of foreign aid was spent through “off-budget” which bypassed the state by using parallel systems (Table 1). This type of aid, unlike the classic rentier states, deprived the government of full control over them and constrained its ability to use it for patronage. However, the government still retained a minimal influence over the granting of contracts and permission for commencement of off-budget projects. This situation left the government with limited options to buy off adversaries through foreign aid. Thus, it mainly used public institutions as a means of patronage, awarding public offices in payment for political support from strongmen and troublemakers thus helping Karzai to stay in power. The US also resorted to using its aid as a means of patronage to buy off some of the commanders and local notables (see Chapter 5 and 6). This contradicted institution building and reinforced a patron-client governance system which was inconsistent with what Karzai promised in 2004 during his presidential campaign.

With increases in the degree of aid-dependency, not only aid but also aid modality became one of the most important aspects of the discourse in Afghan state building. Before examining aid modality, the following section assesses fiscal management in Afghanistan.

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57 For further discussion also see Barfield, *Afghanistan: A Cultural and Political History*. 315.


Fiscal Management

The Budget Law (1983); the Accounting Manual (date is uncertain); the Control and Audit Regulation (issued under the Budget Law in 1985); and the Procurement Regulations (1977) governed Afghanistan’s fiscal affairs. Although these laws provided the basic rules and checks and balances for fiscal management, they were out of date and were not suitable in the existing context. Therefore, they were revised or replaced with new laws (see Chapter 4).

Although Afghanistan had two levels of government, central and sub-national which were organized by capital and provinces (including districts and municipalities) respectively, fiscal management and administration remained highly centralised. The central government was legally in charge of major public expenditures such as health and education, and military. It included 25 ministries, 21 independent directorates and two independent commissions. The institutions were inflated and many of them were designed to offer positions to strong politicians rather than providing services to citizens. Such institutional arrangements resulted in duplication and institutional rivalry. Many of the ministers and senior executives treated the ministries as patronage networks rather than as administrative units of the state. Most of the interviewees for this thesis argued that a number of senior positions and ministries were created or maintained to accommodate politicians and strongmen in order to assure their

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61 Islamic Republic of Afghanistan, "Da Afghanistan Kalanay," 8, 1388 Solar Hijra Calendar (2009). In the 1970s, the government had 15 ministries. This number increased to 29 by 2003; however, after the first Presidential election in 2004 the ministries were reduced to 25.
This did not respond to the critical needs of the people. In post-2001, for example, three ministries (finance, planning and reconstruction) and an independent government authority (AACA) were responsible for almost the same functions in development planning, aid coordination and reconstruction.\(^{63}\)

The government at sub-national was categorized into four types. The first was provinces (\textit{vulāyats}), which did not have independent legal authority. These were instead the administrative arms of the central government. The customs houses and \textit{mūstūfiats} (provincial financial directorates) which were part of the central government institutions and collected revenue on behalf of the central government. The number of \textit{vulāyats} increased to 34 over time. The second type was districts (\textit{vulūsvalīs}), which mirrored the structure of the provincial departments (although not all of them). There were approximately 364 \textit{vulūsvalīs} around the country (4 to 27 in different provinces).\(^{64}\) The provincial administration was headed by a \textit{vālī} (governor) directly appointed by the President. The third and fourth types were the provincial and rural municipalities (\textit{shārvālī vulīyatay} and \textit{shārvālī vulūsvalī}). There was normally one municipality in each province and district. In some cases, however, rural municipalities did not exist in some districts. Unlike the other provincial administrative units, the municipalities were legally authorized to collect revenue in order to provide public services such as water and sanitation, but they exercised little autonomy in budget preparation and execution. The Ministry of Interior (before 2007) and then the Independent Directorate of Local Governance (IDLG) had to approve their \textit{tash‘kīl} (staffing establishment and list of

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\(^{62}\) Fieldwork Interviews by Author, Kabul, March-August 2011.

\(^{63}\) In 2004, the Ministries of Planning and Reconstruction were merged to form the Ministry of Economy.

sanctioned posts) and budget. Despite the existence of central and sub-national government structures, the administration and fiscal management remained highly centralized. The provincial and district expenditure was made on behalf of the central government. Conversely, outside the central government, the only limited tax autonomy was at the municipal level for funding its expenditures, and the tax rates were set in Kabul.

The Ministry of Finance was in charge of public financial management. It especially looked after revenue collection and the management and execution of the budget as defined in the Budget Law. It also looked after the customs, aid management, and payments of the government’s bills. The Afghanistan Customs Department (ACD) and the General Presidency of Revenue (GPR) at the ministry were charged with the collection of customs duties and management of customs services. The GPR was in charge of domestic taxation policy, with actual collection being dealt with by the māstiḵiats. Post-2001, the Ministry of Finance was also tasked twice to develop the national policies (2003-2005, and after 2009), making it a central institution in Afghanistan’s state building process. This was justified by the fact that the Ministry of Economy which ought to have led the planning process did not have sufficient...
capacity. This became a major area of ongoing dispute between the two institutions at the technical and cabinet level.\(^{67}\)

**Recentralizing Revenue Collection**

The central government lost control of revenue collection after the collapse of the PDPA regime in 1992 (see Chapter 2) and the fall of the Taliban. Regional strongmen asserted their control over provincial revenues and allocated them according to their own priorities. Hence the main challenge for the government was to recentralize revenue collection and allocation so it could cover its basic expenditures and fund its priorities. In order to achieve this, the government took a more extreme position than ever before. In 2003, it changed the “net flow” to a “gross flow” approach, meaning all revenue collected was to be deposited in the central government’s account, and allocations had to be made back from Kabul to the provinces. Under the “net flow” approach provinces were allowed to spend their revenue based on the approved budget by Kabul. Thus, if the revenue of a province was less than the amount necessary to fund the approved budget of ministries in the province, the deficit had to be funded by a cash transfer from the central government. But if the revenue exceeded the amount needed to finance the aggregate expenditure of each ministry, the surplus funds were physically transferred out of the province to the Ministry of Finance by the end of the fiscal year. The government’s justification for shifting to “gross flow” was that the strongmen were using provincial revenue to finance their own priorities, including their militias.\(^{68}\)

\(^{67}\) A Confidential Source, Senior Government Official, Interview by Author, Kabul, August 7, 2011.

\(^{68}\) Carnahan et al., *Reforming Fiscal and Economic Management in Afghanistan*. 6.
Additionally, government administration remained strongly centralized and 40 per cent of the civil service workforce was concentrated in Kabul, and as Table 4 below shows, the central government made most of the appointments.

Table 4: Employment Authority for Staff Recruitment

<table>
<thead>
<tr>
<th>Karmand grade</th>
<th>Central government</th>
<th>Province</th>
<th>District</th>
<th>Municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Beyond&quot;</td>
<td>Minister</td>
<td>President</td>
<td>President</td>
<td>Minister or</td>
</tr>
<tr>
<td>&quot;Above&quot;</td>
<td></td>
<td></td>
<td></td>
<td>governor</td>
</tr>
<tr>
<td>1 2</td>
<td>Minister</td>
<td>President</td>
<td>President</td>
<td>Minister or</td>
</tr>
<tr>
<td>3 4 5</td>
<td>Minister</td>
<td>Cabinet</td>
<td>Provincial</td>
<td>District or</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>head of</td>
<td>officer or</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>governor</td>
<td>provincial</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>head or</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>governor</td>
</tr>
<tr>
<td>6 7 8 9 10</td>
<td>Department head or</td>
<td>Minister</td>
<td>Provincial</td>
<td>Governor</td>
</tr>
<tr>
<td></td>
<td>governor</td>
<td></td>
<td>head of</td>
<td>or governor</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>governor</td>
<td></td>
</tr>
<tr>
<td>1 2</td>
<td>Department head</td>
<td>Minister</td>
<td>Provincial</td>
<td>Minister</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>head of</td>
<td>or governor</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>governor</td>
<td></td>
</tr>
<tr>
<td>3 4 5 6 7 8 9</td>
<td>Department head</td>
<td>Minister</td>
<td>Provincial</td>
<td>Governor</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>head of</td>
<td>or governor</td>
</tr>
</tbody>
</table>


The 2004 Constitution reinforced such type of centralization. Thomas Barfield observes that the Constitution:

created a government barely distinguishable from the centralized monarchies and dictatorships that had characterised earlier regimes. Similarly, notwithstanding discussions about inclusivity and popular participation, neither were allowed at the local level. Provincial governors, police officials, and even schoolteachers

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would still be appointed exclusively by the central government in Kabul without consultation. 70

This type of arrangement enhanced an easy way of establishing a centralized patronage system. The Karzai government could extensively use it to make political alliances and extend its power by offering public offices, such as ministers, deputy ministers and other top appointees in Kabul and provincial governors, district heads, provincial and district police chief in sub-national, 71 and even impunity to criminals.

Once revenue was collected it was allocated based on approved budget. The Cabinet and then the Parliament (when it was elected in 2005) were in charge of the approval of taxation and public spending. The government budget consisted of operating and development budgets. Once the budget was prepared in Kabul by the government and approved by the legislature, each ministry had to provide allocation for its provincial departments. The central government ministries and departments were primarily budgetary units, while the provincial departments of the central government ministries were secondary budgetary units that were receiving allocations at the discretion of the primary budget units. Therefore, the total budget of a province was simply the sum of the administrative allocations made by each ministry in Kabul regarding its respective provincial departments. There was no consolidated budget in the provinces. 72 The off-budget aid allocations bypassed this process and the government did not have discretion

70 Barfield, Afghanistan: A Cultural and Political History, 7-8.


on it. However, where information was made available by donors they were included in a national budget under a subsection called external-budget.

**Aid Modality: Undermining Institution Building**

Donors used two mechanisms for funding projects, the on- and off-budgets. Two approaches existed for using the on-budget funding. These included direct funding of programmes administered by the Ministry of Finance or funding through Trust Funds which were administered by the World Bank and UNDP before being channelled into the Ministry of Finance. The government also referred to these mechanisms as the “core-budget”. The on-budget was determined as “the portion of the national budget that [was] controlled by the government ... and the government [was] accountable for reporting on the expenditure of these funds.”

73 Domestic revenue, Trust Funds such as Afghanistan Reconstruction Trust Fund (ARTF) and Law and Order Trust Fund (LOTFA), and the grants and loans from World Bank and the Asian Development Bank were on-budget. However, only a small portion of aid which came to on-budget was discretionary because donors earmarked the bulk of their aid for specific projects or decided where to be spent. For example, of the US$70 billion approved for assistance to Afghanistan by the US Congress since 2001, US$2.1 billion was on-budget, of which only US$46 million or less than one per cent was at the discretion of the Afghan government.

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Off-budget aid was channelled to projects managed directly by UN agencies, NGOs and private contractors. A great portion of aid by large bilateral donors, like the US and Japan, and humanitarian assistance were spent off-budget. The government called this mechanism an “external-budget”. Off-budget aid was defined as “the portion of the budget that flow[ed] outside of the government accounts.” Donors saw the off-budget mechanisms as a better alternative because they deemed that the government had a limited capacity to spend the bulk of aid and they were afraid of waste due to corruption in the public sector. The government did not have fiscal control over off-budget aid and therefore did not consider itself accountable to report on its expenditure. Yet neither the government nor the Parliament had the authority to play an oversight rule on off-budget expenditures. In this way, Parliament was deprived of its “power of purse” over projects financed off-budget. Even the government, as it occasionally claimed, did not have sufficient information on off-budget expenditure. As the share of off-budget spending was large it created a “dual public sector” and drained most of the skilled employees of the government. This was run parallel to, and often in competition with, the state structures. Of the US$57 billion aid disbursed between 2002 and 2010, only US$10.15 billion (18 per cent) was provided through the on-budget (see Table 3). It also largely made the societal actors who received direct funding from donors accountable to donors (see Chapter 6).

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77 Ghani et al., "The Budget as the Linchpin of the State." 157.

78 See OECD, Do No Harm: International Support for State Building, 15.

However, donors underestimated the capacity which existed in the public sector and neglected the degree of corruption which could result in channelling the significant portion of their aid off-budget. In the words of McKechnie, the off-budget contributed to some of corruption and cronyism in Afghanistan.\textsuperscript{80} The US Inspector General for Afghanistan Reconstruction (SIGAR) reports documented the waste and corruption in the US off-budget projects.\textsuperscript{81} In 2002, for example, the donors pledged only US$20 million to finance 260,000 civil servants for one year. They, however, provided US$1.8 billion to UN agencies and NGOs for reconstruction efforts in Afghanistan. During this time, the state had representation in all provinces, while no UN agency had an operational office in Afghanistan immediately after the Taliban was ousted, as they were operating from outside the country. Many of the donors, especially the US, Japan and the UN, focused their attention on establishing parallel systems, each having their own procurement, management, reporting and monitoring requirements. Donors were also legally constrained in using on-budget channels. The US Congress, for example, took the view that if control of the US taxpayers’ money was given to the recipient country, it would undermine the constitutional fiduciary responsibilities of the Congress.\textsuperscript{82} On many occasions, although donors refused to finance a government

\textsuperscript{80} McKechnie, Senior Research Associate at Oversees Development Institute (ODI) and Former World Bank Country Director for Afghanistan (2001-2008), Interview by Author via Skype, Bethesda, April 17, 2013.


\textsuperscript{82} Michael Dauderstadt and Arne Schildberg, \textit{Dead Ends of Transition: Rentier Economies and Protectorates} (Frankfurt: Campus Verlag, 2006), 34.
proposal for funding the construction of public buildings, the UN was able to use the aid funds for constructing and renting elaborate networks of buildings for their offices.\(^{83}\)

While off-budget spending to some extent fostered project implementation in Afghanistan’s rigid fiscal regime, its implications on accountability, institution building and the state-society relations were erosive. “Despite the large volume of aid, most international spending ‘on’ Afghanistan [was] not spent ‘in’ Afghanistan, as it [left] the economy through imports, expatriated profits of contractors, and outward remittances.”\(^{84}\) While it was estimated that around 70-95 per cent of on-budget was spent in Afghanistan, only about 10-25 per cent of off-budget was locally spent.\(^{85}\)

Field research interviewees, government officials and some civil society activists (working with NGOs), overwhelmingly agreed that aid modality was important in the process of state building. They also claimed that off-budget spending largely undermined institution building. This type of aid contributed to political and institutional fragmentation. The environment remained contested as to who should control the resources. The government tried to secure a “greater share of external funds [off-budget] and decision rights” which was supported by the World Bank.\(^{86}\) The donors’ claim for limited capacity in government was valid to the extent that the execution rate of the development budget, which the government spent on-budget, was

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\(^{83}\) Lockhart, The Aid Relationship in Afghanistan: Struggling for Government Leadership, 8-11.


\(^{85}\) Ibid.

\(^{86}\) Ghani et al., "The Budget as the Linchpin of the State." 157.
low. Between 2004 and 2010, on average the government spent 43 per cent of its approved development budget.\textsuperscript{87} Off-budget spending undermined the distributive capacity of the state and shifted that capacity to parallel institutions funded by donors.

**Donor-government Relations**

The donor relationship with the Afghan government concentrated on the “war on terror” and a state building agenda. However, there was a contradictory relationship between a particular regime of aid, which was implemented in Afghanistan, and the state building agenda. While aid prompted the expansion of basic services, such as education and health and road building, which expanded the state’s reach, it also led to the creation of a “dual public sector” and a brain drain from state institutions to aid agencies and NGOs. Donors unintentionally competed with the government in pursuing social change by offering higher wages to their employees.\textsuperscript{88} This undermined institution building.\textsuperscript{89}

Since four-fifths of all aid was spent off-budget, the government was unable to allocate it for its own priorities. As donors decided on off-budget allocations, the societal actors and other recipients of off-budget aid were required and encouraged to deal with donors directly and justify their proposals. As a result, the government role changed to areas such as post-implementation maintenance and granting of permission to launch projects. Therefore not only was Afghan society, as noted in the previous chapters, unable to depend on the government’s decision of where to allocate the off-budget funds, but the

\textsuperscript{87} Data from the Ministry of Finance on the core development budget execution rate and calculation by author, 2011.


\textsuperscript{89} Mustafa Mastoor, Deputy Finance Minister, Interview by Author, Kabul, May 14, 2011.
Afghan Parliament was also deprived of an oversight role. Similarly, high aid-dependence made the state more biased towards donors' demands and pressure rather than to those of the public. This relational dynamic encouraged the state and society to focus on donors' requirements, rather than accountability to each other. At the same time, both focused on building up their skills and investing their time in ways that could best develop their relations with donors in order to attract more aid.

Additionally, the use of off-budget channels for aid minimized the input of the Afghan government and Parliament in the development of state institutions. The Afghan National Army (ANA) is a notable example. The Parliament and the government had little say and oversight on how it was compensated and paid for, as it was mainly funded off-budget by the US. The government made repeated demands for increases in on-budget funding, but the issue became politicized, depending on relations between the Afghan government and donors. In 2012, for example, while President Karzai was under increasing donor pressure to reduce widespread corruption within his government, he argued that the nature of the international engagement contributed to violence and corruption, because it bypassed the state by granting contracts directly. Karzai stated “[t]he bigger corruption is the corruption in contracts. The contracts are not issued by the Afghan government. The contracts are issued by the international community, mainly by the [US].”[^90] This highlights a lack of consensus between the government and donors on how to channel aid and shows the level of distrust in government-donors relations regarding the way foreign aid was largely spent off-budget.

Despite the negative effects of off-budget aid for state building, only the Afghan government and donors debated whether to use on-budget or off-budget for implementing aid programmes. For the Afghan public and societal actors it was not important whether aid was spent on-budget or off-budget, as long as they received the benefit. A lack of reaction from the public asking for shifts from off-budget funding to on-budget is evidence of this because the public were not aware of such the donor-government relationship and had little confidence in the government due to high levels of corruption and limited implementation capacity.\(^91\)

**Relations at the Administration Level**

While donors initially neglected investing in the administration in the aftermath of the fall of the Taliban regime, they later took some measures to bolster administration capacity. However, their attempts were not effective:

[They] Launched a range of schemes to provide technical assistance and expand [the government] capacity. But those schemes have largely substituted for—rather than built—regular civil service capacity, relying on foreign expertise and, increasingly, on Afghan externally funded staff (EFS), who receive[d] higher salaries than regular civil servants, or top-ups through various government or donor-funded initiatives. Most of these capacity-substituting schemes involve[d] funding channelled outside the budget, fragmenting efforts and reducing transparency about the real cost of running the government and delivering services.\(^92\)

By 2010, the total number of consultants stood at 7,000 (200 international and the rest national) in state civilian ministries and agencies. These were referred as the “second civil service”.\(^93\) By comparison with the total number of civil servants the number of consultants was small. But they played a most important role in shaping policies and

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\(^{91}\) Fieldwork Interviews by Author, Kabul, March-August 2011.

\(^{92}\) World Bank, Afghanistan in Transition: Looking Beyond 2014, 12.

\(^{93}\) Ibid., 13; Also see ———, Afghanistan: Building an Effective State, Priorities for Public Administration Reform, AINA Media and Culture Centre, Kabul, 2007, xvi.
managing implementation processes. In 2007, there were 307,288 public servants of whom 18 per cent were women and only 16 per cent had education above high school, including a small number with bachelors and masters degrees.\(^{94}\)

The Ministry of Finance managed the on-budget aid and therefore it remained the key institution for Afghan government-donors relations. The Ministry received more international technical assistance than any other civilian institution and was fundamentally reformed to meet donor needs and conditions (see Chapters 3, 4 and 5). However, other ministries, such as the Ministry of Border, Tribal and Ethnic Affairs, which focused on domestic issues, attracted little donor support and remained almost undeveloped.

A large number of parallel structures and units were created. Inside the government structure, only 35 Project Implementation Units (PIUs), Grant Management Units (PMUs) Project Management Units (PMUs) and Project Management Offices (PMOs) were established by donors across the ministries to distribute aid and implement projects.\(^{95}\) While the second civil service eased management of the implementation process, this kind of intervention divided the civil servants into an “ordinary civil service” and a “second civil service”. Unlike the former, the latter was recruited on short-term contracts. They were bound to achieve predetermined project outcomes. The second civil service did not have job security and other benefits which the ordinary civil servants had. Hence, they often preferred to change their jobs depending on the nature of the contract offered to them.


\(^{95}\) Commission Mu'zaf Ba Artibat' Juz' (14) Mādah Aval' Farmān Shūmārah (45) Mu‘rīkh 1391/05/05 Mūqam' Rīāsat' Jumhūri Aislāmī Afghanistan, Güzarish Kommissiun (the Commission Report), Kabul, n.d.
The consultants were recruited through a competitive process which, while not perfect, was less affected by local politics than was the case with the process of ordinary civil servant recruitment. The national consultants mainly comprised a class of young Afghan professionals with university degrees from inside and outside Afghanistan, who spoke English and were computer literate. National and foreign consultants were sending monthly performance reports to foreign consultancy companies, subcontracted by donors. These were a condition for the transfer of their monthly salaries.

Foreign consultants (advisers) had diverse skills and knowledge, although they had only limited understanding of the complex political settings of Afghanistan and limited government working experience. They mainly came from academies, NGOs and an aid agency background. They were engaged in areas such as public financial management, policy development and programme implementation, especially in Kabul.\textsuperscript{96} However, the consultants, as a number of fieldwork interviewees observed, “were preoccupied with issues concerning donors, including project report writing and exchanging English emails with donors.”\textsuperscript{97} They had better access to information, sometimes playing the role of intermediary between ministry leaderships, government managers, and the donors. The government became more dependent on the consultants over time.\textsuperscript{98} Through advisors donors established a direct relationship with government ministries and departments, although it varied between institutions. Some donors appointed and funded the consultants as well as the projects they worked for, retaining greater influence over the second civil service.

\textsuperscript{96} Between 2007 and 2008, the ANDS oversight committee identified policy, planning, procurement and budgeting as priority areas for capacity building in the public sector. The Joint Coordination and Monitoring Board (JCMB) archive, ANDS Oversight Committee meeting minutes, 2006-2008.

\textsuperscript{97} A Senior Government Official, Interview by Author, Kabul, June 26, 2011.

\textsuperscript{98} A Confidential Source, Interview by Author, Kabul, April 18, 2011.

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In this setting, the ordinary civil servants (especially the older generation) were suspicious of changes in administration and reluctant to pursue reforms. They were acutely aware of the politics of survival and how a reform could be made to disappear along with its creator in the Afghanistan context. A new minister, for example, would come with a new mind-set and a reform package, or a new regime would totally abandon the programmes of its predecessor. The civil servants had learned this from experience under the previous rule of the People’s Democratic Party of Afghanistan (PDPA, 1978-1992), the mujahidin (1992-1996) and the Taliban (1996-2001).

In addition, the protracted armed conflicts in the country and sudden policy shifts had prevented them from developing skills. As a matter of pragmatism and for the sake of their survival, some of the civil servants had preferred to develop linkages with strongmen and to engage in local rivalries. This compromised their commitment to public service, weakened state institutions and had a negative impact on service delivery.

The emergence of the two elements of civil service eventually affected the integrity of public administration. Although the use of consultants helped to some extent to overcome the problem of lack of capacity in the short-run, it discouraged ordinary civil servants who felt marginalized. They also resented their lower salary and the lack of attention they received in their administrative units. For example, an internal government assessment which followed a Presidential decree in 2012, found that the dual approach to building the administrative capacity undermined the development of the permanent government structures. 99 Although the government attempted to integrate

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99 Commission Mu’zaf Ba Artibat’ Juz’ (14) Mādah Aval’ Farmān Shūmārah (45) Mu’rīkh 1391/05/05 Mūqam’ Riāsat’ Jamhūri Aislāmi Afghanistan, Güzarish Commission (the Commission Report).
the consultants into its budget, it was not successful because the civil service law was still too inflexible and there were insufficient on-budget funds to finance them. The inflexibility of the civil service law after 2001 was a major obstacle, making it illegal for the government to increase the monthly salary of a public servant more than US$50 per month (although the law slightly improved later). However, NGOs and donors were able to offer forty to a hundred times more to their employees than the government paid its employees.¹⁰⁰

**Relations in Regard to Senior Appointments**

Funding more than 90 per cent of the on- and off-budget public expenditure (see Chapter 4), donors were inclined to intervene in senior political appointments made by Karzai. Occasionally, this brought Karzai and Afghanistan’s major donors into conflict especially when Karzai made most of the senior appointments based on prior political commitments and in return for the loyalty of strongmen and commanders. His appointment of governors was highly criticized as most of them did not meet the requirements of the Afghan civil administration and lacked the ability to meet provincial challenges. In 2010, the Killid Group, a local radio station, reported that out of 34 provincial governors, 30 were appointed because of their affiliation with the mujahidin tanzīms (organizations), influential politicians and powerbrokers.¹⁰¹ With this type of appointment, Karzai weakened the state institutions and prevented them from improving and effectively implementing government programmes. In addition, he often replaced

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his ministers, creating a sense of instability in the institutions. The Ministry of Finance suffered the most from lack of continuity in its leadership. Between 2001 and 2009, four finance ministers were appointed (Hedayat Amin Arsala [2002], Ashraf Ghani [2002-2004], Anwar-ul Haq Ahadi [2005-2008], and Omar Zakhilwal [2009 to date]). Each minister had a different way of operating and set of priorities. In 2005, because of the change of the Finance Minister, the entire leadership of the ministry left (or resigned) from their positions.\(^\text{102}\) Because of the way appointments were being made and the negative impact that this had on the government, in January 2006 at the London Conference, the government and donors agreed that:

A clear and transparent national appointments mechanism will be established within 6 months, applied within 12 months and fully implemented within 24 months for all senior level appointments to the central government and the judiciary, as well as for provincial governors, chiefs of police, district administrators and provincial heads of security.\(^\text{103}\)

However, progress in this area was slow and Karzai only signed the terms of reference for the senior appointments in April 2008. There was no progress made on the senior appointments board.\(^\text{104}\) As a result, Western diplomats remained frustrated with Karzai not only in relation to his actual appointments but also in the way he was managing the appointment process. In 2009, the Guardian reported the Western diplomats’ frustration with the Karzai style of management:

Karzai is in the habit of getting involved in the appointment of junior officials and relatively lowly [sic] [vulūvāls or district officers] of some of the country’s

\(^{102}\) When Ashraf Ghani the Finance Minister left the new cabinet, his three deputy ministers, director of budget, treasury, state owned enterprise and internal audit already had left or resigned from their positions. A Senior Government Official, Interview by Author, Kabul, June 26, 2011.

\(^{103}\) See ANDS Secretariat Archive, The London Conference on Afghanistan: The Afghanistan Compact, 7.

360 or so districts, rather than spending his time on bigger issues. But while Afghanistan's highly centralized system allows for presidential micro-management it is not very good at delivering services to ordinary Afghans. In response, some Western donors would become more engaged in dealing with the senior appointment process. They lobbied and reacted in meetings in response to Karzai's decisions and his exclusion of the so-called "reform minded" ministers from his Cabinet and marginalization of others. In 2005, when Ali Ahmad Jalali, the Interior Minister, resigned, the US, Canadian and UK aid agencies all withdrew their funding from the Afghanistan Stabilization Programme (ASP), led by the Ministry of Interior. Although their decision to terminate the funding was not officially linked with Jalali's resignation, most people believed it was. Moreover, following the vote of no confidence in Foreign Minister, R. Dadfar Spanta on May 10, 2007, the US Ambassador, William B. Wood, alerted Yonus Qanoni, speaker of the Wolūsi Jirga (lower house) that Western donors were concerned about the outcome. He stated that:

He fully respected the Parliament's rights under the Constitution; he also flagged that the removal of the Foreign Minister would increase confusion in the international community regarding Afghanistan at a time when Afghanistan does not need to send any more confusing signals. Colleagues in the international community, including the German DCM and UNAMA [United Nations Assistance Mission in Afghanistan], agree that Iran was a factor in fuelling domestic opposition to the reform-minded Spanta.

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107 Fieldwork Interviews by Author, Kabul, March-August 2011.

Donor-government relations were forged through individuals. As noted earlier, the degree of support an institution could obtain was largely linked to the credibility of such relations and the donors’ priority. This approach polarized leadership and was counterproductive. Donor support based on individuals, unintentionally set the mujahidin leaders and commanders against Afghan expatriate officials. Even Karzai was jokingly calling some of the expatriates “agents of foreigners” in Cabinet meetings, a sensitive expression in Afghanistan to undermine one’s credibility.¹⁰⁹ For expatriates who did not have popular support and a power base inside Afghanistan, the donors’ backing made them mere technical actors dependent on state institutions which minimized their role in Afghan politics.

Conclusion

Foreign aid and how the international community participated in the post-2001 period largely shaped the state building process and state-society relations. This created a situation of high aid-dependency and rentierism which reinforced the historical pattern of state building with external financing. Although aid contributed to the reconstruction of the country and building of the state intuitions, the ways how aid was delivered and managed resulted in a number of political pathologies which undermined many of the gains. Structural problems in state institutions and politics of patronage, the complex nature of aid by employing off-budget mechanisms, and lack of coordination between donors undermined state building efforts. Donors and powerful domestic actors competed with the state for implementation access to aid. This situation prompted the government into concentrating its political and administrative efforts on improving government and donors relationships. This undermined the development of institutions

¹⁰⁹ A Confidential Source, Interview by Author, Kabul, April 18, 2011.
accountability to the citizens, a development which was further undermined by
government accountability to donors.
Chapter 4
Foreign Aid and Taxation, 2001-2009

Introduction

After 2001, the effects of foreign aid on the taxation system were significant in three areas. Firstly, foreign aid led to the expansion of economic activities which widened the tax base. Secondly, the provision of technical assistance by donors to the Afghan government helped to develop new tax systems and policies. Thirdly, the conditions which donors attached to their aid pressured the government to meet its pre-identified annual revenue targets. However, the reforms which the government adopted were undermined by the structure of the economy which was dominated by agriculture and the informal sector and the failure to account for the politics of taxation and tax exemption for contractors implementing aid programmes. These perpetuated the weakness in the tax system.

Although domestic revenue increased significantly over time, this largely depended on customs tariffs and financed only a small portion of public expenditure. The state therefore remained highly dependent on aid. As a result, both the government and donors failed to use taxation as an instrument of state building. The failure to do so further weakened the state-society relations and the prospect for ending (or lessening) aid dependency.

This chapter explores how foreign aid shaped the revenue system between 2001 and 2009. It examines how the revenue reforms were adopted and what were the deficiencies. Revenue reforms refer to the changes in the area of revenue policy and

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1 Carnahan et al., Reforming Fiscal and Economic Management in Afghanistan, 11.
legislation, revenue administration and infrastructure. The chapter begins with an analysis of the revenue portfolio before looking at how foreign aid shaped the revenue system. It then reviews the major reforms which the government implemented and examines the shortcomings.

Revenue Portfolio

Between 2003 and 2009, Afghanistan revenue collection as a percentage of GDP remained among the lowest in the world. Between 2006 and 2009, it represented only a third of that collected by low-income countries (7 per cent of GDP compared to 21 per cent) and about half of that of post-conflict countries. Moreover, the reliance of Afghanistan on trade-related taxes was substantial and at least 10 percentage points higher than other comparable countries such as Burundi, Central African Republic, Republic of Congo, Ethiopia, Guinea Bissau, Rwanda, and Sierra Leone.

A low revenue base, the deteriorating security situation, and the absence of certain tax categories such as excise taxes, all contributed to a weak revenue performance. In addition, a lack of motivation by the leaders of government and excessive focus on aid mobilization and management also undermined revenue performance. Chart 1 and Table 5 show the growth of domestic revenue, foreign aid and public expenditure between 2003 and 2009, indicating a significant increase in domestic revenue at an average annual rate of 40 per cent, rising from 3 per cent in 2002 to 10 per cent of GDP.

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4 Ibid., 11.

5 Fieldwork Interviews by Author, Kabul, March-August 2011.
in 2009. At the same time, public expenditure increased substantially to finance reconstruction programmes and the army and police (see Chapter 3). Hence, domestic revenue could not finance the full government operating budget. This led to a high fiscal deficit which was fully financed by foreign aid. The total off- and on-budgets expenditure rose from US$2.7 billion in 2002/3 to US$7.6 billion in 2009/10 03 (see Table 5).

**Chart 1: Public Expenditure, Foreign Aid and Domestic Revenue (in US$ million), 2002-2009**

Source: See Table 5.
*Public expenditure is calculated on annual aid disbursement and domestic revenue allocation. This method provides more precise information than the total budget of a year because often donors’ commitments based on formulation of the annual budget were not disbursed and translated into real implementation of projects.*

The taxation system was weak and faced many challenges. In 2004, the IMF made a similar observation. It argued that war and political and economic instability had left the tax system in a serious state of disrepair and its reformation needed:

rewriting tax laws, building institutional structures, developing and executing organizational strategies, designing work processes and information systems, repairing physical infrastructure, strengthening human resource capacity and improving staff conditions, overcoming widespread corruption, and developing relationships with a community that has a weak culture with regard to paying
tax. It requires a long-term effort, involving implementation in manageable stages over many years.\textsuperscript{6}

Some of the conditions that made it hard for the government to tax the economy included a narrow tax base associated with a very low level of development, and a large informal sector, and dominance of the economy by agriculture which had suffered from years of drought and conflict.\textsuperscript{7} The opium economy, which was about half of the legal GDP in 2006,\textsuperscript{8} further complicated revenue mobilization because it could not be taxed directly. Instead, it provided large amounts of revenue to the Taliban insurgents, local strongmen and corrupt official.\textsuperscript{9}

Because of a weak tax administration and feeble economic production capacity, Afghanistan relied on imported goods for its consumption and on taxes collected at borders for a large part of its domestic revenue.\textsuperscript{10} These included customs duties, fixed taxes on imports and exports, and administrative fees.\textsuperscript{11} The revenue system also included income taxes withheld from wages, rents, dividends, interest and royalties.\textsuperscript{12} These taxes eased the collection and monitoring. Although domestic revenue steadily


\textsuperscript{7} For more information on this see World Bank, Afghanistan: Managing Public Finances for Development, Main Report, World Bank, 2005, 32.


\textsuperscript{9} For detailed discussion see Jonathan Goodhand, "Corrupting or Consolidating the Peace? The Drugs Economy and Post-conflict Peacebuilding in Afghanistan," International Peacekeeping 15, no. 3 (2008).

\textsuperscript{10} See Sunley and Gracia, Afghanistan: Tax Reform – The Next Steps, 12.


\textsuperscript{12} Ibid., 50. The withholding tax system has become an important revenue collection method in developing countries, lowering the cost of tax administration and reducing the chances of tax evasion. Ibid., 48.
increased, it did not reach a level sufficient to lessen significantly the degree of aid-dependency (see Table 5).
Table 5: Domestic Revenue, Foreign Aid and Public Expenditure (in US$ million), 2001-2009

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>1380</th>
<th>1381</th>
<th>1382</th>
<th>1383</th>
<th>1384</th>
<th>1385</th>
<th>1386</th>
<th>1387</th>
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<tr>
<td>Nominal GDP</td>
<td>-</td>
<td>4376</td>
<td>4761</td>
<td>5706</td>
<td>6821</td>
<td>8167</td>
<td>10410</td>
<td>10620</td>
<td>12736</td>
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<tr>
<td><strong>Total Domestic Revenue</strong></td>
<td>-</td>
<td>131</td>
<td>208</td>
<td>268</td>
<td>416</td>
<td>580</td>
<td>673</td>
<td>812</td>
<td>1290</td>
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<td>Total Domestic Revenue as % of GDP</td>
<td>-</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>-</td>
<td>-</td>
<td>128</td>
<td>200</td>
<td>283</td>
<td>438</td>
<td>492</td>
<td>612</td>
<td>1046</td>
</tr>
<tr>
<td>Tax Revenue as % of GDP</td>
<td>-</td>
<td>-</td>
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<td>4</td>
<td>7</td>
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<td>25</td>
<td>39</td>
<td>73</td>
</tr>
<tr>
<td>Persona Income Tax as % of GDP</td>
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<td>23</td>
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<td>-</td>
<td>110</td>
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<td>232</td>
<td>253</td>
<td>281</td>
<td>442</td>
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<td>-</td>
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<td>Other Taxes</td>
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<td>37</td>
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<tr>
<td>Other Taxes as % of GDP</td>
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<td>Social Security Contributions</td>
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<tr>
<td>Non-tax Revenue</td>
<td>-</td>
<td>-</td>
<td>78</td>
<td>62</td>
<td>129</td>
<td>135</td>
<td>173</td>
<td>184</td>
<td>222</td>
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<tr>
<td>Non-tax Revenue as % of GDP</td>
<td>-</td>
<td>-</td>
<td>2</td>
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<td>2</td>
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<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total Donor On-budget and Off-budgets Contribution (Disbursement)</strong></td>
<td>-</td>
<td>2614</td>
<td>2615</td>
<td>4170</td>
<td>6182</td>
<td>4931</td>
<td>11789</td>
<td>7133</td>
<td>6319</td>
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<tr>
<td>Total Donor On-budget and Off-budgets Contribution as % of GDP</td>
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<td>55</td>
<td>73</td>
<td>91</td>
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<td><strong>Total Public Expenditure</strong></td>
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<td>2745</td>
<td>2823</td>
<td>4438</td>
<td>6598</td>
<td>5511</td>
<td>12462</td>
<td>7945</td>
<td>7609</td>
</tr>
<tr>
<td>Total Public Expenditure as % of GDP</td>
<td>-</td>
<td>63</td>
<td>59</td>
<td>78</td>
<td>97</td>
<td>67</td>
<td>120</td>
<td>75</td>
<td>60</td>
</tr>
</tbody>
</table>


* Nominal GDP excludes the drugs economy.

** The data on aid disbursements are used in the table instead of donors’ commitment because these show the real expenditure.
Foreign Aid and Revenue Reforms

Foreign aid mainly affected the revenue system in three ways. First, the influx of aid considerably increased public expenditure and private consumption in Afghanistan, thereby contributing to the expansion of taxable activities. The total aid to the country was on average between 2002 and 2009 around 71 per cent of the annual GDP (see Table 5). It also enhanced the volume of imports because the country was dependent for most of its consumption on imported goods, which resulted in the passage of taxable goods through the customs. The availability of such aid-related taxable activities in the economy prompted the government to strengthen its taxation capacity. Military imports, however, by such entities as NATO and the US were exempt from tax.

Second, the technical assistance that the Ministry of Finance received helped it to develop new revenue systems and policies. The IMF, World Bank and bilateral donors provided technical assistants. The ministry received the largest number of international technical assistants by 2011 (60 foreign advisors) among the state civilian institutions. The technical assistants included foreign and local consultants. While the foreign consultants helped to write new revenue policies and legislation, the local consultants bridged the communication gap between them and the Afghan civil servants.

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13 Carnahan et al., Reforming Fiscal and Economic Management in Afghanistan, 11.

who did not speak English,\textsuperscript{15} as the policies and laws were drafted in English and then translated into Dari and Pashtu.

The dependence of the ministry on technical assistance for its major tasks, however, created perverse incentives for ordinary civil servants to build their skills because they did not see a better career in the long run, nor did they expect better compensation in higher wages or fair opportunities for promotion. Carnahan \textit{et al.} observe that:

The problems of resentment are exacerbated by the fact that most international staff providing technical assistance in the Ministry of Finance have support staff working for them either as translators or for data entry or general office support. These staff are also paid considerably more than the counterparts of the international staff. Anecdotal evidence suggests that the wages paid to the assistants of international staff outstrip the wages paid to senior civil servants well after a country moves out of the post-conflict limelight.\textsuperscript{16}

Although the reforms aimed to address these shortcomings, including the pay adjustment, they failed to do so effectively and in a timely manner. A senior tax official noted that low wages made the revenue and tax departments less attractive for skilled employees. He asserted that cases where the applicants aimed to use the expected positions as a way of extracting illegal income were the exception. In such cases, they would even pay bribes and use political pressure to get the position.\textsuperscript{17} The leadership of the ministry acted inconsistently in implementing the reforms. Some used coercive measures such as threatening to dismiss officials if they failed to implement the reforms, while others ignored implementation of the reforms. Donors also had their own way of pushing these reforms. They used their leverage on the senior public servants, whose wages came directly from donor-funded projects, by linking the successful

\textsuperscript{15} Only a very small number of civil servants spoke English, such as some of the managers and senior officials mainly recruited through donor-funded projects and government programmes which aimed to build the capacity of the civil service.

\textsuperscript{16} Carnahan \textit{et al.}, \textit{Reforming Fiscal and Economic Management in Afghanistan}, 146.

\textsuperscript{17} A Senior Tax Official, Interview by Author, Kabul, June 15, 2011.
implementation of the reforms with their salary contract appraisal. The success of these measures, however, depended on a number of factors such as the influence of the Ministry of Finance in Kabul and provinces, the donors’ influence, the political will of the provincial governors, as well as the incentives and disincentives created by the reforms. \(^\text{18}\)

The IMF missions seem to have shaped significantly the design of the reforms. They came to Afghanistan on a regular and \textit{ad hoc} basis to assess the revenue system and advise the Afghan government on how to improve it. These missions worked with the Finance Ministry and other relevant institutions such as the Da Afghanistan Bank (the Central Bank). They prepared various reports like the IMF Staff Monitored Programme reports and provided the government with specific recommendations on tax and revenue reforms. \(^\text{19}\) These mainly laid the foundation for the design of revenue reforms because they made available the sole technical analyses. They, however, largely focused on universal best practices and pro-revenue measures. This approach neglected the politics of taxation, the Afghanistan context and how tax reforms would impact on state relations with citizens.

Finally, aid was conditional on the achievement of the revenue reform agenda agreed between the government and key donors, especially the IMF. This external

\(^{18}\) Fieldwork Interviews by Author, Kabul, March-August 2011.

\(^{19}\) The IMF Staff Monitored Programme is “an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies.” However, it is not supported by the use of IMF financial resources, nor is it subject to the endorsement of the Executive Board of the IMF. See IMF, Islamic State of Afghanistan - Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, September 6, 2004.
accountability to donors put considerable pressure on the government to increase its domestic revenue. Annual minimum revenue targets and institutional reforms in the Ministry of Finance and the Central Bank were agreed by the IMF and the Afghan government to measure the government’s compliance with the reforms.\textsuperscript{20} This process became a vehicle for shaping the government’s revenue efforts. In 2009, under the Afghanistan Reconstruction Trust Fund (ARTF), the World Bank also proposed a 25 per cent Revenue Matching Grant Scheme for four years to provide further incentives to domestic revenue collection.\textsuperscript{21} However, the Ministry of Finance regarded the minimum revenue targets as maximum.\textsuperscript{22} It maintained a good record of compliance with the IMF revenue targets which played a role as a “credibility stamp” for the government to secure the flow of major donor funding, especially through the Trust Funds. Despite improved compliance at the policy level, at the implementation level the reforms barely reached outside the central administration. The government, as a number of tax experts at the Ministry of Finance claimed, paid minimal attention to maximizing its revenue mobilization efforts and lacked a long-term vision to end aid-dependency.\textsuperscript{23}

Internal pressure also contributed to the revenue reforms. The need to pay the government employees’ wages and salaries compounded the external pressure to boost the tax reforms since the government was acutely aware of the unrest caused when predecessor regimes (the Taliban and mujahidin) had failed to pay the civil servants. Donors were reluctant to finance the government operating costs, while customs

\textsuperscript{20} See for example Ghani et al., "The Budget as the Linchpin of the State," 162.


\textsuperscript{22} A Senior Tax Official, Interview by Author, Kabul, June 15, 2011.

\textsuperscript{23} Fieldwork Interviews by Author, Kabul, March-August 2011.
revenue comprising the bulk of domestic revenue was under the control of the regional strongmen. Already in 2004, disabled and martyrs’ families and decommissioned army officers and soldiers had demonstrated in front of the Ministry of Finance near the Presidential Palace, demanding timely payments of their salaries and benefits.  

Reforming the Revenue System

Revenue Policy and Laws

In 2004, the new Constitution defined the relationship between the government and the legislature in the area of economic management and accountability of the government to the legislature. It obliged the government to report to the legislature the tasks accomplished and the main plans for the new fiscal year (Article 75). However, it significantly limited the power of the legislature to intervene in government financial affairs because the strong presidential system established under the constitution gave little amendment power to the legislature, especially in relation to the budget.  

The revenue system which the government inherited was out of date and difficult to administer. There was shortage of skilled staff, taxpayers were poorly assessed and record keeping was manually and arbitrarily carried out. There were some 113 out of

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date laws and regulations which regulated taxation, adding to the complexity of the system and confusing taxpayers and tax collectors. The inefficiency of the tax system meant that sometimes the collection of US$1 could cost US$1,000.\textsuperscript{27}

In 2003, the government revised its revenue policy and enacted a new Income Tax Law (2005). A tax manual also followed. These aimed to simplify and modernize the tax system. The Income Tax Law included personal and corporate income taxes and a fixed tax. The latter was applied to businesses usually associated with the informal economy instead of the standard for taxing incomes.\textsuperscript{28} To create an incentive for businesses to provide their accounting records to the government, different rates were applied to registered and unregistered ones. A higher tax rate was levied against businesses with no accounting records, while a lower tax rate was imposed on the ones with partial accounting records.\textsuperscript{29} Personal income tax a progressive tax imposed on incomes derived from salaries and wages, self-employment, and investment. It had a top rate of 20 per cent for high-income earners and smaller rates for low-income earners.\textsuperscript{30} The corporate tax rate was also set at 20 per cent, which was relatively low by international standards.

\textsuperscript{27} Ghani et al., "The Budget as the Linchpin of the State," 173.

\textsuperscript{28} Islamic Republic of Afghanistan, "Policy Directions and Strategies for Sustainable Sources of Revenue for Afghanistan: Official Tax Policy Framework and Revenue System Strategy," 36. The government charged between two and three per cent of fixed taxes on the total cost (including custom duties) on goods imported of licensed businesses and businesses with interim licence and without it respectively. The tax was used as a credit in one’s annual income tax assessment. See Islamic Republic of Afghanistan, "The Income Tax Law," in Official Gazette (Kabul: Ministry of Justice, 2009), Article 68-72.


\textsuperscript{30} Ibid.
Although Afghanistan did not adopt Value Added Tax (VAT) due to weak tax administration, it aimed to implement it by 2014. The Income Tax Law did not make mention of agricultural lands, gardens, and livestock taxes; these historically were important sources of domestic revenue (see Chapter 2). It indicated, however, that a separate law would identify them. The Cabinet granted a tax exemption on agricultural lands and gardens between 2001 and 2006 because of continuous drought and the two decades of war which had badly damaged agriculture.

In order to improve productive investment in Afghanistan, the government pursued a policy of granting tax holidays in order to temporarily eliminate tax for four years. In 2005, the pressure which donors exerted led to the elimination of this policy. The IMF, especially, argued that there was evidence of corruption and abuse in granting tax holidays. The IMF argued that tax holidays would encourage tax avoidance and short-term investment in the country, and benefit investors with a high rate of return in

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Afghanistan.\textsuperscript{36} For example, under the Income Tax Law of 2002 the Ministry of Commerce and Industries (MoCI) issued around 6,000 business licences before 2004 and the government subsequently granted tax holidays with little scrutiny. However, of the total tax holidays granted, 40 per cent were granted to unqualified construction companies. Some ministries also arbitrarily granted tax exemptions under “ministerial agreements,”\textsuperscript{37} without Ministry of Finance’s approval. The Income Tax Law of 2005 also deprived ministries of the right to grant tax exemptions. Instead of tax holidays, the law provided registered enterprises with much improved depreciation conditions so that “for investment undertaken in the year of registration and the subsequent two years such enterprises may write off the cost on a straight-line basis over four years (for buildings) and two years (for other assets).”\textsuperscript{38}

The Law, however, did not precisely specify whether tax payment was compulsory or voluntary.\textsuperscript{39} The tax officials deemed that tax payment was voluntary and they were not obliged to apply tough measures against tax evaders, especially as it would prove counterproductive for the personal position of the tax officials where the culture of tax payment was weak. This made the tax officials less motivated to enforce the evaders.\textsuperscript{40}

In 2009, the law was amended to emphasize the compulsory nature of tax payments. It stated “tax is a compulsory payment collected from natural and legal persons in accordance with the provisions of this Law for the purposes of financing of government...”

\textsuperscript{36} Ibid.

\textsuperscript{37} Ibid.


\textsuperscript{39} ---, “The Income Tax Law.”

\textsuperscript{40} Fieldwork Interviews by Author, Kabul, March-August 2011.
and social welfare without the taxpayer receiving any direct goods or services from the government.\textsuperscript{41} This provided tax officials with more enforcement power,\textsuperscript{42} and added nine additional articles about enforcement, anti-avoidance and tax penalties.\textsuperscript{43}

However, the law still remained unclear in some areas giving tax collectors the discretion to manipulate the system and shift the power “balance” from taxpayer to tax collectors. For example, a major area of dispute concerned the discretion of tax officials to appraise house rental taxes and the shopkeepers’ taxable income. Most of the fieldwork interviewees asserted that shopkeepers with a lower income paid higher taxes than those who had a much higher income. This was because the latter were paying bribes to the tax collectors in order to be appraised lower.\textsuperscript{44} This created a sense of unfairness and, in the words of Habiba Sorabi, the governor of Bamyan, a feeling of “why should I pay tax if my neighbour is not paying it.”\textsuperscript{45} In addition, the law neither mentioned the obligations of the government to provide better services for taxpayers, nor made provision for obliging the government to be accountable and transparent in collecting the taxpayers’ money. The donors also neglected this issue because they largely focused on increasing the government revenue rather than strengthening revenue transparency.\textsuperscript{46}

\textsuperscript{41} Islamic Republic of Afganistan, "The Income Tax Law," 1.

\textsuperscript{42} A Senior Tax Official, Interview by Author, Kabul, June 15, 2011.

\textsuperscript{43} See Islamic Republic of Afganistan, "The Income Tax Law."

\textsuperscript{44} Fieldwork Interviews by Author, Kabul, March-August 2011.

\textsuperscript{45} Habiba Sorabi, Governor of Bamyan, Interview by Author, Kabul, July 17, 2011.

\textsuperscript{46} Fieldwork Interviews by Author, Kabul, March-August 2011.
As a matter of urgency in 2003, new tariff rates were set and the artificial exchange rates were replaced with market ones.\textsuperscript{47} Arbitrary use of weight as a measure for the rate of customs duty was replaced by a value-based system. The new tariff rates included a top rate of 16 per cent, while the majority of goods were subject to a tariff rate of 8 per cent or below.\textsuperscript{48} A new Public Finance Management Law (PFML), earlier known as the Budget Law, was also enacted in 2005, defining the government's role in raising revenue, incurring expenditure, raising loans, or issuing guarantees.\textsuperscript{49} Accordingly, all revenue and expenditure of state was to be presented on a gross basis. Furthermore, in 2005, a new Customs' Act was enacted, accompanied by a new Customs Code. In 2008, the government indicated in the Afghanistan National Development Strategy (ANDS) that it would consider introducing zakat (an obligatory Islamic tax, one of the five pillars of Islam),\textsuperscript{50} to be used to finance social protection programmes, such as preventing malnutrition, but at the end there was neither a public debate on this nor did the government come up with a concrete policy.\textsuperscript{51}

\textsuperscript{47} Carnahan et al., Reforming Fiscal and Economic Management in Afghanistan, 10.

\textsuperscript{48} Ibid., 10.

\textsuperscript{49} For details see Islamic Republic of Afghanistan, "Official Gazette (Extraordinary Issue): Public Finance Management and Expenditure Law," (Kabul: Ministry of Justice, June 27, 2005). The law indicates that all revenue and receipts are public assets. These includes taxes, fees, interest received by administrations, dividends, income from sales or leasing of state's property, royalties, fines, grants received by the state, debt due to the state, money transfers corresponding to credit taken by state and as well as issuance of national and international security.


\textsuperscript{51} ———, "Afghanistan National Development Strategy (ANDS), 1387-1391 (2008-2013)," 35, 71. The government argued that “the religion of Islam requires all Muslims to support the poor and vulnerable in society [through zakat] ....” It asserted that Zakat promotes the idea of social solidarity and actively encourages charity and hence creation of a Zakat Administration in the government could help to collect donations and redistribute them in an organized manner among the neediest. Ibid., 69.
Revenue Administration

Although the amendment of laws and policies was a lengthy process, some of which was adopted in 2005, administrative reforms started earlier and were funded and technically supported by donors. Important administrative reforms included reorganization of revenue authorities and improvement of the revenue collection process.

The most important reforms were the efforts to recentralize revenue collection and allocation. In August 2003, different bank accounts of the provincial müstufiats were frozen (see Chapter 3). The government then established two new accounts, for revenue and expenditure. This reform resulted in a significant increase in the flow of income from the provincial customs revenue to Kabul.52 Previously, the revenue loss to central government occurred from the provinces which normally collected most of the customs revenue. These were Herat, Ningarhar, Balkh and Kandahar which were controlled by strongmen like Ismail Khan, Abdul Qadir’s family, Abdur Rashid Dustum, Atta Muhammad Noor, and Gul Agha Shirzai. By 2004, provincial revenues were centralized through the political and legal process. The strongmen then largely shifted their focus to private businesses and aid projects, which helped them to access alternative sources of wealth and power. Their greater political influence over provinces was important in this process.53 However, the recentralization of revenue was not easy and straightforward—an issue which will be discussed later. The government also prepared a Five-Year Revenue Plan in 2003, which put emphasis on:

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53 Fieldwork Interviews by Author, Kabul, March-August 2011.
Increasing revenue collection; improving clearance times; bringing customs tariff, exchange rates, and valuation in line with internationally accepted practices; enabling remittance of all customs revenues collected in the regions to the central treasury; improving the key customs infrastructure; reorganizing and rebuilding capacity of the Kabul and regional offices; building a stable and comprehensive legal framework for customs; and establishing effective enforcement controls.  

As part of the first year of the plan, a Deputy Minister for revenue, a Director General for Customs, as well as directors for airport customs and the Kabul customs house were appointed. In addition, most provincial directors of customs were replaced. Each donor funded a specific area of the reforms. For example, USAID supported the reformation of the customs procedures and management, DFID provided technical assistance for organizational development and staff trainings, and the World Bank assisted the development of the customs physical infrastructure and communication. A lack of coordination meant that donors lacked a holistic strategy in supporting the reforms as each overwhelmingly concentrated on the projects which they had funded and deemed a priority.

In conjunction with these, the government simplified customs procedures and introduced an internationally recognized document called the “single administrative document.” This reform, which was first implemented in Kabul and then replicated in other customs houses, replaced the lengthy and old process of documentation. Earlier, one had to pay US$8 in bribes (almost half of the monthly wage of a public servant) for the “pleasure” of paying a US$2 customs fee. One also had to wait, if lucky, for a week

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54 Carnahan et al., Reforming Fiscal and Economic Management in Afghanistan, 8.
55 Ibid.
57 Ibid., 4, 6.
to obtain the twenty signatures required from different departments spread out across the city, as well as filling out some twenty-four pages of documentation.\textsuperscript{58}

In order to minimize the chances of corruption, the relationship between decision makers and clients were redefined. The decision makers were separated from clients. Hence, one who needed to apply for a government decision on issues such as clearance of goods in a customs house had to submit the application to someone who could not make a decision. Although by using this approach decision makers were kept separate from clients, there was still the possibility of collusion between the different parties,\textsuperscript{59} using intermediaries.

Capacity building of the revenue and tax department staffs was also prioritized. The development of the Ministry of Finance \textit{tashkít} was given priority under the Priority Reforms and Restructuring (PRR) programme. However, on the one hand the speed of the programme was very slow; on the other the remuneration, in comparison to what the international and donor organizations were offering, was low. The ministry therefore had to rely on national and international consultants recruited through donor-funded projects. Thus, by 2009 the customs and revenue departments appointed 27 international advisors and 76 national experts, the highest number of any department of the ministry, when the total number of the departments' government employees was 750.\textsuperscript{60} Despite

\textsuperscript{58} Ghani and Lockhart, \textit{Fixing Failed States: A Framework for Rebuilding a Fractured World}, 21.

\textsuperscript{59} Carnahan et al., \textit{Reforming Fiscal and Economic Management in Afghanistan}, 8-9.

\textsuperscript{60} Islamic Republic of Afghanistan, Technical Assistance Summary Report, Office of the Deputy Minister for Administration Reform Implementation and Management Unit, August 2009, 3.
these efforts, the revenue and tax departments suffered from weak capacity and corruption.

While the PRR programme, to some extent, upgraded the conditions and pay scales, the new levels of remuneration were still less attractive than those offered in the market by international and donor organizations.\(^1\) Increases in the salary of the staff and the replacement of some senior managers, which each Finance Minister argued was necessary for lowering corruption, had minimal impact. Graft, especially in customs, became more serious and systemic.\(^2\) Factors such as lack of proper oversight mechanisms and political motivation to accept the risk from removing corrupt officials and of confrontation with regional strongmen and some politicians in Kabul, exacerbated the graft in customs.

In 2004, the government established the Large, Medium and Small Taxpayers Offices (LTO, MTO and STO) within the Revenue Directorate of the Ministry of Finance in Kabul to enhance revenue collection and improve tax compliance. In 2008, the LTO units were expanded into Herat (which covered 13 large taxpayers), Jalalabad or Nigarhar (19 large taxpayers) and Mazar-i Sharif or Balkh (14 large taxpayers).\(^3\) The LTO covered around 300 large taxpayers and collected about one third of the total

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\(^2\) Fieldwork Interviews by Author, Kabul, March-August 2011.

\(^3\) Frank Bosch and Darryn Jenkins Thomas Story, Afghanistan: Reforming Tax and Customs Administration, IMF, 2009, 10.
income tax in 2007/8. The MTOs were established first in Kabul and then in Herat, Jalalabad and Mazar-i Sharif by mid-2007, covering around 4000 taxpayers. The STOs collected taxes from around 130,000 registered taxpayers in 2010, of which 30,000 were small businesses. In 2008, the government established an Inter-Ministerial Revenue Board. Five ministers, the chief economic advisor to President Karzai and revenue and customs department representatives were selected as members of the board. The Chief Executive Officer of the Afghanistan Chamber of Commerce and Industries (ACCI) was also invited to the board as an observer. Yet, the work of the Board was not transparent and accessible to the public.

**Revenue Infrastructure**

Even before the last three decades of warfare, Afghanistan had only a poorly developed revenue infrastructure. It lacked proper buildings and modern equipment. Decades of

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65 Thomas Story, Afghanistan: Reforming Tax and Customs Administration, 10.

66 Harakat, "Current Activities: Featured Project, Small Taxpayers Office Reform Project (November 2010-November 2013)," May 3, 2012, http://www.harakat.af/index.php?page=en_Our+Activities. Enterprises paid their taxes through LTO, MTO and STO based on specification of industry, size of business, and profile. The size of business was a major criterion for registration. A business with an annual turnover of Afs75 million (or more) or a capital of Afs150 million was registered under the LTO. However, all telecommunication, airlines, state owned enterprises (SOEs), foreign owned oil and gas companies, as well as banks, were handled by LTO irrespective of their size of business. For other enterprises, if the size of a business was less than Afs75 million but greater than Afs3 million, it could come under the management of the MTO. STO managed businesses with an annual turnover of less than Afs3 million, or if the original business capital was less than Afs3 million. See Islamic Republic of Afghanistan, Fact Sheet: Taxpayer Selection Criteria Ministry of Finance, Kabul, 2010.; Ishihara, Public Expenditure Trends and Fiscal Sustainability, 5.

67 Ministry of Finance, "Corrective Actions for Revenue Collection," (Kabul: Revenue Department, n.d.).

68 There is no a public record available on how this committee functioned.
armed conflict had damaged the existing infrastructures and prevented maintenance of buildings and equipment. The modernization of the customs buildings and equipment was an important reform objective. It was included in a Five-Year Plan (2003-2007) with a budget of around US$99.75 million, of which the World Bank aid (US$29.93 million) was used for improving and developing physical infrastructure at broader stations, inland depots and transit checking-points, and training facilities in Kabul. As a result, some customhouses were equipped and their physical infrastructure renovated and upgraded—as in Tourkham (Ningarhar), Kabul, Tourghundi (Kandahar), Hairatan (Balkh), Sher Khan Bandar (Kunduz), Ghulam Khan (Khost), Islam Qala (Herat), and Nimroz.

In 2007, the World Bank funded an Automated System for Customs Data (ASYCUDA). This was first piloted at Kabul Inland Customs Depot (ICD) and was then rolled out to Jalalabad, Herat and Kabul Airport ICDs. By 2010, it was replicated in seven customs houses. The ASYCUDA aimed to tighten controls and remove the human interface in customs transactions, expediting clearance and reducing the opportunities for corruption. According to the Ministry of Finance, the system streamlined customs procedures and improved the management of interactions between traders and customs officials. However, inadequate Internet bandwidth and lack of customs staff

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70 Ibid.

71 Thomas Story, Afghanistan: Reforming Tax and Customs Administration, 33.

72 World Bank, Afghanistan: Modernizing Customs Control, 2009, and

familiarity with the English language were two challenges which constrained the implementation.\textsuperscript{74} Political interference by politicians and influential individuals, including rehiring dismissed staff, also posed a major challenge to modernizing the information technology of customs.\textsuperscript{75}

The adaptation of the revenue reforms at the technical level progressed smoothly and helped to raise substantially the domestic revenue as it started from a very low base (Table 1). However, the government did not succeed in establishing a thorough monopoly over revenue collection in the country and preventing tax extortion by sub-state actors. Tax extortion became widespread especially as the Taliban established their shadow taxation system in a number of areas in the country. Not only did the donors lack coherent strategy for strengthening the revenue system, but the government leadership also was short of the necessary drive in this regard. The new tax system was not welcomed by everyone because it would cut out people who had exploited the old system and in the end it did not convince taxpayers of the fairness of the system.

\textbf{Lack of Bargaining with Taxpayers}

There was a lack of systematic bargaining between the state and the taxpayers. The only interaction which took place was in the form of a reaction against the increase in tax rates, rather than on broader policy issues. After the immediate fall of the Taliban regime, the regional strongmen had control over border customs and provincial revenues. The government therefore interacted in an \textit{ad hoc} manner about centralization of the revenue with the strongmen, and consulted with the business community which

\textsuperscript{74} See World Bank, Afghanistan: Managing Public Finances for Development, Main Report, 57.

\textsuperscript{75} See ——, Afghanistan: Modernizing Customs Control.
was dominated by importers. Although tax policy was affecting the public through inflated prices, they were not able to influence them despite the fact that, as most of the fieldwork interviewees argued, there was a strong desire for promotion of a social contract around taxation. Income taxpayers were sensitive about how the government was spending their tax money.\textsuperscript{76} However, absence of an organized reaction from their side, which could potentially enhance accountability, made their role politically less important. The absence of a public debate on tax through the media compounded the problem.

The degree of bargaining of the state with business community and strongmen, however, changed according to the balance of power between them and the state and their share of contribution to domestic revenue. For example, the influence of strongmen was substantial in the early years after the fall of the Taliban regime, although when the central government's control extended to the provinces, their role gradually waned. Instead, the role of businessmen increased along with their share of contribution to the domestic revenue.

The Interim Administration (2001-2002) was not able to control provincial revenue collection and allocation, especially in Herat, Ningarhar, Balkh and Kandahar. Instead, the strongmen had control of customs revenue and allocated it to finance their own priorities. These included paying the wages of their local militias, and occasionally those of provincial civil servants, as well as, less frequently, funding provincial infrastructure (especially in case of Herat). In this context the actors were neither accountable to the central government nor to the public. This allowed the strongmen and

\textsuperscript{76} Fieldwork Interviews by Author, Kabul, March-August 2011.
officials to pocket a proportion of the revenue. Often in these cases, collusion among strongmen and müstufiṣ (provincial financial directors) was important to ease misappropriation of the revenue. Before 2003, provincial revenue allocation greatly benefited the Herat province and contributed to development of its infrastructure. This was because of the high yield of Herat’s customs revenue and relative stability that was achieved under Ismail Khan who consolidated his power in the province. However, other provinces such as Badakhshan and Bamyan, largely suffered from lack of funds and therefore they repeatedly failed to pay the wages of local government employees on time or at all.\(^{77}\)

In 2003, the government decided to recentralize revenue collection. This was implemented through a consensus building process rather than imposition of formal rules on the regional strongmen. Karzai asked the National Security Council and then the Cabinet to build consensus on the need for centralization of revenue collection and allocation. This, however, could not be done without the compliance of the strongmen and commanders who controlled the provincial revenue. Thus, Karzai called a meeting of the u’lemā (Islamic religious scholars) and made his position clear about the centralization of revenue. This put social pressure on the strongmen, and after making a public declaration on centralization of the revenue, Karzai held a four-day meeting of all the provincial governors and commanders (strongmen) to discuss the issue. As a result, they signed off on the policy and subsequently a presidential decree was issued making centralization of revenue a public policy.\(^{78}\) The donors welcomed this approach because

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\(^{77}\) A Senior Tax Official, Interview by Author, Kabul, June 15, 2011.

they believed it would reduce the pressure on them, as the revenue of the central government increased.

However, the formal rules were constrained in three areas. First, in some key customs check-points a “double booking system” emerged. One was submitted to Kabul, a document recording less revenue than the actual one, while the second one registered the actual revenue but was not officially reported. Second, ten border crossings became points of entry for very large quantities of goods without being recognized as customs post. This generated revenue for strongmen and their militias in the areas concerned. However, by the end of the decade the role of strongmen in appropriation of customs revenue was marginalized. It is hard to confirm the exact data on this due to lack of information. Third, at the local level the strongmen were arbitrarily applying different policies, favouring those merchants who aligned with them. This hindered fair competition among the merchants, which also resulted in a loss of revenue and deterioration in economic activities.

As a major source of revenue, customs attracted the attention of the government, strongmen, and corrupt officials, representing a power struggle between them to control customs revenue. Donors increasingly stressed the need to reform the customs. Increased control from the Ministry of Finance over customs shifted the strongmen’s attention to other activities such as reconstruction projects and private sector businesses. However, they still asserted control in the provinces, encouraging some müstüfs and directors of customs to align with them and some politicians in Kabul. As such, they enjoyed impunity from prosecution and administrative discipline. A senior government

79 See Ghani et al., “The Budget as the Linchpin of the State,” 170.
advisor informed the author that a number of customs directors were making regular transfers to their political patrons in Kabul and strongmen in the provinces by 2010.80

This environment, as several of the fieldwork interviewees noted, constrained private companies from operating businesses and projects in a province without committing a "fixed share" of their profit (or making a bulk payment) to the strongmen and even to some senior officials. Notable examples were in the provinces of Balkh, Ningarhar and Kandahar. Through this process, a small number of people accumulated enormous wealth. Foreign military aid even furthered the fiscal complexity of the relationship of the local strongmen with the state by adding to the wealth of the former through granting them reconstruction and logistic contracts (see Chapter 5 and 6). However, a percentage of such funds (sometimes up to 20 per cent)81 ended up in the pockets of the Taliban as a "protection fee." In 2011, an investigation found that out of US$31 billion reconstruction and combat support contracts granted by the US in Afghanistan since 2001, US$360 million ended up in the hands of the Taliban, powerbrokers and criminals.82

Despite the importance of services and government accountability to foster businesses, the business community interaction with the government mainly concentrated on customs tariff.83 In 2003, for example, when the government introduced the new tariff

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80 Fieldwork Interviews by Author, Kabul, March-August 2011.


rates which ranged from 7 per cent to 150 per cent, (including 25 tariff bands), a small but politically influential group of merchants protested against it. They refused to comply with the new tariff rates and ultimately the attempts to implement the new customs tariffs failed. This forced the government to come up with new but lower rates, comprising 6 tariff bands: 2.5 per cent (essential products), 4 per cent and 5 per cent (raw materials and capital goods), 8 per cent (gasoline and diesel fuel), 10 per cent (semi-manufactured goods), and 16 per cent (non-priority). This process delayed the introduction of the new rates until March 21, 2004 (the beginning of the new fiscal year). The new rates were eventually implemented, although there was a minor protest in Khost, which lost special concessions that had been granted to it under the People’s Democratic Party of Afghanistan (PDPA) regime.

Although the government strengthened ACCI to encourage businesses and promote trade and investment, it failed, as noted earlier, to systematically consult with the business community on tax policies. The ACCI became an independent entity and was reorganized by electing a board of directors. However, it largely remained dominated by

84 Montagnat-Rentier and LeDrew, Islamic State of Afghanistan: Strategy and Priorities for Customs Administration Modernization, 13. Also for more information see Ghani et al., "The Budget as the Linchpin of the State," 171.


87 ———, "The Budget as the Linchpin of the State," 171.


major importers and key politicians.\textsuperscript{90} In 2004, the Afghanistan International Chamber of Commerce (AICC) was merged with the ACCI. The ACCI represented only 37,000 out of 87,621 businesses and entrepreneurs registered through ACCI, Afghanistan Investment and Support Agency (AISA), and the Ministry of Commerce and Industry (MCI).\textsuperscript{91}

The business community on its part remained fragmented in bargaining with the government. A representative of the community observed that the government used a policy of “divide and rule” in negotiating with some influential taxpayers. This undermined transparency and the emergence of a coherent resistance against the government tax policies. The government maintained a good relationship with strong and influential large taxpayers, who had the potential to challenge it. However, even such a relationship was not institutional, rather depending on who the Finance Minister was or who was influential in the President’s Office. This environment allowed a number of businessmen to buy off political support by offering donations to politicians. An example of this was the Kabul Bank, a large private bank, which donated to the election campaign of individual politicians, including President Karzai in 2009. It also provided loans to some politicians and regional strongmen which were not repaid. Such a mismanagement and abuse by the Bank resulted in the biggest loss in the history of

\textsuperscript{90} The most influential members of the ACCI were those merchants who were importing goods from neighbouring countries to Afghanistan.

\textsuperscript{91} As of 2011, 59,815 businesses were registered with ACCI, 8,168 with the Ministry of Commerce and Industries and 19,638 with AISA. Source ACCI (February 21, 2012). Also see Afghanistan Chamber of Commerce and Industries (ACCI), "About ACCI: Background," ACCI, June 11, 2012, http://www.acchi.org.af/about-us/about-acci.html. ACCI derived its income from membership fees, and its rental properties and donors such as the German Technical Cooperation (GTZ), USAID, and DFID.
the country (US$900 million), because of investment in dubious projects and donations to Afghan politicians.  

Personal income tax contributed a small portion of the total revenue. The income taxpayers were not well organized or aware of their political rights to demand policy change from the government. Between 2003/4 and 2009/10, income and corporate taxes on average consisted of about 4 per cent and 16 per cent of total revenue respectively (see Table 5). The reliance of the government on customs revenue by taxing goods indirectly eased the collection of revenue. However, this policy hit the poor hardest and undermined the emergence of a fiscal social contract between the taxpayers and the state because the consumers, who indirectly paid taxes through inflated prices in the market, were not sensitive about how their tax money was spent and were unaware of the implications of the government policies. Mahmud Saikal, a political activist and former Deputy Minister of Foreign Affairs, argued “in fact, the proportion of increase in customs revenue comes from the public pockets indirectly, but they do not feel it.”

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92 The Kabul Bank audit report (2011). Kabul Bank paid the salaries of the Afghan national army and Police, which amounted to US$1.5 billion per year. However, frequently the bank delayed these payments to make money through overnight interest rates. Fraud and mismanagement in the Bank resulted in about US$900 million loss. A cable which was leaked on February 13, 2010, illustrated that Kabul Bank was “the least liquid bank operating in Afghanistan”, constrained in raising cash such that it would take more than two days to process withdrawals. It has also delayed paying government employee salaries by two weeks “in order to place those funds in overnight accounts to collect interest.” Under the IMF and the US pressure, the Afghan government dissolved Kabul Bank and put it under Da Afghanistan Bank receivership. See for details Alissa J. Rubin and James Risen, "Losses at Afghan Bank Could Be $900 Million," The New York Times January 30, 2011. and.; Ernesto Londono, "Afghanistan Officials Agree To Dissolve Kabul Bank Under Pressure From US and IMF," The Washington Post March 27, 2011.

93 Mahmud Saikal, Former Deputy Foreign Minister (2005-2006), Interview by Author, Kabul, May 12, 2011.
lack of demand for accountability perpetuated the graft in customs during revenue collection.  

**Weak Tax Compliance and Enforcement**

Overall, compliance with tax policy remained extremely low. In 2009, for example, the compliance rate against withholding and business receipt (BRT) tax was below 50 per cent. Five different but interconnected factors undermined the compliance. These were: a weak culture of the society with regard to paying taxes, ambiguity in tax laws (though updated), widespread corruption, a weak administrative capacity to collect taxes, and poor enforcement mechanisms. In order to compensate for such lack of compliance, the government relied on revenue collections in customs and where possible on a withholding tax system, and the LTO, MTO and STO to ease the cost of collection.

In terms of tax compliance, as noted by a múṣtufī (provincial financial director), three groups of taxpayers existed. The first paid their taxes and complied with the tax policy. The second group wanted to pay their taxes, but they did not have a proper knowledge of the system. The third group included those who did not comply and evaded to pay their taxes, although they were aware of tax laws and policies. The last group mostly consisted of strongmen. However, the tax officials also saw foreigners, who were exempt from tax, as part of this group, an issue which will be discussed later.

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94 Fieldwork Interviews by Author, Kabul, March-August 2011.


96 Fahimi, LTO strategy for year 1390.

97 A Múṣtufī (Provincial Financial Director), Interview by Author, Kabul, April 23, 2011.
The people who complied with tax policy sometimes had to carry the burden of the additional cost arising from unfair treatment by tax officials because those who were paying informal fees were treated much better than them. This further discouraged the compliance of otherwise honest taxpayers. Sometimes, as several interviewees noted, the taxpayers paid an informal fee in order to receive legal receipts on time, otherwise, they could face irregularities and delays in processing their payments, which could cost them fines and penalties in the event of making late payments. Several taxpayers observed that the tax officials behaved aggressively instead of appreciating the taxpayers' contribution. A field interviewee said when he paid his tax dues he felt guilt instead of pride. One of the main reasons behind this was the way in which the tax officials treated him. There was, however, a strong feeling among taxpayers to pay for services. A business community representative argued "the businessmen just wanted to get rid of the government headache, while they were happy to pay more taxes to contribute for public services instead of filling the pockets of corrupt officials." 98 In some cases, the informal fee could surpass the actual tax due. "Sometimes people had to pay twice as much as the actual tax due." 99 It was even noted that a few senior government officials paid informal fees in order to receive the receipts of their tax payments on time. 100

Additionally, low levels of taxpayers' literacy and poor understanding of the taxation system hindered tax compliance, and therefore many small businesses were unable to

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98 Khanjan Alikozai, Deputy Chairman of the Afghanistan Chamber of Commerce and Industries (ACCI), Interview by Author, Kabul, July 6, 2011.

99 Rafie Aziz, Director of Afghan Civil Society Forum (ACSF), Interview by Author, Kabul, May 9, 2011.

100 A Senior Government Official, Interview by Author, Kabul, June 26, 2011.
pay their taxes on time. According to the Ministry of Finance out of some 5,000 taxpayers/clients, almost 70 per cent of them were “illiterate in tax matters”. In this context the services which the government provided, especially to small businesses, were very poor and there were:

- arbitrary tax assessments;
- excessive waiting time when attending the STO;
- often the need to return multiple times to resolve issues;
- weeks delay for answers to basic questions about obligations;
- inappropriate auditing of businesses ... and significant opportunities for corrupt behaviour in speeding customers assessments and/or inappropriately modifying their tax liabilities.

The government imposed a daily penalty of Afs1,000 for a business and Afs200 for an individual for late tax payment. In 2008, the penalty was reduced to Afs500 and Afs100 respectively. However, the policy did not foster the compliance of businesses. Most businesses preferred to reregister under a different name rather than pay their tax dues and penalties. A high penalty and weak enforcement on the one hand, and the incentive to avoid the renewal of the annual business licences on the other, were some reasons to avoid reregistration of a business.

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101 Islamic Republic of Afghanistan, An Internal Memo on the Client Assistance Option, Afghanistan Revenue Department, Kabul, 2008.

102 Harakat, "Current Activities: Featured Project, Small Taxpayers Office Reform Project (November 2010-November 2013)."


105 The renewal of the annual business licences was conditional on keeping tax dues up to date.
The large taxpayers behaved differently. Private telecommunication companies kept their tax payments up to date, although some others, such as airline companies, had a strong incentive to evade paying their taxes. A major obstacle in this process, as was noted from the field interviews, was political interference from the President’s Office and other senior government officials. In the case of the airline sector, regardless of the efforts by the Ministry of Finance to gain compliance by methods such as garnisheeing money from airline bank accounts or preventing them from flying, most of the airlines did not pay their taxes regularly. The ministry also cancelled a 10 per cent BRT for the airlines for 2006/7 and the earlier BRT liabilities on condition they kept their tax payments up-to-date. Despite such a concession, the airlines still did not keep their tax payment up to date.

In addition, the tax compliance of local employees of foreign embassies and aid agencies was poor. According to the Ministry of Finance in 2011, the Afghan employees of the USAID and the British, German and Canadian Embassies did not pay income tax. Although some of the embassies such as the British claimed that it transferred its local employee’s income taxes to the Ministry’s account, government officials rejected the claim.

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106 Ministry of Finance of Afghanistan, "Tackling Airline’s Unpaid Taxes and Fees," (Kabul: Revenue Department, n.d.).

107 Three private airlines (Kam Air, Pamir and Safi) and a state owned airline (Ariana) did not keep their tax dues up to date.

108 Ministry of Finance of Afghanistan, "Tackling Airline’s Unpaid Taxes and Fees."

109 Khalil Noori, "Kashmakashi Afghanistan Wa Sifarathkana Ha Bar Sari Maliati Karmandan," BBC Persian May 23, 2011. The US Embassy recruited the largest number of local staff (1200) among other embassies in Afghanistan who lagged behind to pay their income tax. Ibid.
Illegal Taxation and Extortion

After 2001, the Taliban, local militias, tax collectors and corrupt government officials extracted illegal taxes and informal fees from the people. These posed major constraints to building an effective revenue system and put a high burden on the population because they inflated the cost of goods and services. However, the government was reluctant to address this problem. Despite growing evidence of extortion and corruption, the government did not adopt firm measures to address them because it was preoccupied with donors and was afraid of confronting the strongmen and corrupt officials who were the main allies of the Karzai government.

Foreign experts mostly designed the revenue reforms. Due to lack of security, they were unable to do proper field assessments and understand the complex socio-political dynamics of the country. Although tax extortion was raised by the Ministry of Finance and was discussed in the Cabinet and Economic Council of the ministers, they did not prevent the extortion. A disconnect between the policy makers in Kabul and implementers in provinces further complicated the process (see Chapter 6). For example, despite the introduction of new tariff rates, some of the government departments imposed taxes based on the old tax rates. In 2004, an IMF team found that customs and other agencies were collecting the fees and taxes which had already been legally eliminated.\(^\text{110}\)


In some cases officials do not provide official receipts, particularly for fees and charges that have been officially eliminated with the new tariff. For example, in the North, a 3 per cent extra duty is imposed on gasoline and diesel products over and above 8 per cent duty.\(^\text{111}\)

\(^{111}\) Ibid.
In the early years after the fall of the Taliban, armed groups, military factions, and local commanders set up roadblocks in Kabul and some other provinces and demanded taxes.\(^{112}\) Some non-government groups collected between US$100 to US$200 per truck.\(^{113}\) The excessive number of tariffs, fees and commissions (which was above 25 by 2005) exacerbated this situation which led to the establishment of several collection points for authorized officials to collect taxes. The tax collectors kept a share of the taxes for themselves without reporting it.\(^{114}\)

Some senior officials also used their positions to exact taxes. For example, Gul Agha Shirzai, the governor of Kandahar (2002-2003) and then Ningarhar (since 2004) imposed a reconstruction levy on trucks. The revenue and expenditure collected through the levy was not reported to the government.\(^ {115}\) Others imposed illegal taxation in the name of government departments and ministries. In 2009, because of the rise of extortion some businessmen complained to the Parliament. The Wolūṣī Jirga (lower house) Commission on the National Economy asked the representatives of the Ministries of Commerce and Industries, Finance, Transport, and Interior to prevent the extortion and subsequently sent them an official letter, warning that if the situation


\(^ {114}\) Ibid.

\(^{115}\) Fieldwork Interviews by Author, Kabul, March-August 2011 and Myers, Tax Collectors, Appendix C.
continued they would be summoned by the Parliament. However, no record is available on monitoring the progress in this area.

Although building the tax system was a multifaceted process which required different state institutions to cooperate, the ministries and departments failed to do so. These, including the President’s Office, deemed tax collection and enforcement to be a technical process and the sole responsibility of the Finance Ministry. Instead, on many occasions, as noted above, they hindered the process. Ashraf Ghani, observed that Afghanistan’s politics and taxation were at odds. The politicians were sceptical of building up an effective taxation system. People paid informal fees and bribes on the top of the actual cost of some services which the government provided. In 2009, a survey by the Asia Foundation found that people most frequently faced corruption as an obligation to pay bribes when:

- receiving documents (30%), applying for jobs (27%), and dealing with the judiciary/courts (26%). However, around one in five respondents report encountering corruption in receiving public healthcare services (21%), dealing with officials in the municipality (21%), getting admissions to schools or universities (20%), dealing with the ANP (19%) and dealing with state electricity supply (19%) or the customs office (19%).

Except for customs, other institutions were not directly dealing with revenue, while they were funded from domestic revenue. This way people were also indirectly taxed that

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117 Ghani, Former Finance Minister (2002-2004) and a Presidential Candidate (2009), Interview by Author, Kabul, August 4, 2011.

filled the coffers of corrupt officials. In 2009, a survey by the United Nations Drug Agency (UNDA) examined the incidences of bribery and perception of corruption. Accordingly, 7,600 people were interviewed from 12 towns and 1,600 villages. The survey found that Afghans paid approximately US$2.5 billion in bribes to access public services.\textsuperscript{119} This was equivalent to 23 per cent of the country’s legal GDP\textsuperscript{120} and almost twice the total annual revenue of the country in the same year (see Table 5).

The Taliban operated a parallel tax system and imposed in-kind and in-cash tax on businesses and villages, increasing the burden on the people. They had a strong and predictable taxation system in the areas where the government failed to stabilize it.\textsuperscript{121} It was noted by several field interviewees that due to the fear of harsh punishment by the Taliban, there was a higher rate of compliance with their tax policy in comparison to that of the Karzai government. The Taliban imposed taxes on the opium trade, charged “protection fees” on trucks carrying cargo through the territories under their influence and demanded fees from local businesses, including construction projects financed by NATO. In return, the Taliban would not attack the trucks and the projects. The international community and their contracting partners justified their payments to the Taliban, however, by using the term “protection fee” as a matter of convenience. The Taliban also taxed telecommunication companies and, in some cases, the beneficiaries of electricity, and occasionally issued simple receipts to them. Although they did not provide any services, they were able to cut off services such as electricity\textsuperscript{122} or destroy

\begin{footnotesize}
\begin{enumerate}
\item UNODC, Corruption in Afghanistan: Bribery as Reported by the Victims, 2010.
\item Ibid., 9.
\item See David Kilcullen, Counterinsurgency (New York: Oxford University Press, 2010), 61.
\item An Advisor to the High Peace Council Secretariat, Interview by Author, Kabul, June 30, 2011.
\end{enumerate}
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telecommunication towers. Due to a lack of data on the Taliban’s revenue, it is hard to make an estimate of their annual tax extortion.

Political Ambiguity to End Aid-dependency

Afghan politicians failed to develop a clear vision on how to end aid dependency. This could be seen in the manifestoes of the first Presidential candidates in 2004, which were dominated by the assumption that foreign aid would pay for their development promises. The candidates disregarded the importance of domestic revenue for state building and they anticipated that there would be adequate aid available for this purpose. For example, although all 18 presidential candidates included ambitious development programmes in their campaign agenda, none of them explicitly mentioned the cost of their programmes and how they would finance them. They mostly ignored the fact that without adequate revenue, whether from domestic or foreign sources, the state could not function.

123 For details see Tolo News, "Taliban Destroy 7 Communication Antennas in Helmand," March 29, 2011. and Journeyman Pictures, A Decaying State, Afghanistan (a Documentary Film) (Journeyman Pictures)http://www.youtube.com/watch?v=u-yi_IBQNEs.

124 For details see Mūj'tami'ay' Jāmi'ay' Madani' Afghanistan (Afghanistan Civil Society Forum), Khat' Mashi Nukhūṣtīn Nāmzdān-i Riāsat' Jamhūr-i Afghanistan (Afghanistan First Presidential Candidates Manifestos). Among the Presidential Candidates, only eight of the candidates briefly mentioned foreign aid and tax revenue as potential sources of income to pursue their goals. However, these statements were vague and no more than a few paragraphs, lacking a clear picture of how they would finance their programmes after being elected. Among them, Latif Pedram highlighted the need for the reform of the tax system; Hamid Karzai emphasized the centralization of domestic revenue; Ahmad Shah Ahmadzai emphasized both centralization of domestic revenue and finding new sources of revenue; and Ibrahim Rashid mentioned the realization of changes in Afghanistan through foreign aid and extraction of natural resources. Yonus Qanoni’s agenda highlighted further attention to the state’s revenue and proper use of foreign aid. Masouda Jalal mentioned a fiscal policy of self-sufficiency in her campaign by finding new sources of revenue and relying more on direct taxation; while another Presidential candidate, Abdul Hadi Dabir promised that he would create a unified custom system and would gradually increase taxes. Ibid.

The taxpayers and tax officials interviewed during the author’s fieldwork criticized the Karzai government and the influential politicians for their lack of commitment to strengthening the tax system. According to them, the politicians were trying to evade paying their taxes to the extent possible.\textsuperscript{126} A senior tax official, who worked in the 1970s under Daud Khan’s Presidency, compared Daud Khan’s government with that of Karzai and claimed that the latter did not serve as a model for taxpayers and Afghanistan’s citizens:

When President Daud Khan assessed his salary form to learn how much he had contributed to the government revenue through taxation, he found an error in his tax receipt. He therefore sent a letter to the Minister of Finance and asked him to assess his salary form. The tax officers at the Ministry of Finance found that his tax due was assessed Afs16 less than the exact amount. Though very sceptical of the President’s reaction, they included this amount and also charged him Afs3 as a penalty for the late tax payment. Accordingly, the President had to pay Afs19 to the government. The tax officers expected a harsh reaction from the Presidential Palace, but instead they were rewarded, while the officer, who made the error in calculating the President’s tax due, was replaced.\textsuperscript{127}

This built the confidence of tax officials and further motivated them. It is an important example of how a politicians’ commitment can contribute to the promotion of a culture of taxation among citizens. “When people realise that their leaders pay their [fair share of] taxes and that they are honest, it also encourages them to pay their taxes.”\textsuperscript{128} For public awareness about taxation, it is therefore necessary to publicize words and actions especially from the top leadership.

\textsuperscript{126} A Senior Tax Official, Interview by Author, Kabul, June 15, 2011.

\textsuperscript{127} Ibid. Although Daud Khan during his term as prime minister did not much focus on building the tax capacity of the state, during his Presidency he initiated some reforms to improve his government domestic revenue base.

\textsuperscript{128} Ibid.
The post-2001 government leadership failed to use its position in a way that would encourage taxpayers. This type of behaviour from the leadership contributed to a lack of institutional cooperation while implementing the reforms. Instead, interference by different state oversight and monitoring institutions, such as Attorney General’s Office (AGO), Directorate of Intelligence and government Auditors, constrained the Finance Ministry’s tax efforts. The representatives of these institutions could threaten tax collectors and force them to work according to their personal will to expedite some cases or block others. The intervention by AGO and police in customs houses was mostly criticized as an impeding factor for revenue collection. However, they were briefly prevented from intervening when Ashraf Ghani, the Finance Minister between 2002 and 2004, strongly opposed such behaviour and continually warned the concerned ministers about this in Cabinet meetings. However, after he was excluded from the new Cabinet in 2005, the institutions reasserted their influence on the customs.129

**Tax Exemptions Related to International Assistance**

As aid financed more than four-fifths of public expenditure (Table 5), tax exemptions of aid projects complicated the tax system. This created a dual mechanism of tax administration and eventually encouraged abuse of the tax system, undermining the establishment of a harmonized system. The tax exemption policy on aid not only suffered from a lack of consensus between the government and donors, it also revealed the limit of donor interest in building the tax system, and failure to understand the importance of tax to the state building process.

The 2004 Income Tax Law granted tax exemptions to donors, multilateral financial institutions, and multilateral organizations, based on their agreement with the Afghan

129 Fieldwork Interviews by Author, Kabul, March-August 2011.
government. Although NGOs were not automatically exempted from tax, they had to meet the requirements established in Article 10 of the law.\textsuperscript{130} Tax exemptions for contractors implementing aid programmes had a negative impact on the system. Carnahan et al. observe some of the contradictions in the donors' approach in building the tax system:

> the response of most international development partners who insisted that the government of Afghanistan must increase its domestic revenue collection as a condition for the ongoing receipt of assistance [remained a challenge]. Their vehemence in arguing for this [was] only overshadowed by their insistence that the contractors who [were] implementing their aid programmes not be subject to any taxes or duties. In many cases, they also argued that non-development-related businesses also [would] be given generous concessions from taxes—as an encouragement to these firms. This resulted in complexity for the tax administration, which [was] already stretched in such a post-conflict setting, and financial losses for the government.\textsuperscript{131}

Most of the taxpayers were unaware of the complexity of the international aid system. Hence the exemption of companies and projects implementing aid programmes, as the tax officials and taxpayers interviewed by the author argued, created a feeling of unfairness among taxpayers who were working under the same roof but while one had to pay taxes the other did not, depending on their sources of contract (despite having the same qualifications or delivering the same task).\textsuperscript{132} In addition, the exemption led to a misunderstanding between the Afghan government and donors, which could be seen from a letter which Anwar-ul Haq Ahadi, the Minister of Finance, wrote to USAID in


\textsuperscript{131} Carnahan et al., Reforming Fiscal and Economic Management in Afghanistan, 12. For example, in 2003/4(1382), due to concessions to international development partners the revenue loss was estimated as high as US$200 million. Ibid.

\textsuperscript{132} Fieldwork Interviews by Author, Kabul, March-August 2011.
2005. The letter confirmed that the Ministry of Finance would grant USAID tax exemptions based on their earlier agreements (signed between USAID and the Afghan government).\textsuperscript{133} The ministry, however, later released a circular which aimed to bring clarity on taxation of NGOs and aid funded projects.\textsuperscript{134} Later the ministry indicated through a press release that “all contractors would be subject to tax on their profits,” despite whether the contractor was working on a donor-funded contract or not. That is, construction companies performing work in Afghanistan, funded by the World Bank or Asian Development Bank (ADB), would be subject to the Income Tax Law, just as those contractors that provided goods and services to private companies.\textsuperscript{135} The circular also reiterated that the Afghan employees of donors and international financial institutions had to pay income tax.\textsuperscript{136} The tax exemption policy also indicated that the government would try to “avoid any and all clauses in its agreements with donor countries, international financial institutions, and multilateral organizations that seek to

\textsuperscript{133} In 2005, the Minister of Finance instructed the Revenue Department to apply the interpretation of the 1951 treaty between the US government and Royal Government of Afghanistan for the “Strategic Grant Agreement” which was signed in 2005. He stated “the Ministry of Finance’s position is that, until the 1951 Treaty [Technical Cooperation Agreement] is renegotiated, the 1951 Treaty applies to all taxes and duties imposed by the Afghan national or local government. In particular, the 1951 Treaty does apply to exempt taxpayers from income tax and business receipt tax if they are using funds, materials, and equipment in Afghanistan pursuant to a USAID-funded project.” Ministry of Finance, "Proposal for Clarification of Tax and Duties of the USAID under Technical Cooperation Agreement of 1951,” (Kabul: Director General of LTO (Large Taxpayers Office), 2005).


\textsuperscript{135} ———, "Ministry of Finance Releases New Circular Regarding the Taxation of NGOs and Donor-Funded Projects," (Kabul: Ministry of Finance Archive, n.d.).

\textsuperscript{136} ———, "Ministerial Circular: Tax Exemption Policy for Donor Countries, International Financial Institutions, Non-governmental Organizations, and their Contractors Operating within Afghanistan."
exempt contractors or Afghan individual residents from income tax.” 137 Although the exception policy clarified the Afghan government position, it did not satisfy the donors. A lack of consensus between donors and the government on the exemption policy made compliance of the aid funded-contractors with the tax policy unlikely. The Ministry of Finance issued tax notices to the contractors to pay their taxes. However, the donors resisted and did not allow the contractor to pay their taxes. They argued that as foreign aid was tax exempt, this had to be applied to aid funded contractors. The government failed to unilaterally enforce the contractors to pay their taxes. This became a source of conflict between the government and donors, especially with USAID which contracted out most of its projects to international contractors.

The problem of expatriate taxation was resolved in three ways. First, the United Nations (UN) was not taxed at all according to it treaty-based exemption. Second, tax exemption with bilateral donors was negotiated separately in order to ensure consistency across tax regimes. 138 Third, in 2005, the World Bank offered an option to the Ministry of Finance, on the available funds, which they could agree to tax or not. The Ministry chose to tax. While this reduced the funds available to development, the taxable portion ought to be channelled on-budget and would effectively expand the tax base. 139 Despite some progress, donors’ approach constrained the emergence of a fully harmonized taxation system.


138 OECD, Do No Harm: International Support for State Building, 106.

139 Ibid.
The separate rules on taxation placed extra burdens on tax administration and encouraged other taxpayers to lobby for exemption.\textsuperscript{140} Goods, while exempt from tax, entered Afghanistan under one category and were sold under another.\textsuperscript{141} This undermined fair competition in the market. In 2010, on a daily basis the Department of Tax Exemption had to process around 300 to 350 tax exemption forms (mainly related to aid projects and military imports). Each form was assessed in four stages: when registered; when submitted to the department; when the information was entered into the exemption database; and a final check.\textsuperscript{142} It opened up the system to abuse. Although a database was established to track the exemptions granted under the Income Tax Law, it did not record the tax exemptions which the President granted.\textsuperscript{143} Exploitation was often reported. In 2011, for example, 184 containers of imported goods (with an estimated value of US$9.2 million) were processed in a customs house under the name of International Security Assistance Forces (ISAF) to receive a tax exemption. However, later it was found that the containers did not belong to ISAF; instead, they were intended to be sold in the local market.\textsuperscript{144} In addition, by donating cash to customs officers, the organizations which were tax exempt undermined the provision of fair services to the actual taxpayers. They sometimes donated up to US$300\textsuperscript{145} to customs officers encouraging them to quickly and favourably process

\textsuperscript{140} Ghani et al., "The Budget as the Linchpin of the State," 174.

\textsuperscript{141} A Senior Tax Official-B, Interview by Author, May 10, 2011, Kabul.

\textsuperscript{142} In 1389 (2010/11), the tax exemption department processed 82,000 exemption forms, mostly belonged to the military imports and aid projects. Interview with A Tax Official-Q, Interview by Author, May 4, 2011, Kabul.

\textsuperscript{143} A Confidential Source, International Tax Expert, Interview by Author, June 12, 2012, Kabul.

\textsuperscript{144} A Tax Official-Q, Interview by Author, May 4, 2011, Kabul.

\textsuperscript{145}
their goods and documents. This weakened the officers' will to treat fairly clients, especially those who were not exempted from tax and did not make a donation.

Donors, however, argued that if tax was imposed on aid projects it would increase the cost of the projects. Even if aid projects were taxed, they would not have been permanent sources of revenue as with a decline in the size of aid the state would not only lose its income from foreign aid, but also from the projects which were taxed by the government. However, by taxing aid projects there would be a long-term benefit of building the taxation system and allowing increased donor pressure on the government for implementing genuine tax reforms. Thus, it could be argued that if the aim was to build a lasting tax system and capacity in Afghanistan, tax exemption for aid undermined it.

Conclusion

The effects of foreign aid and donors on revenue reforms were important and made a significant contribution to the growth of revenue. However, they also contradicted the aim of building an effective and sound tax system. As this Chapter demonstrated the reforms were designed top-down and were approached as a technical process. The main stakeholders who shaped the policies were the government and donors. The strongmen and businessmen were consulted when required, especially, when revenue collection was recentralized and the new tariff rates were implemented respectively.

145 Ibid.

146 Fieldwork Interviews by Author, Kabul, March-August 2011.
Although domestic revenue significantly increased over time, it remained dependent on customs, and financed only a small portion of state expenditure. Yet it did not substantially reduced aid-dependency because of increases in government expenditures, the poor economy to generate sufficient revenue, and ineffective government efforts to build the system.

Beyond meeting the annual revenue targets on which the government was pressured by the IMF, taxation failed to be used as an instrument of state building and improving state-society relations. The government largely relied on coercive measures to extract taxes. It failed to account to the public and taxpayers on how their tax money was collected and to build their trust. Corruption and misuse in the system undermined the emergence of a social contract among the taxpayers who in the long-run could hold the government to account.

Government indolence and how the donors approached taxation allowed many spoilers such as the Taliban, the strongmen and corrupt officials to exploit the system and illegally tax and extort money from the citizens. This increased the burden on the population. The growing insecurity, lack of government political motivation and weak tax administration, which was exacerbated by the contradictory positions of donors, reinforced the weakness in tax system.

The government and donors’ incoherent efforts and lack of comprehension in dealing with the taxation system perpetuated a weak revenue system which was shaped through government and donor bargaining. Only the powerful businessmen were occasionally able to purchase government concessions and deals. These, however, neglected how taxation would improve state-society relations through a social contract between the state and taxpayers.
Chapter 5
Foreign Aid and Budget Transparency, 2001-2009

Introduction

Although the Karzai government became fiscally more open after 2001 than its predecessors, the overall budget was divided between on- and off- budgets and still suffered from poor transparency. The government made little on-budget information available to the Afghan public, while it shared comprehensive budgetary information with donors,\(^1\) with some cash transfers remaining secret. Despite donors demanded increasing openness from the government, they made public very little information about off-budget spending. As such, fragmentation in fiscal management and poor transparency severely undermined the credibility of Afghan state and donors among Afghans.

This chapter examines how foreign aid affected budget transparency between 2001 and 2009. It first looks at the role of foreign aid in government budget reforms and transparency, then explores the degree of transparency in on- and off- budgets’ spending.

Foreign Aid and On-budget Transparency

As Afghanistan emerged out of the devastating conflict after 2001, the government largely focused on implementing budget reforms and building state institutions until 2004. The citizen’s engagement, however, in the budget process was not a priority

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\(^1\) A Donor Agency Official, Interview by Author via Skype, Washington, November 25, 2011.
concerning budget formulation and execution. This aspect was further neglected after 2005 when Parliament was elected.

While budget included operating and development components, the division across on- and off-budgets had critical impact on fiscal management and transparency. After 2001, the budget process and laws were reformed to improve fiduciary control of the financial management system. However, the fragmentation in the budget structure undermined budget transparency towards the Afghan citizens, and was exacerbated when the reforms underestimated the imperative of transparency. The government budget (on-budget) did not comprehensively present overall public expenditure—though off-budget projects titles and total budget were included in it and referred to as “national budget”—because the greater amount of aid was spent outside the government budget. Even some on-budget items, such as the President’s special fund and dasterkhvān pulī (table money or business allowance), remained underreported to the Afghan Parliament.

Overall, the flow of foreign aid to the government budget had a positive impact. By conditioning their aid on on-budget reforms, donors pressed the government to improve the budget process and produce comprehensive budgetary documents which donors and the Afghan policy makers needed. However, most of these documents were not made public. Despite some improvement, overall budget transparency in Afghanistan was one of the lowest in the world in 2008 according to the Open Budget Survey, an independent measure of budget transparency and accountability around the world.\(^2\) Among the 85

\(^2\) The “Open Budget Survey” was launched in 2006. It is an independent, comparative, and regular assessment of government budget transparency and accountability around the world. The Survey is produced every two years in collaboration with civil society researchers. “The Survey assesses how much timely and useful budget information governments make publicly available and how accountable budget systems are in terms of the strength of official
countries surveyed, Afghanistan scored 8 out of 100 where a higher score indicates greater budget transparency.³

In order to meet one of the main preconditions to receive on-budget aid, it was imperative for the government to develop a complete and realistic annual budget based on international standards.⁴ In 2004, for example, the International Monetary Fund (IMF) explicitly advised the Afghan government to improve its budget legal and institutional frameworks, budget preparation and execution processes. Donors such as the Japan, Canada, Germany, DFID, and UNDP financed and provided technical assistance to the government to reform the budget process and develop new laws.⁵

Between 2002 and 2005, the Ministry of Finance implemented a policy of no deficit funding of the budget. It also verified the actual number of government employees, established a Donor Assistance Database, outsourced procurement of development projects to an international company (Crown Agents) and then established an independent procurement unit (Afghanistan Reconstruction and Development Services), under the Ministry of Economy in 2003. Finally, it adopted a new budget law (Public Finance and Expenditure Management Law) and emphasised “equity and equality of opportunity” across the country. It also kept the Cabinet up to date on the fiscal oversight institutions and levels of public participation.” Bizhan, "Budget Transparency in Afghanistan: A Pathway to Building Public Trust in the State," 1.


conditions of the country, while some information was made public through the Ministry of Finance’s website.\(^6\)

The budget reforms, however, largely concentrated on internal documentation to improve fiduciary control and provide access of donors and Afghan policy makers to relevant data, thus promoting horizontal accountability. Although the reforms were conducive to budget transparency, they excluded clear measures for making budgetary information accessible to Afghan citizens in a systematic manner.\(^7\) Even the World Bank and IMF followed the same pattern by overwhelmingly concentrating on the fiduciary control of financial management and increasing role of the executive.\(^8\) This approach, as noted by Sediq Ahmad Osmani, a member of the Budget Committee of the Lower House, created an imbalance in capacity between the executive and the Parliament after 2005. Osmani argues that unlike the generous support given to improving the executive’s analytical capacity,\(^9\) donors neglected the Parliament’s request for support and provided it with minimal technical assistance.

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\(^6\) Ghani et al., "The Budget as the Linchpin of the State," 175-80. Crown Agents, a British organization, was contracted to assist the government to handle the procurement of development projects in the first years after the fall of the Taliban regime. The management of this function was then given to a newly established unit under the Ministry of Reconstruction and then was transferred to the Ministry of Economy. See Crown Agents, "Where We Work: Afghanistan," Crown Agents, July 2, 2012, http://www.crownagents.com/Afghanistan.aspx; Afghanistan Reconstruction and Development Services (ARDS), "Who we are?,” ARDS, July 2, 2012, http://www.ards.gov.af/index.php.

\(^7\) Bizhan, "Budget Transparency in Afghanistan: A Pathway to Building Public Trust in the State," 5.


\(^9\) Sediq Ahmad Osmani, Member of the Lower House Committee on Financial and Budget Affairs, Interview by Author via Telephone, December 18, 2011.
Because of dependence on aid for its day-to-day operations and development expenditure, the government became preoccupied with winning the confidence of donors. Thus, it was fiscally more transparent and accountable to donors than to its citizens, who did not have equal access to financial information. Thus, to borrow from a donor agency official, this type of arrangement created a situation whereby the government treated the Afghan legislature and citizens as second class citizens.  

It was also evident that when international organizations and the media demanded information from the government, they would get detailed information in a timely manner, but this was not the case if local organizations and media would make a similar demand.

As a result of the reforms, the budget process improved after starting from a very low base. The Ministry of Finance already established a good reputation among the donors and, to some extent, the public. However, the state of budget transparency to the public was not monitored against firm measures until 2008. In 2008, Afghanistan for the first time was included in the Open Budget Survey. The survey analysed 123 observable features of the budget in Afghanistan. The measures included the frequency with which the government disclosed its budget documents (see Table 6), the comprehensiveness of

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11 Sanjir Sohail, An Independent Journalist, Interview by Author via Telephone, Kabul, January 6, 2012.

12 In 2009, an assessment by USAID found that the Ministry of Finance of Afghanistan had the "adequate financial management capacity to effectively and efficiently record, account for and report on funds that may be provided directly by USAID to the GIRoA (Government of the Islamic Republic of Afghanistan) through direct budget support." USAID Afghanistan, Report on the Assessment of the Capability of the Ministry of Finance (MoF), Da Afghanistan Bank (DAB) and the Control and Audit Office (CAO) in Regard to Managing Direct Donor Assistance, July 27, 2009, 3.
the documents, and the role played by government auditors. As shown in Table 6 below, the survey found that although the Afghan government was producing most of the necessary budget documents, it made public very little budgetary information during the year. Out of the eight key budget documents only the enacted budget, the mid-year budget review, the year-end report and the in-year reports were made public through the Ministry of Finance’s website. Although the survey suffered from a number of contextual shortcomings, it established a credible baseline to measure budget transparency in Afghanistan. For example, the survey concentrated on on-budget and measured the dissemination of the budgetary information through the Ministry of Finance website. It neglected Afghanistan’s reality such as a low level of literacy (about 28 per cent) and existence of very small number of computer literate people. In addition, it did not assess off-budget transparency.

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14 ---, Open Budget Index 2008: Afghanistan, 1.

15 The executive’s budget proposal, containing plans for the upcoming year and the associated costs was not made public. This had to be made accessible to the legislature and the public at least three months before the beginning of the fiscal year, allowing sufficient time for review and public debate. In addition, the contents of in-year reports and a mid-year review were not comprehensive enough to explain how the budget was being implemented during the year. Similarly, the year-end report did not contain enough information for a comparison to be made between what was budgeted and what was actually collected and spent during the year. Furthermore, because the audit report of the budget was not made public, the public was not able to access information on whether the measures proposed by the report were successfully implemented. See Abdul Waheb Faramarz, Afghanistan More Open About Finances, Institute for War and Peace Reporting, February 10, 2011, and http://iwpr.net/report-news/afghanistan-more-open-about-finances; International Budget Partnership (IBP), Open Budget Index 2010: Afghanistan, OBI, 2010.

16 The World Factbook, "Afghanistan: People and Society."

Table 6: Availability of Key Budget Documents, 2008

<table>
<thead>
<tr>
<th>Budget Documents</th>
<th>Status</th>
<th>Availability</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-budget statement</td>
<td>Prepared</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Executive's Budget Proposal</td>
<td>Prepared</td>
<td>No</td>
<td>It was not made public prior to legislative approval and lacked important details.</td>
</tr>
<tr>
<td>Citizens Budget</td>
<td>No</td>
<td>No</td>
<td>A summary of the national budget to reach and be understood by as a large segment of the population.</td>
</tr>
<tr>
<td>Enacted Budget</td>
<td>Prepared</td>
<td>Yes</td>
<td>It was difficult to assess budget performance once the fiscal year was over.</td>
</tr>
<tr>
<td>In-year Reports</td>
<td>Prepared</td>
<td>Yes</td>
<td>It lacked important details.</td>
</tr>
<tr>
<td>Mid-Year Review</td>
<td>Prepared</td>
<td>Yes</td>
<td>Did not provide very detailed information.</td>
</tr>
<tr>
<td>Year-end Reports</td>
<td>Prepared</td>
<td>Yes</td>
<td>Although this provided information about what was budgeted and what was implemented, it lacked explanation about these differences.</td>
</tr>
<tr>
<td>Audit Report</td>
<td>Prepared</td>
<td>No</td>
<td>The government did not provide information if audit report recommendations were implemented.</td>
</tr>
</tbody>
</table>


The Open Budget Survey finding impaired the reputation of the Ministry of Finance among donors and therefore the ministry implemented some measures to improve its budget transparency. The Open Budget Survey had already provided a simple and easy strategy for improving budget transparency, as well as a means of assessing progress. The government identified the budget documents, which it had to publish, and the key deadlines for making them public. It also improved the content of these documents, and established an internal monitoring process at the Ministry of Finance.\(^\text{18}\) Thereafter, Afghanistan made important progress in increasing its budget transparency as measured by the increase in its Open Budget Index\(^\text{19}\) score from eight in 2008 to 21 in 2010. Yet

\(^\text{18}\) Ibid., 8.

\(^\text{19}\) "Open Budget Index" and "Open Budget Survey" are simultaneously used.
the score was below the average. Overall, access to detailed budget information regarding the government’s progress in carrying out a particular project or activity, especially at local level, was limited.\textsuperscript{20} The absence of a Law on Access to Information reinforced the situation.\textsuperscript{21} Because of this and a culture of secrecy which existed among public servants, government officials had discretion over whether to make information public or not. They were not legally obliged to do so. This situation made it hard for the public to participate in the budget process and hold the government to account for management of the public money.\textsuperscript{22}

In addition, the mining sector was even less transparent but the Open Budget Survey did not focus on it. The Resource Governance Index which measured transparency and accountability in the oil, gas and mining sectors among 85 countries, in 2013 rated Afghanistan as failing in overall resource governance.\textsuperscript{23} In 2009, the Afghan government committed to implementing the Extractive Industries Transparency Initiative (EITI).\textsuperscript{24} The Ministry of Mines and Petroleum (MoMP) disclosed 200


\textsuperscript{21} International Budget Partnership (IBP), Open Budget Index 2008: Afghanistan.

\textsuperscript{22} Ibid., 1.

\textsuperscript{23} Revenue Watch Institute, The 2013 Resource Governance Index: A Measure of Transparency and Accountability in the Oil, Gas and Mining Sector, New York, 2013, 11.

\textsuperscript{24} According to Extractive Industries Transparency Initiative (EITI), the government would publish all payments of taxes, royalties and fees it has received from its extractive sector. Extractive companies operating in Afghanistan would also publish what they have paid to the government. These figures would be overseen by a multi-stakeholder group with representatives from the government, companies and civil society, and then reconciled and published in the Afghanistan EITI Report. Moore Stephens, Afghanistan First EITI Reconciliation Report: 1387 and 1388, Afghanistan Extractive Industries Transparency Initiative (AEITI), 2012.
contracts in 2012 which had been signed earlier.\textsuperscript{25} However, despite these late developments the sector lagged behind in transparency between 2001 and 2009. Information was not disclosed on the bidding process, while the mining contracts were kept out of public scrutiny. This contributed to a lack of trust in the government. The social impact projects, which the mining companies would finance based on their contractual agreement, were also negotiated outside the government budget. These projects were negotiated between the government and the companies with no involvement of the people concerned.\textsuperscript{26} This type of bargaining deprived the parliament of the opportunity to engage in approval and oversight of the projects as well as the public to enter into a political dialogue.

The Citizens Role

The public was not well aware of the budget process and the complex international aid system. However, as many of the interviewees observed, the public were acutely aware of the fact that a project could severely affect their lives. They were therefore motivated to engage in monitoring the outcomes.\textsuperscript{27} Moreover, widespread corruption made the public intensely suspicious of fiscal management in Afghanistan and aware of the need for fiscal transparency.\textsuperscript{28} However, they did not have access to information such as project budgets and performance reports to hold implementers and local government to

\begin{itemize}
\item \textsuperscript{26} Yama Torabi, Director of Integrity Watch Afghanistan, Interview by Author via Skype, Kabul, November 28, 2011.
\item \textsuperscript{27} Bizhan, "Budget Transparency in Afghanistan: A Pathway to Building Public Trust in the State," 6.
\item \textsuperscript{28} Fieldwork Interviews by Author, Kabul, March-August 2011.
\end{itemize}
account. This was exacerbated by the absence of consolidated provincial budgets and the lack of detail on provincial projects in the national budget. The government’s aid dependency and how it dealt with donors further constrained the timely availability of fiscal information to the Afghan public and media. The government prepared budget documents in English so it could easily bargain with donors. Once they were finalized they had to be translated in Dari and Pashtu, making it difficult for the Afghan media to scrutinize the budget prior to its translation. Similarly, there was little information available on provincial budgeting; therefore it was hard for the public to track the budget of a school or clinic or to hold the local government to account. Even an audit report, which was made public only in 2009, lacked important details and focused mainly on the central government financial statements, neglecting the local implementation. Lack of transparency in large project contracts, especially in the areas of construction and security, increased the vulnerability of these projects to corruption, undermining the credibility of the governance system.


30 See ---, "Budget Transparency in Afghanistan: A Pathway to Building Public Trust in the State."

31 See ibid. Islamic Republic of Afghanistan, "National Budget 1387-8 Mid Year Review(s)," (Kabul: Ministry of Finance, 1387-8 [2008-2009]).

32 See Bizhan, "Budget Transparency in Afghanistan: A Pathway to Building Public Trust in the State."

33 See for example Said Ismail Jahangir, "Bastah-i Paishnihadi Musawidah-i Qanuni Haq'i Dastrasi Ba 'Atlat ba Wuzarat Adliah Sipurdah Shud (the draft of Access to Information Law was sent to the Justice Ministry)," Jumhur News 29 August 2012. http://www.jomhornews.com/social/15382.html.
In this context, the beneficiaries of projects and government services had little chance to raise their voice and shape government and donor policies and resource allocation. Even though Provincial Councils were elected in 2005, they did not have the right to decide on local priorities or approve the provincial budgets. Nor did they have a clear mandate to approve or disapprove the provincial appointments. These were the sole responsibility of the executive, especially in Kabul. The Constitution and the Provincial Councils Law envisaged an advisory role for them in dealing with local authorities.\(^{34}\)

Article 139 of the Constitution states:

> The provincial council takes part in securing the developmental targets of the state and improving its affairs in a way stated in the law, and gives advice on important issues falling within the domain of the province. Provincial councils perform their duties in cooperation with the provincial administration.\(^{35}\)

While the provincial council’s roles and responsibilities remained unclear concerning powers and resources,\(^{36}\) the Karzai government also cancelled the District Council elections, something which was scheduled to happen in 2010.\(^{37}\) The absence of District Councils undermined the completion of the *Loya Jirga*\(^{38}\) which was defined as the highest manifestation of the people of Afghanistan in the Constitution, and deprived them of the opportunity to decide on major national issues.


\(^{38}\)According to the Afghan Constitution, the *Loya Jirga* consists of members of the national assembly (upper and lower houses) and presidents of the provincial as well as district assemblies. See Islamic Republic of Afghanistan, "The Constitution of Afghanistan."
Some NGOs such as the Afghanistan Integrity Watch\textsuperscript{39} became increasingly active to promote transparency. Others took a role to coordinate civil society organizations, such as the Afghan Civil Society Forum Organization to advocate for a greater role for the civil society in Afghanistan.\textsuperscript{40} They organized public meetings and conferences, initiated policy dialogues and prepared advocacy papers. These activities, however, were focused on major urban centres and remained dependent on donors for funding. The CSOs and NGOs like the Afghanistan Integrity Watch with better organization capacity and awareness of the budget process, which focused on targeted areas, made an important contribution to lobbying for greater budget transparency.

The media and public discontent against corruption in project implementation, service delivery, and poor performance of the government pressured President Karzai to take some measures to increase government transparency. The media and public became “vocal critics of the government and its lack of commitment in fighting corruption.”\textsuperscript{41} In 2005, in order to address these complaints, President Karzai created “accountability week” — a week in November every year during which members of the Cabinet would report to the public on their achievements. This was, however, somewhat political, symbolic and inadequate in its nature to address the problem of corruption. Many observers found that the week was treated more as a “reporting week” than an

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\textsuperscript{39} Afghanistan Integrity Watch (IWA) was established in 2005. It aimed to evolve as a reference actor related to understanding, analysing, and acting for transparency, accountability and anti-corruption issues. IWA (Afghanistan Integrity Watch), "About IWA," May 15, 2013, http://www.iwaweb.org/about_iwa.html.


\textsuperscript{41} Bizhan, "Budget Transparency in Afghanistan: A Pathway to Building Public Trust in the State," 12.
“accountability week”\(^\text{42}\). The process also lacked a systematic approach in sharing the information with media and the public. The ministers and senior government officials were not sharing information in advance with the media, undermining any objective oversight of the government performance. Additionally, the information, which was shared in these meetings, was generalized and did not include details on actual budgets and expenditures\(^\text{43}\).

**Underreported On-budget Items**

Under the budget, the President had preserved a discretionary fund which he could use for immediate allocation in case of “emergencies”. These included the Presidential Discretionary Fund (PDF) under Contingency Fund for Emergencies in the budget. A Policy Fund was also under the discretion of the President. Ministers, governors, and heads of independent directorates also received *dasterkhvān pūli* (table money or business allowance) on a monthly basis. These expenditures not only remained unavailable to the public, but were also underreported to the state oversight mechanisms, such as the Parliament. In 2008, PDF amounted to US$20 million and the Policy Fund was US$8 million respectively—two per cent of the total government


\(^{43}\) For more information see Riā’sat-i ‘Aumumī Aidārah-i Aumūr Va Dār al-ainshā-yi Shorā-yi Vazirān (Office of Administrative Affairs and Cabinet Secretariat), "Dast Āward’hā-yi Ümda-yi Hukūmat Dar Haft Sāli Guzashta Wa Barnāmah’hā-yi Panj Sāli Āinda (the last Seven Years Government Achievments and the Next Five Years Programms),” (Kabul: Aidārah-‘i Aumūr Va Arziābay, 1388 Solar Hijra Calender [2009]).
operating budget. The monthly amount of the dasterkhvān pulī for the ministers was Afs60,000 (US$1200) until 2005 which then increased to Afs80,000 (US$1600).

The expenditures of the PDF were neither transparently reported to the Afghan legislature nor were they made public. A senior government official noted that Karzai used the fund to send several senior government officials and Members of the Parliament (MPs), including their family members, for medical treatment outside Afghanistan, granting them up to a US$4,000 medical allowance per person. This concession was available only to those who were favoured by the President’s Office or what the field interviewees called the “palace circle”. The fund was also used to top up the salary of President’s office employees. Shukria Barakzai, an MP, argued that the government did not have the political will to share the details of the funds with the legislature. Although the government claimed that it sent the expenditure reports to the legislature, she rejected this claim, indicating lack of transparency on how and where the fund was spent.

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45 A Confidential Source, Question about Dasterkhvān Pulī (Business Allowance of the Ministers, Governors and Independent Directors), Email by Author, Kabul, July 4, 2012.

46 Fieldwork Interviews by Author, Kabul, March-August 2011. In the absence of a solid report it is difficult to claim whether the medical allowance was paid from the President’s Discretional Fund or the cash which was given by donors to the President office. Some members of the Parliament believed that the President used his discretionary fund for such allocations. See Tolo News, "Kankāsh: Approval of 1391 (2012/13) Budget (A Roundtable Discussion with Shukria Barakzai and Sediq Ahmad Osmani Members of Lower House, and Hamidullah Farooqi Professor of Kabul University)," (KabulApril 22, 2012).

47 ———, "Kankāsh: Approval of 1391 (2012/13) Budget (A Roundtable Discussion with Shukria Barakzai and Sediq Ahmad Osmani Members of Lower House, and Hamidullah Farooqi Professor of Kabul University)."
Additionally, *dasterkhvān pūlī* was paid on the top of the senior officials’ salaries on which they had full discretion. However, they were not obliged to account for it. Neither the legislature nor the public could track where the *dasterkhvān pūlī* was spent. The members of the Parliament also criticized the government for spending large amounts on business allowances.\(^48\) However, the media was not able to track whether the business allowances were spent for political networking or official gatherings related to government businesses. In the absence of a list of participants, dates and other details, it is challenging to make such a conclusion. Likewise, the *dasterkhvān pūlī* was virtually treated as a salary top up without any record of the spending, with one exception when the Planning Minister, Ramazan Bashardoost, in 2004 decided to spend his *dasterkhvān pūlī* to pay for his ministry’s staff lunch.\(^49\)

**Off-budget Transparency**

The off-budget offers a different view of transparency. The off-budget flow of a greater amount of aid made the off-budget aid role exceptionally important for development and institution building. There was, however, a severe “transparency gap”,\(^50\) especially as the government refused to account for off-budget expenditure because it did not have discretion and control over it.\(^51\) Off-budget fiscal transparency was therefore a donor responsibility. The donors, however, were more concerned to account to their

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\(^49\) A Confidential Source, Question about Dasterkhvān Pūlī (Business Allowance of the Ministers, Governors and Independent Directors).

\(^50\) See for example Renzio and Angemi, Comrades or Culprits? Donor Engagement and Budget Transparency in Aid Dependent Countries, 21.

\(^51\) For more information see Transitional Government of Afghanistan, "Financial Report, 4th Quarter 1380-2nd Quarter 1383 (21 January 2001-20 September 2004)."
legislatures than to the Afghan people, and shared little information with the Afghan government and the Parliament.

An assessment by the Integrity Watch Afghanistan (IWA) shows that off-budget transactions were less transparent than the on-budget ones and that donors shared less than 35 per cent of their information with the Afghan people and government.\(^5^2\) The assessment claims that donors did not share project documents, making oversight of the projects through public engagement difficult\(^5^3\) and undermining the principles of transparency. Only in 2008 did the Afghan government indicate that it did not “have information on how one-third of all assistance since 2001 was spent.”\(^5^4\) In the subsequent year, it claimed that “as far as geographical allocation of aid in Afghanistan is concerned, the government does not have a very clear picture due to lack of information.”\(^5^5\) In addition, sometimes a project could end up with an excellent implementation report, while in fact the project could be a complete failure. As a number of field interviewees noted, even some small projects with a value of about US$100,000 might only exist on papers because of collusion between contractors and implementing agencies to pocket the project funds. Although donors fired a number of


\(^{53}\) Torabi, Director of Integrity Watch Afghanistan, Interview by Author via Skype, Kabul, November 28, 2011.

\(^{54}\) Matt Waldman, Falling Short: Aid Effectiveness in Afghanistan, Agency Coordinating Body for Afghan Relief (ACBAR), March 2008, 17.

their employees because of such misconduct, they neither made such information public nor prosecuted their corrupt employees/contractors.\textsuperscript{56}

The degree of fiscal transparency differed among various donors, depending on their nature of engagement in Afghanistan. However, generally the off-budget military and reconstruction projects, especially those in insecure provinces and largely funded by the US, were less transparent. Many donors, with various reporting, procurement and monitoring requirements to inform their legislatures, tended to micro-manage their aid at project level, undermining off-budget transparency.\textsuperscript{57} This approach to off-budget and especially security spending, to borrow from Alastair McKechnie, the former country director of World Bank for Afghanistan (2001-2008), fuelled corruption.\textsuperscript{58}

It was noted by several field interviewees that accessing construction and logistic projects most often had a price tag. One would have to have a connection with a donor agency, a senior government official, or be willing to pay a share of the profit in return for obtaining a contract.\textsuperscript{59} Such misconduct compromised the quality of some projects. Poor donor coordination and their incoherent strategies in supporting programmes and

\textsuperscript{56} Fieldwork Interviews by Author, Kabul, March-August 2011.

\textsuperscript{57} Ibid.

\textsuperscript{58} McKechnie, Senior Research Associate at Overseas Development Institute (ODI) and Former World Bank Country Director for Afghanistan (2001-2008), Interview by Author via Skype, Bethesda, April 17, 2013.

\textsuperscript{59} Fieldwork Interviews by Author, Kabul, March-August 2011.
projects (see Chapter 3) exacerbated the off-budget transparency gap, making it hard to get a clear picture of the fiscal situation in the country and the development outcomes. 

Although the government established the Donor Assistance Database in order to track and report on aid, most donors neither shared their information on time, nor did they properly report their off-budget expenditures. The Ministry of Finance therefore occasionally criticized the donors for their lack of cooperation in data sharing. Despite several attempts, such as conducting annual Donor Financial Reviews, donors lagged behind in keeping the government up to date on their off-budget expenditure.

The International Crises Groups noted that “donor countries spent a significant proportion of assistance on administrative costs and purchasing goods and services, as well as on highly paid foreign advisors.” The advisors assisted different ministries and departments and enhanced their performance, and were available according to donors’ priority. Some ministries did not receive technical support to adjust to the new institutional environment. In 2006, the government attempted to survey the availability of the advisors and their performance. However, this failed because of lack of availability of information on the advisors and limited cooperation by donors.

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62 See ibid. and ---, "Development Cooperation Report."


64 A Senior Government Official, Interview by Author, Kabul, June 26, 2011.
The advisors were accountable to their funding agencies not the recipient government institutions. It was observed from fieldwork interviews that some of the advisors did not regularly come to the office nor did they report on their performance to the concerned Afghan government institutions. They would often prefer to work from their “luxury guesthouses”, disconnecting them from their Afghan counterparts with whom they were supposed to work. It was noted by several senior government officials that a number of advisors made comments to their Afghan supervisors, such as “you are not my boss and you do not have to know what and how I perform my duty.”65 At the Interior Ministry, out of 282 foreign advisors who assisted the ministry, 120 were contractors. Their annual cost was US$36 million a year. In the logistics department, the international staff outnumbered their Afghan counterparts by 45 to 14.66 Despite this level of support, the Ministry had been highly criticized for lack of transparency and for corruption. The advisors, however, were not accountable to the Ministry. Occasionally some senior government officials objected to this type of arrangement, but overall there was an understanding among them about the government’s financial limitations. It was no surprise to them if an advisor ignored them as the government itself remained largely accountable to the donors. However, when ministry leadership was competent, it had an important role in utilizing technical assistance. Ministries with strong leadership often used technical assistance efficiently and put pressure on donor agencies.67

In 2006, Jean Mazurelle, World Bank manager for Afghanistan, observed that “in Afghanistan the wastage of aid is sky-high: there is real looting going on, mainly by

65 Fieldwork Interviews by Author, Kabul, March-August 2011.


67 A Former Aid Agency Official, Interview by Author, Kabul, April 18, 2011.
private enterprises. It is a scandal.” He estimated that about 35 to 40 per cent of the aid was “badly spent” 68 Donors were reluctant to criticize their own programmes. They would only evaluate those projects that did not expose their fundamental shortcomings 69 Even then the outcome of the evaluations were rarely shared with the government or made public. Since off-budget project contracts were often complex and written in English, it was almost impossible for the Afghan public to use them even if they were available in such forms.

After 2005, however, the rise of Taliban activities, such as suicide bombings, intimidations and targeting of the government, NGOs and aid agencies employees, further weakened off-budget transparency, as contractors and donors would prefer to keep their information as confidential as possible to safeguard the safety of their staff. 70 While this became an excuse for concealing contractual arrangements in insecure provinces, it also bred corruption and damaged the perception of aid and the government in society.

Secret Cash Payments

While off-budget funding overall suffered from a transparency gap, cash payments to strongmen (commanders) and to the President’s Office remained hidden from government oversight mechanisms and the Afghan public. The US and Iran made the

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68 For more information on contractors and the effectiveness of project implementation see Waldman, Falling Short: Aid Effectiveness in Afghanistan, 18-19.

69 Torabi, Director of Integrity Watch Afghanistan, Interview by Author via Skype, Kabul, November 28, 2011.

major payments to Karzai office. This type of income indicates a close similarity between Afghanistan and some oil-dependent states which suffer from fiscal secrecy. The cash payments were aimed at defeating Al-Qaeda and the Taliban and to buy off adversaries, enhancing the patronage capacity of the recipients. Once the information was leaked, these payments were criticized by the media and political activists in Afghanistan and in donor capitals. They mostly argued that the cash—especially granted to the President’s Office—should have been channelled through the Ministry of Finance.\textsuperscript{71} The term \textit{naqd\textquotesingle sālār} (cash-lord) was used by a few civil society activists and politicians to define the politicians’ attitude in relation to fiscal affairs.\textsuperscript{72}

Since 2001, the US Central Intelligence Agency (CIA) relied heavily on cash distributions to make alliances with local strongmen and commanders, especially the “United Islamic Front for the Salvation of Afghanistan” in the “war on terror”. These transfers were concealed from the Afghan public. Due to lack of reliable data, it is hard to make a quantitative analysis. Alexander Polikoff notes that only two months after the US military intervention in Afghanistan, the CIA distributed some US$70 million to different actors.\textsuperscript{73} This process continued throughout the “war on terror” and counterinsurgency campaign in subsequent years. The concealed cash payments distorted the direct relationship of the state and society by empowering strongmen at local and national level (see Chapter 6).

\begin{flushright}

\textsuperscript{72} For example, Mahmoud Saikal, former Deputy Minister of Foreign Affairs (2005-2006) and a political analyst, posted the term in his Facebook page on May 1, 2001.

\textsuperscript{73} Alexander Polikoff, \textit{The Path Still Open} (Indianapolis: Dog Ear Publishing, 2009), 132.
\end{flushright}
The cash payments to President Karzai’s office were off-budget and remained concealed. For example, the flow of Iranian cash to the presidential chief of staff, Umar Daudzai,\(^74\) which provided the President’s Office with a discretionary fund, remained unreported and unaccounted.\(^75\) This significantly damaged the image of Karzai. In 2010, due to continued criticism by the media and the public, Karzai confirmed the flow of cash to his office.\(^76\) An observer close to Karzai argued that the cash was used to pay Afghan lawmakers, tribal elders and even the Taliban commanders to secure their loyalty.\(^77\) In 2013, the New York Times also revealed that Karzai’s Office received tens of millions of dollars in cash from the CIA. The cash was delivered for more than a decade on a monthly base and was top secret.\(^78\) Neither the Afghan state oversight mechanisms knew about it nor did the US Congress oversee it. On May 6, 2013, Aimal Faizi, President Karzai’s spokesperson refused to talk about the amount of cash received. However, he argued that the President’s Office accounted for “each dollar” to the CIA.\(^79\) The hidden flow of cash highlights how the government leadership and donors neglected state institutions and the principles of accountability. According to Karzai’s statement, the fund was used to buy off adversaries and to win political


\(^75\) For more information see Dexter Filkins, Iran Is Said to Give Top Karzai Aide Cash by the Bagful, *The New York Times*, October 23, 2010.


\(^77\) Filkins, Iran Is Said to Give Top Karzai Aide Cash by the Bagful.


\(^79\) Aimal Faizi (Spoksperson of President), Afghanistan Political Show: Durand Line, Interview by Jawid Jurat through TV 1 Amaj Programme, Kabul, May 6, 2013.
influence. This type of payment allowed Karzai to draw "... strength largely from its ability to buy off warlords, lawmakers and other prominent—potentially troublesome—Afghans." 80

A poor state of transparency of off-budget expenditures had multiple impacts on how the Afghan public perceived donors and the Afghan government. Firstly, in the absence of information it was difficult for the Afghan public to understand the complexity of aid architecture and the wide gap which existed between donor pledges and commitments (see Chapter 3). The majority of Afghans largely assumed that once aid was pledged, the government had it in hand to spend. This raised the public expectation of the government and lowered their confidence when the government failed to meet these expectations. Secondly, the small segment of Afghans in urban centres with better knowledge of aid architecture was increasingly losing confidence in donors as they observed the waste in expenditure. They became largely cautious and sceptical of the good intentions of foreign donors in Afghanistan. The Oversees Development Institute (ODI) rightly observed in this regard that "in the current aid system, recipients are highly accountable to donors, but donors are seldom accountable to recipients." 81

Conclusion

This chapter revealed that unlike the oil-based rentier states which suffer from "fiscal secrecy", the case of Afghanistan shows a complex pattern. It found that despite the


Kazai government becoming fiscally more open than its predecessors, Afghanistan still suffered from a low state of budget transparency. Yet the degree of fiscal openness differed between on- and off-budgets expenditures. Although the government shared comprehensive fiscal information with donors, it made little budget information available to its citizens. While the increasing pressure of donors enhanced government fiduciary control, it shifted government transparency towards donors. Off-budget expenditure was less transparent than on-budget. Not only did the Afghan public have very limited access to off-budget expenditures, but Afghan government access was also restricted. The on- and off-budgets included unreported items and secret payments respectively. As such, poor fiscal transparency prevented the public from participating in and monitoring project outcomes at the local level, while secrecy enhanced the politics of patronage which undermined the credibility of the state building process. The secret cash payments were an issue which indicates some similarities between Afghanistan and oil-dependent states with regard to fiscal management. Fragmentation in fiscal management and poor transparency severely undermined the credibility of Afghan state and donors among Afghans.
Chapter 6
Foreign Aid and State-society Relations, 2001-2009

Introduction

This chapter explores state-society relations in Afghanistan and how foreign aid and its delivery mode affected it between 2001 and 2009. It looks at the relationship of the Afghan state with donors as well as the relationship between the donors and Afghan societal actors.

Large donors not only influenced the state building processes but also intervened at the societal level by engaging with societal actors. At the same time that on-budget aid increased the capacity of Afghan state institutions, off-budget spending undermined them by creating a “dual public sector” and empowering individual powerbrokers. Such contradictory effects of aid reinforced the weakness of the state institutions and exacerbated the gap between the state and society. The actors who were empowered through aid included urban intelligentsia, Afghan expatriates, mujahidin commanders and tribal leaders, as well as the Taliban armed insurgents. This process eventually sharpened the political distinction between them. These actors often had conflicting interests and competed for domination of the society by various means such as coercion, patronage and provision of public services.

Donor-society Relations

Donor assistance reinforced the influence of existing powerful societal actors and enabled new ones. The nature of assistance and pre-existing dynamics exacerbated the fragmentation among the societal actors and their relationship with the state. Unlike the donor-government relations which to a greater extent were shaped through on-budget aid delivery, donor-society relations were shaped largely by off-budget aid. The off-budget recipients, be they individuals or organizations, were required to bargain directly
with the donors for funding. However, they were not accountable to the Afghan government and legislature because these neither decided on nor oversaw the off-budget expenditure. The funding process chiefly meant that societal actors did not need to bargain and interact with the government for receiving funding.

Consequently, societal actors refocused their activities to become eligible for donor funding rather than for government services. For example, those who formed NGOs focused on building skills in project proposal writing and donor negotiations that could yield high returns through aid. This process strengthened those who had managerial, organizational and military skills to implement aid programmes. On the whole, however, those with military expertise benefited the most as security expenditure surpassed development. This type of relationship varied across donors; but the US largely followed this pattern.

The main societal actors were the generational inheritance of the previous failed state building projects since the 1970s (see Chapter 2).¹ The post-2001 state building project also produced a new brand of actors, including a professional class of youth who comprised the nexus of the intelligentsia.

**Commanders**

The mujahidin commanders, who aligned with the US to overthrow the Taliban regime, were given key positions in the provinces by the new government. These commanders operated through their loose networks and had the political backing of tanzims, while their accommodation within state institutions expanded their influence among the local

populations. They mostly relied on coercion and patronage to expand their power. They offered government positions, access to contracts and land to their supporters. Although they lacked the managerial and administrative skills to participate in international aid-driven development activities, their expertise in warfare in Afghanistan helped them to access military aid, especially from the US, through provision of private security services and logistics, as well as implementation of military construction projects.

The wealth and political power, which the mujahidin commanders gained, helped them to dominate Afghan politics. They relied on their local power bases, such as qawm (kin, village, tribe or ethnic group) and mantiqa (shared locality). Some, like Marshal Qasim Fahim (an ethnic Tajik, Defence Minister and First Vice-President, 2002-2004), Ismail Khan (an ethnic Tajik, governor of Herat [2002-2004] and then Minister of Water and Energy) and General Rashid Dostum (an ethnic Uzbek and founder of Jînbîsh-i Millî Islâmî Afghanistan [National Islamic Movement of Afghanistan]), upheld their support bases among their qawm and mantiqa. Meanwhile, a new brand of strongmen also emerged. They were empowered through an alliance with the US to fight against the Taliban and Al-Qaeda. While they had little independent influence, their power grew through American patronage. Tim Bird and Alex Marshall referred to them as “American warlords”. Gul Agha Shirzai (an ethnic Pashtun) in Kandahar and in the east, Hazrat Ali (an ethnic Pashai), Haji Zaman formally known as Mohammad Zaman Ghamsharik (an ethnic Pashtun) and Haji Zahir (an ethnic Pashtun) were part of this group. The power of Ali, Zaman and Zahir increased when the fighting against Al-Qaeda escalated in the aftermath of the fall of the Taliban regime in the eastern city of

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3 Ibid.

4 Ibid., 88-89.
Jalalabad. They set up checkpoints to charge the US Special Forces soldiers US$50 each to go through.  

The US military also relied on some of the commanders to protect its military convoys. This was arranged through bilateral contractual agreements between the US and private security companies which were paying local commanders in insecure areas to protect these convoys. This arrangement allied the Afghan expatriates who had returned from the US and the militia commanders. While the expatriates dealt with the US army in regard to funding and contractual management, the commanders and their militias were protecting the convoys. However, the security companies and the commanders were safeguarding the routes by offering a predetermined amount under the name of protection fees to the Taliban and other strong militias who were able to ambush the trucks. The cost per truck depended on the value of goods, ranging between US$800 to US$1,500. The two Afghan-Americans who earned major contracts were: Hamed Wardak (son of Rahim Wardak, the Afghan Defence Minister, 2005-2012) and Ahmad Ratib Popal, President Karzai’s cousin. They ran the NCL Holdings and Watan Risk Management security companies respectively.  

The alliance between the US military and several other donors and with the commanders, created an imbalances in Afghan politics as it elevated the autonomy of commanders from the society and government, and increased their wealth, undermining institution building and state-society relations, which will be shown in the next section.

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5 Ibid.

Traditional actors

Another category of societal actors which re-emerged after the fall of the Taliban were the traditional actors such as tribal leaders. Most significant in this respect was when the US approached the former King, Muhammad Zahir, who was expected to have the support of the traditional segments of the society including the Pashtun tribes in the south and south-east, to call on Afghans to rise against the Taliban, complementing the United Islamic Front for Salvation of Afghanistan (UIFSA) uprising in 2001. The limits of power of traditional actors were shown when after the former King’s call on Afghans to rise, there was little evidence to support its intended effects. This was because Afghanistan was economically and socially transformed, making it difficult for the traditional actors to dominate power as they had before the 1970s. In addition, they were fragmented around ethnic, tribal and sub-tribal structures. Also, the other societal actors (such as the urban intelligentsia, the mujahidin leaders and the commanders) opposed their emergence as dominant players in the polity. For example, the mujahidin leaders and commanders strongly resisted the return of the former king to power as the head of Afghan state during the emergency loya Jirga of 2002.

Although the post-Taliban order on the one hand undermined the role of the traditional actors, on the other it offered ways to regain some of their power despite significant constraints and challenges. They encouraged the idea that the way to overcome the problem of the Taliban’s Islamist extremism was to restore the old traditions and their own participation. This encouraged donors to work with them. Karzai particularity

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remained an advocate of this doctrine. However, there was lack of consensus on the issue at the Cabinet level. Some Cabinet ministers (depending on their political orientation) argued that many of the past problems emerged because of the absence of modern institutions and over-dependence on traditions. According to them, under the former King, for example, the senior appointments were largely driven by patron-client arrangement, corruption was widespread and there was apathy towards reforms.

However, using its experience of arming the local militias in Iraq in 2006 to fight the Al-Qaeda, the US lobbied and adopted a similar initiative in Afghanistan. The US funded local tribal militias (arbakīs), something which already existed in some parts of the country and was expanded in the Pashtun tribal areas and beyond. The local militias aimed to defend their communities against the Taliban in the areas prone to their attacks, especially in the southern provinces. Although the local militias helped to enhance stability in some areas, their relations with local communities were contentious as they increasingly undermined the rule of law and were involved in criminal activities. The Afghanistan Independent Human Rights Commission observed that some of the militias participated in criminal activities and had such a background. Cases of tax extortion by the militias were also reported.

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10 A Confidential Source, Interview by Author, Kabul, April 18, 2011.

11 For more information on the fall of Muhammad Zahir see Kakar, "The Fall of the Afghan Monarchy in 1973."

12 Mark Wilbanks and Efraim Karsh, "How the 'Sons of Iraq' Stabilized Iraq," *The Middle East Quarterly* 17, no. 4 (Fall 2010).

Urban intelligentsia

The role of the urban intelligentsia became very important after the fall of the Taliban because of the increasing need for educated and skilled people to run the administration and manage the implementation process of government policies and programmes. Politically, their role had waned after the fall of the reformist regime of Amanullah Khan (1919-1929) as the Musahiban family systematically suppressed the urban intelligentsia at the beginning of their rule. According to G. Muhammad Ghubar, the Musahiban family policy was to marginalize the urban intelligentsia whom they saw as a threat to their rule.\(^\text{14}\) While the foreign aid driven development fostered the emergence of a new urbanized educated class after the mid-twentieth century, the reign of mujahidin and the Taliban regimes in the late-twentieth century had a negative impact on the urban intelligentsia’s participation in state building. However, the post-2001 political order offered them an opportunity to contribute to state building. An emerging professional class of youth (including high school graduates), members of civil society organizations, private media, women’s groups, and some political parties made up this category of societal actors. Donors funded civil society organizations (CSOs) and NGOs advocated for a greater role for them in development and state building.

Donor policy in this regard is well documented in comments which they made on the first draft of the Afghanistan National Development Strategy (ANDS). Accordingly, in 2008, they jointly advised the Afghan government to increase the participation of the

\[^{14}\text{Ghubār, Afghanistan Dar Masyr-i Tārykh, 1013.}\]

CSOs in state building and development processes. Similarly, the "process conditionality" which donors imposed on the Afghan government for the development of the ANDS document prompted the government to consult with different societal actors, including the urban intelligentsia. The government consulted with 13,000 people, including members of the civil society, NGOs, private sector representatives, government departments, religious leaders, elders and donors in 34 provinces.

The intelligentsia comprised the nexus of the state implementers as they mostly worked with the government and NGOs. They therefore remained dependent on the state for their salaries or donor funding through NGOs for their activities. They had skills to understand the complexity of the bureaucracy and relationship with the international system. However, they lacked the power similar to that of the traditional actors and the strongmen in rural Afghanistan because they were not well connected to communities and were incapable of offering patronage in traditional ways as the strongmen did. The contribution by urban intelligentsia to state building was undermined by the weakness of the state and widespread corruption which together seriously damaged their ability to pursue reforms through the state institutions.

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State-society Relations

State-society relations were essentially dominated by the state capacity to deliver services to the public and distribute patronage through allocation of public positions and other privileges to powerful societal actors. Consequently, the state-society relationship was shaped not so much around taxes, but on its distributive capacity, shaped by the level of aid and its delivery mode in particular. Additionally, the relationship between the societal actors and local communities for their part depended on the character of the societal actors and how they mobilized communities. In such a relationship public services, patronage and coercion played a marked role.

Between 2002 and 2004, there was close interaction between Karzai and members of local communities who met with him in Kabul on an *ad hoc* basis. Most of the meetings were focused, among other issues, on demands for distribution of resources to local communities to address their pressing needs. These meetings would generally result in Presidential decrees asking the Ministry of Finance to fund projects proposed by communities outside of the budget process. But since the ministry did not have discretionary funding and donors were unwilling to fund such projects, it had to report to the President its inability to finance such projects.\(^{18}\) However, there was little or no discussion about what people could do themselves, such as contributing to funding these projects.

In addition, NGOs’ participation was substituted for the traditional collective actions, such as *kār-i hashar* (collective work. This weakened the local communities’ spirit of...

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\(^{18}\) Seema Ghani, Executive Director of Joint Committee for Anti Corruption Secretariat, Interview by Author, Kabul, June 2, 2011. In 2004, the budget department at the Ministry of Finance established a computerized system to track Presidential decrees with financial implications. However, in 2011 the author found that this system no longer existed.
self-responsibility where in the past they would come together to solve their problems with collective action such as cleaning the kārīz (underground canals).\footnote{See William Maley, "Reconstruction: A Critical Assessment," in *The Afghanistan Conflict and Australia’s Role*, ed. Amin Saikal (Carlton: Melbourne University Press, 2011), 85-6.}

As shown in Diagram 4 below, the government and societal actors were preoccupied with donors to access on-budget and off-budget funding. This further weakened state-society relations and led to the massive number of scattered and uncoordinated projects, mostly funded off-budget. Between 2002 and 2009 there were about 4,851 off-budget and 1,209 on-budget projects, funded by 119 small funding agencies, international organizations and donors, as well as through domestic revenue. Besides the lengthy process of lobbying for donor funding, off-budget projects required quarterly reports in different formats to multiple oversight agencies to meet the various donor requirements. In addition, hundreds of missions monitored and evaluated most of these projects annually, while each mission expected to meet at least with a minister or a deputy minister to obtain their feedback.\footnote{Mastoor, Deputy Finance Minister, Interview by Author, Kabul, May 14, 2011.} This process required and encouraged both the government and the off-budget project implementers, be they NGOs or societal actors, to bargain and work with donors.
In addition, the “war on terror” in general and militarization of foreign aid (see Table 7) in particular contradicted the state building agenda and contributed to eroding state-society relations. Between 2001 and 2009, as shown in Table 7 below, more than half of total aid was disbursed to the security sector and the rest largely followed foreign military priorities, in particular where donors had a military presence (see Chapter 3). A mismatch thus existed between development needs and aid allocation.

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21 UNHCR, Human Rights Dimension of Poverty in Afghanistan, 11.
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<td>1,774</td>
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Source: Ministry of Finance, Donor Assistance Database (DAD), 2011
In 2010, the mismatch between the level of provincial poverty and aid distribution was highlighted by a joint study of the World Bank and the Ministry of Economy of Afghanistan. The study estimated the national poverty rate around at 36 per cent (with many more vulnerable people facing poverty). The study divided 34 provinces into five categories based on household per capita consumption (including food and non-food items), ranging from low-poverty provinces with less than 20 per cent poor (living on less than a dollar per day), to high-poverty provinces with poverty rates greater than 57 per cent.22 Although the study found that between 2002 and 2010 among the top ten recipients of aid (Kabul, Helmand, Kandahar, Ningarhar, Herat, Kunar, Ghazni, Paktika, Paktya, and Balkh), only Balkh and Paktika suffered high poverty. Other provinces with high poverty rates (Wardak, Patkya, Badakhshan, Kunarha, Laghman, and Logar) received relatively less assistance.23 The militarization of aid discouraged people in the more stable regions whose efforts contributed to improved local security, but as a result they missed out on this type of donor assistance. Many of the fieldwork interviewees argued that the militarization of aid created a poor incentive for local communities in stable areas. For their projects to be funded it was imperative to create an “atmosphere of ambient insecurity”.24

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22 See Ministry of Economy of Afghanistan and the World Bank, Poverty Status in Afghanistan: A Profile Based on National Risk and Vulnerability Assessment (NRVA) 2007/2008, Kabul, 2010.; A Government Official, Email by Author, Kabul, May 30, 2012. The poverty status in Afghanistan was assessed based on a per capita household consumption approach, which included food and non-food consumption items. A minimum standard for this approach was selected Afs 1,275 per capita per month (around less than a dollar per day per person). Ibid.


For quick delivery of results on the ground, militarized aid bypassed state institutions. The bulk of finance for the 26 Provincial Reconstruction Teams (PRTs) was mainly concentrated in insecure areas, aiming to win the “hearts and minds” of local communities.\(^{25}\) PRTs consulted with the communities to identify and finance their needs, independent of the local state institutions (or the provincial and central government). Projects were then implemented under the auspicious of PRTs.\(^{26}\) This type of intervention undermined the local state institutions and their ties with the communities. Karl W. Eikenberry, the former US ambassador to Afghanistan, who closely worked with PRTs and the Afghan government argued that “when people go for their needs to a PRT this undermines the legitimacy of the [Afghan] state. However, if people go to a PRT through government this does not erode the legitimacy of the state. The question is where you go if you want assistance.”\(^{27}\) In fact, the mechanism was such that instead of going to the government (local state institutions) people needed to go directly to PRTs for assistance. According to Habiba Sorabi, the governor of Bamyan, people in the provinces were going directly to PRTs in order to address their needs. She claimed that the PRTs power grew to an extent that even their translators were able to influence the granting of contracts.\(^{28}\)


\(^{26}\) See Islamic Republic of Afghanistan and Baawar Consulting Group, "Joint Evaluation of the Paris Declaration Phase 2," 30-33.

\(^{27}\) Eikenberry, Former US Ambassador to Afghanistan (2009-2010) Interview by Author, Canberra, October 25, 2011.

\(^{28}\) Sorabi, Governor of Bamyan, Interview by Author, Kabul, July 17, 2011.
The role of PRTs therefore “substitute[d] the government functions and form[ed] unintentional competition for legitimacy.”

Karzai and his cabinet members publicly criticized PRTs as parallel structures, hindering the state. However, as the state had neither a decentralized resource allocation mechanism nor the capacity to match the expertise of PRTs, this gave the PRTs an unrestricted role in dealing with local communities.

The Paradox of Institution Building

Although the Bonn Agreement of 2001 integrated the international community interest and that of the local ruling elites, it essentially envisaged state institutions as a means of accommodating different political interest groups. While this might have helped to assure short-term stability, in the long-run it undermined institution building and stability and how the public interacted with the government in addressing their problems. The public interaction with the government leadership is well observed by Ahmad Zia Masoud, the former Vice President of Afghanistan (2005-2009). He noted that during his term he found that most of his visitors, and those visiting the President and the second vice President, Karim Khalili, were ethnically biased. Put simply—the Pashtun visitors would prefer to meet Karzai, the Tajiks would choose to meet Masoud and Hazaras would meet with Khalili. However, political affiliation and earlier connections were also important factors. The style of the political leadership at the apex of the state eventually became a model for state bureaucrats to deal with their clients.

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30 Ibid.

For example, the timely availability of some government services largely depended on personal connection, ethnic affiliation and the ability to pay bribes. This made the public sceptical of solving their problems through the state as a guardian of the national interest. A senior policy maker, who has advised Karzai since 2001, noted that “a patron-client system is created, so if someone gets a problem where does he/she go, he/she will go to his/her ethnic affiliated support networks, religious support networks and so on [instead of the state departments].”

In this context, not only was there a lack of a power balance at the Cabinet, but the power also shifted occasionally with the changing composition of the governing elites at that level. Between 2001 and 2004, Afghan expatriates, especially those who had returned from the US, had a strong influence in shaping public policies through Cabinet. Many of these expatriate ministers were marginalized in the government and some left the Cabinet of 2005. For example, Ghani, Minister of Finance, did not join the new Cabinet, Ali Ahmad Jalali, Minister of Interior, resigned in 2005, and Rangin Dadfar Spanta, Minister of Foreign Affairs (2005-2010), was given a vote of no-confidence by the Parliament in 2007. However, after 2005 the mujahidin leaders and

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32 A Confidential Source, Interview by Author, Kabul, April 18, 2011. This situation was not the sole result of donors’ intervention after 2001, as a patron-client system existed under the previous regimes. However, the aid regime and donors’ chaotic approach exacerbated it.


34 President Karzai challenged the Parliament decision for vote of no-confidence in the Foreign Minister and thus received the Supreme Court’s confirmation that the vote did not conform to the provision of law. Therefore, Spanta served in the Cabinet until January of 2010. See Fabrizio Foschini, Parliament Sacks Key Ministers: Two Birds With One Stone?, Afghanistan Analyst Network, August 6, 2012.
commanders dominated the elected Parliament,\textsuperscript{35} with influence in the provinces and capacity to make state bureaucrats work to their will.

As noted earlier, over time Karzai, by his policy of accommodating other powerbrokers, further weakened state institutions. In order to have the support of strongmen, Karzai appointed them as governors, ministers and senior advisers especially to areas other than their own manteqa (except for Balkh). This policy exacerbated the weakness of the state institutions. For example, Karzai appointed Ismail Khan, the powerful governor of Herat and a former Mujahidin commander, as the Minister of Energy and Water at a time when the ministry needed to be led by an expert to overcome the challenges of energy demands and to capitalize on the opportunities made available through aid and the private sector. He in fact constrained the development of the energy sector by failing to reform the ministry and recruit skilled staff.\textsuperscript{36}

In 2012, it was revealed that Karzai had 110 advisors, including experts in the Office of Administrative Affairs. He had 30 advisors on ethnic affairs, almost three times more than the total number of ethnic groups in Afghanistan. The monthly salary of the advisors ranged between US$1000-5000, although most of them did not meet the President in a year.\textsuperscript{37} Most of these positions were allocated based on ethnic lines and were not selected through a democratic process or other traditional means such as Jirga and Shurā. Instead, they were chosen at Karzai’s pleasure—often based on the degree of


\textsuperscript{36} However, Ismail Khan was the only regional strongman that Karzai brought to Kabul after getting the assurance of American backing and of Ismail Khan’s local rivals. Suhrke, \textit{When More is Less: The International Project in Afghanistan}, 129.

threat that an individual could pose to his government. In 2009, this process under Karzai’s leadership prompted Ghani to accuse Karzai of “auctioning off the government” for political support.\(^{38}\) While the advisors could have helped to make the administration more inclusive, it mostly ethnicized the administration and led to inefficiency as they had been appointed based on their personal positions and loyalty to the President rather than to the institutions.\(^{39}\)

Commanders, who were appointed as administrators reasserted their influence over local communities through coercion and patronage, especially if they were leading the provincial security institutions. Moreover, they selectively applied rules and regulations. It was noted, for example, that Gul Agha Shirzai, Ningarhar’s governor (since 2004), rejected a number of provincial appointments made by Kabul, undermining the credibility of the central government’s leadership.\(^{40}\) The control over state institutions helped the commanders to utilize their positions to favour their patronage networks and supporters and to legitimize their role. This deepened a patron-client system which had a significant role in building provincial institutions which were beyond the capacity of the central government to control. However, the institutions were shaped differently in various provinces, depending on the character and aims of governors.

For example, the Balkh and Ningarhar governors, Mohammad Atta Noor (since 2004) and Gul Agha Shirzai, both former Mujahidin commanders, had different impacts on the development of provincial administrations. Shirzai encouraged the emergence of a more informal governmental system along tribal lines. Noor, on the other hand, while keeping


\(^{39}\) Fieldwork Interviews by Author, Kabul, March-August 2011.

\(^{40}\) A Confidential Source, Interview by Author, Kabul, April 18, 2011.
his own informal network, also invested in building the formal institutions of the state.\(^{41}\) Both largely stabilized their provinces and facilitated implementation of development projects. In case of Shirzai, Dipali Mukhopadyaya argues that he “has effectively incorporated American efforts into his own tribal politics of patronage. Like a tribal khan, Sherzai spends much of his time holding court in his personal palace.”\(^{42}\)

Noor and Shirzai’s success, however, was associated with their informal networks, a number of which benefited from this situation by receiving land and contracts and provincial revenue. However, in contrast, the provinces where rivalry among the Pashtun tribes was a problem (such as in Helmand and Uruzgan), the accommodation of strongmen and commanders deepened the grievances among the local communities.

While Karzai and his clique in Kabul offered senior positions, impunity and largesse to buy off strong adversaries, at the local level the authorities instead used their positions to disengage the opponents from the political process. Sometimes local rivals would manipulate the donor intervention for their own interest, damaging society relations with donor and government. In August 2008, for example, the US air forces attack on Aziz Abad, a village of Herat, caused the death of around 100 civilians. Kai Eide, the former United Nations Special Representative to Afghanistan (2008-2010), later wrote in his memoirs that the information which led to the attack was provided by Afghans involved in local disputes.\(^{43}\)

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\(^{42}\) Ibid., 18.

The weakness of state institutions undermined the role of Afghan expatriates and urban intelligentsia who focused on pursuing social change through the medium of state institutions and policies. Although most of them had rural backgrounds, their connection with the countryside was weak. This was especially the case with some of the ministers who had lived in the West for a long period, and were not well equipped to relate to the remote countryside. Insecurity exacerbated this kind of disconnect because it was life-threatening for the ministers and other senior government officials to travel to villages as there were chances of Taliban attacks on them, especially in the south and southeast of the country. Likewise, the rural population had little understanding of the processes instituted in Kabul. To borrow from Antonio Giustozzi, there was a "cultural and communication gap" between the rural population and policy makers in Kabul.

The commanders, urban intelligentsia and the traditional actors formally supported the post-2001 state building. Amongst the commanders and the traditional actors were some who, despite the fact that they opposed the oppressive rule of the Taliban and their return, also did not welcome the emergence of a strong and accountable state, finding it equally threatening to their interests. However, the Taliban, Haqqani network and the Hizb-i Islāmy of Hikmatyar posed a serious threat to the state building process by waging war against the state and the US and NATO in Afghanistan. They largely reorganized themselves after 2005 due to the failure of the Kazai government and its

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46 Pakistan provided them with critical support including shelter, logistics and fighters through the Pakistani madrasas.
international supporters to stabilize the country and provide on-going support to them. By using coercion, the Taliban in particular expanded their income base through extortion of the local population and taxing of poppy cultivation (Chapter 4), and targeting key politicians and those who worked for the government and international community. The Taliban established a shadow system of governance and justice (according to Sharia law) and a taxation system (see Chapter 4), in a number of areas with an attempt to systematically weaken the state.

While Western donors deliberately channelled foreign aid to elevate the status of some societal actors, they (especially the US) also inadvertently bolstered the Taliban revenue because their military contractors paid taxes to the Taliban (see Chapter 4). The Taliban taxed the passage of the military convoys and charged a fee on construction projects. This process contradicted the Western donors' objective to defeat Al Qaeda and its Taliban allies and increased the Taliban’s revenue. The Taliban threatened the lives of those who did not comply with their demands and policies. In this way, they aimed to prove to the population that the government was not able to protect them. In particular, they had intelligence about the locals, making it easy to take measures to punish evaders. The Taliban skilfully exploited local grievances against the government and against local authorities in the south and southeast in particular. This ultimately altered


48 Giustozzi et al. notes "the Taliban judiciary had taken the shape of mobile courts, lean structures, and little record keeping. A major consequence of the new organisation was that the appeal system became largely dysfunctional, even if it continued to exist in theory." Claudio Franco Antonio Giustozzi, Adam Baczk, Shadow Justice: How the Taliban Run Their Judiciary?, IWA (Integrity Watch Afghanistan), Kabul, 2012, 5.

49 Giustozzi, Koran, Kalashnikov and Laptop: The Neo-Taliban Insurgency in Afghanistan, 234.
the behaviour of the population in these areas and prevented them from actively participating in state politics and reconstruction.

Although a notable investment by donors took place through the National Solidarity Programme (NSP) to improve state relations with rural communities, the programme was undermined by fragmentation in the donors approach to financing patchy projects of different ministries to improve their relations with the communities.

The NSP was led by the Afghan government and financed by a consortium of donors led by the World Bank through the Afghanistan Reconstruction Trust Fund (ARTF). The NSP offered the rural population an opportunity to participate and decide on their development priorities at the local level, through elected Community Development Councils (CDCs) established in villages across the country. The government gave block grants of US$200 per family and up to a maximum of US$60,000 for each village “to help them build and restore rural infrastructure that communities [chose] through an inclusive decision-making process.” To build ownership, the communities had to make contributions of about 10 per cent of the cost of projects through a voluntary contribution of cash, labour, or construction materials. The 2005 evaluation of the NSP demonstrated significant evidence of improved community and state-society relations. However, the NSP not only remained entirely dependent on aid and donors, but governmental institutional rivalry and inconsistent donor approaches led to duplicated efforts such as the establishment of parallel councils to CDCs. This undermined the


CDCs’ role, preventing them from emerging as the main forum between the state and local communities. Soon, different ministries and departments such as Ministry of Education and the Independent Directorate of Local Governance (IDLG) established their own shurās. In assessing the situation, Ehsan Zia, the former Minister of Rural Rehabilitation and Development (2006-2009), observed that:

People legitimise the state and their confidence in the state is crucial. The NSP elected shurās [CDCs] therefore reflect the trust of people in the Afghan state. Now different ministers are establishing different unelected shurās to gain more power. A good example of that is IDLG and education shurās. However, instead, these ministries could use the similar shurās established under NSP.52

Parallel councils confused local communities and consequently undermined the primary aim of improving state-society relations. The councils were funded off-budget and reinforced institutional rivalry, preventing the NSP becoming a vehicle for improving the relationship between the state and local communities.

Conclusion

After 2001, donors forged their relationship with the Afghan state and society using on- and off-budget mechanisms. This facilitated a fiscal divergence between state-society relations by encouraging and requiring the state and societal actors to be preoccupied with donors. The state-society relation was formed around a fragmented society which was dominated by its historical context and conflicts on the one hand, and a broken aid system and uncoordinated international community on the other. The donors boosted the Afghan state capacity by financing its operational and development expenditures through the on-budget mechanism. However, by depriving the government and legislature of the right to allocate and oversee off-budget projects, they pressed and

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52 Ehsan Zia, Former Minister of Rural Rehabilitation and Development (2006-2009), Interview by Author, Kabul, August 16, 2011.
encouraged the societal actors to prioritize their relations with the donor instead of the state.

In this context, aid largely followed military priorities and the four-fifths bypassed the state. While the off-budget aid was to a large extent justified because of a low government capacity and corruption, it along with competing aims of development and military aid, constrained the development of state institutions and reinforced fragmentation of societal actors, exacerbating the weakness between the state and society.
Conclusion

This thesis examined the effects of foreign aid upon state building in Afghanistan between 2001 and 2009, against the backdrop of the modern history of state building since 1747. It defined state building as a process of enhancing the administrative, fiscal and institutional capacity of governments to interact constructively with their societies and to pursue public goods.¹

By identifying the similarities and differences between oil revenue and aid, the analyses in the thesis drew on rentier state theory (RST) to explain the effects of aid on state building. It found that unlike oil revenue, aid is not reliable, it mostly comprises a smaller share of state income; it comes with conditions; and it does not entirely go to the state. As such, aid-dependency increases the state autonomy from society, although to a lesser extent than oil-based rentier states. It shifts government accountability from citizens to donors, while oil-based rentier states (with undemocratic regimes) are simply relieved of pressure from citizens and external pressures for accountability. Also, aid-dependency is associated with a weak and fragmented level of budget transparency, especially if there is a large off-budget component, whereas oil-producing states suffer from fiscal secrecy (especially in undemocratic regimes). Greater amounts of off-budget aid may exacerbate the above aid-dependency perverse effects.

Various academic studies have been undertaken to understand state building in relation to sources of state revenue, using the approaches of state formation and RST. Although these approaches examine the role of taxation in relation to state building, including the emergence of representative institutions and the effects of rents on governance and state-society relations, little attention has been paid to exploring the effects of the

¹ Brautigam, "Introduction: Taxation and State-building in Developing Countries," 2.
delivery mode of rents (aid) upon state building. In situations of aid-dependency and fragility, donors predominantly bypass recipient states by using off-budget mechanisms to support the state building process. This issue is capturing increasing interest among policy makers, practitioners, and development organizations that criticize the off-budget aid and call for more "localized aid" to be transferred to and through on-budget channels.2

The thesis in addition to the study of aid impact, explored the effects of aid delivery modes on Afghan state building, attempting to fill this gap in the literature. The thesis argued that state building in Afghanistan has been a multifaceted process in which external revenue in the form of tribute, subsidies and foreign aid has had a central role at various times. Accordingly, the thesis found evidence to support the central hypothesis which was formulated in the Introduction as:

A range of historical factors, such as poor economy, weak institutions, conflict and invasions (by powerful states), contributed in Afghan history to a pattern of both (a) low tax mobilization and (b) seeking external support, resulting in aid dependence.

Historically, these have contributed, along with geopolitical factors, to persistent weak state-society relations in Afghanistan.

The events in post-2001 (and particularly the scale, and counter terror objectives of aid) created a situation of (a) high aid-dependence, and (b) off-budget and uncoordinated pathologies to that aid.

These two conditions resulted in poor performance in taxation and transparency.

Aid dependency and off-budget, along with poor performance in taxation and transparency, further weakened the state-society relations.

Main Findings

The thesis reveals two key findings. First, it found that historically external revenue

2 See Glennie et al., Localising Aid: Can Using Local Actors Strengthen Them; Ghani et al., "The Budget as the Linchpin of the State."
played an important role in shaping the state building trajectory and state-society relations in Afghanistan and produced distinctive outcomes based on the pre-aid (rent) socio political relations and institutions. Second, post-2001 state building reiterated a path of dependency in which foreign aid perpetuated the existence of a rentier state that remained less accountable to its people. This had mixed and contradictory effects on state building.

The Importance of External Revenue to Afghan State Building

The thesis found that, historically, Afghanistan had a weak tax system and external revenue has been important in sustaining and reshaping the state building process as a result of the interplay with the pre-external revenue dynamics and the geopolitical factors, determining the availability and type of revenue. Although the country has shown resilience in maintaining its independence from outside occupations, it has failed, except for a brief period under the reign of Amanullah Khan (1919-1929), to pay for government expenditures. Hence finding external sources of revenue has always been a top priority for Afghan rulers to overcome this financial handicap the loss of which, at various times, has undermined the stability of the state.

As Diagram 5 below shows, external revenue in the form of tribute, subsidies and foreign aid has comprised a major portion of state income. While the nature of dependency of various Afghan regimes on external revenue differed over time, the overall reliance of the state on aid led to the emergence of a rentier state from the mid-twentieth century. Aid financed over 40 per cent of total state expenditure, an indicator which Luciani Giacomo uses to define “allocation” or rentier states. In this period because of the pressure asserted by the rural elites and the availability of aid,
the share of domestic revenue from direct taxation declined considerably.

Diagram 5: External Revenue as a Percentage of State Income (selected-years)

Source: See footnote

*For 2002 and 2009, the Diagram shows on average the percentage of foreign aid as total share of on- and off-budget expenditures.

Note: In 1919, the Afghan government did not receive substantial subsidies or aid.

In Afghanistan’s modern history, the relationship between external revenue and state building was significant in three periods. Between 1747 and 1809, during the Durrani Empire the tribute and revenue from its conquests was crucial for the process of state building. Following the collapse of the Empire due to internal decay and the expansion of regional powers such as the Sikhs and British, access to British subsidies partially replaced the tribute. However, from the mid-twentieth century foreign aid played a marked role in the state building process. As Chapter 2 demonstrated, more than three-

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quarters of the Empire’s revenue came from its conquests outside the territories that comprise today’s Afghanistan. However, the loss of the tribute contributed to the disintegration of the Empire and challenged the new ruler of Afghanistan, Dost Muhammad Khan (1826-1939 and 1843-1863), to search for revenue in his home territory and thus strengthen the state’s taxation capacity. Despite modest progress, he could not establish a reliable source of revenue because of the country’s poor economy and his failure to control the territories which he ruled. Thus his government remained in a state of financial crisis and Dost Muhammad Khan increasingly lobbied the British to receive subsidies. The East India Company granted him 1.2 million rupees annually to strengthen the defence of Afghanistan against Iran and Russia in his second reign. Similarly, Abdur Rahman Khan (1889-1901) received weapons and British subsidies (rupees 1.2 million annually), enabling him to suppress his opponents, to implement his centralized state policies and to bureaucratize state affairs.

Although Amanullah Khan (1919-1929) inherited a consolidated central authority, he faced the same financial dilemmas as Dost Muhammad Khan due to the loss of external revenue and the pressure to finance his modernisation programmes. By gaining Afghanistan’s full independence from the British in 1919, Amanullah Khan lost the British subsidies. In order to compensate for this loss and finance his reform programmes he imposed heavy taxes on the population. However, Amanullah Khan’s reign was the only era in which, for a brief period, the state relied almost entirely on domestic tax revenue and the state and society came into direct interaction. He readjusted state priorities and for the first time allocated a significant portion of the state budget for education (eight per cent of the total annual revenue), lowered military expenditures and terminated the state subsidies to tribal and religious leaders. Most of his reforms strengthened state accountability towards its citizens. Yet the failure of the economy to substitute domestic revenue for the loss of the British subsidy and to
finance the comprehensive reforms and the pressure which the British asserted from India to undermine Amanullah Khan’s regime, contributed to the collapse of his regime in 1929.

After Amanullah Khan’s regime, agriculture and livestock taxes dramatically declined. This was mainly because the major landlords and tribal chieftains, who helped the Musahiban family (1929-1972) to consolidate their power, asserted political pressure through the legislature to lower taxes. However, government access to foreign aid and international markets relieved it from the pressure of taxing the countryside. The government largely relied on indirect taxes, such as customs, foreign aid and sales of natural gas. As a result of a high dependence on aid, which financed over 40 per cent of the government budget, Afghanistan became a rentier state and eventually aid-dependency increased over time.

In particular, aid became vital for the sustainability of the state in the late-twentieth century. The loss of Soviet Union aid, covering the bulk of the state expenditure, contributed to the collapse of the People’s Democratic Party of Afghanistan (PDPA) regime (1978-1992). Later, the mujahidin government (1992-1996) not only suffered from internal armed conflict, but also lacked a viable source of revenue, as the central revenue collection mechanism disintegrated. Additionally, it did not have a strong patron to replace those who had provided substantial amounts of aid to Afghan governments in the past. With such fiscal weakness, aid and military support by Pakistan helped the Taliban movement (1996-2001) to overthrow the mujahidin government and establish their theocratic regime.

The thesis also reveals that the conditions upon which external revenue was available had consequences for Afghanistan’s state building. The Durrani Empire was required to maintain its military domination over its conquests to secure the flow of tribute. After
the Empire disintegrated, it was now a case of external states providing aid to secure Afghanistan’s allegiance for their own rival geopolitical reasons. These donors required Afghan rulers to adhere to the conditions specified. For example, the British granted Abdur Rahman Khan subsidies and weapons to build a modern buffer state to prevent the advancement of Russian influence over Afghanistan, which the British perceived as a threat to their interests in the region. In this situation, the subsidies and foreign aid went to only a small segment of the society and the army. The army aimed to keep internal order and defend Afghanistan especially against external threats by rivals of the patron states. However, the army was also a source of coercion for heavy taxation, thus undermining state and society relations.

From the mid-twentieth century, external revenue increased the government’s autonomy from society and allowed it to finance the army and implement projects without heavily taxing the population. However, as the external revenue was not generous enough to make the state fully autonomous from society, the rulers occasionally had to compromise with strong actors, such as the powerful tribal chieftains and religious clergies, and offered concessions to assure their loyalties. Therefore, external revenue gave the rulers capital and coercive power and shaped the state institutions and state-society relations by increasing the weak capacity of the state and bypassing a domestic path through taxation that could improve state-society interaction.

Between 1747 and 2000, except for the aid which the Mujahedin groups received, the state was the sole recipient of external revenue. Although this method of delivery helped build the capacity of the state and maintain the power of the rulers, it did not render accountability of the rulers to the people. Abdul Rahman Khan, the Musahiban family, and the PDPA regime were the main recipient of the subsidies and foreign aid. However, Western aid to the Mujahedin groups was delivered through fragmented
channels which reinforced and institutionalised the differences among them. This case shows that the absence of external revenue and dependence on taxation, though important for state formation, does not necessarily guarantee accountably of the government to its people.

**Aid Dependency, Off-budget and War on Terror: Building and Undermining the State**

After the Taliban regime was ousted in 2001, unitary institutions with strong executives were rebuilt and a liberal Constitution was promulgated. Subsequently, externally aided state building reiterated a historical path of dependency, in that foreign aid reinforced building of a rentier state. Foreign aid had mixed effects. It contributed to economic growth, expansion of access to education and health services and upgrading of infrastructure. However, these improvements remained largely dependent on continuing aid and were not supplemented by effective institution building and advancement of state-society relations. This was because of a greater flow of aid through off-budget channels; the concentration of aid on military priorities, and lack of coordination and coherence among donors, the weakness in institutions and the politics of patronage which existed. These factors resulted in a number of “political pathologies”, such as a shift in government accountability from the Afghan legislature and citizens to donors; a low state of transparency towards the Afghan public and despite the existence of a desire among taxpayers for the promotion of a social contract around taxation, tax reforms failed to achieve this. These further weakened the state-society relations.

The pressure asserted by donors to reform the taxation system and the Afghan government officials desire to centralise revenue and curb local strongmen and capture their revenue sources were modestly successful in the early decade. But attempts at
building an effective taxation system that could end aid-dependency and strengthen the state-society interaction were not effective.

Technical assistance and aid helped the government to write new tax laws and regulations, upgrade some revenue infrastructures and reform the administration. But these reforms neglected the Afghanistan realities and were designed as a technical process. Attempts at reforming the tax system, in particular, failed to prevent the tax extortion of citizens by non-state actors or to strengthen citizens and government ties or, more importantly, to sustain the state building project. Although domestic revenue increased from 4 per cent of GDP in 2004 to 10 per cent in 2009, on average it only financed about 7 per cent of the total public expenditure (on- and off-budget), while the rest was funded by aid. The government largely relied on collecting a greater amount of revenue through border customs to meet its revenue targets which were set with the International Monetary Fund (IMF) and the World Bank as conditions for receiving aid. Thus, the government failed to engage with societal actors in an institutionalized manner in the formulation of the tax policies. While the government consulted with the business community, the process was *ad hoc* and non-strategic.

The thesis found that between 2001 and 2009, Afghans were highly burdened by formal tax payments, extortions and corrupt practices and it challenges the common perception which exists that “Afghans are lightly taxed”. This situation was largely due to the failure of the government to stop extortion and realize its anti-corruption measures. The Taliban and local militias extorted illegal taxes from businesses, local communities and poppy cultivation, although they did not provide any services to the public. Whatever revenue the Taliban and other groups earned perpetuated their activities, posing major threats to stability and undermining state building. In addition, powerful taxpayers with political connections often evaded taxation, while those who wanted to pay their taxes could face delays, and those with limited knowledge of the system, including many
small business holders, would end up with enormous fines from the Ministry of Finance for late payment. Moreover, tax exemption for donor-funded contractors not only reduced the possible tax income, but also created a sense of injustice among taxpayers. With the government and donors preoccupied with tax reforms as a technical process, the politics of taxation and the role that taxation could play in state building were ignored.

The thesis also demonstrated that unlike oil-dependent states which suffer from fiscal secrecy, the budget structure in Afghanistan was complicated by on- and off-budgets mechanisms. While the government remained fiscally more open to donors, this was not the case towards Afghan citizens. Although the donor pressure along with their aid and technical assistance helped to improve the budget process, this made a limited contribution to making information on government budget (on-budget) accessible to the Afghan citizens. On their part donors neglected to improve availability of off-budget expenditures to the Afghan public and even to the government. The government made public minimal budgetary information especially on provincial budgets which could encourage a greater transparency. Fiscal secrecy enhanced the politics of patronage. In particular, some politicians, in the President’s Office and strongmen, received concealed funds from the US and Iran to trade allegiance for wealth. The funds were given to individuals using off-budget channels rather than institutions and details remained secret. Thus, the state of budget transparency in Afghanistan was poor and complex.

Aid dependency and off-budget delivery mode further weakened the state-society relations. This weakness was in turn exacerbated by an ineffective taxation system, politics of patronage and poor fiscal transparency. The fiscal relationship between government, donors and society became such that various actors emerged as competitors of the state in implementing projects and accessing aid. The government concentrated its political and administrative efforts strongly on improving the
government-donor relationship which undermined the relationship with citizen. The societal actors also preoccupied with donors. The government, however, neither had the right to decide on off-budget spending, nor was the Afghan Parliament in a position to oversee it. Off-budget aid therefore deprived the government of budgetary control over the bulk of public expenditure and constrained its ability for strategic planning and deciding on what was needed to provide services and to shape the design of state institutions. The Afghan National Army (ANA) is a notable example, as it was largely funded off-budget by the US. The government’s neglect of long term designs of state institutions was exacerbated by uncertainty about the future commitments of donor funding and the lack of President Karzai’s team vision for the future. As Chapter 4 showed, there was a significant variation on the amount of foreign aid which flowed to Afghanistan. The annual aid variation was on average 25 per cent of the average GDP between 2003 and 2009 in both positive and negative directions.

The off-budget aid and donors’ incoherent objectives exacerbated the societal fragmentation because different actors had to deal with various projects and sets of conditions. In this, donors on the one hand participated in state building efforts, while on the other they directly intervened for social change at societal level through the societal actors using off-budget aid. They unintentionally became competitors with the state in implementing projects and enhancing their relations with different segments of the Afghan society. This was particularly the case with the Provincial Reconstruction Teams (PRTs) which directly funded local projects, while neglecting the role of the state institutions.

At the administrative level, over-reliance on off-budget aid resulted in the emergence of a “dual public sector” which was parallel to the government permanent administration. This along with the fragmented approaches by donors with different strategies and interests undermined institution building and sharpened the distinction between urban
intelligentsia, Afghan expatriates, mujahidin commanders, and tribal leaders and enhanced competition between them. The donors helped create a new brand of strongmen and empowered the older ones who became partners of the US and NATO in the “war on terror”. In this context, the off-budget activities largely substituted for the possible interaction that would take place between the state and society. This type of aid undermined institution building and accountably and exacerbated the weakness of the state. The state-society relations were largely diluted due to the government’s and societal actors’ preoccupation with lobbying for donor funding and complying with project conditions.

**Governing the Future**

Domestic revenue is unlikely to fully finance the state operating and development budget in the predictable future because of the low level of domestic revenue and high public expenditure. Afghanistan therefore will need a sizable aid in the foreseeable future. In order to make aid effective to a large extend national mechanisms and on-budget should be used and aid objectives should be reoriented towards state building. The possibility of success increases if local governance is fundamentally reformed and the patronage practices are minimized in the country.

Although multifaceted factors made the non-aid dependent path of state building difficult in Afghanistan, the broader question which arises is whether there will be one in the future. Natural resource and transit incomes, for connecting neighbouring countries, could be alternatives to substitute for aid in the long run. Afghanistan is categorized as a prospective resource-rich country. But resource extraction is costly and little investment has been made to date in this area in Afghanistan. In this situation, the state building pattern therefore not only indicates the imperative of aid for the foreseeable future, it also shows that even if the natural resources are utilized they may
reinforce a rentier dynamic and relieve the government from the Western donors pressure to promote accountable institutions. Unless the conditions and socio-political relations which endure the institutional weakness and poor checks and balances are institutionally addressed, the flow of resource revenue may not help to build an accountable and effective state. Instead, there could be a high probability that, after reliving from donor pressure, government accountability disappear as is mostly the case in oil-dependent states.
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