



The Political Economy of Taxation and State-Building in Afghanistan 2002 - 2022

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17 October 2022

Outline

Research Questions

Analytical Framework

Research Findings

Taliban and the future prospects

Research Questions

1. How have the nature of political settlement evolved / changed over time? (The how question)
2. What explains these changes in the political settlement? (The why question)
3. What are the theoretical and policy implications of these findings? (The so what question)

Analytical framework

Classic / Endogenous Model of State Building

- Based on Western European model (Tilly- Capital, Coercion, Legitimacy)
- War makes state, state makes war- neutralising external/domestic rivals
- Protection, protecting people against external / internal threat (creation of armies)
- Extraction, protection has a cost which comes from taxation (creation of tax admin)

Good governance agenda / liberal (exogenous state-building)

- Democracy, election, rule of law, building liberal institutions
- Governance - structure and process
- Institutions – are the core of state building and good governance agenda.
 - Inclusive / extractive economic and political institutions

Political Economy Model

Challenges good governance / liberal approach, why:

A Universalised Template

Focused on building the state's formal institutions, formal structures and formal processes.

Donors Prescriptions (IMF/World Bank)

Create an administrative capacity to govern based on existing best global practices but not taking into account the reality on the ground.

Misses the Complex Role of Power Configuration (political settlement)

Misses how formal institutions are shaped by the underlying configurations of power and the informal processes, networks and coalitions.

Political Economy Model

Political settlement (Mushtaq Khan)

- How power and resources are distributed and organised and the institutional arrangement which sustains this
- Rents and rent sharing, the core of political settlement
- PSs are dynamic and fluid, subject to adaption, renegotiation, and contestation.
- PSs are not a one-time event, but rather as evolving agreements between powerful actors

Limited Access Order (Douglas North et al)

- Rents created by limiting access to valuable resources and functions so that only certain elite groups can access them
- Elites access rents and avoids violence. They get co-opted.

Research Findings

- The nature of political settlement (power configuration) has been subject to shifts and changes, historically and in post-Bonn Afghanistan
- Political settlement was subject to exclusivity and inclusivity (centralising power or delegating power)
- Delegating power sustained order, centralising power challenged order
- Rent distribution (aid money) played a key role in sustaining or disrupting political settlement.

Post Bonn Afghanistan

Karzai (2002–2014), A patrimonial system

2002-2009:

- *Early days (2002-2004):* A strategy of institutionalisation, some space rooms for development & progress.
- An elite contestation between technocrats, mainly Pashtun west technocrats led by Karzai and Mujahideen, mainly the Northern Alliance
- This contestation was clearly shaped by international support, which shifted decisively to Karzai and his predominant technocratic allies.
- Revenue doubled between 2003–2009 (Revenue/GDP ratio increase **4.6% - 8.4%**).

After 2005:

- Rise of insurgency
- There was shift in the nature of the political settlement and power balance.
- Power balance moved away from technocrats and royalists and back to Jihadists.

Karzai (2009-2014)

- De-institutionalisation strategy of Karzai linked to loss of confidence in international actors.
- Growing tension between Karzai and US which complicated things.
- Karzai relied more on informal institutions than formal ones.
- Established a patrimonial state based on rent distribution and co-option of powerbrokers.
- Karzai's co-option policy sustained relative order- or limited access order, however, it weakened institution building/state building process.
- He did not bother to bargain taxes. Tax revenue decreased.
- Tax revenue/GDP ratio declined from **(10.8% to 8.5%)**

Ghani and the National Unity Government (2014 – Present)

- An externally imposed but yet competing and divided PS was formed.
- Ghani over-centralised power and disrupted the shaky & fragile PS by excluding others (power brokers).
- Relied more on the youths- many referred as Tommies (after the brand Tommy Hilfiger, yes sir boys with not social/political basis).
- Unlike Karzai, more focus on taxation, introducing new tax measures.
- Tax revenue/GDP ratio increased from **(8.5% to 13.4%)**
- US departure plans and the Doha peace talks side-lined Ghani.
- This gave more room and paved the way to strengthening Taliban and their eventual takeover of the country.
- Ghani's disruptive political settlement weakened powerbrokers who could have fought Taliban.

Taliban 2 (August 2021 – Present) and the Future prospects

- An exclusive and over-centralised PS (purely consisted of Mullas and Pashtuns)
- Political settlement subject to division from within. (The tension between the Durrani and Ghilzai factions of Taliban).
- Increased taxes, NTR, customs duties.
- Claimed to have collected (USD1.2–1.7 bn over a year).
 - 800 from tax and NTR & 900 from customs
- Coercive taxation- no reciprocity no fiscal social contract
- No transparency in the expenditure, they just tax.
- UN cash delivery (humanitarian assistance), 1.2bn since Dec 2021
- But still precarious economic situation:
 - 20 million in starvation & hunger
 - Poverty, unemployment on rise.

Thank You

