

TRANSCRIPT

Death and Taxes in Kabul

By: Ellis, Eric, Institutional Investor-International
Sun, 14 Nov 2004

Finance Minister Ashraf Ghani is battling warlords, cabinet colleagues, indifferent global donors and stomach cancer as he struggles to salvage Afghanistan's ravaged economy. If he fails, the world could pay an enormous price.

Death haunts Ashraf Ghani. A gaunt 55-year-old who constantly fingers his prayer beads, the Finance minister of Afghanistan consumes three meals in as many hours during a recent visit, to provide constant sustenance to his cancer-ravaged body. "I only have about 2 percent of my stomach left," he explains matter-of-factly as he devours a breakfast of rice and bananas while his chef prepares another helping.

Nearby, four bodyguards carrying Kalashnikovs scan the grounds of Ghani's modest villa in the leafy Wazir Akbar Khan district, where Kabul's elite live and work, barricaded against car bombs. From overhead comes the nonstop buzz of NATO helicopter gunships. Barely a week goes by without at least one senior Afghan official being assassinated

"This job is one of the worst on the face of the earth," sighs Ghani, whose cancer, at least, is in remission.

His job is certainly one of the most challenging. A former World Bank technocrat with a Ph.D. in anthropology, Ghani's brief is to do nothing less than re build Afghanistan's wrecked economy. He must accomplish this, moreover, as a member of President Hamid Karzai's transitional government, which controls the dusty, high desert capital of Kabul --with the aid of 20,000 U.S. and NATO troops but only patches of the rest of the country, where most of the people live.

As if this weren't daunting enough, the Taliban, the fanatical group that turned Afghanistan into an extreme Muslim theocracy until it was ousted by the U.S.-led invasion three years ago, has issued what amounts to a death warrant on Ghani. An Islamic scholar, he in February 2001 used an ancient Arabic insult -- jahil, meaning pre-Islamic and therefore preenlightened to suggest the Taliban were uncivilized. The Taliban, though routed, remain a significant presence throughout Afghanistan. Remnants of al-Qaeda also lurk in the rugged mountains on the Pakistani border.

Powerful provincial warlords, hardened by brutal civil war, oppose ceding power to, or even sharing resources with, the weak, foreign-backed government. As Ghani acknowledges, "I am a force for modernization and moderation, and I know that offends many people in this country." For their part, many ordinary Afghans are angry about the government's slow progress in addressing economic, security and political needs.

"Normalcy is what the people of this country crave," Ghani says, fingering his omnipresent worry beads. "They want to be able to get into a bus, sit next to a stranger,

a foreigner preferably, to talk to who they want, to go home and be guaranteed that their houses will be there when they do. Afghans want a routine that moves their lives forward. We don't want helicopters, and we don't want bodyguards."

The Finance minister, who spent 25 years in the U.S. before returning, to his homeland at Karzai's behest in February 2002, adds, "If we can achieve that, then my work will be done."

If Ghani fails, however, the consequences could be dire not only for Afghanistan but also for the West, notably the U.S. Afghanistan, with its difficult mountainous terrain, could readily revert to being a terrorist haven, but for sustained foreign military intervention on a large scale.

What's more, Ghani points out, Afghanistan, once one of the world's biggest exporters of dried fruit, today depends on opium to sustain its economy. The raw ingredient of heroin netted about \$2.2 billion for the country in 2003, or the equivalent of half its legal economy. Making a pitch for foreign investment, Ghani says that the global private sector isn't doing its part in fighting terrorism and drugs in Afghanistan. Foreign companies invested just \$100 million in the country last year. Ghani tells Institutional Investor that Afghanistan must attract \$15 billion in foreign private sector investment to create a modern economy.

The Finance minister, though, has a more immediate priority. On October 9 the economic rebuilding campaign of Karzai and Ghani faces a crucial test:

Afghanistan's first-ever elections. Although the U.S.-backed Karzai is considered the favorite, he faces an unexpectedly large number of opponents; 18 candidates have registered -- including a few warlords, such as the feared Uzbek leader Abdul Rashid Dostum. The Taliban, meanwhile, have been seeking to disrupt the United Nations' surprisingly successful efforts to register Afghan citizens (some 90 percent of the country's estimated 9.6 million eligible voters have signed up). And insurgents have become increasingly bold in attacking U.S., NATO and Afghan troops. One disturbing sign: In July, Doctors Without Borders pulled out of Afghanistan after 24 years; five of its staffers had been killed the month before, and the government couldn't guarantee protection for the others.

A distinct possibility now exists that Karzai won't receive the majority of votes he needs to avoid a debilitating runoff with the second-place finisher. And even if the president does prevail in a runoff, his government could be badly weakened.

Indeed, the legitimacy of the foreign-sponsored Karzai transitional government -- and, in a real sense, of Afghan democracy itself -- is at stake in the forthcoming election. If Karzai wins at least 51 percent in the initial vote and the elections pass reasonably peacefully, Ghani can push forward with his program of restoring the Finance Ministry's capabilities and authority so that it can streamline the country's messy fiscal processes and create a national budget. In the unlikely, but not inconceivable, event that Karzai is supplanted by a warlord opposed to the concept of a strong national government, Ghani could well be out of a job. The Finance minister will accept whatever happens. "If you want to get results," he says, "you have to take the

risks.”

Ghani, through his wide contacts in the international aid community, has been able to keep Afghanistan’s lifeblood -- foreign assistance -- flowing. Aid organizations, including the World Bank and the International Monetary Fund, have provided \$2 billion and pledged a further \$8 billion through 2007.

“If I say no to Ashraf, he calls George Bush or [World Bank president] Jim Wolfensohn because he knows he can -- I didn’t have that issue in Ouagadougou,” says the World Bank’s country chief in Afghanistan, Jean Mazurelle, who arrived in Kabul from a posting in Burkina Faso.

“Ghani is a visionary,” says Allan Kelly, the Asian Development Bank’s representative in Afghanistan. “He knows the development community, he knows what the community wants, he knows what he wants, and he has the intellectual rigor to demand it. He’s also very committed, he’s charming, and at times one sees -- how best to put this? -- a mercurial edge that can be used strategically.”

To Ghani that \$10 billion from the IMF and World Bank is a start but “won’t be enough.” He estimates that Afghanistan will need \$28 billion to \$30 billion in foreign aid and private investment over the next six years to rebuild roads, schools and hospitals, and on and on.

Afghanistan, after being invaded by superpowers twice in the past 25 years (the Soviet Union in 1979, the U.S. in 2001) and engaging in fierce internal wars of its own -- on top of which it has suffered a series of devastating droughts -- is in shambles. This onetime regional trading center has a skeletal transportation system and hardly any power infrastructure.

Not far behind opium as the biggest driver of the economy is spending by foreign advisers. Without these two sources of revenue, GDP per capita would be far less than the U.N.’S estimate of a meager \$700 (based on purchasing power parity).

ON THE MORNING OF SEPTEMBER 11, 2001, GHANI was working at his desk at the World Bank on H Street in Washington when hijacked planes ripped into New York’s World Trade Center and the Pentagon in Washington. He was horrified by what he saw on television. But he also recognized that the disaster might provide a serendipitous chance for Afghanistan to make a new beginning.

After most of his colleagues had left for home that day, he says, “I sat in my office for three hours, and I thought through the strategy for transition in Afghanistan. I knew absolutely, instinctively, that horrible though that day was for many people and also for humanity, that the Taliban and al-Qaeda were finished and that there was an opportunity for this country that we had to grasp.”

Ghani had been waiting for 25 years for a chance to come to his homeland’s assistance. From the aristocratic Ahmadzai nomadic clan from Afghanistan’s south -- his brother Hashmat is a national leader of the nomadic Kuchis -- Ghani spent the early 1970s at Beirut’s prestigious American University. Initially enrolled in the engineering school, he switched to political science. It was at American University that he met his wife, Rula, a Lebanese Christian who also studied political science and has held a variety of

jobs, including being a journalist, over the years. She has joined her husband in Kabul and works with several organizations that help local children.

While at school, Ghani made influential friends. One of his former classmates is Anwar Ul-Haq Ahady, head of Afghanistan's central bank. Ahady, who was a year behind Ghani, remembers him as a "very serious student." Another ex-classmate is Zalmay Khalilzad, the U.S. ambassador to Afghanistan, whom some consider the most powerful person in the country because of his sway over Washington's deployment of aid and his influence in local politics.

Ghani returned to Afghanistan in 1974 and taught Afghan studies and anthropology at Kabul University before winning a government scholarship to study for a master's degree in anthropology at New York's Columbia University. As he was preparing to leave for the U.S. in the summer of 1977, Afghanistan was already experiencing what would turn out to be protracted political upheaval. Four years earlier King Mohammad Zahir Shah had been ousted in a coup, while visiting Italy, by his cousin, Lieutenant General Mohammad Daud. Daud installed a military government, but in early 1977 he returned the country to nominal civilian rule -- with himself as president.

Afghanistan's economy was at this point self-sustaining. The country was a net exporter of farm products. Connoisseurs deemed Afghan dried fruits and nuts the best in the world. Kabul and Kandahar were popular spots along the hippie trail across Asia, drawing college-age kids to a laid-back lifestyle that featured plenty of hashish and opium. Now-defunct Pan American Airways owned a 49 percent stake in local flag carrier Ariana Afghan Airways (which still flies old Pan Am Boeing 727s).

But within a couple of years of Daud's proclaiming himself president, Afghanistan was spiraling out of control. His strong-arm tactics, which included purges, had antagonized everyone from warlords to local politicians to Islamist fundamentalists, known as the mujahideen. In 1978, Daud and several members of his family were murdered by pro-Soviet leaders. The mujahideen and many ordinary Afghans resisted the effort by Soviet puppets in Kabul to impose Communist-style central control. Moscow sent some 80,000 troops into Afghanistan in December 1979 to secure a client buffer state in the heart of Islam and placate the Soviet Union's own restive Islamic republics.

Ghani found himself stuck in New York. "I left with the intention of only being away for two years," he says. "It ended up being a very long stay." His ancestral village of Sorkhaab was one of the first that the Soviets bombarded. The male members of his family were imprisoned and later fled the country. "Our nationalism was being systematically destroyed," he recalls.

The mujahideen fought the Soviets with massive assistance from the U.S., including ample supplies of state-of-the-art weapons. The costly but ultimately successful resistance lasted nine years, until early 1989. About 2.5 million of Afghanistan's 25 million citizens died in a bitter struggle that has been likened to the U.S. war in Vietnam. Some 5.5 million Afghans fled the country, almost all to Pakistan and Iran. Many are returning, but many others remain abroad.

Today Ghani must contend with political critics who say that he and other wealthy, well-educated Afghans abandoned their country during its time of need. He briefly considered joining the mujahideen, he says, but concluded that "the space of operation was not for me." The Finance minister, who maintains joint U.S.-Afghan citizenship, explains that his "resistance was done in a different theater -- building contacts outside Afghanistan that I hoped would be fruitful at some point" rather than by taking up the armed struggle.

After completing his doctorate in anthropology at Columbia, Ghani taught at the University of California, Berkeley, and then, in 1983, joined Johns Hopkins University's anthropology faculty. He lectured on social theory and political economy from an Islamic perspective. Ghani became a frequent commentator on Afghan political affairs for the BBC's Pashto and Dari language shortwave service, beamed to his homeland.

After the withdrawal of the Soviets, Ghani made a brief visit home and contemplated staying. But with no common enemy to fight, Afghanistan's religious and tribal factions had already become embroiled in brutal civil wars that would last for a decade. So he decided to remain abroad. In 1991, Ghani left academia to join the World Bank as its head anthropologist; his mission was to give advice on the human dimension of economic programs. He would stay at the Bank for the next 11 years, living in the comfortable Washington suburb of Bethesda, Maryland, with Rula and their children, Mariam and Tareq, while advising governments in China, India, Pakistan, Vietnam and -- ironically -- Russia. He regards assisting the country that did so much to destroy his own as a "very good test for a true international civil servant," adding, "I volunteered for the job."

After the U.S.-backed Northern Alliance, the mostly ethnic Tajik resistance movement, had kicked most of the Taliban and al-Qaeda out of Afghanistan following 9/11, World Bank President Wolfensohn gave Ghani a one-year leave to become a media analyst on Afghanistan for America's Public Broadcasting System. In late November and early December 2001, he attended the Bonn conference where Afghanistan's first workable post-Taliban administration took shape. Ghani became Karzai's financial adviser. The Ghanis had gotten to know the Karzais at the latter's Baltimore restaurant, Helmand, a popular spot for Afghan-Americans.

From Bonn, Ghani headed directly to Afghanistan, arriving at the U.S. air base in Bagram, north of Kabul. It had been a decade since his short visit and more than 24 years since he had left for New York. He made straight for his home in the province of Logar, the mostly Pashtun region that borders Kabul to the south, where his family has lived for 400 years. Ghani, like roughly four out of ten Afghans, is Pashtun.

He couldn't believe what he found in Logar. "It was absolutely devastated; the land had gone back to the Genghis Khan era, the combination of drought, terror and war, and oh, the people, the people were so emaciated," he says. "They had all been reduced to bone. You could literally see that people were at the last phases of their ability to cope."

Ghani had planned to work in Afghanistan on an interim basis, but he resigned from the World Bank on February 14, 2002, and was named Finance minister four months

later. His appointment took place at a loya jirga, a grand council of clan leaders, in Kabul. Karzai, who had returned to Afghanistan a few months before September 11, 2001, from exile in Pakistan and the U.S. to help foment armed insurrection against the Taliban, was chosen president. "I did not know I was going to be Finance minister," Ghani says. "Karzai had asked me five times to be Interior minister, and five times I refused. I wanted to be president of Kabul University." Ghani accepted the finance job because he knew his World Bank experience gave him unique qualifications and thought the appointment would provide at least some continuity from his brief advisory work.

He had also been devastated by the world's neglect of Afghanistan after its victory -- a grievance his countrymen share. "We won the cold war," he says vehemently. "The world does not understand that. It's an extremely important thing, and we feel it very deeply. We sacrificed two and a half million of our people, every third one of us became a refugee, and then ten years of abandonment. The world saw the consequences of that on September 11."

WHAT DOES A BACKGROUND IN ANTHROPOLOGY have to do with finance? In Afghanistan, quite a lot, surprisingly, as the events of Monday, June 2, 2003, illustrate. On the previous Friday, the Islamic holy day, Ghani had boldly journeyed to the western city of Herat, a desert oasis near the Iranian border, to meet Ismail Khan, a much-feared warlord. Khan has gotten immensely rich by having his militia exact tolls and tariffs, often at gunpoint, from the Iran-Afghan road trade.

"I talked to him for hours and hours," Ghani remembers. "I told him that under the rules of this country, I am the minister of Finance and he is a provincial governor and is subject to my authority."

Three days later two white Toyota Land Cruiser 4x4s guarded by a light security detail pulled into the gated courtyard of the ramshackle Finance Ministry in Kabul and unloaded dozens of bags of money -- about \$20 million in U.S. and Afghan currency. Ghani had flown back from Herat with the money in sacks and then had it transported from the airport. As word spread that a huge cache of money had arrived, a big crowd surrounded the SUVs. Says Ghani, "Our civil servants got paid" as a result.

"It was a memorable day," recalls Michael Carnahan, an economist who had been on loan as a budget adviser to Ghani's ministry from Australia's Ministry of Finance for two years until July. Carnahan recorded the delivery of the money with a digital camera. "Ashraf didn't show it, but we all knew he was pretty pleased," he says.

Ghani's mission to Khans stronghold was an exercise in grassroots democracy (and economics) and a start at building a cohesive, centrally funded state. "I went to seven districts of Herat and explained to the people who I was and what I was doing, that I was the custodian of the public purse," he says. "I explained this on a Friday, in the mosques, in the presence of Governor Ismail Khan. I explained that under the Islamic theory of governance, I was responsible to the people and that every penny of the public's money had to be properly accounted for."

Ghani says he wasn't worried about Khans reaction. "Our tradition of governance, our Islamic theory of governance, is older than all of us and will endure long beyond me or Ismail Khan or any of us," he explains. "You have to maneuver within a cultural system

of norms. Every place I have gone, I have taken myself to the ordinary people and explained what it means to be the minister of Finance, what knowledge I have and what I do not have and how they can help. Our people are very wise."

Khan has continued to remit taxes to the ministry, and Ghani has begun to collect at least some state taxes from other warlords, though the gap between the tariffs they record and those that they collect can still be sizable. Nonetheless, for the first time in years, Kabul is regularly meeting the payroll of its 17,000 employees. Ghani's ambitious goal is to make the government (excluding the military) self-funding by 2007. The Finance Ministry has calculated that tax collections this year will rise by roughly \$100 million, to \$309 million, or enough to meet half of the government's operating budget.

(The Taliban, by contrast, were notorious for walking into Afghanistan's central bank and demanding cash at gunpoint. If none was available, the bank printed more.)

"When I first came to the Finance Ministry, there was nothing here," says Ghani. "It didn't have any controls, the processes were broken, the people were dispirited, it didn't have the autonomy to function, so it required a very firm hand."

Carnahan recalls that the ministry had no workable phones or Internet access and only about four hours of power a day. His laptop was one of just two computers in the ministry, and it kept going down because he had to wait for power to come back on to recharge its batteries.

There were bigger problems, however. The currency, the afghani, was trading at 50,000 to the dollar, and some warlords had taken to issuing their own money. Corruption and inflation were both rampant. People were exchanging sacks of cash for food smuggled over the Khyber Pass from Pakistan because there were no border patrols to stop them. Despite the Taliban's promise to ban opium, much of its revenue reportedly came from a 20 percent levy on the drug business, which may have employed as many as 1 million people. The Taliban's annual budget for government spending (excluding military expenditure), however, has been put at all of \$100,000.

At the Finance Ministry processes and procedures, insofar as they existed at all, were archaic: a confusing mélange of creaking British Raj--era bureaucracy, leftover Soviet central planning and Taliban anarchy. Carnahan recalls seeing "sacks and sacks" of pay chits for ministry employees that had to be pored over by an army of low-level clerks and approved by higher level officials. "It took weeks to go through them, and then another lot would arrive," he marvels. And as time-consuming as the procedure was, it didn't ensure that employees would get paid.

Ghani plunged in to straighten out the mess. He toured the ministry's offices around the country. "I asked the oldest employees who among their peers were the most knowledgeable and honest, and then I asked these people who were the most corrupt," he recalls. "I asked them to name names, and they were not shy about it. It was remarkable how much of a consensus there was."

Ghani fired those deemed untrustworthy. Those let go "badmouthed me for a while, but then they were gone," he says. "It was established that we could -- and would -- act

on corruption." The firings have eradicated about 60 percent of the corruption in the ministry, he contends, and, he adds, "I have a good idea where the other 40 percent is." Ghani has found support for his reform crusade in unexpected places. In March 2003 he traveled to Uruzgan, one of Afghanistan's poorest provinces and the home of Taliban leader Mullah Omar. There the new minister met some 300 community leaders to solicit advice on how to fix the country. He recounts what happened: "They laughed at me. I was puzzled and asked why, and they said, 'We know your voice from the radio -- we haven't invested all this time and money and faith in you for nothing. Just go get it done.'" For Ghani, "it was quite humbling."

Not everything has gone so smoothly. The dismissal of the allegedly corrupt employees gave Ghani a reputation for high-handedness and stoked divisions within the ministry. Following the corruption purge in the ministry's treasury department last year, some remaining staffers were beaten up, while others received so-called night letters, or death threats. One senior adviser in the department admits that the shake-up was necessary but says that it was handled "very, very badly."

Ghani makes no apologies. "Management style is a device that must be suitable to the circumstances where one lands," he argues. "But now things are changing here. We are fixing this ministry, and now I am much more a chairman of the board rather than the autocratic chief executive officer. We are getting there."

Three deputy ministers, none of whom has formal training in finance, now oversee much of the day-to-day operations of the Finance Ministry. Jelani Popal is responsible for revenue and customs collections; Abdul Salam Rahimi handles budget, treasury and bank-related issues; and Tareq Formoli manages the administrative, auditing and accounting functions.

The ministry's treasury functions have been computerized, and a hodgepodge of government accounts have been put in order and streamlined. "The Ministry of Finance is possibly in the Stone Age when comparing it to the West, but it's light-years ahead of the vast majority of ministries here," says Ghani adviser Richard Bontjer, who is on leave from the Australian Treasury to assist the Finance minister in preparing next year's budget.

The ministry, in conjunction with the central bank, has done a remarkable job of restoring credibility to the beleaguered afghani. Over several months the two institutions withdrew the previous currency and replaced it with new notes in a smooth transition. The new afghani has held steady at about 48 to the dollar since its launch early last year. The stability is all the more striking in that Afghanistan doesn't have a full-fledged economy or huge central bank reserves to speak of. The hastily exiting Taliban had to leave behind \$90 million in gold bullion in Kabul, and the New York Federal Reserve Bank holds some \$250 million in formerly frozen funds on the country's behalf. Otherwise, what has been keeping the afghani afloat is billions in foreign aid, the political support of foreign governments and Kabul's strict no-deficit fiscal policy. "We do not issue checks on the central bank if we don't have the cash," Ghani declares.

Deputy Finance minister Popal is making headway in starting a tax collection system -- considered by Ghani to be the most critical job in the ministry. "There is still a lot of

smuggling," concedes Popal, who is seen as Ghani's likely successor. "Of all the [taxable] money coming into our country, we are getting about 50 percent. But last year it was 30 percent, so we are making progress."

The ministry's target of funding Kabul's administrative budget entirely out of domestic revenues within three years assumes spending then of \$800 million, versus \$600 million this year. That's no small order: Kabul takes in only about \$300 million in taxes now, the \$300 million budget gap being filled by foreign aid. Taxes on earnings -- Popal's next order of business is to institute an income tax system from scratch -- are expected to make up the lion's shares of the extra revenues required. "This is the biggest tax haven in the world," he half-jokes. "But that's about to end."

The additional tax proceeds are desperately needed, Ghani says, to pay the salaries of government employees. "It's extremely mundane, but mundane is what is at the heart of legitimacy," he explains. "It's all about being a normal country, and normal countries pay their government officials adequately, promptly and regularly, on time and in full."

TO WALK THROUGH THE RAMSHACKLE FINANCE ministry is to be reminded of how far Afghanistan remains from normalcy. The dull Soviet-era building fronts Kabul's Pashtunistan Square, where five streets full of buses, taxis, carts and four-wheel drive vehicles intersect and usually overwhelm hapless traffic police. Ministry offices are sandbagged against bombs and mortar attacks. Sullen guards in fatigues who tote Kalashnikovs patrol nearly every corridor.

"Finance ministers don't win popularity contests anywhere," observes Australia's Carnahan. "But at least in Washington or Canberra or London when someone hates you they tend not to send a hit squad of assassins around." (Ghani has been threatened with death, but no attempts on his life have been made.)

Yet as Ghani well appreciates, the enemies of reform in the new Afghanistan aren't just the Taliban or al-Qaeda. Some of his fiercest opponents occupy Karzai's cabinet. "The cabinet does not yet have a common vision," Ghani says euphemistically.

The president split bitterly with his own vice president, Mohammad Qasim Fahim, in late July when Karzai didn't select him as his running mate for the upcoming election. By making an enemy of this prominent Northern Alliance commander, who was both vice president and Defense minister, Karzai has added a new measure of uncertainty to the polling. His moderate Foreign minister, Abdullah Abdullah, has tossed his support to Fahim, Abdullah's former commander and fellow Tajik. Uzbeks and Tajiks make up about one third of the population, Karzai's and Ghani's Pashtuns just under one half. Will Ghani serve in the next government if asked, regardless of who wins? "It depends on the next government, and it depends on the degree of alignment within the cabinet," he says guardedly. Pausing to sip his beloved Starbucks coffee (he has the beans flown in from the U.S.) and click his worry beads, he adds half hopefully and half resignedly: "I'd love to go back to teaching, but I'm committed to serving Afghanistan, to paying back my debt of education. My time in the U.S. is over -- my future is this country."