

AFGHANISTAN'S OPIUM DRUG ECONOMY

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AFGHANISTAN'S OPIUM DRUG ECONOMY

Introduction

Heroin, made from opium, is a very dangerous drug, estimated to have some 15 million users worldwide. Global production of opium has shot up from barely a thousand tons in 1979 to about 4,850 tons in 2004 (about 500 metric tons of heroin). A long term decline in the street price of heroin has favored the growth of consumption. Now consumption has stabilized in Western Europe, but new markets in Asia and Eastern Europe are growing fast. Since the 1920s the world community has organized itself to combat illicit opiates (initially morphine only, extended to heroin in 1979/80), and now devotes enormous resources to this effort. Aggressive enforcement efforts and seizures have been unable, however, to make much of a dent in the trade.

During nearly a quarter-century of strife in Afghanistan, per capita incomes declined by a third and Afghanistan joined two other states racked by internal conflict in the dismal bottom three of the world's per-capita GDP rankings. Nine per cent of the population was killed in just a decade, and a large part of the population fled the country. In farming areas, assets were ruined and food production fell by almost half.

In this situation of anarchy and poverty, the cultivation of opium in Afghanistan spread very rapidly over the last ten years, and now occurs in all 34 provinces. Afghanistan has become the world's leading source of opiates, supplying three quarters of the global market in 2003, reaching ten million abusers worldwide, of whom some 10,000 die each year from opiates produced in Afghanistan. Opium farm-gate income, which was only 3% of Afghanistan's GDP as recently as 1990, in 2003 was one-seventh of total GDP. Most opium is now processed into heroin and morphine within Afghanistan, and the trafficking and trade accounted for an even greater proportion of the country's GDP. All told, the opium economy comprised roughly one-third of total (drug-inclusive) national income in 2003. Born of desperation and opportunism, opium production has become the mainstay of the Afghan rural economy and dominates the nation's exports. The drug trade, with substantial involvement of criminal elements from outside Afghanistan, has fed warlordism in an infernal exchange between drugs and guns, and has spawned a gigantic criminal activity that threatens the integrity and capacity of the state and may maintain shadowy links with terrorism.

Afghanistan's opium economy has swollen as production has dwindled in other countries and global demand has grown. Yet not only has the success of other nations' combat against the drug given impulse to its growth and entrenchment in Afghanistan, but the solutions that have been applied with success elsewhere look insufficient in the difficult conditions of Afghanistan. In many ways, Afghanistan stands out as the most difficult case in a business where success has rarely been won, and then only with enormous expense of time and money. The sheer preponderance of the drug economy and its penetration of most parts of the country make solutions hard to find. The fight affects a huge number of people – one-third of (opium inclusive) gross domestic product, many in the security apparatus and political establishment, and a large part of the rural population, most of them very poor.

The conditions propitious to the spread of opium are inimical to combating it – very weak governance, strong local warlordism, twenty four years of war and the pronounced misery of the population. The Government suffers from weak capacity and conflicting stresses in selecting policy options. Experience suggests that time is needed, and also the weakness of the state implies that there will be no quick fixes. Yet other factors push for quick solutions: opium is

undermining both the economy and the polity in a vicious circle of drugs and arms, supporting fragmented warlordism and undermining efforts to build an effective, accountable national state. The spread of the drug economy has been rapid and could continue if nothing meaningful is done on an urgent basis. External actors emphasize the possible links between drugs and terrorism, and propose strategies driven by their own preoccupations.

In fact, there is no track record for dealing with a narcotics problem of this magnitude – successful eradication models do not provide easy lessons for a country like Afghanistan where the state has been gravely weakened by debilitating long-term conflict. Iran stamped out production in a single year, but the state was strong and enforcement total. Pakistan and Thailand pursued elimination strategies but also nation building approaches, providing poor farmers with alternative livelihoods before conducting eradication campaigns, on the humane and practical reasoning that very poor people must have alternatives if elimination of poppy production is to be sustainable.

This approach – which maintains that alternatives must be provided – is endorsed by the United Nations. Yet the implications in terms of time and money are enormous. And in effect in the Afghan context, it raises every question about the country's future: “the illicit drugs economy in Afghanistan cannot be treated separately from the other major challenges facing the country: unresolved conflicts, insecurity, the lack of an effective state, corruption, a weak formal economy, abuse of human rights and long-term poverty. Eliminating this illegal business will therefore take time. There are no quick fixes.”¹ Afghanistan has promulgated a comprehensive National Development Framework, a broad development strategy to reduce poverty. Ultimately only sustained, equitable economic growth and the development of institutions can deliver the political, security, social, and economic environment in which the sustainable elimination of opium poppy production can be achieved.

But others insist on the urgency of immediate law enforcement, underlining the illegality and immorality of opium production and trafficking, and the links to the destabilizing forces of warlords, the Taliban, and terrorism. There are calls for urgent and signal acts to stamp on the opium cancer before it spreads out of any control. There is a fundamental dilemma confronting decision-makers – is opium production predominantly a desperate poverty coping strategy increasingly adopted for lack of viable alternatives by the extremely poor. Or is it a fast growing and lucrative illegal business. Of course it is both – so what is the strategy that Government should pursue?

The Afghan government, with its very limited capacity, falls between these poles of thought. In May 2003, the Afghan National Drugs Control Strategy was adopted. This sets a target of reducing poppy production by 70% in five years and eliminating it in 10 years. The strategy leaves open the question of how exactly this can be achieved. Even if the right approach were clear and all supported it, insecurity in many of the areas where opium poppy is concentrated and the Government's limited implementation capacity would severely limit its choices. The International Conference convened in Kabul in February 2004 by the Government with the support of the United Kingdom and UNODC gave prominence to these issues but did not provide ready answers.

With this general problem statement, this paper analyses specific components of the drug problem and explores what options are open to Afghanistan.

¹ Quoted from a paper by DFID.

Executive Summary

Part I Afghanistan's Opium Problem

The Afghan opium boom

In conditions of lawlessness and impoverishment, opium has become Afghanistan's leading economic activity, accounting for one third of (opium inclusive) GDP in 2003, even more in 2004. Despite current attempts to stem it, the opium economy is expanding, driven by good prices and by rural poverty and debt, as well as by pressures from criminal networks. Production is now found in all 34 provinces. Drops in the opium price in 2003 and 2004, high labor costs, and some attempts at eradication have apparently not reduced incentives, and farmers harvested opium on a record area in 2004. A large part of the Afghan population is benefiting from the production, processing, and trafficking of opium. This drug has taken a strong hold in Afghanistan despite the lack of a strong opium tradition or culture. The opium boom has been stimulated by a decline in supply to the world market from other sources as well as growing demand from new markets, by Afghanistan's comparative advantage as a producer, and by conditions arising from the war – the collapse of governance, rural pauperization, and the trade in drugs for arms.

Opium production and the rural economy

Opium poppy cultivation has steadily increased in Afghanistan since the 1980s. It is a high value crop, but represents only a relatively small part of total cropping nationwide, about 1% of arable land and 3% of irrigated land in the late 1990s, but rising to some 7% of irrigated land in 2004. After a sharp dip in 2001 reflecting the Taliban ban, production is almost back at the levels of the late 1990s. Despite reported eradication on 21,400 ha in 2003, more farmers planted opium in 2004 than ever before, and over an area two thirds larger. Since the opium poppy is an annual crop, production also can easily shift location from year to year. Poppy is also a labor-intensive crop (350 person days/ha annually), particularly compared to the staple crop, wheat (about 40 person days/ha annually). Overall, production may involve as many as two million people, around 9% of the total population, and there is a growing corps of skilled workers. Hence opium is providing a substantial contribution to household welfare. Some opium farmers are resource rich, but the majority are resource poor, often involved in sharecropping arrangements that require opium cultivation. Empirical evidence suggests that farmer motivation relates to complex livelihoods strategies, and that there is a close connection between opium production and rural poverty. However, weak data on farmers' situations make it difficult to determine the right balance between poverty alleviating approaches to crop reduction and law enforcement approaches such as forcible eradication. Although households do switch between opium and food crops, there is no evidence that opium is crowding out cereals production.

Processing and trafficking

Opium markets in Afghanistan seem to operate efficiently as small scale, rapid turnover businesses. Based on the changing pattern of seizures of opiates in neighboring countries, it appears that much more opium is now processed into morphine and heroin within Afghanistan. Despite some local market concentration, there is no evidence of cartels, but there is large interpenetration of the opium economy with local and central political interests, and many millions of people participate in the profits, in a broad network of protection and pay-offs. Drug profits are clearly financing local warlords and the political elite, but also sustain the livelihoods of many quite poor people. Most proceeds of opium production and trade in Afghanistan have

probably been kept and spent locally, but money transfer and laundering can easily be done through the paperless *hawala* system, which is difficult to monitor. Front-line responsibility for law enforcement on drugs, including interdiction, lies with the national police, but its specialized drugs unit has only recently been set up. The law enforcement effort is weakened by confused responsibilities, lack of accountability, and lack of resources. In the absence of effective law enforcement and of a working judicial and penal system, drug trafficking and processing have been virtually unchecked in the past, although progress is beginning to be made with interdiction.

The economics and political economy of the opium industry

Opium production, processing, and trade within Afghanistan bring in more than one-third of total national income. This is broadly spread in the farming sector but an even larger share flows to processors and traffickers, and to “protection” at all levels. Opium revenues in the hands of farmers and petty agents are highly likely to be spent on consumption goods produced domestically. More powerful interests, including processors and traffickers, invest more and spend more on imported goods, particularly durables. Recently, more drug money generated in Afghanistan may have been leaving the country. The opium market more closely resembles a competitive market than a cartelized business. This would imply a likely pattern of fragmented capture of the state apparatus at the local level and strong resistance to central government control, making state-building difficult. In the absence of law enforcement, an efficient, competitive drug industry will become increasingly embedded in regional power bases. World demand, particularly regional demand from countries around Afghanistan, is strong, and the Afghan drug industry has the market structure, comparative advantage, and factor availability to expand opium production considerably. Given the high margins, production is unlikely to diminish unless world prices fall a long way which is not expected to happen. Production is also relatively “footloose”, and can migrate in the face of law enforcement. From an overall macro perspective, opium brings substantial benefits to Afghanistan, raising aggregate demand, supporting the balance of payments and indirectly boosting fiscal revenues, and acting as a coping mechanism for the poor. Costs include the macroeconomic volatility associated with the drug industry, the risk of “Dutch disease”, and the infernal nexus of insecurity, warlords, the weak state, corruption, and poor governance. Opium has become increasingly “capitalized” in the rural economy and is distorting land and labor prices. The size of the problem and Afghanistan’s limited resources suggest that counter-narcotics strategy should give priority to combating trafficking and processing as that is where the maximum harm is being caused. An interdiction-based strategy would also be likely to bring down opium producer prices down at least temporarily by disrupting downstream activities, reducing the economic incentives for farmers to grow poppy. As opium dwindles, there will be a need to mitigate adverse side effects, both macroeconomic and microeconomic. Mitigation measures could include (1) support to sustain rapid economic growth; (2) support to offset the loss of foreign exchange; and (3) programs at the micro level, particularly alternative livelihoods programs.

The regional and international dimension

Extensive regional and international cooperation around Afghanistan contributes to substantial seizures of opiates. International concern and action has intensified with concerns over the explosive growth of the Afghan heroin trade and its possible links to terrorism. International experience is that interdiction beyond the frontier increases risk premia but is expensive and can stop only a small proportion of the trade. Effectively, interdiction needs to begin within Afghanistan – evidence suggests that demand reduction or interdiction beyond the frontiers will do little to reduce the drug problem in major producing countries like Afghanistan. Without strong domestic interdiction, Afghanistan will continue to export increasing quantities of opiates. Export routes out of the country are many and shift quickly in response to attempts to suppress

them. Trade and processing are even more “footloose” than production in terms of how quickly they can shift. Demand for heroin in Western Europe is not growing, but Afghan opiates are supplying expanding markets in Eastern Europe and Asia, and even the best organized states cannot really control trafficking or local demand. HIV/AIDS is growing fast in these new territories. Prospects for a reduction in aggregate demand or producer price through increased risk premia beyond Afghanistan’s frontiers are poor.

Part II Fighting Opium

Lessons from experience in fighting drugs

Drug consuming nations have invested heavily in drug control over a long period of time, but there has been no large, sustained reduction in global consumption of illicit narcotics. There are a few hard-won success stories, but the drug industry in Afghanistan is of a different order of magnitude than in other countries, and lessons of international experience need to be related to Afghanistan with caution. On the supply side, international experience suggests that, unless a strongly authoritarian approach is taken, reducing production is a long, slow, and expensive task, even under good governance conditions. At the production level, a key lesson is that eradication of crops alone will not work and is likely to be counterproductive, resulting in perverse incentives for farmers to grow more drugs, displacement of production to more remote areas, and fueling of violence and insecurity.

Actual efforts at eradication in Afghanistan so far have been counterproductive, and experience shows that programs are first required to help rural people find alternative sources of livelihood. Some pilot alternative livelihoods programs are already producing valuable lessons, particularly that such programs have to be flexible and adapt to the specifics of household situations, that non-farm activities need a special focus, that a long-term approach is essential, and that building governance, responsible citizenship, and the “social contract” is important as well. Law enforcement against farmers who continue to cultivate opium poppy even when they have viable alternatives also is clearly needed, but only when programs have palpably improved licit livelihoods. As production is indeed mobile and the problem is a national one, fighting drugs cannot be done through small localized projects: the drug control effort has to be “mainstreamed” into the overall development effort.

Front-line responsibility for law enforcement on drugs, including interdiction, lies with the national police, but its specialized drugs unit has only recently been set up. The law enforcement effort has been weakened by confused responsibilities, no accountability, and lack of resources. In the absence of effective law enforcement and of a working judicial and penal system, drug trafficking and processing has hitherto proceeded virtually unchecked. Government and donors are now acting decisively to build capacity and to conduct tactical campaigns. The legal, judicial and penal systems need overhaul as at present no trafficker is being tried, let alone punished.

Government strategy

The Counter Narcotics Directorate (CND) was created in October 2002 to coordinate Afghanistan’s counter narcotics struggle. The Directorate has prepared a national strategy, signed by the President, which targets a 70% reduction in opium production by 2008, and its elimination by 2013. The mechanisms are an alternative livelihoods approach coupled with progressive enforcement of a cultivation ban, interdiction and prosecution of trafficking and processing, and forfeiture of drug-related assets. The strategy provides a sound framework for action. It acknowledges the difficulties faced and proposes many sound and necessary actions. It has a

provision for action plans, coordination, monitoring etc. The proposals link to existing activities and programs rather than proposing yet more initiatives for an already overloaded system. Broad consultations are needed to get ownership of the strategy and to develop a sequenced action plan and investment program. The overall targets are ambitious, prompting the question whether the measures proposed are sufficient to achieve them. A “paradigm shift” may be needed to cope with such an unprecedented problem. Institutional capacity is another question, particularly the capacity of CND to do all that is expected of it. Strengthening of counter-narcotics institutions is under consideration, including the possibility of establishing a ministry responsible for counter-narcotics efforts. The International Counter Narcotics Conference in February, 2004 demonstrated the Government’s determination and top-level commitment, created some ownership, and put on the table a number of the more difficult issues. Key points from the strategy are now being worked out in implementation plans, although some implementation proposals appear at variance with the strategy, particularly the balance between eradication and interdiction, and the sequencing of alternative livelihoods programs and eradication.

Options and trade offs for strategy implementation

Breaking the vicious circle of drugs, warlords, and insecurity, which is so inimical to Afghanistan’s state-building and reconstruction agenda, requires an approach on several fronts. Drug control measures alone will not be effective. The response to the drug economy must occur within a broader strategic framework of state building, improving security, and curbing warlords. In addition to drug measures this framework includes (1) curbing warlords’ power; (2) building state capacity and resources; and (3) security sector reform and capacity-building. All this needs to happen in an environment of rapid economic growth which allows the drug economy and other forms of illegal activity to be replaced over time by legitimate economic activities.

Among the implementation options open, there is an economic, moral, and political case for interdiction, but it requires decisiveness, persistence, and political consensus on a sustained basis. Changes in the legal framework and judicial and penal process, and restructuring and better arming of interdiction forces would also be needed. An approach led by eradication would be hard to implement and would have a negative poverty impact, unless eradication were accompanied by complementary economic measures. Experience suggests that an eradication-led approach will not result in a sustainable reduction in production but instead will encourage further spread of cultivation around the country. Alternative livelihoods development by itself is slow-acting and needs to be backed by law enforcement. Work is also needed to reach consensus on the alternative livelihoods concept and programs. Associating alternative livelihoods approaches with eradication is a plausible route to reducing production, but there is no consensus yet on how to do this. The Government is now faced with choices and trade offs in implementing the strategy. Clearly economic measures and law enforcement are both essential – but in what measure, and with what sequencing? The Government may want at least initially to give priority to interdiction over eradication and to focus on larger actors – and perhaps on emerging production areas – to avoid dispersing scant political capital, energy, and capacity. At the same time alternative livelihoods programs could be put in place, with initially limited and targeted eradication but with the promise of more substantial eradication subsequently. In this scenario, it is the combination and phasing of the three elements that will be most effective – a sequence in which interdiction drives down the price of opium and creates market uncertainty, alternative livelihoods efforts provide realistic alternatives, and then eradication targets those still producing opium when they do have alternatives. From a macro perspective, the non-drug economy needs to grow faster in order for the drug economy to be eliminated without adversely affecting national economic development. Monitoring of progress in counter-narcotics is essential. Afghanistan needs to mobilize the sustained and coordinated support of the international community in the fight against drugs, including action on demand in consuming countries.

PART III Toward Ways Forward

Operationalizing the National Drugs Control Strategy

The challenge of tackling the opium economy is central to the challenge of building a modern Afghan state and economy, and early and concerted action is needed on a broad front. Otherwise the opium problem will grow worse and will further undermine state building efforts. The multiple development implications of opium include benefits as well as costs, and trade-offs are inevitable in combating it. At the producer level, several factors drive production. Programs to reduce opium production will therefore have to address the whole range of motivations and constraints that lead rural people to engage in the opium economy. These programs must not further impoverish the rural population. At the political level, the biggest evil of the opium industry is the nexus of drugs with insecurity and warlords. Counter-narcotics efforts will need to confront this problem head-on, but also improve governance and stakeholder institutions. At the economic level, despite the benefits of opium, the costs and risks are undermining Afghanistan's reconstruction and longer-term development. As opium declines, support will be needed to offset the reduction in opium earnings.

The strategic framework for counter-narcotics needs to be driven by two vital considerations: mainstreaming the fight against drugs as a central part of the national development effort, and concentrating the nation's limited capability on reducing harm most effectively. International support to this framework will be essential for a considerable period of time. The National Drugs Control Strategy starts with interdiction and alternative livelihoods, then eradication in due course. This approach is on balance the most appropriate, as it targets drug control efforts at the most harmful elements and allows time for the needed economic growth. In designing alternative livelihoods programs, a long-term development approach is essential. Programs should be demand driven, and non-farm activities and governance building will be important elements. Law enforcement will be needed but it must be used tactically. Localized projects can achieve little impact: drug control objectives therefore need to be mainstreamed into nationwide development programs. There is also a substantial knowledge agenda, as the fight against drugs requires knowledge of the structure and dynamics of the business, as well as monitoring how it evolves in response to incentives, constraints and shocks.

In implementation, the Government should be seen to be clear, firm, and fair. Institutional weakness imposes simplicity, mainstreaming, and a reliance on all possible implementation capacity, including NGOs, markets, and incentives. The current relatively low opium price may provide a window of opportunity. Next steps should be to: (i) fully mobilize the institutional structures that can help implement the counter-narcotics strategy; (ii) prepare and implement a nationwide alternative livelihoods program, with a focus on mainstreaming; (iii) move forward with a parallel process of definition, programming, and investment for the law enforcement and judicial reform processes; (iv) continue the "hearts and minds" campaign; (v) consider action on money laundering; (vi) review innovative approaches; (vii) target interdiction at high-value targets; and (viii) engage international support fully around a cohesive strategic approach.

In conclusion, the overall strategic framework is sound but implementation involves difficult trade-offs and faces weak implementation capacity. The political risk of not acting outweighs the risk of acting, and early demonstration of the Government's resolve is needed. By contrast, there is a risk in precipitate eradication. The Government should mobilize support around its national strategy in order to ensure buy-in to a single strategic approach. Ultimately, reducing the size of the opium economy and eventually phasing it out will take time, and sustained high economic growth rates helped by massive external support are the essential accompaniment.

AFGHANISTAN'S OPIUM DRUG ECONOMY

PART I: Afghanistan's Opium Problem

Chapter 1. The Afghan Opium Boom

Summary. In conditions of lawlessness and impoverishment, opium has become Afghanistan's leading economic activity, accounting for around one-third of (opium inclusive) GDP in 2003, even more in 2004. Despite current attempts to stem it, the opium economy is expanding, driven by good prices and by rural poverty and debt, as well as by pressures from criminal networks. Production is now found in all 34 provinces. Drops in the opium price in 2003 and 2004, high labor costs, and some attempts at eradication have apparently not reduced incentives, and farmers harvested opium on a record area in 2004. A large part of the Afghan population is benefiting from the production, processing, and trafficking of opium. This drug has taken a strong hold in Afghanistan despite the lack of a strong opium tradition or culture. The opium boom has been stimulated by a decline in supply to the world market from other sources as well as growing demand from new markets, by Afghanistan's comparative advantage as a producer, and by conditions arising from the war – the collapse of governance, rural pauperization, and the trade in drugs for arms.

1.1 The opium boom

From small beginnings, opium poppy production in Afghanistan grew fast during the wars and upheavals of the 1980s and 1990s, until by the mid-1990s Afghan opiates dominated the world market. Now about 120 tons of heroin of Afghan origin reaches Western Europe each year, accounting for three quarters of the heroin market there with a street value of about \$30 billion (some seven times the entire Afghan non-drug GDP). Afghan heroin is also feeding a fast-growing habit in the adjacent territories of western and central Asia as well as elsewhere.

In 2004 producers' income from opium was estimated at \$600 million. The estimated traffickers and processors income in the same year was \$2.2 billion. Altogether, the opium economy accounts for more than a third of estimated total (opium inclusive) GDP. However, Afghanistan's share of the world income from its opiates is small: \$2.8 billion in 2004, less than 10% of the estimated final street value.

Opium has many attractive characteristics as a cash crop. It has a high producer price. Under the political and security conditions that prevailed during two decades of turmoil, it was the only cash crop that had a secure and protected market. Relatively undemanding agronomic characteristics, the development and spread of knowledge about husbandry, and the access to land, inputs, and credit that the opium business offered made opium the crop of choice for many parts of Afghanistan as the rural economy slid into impoverishment and anarchy. Opium is a labor-intensive crop, which provides good returns to family labor and creates seasonal casual labor opportunities. The tenfold rise in the farm-gate price of opium that followed the Taliban cultivation ban in 2000 enormously increased the profitability of the crop. Production has gone up over the last three years, but is still below the peak of 1999. Even though the average price of fresh opium in 2004 (\$92/kg) plummeted by 67% from the 2003 price of \$283, no other crop can compete on price.

For many areas it has become the dominant crop (in value, but not in area), although almost all farmers continue to grow food crops alongside opium. Production is engaged in by the landless poor, by smallholders who own small parcels and who may also sharecrop or rent additional land, and by farmers who produce opium on a part of their own land.

Despite current attempts to stem it, the opium economy is continuing to expand, driven by good prices and by rural poverty and debt. A large part of the Afghan population is participating in production, processing, and trafficking. Production spread from 28 provinces in 2003 to all 34 provinces in 2004, and the geographical spread is becoming greater – in 2002 the five first ranking provinces accounted for 91% of cultivation but in 2003 their share was 72% and in 2004 only 68%. Drops in the opium price in 2004, high labor costs, and some attempts at eradication have apparently not reduced incentives. It should be emphasized that price is not the only incentive, as opium is a lifeline for many poor people, and complex survival strategies are driving much opium production (see Chapter 2). Processing and trafficking are well organized and financed, and exports are increasingly of processed heroin rather than of raw opium.

1.2 Why did opium take hold?

Historically, Afghanistan did not have a strong opium tradition or culture. The rapid spread of the crop over the last fifteen years shows its attractiveness to farmers. In many ways it is a miracle crop for Afghanistan's battered rural economy – a durable commodity commanding a high price, with a guaranteed market outlet, easy to transport, and non-perishable, so that stocks can be carried over as a price hedge. When these factors are combined with the lack of credible law enforcement, it is clear that opium poppy cultivation offers people a level of relative security in a high risk environment. What are the structural factors that have allowed opium to become so important a part of Afghanistan's overall economy?

The rise of the opium phenomenon can be attributed to six main factors.

- 1. A shift in supply to the world market and growing demand.* Over the last twenty years, three countries (Iran, Pakistan, Turkey) that had traditionally been major opium producers succeeded in virtually eradicating the crop. Global demand continued to grow as a result of new markets, and a gap opened up in the world market for a major new supplier.
- 2. Collapse of governance.* During twenty four years of almost continuous war, conflict, and internecine violence, successive governments effectively lost control of the countryside.
- 3. Drugs and arms.* Opium flourished in conditions of anarchy, promoted by domestic and regional interests who fed on it. The continuous civil strife required cash, and an opium for arms trade arose. This tendency reached its lowest point when warlords reportedly gave allegiance to the Taliban in return for a promise to keep the opium profit.
- 4. Rural pauperization.* As Afghanistan failed, cultivating opium became a means of survival for rural communities. In a predominantly agricultural economy (agriculture was 53% of the economy) the degradation of agriculture and infrastructure and the disappearance of viable markets led to extreme rural impoverishment. More than half Afghanistan's villages were bombed. Livestock numbers dwindled to a third of pre-war levels. Over a third of land simply went out of production. By 1991, Afghanistan had sunk to the 3rd lowest GDP in the world, and Afghans had joined the Haitians and the Somalis as more chronically hungry than any other people. Even today many Afghans are

still vulnerable to famine, and GDP per capita (even including opium) was no more than \$310 in 2003. With high unemployment and few non-farm jobs, rural livelihoods and markets collapsed, and a shift in agricultural livelihoods strategies took place. Despite widespread cultural and religious aversion, opium production became accepted as a livelihood strategy.

5. *Comparative advantage.* Under present conditions, poppy production is unrivalled in its profitability, and this reflects Afghanistan's favorable factor endowment, producing the world's highest yields of illicit opium (45 kg of opium per ha in 2003, although down to 32 kg/ha in 2004). Naturally conducive growing conditions and the use of prime irrigated land for cultivation are reinforced by husbandry know-how, which has developed and spread rapidly, and – until recently – by cheap labor (still largely low opportunity cost family labor).

6. *Market development.* Market organization is excellent, well adapted to the characteristics of the product and the nature and intensity of risks. Markets extend from farm gate to beyond the frontier, and provide working capital financing at all stages.

1.3 Are there limits to the opium boom?

Opium production and revenues have expanded spectacularly since the Taliban ban on production in 2000/1. Production area expanded 64% in 2004, and as opium occupies only a small percentage of Afghanistan's arable land (7% of the irrigated area), the technical possibilities of increasing production further are large. Producer prices in 2004 were sharply down, but there is no apparent shortage of new entrants to production. The market may, however, be close to saturation at current production levels, as there are indications that substantial inventories have accumulated. Some production constraints have emerged, including shortages of skilled labor at peak times, a drop in yields in 2004, and disease problems in several areas, but these problems are likely to prove temporary. In the absence of effective interventions to contain the industry, opium production and exports are likely to continue to expand, at least in line with growth in market demand.

Chapter 2. Opium Production and The Rural Economy

Summary. *Opium poppy cultivation has steadily increased in Afghanistan since the 1980s. It is a high value crop, but represents only a small part of total cropping, about 1% of arable land and 3% of irrigated land in the late 1990s, but rising to some 7% of irrigated land in 2004. After a sharp dip in 2001 reflecting the Taliban ban, production is almost back at the levels of the late 1990s. Despite reported eradication on 21,400 ha in 2003, more farmers planted opium in 2004 than ever before, and over a 64% larger area. Poppy is a labor-intensive crop (350 person days/ha annually), particularly compared to the staple crop, wheat (about 40 person days/ha annually). Overall, production may involve as many as two million people, around 9% of the total population, and there is a growing corps of skilled workers. Hence opium is providing a substantial contribution to household welfare. Some opium farmers are resource rich, but the majority are resource poor, often involved in sharecropping arrangements that require opium cultivation. Empirical evidence suggests that farmer motivation relates to complex livelihoods strategies, and that there is a close connection between opium production and rural poverty. However, weak data on farmers' situations make it difficult to determine the right balance between poverty alleviating approaches to crop reduction and law enforcement approaches such as forcible eradication. Although households do switch between opium and food crops, there is no evidence that opium is crowding out cereals production.*

A. Production and the Producers

2.1 Opium production

Cultivated area. This section draws largely on the UNODC Afghanistan Opium Surveys and on the 2003 UNODC publication *The Opium Economy of Afghanistan*. With the exception of 2001, when the Taliban acted decisively to reduce production, opium poppy cultivation has increased in Afghanistan since the mid-1980s, peaking in 1999 (Table 1 and Figure 1). The UNODC Survey estimated that in 2003 opium was cultivated on 80,000 ha, up 8% from 74,000 ha in 2002. The 2004 Survey estimates that in 2004 opium poppy was cultivated on 131,000 ha, an all time high, up 64% compared with 2003. In 1994, only seven out of Afghanistan's 32 provinces were producing opium poppy; by 2003, cultivation was recorded in 28 provinces, and in 2004 in all 34 provinces (two new provinces having been created), with increases in area over 2003 in all provinces except one. However, in many parts of the country production is still in its infancy. In 2004, just three provinces accounted for 56% of the total poppy area, and six provinces for 72% (see Table 4). Two traditional opium growing areas where there has been Government action against production registered declines in production in 2003 (Helmand and Qandahar) but production in these provinces returned to 2002 levels in 2004, and new concentrations are springing up, notably in Badakhshan. However, opium cultivation still covers only a very small area, about 1% of total arable land and less than 3% of irrigated land in the late 1990s, but rising to some 7% of irrigated land by 2004. Even in opium growing villages, opium is typically cultivated on only 10% of the land (12 ha out of the average village cultivated area of 150 ha of arable land).² Regionally, however, greater concentration is now occurring: opium occupied 29% of irrigated land in Nangahar in 2004, 28% in Badakhshan, and 24% in Kunar.

² The average farm growing opium has only a third of a hectare under the crop. This pattern of small parcels can be seen from aerial photographs, where the opium fields are dotted here and there among the other crops. Field work done recently in opium growing areas (Pain 2003, Mansfield 2004a) indicates that few farmers commit more than 25% of their land to opium poppy. There are limiting factors of risk (eradication, disease, investment), cost (labor intensity creates at least a high opportunity cost), and availability of labor, particularly of family labor, for such a labor-intensive crop. The 2003/04 UNODC Farmer Intentions Survey showed that 64% of farmers allocate 0.4 ha or less for poppy cultivation, and only 3% plant more than 2 ha.

Opium has become predominantly an irrigated crop: in 2004, 92% of poppy cultivation was on irrigated land (UNODC 2004b).

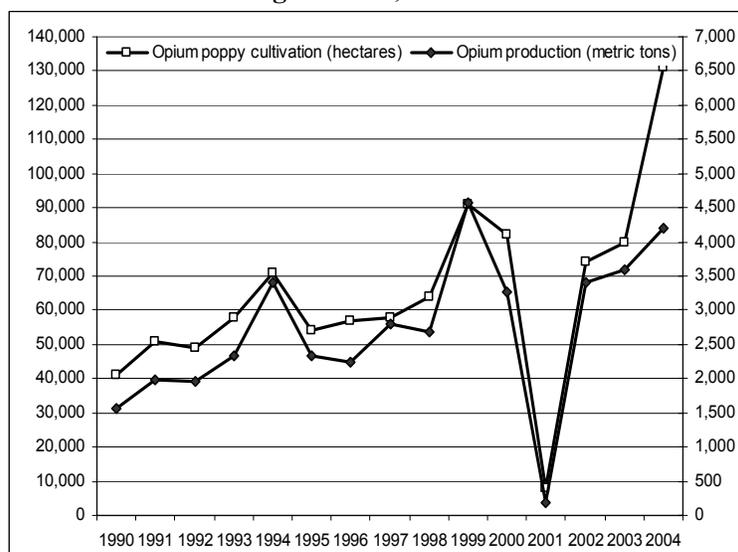
Production volumes and yields. Production of opium in 2004 was 4,200 tons against 3,600 tons in 2003, a 17% increase (see Table 1 and Figure 1). Production volume in 2004 was the second largest on record, but still below the record level of 4,600 tons in 1999.³ Average yields in 2004 were sharply lower, averaging 32 kg/ha, down 29% from 45 kg/ha recorded in 2003. The decline in average yields reportedly reflects drought and disease, failure to rotate poppy with other crops to preserve soil quality, and lack of experience of new entrants – many new households and localities are starting to cultivate poppy and have not yet mastered the sometimes difficult techniques (see UNODC, 2004b).

Table 1: Opium poppy cultivation and production in Afghanistan, 1990-2004

Year	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
Area (000 has)	41	51	49	58	71	54	57	58	64	91	82	8	74	80	131
Production (000 tons)	1.57	1.98	1.97	2.33	3.41	2.33	2.25	2.80	2.69	4.56	3.28	0.18	3.40	3.60	4.20

Source: UNODC

Figure 1: Opium poppy cultivation and production in Afghanistan, 1990-2004



Source: UNODC

Prices. Farm-gate prices of fresh opium in 2004 are estimated by UNODC at \$92/kg (Table 2 and Figure 2). This price is down 67% from the 2003 estimated price of \$283/kg, and well below the prices of over \$300/kg in 2001 and 2002 that followed the Taliban ban in 2000/01. Current prices are closer to the longer-term price trends of the 1990s, when it was below \$50/kg. Lower prices in 2004 probably reflect the results of three years of relatively high production levels and associated rebuilding of large inventories run down at the time of the 2000/01 ban. Regional and seasonal price variations are significant (see Chapter 3).

Farm incomes. Total farm income from opium in 2004 is estimated at US\$600 million, down from \$1.02 billion in 2003 and \$1.2 billion in 2002. These figures are much higher than farm-

³ The increase in Afghanistan in 2004 more than offset the decline in Southeast Asia, resulting in an overall increase in global illicit poppy cultivation in 2004 (UNODC 2004b).

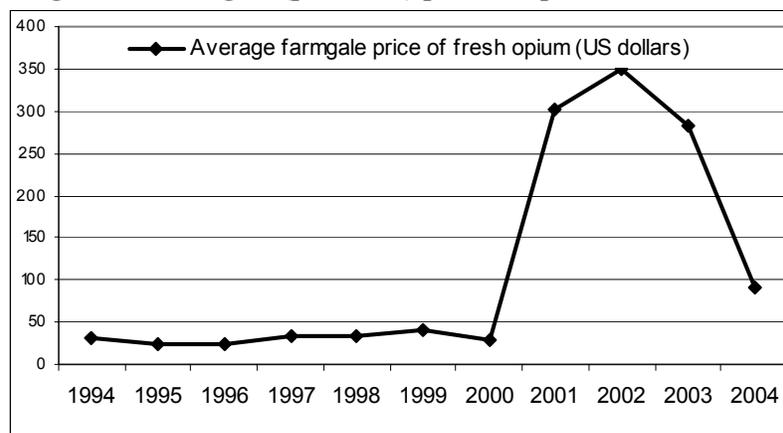
gate incomes prior to the Taliban, by a multiplier of five times or more (Table 2). It is important to note that these high returns are very unevenly distributed, with poorer farmers and sharecroppers deriving only a fraction of the income accruing to larger farmers. The drop in prices in 2004 and the difficulty and high cost of obtaining labor have reduced farmers' margins. However, the UNODC Farmers Intentions Survey for the 2003/04 season (February 2004) correctly reported that, despite threats of eradication, falling prices, and high labor costs, more farmers were intending to plant opium poppy and over a larger area than in the 2002/03 season (see Box 1).

Table 2: Raw opium farm gate prices and gross farm opium revenues, 1994-2004

Year	94	95	96	97	98	99	00	01	02	03	04
Average price (\$/kg)	30	23	24	34	33	40	28	301	350	283	92
Gross farm income from opium (\$ millions)	102	54	54	95	90	183	91	56	1,200	1,020	600

Source: UNODC

Figure 2: Farm gate (producer) price of opium 1994-2004



Source: UNODC

Wage labor. Opium production and harvesting have become an important source of wage labor income. In 2003, the peak labor demand during the harvest season pushed up wages in some major poppy growing areas to \$10-12 a day (against an off-season average of \$2-3 per day). Wage rates in 2004 appear to have moderated somewhat, but were still of the order of \$7-8 during the harvest season.

2.2 Characteristics of opium producers

Farm households. According to the UNODC Afghanistan Opium Survey 2004 (UNODC, 2004b), an estimated 356,000 farm households produced opium in 2004, up from 264,000 households in 2003. Thus approximately one farm household in eight nationwide produces opium, although in the main producing areas the proportion is much higher: as many as two thirds of families in rural areas of Eastern Afghanistan and in Helmand, half of the families in rural Badakhshan (UNODC 2004b). A number of socio-economic and agro-economic studies provide a basis for assigning poppy farmers to two very broad classes: *resource rich* and *resource poor*. It should be underlined that this characterization of farmers serves only to provide a stylized

working model of the opium economy and its actors. The literature on which it is based, and particularly micro level empirical studies carried out over the last two years⁴, illustrate not only the great variations between different regions of the country but also the heterogeneity within regions and within villages.

Resource rich farmers have access to land, water, labor, and working capital. These farmers typically cultivate opium themselves as part of a diversified cropping pattern that also includes food crops and other cash crops. Many of these farmers will also rent out or sharecrop part of their land, with rents denominated in opium. The existence of a large pool of unemployed or underemployed rural people with little or no land has provided a source of cheap labor. Recent rises in wage rates suggest localized labor shortages that may moderate further expansion of opium cultivation, although this did not happen in 2004 when cultivation expanded sharply. The availability of working capital allows landowners to make advances on favorable terms, to purchase the crop in advance, and to hold stocks of opium well beyond harvest, when prices typically rise.

Box 1: UNODC Farmers' Intentions Survey 2003/2004

In October 2003, shortly before the start of the 2003/04 opium planting season, UNODC interviewed a sample of 1,329 farmers and village headmen in the opium producing regions of Afghanistan about their intention to plant opium. This "Intentions Survey" correctly identified the likelihood of *large increases in opium poppy cultivation in 2004*.

Of farmers interviewed, 69% reported intentions to increase poppy cultivation in 2003/4. Four percent intended to reduce poppy cultivation. In more than a third of previously "poppy free" villages located within opium producing regions, headmen expected poppy cultivation to start this year.

The main reasons given by those intending to plant opium were: to alleviate poverty (31%); high prices (30%); to access credit (18%); to purchase luxury items such as motorcycles (7%); and the expectation of compensation for eradication (8%).

Of the farmers interviewed, 77% were aware of the Government ban, and 33% were "prepared to respect it", most adding the caveat "if there is development assistance". Comparing villages that had or had not experienced (a) economic aid and (b) eradication, the Survey found:

- no evidence that economic aid provided so far had an impact on farmers' intentions
- no evidence that eradication activities implemented so far had a deterrent effect

UNODC/CND: Afghanistan Farmers' Intentions Survey 2003/2004

Resource poor farmers do not have access to sufficient land for their livelihood. They must either work as laborers or enter sharecropping arrangements. Given the high profitability of opium, sharecropping arrangements in opium-producing areas normally require opium cultivation. Opium cultivation has thus become the principal means of access to livelihoods, via land and credit, for poor farmers in opium areas. Many of these poor farmers fell into persistent debt during the drought years and as a result of the Taliban ban or more recent eradication campaigns. As a result they become locked into the opium economy, both by debt and by their need to access the means of production. Recent empirical work in Badakhshan indicates that the net returns of a resource rich farmer can be up to 14 times greater per unit of land than those of a sharecropper.

⁴ The Impact of the Opium Poppy Economy on Household Livelihoods (Pain 2004); Coping Strategies, Accumulated Wealth and Shifting Markets (2004); AREU Rural Livelihoods Monitoring Research Project

Clearly the opium economy is a source of profit for the resource rich, whereas it is a means of survival for the resource poor.

Laborers. Poppy is a labor-intensive crop (350 person days/ha), particularly compared to the staple crop, wheat (about 40 days/ha annually). Large numbers of Afghans move seasonally, following the poppy harvest. It was estimated in 1999 that 1.26 million people took part in the harvest. Thus wage labor on opium cultivation (particularly harvesting) is an important source of income for the poor.

Farmer motivations. Livelihood choices in an environment of vulnerability and impoverishment inevitably reflect complex risk assessments. An understanding as to what is driving opium production is essential for analysis of the drug economy and for design of effective strategies to respond to it. Available information suggests the following factors drive decisions to cultivate opium:

At the level of income maximization

- *The ready availability of markets and the high net returns from production promise high incomes:* market outlets are readily available, and forward sales and opium-denominated debt can allow farmers to hedge price risk.
- *The availability of inputs and technology facilitates production:* buyers make seed and credit available, and teams of skilled harvesters can be hired.

At the level of risk management

- *Opium allows risk management through diversification:* farmers typically choose opium as one among several crops, a strategy of diversified cropping which reduces risk.
- *Opium satisfies the need for wage income:* for most poor rural households wage income is more important than farm income. These households benefit from high demand for labor for poppy cultivation and harvesting.
- *...particularly to purchase food:* the majority of households have to buy most of their food from the market. Opium production or associated wage labor provides assured cash with which to purchase food.
- *As food needs can be met from the market, more farmers are prepared to risk not producing their own cereals:* imported or domestically produced grain is now more freely available on local markets, which enhances perceptions of food security and may persuade farmers that it is safe to grow less grain for home consumption and to shift some resources to opium poppy cultivation.
- *Landowners can manage the higher levels of risk associated with opium production by sharecropping out part of their land:* in this manner (and with sharecropping terms dictating opium poppy cultivation by the sharecropper) risks can be shared between landowners and sharecroppers.
- *...and poorer farmers can thereby gain access to the means of production:* poorer farmers may choose – or be impelled by poverty – to enter into opium sharecropping contracts as the only means of access to land and water (and often credit).
- *Opium provides an avenue – generally the only avenue – for poorer farmers to get out of debt:* many poorer farmers report that they are obliged to cultivate poppy to pay off high past debts.

A number of empirical studies have shown that there is variation among regions, and even among communities in a local area, in the mix of rich and poor opium farmers, in the relative importance of farming and wage labor, in land tenure arrangements, and in access to opium markets. Surveys done in several areas under the AREU Rural Livelihoods Monitoring Program⁵ provide some indications of the incentives and constraints that make opium a crop of choice (see Box 2). These studies serve to illustrate the complexity of rural livelihoods issues in Afghanistan, as well as the serious attempt the development community is making to capture the variety of local livelihoods situations on the ground, and to apply the knowledge in adapting and re-adapting development programs.

Box 2: Some lessons and conclusions from the monitoring of rural households

Incentives – why do farmers grow poppy?

All households are vulnerable. The poor have especially high levels of risk associated with daily life. Most households seek to have several sources of income (of which non-farm income is more important for most farmers than farm income). Opium provides a potentially very profitable extra element in the coping strategy.

The majority of households have to buy the larger share of their food from the market. Opium production or labor provides a good cash income, with an assured market and high prices.

High levels of risk associated with opium encourage owners to sharecrop out land for opium cultivation, spreading the risk. For the poor, opium thus provides access to land and water through sharecropping.

Women can earn cash from opium too, both by providing labor, and from the *paschin*, the traditional right to glean the final remains of the opium harvest.

Many households have a debt overhang, and need also to access new production or consumer credit. *Salaam* credit (i.e. advance against the crop) is available for opium producers.

Some conclusions for shaping rural development and alternative livelihoods programs

- o Economic and social development is very much a reflection of local power relations, and these relations should be understood before designing and implementing programs.
- o The context of each community is very important, not only its resources, institutions, sociology and politics, but its geography and history too.
- o Change is constant and the dynamics have to be tracked locally – in most places sharecropping is in full recession, but in Badakhshan it is booming due to the explosion of poppy cultivation
- o Mountain and plain have quite different dynamics and trajectories, simple packages cannot apply to all
- o Eradication leading to the loss of opium income will have a serious impact on household food security.

Source: AREU Rural Livelihoods Monitoring Program

Opium in household welfare. There is no doubt that opium makes a positive contribution to household welfare in Afghanistan. The number of farm households growing opium is on the rise; for 2004, UNODC has estimated the number at 356,000, sharply up from 264,000 in 2003. It is estimated that production and harvesting together may involve as many as two million people in

⁵ As presented at the Rural Livelihoods Conference held by AREU on February 11, 2004.

total, some 9% of the population.⁶ Opium has an impact not just on farmer incomes and on opium wage rates; it has also boosted the overall rural wage rate. For example, rural unskilled wages in the winter of 2003/4 were in the range \$2.50-3.00 per day, compared to \$1.50-1.75 in the previous winter. There are now signs of insufficient labor coming forward for government public works programs at the offered wage of \$2 per day. Thus there appears to have been a structural increase in rural wage rates. Even women have benefited, in part through their right to the last pass through the poppy fields at harvest time (see Box 3).

Box 3: The gender dimension of the opium boom

Women play a very important role in opium poppy cultivation in northern and eastern Afghanistan, whereas in the southern, generally more conservative region, women do not participate directly but rather indirectly by preparing meals for hired laborers. Although women's labor in poppy cultivation traditionally has been unpaid, local labor shortages have led to women in Badakhshan and Takhar provinces, often for the first time, being paid wages. This is in addition to women's traditional right in many areas to make a final pass through already harvested opium fields to glean what is left. Tragically, daughters are sometimes given away to settle unpaid opium-denominated debts.

Source: UNODC(2003b), Mansfield(2004b), authors

Are poppy farmers on the whole rich or poor ? In 1990s, when prices were under \$50/kg, opium production looked like a desperate coping strategy for a chronically impoverished countryside. UNODC estimated that in the 1990s farmers received less than \$100 million annually in net income from the entire national opium crop. During the post-Taliban period, the rapid rise in farm gate prices and the bidding up of labor rates suggest that a much larger share of the opium income was going to the farm sector (see Table 2 above), although still skewed toward the resource rich. In 2000, for example, prior to the Taliban ban, gross farm income from opium was estimated at only \$90 million, 11% of total gross income of the opium economy of \$850 million. In 2003, farmers' share was over 40% of the (much larger) total opium income. By 2004, the terms of trade were shifting back against the farm sector, and farmers' share had dropped back to 20%.

2.3 Has opium crowded out cereals?

The question has arisen as to whether opium is crowding out wheat. This is a possibility, as gross revenues for opium have been as much as eight times the revenues for wheat (Table 3).

⁶ This estimate is approximate as it relies on UNODC's extrapolation of the number of opium producing households and of opium workers, and on assumptions about average household size. The possible margin of error in all of these estimates is substantial.

Table 3: Comparison of revenue per ha for irrigated wheat and opium poppy

	Irrigated Wheat	Opium
Average yield (kg/ha) – 2003 harvest	2,850	14
Price (US\$/kg) – 2003 average for opium and October 2003, Kabul for wheat	0.16	283
Gross revenue (US\$/ha)	456	3,962

Source: Molla.

However, the area under both crops has been going up in the first few years of the 21st century (Table 4). Before 2004, there was no hard evidence that farmers were systematically reducing food crop production in a switch to opium. Farmers produce cereals largely for subsistence needs, and those producing for the market consistently report that price is not their main consideration in production decisions.⁷ The opium cultivated area is, in fact, very small in relation to the cereals area (80,000 ha against 2.3 million ha in 2003).

Developments in 2004 – in particular the dramatic 64% increase in the estimated area of opium poppy cultivation and a significant 23% decline in the area devoted to wheat – do suggest that at least at the margin, farmers may be shifting from wheat in favor of poppy. This probably reflects ready availability of wheat in markets and the continuing dominance of financial returns from opium over those of wheat, rather than any particular price trends over the past year (when in fact opium farm-gate prices were falling). Moreover, the vast bulk of the reduction of wheat area in 2004 (more than 500,000 ha) did not involve a shift to poppy (whose cultivation increased by about 50,000 ha) but instead most probably reflected overextension of wheat cultivation in the previous year and worse rainfall conditions which did not permit as large an area of wheat planting in 2004, as well as crop rotation practices.

Table 4: Opium Poppy and Wheat Cultivation in Afghanistan, 2002-2004

	Opium Poppy Cultivation					Wheat Cultivation				
	Area (hectares)			% change (- decline)		Area (hectares)			% change (- decline)	
Province	2002	2003	2004	Change in 2003	Change in 2004	2002	2003	2004	Change in 2003	Change in 2004
Helmand	29950	15371	29353	-49%	91%	63000	74000	74000	17%	0
Nangarhar	19780	18904	28213	-4%	49%	33000	40000	37000	21%	-8%
Badakhshan	8250	12756	15607	55%	22%	54000	109000	99000	102%	-9%
Uruzgan	5100	7143	11080	40%	55%	35000	32000	26000	-9%	-19%
Ghor	2200	3782	4983	72%	32%	31000	53000	38000	71%	-28%
Qandahar	3970	3055	4959	-23%	62%	58000	41000	39000	-29%	-5%
Rest of the country	4850	19471	36805	301%	89%	1468000	1945000	1453000	32%	-25%
Total	74100	80482	131000	8%	64%	1742000	2294000	1766000	32%	-23%

Source: UNODC (2003a, 2004b)

⁷ A related question has been whether food aid has depressed cereals prices. Molla (2003) argues that domestic cereals prices are in fact above import parity and that internal market prices are moderated by the much larger quantities of commercial imports, not by food aid. In any case, Molla contends, food aid does enter the market in any quantity. While this argument may be correct, it also suggests that grain markets in Afghanistan are functioning well enough that food aid has no advantage over equivalent cash assistance, while carrying much higher overhead costs.

These broad general points need to be interpreted in the light of some of the evidence accumulating from the field. A recent study in Badakhshan suggests that the affordable price and ready availability of cereals in the market are factors influencing the chronically food deficit households typical of the area to switch part of their farm cultivation into opium; and that conversely, rising food prices may influence households against opium production, not because cereals are attractive to sell but because they are dear to buy (Mansfield 2004a).

B. Implications for counter-narcotics strategy

The description of opium production and trends in this chapter indicates some factors that influence the design of counter narcotics strategy.

Multiple factors drive opium production – and responses will need to be correspondingly broad. A farmer's decision to produce opium is typically driven by household objectives of food security and improved livelihoods. However, the empirical work done to date underlines the wide variation in farmer situations and the complexity and variability of farmer motivations. Some broad characteristics emerge, but they are very different for resource-rich and resource-poor farm households. For the poor, in particular, cash income for food security, access to the most basic means of production, and opportunity to get out of debt or escape foreclosure may be more important than simple profit motive. The conclusion that can be drawn is that changing farmer decisions requires far more than simply playing on one factor (e.g. depressing the farm-gate price of opium, or improving the profitability of an alternative economic activity). Changing household behavior requires actions on a broad front, differentiated according to the manifold situations in which farmers seek their livelihoods.

There is a close connection between opium production and rural poverty. Overall, it is clear that poppy has enabled some people, not necessarily poor in the first place, to grow rich, but for many more people the opium economy has become an important source of income to help cope with poverty and reduce vulnerability. Some of these poorer participants are now mired in increasing dependency on the opium economy – primarily through opium-related debt – while not reaping significant income gains on a net basis.

Actions against opium require a closer understanding of the opium economy. Despite the good survey work done by UNODC and the empirical work done on livelihoods, basic aspects of the opium economy are still little understood. In particular, existing studies do not give a clear picture of the distribution of opium income nor of the relative numbers of different types of producers. Another key gap is an understanding of how the drivers of the opium economy are changing over time: for example, what specific factors have contributed to the increase by one third in the number of households involved in opium poppy cultivation in 2003/04, and what will be the impact of the adverse movements in the terms of trade against opium producers. Lack of such information makes it difficult to design counter-narcotics interventions, for example to determine the appropriate balance between poverty alleviation interventions and law enforcement.⁸ *Gathering this information should be a priority.*⁹ Box 4 illustrates the polarity of

⁸ Indications may be gleaned from some of the farmer intention surveys. For example, the 2002/03 survey interviewed 214 farmers in 13 districts, of whom 50% were strictly owner cultivators, 22% owned land but sharecropped or rented additional land, and 28% were landless sharecroppers. The 2003/4 Survey, which interviewed 922 farmers in 308 villages, found 71% of farmers who were intending to grow poppy owned land of 2 ha or less. The key rural survey tool is the National Risk and Vulnerability Assessment (NRVA), an annual survey of 11,700 households. NRVA has had two opium questions in the past: cultivated – yes or no? and a producer price question. The answers given provide orders of magnitude but the fidelity of disclosure is questionable.

⁹ In response to this information gap, two new surveys are to be launched in 2005. One, financed by the EC, will be a three year longitudinal study in up to six provinces (Kunduz, Ghazni, Herat, Nangahar, and possibly Helmand and

situations between the resource-rich and the resource-poor and gives an indication of the difficulty in determining intervention tactics in the absence of solid local information.

Box 4: A report from the front – Badakhshan November 2003

In the higher valleys of Jurm and Baharak, the drought had a significant impact on the level of opium poppy cultivation, particularly on those households that had a higher proportion of rainfed land. Food deficits in the drought years led to increasing indebtedness. To service these debts many households sold household items, such as carpets and crockery. They also sold long-term productive assets such as livestock and land.

For those households that retained some of their land and livestock, the considerable increase in opium prices (partly driven by the opening of new processing facilities in Jurm and Faizabad) allowed them to regain many of their assets. However, for those who had sold or mortgaged their land, the increase in price made little difference. They sharecrop their own land, receive a maximum of 50% of the final crop, sell that in advance to cover expenses, and use the balance to repay the debt overhang. In these circumstances, marginal households have no choice but to cultivate opium (and landlords and lenders insist on it), even though they receive limited benefit from doing so.

The situation in the lower areas of Baharak and Jurm is very different. There the drought had less impact, opium yields are higher, and assets were accumulated during the distress sales higher up the valleys. In these areas, households have typically regained the assets they sold during the drought. There are notable signs of prosperity – properties are being improved and even satellite dishes are on display.

The disparity in opium income is exacerbating socio-economic differentiation at the village and district levels. It is also creating a rigidity in the cost of production and therefore making production less price elastic. Access to land, credit, and labor are the most important determinants of production levels. However, the fall in opium prices (locally from \$400/kg in 2002 to prices in November 2003 of only \$120/kg), combined with excessive labor costs and commitments to mixed cropping patterns as a risk aversion strategy, seem to suggest there will be a slowing at least in the rate of expansion of opium cultivation.

Source: adapted from Mansfield (2004a).

Lagman) focusing on opium issues and related questions of access to water, the livestock economy and land tenure. The second survey, to be financed by DFID, will be an “action research” investigation of local-level governance, focused on the role of village councils and on livelihoods (including opium, gender, and vulnerability aspects).

Chapter 3. Processing and Trafficking

***Summary.** Opium markets in Afghanistan seem to operate efficiently as small scale, rapid turnover businesses. Based on the changing pattern of seizures of opiates in neighboring countries, it appears that much more opium is now processed into morphine and heroin within Afghanistan. Despite some local market concentration, there is no evidence of cartels, but there is large interpenetration of the opium economy with local and central political interests, and many millions of people participate in the profits, in a broad network of protection and pay-offs. Drug profits are clearly financing local warlords and the political elite, but also sustain the livelihoods of many quite poor people. Most proceeds of opium production and trade in Afghanistan have probably been kept and spent locally, but money transfer and laundering can easily be done through the paperless hawala system, which is difficult to monitor. Front-line responsibility for law enforcement on drugs, including interdiction, lies with the national police, but its specialized drugs unit has only recently been set up. The law enforcement effort is weakened by confused responsibilities, lack of accountability, and lack of resources. In the absence of effective law enforcement and of a working judicial and penal system, drug trafficking and processing have been virtually unchecked in the past, although progress is beginning to be made with interdiction.*

A. Opium Processing and Trafficking

Over the last twenty years Afghanistan has developed an effective structure for processing and trafficking opiates internally. There is significant fixed and working capital investment, including fixed market installations, numerous processing laboratories, and substantial work in progress and stocks. The fact that exports held steady in 2001 at about 4000 tons (opium equivalent) when raw material production slumped to only 400 tons (opium equivalent) demonstrates the size of working capital investment (3600 tons of stock drawn down at border prices would be worth over \$1 billion). This is evidently a well capitalized and well organized industry.

The corollary of this high investment is high risk, and high risk premia. In the absence of effective official “interdiction” (see below), the risk premium takes the shadowy form of payments for “protection”, a process of sharing the benefits along the way that allows raw material to be purchased at the farm gate and to move clandestinely through processing and to the border, gaining “value” en route (border prices in 2004 are four to five times the farm gate price).

Opium trading within Afghanistan in general is a small scale, low margin, rapid turnover business. Box 5 summarizes recent descriptions of the organization of the market. UNODC has estimated that there are roughly 15,000 traders in the country. The northern markets, formerly dominated by the Northern Alliance and where there was less disruption during the last days of the Taliban and subsequently, are characterized by very rapid turnover and competitive market trading in smallish quantities. In a UNODC survey in 1998, 60% of traders handled less than 100 kg a year and the rest handled less than half a ton. In the south, quantities traded and transported tend to be larger, with traders handling as much as 20 tons per year. There is

evidence of price differentials between markets¹⁰, and of arbitrage activities between them. Market organization within Afghanistan in general is quite fragmented, with a large number of small sellers, some semi-wholesale activity but relatively small quantities being traded, processed, and trafficked across the border. In the 1998 UNODC study, shipments to border areas were reported to range from a few kg up to three tons in a single shipment. This is confirmed by data from the Iranian side, where single seizures range from one kg up to five tons. The relatively small size of shipments is evidently due to the risk factor. There is evidence of a system of cumulative local payoffs that accrue to the locally powerful, but not of a national cartel or mafia.

According to data on the pattern of opium seizures in countries neighboring Afghanistan, there has been an increase in domestic processing of opium through its various stages into heroin. Numerous laboratories have been set up, “precursor” chemicals for the production process are imported, and there has been rapid acquisition of knowledge about the technology. Efficient laboratory operation and high processing yields have contributed to the ability of Afghan heroin to maintain a dominant share in a market where consumer prices have seen a long-term decline (from \$300/gram in Western Europe in 1987 to around \$70/gram in 2000).¹¹

One last aspect aiding the unfettered operation of the opium economy has been the existence of a well developed but almost completely unregulated informal financial system – the *hawala* system. This system is capable of accepting deposits and making transfers within and between jurisdictions without any formal record keeping, with perfect anonymity for the client and outside the scrutiny of the authorities. It is difficult to quantify and document the degree to which the *hawala* system is used to transfer or launder drug money in Afghanistan. It is equally difficult to trace illegal money flows, to separate legal from illicit flows, and to establish the financial links to criminal activities. Typically, law enforcement agencies are unable to penetrate informal financial systems because of cultural and linguistic barriers or the close business or kinship ties of the participants. Additional constraints in Afghanistan include poor monitoring of cross-border currency movements, no reporting requirements for large cash transactions, lack of guidelines for identifying suspicious transactions, a large parallel black market economy, and few mechanisms to share financial information with foreign law enforcement authorities.

The trading and processing of Afghan-origin opium has important regional dimensions (see also Chapter 5). In addition to being “footloose” within Afghanistan, such activities are also footloose across countries in the region, with trading routes for opiates, locations of opium processing laboratories, etc. shifting from country to country depending on law enforcement and other considerations. As emphasized in an unpublished UNDCP report in the early 1990s, the drug industry (the bulk of whose opium production base even then was already located in Afghanistan) needs to be analyzed as a regional phenomenon, with an evolving regional division of labor among countries in the region and significant linkages to regional opiate consumptions (concentrated in Iran and Pakistan).

¹⁰ UNODC reports, for example, dry opium prices in the northeastern market in June 2004 at \$62/kg, and in the same month \$140/kg in the southern markets. Explanations for these differentials include: differences in morphine content; differential cross border prices determined by the cost and risk structure of the onward trafficking sequence; and local market structures, with for example relatively free trader access in southern areas but some markets in the northeast having trader entry controlled by commanders (UNODC 2004b).

¹¹ Other factors in Afghanistan’s competitive position include high yields (reflecting good climatic conditions and the fact that opium poppy is often cultivated on prime land) and the lower risk premium in the absence of effective interdiction capability.

Box 5: Market organization

On the outer rim of the marketing circle are the itinerant farm-gate buyers, who purchase directly from farmers and perhaps provide advice, inputs, or credit. They may buy forward on commission. Margins are slim, suggesting entry is not restricted, trading is competitive, and there is no significant risk premium.

Closer to the center are the shop owners in the regional opium bazaars, who may buy from farmers or from itinerant traders. They sell to local consumers, clandestine labs, wholesale traders, foreign traffickers, or anyone interested in taking a position in opium. They may pool resources and put together larger consignments.

At the center of the trade are the bulk buyers, large-scale traders who buy throughout the year and organize shipments direct to border areas or directly abroad. This group consists of a small number of large traders, often linked by family ties, willing to commit substantial capital. The rewards are great, but the risks are proportionate. The risk of interdiction is perhaps less than the risk of being cheated by foreign buyers, and the risk of commodity price and exchange rate fluctuations.

Available evidence suggests that processing labs (producing morphine base or heroin) purchase the raw material (opium) on their own account, engage in processing, and then sell the output to traders and wholesalers. It is likely that labs may be “sponsored” and protected by local warlords and commanders and if so they thus comprise an important interface between the drug industry and warlords/insecurity. Since the early 1990s, there appears to have been a progressive trend of processing labs shifting from Pakistan to Afghanistan, reflecting changing patterns of law enforcement as well as probably consolidation of the drug industry in Afghanistan. Recent seizures of drug shipments from Afghanistan in neighboring countries are reported to consist primarily of processed opiates as opposed to raw opium.

Adapted from IMF and UNODC (2003b)

B. Implications for Counter-narcotics Strategy

Drug profits are financing local warlords and the political elite. There is evidently massive interpenetration of the opium business with central and local elites. The opium economy is a key part of the fundamental problem of governance and nation building in Afghanistan – how to win over (or defeat) the powerful and wealthy local and central elites. In order to implement a workable anti-narcotics strategy, the government must decide on how to confront – or include – these vested interests. The corollary of this is that interdiction at the level of the most powerful, including large producers, traffickers and processors, would have the largest impact on the trade, even though it would be politically difficult.

Profits are also sustaining the livelihoods of many quite poor people. In addition to farmers and laborers involved in opium poppy cultivation, there is evidently a large number of other people living off the opium business, including the many involved in trafficking and processing, and the vast numbers involved directly or indirectly in “protection”. This latter class would include warlords’ militias and parts of the army and police force. At this low level, there is not so much a problem of politics and governance as of livelihoods. The policeman who has not been paid for months (and then hardly a living wage) may collude in the opium trade in any way he can, for a fee. The problems of one branch of the police – the Counter Narcotics Police – are described anecdotally in Chapter 6.

Controls over money transfer and laundering are needed – but are unlikely to be effective in the near term. It is likely that most of the domestic value of Afghan opium exports roughly estimated at \$2.3 billion in 2003 ended up in Afghanistan either as imported goods or as cash transfers (see Chapter 4). There is some evidence, however, that significant amounts of domestic drug proceeds may now be leaving the country. It is likely that the *hawala* system, with its confidentiality and lack of paper records, is the system of choice for handling opium-generated cash, whether for external transactions, for money transfer between jurisdictions, for internal payments, or simply for laundering. As Afghanistan's formal financial sector begins to emerge, it is important that the appropriate controls are in place to prevent or track money moving clandestinely through formal domestic and international financial channels (see Annex 7 for typical measures). Under the recently passed central bank law, all foreign-exchange dealers, including *hawala* operators, must be licensed, report large transactions, know their customers, and provide financial information to the central bank. However, under current conditions compliance is expected to be largely voluntary, and there is little prospect for the moment that drug money can be tracked through the system.

Chapter 4. The Economics and Political Economy of the Opium Industry¹²

Summary. Opium production, processing, and trade within Afghanistan brings in more than one-third of total national income, and this is broadly spread in the farming sector but even more flows to processors and traffickers, and to “protection” at all levels. Opium revenues in the hands of farmers and petty agents are highly likely to be spent on consumption goods produced domestically. More powerful interests, including processors and traffickers, invest more and spend more on imported goods, particularly durables. Recently, more drug money generated in Afghanistan may have been leaving the country. The opium market more closely resembles a competitive market than a cartelized business. This would imply a likely pattern of fragmented capture of the state apparatus at the local level and strong resistance to central government control, making state-building difficult. In the absence of law enforcement, an efficient, competitive drug industry will become increasingly embedded in regional power bases. World demand, particularly regional demand from countries around Afghanistan, is strong, and the Afghan drug industry has the market structure, comparative advantage, and factor availability to expand opium production considerably. Given the high margins, production is unlikely to diminish unless world prices fall a long way which is not expected to happen. Production is also relatively “footloose”, and can migrate in the face of law enforcement. From an overall macro perspective, opium brings substantial benefits to Afghanistan, raising aggregate demand, supporting the balance of payments and indirectly boosting fiscal revenues, and acting as a coping mechanism for the poor. Costs include the macroeconomic volatility associated with the drug industry, the risk of “Dutch disease”, and the infernal nexus of insecurity, warlords, the weak state, corruption, and poor governance. Opium has become increasingly “capitalized” in the rural economy and is distorting land and labor prices. The size of the problem and Afghanistan’s limited resources suggest that counter-narcotics strategy should give priority to combating trafficking and processing as that is where the maximum harm is being caused. An interdiction-based strategy would also be likely to bring down opium producer prices down at least temporarily by disrupting downstream activities, reducing the economic incentives for farmers to grow poppy. As opium dwindles, there will be a need to mitigate adverse side effects, both macroeconomic and microeconomic, including (1) support to sustain rapid economic growth; (2) support to offset the loss of foreign exchange; and (3) programs at the micro level, particularly alternative livelihoods programs.

A. Afghanistan’s Opium Economy

4.1 Broad Dimensions

The drug economy is an extremely important part of Afghanistan’s economy, amounting to more than one third of total drug-inclusive GDP.¹³ At the production level, the rapid expansion of cultivation in the past two decades demonstrates the attractiveness of opium to farmers – a durable commodity commanding a good price, having a guaranteed market, with credit and other inputs available from traffickers, easy to transport, and non-perishable. As many as two million

¹² This section is largely adapted from two papers by William Byrd and Christopher Ward: one, entitled “Afghanistan’s Drug Economy: A Preliminary Analysis”, was produced as an Annex for the “Securing Afghanistan’s Future” report; the second, “Drugs and Development in Afghanistan” (forthcoming), has been prepared for publication as a World Bank paper in 2005. The indicative quantitative analysis has been added, largely on the basis of broad assumptions to provide an illustration only.

¹³ Note that the border value represents only a very small proportion of the value on the world market of opium products originating from Afghanistan. Total value of Afghan opiates at final point of sale is estimated roughly at \$30 billion, more than ten times the border value when the product leaves Afghanistan.

people may be involved in opium production, earning higher incomes than in other farming activities. In 2003 the average gross income per hectare from opium cultivation exceeded that of wheat, the main alternative crop, by as much as 27 times (see World Bank, 2004, Box 6.1, Chapter 6). In some parts of the country where poppy cultivation is concentrated, wage rates of as much as US\$11-12 per day for opium harvesting work have been reported, five times the market wage rate for rural unskilled labor. At the processing and trafficking level, high margins in an otherwise dismal economy have driven keen interest.

The large decline in opium farm-gate prices from 2003 to 2004 has reduced the cash revenues from opium of the farm sector by 40% on aggregate, with greater impact at the household level as the number of households involved is up by one third (356,000 in 2004, against 264,000 in 2003). By contrast, the gross revenues of drug processors and traffickers are estimated to have nearly doubled between 2003 and 2004. It appears that the opium economy is undergoing a correction back toward the structure of the 1990s (Table 5), when the terms of trade were heavily in favor of the processors and traffickers.

Table 5: Estimated opium cultivation, production and incomes 1995-2004

	1995	2000	2001	2002	2003	2004
Production (tons)	2335	3276	185	3400	3600	4200
Production as % of global output	~52%	70%	11%	74%	76%	87%
Number of provinces producing opium	N/a	23	11	24	28	34
Area under poppy prod (Ha)	54000	82000	8000	74000	80000	131000
Area under poppy/ Area under cereals (%)	2.0%	3.2%	N/a	3.2%	n/a	n/a
Average price per kg (US\$)	23	28	301	350	283	92
Gross income per ha (US\$)	1000	1100	7400	16200	12700	4600
Value of opiate exports (million US\$)	n/a	850	N/a	2500	2300	2800
Gross farm income from opium (million US\$)	50	90	60	1200	1000	600
Gross downstream domestic income (million US\$)	N/a	760	N/a	1300	1300	2200

Source: UNODC (2003a, 2003b, 2004b) and authors' estimates.

While income derived from drugs is a large part of the national economy, the proportion of Afghanistan's labor and land resources devoted to opium production remains relatively small. The total area devoted to opium poppy cultivation is only around 2% of total arable land and 7% of the irrigated area (see Chapter 2). Labor absorption, although total in some areas during harvest and possibly becoming an emerging constraint to production, remains far short of the total available work force.

4.2 Key Linkages to the Non-Drug Economy

Prices. Farm-gate prices of opium were low in the 1990s, but a nearly 10-fold rise occurred when the Taliban banned opium production in 2000 (see Table 5). High prices of US\$300/kg or above were maintained in 2002-03 despite the recovery of opium output, but prices declined in late 2003 and fell more sharply in 2004, to an average of around US\$90/kg by late summer before rebounding somewhat post-harvest.

The lion's share of opium income up to the time of the Taliban ban in 2001 went to traffickers and processors rather than to farmers (Table 5), and at that time several other crops were financially competitive with opium. This pattern changed dramatically after the Taliban ban, and close to half of annual gross income from the opium economy appears to have gone to the farm level in 2002 and 2003, although this share declined sharply as farm-gate prices fell in 2004. The apparently rising share of opium output that is refined within Afghanistan would lead to higher domestic value added accruing to traders and processors. Although data are highly imperfect, it is clear that margins between farm-gate prices and border prices of opiates are very large, and in 2004 the gross revenues of processors and traffickers and are expected to achieve a record level of \$2.2 billion (Table 5).

Incomes. As indicated above, the income accruing to the Afghan population from both production and trade in opium is quite high in relation to the GDP of what is a very poor country.¹⁴ The total income from opium production (at farm gate prices) in 2004 exceeded US \$600 million, equivalent to approximately 10% of the country's drug-inclusive GDP. Income accruing to drug traffickers in Afghanistan is estimated at \$2.2 billion. Total drug-related income in Afghanistan is estimated for 2004 at \$2.8 billion, more than one-third of total national drug inclusive GDP. This income is allocated to a very large number of participants in the farm and trading sector, and also in the form of rent and protection payments to a large number of people not directly adding value. The distribution of this income is highly uneven between different socio-economic groupings (see Chapter 2 and below). The risk premium seems to be a relatively small element in this. In fact, the risk of official interdiction and seizure seems to be much less than the risks of unofficial seizure or deception.

Consumption. Even allowing for leakages in the form of expatriation of opium-related revenues, it is clear that a large proportion of drug receipts is spent in Afghanistan, and most of this goes into consumption expenditures on goods and services. Table 6 shows an indicative allocation of opium incomes to consumption based on assumptions about propensity to consume of different segments in the Afghan context. The average consumption ratio is assumed to be lower than the average for developing countries (80%) because of the assumed large share of warlord trafficking interests with their higher investment requirements.

Stimulation of domestic production. A substantial percentage of consumption expenditures from drug-related receipts would appear to go into domestically-produced consumer goods and services. This is especially true of farm and wage incomes. Given the very low levels of income in Afghanistan, savings rates for most participants in the drug economy are likely to be quite low, below the average for developing countries of 20%. Similarly, the import ratio is likely for most

participants to be well below the average for developing countries of 26%. By contrast, the larger processors and traffickers are likely to have high savings rates and import ratios. Warlords are assumed to have yet higher savings rates and import ratios; despite their need to use substantial funds to pay their retainues, there is no doubt that they have an investible surplus. Their high import ratio is suggested by their need for arms and transport, basic assets they rely on. Table 6 shows assumptions in this regard. The overall average savings rate of 25% and the average import ratio of 32% are high, reflecting the large share of traffickers and warlords in total opium income.

¹⁴ It should be noted, however, that estimates of Afghanistan's GDP are made difficult by the prevalence of other informal or illicit activities in addition to opium; for example, in the past the illegal transit and re-export trade was estimated to contribute as much as a quarter of total GDP.

Table 6: Indicative estimated allocation of revenues from opium in 2002

	Revenue	Sharecropper and poorer farmers, petty protection, police, retinues	Richer farmers, landowners, local notables	Traders	Processors, smugglers	Warlord interests
Production						
Sharecroppers (35% of area)	175.4	175.4				
Less: paid to landlords (50%)	(87.7)	(87.7)	87.7			
Less: paid to trader/usurers (25%)	(43.8)	(43.8)		43.8		
Sharecroppers (net)	43.9					
Poorer farmers (45% of area)	225.5	225.5				
Richer farmers (20% of area)	100.2		100.2			
Total farmers income (246,000 farms)	501.1					
Laborers (480,000 itinerant workers)	240.0	240.0				
Local officials, the mosque, local investments, charities, pay offs	360.0		160.0			200.0
Total farm gate turnover	1200.0					
Less cash value of inputs	(3.0)		(3.0)	3.0		
Less marketing costs	(96.0)	(76.8)	(19.2)	96.0		
Total VA at the farm gate	1101.0					
Processing and trafficking						
Payoffs and seizures	500.0	250.0				250.0
Profits	621.0			121.0	500.0	
Value at border	2222.0	682.6	325.7	263.8	500.0	450.0
Percentage consumption	75%	90%	85%	80%	70%	50%
Percentage imports	32%	10%	20%	20%	40%	70%
\$ consumption	1677.1	614.3	276.8	211.0	350.0	225.0
\$ imports	701.2	68.3	65.1	52.8	200.0	315.0
Implied multiplier	2.45					

Sources: Indicative figures based on IMF, UNODC (2003b), World Bank estimates

Investment. It could be expected that a part of drug-related receipts would go into investment. The level and types of such flows would presumably depend more on local needs for investment and protection in relation to the opium economy and the maintenance of power positions there than on the incentives for saving and investment in the economy as a whole (i.e. the investment climate in the case of productive investments). The drug business itself also absorbs a substantial amount of working capital and fixed investment in processing and transport facilities. For the surplus, the most plausible investment is in construction, both in local power centers and in the capital. The rapid pace of building in Kabul strongly suggests that proceeds of the drug trade are involved in the financing of such construction.

Balance of Payments. The gross foreign exchange inflow from the drug business should be equal to the border proceeds of \$2.8 bn in 2004. It is likely that the industry repatriates most proceeds, as Afghan participants tend to be firmly rooted in the country, although there inevitably are business interests beyond the frontier. The foreign exchange outflow ratio (in relation to opium proceeds) is estimated to vary between 10% and 70% for different participants (Table 6).

There is thus a relatively large net inflow of resources from abroad associated with Afghanistan's opium economy, which could be as much as \$1.5 billion per year or more (based on the estimated 32% import ratio). The positive external balance associated with the opium economy undoubtedly strengthens Afghanistan's balance of payments and helps stabilize the foreign exchange rate for Afghanistan's currency. However, there is some recent evidence of more substantial outflows of drug money, which could be in response to announcements of a stronger crackdown on drugs.

Fiscal Linkages. Opium revenues in the first instance largely escape the official tax net. Some locally collected revenues at the district, municipal, and perhaps provincial level may accrue from opium production and trade and finance expenditures at those levels, but the magnitude is likely to be relatively small. It is reported that opium farmers do pay the *ushr* tithe, which in some regions may be paid to the local *mullah*, in others to the local administration or commander. Thus there is no significant direct fiscal linkage on the revenue side. However, it is clear that a large share of opium farm gate receipts goes into levies of various kinds that accrue to local interests, outside the budget. This is very roughly estimated at \$360 million for 2002 (Table 6), 30% of the farm gate gross revenue.¹⁵ An indirect fiscal linkage is that customs duties are levied on many imported goods paid for with drug receipts, and the associated revenue could be quite substantial. To the extent that there is effective taxation of real estate, that also would represent an indirect fiscal linkage, revenues being derived from drug-financed real estate development in the capital and other cities. Finally, and in a more speculative vein, it is possible that the availability of a large volume of financial resources from the drug economy for local and regional authorities to tap through informal levies makes them more willing to give up control over locally collected central budgetary revenues, with a positive fiscal impact for the national budget.

Asset Prices. The real estate market in Kabul and other large cities is booming, and there is some evidence that rural land prices also are on the rise (at least near large cities). The real estate boom may reflect to some extent an influx of drug money, although this is not yet proven.¹⁶ In addition to investment of opium profits in land, the high returns to opium cultivation are no doubt pushing up land prices in opium production areas.

Wage rates. There is also evidence that the drug economy is driving up rural wage rates especially at harvest time. Wage rates have gone up from year round rates of \$2 or so per labor day to peaks of \$11-12 per day in 2003 for a skilled worker during the harvest period. Wage rates in 2004 high season were reportedly in the range \$7-8 per day. Rural unskilled wages in the winter of 2003/4 were in the range \$2.50-3.00 per day, compared to \$1.50-1.75 in the previous winter. Moreover, there are signs of insufficient labor coming forward for government public works programs at the offered wage of \$2 per day. Thus there appears to have been a structural increase in wage rates.

Finance and credit: The opium economy provides a considerable amount of financing to the rural economy, enhancing its short-run attractiveness to farmers who often have no other sources of credit. However, implicit interest rates appear to be very high, and since advances tend to be denominated in opium they exacerbate the long-term dependency of farmers on opium.

¹⁵ The 2003/4 UNODC Farmer Intentions Survey reported that (i) farmers pay local commanders between 10% and 40% of the opium harvest; and (ii) in some areas, traders had to pay local commanders for the right to enter producing villages and purchase opium there.

¹⁶ Returning Afghan refugees and expatriates also are having an effect on certain segments of the real estate market, but most probably much less than the impact of drug money.

Thus overall, the opium economy has multiple intricate linkages with the non-drug economy, which can only be expected to become stronger over time if left undisturbed.

4.3 Drug industry structure and market organization

The functioning of narcotics markets and the structure of the “drug industry” in Afghanistan can influence its responses to external changes, trends, and the dynamics of how the drug industry evolves and interacts with the rest of the economy. The first question is what type of industrial structure best describes Afghanistan’s opium economy.

One possible model is that of a cartel that at least in its external dealings acts as a monopolist seller of drugs. The implications of such an industrial structure are outlined in Box 6. In a nutshell, a monolithic drug cartel would mean restricted production, high prices and profits, centralized behavior vis-à-vis the political system, and a tendency toward influencing or “capture” of the central government by the drug cartel -- the emergence of a “narco-mafia state”.

Box 6: The drug industry as a cartel

One possible model is that of the drug industry forming a criminal cartel that acts similarly to a monopolist. The implications of such monopolistic behavior on the part of the drug industry would be as follows:

- o Drug prices would tend to remain high, since a monopolist invariably sets a price higher than the competitive price in order to maximize its own revenue.
- o There would be substantial “excess profits” in the drug industry. Among other implications, this means that there would be ample resources to destabilize the security and political situation in order to maintain a conducive environment for opium production and trafficking, and it would be expected that the cartel would use drug profits for this purpose.
- o It is possible that a significant proportion of the profits of the drug industry (accruing to the larger actors) would move out of Afghanistan or would be used for imported consumer goods. Thus the beneficial effect on the economy from demand for domestically-produced goods and services might well be less if the drug industry is organized along the lines of a monopolistic cartel.
- o On the other hand, there could be a positive effect on the economy, if the “excess profits” of the drug industry get channeled to a substantial extent into productive investments. The extent to which this occurs would depend on the same factors that affect investment more generally – in other words on the “investment climate”. But the deleterious effects of the opium economy on security and governance would tend to keep the investment climate poor.
- o High prices imply that opium production in Afghanistan would grow slowly in response to the growth of world demand (at the existing high prices). Thus growth of opium production is likely to be fairly slow, unless world demand picks up sharply for some reason unrelated to price.
- o Slow growth of production would in turn imply that growth of incomes directly related to drugs is likely to be relatively slow. This also means that the growth (not necessarily the level) of the positive impact on the non-drug economy also is likely to be relatively small.

Finally, since the drug industry is cartelized and acts like a monopolist, it would have an organized, direct, and systematic effect on the politics and governance of the country. Since the cartel would act in a relatively centralized manner, its impact at the political level also would be centralized. This is the classic narco-mafia state scenario.

Source: Authors

But on the contrary, what we know about the opium business in Afghanistan suggests that it more closely resembles a competitive market than a criminal cartel. Entry and exit seem to be relatively easy for both production and trafficking, and the number of participants is high. Opium

is openly bought and sold on various markets. Parts of the drug industry are more concentrated, with relatively few and more powerful actors involved in opium refining and cross-border trading. There is, however, evidence of new entrants joining even at these stages of the business, and the existence of a number of trading routes going out of Afghanistan across all frontiers facilitates competition nationally if not necessarily locally. The increase in refining of opium into heroin within Afghanistan may be accompanied by drug industry consolidation. Opium production has been responsive to prices and has shifted locations in response to eradication campaigns, demonstrating that it is “footloose”. Prices appear to have been flexible at the micro level.¹⁷

Some implications of a competitive drug industry are explored in Box 7. In addition, the criminal nature of the drug business – and consequent ability and tendency to use violence in the conduct of business – need to be taken into account. In the Afghan context, where government military power and law enforcement have been weak, and where local conflict is conducted mainly with small arms, violence by small actors with limited resources is easy. Moreover, it is difficult for one or a few actors to dominate militarily on a sustained basis. Under such circumstances a fragmented, competitive drug industry is more likely to emerge, leading to fragmented capture of the state apparatus at the local level by drug interests, which would be inimical to the emergence of an effective, unified state.

4.4 Price elasticity of production and demand

On the consumption side, there are two major market segments. The Western European market is characterized by high prices determined largely by the very high risks and costs associated with interdiction. In this market, demand reduction activities and the likely continuation of high prices suggest at most only slow growth in volume. In any case, even if there is some remaining elasticity of demand with respect to price, the street price in Western Europe is a very large multiple of at least ten times the Afghan border price, so that even a major drop in Afghan prices would have little effect on the consumer price. By contrast, the regional markets in the countries surrounding Afghanistan are characterized by rapid growth and probably significant price and income elasticity of demand. Although interdiction efforts are underway, they are unlikely to be able to dent supply or increase risk premia significantly, and the market has great potential for expansion. Thus a competitive drug industry along the lines outlined above would be in a good position to meet rapidly growing regional demand, at relatively low prices.¹⁸

¹⁷ The maintenance of opiate exports apparently at near normal levels during the year of the Taliban ban, and then the persistence of high farm-gate prices for two years after large-scale opium production was restored, may be explained by the existence of large inventories in the late 1990s, which were sold off to maintain supply during the year of the ban and then were rebuilt after large-scale production resumed. The recent sharp decline in farm-gate prices reflects the impact of oversupply in the face of already high inventories by the end of 2003. But more work is needed to better understand opium price trends.

¹⁸ Even a cartelized drug industry acting like a monopolist would have an incentive to engage in price discrimination to the extent feasible, setting lower prices in markets where demand is more price-elastic.

Box 7: The competitive model of the drug industry

If the number of actors in the drug industry is great enough that there is no opportunity for strategic behavior, or if anti-competitive behavior is deterred (at least over time) by new entry or its threat, a competitive model of the drug industry may be applicable to Afghanistan. This would have the following implications:

- o Opium prices would adjust to the point where marginal cost is equated with demand (as opposed to marginal revenue in the case of a monopoly producer). Thus prices would be lower than in a monopoly situation, and production in a static sense would be higher, unless demand is completely price inelastic.
- o Over time the supply curve would adjust through expansion, new entry, etc. to the point where “excess profits” in the drug industry are eliminated. This does not mean no profits, just a normal level of profits competitive with what can be earned in other sectors (factoring in a risk premium and the cost of avoiding law enforcement).
- o Production could increase quite sharply (at least from season to season) in response to foreign demand.
- o Once there is full adjustment to the perfectly competitive equilibrium, further growth of total opium production would tend to track world demand rather closely.
- o Thus the nightmare scenario under the competitive model is one of an efficient, competitive drug industry increasingly embedded in Afghan society and with low opium prices stimulating world demand. Growth in demand could be quite strong as, although heroin demand is growing slowly in Western European markets, it is increasing very rapidly in Asia and the former USSR.

The perfectly competitive model suggests that resources for political influence and destabilization would be under fragmented control. Hence there would likely be a pattern of fragmented capture of the state apparatus at the local level and exercise of power by illegitimate drug-financed local and regional authorities.

Source: Authors

On the supply side, there is evidence that at some price levels, production is elastic with respect to price, although the market is responding to multiple signals and relationships which are not always simple. For example,

- o In 1995, there was a decline in opium prices of 30% and a reduction of 25% in the area under poppy.¹⁹
- o In 1999, poppy area went up by 40% at a time when prices were up by 20%. However, in 1998 there was a crop failure in the south resulting in rescheduling of loans to the 1998/99 season when households had to repay twice as much opium, hence production increased there irrespective of price. The resource rich also ran down their inventories in 1998 and were restocking in 1999.
- o In 2000, opium prices fell by 30% and the cultivated area fell by 9%, although the drought also had an impact on production levels.

Overall, there is evidently some relationship between price incentives and production levels, but other factors also are important, notably market demand (including changes in stock levels), local production constraints (including know-how, labor, and plant health), and the law enforcement regime. The complexities of the relationship can be seen from Tables 1 and 2 in Chapter 2 above - despite the tenfold increase in the farm gate price 1999-2002, total cultivation fell from 91,000

¹⁹ The methodology of the UNODC surveys on which this finding is based has been questioned.

ha to 74,000 ha. And then in 2004, falling prices did not deter a very large increase in opium poppy cultivation to an estimated record level of 131,000 ha.

There is also evidence that *farm-gate prices are bid up by eradication*. In areas not affected by the Taliban ban, for example, income per hectare in 2001 went up seven-fold (and poppy area tripled). *This experience also illustrates the “footloose” character of the drug industry*, i.e. its ability to shift production elsewhere within Afghanistan in the face of law enforcement activities concentrated in parts of the country. There is no direct evidence that interdiction drives farm gate prices down, since an interdiction-focused anti-narcotics strategy has not yet been implemented in Afghanistan. However, the events immediately after September 11, 2001 acted as a form of interdiction, interrupting the export trade and leading to a temporary producer price slump.

B. Development Impact

Not surprisingly given its size and importance, the development impact of Afghanistan’s opium economy is enormous as well as complex and multi-faceted. In particular, it has very important economic implications and linkages. It is a key part of the “informal equilibrium” of the economy as a whole. The various development interfaces of the opium economy include pluses as well as minuses for Afghanistan (summarized in Table 7). They can be grouped in three major categories: macroeconomic impacts, poverty and social impacts, and the effects on governance broadly defined.

4.5 Macroeconomic impacts

In the short run, Afghanistan’s drug industry provides significant macroeconomic benefits for the country. Comprising a large share of total economic activity (roughly one-third in 2003), it is a major source of aggregate demand – for services, durable goods, construction, etc. It provides incomes and livelihoods for large numbers of people. In recent years Afghan farmers have received in the range of half a billion dollars annually from opium production, with another several hundred million dollars probably going to wage laborers (see Table 6). This constitutes an enormous injection of income into Afghanistan’s battered rural economy. The drug industry supports Afghanistan’s balance of payments with a net positive impact that is hard to ascertain but may be in the range of \$500-1,000 million annually or possibly even more, facilitating conservative macroeconomic management and supporting the currency. And although the drug industry as an illegal activity does not provide tax revenues directly to the government (except perhaps some small local revenues), imports paid for with drug proceeds do generate significant amounts of customs revenue.

The drug industry also has negative macroeconomic impacts, some short-term and others over the longer run. It is a source of macroeconomic volatility, but not just because opium is an agricultural product and its production is subject to the vagaries of climate and – especially in the Afghan context – water availability. Recent experience in Afghanistan has seen enormous price volatility. Eradication and its threat clearly can have a major impact on opium prices especially at the farm-gate level, as can other law enforcement measures. The sharp price decline in 2004 reduced farm incomes by \$400 million, and effective eradication could result in a \$1 billion plus shock to the rural economy. Another potential adverse macroeconomic effect of the opium economy is the “natural resource curse” or “Dutch disease” problem. The net foreign exchange inflow associated with drugs could stimulate real exchange rate appreciation making the rest of the economy less competitive and discouraging production of non-opium tradable goods (for

Table 7: Benefits and costs of the drug economy for Afghanistan

Benefits

Benefit item	Specifics	Estimated impact
Aggregate demand	Boosts aggregate demand in the economy, including for services, non-durable consumer goods, durable goods (vehicles, TVs), real estate, building construction, trade, etc.	In 2003 drug economy accounted for on the order of roughly one-third of GDP. Large stimulus to other economic activities. "Multiplier" hard to quantify but is roughly estimated at over 2.
Balance of payments	Supports balance of payments as narcotics comprises an "export industry" in Afghanistan; facilitates conservative macroeconomic policies.	Net positive impact on balance of payments may be \$500-1,000 million depending on output and prices, taking into account propensity to import from drug proceeds.
Incomes/livelihoods	Provides farm incomes, rural wage labor, incomes for others involved in the opium economy and those providing services to the drug industry.	Estimated one third of a million farm households involved in poppy production; many others work as wage laborers on poppy.
Coping mechanism for survival of the rural poor	Income from the opium economy is skewed, but production is highly labor-intensive and the poor rely on it for modest income and access to land, credit, wage labor.	Hundreds of thousands of wage laborers and many sharecroppers are poor and rely on opium economy to make ends meet.
Costs		
Cost item	Specifics	Estimated impact
Macroeconomic volatility	Can result from major fluctuations in opium output (e.g. due to weather, eradication, etc.), price shocks, capital flight.	Farm-gate price crash in 2004 has reduced farm revenues from poppy by an estimated \$600 million; effective eradication could result in a \$1 billion plus shock to economy.
Natural resource curse/Dutch disease	Foreign exchange inflow from opium revenues could raise real exchange rate and discourage production of non-opium tradable goods (either for export or for import substitution)	Afghanistan's real exchange rate appreciated by an estimated 24% in 2001/02, 0% in 2002/03, and 13% in 2003/04. But aid and remittances are substantial and may also contribute to possible "Dutch disease" effect.
Nexus with insecurity, warlords, and weak state	Drug industry funds warlords and their militias undermine state and security, providing an environment conducive to continuing and expanding drug industry.	Revenues accruing to warlords and their militia could well be in the range of half a billion dollars annually in recent years.
Corruption and poor governance	Like any criminalized activity, drugs promote corruption and undermine good governance, massively given the size of the drug industry.	Anecdotal evidence that many officials at all levels in government are involved in or benefiting from drugs
Costs to government	Government and international backers allocate energy and resources to combating the opium economy, and incur reputational risks internationally, and political and economic risks domestically	Success in combating opium is a key outside observers' criterion for judging government's performance, yet opium interests pervade government and success in combating opium would cause violence, economic disruption and political confrontation.
Embedded in and distorts rural economy and society	Land prices, sharecropping rates, credit, bride prices, social status are increasingly tied to poppy in major growing areas. Opium is becoming "capitalized" in the rural economy.	Credit and sharecropping in major poppy growing areas almost universally require poppy cultivation.
Poor become dependent on and stuck in the opium economy	Many poor farmers are mired in debt, often denominated in opium, some of it built up as a result of eradication, which forces them to continue cultivating opium poppy to try to service the debt. Also many poor rural households may rely heavily on wage labor	UNODC survey data suggest a higher proportion of poppy farmers than others took out loans in 2003, in larger amounts, and poppy farmers tend to have more accumulated debt from previous years. Small farmers tend to cultivate poppy more intensely than large farmers.
Growing drug addiction within Afghanistan	Drug addiction spurred by domestic availability and return of addicted refugees from Pakistan and Iran.	Limited data suggest an addiction rate of 0.6% in part of the country, but it could well be higher and rising.

export or for import substitution). Afghanistan's real exchange rate has in fact appreciated in two of the past three years, although aid and remittances have also been substantial and could have

contributed to this outcome. More generally, however, the entrenchment of the opium economy and long-term dependence on it will discourage the sustainable development of other economic activities. For example, with rents and sharecropping arrangements increasingly based on opium in many parts of the country, it becomes increasingly difficult for other agricultural activities to take hold. And finally, an increase in capital flight of drug money to other countries, resulting, for example, from effective law enforcement measures, could have a significant adverse effect on the balance of payments as well as on domestic markets.

4.6 Poverty and social impacts

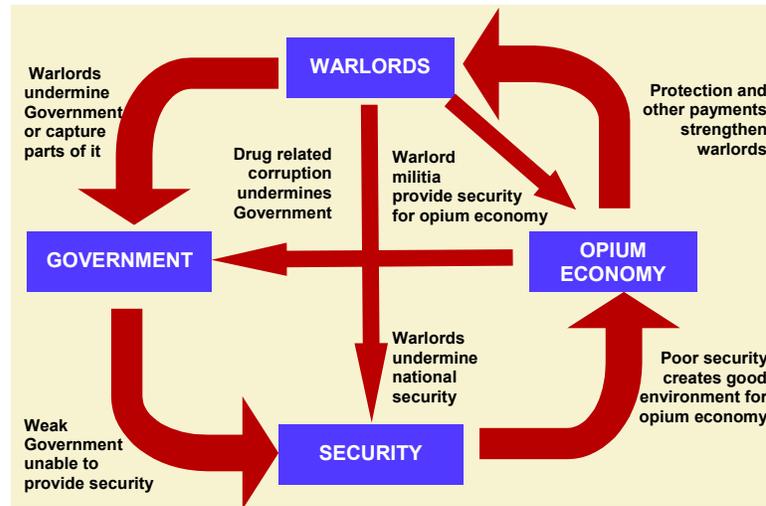
Incomes from the opium economy are unequally distributed and undoubtedly skewed in favor of better-off farmers and especially the larger actors involved in trading, processing, and trafficking. Nevertheless, numerous poor people depend on opium for their livelihoods. The majority of the estimated one third of a million rural households involved in poppy cultivation are most probably poor, many of them engaged in sharecropping or tenancy arrangements that require opium cultivation, virtually the only means by which they can gain access to credit and land for farming. Moreover, as a highly labor-intensive activity (up to 10 times as labor-intensive as wheat cultivation, for example), opium production generates large demand for labor. Some of this is satisfied by more intensive utilization of household labor, but there are also large numbers of wage laborers who work on poppy cultivation and harvesting – possibly as many as half a million people. High demand for wage labor for opium production raises the incomes of the poor both directly through the wages paid and indirectly by contributing to a general rise in rural wages. Overall, it is clear that the opium economy has contributed to the alleviation of poverty and has provided a coping mechanism for the poor. Abrupt shrinkage of the opium economy or falling opium prices without new means of livelihood would significantly worsen rural poverty.

However, the opium economy is a decidedly mixed blessing for many of the poor, particularly those who become mired in opium-related debt from which it is almost impossible to escape and which may necessitate drastic steps like mortgaging or losing land and other assets, giving up daughters to creditors, and the like. The poor are disproportionately vulnerable to the adverse effects of the volatility of the opium economy (discussed above), and are affected by the lawlessness and insecurity associated with the drug industry (discussed below).

4.7 Effects on governance

Afghanistan's opium economy has unambiguous and serious harmful effects on governance, which in turn has profound adverse implications for security, politics, and state-building. It contributes to a vicious circle whereby the drug industry financially supports warlords and their militias, who in turn undermine the Government. In fact, many warlords and local commanders directly sponsor or are otherwise involved in the drug industry. As a result the state remains ineffective and security weak, thereby perpetuating an environment in which the drug industry can continue to thrive. The linkages between drugs, warlords, and insecurity add up to a vicious circle of mutually-reinforcing problems, shown in Figure 3.

Figure 3: A vicious circle



There is also some anecdotal evidence of linkages between drug money and terrorist networks. Warlords, drug interests, and terrorists work together to promote insecurity and weaken the state, even if their interests do not coincide in other respects. All in all, the security and political implications of Afghanistan’s opium economy present a grave danger to the country’s entire state-building and reconstruction agenda.

Like any criminalized activity but on a massive scale given its size, the drug industry engages in corruption and undermines good governance through bribery. There is anecdotal evidence that many officials at all levels in government are benefiting from or are involved in drugs. The opium economy also has a corrupting effect on society more broadly, with a considerable portion of the population involved one way or another in activities that are widely known to be illegal and considered by many to be immoral. Finally, growing addiction to opiates within Afghanistan looms as an increasingly serious health and social problem, feeding into criminality. Although limited data for one area of Afghanistan from the end of the 1990s suggest an opiates addiction rate of 0.6% (UNODC, 2003b), it could well be higher and rising, at least in parts of the country.

A final aspect of governance concerns the risks to government from its policy stance on opium. All aspects of the opium economy are illegal in Afghanistan, and the Government is allocating increasing resources to counter-narcotics programs (see below). These programs receive strong encouragement from the Government’s external supporters, which creates expectations and a major reputational risk if the Government is perceived to be unsuccessful. By contrast internally, the penetration of drug interests into all levels of government makes implementation of counter-narcotics initiatives difficult, and success would bring risks and costs in economic disruption and political confrontation that could weaken government further in the near term.

C. Implications for Counter-narcotics Strategy

This inventory of the main benefits and costs of the opium economy for Afghanistan suggests certain themes and entry-points for counter-narcotics strategy.

Given Afghanistan's limited resources and capability, it is essential to focus efforts on reducing harm most effectively. As a general principle, it would make sense for the counter-narcotics strategy to focus on and target most strongly those aspects of the drug industry that have the most serious harmful effects on Afghanistan.

This suggests giving priority to combating trafficking and processing, as that is where the maximum harm is being caused. Among the negative effects of the opium economy, its nexus with insecurity and warlords and its undermining of state-building clearly cause the most serious damage, threatening the entire reconstruction agenda and, above all, the core task of state building. This suggests that counter-narcotics efforts could focus on the parts of the drug industry that impact most directly on security and state building – drug trafficking and processing, and their sponsors/beneficiaries both within and outside government. Interdiction (see Chapter 6) would be a primary instrument in this regard, along with broader actions against drug industry sponsors and beneficiaries, including not least their removal from government positions. Such a focus would also make inroads against drug-related corruption.

There will be a need to mitigate the adverse side effects, both macroeconomic and microeconomic. Counter-narcotics strategy cannot ignore the substantial benefits of the drug industry for Afghanistan. There have to be measures to deal with the losses that result from the reduction or removal of these benefits as efforts to fight drugs become effective.

Short- term compensation will be needed for the macroeconomic impacts... The counter-narcotics strategy would need to address the adverse side effects from phasing out the opium economy, the most important of which are its positive short-run macroeconomic effects (on aggregate demand, incomes, balance of payments). and the role of the opium economy as a coping mechanism for many poor people. This implies that the counter-narcotics strategy needs to be complemented by short-term measures to counteract the macroeconomic impact of a “poppy shock” (see *World Bank, 2004*, p. 30), including appropriate international assistance as needed.

...and investment in overall growth for the medium and long term. Over the medium term, Afghanistan needs to achieve robust, sustained non-drug economic growth so that at the aggregate level, the economy will generate incomes and livelihoods to “replace” the opium economy as it is phased out, while maintaining an acceptable overall rate of economic growth with rising per-capita incomes.²⁰

At the micro level, there is a need to target the poor... Overall, it is clear that the opium economy has contributed to the alleviation of poverty and has provided a coping mechanism for the poor. Abrupt shrinkage of the opium economy or falling opium prices without new means of livelihood would significantly worsen rural poverty. Therefore, offsetting or at least mitigating the adverse effect on the poor from phasing out the opium economy is a critical component of counter-narcotics strategy.²¹

²⁰ The *Securing Afghanistan's Future* report (Afghanistan Government, 2004) argues that overall non-drug economic growth on the order of 9% p.a. during the next decade and longer will be required in order to maintain 3% annual growth of average per-capita GDP while phasing out the opium economy.

²¹ Government strategy for mitigating impacts on the poor, referred to as “alternative livelihoods,” is discussed in Chapter 6.

...and to develop a broad strategy to help the whole rural economy. Beyond the poverty reduction goal, counter-narcotics strategy can only succeed if there is a broad integrated rural development strategy to support rapid economic growth to “replace” the opium economy in an aggregate sense.

In combating opium production, strategy has to take account of the fact that production can expand greatly, and that it is “footloose”. The relatively low share of the opium economy in use of national land and labor resources has two implications: (1) *production of opium could be further increased relatively easily*, particularly in view of the fact that harvesting skills and trading networks are expanding; and (2) given the characteristics of opium production and its input requirements (e.g. itinerant skilled harvesting labor), *drug production could be relatively “footloose”* in the sense of spreading to new areas and from those where enforcement of anti-drug laws is stricter to those where it is less strict. These characteristics are amply illustrated by the rapid expansion of opium production to all 34 provinces in the past three years. This ease of continual expansion and the footloose nature suggest priority in combating production should be given to start-up zones.

The current decline in opium price creates a window of opportunity. Although at current producer prices, opium is still the most financially attractive crop to farmers, the current pattern of falling prices may brake further expansion and create a window for counter-narcotics action through the promotion of alternative livelihoods.

The apparently fragmented, competitive nature of the industry and the likelihood of local-level “capture” suggest a strategy that promotes counter-balancing development of local-level governance. The analysis in this chapter suggests that the drug industry is fragmented and competitive, reinforcing the pattern of local-level capture of the state apparatus which is inimical to the emergence of an effective, unified state. This risk of local-level capture implies the need not just for economic components of rural development but also the need to build up local-level governance and democratic and stakeholder institutions as a counter balance.

A better understanding of the price mechanism for opium is needed. From what is known it appears that production is somewhat price elastic, but relations are complex and little understood. For example, the extreme range of price rises and falls over the last three years suggests that the industry may be able to outbid almost any attempt to promote economic alternatives. On the other hand, it seems that some counter-narcotics interventions might have countervailing impacts on prices: eradication may well push up producer prices, interdiction may depress them. An in-depth study of the whole value chain is needed to understand the likely impact of interventions.

There will be a need for long-term support to counter-narcotics efforts. Evidently the “replacement” of the opium economy by legitimate economic activities and incomes will require sustained growth over many years. Indeed, the instruments at Government’s disposal – for example, alternative livelihoods and rural development to stimulate rural growth – are by their nature medium- to long-term in nature. Short-term actions to “show results on the ground” are more in the nature of symbolic or at best compensatory measures.

Chapter 5. The Regional and International Dimension

Summary. *Extensive regional and international cooperation around Afghanistan contributes to substantial seizures of opiates. International concern and action has intensified with concerns over the explosive growth of the Afghan heroin trade and its possible links to terrorism. International experience is that interdiction beyond the frontier increases risk premia but is expensive and can stop only a small proportion of the trade. Effectively, interdiction needs to begin within Afghanistan – evidence suggests that demand reduction or interdiction beyond the frontiers will do little to reduce the drug problem in major producing countries like Afghanistan. Without strong domestic interdiction, Afghanistan will continue to export increasing quantities of opiates. Export routes out of the country are many and shift quickly in response to attempts to suppress them. Trade and processing are even more “footloose” than production in terms of how quickly they can shift. (Since the opium poppy is an annual crop, production also can easily shift location from year to year. Demand for heroin in Western Europe is not growing, but Afghan opiates are supplying expanding markets in Eastern Europe and Asia, and even the best organized states cannot really control trafficking or local demand. HIV/AIDS is growing fast in these new territories. Prospects for a reduction in aggregate demand or producer price through increased risk premia beyond Afghanistan’s frontiers are poor.*

5.1 Processing and smuggling opiates out of Afghanistan

Although cross-border smuggling of opiates is largely organized on ethnic lines (Pashtuns and Baluchis live on either side of the frontier), Afghan interests stop at that point. Afghans may be involved in regional distribution but appear not to be engaged in the long-distance trade to any significant extent. This means that of the estimated \$30 billion of “street value” of Afghan opiate production, essentially only the equivalent of the border value – an 8 %, \$2.3 billion share in 2003 – accrues to Afghanistan. Recent developments have, however, allowed Afghan interests to increase local value added by processing more opium into morphine base and heroin in clandestine laboratories within Afghanistan. Many laboratories are still located in the east and south, but there has been a significant migration to the northeastern province of Badakhshan, where they are scattered close to the Tadjik border and kept small to reduce risk. This move into processed heroin not only increases revenues, but makes smuggling easier, as the product is less bulky (one tenth the weight). Most Afghan opiate exports are now in processed form (some estimates are as high as two thirds). Seizures in CIS countries are largely of heroin and morphine base, those in Iran, largely of opium and morphine, suggesting that processing facilities have developed rapidly in the north.

The main routes for smuggled opiates are:

- o The *northern (“Silk”) route* into Tajikistan. This route developed particularly after the Taliban ban on production and the subsequent shift in cultivation toward the provinces controlled by the Northern Alliance. The shift can be seen in price differentials – in 2001 during the ban, wholesale prices in Iran and Pakistan quadrupled, but wholesale prices in Tajikistan went up only 15% as production and trafficking switched to the northern route.
- o The *northwestern route* into Iran through Khorasan. This route was long facilitated by the presence of large numbers of Afghan refugees on the Iranian side. The route spreads over at least 90 different entry points, and the trade is conducted by large and small armed groups and characterized by much violence.

- o The *southern route* into Iran through Sistan and Baluchistan. Again, the numerous Afghan refugees facilitated the growth of the trade, which has at least 50 entry points and is conducted in large, well-armed motor convoys, protected by the local tribes.
- o The *Hormuzgan route*. This trade route goes over the Pakistan border and then by speed boat or small vessel from Pakistan to the Iranian coast, then overland to Bandar Abbas and on to Dubai by boat, or by rail to Damascus or Istanbul

Beyond the immediate neighboring countries, there are multiple routes supplying Asia and Europe. Heroin heads to Western Europe out of Iran via Turkey, or via Azerbaijan or Turkmenistan then Turkey, or from Tajikistan into CIS states and on through Russia. The Turkey route used to predominate, as for years Turkey was the center for heroin processing. New routes through Russia are becoming more frequented. Finally, there are reports of air consignments from Kabul across northern and northeastern borders.

5.2 Regional Cooperation

Regional countries have worked for years to cooperate in efforts against the regional drug trade. In 2000, all of Afghanistan's neighbors joined with Russia and the US in the "Six plus Two Group" to strengthen cooperation on drugs around Afghanistan. The regional Economic Cooperation Organization (ECO) has set up a drug control department with headquarters in Tehran, and UNODC is supporting ECO with projects to strengthen coordination and Afghan/Iran border cooperation. Eastern neighbors and destination countries have formed the Shanghai Cooperative Organization to coordinate actions against the flow of drugs from Afghanistan and Myanmar. Many of these countries have invested heavily in drug control. UNODC is helping set up the Tajikistan drug control agency and has a border control project in the country. There is extensive UNODC assistance to Iran for the "Nowruz" drug control program, comprising interdiction, demand reduction, legal support, public awareness, etc.

The most forceful national effort against drugs is that of Iran. Iran is perhaps the only country in the world to have successfully eradicated major national production of opium and made it stick. Prior to 1979, Iran had an estimated 33,000 ha under opium; after the Revolution, this was quickly brought to zero, and opium production was never resumed subsequently. However, with the rise of Afghan production, Iran became the major transit nation, with 50% of Afghan production passing through the country. Iran set up a strong interdiction force, with an annual budget of \$80 million. Seizures have multiplied (in 2001 Iran accounted for 27% of world opiate seizures) but have not stemmed the flow. The traffickers have responded with organization and violence; since 1979, 3,100 Iranian law enforcement officers have lost their lives in confrontations with heavily armed trafficking bands. Another consequence for Iran has been the easy availability of cheap opiates, feeding the highest rate of opiate abuse in the world - almost 2% of the population, 1.2 million regular drug abusers.

Pakistan also has a successful track record in combating opium production, having reduced cultivation from 9,400 ha in 1992 to just 243 ha in the 2000/01 season, as a result of a combined alternative livelihoods and enforcement campaign. But the struggle was long – the Dir Valley finally became poppy free in 1999 after the \$38 million Dir District Development Plan was implemented over a 16-year period. Recently, the emphasis has shifted to border enforcement and demand reduction. Pakistan remains a major transit route for Afghan heroin, and this is feeding local markets – Pakistan has about 500,000 heroin abusers. Moreover, there are reports of renewed significant opium poppy cultivation in tribal areas this year.

In the Central Asian countries to the north of Afghanistan, drug trafficking has developed rapidly, driven by very high profits. High margins reflect the high risks faced by traffickers, as these countries have forcible interdiction efforts. For example, there was a record seizure of 2.2 tons of opium on the Afghan-Tadjik border in July 2001. From Tajikistan, heroin flows into the rest of Central Asia and is feeding a growing domestic drug abuse. Petty couriers are paid in drugs, and work to create a market. In four Central Asian republics there are now more than 400,000 abusers, a higher incidence than in Western Europe. Heroin bound for Europe passes through many routes in these countries – for example storage and transshipment points exist in Kyrgyzstan on the route to Russia. Thereafter, the main route to Europe is through the Balkans.

Some general information on international patterns of opiate production, trafficking, and abuse is summarized in Box 8 below.

Box 8: Heroin production, trafficking and abuse internationally

Treatment data consistently show that, among illicit drugs, heroin use has the most severe consequences for abusers. In 2002, UNODC estimated that about 15 million people abused opium and heroin in the world. The market appears relatively stable in aggregate, with world production at about 4,500 metric tons of opium (equivalent to about 450 tons of heroin) annually. Beneath this apparent stability major shifts are at work.

On the production side, the global area under poppy cultivation has declined by 25% since 1998, as Myanmar and Laos achieved reductions in cultivation and production shifted to largely irrigated, higher-yielding production areas in Afghanistan. There has been an increasing concentration of opium production in Afghanistan, which accounted for an estimated 76% of world production in 2002 and 87% in 2004.

Patterns of abuse have also shifted, with some decline in Western Europe but the rapid growth of production in Afghanistan fuelling the expansion of a large market in the region, in central Asia, and beyond into Russia and Eastern Europe. The increase in intravenous abuse has caused HIV/AIDS to expand at an alarming rate in these countries.

New markets are less profitable but allow profits to be kept up by the large expansion of the consumer base. There are already more abusers in the new regions of Asia and Eastern Europe than in Western Europe, and there is great scope for further expansion.

There is evidence that long-term demand reduction efforts can be helped by rapid, even if short-term progress in the reduction of supply. Although stocks delayed and reduced the impact of the large albeit short-lived decline in opium production in Afghanistan in 2001, heroin purity levels declined in Europe in that year and the number of drug-related deaths fell. There are also indications that in Central Asia the rate of growth of abuse fell in 2002 as a result of reduced supply.

Condensed from: UNODC Global Illicit Drug Trends 2003

5.3 International consumption and control

Worldwide, it is estimated that around 4.7% of people over the age of fifteen regularly abuse some drug. Of these drugs, opiates are the most dangerous, accounting for two-thirds of all hospital treatments for drug abuse in Europe and Asia. Opiate abuse is practiced by an estimated 14.0 million people worldwide, 0.3% of the world population. Thus, one person in 300 abuses opiates. Ten million or more drug abusers worldwide are supplied by the opiate trade out of Afghanistan.

Box 9: The international fight against drugs, including Afghan opiates

The **Dublin Group**, established in 1990 and comprising the G7 countries and European Union members, meets twice a year at the policy level, normally in Brussels, to review the regional drug control situation.

The European Union's **Horizontal Drug Group (HDG)** brings together national policy makers and experts, from both law enforcement/control and demand reduction/health sectors, from European Union countries.

The **Counter-Terrorism Action Group (CTAG)**, established during the June 2003 Evian G8 Summit, co-ordinates technical assistance activities among the G8 countries, and between individual countries and the Counter Terrorism Committee.

The **Paris Pact** was set up at the May 2003 Paris Ministerial Conference on the Drug Routes from Central Asia to Europe. It involves all countries and parties affected by opium originating from Afghanistan (including Afghanistan itself). The objectives are to help suppress the trade in Afghan opiates through:

- o the collection, analysis, and dissemination of drug relevant information and data from all parties
- o the identification of drug trafficking patterns and coordination requirements
- o the formulation of resulting strategies and action plans for key regions/countries, and the allocation of increased financial resources for joint action
- o the joint planning and implementation of resulting priority projects

Paris Pact actions began in 2003, with round tables on the Balkan Route and on Iran, and a consultative

policy meeting. Actions in 2004/05 include: strengthening border controls in West and Central Asia, on the Balkan Route, Black Sea and the Central Asian countries; establishment of legal and institutional frameworks addressing drug trafficking, organized crime, and corruption in key countries; improving regional cooperation in West and Central Asia, and among European countries; and support to alternative development programs in Afghanistan.

Source: UNODC

After a rapid increase in the 1980s, opiate consumption has remained quite steady in aggregate worldwide. Heroin abuse in Western Europe has leveled off and even went down in 2001, the year that Afghan production fell, but regional and Asian markets are expanding. More than half of all opiate abusers (7.5 million people) are in the countries around Afghanistan and Myanmar. India has the most abusers, and abuse in Russia also is very high. The prospects for a slackening of demand are slim. The rise of intra-venous drug injection in Asia and Eastern Europe has contributed to a high rate of HIV/AIDS infection.

There is a long history of international cooperation to control the drug traffic. Already in the 1920s, Afghanistan participated in the Permanent Central Opium Board at the League of Nations. Now world cooperation is overseen by the International Narcotics Control Board, headquartered in Vienna, with UNODC as its executing agency.²² A number of international groupings working to combat trafficking of Afghan heroin are described in Box 9.

This international effort led to about 1.4 million seizures of drugs worldwide in 2001, of which 21% were opiates – i.e. about 300,000 seizures of opiates. These seizures yielded 107 tons of opium, 54 tons of heroin, and two tons of morphine. The “seizure rate” is estimated to be around one-fifth of the total world availability of opiates.²³

5.4 Implications for counter narcotics strategy

Afghanistan cannot rely on demand reduction or interdiction beyond its frontiers to contain the drug problem. Widely available, low-cost Afghan opiates continue to dominate European markets and are stimulating a rapidly growing drug habit in Afghanistan’s nearby neighbors. Hence, the interdiction of the Afghan opium trade has become an international priority, driven by concerns about both drug abuse and terrorism. However, export routes are many and shift quickly in response to attempts to suppress them. International experience demonstrates that interdiction beyond the source country frontier increases risk premia but is expensive and can stop only a small proportion of the trade.²⁴ Effectively, interdiction has to begin within Afghanistan – evidence suggests that without strong domestic interdiction, Afghanistan will continue to export increasing quantities of opiates. However, there are no easy domestic solutions; international experience suggests that, unless a strongly authoritarian approach is taken, reducing production and trafficking is a long, slow and expensive task, even under good governance conditions.

²² It was the International Narcotics Control Board which invoked Article 14 of the 1961 Convention on Drug Trafficking against Afghanistan in 2001, with the threat of sanctions. This led to “consultations” with the Taliban authorities shortly before September 11, 2001.

²³ In 2000, the rate was estimated at 21%, up from the average of 10% in the previous decade.

²⁴ Various economic studies ranking different forms of drug control generally agree that the highest benefit-cost ratios are in drug treatment programs. A study by Rydell and Everingham (1994) cited in MacCoun and Reuter (2001, p. 34) estimated that reducing cocaine consumption in the USA by 1% could be achieved by investing \$34 million in additional treatment, “considerably cheaper than achieving the same outcome with domestic drug law enforcement (\$246 million), international interdiction (\$366 million), or source country controls (\$783 million).”

PART II: Fighting Opium

Chapter 6. Lessons from Experience in Fighting Drugs

Summary. Drug consuming nations have invested heavily in drug control over a long period of time, but there has been no large, sustained reduction in global consumption of illicit narcotics. There are a few hard-won success stories, but the drug industry in Afghanistan is of a different order of magnitude than in other countries, and lessons of international experience need to be related to Afghanistan with caution. On the supply side, international experience suggests that, unless a strongly authoritarian approach is taken, reducing production is a long, slow, and expensive task, even under good governance conditions. At the production level, a key lesson is that eradication of crops alone will not work and is likely to be counterproductive, resulting in perverse incentives for farmers to grow more drugs, displacement of production to more remote areas, and fueling of violence and insecurity.

Actual efforts at eradication in Afghanistan so far have been counterproductive, and there is strong evidence that programs are first required to help rural people find alternative sources of livelihood. Some pilot alternative livelihoods programs are already producing valuable lessons, particularly that such programs have to be flexible and adapt to the specifics of household situations, that non-farm activities need a special focus, that a long-term approach is essential, and that building governance, responsible citizenship, and the “social contract” is important as well. Law enforcement against farmers who continue to cultivate opium poppy even when they have viable alternatives also is clearly needed, but only when programs have palpably improved licit livelihoods. As production is indeed mobile and the problem is a national one, fighting drugs cannot be done through small localized projects: the drug control effort has to be “mainstreamed” into the overall development effort.

Front-line responsibility for law enforcement on drugs, including interdiction, lies with the national police, but its specialized drugs unit has only recently been set up. The law enforcement effort has been weakened by confused responsibilities, no accountability and lack of resources. In the absence of effective law enforcement and of a working judicial and penal system, drug trafficking and processing has hitherto proceeded virtually unchecked. Government and donors are now acting decisively to build capacity and to conduct tactical campaigns. The legal, judicial, and penal systems need overhaul as at present no trafficker is being tried, let alone punished.

A. International Experience

Drug consuming nations have invested heavily in drug control over a long period of time, but success has been elusive. Law enforcement in these countries and interdiction of international drug shipments have raised the risks associated with drugs, increased prices, and interrupted supply. Demand-side interventions such as medical treatment and alternative drug therapy can mitigate some of the adverse effects of drugs, including crime and HIV/AIDS. But there has been no large, sustained reduction in global consumption of illicit narcotics.

There is also rich international experience with supply-side interventions to reduce drug production (see Box 10). This experience is both at the production level, where law enforcement (including crop eradication) and rural development have been used, and beyond the farm gate at the processing and trafficking levels, where law enforcement includes interdiction (seizing the

product and related processing and transport assets) and actions to interrupt money flows and seize drug-financed assets. At the production level, a key lesson is that eradication of fields alone will not work and is likely to be counterproductive, resulting in perverse incentives for farmers to grow more drugs (e.g. in Colombia), displacement of production to more remote areas, and fueling of violence and insecurity (Peru, Bolivia, Colombia), which in several cases forced the eradication policy to be reversed and led to adverse political outcomes. Neither does the approach of making eradication a condition for development assistance work – without alternative livelihoods already in place, premature eradication can alienate the affected population and damage the environment for rural development.

Box 10: Supply side interventions which may work – and what does not

Internationally, there is some evidence that a coherent development strategy, backed by donors, matched with progressive and reasonable law enforcement, and integrated within national development programs, can have a sustained impact on narcotics production:

- o in Pakistan, production of opium dropped from 800 tons in 1979 to 10-20 tons in 2002. Over this 12-year period, the international community invested \$205 million in alternative development projects, and the government added \$100 million in social infrastructure and other funding. Key elements were a comprehensive long-term development approach, including infrastructure, governance, and development of alternative livelihood possibilities, together with law enforcement that initially focused on traders and laboratories, with eradication in later stages
- o in Thailand, an investment of \$200 million in “alternative development” projects over a 25-year period within a wider investment program for the highland areas of over US\$1 billion (an estimated US\$2.6 billion at current prices) reduced the opium area from 18,000 ha in 1966 to 750 ha in 2002. Key elements included strong political ownership, well-coordinated implementation, law enforcement focused on processing and trafficking, and strong economic growth in the country as a whole. While development assistance began in 1969, concerted eradication was not initiated until 1984. The remote and marginalized producing areas were successfully integrated into the national economy and polity.
- o in Peru, the collapse of the Cali and Medellin cartels and action against traffickers operating from Colombia led to a collapse in the market price for coca. Alternative development centered on the creation of local organizations and the stimulation of agro-industry and marketing. Oil palm and coffee became major alternative crops. Coca cultivation decreased from 129,000 ha in 1992 to 38,000 ha in 1999, despite minimal eradication.

However, in other countries such as Colombia and Myanmar, there is no evidence of a positive impact. In Colombia, where an eradication-led approach and development programs restricted to coca growing areas have been pursued, production has gone up considerably.

It has to be emphasized that all of the examples of a successful integrated approach within a coherent development strategy occurred at the local or regional level in a national context where the drug problem was contained in one or two areas and was not a dominant part of the economy.

Source: Annex 5, UNODC reports, personal communication from David Mansfield

An example of speedy and sustained drug eradication was in Iran (Chapter 5), the only country in recent years able to eliminate opium poppy cultivation quickly with no subsequent revival. However, there arose a major problem with transit of Afghan-origin drugs, and Iran has been left with the highest opiate addiction rate in the world – nearly 2% of the population are regular drug abusers. Mexico succeeded in eradicating poppy by spraying in the mid-1970s, but the drug

industry responded by dispersing cultivation to smaller fields hidden in remote areas, and by the early 1980s Mexico was supplying as much heroin to the US market as before eradication.

Thailand and Pakistan succeeded in virtually eliminating opium production on a sustainable basis (Box 10). Their approach was gradual, taking decades rather than months or years. In both cases, eradication was undertaken only following the implementation of comprehensive alternative development programs which raised incomes in the target areas through development of profitable cash crops. In both cases, poppy cultivation was localized and constituted a small percentage of total national economic activity. Moreover, opium production boomed in neighboring countries (Myanmar in the case of Thailand and Afghanistan in the case of Pakistan), suggesting that the drug industry moved its activities elsewhere rather than shutting down.

B. Attempts to Combat Opium Production in Afghanistan

Since the early 1990s there has been a series of attempts at control of opium production in Afghanistan, each of which has been in its own way unsuccessful. This section reviews past experience with attempts at “conditional development” and eradication, together with current “alternative livelihoods” approaches.

6.1 “Conditional development” and eradication

Alternative development without security and political support. Starting from 1989, UNODC implemented two projects (the *Drug Control and Rural Rehabilitation Program 1989-96*, and the *Opium Poppy Reduction Project 1997-2000*) which followed the model of “alternative development” that had been applied with some good results in Pakistan and in the Andean region. From the beginning these projects had problems. They were implemented in areas where opium production was entrenched, there was widespread insecurity, and the projects lacked political support. The *Opium Poppy Reduction Project* tested a model of “conditional development” that bartered project benefits for a commitment from communities to phase out opium production over four years. Local elected councils – the *shuras* – acted as the project’s counterpart. An evaluation concluded that the *shuras* were unrepresentative, that there was too little connection between project benefits and farmers’ motivations and constraints, and that the better-off captured the benefits. There was no impact on opium production. The failure of these projects led some to conclude that the model of “conditional development” – characterized as offering “benefits” to communities that grew illegal crops – sent the wrong signal. There was talk of perverse incentives and of the “failure of quid pro quo”. The evaluation concluded with two lessons learned. First, greater refinement of “alternative development strategies” is needed, notably a better understanding of farmers’ motivations and constraints, and the development of measures that address those motivations and constraints and which are able to offer a credible alternative to the decision to cultivate poppy. A second need is “a longer term approach, located within a strategy for restoring governance and civil society”.

A simple ban vigorously applied. In 2000 the Taliban regime announced a complete ban on opium poppy cultivation. This was strictly enforced through a combination of religious messages, severe sanctions, threats, and promises that the international community would provide development assistance. As a result production in Taliban-controlled areas fell to negligible levels. The regime’s motivations for the ban were not entirely clear but apparently multiple. Observers argued that it was a combination of attempting to lever development assistance out of the international community, obtain official recognition as the government of Afghanistan from the UN, manipulate opium prices, and avoid international sanctions that were about to be imposed. Some observers note that although production slumped, the flow of opium out of

Afghanistan did not diminish. Border and consumer prices remained high, while producer prices shot up. These price developments could be consistent with operators maintaining turnover on a reduced raw material production level by running down inventories. The eradication campaign pauperized many farmers, and led to them incurring considerable debts which they are still repaying. The action effectively benefited the very interests that a war on drugs should first combat – the criminal trafficking interests (whose large holdings of opium inventories multiplied in value) and their political networks. Further effects of the ban were to promote a shift in cultivation to the areas controlled by the Northern Alliance, and to open up on a larger scale the northern trafficking route through Tajikistan (the “Silk Route”).²⁵

Eradication with promised cash compensation. One of the first acts of the new Afghan Government was to issue a Presidential Decree (January 17, 2002) banning the cultivation, production, abuse and trafficking of drugs. This was followed by a decree issued on April 3, 2002 for the eradication of the 2001/02 opium crop. It was reported that eradication was carried out on about 17,500 ha. Compensation was offered, but apparently only ever paid to one-tenth of the farmers whose crops had been eradicated. This campaign was risky as it took place in the areas loyal to and controlled by the Government, where a quite opposite process of non-violent and inclusive reconstruction was desirable. In other areas, eradication also took place apparently as part of opportunistic local power plays, with “officials” representing one faction basically trying to destroy the economic power base of another faction. At the level of the farmers and rural communities, the offer of compensation raised again the specter of perverse incentives to neighboring communities, but in reality the main damage was caused by the failure to honor offers of compensation, which pauperized smaller farmers (especially small farmers locked into opium-denominated debt) and harmed the weak credibility both of the program and of the government that backed it. According to the UNODC report on farmer intentions for the following (2002/03) season, only 12% of respondents said that the eradication would deter them from planting. Two-thirds of farmers intending to replant the following year said that they were obliged to continue, most of them because they were locked into the business by high levels of debt. The UNODC report gives harrowing reports of the fate of farmers unable to repay debts.

Eradication with the promise of subsequent rural reconstruction support. On September 7, 2002, the Government issued a decree imposing a ban on production for the 2002/03 season. According to the Counter Narcotics Department (CND), 21,430 ha was “eradicated”, (largely in Nangarhar 7,400 ha; Helmand 8,500 ha; and Qandahar 2,700 ha). There were also assertions of opium production “foregone” through persuasion on a further 5,000 ha. Some was eradicated by “local authorities” led by the provincial Governors with the promise that rural development and “alternative livelihood” assistance would follow, but these offers have been fulfilled slowly, if at all. Assistance to all of the communities involved in the eradication program is a priority now, with precedence being given to the communities that voluntarily did not produce opium in 2002/03. However, despite the eradication program, the production area increased by 8% in 2002/03 to 80,000 ha. In some provinces, eradication did have at least a short-term effect: reductions in area were particularly marked in Helmand and Qandahar, areas where production was relatively important and the Governors were cooperative. Elsewhere, production spread to new districts and provinces, reaching 28 of the then 32 provinces in the country²⁶ and confirming the hypothesis that the effect of opium bans and eradication programs in the first instance would be not a reduction in aggregate area or production but rather a shift to other areas where law enforcement is weaker and/or a retreat into more marginal and remote production areas.

²⁵ The Taliban also reported the destruction of 25 clandestine laboratories in their area of control. This prompted the migration of processing facilities also to the north, where numerous laboratories sprang up in Badakshan.

²⁶ The total number of provinces in Afghanistan was increased to 34 in 2004.

Results of the eradication campaign in 2004. The most recent eradication campaign involved a continuation of the earlier Governor-led eradication program; a Central Poppy Eradication Force (CPEF) was also formed and took part in some eradication on a pilot basis. The CPEF reports to the Minister of the Interior. The other innovation was independent verification of the amount of actual eradication by outside observers. The outcome of eradication in 2004 was poor, although the results are hard to compare with the reported results of earlier eradication campaigns which had not been independently verified. Governor-led eradication resulted in actual eradication of opium poppy on only about 3,000 ha of land. In addition the CPEF was reported to have eradicated another 850 ha. All told, less than 4,000 ha was actually eradicated.

Lessons from recent eradication campaigns. Experience with eradication in recent years provides several significant lessons. First, it illustrates the danger that opium production will resume in areas where eradication takes place in the following year if there is no follow-up. As shown in Table 4, opium cultivation in some of the major producing provinces, which had declined substantially in 2003 (presumably due to eradication), bounced right back to 2002 levels in 2004. More generally, the erratic changes in eradication approach in recent years reflect the difficulty of sustaining the political will required to continue eradication year after year. Second, the expansion and spread of opium cultivation across the country continues and has even tended to accelerate in the face of eradication in main producing areas. Third, reports on eradication efforts by local authorities are almost inevitably unreliable; in 2004 the actual verified eradication of poppy fields under the Governor-led eradication program was much smaller than that reported by the Governors themselves. Fourth, in present conditions of weak governance and insecurity, it is virtually impossible to ensure that eradication is fairly and evenhandedly carried out. While the Governor-led program lends itself to abuses like protection of better-off and well-connected farmers and disproportionate targeting of poorer farmers, centrally-conducted eradication runs into problems due to lack of reliable local information. All in all, the cumulative effect of these past interventions has not been a decline in opium cultivation. With the exception of the year of the Taliban ban, production and area devoted to poppy have continued to grow, most spectacularly in 2004.

Eradication proposals for 2005. A Central Eradication Planning Cell has been set up in the Ministry of the Interior and target maps have been drawn up identifying primary, secondary and tertiary level areas to be targeted. The CPEF is being trained by an international contractor, DynCorp, funded by the USA. Although the scope of the campaign and the eradication methods to be used remain to be decided by the Government, it is likely that a substantial area will be targeted in 2005, that the role of the CPEF will be dominant, and that the role of Governors and local police will be increasingly in providing information and protection rather than in direct “Governor-led” eradication.

6.2 The “alternative livelihoods approach”

In Afghanistan over the last two years, there has been intense debate about ways to combat poppy production. The debate started from the poor experience with past attempts based on “conditionality” – the *quid pro quo* – and from the equally poor results from the eradication-led approach (see above). Out of this past experience, a new approach has evolved – the “alternative livelihoods” approach. As this figures prominently in official thinking about the anti-poppy struggle, it is important to define the concept. A recent paper has given the following definition: “*Alternative livelihoods are alternative means of living for those whose livelihoods currently depend on illicit production of opium poppy. A livelihood comprises all the capabilities, assets (including both material and social resources) and activities required for a means of living. The*

term alternative livelihoods was coined to describe this broad, sustainable approach to improving people's livelihoods."²⁷

The alternative livelihoods strategy contains the following elements:

- o A broad integrated approach to community and rural development, including the provision of community assets and services (including health and education), and the development of local-level governance (including community institution building and the growth of responsible relations between communities and the government).
- o A package of investments and services that offers alternative farming possibilities which address farmers' real constraints and motivations defined in terms of income level, risk, and access to the means of production including land and credit.
- o Development of the rural business environment and of downstream or off-farm business and jobs.

Thus the alternative livelihoods approach resembles a good integrated rural development program and in that sense is uncontroversial. The difference is that the approach is linked to a long-term objective of poppy reduction and elimination. Within the overall counter-narcotics strategy this implies links to law enforcement and other measures to make opium cultivation in itself less attractive and competitive, including application of sanctions against poppy growing.

Alternative livelihoods projects. In the last two years a start has been made on implementing the alternative livelihoods concept through integrated projects. The International Counter-Narcotics Conference in Kabul in February 2004 saw the presentation and discussion of several of these alternative livelihoods projects, as well as of other rural development programs that are not specifically conceived within the alternative livelihoods concept, but which the Government feels nonetheless could contribute to it. Boxes 11 and 12 give a sense of the nature and early experience of these projects.

Essentially, these projects serve as pilot programs to test the validity of the alternative livelihoods approach. It would be difficult to replicate the experience in all areas of Afghanistan. Given the size and geographical spread of the drug problem, responses have to be on an equivalent scale. It is true that in other countries, dedicated regionally-focused "alternative livelihoods" projects have been employed successfully to control drug production. But in those countries (Thailand, Laos, Pakistan), drug production has been localized in marginal areas. In Afghanistan, given the magnitude and mobility of the problem, such approaches can only be part of the solution; they need to be complemented by a process of "mainstreaming" drug control objectives into programs for national development and rural growth and into the whole reconstruction process (see below).

Prospects for alternative livelihoods in 2005. The proposals for large-scale eradication in 2005 have prompted a new focus on alternative livelihoods approaches. Plans comprise essentially two tracks. The first is to mobilize all ongoing and future rural programs (affecting both human and economic development and governance) to present a critical mass of development assistance to communities.²⁸ The second is to mobilize special funds for rapid assistance in areas especially affected by eradication. In 2005, it is being proposed that four provinces (Helmand, Qandahar, Nangahar and Badakhshan) be the target of robust law enforcement and eradication, and that a

²⁷ Adapted from a note by DFID summarized in Annex 3.

²⁸ This approach is likely to be implemented in part through the proposed "mainstreaming" of counter-narcotics strategy into development programs. On mainstreaming, see the discussion in Chapter 9 below.

special provision of emergency assistance such as seed and fertilizer for alternative crops be made available. The US Government is expected to provide \$120 million for this assistance in the four provinces.

Box 11: Creating and Restoring Alternative Livelihood Sources (CRALS)

CRALS operates in 10 districts in South Nangarhar. Funded by the International Narcotics and Law Enforcement (INL) Bureau of the US Department of State and intended to accompany eradication, the project is conceived as a specific alternative livelihoods (AL) intervention associated with the counter-narcotics strategy.

The project resembles the new generation of rural development projects in its integrated approach and the emphasis on community-led development, on a livelihoods approach, on gender inclusion, and on natural resource management. CRALS starts with some rapid impact actions, then gives priority to engagement with the community. Activities may include schools, roads, irrigation, crops, micro-credit, training, greenhouses, poultry farms.

After one year of implementation, staff report the following lessons:

- In order for AL to be effective, there needs to be clarity about the linkage between law enforcement and AL, and coordination of the two.
- Eradication should be based on transparent criteria, and should target criminals not “punish the economically dependent”.
- To be successful, an AL project needs to offer more “alternatives”, and it needs time. The current short funding cycle is unrealistic. Such a project needs up to 10 years commitment.

In addition, some constraints are faced by the project:

- If security continues to deteriorate, the project will cease to be viable.
- The “autonomy” of the provincial government creates difficulties.
- Lack of local funding restricts cooperation of line ministries.

Despite these difficulties, the project plans to expand to all Nangarhar districts.

Source: project staff presentation to the International Conference, February 2004

Box 12: Badakhshan, AKDN and alternative livelihoods

The Aga Khan Development Network (AKDN) started its program in Badakhshan in 2001. The opium boom had just arrived in that province. Cultivation was shifting from the south, where the Taliban had effectively banned it, into this non-Taliban area of the northeast where only small amounts of opium had previously been grown. Local conditions created strong incentives to take up opium, as several years of drought had led to widespread sales of household assets and livestock, mortgaging of land, and high debt levels.

The design of the AKDN program was based on an assumption that law enforcement would soon happen. The program therefore concentrated its activity in “opium districts” and strove for increased agricultural productivity and increases in alternative cash incomes. But then law enforcement did not happen, the drought ended, and opium production continued to expand. AKDN saw that their support to agriculture risked aiding opium production.

The opium boom has brought some prosperity to the area, but the gains are uneven. Richer farmers are doing well, and some are trading in opium too. At this level, signs of wealth – extra rooms built on, satellite dishes – are visible. Opium has brought liquidity and monetized the economy. The cereals market is working well, and prices are low, which is a benefit as almost all households in Badakhshan are cereals deficit. People have confidence that they can buy food for cash, and are so are willing to allocate part of their fields to opium production.

Poorer farmers lost many of their assets during the drought. Typically, a poor farmer would produce no more than to four months supply of cereals for his household and would have to buy the rest. He may have access to land through sharecropping, but his share of the output can be very low. He may get credit through the *salaam* system, but this usually requires opium production and carries extremely high effective interest rates. At best he may be able to reduce debt. “Luxuries” may be sugar or a thermos flask. The poor farmer is the most vulnerable to eradication or interdiction, with high levels of debt and low household cereals autonomy. Eradication of his crop would leave him even more heavily in debt and unable to buy food. With interdiction, the price might fall and reduce his cash income. Most poor households rely on hiring out their labor; the wages from opium are very good, but again leaves them vulnerable to fluctuations in the opium economy and associated demand for labor and wage rates.

AKDN draws the following lessons:

- o Without law enforcement, alternative livelihoods programs will not affect opium production levels.
- o There are no “quick alternative livelihoods fixes”, no miraculous technology or new crop.
- o Alternative livelihoods programs should concentrate on non-opium areas as well on opium areas.
- o “Constructive engagement” is the best approach, targeting locality specific livelihoods alternatives, rather than imposing opium conditionalities, which are ignored if there is no eradication.
- o As most increase in incomes, particularly for poor people, is likely to be off-farm or non-farm, AL in the area will focus on other income generating activities alongside agricultural production. Thus AKDN is targeting improved marketing, raising skill levels, vocational training and giving access to credit

AKDN emphasizes that livelihoods strategies are complex, highly variable across space, and can evolve fast. AKDN recommends participatory research, looking at household specifics. They think of livelihoods as a set of micro problems – “off the shelf narratives based on macro aggregates are unhelpful” (Pain, AREU).

AKDN’s view is that an AL approach to counter-narcotics can only work if there is significant investment and effective and intelligent law enforcement. They believe that law enforcement should prioritize interdiction, with some eradication concentrated in the richer plains rather than in the upper valleys – enough to be able to say to farmers “this time you were lucky”.

Source: AKDN staff; Pain (2004), Coping Strategies (2004)

C. Interdiction of Opium Processing and Trafficking²⁹

Worldwide, interdiction is the preferred method of limiting the drug traffic, and is the principal reason why drug street prices are so high. Economically, interdiction should be superior to eradication, as it suppresses both final demand and producer incentives by increasing risk premia and transaction costs. Eradication by contrast would tend to raise producer prices and so increase production incentives and revenues.

6.3 Recent developments in interdiction in Afghanistan

Front-line responsibility for law enforcement on drugs, including interdiction, lies with the national police. Since the fall of the Taliban, support to the police has been provided by the German Government, and the force is being reorganized along the German model. Germany is giving training and technical support, largely through the police college. The police force is being paid from the Law and Order Trust Fund (LOTFA), supported by a number of donors.

The Counter Narcotics Police of Afghanistan

As part of this reorganization, a special anti-drug force – the Counter Narcotics Police of Afghanistan (CNPA) – was created in April 2003. The force is outside the mainstream of the activities of the Criminal Investigation Department of the police force, although it is still part of the Ministry of Interior, reporting directly to the Deputy Minister for Narcotics-Narcotics. CNPA has three sections: intelligence, cooperating with international and national informants (this is supported by Germany); investigation (supported by UNODC with financing from the UK as well as Japan and Austria); and interdiction (supported by UNODC with US financing). As of November 2003, CNPA had 60 staff in its Kabul Headquarters and a squad of 16 agents in each of seven key provincial locations. Further expansion took place in 2004, and a complement of 750 officers is targeted by the end of 2005. The CNPA interdiction capability is to be reinforced with further assistance from USA, UK, UNODC, and France, with the aim of achieving an interdiction strength of over 500 CNPA officers by end 2005. Within the CNPA interdiction section, a Mobile Detection Team (MDT) has been operating successfully at the Kabul city limits during 2004, and an additional nine MDTs are planned for 2005, with UK financing and training. There are proposals for reinforcing CNPA through the creation of further capacity in the provinces and development of new skills in forensic science etc. A mobile forensic laboratory is in place, and a permanent facility is expected to be set up in 2005. A counter-narcotics intelligence fusion cell linked to the CNPA is expected to be operational by early 2005.

CNPA's initial experience was difficult (see Box 13). The police in general have been in a very weak position – underpaid, poorly trained, usually not armed and therefore ill-placed to confront criminals or warlords, and demoralized by the pervasive corruption. When a contract killing can be had in Kabul for just \$60, it has been difficult for a policeman to make much of a stand against

²⁹ In the international literature on counter-narcotics strategy, the term “interdiction” is often reserved for law enforcement efforts against movements of drugs across borders, in particular interception of drug shipments on their way to or into consuming countries, whereas actions against all levels of the drug industry in producing countries are lumped together as production and refining controls. This categorization is less useful for analysis of drug producing countries like Afghanistan. Therefore in this paper, interdiction is used to refer more broadly to law enforcement actions against drugs beyond the farm level, including actions against drug trading within Afghanistan (as well as across its borders) and actions against opium processing labs etc. Interdiction (so defined), eradication (and associated law enforcement actions directly against farmers), and alternative development/livelihoods are thus the three main supply-side counter-narcotics instruments analyzed in this paper from the perspective of Afghanistan.

organized crime. Not surprisingly, the police have often been ineffectual and corruption is considered by many observers to be rife.

During 2004, efforts have been made to resolve these problems. A more concerted donor effort has been made to train, equip, and mentor the force. A donor-financed operating budget is in place, and CNPA administrative and management skills are being developed. The Kabul MDT made its first seizure in February 2004, and by November 2004 some 120 arrests had been made country-wide.

Box 13: The Initial Experience of the Counter Narcotics Police of Afghanistan

The initial experience of CNPA was difficult. Despite generous equipment from the donors, there was virtually no operating budget in late 2003. There was a brand new headquarters in Kabul, but computers initially could not be used as there was no electricity. In the field in November 2003 there were vehicles, but no diesel for operations. As there were delays in funds coming from LOTFA, the Ministry of the Interior was paying (something) to the staff themselves. But even when salaries arrived, the rewards were slim – the payroll of the entire CID branch of Kabul of 700 staff in October 2003 was \$16,000 or \$23 a month per person.

Initial results did not match expectations. On the forecourt of the CNPA in Kabul in November 2003 was a gray pickup, which was seized with 240 kg of heroin on board. The pickup turned out to belong to a provincial police chief. The police chief was not even asked about the fact that his vehicle was found full of trafficked drugs. He continued his duties heedless.

Another tip-off was received at the same time about a cargo being trafficked. The local police chief was notified and the CNPA moved in. A quantity of “heroin” was seized that turned out when sent for analysis to Germany to be a harmless powder. Collusion between local police and traffickers was suspected.

During 2004, the Government and supporting donors have made considerable efforts to equip and train the CNPA and to help the force become operational and effective in the field. A higher interdiction rate is reported, although successful prosecutions are still not occurring.

Source: personal communications in November 2003 and subsequently.

Although the CNPA is the lead agency for counter-narcotics enforcement activities, one problem in practice, and not surprisingly given limited capacity throughout the system, has been fragmented responsibility for law enforcement on drugs, including interdiction. The recently passed anti-narcotics Presidential Decree did not clarify institutional roles, and on the ground there are reports of different agencies conducting interdiction activities, particularly seizures, without apparent coordination. The army under the Ministry of Defense, the regular police and border police under the Ministry of the Interior, the tribal militias under the Ministry of Frontiers, and the customs law enforcement brigade under the Ministry of Finance may all intervene.

The Afghan Special Narcotics Force

To focus specifically on more significant interdiction activities, and in line with the National Drugs Control Strategy (see Chapter 7), the Afghan Special Narcotics Force (ASNF) or “Task Force 333” was created in January 2004. This unit, financed, equipped, and trained by the UK, reports directly to the Minister of the Interior. This a rapid intervention force equipped with helicopters for commando-style raids. The unit has operational autonomy and maintains secrecy in its operations for maximum impact. The unit is a mobile force of sufficient strength to be able

to carry out major interdictions such as destruction of processing laboratories and actions against opium bazaars (seizure of stocks and physical destruction of bazaars). An early interdiction effort of this force against a laboratory in Badakhshan is discussed in Box 14. More recently, the force has been engaged in a number of actions against laboratories, as well as a very large seizure of drugs and equipment in Nangarhar. By November 2004, the ASNF had destroyed 75 tons of opiates and over 50 drug laboratories, and had closed two opium bazaars.

Assessment of interdiction

Overall, from a nationwide perspective and despite exceptions, the process of official interdiction of processing and trafficking has until recently been very selectively – and sparsely – applied. Seizures within Afghanistan usually were not more than one or two a month, usually just a few kilograms, and there are at present no reports of anyone being in jail charged with drug production or drug trafficking. During 2004 a concerted effort has been made by the Government and concerned donors to create an effective interdiction capability, and the initial results of the efforts of both CNPA and the ASNF are promising. Given the size of the opium processing and trading problem, sustained international support of interdiction efforts would appear to be necessary at least into the medium term.

Legal and penal aspects

Interdiction is a step in a sequence that culminates in prosecution and penalty. The objective of the interdiction process should be not just seizure but fair trial and punishment. However, there are serious weaknesses in the legal framework and in the legal and penal system. The religious establishment have periodically ruled against the drug trade,³⁰ and a recent *fatwa* issued by the National Council of Ulema has been widely publicized and will be displayed in mosques throughout the country. However, where *shari'a* and customary law are applied, it appears that drug consumption is generally viewed as an offense but drug processing and trafficking may not be.

Within the formal judicial system, the Presidential Decree clearly criminalizing all stages of the drug business was gazetted in early 2004. However, there is no evidence that it has yet been effectively applied. In fact, it seems that in the last two years no drug trafficker has ever been charged or brought before a court. There appear to be some structural and practical obstacles to fair trial and punishment. The interim penal code provides for the police to hand over the file to the Attorney General (prosecutors' office) within twenty four hours; for the Attorney General to prosecute on behalf of the state in the courts; and for convicted criminals to be incarcerated in prison. At present, each stage of this sequence is dysfunctional, and in the case of the arrests made so far, no trial or punishment has occurred. Thus at present there appears to be no meaningful deterrent effect from the legal system.

Improvements are proposed. Regarding the counter narcotics law, a conference in September 2004 proposed changes to clarify institutional responsibility for interdiction, and a working group is currently drafting the necessary amendments, to be completed by January 2005.³¹ A Counter Narcotics Criminal Justice Task Force is to be launched in December 2004 to fast-track counter narcotics cases within the criminal justice system. The plan is that teams of 35 specialist investigators, 35 prosecutors, and 15 judges will be trained and operational by the end of 2005,

³⁰ The religious ruling and follow-up on the part of the religious establishment was apparently a powerful component of the Taliban campaign.

³¹ New laws on money laundering and on the freezing and confiscation of assets are also proposed for 2005.

with the assistance of the UK, USA, Canada, Norway and UNODC. There is also a plan to set up a secure court and prison facility for narcotics cases at Pul-e-Charki prison during 2005.

Box 14: Badakhshan interdiction

In January 2004, a ground force armed and trained by the UK attacked one heroin processing laboratory near to Faizabad in Badakhshan, about 15 km from the town of Baharak. According to preliminary information, the laboratory was reputed to be under the control of a local commander allied to a cabinet minister. The attack apparently was successful, but a Coalition aircraft had to be called in to destroy the facilities and stocks. According to the Deputy Minister of the Interior, two tons of opium were seized. It appears that arrests were made, although there is no information on what subsequently became of those detained.

No one in the area was warned in advance. This was of concern to the Governor, who is generally held to be firmly against drugs. The local (German) PRT was not informed, and the CNPA were unaware. Local relief workers from WFP and UNICEF felt at risk, as they had not been warned to stay away.

The interdiction was apparently popular locally, as most people there see drugs as a social evil, and a threat to their children. The local commander was said to be upset at the loss of his “tax revenues”. The impact of the action was apparently an immediate drop in the price of opium. The question on everybody’s minds at the time was whether this is the first step in a program – or one-off? Subsequent interdiction measures by the special unit, including a very large seizure of drugs and equipment in Nangarhar during the summer of 2004, do provide evidence of a systematic interdiction effort getting underway.

Source: International Conference, local sources.

D. Implications for Counter Narcotics Strategy

6.4 Implications for poppy reduction strategy

From international experience and from efforts to combat drugs so far in Afghanistan, the following general lessons about ways to reduce opium production have emerged:³²

Conditional approaches have not worked. The early “alternative development” projects that linked development assistance very closely with local communities’ promises to phase out opium poppy cultivation did not work, as they did not address the long-term causes of poverty and opium poppy cultivation, nor the wide variation across socio-economic groups. In other countries this approach has led to perverse incentives that encourage poppy cultivation, in order to attract development assistance.

Targeting may encourage further spread of opium production and give rise to perverse incentives. These adverse effects of targeting are evident in Afghanistan’s experience since the mid-1990s. The difference from other countries is that the general and widespread environment of insecurity in Afghanistan means that there are no effective checks to prevent the drug industry from migrating to other parts of the country in response to counter-narcotics efforts targeted at particular localities. Experience suggest that singling out the main opium producing areas for special assistance sends the wrong signals.

³² These lessons are well discussed in a paper by DFID, on which this section draws and which is summarized in an annex to this report.

Knowledge of the local dynamics is essential to building an effective strategy – but action on any scale entails a more “broad brush” approach. The evidence from both international and Afghan experiences shows that combating drug production requires a good understanding of farmer motivations and constraints and the development of measures that address those motivations and constraints and are able to offer a credible alternative to the decision to cultivate poppy. There is a need to develop an understanding of the processes by which households move from licit to illicit livelihoods – and vice versa – and how this differs across different socio economic groups. NGOs in the field have practiced a sort of action research – or “constructive engagement”, understanding the dynamics of the local socio-economy and developing locality-specific livelihoods alternatives. However, when programs are brought up to any scale, inevitably a more broad-brush approach must be adopted.

A comprehensive “alternative livelihoods” approach to poverty alleviation is required to address the underlying causes of opium production. In both Thailand and Pakistan, elimination of poppy production was achieved as part of a comprehensive development strategy combined with a supportive policy framework to consolidate law enforcement and to integrate marginal communities into the national economy. Addressing the underlying causes of poverty, inequity, and insecurity is critical to attacking the causes of opium poppy cultivation. In Afghanistan, where the state has very limited capacity, a broad-based (and highly visible) rural development effort is needed that not only begins to address the underlying causes of poverty but gives confidence to people in the Government and its actions. Opium poppy reduction objectives have to be “mainstreamed” into all development and assistance programs in rural areas.

Non-farm activities need particular focus. As most increases in incomes, particularly for poor people and those in remote, mountainous areas, are likely to be off-farm or non-farm, alternative livelihoods approaches should focus on other income generating activities alongside agricultural production, targeting improved marketing, raising skill levels, and giving access to credit. Particular attention should be paid to reducing constraints to improving incomes in other activities such as skills or access to land, to credit, to product or labor markets.

A long-term development approach is essential. Sustainable development and poverty reduction take time, and it is important to understand that progress will be uneven.

Building governance, responsible citizenship, and the “social contract” is also important. Governance is vital: it is the means by which communities and the state are bound together. A “community driven development” approach and the development of local representative institutions are key entry points. Programs in the social sectors – education, health – have potential for developing responsible citizen-government relations as well.

Law enforcement is needed but it must be used tactically. Nothing done in development programs should be seen as condoning opium production, the illegality of which should be constantly underlined. Although explicit linkages between alternative livelihoods approaches and law enforcement are not advisable, it is clear that alternative livelihoods programs alone are unlikely to reduce opium production (see Chapter 8 for a fuller discussion of this issue), and an intelligent measure of law enforcement needs to be factored in to the alternative livelihoods approach. Crop eradication can be an effective counter-narcotics law enforcement tool, if it is carefully phased with other interventions. It has been demonstrated that eradication works where comprehensive development programs have begun to improve alternative licit livelihoods opportunities (as in Bolivia). However, where alternatives do not exist, eradication can fuel violence and insecurity and displace cultivation to less accessible places. It can also exacerbate debt and poverty. Eradication in Afghanistan appears to have pauperized many farmers, leading

them to incur considerable debts which they are still repaying. Moreover, by stimulating increases in opium prices, eradication may well benefit the very interests that a war on drugs should first combat – the criminal trafficking interests and their political networks. The result is also to shift cultivation and trafficking rather than reduce them. In effect, eradication too early in the process can undermine long-term efforts to change the socio-economic conditions that support drug production. The linkages and the sequencing need to be clear in the policy of the Government and its backers. Where eradication is employed, it needs to be perceived as being evenhanded and fair in implementation; otherwise it will undermine the development effort.

Government should be seen to be clear, firm and fair. Over the past four years, the Government has made declarations of intent that it has not been able to fulfill, and has acted in a way inconsistent with its own counter narcotics-strategy (see Chapter 7) and detrimental to its political and economic development strategy. Government actions should be clearly in line with the national strategy, they need to be firmly carried out, and they need to be seen to be fair. Otherwise the counter-narcotics effort will undermine the political and economic development effort – and vice versa.

Production is indeed mobile and the problem is a national one. The progressive spread of opium to reach all 34 provinces of the country in 2003/04 confirms that the effect of opium bans and eradication is not a reduction in aggregate area or production but rather a shift to other areas where law enforcement is weaker and/or a retreat into more marginal and remote production areas.

In Afghanistan, the comprehensive “alternative livelihoods” approach can only be implemented by “mainstreaming” drug control objectives into national rural development programs. In countries which were successful in combating drugs (Thailand, Laos, Pakistan), production was localized in marginal areas. In Afghanistan, given the magnitude and mobility of the drug industry, such approaches can only be a small part of the solution. They need to be complemented by a process of “**mainstreaming**” drug control objectives into programs for national development and rural growth and into the whole reconstruction process (see Chapter 9).

Security is vital. If security cannot be ensured, the alternative livelihoods approach cannot work.

6.5 Implications for interdiction strategy

Law enforcement responsibilities need to be clarified and capability strengthened. Confused responsibilities lead to no accountability and encourage widespread corruption. Responsibility for law enforcement on drugs, including interdiction, has been fragmented. As one source close to the police observed, “*Everybody can do what they want, which is to get a part of the drug money.*” Clarifying institutional responsibilities and building implementation capacity are the priorities. By the end of 2004, the Government and donors had begun to act decisively on these priorities, and the further measures proposed for 2005 give promise of a significant level of interdiction. Whether this level of interdiction can be sustained and properly targeted so that it increasingly disrupts the drug trade remains to be seen.

The legal framework and judicial and penal processes need to be overhauled. Judged by the objective of fair punishment of criminality, the justice system is clearly a very weak link. The objective of interdiction is not just seizure but fair trial and punishment, and a working legal and penal system is essential for drug law enforcement. As of the end of 2004, the agenda is clear: the legal framework is under review; a fast track criminal justice system is being prepared; and secure court and prison facilities are proposed. If all of this agenda can be put in place in 2005, it should greatly strengthen the deterrent and disruptive impact of the interdiction effort.

Chapter 7. Government Strategy

Summary. *The Counter Narcotics Directorate (CND) was created in October 2002 to coordinate Afghanistan's counter narcotics struggle. The Directorate has prepared a national strategy, signed by the President, which targets a 70% reduction in opium production by 2008, and its elimination by 2013. The mechanisms are an alternative livelihoods approach coupled with progressive enforcement of a cultivation ban, interdiction and prosecution of trafficking and processing, and forfeiture of drug-related assets. The strategy provides a sound framework for action. It acknowledges the difficulties faced and proposes many sound and necessary actions. It has a provision for action plans, coordination, monitoring etc. The proposals link to existing activities and programs rather than proposing yet more initiatives for an already overloaded system. Broad consultations are needed to get ownership of the strategy and to develop a sequenced action plan and investment program. The overall targets are ambitious, prompting the question whether the measures proposed are sufficient to achieve them. A "paradigm shift" may be needed to cope with such an unprecedented problem. Institutional capacity is another question, particularly the capacity of CND to do all that is expected of it. Strengthening of counter-narcotics institutions is under consideration, including the possibility of establishing a Ministry responsible for counter-narcotics efforts. The International Counter Narcotics Conference in February, 2004 demonstrated the Government's determination and top-level commitment, created some ownership, and put on the table a number of the more difficult issues. Key points from the strategy are now being worked out in implementation plans, although some implementation proposals appear at variance with the strategy, particularly the balance between eradication and interdiction, and the sequencing of alternative livelihoods programs and eradication.*

A. The Institutional Framework

In October 2002, recognizing the special nature of the drug problem and the need for a specialized agency to deal with it, Government established its Counter Narcotics Directorate (CND). The Directorate reports to the National Security Council. It is the national agency responsible for counter-narcotics strategy development and coordination. It is not responsible for implementation, which is handled by the relevant line ministries and agencies. The main tasks of CND are to:

- o Propose the national drug control strategy.
- o Coordinate counter narcotics activities throughout government, its budgets and programs.
- o Liaise with internal and external partners (NGOs, donors, and international agencies, especially UNODC).
- o Coordinate interdiction programs with neighboring countries.
- o Act as a clearing house for projects related to drug control.
- o Set benchmarks and timeframes, and to monitor progress.

CND has about 50 staff in total, of whom some twenty are higher level. It receives both financing and technical support from the United Kingdom, which is the lead donor for the counter-narcotics effort. UNODC also provides capacity-building support. Present activities include policy and strategy development, demand reduction and public awareness activities, legal and judicial reform (including drafting the new Anti-Narcotics Law that was adopted in 2003), coordination of alternative livelihoods (especially with the Ministry of Rural Rehabilitation and Development – MRRD), and coordination on law enforcement (with the Ministry of the Interior).

Further strengthening of the institutional framework for the fight against drugs is being considered, including most importantly the possibility of establishing a Ministry or Ministry-level agency responsible for counter-narcotics. Such an agency would be overseen by a Cabinet Subcommittee on counter-narcotics, which might carry the title of a Narcotics Control Board.

The coordination framework for counter-narcotics includes two government-donor groups which meet regularly. The Counter Narcotics Steering Group (CNSG) was established in the spring of 2004 and meets regularly for information sharing, overall coordination, and progress monitoring with respect to the full range of counter-narcotics policies and actions. It is chaired jointly by the Government and the UK as lead donor. The Alternative Livelihoods Technical Working Group, which has been in existence for a longer period of time, meets regularly to discuss issues related to alternative livelihoods and its integration within the broader counter-narcotics framework as well as the overall development agenda.

B. The Government's National Drug Control Strategy

The first task of CND was to prepare a strategy. In May 2003, the National Drugs Control Strategy, prepared by CND with UNODC and UK support, was reviewed by all relevant ministers and signed by the President to become the Afghan Government's official strategy for tackling the drugs problem. The strategy has been published in Dari, Pashtu and English.

In its emphasis on gradualism, alternative livelihoods, and the responsibility of the international community, the strategy is very much in the spirit of the Bonn Agreement of December 5, 2001, which declared: *the United Nations and the international community should cooperate to combat.....cultivation and trafficking of illicit drugs and provide Afghan farmers with financial material and technical resources for alternative crop production.* The preamble to the strategy sets a cautious and gradualist tone: the approach proposed "should be realistic" and "take account of the economic and social causes of illegal cultivation". In places this gradualism is pronounced: "attention is first needed to establish security and the rule of law, and to create a stable environment to accelerate reconstruction and build institutions". The alternative livelihoods concept is central to the strategy, which states: "elimination (of opium) can only be achieved through providing poor farmers and agricultural laborers with alternative sources of livelihood."

The strategy sets some clear and ambitious goals:

- o To achieve a 70% reduction in cultivation by 1386 (after five years, 2008) with total elimination by 1391 (in ten years, 2013). In fact, the strategy notes that if alternative livelihoods can be provided more rapidly, then the targets can be brought forward.
- o Interdiction and prosecution of trafficking, processing and distribution of narcotics and precursors.
- o Forfeiture of drug-generated assets and checking money laundering.
- o Enhancing regional and international cooperation.

The ambition of these goals is tempered in parts of the text by a more sanguine appreciation of the magnitude of the challenge: "tackling illicit drug production in Afghanistan in five to ten years will be a tremendous task. Other countries with a quarter of Afghanistan's level of opium production took twice as many years to eliminate illicit drug production."

There is also an awareness of the overall political risks. For example, "in carrying out law enforcement interactions it will be important to balance the political risk of instability caused by

counter-narcotics measures with the political desirability of projecting central authority over the entire country and of eliminating the cultivation and production of narcotic drugs.”

Approach to production and eradication. The strategy takes “alternative livelihoods” as an essential condition for eradication. The alternative livelihoods approach is seen as part of a broad-based economic and social development process, to proceed *pari passu* with “phased law enforcement”. As poppy farmers are “amongst the poorest in Afghanistan”, their areas, together with the source areas of labor for poppy harvesting, are to be given priority. Non-farm business and job creation will also be targeted, and a “debt repayment scheme will be introduced for heavily indebted opium farmers. There will be a Government/community dialogue to decide on development needs and to agree on anti-poppy measures. Progress on alternative livelihoods will be monitored. The production ban will be enforced where “rural reconstruction has already produced tangible results and alternative livelihoods are sufficiently available”. An implementation plan of immediate steps is attached to the strategy; this has been fleshed out by action plans discussed at the recent International Counter-Narcotics Conference (see below, Section D and Box 13).

Action plan for CND. The document lists the following steps for immediate action by CND:

- o Strengthening CND - this is underway, with support from UNODC and the UK.
- o Setting up the counter narcotics police, the CNPA - this is underway with support from Germany, UNODC and the UK.
- o Priority to targeting the processing and trafficking stage, suppressing markets, laboratories, stockpiles and shipments – this is the work of the CNPA and the task force set up (see Chapter 6).
- o Work on demand reduction - there is some public awareness underway and UNODC reports some improvement in treatment facilities.
- o Coordinating programs for alternative livelihoods – some elements of alternative livelihood programs are in place and MRRD is preparing further actions (see Chapter 6).
- o Cooperation with neighboring countries on interdiction – a cross border project has been agreed with the Iranians and 25 border posts will be strengthened under a UNODC project

Programming and monitoring. Implementation will be monitored by CND, annual operational plans will be done by each ministry, and the strategy will be reviewed annually. The commitment of the international community will be sought.

C. The International Conference, February 2004

The Government, with UK and UNODC support, convened an International Counter Narcotics Conference on Afghanistan on February 8-9, 2004. The objectives were to gain ownership for the National Strategy, to improve coordination of existing activities and identify new ones, to encourage international support for specific actions under the strategy, and to mainstream the fight against drugs into all development sectors. The Conference was attended by many international delegations and – perhaps more importantly – by most provincial governors and all provincial police chiefs. The President gave the keynote speech. The Conference was successful in demonstrating the Government’s determination and top-level commitment against drugs, in

informing the Afghan nation about the strategy, and in mobilizing the attention of the international community. It created some ownership and put on the table a number of the more difficult issues, including possible links between drugs and terrorism, weak implementation capacity, the ambiguous role of external forces and of law enforcement in general, corruption at central and local levels, interdiction versus eradication, etc. The understanding was that the Conference served to validate and adopt the National Drugs Control Strategy and the action plans that had been elaborated specifically for the Conference (see Box 15).

On the less positive side, some key issues such as implementing law enforcement, policy and planning for interdiction and eradication, phasing of alternative livelihoods with eradication, etc. were put on the table but not resolved. The action plans were of varying quality and precision, and in the event they were not really discussed or explicitly adopted. There was little synergy between the discussions on law enforcement and those on alternative livelihoods, and there seemed to be much emphasis on eradication despite rhetoric in favor of interdiction.

A notably successful activity at the Conference was the practitioners' workshop on alternative livelihoods, where agencies implementing programs in the field gave a vivid account of what they were doing and provoked a lively and issue-oriented discussion that has set a fairly clear agenda of issues that need to be resolved (through the Alternative Livelihoods Technical Working Group) before an action plan and investment program can be finalized.

D. Comments on the Strategy

The strategy provides a good framework for action. It acknowledges the difficulties faced and proposes many sound and necessary actions. It provides for action plans, coordination, monitoring, etc. The proposals (e.g. on alternative livelihoods) link to existing activities and programs rather than proposing yet more initiatives for an already overloaded system. Moreover, the purpose of the National Drugs Control Strategy is not to put forward a detailed blueprint for all actions but rather to present a coordinated framework including key principles and strategic elements. With this context, the following paragraphs discuss some questions related to the strategy. Chapter 8 discusses further the implications of some of these issues for implementation of the strategy.

Ownership needs to be built up and implementation plans developed and adopted. The strategy has been adopted within the Government. With UK and UNODC support, Government is embarking on an important process of generating "ownership" through conferences, publication, public communications, the Council of Ulema (religious leaders), etc., and this will be an opportunity to mobilize support – and also to enrich the strategy. A key point in these consultations will be to develop a sequenced action plan and investment program that would allow concentration of effort. The International Conference held in February 2004 was a step in this process (see Section C above). By late 2004, the Government with UK support had undertaken several steps to build ownership. CND has conducted a sustained radio public awareness campaign, meetings with leaders of key provinces have been organized (Helmand, Nangahar, Balkh and Badakhshan), the *ulema* have been brought in and the Central Council of Ulema has issued a *fatwa*, and a "mini *loya jurga*" will be held in December 2004.

Box 15: Action plans for implementing the National Drug Control Strategy

Judicial Reform

- o Amendment of the Drug Law to define serious offences with central jurisdiction, and publication of the law in a simplified and generally intelligible format.

Box 15: Action plans for implementing the National Drug Control Strategy

- o Special prison facilities to hold drugs criminals.
- o Special drugs prosecution unit for serious offences, with witness protection
- o Training for judges, prosecutors and defenders in the Drug Law and for CNPA in handling evidence
- o Cooperation from the international community on evidence on drug trafficking etc

Law Enforcement

- o Tackling corruption and involvement of officials and commanders in drugs through visible action.
- o Increase in the numbers and outreach of the CNPA, training and technical assistance to improve its performance, and creation of a forensic science capability
- o Development of Afghan interdiction capability within the CNPA beyond Kabul.
- o Expansion of anti-smuggling mobile detection teams
- o Development of a further central Afghan eradication capability
- o Clarification of roles, together with training for the border and general police in drugs issues

Alternative Livelihoods

- o Capacity building in alternative livelihoods
- o Database of relevant major development programs, guidelines to improve counter-narcotic impact, and monitoring of progress
- o Mainstreaming counter-narcotics and alternative livelihood issues in policies and programs, and set up of an inter-ministerial technical commission to address this issue.
- o Coordination between Alternative Livelihoods and Law Enforcement Working Groups.
- o Increase in resources for programs likely to have maximum alternative livelihoods impact.
- o New programs for alternative livelihoods, particularly pro-poor agricultural livelihoods, rural finance, off farm activities, and micro/small enterprise development.

Drug Demand Reduction and Treatment

- o Expanded demand reduction services in the provinces
- o Training for those interacting on drug issues
- o Expansion of community based facilities
- o Pilot drop in centers
- o Development of education materials

Public Awareness Action Plan

- o Public awareness campaigns on drugs, via radio, TV and press, posters and drug awareness pamphlets, high level speeches, monthly newsletter
- o Regular reporting on arrests, drug seizures, interdiction and eradication activities
- o Capacity building

Source: Afghan Counter Narcotics, a paper presented to the Berlin Conference, March 2004

To meet the ambitious targets, resources and efforts will need to be concentrated – and non-standard solutions may need to be considered. The overall targets are ambitious, proposing complete elimination of opium production in ten years. The strategy itself recognizes the ambitious nature of the targets, and the question has raised as to whether the targets are realistic. The question has two implications. First, are the measures proposed as ambitious as the targets? The strategy lists many steps that appear to add up to a massive, broad, and integrated attack on drugs, yet many of them are already ongoing and have not made a dent in the problem. Is a much greater concentration of resources and effort needed? Second, and again in the light of experience to date, are the measures proposed the right ones, or is a “paradigm shift” needed to

cope with a problem of such unprecedented magnitude? Chapter 9 gives some examples of innovative approaches that might be considered.

Regular high-level decision meetings are needed, and the institutional framework needs strengthening. As of December 2004, the policy making role in counter-narcotics was being handled by a policy-making CND reporting through the National Security Council to the President. The CND also has held responsibility for direct implementation of information and public awareness, and a coordinating role for the implementation of other programs – interdiction, eradication, alternative livelihoods, demand reduction – by the competent line ministries. The role given to CND in coordinating and catalyzing other institutions (MRRD, MAAH, Ministry of Interior, etc.) has proven questionable: CND has sometimes been a marginal player, unable to drive implementation of the strategy, and sometimes the accepted strategy has been sidelined and other strategic initiatives have been taken by the Government (see for example the discussion on sequencing of alternative livelihoods below and in Chapter 8). The present structure clearly has not provided for a coherent sequence in which policy and strategy are translated into programs and implementation. Alternatives are under consideration. One – the creation of a counter-narcotics ministry (see Section A above) – would bring all counter-narcotics actions including law enforcement into a single ministry. This solution carries certain risks, particularly that cooperation from other ministries, relieved of responsibility, would cooperate less. A second solution – to transfer the whole counter-narcotics effort to the Ministry of the Interior – might bring advantages on the law enforcement side but could diminish the high profile of counter narcotics and reduce the possibility of alternative livelihoods approaches being given the precedence the national strategy accords them. A third possibility is to reinforce the architecture for adequate high-level decision taking. In this model, a (strengthened) CND reporting directly to the President is backed up by top level commitment articulated through the cabinet. In the case of Thailand, for example, the cabinet meets once a year on drugs, deputy ministers meet quarterly, and the directors of all concerned departments and institutions meet monthly.

It will be necessary to prioritize – especially between interdiction and eradication. Within the strategy actions both against production and against processing and trafficking are included, but there is no discussion of the relative weight to be given to each set of actions. For example, with limited law enforcement capability, should this be directed toward eradication or toward interdiction?

The alternative livelihoods concept needs to be clearly defined and operationalized. In Afghanistan, much thought and considerable field experience has gone into developing models for alternative livelihoods programs (see Chapter 6). In the strategy, the alternative livelihoods approach is therefore correctly given prominence. However, the concept is left vague and general, so that almost any rural program could be described as “alternative livelihoods”. The strategy does not give clear guidance as to what are the essential elements or criteria for a program to qualify as an alternative livelihoods program.

Clarity is needed on the rules for prioritizing areas for alternative livelihoods. A particular question raised on alternative livelihoods is where to give priority. The strategy states that priority will be given to poppy growing areas because the farmers are poor, and to source areas for poppy labor. This approach conflicts with findings from early attempts to reduce production (Chapter 6), that “targeting” poppy areas inadvertently encourages the further spread of production and may give rise to perverse incentives toward this end. If prioritization is necessary, many analysts suggest that it would be better to start in non-poppy areas, or to start in marginal, new, or remote poppy areas to drive out the practice before it becomes entrenched. Or start in all areas indifferently. The strategy skips over these issues.

The question of sequencing of alternative livelihoods programs and eradication – should one precede the other – needs to be answered. There is a lack of clear understanding within government, and between government and donors, and among donors, about the necessary pace and phasing of alternative livelihoods and eradication (see Chapter 6). The National Drugs Control Strategy appears to follow the “alternative livelihoods first” approach. Yet there is understandable pressure on the Government to pursue eradication as a visible sign of action. Proposals for eradication in 2005 (see Chapter 6) appear to reverse the sequence of “alternative livelihoods first” proposed in the national strategy.

A plan is needed on controlling financial flows. The question of controlling the monetary counterpart of the drug trade, particularly control of the *hawala* system, is an important one (Chapter 3). The subject is mentioned in the strategy but there is no action proposed.³³

³³ New laws on money laundering and on the freezing and confiscation of assets are proposed for 2005.

Chapter 8. Options and Trade-offs for Strategy Implementation

Summary. *Breaking the vicious circle of drugs, warlords, and insecurity, which is so inimical to Afghanistan's state-building and reconstruction agenda, requires an approach on several fronts. Drug control measures alone will not be effective. The response to the drug economy must occur within a broader strategic framework of state building, improving security, and curbing warlords. In addition to drug measures this framework includes (1) curbing warlords' power; (2) building state capacity and resources; and (3) security sector reform and capacity-building. All this needs to happen in an environment of rapid economic growth which allows the drug economy and other forms of illegal activity to be replaced over time by legitimate economic activities.*

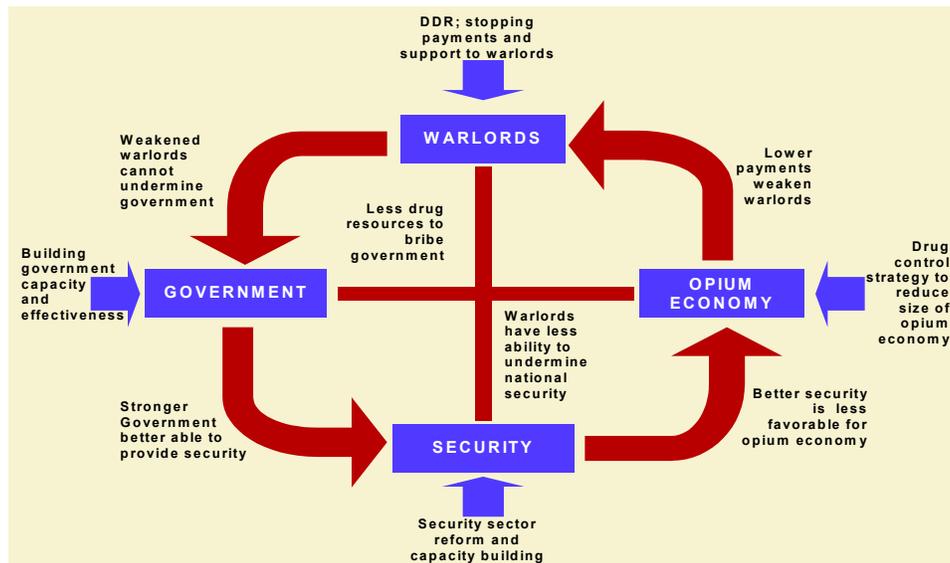
Among the implementation options open, there is an economic, moral, and political case for interdiction, but it requires decisiveness, persistence, and political consensus on a sustained basis. Changes in the legal framework and judicial and penal process, and restructuring and better arming of interdiction forces would also be needed. An approach led by eradication would be hard to implement and would have a negative poverty impact, unless eradication were accompanied by complementary economic measures. Experience suggests that an eradication-led approach will not result in a sustainable reduction in production but instead will encourage further spread of cultivation around the country. Alternative livelihoods development by itself is slow-acting and needs to be backed by law enforcement. Work is also needed to reach consensus on the alternative livelihoods concept and programs. Associating alternative livelihoods approaches with eradication is a plausible route to reducing production, but there is no consensus yet on how to do this. The Government is now faced with choices and trade offs in implementing the strategy. Clearly economic measures and law enforcement are both essential – but in what measure, and with what sequencing? The Government may want at least initially to give priority to interdiction over eradication and to focus on larger actors – and perhaps on emerging production areas – to avoid dispersing scant political capital, energy, and capacity. At the same time alternative livelihoods programs could be put in place, with initially limited and targeted eradication but with the promise of more substantial eradication subsequently. In this scenario, it is the combination and phasing of the three elements that will be most effective – a sequence in which interdiction drives down the price of opium and creates market uncertainty, alternative livelihoods efforts provide realistic alternatives, and then eradication targets those still producing opium when they do have alternatives. From a macro perspective, the non-drug economy needs to grow faster in order for the drug economy to be eliminated without adversely affecting national economic development. Monitoring of progress in counter-narcotics is essential. Afghanistan needs to mobilize the sustained and coordinated support of the international community in the fight against drugs, including action on demand in consuming countries.

The national counter-narcotics strategy was discussed in Chapter 7 above. The process of debate, information and communication now underway should help clarify the strategy and gain ownership of it and of the implementation plan. The aim of this chapter is to provide a constructive contribution to this discussion by exploring what strategic choices Afghanistan might need to make to implement the strategy.

A. The Broad Strategic Framework

Breaking the vicious circle of drugs, warlords, and insecurity, which is so inimical to Afghanistan’s state-building and reconstruction agenda, requires a multi-pronged approach. Drug control measures alone will not be effective. The response to the drug economy must occur within a broader strategic framework including state building and improving security as well as curbing warlords, similar to the strategy for breaking out of the “informal equilibrium” that characterizes Afghanistan’s economy as a whole (World Bank, 2004, Chapter 3). In addition to drug measures this framework includes (1) curbing warlords’ power by stopping payments and other support to them, implement disarmament, demobilization, and reintegration (DDR) to take away their militias, co-opting them into the Government where appropriate, etc.; (2) building state capacity and resources; and (3) security sector reform and capacity-building (Figure 4). All this needs to happen in an environment of rapid economic growth which allows the drug economy and other forms of illegal activity to be eventually replaced by legitimate economic activities.

Figure 4: Strategic Framework for Breaking the Vicious Circle



B. Strategic Objectives, Implementation Options, Trade-offs

The overall strategic objective of the National Drug Control Strategy (described in Chapter 7) is to progressively reduce the size of Afghanistan’s opium economy and eventually eliminate it. This challenging and ambitious goal needs to be accomplished in a way that (1) is technically feasible and sustainable and builds required capacity; (2) does not increase rural poverty; (3) avoids pushing the Afghan economy into a recession and handles any macroeconomic fall-out – for example a worsening of the balance of payments; (4) manages the political risks associated with fighting drugs; and (5) takes into account the dynamic longer-term implications and strategic responses by the drug industry.

Capacity and resource constraints mean that it is not possible to do everything, which brings issues of prioritization and sequencing to the fore. Different options need to be assessed on the

basis of the above criteria and in light of the lessons of experience, and choices made. Four options involving the three main counter-narcotics instruments are reviewed below.

Option 1. An interdiction-led approach

Interdiction is the process of seizure of trafficked drugs, destruction of processing facilities, and the arrest and punishment of the criminals involved. In Afghanistan, it would involve pursuing the traffickers (roughly estimated by UNODC to number 15,000) and seizing their product, effectively enforcing the closure of opium bazaars, and destroying the numerous processing facilities that have sprung up. It might involve sanctions against the officials and local authorities who condone and benefit from the trade. Interdiction could also include seizure of drug related assets, including equipment and vehicles and drug-financed investments. There could be legal and other action against drug money balances and flows. "Follow the money" has been an effective tool in the fight against money laundering elsewhere, and intelligence developed by this means has led to the investigation of key drug traffickers and terrorists. However, the chances of this approach working very well in Afghanistan are slim, as drug money avoids the formal financial system, and the *hawala* system so far escapes scrutiny and control (but see Annex 6).

The rationale for interdiction is strong, as the trafficking and processing business is more concentrated, more evidently criminal, and has fewer participants and larger volumes than the production stage. It also does not result directly in the problem of pauperization, at least not to the same degree as action against resource poor farmers.

The direct effect to be expected, based on international experience, is first that drug processing and trafficking will be patently criminalized. It is likely that part of the drug trade will be suppressed; that risk premia will increase very significantly; that the drug business will become increasingly aggressive and well organized in its response; and that the business will become more clandestine, and will migrate and mutate rapidly in the face of interdiction efforts.

The economic impact to be expected from an interdiction-based strategy is that the costs of trafficking and processing will increase, perhaps sharply. This may increase the border price, and it is likely to hold down farm-gate prices at least temporarily due to disruption of downstream activities, reducing the economic incentives for farmers to grow poppy. Thus, *prima facie*, interdiction looks to be an economically attractive instrument.

Three issues arise with respect to implementation of an interdiction-led strategy: enforcement capability, effectiveness, and political risk. *Enforcement* would require political will, adequate money, and institutional changes (notably reinforcement and reorganization of the interdiction forces and judicial reform). The *effectiveness* of this approach has its limits too: neighboring Iran, a well organized, affluent and committed state with a well-functioning police and judicial system and severe penalties, has struggled for years in a bloody war on trafficking (3,100 border police killed in shoot-outs), yet trafficking, although abated and driven underground, continues at a high level. But even with this caveat, vigorous interdiction would certainly make a difference both substantively and in terms of economic and political messages. *Political risk* is key in this approach also. So many people at every level live off the drug trade that the fragile political configuration could be damaged. Timing, too, could be a political issue. Would the consolidation of a decent government under a democratic mandate be more or less likely if an election year were marked by inevitably violent confrontations, seizures, arrests and imprisonment?

Overall, interdiction, if vigorously pursued, could have some persuasive advantages over alternatives. It has the likely *economic advantage* of reducing the trade and decreasing its

profitability, through holding down prices at the farm level and most likely increasing prices at the border. It has the *moral advantage* of attacking what is more evidently criminality; and it has the *political advantage* of directly addressing a major problem that the Government is trying to solve – the nexus of drugs and power which risks throttling the emerging state at birth. The major questions about this approach relate to implementation capacity, political risk, and political will.

Conclusion. The economic, moral and political case for interdiction makes it a credible option, but the Government and its backers would have to be decisive and persistent in setting up the framework and designing, financing and carrying out an interdiction campaign over many years. If the Government opts for an interdiction-led strategy, there would plainly be political consensus building to be done, and external support would be essential. Changes in the legal framework and judicial and penal process would be required, and the restructuring and arming of interdiction forces would be needed.

The likelihood that the industry will respond aggressively with violence and political manipulations needs to be anticipated, and the risks and responses calculated. At the extreme, would it be the best choice to announce zero tolerance for processing and trafficking and to begin a “war” on it? Would this be an example of a “paradigm shift” appropriate to the Afghan case?

Option 2. An eradication-led approach

Eradication is the destruction of opium growing in the field. Potential opium growers may also be dissuaded from planting by the prior threat of sanctions. Farmers may also be prosecuted. Eradication is an obvious and superficially attractive intervention because it attacks the problem where it starts – in the fields. It destroys the most visible evidence of the illegal activity, and it is relatively easy to do – the crop can be detected by patrols or by aerial photography or satellite imagery, and physical destruction is a simple mechanical or chemical task.

The direct effect anticipated from eradication, based on both Afghan and international experience, is that the opium harvest in the localities where eradication occurs can be significantly reduced in the year in which eradication occurs. On the other hand, evidence from Afghanistan demonstrates that production in areas where eradication is not pursued can increase in the same year, that production can migrate to other production areas and to new areas quickly, and that production can resume in eradicated areas in the following year if there is no follow up. Regarding economic impacts, eradication of poppy fields is likely to raise farm-gate prices (as occurred during the effective Taliban ban on cultivation), increasing the incentives for farmers, especially elsewhere in the country, to cultivate opium poppy.

Implementation experience in Afghanistan provides important lessons. Under the Taliban regime, a concerted campaign was successful in dissuading farmers from growing opium in Taliban-held areas but substantially worsened rural poverty and probably would have proven unsustainable. A campaign in 2002 to eradicate opium and to pay compensation proved ill-founded and was abandoned. Subsequent eradication has been conducted mainly through local authorities only in certain provinces where the Government has sufficient authority and where local powers cooperated. Field research raises serious doubts about the fairness and consistency of these campaigns. Moreover, aggregate opium production has not fallen, as production has migrated to other areas, including new areas where opium was not previously a significant crop. The UNODC 2003/04 Farmers’ Intentions Survey indicates no difference in planting intentions between areas where eradication took place and those where it did not. Many farmers cite opium-related debt as requiring them to continue to cultivate poppy even in the face of the threat of

eradication. Thus experience in Afghanistan hitherto has shown the difficulty of implementing a fair, consistent and effective eradication-led strategy.

It is not clear that international implementation experience validates an eradication-led approach either (see Box 16). In Andean countries, it has been argued that a minimum eradication threshold of 60% of a drug crop needs to be reached for a deterrent effect to be obtained, although evidence from Colombia suggests that even at this level eradication does not deter drug production. In Afghanistan, an aggressive and widespread eradication program on this scale might generate fierce opposition, compromise trust in development programs in the area (whether NGO or Government) and undermine support for the central government. On a practical note, the history of Afghanistan suggests that it would not be easy to eradicate drug production by force in mountain valleys held by fierce and independent minded people.

Overall, an eradication-led strategy could face several severe problems, particularly regarding implementation, poverty impacts, and political risk. *Implementation* is made difficult by the need to intervene substantively in a number of provinces where the authority of the central government is fragile. *Poverty impacts* on parts of the population are likely to be severely negative, given the impoverishment of the countryside and the dependence of large numbers of poor people on opium for their livelihood and for access to the means of production. The problem is complicated by lack of a differentiated understanding of farmers' livelihood situations. Lack of data means that only generalized opinions can be formed about whether particular farmers or farming regions have access to alternative means of living. *Political risk* is daunting for eradication, but in a different way than for interdiction. The number of people involved in production is very large, and most of them are poor farmers trying to find a survival strategy. This is a constituency that the Government has a political interest to win over through inclusive development processes, rather than through aggressive destruction of their livelihoods and in many cases pushing them deeper into debt. Even existing rural development and governance initiatives in the countryside, which represent the first tentative elements in mobilizing support for a national state, may be compromised by the essentially violent act of eradication if the eradication is not seen to be fair.

An eradication-led strategy is very likely to be messy in its implementation, in its poverty impacts on different classes of farmers, and in its interaction with local political situations. There is a moral, political and economic case for making sure that alternative livelihoods programs are in place before commencing eradication, and then for eradicating only selected targets. Yet it is hard to postpone all eradication until all opium farmers are demonstrably assured of alternative livelihoods. Probably a strategy needs to be developed that takes account of local but not individual characteristics, perhaps by district. The complementarity with alternative livelihoods programs is discussed below.

Experience with implementation hitherto appears to indicate that locally led implementation is likely to be partial, uneven and factious. This suggests that eradication should be implemented through centrally managed task forces rather than through delegation of major decision-making to local authorities. However, centralized eradication carries its own problems and risks. Centralized eradication forces must inevitably rely on local information, and the risk of alienating the population toward the national government is probably higher. Contracting out the actual conduct of eradication to a private agency is likely to lead to a target-driven field campaign insensitive to local conditions and separated from the governance and judicial systems which should control it. Probably the best that can be hoped for from eradication is that the credible threat of eradication will, combined with other counter-narcotics instruments, deter farmers from planting opium poppy in the first place, and that actual eradication will not be needed to such an extent as to significantly worsen rural poverty and debt problems. All this suggests that

eradication needs to be appropriately sequenced (as a later, not leading part of the counter-narcotics strategy) and cautiously utilized.

Option 3. Alternative livelihoods-led approaches

The concept of alternative livelihoods is that adequate assets or employment are made available to provide farmers with a decent livelihood without their having to resort to opium growing. Alternative livelihoods programs include components of comprehensive rural development, farming, and off-farm and income generating programs. The concept of alternative livelihoods is discussed extensively in Chapter 2 above. At present, a wide variety of programs has been considered as providing alternative livelihoods, ranging from community development and social infrastructure programs like NEEP to integrated rural development programs such as those run by AKDN in Badakhshan.

Alternative livelihoods approaches have a central place in the Government's counter-narcotics strategy document. This is justified partly by the track record of similar approaches in other countries, and partly by the evident poverty of many opium farmers. Alternative livelihood-led approaches are particularly attractive in that, whatever their impact on drug production, they certainly contribute to the national goals of development and poverty alleviation, and are non-confrontational.

The effect expected from alternative livelihoods programs is that household assets will be created and incomes raised in non-opium activities, to the level where opium can be removed from the cropping pattern without creating a structural poverty problem, whether through loss of income or through loss of access to the means of production. Alternative livelihoods approaches would also be expected to have a "governance building effect" through the creation of habits of mutual trust between communities and development programs (representing the state), and by the consolidation of local institutions.

The economic impacts of alternative livelihoods programs should include poverty alleviation through the creation of assets, markets, and jobs; the restoration of decent levels of social and economic infrastructure; and a contribution to the sustained rapid GDP growth required to relaunch Afghanistan as a viable country. In addition, alternative livelihoods programs should help develop institutions and structures of governance that create the enabling environment for growth that comes from security and responsibility.

Overall, alternative livelihoods approaches are attractive, particularly because their objectives are virtually identical with the rural economic growth, poverty alleviation, and institutional development objectives of the nation. However, as a stand-alone drug reduction strategy, an alternative livelihoods-led approach suffers from critical weaknesses in time scale, cost, and effectiveness. Regarding *time scale and cost*, completing such a program will take many years and vast resources. Without visible reduction of drug production, such an approach would lack credibility in the eyes of many in the international community. Moreover, an approach led by alternative development programs may *lack effectiveness* because at current levels of profitability, opium would remain the crop of choice, particularly for resource-rich farmers. If interdiction accompanied alternative livelihoods, this might reduce price incentives and increase farmers' perception of risk. Poorer farmers may also be bound in to the opium economy, not so much by profits – their net returns are considerably reduced by the highly unequal terms of the sharecropping and credit contracts – but by debt overhang and by the need to grow opium in order precisely to *access* land and credit. This hypothesis finds some confirmation in the first results of alternative livelihoods programs in Afghanistan (see Chapter 2 above). Evidently, it would be hard for a program that relied solely on persuasion through alternative livelihoods

approaches to succeed in reducing drug production, however successful it were as an economic development program.

Conclusion. A strategy of gradual alternative livelihoods development alone cannot be expected to reduce opium production. Plainly, alternative livelihoods programs have to be backed by a realistic threat and capacity of law enforcement. In the absence of market uncertainty and effective interdiction, production of such a profitable crop would continue unabated. In any case, the alternative livelihoods approach by its nature could take a number of years before it could be expected to have a real impact on livelihoods, and consequently on levels of drug production.

Despite their weaknesses in a stand-alone approach, it is evident that alternative livelihoods programs will form a critical *part* of the national anti-drugs effort. The Government and its partners therefore need to capitalize on the evident willingness to pursue alternative livelihoods approaches; they need to reach consensus on the concept, to design and launch programs on a broad scale, and to ensure that coordination and learning take place.

Option 4. Alternative livelihoods programs accompanied by eradication

The discussion above highlights the weaknesses of stand-alone eradication and alternative livelihoods programs, and underlines the potential for the two approaches to be pursued together in a coordinated manner. This is consistent with the national strategy, where broad economic and social development is to take place in tandem with “phased law enforcement”.

Clearly the critical issue with this approach is the need for correct sequencing. Eradicating first runs the risk of alienating farmers and reducing their receptivity to rural development efforts in general (including alternative livelihoods programs). On the other hand, implementing alternative development programs first means a delay in eradication, which at the extreme could be quite long.

Conclusion. Associating alternative livelihoods approaches with eradication is a plausible route to reducing opium production, but there is no consensus yet on how this might be done. Yet there is an expectation of an early demonstration of the Government’s power to reduce drug production and trafficking. It is important to define models of how to proceed, test and monitor them, and then refine the approach.

The implications are that consensus on intelligent design, monitoring, and evaluation is needed upfront; that significant resources should be mobilized to back both the alternative livelihoods programs and “phased law enforcement”; and regular reviews of progress and adjustment of programs are essential.

Box 16: The impact of eradication on illicit crop cultivation

This box summarizes the conclusions of a study that reviewed eradication programs around the world.

- o **An eradication-led approach to drugs elimination does not reduce availability in western consumer markets and can undermine long-term efforts to change the conditions that promote drug crop cultivation.** In the past 20 years there have been significant efforts at eradication, particularly of coca. Prices of raw coca and opium have seen large fluctuations. But net global production has changed little and retail prices of cocaine and heroin have fallen steadily, suggesting increasing availability in western markets. There has been steadily increasing availability of illegal drugs of all kinds.
- o **Eradication has an important role to play, but only when carefully phased with other drug control measures.** Thailand and Pakistan are countries that have produced apparently sustainable reductions in opium cultivation. In both cases eradication was undertaken only following comprehensive alternative livelihoods programs, with significant international development resources over a long period of time and supportive national policies to resolve civil and ethnic conflicts, consolidate the rule of law, and integrate the marginal communities who were producing opium into the national economy.
- o **Eradication works only where preceded by comprehensive development programs to promote alternative, licit livelihoods.** Eradication used as a pre-condition for development assistance has not succeeded in Colombia, and failed in Peru. Advocates of eradication ahead of the provision of development assistance tend to assume that alternative livelihoods already exist or that development agencies can create them quickly. In practice neither assumption has proved true. Developing alternatives requires resources, time, and the trust of households and local communities. Premature eradication damages the environment in which alternative livelihood initiatives operate and undermines the development of long-term solutions to the causes of drug production.
- o **Where alternatives exist, farmers who persist with drug cultivation can be pushed by eradication toward legal livelihoods.** In most cases there are potentially more profitable crops than opium poppy. In Thailand, cut flowers, in Pakistan, onions. In highland areas of northern Thailand, annual family cash incomes tripled thanks to diversification of agricultural production and livestock. In Buner, in Pakistan, household incomes doubled between 1983 and 1991 despite the elimination of poppy.
- o **Where alternatives do not exist, eradication is rarely cost effective and can create perverse incentives for farmers to grow more drugs.** A steep rise in Colombian coca production occurred despite increasingly vigorous eradication efforts. 56,000 hectares were eradicated in 1988-95, but new planting in the same period produced a net increase of 15%. In 1996-99, US spending on crop spraying in Colombia rose from \$20 million to an estimated \$690 million, but coca cultivation increased by 50%.
- o **Enforced eradication where alternatives do not exist can fuel violence and insecurity, hostility to national authorities, and displacement of cultivation to less accessible locations.** In Peru enforced eradication led to increasing support for the Shining Path revolutionary movement in the mid-1980s and the subsequent curtailment of both alternative livelihoods and eradication projects. In Bolivia, in 2001 violent unrest led the Government to reverse its policy on eradication. In Colombia eradication has prompted violent action by coca growers and increased support for FARC and other armed groups. In Thailand, the initial emphasis on eradication in the 1970s increased support for the Communist Party. Premature eradication damages the environment in which alternative livelihood initiatives operate and undermines the development of long-term solutions to the causes of drug production.

Adapted from a 2002 paper by FCO, London

C. Implications for Counter Narcotics Strategy

Economic measures and law enforcement are both essential. It is clear that an anti-narcotics effort based solely on economic measures and development programs or only on law enforcement is unlikely to succeed. An effective, well thought-out law enforcement strategy together with well-designed development measures is essential. There needs to be close coordination between law enforcement and development instruments, with incentives and sequencing issues fully taken into account.

A high potential scenario is to start with interdiction and alternative livelihoods, then eradication in due course. A major strategic choice is the priority to be given to interdiction of trafficking and processing, to eradication, to alternative livelihood approaches, or to some combination of two or all three of them. The Government initially could give priority to interdiction over eradication, with strong support required from donors. Trying to do both interdiction and eradication in equal measure might disperse scant political capital, energy, and capacity, and produce the same unconvincing results as past efforts. At the same time alternative livelihoods programs could be put in place. Initially only limited eradication efforts would be made to demonstrate serious intent, targeted at those with evident alternatives. Fuller eradication measures could then be planned once alternative livelihoods are in place. This should not, however, be delayed beyond a short to medium-term time horizon (3-5 years), or the impact on production would likely be negligible. In this scenario, it is the combination and phasing of the three elements that will be most effective – a sequence in which interdiction disrupts downstream trading and processing activities, holds down the farm-gate price of opium, and creates market uncertainty, alternative livelihoods efforts provide realistic alternatives, and then eradication targets those still producing opium even when they have viable alternatives.

Eradication needs to be pursued cautiously. An eradication-led strategy is very likely to be messy in its implementation, in its poverty impacts on different classes of farmers, and in its interaction with local and regional politics. There is a moral, political, and economic case for making sure that alternative livelihoods programs are in place before commencing eradication, and then for eradicating only selected targets. Yet it is hard to postpone all eradication until all opium farmers are demonstrably assured of alternative livelihoods. Probably a strategy needs to be developed that takes account of local but not individual characteristics, perhaps by district. The complementarity with alternative livelihoods programs is discussed below.

...and not become part of local politics. Experience with implementation of eradication campaigns so far indicates that locally-led implementation is likely to be partial, uneven, and factious. This suggests that eradication should be implemented through centrally managed task forces rather than through delegation of major decision-making to local authorities. But central management of eradication carries certain other problems and risks, such as being forced to rely on local information (and local information providers) in any case, and the risk of alienating the population toward the national government to an even greater extent.

Prioritization is essential, with a possible focus on new production areas. Given capacity and budget constraints, prioritization is essential. The possibility of using a cost-benefit tool to analyze different options should be considered. In the immediate future, giving priority to action against larger participants in the drug industry would seem to be the most cost-effective approach, and also would appear to have significant potential for a strong positive public reaction. At the same time, a focus on new areas with little or no history of poppy cultivation could be a priority, as it is easier to roll back the practice where the technology, networks, and debt dependence are

not yet entrenched. Attacking opium in new areas might also make it easier to get ahead of the frontier of foot-loose cultivation.

Growth is an indispensable accompaniment. From an overall macro perspective, “replacement” of the drug economy by other, legitimate economic activities is an essential prerequisite for a successful, sustainable, and irreversible anti-narcotics strategy. What this means in concrete terms is that, within a targeted acceptable growth rate for the economy as a whole, the non-drug economy needs to grow faster in order for the drug economy to be eliminated over time without adversely affecting national economic development.³⁴ This “replacement” of the opium economy in a macro sense is a necessary but not sufficient condition for success in eliminating drugs.

There is a need to monitor progress and impacts and to adjust plans accordingly. The Drug Control Strategy emphasizes the need for good monitoring. This needs to start with a thorough assessment of the economic and social situation of opium farmers in order to design alternative livelihoods programs accordingly. Monitoring of progress in counter-narcotics is essential both for maintaining support for the strategy but also for designing interventions to help offset the adverse economic effects of drug eradication.

Sustained international support for the strategy is essential. Faced with the difficulty of fighting drug production that is not only a source of wealth for the elite but also a means of livelihood for many others, and recognizing that opiates are as much an international problem as a domestic one, the Government legitimately is seeking international support and cooperation. Getting sustained international backing for the counter-narcotics strategy is an important goal. Afghanistan also legitimately seeks cooperation in controlling the trade in both transit and consuming countries. The Government also considers that not enough is being done about drugs in the major consuming countries.

The above discussion of options for implementing the Drug Control Strategy is summarized in Table 8 below.

³⁴ This was the approach taken in deriving the “required” rate of growth for the non-drug economy in the “Securing Afghanistan’s Future” exercise.

Table 8: Options for implementing the counter-narcotics strategy

	Option 1. Interdiction-led approach	Option 2. Eradication-led approach	Option 3. Alternative livelihoods-led approaches	Option 4. Alternative livelihoods programs accompanied by law enforcement
Brief description	Seizure of trafficked drugs, destruction of processing facilities, and the arrest and punishment of the criminals involved	Destruction of opium in the field.	Assets or employment available to provide decent non-opium livelihood.	Alternative livelihoods programs backed by phased law enforcement
Rationale	Trafficking and processing business concentrated, evidently criminal, fewer participants and larger volumes. Less problem of pauperization.	Attacks problem where it starts. Destroys most visible evidence. Relatively easy to detect and destroy, if general security conditions permit.	Central to Government's strategy, justified by international track record and by farmers' poverty. Whatever their impact on drugs, programs contribute to development, poverty alleviation. Non-confrontational.	Interdiction creates uncertainty and may reduce farm-gate price of opium. Economic and social development creates alternative livelihoods, and eradication raises the risk of cultivation for those farmers not dependent on opium poppy for their livelihood.
Direct effect	Drug processing and trafficking patently criminalized. Some reduction in drug trade. Risk premia increase. Drug business responds aggressively, becomes more clandestine, migrates and mutates rapidly.	Cropping significantly reduced in year of eradication. Production can migrate, and can resume in eradicated areas if no follow-up.	Raises incomes. Also, "governance building effect".	As for Options 1, 2, and 3
Economic and incentive impacts	Costs of trafficking and processing increase. Border price may increase, farm-gate prices may drop. Poor hurt by falling prices and reduced labor demand.	Raises farm-gate prices. Likely to hurt the poor most.	Poverty alleviation, rural infrastructure, and rural growth.	As for Options 1, 2, and 3
Implementation issues	Enforcement requires political will, money, and institutional changes. Effectiveness not certain. Political risk is high.	Difficult to implement fairly, consistently, and effectively. Likely fierce opposition may compromise trust in development process and state. Hard to achieve high levels of eradication.	Design issues to be resolved include whether to start in poppy or non-poppy areas, or in "areas at risk".	Needs correct sequencing. Eradicating first undermines development effort, but reduction in production requires credible law enforcement.

Strengths/ Weaknesses	<p>Economic advantage of reducing the trade and decreasing its profitability. Moral advantage of stamping on criminality. Political advantage of reducing risk of narco state.</p> <p>Weaknesses: implementation capacity, political risk.</p>	<p>Problems are implementation, poverty impacts, and political risk, particularly with the sensitive rural constituency. Evidence is that eradication alone will not produce sustainable reductions in production.</p>	<p>Attractive as consistent with national development objectives. Weaknesses are slow pace, high cost and weak effectiveness as a stand alone program in reducing drug production.</p>	<p>International experience suggests this can work, but requires long time scale and political and donor commitment over many years..</p>
Conclusions	<p>Credible option, but needs decisiveness and persistence. Needs political consensus building and external support. Needs changes in legal framework and judicial and penal process, restructuring and re-arming of interdiction forces. Need to anticipate aggressive response from the drug industry, and to calculate risks and responses. Consider a zero tolerance approach.</p>	<p>Problematic in poverty impacts and interaction with local political situations. Moral, political and economic case for complementing eradication with alternative livelihoods programs. Yet cannot postpone eradication too long. Implementation should be centrally managed and should be country-wide.</p>	<p>Cannot by itself reduce opium production, needs law enforcement. Need to reach consensus on the concept, to design and launch programs on a broad scale, and to ensure that coordination and learning take place.</p>	<p>Plausible route to reducing production but no consensus on sequencing. Intelligent design, monitoring and evaluation needed, plus significant resources for both alternative livelihoods programs and “phased law enforcement”. Regular reviews and adjustment essential.</p>

PART III: Toward Ways Forward

Chapter 9. Operationalizing the National Drugs Control Strategy

Summary. *The challenge of tackling the opium economy is central to the challenge of building a modern Afghan state and economy, and early and concerted action is needed on a broad front. Otherwise the opium problem will grow worse and will further undermine state building efforts. The multiple development implications of opium include benefits as well as costs, and trade-offs are inevitable in combating it. At the producer level, several factors drive production. Programs to reduce opium production will have to address the whole range of motivations and constraints that lead rural people to engage in the opium economy. These programs must not further impoverish the rural population. At the political level, the biggest evil of the opium industry is the nexus of drugs with insecurity and warlords. Counter-narcotics efforts will need to confront this problem head-on, but also improve governance and stakeholder institutions. At the economic level, despite the benefits of opium, the costs and risks are undermining Afghanistan's reconstruction and longer-term development. As opium declines, support will be needed to offset the reduction in opium earnings.*

The strategic framework for counter-narcotics needs to be driven by two vital considerations: mainstreaming the fight against drugs as a central part of the national development effort, and concentrating the nation's limited capability on reducing harm most effectively. International support to this framework will be essential for a considerable period of time. The National Drugs Control Strategy starts with interdiction and alternative livelihoods, then eradication in due course. This approach is on balance the most appropriate, as it targets drug control efforts at the most harmful elements and allows time for the needed economic growth. In designing alternative livelihoods programs, a long-term development approach is essential. Programs should be demand driven, and non-farm activities and governance building will be important elements. Law enforcement will be needed but it must be used tactically. Localized projects can achieve little impact: drug control objectives therefore need to be mainstreamed into nationwide development programs. There is also a substantial knowledge agenda, as the fight against drugs requires knowledge of the structure and dynamics of the business, as well as monitoring how it evolves in response to incentives, constraints and shocks.

In implementation, the Government should be seen to be clear, firm, and fair. Institutional weakness imposes simplicity, mainstreaming, and a reliance on all possible implementation capacity, including NGOs, markets, and incentives. The current relatively low opium price may provide a window of opportunity. Next steps should include: (i) fully mobilize the institutional structures that can help implement the counter-narcotics strategy; (ii) prepare and implement a nationwide alternative livelihoods program, with a focus on mainstreaming; (iii) move forward with a parallel process of definition, programming, and investment for the law enforcement and judicial reform processes; (iv) continue the "hearts and minds" campaign; (v) consider action on money laundering; (vi) review innovative approaches; (vii) target interdiction at high-value targets; and (viii) engage international support fully around a cohesive strategic approach.

In conclusion, the overall strategic framework is sound but implementation involves difficult trade-offs and faces weak implementation capacity. The political risk of not acting outweighs the risk of acting, and early demonstration of the Government's resolve is needed. By contrast, there

is a risk in precipitate eradication. The Government should mobilize support around its national strategy in order to ensure buy-in to a single strategic approach. Ultimately, reducing the size of the opium economy and eventually phasing it out will take time, and sustained high economic growth rates helped by massive external support are the essential accompaniments.

A. The Opium Problem

The problem of opium is central to the entire development problem of Afghanistan. The challenge of tackling the opium economy is closely related to the challenge of building a modern national state and economy, and early and concerted action is needed on a broad front. Otherwise, the opium problem will grow worse and undermine state building efforts.

Drugs are a central development issue in Afghanistan. The Afghan drug industry is unprecedented in international experience in terms of its size in relation to the economy as a whole, in its penetration of the economy, polity, and society, and in the insecure and lawless environment in which it has thrived. The opium economy thus constitutes a central development problem for the country. Although international experience can provide some useful lessons, there is no country which has ever had to tackle a drug production problem of this magnitude.

Opium has economic benefits which have to be taken into account. The multiple development implications of the opium economy include benefits as well as costs. The benefits include the support provided by the opium economy to aggregate demand and the balance of payments. The opium economy has boosted rural incomes and has served as a coping mechanism helping large numbers of poor people make ends meet through wage labor and through sharecropping and tenancy arrangements which provide them with access to land and credit, even if on unfavorable terms.

Clearly, trade-offs are inevitable. The rebuilding of the Afghan state requires a solution to the opium problem. However, no easy or single solution is available. The fight against opium brings the Government into confrontation with powerful political constituencies. There will be multiple economic trade-offs as success in fighting opium would reduce incomes and affect key macroeconomic variables of the country.

B. The Challenges of the Opium Economy

9.1 The production and livelihoods challenge

Multiple factors drive opium production. Although many opium producers are well-off and choose opium as a profitable cash crop, most are poor, seeking food security, access to the means of production, and the opportunity to escape from or at least manage (often opium-related) debt. Opium has helped reduce rural poverty and vulnerability. Programs to control opium production will have to address the whole range of motivations and constraints that lead rural people to engage in the opium economy.

Reducing opium production must not further impoverish the rural population. A comprehensive approach to poverty alleviation is required that addresses the underlying causes of poverty, inequity, and insecurity. This requires a broad-based rural development effort that not only reduces poverty on a sustainable basis but begins to create relations of mutual confidence between the Government and rural people.

Approaches have to be applied across Afghanistan. Opium has spread rapidly in recent years and now has a foothold in all 34 provinces. The fight against opium must take account of the fact that production can be expanded further in many areas, and that it has proved “footloose” – where production has been impeded in one area, as in the south at the time of the Taliban ban, it has quickly migrated to other parts of the country. The opium problem clearly has to be treated by a nation-wide program, not by isolated projects.

9.2 The political costs and challenge

The most damaging aspect of the opium economy is the nexus of drugs with insecurity and warlords. The mutually reinforcing relationships between drugs, insecurity, state weakness, warlords, and poor governance comprise a vicious circle. As long as this circle remains unbroken, Afghanistan is likely to remain insecure, politically fragmented, weakly governed, massively corrupt, poor, dominated by the informal or illicit economy, and a hostage to the drug industry. As long as drug profits are financing local warlords and the political elite, this nexus will threaten the entire state-building and reconstruction agenda for the country.

Improving governance is essential. The fragmented, competitive nature of the drug industry described in Chapter 4 reinforces the likelihood of local-level “capture” of the state apparatus, undermining local governance. Counter-narcotics strategy needs to reverse this process by purging the central government of drug influences and supporting the emergence of local responsible governance and of institutions representative of the interests of rural people.

9.3 The economic costs and challenge

Despite the economic benefits of opium, the costs and risks are undermining the economy. At the macroeconomic level, the benefits from opium to Afghanistan’s battered economy are clear: support to aggregate demand and the balance of payments, and an invaluable boost to rural incomes and poverty reduction. However, set against these benefits are major drawbacks, including opium’s price and quantity volatility which can have a major macroeconomic impact, the price and exchange rate effects which can discourage production of other tradables through a “Dutch disease” effect, and the vulnerability of the poor to price movements, yield fluctuations, and eradication and consequent impoverishment and opium-related debt which locks them more deeply into the opium economy. It appears that opium is becoming increasingly “capitalized” in the rural economy and society, pushing up overall price levels, affecting agricultural sharecropping and tenancy arrangements, land prices, urban real estate, bride prices in opium-producing areas, etc., with the result that reversing this growing opium dependence will become ever more difficult. Finally, it appears that drug addiction within Afghanistan could be substantial and growing.

Support will be needed to offset reductions in opium earnings. Action against opium will need to be accompanied in the short term by compensation as needed for the adverse macroeconomic impacts, including possible balance of payments support, and by investment in overall growth for the medium and long term. Programs to support the rural economy will need to target especially the poor, but also provide support to growth and diversification throughout the rural economy. The implications are considerable: to replace the opium economy within a 10-year timeframe along the lines of the schedule in the National Drugs Control Strategy, the Government has estimated that the Afghan economy excluding drugs would need to sustain annual growth averaging about 9% per year.

9.4 Strategic considerations

Solutions need to be found within Afghanistan. International cooperation and demand reduction have a role to play in counter-narcotics, but the size of Afghan production and the diversity of its international markets make it unlikely that action beyond Afghan borders can be more than a palliative. Afghanistan has to treat opium as a core internal problem and not rely mainly on action beyond its frontiers.

Efforts should be focused on reducing harm most effectively, and international support to a shared strategy will be vital for a considerable period of time. Given Afghanistan's limited resources and capability, it is essential to focus efforts on what is doable and above all on what parts of the drug industry are most harmful to Afghanistan. In this struggle, Afghanistan should rely on the maximum support from international partners in financing and helping to implement programs. All partners will need to realize that the fight against drugs cannot be a short-term effort; Afghanistan will have to sustain the struggle over many years and its partners will have to provide consistent and sustained support throughout. For this, it will be essential that the nation's counter-narcotics strategy be clearly articulated and shared by all.

The fight against drugs is a central part of the national development effort. The sheer size of the opium economy means that eliminating opium can only be achieved by sustained development of governance and by economic growth and improvements in living standards over a long period of time throughout the country. Projects are quite inadequate to the scale of the problem. The fight against drugs has to be "mainstreamed" as a central and integral part of the national development effort.

C. Approaches to Drug Control

In the face of the challenges outlined above, what is the drug control approach best fitted to Afghanistan's situation?

- o In meeting the production and livelihoods challenge, the approach has to provide realistic alternatives to rural people, especially the poor.
- o To manage the considerable political challenge, the approach should focus on reducing harm most effectively, spending scarce political capital on confronting high-value targets. This suggests giving priority to combating trafficking and processing, as that is where the maximum harm is being caused. At the same time the approach should build responsible governance and trust between the Government and the population.
- o In the face of the economic challenge, the approach should support sustained growth of the entire economy and ensure that transitional assistance is available when needed.

The principal instruments of drug control were discussed in Chapter 8: interdiction, eradication and alternative livelihoods. A high-potential scenario discussed in that chapter is to ***start with interdiction and alternative livelihoods, then implement eradication in due course***. This is the stated approach in the National Drugs Control Strategy (see Chapter 7). It is an approach consistent with targeting drug control at the most harmful elements, and also with the need for rapid economic growth and reduction of poverty impacts.

To what extent is this scenario built on a realistic political and economic model? Under this combination of strategic elements of drug control, interdiction is aimed at high-value targets and comprehensive alternative livelihoods programs are put in place, with the promise of accompanying law enforcement measures on the production side to follow in due course. Eradication measures could then be planned once implementation capability and political support

are mobilized. Eradication should not, however, be delayed beyond a short to medium term horizon (3-5 years), or the impact on production would likely be negligible.

In this scenario, it is the combination and phasing of the three elements that will be most effective – a sequence in which interdiction disrupts trade and processing of opiates, saps the economic and power base of the warlords and politicians who depend on opium revenues, holds down the farm-gate price of opium and creates market uncertainty; judicial reform and law enforcement progressively tackle criminal elements; alternative livelihoods efforts provide realistic alternatives; and then eradication targets those still producing opium when they do have viable alternatives. At the same time the development of governance, institutions, and education gradually creates mutual responsibility between state and citizens, and long run economic growth reduces the poverty problem.

This scenario is consistent with targeting drug control at the most harmful elements and also with the need for rapid economic growth. In particular, this scenario has the advantages that it would:

- o build the rural economy progressively, as poppy is progressively reduced
- o follow best available experience that eradication is ineffectual unless preceded by substantial economic development
- o attract, in the absence of aggressive eradication, strong support from donors to the alternative livelihoods program
- o avoid generating widespread opposition to government in rural areas
- o undermine the economic and power base of the forces that are most likely to undermine the state
- o focus Afghanistan's very weak implementation capacity – and the Government's slim political capital - on discrete and high-value targets
- o provide a clear message to all that criminality would be stamped out

Clearly there are substantial risks to this scenario. These include the risk created by the inevitably significant time interval before substantial opium reduction can take place, which would create anxiety over the feasibility of the approach, and perhaps lead to short-sighted shifts in strategy. There is the risk that the approach simply will not work, and that opium production will continue to expand to become increasingly embedded in Afghanistan's economy and political life. (Under such circumstances, however, it is likely that no other approach short of major international military intervention would work, either.) Clearly the risks have to be managed – monitoring and timing of interventions will be critical, and the nation has to be clear about the trade-offs being made.

D. Toward an effective, sustainable alternative livelihoods approach

9.5 Building a livelihoods approach

If drug control strategy is to rely on the alternative livelihoods approach, that approach has to be clearly defined in a way agreed by all, and then operationalized in a coherent fashion. This section discusses what is needed.

A long-term development approach is essential. Sustainable development and poverty reduction takes time, and it is important to understand that progress will be uneven.

Prioritization is essential, with a focus perhaps on new production areas. Given capacity and budget constraints, prioritization is essential. A focus on new areas with little or no history of

poppy cultivation could be very good sense, as it is easier to roll back the practice where the technology and network are not yet entrenched. This would help contain the spread of opium cultivation in the country. Developing experience in handling new areas might also make it easier to get ahead of the frontier of foot-loose cultivation.

Box 17: How to design alternative livelihoods packages for drug producing countries

Based on experience in other drug producing countries, the following are some starting points in designing an alternative livelihoods approach to reducing drug production in Afghanistan:

- o *Start by understanding farmers' motivations.* There is a need to develop an understanding of the processes by which households move from illicit to illicit livelihoods and how this differs across different socio economic groups.
- o *Act long term.* Sustainable development and poverty reduction takes time. It is also important to understand that progress will be uneven during the strategy period and cannot be knocked off track by set-backs.
- o *Develop a comprehensive poverty alleviation program.* Addressing the underlying causes of poverty, inequity and insecurity is critical to addressing the causes of opium poppy cultivation.
- o *Adapt programs to different farmers' needs.* Different socio economic groups cultivate opium poppy for different reasons. Alternative livelihoods programs need to respond to these different reasons and to target interventions accordingly

Source: Annex 5, adapted from a paper by DFID

Conditional approaches should be avoided, and targeting encourages further spread of opium production and may generate perverse incentives. Two clear lessons have emerged from previous experiences in Afghanistan and around the world: conditional approaches do not work, and targeting has unintended side effects.

Programs will have to be responsive to needs – and if possible, demand-driven. Combating drug production requires a good understanding of farmers' motivations and constraints and the development of measures that address those motivations and constraints and provide a credible alternative to the decision to cultivate poppy. Different socioeconomic groups cultivate opium poppy for different reasons. Alternative livelihoods programs need to respond to these different factors and to target interventions accordingly. However, when programs are brought up to any scale, there is an unavoidable trade off. Micro-specific menus cannot be offered by nation-wide programs. Inevitably a more broad brush approach must be adopted. If programs can be substantially demand driven, this problem may be mitigated, as farmers know what they need.

Non-farm activities need a special focus. In most parts of Afghanistan, farm income is not the most important source of rural income. Alternative livelihoods approaches need to focus on other income generating activities alongside agricultural production, targeting improved marketing, raising skill levels, and giving access to credit.

Building governance, responsible citizenship, and the "social contract" is also important. Economic development measures will predominate, as the essence is to provide alternative household revenue. However, building responsible citizenship and the "social contract" is also important. Governance is vital: it is the means by which communities and the state are bound together. A "community-driven development" approach and the development of local representative institutions are key entry points for alternative livelihoods programs and for

governance. Programs in the social sectors – education, health – have potential for developing responsible citizen-government relations as well.

Law enforcement is needed but it must be used tactically. Alternative livelihoods cannot have an impact on poppy production unless accompanied by law enforcement, but law enforcement needs to be carefully sequenced. Eradication too early in the process can undermine long-term efforts to change the socio-economic conditions that support drug production. The linkages and sequencing need to be clear in the policy of government and its backers. Where eradication is employed, it needs to be seen as fair, otherwise it will undermine the development effort.

Box 18: Alternative livelihoods approaches that show promise for Afghanistan

Several “alternative livelihoods” programs have been launched in Afghanistan over the last two years. Although it is very early in the life of these initiatives, some first lessons for program content can be tentatively outlined:

- o *Market-based approaches* – in some areas where cash crop production is practiced on adequate irrigated parcels, the revival of markets is the surest way. Where spontaneous market development by the private sector does not occur, market development programs³⁵ can help. Public programs of agricultural support can also have an impact.
- o *Adding value to labor* – in other areas, particularly mountain areas, there is not much technological alternative in agriculture, with few opportunities for diversification or intensification. In some of these areas, there may be value added activities downstream of farming, or alternative activities locally. For many situations, however, labor migration is the major option. Hence some programs are emphasizing education and skills training, and are considering broader labor migration support programs.
- o *Linking to sectoral programs* – various sectoral programs may also contribute to the alternative livelihoods effort, for example rural road construction, rural water and sanitation, and the credit programs starting up under MISFA, but the linkages in terms of objectives, programming, and impact measurement have to be thought through.
- o *Working with public services* – local public services are very weak, but long-term sustainability depends on improving provision of these services, and programs will need to work increasingly through and with local services.

Source: project staff presentations to the International Conference, February 2004, Pain (2004), Mansfield (2004a)

9.6 Mainstreaming

In Afghanistan, the comprehensive “alternative livelihoods” approach can only be implemented by “mainstreaming” drug control objectives into rural development programs. The sheer size of the drug problem dictates that it cannot be tackled by specialized or localized projects, but only through a sustained long-term development effort involving the whole economy. Therefore, the Government has proposed the approach of “mainstreaming” i.e. the systematic integration of the counter-narcotics dimension and relevant counter-narcotics considerations into all policies, strategies, programs, projects, studies and technical assistance, wherever appropriate. Effectively, the question has to be asked for every development activity: “How could this activity support Afghanistan’s counter-narcotics aims?”

A joint Government/donor/UNODC/NGO process is underway to see how the counter-narcotics strategy can be “mainstreamed” i.e. how the approaches to addressing narcotics issues agreed in

³⁵ such as CADG or RAMP

the national strategy can become part of the broader development effort in Afghanistan. Based on broad agreement at the June 2004 Alternative Livelihoods Technical Working Group meeting on mainstreaming, the design of mainstreaming began in September 2004 with a review of the national development programs and their interface with the opium economy, and with an exercise to identify possible entry points within existing development programs. For future activities, the proposal is to develop with the Government and other partners a “code of practice” that will help build in drug control considerations from the design stage on. Current proposals on this code of practice call for the drafting of *Counter Narcotics Mainstreaming Guidelines*, together with checklist called a *Counter Narcotics Impact Statement* to allow planners to make sure best practice is incorporated.

The process has produced a working methodology for identifying mainstreaming possibilities (Box 19). The work done so far demonstrates that mainstreaming is certainly both desirable and possible across a broad range of development activities. These include activities in human development (education, skills training, and health); in social protection (public works); in community development and rural infrastructure; in agricultural production and irrigation; and in rural financial services.

At the level of programs, projects, analytical work etc., there are many entry points. Some are strictly livelihoods entry points, others are broader development issues of governance, dialogue, civic consciousness, education, etc. There is some risk associated with mainstreaming the counter-narcotics dimension into development projects, particularly in the fragile conditions of Afghanistan. This calls for caution and approaches like piloting. However, the benefits of well thought-out mainstreaming far exceed the risks – indeed there are substantial risks of various kinds associated with not mainstreaming. Moving toward implementation will require commitment from the Government and principal development partners, along with careful analysis and sound design and preparatory work. In this, there is a need for committed agencies to be pro-active, to seek out and listen to Government partners, to donor agencies, and especially to the implementing staff directly concerned.

A number of general lessons for mainstreaming counter-narcotics strategy into development programs are emerging. First, building governance and institutions is clearly a vital element, and the Community Development Councils under the National Solidarity Program are a promising entry point. However, the experience is limited and the structures are still fragile; care needs to be taken not to overload them. Second, the related “information, education and communication” (IEC) instruments are promising, but good content design and development as well as investment will be needed to exploit this route. On the economic development side, the development of “alternative livelihoods” is clearly key, but more focus is needed on income generation. Regarding risk management, the principle that development projects should at the least “do no harm” will require attention to high-risk activities (in relation to inadvertently promoting opium production) like irrigation. Overall, there are numerous possibilities for “tailoring” national programs to the specific problems and possibilities of drug producing areas; one high-potential program for “tailoring” is MISFA, which could address the problem of debt and credit as a “driver” of the opium economy. Coordination of development efforts is a major preoccupation – but also a potential way of focusing effort, and there are some possibilities for improving coordination – from the top, MRRD could be a focal point for coordination with respect to mainstreaming, from the bottom the CDCs could play a major role. By contrast, coordination of development with the overall counter narcotics effort, particularly law enforcement, is difficult and risky, and should perhaps stay on the level of information exchange for the time being. Finally, a monitoring and evaluation system is needed to track contributions to the counter-narcotics strategy and to measure its impacts; however, this system should steer clear of tying development programs to poppy reduction targets.

Next steps are to agree mainstreaming approaches at the level of national development programs, to formulate the “code of practice”, and to agree with Government, project agencies and implementing partners on implementation guidelines for mainstreaming within key programs. These steps are expected to be underway in late 2004 and early 2005. Annex 8 provides a full discussion of mainstreaming.

Box 19: An outline methodology for a “mainstreaming” review of existing activities

Step one: Review the activity description and assess the “interface” with the opium economy in terms of possible contributions of the program to the measures of the national drug control strategy, and in terms of geographic location in relation to opium production.

Step two: Review the specific ways in which the activity might contribute to the national drug control strategy. These specific ways are analyzed as a series of “entry points”, as follows:

- o Governance and institution building: do governance and institution building under the activity create the possibility at some stage of development of responsible interaction between the state and the population on the subject of drugs?
- o Dialogue, information, education, communication: within the governance and institutional set up of the activity, is there scope to conduct dialogue or transmit information, education and communication about drugs?
- o Living standards and livelihoods: does the activity contribute to improvements in living standards and incomes, and can this contribute to achieving “alternative livelihoods” in drug producing areas (or potential drug producing areas)?
- o “Do no harm”: is there a risk that the activity may promote drug production and how can that risk be managed?
- o Conditionality: is there drug-related conditionality in the activity – or should there be?
- o Targeting: does the activity target a particular geographical area or segment of the population, and is there a case for targeting actual or “at risk” opium producing areas and households? Is such targeting desirable, and if so feasible?
- o Coordination of development activities: is the activity coordinated with other development efforts to avoid overlap or gaps and to achieve a critical mass of impacts on livelihoods at the local level that would increase the attractiveness of licit activity over opium production?
- o Coordination with the national drug control strategy: is the activity coordinated or linked in any way to the National Drugs Control Strategy or the Counter Narcotic Directorate at either central or decentralized levels? Is the sector concerned coordinated with the national drug control strategy, or vice versa? How would the activity work in phase with any law enforcement activity?
- o Monitoring and evaluation: how would any agreed contribution of the activity to national drug control objectives be monitored and evaluated?

Step three: Assess the feasibility, benefits, costs, and risks of “mainstreaming”.

Source: World Bank mission report

E. Other Aspects of Drug Control

9.7 Interdiction

Interdiction capability needs to be strengthened. Interdiction is the key law enforcement tool in the Government's strategy. It attacks the drug trade at points of greatest concentration and value, and it stems the flows of drug profits which are financing local warlords and anti-state political interests. For effective interdiction, law enforcement responsibilities need to be clarified and capability strengthened, and the legal framework and judicial and penal processes need to be overhauled. Controls over money transfer and laundering are also needed, including over the *hawala* system, although these are likely to have an impact only in the longer term.

9.8 The knowledge agenda

The fight against drugs requires knowledge of the structure and dynamics of the business, as well as monitoring how it evolves in response to incentives, constraints, and shocks. The drug control model implicit in the National Drugs Control Strategy is based on empirical evidence from other countries and on knowledge and hypotheses about the drug industry in Afghanistan. As the fight against drugs proceeds, it will be essential to track progress and to adjust strategy in the light of facts – as well as the evolution of the drug industry itself. This should include refining the “taxonomy” of those involved in drugs – the characteristics of the key groups to be targeted by interdiction, alternative livelihoods, and eradication programs. Knowing the size of these different groups and their locations could help determine the likely cost and duration of different components of a multi-pronged counter-narcotics strategy, and would help adjusting toward the most cost-effective strategy over time. A better understanding of the price mechanism for opium is also needed, in order to understand the relations between interventions and incentives.

9.9 Non-conventional approaches

Non-conventional approaches should be investigated. Given the unique situation that Afghanistan faces, there is scope for considering other solutions than those already tried in other countries. For example, it might be possible to get popular support behind a counter-narcotics program by targeting those who are exceptionally abusive – such as opium creditors requiring payment in the form of opium cultivation. Ways to cancel opium debt might be explored. To lower the cost and reduce the possibility of a protracted and violent counter-narcotics war, “grandfathering” of drug-related assets accumulated in the past could be considered, under conditions that bring those involved into the legitimate economy. With such an approach, all new drug activities and associated assets would be deemed illegitimate and subject to strong enforcement (including loss of past assets for those continuing to engage in the drug trade). A similar approach has been tried with some success in Central Asian countries to encourage repatriation of illegal gains. There may also be other innovative solutions – but the main idea is to provide incentives to break with past trends as rapidly as possible. Box 20 gives examples of some possible innovative approaches that might be considered.

Box 20: Examples of Possible Innovative Approaches

Using cost-benefit and/or cost-effectiveness criteria for prioritizing actions. Economists have developed a rough calculus for quantifying the benefits of different types of drug-related intervention. Although such assessments inevitably would be crude and subject to margins of error, they could help address questions like whether to devote limited law enforcement resources more toward interdiction or toward eradication.

A strong public communications campaign, enlisting support of religious leaders and others respected by rural communities, could be an important part of the national effort against drugs if backed up by other actions. This is called for in the National Drugs Control Strategy but so far appears not to have been fully exploited.

Going after abusive behavior by the drug industry, e.g. credit at extremely high effective interest rates (over 100%) and denominated in opium. Legal and practical approaches to cancellation of opium-related debts could be explored, although it should be recognized that the tradition of advances carrying very high implicit interest rates is well-entrenched in Afghanistan's rural areas, and other forms of rural credit would need to be available.

Interdicting shipments of chemical precursors into Afghanistan. It takes about four liters of acetic anhydride to yield a kilogram of heroin, so large amounts of precursor chemicals are currently being imported into the country.

Combining anti-money laundering efforts with "grandfathering" of assets from past drug revenues. This could help co-opt parts of the drug economy that are already shifting into other businesses and give them a stake in the legitimate economy. The obvious risk of perverse incentives would need to be taken into account.

Preventing spread of opium cultivation to new areas. Past eradication campaigns focused on the provinces with the highest levels of opium production, where the greatest reduction in production could be achieved in the short run. The dynamic effect, however, has been the growth and spread of opium cultivation to other provinces – making it more difficult to attack subsequently and spreading the adverse political and security impacts into additional parts of the country. A strategy of containing opium production in traditionally important areas and giving high priority to preventing its spreading into new areas could be explored.

Tactical uncertainty and incomplete information. Strategic considerations suggest that maintaining some degree of uncertainty vis-à-vis the major actors in the drug industry – about the Government's plans as well as about next moves and specific actions – may be useful.

Source: Authors

F. Implementation and Next Steps

9.10 Implementation

The Government should be seen to be clear, firm, and fair. The adoption of the National Drugs Control Strategy has given some impetus to the counter-narcotic struggle. But ownership still needs to be built up and implementation plans developed and adopted. Most importantly, Government needs to be seen to be clear, firm, and fair in implementing the strategy. This would include adhering to the strategy in, for example, sequencing of alternative livelihoods and eradication interventions. High-level recognition of the importance of the fight against drugs is required, regular high-level decision meetings are needed, and the institutional framework, currently centered around CND, needs strengthening.

Implementation weakness imposes simplicity, mainstreaming, and reliance on all possible implementation capacity, including NGOs, markets, and incentives. Early experience in the transitional period is that Afghan implementation capacity, particularly in the public and security sectors, is weak and likely to remain so for some time to come as capacity is progressively built up through security sector reform. Thus counter-narcotics measures should be as undemanding to

implement as possible and expectations should be realistic. Measures not requiring public implementation capacity – private sector and NGO programs, markets, incentives, and other economic measures – can be pursued.

The current decline in opium price creates a window of opportunity. The drop of the opium price back below \$100/kg in 2004 creates a window of opportunity for the alternative livelihoods approach. The continuation of this price trend would be encouraged by reinforced interdiction, which would disrupt downstream activities and thereby at least temporarily shrink market outlets for farm-produced opium.

Where eradication is deployed, it needs to be fairly implemented. Experience with eradication hitherto indicates that locally-led implementation is likely to be partial, uneven, and factious. This suggests that eradication, once justified, should be implemented through centrally managed task forces rather than through delegation of major decision-making to local authorities. However, the problems and risks of centrally-led eradication also have to be carefully managed, and overall eradication needs to be pursued cautiously.

9.11 Next steps

The institutional structures that can help implement the strategy need to be fully mobilized. CND has the lead role in coordinating counter-narcotics, but it needs to work actively with the two inter-ministerial, NGO, and donor coordination groups set up to help it – the Counter-Narcotics Working Group and the Alternative Livelihoods Working Group. These structures need to have clear terms of reference, to resolve outstanding policy and implementation issues, to finalize action plans, and to prepare investment programs. Key decisions need to be referred to the Cabinet (which could regularly monitor the progress against drug, as is done for example in Thailand) and the President.

A nationwide alternative livelihoods program needs to be prepared and implemented. Specific steps include: (i) finalizing the alternative livelihoods strategy, including resolving some basic questions posed – what is the definition of “alternative livelihoods”, how should links to law enforcement be handled; (ii) ensuring that there is coordination across all rural institutions (including all ministries concerned) and with decentralized and local level institutions; (iii) developing an action plan and investment program for alternative livelihoods, and a mechanism to track and coordinate implementation; (iv) mainstreaming across the whole range of development activities; (v) working out a “knowledge process” that will build knowledge, pool it and factor implications into alternative livelihoods interventions, and help monitor and evaluate progress; and (vi) integrating alternative livelihoods programs into an overall growth strategy for the economy to replace lost opium income progressively.

Action is needed on law enforcement and judicial reform. A parallel process of definition, programming, and investment needs to be moved forward and guided for the law enforcement and judicial reform process. The proposals for action on law enforcement and judicial reform that are on the table (see Chapter 7) need discussion, agreement, and support.

Continue the “hearts and minds” campaign that has started. The International Conference gave high visibility to the Government’s counter-narcotics efforts both within Afghanistan and internationally. The commitment to a partnership against drugs was reinforced at the Berlin Conference. This effort of information dissemination and gaining ownership needs to be built upon with further actions, especially where there is something positive to report, such as successful interdiction or an alternative livelihoods program that has made an impact on people’s

lives. In Bolivia, public opinion ultimately proved critical both in strengthening the Government's resolve and in "shaming" producers.

Action on money laundering. The recent passage of the Central Bank Law provides a framework to put in place controls within the formal banking sector on illegal money flows. The same law also provides for the registration and supervision of the informal *hawala* system (see Annex 6).

Considering innovative approaches. As discussed above, there could be value in discussing or testing innovative solutions like opium debt forgiveness or "grandfathering" of illegally acquired assets. A forum for putting forward and studying these ideas could be envisaged.

Prioritization of the law enforcement effort against larger actors. The larger participants in the drug industry are the biggest concern because they are the ones most likely to have the surplus funds to stimulate corruption, support armed protection forces, hinder state-building, and undermine political progress and action against drugs. Thus law enforcement should focus first on the larger actors. In parallel, empirical research should be carried out to confirm whether this focus on the larger players does in fact provide the best returns for the counter narcotics dollar.

Engage international support fully around a single strategic approach. International involvement is inevitable, and it can be harnessed beneficially if there is consensus on a credible strategy. If not, tensions may disrupt whatever counter-narcotic efforts are made. The international community's concern is evident, and this creates strong pressures on Afghanistan to act. International pressure can affect both the nature of the actions (with some international interests pushing for signal acts of eradication, for example) and their timing and intensity, with international partners needing to demonstrate to their own domestic constituencies that "something is being done" within a reasonable time frame. These considerations are likely to create impatience with the slow, steady workings of alternative livelihoods approaches. In addition, the possible interface of drugs with terror and the war on terror creates further tensions, sometimes conflicting, as alliances and interests shift. The other side of this international interest is the commitment of the international community to help Afghanistan. In many ways, both in Afghanistan and internationally, the origins of the opium problem, as well as its current hold on the country, are seen to be as much the responsibility of the international community as of Afghanistan. This sense of responsibility can lead to strong support for a viable counter-narcotics strategy. Thus overall, international involvement is inevitable but needs to be harnessed beneficially, with consensus on a single strategic approach.

G. Conclusions

The strategic framework is sound but implementation involves difficult trade-offs and faces weak implementation capacity. The Afghan Government's National Drugs Control Strategy provides a sound framework for action. There are tensions, however, between the cautious tone in much of the strategy document and the ambitious targets (70% reduction in opium poppy cultivation in five years and complete elimination within a decade). In implementation, the Government is inevitably facing pressures for quick and visible results, even if at the expense of longer-term sustainable improvements. There are also strategic implementation issues relating to prioritization and sequencing between interdiction, alternative livelihoods and eradication which are still hotly debated. Successful implementation will require major attention to building capacity in governance, law enforcement, and the judicial and penal systems. All in all, and not surprisingly given past experience and the size of the drug industry, there are no easy answers, only difficult trade-offs in the search for a multi-pronged, sustained long-term response to the drug problem in Afghanistan.

The political risk of not acting outweighs the risk of acting, and early demonstration of Government's resolve is needed. For the Afghan Government, effective action on drugs brings substantial political risk and the risk of economic losses. In the face of strong vested interests in the country in protecting the drug trade (and so in sabotaging any effective counter-narcotics strategy), there is an evident political risk to the Government, and hence there are constraints to its willingness and ability to take action. Balanced against this are the evident political risks of *not* acting. It has been argued that Afghanistan risks becoming hostage to narcotic interests – the “narco-state” hypothesis. The capture of the government at central level by narcotic interests may be unlikely given Afghanistan’s historical pattern of fragmented political tendencies and the lack of evidence of central organization of the drug business. But the hypothesis is more persuasive if it is understood to mean the persistence of the kind of local and regional capture currently experienced, and a continued inability of the central government to pull together the fragments of the country. The drug economy may become more deeply entrenched, consolidating local power bases and continuing to undermine prospects for a unified state. There is an overriding political imperative to avoid this eventuality. It is therefore necessary for Government to demonstrate that it has a coherent strategy and the capacity to begin to contain the drug business in the near term.

There are serious risks associated with precipitate action in terms of eradication. An abrupt arrest of opium production (were such a thing possible) would impoverish the population and undermine the economy. In practice, Afghanistan will be able to phase out drugs only slowly. However, a gradual approach will not show easy short-term results (so-called “quick wins”), and there is the risk that the drug economy will take a firmer hold – and even feed the ultimate destabilizing factor, terrorism. On the other hand, precipitate action with eradication is likely to undermine political normalization, impoverish the population, hurt the development credibility of the Government, and possibly strengthen the position of drug traffickers and their sponsors.

Visible yet sustainable results can be achieved in the short run without resorting to massive eradication. Given the lack of major efforts in the past and as demonstrated by recent experience, it is possible for interdiction to achieve visible results fairly quickly, as long as the Government is prepared to deal with the associated political fall-out. Examples include seizures of large inventories, closure of opium bazaars, and destruction of opium processing laboratories. Another example of effective, visible, action against drugs in the short run is removal of persons known to be involved in the drug industry, either directly or through sponsorship and benefiting from drug-related financial flows, from senior positions in government, especially ministerial positions and governorships. While none of these actions would obviate the need for a sustained, coordinated approach to fighting drugs, they would be consistent with this longer-term effort while showing visible short-term results.

Government should mobilize support around its own strategy. With such a multi-dimensional problem where trade-offs are inevitable, it is essential to make informed choices, to show transparency, and to mobilize support. The National Drugs Control Strategy provides a framework within which to design interventions and enlist support. There will be pressure to act hastily, but tackling drugs is a long-term task – there are no easy answers or quick fixes. Quick results will be demanded but inevitably sustainable impacts will take time. Ill-judged short-term reactions may adversely affect the whole reconstruction effort. Government should mobilize support around its own strategy, prioritize, implement steadily on all key fronts, and back up implementation with good monitoring and evaluation.

Curbing the opium economy will take time – and sustained economic growth supported by external assistance will be the essential accompaniment. The National Drugs Control Strategy is

based on the premise that opium can be reduced over time by a counter-narcotics effort directed toward big targets, led by interdiction, and supported by a massive alternative livelihoods and rural development effort, with eradication following once the economic conditions are right. This approach will be slow maturing, but this is appropriate to the underlying macroeconomic reality – that opium’s place in the economy has to be filled by legitimate activities that will take time to emerge. There is a need for the rural economy to adjust over time while sustained support and market development drive up the overall growth rate of the economy to progressively take the place of opium.

Annex 1. Extract from MRRD Strategy for Rural Reconstruction and Alternative Livelihoods in Opium Producing Areas

The provision of alternative income opportunities for those involved in the production of opium poppy is an integral part of the Afghan government's strategy to eliminate the production of illicit drugs in Afghanistan. The elimination of poppy cultivation will require a substantial commitment to long-term development and poverty reduction strategies combined with effective law and order actions.

Efforts to improve rural livelihoods, and wean farmers from the production of opium poppy, must be part of broad-based economic and social development. Poppy growing areas are among the poorest areas of Afghanistan, and should be given priority in the immediate term in the allocation of employment generating activities, including those in non-agricultural sectors.

The strategy focuses on the delivery of alternative livelihoods interventions in poppy producing areas as part of a broader, integrated and sustainable national alternative livelihoods strategy, consistent with the Afghanistan National Drug Control Strategy.

Full use is to be made in the strategy of the Government's existing national development programs, including the National Solidarity Program (NSP), National Emergency Employment Program (NEEP), National Area Based Development Program (NABDP), the Rural Water and Sanitation Program (RuWatSan), and the Micro-Finance Support Facility of Afghanistan (MISFA).

- o In the immediate term, labor intensive programs under NEEP are being launched in poppy growing areas, and those areas which traditionally supply labor for the poppy harvest. Through NEEP productive infrastructure is rehabilitated following labor-based techniques thus providing both short-term employment at a daily wage set as a social safety and regenerating infrastructure that will improve agricultural productivity and access to services with a focus on farm-to-market roads, soil conservation, and small and medium scale irrigation. The NEEP daily wage rate is not designed to compete with the daily wage of poppy labor. However, it does provide a social safety net for laborers deprived of labor through eradication of poppy. The NABDP, within a coordinated provincial planning framework in all 32 provinces, is financing farm inputs, roads, schools and clinics. RuWatSan has financed 1,700 water and sanitation projects.
- o In the medium term, micro-credit and education programs are being launched in the traditional poppy growing areas to reduce the imperative to grow poppy as a means of gaining access to credit. MISFA has been recently established and is expanding its area of operation through the contracting of micro-finance institutions (MFIs) to provide micro-finance for households to add value to local resources through the establishment of small enterprises. To date, two agreements have been signed, covering 20,000 clients.

- o In the long term, the NSP through legitimate, elected community institutions empowers communities to manage their reconstruction and development with resources they control and to coordinate resources of other agencies (line ministries, UN, NGOs and private sector) to address priorities they define. NSP is the catalyst for a more refined system to improve the targeting of interventions leading to an increase in productivity and income levels, both on-farm and off-farm and ensuring that support services for livelihoods are provided in line with local needs and consistent with the Afghanistan National Drug Control Strategy. In its first year NSP is targeting 7,000 villages in three districts per province across all 32 provinces. By early 2004, activities were underway in 31 out of 32 provinces, 600 community development councils had been elected, and 350 projects had been financed.

- o Monitoring of livelihoods is conducted through the National Risk and Vulnerability Assessment (NRVA) surveys on 11,700 households, and through the Famine Early Warning System (FEWS).

Annex 2. Alternative Livelihoods Programs in Afghanistan

Sustainable Livelihoods Programs

DFID. DFID's Sustainable Livelihoods Program in Afghanistan was recently doubled to £20m over 3 years. This includes a specific contribution of £5.4m to the UK Afghan Drugs Delivery Plan budget of £70 million over 3 years. DFID funds or co-funds a number of substantial innovative strategic projects, designed to have a quick impact for beneficiaries as well as generating longer-term lessons of good practice, which can be scaled up and used to inform policy. These include:

- o Co-funding (with the US International Narcotics and Law Enforcement Bureau – INL) a project with the Aga Khan Development Network to develop alternative livelihood opportunities in the poppy growing districts of Badakhshan. (£1m over two years).
- o A project to develop sustainable agricultural livelihoods in the central highlands of Bamiyan (including areas of recent poppy encroachment) has just commenced under FAO supervision. (£4m over 4 years).
- o A competitive research fund facility to attract and fund innovative and practical projects for researching and developing alternative livelihood options. Projects will be implemented by 'partnerships' of international research centers and local NGOs or Government, combine international best practice with local experience. This is currently under formulation and, subject to approval, is expected to start early in 2004. (£3m over 3 years). Co-funding from other donors would increase the number of projects that could be funded.

DFID also finances capacity building and coordination in government to help develop and implement a coherent national sustainable livelihoods policy. This includes:

- o 'Support to Strategic Planning for Sustainable Rural Livelihoods Project' which will assist the Ministries of Rural Rehabilitation and Development, and Agriculture, to manage major investment programs in Livelihoods and Social Protection and Natural Resource Management. (£2.1m over three years).
- o Supporting the Afghan food security and nutritional surveillance system. This will improve understanding of the issues involved in ensuring communities have a secure food supply and adequate nutrition levels. (£0.3m).
- o An FCO funded Alternative Livelihoods Adviser in the Ministry of Rural Rehabilitation and Development. The adviser will help improve understanding of the processes by which households move from illicit to licit livelihoods, and also provide technical support to organizations working in poppy growing provinces to help them establish common standards for impact monitoring.

DFID is co-funding a number of major national investment programs, including: (i) the National Area-Based Development Program (£1m in 2003), designed to build local government capacity and to design and manage livelihoods projects; and (ii) Pounds 2m to the National Solidarity Program (NSP) this financial year, with the expectation of an increased level of funding during subsequent years, given good performance.

The **European Commission** is supporting a number of programs supportive of alternative livelihood opportunities in Afghanistan. These include rural development programs implemented through NGOs in various parts of Afghanistan, including the major poppy growing areas of Helmand, Nangarhar and Badakhshan, and a Euro 8m contribution to the National Emergency Employment Program in 2003. A Euro 9m alternative livelihoods project in the eastern region has been approved and will commence early 2004.

The **Asian Development Bank** is the lead donor in natural resource management, a thematic area that includes livelihoods based on agriculture and related processing and services. ADB is currently negotiating an agricultural sector program loan of \$50m with ATA. Loan tranches are released based on fulfillment of certain policy conditions, and a conditionality based on alternative livelihoods is currently being formulated. The ADB is supporting capacity building in the rural ministries, and has contributed to the National Emergency Employment Program.

The **World Bank** is the major donor to the National Emergency Employment Program, which provides short term employment for poor people through public works, and creates community assets in rural areas. The Bank is also the major financier of the National Solidarity Program, which is the Afghan Government's flagship program for community empowerment, local self-governance, and socio-economic development in rural areas. The Bank also supports the Microfinance Investment Support Facility to Afghanistan (MISFA).

The **US** is the largest donor to Afghanistan with \$1.2bn of additional funding committed at the September 2003 Dubai conference. USAID is currently funding the \$153m 'Rebuilding Afghanistan's Agricultural Markets Program (RAMP)' which is expected to boost commercial agriculture significantly, with knock-on effects for the livelihoods of rural people in the areas covered by the project. RAMP covers the relatively high-potential areas of Afghanistan, which include the major poppy growing provinces of Helmand, Qandahar and Nangarhar. The International Bureau for Narcotics and Law Enforcement (INL) is funding specific livelihoods projects, through NGOs, in drug producing provinces, including co-funding, with DFID, the project implemented by the Aga Khan Development Network in Badakhshan.

The **Food and Agriculture Organization** of the United Nations is currently preparing a proposal for an alternative livelihoods project covering all the main poppy growing regions. This project is expected to be presented to donors shortly. FAO is executing a DFID-funded project in the Eastern Hazarajat, which includes some areas of recent poppy encroachment.

The main input of the **Government of Japan** to alternative livelihoods is through the Ogata Initiative, a program that has focused mainly on the reintegration of refugees and internally displaced persons in the areas around Qandahar, Nangarhar and Mazar-e-Sharif. \$92m has been committed to the Ogata Initiative so far, and the program is about to move into a \$15m fourth phase with a greater emphasis on development (employment creation, infrastructure, capacity building and community empowerment) than previously. Through the Japan Social development Fund, the Japanese Government is financing a \$20 million extension to NEERP, of which about half will be focused on irrigation and road investments, together with short term job creation, in poppy producing areas. Japan is also supporting the micro-finance initiative, and is considering a contribution to the National Solidarity Program.

Other support on counter narcotics

German Police Project

DFID's **Public Sector Reform and Economic Management Program** (around £6m this year) is helping to put in place the basic building blocks for government to function effectively and to build capacity to deliver services to Afghan citizens. Included in this reform is support to the Afghan Customs Service, which has an important function in interdiction.

DFID contributes (£5m over three years) to **Provincial Reconstruction Teams** (initially in Mazar-e-Sharif, which has witnessed an encroachment of poppy, and soon to be expanded, possibly into southern poppy producing areas), which promote security and thereby facilitate development of legal livelihoods.

Annex 3. The Concept of Alternative Livelihoods

(adapted from a DFID paper)

A definition of what alternative livelihoods is – and isn't

The term alternative livelihoods refers to alternative means of living for those whose livelihoods currently depend on illicit production of opium poppy. A livelihood comprises all the capabilities, assets (including both material and social resources) and activities required for a means of living. It is more than just a job. The term alternative livelihoods was coined to describe this broader, sustainable approach to improving people's livelihoods, and to distinguish this approach from the failures of previous *alternative development* projects in drugs-producing countries.

What do we already know about promoting development and alternative livelihoods in drug producing countries?

Start by understanding farmers' motivations. In the past there has been inadequate knowledge and understanding of how development projects have influenced households in their decision to cultivate poppy. There is a need to develop an understanding of the processes by which households move from illicit to illicit livelihoods and how this differs across different socio economic groups.

Act long term. Sustainable development and poverty reduction takes time. In other drug-producing countries, eliminating poppy production has required a long-term strategy. In Thailand, with strong legal economic growth, it took over 30 years to eliminate poppy production. In Pakistan, with much greater law enforcement capabilities, it took 20 years. The targets for Afghanistan are very ambitious. It is also important to understand that progress will be uneven during the strategy period and not to be knocked off track by set-backs.

Develop a comprehensive poverty alleviation program. In both Thailand and Pakistan, elimination of poppy production was achieved as part of a comprehensive development strategy combined with a supportive policy framework to consolidate law enforcement and to integrate marginal communities into the national economy. Experience shows that the broad socio-economic and political structures that create and maintain poverty, exacerbate the conditions in which opium poppy flourishes. Addressing the underlying causes of poverty, inequity and insecurity is critical to addressing the causes of opium poppy cultivation.

Adapt programs to different farmers' needs. Different socio economic groups cultivate opium poppy for different reasons. Alternative livelihoods programs need to respond to these different reasons and to target interventions accordingly. Attempting to replace the income received from opium with substitute crops is a necessary but not a sufficient condition for reducing the levels of cultivation. This will only work with richer households that produce illicit crops for extra income. For those less economically reliant on drug crop cultivation, greater emphasis could be given to applying social and legal pressure. For those most dependent on drug crops, interventions need to give precedence to securing livelihoods through the extension of food crops and the promotion of other alternatives.

The weakness of “conditional development”

The alternative to this comprehensive approach is to link development assistance very closely with opium poppy cultivation (or elimination and eradication). This has not worked in Afghanistan or elsewhere. At best, conditionality linked to progress in the elimination of opium poppy led to short-term, stop-start projects, which did not address the long-term causes of poverty and opium poppy cultivation. Worse still, this approach has often led to perverse incentives that encourage poppy cultivation, in order to attract development assistance.

Over the last decade there have been a number of attempts to tie development assistance in Afghanistan to progress in the elimination of opium poppy. Typically this form of conditionality was attached to short-term (often annual budgets) single sector development interventions and stipulated that the continuation of development funds was contingent on significant reductions in poppy within a given project area. This kind of crude conditionality policy failed to consider the uneven nature of the development process and did not take account of the fact that the motivations and factors that influence opium poppy cultivation differ across socio-economic groups. The limited duration and scope of these interventions did little to address the causes of opium poppy cultivation nor provide the long-term donor commitment required to obtain buy in from primary stakeholders. Both time frames and targets for reduction proved unrealistic. Consequently, donors complained that communities failed to meet drug control targets and closed projects. Communities complained of shortfalls in donor funds and said that development assistance did not translate into improvements in lives and livelihoods on the ground.

Linking development assistance too closely with opium poppy cultivation has also led to perverse incentives that encourage poppy cultivation, in order to attract development assistance. A variety of different power brokers in Afghanistan (and other source countries) have adopted this strategy over the last decade. In other countries, this has led to a resurgence in cultivation in areas where drug crop cultivation had previously been reduced. Consequently the results of such initiatives are not only unsustainable but they can prove counter productive.

There is a danger that where development assistance tracks levels of opium cultivation, reductions in opium output will lead to reductions in financial assistance. This is likely to undermine alternative livelihoods and lead to a resurgence of poppy production. The current resurgence in poppy cultivation in Pakistan can partly be attributed to this phenomenon. More recently there has been evidence of warlords in Afghanistan encouraging cultivation purely for it to be eradicated (and the perception that this will attract development assistance). Some regional powers have exaggerated levels of eradication to gain favor and development assistance.

Eradication

Crop eradication can be an effective counter-narcotics law enforcement tool, if it is carefully phased with other interventions. It has been demonstrated that eradication works where comprehensive development programs have begun to improve alternative licit livelihoods opportunities or where alternative livelihoods exist. Where such alternatives exist eradication has been used to punish farmers who persist with drug cultivation. However, where alternatives do not exist eradication is rarely cost effective and can create perverse incentives for farmers to grow drugs. Enforced eradication in areas where alternatives do not exist can also fuel violence and insecurity and displace cultivation to less accessible places. It can also exacerbate debt and poverty, thus reinforcing the causes of poppy cultivation. Therefore, untargeted eradication can undermine long-term efforts to change the socio-economic conditions that support drug production.

Annex 4. Alternative Development, a Worldwide Strategy for Combating Drug Production

On 8 September 1998, the General Assembly of the UN adopted the resolution “*Measures to enhance international cooperation to counter the world drug problem*”. In addition to new steps to suppress amphetamines, control precursor chemicals used in drug processing, promote international judicial cooperation and counter money laundering, the resolution adopted an *Action plan on international cooperation on the eradication of illicit drug crops and on alternative development*.

“Alternative development” had for years been the main element in strategies for countries trying to eradicate production of illicit drugs. The 1998 General Assembly resolution formally adopted alternative development as a main element of the UN approach to drugs. This resolution effectively defined alternative development as a principal part of UNODC’s mandate.

The resolution required a “balanced approach” to fighting drugs. Each producing country should have a “national strategy for the reduction and elimination of illicit crops, including comprehensive measures in alternative development, law enforcement and eradication”. There should be a specific national plan for alternative development. The resolution asserts that “in the case of low income structures among peasants, alternative development is more sustainable and socially and economically more appropriate than forced eradication.”

The UN and the development banks were requested to provide financial assistance for alternative development, and the international community was requested to provide greater access to “alternative development products”.

Innovative approaches to alternative development are encouraged, particularly those that are participatory and institution building, “contributing to the promotion of democratic values to encourage community participation and promote social responsibility to develop a civic culture that rejects the illicit cultivation of crops”. Alternative development approaches, the resolution says, are based on dialogue and persuasion.

The role of law enforcement is clear in the UN vision: “In areas where viable alternative sources of income already exist, law enforcement measures are required against persistent illicit cultivation of narcotic crops. However, in areas where alternative development programs have not yet created viable alternative income opportunities the application of forced eradication might endanger the success of alternative development programs.” In effect, the role of law enforcement in production is seen as very much downstream. In earlier stages of the fight, law enforcement is seen as primarily “to tackle other illicit activities such as operation of illicit drug labs etc and related forms of organized crime.

Source: UNODC

Annex 5. UNODC Alternative Development Projects Experience

What went well

In Pakistan, production dropped from 800 tons in 1979 to 10-20 tons in 2002. Over the twelve year interval, the international community invested \$205 million in alternative development projects, and Government added \$100 million in social infrastructure and other funding.

Twenty years of alternative development in Thailand and a total investment of \$125 million reduced opium production from 150 tons to less than 10 tons. A massive \$10 billion was invested in wider highland development programs. The remote and marginalized producing areas were successfully integrated into the national economy and polity.

A successful pilot project in Laos has led to a six year alternative development strategy

The collapse of the Cali and Medellin cartels, successful cross border interdiction between Peru and Colombia and the subsequent collapse of coca prices in Peru in the early and mid 1990s created a favorable environment for alternative development. Alternative development centered on the creation of local organizations and the stimulation of agro-industry and marketing. Oil palm and coffee became major alternative crops, and their growth has generated jobs and downstream dynamics. Coca cultivation decreased from 129,000 ha in 1992 to 38,000 ha in 1999.

In Bolivia, an eradication program eliminated 14,000 ha of coca in 1999, and growers are being helped to switch to agro-forestry, including timber, citrus, flowers and honey production. However, sustainability is not yet proven, and there was political fallout. There is much to be learned from the Bolivian experience but it cannot yet be judged a success.

What went less well

In Colombia, armed conflict and the lack of state control have limited possibilities for alternative development programs.

In Myanmar, alternative development is hampered by a lack of foreign investment, pending resolution of political issues.

In Afghanistan (in 2001), “the complex reality of Afghanistan’s volatile and violent political situation, and its human rights and humanitarian crisis is setting the limits for alternative development initiatives in terms of funding and implementation. Law enforcement strategies would only exacerbate the problem and be counter-productive under the circumstances.”

The role of community institution building

According to UNODC reports, “options for a participatory, community based approach have been particularly relevant in areas characterized by limited Government involvement. In Peru, for example, farmer organizations, cooperatives and *Comites de Autodefensas* – self defense groups that resisted the Shining Path guerillas – have become the grass roots foundation for promoting alternative development strategies.” Community organizations can become not only economic units but also “cohesive platform for social and political action and for influencing attitudes towards cultivation and trafficking”

Source: UNODC reports

Annex 6. Rural Development and Alternative Livelihoods

This Annex reviews Afghanistan's current rural development strategy and programs. In post-conflict Afghanistan, enormous effort has gone into rural reconstruction, livelihoods and social protection, initially in the form of emergency employment and safety net programs to transfer some liquidity and to rebuild small-scale infrastructure. After the initial phase, Government developed a more strategic vision in its "Livelihoods and Social Protection Public Investment Program" (LSP), adopted in 2002.

The LSP. The LSP Program provides an integrating framework, defines the roles of government, donors and NGOs and gives structure to the overall rural development and poverty alleviation program. Government is seen as an executing agency of programs³⁶, with implementation done primarily by NGOs and other contractors. In the short term, programs rehabilitate infrastructure and create local employment, putting money into people's pockets. Agricultural productivity and access to services are improved through farm-to-market roads, soil conservation and small and medium irrigation. In the medium term, farmer services improve through the development of rural finance, processing and marketing. In the longer term, the community development councils supported by NSP "empower communities to manage their reconstruction and development with resources they control, and to coordinate resources of other agencies and programs". The vision is of a progressive development of infrastructure and services matched with development of a "bottom up" capacity to mobilize demand in a participatory, structured way.

At present, MRRD has four "flagship" programs to implement this strategy:

- The National Emergency Employment program (NEEP), supported by the World Bank and other donors, provides targeted social protection and improves key infrastructure by financing labor intensive public works projects such as road building.
- The Emergency National solidarity Project (NSP), supported by the World Bank and others, finances village level reconstruction and development activities through a community driven development approach. Block grants are made to elected "community development councils" that link local communities to the administration.
- The Microfinance Investment and Support Facility for Afghanistan (MISFA), supported by the World Bank and others, aims to improve the livelihoods of the poor and vulnerable in Afghanistan by the provision of credit through microfinance institutions.
- The National Area Based Development Program (NABDP), supported by UNDP and others, finances capacity building and project implementation at the decentralized provincial level.

Generally, this rural development strategy has and its programs have received strong support from donors, and implementation is beginning to have an impact – in terms of infrastructure, jobs created and community development - on the lives of rural people in many parts of the country. Irrigation rehabilitation and development programs are also underway.

³⁶ MRRD is the lead Government implementing agency for rural reconstruction and livelihoods.

Rural development needs that have received less attention are (i) agricultural production and natural resource management; (ii) off farm and non-farm enterprise and employment creation; (iii) market development.³⁷

³⁷ The development of markets, essentially a private sector activity, is inherently difficult for Government and donors to promote. Practical efforts underway include: (1) road rehabilitation and construction; (2) some investment in downstream processing and packing, such as that being promoted for dried apricots, raisins, pulses and cumin by the Central Asia Development Group (CADG) in Helmand; and (3) testing of new markets through, for example, pilot air consignments of fruits and vegetables to Dubai (with the support of the USAID financed RAMP project).

Annex 7. Countering Illegal Money Flows in Afghanistan

"*Follow the money*" remains an effective thrust of law enforcement and other international efforts in the fight against money laundering. Identifying, freezing and seizing assets of major criminals is an effective long-term strategy for combating the growth of a narco-state. As is the case in other opium growing jurisdictions, money will continue to motivate, lubricate, and sustain the industry. Intelligence developed by following the money led to the identification and subsequent investigation of key criminals and terrorists or terrorist supporters.

Formal Financial Sector

As Afghanistan's formal financial sector begins to emerge, it is important that the appropriate technical assistance is provided to ensure that it remains hard to move money clandestinely through formal domestic and international financial channels. Typically, an effective anti-money laundering frame work will involve the following steps:

- o Adopting adequate anti-money laundering/antiterrorist financing laws that must comply with FATF's anti-money laundering and antiterrorist financing recommendations, including the criminalization of money laundering and terrorist financing and the establishment of effective measures to block and freeze assets.
- o With appropriate laws in place, training and technical assistance can be focused to simultaneously develop the three core entities responsible for implementing laws. Training is provided for criminal investigators in customs and other law enforcement services to assist them in detecting and tracking money laundering and in developing the evidence to support indictments and prosecutions against criminals and terrorists; for regulators that supervise the financial sector so that they can ensure that all relevant banking and nonbanking financial institutions know and follow "know your customer," suspicious transaction reporting, and other record keeping and good practices procedures; and for the prosecutors and judges who will be key to the criminal prosecution of cases against criminals, terrorists and their supporters.
- o Typically, the capstone to this effort is the development of Financial Intelligence Units (FIUs), which are often tasked with developing the regulations that banking and nonbanking financial organizations must follow and where suspicious transaction reports and other intelligence is collected, analyzed and disseminated both to help develop cases domestically and sharing internationally through FIUs in other countries as part of transnational investigations.

Informal Financial Sector

Unfortunately, in Afghanistan securing the formal financial sector against money laundering will not deter the practice. The informal financial system has been effectively used for this purpose for a long time. Investigation after investigation reveals the increasingly important role of "alternative remittance systems", the *hawala*, in facilitating transnational crime and terrorism.

It is difficult to quantify and document the degree to which *hawala* is used to launder money in Afghanistan. It is equally difficult to trace illegal money flows, to separate legal from illicit flows, and to establish the financial links to criminal activities. Law enforcement agencies are often unable to penetrate informal financial systems because of cultural and linguistic barriers or the close business or kinship ties of the participants. Additional constraints in Afghanistan include:

- o Poor monitoring of cross-border currency movements
- o No reporting requirements for large cash transactions
- o Lack of uniform guidelines for identifying suspicious transactions
- o Large parallel black market economies
- o Few opportunities to share financial information with foreign law enforcement authorities.

In light of intense international efforts to combat money laundering and the financing of terrorism, the first option is no longer feasible. Article 77 of the recently passed central bank law states that foreign-exchange dealers, which includes *hawaladars* dealing in foreign exchange must be licensed by, or registered with, DAB, under regulations that have yet to be drafted. Once licensed, they will be expected to:

- o Report transactions over a minimum amount to a government department or agency designated by the regulation
- o Collect and maintain information about their customers as specified in the regulation
- o Periodically provide DAB with information about their customers, management, administration, business, and financial condition.

The success of DAB's attempts at regulating the money exchange dealers will be determined by the dealers' appreciation of the need for external supervision. Because both DAB and the dealers have little experience with regulation and supervision of the informal money transfer business, the regulation to be developed should be based on incentives rather than on direct external regulatory interventions. Technical assistance could be aimed at bringing the informal financial sector closer to the formal sector.

The efforts suggested above must be viewed as being complementary to, rather than a substitute for, other programs.

Adapted from a note by Samuel Maimbo

Annex 8. “Mainstreaming” Counter-Narcotics Strategy Development Operations

Background

In Afghanistan, the comprehensive “alternative livelihoods” approach can only be implemented by “mainstreaming” drug control objectives into rural development programs. The sheer size of the drug problem dictates that it cannot be tackled by specialized or localized projects, but only through a sustained long-term development effort involving the whole economy. Therefore, the Government has proposed the approach of “mainstreaming” i.e. the systematic integration of the counter-narcotics dimension and relevant counter-narcotics considerations into all policies, strategies, programs, projects, studies and technical assistance, wherever appropriate. Effectively, the question has to be asked for every development activity: “How could this activity support Afghanistan’s counter-narcotics aims?”

A joint Government/donor/UNODC/NGO process is underway to see how the counter-narcotics strategy can be “mainstreamed” i.e. how the approaches to addressing narcotics issues agreed in the national strategy can become part of the broader development effort in Afghanistan. This Annex describes the process and results and recommendations so far.

Why mainstreaming?

The implicit model of the counter-narcotics strategy. The model that can be construed from the national drug control strategy is that the development of governance, institutions and education will progressively create a climate of mutual responsibility between state and citizens, that economic growth will in the long run remove the necessity to engage in opium production, and that judicial reform and law enforcement will progressively tackle criminal elements.

National development is the same as fighting drugs – and vice versa. This model is consistent with the overall development and nation building agenda and the international community supports it. In fact, the sheer size of the opium economy means that eliminating opium can only be achieved by development of effective governance and by sustained economic growth and improvements in living standards over a long period throughout the country. In this respect, the development effort to combat drugs is simply the development effort as a whole seen through the lens of drug control.

Local project efforts are inadequate to deal with the problem. Given the size and geographical spread of the drug problem, responses have to be on an equivalent scale. In other countries, dedicated regionally focused “alternative livelihoods” approaches to control of drug production have been employed successfully. But in those countries, drug production has been localized in marginal areas (Thailand, Laos, Pakistan), and there has been a functioning government controlling most of the country. In Afghanistan, such approaches can only be a small part of the solution, given the size, geographical spread and mobility of the problem. The most cost-effective way is to systematically seek out opportunities to promote counter-narcotics objectives through national or regional development programs.

Mainstreaming therefore is the most practical approach. As specific “drug control” projects are quite inadequate to the scale of the problem, the Government has proposed the approach of “mainstreaming” i.e. the systematic integration of the counter-narcotics dimension and relevant counter-narcotics considerations into all policies, strategies, programs, projects, studies and

technical assistance, wherever appropriate. Effectively, the question should be asked for every development activity: “How could this activity support Afghanistan’s counter-narcotics aims?”

Progress so far on “mainstreaming”

In June 2004, a workshop in Kabul chaired by the head of the Counter Narcotics Directorate agreed on the definition of mainstreaming, identified a number of programs and projects as candidates for early analysis, and launched a process to identify the key entry points and possible actions within the national development programs. UNODC has begun work “top down”, looking at the mechanisms that coordinate the development effort at national and provincial levels, and linkages to the steering of the drug control strategy. DfID is reviewing how drug control objectives can be “mainstreamed” at the level of the National Development Programs (NDPs). The World Bank agreed to study how these general orientations could possibly be put into practice in a selection of World Bank-financed programs. This “bottom up” approach was the subject of a mission to Afghanistan in September 2004. If the approach is agreed, it can serve as a model for other agencies to carry out similar reviews of other programs.

The September 2004 mission developed an outline methodology (Box A2) that was then applied to a number of existing activities. The methodology included a review of the actual or potential interface of the activity with the drug economy and an analysis of possible entry points for supporting the counter-narcotics strategy, and an evaluation of the feasibility, benefits, costs and risks of making changes to the activity. The methodology also provided for a review of how each activity coordinates with other development activities to achieve a “critical mass” of development impacts, and how the activity coordinates with the steering and monitoring of the drug control effort, including linkages to law enforcement etc.

For future activities, the proposal is to develop with the Government and other partners a code of practice that will help build in drug control considerations from the design stage on.³⁸

³⁸ Current proposals on a code of practice call for the drafting of *Counter Narcotics Mainstreaming Guidelines*, together with checklist called a *Counter Narcotics Impact Statement* to allow planners to make sure best practice is incorporated.

Box A1: An outline methodology for a “mainstreaming” review of existing activities

Step one: review the activity description and assess the “interface” with the opium economy in terms of possible contributions of the program to the measures of the national drug control strategy, and in terms of geographic location in relation to opium production.

Step two: review the specific ways in which the activity might contribute to the national drug control strategy. These specific ways are analyzed as a series of “entry points”, as follows:

- o Governance and institution building: do governance and institution building under the activity create the possibility at some stage of development of responsible interaction between the state and the population on the subject of drugs?
- o Dialogue, information, education, communication: within the governance and institutional set up of the activity, is there scope to conduct dialogue or transmit information, education and communication about drugs?
- o Living standards and livelihoods: does the activity contribute to improvements in living standards and incomes, and can this contribute to achieving “alternative livelihoods” in drug producing areas (or potential drug producing areas)?
- o “Do no harm”: is there a risk that the activity may promote drug production and how can that risk be managed?
- o Conditionality: is there drug-related conditionality in the activity – or should there be?
- o Targeting: does the activity target a particular geographical area or segment of the population, and is there a case for targeting actual or “at risk” opium producing areas and households? Is such targeting desirable, and if so feasible?.
- o Coordination of development activities: is the activity coordinated with other development efforts to avoid overlap or gaps and to achieve a critical mass of impacts on livelihoods at the local level that would increase the attractiveness of licit activity over opium production?
- o Coordination with the national drug control strategy: is the activity coordinated or linked in any way to the National Drug Control Strategy or the Counter Narcotic Directorate at either central or decentralized levels? Is the sector concerned coordinated with the national drug control strategy, or vice versa? How would the activity work in phase with any law enforcement activity?
- o Monitoring and evaluation: how would any agreed contribution of the activity to national drug control objectives be monitored and evaluated?

Step three: assess the feasibility, benefits, costs and risks of “mainstreaming”

Mainstreaming ideas for programs

Based on a review of selected programs³⁹ using the methodology outlined in Box A1, possible ideas for mainstreaming have been identified for further consideration. The project by project sheets appended to this note give details of the underlying analysis. The ideas are summarized below, organized under the respective National Development Programs.

³⁹ Programs were selected for this first round exercise on the basis of their likelihood of contributing to drug control objectives. It is quite possible that current or future operations (e.g. in finance, public administration, transport) could also be appropriate mainstreaming candidates.

(1) Education NDP

Education Quality Improvement Program (EQUIP): \$35.0 million grant approved July 29, 2004

EQUIP objectives are to improve educational inputs and processes; drug control is not mentioned in the project documents. However, the project is squarely placed in a philosophy that “education is a development activity” that should be “oriented towards the country’s social, economic and political development and the longer term interests of the learners and society.” The education delivery system is clearly a high-potential mechanism for developing civic responsibility and institutions, and for forming beliefs, key elements of the “governance” component of the drug control strategy. In addition, EQUIP’s overall “community driven development” (CDD) approach and its emphasis on decentralization, on parental involvement in PTAs and School Management Committees, and on the teacher as the system’s most critical resource, indicate a number of possible entry points for mainstreaming the counter-narcotics dimension. The use of NGO facilitators in most provinces could bring needed experience and flexibility in adapting and delivering programs.⁴⁰

The first step would be, at the level of the Education NDP, to discuss and agree on a possible approach to mainstreaming the counter-narcotics dimension in the education sector in general and in EQUIP in particular.

- o At the level of the EQUIP program, consideration could be given to the following first-round entry points:
- o Use the CDD approaches and the community-based institutions developed under EQUIP to initiate a structured dialogue and information transmission regarding drug control at the community level, starting in one or two provinces on a pilot basis, facilitated by a responsive NGO partner. Evaluate and scale up if successful.
- o Develop an appropriate secondary school curriculum item in the teacher training program, again starting in one or two provinces on a pilot basis, using a responsive NGO partner. Again, evaluate and scale up if successful.
- o Agree on drug control themes to be developed in the national secondary school civic education curriculum and the writing of appropriate text book chapters.
- o Design basic indicators linking EQUIP actions to appropriate indicators related to the counter-narcotics strategy, as appropriate and feasible

The process could begin during supervision (next supervision mission December 2004).

Policy Note on Skills Development (FY05)

Given that skills development is a key objective of the economic development component of the drug control strategy, this policy note provides a good entry point. Consideration could be given to:

- o Incorporating analysis of the issues of skills training in relation to the opium economy in the Note. Issues identified at the level of the National Development Program include: (i) whether

⁴⁰ One comment on a draft of this report applies to the whole development effort with NGOs: that evidence from the field does not fully support the idea that NGO delivery necessarily builds a “social contract” between communities and government. “Feedback from respondents in Nangarhar suggests that there is a widespread view amongst communities that NGOs are delivering on the ground but the government is doing very little. At the community level the link between government planning and funding is not made with NGO delivery.”

skills training can raise the opportunity cost of labor; (ii) whether targeting is feasible to those with insufficient land or the landless to help poor people meet subsistence needs without recourse to the opium economy; and (iii) whether it is likely that giving priority to skills training will have a significant impact in the opium economy.

(2) Health and Nutrition NDP

Health Sector Emergency Reconstruction and Development Project: \$59.6 million grant approved June 5, 2003.

Community capacity building and governance – still less drug control - are not central Health Project objectives. However, the project contains participatory elements that could provide an opening (two community health workers are selected by each community from among their own members), and health worker/ patient relationships are ones of mutual confidence. Health work also gives privileged access to the less visible half of the adult population (women) and could serve as a channel of dialogue with families. The project largely relies on NGO contractors for delivery, which could bring flexibility in adapting and delivering programs. Finally, drug abuse is a growing health issue. All these factors suggest that the Health Project could provide some promising entry points for counter-narcotics aspects.

The first step could be at the level of the Health and Nutrition NDP, to discuss and agree an approach to mainstreaming the counter-narcotics dimension in the health sector in general and in the Health Project in particular.

At the level of the Health Project, consideration could be given to the following first-round entry points:

- o Train managers and front-line health workers in dealing with opium issues in the community, with consideration to a gender-oriented approach, starting in one or two provinces on a pilot basis, using a responsive NGO partner. Evaluate, and scale up if successful.⁴¹
- o Review of drug issues coming out of the initial household survey and use of the follow up study to deepen knowledge and design approaches. The Health MIS could over time be developed to track basic indicators linking health project actions to drug control indicators
- o Consider piloting a common approach to drugs between the health project and NSP in two provinces (Badghis and Wardak) where the same NGO contractor is implementing both programs

In addition, attention could be paid in dialogue and program development to the deteriorating situation of local drug dependence and the need for a health sector response.

⁴¹ This approach would first require detailed analysis of the specific behaviors to be changed and design of a program to convey the knowledge etc. needed to change behavior.

(3) Livelihoods and Social Protection NDP

Emergency National Solidarity Project (NSP): \$95.0 million grant approved December 23, 2003.

Community capacity building and governance are central NSP objectives, as they are of the drug control strategy. In addition, NSP also has an objective of creating community capacity for self management of development. Government policy is that the Community Development Councils (CDCs) which are promoted under NSP should be empowered as the representatives of the community. The use of NGO “facilitating partners” gives access to a flexible delivery mechanism where partner experience and commitment could allow drug issues to be introduced. NSP is therefore probably the key program for “mainstreaming” both the governance and the economic aspects of the counter narcotics development agenda.

The first step could be to discuss and agree an approach to mainstreaming the counter-narcotics dimension in the rural development and social protection sector in general, and in NSP in particular. This could be through (1) the Livelihoods and Social Protection Consultative Group; and (2) within MRRD, in coordination with other MRRD programs.

At the level of NSP, consideration could be given to the following first-round entry points:

- o Test structured dialogue and two-way information transmission at the community level, starting in one or two provinces on a pilot basis, using a responsive NGO facilitating partner. Evaluate and scale up if successful.
- o Develop an appropriate (positive and negative) menu of “better” and “more risky” sub-projects for drug producing villages, to be deployed in discussing the Community Development Plans.⁴² This could be tested in at least some of the villages targeted for “structured dialogue”.
- o Review the potential of NSP’s communication program – dedicated radio, soap operas, poetry competitions etc – for contributing to counter-narcotics objectives.⁴³
- o Design basic indicators linking NSP actions to relevant counter-narcotics indicators in the livelihoods sphere.

The process could begin either at next supervision or during the MTR scheduled for April 2005. In addition, the Intensive Learning ICR for the precursor project – Emergency Community Empowerment – could be a vehicle for analysis and reflection on mainstreaming. Finally, an AREU study over the next two years, financed by DfID, is to look at issues of local governance, including the respective role of village *shuras* and of CDCs. This could also provide insights on how community institutions might be partners in drug control.

National Emergency Employment Program for Rural Access (NEEP-RA)

⁴² This could include developing a better understanding of potential alternative livelihoods or counter-narcotics impacts of sub-projects and of building this into the process of action planning and project selection. e.g. one may be wary of funding irrigation rehabilitation in poppy growing communities unless support services and markets are available for alternative licit crops. The menu could also include models of income generation, including community income generation (to avoid the problem of elite capture), that could be rolled out under the 'follow-up' grant of NSP.

⁴³ NSP has allocated one hour a day on its radio channel to drug control, but no use has yet been made of this. One commentator also pointed to the Equal Access satellite radio initiative, and to ICARDA's broadcasting work as possible channels of communication.

NEEP's community works program cannot offer a complete "livelihoods package" but they contribute to income generation, one of the central planks of the alternative livelihoods component of the drug control strategy (see Box A1). NEEP's wage rates cannot compete with seasonal rates in the poppy business, but current developments on social targeting and the serious intent of the NEEP conditionality on opium leave some room for maneuver, as discussed below.

The first step would be to discuss and agree an approach to mainstreaming the counter-narcotics dimension in the rural development and social protection sector in general, and in NEEP in particular. This should be through: (1) the Livelihoods and Social Protection Consultative Group; (2) NEEP's Inter ministerial Board; and (3) within MRRD, in coordination with other MRRD programs.

At the level of NEEP, consideration could be given to the following first-round entry points:

- o Structured dialogue and information transmission on opium at the community level, starting in one or two provinces on a pilot basis, using the participatory planning process recently initiated as a starting point. (This would reinforce the recommendation of the recent paper "*NEEP: Experience, Outcomes, Modalities*" that partnerships with target communities should be strengthened).
- o Using the participatory planning process and its aggregation at provincial level to target drug producing areas with access roads as part of a systematic approach to opening them up to alternative market possibilities.
- o Introduction of an "opium lens" into the studies and surveys to be carried out under NEEP-RA, specifically:
 - the studies on appropriate wage rate levels could look in detail at the question of seasonal variation in labor demand and wage rates in opium producing or labor supplying areas
 - the transport studies for planning and assessment of the impacts of interventions could investigate the linkages between development of farm to market roads and trends in opium production
 - the studies of livelihoods strategies and coping mechanisms could look in detail at what sort of job creation product could influence the decision of poor people to enter or exit the opium economy
 - opium production and trends could be overlaid on the inventories of rural roads and irrigation infrastructure to detect correlations

Microfinance Investment and Support Facility for Afghanistan (MISFA)

Creating sustainable financial markets for poor people is the central MISFA objective, and this is likely to be an important element in developing sustainable alternative livelihoods. Several factors make MISFA institutionally a relatively high-potential mechanism for addressing opium economy issues: (1) implementation is through experienced, flexible and committed NGOs capable of diagnosing and responding to problems and opportunities; (2) MISFA encourages and finances innovation and piloting and can underwrite the cost of higher-risk programs; (3) MISFA is part of the MRRD family of projects and so operates within a culture and management that could foster "mainstreaming"; and (4) much of the likely credit rollout will be by participatory and group institutional structures that depend on the growth of responsibility. Thus prima facie,

MISFA is a high potential candidate for “mainstreaming”. The apex and NGO provider structure and the built in possibility of experimentation create a space in which the specifics of financial markets as a way out of the opium trap can be studied and tested.

The first step is to carry out a consultancy on rural finance in relation to opium (proposed for November 2004), and then to discuss this topic exhaustively at the proposed workshop on rural finance and opium (December 2004).

The ideas emerging from the workshop could form the basis of MISFA support to relevant financial market development.⁴⁴ The reactions, and ultimately the commitment of the MISFA team and of the NGO implementing partners, will be key, and any approach to mainstreaming needs to be deepened through close dialogue and consultation. The commitment of MRRD is also vital, although this may be of less importance as MISFA becomes a legally independent private sector organization.

(4) Natural resources NDP

Emergency Irrigation Rehabilitation Project (EIRP): \$40.0 million Credit approved December 23, 2003.

The EIRP objective is to improve farmer access to water. The project lacks an apparatus for building up water user associations or helping improve productivity. Thus prima facie EIRP is not a high potential candidate for developing governance or even for influencing alternative livelihoods choices. On the other hand, irrigation development creates a risk of aiding opium production, and therefore it would be important to develop an approach to at least manage that risk.

The first step would be, at the level of the Natural Resources NDP, to discuss and agree an approach to mainstreaming the counter-narcotics dimension in the irrigation sector. This approach would need to be developed jointly with the several other external financiers of the irrigation sector (USA, EC, ADB).

At the level of EIRP, consideration could be given to the following first-round entry points (in increasing order of difficulty):

- o Maintaining the “do no harm” clause in the agreements with farmers (which is not currently being included in the memorandum of understanding signed by beneficiaries).
- o Phasing investments so that non-opium producing perimeters are rehabilitated first
- o Linking EIRP to support services that will allow farmers to adopt a non-opium cropping pattern.⁴⁵
- o Strengthening the institution building under EIRP (for Water User Associations – WUAs).
- o Excluding from the program perimeters where opium is plainly being produced;
- o A full social mobilization and dialogue approach about opium with WUAs (and/or CDCs)

⁴⁴. MISFA may not be the only framework for addressing rural credit needs. Larger loans are needed for agricultural enterprises or SME development. Also, the instruments and institutions to tackle opium-related debt need to be explored further. These issues will be the focus of discussion at the December 2004 workshop.

⁴⁵ One reviewer of this paper underlined that this is a particularly important issue for the design stage, and should be flagged for future operations in irrigation. The issue also raises the broad question of ways to revive the agricultural economy in general, which is perceived by many to be a lacuna in the development effort to date.

Opium aspects could also be included in the baseline surveys to be undertaken.

Some lessons drawn from the review

Lessons for mainstreaming the counter-narcotics dimension into development programs

A number of general lessons for mainstreaming counter-narcotics strategy into development programs emerge from the review:

Governance is an element of mainstreaming, but the model should not be overloaded. The role of building governance, responsible citizenship and the “social contract” has been neglected hitherto in the discussion of mainstreaming, which has focused rather on economic aspects and “alternative livelihoods”. Yet governance is vital: it is the means by which communities and the state are bound together. Government has adopted a broad “community driven development” approach (CDD) and through NSP is developing Community Development Councils as the heart of its rural governance strategy. This is an attractive and plausible route, but as yet untested and located in a landscape in which social and political fragmentation and a wide range of countervailing forces make such socio-political engineering difficult and vulnerable. The first lesson is that mainstreaming should definitely follow this approach, giving priority to MRRD programs and others following the CDD approach, and factoring in the CDCs which are the heart of the new governance model. The second lesson is that care, piloting and good M+E are needed, in order to judge how much load these structures can take, and with what sequencing. It will be vital to avoid compromising good development programs by too aggressive an approach on drug control.

Dialogue and “information, education and communication” (IEC) have potential but investment will be needed to exploit this route. The governance entry point opens up a number of possibilities: essentially wherever the state and the development delivery mechanisms interact with citizens in positions or structures that create a responsible relationship, messages can be passed that will eventually contribute to the growth of a responsible attitude to drugs.⁴⁶ Parents in a PTA or a school management council, mothers in a health clinic, elders in a *shura*, delegates in a Community Development Council, borrowers in a savings and loan association, irrigators in a water user association – all can interact with the state in a responsible and mutually beneficial relationship, and all are susceptible to education, awareness etc. However, little attention has been paid to these relationships so far. It is not clear yet what should be the messages, how will they be prepared and by whom, what are the interactive structures that can transfer the messages to the delivery vehicles, how will front line communicators be trained and supported etc. The lesson is that action is possible and desirable on dialogue and IEC, but sound preparatory work, decisions and investment will be needed to make it effective.

*Development of alternative livelihoods is key, but more focus is needed on income generation.*⁴⁷ Most programs provide for public goods, social protection and human capital development. There are some programs (e.g. USAID’s RAMP program) which deal specifically with income generation: e.g. credit, agro industry, markets, skills development, but the impact on the ground is very limited. Yet unless the rural economy can grow substantially, the chances of reducing drug

⁴⁶ Drug control through (inter alia) growing governance has some track record e.g. in Bolivia, where ultimately a shift in public attitudes has made a contribution to marginalizing drug traffickers. The history of Afghanistan in the last thirty years shows the overwhelming power of beliefs to influence behavior.

⁴⁷ One comment made on a draft of this report was that income generation in general needs more emphasis in the counter narcotics effort relative to the governance/social/education issues. Income generation is clearly of the first importance, but entry points are limited at present.

production are slim. The lesson is that more focus is needed on the development of income generation (and related risk reduction), both in agriculture and off-farm. Key areas to explore are: the business environment for agribusiness and agro-industry, market development, rural finance, technology transfer, and skills training.⁴⁸

The principle that development projects should at the least “do no harm” will require attention to high-risk activities like irrigation. At the least, development activities must neither condone nor promote drug production. For some activities such as irrigation development or rehabilitation, this poses a real problem, as most opium production is irrigated yet the programs in place give little or no leverage over subsequent cropping patterns. There is no easy answer to this problem, but the lesson is that it should be tabled for policy makers, discussed in the light of ground realities, and addressed in the programs and projects concerned.

Conditional development has failed, but a “no harm” condition may be more than just a fig leaf for Government and financiers. Conditionality has been used in two ways in drug control. The approach of “conditional development” – bartering project benefits for a commitment to phase out drug production – has proved not to work and is not now recommended in Afghanistan. The second approach – of requiring the relevant community institution to agree that project-financed assets will not be used for drug production – is used in several Bank-supported projects, in support of the “do no harm” principle. Some view the condition as unenforceable, and see it as no more than a fig leaf for the reputation of Government and financiers. Others view it as the necessary minimum basis for the social contract: in bringing real benefits to rural communities, the Government has the right to be clear about its expectations from responsible citizens. On this interpretation, even if not enforced, the condition provides clear information and a secure legal and moral basis for dialogue. The lesson again is that the issue should be tabled for analysis, discussion and decision, so that a Government policy is developed which can guide all partners.

Targeting special benefits to – or away from – drug producing areas has failed, but programs can be “tailored” to the specific problems and possibilities of drug producing areas. Like conditionality, targeting may be used in two ways in support of counter-narcotics strategy. Targeting drug producing areas with massive development aid in the hope of weaning producers off opium has proved not to work in Afghanistan. It has produced no discernible result in the target area, and has created perverse incentives in other areas. The opposite approach – targeting non-producing areas, depriving producing areas – is inconsistent with the agreed counter-narcotics strategy of providing alternative livelihoods for opium producers. Thus the consensus is that the development effort should not be targeted specifically at or away from drug producing areas. The second approach – to adapt dialogue and investment packages to drug producing areas – is, by contrast, at the heart of the mainstreaming approach. The lesson is that national programs like MISFA should not discriminate for or against drug producing areas but should take account of their specific characteristics and differing needs. Programs can be “tailored” to the particular problems and opportunities of those areas.

Coordination is a major preoccupation – one possible approach is that from the top, MRRD could be a focal point for mainstreaming, and from the bottom the CDCs could play a major role. In the hectic and fragmented conditions of Afghanistan, coordination is a major preoccupation. It is of particular concern for counter-narcotics strategy, where the model requires the steady and even delivery of the development effort, both on the governance and on the economic side. The difficulty is at all levels. At the national level, a plethora of inter-ministerial committees exist, but programs are still not very well coordinated. At the provincial level,

⁴⁸ For agriculture, the recent World Bank economic report (Chapter six) identified four key areas: irrigation, research and extension, marketing, and rural finance.

various initiatives (NABDP, ASP, PRTs) have not yet solved the problem. At the local level, CDCs may have the potential to drive coordination from the bottom up, but they are still in their infancy. The lesson is that coordination should indeed be given emphasis, but that rather than create yet more coordination structures, the existing ones that seem to work better should be given priority. Two specific “mainstreaming” entry points could be considered. First, from the top down, MRRD could be the locus of a better coordination effort on development aspects of the counter-narcotics strategy and more specifically mainstreaming – this is because MRRD manages four programs that have high potential of contributing to efforts against drugs: NSP, MISFA, NABDP, NEEP (and soon rural water and sanitation), and already coordinates these programs in various ways. MRRD’s attitude would depend on the attitude of its decision makers, which has been generally supportive (see Box A2). Second, from the bottom up, the CDCs could be taken as the principal interlocutor for the overall development effort – and in due course for dialogue on drug reduction.⁴⁹

Coordination of development with the overall counter narcotics effort, particularly law enforcement, is difficult and risky, and should perhaps stay on the level of information exchange for the time being. A key issue in mainstreaming is how the development efforts – governance, economic development – are matched with law enforcement, and how the overall drug control process is coordinated. Many development partners are unwilling to see any links between development activities and law enforcement. This is partly for practical reasons: at the field level, links to law enforcement would patently endanger both staff and the feasibility and viability of development actions. The unwillingness is also partly for reasons of principle: many agencies believing that law enforcement on the production side (e.g. eradication) should be concentrated only on “abusive” farmers (the bigger ones), and should in general follow a (probably quite long) period of development (until “alternative livelihoods are available” as stated in the national strategy). Current Government policy is to pursue eradication on a relatively large scale. While there is some apparent intention to target larger farmers, the Government admits that this is very difficult in practice and that the process is likely to be “messy”. Under these circumstances any overt association of development programs with counter narcotics strategy is likely to be high risk and unacceptable to most donors. The lesson is that caution should be exercised at all levels over any linkages between development and counter narcotics, but that development partners should stay involved in fora where broader strategic issues including law enforcement are discussed (e.g. the Counter Narcotics Steering Group), so that their perspectives and views will be part of the discussion.

A monitoring and evaluation system is needed to track contributions to the counter-narcotics strategy and to measure impacts. At the project level, the first-round mainstreaming review has identified some indicators relevant to both the project itself and to the counter-narcotics strategy, but how these will feed into a higher level of monitoring and who will do this is not clear. The lesson is that monitoring and evaluation at both project and strategy level are needed. Indicators should reflect the fact that mainstreaming relates to the development challenge, and that “development programs should not be held accountable for poppy reduction” (see Box A2). The time is right to start work on a series of “proxy indicators” and on the monitoring system proposed in the June 2004 workshop.⁵⁰

What can we learn about the mainstreaming process from this first round exercise?

⁴⁹ Addressing the development and dialogue effort principally through the CDCs need not preclude or limit efforts to use other channels (PTAs, School Management Councils, WUAs etc). The intended effect is “symphonic” - all play together and the CDC is the conductor.

⁵⁰ In the June 2004 workshop (see above) it was agreed that work should be done to develop a monitoring and evaluation system.

The exercise has shown that mainstreaming is possible in many programs. Moving toward implementation will need commitment from the principal development partners, as well as careful analysis and sound design work. In this, there is a need for committed agencies to be pro-active, to seek out and listen to Government partners, donor agencies, and especially the implementing staff directly concerned.

At the level of programs, projects, analytical work etc., there are many entry points. Some are strictly livelihoods entry points, others are broader development issues of governance, dialogue, civic consciousness, education.

**Box A2: Main points from an informal mission debriefing with
Minister Haneef Atmar, MRRD**

(present: Haneef Atmar, Bill Byrd, Chris Ward)

The mission presented the main lines of findings and recommendations. Minister Atmar:

- o Agreed with the broad concept and approach of mainstreaming presented.
- o Insisted that development measures will not reduce poppy without adequate law enforcement.
- o Emphasized that development programs should go ahead full speed nationwide without specific targeting to poppy areas. “Development and poverty reduction can only have a good impact”.
- o Argued that development programs should be judged by their contribution to livelihoods. Any attempt to bind development programs to poppy reduction targets should be resisted, although “proxy indicators” could be developed. It is law enforcement programs that should be judged by a poppy reduction criterion.
- o Fully agreed that development programs should be “tailored” to the specific situations in drug producing areas.
- o Agreed that mainstreaming in national programs is essential but should be approached with caution. NSP, for example, is in part driven by the need to respond to drought and the plight of returnees. We should assess carefully the implications of “loading it down with a third driver” and avoid anything that makes programs or staff more vulnerable.
- o Underlined that the “buy in” of the NGO providers is essential. Their appreciation of practicality and of the security implications is vital.
- o Fully endorsed what he called the “third way” of drug control (by this he meant governance/education etc., in addition to the two classic instruments of economic development and law enforcement). He saw especial strength in CDCs which in the longer run could take a role in: (1) rural finance; (2) extension work; (3) literacy and education (and here he specifically emphasized the possibility of drug reduction themes and dialogue); and (4) public health.

There is enough knowledge and agreement on the approach to start drafting and getting agreement on the proposed mainstreaming tools: the *Counter Narcotics Mainstreaming Guidelines* and the *Counter Narcotics Impact Statement*, and then to pursue the analysis and put it into action. A timetable could be envisaged (see below).

There is evidently some risk attached to mainstreaming the counter-narcotics dimension into development projects, especially in the fragile conditions of Afghanistan. This calls for a cautious approach relying on piloting. However, it seems clear that the benefits of going ahead with well thought-out mainstreaming outweigh the risks.

The mainstreaming concept and approach should be presented for endorsement to the Counter Narcotics Steering Group, and the exercise on the implications of mainstreaming for each of the NDPs could be worked out, discussed and agreed with the respective CGs

Finally, the upcoming Public Expenditure Review and possibly the I-PRSP provide opportunities to improve information and pursue the process of mainstreaming with development partners.

Next steps

The following next steps are proposed:

- November 2004 Discuss the mainstreaming ideas and analysis with the Alternative Livelihoods Working Group
- Discuss ideas with key development partners, especially NGOs and other implementing partners.
- December 2004 Prepare a first draft mainstreaming code of practice (guidelines and impact statement) and discuss (a UNODC organized workshop is proposed)
- January 2005 Select several programs for mainstreaming⁵¹ that could have a high impact and follow the “sequence” set out below. These programs could include:
- o the MRRD “cluster” of programs, especially NSP and MISFA, and possibly NEEP
 - o EIRP
 - o EQUIP
- During 2005 Follow a “sequence” of steps towards mainstreaming for the programs selected:
- Discuss mainstreaming possibilities with Government and other development partners, including at the level of the relevant CG
- Discuss mainstreaming possibilities with the project agency and implementing partners
- o Review feasibility during supervision or MTR, designing a pilot phase if necessary and developing a relevant M+E package

Source: Note on “Mainstreaming” Counter-Narcotics Strategy (World Bank mission report by Christopher Ward)

⁵¹ One comment on a draft of this report was that priority should be given to the “economic programs” that might have influence on farmers’ production choices: irrigation, credit, agriculture, technical training etc..

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