Graduate School of Development Studies

Official Development Assistance (ODA) and Economic Growth in Afghanistan

A Research Paper presented by:

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(Afghanistan)

In partial fulfilment of the requirements for obtaining the degree of
MASTER OF ARTS IN DEVELOPMENT STUDIES

Major:

Economics of Development
(ECD)

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The Hague, The Netherlands
Dec 2014

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Acknowledgements

I want to thank Dr John Cameron for his insightful ideas and guidance for successful completion of my Research Paper. Secondly, I want to extend my heartfelt gratitude to Dr Howard Nicholas, for his enormous inspiration, enlightening comments and relevant suggestions while working on my paper. Many thanks are also due to Dr Rolph van der Hoeven, Dr Peter Bergijk for providing me with insights on my topic during their lectures.

I am also thankful to Marja de Clercq Zubli and Marianne van Dieren for their regular updates and kind responses. I thank my parents, brothers and sisters and all family members for their continuous support in Afghanistan and the Netherlands. I want to thank all ECDers and friends in ISS and in Afghanistan. Finally I want to thank the Dutch government for the fellowship, which allowed me to study at the ISS.

Mohammad Rahman Fazily
The Hague, The Netherlands
December 2014

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List of Acronyms

ADB	Asian Development Bank
ANDS	Afghanistan National Development Strategy
ARTF	Afghanistan Reconstruction Trust Fund
CIA	Central Intelligence Agency
CSO	Central Statistic Organisation
DAC	Development Assistance Committee
ERP	European Recovery Plan
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
ISAF	International Security Assistance Force
ISNs	Interim Strategy Notes
JICA	Japan International Cooperation Agency
LDCs	Least Developed Countries
MoF	Ministry of Finance
MoITC	Ministry of Information Technology and Communication
MRRD	Ministry of Rural Rehabilitation and Development
NGOs	Non Governmental Organisations
NRAP	National Rural Access Program
NSP	National Solidarity Program
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PRT	Provincial Reconstruction Team
SAF	Securing Afghanistan Future
SIGAR	Special Inspector General for Afghanistan Reconstruction
TSS	Transitional Support Strategy
UK	United Kingdom
UN	United Nations
UNAMA	United Nations Assistance Mission in Afghanistan
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
US	United States
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organisation
WWII	World War Second

Abstract

The extent to which foreign aid has a positive impact on economic recovery and development of conflict-affected countries remains controversial. In 1987 Paul Mosley noted that a positive impact of foreign aid is difficult to identify (Mosley 1987).

This research paper has two main objectives. First, we attempt to provide a balanced assessment of the aid-growth literature. Second, attention is given to empirical data. Using these data, we realize that we make assumptions, which are highly debatable, both in theory and in practice. In this paper the aid-growth debate is framed in terms of potential and real outcomes and do we take information obtained from program evaluation through interviews in Afghanistan as valuable data for our assumptions and recommendations.

The Official Development Assistance (ODA) and its impact on economic growth is evaluated for a selected group of countries, this provides the background for a thorough investigation of the ODA management practices of the bilateral donors, multilateral donor institutions and NGOs. Corruption is found to be of less influential in the aid-growth equation. The Afghanistan case study reveals that for various reasons investment in infrastructure and production was not sufficient to consider ODA a success. Data in other conflict-affected countries also suggest that import of capital goods and intermediate goods and the construction of paved roads may have been the reason for limited economic growth recovery. Therefore, a focus on investment in infrastructure and production are recommended over politically engineered short-term projects satisfying the needs of foreign donors.

Relevance to Development Studies

Over the last decades international development cooperation has received quite some criticisms. Official development assistance (ODA) is seen by some inefficient and by others as a waste of money. Some argue that aid has a negative impact, in some cases even acts as a brake on development and recovery. This criticism requires researchers in economic development studies to reflect on the recent cases of ODA. The tone of criticism is harsh but the debate has not changed much; yet, despite the criticism, ODA remains a key policy instrument in aid-growth relations. In evaluating and comparing the results and impact of ODA on economic growth lesson are to be learned.

Therefore, our case study of Afghanistan and a comparison with other conflict-affected countries receiving ODA provides new perspectives to researchers in their analysis of aid-growth literature, in order to identify appropriate strategy policy options. We propose a focus on investment of ODA in infrastructure and production instead of politically engineered short-term projects satisfying the needs of foreign donors. Due to the impact on economic growth, ODA will have a greater impact on the recovery of economic growth in conflict-affected countries.

Keywords: Official Development Assistance, Economic Growth, Gross Domestic Product, Afghanistan, Conflict-Affected Countries

Chapter 1

Introduction: The Overlook Question

1.1 Background

Official Development Assistance (ODA[1]) and economic growth[2] are issues of central importance to policy makers and a main concern of developmental organisations. There are enormous controversies whether ODA contributes in the recovery of economic growth of conflict-affected countries or not? This question is fundamental in economic decision-making and it is the search for to reinforce and respond, that drives this analysis.

There is a wide variety of scholarly research studying the impact of ODA on economic growth. In this respect the present paper is no exception. Besides a contribution to theory and empirical findings, this research with a focus on Afghanistan provides an analysis, which can be compared with six[3] post 1970 conflict-affected countries.

Conflict (either internal in the form of civil war or external in the form of invasion by any other country) destroys infrastructure, deteriorate economic growth, badly affects investment, savings, and capital finance or in short destroys production. Goldstein (2003) concluded that conflict is very expensive; it annihilates capital finance and other resources. It destroys financial and human capital as well as production due to destruction of savings, investment and infrastructure. Similarly, Collier (1999) suggests that GDP growth rate in a country experiencing war falls by 2.2% for every year the war continues. Abadie and Gardeazabal (2003) claim that GDP per capita declines with 10% during conflict and the impact of conflict on the economy is highly negative.

Besides all ruins that a conflict causes to an economy, capital formation and economic growth are most expensive ones to recover. Restoration of destroyed pillars of the state, especially recovering economic growth, is not only difficult but sometimes beyond the capability of conflict-affected economies due to absence of internal financial resources. This is the time when exogenous intervention or international assistance particularly official development assistance (ODA) seems necessary to stimulate the economy. It is notable that, for various reasons international organizations, NGOs and rich countries take part in the recovery of conflict-affected countries and provide their assistance either through bilateral or multilateral policies.

There has always been some exhilaration about the importance of ODA in relation to its contribution to growth. For that reason economists have been suggesting to reserve a certain percentage of the national budgets for contribution to economic growth in conflict-affected countries and poor nations. A Dutch economist Jan Tinbergen initially proposed 0.75% of GNP in 1964 to be allocated for economic growth of poor or fragile states but in 1969 many developed countries only approved 0.7% (DAC 2002). Jaffrey Sachs, an influential expert in development assistance emphasized that ODA could lift poor nations out of hunger, disease and the poverty trap. Moreover, ODA could

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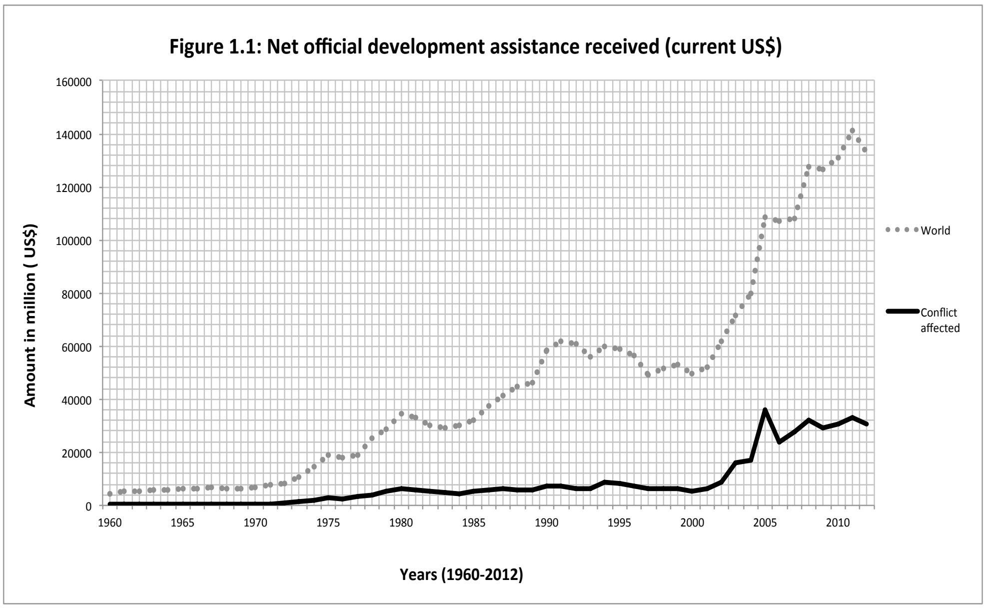
[1] Development Assistance Committee (DAC) defines ODA "as financial flows, technical assistance, and commodities that are (1) designed to promote economic development and welfare as their main objective (thus excluding aid for military or other non-development purposes); and (2) are provided as either grants or subsidized loans as cited in (Radelet 2006: 4)".

[2] Growth in this paper means, the average annual growth rate of per capita GDP. Source: (Collier and Dollar 2004)

[3] The six post conflict countries are EI Salvador, Eritrea, Ethiopia, Mozambique, Nicaragua and Uganda

save the lives of millions and put poor nations on the right economic growth path. Therefore, developed nations continue their commitment to allocate 0.7% of their GNP for growth (Sachs 2005).

Data collected by the World Bank indicate that between 1960 and 2012 2.44 trillion USD have been given to developing countries as net official development assistance. Only 0.45 trillion USD of this amount is allocated to conflict-affected-areas (see Figure 1.1).



Source: Author's construction from data source: World Bank (2014)

Although in most of the conflict-affected countries billions of dollars were injected, many economies are still struggling with regard to economic growth, even after more decades of assistance. They are counted among the least developed nations and are considered to be very fragile states. These countries are dependent on ODA and in absence of ODA they are not even capable of running the most simple governance services and policies.

Nevertheless, the arguments on how ODA can boost economic growth of conflict-affected states have been at the center of hot debates among economists. Most of the contradictory arguments come from a group of economists claiming ODA cannot contribute to the recovery of economic growth. Moyo (2009) has argued that ODA has not supported economic growth and in many cases has caused growth stagnation.

But on the other side of the coin, it is very clear that post WWII conflict-affected economies like West Europe, South Korea, Japan, Taiwan and many others have experienced impressive long-term GDP growth rates. However, countries that were victims of post 1970 conflicts are still suffering with a very slow recovery of economic growth. It is difficult to differentiate between both categories, as they were all recipients of ODA.

Hardly ever has it been easy for countries to achieve economic growth especially conflict-affected economies. ODA is widely considered crucial in recovery process. Insight in the effectiveness and efficiency of ODA is an issue in all discussions. Therefore, developing criteria to assess the management of ODA in historical situations, as far as data are available, is necessary. In this paper we try to develop some criteria and test their credibility.

1.2 Objective of the Study

This paper aims to investigate the impact of ODA on economic growth in conflict-affected countries, more particularly in Afghanistan. In another words, what could ODA contribute to Afghanistan's economic growth after 2001? The paper also attempts to look at the starting point in six post 1970 conflict-affected countries and subsequently places this point of departure in the Afghanistan setting for comparison. Afghanistan fits the topic of this research, as it became the recipient of ODA at the start of the 21th century. The paper focuses on what the ODA in Afghanistan is used for and how it is used.

Despite the vast literature dealing with the impact of ODA on economic growth, there are few case studies that focus on the importance of ODA in the conflict-affected economies. This paper tries to fill in this gap and will be a very small and petty contribution to the existing literature. The logic of this RP originated from the observation that conflict destroys infrastructure and production in a country. Financing investment stimulates the recovery of infrastructure and production, in case financing is internally absent, recovery of production will only be possible through external financing, more specifically, via injection of ODA.

1.3 Research Question and Research Conclusion

1.3.1 Research Question

What does ODA contribute to the recovery in economic growth of conflict-affected countries?

1.3.2 Research Conclusion

In answering the question what Official Development Assistance (ODA) can contribute to the recovery of economic growth in conflict-affected countries, we found that ODA can achieve a strong impact when used for the recovery of infrastructure and production.

Our exploratory review of countries, Afghanistan included, revealed that ODA is a major factor in reconstruction of conflict-affected economies. Analytical tools used to assess the management of ODA are the level of import of capital and intermediate goods and the progress in rebuilding roads.

ODA without closely monitoring its efficiency and results for infrastructure and production is not a solution for economic growth recovery. It would rather reduce ODA to a short-term tool to boost economic recovery without arriving a sustainable level of GDP growth.

1.4 Data, Methodology and Approach

The data for this study have been collected from both primary and secondary sources. For describing and analyzing six post 1970 conflict-affected countries, secondary data have been used. The time frame covers 1993-1997, 1998-2002, 2003-2007 and 2008-2012. The time frame for Afghanistan is 2003-2007 and 2008-2012. The collected data were retrieved from the following sources: World Bank, IMF, OECD, World Development Indicators, the country specific data on Afghanistan were retrieved from reports and the Afghanistan Ministry of Finance and Ministry of Economy.

For the specific case study and analysis in this paper both primary and secondary data were also collected from interviews with officials and experts during fieldwork in Afghanistan. The data in this research paper are qualitative and quantitative; therefore the analysis employs mixed methods. It uses tables and graphs in order to respond to the research question.

Six conflict-affected countries were selected taking into account the duration of conflict and the start as well as end of conflict. The case study Afghanistan is chosen for specific analysis. It is chosen due to the fact reason that it is the biggest recipient of ODA in the 21th century. The negative consequences of conflict are described in the background chapter and the following chapters analyse the contribution of ODA in recovery of economic growth. The ODA % of GDP per capita has been compared with annual average real GDP per capita in the recovery period. Similarly, the data collected on the basis of interviews are analysed.

1.5 Scope and Limitations

This study aims to find out what ODA contributes to the recovery of economic growth of conflict-affected countries. It is already mentioned that conflict destroys production, as data of conflict-affected economies are very scarce, GDP is the only indicator that shows how much production has recovered. Due to the limits of time and space set for this research paper the impact of ODA on other macro-economic indicators such as poverty, unemployment, inflation, and exchange rate has been excluded from the explorations, the focus of this paper is on only on one indicator: economic growth.

In addition, the methodology and size of this study is limited which does not allow for addressing the influence of other factors rather than ODA, affecting economic growth in recovery period of conflict-affected economies. This research will only analyse ODA and excludes other forms of international assistance such as emergency aid and humanitarian aid. Studying of ODA includes any bilateral or multilateral assistance for the purpose of development.

1.6 Structure of Paper

After an introduction in the first chapter, the second chapter of this paper critically reviews the literature on the subject, taking into account both theoretical and empirical studies of ODA financing growth and considering the institutional factors of the recipient economies. Chapter three presents wartime economic performance of six conflict-affected states and Afghanistan. The development of the economy will get special attention; particularly economic growth during conflict and this procedure will be used to assess the negative economic consequences for the Afghan economy at wartime and will be developed further with an overview of policy attitudes of donors and Afghan government with regard to allocation of ODA. In the fourth chapter, the paper presents the impact of ODA on growth performance of six conflict-affected countries considering the differences in the level of ODA of each country. The key control would be a comparison between those countries that received ODA with others that have not received any ODA in the recovery time. Furthermore, the chapter analyses the role and importance of the institutional environment with regard to ODA's impact on economic growth. The case of Afghanistan is analysed in chapter five along with an analysis of the findings obtained from interviews. In Chapter six conclusions will be drawn and a policy recommendation will be suggested about the extent of ODA and economic growth.

Chapter 2
Literature Review

In its first section, the impact of ODA on economic growth is discussed, subsequently; reviews of the debates about the impact of financing on economic growth will follow. For the purpose of this paper, financing refers to external finance by Official Development Assistance (ODA) that comes from bilateral and multilateral or non-governmental organisations. It is argued that ODA will be most beneficial in conflict-affected economies in which good policy and institutional environment are present; the final section of this chapter will analyse this issue and present conclusion at the end.

2.1 ODA Nexus Growth

Financial capital as resource for investment is very essential and important for economic growth. It plays a positive role in economic growth of developing and conflict-affected countries. The main reason for its positive role is the fact that conflict-affected economies have inadequate private and public savings to allocate to investment in their economy. Furthermore, in conflict-affected societies macro-economic policy is destroyed. Therefore, ODA has very important and considerable impact on growth as it fills the savings-investment gap and the provided financial investment then enhances economic growth (Chenery and Strout 1966). Erixon (2003: 27) has pointed out the importance of ODA as an external resource for investment: "The logic of this new development theory was simple: investments are determined by savings – and savings are determined by per capita income. Since poor countries have low incomes and accordingly, low savings, they are caught in a 'vicious circle of poverty': they experience a 'low-level equilibrium trap' where higher income does not lead to increased savings but only results in higher population growth. Thus, it was argued, investment financed by foreign assistance will dissolve this vicious circle and connect LDCs to the virtuous circle of productivity and growth".

Since Erixon presented his point of view, the issue whether ODA contributes economic growth or not is very hot in today's economic debate. In a description of the present status of the debate there are three different schools of thought about aid 'more aid,' 'problem aid,' and 'conditional aid' (Tierney et al. 2011). The most influential arguments in the debate vary from the perspective that ODA is an important source for economic growth to the point of view that there is negative relationship between ODA and economic growth (Easterly and Easterly 2006; Moyo 2009; Doucouliagos and Paldam 2009 and Lacerda Prazeres 2010).

Jeffery Sachs the most dominant economist in the field of development assistance argues that most of the developing countries including fragile and conflict-affected economies have fallen in the poverty trap as well as negative economic growth, will not be able to find their way out, unless a scaled up development assistance will be implemented to reach the target (Sachs 2005). Furthermore, he adds that development assistance organisations need to double the amount of ODA and, therefore, he calls for a 'big push' in order to put them back on a growth track.

But on the other hand those that oppose ODA argue that ODA has failed to promote growth, moreover, it has harmed the growth of many countries

(Easterly and Easterly 2006 and Moyo 2009). Easterly refutes the statement of Jeffrey Sachs and claims that the growth of countries in the recent past was not due to flow of ODA, but to other factors contributing to the growth of their GDP. Likewise, other studies show that, ODA is not able to support economic growth at all (Easterly and Easterly 2006; Murphy and Tresp 2006). Easterly together with Moyo, stress that ODA is not beneficial for the growth and actually works to stagnate economic growth. They refer to a variety of reasons: (1) ODA causes increase in consumption, savings falls and damages investment, (2) ODA causes inflation, (3) ODA decreases export and (4) causes limitation in absorbing huge cash inflows. When ODA comes in, savings decrease leading to a fall in investment. Inflation, resulting from ODA, happens because ODA is not saved to generate investment but is simply consumed. As a result the higher demand in consumption raises internal prices of foodstuff and imported items. Moreover, Easterly argues that ODA decreases the volume of export. Inflows of foreign currency increase the value of the domestic currency, when there is more foreign currency the demand for convertibility of foreign currency to the local one increase. Increase in demand for internal currency, appreciates its value. Thus a country loses its competitiveness and export of goods will be expensive in global market, this causes the export to be killed, in the end stagnating economic growth. Arellano et al. (2009) confirm Easterly's conclusion that ODA does not affect economic growth due to the fact that ODA does not lead to investment but is simply consumed.

These refuting arguments represent assumptions that do not always correspond with developments in the real economy. Moyo mentions in her book the countries that face these challenges, but she does not explicitly mention that ODA is the cause. Too often studies conclude that in many ODA recipient countries there is positive relationship between ODA and economic growth. To further highlight this positive relationship, it is important to provide more insight in how and why ODA is substantial for recovery of economic growth. This insight is provided in the following section.

2.2 External ODA Financing and Economic Growth

Many factors determine the economic growth of a country. These factors include human resource, physical resource, technology, institutional settings, macro-economic policy and financial capital. In the case of conflict-affected economies as their infrastructure and production destroyed by war, the vital and substantial factor, which plays a role in accelerating or recovering economic growth, is financial capital for investment to recover the production. Does ODA fill the savings and investment gap in order to recover economic growth in conflict-affected countries?

However, it is worth noting that there are different views on the role of ODA in filling the savings gap with reference to growth of developing and conflict-affected countries. Mosley (1987) suggests that there is no statistically significant correlation between ODA and savings leading to growth. He argues that the fungibility of ODA will shift domestic expenditure not to be used for investment. Boone (1996) has confirmed this in another study. Several studies suggest that ODA will deteriorate the savings of developing countries (Griffin 1970; Gupta and Islam 1983 and Weisskopf 1972). The reduction and deterioration of domestic savings in conflict-affected economies may result in a lower rate of growth due to capital depletion and absence of investment finance.

The other school of thought, however, look at the issue from a completely different perspective. According to Begley (1978) there is direct relationship between ODA and savings, meaning that ODA increases savings, which ultimately will be put for investment and will contribute to economic growth. A study by Hansen and Tarp (2000) shows that ODA has a potential for the growing of savings through which investment may be created. Investment leads to enhancement of production and leads to economic growth, showing a positive relationship between ODA and economic growth. Moreover, Chenery and Strout (1966) state that, any capital inflows may create additional contributions to savings, which may be invested and, in turn, the increase in production contributes to the economic growth.

There are various models and theories describing the influence of financing on growth such as the Harrod-Domar Model and the Two Gap Model. According to Easterly the Harrod-Domar model is based on the fact that it is filling in the savings gap (Easterly 1997). The model demonstrates the importance of savings for investment. Obviously investment is financed either by internal or external savings. The ODA as an external finance is just a transfer of a wealthy nation's savings. Thus, ODA as an important external finance contributes investment and recovery of production that enhances economic growth especially in conflict-affected countries where internal finance is very limited. The financing and savings model has died quite some time ago in the economic literature but it still plays vital role in financial institutions such as the World Bank and IMF. However, other factors contributing economic growth like technology, physical resource, human resource, institutional and organisational environment are assumed to be constant or ignored for the sake of simplicity of the model.

An extension of the Harrod-Domar models is The Two-Gap Model: the first gap is savings-investment gap and the foreign exchange or trade gap is the second gap. The latter occurs as the result of a gap between import requirements and foreign exchange gain. Although the first gap, which is the savings gap, could be much smaller, the larger trade gap may erode investment due to barriers on the imports of inputs for investment. ODA can fill up the binding gap when it occurs. It is important to note that financial aid according to the two-gap model leads to investment, only if there are incentives for growth in the ODA recipient country. If there is no strategy or policy for investment, then ODA may not support growth but will simply finance consumption (Bender and Löwenstein 2005).

To investigate the relationships of ODA, foreign investment, rest of inflows and domestic savings, Papanek used data of 34 countries during the 1950s and 51 countries during the 1960s for a regression analysis (Papanek 1973). He concluded that ODA had a substantially higher positive effect on economic growth than the other variables. Emphatically he argues that ODA has the potential to fill in all gaps, the savings gap, the foreign exchange rate gap or trade gap. Papenek even concludes that ODA is more influential on economic growth than any other international financing or internal financing through private savings-investment. Radelet (2006) also claims that there is direct relationship between ODA and savings, meaning that ODA increases savings and ultimately the savings will be put for investment, which contributes to economic growth. He argues that ODA, through higher capital investment and higher productivity, contributed to increased growth in many countries.

Conflict-affected countries need more ODA compared to other developing economies, because conflict has destroyed their infrastructure, production, and savings and there is lack of financial resources to invest and to recover production. In conflict-affected economies the transfer of abundant resources from the developed world in the form of financial resources, technology and policy advice seems to be the most plausible option. Developed countries with abundant financial resources can transfer a part of their financial support to conflict-affected-countries in the form of ODA to be used for recovery of economic growth, destroyed infrastructure and production (Addison and McGillivray 2004).

The conditions of conflict-affected countries resemble the conditions of countries that suffered from natural disaster such as earthquakes, hurricanes or tsunami. Natural disaster destroys infrastructure, production and, therefore, all economy of a country. In conflict-affected situation, beside emergency needs, all other requirements such as growth recovery cannot be provided indigenously, they need to be supported exogenously. The exogenous intervention can be seen as external assistance in the form of emergency aid and developmental aid (Jayasuriya and McCawley 2010). Thus in the recovery of conflict-affected economic growth, the issue of financing investment can be fulfilled by ODA to fill the savings-investment gap.

A number of studies suggest that ODA can positively affect in the recovery of economic growth of conflict-affected countries. ODA provides access to foreign resources that can be used to support higher growth through higher investments and good policies (Elbadawi et al. 2008). In the case of Sub-Saharan Africa Levy has argued that there is a positive correlation between ODA and economic growth (Levy 1988). Moreover, Mosley (1980: 90) points out that "The relationship between ODA and growth is positive for the poor countries; it is significant and positive for UK-ODA recipient countries (in particular in Anglophone Africa) and negative but insignificant for French- and Scandinavian-ODA recipient countries. The hypothesis that the differences in experience stem from differences in balance of payments experience gains little support; the hypothesis is that they stem from differences in the behaviour of the public sector in the recipient country". Thus, the behaviour of the recipient country is more crucial for economic growth than the amount of ODA received or needed.

In the post-2001 period many bilateral and multilateral organisations provided assistance to Afghanistan in the form of ODA to recover economic growth. ODA was justified as a way of financing the Afghan economy in order to rebuild its infrastructure after the war. Although, there are a number of studies addressing the issue of ODA aiming to finance Afghanistan's infrastructure, the study of Anand (2005) is one of the most interesting. He evaluates the place of the reconstruction of Afghanistan's infrastructure in the agenda of its donors. He confirms that financing infrastructure is a crucial element leading to economic growth and recovery of production in a conflict-affected country.

The arguments above strongly suggest that there is positive relationship between ODA and growth but the extent of the impact of ODA on growth is yet not clear and is going to be discussed below. Does the extent of the impact depend upon certain factors such as institutional environment, good policies, good governance, macro-economic setting and any other?

2.3 Role of Institutional Environment in Reference to ODA's Impact on Economic Growth

Involved war countries usually experience an enormous injection of ODA. Some findings suggest that ODA does not contribute to the recovery of economic growth of conflict-affected or developing countries even if good policies and a good institutional environment are in place. Rajan and Subramanian (2005) found that there is no positive relationship between ODA and growth of those countries even if they have good policies and well-functioning institutions. They examined the ODA and growth nexus in a medium time span and more long-term, the timing impact of ODA contemporaneous and varying lags of 10-30 years with a cross section and panel specification including and excluding outlier samples, as well as considering the institutional and policy factors, their results did not show a positive relationship.

Some findings contradict Rajan and Subramanian's argument "However, aid is unlikely to recover economic growth of conflict-affected countries, if these countries' institutions and polices are weak (in the extreme, growth could decline); aid resources are misspent; or absorptive capabilities of large aid inflows are limited (in extreme, excessive aid could weaken domestic incentives (Elbadawi et al. 2008: 114)".

Similarly, Dollar and Kraay (2002) have shown that ODA can contribute in the recovery of economic growth depending on institutional environment and good policies. The flow of foreign development assistance plays an effective role in promoting economic growth but its success depends on the context of development in the recipient nation. Dalgaard et al. (2004) and Vu Minh Duc (2006) states, developing countries that have 'sound policies' and 'high-quality public institutions' have been able to grow their GDP per capita by 2.7% whereas those countries lacking these conditions were able to grow but 0.5%. Furthermore, a case study of Botswana highlights the importance of the institutional environment and ODA for effectively enhance economic growth (Carlsson et al. 1997). Botswana, a recipient of ODA after it's independence, managed the ODA through implementation of other policies to accelerate the economic growth and now is the fastest growing economy in Africa.

Furthermore, when there is a strong macro-economic policy in a conflict-affected country, economic growth can grow faster than those who have poor policies. Burnside and Dollar (2000) conclude that ODA has a positive effect on economic growth of conflict-affected countries more significantly in those countries where fiscal, monetary and trade policies are strong than in those countries with poor polices. Their conclusions are based on the principle that ODA is a transfer of income from the wealthy nations to the poor. If invested properly in a good policy environment, it has the capacity to increase economic growth. To support their arguments they used recent empirical growth literature to create a model of growth. In the creation of their model they also used the data on institutions and policies of 56 countries during the period 1970 till 1993.

The positive relation between ODA and growth has been discussed in section 2.1, but the extent of ODA's impact on economic growth is still under debate. Economists disagree on the environment in which ODA should be disbursed. For instance, Alesinaand Weder (1999) argues that ODA will enhance economic growth when corruption is minimized. If ODA is allocated to countries that are corrupted, it will not support their economic growth because the funds will be wasted. Chang (2007) has strongly rejected the notion of negative impact of corruption on economic growth. He refers to Indonesia, Italy, Japan, China and Korea, being highly corrupted, but they did and are still doing well economically. So, when used to finance infrastructure such as roads, bridges, restoration of water supply and sanitation, ODA has proven to be able to support economic growth (Mlambo et al. 2009). The case of Afghanistan is no exception. The most proper way for Afghanistan to acquire economic growth and to recover its production is ODA if allocated for rebuilding its infrastructure (Tarnoff 2010).

Similarly, one group argue that ODA would be enhancing economic growth in an environment where the level of corruption is minimized; otherwise corruption causes the amount to go to the pocket of autocrats and dictators only (Hirvonen 2005). Other economists reiterate that corruption is not a hindrance for economic growth and development. For example, Myrdal argues in his book on Great Britain, Holland and Scandinavia, that these countries were highly corrupted in the initial stages of their economic growth (Myrdal 1968). The development in Taiwan and Korea is another example used to support the assumption that ODA enhances economic growth once it is applied to the recovery and construction of infrastructure (Bräutigam 2000).

Highly symbolic and relevant for our argument is a detail in the founding history of the World Bank in 1944 as 'The International Bank for Reconstruction and Development' (IBRD) and 'International Monetary Fund' (IMF). Collier notes that the original name of the bank was 'The International Bank of Reconstruction' to which the founders added 'and Development' as an afterthought (Collier 2009). The name highlights the importance of the reconstruction of infrastructure for economic growth and in the long term to economic development.

2.4 Concluding Remarks

This chapter presents a summary of the ongoing debate about the relationship of ODA and economic growth and how it may recover the growth of conflict-affected economies. It asserts that ODA can contribute to economic growth while others utterly reject the arguments and claim that ODA is not beneficial for conflict-affected economic performance. A majority of researchers refer to examples in which ODA has been beneficial for developing countries, more specifically conflict-affected economies, because conflict has destroyed their savings, infrastructure and production and because of the lack of financial capital to fill the savings-investment gap. ODA is a vital source of capital for conflict-affected countries. If systematically invested with good policy and in a strong institutional environment, ODA will definitely increase the economic growth. In Chapters 4 and 5 we will explore whether ODA contributes to economic growth in an environment where the level of corruption is minimized or in an environment where the ODA is invested for recovery of production and infrastructure.

Chapter 3
Background

In this section, relevant background information is provided to understand the contextual analysis of the subsequent chapters. An overview of economic growth of six conflict-affected countries will be followed by a description of the situation in Afghanistan elaborating on how conflict destroyed economies, particularly the economic growth. Finally, the main donors active in conflict-affected countries, their strategies and policies will be evaluated, more in particular their role in Afghanistan.

3.1 Economic Performance of Post 1970 Conflict-Affected Countries before Receiving ODA

This section summarizes what happened to the economic growth of six conflict-affected countries: El Salvador, Eritrea, Ethiopia, Mozambique, Nicaragua and Uganda. According to Stewart and Fitzgerald (2000: 19) "war will reduce output, long term growth, consumption and welfare and increase government debt, as a result of both direct effects, arising from the physical production of capital and increased government deficit finance, as well as indirect effects stemming increased uncertainty and higher transaction cost. The extent of above mentioned changes depends on the nature of war, which unstable, inconsistent conflict having the largest impact on uncertainty and transactions costs". Thus war is very destructive to social and economic development, particularly the economic growth in a country.

Mozambique, an African country, experienced almost 17 years of war. The conflict in Mozambique was very destructive in terms of human lives and economic costs. The country suffered about one million deaths and witnessed a massive capital reduction of around 4% annually. Agriculture, the main contributor of GDP and responsible for more than 80% employment, became completely deteriorated. Agriculture commodity exports sharply decreased and the formal trading system shifted to an informal trading. The human capital suffered a lot from massive destruction of schools and hospitals throughout the country. Both the internal investment and foreign direct investment became invisible during the period of conflict. Markets closed down and were reduced to few domestic activities; as a result inflation surged markedly. Uncertainty due to war affected negatively all institutions of the government, economic activities as well as social development. Military expenditure with fiscal deficit increased gradually whereas tax revenue fell sharply. More importantly, the real GDP fell below 60% of the pre wartime in 1980. The output decreased in the beginning of 1980s to 30-40 % of GDP, but increased again in the late 1980s due to a flood of aid and economic reforms (Stewart and Fitzgerald 2000). Overall, the growth rate per capita was -0.69% during conflict as stated in Table 3.1.

Nicaragua, a Central American country, suffered a civil war from 1978 until 1990. During this period the macro-economic policies responsible for enhancing domestic production in the country was totally destroyed. The export of agriculture commodities suffered hugely, as the share of agriculture in GDP and foreign exchange was very high before war. In 1983-84 the inflation rate surged to almost 70 per cent per annum and military spending increased tremendously. During the most intense period of the conflict (1987-1989) the total economic damages surged above one year's of GDP. In 1987 military expenditure reached to 18% of GDP. Other indicators like literacy rate, school enrolment and life expectancy decreased with a serious increment in infant mortality (Stewart and Fitzgerald 2000). The total damage to the annual average growth rates per capita during 14 years conflict was -5.61% Table 3.1.

Uganda is another conflict-affected country on the African continent. The case of Uganda resembles the situation in Mozambique as far as social and economic destruction. Due to political instability the economy declined dramatically during the periods 1971-1978 and 1980-1985. The investment along with import and exports decreased gradually in the war era. Tax revenue fell sharply to only 2% of GDP. The investment, savings, tax revenues, government expenditure, import as well as exports decreased rapidly especially during the periods of political instability. Both the social and economic sector destroyed by war. Other negative consequences of the war were the death of almost 800000 people. Education and health expenditure decreased whereas military expenditure saw a substantial increase (Stewart and Fitzgerald 2000). The intensity of war caused GDP to decline dramatically during the period 1979-1991. In sum the annual average growth rate per capita was -0.99% during wartime (Table 3.1).

Ethiopia and Eritrea, also countries on the African continent, became separated in 1991. The country faced intense war from 1974-1991, a period also known as the Derg Regime. During 1974-75 and 1989-90, the growth rate was -2.3%. As the economy depended highly on agriculture, economic growth was extremely vulnerable. The savings, investment and output decreased dramatically, with a surge of inflation particularly in 1975. The defence expenditure increased gradually and reached 10% of GDP in 1991. The market deteriorated massively with very few informal business and shops. The import and export declined rapidly with a rapid deterioration of the manufacture sector (Geda and Berhanu 2007). The foreign debt reached 4 billion US$ in 1991 and investment decreased sharply particularly in the 1980 and 1991. Education, health, capital expenditure and other economic services decreased massively (Stewart and Fitzgerald 2000). During the years 1974-1991 the annual average growth rate per capita became negatively affected and was -1.2% (Table 3.1).

El Salvador, a country in Central America, faced war from 1979 to 1991. The war caused 1.4% death of the overall population. Access to education and health diminished from 58% to 40%. Export and import growth were negatively affected and were -8% and -5% respectively, while the foreign debt reached almost 2.2 billion USD. Similarly the budget deficit was -3.8% of GNP and inflation increased sharply to an average of 17.2% during war. Investment as a percentage of GDP fell to 12% from 20%. The decrease in savings was also quite significant, from 12% to 1%. The war destroyed infrastructure, institutions, human capital as well as economic growth in the country (Stewart 1993, Stewart and Fitzgerald 2000). The negative downward movement of annual average growth rates per capita reached –1.9% (Table 3.1).

Table 3.1: Wartime average real GDP per capita annual growth rate

Country Name	Years of Conflict		Conflict Duration	Average annual in-conflict real GDP per capita growth
El Salvador	1979	1991	13	-1.90
Ethiopia (…1991)	1974	1991	18	-1.20
Mozambique	1976	1991	16	-0.69
Nicaragua	1978	1990	13	-5.61
Uganda	1979	1991	13	-0.99

Author's construction from data source: UNCTAD (2014)

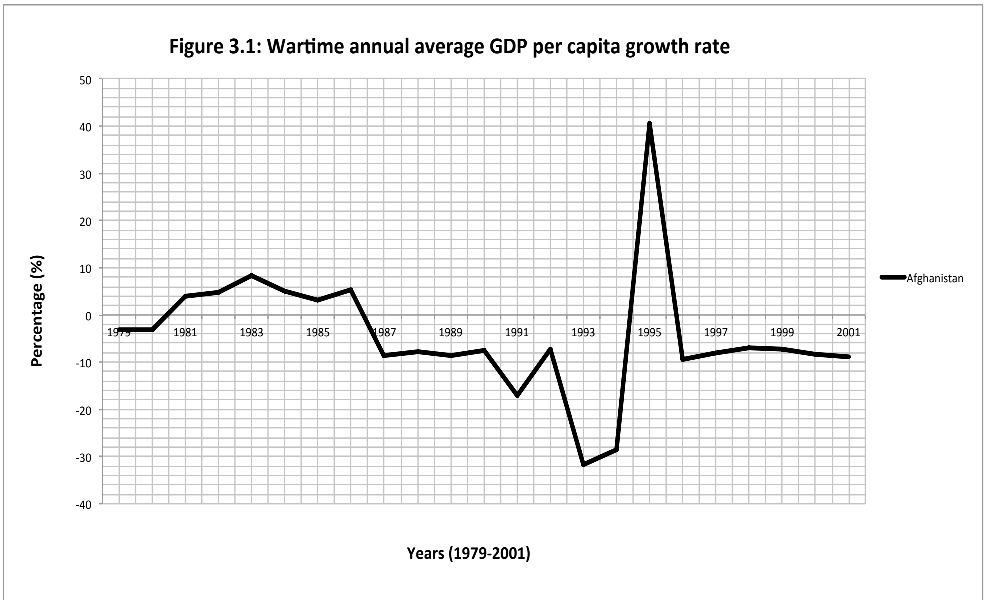
3.2 Afghanistan Wartime Economic Performance

Afghanistan is a South Asian landlocked country and shares borders with Pakistan and China in the east, Iran in the west, Tajikistan, Turkmenistan and Uzbekistan in the north. Afghanistan was founded in the eighteenth century and got its final shape during decades of war between the Russian and British empires. Both empires had their interests in the region and ultimately Afghanistan became a 'buffer state' between the two empires. In 1880, after the second Anglo-Afghan war, the basic government institutions were established. After decades of uncertainty and a period in which the state institutions weakened considerably king Amanullah (1912-1929) carried out a reform and attempted to modernize the country. During a long period of peace and stability under King Zahir Shah (1933-73), Afghanistan gradually lacked behind with slow modernization and became rather poor economically as well as socially. In 1978 Mohammed Daud Khan, king Zahir Shah's cousin and opposed against a kingdom state, seized power with the help of communist groups. Subsequently the country suffered from a cold war with USSR and in 1979 the USSR invasion leading the territory to further destruction. After the Soviet soldiers left Afghanistan in 1989, a civil war affected Afghanistan. In 1996 the Taliban, a 'hard-line' Islamic group came to power with the support of Pakistan. Following the assassination of Ahmad Shah Masoud, an anti Taliban leader, on the 9th September 2001 and the terrorist attacks in the United States on the 11th September 2001, the military actions of the anti-Taliban Northern Alliance with support of the United States of America caused the collapse of the Taliban regime. After the Bonn conference organized by United Nations in 2001, a new constitution along with a plan for political recovery was established. As a result presidential elections were held in 2004, as well as elections for the National Assembly in 2005 (IEG 2013). Thus, except for a relatively short peace in 1995, Afghanistan experienced continuous war and conflict from 1979 to 2001.

Comprehensive reliable statistic economic data from the pre-war and war period are limited, therefore, it is quite a challenge to analyze the impact of conflict on the Afghan economy. Conflict and severe war arose due to foreign intervention and cause subsequent internal political changes. The USSR war can be considered as a foreign invasion while the civil war was due to modernizing elites and radicals who challenged traditional Pashtun dominated government. The government institutions almost collapsed and the country experienced a massive emigration of nearly five million people. They migrated to neighboring countries and beyond; almost three million people were internally displaced. Due to fall of public services and economic institutions, the war negatively affected social and economic sectors (Stewart and Fitzgerald 2000).

The Afghan economy suffered severely during the above-mentioned conflict and civil war period. The war affected a variety of sectors: destruction of infrastructure, withdrawal of manpower, disruption of the market, weakening of the administration, fall of GNP (food production, exports, others), fall of employment and real wage, decrease of tax revenue, fall of public expenditure, rise of inflation and budget deficit. Although, there is lack of reliable data, the human losses during the USSR intervention and the following civil war can be estimated at 7.1% of total population after deducting the natural deaths. Afghan GDP was negatively affected very badly during the wartime. Rise of inflation and weakening of food production can also be listed as negative consequences of the war. The government revenue sharply decreased whereas military expenditure rose dramatically from 1.9% of to 8.7% of GDP. Foreign debt surged to 5.1 billion USD in 1990 from 1.2 billion in 1980. Transport and trade routes massively suffered from the destruction of roads and the absence of borders control. Furthermore, the government's performance became weak and considerably reduced the ability of the state to provide social services. Two-thirds of the schools were destroyed. After 1996, during Taliban regime, the opium poppy cultivation made opium derivate Afghanistan's main export product. Informal activities increased such as street trading (Stewart and Fitzgerald 2000).

The dramatic decrease in GDP was due to direct effects of the war as well as the indirect and unwelcomed consequences of negative economic activities during the conflict. Agriculture, comprising 90% of the export and the largest component of GDP in the pre-war period was disrupted dramatically and fell to 15% in the first years of conflict (Stewart and Fitzgerald 2000). The graph in Figure 3.1 shows the annual average growth rates per capita during war, based on the World Bank database. The trend of deterioration worsened during the period of intense conflict (1987-1994). In 1995, the graph shows a surge in the growth per capita due to a period of hope for peace during the Mujahidin government. Growth figures decreased again dramatically in 1996 because of the war with the Taliban, which lasted till 2001.



Author's construction from data source: UNCTAD (2014)

The conflict and civil war in Afghanistan destroyed social and economic development, especially the economic growth. Table 3.2 presents the average annual GDP per capita growth that was -4.4% during the conflict (1979-2001). If we exclude the growth of 1995, the negative annual GDP per capita growth increases to almost -6.5%.

Table 3.2: Wartime average real GDP per capita annual growth rate

Country Name	Years of Conflict		Conflict Duration	Average annual in-conflict real GDP per capita growth
Afghanistan	1979	2001	23	-4.40

Author's construction from data source: UNCTAD (2014)

3.3 Policy Attitude of Donors and Afghan Government with Regard to Allocation of ODA

Conflict-affected economies will be treated with massive amount of development assistance aftermath of the conflict, as we discussed previously. International organizations (World Bank, UNDP), NGOs (World Vision, Oxfam) and bilateral donors (developed nations such as USA, UK, Germany, Netherlands) have developed different policy attitudes for the management of ODA in developing and conflict-affected countries. This section discusses some major donors activities in conflict-affected countries, more specifically in Afghanistan.

The UN emergency operations usually focus on the creation of an environment for a long sustainable development. Reinforcement of the national institutions and communities allows countries to recover from conflict and enter into a transition phase (Maier 2010). However, the development and trade-off in peace building is discussed properly. The UNAMA in Afghanistan focuses on security, emergency needs, restoration of cultural property and human rights (UN 2014). The main UNDP goals in Afghanistan are democracy, governance, poverty reduction, crisis prevention, energy supply, environment, and women empowerment (UNDP 2014).

The World Bank founded for the reconstruction and development of conflict-affected countries is a big donor in any conflict-affected country. The World Bank main policies are rapid response in emergencies and development cooperation. The main objectives are promotion of economic growth and reduction of poverty in the initial recovery phase; in the subsequent transition phase support of economic and social recovery for a long sustainable development becomes the objective. In Afghanistan the World Bank acted in three phases: (Transitional Support Strategy) TSS 2002, TSS 2003 and (Interim Strategy Notes) ISNs 2006-2009. TSS 2002 focused on governance, capacity building, economic and social recovery, and coordination of donor services. TSS 2003 moved its focus towards rehabilitating institutions, fiscal strategy institution and management, governance and public administration reforms and private sector development. ISNs 2006-2009 considered the issues of accountability, growth of the rural economy and growth of the formal private sector (IEG 2013).

The Asian Development Bank (ADB), an important donor (2002-2013) of economic growth, started with a strategy to support government priorities (a roads master plan, transport system, energy sector, regional airports, ring roads to connect Afghanistan with neighbouring countries, irrigation, trade facilitation, governance on public sector management) and shifted its focus on the development of the first railway system in Afghanistan aiming at economic growth (ADB 2014).

Germany focuses mostly on one factor as the machine for growth in the conflict-affected societies. Conflict-affected countries are considered vulnerable to resumption of conflict. Therefore, peace development and reducing risk of conflict are German priorities, resulting in a focus on 'human security' such as human right, enforcement of law, economic and social security (Maier 2010). In Afghanistan Germany engaged in reconstruction (education, peace and security, sustainable economic development, energy infrastructure, governance and cultural rehabilitation) and capacity building for government institutions and security forces (GIZ 2014).

The United Kingdom (UK) puts stabilization high on its agenda focusing on economic and political stability (Maier 2010). The UK provides initiatives to tackle problems of basic needs (employment and private sector promotion). The policy assumes that generating income sources might be the beginning of economic development. Furthermore, socio-economic development reduces the risk of conflict. UK in Afghanistan focuses security, governance, infrastructure and economy (GOV. UK 2014).

The darling donor the United States of America (USA) considers economic growth the best possible approach to stabilize a country. USA also aims at legitimizing governance in conflict-affected countries in order to control the economy, more specifically employing the population for a faster recovery. USA also chooses for emergency aid and humanitarian assistance but the main focus is economic growth. The USAID strategies reflect a strategy that a conflict-affected country can only sustain in the long run if to boost the economic growth (Maier 2010). The overall strategy of USAID in Afghanistan is promoting economic growth (agriculture, energy and infrastructure), democracy and governance, education and health, gender or role of women (USAID 2014).

The Netherlands, being a small country prefers collaboration with other countries (Netherlands 2008). The country has defined its own main targets: security, legitimacy, capacity and contribution to the Afghanistan Reconstruction Trust Fund (ARTF).

Afghanistan did not have a correct and complete strategy to implement in the country up to 2008. The Afghan government is criticized for its lack of policies to allocate ODA during the Karzai presidency (Mohsini 2014). From 2001-2008 the government followed the strategies defined by the donor conference in Bonn (2001), Tokyo (2002), Berlin (2004), London (2006) and Rome (2007). The donors proposed the establishment of International Security Assistance Force (ISAF) for security, a new constitution, reconstruction and development, a macroeconomic and monetary framework, a development framework Securing Afghanistan's Future (SAF), the establishment of the Provincial Reconstruction Team (PRT) by ISAF, and again the proposal continued in 2006 as security, governance, role of law, human rights, economic and social development and justice sector (MoF 2010).

After 2008 Afghanistan developed its own strategies and drafted the Afghanistan National Development Strategies (ANDS). This strategy, a five year plan (2008- 2013), focuses on security, governance and rule of law, economic and social development (private sector development, energy, mining, water resource, transport, information technology and communication, urban development, education, culture and media, health and nutrition, agriculture and rural development, social protection and issues of refugees or displaced population), cross-cutting issues (counter narcotics, anti-corruption, gender, capacity building and environmental protection), enhancing aid effectiveness and coordination and monitoring the overall ANDS progress (ANDS 2008).

3.4 Concluding Remarks

Conflict is a negative phenomenon that not only destroys social coherence in countries, but also affects their economic performance. The consequences of conflict depend on its intensity and its duration. One of the economic indicators that suffer most is GDP, because war destroys infrastructure and production. Lack of infrastructure and financial capital, as a consequence of war, diminishes production, resulting in negative economic growth. In a growth recovery scenario characterized by an environment of peace the recovery of economic growth and infrastructure is only possible through finance investment.

The main donors active in the reconstruction and development of conflict-affected countries have developed a variety of policies and strategies to enhance recovery. Usually the recovery scenario starts with emergency aid aiming at stability, once a certain degree of stability has been reached the plans aiming at reconstruction and socio-economic are implemented.

As the execution of the recovery and development plans is not possible due to absence of savings or internal financing of conflict-affected countries, exogenous intervention not to be the remaining option. Foreign aid in the form of ODA may be the most significant factor in the reconstruction of infrastructure, especially economic growth recovery. The subsequent chapters will analyse these in six conflict-affected economies with a focus on Afghanistan.

Chapter 4
Economic Growth Analysis of Post 1970 Conflict-Affected Countries

This chapter has two sections, the first entails the analysis of six conflict-affected countries economic growth and second section presents the conditionality in ODA's impact in the recovery of economic growth and will draw a concluding remark at the end.

4.1 Analysis of Economic Growth

This section describes economic recovery of conflict-affected countries and assesses the role of ODA in their economic recovery. An analysis of economic growth during conflict illustrates the economic effects of war. The time period has been divided in four intervals for a more differentiated insight ODA's role in recovering economic growth of conflict-affected countries. A comparison of the levels of economic growth between the ODA recipient countries and countries that did not receive ODA reveals the relationship between corruption and the average real GDP per capita growth rate and ODA. Finally three indicators are tested as tools to assess the use of ODA for investment in the recovery of infrastructure and production.

4.1.1 Background

Based on World Development Report "one-and-a-half billion people live in areas affected by fragility, conflict, or large-scale, organized criminal violence (World Bank 2011: 1)". As already mentioned, conflict, either internal or external, destroys infrastructure, production and badly affects the economy of a country. The economic environment of almost one-third of the world poor, living in conflict-affected states, is ill protected. Therefore, the poor will suffer more in case of minor economic or political shock. Their countries are suffering in such a high level that they cannot achieve a single Millennium Development Goal. Moreover, instability, economic stagnation and poverty are increasing significantly (OECD 2013).

A tremendous number of theoretical frameworks, literature, findings and regression analyses are available on the subject of economic growth. Williams et al. (2011: 534) note, "Growth is the expansion of output per capita over time. Theories of growth explain this phenomenon in causal terms, and highlight the role of factors of production (usually labor and capital investment) and total factor productivity. The latter refers to the efficiency by which production factors are combined, and is determined by technology, infrastructure and institutions, and the related policy and incentives framework". It is worth noting that there are many factors that need to be studied in order to assess the complexity of economic growth in the conflict-affected scenario. In another words, ODA is not the only factor affecting economic growth, there are also other factors such as physical capital, human capital and conditionality in ODA at work in paving the way for enhancing economic growth in developing countries, or more particularly in conflict-affected economies. It is generally accepted that economic growth suffers significantly from conflict and that there is a negative relationship between GDP growth and conflict.

Before analysing and testing the data, it seems necessary to differentiate between ODA allocated to conflict-affected countries and ODA allocated to non-conflict-affected countries. The difference between 'conventional' development assistance and assistance to conflict-affected economies is the disbursement environment into which it is received. War and conflict create humanitarian disaster, destroy infrastructure. At the same time there is flight of human resource due to migration. In conflict-affected countries investment and savings deteriorate, when economic productivity declines criminality and rent seeking may increase. Assistance for conflict-affected economies targets needs which suffered destruction by conflict violence like provision of shelter, ensuring minimum routine consumption, subsequently aiming at its final goal rehabilitation of destroyed infrastructure, roads, schools, water supply, energy, communication. Other targets are the basic public services in a country such as security, empowerment of law, public health. Development assistance for conflict-affected countries also focuses partially on domestic savings, long-term investment, growth and reduction of poverty (Demekas et al. 2002a).

Other clear differences between 'conventional' development assistance and assistance to conflict-affected economies is the relation between the level of received ODA which leads to sharp surges in terms of GDP per capita and the size of the recipient economy. In some countries, *e.g.*, Rwanda, Bosnia, Herzegovina and Kosovo, a rapid decline occurred as soon as the emergency needs had been cured (Demekas et al. 2002a). In contrast, the trend of conventional development assistance moves in a more steady and constant level with less fluctuation (World Bank 2001).

In addition to size and time, there are other differences such as the composition of assistance to conflict-affected countries. A substantial difference is that not all assistance is used to repair capital and infrastructure, a significant part is used to build institutions legal frameworks for the private sector, law enforcement, the introduction of new supervisory agencies, making connections between internal and external trade links and establishing tax and revenue sources (Demekas et al. 2002b). These features make assistance to conflict-affect countries unique and clearly differentiate them from 'conventional' development assistance.

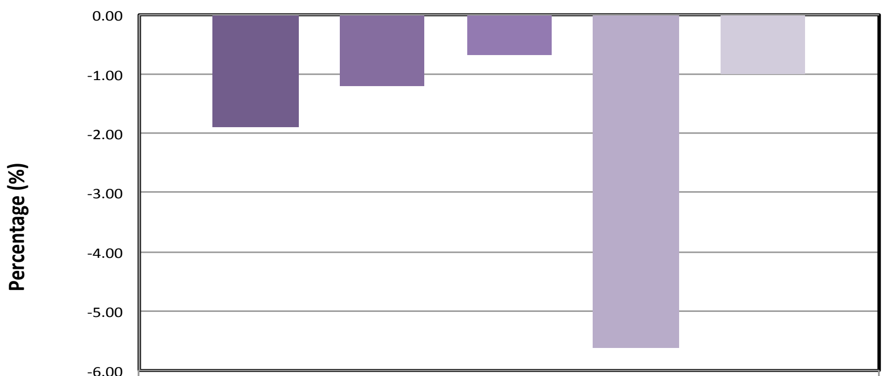
Another important difference in conflict-affected countries is the concept of minor insurgency and fear of falling back to conflict. Unfortunately policy makers follow the same planning strategies for both situations. The effectiveness of ODA in many conflict-affected countries such as Cambodia, Somalia, Mozambique, Haiti, Bosnia, Eastern Slavonia and Kosovo is different from the countries with conditions of insurgency such as Iraq and Afghanistan. In these countries the chosen policy may face greater challenges and pitfalls (Jabareen 2013). It cannot be ignored that 'conventional' development assistance is not free of difficulties but the challenges in conflict-affected economies are greater. The analytical chapters of this paper focus on the recovery of economic growth in countries affected in war or having insurgency.

There are various types of external financing through ODA namely, the bilateral or multilateral type of assistance and or assistance by non-governmental organisations. Bilateral ODA refers to assistance from one donor country directly to an ODA recipient country. This assistance is often based on political considerations or cultural affiliations. Multilateral ODA refers to assistance supplied by wealthy nations to international organizations such as World Bank, United Nations and International Monetary Fund for the purpose of poverty alleviation and boosting economic growth of least developed, developing or conflict-affected countries. Moreover, non-governmental ODA refers to assistance, which is supplied by non-governmental organizations (NGOs) like World Vision, the Red Cross and Oxfam. This fund is supplied by public contribution through individuals and businesses (World Vision 2012). As now the concept of ODA for conflict-affected economies is cleared, we then analyse the economic growth of six conflict-affected countries in the following sections.

4.1.2 Wartime Economic Growth of Post 1970 ODA Recipient and Non ODA Recipient Countries

The GDP per capita of conflict-affected countries (both ODA recipient[4] and non ODA recipient[5] countries) were calculated as following. Figure 4.1 illustrates that countries are affected negatively during periods of war. Nicaragua is the highest affected country with a GDP per capita of -5.61 per cent. Mozambique represents the less affected country in this sample with an economic growth of -0.69% during the war. In other countries such as El Salvador, Ethiopia and Uganda economic growth during war was -1.9%, -1.2% and -0.99% respectively.

Figure 4.1: Wartime average real GDP per capita



	Average real GDP per capita
El Salvador 1979-1991	-1.90
Ethiopia 1974-1991	-1.20
Mozambique 1976-1991	-0.69
Nicaragua 1978-1990	-5.61
Uganda 1979-1991	-0.99

Author's construction from data source: UNCTAD (2014)

Figure 4.2 shows Somalia suffered heavily during the period of war (1988-1991), the average GDP per capita negatively grow to 3.2%. In the cases of Haiti and Ivory Coast the average real GDP per capita growth rate was closer to -4% and -2%, respectively during their war periods. The growth of GDP as a negative consequence of conflict in wartime has also been confirmed in different studies such as (Collier 1999; Abadie and Gardeazabal 2003).

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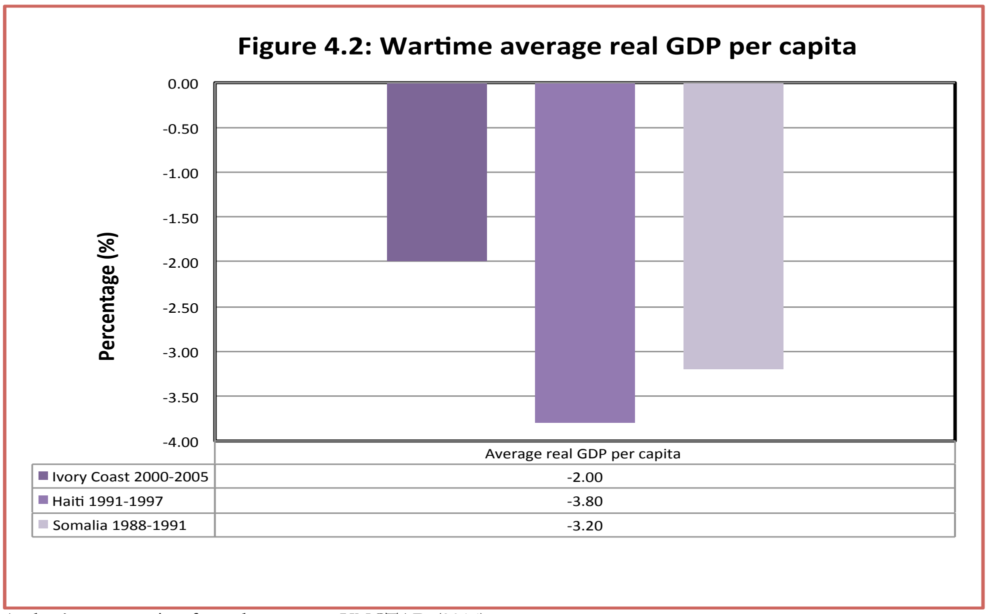
[4] Post 1970 conflict-affected ODA recipient countries in this paper are El Salvador, Ethiopia, Eritrea, Mozambique, Nicaragua and Uganda in the recovery period.

[5] Post 1970 conflict-affected non ODA recipient countries in this paper are Ivory Coast, Haiti and Somalia



Author's construction from data source: UNCTAD (2014)

The level of negative average annual GDP growth rate is related to the intensity of the war, alternating periods of war and peace cause fluctuations. Polachek and Sevastianova (2012) studied the different effects of war on the economy, more specifically the effects of war on the average annual GDP growth per capita. They claim that war and conflict result in a decrease of annual GDP growth that varies between 0.01 and 0.13 percent. In case of a 'high intensity' war or conflict the decrease of annual GDP growth reaches levels between 0.18 and 2.77 percent. On the basis of their comparisons they conclude that 'low intensity' conflict results in less stagnation of the economy than 'high intensity' conflict.

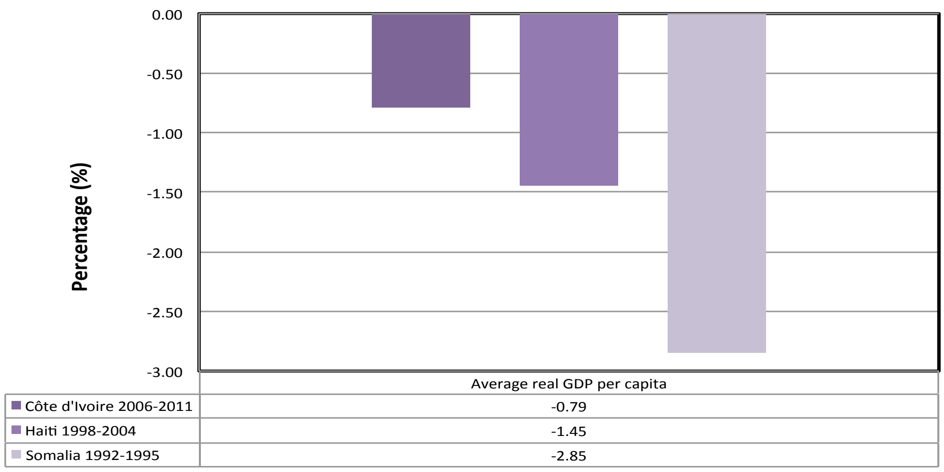
As already discussed in the literature review (Chapter 2) it is generally agreed that it is not only the economic growth and infrastructure that suffer from war and conflict, war also depletes a country's savings. In such a scenario internal sources are not capable of financing the investment to recover economic growth in the recovery period. So, it seems necessary to rely on the provision of international financial assistance, more specifically ODA, to fill in the savings-investment gap contributing to the recovery of economic growth. In the next section, we calculate the economic growth of conflict-affected those who received ODA and those who didn't in the recovery period in order to analyse and test the relation of ODA and recovery of economic growth of conflict-affected countries.

4.1.3 Economic Growth Recovery of ODA Recipient Countries and Non- ODA Recipient Countries

In the literature review (Chapter 2) it was discussed that conflict-affected states face problems with capital depletion and savings, which makes it difficult to invest and recover economic growth. The Harrod-Domar Model and the Two-Gap-Model suggest that ODA can contribute significantly in the process of filling in the savings gap (Sato 1964). In another words, ODA is important source for conflict-affected countries to fill in the savings gap and pave the way for investment, which, subsequently leads to the recovery of economic growth. This section analyses the available data for both ODA recipient countries and non-ODA recipient countries in order to show the relationship of ODA and economic growth in the recovery period.

Figure 4.3 presents the average real GDP per capita growth rate of three sampled non-ODA recipient countries during their recovery period. Although, it could have been a period that in which there could have been recovery of economic growth there is still negative growth.

Figure 4.3: Recovery Period average real GDP per capita



Author's construction from data source: UNCTAD (2014)

Figures 4.4 -4.7 show the GDP per capita growth rate of six conflict-affected ODA recipient countries in four separate periods.

Figure 4.4 Recovery Period 1993-1997

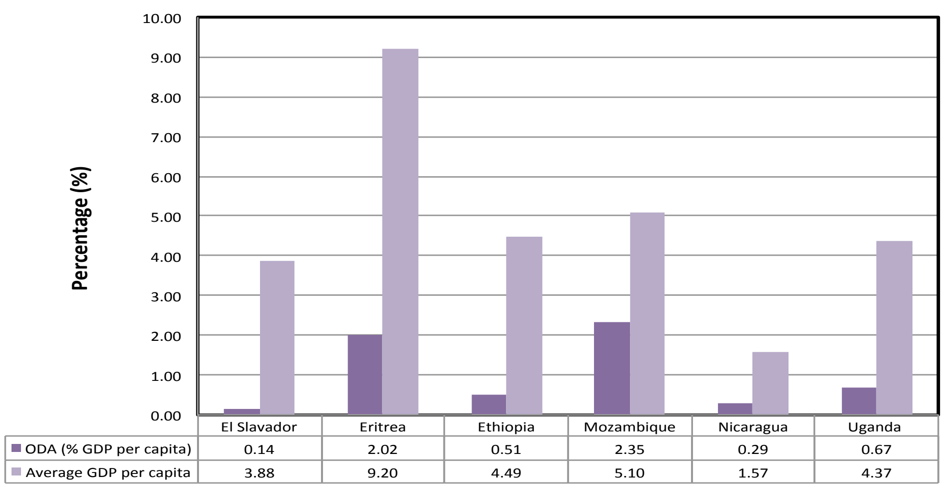


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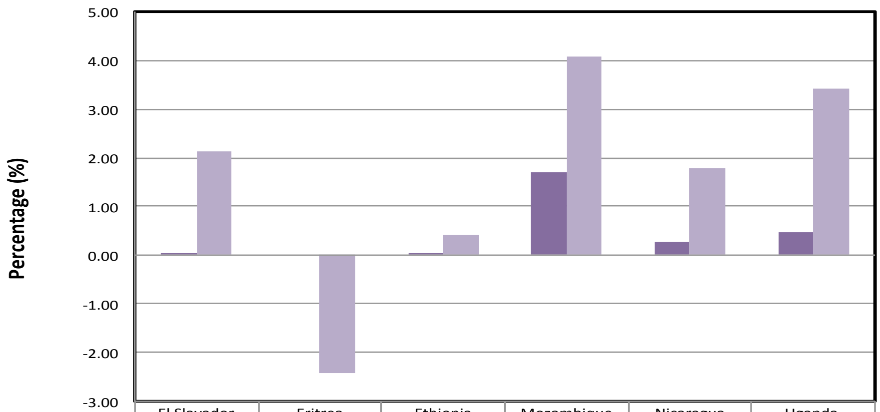
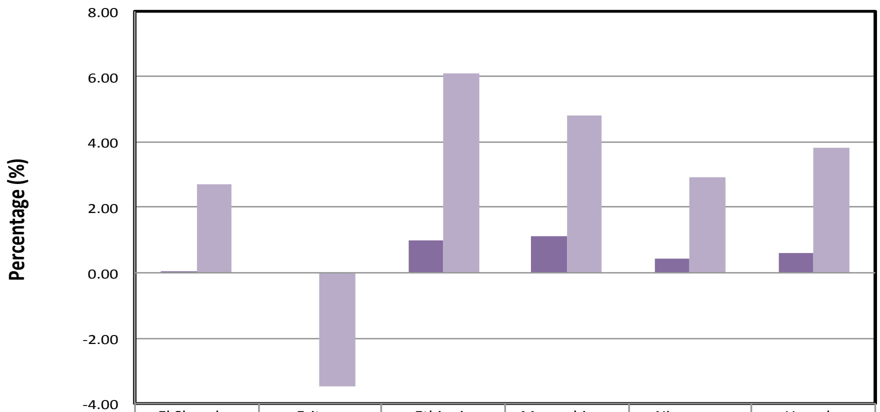
Figure 4.5 Recovery Period 1998-2002



	El Slavador	Eritrea	Ethiopia	Mozambique	Nicaragua	Uganda
ODA (% GDP per capita)	0.03	0.00	0.05	1.70	0.28	0.47
Average GDP per capita	2.12	-2.41	0.42	4.09	1.80	3.42

Author's construction from data source: World Bank & UNCTAD (2014)

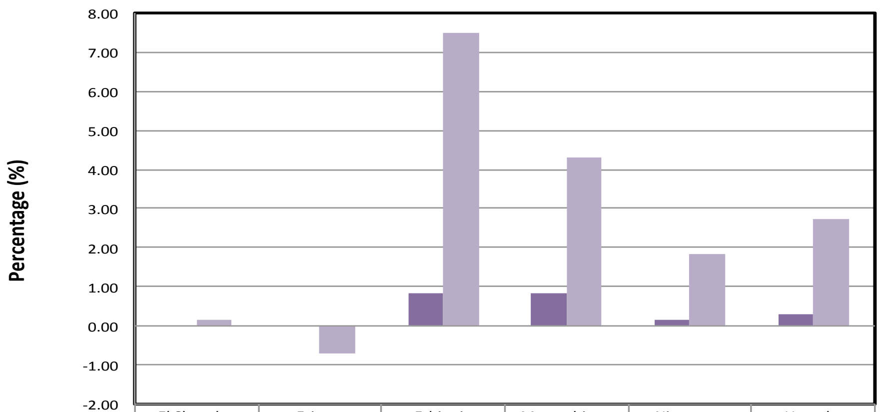
Figure 4.6 Recovery Period 2003-2007



	El Slavador	Eritrea	Ethiopia	Mozambique	Nicaragua	Uganda
ODA (% GDP per capita)	0.03	0.00	0.98	1.12	0.43	0.59
Average GDP per capita	2.70	-3.49	6.10	4.82	2.93	3.84

Author's construction from data source: World Bank & UNCTAD (2014)

Figure 4.7 Recovery Period 2008-2012



	El Slavador	Eritrea	Ethiopia	Mozambique	Nicaragua	Uganda
ODA (% GDP per capita)	0.00	0.00	0.83	0.82	0.14	0.30
Average GDP per capita	0.17	-0.72	7.50	4.30	1.82	2.74

Author's construction from data source: World Bank & UNCTAD (2014)

El Salvador with a minimal injection of ODA shows a significant economic recovery between 1993 and 1987. As the injection of ODA decreases in the next two periods 1998-2002 and 2003-2017, the average real GDP per capita also declines. In the subsequent period 2008-2012 the country did not receive ODA, the lack of investment finance and poor macro-economic conditions resulted in a sharp fall of GDP, from a growth of 3.74% per capita in the period 1993-1997 to 0.1% in the period 2008-2012.

The analysis of ODA impact on the recovery of economic growth of Eritrea shows that the country did well in the period of 1993-1987. The average real GDP per capita grew to above 9% with an ODA injection of 2.02%. But afterward in the next three periods 1998-2002, 2003-2007 and 2008-2012 the GDP per capita growth rate showed a negative trend. The negative growth rate of 1998-2002 in Eritrea was caused by the resumption of the ware with Ethiopia. The fact that Eritrea did not receive ODA was responsible for the decline in the other two periods (De Guttry et al. 2002).

The analysis suggests that Ethiopia did very well in the first five-year period (1993-1997). In the second five-year period (1998-2002) the war with Eritrea caused the GDP per capita to decrease significantly but after injection of ODA in the third five-year period (2003-2008) GDP recovered. With the exception of the 5-year period in which Ethiopia was at war with Eritrea, Ethiopia has shown good economic recovery. After the war with Eritrea, Ethiopia growth rose to 6.1% (2003-2008) and 7.5% (2008-2012) from 4.5% (1993-1997) in the period before the war.

The analysis of three other conflict-affected countries Mozambique, Nicaragua and Uganda revealed a recovery of economic growth with an injection of ODA in all 5-year periods. Although the graphics of ODA and GDP per capita growth rate slightly fluctuate, the overall trend suggests that economic recovery is better when a country receives a higher proportion of ODA. This is the case for Mozambique, which received a higher proportion of ODA and therefore had higher recovery percentages than Uganda and Nicaragua. The same pattern can be observed between Nicaragua and Uganda, the latter receiving a higher proportion of ODA and displaying higher percentages of economic growth.

The overall analysis of collected data for ODA and non-ODA recipient countries indicates that ODA can contribute to the recovery in economic growth of conflict–affected countries. In other words, there is a positive relationship between ODA and economic growth recovery in conflict-affected countries. This finding is in line with the arguments and conclusions of many economists (Lensink and White 2001). The extent of ODA's impact or its sustainability in long term, however, seems to depend on conditions, which are going to be discussed in the section of two of this chapter.

4.2 Conditionality in ODA's Impact in the Recovery of Economic Growth of Conflict-Affected Countries

This section is based on the literature review chapter that proposes the conditions on the extent of ODA's impact in the recovery of conflict-affected economies. The proposed conditions differ based on thought of authors. Some suggest that to enhance the extent of ODA's impact the macroeconomic policies should be developed. Corruption and infrastructure are the hot debated topics in recent literature. One group Alesina and Weder (1999) and Hirvonen (2005) suggest that there is positive relationship between ODA and economic growth but the extent of the impact depends on an environment in which corruption is minimal. Another group do not consider corruption to be important, they assume a positive relationship between ODA and economic growth but the extent of its impact depends on how and what the ODA is used. If used for construction of infrastructure and recovery of production especially in conflict-affected countries, where war has destroyed both infrastructure and production, then ODA definitely will contribute to enhance and to recover the economic growth (Myrdal 1968; Bräutigam 2000; Chang 2007; Mlambo et al. 2009 and Tarnoff 2010). This section will test both arguments and will come to an overall conclusion for this chapter.

4.2.1 Corruption

This section analyses the relation between corruption and the real GDP per capita growth rate in non-conflict and non-aided countries (India and Indonesia), non-conflict and aided countries (Bhutan and Bolivia) and conflict-affected and aided countries (El Salvador, Eritrea, Ethiopia, Mozambique, Nicaragua and Uganda). The analysis of non-conflict and non-aided countries is included in the test because Moyo (2009) and Easterly (2006) claim that aid creates corruption. So, in order to avoid a bias in our test, we consider the relationship of GDP per capita growth and corruption in non-conflict and non-ODA recipient countries. This analysis will help to assess whether corruption is a condition that influences economic growth. Secondly, we test the relationship of economic growth and corruption in non-conflict and aided countries in order to exclude the negative impact of war on corruption as Tirole (1992) argues that people lost their honesty during war and the war can bring corruption. Finally, we test the relation between economic growth in conflict-affected and aided countries, which is the focus of this paper.

4.2.1.1 Growth and Corruption in Non-Conflict and Non-Aided Country

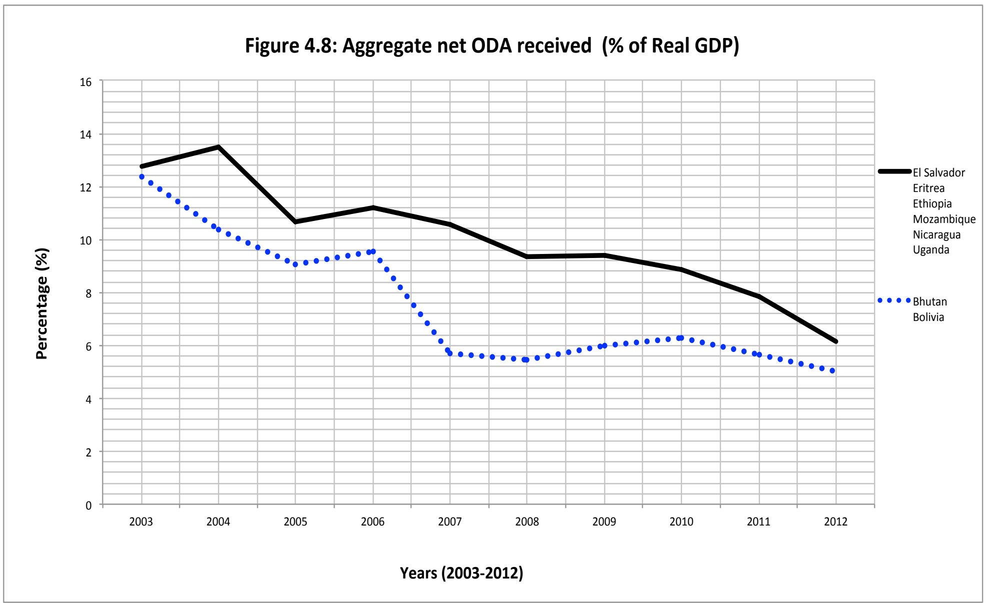
Figures 4.8 - 4.10 include an analysis of data collected for India and Indonesia, two non-conflict and non-aid countries. Corruption and real GDP per capita growth rate in these two countries do not seem to be related. Corruption in both countries remains at the same level with minor annual fluctuations. The real GDP per capita growth rate in both countries shows an increase before 2008 and a sharp decline due to the global crisis. In the period after 2008 a sharp increase is follow by a decrease in real GDP per capita growth rate, this pattern is absent from the curve of corruption in both countries. Corruption, however, continues its trend of slight annual fluctuations. This suggests that real GDP per capita growth rate in the two countries does not depend on the level of corruption.

4.2.1.2 Growth and Corruption in Non-Conflict and Aided Countries

Figures 4.8 – 4.10 include also the data of Bhutan and Bolivia, two non-conflict and aid-receiving countries. Although the countries were receiving ODA, corruption and real GDP per capita growth rate in the two countries do not seem to be related. Corruption in the two countries remains relatively low with slight annual fluctuations. The real GDP per capita growth rate in the two countries increases before 2008 and displays a sharp decline due to the global crisis of 2008. After 2008 both countries resume a pattern of increase and decrease of real GDP per capita growth, a pattern not observed in the corruption curve in both countries. The observed patterns suggests that real GDP per capita growth rate in the two countries depends on received aid and is not related to the level of corruption.

4.2.1.3 Growth and Corruption in Conflict-Affected and Aided Countries

For the analysis of non-conflict and aid-receiving countries, the data from six countries, previously analysed in section 4.1, were used (Figures 4.8-4.10). As data on corruption of the period in which ODA started to be received are missing, only the period 2003-2012 is considered. Corruption and real GDP per capita growth rate do not seem to be related. With minor fluctuations the annual levels of corruption in all six countries remain at the same level. The received ODA for all six countries gradually declines. The graph of real GDP per capita growth rate shows a delayed decline as a result of the global crisis, subsequently a pattern of increase and decrease. The different patterns calculated for corruption levels in the six countries and the real GDP per capita growth rate suggest that there is no relationship between ODA and corruption.



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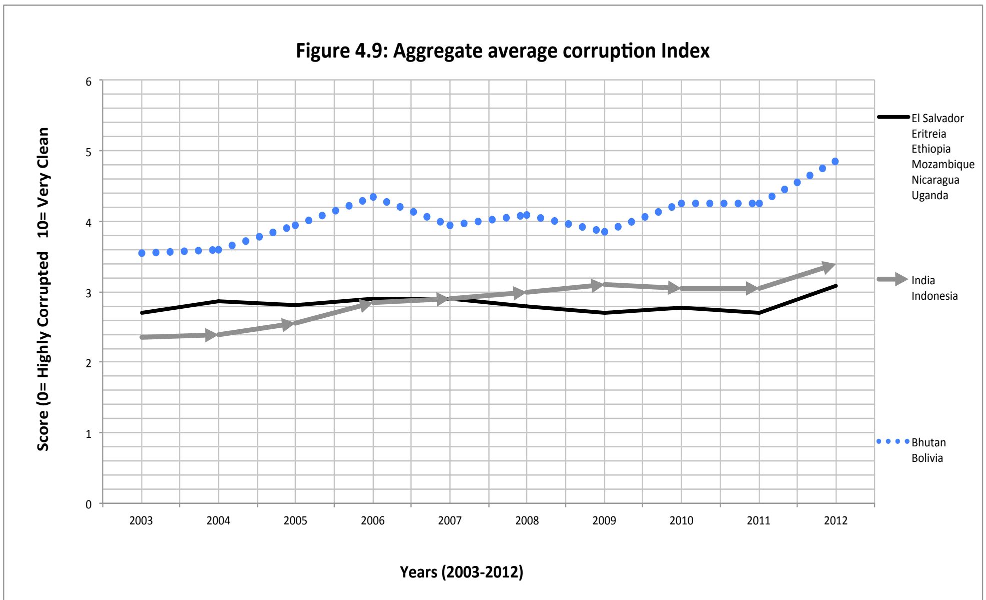

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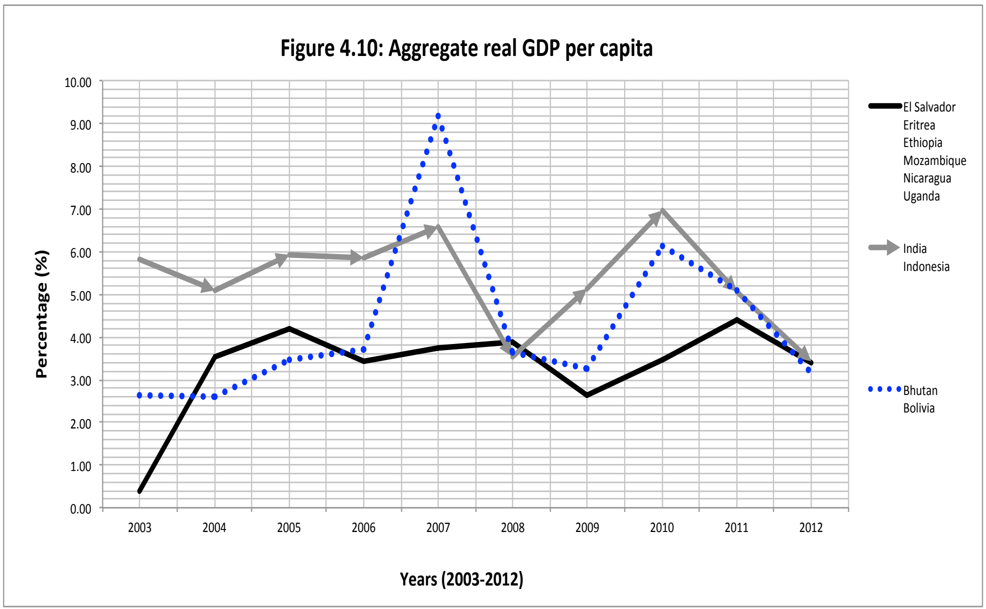

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All data analysed in this section show that there seems to exist no relation between economic growth and corruption. If we include ODA as a third condition, it seems that the impact of ODA does not depend directly on corruption but more on ODA and how it is used. If it is used for the purpose of boosting production or recovery of infrastructure it seems to have an impact on the recovery of economic growth. Whether this interpretation is valid or false, will be discussed in the next section.

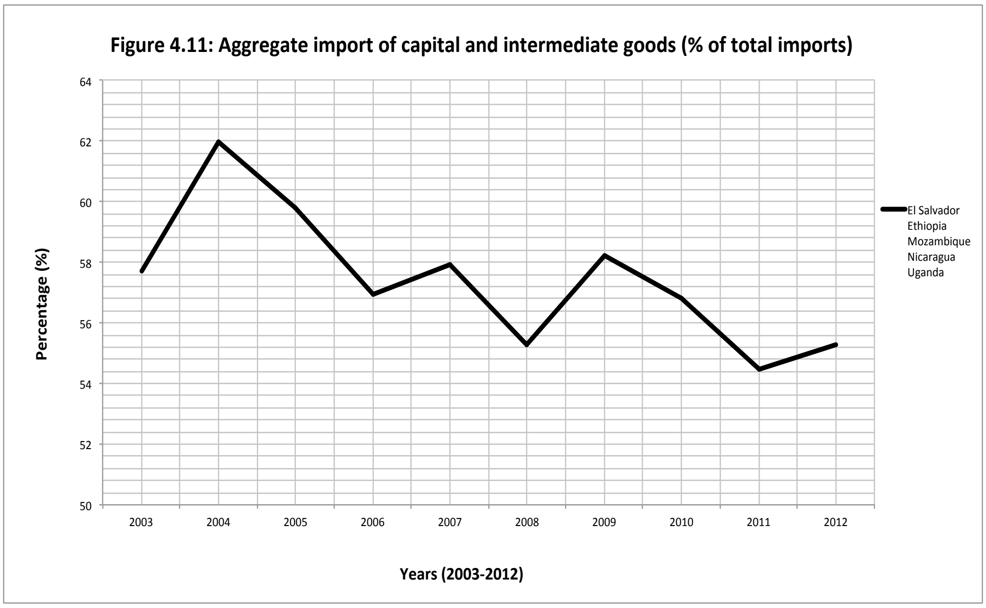
4.2.2 Infrastructure and Production

To test whether ODA is used for the purpose of recovering infrastructure and production, or not, we have selected two possible indicators: import of capital and intermediate goods and the construction of paved roads.

4.2.2.1 Import of Capital and Intermediate Goods

We assume that the import levels of capital and intermediate goods in ODA-recipient countries indicate whether ODA is used to boost production. The import of investment/capital and intermediate goods points at increased production, whereas a low level of import indicates increased consumption. The intention was to collect data as far back as 1993, which is the time the six countries, started receiving ODA, but these data are not available. Therefore, the available data of 2003-2012 are analysed. For this period the data of Eritrea are absent.

Figure 4.11 shows the aggregate data of five countries. The level of imports of capital and intermediate goods increased in 2004 but it gradually decreased to a low in 2011. Despite fluctuation the trend is that throughout the years the countries have imported roughly 50% of consumption goods. These imports for consumption have limited the finance available for enhancement of production and in turn economic growth. Figure 4.8 shows a trend of decreasing ODA, which could have had an influence on the decreasing levels of imported capital and intermediate goods.



Author's construction from data source: WTO (2014)

In sum, we may conclude that the ODA-receiving countries did not invest the financial aid well. We can consider this decline as a reason for the unsustainable or volatile economic growth. The fluctuations in GDP seem to be related to the fluctuations in the levels of imported capital and intermediate goods.

4.2.2.2 Construction of Paved Roads

Another method we assume to be useful for testing the use of ODA focuses on construction of paved roads in a country during the period it receives ODA. Table 4.1 shows the collected data, which start in the year 1990, the years after the listed countries started to receive ODA.

Table 4.1 reveals that El Salvador has invested significantly in road construction. In 1990 14% of its roads were paved, after receiving ODA the percentage of paved roads increased to 53%. Although, El Salvador did not receive enough ODA in the recovery period, the country focused on road construction. El Salvador receives financial funds via remittances of its residents working in another country. Although El Salvador invested heavily in road construction, its economic growth of El Salvador did not increase accordingly. This limited growth rate of El Salvador is due to the integration of its currency with USD, which is reflected in the sharp decline of its growth rate per capita since the 2008 global crises.

Table 4.1: Roads paved (% of total roads)

Country Name	1990	2003	2007	2009	2011
El Salvador	14				53
Eritrea	19				0
Ethiopia	15		14		
Mozambique	17			21	
Nicaragua	11				13
Uganda		23			0

Author's construction from data source: World Bank (2014)

The other sampled countries have not invested in road construction, which seems to reflect their limited economic progress. This analysis assumes that ODA was not used for the recovery of infrastructure and production.

4.3 Concluding Remarks

The analyses in this chapter suggest that there is a close relationship between received ODA and the real GDP per capita growth rate in post-conflict countries. The level of corruption does not play an important role. The analyses of the levels of imported capital and intermediate goods suggest that the way received ODA is used plays an important role. If used for investment in infrastructure, *e.g.*, roads in the conflict-affected countries, the impact on economic growth will be enhanced and becomes sustainable in the long run.

Chapter 5
Post 1970 Afghanistan Growth Analysis

This chapter has three sections. The first section analyses economic growth of Afghanistan, the second section describes the conditionality of ODA's impact in the recovery of economic growth of post 2001 Afghanistan. The third section analyses a series of interviews with experts in Afghanistan about the impact of ODA in the recovery of economic growth since 2001.

5.1 Analysis of Economic Growth

This section starts with a snapshot of Afghan economic growth in wartime in order to sketch what happened to economic growth from 1979 to 2001. Subsequently the context and background of ODA in Afghanistan will be described. The third section analyses the post 2001 economic growth recovery. Finally the growth rate in Afghanistan will be compared with the growth rates in other six conflict-affected countries.

5.1.1 Wartime Economic Growth Analysis

Afghanistan's economy suffered intensely during the various stages of conflict between 1979 and 2001, the stages of conflict comprise the USSR invasion, civil war and Taliban regime, respectively. The economy suffered from the destruction of infrastructure, withdrawal of manpower, disruption of market, fall of GNP (food production, exports, others), fall of employment and real wages, fall of tax revenue, fall of public expenditure and economic share, rise of inflation and budget deficit (Stewart and Fitzgerald 2000). The average real GDP growth rate per capita decreased to -4.4%. Afghanistan received ODA after the conflict to fill in the savings/investment gap aiming at economic recovery.

5.1.2 Background of ODA in Afghanistan

The history of ODA to Afghanistan can be divided into three phases a phase before the Cold Ware (1919-1950s), a second phase during the Cold War (1960s-1990s) and a third phase after the Cold war (2001 to date). The concern of this paper is only the third phase. It should, however, be mentioned that, in the pre-war period the economy of Afghanistan was not performing well. The country was listed among the least developed countries of the world with a GDP per capita of 187 USD in 1980, the equivalent of 360 USD at current prices (McKechnie 2003).

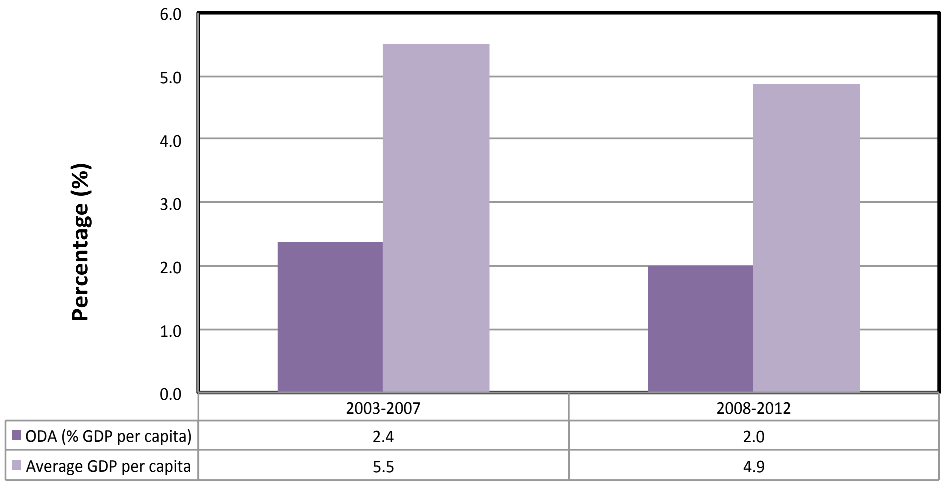
The flow of financial funds in the form of ODA was injected into Afghanistan after 11th September 2001. It was the first time in history that Afghanistan experienced a flow of significant funds in the form of official development assistance from multilateral organisations, bilateral donors and NGOs. The major objective of the assistance was war recovery, reconstruction of infrastructure and recovery of economic growth. Since the fall of the Taliban regime in 2001, the international community pledged around 90 billion USD to be allocated as developmental assistance, but only 69 billion USD was formally committed to be ODA. Of the committed 69 billion USD only 57 billion USD was disbursed between 2002 and 2010 (Nazari 2014). The amount, which Afghanistan received in the form of foreign assistance in the last decade, is small in comparison to military spending which was 10 times bigger. When compared to the previously selected six conflict-affected countries, the proportion of ODA is higher, which makes this comparison of Afghanistan with other ODA recipient countries interesting. The US military spend around 100 million USD per day while the total amount of ODA from all donors was 10 million dollars a day between 2001 and 2012 (Waldman 2008). Amiry (2014) has summarized a report of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and claims that Afghanistan has received around 104 billion USD which is higher than the 103 billion in real term of the Marshall Plan or European Recovery Plan (ERP). The reliability of data is big challenge for Afghanistan especially in terms of ODA. Our exploratory analysis of the ODA impact on recovery of economic growth will focus on the Afghan GDP per capita growth since 2001.

5.1.3 Economic Growth Recovery of Post 2001 Afghanistan

The consequences and negative impact of conflict in Afghanistan was described in the background chapter of this paper. Although after 2001 insurgency is still present and peace is not sustained but production recovered and changes took place throughout the country. In the post-Taliban period the economy developed slightly. This improvement was due to exogenous intervention in the form of ODA. CIA (2014) report estimates Afghanistan's GDP in 2011 to be composed of agriculture (20%), industry (25.6%) and services (54.4%), the industry and agriculture contribution consists of small scale production of bricks, textile, soap, furniture, shoes, fertilizer, apparel, food products, non alcoholic beverages, mineral water, cement, wheat, fruits, nuts, wool, mutton, sheepskins and lambskin.

Figure 5.1 illustrates the average real GDP growth per capita of Afghanistan for 2003-2007 and 2008-2012. The overall growth of real GDP per capita is above 5% between 2003 and 2007 and decreases to below 5% between 2008 and 2012.

Figure 5.1 Growth Recovery of Afghanistan 2003-2012



Author's construction from data source: World Bank & UNCTAD (2014)

It is remarkable to observe that between 2003 and 2007 an increase in the level of ODA results in an increase of GDP growth per capita. A decrease in the ODA level between 2008 and 2012, results in a decrease of GDP growth per capita. This pattern suggests that there is positive relationship between

ODA and economic growth (Lensink and White 2001 and Clemens et al. 2012). Why Afghanistan with its massive injection of ODA has not grown well in terms of GDP per capita is not clear, therefore the extent of the ODA impact needs investigation. Some of the conditionality of ODA's impact on the economic recovery of Afghanistan will be discussed below.

5.1.4 Comparative Analysis of Economic Growth Recovery of Afghanistan with Other Conflict-Countries

We concluded in chapter four that ODA is not the only factor influencing or dominating the economic growth of a country, the institutional environment is considered to have an equally important impact and this is confirmed by studies like (Dalgaard et al. 2004).

Afghanistan's contextual background differs from countries such as Mozambique and Nicaragua. The latter countries are peaceful, whereas in Afghanistan complete peace has not been reached. It was pointed out that the ODA contribution to recovery of economic growth is more positive in countries where 'peace is attained' (Dalgaard et al. 2004). Therefore, we will apply the same exploratory analysis for Afghanistan as we applied in chapter 4. We will include the findings obtained through interviews in Afghanistan to this case.

5.2 Conditionality of ODA's Impact in the Economic Growth Recovery of Post 2001 Afghanistan

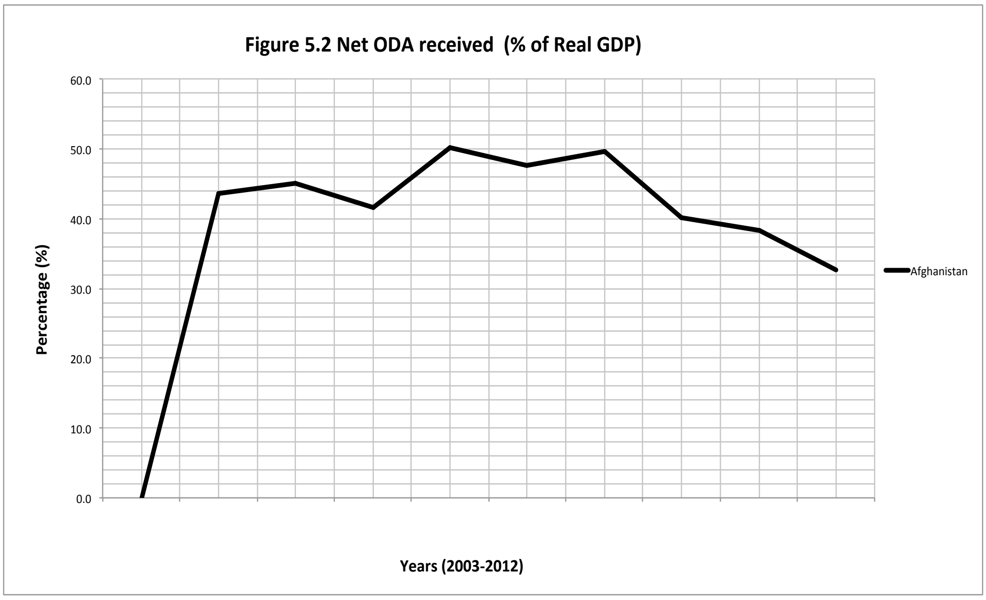
The exploratory analysis in this section follows the same path we followed in chapter 4. First the impact of corruption on the recovery of Afghanistan's economic growth will be discussed. Subsequently, the role of investment production and infrastructure will become part of the discussion.

5.2.1 Corruption

This subsection analyses the relation between corruption and the real GDP per capita growth rate of Afghanistan after injection of ODA.

The collected data on corruption, net received ODA and the real GDP growth per capita rate in Figures 5.2 - 5.4 reveal that net received ODA and the real GDP growth per capita rate are not related to corruption. Although the GDP per capita growth rate of Afghanistan is very volatile and Afghanistan is a corrupted country, it is interesting to note that the rise of corruption in 2009 coincided with a growth in the real GDP per capita growth.

From 2009 onward the country moves toward cleanliness, whereas the GDP per capita growth decreases. The increase and decrease in the GDP per capita is clearly not related to corruption but seems to be the results of increase and decrease in the levels of ODA. Therefore, we assume that there is no relationship between economic growth and corruption in post-2001 Afghanistan. The assertion is based on the observation that the pattern of GDP per capita growth rate and the levels of corruption do not match or move along the same path. Although some economists Mauro (1995) have concluded that corruption weakens the economic growth rate, our results do not support this conclusion. Instead, our findings share the conclusions that there is no relation between corruption and economic growth (Méndez and Sepúlveda 2006 and Dahlström and Lundström 2007).



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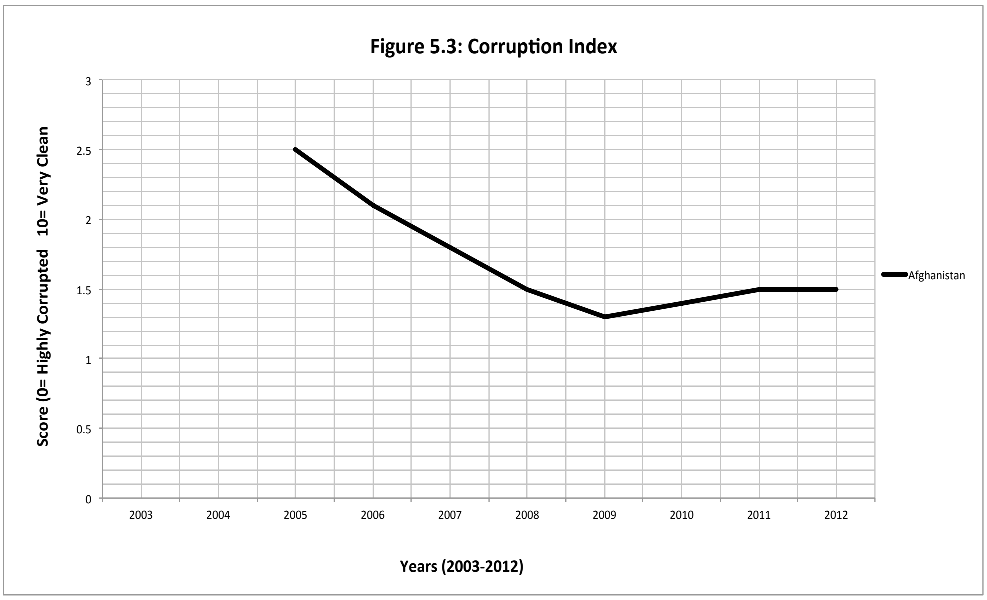
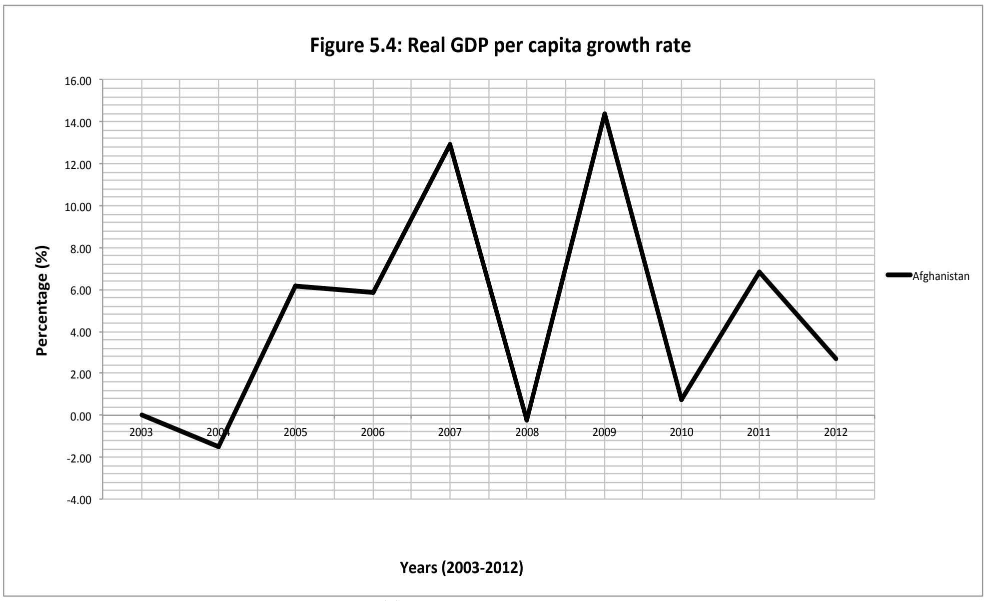


Author's construction from data source: Transparency International (2014)



Author's construction from data source: UNCTAD (2014)

The unattainable and limited economic growth recovery is not the result of corruption, in the next section we will test the assumption, whether allocation of ODA for construction of infrastructure and production is important factor or economic growth in the case of Afghanistan or not?

5.2.2 Infrastructure

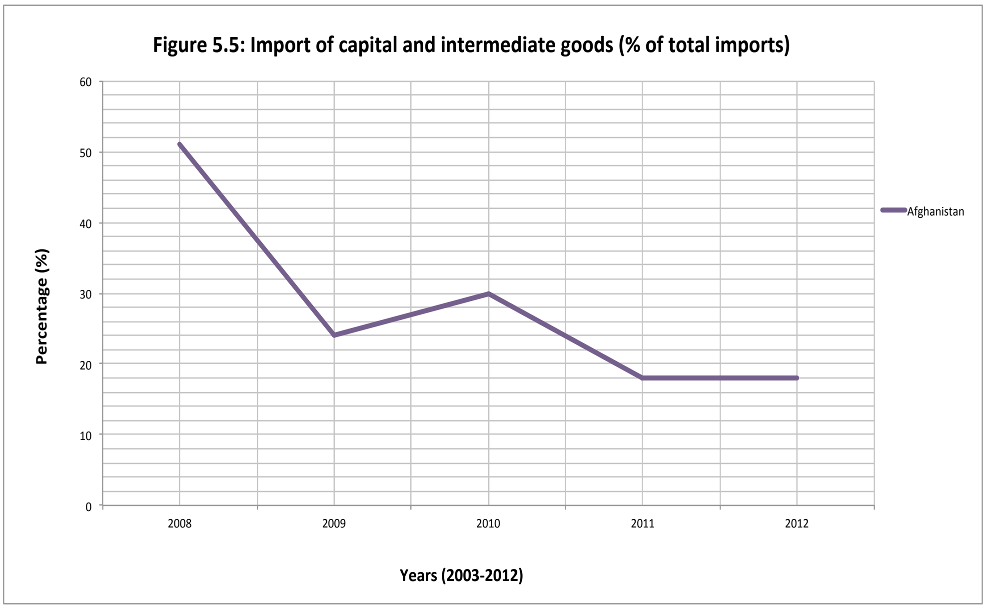
The issue at stake in our exploratory analysis of Afghanistan is, whether ODA is used for the purpose of recovering of infrastructure in Afghanistan or not? Egert et al have argued that the use of ODA for the recovery of infrastructure and production can enhance economic growth and sustain it in the long run (Égert et al. 2009). To test the use of ODA for the recovery of infrastructure and production we have selected two possible indicators: import of capital and intermediate goods and the construction of paved roads.

5.2.2.1 Import of capital and intermediate goods

We assume that the analysis of the import levels of capital and intermediate goods in Afghanistan indicates whether ODA is used to boost production or not. The import of investment/capital and intermediate goods points at increased production, whereas a low level of import indicates increased consumption (Lee 1995).

It was decided to analyse the data since 2001 because Afghanistan started receiving ODA after 2001. In Figure 5.5 we have, however, only been able to use the available data from 2008 onward.

The graph indicates that Afghanistan has not imported enough capital and intermediate goods to allow for recovery of its economic growth, infrastructure or production, despite the increase in the level of ODA.



Author's construction from data source: WTO (2014)

Therefore, the analysis in this section suggests that it is not corruption per say that has caused limited Afghan economic growth. The analysis seems to suggest that Afghanistan has not invested properly in the recovery of infrastructure and production in order to support its economic growth.

As Afghanistan has received massive amounts of ODA, we will in addition to the analysis of import of capital and intermediate goods, test how received ODA was invested in the construction of paved roads.

5.2.2.2 Construction of Paved Roads

Another method we assume to be useful for testing the use of ODA focuses on construction of paved roads in Afghanistan during the period it receives ODA. Fan and Chan-Kang have pointed at the positive impact of construction of roads in China (Fan and Chan-Kang 2005). They illustrate how important the construction of infrastructure, linking cities and border, is in enhancing a sustained, long-term economic growth.

Table 5.1 shows the collected data, which unfortunately were only available for 2004 and later. The table indicates that the percentage of paved roads increased from 18% to 36% in six years.

Table 5.1: Roads paved (% of total roads)

Country Name	1990	2004	2010
Afghanistan	0	18	36

Author's construction from data source: World Bank (2014)

The collected data suggest that Afghanistan has invested well in the construction of paved roads after 2001. The construction of roads in Afghanistan is a hot debate in the country. According to the public opinion the roads were not built to boost the economy, they were constructed for military purposes. Even if they were constructed for the purpose of military activities, they form a substantial part of the transport infrastructure in the country. Although the interpretation of the fluctuations in the GDP per capita growth of Afghanistan is difficult, the data reveal that while considerable construction of paved roads took place between 2004 and 2010, the level of GDP per capita growth was positive in this period, suggesting a positive relation with the level of construction of paved roads throughout Afghanistan.

The volatility of GDP per capital growth rate in Afghanistan not only depends on the level of ODA but is also the result of its vulnerability and shock of draught and climate as the country is heavily dependent on agriculture product. It is very crucial to note that Afghanistan is the biggest producer of poppy related drugs (opium and heroin), they are able to support the GDP, thus whatever ODA has come not only invested properly because the major contributor of Afghan GDP was drugs as per paper by (Jalali 2006). Therefore, the analysis of this section suggests that despite the massive injection of ODA Afghanistan has not invested properly in infrastructure and recovery of production. For a better understanding of the limited economic growth in Afghanistan we will present the results of a series of interviews in the next section of this chapter.

5.3 Analysis of Interview Findings

This section will discuss the methodology and data analysis. The scope, limitation, problems and weaknesses of data will be discusses especially the process of conducting an interview in Afghanistan.

5.3.1 Semi Structured Interviews

Thirteen interviews were held during six weeks in July and August of 2014. For security reasons, four interviews were by email, as this was the only way to obtain access to these organizations. In some cases time constraints made the email interview to be the most appropriate method. Interviewees were chosen from a broad range of agencies associated with ODA, being involved in provision, implementation, coordination, and management in Afghanistan. Among the interviewees were economists and experts, working for the government and donor agencies: the minster of MRRD, the deputy minister of MoITC, program directors, an executive director, an ODA coordination director, a director of operations, a chief advisor, a team leader, a program advisor and a senior project specialist. I intended to interview some key officials in the US embassy, the Dutch embassy, ADB and JICA and one university professor but this part of the plan did not work out, hence some expected elements are absent from our results.

The interviewer tried to encourage the interviewees to speak. Questions focused on why ODA did not have more impact on economic growth. The length of the interviews varied from 30 minutes to 90 minutes. Relevant literature was reviewed before every interview and discussed with the interviewees during the session.

Some interviewees worked for the National Solidarity Program (NSP) and National Rural Access Program (NRAP). These interviews were considered relevant to the main themes of the questionnaire, focusing on the role of ODA in economic growth, the role of ODA in agriculture and industries, the role of the government in the implementation of ODA.

The reason for choosing Ministry of Finance (MoF) was their central role in disbursement and coordination of ODA, the MoF served as a bridge between donors and ministries. The MoF is also responsible for the proper budgeting of ODA. The Ministry of Economy was chosen to look into the policies or strategies applied for economic development in the country. The interviewees from the other three ministries were selected because they were ministries with a massive share of ODA in their projects.

5.3.2 Data Analysis

Nine face-to-face interviews were recorded and transcribed with permission of the interviewees. The transcription is based on short notes taken during the interview. After completion of the interviews all transcripts, documents, reports, notes and other evidence were examined in depth for a period of almost 10 days. The results were ordered into themes to produce a story line and descriptive analysis for further research.

5.3.3 Scope, Limitation, Problem and weakness of data

As my research attempts to analyse what determines the economies of conflict-affected countries, with Afghanistan as my case study, ODA was assumed to have an important influence on economic growth. We realise that economic growth is complex process depending on the interplay of a variety of factors. My research does not intend to investigate other indicators such as poverty, unemployment, mainly due to limited number of words and time constraint. Afghanistan was chosen as a case study as it represents a well-documented ODA recipient country.

During the semi-structured interviews questions were asked in accordance with the expertise of the interviewees and their knowledge in understanding the effectiveness and procedures of ODA in Afghanistan. Some interviewees did not have much experience with ODA in Afghanistan, but based on their experience, they provided relevant responses for our purposes. Some interviewees were more interested to go in detail or to follow up on questions than others. Most institutions that I had selected for interviews did not reply to emails and phone calls particularly donors such as World Bank, ADB, the US embassy and the Dutch embassy. Many people addressed with a request for an interview did not reply which is really frustrating for any researcher in Afghanistan. Some persons agreed and confirmed on a date for the interview but were not available on the appointment.

With regard to statistical data, it is essential to know that the Afghan CSO does not have records on any indicator in the last decade. The data on ODA in the Afghan database at the Ministry of Finance is limited. Weak coordination between government and donors resulted in a very limited recording of data.

A mixed method of quantitative and qualitative was considered as an alternative to regression analysis because Afghanistan is a country with limited sources for data. The data for economic indicators is not available for pre-conflict period, missing for the period of conflict and very weak for the recovery period. In this situation the method of referring to experts and experience of officials seems to be the best alternative for an analysis of primary data.

5.3.4 Analysis of Interview Findings

The debate on the extent of the impact of ODA on the recovery of economic growth involves the institutional environments and macroeconomic and national development strategies. Boone (1994) explained this situation; poor countries, which have relatively, sound policies for their economy benefits more from their good policy making the external capital resource from ODA in supporting their economy. He also indicated, in countries with unsound economic policies, aid is invested in unproductive areas like on government expenditures. It is very common in conflict-affected countries to observe the injection of ODA, particularly in the case of Afghanistan. The flow of ODA to the country since 2001 has grown considerably. With the flow of ODA into Afghanistan the economy could have grown further without the presence of obstacles in its institutional environment, its national development strategies and its macroeconomic policies. In the assessment of the expert interviews these obstacles became apparent, we analyse them in more detail below.

The ODA provided to Afghanistan has mainly found its way to non-developmental sectors. For instance, from the total disbursed ODA, 51% is spent on security. The respondents indicated that the ODA budget has been suffering from the problem of accountability. Accordingly, the respondents of MoF indicated that more than 82% of the ODA between 2003 and 2012 has been disbursed off budget (beyond the government's budget control). Only 49% has been spent in development, the respondents of the MoF indicated physical infrastructure, agriculture, rural development and governance. Other funds went to social protection, education and private sector. Based on this information we can conclude that a minimal amount has been allocated for recovering and stabilizing Afghanistan's economic growth. This also has been found in detail study by (Waldman 2008).

Although 51% of total disbursed ODA was spent on security, the respondents raised the issue of insecurity as main cause for limited economic growth of Afghanistan in the last decade. They claim that peace is not only supporting a calm life but represents the main factor contributing to social and economic development. Some respondents blame insecurity for the high transaction cost of contracts. For instance, companies, national or international, include in their biddings the costs of security. Security, which should be a public good, became privatized in order to run developmental activities. Security became so expensive that millions of dollar had to be spent to secure areas for work. Security of an area was not for the purpose of public security, which could contribute to economic growth, but was merely a temporary security for the staff or the project site only. That is why insecurity became a major obstacle for economic growth in the country. The negative consequences of insecurity have been confirmed by Collier and Hoeffler (2002), that countries that have peace can grow faster but those lacking will suffer and the economic growth will be very slow.

The Ministry of Economy officials pointed at another main cause for the limited impact of ODA on economic growth: the absence of a national development strategy. It was mentioned that Afghanistan witnessed an injection of ODA between 2002 and 2008 without any plan for national development. The Afghanistan National Development Strategy (ANDS) was inked in 2008. Based on this plan government and donors allocated more funds for infrastructure with the aim to recover production and economic growth. National development strategy is very important for economic growth in a country. Lin *et al.* have stressed the importance of the national development strategy and economic reform in China (Lin et al. 2003). Unfortunately, Afghanistan has not been able to implement any reform in the past thirteen years of the Karzai presidency, which could have enhanced economic growth and development (Mohsini 2014).

The most common criticism shared by the majority of the respondents focused on the way in which ODA was channelled. In Afghanistan the area of spending ODA was mainly a donor driven interest. The donors were mostly interested to invest in social priorities such as democracy, human rights, and gender equality and women empowerment. This preference resulted in the neglect of Afghanistan's main economic priorities. Most other Afghan respondents and even the international advisors noted that ODA had the potential to push for more the economic growth if the received funds had been reallocated from non-economic development sectors like the military and security, democracy, human rights, gender, counter narcotics toward economic development projects such as infrastructure transport (roads and railways), mines, dams, electricity, industries and agriculture (Waldman 2008).

Corruption is currently becoming the main obstacle causing ODA money to miss its target. In the case of Afghanistan, the respondents indicated that, the prevalence of corruption in the nation is due to the destruction of the judiciary system, the growing sense of dishonesty among the general public and the loss of trust in the Afghan government.

The prevalence of corruption associated with weak governance and limitations of manpower made ODA money inaccessible for investment in production or infrastructure. Some respondents disagreed on the issue of corruption in the government institutions. They claimed that it is not only a matter of a corrupt government but the donors themselves are also corrupted. They concluded that donors exported corruption to Afghanistan as they spent the high portion of ODA money, while the government control was limited to petty amount of ODA. Some argue that donors in Afghanistan had developed a system for dealing with ODA money, only 30% went to the beneficiary and the remaining 70% was channeled to companies administering costs and miscellaneous expenses, with whom they are supposed to have hidden agreements. The corruption indices of Afghanistan are very high and have been confirmed by many studies (Margesson 2009; Waldman 2008 and Noori 2014)

The majority of respondents argued that limitations in the internal human resource capacity resulted in allocation of ODA for high salaries of international experts and employees. Similarly, international companies were hired to be capturing the contracts in Afghanistan. This caused the total costs of projects to increase significantly, some respondents pointed out that the cost of constructing one kilometre of asphalt road in Afghanistan is four to five times higher compared to neighbouring countries. Other respondents noted this has happened only in those contracts that were awarded and implemented by donors, when the government evaluated the cost of both donor driven and government driven projects the costs of implemented government project with almost the same quality were four times lower than the projects channelled through donors. Ii is a hot debated in the literature too (Waldman 2008).

Many respondents claimed that the limited impact of ODA on economic growth could also be attributed to a fault on the side of agencies, since the donors were interested in rapid impact projects, this tendency may have favoured the allocation of ODA to short-term projects. A majority of the projects face a problem of sustainability. Therefore, there is no clear insight in donor implemented projects, even after the completion, how much ODA was spent. Furthermore, some respondents add the issue of alignment and coordination between donors and government institutions. Both the government and donors did not have a joint mechanism in handling the ODA disbursement. This caused the economic services to be parallel in the structure and weakened the government's power, which in turn drove project donors out without any attention to economic growth the region. This can be deduced from the policies followed by many donors (Waldman 2008).

Some respondents claim that ODA has not highly supported Afghanistan economic growth because almost all donors had their own priorities and political agenda. So, when intention is different from reality, it can negatively change the objective, which has happened with ODA in Afghanistan. Prakash has pointed out the drawbacks of the political agenda via ODA (Prakash 2003).

Others blame weak governance, lack of accountability and transparency and very weak macro-economic policies. Afghanistan lacks good governance, transparency and accountability and has no macroeconomic policy to deal with money inside the economy. The economy was not managed properly as it was supposed to, the rapid transformation from a closed economy to an open economy (e.g., free trade) was seen as one of the causes why ODA could not be managed in an efficient way. In this process, companies of the donor countries along with their international advisors benefitted. Or, simply said, very little profits were earned by Afghan nationals from their investment whereas the big portion of profit went into the pockets of international companies and advisors. It would have been possible to reinvest these profits through macroeconomic policies in Afghanistan but unfortunately due to absence of proper macroeconomic policies the capital fled to other cities and countries, especially to Dubai, Istanbul and Western countries. The absence of sound policies and weak public financial management has caused the capital flight (Collier 2009).

5.4 Concluding Remarks

The exploratory analysis of the data collected for Afghanistan shows that there is a positive relationship between ODA and economic growth. The findings suggest that economic growth is not linked to corruption. So, economic growth can be enhanced in either corrupted or non-corrupted countries on the condition that it is used for the purpose of recovery of production and investment in infrastructure. The findings in the majority of the interviews in Afghanistan show that ODA in Afghanistan is not allocated for the recovery of economic growth but ODA was rather used in efforts of sustaining peace, building a state, equipping the police forces and the military, supporting democracy, organizing election and many other issues which are discussed above. More focus on the recovery of production and rebuilding infrastructure would have improved the effect of ODA.

Chapter 6
Conclusions and Recommendations

6.1 Conclusion

In answering the general research question of this research, what Official Development Assistance can contribute to the recovery in economic growth of conflict-affected countries and to what extent its impact depends on conditionality, this study clarified that ODA has widely contributed to economic recovery of conflict-affected countries. In more detail this study found that ODA could achieve a stronger impact when it is used for the recovery of infrastructure and production.

Regarding the thesis that ODA to contributes to the real GDP per capita growth, it is evident from the exploratory analysis that no systematic relationship has been observed between corruption in conflict-affected countries and the real GDP per capita growth. It is widely accepted that ODA will be most beneficial in conflict-affected societies in which good policy and institutional environment are present. A good policy and institutional environment in which capital is systematically invested will definitely increase the economic growth.

The exploratory review of economic growth in six countries during conflict and a detailed description of the economic conditions in Afghanistan revealed that in case reconstruction of infrastructure and financing of big projects is not possible due to absence of savings or internal financing, exogenous intervention such as foreign aid in the form of ODA is a major factor in reconstruction, especially economic growth recovery.

A comparison of the process in a selected group of countries and the data obtained from interviews during fieldwork in Afghanistan revealed several possible explanations why the impact of ODA does not always achieve maximum effect.

In some countries ODA has not contributed to economic growth. It was channelled from development activities to non-development sectors due to lack of sound policies. Reychler and Langer (2006) have pointed out that most studies and reports conclude that recovery of economic growth of conflict-affected countries via ODA focuses mainly on 'peace building' or 'nation building' with rare or little concern for economic development. These priorities can have a bad impact on growth of conflict-affected economies.

With respect to the objective of this thesis to investigate the efficiency and to discover analytical tools to measure the efficiency of ODA, it has been observed that filling in the savings gap is one of the first steps toward recovery of economic growth. After the savings gap has been filled in investment in, infrastructure and production recovery period is the next step. This part of the ODA management can be monitored with an annual analysis of the level of import of capital and intermediate goods, the progress in rebuilding the transport network (e.g., roads and railways).

6.2 Policy Recommendations

The context of present global assistance of countries devastated by war and global assistance in rebuilding war-affected economies the governments, multilateral institutions and NGOs have put forward an agenda regarding rethinking the Official Development Assistance management and policies.

More specifically in the upcoming period in which foreign combat troops are leaving Afghanistan at the end of 2014 a new era with improved supervision of ODA use may be called for since evidences collected in Afghanistan suggest that ODA can be made more effective if infrastructure becomes the major focus.

It is clear that only ODA without closely monitoring its efficiency and results for infrastructure and production in a country is not a solution for promoting savings, investment, recovery of infrastructure and production, rather it would reduce ODA to a short-term tool to boost economic recovery without arriving a sustainable level of GDP growth.

Hence, one may have to rethink how the goals of ODA could be realized. Is it simply opening the flow of money into a conflict-affected country? Or can regulations help to channel the money into sectors of the country's economy that have been listed in an international and nationally agreed development policy?

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