Executive Summary

Opium Poppies & the Afghan Economy

Opium cultivation in Afghanistan has a significant economic impact. Data from the United Nations Office on Drugs and Crime (UNODC) and the World Bank shows that the value of Afghan opium equalled nearly half of the country’s gross domestic product (GDP) in 2004. Subsequent economic growth diluted the significance of poppies, though opium comprised 15% of Afghanistan’s GDP in 2011 and remains economically important. This report addresses both the economic costs of poppies and the links between poppies and Afghanistan’s licit economy.

**Economic Costs of Poppy Cultivation.** Research from the UNODC, the World Bank and other organisations indicates that poppies have significant costs for the licit economy. A selection of these are briefly summarised below.

- UNODC suggests that poppy cultivation and the drug trade have undermined economic growth in Afghanistan by contributing to insecurity and corruption. A US Senate report states that “the flow of illicit drug profits …[is] bankrolling the Taliban and fueling the corruption that undermines the Afghan Government.”
- The International Monetary Fund (IMF) finds that the high wages paid to those tending the poppy crop drive up the cost of wage labour and “negatively affects the competitiveness” of Afghan manufacturing and other industries.
- Poppies also lead Afghans farmers to “take out loans to cultivate large amounts of opium poppy, creating a vicious cycle of debt that cannot be broken by shifting back to licit crops”, says a 2007 US government study. One NGO found some farmers are never able to pay off the loans and in essence become indentured labourers.

**Links between Afghanistan's Licit Economy and Opium Poppies.** While poppies are commonly viewed as an economic obstacle, researchers have also noted that they are significant to the Afghan economy for the reasons summarised below.

- One expert, David Mansfield, finds that opium poppies are a major cash crop and source of capital which some farmers use to finance licit enterprises or the cultivation of “alternative crops” such as wheat, fruits and vegetables.
- Poppies are “the main cash crop” in Afghanistan, and “opium-related income contributes primarily to higher consumption”, according to a UNODC publication. Mansfield also finds that, in Helmand, local business owners indicate that demand at local markets is particularly driven by poppy farmers.
- The wage labour associated with poppy cultivation would not be generated by other widely-grown crops, particularly wheat, according to a past UNODC report. That report found that 85% of all person-days of labour hired in Nangarhar province in 2006, to provide one example, were dedicated to poppy cultivation.
- Lastly, Mansfield’s research finds indicates that the profits generated by poppies enable consistent investment in the land, including weeding, crop rotation and the installation of irrigation tubewells, and thus prevent soil degradation.

The full report further discusses the economic effects, as identified by experts, of various counter-narcotics approaches. The report cites research which suggests that eradication may lead to expanded poppy cultivation while entrenching poverty among poor households. In addition, other approaches, such as interdiction and alternative livelihoods, are outlined, and their economic implications are summarised.

With the World Bank and others indicating that Afghanistan will face an economic slowdown as international security and development assistance declines in the years leading up to and after 2014, experts cite a need to address Afghanistan’s poppy challenge in a way that does not undermine future potential for licit economic growth.

WANT TO READ MORE? The full report on “Opium Poppies and the Afghan Economy” delves into further detail. To read this report and others from the CFC, visit our Afghanistan Homepage at: www.cimicweb.org/emo/afg.
Opium Poppies & the Afghan Economy

Part 2 of a 5-Part Series on Counter-Narcotics Issues in Afghanistan

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This is the second report in a five-part series addressing counter-narcotics efforts in Afghanistan. This document reviews a number of ways in which poppy cultivation and illicit drugs contribute to and detract from the Afghan economy. Further information on these issues is available at www.cimicweb.org. Hyperlinks to source material are highlighted in blue and underlined in the text.

Poppies are cultivated in Afghanistan and the transnational drug trade it enables are often viewed primarily with regard to security, insurgency and corruption. A report from the United States Institute of Peace (USIP) indicates that, since 2001, “the poppy trade has played a critical destabilizing role, both in corrupting the Afghan government and police and in bankrolling the resurgence of the Taliban”. Such perceptions are common, according to a US Public Broadcasting Service article, and have given rise to a series of strategies, particularly eradication, focused upon ridding Afghanistan of poppies. However, as noted later in this paper, every approach to counter-narcotics has a significant economic impact given that – regardless of its illegality – poppies and drugs are major components of the Afghan economy. Each of these economic impacts has further implications for security, governance and politics, according to a report from New York University’s Center on International Cooperation. That is, ridding an area of poppies quickly may deny insurgents a portion of their funding but may also result in spiralling poverty rates, increased unemployment and underemployment and a more attractive recruitment environment for insurgent elements. Understanding poppy cultivation and narcotics trafficking as an economic issue also helps to broaden their relationship to stabilisation efforts.

This report reviews the role that poppy cultivation and narcotics trafficking play within the Afghan economy. It addresses the total value of the drug trade and the general division of related income among farmers, landowners, dealers, traffickers and others. It then turns to the manner in which poppies both undermine and contribute to licit
forms of economic growth. Lastly, the report concludes with a brief discussion of the economic implications of various counter-narcotics strategies which have been proposed and pursued. As with all reports from the Civil-Military Fusion Centre (CFC), this document relies entirely on open-source information and attempts to reflect the findings of organisations specialising in poppy cultivation, narcotics trafficking, criminality and economic growth in Afghanistan.

**Key Figures & Information**

As demonstrated in Figure 1, opium production is a significant economic force in Afghanistan. Data from the United Nations Office on Drugs and Crime (UNODC) and the World Bank shows that the value of Afghan opium equalled nearly half of the country’s gross domestic product (GDP) in 2004. Subsequent economic growth diluted the significance of poppies, with opium comprising 15% of Afghanistan’s GDP in 2011. As Figure 1 reflects, poppies become proportionally less important to the Afghan economy in recent years. However, this trend primarily reflects fluctuations in the value of poppies and, more significantly, the increase in Afghanistan’s licit GDP, which grew from a modest USD 2.46 billion in 2001 to USD 5.7 billion in 2004 and USD 17.90 billion in 2011. Despite the fact that 38% more opium was produced in Afghanistan in 2011 than in 2004, according to a recent CFC report, the proportional economic significance of the poppy crop was far smaller.

**Figure 1. Opium Production as a Percentage of Licit GDP in Afghanistan, 2004-2011**

As discussed in the CFC’s recent report on “Illicit Drugs & Afghanistan: Key Trends” by Eray Basar, the increase in poppy cultivation in 2011 was driven by increased yields of opium per hectare of land cultivated with poppies. Per hectare yields, which are heavily affected by climate, water supply and crop disease or infestation, are among several factors influencing the economic value of opium production in Afghanistan. In addition, the recent, current and projected supply of opium also plays a role. According to UNDOC, the price of opium quadrupled from 2009 to 2011 because of the effect of crop disease.

Price signals and other economic dynamics are important in impelling Afghan farmers to begin or continue growing poppies, according to UNODC’s most recent “Afghanistan Opium Survey”. When asked to explain the main reason which led them to cultivate poppies over alternative, licit crops, 93% cited economic factors. In total, 59% credited the high price of opium at the time (as noted above); 13% said they grew poppies to improve their living conditions, and another 13% indicated that poverty drove them to cultivate the crop. Lastly, 8% indicate that poppies enabled them to gain significant income from relatively little land.

Understanding Households’ Poppy Income

Afghanistan’s Minister of Agriculture, Irrigation and Livestock, says the average Afghan household has access to only one hectare of land, which is significant to the economics of poppy cultivation. Christopher M. Blanchard with the US Congressional Research Service (CRS) remarks that those farmers with greater access to land often receive far greater profits from poppy cultivation than small land-holders. The difference in incomes was only partly related to the amount of land available to each. David Mansfield, one of the leading experts on poppies in Afghanistan, provides greater detail regarding this issue in a chapter on “Responding to the Challenge of Diversity in Opium Poppy Cultivation in Afghanistan”. He describes the case of a typical, poor sharecropper. This individual sharecrops a hypothetical one-third hectare of land in 2005, when UNODC indicates that a hectare of poppies was worth approximately USD 5,400. The farmer would thus hypothetically received USD 1,800 from his crop. However, the sharecropper is obliged to provide two-thirds of his crop to the landowner as rent. Given that the sharecropper is from a very poor household, he was obliged to sell his remaining third of a hectare of poppies in advance at a reduced rate – about 50% of the market value – in order to get sorely needed cash for food and other basic needs. Hence, his household receives approximately USD 300 in income. This amount of money does not go far in poppy-growing areas, which tend to have among the largest households in Afghanistan. Hence, the farmer and his family would likely be left either with no savings or in debt. Mansfield contrasts this example with that of a relatively better-off landowner, who receives two-thirds of the poppies grown on his land by sharecroppers and who has sufficient money to delay selling his share of the crop until the market price is at its highest point. This hypothetical landowner would have, in 2005 terms, received up to USD 7,200 per hectare. Further and larger profits would eventually accrue to opium dealers, processors and traffickers.

Economic Costs of Poppy Cultivation

Research from the UNODC, the World Bank and other organisations (discussed below) indicates that poppies have significant costs for the licit economy. These include evident factors such as contributing to insecurity and corruption, both of which discourage investment, as well as more subtle second- and third-order effects related to the value of wage labour, currency stability and indebtedness.

Undermining the Investment Climate

A 2006 report on “Macroeconomic Impact of the Drug Economy and Counter-Narcotics Efforts” suggests that poppy cultivation and the drug trade have primarily undermined economic growth in Afghanistan by contributing
to insecurity and corruption. A US Senate report arrives at a similar conclusion, stating that “the flow of illicit drug profits …[is] bankrolling the Taliban and fueling the corruption that undermines the Afghan Government. Tens of millions of drug dollars are helping the Taliban and other insurgent groups buy arms, build deadlier roadside bombs and pay fighters.” The US Senate publication says that corrupt officials and insurgents are linked through the drug trade, and the World Bank suggests that armed groups, corrupt officials, poor security and the “opium economy” are part of what it terms a “vicious circle” (see Figure 2). In short, this circle (or cycle) involves poppy profits accruing to armed groups, including warlords as well as insurgents, who then use the money to prevent the government and international community from disrupting their illicit enterprise by launching attacks and bribing officials.

![Figure 2. The Vicious Circle of Afghanistan’s Drug Industry](source:William A. Byrd, “Responding to Afghanistan’s Opium Economy Challenge”, World Bank, 2008)

In a situation marked by insecurity and corruption, investment in the licit economy declines. The linkage between corruption and investment was recently highlighted in a January 2012 CFC report, which found that corruption discouraged investment in a number of ways, including by rendering it difficult for potential investors to estimate “informal” expenses (e.g., bribes) and difficult to secure enforceable property rights. Accordingly, by feeding into Afghanistan’s corruption challenge, poppy cultivation and narcotics trafficking reduce the likelihood that investors will be willing to become involved in Afghanistan.

**Driving Up Labour Costs**

Poppies are a highly labour-intensive crop, according to UNODC’s 2009 “Afghanistan Opium Survey”. For example, to increase yields, poppy fields are typically weeded three times per year, and the harvesting of the opium gum involves a process known as “lancing”. Lancing is “the act of incising opium capsules during harvest using a sharp instrument, causing the opium latex to ooze out of the capsule”. A study from the UK Department for International Development (DFID) and the World Bank indicated that Afghanistan’s 2006-2007 growing
season could have generated 70 million person-days of labour, approximately one-third of which would have gone to wage labourers. While many of these person-days are provided by farmers and their families, the work involved in the harvest often requires the hiring of others. Hence, the price paid to labourers in poppy-growing areas is a major influence upon the price of wage labour.

Figure 3. Daily Wage Labour Costs in Afghanistan, 2009-2011

According to the International Monetary Fund (IMF), the value of poppies and opium means that those helping to tend and harvest the crop receive a premium for their services and this drives up the cost of wage labour across a province or the entire region (since many wage labourers travel from area to area, following the poppy harvest). For instance, an individual lancing poppies to extract the opium gum in 2011 could receive up to USD 12.6 per day, an amount which is nearly twice that available for all other forms of labour, according to UNODC (see Figure 3). An IMF report states that “the drug economy negatively affects the competitiveness of other domestically produced goods through high wage rates and a higher real exchange rate”. In short, private enterprises are required to pay higher rates for wage labour in poppy-growing areas, undermining the viability of manufacturing and other forms of licit growth. A chapter in a joint UNODC-World Bank volume arrives at the same conclusion, noting that the poppy industry raises the costs of labour in all sectors in poppy-growing areas and that this dynamic discourages economic diversification. With UNODC reporting a 35% increase in the value of lancing labour between 2010 and 2011, it seems possible that this imbalance may persist into the future.
Increased “Dollarization” of the Economy

In a piece written for the World Bank and UNODC, Edouard Martin and Steven Symansky write that a heavy economic reliance on poppies may have contributed to the “dollarization” of the economy. “Dollarization” generally refers, according to the IMF, to a country’s adoption of a foreign currency, most commonly the US dollar, as its official or primary currency of exchange. Martin and Symansky note that the drug trade in Afghanistan and the region primarily uses US dollars as well as Pakistani rupee and Iranian rial for transactions and that, as a result, the position of the afghani as the country’s primary currency is weakened. The Wall Street Journal recently reported that the Afghan government had been auctioning off USD 2.4 billion per year to stabilise the country’s currency (albeit primarily as a result of the export of hard cash from the country). In addition, an August 2011 CFC report concluded that the use of foreign currencies, particularly the Pakistani rupee, was causing depreciation of the afghani and even inflation in parts of the country.

Debt Cycles

Poppy cultivation also has negative implications for the economic well-being of individual farmers, particularly poorer farmers who are obliged to take on debts year after year. A 2007 US government study found that “some farmers take out loans to cultivate large amounts of opium poppy, creating a vicious cycle of debt that cannot be broken by shifting back to licit crops”. That is, a farmer takes out a loan in one year to grow poppies. If the poppy yield is not sufficient, that same farmer may be unable to fully pay off the loan. He may thus be forced to grow poppies the next year in order to attempt to pay off the loan. Since loans are often given on disadvantageous terms, according to the French NGO Urgence Réhabilitation Développement (URD), some farmers may ultimately never be able to pay off the loans and in essence become indentured labourers.

Opium & Afghanistan’s Licit Economy: Interdependencies

While opium poppy cultivation is most commonly viewed as corrosive with regard to security, governance and development in Afghanistan, researchers have also noted that it is closely inter-connected to licit economic activities. As presented below, these connections revolve around the following: (i) access to capital, (ii) consumer spending, (iii) wage labour opportunities, (iv) access to land and credit and (v) investments in soil quality and irrigation.

Access to Capital

Mansfield, in an October 2011 study of poppies and counter-narcotics efforts in Helmand and Nangarhar provinces for the Afghanistan Research and Evaluation Unit (AREU), highlights the role that poppies play in providing capital for licit economic activities. He writes:

“Ironically, for those looking to invest in other, licit income streams, further counternarcotics efforts will likely be seen as a threat, since individuals often use the proceeds from the sale of their opium as capital for investment. For example, one respondent reported that he intended to use the money he earned from the sale of his opium to purchase an ice cream store. Were this opium to be seized, as many respondents increasingly fear, these farmers would be bereft of both on-farm and nonfarm income.”

Mansfield’s research identifies opium poppies as a key cash crop and source of capital which some growers may use to feed into licit enterprises. Echoing this point, a report on “Afghanistan: Narcotics and U.S. Policy” for CRS...
suggests that reduced poppy cultivation makes lenders less likely to provide loans given that most loans in poppy-growing areas were tied to an anticipated poppy harvest.

**Consumer Spending**

While the majority of profits from the narcotics industry do not accrue to the agricultural households in rural communities, experts note that the loss of poppy-related income does impact consumer spending. The piece by Martin and Symansky points out that poppies are “the main cash crop” in Afghanistan and that “farmers spend most of their income, and that opium-related income contributes primarily to higher consumption, in particular of non-subsistence goods”. Martin and Symansky note that poppy-related income primarily finances consumer spending on basic needs such as food, fuel, and healthcare but that Afghans with sufficient poppy income also purchase non-essential items such as cars, televisions, generators and other goods that contribute to the local economy. While such purchases may not, in nation-wide terms, be a major economic force, poppy-related consumer spending is primarily concentrated in those areas which are highly economically dependent on opium.

For instance, Mansfield’s 2011 report says that in Helmand, the province which produces the greatest amount of opium:

“Shopkeepers in Lashkar Gah and Gereshk report that the primary customers for meat and vegetables are the farmers that continue to cultivate opium. Those trading in cloth, vegetables, wheat flour and other food products in Gereshk are selling much of it at a premium to fellow traders in the bazaars of northern Helmand where opium poppy cultivation persists. There is thus a risk that a significant reduction in opium in these areas may also result in a contraction in the legal economy and the benefits it offers.”

The IMF, in a 2005 report on Afghanistan, found that poppy cultivation and the drug trade “adds to the demand for domestic products and improves the balance of payments. It impacts the nondrug economy primarily through the income it generates”. The IMF goes on to note that, in 2004, Afghan farmers were believed to have received approximately 25% of the USD 2.8 billion generated by the drug trade and that they spend much of this money on domestic markets. Hence, consumer spending would be undermined in poppy-growing areas, in particular, if poppies were suddenly unavailable in Afghanistan. The following section reviews the economic implications of varied counter-narcotics strategies.

**Wage Labour Opportunities**

As discussed in the preceding section, poppies are not only an important source of income for the farmers but also for those individuals who are temporarily hired to help harvest the crop. If one considers that approximately 23-24 million person-days of wage labour may have been dedicated to harvesting Afghanistan’s poppy crop in 2006-2007, according to the aforementioned DFID-World Bank study, this likely generated tens if not hundreds of millions of US dollars in income for rural households. To put the situation into perspective, Mansfield found that 85% of all person-days of labour hired in Nangarhar province in eastern Afghanistan were dedicated to poppy cultivation rather than to other activities. Such person-days of wage labour would be unable if poppies ceased to be cultivated. While licit agriculture also generates wage labour, other widely cultivated crops do not require as many days of labour given that most elements of cultivation can be managed by farmers’ own families.

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1 See chapter 3 of the hyperlinked publication.
Access to Land and Credit

For many Afghan households which lack access to agricultural land, poppy cultivation is the only way they are able to gain access to land and the credit needed to purchase agricultural inputs such as seeds and fertiliser. A study by Christopher War, David Mansfield, Peter Oldham and William Byrd found that, without poppies, landowners would not be inclined to make their land available to sharecroppers. Few other crops offer the same income and the same labour-intensive cultivation process as poppies. A landowner unable to grow poppies would find it more financially appealing to cultivate his own land with wheat, fruits or vegetables and to keep the entirety of the profit for himself rather than allowing sharecroppers to receive a third of the income. Hence, the study found that the difference for the poorest of landless farmers was not between poppies and licit crops but between poppy cultivation and even deeper poverty. Stating this point clearly, Mansfield writes: “Were the land-wealthy to cultivate other crops (typically with much lower labour requirements) instead of opium poppy, the land would no longer be available to sharecroppers or for lease but would be farmed using family labour of the landowner or relatively few wage labour inputs.” He concludes that, without poppy-contingent forms of credit, poorer households may have insufficient money for basic needs.

Investment in Soil Quality and Irrigation

Mansfield’s extensive research on poppies further finds that the crop enables consistent investment in the land and thus prevents soil degradation. The income derived from poppy cultivation is sufficient to enable farmers to pay for quality fertilisers and regular weeding of the soil. Other crops with lower profit margins are generally weeded once per year, while poppies are weeded three times in most cases. Furthermore, income from poppies also enables the introduction of techniques designed to prevent soil erosion and maximise the effectiveness of irrigation water. For instance, in Badakhshan province, Mansfield found that farmers in certain poppy-growing areas introduced “bunding” given that they had access to sufficient resources. Bunding involves the adding of soil embankments to slow the water flowing across fields in order to prevent soil erosion and capture more irrigation water. In addition, Mansfield spoke with farmers in multiple provinces who had, due to poppy-related income, been able to add tube wells with which to irrigate their land. He writes: “Those who used tubewells [...] were unanimous in their view that few other crops [besides poppies] could provide the access to credit require for installation or rent of a tubewell”. Lastly, Mansfield found that the profits enabled by poppies allowed landowners to farm their land less intensely, allowing it to remain fallow every two to three years, thus preventing the soil from being degraded. Less profitable crops may be cultivated year-round every year.

The Economics of Counter-Narcotics Strategies

This section briefly addresses the various economic implications of commonly-proposed counter-narcotics strategies. These include the following: (i) eradication, (ii) interdiction and (iii) alternative livelihoods.

Eradication

Eradication, according to Byrd’s report on “Responding to Afghanistan’s Opium Economy Challenge”, includes the actual destruction of poppies as well as threats to do so. Such interventions aim to increase the uncertainty and “opportunity costs” associated with poppy cultivation, thus making it too risky for farmers to plant. However, Byrd finds that the effects of eradication are short-lived and that, unless eradication or credible threats of eradication persist, farmers tend to return to planning poppies. In addition, his research shows that poppies are “footloose” across both space and time and that “impressive reductions in opium poppy cultivation [are] being offset by increases in other areas and/or in subsequent years”. In addition, both Byrd and Mansfield highlight the
negative effects that eradication efforts may have upon poor households in rural areas. Mansfield finds that households adopt a number of coping strategies to adapt to the loss of income from poppy production and poppy-related wage labour in areas of widespread eradication. For instance, in Helmand in 2011, he learnt that families were reducing the quantity and quality of food they consumed, postponed seeking necessary medical care, withdrew children from school and ceased paying off loans or marriage-related payments. In addition, some households were reportedly forced to sell their “long-term productive assets”, which rendered them less capable of earning a licit source of income in the future. For a case study of the implications of one eradication-focused effort, which also included elements related to alternative livelihoods/crops, see Box 1 on the “Food Zone Programme” in Helmand.

**Box 1. The Helmand Food Zone Programme**

The Food Zone Programme (FZP) is an Afghan-led initiative developed and launched by Governor Gulab Mangal of Helmand province in early 2008, shortly after he took office, according to Jeffrey Dressler of the Institute for the Study of War. The initiative aimed to reduce the cultivation of opium poppies, a practice which – combined with narcotics trafficking – was seen as undermining provincial governance and security. Available open-source information concerning the FZP portrays the programme activities in somewhat differing terms. Nearly all reports, however, note that the programme included the following three components: (i) distributing heavily subsidised wheat seeds and fertilisers to Afghan farmers who agreed to cease growing poppies; (ii) mandating that farmers sign a pledge not to grow poppies in exchange for the subsidised seeds and fertilisers; and (iii) undertaking targeted eradication against some farmers in the area who continue to cultivate opium poppies.

An unpublished (but widely cited) study by Cranfield University in the United Kingdom noted that the programme led to a year-on-year reduction in poppy cultivation of 37% in targeted areas in Helmand between 2008 and 2009, according to UNODC. Outside of the target areas, poppy cultivation increased by 8% during that same period. However, other research questioned the effectiveness of approaches such as the FZP. For instance, the French NGO URD suggested that the FZP caused poppy cultivation to increase in neighbouring areas, thereby increasing the geographical scope of the problem. Mansfield writes that farmers whose poppies were eradicated “have been compelled to reduce the amount of land they cultivate with wheat and other crops” given that they had less access to capital and loans, which are both heavily rooted in the poppy trade, with which to purchase needed inputs such as seeds and fertiliser. Mansfield further noted that an influx of foreign and Afghan troops into Helmand in and after 2009 also likely bears partial credit for the reduction in cultivation in that province.

**Interdiction**

Byrd notes that interdiction is another common counter-narcotics approach. According to a US Government Accountability Office (GAO) report, “interdiction programs aim to decrease narcotics trafficking and processing by conducting interdiction operations, which include, among other things, raiding drug laboratories; destroying storage sites; arresting drug traffickers; conducting roadblock operations; seizing chemicals and drugs; and conducting undercover drug purchases”. While interdiction by the Afghan National Security Forces will be addressed in a forthcoming report from the CFC, Byrd notes that, economically speaking, it sidesteps some of the economic challenges posed by eradication. Interdiction commonly targets those trafficking in opium, narcotics, precursor chemicals and cash rather than poor rural farmers and wage labourers, thus penalising those in the drug trafficking system who receive the lion’s share of the profits. Yet Byrd also finds that interdiction in Afghanistan
has been highly subject to corruption given that politically-connected and bribe-paying traffickers are generally able to circumvent interdiction or may use Afghan government interdiction efforts to target their competitors in the drug trade. Citing research by Adam Pain, Byrd writes: “Cases have been reported of drug traders being arrested but then released in return for a payment, and of their drug shipments being confiscated, not for destruction but for onward sale by corrupt local authorities, including the possibility of returning part of the shipment to the trader concerned for an additional payment.” Accordingly, interdiction efforts, when affected by corruption, may contribute to the consolidation of the drug trade among a few leading traffickers and may entrench the sorts of corruption that, as previously noted, discourage investment into the country.

*Alternative Crops/Livelihoods*

Alternative livelihoods are defined as “replacing economic dependence on illicit narcotics with alternative legal activities”, according to a presentation by DFID personnel. That same presentation notes that alternative livelihoods may revolve around any or a combination of the following: agriculture, non-farm employment, social safety nets (e.g., public works jobs) and remittances from migrant workers (i.e., Afghans who travel abroad for work and sent money back home). Within Afghanistan, Byrd notes that the earliest and most simple forms of alternative livelihoods have involved the distribution of free or subsidised inputs such as seeds and fertilisers, as in the aforementioned FZP. He writes that such interventions were often too short-term in nature and simply impelled poppy cultivation to temporarily shift to areas where such inputs were not distributed by the international community and Afghan government. Byrd finds that such activities also fail to tackle the wide array of factors, beyond credit to purchase seeds and fertiliser, that drive poppy cultivation in Afghanistan. A major 2008 World Bank study went further and concluded that subsidies are not only unsustainable but that they may actual promote narcotics cultivation. The study found that the narcotics networks could out-bid international or government stakeholders attempting to subsidise wheat and that subsidies for licit agriculture in essence drove up the market price of opium and led to new financial incentives for farmers to grow it. The study further noted that subsidizing wheat or other licit crops – though wheat is by far the most common – over a large area would lead to excess supply and drive down prices both in subsidised and non-subsidised areas. Hence, subsidizing wheat would cause wheat prices to decline and make farmers more inclined to cultivate opium poppies.

As previously noted, alternative livelihoods interventions are being promoted by a wide range of international and Afghan stakeholders. For instance, the previously discussed DFID-World Bank study ultimately recommended a comprehensive approach to alternative livelihoods in rural areas which combined six categories of intervention: (i) integrating rural development and governance; (ii) expanding the amount of agricultural land under irrigation; (iii) improving the financial returns on livestock and animal husbandry; (iv) promoting rural, non-farm enterprises; (v) increasing local procurement by relevant development stakeholders; and (vi) developing integrated production and market promotion strategies for key crops. In addition, the authors of that report suggest a strategy which involves the integration of several Afghan government National Priority Programmes, such as the National Solidarity Programme and the National Rural Access Programme and the Microfinance Investment Support Facility for Afghanistan, into counter-narcotics and alternative livelihood strategies.

**Conclusion: Poppies & Transition-Related Spending Cuts**

The World Bank increasingly suggests that Afghanistan will face an economic slowdown as international security and development assistance declines in the years leading up to and after 2014, the end of major international forces’ presence. GDP growth rates could decline from their recently high levels – averaging around 9% for much
of the past decade – to approximately 5-6% per year under somewhat positive scenarios that assume progress in the mining sector, a gradual draw-down in foreign assistance and relatively consistent levels of governance and insecurity. If these assumptions prove faulty, the World Bank suggests that Afghanistan’s economy could cease growing and in fact contract by up to 2% per year.

Given the economic importance of poppies in Afghanistan’s economy and the fragility of Afghanistan’s economic position as international assistance declines, future changes in this sector could have magnified impacts in the coming years. Such an issue is also significant in light of research from the World Bank and UNODC which shows that many of the areas most likely to be hit by decreasing international spending are also those areas, namely Kandahar and Helmand provinces, which cultivate a significant proportion of the country’s opium poppies.
Annex A. Further Resources on the Economics of Poppies and Illicit Drugs in Afghanistan

Readers interested in this issue may wish to refer to the following documents, several of which have been specifically referenced in the preceding text.


- URD (NGO), “Strategies to Counter Opiate Production in Afghanistan: Are we on the right track?”. Kabul: URD, June 2010
