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## **CICS WORKING PAPERS**

### **Working Paper 3:**

# **SPENDING TO SAVE: Prospective Case Studies**

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**DEPARTMENT OF PEACE STUDIES**

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**SPENDING TO SAVE:  
Prospective case studies**

**Malcolm Chalmers (ed)**

**March 2005**

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# **Sudan 2004 - 2018**

**Emery Brusset**

## 1.1 EXECUTIVE SUMMARY

This case study considers the relative costs of conflict prevention and post-crisis intervention for Sudan during the period 2004-2018. In July 2002 the Machakos Protocol was signed between the SPLM and the Government. The agreed structure of government in the interim period is joint, with a dual legal system. After 2011 a referendum is due to allow the population of the south to decide to remain in a united Sudan, or to secede and constitute an independent state. There are still many details to be worked out. For the purposes of this study, however, it is assumed that some form of agreement is reached on the remaining points of contention in the negotiations by the end of 2004.

Our baseline assumption is that the international community will maintain its current levels of humanitarian and political engagement, suitably adapted to changing circumstances but without commitment of additional resources. In these circumstances, it assesses that the probability of a relapse into conflict by 2018 is 80%.

Two packages of additional CP measures are then reviewed, both of which seek to reduce the probability of further large-scale conflict taking place. The first Package consists of significant financial assistance in support of **new forms of equitable and sustainable governance**: large scale DDRR, security sector reform, judicial reform and development, a supportive environment for investment and creation of a free press. The focus is on re-establishing an enabling environment in a country where there has been no civic activity for two decades. The package is based on the programme drawn up by the Joint Assessment Mission led by the World Bank. The second Package includes, in addition, the deployment of a **robust peace-keeping or peace-enforcement operation**. While the relatively strict control exercised by the GOS and SPLA over their troops allows for a reasonably ordered transition, the diversity and size of Sudan pose severe challenges. Should the leadership fragment, the resulting vacuum can only be prevented from fuelling renewed conflict by large scale use of impartial force.

In order to 'break even' for the international community, the study estimates that Package 1 would need to reduce the probability of conflict by only 7%, while Package 2 would need to reduce it by 29%. In addition, the benefits of conflict prevention for the people of Sudan would be substantial, totalling more than four times the benefits to the international community. If these benefits are also included in the calculation, the success probabilities at which CP becomes cost-effective fall to only 1% and 6%.

The governance measures proposed in Package 1 would depend crucially for their implementation on the willingness of local political authorities to allow them to go ahead. In terms of the costs to the international community, the biggest uncertainty relates to the estimates of the wider costs of conflict, including the costs arising from future oil supply disruption, and the possible impact of future conflict on support for, or even bases for, international terrorism. There is also some uncertainty as to the scale and cost of the peacekeeping force in CP Package 2.

## 1.2 INTRODUCTION

This case study considers the relative costs of conflict prevention and post-crisis intervention for Sudan during the period 2004-2018.

The current civil war in Sudan began in 1983 over issues of semi-autonomous governance for the south, and over equal access to resources (in particular water, land, and oil). The fighting has pitched the Government of Sudan, allied to fluctuating groups of ethnic militia, against the Sudan People's Liberation Army/Movement (SPLA/SPLM), and occasionally splintering factions. A more recent conflict has begun in the western region of Darfur, but with little international involvement and will not be covered by the present study. The reason for exclusion is the disconnection between the SPLA led conflict and the one in Darfur. There are few population exchanges between the region and the negotiations with the SPLA do not include Darfur. The war has been carefully insulated from the one with the south by the Government. We therefore assume that the risk posed by the Darfur conflict to the GOS/SPLM peace process is consequently very limited.

Identity (religious and ethnic) underlies the fighting, which is loosely organised around a Khartoum/periphery dichotomy (the centre being occupied by the Nile valley Arabs). This divide has been exacerbated because it overlaps with the division between a predominantly Moslem north and the mostly Christian/Animist south.

The fragmentation of political currents in such a vast country has complicated all efforts to seek peace and imposed a process built on alliances and negotiation. There is a long history of negotiation and agreements reached and violated, as well as ever-changing tactical alliances. The level of distrust is extremely high and rooted in historical ties going back centuries. The efforts to negotiate peace have been more or less continual in the nineties. Nevertheless, despite these obstacles, in July 2002 the Machakos Protocol was signed between the SPLM and the Government. It defined two interim periods for the move towards a political settlement: a pre-interim period (now expected to finish at the end of 2004) and an interim period (2005-2011). This would be followed by stable peace under a new constitutional regime after 2011. The agreed structure of government in the interim period is joint, with a dual legal system: based on popular consensus (and inspired by the East African model) for the south and based on Sharia for the north. After 2011 a referendum is planned to allow the population of the south to decide to remain in a united Sudan, or to secede and constitute an independent state. Three states, located around the central latitude (Abyei, Nuba and Southern Blue Nile), are to be given a semi-autonomous status, but would remain in Sudan when/if the south secedes.

Subsequent to the agreement on the Machakos Protocol, negotiations have been under way in order to define the detail of implementation. To date, agreement has been reached on resource sharing, security structures, judicial systems and the autonomy of the territories. There are however still many details to be worked out, such as the identity of the Governors and the civil service for the autonomous provinces, the business regulatory environment in the south, historical land claims from large landholders and oil concession rights. All these can still serve as pretexts to slow down or even derail the peace talks.

For the purposes of this study, however, it is assumed that some form of agreement is reached on the remaining points of contention in the negotiations by the end of 2004. The purpose of the study is to assess the effectiveness of various CP packages that would be designed to prevent Sudan relapsing into conflict in later years.

In examining the value of these two packages of additional measures, the study assumes as a 'baseline' a continuation of existing levels of international community involvement in Sudan, particularly on the part of the US. The first, and largest, of these is humanitarian assistance.

This is organised under a UN umbrella called Operation Lifeline Sudan (OLS, operating both from Khartoum and from Nairobi), but also through church groups (Church Ecumenical Action in Sudan, CEAS) and solidarity groups such as Norwegian People's Aid. In total, this assistance amounts to around \$200 million per year. We will assume that this level of assistance will continue, although a large part of this will be transformed gradually from humanitarian relief into rehabilitation and other forms of ODA. If this assumption were to prove unfounded, the probability of conflict might also be altered.

The second type of ongoing measure concentrates on creating an effective peace process. Since 2001, the US has led an initiative for a reinforced process of negotiations, using as Envoy Senator Danforth. The latter's assessment was that the war was not winnable by either side, but that the parties would need to take concrete steps towards agreement in order to provide each other with tests of their willingness to seek peace. These steps would have to rely on outside support, to support a peace process facilitated by Kenya under the auspices of IGAD, but built around a strong consensus among key donors. Instead of drawing up an optimal agreement between the parties, a series of milestones would prove to both sides the intent for progressive compromise which had stymied all previous agreements. These milestones, since called the "Danforth tests", have been: a cease-fire in the Nuba, the respect of certain days of tranquillity for the delivery of relief (mostly public health campaigns), a cessation of acts of violence against non-combatants and some monitoring to reduce the practice of slavery.

All these measures have been supported through specific international measures, usually based on monitoring seeking to address violations of the ceasefire. The first, the Nuba ceasefire, has been supported by a Joint Monitoring Commission. An MoU was signed in October 2002 to secure a period of military tranquillity. An addendum was signed in February 2003 which stipulated that there would be advance notification of troop movements, locations and identity of troops would be shared, that land taken since the signature of the MoU would be returned. It stipulated that work on roads would be suspended, propaganda would be frozen, and that a Verification Monitoring Team would investigate complaints. Respect for international humanitarian law is enforced by a Civil Protection Monitoring Team.

Our 'baseline' assumption is that the international community will maintain its current levels of engagement in both humanitarian and political aspects, suitably developed to adapt to changing circumstances but without the commitment of additional resources. It is assumed that these will be continued in some form throughout the period to 2014, whether or not conflict reoccurs, since in general terms these are forms of response which are not conflict sensitive (although there will be different forms of mediation and monitoring, and indeed humanitarian assistance, depending on the extent to which there is war or peace in different parts of the country).

On this assumption of existing levels of international engagement, the case study outlines a 'conflict scenario' and a 'peace scenario' for Sudan for the next 15 years. These represent hypothetical, but realistic, possibilities for the development of conflict, and are based on recent trends in the country. In both cases, they are designed to be broadly representative of a much wider range of possibilities. Two packages of additional conflict prevention measures are then proposed for the years following the peace agreement, both of which seek to reduce the probability of the conflict scenario taking place. The financial cost implications of both packages are examined, as are the costs of violent conflict breaking out.

## 1.3 PEACE AND CONFLICT SCENARIOS

### Conflict Scenario

The probability of a return to large-scale violent conflict during 2004-2005 is very low (outside the Darfur region). The reason can partly be found in the intense pressure and scrutiny already being applied by North American and European countries on both parties, as well as in the comprehensive nature of the peace agreement already reached, including the provisions on wealth sharing and security arrangements during the pre-interim and interim periods. The offensives of late 2002, when both sides attempted to seize maximum advantage for the negotiations, have showed both main parties that a military stalemate had been reached, and that negotiations (at least in the next couple of years) offer the best chances of obtaining further gains.

Oil looms large as one of the factors in the strategic calculations of the two sides. The oil industry has considerably developed since 1999 and is the main reason for high economic growth (6 to 8% GDP growth in 2000-2003). Its potential for further development is stymied by the war, however, and some western companies (OMV, Lundin and Talisman) have even sold their stakes to avoid the negative publicity tied to operating in a conflict environment. To capitalise on this wealth and respond to the growing demand for oil, therefore, both parties now believe they need to encourage stability. Their joint interest in accessing this wealth outweighs the temptation to improve their share in that wealth through the renewed use of military power.

It is therefore likely that the peace process will continue for some time, reinforced by high profile media coverage, the continuation of the strong diplomatic pressures from the international community (and the US in particular) and the potential for elites in both North and South to benefit from the exploitation of natural resources. This is also the point at which the conflict scenario becomes entwined in the conflict prevention measures: the promise of a considerable peace dividend made up of a large development aid package (\$450 million from the European Development Fund which has lain dormant since 1989, for example) acts as a factor of stability in the negotiations.<sup>1</sup> In this scenario, we also assume that there is a certain element of war weariness in the population and an apparent calculation among the leadership groups that war cannot be won. The elaboration of a new form of governance goes hand in hand with demobilisation of armed groups. Most refugees return to their homes, economic activity picks up, and the ability of the administrations in both South and North to deliver basic services improves.

Yet the basis for peace, in this scenario, remains a fragile one, with a significant chance that divisions within the SPLA and/or the Government (both relatively fragile coalitions) could escalate and precipitate a new large-scale conflict sometime during 2006-2012. Some of the smaller war lords, particularly those in the central oil rich regions (mostly Nuer groups) may feel that they are losing out to the larger dominant groups and (in this scenario) will begin to revert to military means to protect their power. Similarly there could be growing discontent among the smaller Equatorian groups against the continued numerical and political dominance of the Dinka in the SPLA, which (in this scenario) has been acquired during the interim period without due democratic process. More generally, the increasing importance of oil revenues for both North and South may intensify conflict, as rival warlords and rent-seekers seek to use armed force to achieve a share of these new resources.

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<sup>1</sup> These commitments are included in the 'baseline package' outlined above, as part of the maintenance of overall ODA levels as humanitarian assistance requirements decline.

In the conflict scenario, this combination of factors leads to renewed small scale attacks in the south against the emerging public administration. It is further fuelled by hard-line elements in the north who do not want the south to secede and distribute arms to block the process. It echoes the concerns of small tribal groups which have never returned their arms and are removed from international attention. In the oil producing regions this fragmentation rapidly escalates into full scale war during the period 2009-2012 and the possibility of holding the 2011 referendum in a climate of neutrality and independence is lost. Intimidation is widespread and humanitarian access to certain regions is again curtailed. The country gradually falls back into the situation which prevailed until 2002, when factions would form coalitions and alternatively support and betray the SPLA or the Government of Sudan. The estimated two million dead as a result of the war from 1983 to 2003 is more than equalled in this new phase. The intensity of fighting may even increase as a result of the increased resources available for the financing of war as a result of growth during the interim period.

## **Peace Scenario**

The peace scenario assumes that large-scale armed conflict is avoided throughout the period 2004-2018. Smaller-scale conflicts are still possible, even likely, but this scenario assumes that these do not escalate into widespread violence, nor do they threaten the successful holding of the 2011 referendum and the subsequent peaceful secession of the South.

The 'peace scenario' is intended to be representative of a wider set of scenarios in which large-scale armed conflict is avoided. As such, it is important to outline some of the political and economic developments that are likely to accompany, and underpin, the scenario. In the short term, the peace scenario assumes that all the significant armed groups are enrolled in the peace process and are fully consulted about the structure of the emerging state (in the previous scenario excessive attention was given to certain leading groups, revolving essentially around the military hierarchy of the two sides). This representation provides guarantees of protection, access to resources (the oil revenue will be shared equally, as is now foreseen in the agreement) and freedom of religion and association. The international organisations are perceived as independent from either of the parties (their bases in Kenya and Khartoum are replaced with a more polycentric structure revolving in the south around the economic capital of Juba). The single minded support to peace given by the United States coincides with the interests of all the states neighbouring Sudan and more broadly. It is widely perceived that all will gain from a renewed phase of stability and development and access to significant new reserves of oil.

As confidence in the durability of peace grows, the peace scenario also includes a large scale process of disarmament, demobilisation, reintegration and resettlement for the estimated 150,000 men currently under arms, leading to a much reduced and relatively well integrated national army. The chain of command in the security sector is clear, with a southern dominance in the southern regions and a northern dominance in the north, but both mindful of the spirit of the agreement. Ethnic representation is balanced. Mechanisms are developed to ensure that oil revenues are distributed in a way that is perceived as reasonably equitable between key groups.

The peace scenario also assumes that the 2011 referendum is held peacefully and it can be expected that the population in the south will vote for independence. Thanks to careful preparation in the peace talks, the resource sharing agreement ensures that nobody feels cheated by the separation of the two countries. The new independent South Sudan is recognised by all. The autonomous states of Southern Blue Nile, Nuba and Abyei are given the necessary powers to preserve their unique historical identity, while remaining part of the Sudan. Religious tolerance in an Egyptian style north Sudan ensures that communication with South Sudan remains relatively easy even after secession.

## 1.4 ADDITIONAL ANNUAL COSTS OF THE CONFLICT SCENARIO

### Additional costs to the directly-affected territory

In the case of a situation of renewed conflict, the cost of conflict can be obtained by subtracting what is lost national income or GNI (Gross National Income) from the evolution of national income in a peace scenario. This overall figure can be adjusted to events. We will first review the peace scenario.

In a situation of continuing peace, significant quantities of Foreign Direct Investment are likely to be attracted for the development of key sectors of the economy, in particular in industrial agriculture (provided that historical claims to property are respected without leading to expropriation for subsistence farmers), in mining (especially gold and copper, where there are opportunities for investing in new regions) and in oil. The latter provides currently 5% of GDP, but it is estimated that it could rise to 40% of GDP by 2010. This increased investment could be followed by steps towards integration into the world economy. Roads and rail could be rebuilt to the frontier points of northern Uganda and Kenya, to the Ethiopian border and to Chad. The government could use additional revenues for high intensity labour projects that would allow for a high rate of employment for former fighters. In this scenario, economic liberalism would be balanced by a reasonably equitable distribution of development support between all parts of the country.

Such an optimistic scenario is not implausible when considering recent experience. Sudan's macro-economic situation has improved since the mid-nineties, as a result of fiscal reforms and the onset of commercialisation of oil in 1999. The rate of inflation has decreased and internal and external imbalances have narrowed. The exchange rate has regained a level more compatible with the national terms of trade. From 1996 to 2000 real GDP growth averaged 8%, compared with an annual average of about 1.6% from 1986 to 2000. With population growth rates of about 2.6% a year, real per capita income has increased 30% during 1996-2000.

The peace scenario would plausibly allow the continuation of these rates of progress. By 2006, progress could be made in increasing levels of stable agricultural employment and increased provision of education services could begin the long process of ensuring a better educated and productive workforce (the average indicators of literacy and primary education are below sub-Saharan African rates). A peaceful Sudan could take much more advantage of the small but efficient core of human capital within the country, a dynamic private sector and a rich and talented diaspora.

To facilitate understanding of the figures provided under the table on costs to Sudan of the conflict scenario, we will first draw up a table containing the key events and new net costs, as a result of these events.

Table 1: Key events in the conflict scenario and their effects on Sudan

Events	Date	Effect
No conflict	2005 2008	Nil
Beginning of instability in some areas	2009	Lost income as a result of foregone investment (large scale farms not rehabilitated, gold and minerals remain in the hands of traditional diggers), loss of human capital (public services are not deployed, uncertainty leads to loss of focus on the future). GDP growth concentrates in the north, investment narrows.
Instability spreads throughout the south	2010	Increased humanitarian assistance and disruption because of human displacement. Lost income as a result of foregone investment, loss of newly rehabilitated infrastructure. GDP annual growth drops sharply. The re-mobilisation of troops and the resulting economic predation drastically alters the composition of public expenditure.
Access to the southern half of the country is lost	2011	Increased humanitarian assistance. Lost income as a result of foregone investment, loss of newly rehabilitated infrastructure. Oil revenue drops from \$1600m per year to the pre-agreement figure of \$600m and remains at this level thereafter.
Return to full scale war	2012	Assistance provided by the population to 500,000 internally displaced persons, to besieged populations and vulnerable groups. Continued foregone investment
War and peace-enforcement operation	2013- 2018	Assistance provided to 2,000,000 internally displaced persons, besieged populations and vulnerable groups; foregone investment, oil companies divest from certain areas.

The table below integrates these assumptions into projections of Sudan's GNI for the period to 2018. It is assumed that GNI rises sharply during 2004-2008, as a result of the end of major conflict, refugee returns and increased investment. Thereafter, the peace scenario assumes a continuing growth rate of 6% per annum. In the conflict scenario, by contrast, growth falls to 4% during 2007-2009, stagnates in 2010, then falls by 20% as oil revenue is cut sharply. Thereafter, GNI remains constant in real terms, with little opportunity for growth-producing investment in the oil or other sectors. In addition, levels of military expenditure are much higher in the conflict scenario. Military expenditure by GOS forces alone was 4.9% of national income in 2002<sup>2</sup> and it is assumed that total military spending (by all armies) still amounts to 5% of GNI in 2004. Thereafter, levels of military spending progressively diverge, falling to 2% of GNI in the peace scenario, but progressively rising to 10% of GNI in the

<sup>2</sup> IISS, *The Military Balance 2003/2004*, Oxford University Press, 2003. The military budget of the SPLA and other armed groups needs to be added to this to give total military expenditure.

conflict scenario.<sup>3</sup> The conflict scenario therefore also involves a diversion of national income towards military spending and away from civilian purposes.

Table 2: Costs of conflict to Sudan (\$bn. 2004 prices)

Year	GNI (Peace)	GNI (Conflict)	Resulting Loss of GNI	Peace Milexp	Conflict Milexp	Extra Milexp
2004	14.4	14.4	-	0.72	0.72	-
2005	15.8	15.8	-	0.63	0.63	-
2006	16.9	16.9	-	0.51	0.51	-
2007	18.0	17.8	0.2	0.36	0.40	0.04
2008	19.1	18.5	0.6	0.38	0.45	0.07
2009	20.2	19.1	1.1	0.40	0.55	0.15
2010	21.4	19.2	2.2	0.43	0.65	0.22
2011	22.7	17.3	5.4	0.45	1.00	0.55
2012	24.0	15.6	8.4	0.48	1.20	0.72
2013	25.5	15.6	9.9	0.51	1.56	1.05
2014	27.0	15.6	11.4	0.54	1.56	1.02
2015	28.6	15.6	13.0	0.57	1.56	0.99
2016	30.4	15.6	14.8	0.61	1.56	0.95
2017	32.2	15.6	16.6	0.64	1.56	0.92
2018	34.2	15.6	18.6	0.68	1.56	0.88
<b>Total</b>			<b>102.2</b>			<b>7.6</b>

**Source:** 2002 GNI was \$11,471m, *World Bank Development Report 2004*. This is equivalent to \$11.9 billion in 2004 prices. It is assumed this increased by 10% per annum to 2004.

### Other human development costs of the conflict to Sudan

In addition to the losses already outlined above, a resumption of the civil war would have vast consequences for human development. Given the experience of protracted war during the last two decades, the most important human cost could be the loss of as many as 4 million lives and the creation of perhaps 2 million refugees. These figures represent a slight increase on the estimated figures on war casualties (direct and indirect) and displacement during the 1980s and 1990s. This increase is based on two facts. First, if the war were to resume, the oil revenue would increase the resources available to finance military expenditure. Second, it is quite likely that a return to war would see increased external support for some of the parties to the conflict (with the US, for example, reverting to a pro-SPLA position). The diversion of resources into military expenditure, and the disruption created by conflict, would also have a negative effect on provision of social services, including health and education. This can already be seen from the

<sup>3</sup> To the extent to which some of the costs of maintaining armies are met by the international community (e.g. through diversion of humanitarian assistance), it could be argued that the costs of increased military expenditure are not wholly borne by Sudan. Since this international assistance would otherwise (we assume) be available for civilian purposes, however, it is legitimate to include additional military expenditure here even if its financing is made possible, in part, by access to ODA flows.

current gaps in service delivery between the north and the conflict affected south, with for example basic education levels falling from 47% in the North to 35% in the South.

Available data suggest that life expectancy and other key indicators of human development did not decline in the 1990s, despite the war. There has been a significant increase in enrolment in primary education since the mid-1990s (albeit with an increasing rate in subsequent dropouts). Yet these overall figures hide important gaps between regions. UNICEF's Multi-Indicator Cluster Survey of 2000 shows average school enrolment in primary education to be about 50%, but dropping to 20% in states such as Bahr el Ghazal. Average under-five mortality has declined from 123 per 1000 live births in the early 1990s to 105 by 2000, and is lower than the Sub-Saharan Africa average of 162. However in some areas they are among the worst worldwide.

While the immediate human development costs in terms of lives lost are clear, therefore, the impact on life expectancy and educational progress – two of the three components, along with GDP per head, of the UNDP's Human Development Index – is localised. The progress that has been made in social provision since the mid-1990s is significant – not least a significant rise in the HDI - and this appears to be a result, in large measure, of the effort in the nineties to rein in unnecessary public spending (flowing from the 'National Economic Salvation Programme' adopted in 1990) and since then to provide some minimal cover for basic services.

It is plausible to think that the higher HDI rates for the non-conflict affected areas, i.e. the areas controlled by the Government and outside the reach of fighting, would be reproduced everywhere in the country. This would place Sudan slightly below the average in Sub-Saharan Africa in terms of per capita GDP, but at the average in terms of per capita GNI and slightly above the average in terms of life expectancy and infant mortality (according to current World Bank figures, which, based on official figures, do not include the SPLA controlled areas).

### **Additional costs to the neighbouring countries**

By comparison with the costs to Sudan itself, we assume the costs to neighbours are relatively small. As Tables 3 and 4 indicate, however, several dimensions are significant, first, the reduction in state revenue from trade, when this is disrupted as a result of conflict; second, increased security sector spending, where this is necessary in order to cope with the overspill of criminality and gun-running as a result of the conflict. Third, the net costs of refugee inflows, once adjusted both for international community contributions and the economic benefits that refugees can bring, for example in new skills, increased international investment in transport infrastructure. Arguably, the resumption of conflict in Sudan could also increase the possibility and/or the intensity of conflict in neighbouring countries. Such spill-over effects have been apparent in the past in relation to both Eritrea and Uganda and it seems entirely possible that they might occur in future. Yet the relationship is a complex one, it is not necessarily the case that the impact of peace in Sudan in this respect would be entirely positive and it is difficult to estimate the total cost involved. We do therefore include this factor in the estimates in Table 4.

Table 3: Key events in conflict scenario and effects on neighbouring countries

<b>Events</b>	<b>Date</b>	<b>Effect</b>
No conflict	2005-2008	Nil
Beginning of instability in some areas	2009	Lost income of \$200m per annum as a result of reduced trade and taxes, e.g. in manufactured goods (beer, household items, etc). World Bank figures indicate non-oil export figures of \$800m per annum, of which the majority is cotton, sesame, livestock and gold. Most of these items are sold in the region, including the Arabian Peninsula.
Instability spreads throughout the south	2010	200,000 refugees into Ethiopia and Kenya. Increased loss of trade, but gains in hosting international operations in these two countries (the refugee relief effort is estimated to cost \$50m per year in contributions, with a large part of regional procurement).
Access to the southern half of the country is lost	2011	Loss of trade increases, but is offset by increasing positive impact of refugee presence on social services, also market activity of refugees. Presence of refugees is an investment in the border regions, as in Tanzania and elsewhere: improvement of public services, new skills, more small markets.
Return to full scale war	2012	All communications to southern Sudan lost. Some insecurity spreads because of growth in small arms markets. This leads to greater criminal insecurity and to neighbours increasing security expenditure.
War and peace-enforcement operation	2013-2018	Assistance provided to 500,000 internally displaced persons, besieged populations and vulnerable groups, foregone investment.

Table 4: Costs of conflict to neighbours (\$bn. 2004 prices)

Year	Loss of national income	Share of costs of refugees	Increased security sector spending (police and army)	Total
2004	0	0	0	0
2005	0	0	0	0
2006	0	0	0	0
2007	0	0	0	0
2008	0	0	0	0
2009	0.2	0	0	0.2
2010	0.2	0	0	0.2
2011	0.3	0	0	0.3
2012	0.4	0.1	0.2	0.7
2013	0.4	0.1	0.2	0.7
2014	0.4	0.1	0.2	0.7
2015	0.4	0.1	0.2	0.7
2016	0.4	0.1	0.2	0.7
2017	0.4	0.1	0.2	0.7
2018	0.4	0.1	0.2	0.7
<b>Total</b>	<b>3.5</b>	<b>0.7</b>	<b>1.4</b>	<b>5.6</b>

#### **Additional direct costs to the wider international community in providing emergency assistance and in coping with other costs from the conflict**

The initial additional costs to the international community (over and above existing political and ODA commitments) are likely to be mainly humanitarian in character and we estimate these at \$15m in 2009, rising to \$100m in 2010 as an estimated 400,000 new refugees flee the country. By 2011, the UN launches a major humanitarian and peace enforcement mission, the latter involving a force equivalent in size and capability to recent EU/UN deployments in DRC. But, in this representative scenario, this deployment fails to stabilise the situation, the conflict intensifies and the UN is forced to withdraw all but its most basic relief operations.

The potential for Sudan to become a significant oil producer means that conflict will impose additional costs on the international community, which are likely to grow over time. If, as we assume here, annual oil exports revert to 2000 levels, instead of rising sharply as expected, they will be \$6 billion lower than they would have been in the peace scenario. With a (modest) assumption of a gross profit margin of 10%, this means that around \$800 million will be lost to oil companies and their shareholders (currently located in China, India, Malaysia, Sweden and France, but would also include the US and UK).

There may be additional welfare costs to consumers in the rest of the world (and gains to producers and governments in other oil-exporting countries) as a result of increased global oil prices, but these are not included here.<sup>4</sup>

*Table 5: Key events in conflict scenario and effects on international community*

<b>Events</b>	<b>Date</b>	<b>Effect</b>
No conflict	2005 2008	Nil
Beginning of instability in some areas	2009	Reinforcement of the monitoring activities, some relief aid.
Instability spreads throughout the south	2010	Assistance to displaced and refugee populations (400,000), loss of equipment and personnel in some locations, diplomatic activity. This is expenditure additional to the baseline funding for rehabilitation and relief assistance.
Access to the southern half of the country is lost	2011	Large scale peace-enforcement and humanitarian relief operation launched under UN mandate
Return to full scale war	2012	Ongoing operation. Loss of growth in oil trading also results in a loss to the international community.
War and peace-enforcement operation	2013 2018	Unsuccessful operation is forced to retreat, replaced with palliative humanitarian assistance based out of neighbouring countries.

#### **Additional direct costs to the wider international community in stopping the conflict after it has started**

If the peace process fails, the first instinct of the international community will probably be to reduce its involvement in Sudan. If conflict is sustained, however, the probability of subsequent military intervention by the international community may be greater than in the past, mainly because of the growth in its stake in oil production. Sudan is already, for example, a major oil supplier to China and as production increases both specific dependencies and (perhaps more importantly) the effect of supply disruption on world oil prices will increase further. Interest in protecting access to Sudanese oil supplies could also be seen as part of the developing interest of the rest of the world (already evident in 2004) in safeguarding access to African oil supplies more generally.

<sup>4</sup> Sudanese oil production in 2002 was 233,000 barrels per day, equivalent to 0.3% of global oil production. *BP website, 2004*. Estimates suggest this could rise to 450,000 bpd by 2005. *Sudan Country Analysis Brief*, EIA, Department of Energy, January 2003. While not comparable with major oil producers, a cut-off in this production might have some impact on global prices at the margins. If Sudanese production were to cease entirely, for example, US GDP growth could be reduced by between 0.025% and 0.05%: equivalent to \$2.5bn - \$5bn in the first year and a further \$5-10bn in the second year. Calculation based on US Energy Information Administration, *Rules-of-Thumb for Oil Supply Disruptions*, October 2002.

The current international orientation of the Government is expected to last in the conflict scenario, which means that it will continue to encourage investment from a variety of countries in the oil industry, as well as in mechanised agriculture and mining. It will court western oil companies and will probably be able to stabilise the oil producing area, thanks to superior military equipment purchased through the increase in oil revenue. Even so, it may not succeed, in part because, inspired by renewed lobbying by the religious right in Washington, the US might be tempted to provide the SPLA with low level military assistance and political cover. A prolonged conflict could throw the country's ability to maintain oil production into increasing question. More likely, as the conflict scenario above assumes, a prolonged conflict is likely to substantially reduce growth in Sudanese oil production and development. In these circumstances, the need to replenish world reserves (because of soaring Chinese consumption and the loss of access to some of the Middle East oilfields) – bolstered perhaps by humanitarian concerns - could strengthen international support for taking military action to stop the war. An international military operation would then be ordered, given a coercive mandate to impose a political settlement and the capacity to implement it.

Despite the increasing frequency of military operations, and the likely growth in international community concern over oil security (in China as well as OECD countries), large-scale intervention is still not likely, even in the event of intractable conflict. But nor can it be excluded, and we believe it is justified to assume a 20% probability of a major military intervention in 2013, designed to stabilise the oil areas and/or defeat the factions supporting continued attacks in Sudan. The first-year cost of this intervention is estimated at about half the level of the recent Afghanistan intervention, which the Afghanistan retrospective study has at \$12bn per annum for US troops and \$4bn per annum for others in ISAF. Adjusted for the 20% probability, this is a cost of  $0.5 \times 16 \times 0.2 = \$1.6$  billion in 2013-2016, falling thereafter.

Such an intervention would also incur additional non-military costs, as another attempt is made to reconstruct Sudan, or its parts, under more direct UN auspices run out of Khartoum. Although it can be assumed that this will be funded from domestic resources and loans by the multilateral Banks, there will need to be a consistent development effort, which we assume will be at about the \$200 million which are part of the baseline spending. It is assumed here that the current Iraq examples of a need for a considerable external donor effort would not apply here as there is no regime collapse and the core oil producing areas are not affected throughout the conflict.

Table 6: Costs of conflict to international community (\$bn. 2004 prices)

Year	Refugee assistance	Relief operations	Peace-enforcement	Loss of oil profits	Coercive intervention	Total
2004	0	0		0	0	0
2005	0	0		0	0	0
2006	0	0		0	0	0
2007	0	0		0	0	0
2008	0	0		0	0	0
2009	0.1	0.015		0	0	0.1
2010	0.1	0.1		0	0	0.2
2011	0.1	0.2	0.2	0.2	0	0.7
2012	0.1	0.2	0.2	0.4	0	0.9
2013	0.1	0.1	0.2	0.6	1.6	2.6
2014	0.1	0.1	0.1	0.7	1.6	2.6
2015	0.1	0.1	0.1	0.8	1.6	2.7
2016	0.1	0.1	0.1	0.8	1.6	2.7
2017	0.1	0.1	0	0.8	1.2	2.2
2018	0.1	0.1	0	0.8	1.0	2.0
<b>Total</b>	<b>1.0</b>	<b>1.1</b>	<b>0.9</b>	<b>5.1</b>	<b>8.6</b>	<b>16.7</b>

## 1.5 PROBABILITY OF THE CONFLICT WITHOUT CONFLICT PREVENTION PACKAGES

Even without the two CP Packages, we assume that there is continued attentive and co-ordinated involvement by international actors in the conflict in Sudan. Experiences gained in the nineties in constitutional transitions (Mozambique, Angola, Cambodia, Sierra Leone, etc) and reconciliation can be drawn upon and the continuing provision of humanitarian assistance can also help the transition to peace in the short term. By 2005, when the peace agreement is signed, we therefore assume in our 'baseline' that teams are deployed to work alongside the armed forces of all sides, to channel incentives to the appropriate levels and to disseminate information about non-compliance with the agreement. We also assume a willingness to impose sanctions in cases where the carefully designed milestones of the agreement are not met.

These measures can help reduce the most obvious triggers of conflict. However they fail to address some of the underlying issues of the conflict:

- The identities of the combatants are now clearly defined along racial and ethnic lines (current terms such as 'Abid', in Arabic, denote for example both black and slave) and religious issues remain a sore point in terms of legislation for those in the north. The loss of life and injustice of war is vivid in public memory. The country is even more fragmented than it was in 1983 at the start of the fighting, as a large part of the south is not Arabic speaking and the main vehicular languages have been lost (because of the isolation of war). English has only partly replaced Arabic. Trade and family contacts are now more oriented to Uganda, Ethiopia and Kenya than to the north in those regions.

- The governance structure has been determined by the format of the peace negotiations: it privileges the elites of the Dinka and the riverain Arabs. This tends to marginalise the Nuer, which live predominantly in the oil producing regions and have been the most prone to militia activity since the nineties. It also reduces the ability of the lesser Equatorian tribes to defend their interests and express their desire not to be subordinated to the control of the Dinkas in the SPLA.
- There is a small possibility that marginal conflicts will continue to be stoked by both sides of the main war to preserve a means of pressure on the other partner in the peace process. This could be the case in Darfur, but could also involve Southern Blue Nile (which does not benefit from an international monitoring presence, unlike the Nuba) and the oil fields around Bentiu.

Because the peace process has only laid out the framework of a lasting peace, it has not resolved older and more structural tensions. The baseline measures are not sufficient to achieve that type of change. Should there be a wavering of international attention, as is frequently the case in international resolution efforts, or should US pressure in Sudan shift (for example because a new administration takes over the White House), the fragile momentum which prevailed at the talks could disappear rapidly.

A sign of this that is already apparent is the continued mobilisation of the forces of both parties, which still includes predatory practices towards the local population (still used to attract aid). There are operational and active weapons and intelligence capabilities in all strategic areas of the Sudan, in a state of readiness. As the new political system begins to emerge, the return of disgruntled fighters, as well as the frustration of force commanders, is not being addressed. To do so would undermine the claim of the two negotiating parties to represent the whole of Sudan and they have a vested interest in this potentially un-democratic agreement.

Given these risks, and without additional CP measures, we estimate the probability of the conflict scenario is 80% cumulatively for the period 2004-2018. This is based on the judgement that the current peace process, if it is not followed up with new efforts at reconciliation, will likely fail to address some of the key forces predisposing Sudan to further conflict. As a consequence, the chances of a relapse into conflict will be substantial.

## **1.6 CONFLICT PREVENTION PACKAGES**

The proposed additional conflict prevention packages aim to reduce the potential conflict risks as the peace process is implemented, with a view to avoiding the conflict scenario described above. The international community is already committed to ensuring continued support to the peace process through impartial international monitoring and facilitation of a climate of trust. This includes the three monitoring missions currently ongoing, the support to diplomatic initiatives to ensure that a channel of dialogue is always available and continued emergency relief to avoid undue stress being placed on populations wishing to return to their areas of origin. Here we assess two CP packages, over and above the continuation of these existing levels of commitment.

### **Conflict Prevention Package 1: Governance Assistance**

The emphasis given by the international community to the upper levels of the negotiations and the reconciliation process mean that there is still little understanding of the fears of the smaller leaders and general population. These are in some cases important components of the armed forces and can become disenfranchised, even in a way which is hard for outsiders to notice. The country is difficult to travel in and there is an abundance of remote areas where an insurgency can be organised.

This package seeks to address these and other concerns by the provision of significant external financial assistance in support of the development of **new forms of equitable and sustainable governance**. This is achieved through support for large scale DDDR, security sector reform, judicial reform and development, a supportive environment for investment and the creation of a free press. The focus here is on re-establishing an enabling environment in a country where there has been no civic activity for two decades. The war effort has monopolised attention, and both parties have engaged in ruthlessly dictatorial practices. This CP package will seek to support the creation of a public space for trust and to enable private initiative. It will be funded from human rights and democracy budgets, post-conflict and transition funds (for example a LICUS Strategy for the World Bank) and rehabilitation assistance. It will be multi-sector, with a focus on the strengthening of public services and their contacts with citizens. The package is based on the programme that has been drawn up by the Joint Assessment Mission being led by the World Bank and due to be deployed in March 2004. The references to it can be found in World Bank, UNDP and UK preliminary strategies<sup>5</sup> A detailed outline of the possible composition of this package, along with estimated costs, is given in Table 7.

### **Conflict Prevention Package 2: Peace Enforcement**

This package consists of all the measures under Package 1, but in addition foresees the deployment of a **robust peace-keeping or peace-enforcement operation**. It is foreseen that the relatively strict command and control exercised by the two major parties to the conflict over their troops allows for a reasonably ordered transition. However the diversity and size of Sudan pose severe challenges. Should the leadership fragment and ethnic and religious factions emerge, the agreements reached will be violated and the resulting vacuum can only be prevented from fuelling renewed conflict by the large scale use of impartial force.

This is a very different operation from the one foreseen to take place in 2012 in the scenario of the continuation of conflict: It is a multilateral operation, based above all on the framework of the Machakos Protocol, agreed by both leaderships. In this scenario the resumption of military activity by Sudanese armed groups is rapidly countered by effective deployment in all sensitive areas, combining observation and coercion, as well as being able to address serious cases of injustice and lawlessness. This points to the need for a highly mobile multinational force containing well armed military personnel, an intelligence capability, military observers, a police force and a civilian administrative component well co-ordinated with emergency aid agencies. These can then identify and block attempts at provocation and report a need for political solutions to those specific problems from which war lords could take advantage.

As the situation begins to deteriorate, CP Package 2 assumes that such a security force is rapidly deployed in addition to the measures in Package 1, with a preliminary 5,000 personnel 'deterrent' force assumed from 2006 onwards. We assume a 50% chance that it has to increase to 15,000 in 2008-2014 and a 50% chance it stays at 5000, depending on the evolution of the situation.

The costs for the military part of the second package are more hypothetical than for the governance measures, but are based on the model of the current peace-keeping operations in Democratic Republic of Congo (MONUC) and in Liberia (UNMIL). These forces contain 10,000 to 15,000 personnel and spend annually about \$600 million. This model is suitable because of the comparable socio-political complexity of a breakdown of the peace process and the scale of the country. The obstacles to mobilisation of the necessary forces for such

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<sup>5</sup> In particular "LICUS Strategy Concept Note: Sudan, dated January 2003, and DFID's "Sudan Country Engagement Plan", Draft of December 2003.

an operation currently seem formidable and the international community seems more likely to hope that it can be avoided. Nevertheless, it is included here in order to illustrate the balance of risks and costs that the current omission of such an option involves. The assumption is that, unlike the coercive military deployment which would take place should peace break down and in the absence of conflict mitigation packages, this option is exercised early. It can take advantage of the knowledge existing through the relief operations and be based around the logistical systems already in existence.

<b>Table 7: Indicative Comprehensive Conflict Prevention Packages (costs in \$ 2004 prices)</b>			
<b>Baseline 2004: continued commitment assumed.</b>			
<b>Programmes conceived as conflict prevention</b>		<b>Programmes which have a conflict prevention effect as secondary impact</b>	
A. Intense private and public diplomatic dialogue with key leaders (two main parties and smaller potential splinter groups) to reverse the use of violence to achieve outcomes	0.5m	a. The UN, EU, churches and solidarity groups continue to offer humanitarian assistance to populations in need	100m
B. Monitor the application of negotiated decisions, in particular as regards cease-fires, withdrawals and demobilisation (support to JMC, VMT and CPMT)	12m	b. Rehabilitation assistance is provided in areas where stability is newly gained, in particular in food security, primary health care, and small scale infrastructure	50m
C. Support the meetings between key leaders, through IGAD and the AU, and ensure that all the relevant levels of decision making are involved and that they understand the agreements reached	0.5m	c. There begins to be an intense effort in capacity building, primarily aimed at this stage at local NGOs	2m
D. Mobilise media and civil society to ensure that the population is fully informed of the positions taken, and responds with demands that reflect their relative position of powerlessness	2m		
<b>Annual total</b>	<b>15m</b>	<b>Annual total</b>	<b>152m</b>
<b>CP Package 1 : 2005-2011 –governance assistance. (This is a stand alone package)</b>			
A. DDDR activities for some 170,000 fighters (estimates are for 100,000 on the Government side, and 70,000 on the SPLA side).			100m
B. Reform and training of an independent police force and military cadres, merging of rebel and government structures, confidence building measures			30m
C. Judicial assistance to the new State of Sudan and the special regulatory regimes in the semi-autonomous states, in the south, and for the sharing of revenue from oil and natural resources (e.g. of the sort envisaged in the EITI)			6m
D. Development of a body of business law applicable to the special conditions of south Sudan, covering in particular large scale communal ownership of land, migration patterns, pre-industrial cultures.			1m
E. Training and development of an independent press, and a habit of demanding accountability from local authorities. Creation of consultative mechanisms as regards public goods			2m
F. Promotion of a process of people to people reconciliation through the work of religious associations, cultural exchange, and conflict resolution meetings at the community level			2m
		<b>Annual Total</b>	<b>141m</b>

<b>CP Package 2: 2009-2014 Peace Support (implemented in addition to CP Package 1)</b>	
A. Obtain a UN mandate and deploy up to 15,000 men in all parts of the Sudan concerned by the SPLA conflict	600m
B. Strengthen African regional organisations to gradually take over from the UN the role of conflict regulation	3m
C. Enlist and maintain through diplomatic activity international support for this force, in particular in the AU, the EU, the UN Security Council	1m
<b>Annual Total</b>	<b>604m</b>

Table 8: Costs of conflict prevention packages (\$m. 2004 prices)

Year	Baseline	CP Package 1	Additional Costs of CP Package 2	Total cost of CP Package 2
2004	167	0	0	0
2005	167	141	0	141
2006	167	141	300	441
2007	167	141	300	441
2008	167	141	300	441
2009	167	141	604	745
2010	167	141	604	745
2011	167	141	604	745
2012	167	120	604	724
2013	167	110	604	714
2014	167	90	604	694
2015	167	80	300	380
2016	167	70	200	270
2017	167	60	100	160
2018	167	50	0	50
<b>Total</b>	<b>2505</b>	<b>1567</b>	<b>5124</b>	<b>6691</b>

## 1.7 PROBABILITY OF CONFLICT WITH CONFLICT PREVENTION PACKAGES

The probability of conflict over the 15 year period is estimated at 15% if CP Package 2 is applied. If Package 1 is applied, that is only the governance measures outlined above, the probability of conflict is still quite low, at 30%. If the security components of CP Package 2 are applied by themselves, the probability is higher (at 45%) since it loses the synergies (e.g. of intelligence) provided by the governance measures and is therefore more likely to be misdirected. We therefore do not consider this option further.

Both of the packages examined are assessed to generate a drastically lower probability than would be the case with the baseline level of assistance (also listed in Table 7). There are two reasons for this, both of which are drawn from the empirical observation of previous efforts at resolution. The first is the high level of distrust and the notorious trail of broken promises (to plagiarise the title of a book written in 1983 about the political history of the Sudan by a southern leader), which require external validation for agreements to have any sustainability. The second is the evidence of the positive impact on the ground of a suddenly united international community. Before 2001, some western countries (in particular the US) sided with either the Government of Sudan (before 1989) or the SPLA (after 1990), while others (such as the UK) preferred to support state sovereignty. By addressing both the structural and perceptual problems that threaten renewed conflict, the two proposed packages have a realistic chance of reducing the probability of conflict substantially.

## 1.8 NET PRESENT VALUE AND ASSESSMENT

Both the packages discussed here are of relatively modest monetary cost, compared with the potential benefits to the international community. CP Package 1 breaks even if it reduces the

probability of large-scale conflict by 7% and CP Package 2 has a breakeven probability of 29%. In both cases, it is estimated, the reduction in conflict probability exceeds these levels by a substantial margin.

In addition, the benefits of conflict prevention for the people of Sudan would be substantial, totalling more than four times the benefits to the international community. If these benefits are also included in the calculation, the success probabilities at which CP becomes cost-effective fall to only 1% and 6%.

Perhaps the biggest source of uncertainty as to the potential effectiveness of the packages is that the governance measures proposed in Package 1 would depend crucially for their implementation on the willingness of local political authorities to allow them to go ahead. Yet if the international community were united in supporting a package of governance measures, it would have considerable leverage to pursue it and its chances of successful implementation would be significant.

In terms of the costs to the international community, the biggest uncertainty relates to how one estimates the wider 'non-discretionary' costs of further conflict. Sudan's growing role as an oil supplier potentially means that the wider world's interest in its stability will increase significantly, but estimating this in quantitative terms is not straightforward. Even more problematic and controversial is the possibility that renewed conflict might in some future circumstances lead to the provision of support for, or even bases for, international terrorism. There is no evidence that this is an imminent possibility, but nor can it be excluded as a possible consequence of future political radicalisation and conflict.

There must be considerable uncertainty as to the scale and cost of the military force necessary for CP Package 2. In the calculations here, we have assumed a relatively low cost force, budgetted at \$300-\$600 million per annum over nine years for 5,000-15,000 troops. These costs are based on the experience of UN forces in DRC and Liberia, which are relatively lightly-equipped and with relatively low-cost personnel. A 10,000-strong ISAF force in Afghanistan, by comparison, might cost as much as \$1.5bn annually.<sup>6</sup> Even allowing for the arguably greater logistical and political difficulties involved in the latter, it might provide a useful point of comparison for this sensitivity analysis. For if the per soldier costs of the intervention force were to increase to ISAF levels, the total NPV cost of CP Package 2 would increase to around \$10 billion at 2004 prices: requiring a 55% reduction in the probability of conflict for it to be cost-effective for the international community. As with current cost estimates, however, this breakeven probability would be sharply reduced if the costs of conflict to Sudan are also included. On this assumption, the breakeven probability reduction for a high-cost CP Package 2 is only 11%.

A final risk to highlight is the possibility that baseline humanitarian / development assistance will decline during this period, rather than (as is assumed here) remain constant but be diverted from relief towards development. The risk of this occurring may be increased by an ongoing Darfur conflict, which could divert donor attention and resources away from those areas of Sudan that have been, at least temporarily, stabilised as a result of the peace process. Were such an erosion of baseline support to take place, thus reducing the resources available for post-conflict rehabilitation, it might undercut the gains made from the CP Packages discussed above. Perhaps even more seriously, the Darfur conflict (even if in many respects separate from the North/South conflict) has the potential to undermine the international community's willingness to support the peace process between the SPLA and GOS, as well as its ability to do so. Despite our initial assumption that these two conflicts are largely separate, therefore, there must be some risk that they become linked in a manner

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<sup>6</sup> See Afghanistan studies.

that reduces the probability of success in the conflict which is the primary concern of this paper.

# **Afghanistan 2004 - 2018**

**Malcolm Chalmers and Hooman Peimani**

## 2.1 EXECUTIVE SUMMARY

This case study focuses on the potential for conflict in Afghanistan between 2004 and 2018. The Taliban's fall in 2001 ended not only the latter's rule, but terminated the two-decade civil war, which ruined Afghanistan. There has been some progress in reconstruction since then, but it still suffers from numerous political, economic, social and security problems. Renewed large-scale conflict remains a real possibility.

This case study begins by examining how such a conflict might emerge and estimates the costs of such a conflict to the international community, to neighbouring Iran and Pakistan and to Afghanistan itself. It then examines the cost-effectiveness of undertaking two additional CP Packages, both of which are already being discussed widely, but neither of which has yet been allocated resources. The first package consists of the comprehensive assistance programme proposed by the Government of Afghanistan, the WB and the UN in March 2004. The second package also includes deployment of a further 10,000 ISAF troops in order to provide better security in areas outside government control. The costs of the packages are estimated to be \$24 billion and \$40 billion over the next 15 years respectively, in addition to the \$71 billion already committed under current plans (mostly for US war-fighting operations).

The two CP Packages are cost-effective to the IC if they produce reductions in the probability of civil war of only 7% and 12% respectively. Unless the IC is confident that current levels of commitment to Afghanistan are sufficient to guarantee lasting peace, therefore, the case for further investment seems a strong one.

This calculation assumes that (a) a return to full-scale civil war in Afghanistan will increase the costs of countering international terrorism, and repairing the damage it causes, by 20%; (b) the current costs to the IC of the global narcotics trade will be reduced by 5% if opium production in Afghanistan can be sharply reduced, as we assume is the case in the peace scenario. If either of these assumptions is diluted or removed, the cost-effectiveness of the Packages will be reduced.

The prevention of conflict in Afghanistan would also have substantial benefits for Afghanistan itself and for its neighbours. If these potential benefits are also included in the calculation, the breakeven reduction in probability at which the CP Packages are cost-effective will be lower.

## 2.2 INTRODUCTION

If Afghanistan is to avoid lapsing into further large-scale conflict, extensive political, economic and military/security assistance towards that end is likely to be required. Apart from the requirements of the ongoing war against the remnants of the Taliban/Al-Qa'eda, these will need to address the huge level of destruction and underdevelopment of the country, its limited domestic resources, its deep social and political divisions along ethnic and religious lines and the strength of foreign influence on Afghan political life. All these factors increase the dangers of a future escalation of the current low-intensity conflict into civil war.

The persistence of the above-mentioned problems has continued despite significant international engagement in Afghanistan since October 2001. The Taliban's fall has been followed by an expanding low-intensity war (led by 13,500 US troops) against the regrouped remnants of the Taliban/Al-Qa'eda. At the same time, the international community has also been engaged in non-military activities. This has been reflected in diplomatic efforts to establish a functional Afghan central government by creating a degree of consensus among all the interested influential parties. Those efforts have included the Berlin conference of December 2001, the negotiations between and among the anti-Taliban groups and their main supporters (Iran and Russia) and also among Afghanistan's neighbours (Iran, Pakistan, Tajikistan, Turkmenistan and Uzbekistan). Together, these led to the convention of the *Loya Jirga* (grand assembly of influential Afghan figures), to the formation of a Constitution Committee in 2002 and to the setting up of the constitutional Loya Jirga of December 2003, which adopted a constitution on 5 January 2004. Elections, although likely to be delayed somewhat from their original June deadline, are set to take place before the end of 2004.

As part of their contributions to the formation of an Afghan central government, the Western countries led the creation of a peacekeeping force, the International Security Assistance Force (ISAF). Mandated to ensure peace and security in Kabul, the 5000-strong force has been a major factor in enabling the Afghan government to function in the capital. NATO took charge of the force in August 2003. NATO and allied countries are involved in training and arming the Afghan National Army (ANA) and the Afghan police force with the assistance of other countries. New Afghan Army bases are due to be built in four major cities outside Kabul. In addition, 'Provincial Reconstruction Teams' (consisting of 50-100 foreign military and civilian personnel) are being established in Afghan cities to help the government expand its authority beyond Kabul. The first PRT was established in Gardez in December 2002, a total of 12 were operational as of March 2004 and up to 18 should be established by the autumn of 2004.<sup>7</sup> Only one of the PRTs (in Kunduz) is currently under NATO ISAF command, but it is planned to transfer all of them to NATO in the long run.

Financial assistance from the international community has also increased significantly. At the Tokyo donor conference of January 2002, Western (EU, USA and Japan) and non-Western (Iran, Saudi Arabia, India, Pakistan and South Korea) donors committed themselves to provide \$4.5bn over a five-year period (2002-6) towards Afghanistan's reconstruction.<sup>8</sup> A fraction of the 2003 approved budget of \$87 billion for the operation of the American military in Iraq and Afghanistan was dedicated to Afghanistan, of which about \$1.6 billion will be spent on development projects.<sup>9</sup>

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<sup>7</sup> Ron Synovitz, 'Afghanistan: PRTs go beyond humanitarian issues', *Eurasia Insight*, 16 March 2004; Ahto Lobjakas, 'Afghanistan: NATO steps up 'force generation' for reconstruction teams', *RFE/RL*, 11 March 2004.

<sup>8</sup> Council of Foreign Relations, "How Much Will Humanitarian Aid for Afghanistan cost?" *Terrorism: Questions and Answers*, 2004.

<sup>9</sup> Anne Carlin, "How to Spend Wisely in Afghanistan," *The New York Times*, 26 January 2004.

The international community's engagement in Afghanistan has helped bring some positive results since the Taliban's fall. The development of better security conditions in parts of the country, together with the availability of a degree of repatriation assistance, have encouraged 1.9 million Afghan refugees residing in Pakistan, together with 0.7 million from Iran, to return to their country so far and a further 500,000 are expected to return in 2004. Thanks to the limited reconstruction efforts that have been possible, basic services such as water and electricity are now better provided in some urban areas, while between 4 and 5 million children have returned to schools that were previously closed. A new stable currency has been established and cereal production has risen sharply, due to good rainfalls and exploitation of previously unused land.

## **2.3 PEACE AND CONFLICT SCENARIOS**

### **The Peace Scenario**

This scenario does not assume a total absence of hostility in the period of the study and the current low-intensity conflict could continue to a limited extent throughout that period. However, such conflict does not develop into a civil war engulfing the entire country. Over time, it assumes a process leading to the gradual development of a strong central government, supported by an adequate infrastructure and a functional and growing economy. This scenario is supported if the US-led coalition and Afghan government (ANA) forces are able to inflict heavy casualties on the remnants of the Taliban and Al-Qaeda (hereafter the rebels) in their rural strongholds in the mainly Pashtun-dominated areas of southern and eastern Afghanistan, forcing them to progressively limit their operation and mobility. The process of stabilisation advances fastest in the northern parts of the country, where authority gradually shifts from local warlords to the central government's forces, backed by the deployment of PRTs.

In the peace scenario, the improved security environment then assists the government to begin implementing some of the long-overdue reconstruction projects that are now feasible thanks to the availability of more funds. During the period 2004-2006, the better economic situation created by reconstruction projects begins to reduce the high rate of unemployment. Most of the two million refugees currently remaining in Iran and Pakistan return to Afghanistan. The new economic environment creates hope among the Afghans with the effect of reducing recruits for the rebels. Parallel to these, the military operations of the coalition-ANA forces further weakens the rebels, forcing them to decrease the number and limit the scale of their attacks.

In such a situation, pressure exercised by the Afghan government, backed by its international supporters and its neighbours, could convince the warlords of the merits of ending their independent rule over most of the country between 2006 and 2010. In return, they would receive senior government positions, compensation for their demobilised troops and for their weaponry handed over to the government and an amnesty for their demobilised troops and other followers. The armed terrorist groups would continue with major offensives in the southern and eastern parts of the country. Despite possible short-term success, however, they would be unable to change the situation radically. As a result, the new political and economic environment would help the government to embark gradually on turning itself from a nominal central authority into a real one, now benefiting from the better security situation and economic revival. The rebel forces would still retain some support in tribal areas, while gradually losing their ability to pose a major threat to the Afghan government. Improved border security, supported by Pakistan, would sharply reduce the cross border movement of the rebels and deny them a safe haven in Pakistan's tribal areas.

The suppression of pro-Taliban Pakistani tribal leaders and a crackdown on the Afghan drug industry could, in this scenario, increasingly limit the availability of funds for the rebels. This

would sharply decrease their ability to recruit and to supply their army, with a result of a steady reduction in their military operations and a dwindling of their appeal to the Pashtuns, most of whom would see a better life under the Kabul government. The expansion of the pro-government military and police forces to the rural and urban areas would push out the rebels from an increasing number of areas, while limiting them to small-scale hit and run attacks with an insignificant and declining impact on the overall security environment.

Finally, by 2018 the country would be fully functional, although still far from being a prosperous country. The central government would be in firm control of the country, a result of the subjugation of all warlords and the destruction of the rebels as fully functional forces capable of posing a serious security threat to that government. Their tribal-area-based cells would only be capable of insignificant operations and banditry, mainly in the border areas covered by mountains.

### **The Conflict Scenario**

This scenario assumes that a worsening economic and security situation paves the way for an escalation of the current limited conflict to civil war during the period 2004 to 2018. In this scenario, the security situation worsens in 2004-05 as the regrouped rebels increasingly resort to large-scale operations. This is the outcome of two major factors. On the one hand, classical, although massive, military operations of the US-led coalition prove to be ineffective in eliminating rebels who have resorted to guerrilla tactics. Hidden in the Pashtun-dominated areas of eastern and southern Afghanistan, they receive a significant degree of support from local tribal leaders and from those in the neighbouring Pakistani Pashtun areas. In addition, the continuation of Afghan-based international drug-trafficking provides them, and also many warlords, with a significant source of income in hard currency. This enables them to expand and modernise their military forces and to pay for new recruits, most of whom would have no hope to find employment elsewhere.

In this scenario, poor security conditions mean that most Afghans continue to be denied basic infrastructure and employment opportunities, while the central government is denied the ability to provide basic services. The weak national armed forces suffer from poor funding, low morale and desertions and are no match for the well-motivated and better-paid and equipped rebels, forcing the government to continue to rely on foreign forces for its own security. This in turn helps the warlords to continue their rule as more legitimate authorities than the Kabul regime, as well as enabling the rebels to recruit and enjoy a degree of popular support. As a result, the latter conduct an increasing number of small-scale attacks on the coalition forces, pro-government military and unarmed NGO and UN employees operating in Afghanistan.

In this scenario, the regrouped rebels then expand the scale and frequency of their operations in 2005-07, expanding their controlled territories and consolidating their power, especially in small towns in southern and eastern Afghanistan. Terrorist activities (bombings and assassinations) also increase in Kabul and other areas outside the Pashtun region, possibly resulting in the death of leading Government figures and coalition personnel. Major cities such as Kandahar and its surrounding towns and villages become the scene of fierce fighting, as the rebels seek to re-establish their power in their traditional strongholds. The flow of refugees back to neighbouring countries, and to further afield, increases. By 2008-2010, the rebels have a strong presence in southern and eastern Afghanistan, most parts of which are practically under their control. Efforts by coalition forces and the Afghan government to recapture those areas result in frequent bloody fighting, but without enabling either side to change significantly the status quo.

After several years of such conflict (and with many other pressing demands on its resources), the international community progressively scales down its military engagement to decrease

its casualties and financial burden, leading to a complete withdrawal of troops by around 2013. This in turn encourages more and bolder attacks by the rebels, who now expand their operations outside their main areas of support. Finally, between 2013 and 2018, the two Afghan sides are left to continue fighting alone, but with a degree of support for both sides from foreign backers (Pakistan's Pashtun tribal leaders in the case of the rebels, the Western countries and Iran in the case of the Afghan government). By 2018, and probably long before, most of the country is engulfed in a fully-fledged civil war.

An important effect of this deterioration is that Afghanistan again becomes an important base for international Islamic terrorist organisations, who are able to use parts of its territory for the purposes of training, recruitment and operational planning. US efforts to suppress such groups during 2001-2004 do not prove fully successful, and in subsequent years, as the tide turns against the Government of Afghanistan, the capabilities of these groups is restored to the levels of the 1990s.

## **2.4 ADDITIONAL ANNUAL COSTS OF THE CONFLICT SCENARIO**

### **Additional costs to the directly-affected territory**

These are based on estimating the annual loss for Afghanistan of national income as a result of the conflict scenario, compared with the peace scenario, during the period 2004-2018. The costs of lost human capital and lives, together with other important, but still unquantifiable indicators, is excluded..

In the case of the conflict scenario Afghanistan's annual income remains relatively stagnant, at the 2003 level of \$4.3 billion (of which as much as 50% might be drug-related). In the case of the peace scenario, by contrast, national income for 2004 is assumed to be \$4.8 billion, which then increases at an annual rate of 10 percent in 2005-2012 to reflect an emerging confidence in the country's stability and increasing opportunities for productive economic activity. Once the main gains from post-war reconstruction are realised, the national income then grows by a steady 5 percent annual increase from 2012 to 2018. Non-drug-related GDP grows at a more rapid rate, since it is assumed that the peace scenario will involve a substantial reduction in the proportion of GDP accounted for by opium production (which is currently around a third of total GDP).

In the absence of reliable statistics on the current government and the armed opposition spending and the unavailability of indicators to determine a reasonable difference in expenditure during the peace and conflict periods, the assumption would be that the Afghan government and its armed opposition combined would spend at least \$1 billion annually during most of the period of study. This is based on the available estimated annual military expenditure of the Afghan government in 2002 (\$525.2 million), seemingly a minimum as it reflects the first year spending of the post-Taliban government with a heavy reliance on the US-led coalition force for its security.<sup>10</sup> Once stabilisation has been achieved in the peace scenario, however, some reduction in military spending is assumed.

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<sup>10</sup> "Afghanistan: Military," AllRefer.com, 2004, accessed: 25 January 2004.

**Table 1: Annual loss of national income as result of conflict (\$bn 2004 prices)**

<i>Year</i>	<i>Income in Peace Scenario</i>	<i>Income in Conflict Scenario</i>	<i>Income loss in Conflict Scenario</i>	<i>Savings in ME</i>
2004	4.8	4.3	0.5	
2005	5.3	4.3	1.0	
2006	5.8	4.3	1.5	
2007	6.4	4.3	2.1	
2008	7.0	4.3	2.7	
2009	7.7	4.4	3.3	
2010	8.5	4.5	4.0	
2011	9.4	4.6	4.8	
2012	10.3	4.7	5.6	
2013	10.8	4.8	6.0	0.1
2014	11.3	4.9	6.4	0.1
2015	11.9	5.0	6.9	0.2
2016	12.5	5.0	7.5	0.2
2017	13.1	5.0	8.1	0.2
2018	13.8	5.0	8.8	0.3
<b>Total</b>	<b>138.6</b>	<b>69.4</b>	<b>69.2</b>	<b>1.1</b>

### **Additional costs to the neighbouring countries**

In estimating the additional cost to Iran and Pakistan in the case of conflict in Afghanistan, we do not assume any losses of aggregate national income for those countries. We therefore base our estimations on (a) losses in the forms of costs pertaining to the Afghan refugees residing in both those countries; (b) costs of dealing with the Afghan-based international drug-trafficking (especially in Iran). Despite a significant degree of repatriation since early 2002, some three million Afghan refugees still live in Iran (1.5 million) and Pakistan (1.5 million), and a degree of return flow of several hundred thousand Afghans into these countries has continued in parallel with repatriation.<sup>11</sup> In the conflict scenario, we assume that net repatriation would slow and then reverse.

As in the Afghanistan retrospective study, we assume a per capita cost for each refugee in Iran of around \$1,000 per head.<sup>12</sup> Half of these costs, it is estimated, are borne by neighbouring countries and half by the international community. This total includes the cost of providing education and medical services, treating infectious diseases and treating war-related wounded refugees. It is assumed that refugee numbers rise steadily to 5 million by 2012 in the conflict scenario, but fall to zero during the same period in the peace scenario. The additional cost of the conflict scenario therefore rises steadily.

<sup>11</sup> "Illegal Migration of Afghans to Iran Has Resumed," *Ettela'at Binolmelali* (Tehran), 8 August 2002.

<sup>12</sup> Annex B.

**Table 2: Additional annual cost for Iran and Pakistan as result of conflict (\$bn 2004 prices)**

<b>Year</b>	<b>Cost of refugees: conflict scenario</b>	<b>Cost of refugees: peace scenario</b>	<b>Additional Cost of refugees</b>	<b>Extra border security Iran in conflict scenario</b>
2004	1.7	1.5	0.2	0
2005	2.0	1.3	0.7	0
2006	2.0	1.0	1.0	0
2007	2.1	0.8	1.3	0
2008	2.2	0.6	1.6	0.1
2009	2.3	0.4	1.9	0.1
2010	2.4	0.2	2.2	0.2
2011	2.5	0	2.5	0.2
2012	2.5	0	2.5	0.2
2013	2.5	0	2.5	0.2
2014	2.5	0	2.5	0.3
2015	2.5	0	2.5	0.3
2016	2.5	0	2.5	0.3
2017	2.5	0	2.5	0.4
2018	2.5	0	2.5	0.4
<b>Total</b>	<b>34.7</b>	<b>5.8</b>	<b>28.9</b>	<b>2.7</b>

Finally, we take into account the \$800 million now being spent by Iran (and to a more limited extent Pakistan) in fighting Afghan-based drug-traffickers along their long borders. Owing their operation with impunity to Afghanistan's conflict-generated lawlessness, their operation and Iran's counter-operation would likely continue at this level in the conflict scenario during 2004-2018. By contrast, some part of this spending can be saved in later years of the peace scenario. Arguably, additional costs might also fall on Pakistan in the form of the expenditure needed to tackle cross-border infiltration of militants. Given the uncertainties over whether a future Pakistan government might view a Pashtun rebellion in Afghanistan as positive or negative, however, we have not added an estimate for this in this exercise.

**Additional direct costs to the wider international community in providing emergency assistance, and in coping with other costs from the conflict**

Because this case study concerns CP in an environment where conflict is already taking place and in which the IC is already involved, the purpose of this section is to assess the cost implications of both the conflict scenario and the peace scenario, on the assumption of a continuation of current 'baseline' levels of international ODA and military commitments, i.e. before adding the costs of the two CP packages outlined below. Discussion of additional commitments, over and above those pledged at the 2002 Tokyo conference, is due to take place in Berlin in late March 2004. Proposals have also been made for an extension of ISAF to an Afghanistan-wide role. For the purposes of this study, however, these additional commitments will be part of the CP packages, not the baseline.

Our estimates of baseline financial assistance start with the disbursed level of foreign assistance for January 2002 – March 2003 (\$1.8 billion), which is then used (adjusted to an

annual basis) as a guideline for estimating annual foreign contributions over the first years of the period 2004-2018.<sup>13</sup> The estimated annual amount of \$1.4 billion for 2004 includes transfers to the Afghan government (\$900 million), contributions to NGO operations (\$100 million), contributions to UNHCR budget (\$160 million), contribution to development projects such as disarming ex-Mujahedin and anti-narcotics projects and emergency projects of about \$200 million.<sup>14</sup>

In the baseline peace scenario, we assume that assistance remains steady at this level for 3 years, but is progressively shifted from humanitarian and refugee-related expenditure into development programmes and support for the Government recurrent budget. From 2007, we then assume a progressive reduction in annual financial assistance to a level of \$1 billion per annum by 2010, as Afghanistan is increasingly seen as a 'normal' aid recipient, competing with other demands on limited global ODA budgets. Expenditure on international military forces (US and NATO/ISAF) in Afghanistan remains at 2003 levels in 2004, but then falls sharply as the resources needed for (expensive) war-fighting missions decline, responsibilities are increasingly handed over to Afghan forces and rebels become increasingly isolated geographically. By 2008, annual costs decline to \$3 billion, comparable to current ISAF costs, plus some significant residual US component. Costs then dwindle, with all international military forces having departed by 2012.

In the baseline conflict scenario, by contrast, the total level of ODA is comparable with that of the peace scenario, but with an increasing proportion spent on humanitarian rather than development operations. As the Kabul government weakens and international military support for it is reduced, however, ODA is reduced and by 2015 returns to the levels of assistance characteristic of the 1990s, focused primarily on humanitarian relief. Military spending by the IC in Afghanistan declines on a slower trajectory than the peace scenario as its forces seek to shore up the ailing government. In this baseline scenario, it is assumed that no increase over 2003 troop levels is ordered because of resource constraints, competing demands and increasing political concern at the costs of overseas entanglements. As the attempt to achieve stabilisation at (relatively) low cost progressively fails, IC military spending in Afghanistan begins to decline sharply from 2008 onwards, falling to zero from 2013.

Table 3 shows that the conflict scenario is significantly more expensive than the peace scenario for the IC, largely because of the longer period of high military spending that is involved in deciding to run down its military commitment in the event of failure to stabilise Afghanistan, compared with the more rapid run-down in the event of success.

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<sup>13</sup> Transitional Government of Afghanistan, *Analysis of Aid Flows to Afghanistan*, April 2003.

<sup>14</sup> Ibid; and UNHCR, Sectoral and Geographical Breakdown of Total Budget, "Afghanistan Appeal 2003, UNHCR. p. 12, accessed: 23 January 2004.

**Table 3: Costs to international community in providing emergency assistance and military forces (\$bn 2004 prices)**

<b>Year</b>	<b>ODA: peace baseline</b>	<b>Military: peace baseline</b>	<b>ODA: conflict scenari o</b>	<b>Military: conflict scenario</b>	<b>Additional cost: conflict scenario</b>
2004	1.4	13	1.4	13	0
2005	1.4	13	1.4	13	0
2006	1.4	13	1.4	13	0
2007	1.3	8	1.3	13	5
2008	1.2	3	1.2	13	10
2009	1.1	2	1.1	10	8
2010	1.0	1	1.0	8	7
2011	1.0	1	0.8	5	3.8
2012	1.0	0	0.7	3	2.7
2013	1.0	0	0.6	0	-0.4
2014	1.0	0	0.4	0	-0.6
2015	1.0	0	0.3	0	-0.7
2016	1.0	0	0.3	0	-0.7
2017	1.0	0	0.3	0	-0.7
2018	1.0	0	0.3	0	-0.7
<b>Total</b>	<b>16.8</b>	<b>54</b>	<b>12.5</b>	<b>91</b>	<b>32.7</b>

In addition, as in the retrospective Afghanistan study, some allowance should be made for the increased risks to the IC in the conflict scenario that might be created from increased international terrorism and the continuing export of narcotics from Afghanistan. While estimates of these 'non-discretionary' costs of conflict to the IC are problematic in many respects, it would be even more questionable to assume that no increase in such risks would take place were current stabilisation efforts in Afghanistan to fail (as the conflict scenario assumes).

With regard to international terrorism, our conflict scenario would allow large parts of southern and eastern Afghanistan (and perhaps parts of Pakistan) to be used as a training and operational base. It would provide a major boost in morale for Al-Qaeda and similar networks of radical Islamist terrorists, encourage recruitment of new personnel from across a wide range of countries and undermine the morale of moderate forces in Pakistan, Saudi Arabia, Iraq and elsewhere. As in the 1990s, such groups would be likely to work in alliance with Taliban and similar Afghan forces, providing them with military support in return for safe haven. In the absence of such an operating base, continuing international terrorism would still take place, but it would be reasonable to assume that it would be significantly more difficult to organise and carry out. We therefore assume that the conflict scenario would be associated with an increase in the frequency of international terrorism, compared with what would take place in the peace scenario. This would potentially affect all parts of the world, both developed and developing.

For the purposes of our calculations here, we assume that the current global cost of countering international terrorism (including inefficiencies in trade, security costs) is 0.3% of

global GDP, equivalent to \$90 billion per year.<sup>15</sup> We also assume (conservatively) that the direct cost of international terrorism is a further \$20 billion per year, on the assumption that damage cumulatively equivalent to half that incurred by the 9/11 attack is inflicted every year. In the event of the peace scenario in Afghanistan, we assume these costs remain at these levels. Were the conflict scenario to take place, we assume that these costs would increase by 20% from 2008 onwards: an additional cost of \$22 billion per year. The sensitivity analysis at the end of this paper will explore the implications of varying this assumption.

Afghanistan is the source of around 70% of the world's opium production, accounting for as much as half total Afghan GDP and this is assumed to continue to be the case in the conflict scenario. In the peace scenario, however, it is assumed that this level of production will decrease significantly as Government control of its territory expands and alternative economic opportunities are created. Were this reduction in supply to result in a significant reduction in availability in global markets, the benefits would be very considerable indeed. In neighbouring Iran, Pakistan and Central Asia, as well as further afield in Afghanistan, Europe and the US, increased illegal consumption of heroin and other narcotics has played a key role in both large-scale organised crime and small-scale criminality. In the UK (90% of whose heroin originates in opium from Afghanistan), drug use is a key factor in the rapid growth in prison population over the last decade. Reducing global access to heroin might, therefore, have significant social and economic benefits. The causal relationships are too complex and under-explored to discuss in this paper. For the purposes of our calculation, however, we assume that the total global costs of narcotic misuse are at least \$200 billion and that these costs could be reduced by 5% if supply from Afghanistan were to be reduced to a fraction of its current level without transfer of production elsewhere.<sup>16</sup> These savings, it is assumed, would be progressively realised from 2008 onwards in the peace scenario for Afghanistan.

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<sup>15</sup> The IMF estimated that the loss of US output resulting from terrorism related costs could be as high as 0.75% of US GDP. A 2002 CBO study estimated terrorism directly cost the US about 0.3% of non-farm GDP, and reduced total factor productivity by around 0.3%. Robert Keleher, 'The Economic Costs of Terrorism', Joint Economic Committee, US Congress, May 2002, and Geoff Raby, DFAT Australia, 'The Costs of Terrorism and the benefits of cooperating to combat terrorism', 24 February 2003 provide useful surveys of these and other estimates.

<sup>16</sup> This broadbrush estimate of cost includes drug control budgets (\$33 billion in the US alone), cocaine and heroin consumer spending (\$80 billion in the US and Europe), as well as costs of prisons, crime, personal security.

**Table 4: Costs to international community in coping with other costs of the conflict scenario (\$bn 2004 prices)**

<b>Year</b>	<b>Increased international terrorism</b>	<b>Increased narcotics availability</b>	<b>Total</b>
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	22	2	24
2009	22	4	26
2010	22	6	28
2011	22	8	30
2012	22	10	32
2013	22	10	32
2014	22	10	32
2015	22	10	32
2016	22	10	32
2017	22	10	32
2018	22	10	32
<b>Total</b>	<b>242</b>	<b>90</b>	<b>332</b>

**Additional direct costs to the wider international community in stopping the conflict after it has started**

In the conflict scenario outlined here, the international community withdraws in the aftermath of its failure to stabilise Afghanistan with existing levels of forces. In the event of a further large-scale incident of international terrorism in the US being directly associated with Afghan-based forces, it is likely that a future military intervention will take place. Such an incident could take place at any time. For the purposes of this calculation, however, we assume that it takes place mid-way through the period in mid-2011. The previous failure of the period 2002-2010 would rule out an identical response to that of this period. More likely, having learnt the same lesson twice, the IC would now commit itself to a much larger package of full-scale military intervention and ODA. First, we assume this would involve costs comparable to those in 2002 and 2003, increasing as a new ISAF expands rapidly throughout the country, then tailing off from 2017 onwards.<sup>17</sup> Second, we assume a rapid build-up of ODA levels to the \$4bn per annum currently being sought by the Government and international development agencies as the level necessary (in 2004-2011) to stabilise the country.

Yet such a robust response, essentially revisiting and reversing the errors of the past, would only take place if there were to be an event resembling (or exceeding) the attacks of 9/11, linked to the use of Afghanistan as a base, and probably taking place on US soil. A more indirect relationship of Afghan basing to increased international terrorism was insufficient to induce invasion during the 1990s and we assume it would be insufficient in our conflict scenario. On the assumption that such an attack is 20% more likely to take place during the

<sup>17</sup> Further details are given in the Afghanistan retrospective study.

period in the conflict scenario, compared with the peace scenario, we then have to discount the costs of a second invasion by 80%.

**Table 5: Costs for IC in stopping conflict after it has started (\$bn 2004 prices)**

<i>Year</i>	<b>Added military cost</b>	<b>Added ODA cost</b>	<b>Total (discounted by 80%)</b>
<i>2004</i>			
<i>2005</i>			
<i>2006</i>			
<i>2007</i>			
<i>2008</i>			
<i>2009</i>			
<i>2010</i>			
<i>2011</i>	6	1	1.4
<i>2012</i>	12	3	3.0
<i>2013</i>	13	4	3.4
<i>2014</i>	14	4	3.4
<i>2015</i>	14	4	3.4
<i>2016</i>	14	4	3.4
<i>2017</i>	10	4	3.4
<i>2018</i>	8	4	3.4
<b>Total</b>	<b>91</b>	<b>28</b>	<b>24.8</b>

## **2.5 PROBABILITY OF THE CONFLICT WITHOUT CONFLICT PREVENTION PACKAGES**

Without the significant increases in military engagement and financial assistance that are included in the two CP Packages, there is a risk that current efforts at stabilisation will fail and Afghanistan will progressively (as discussed in the conflict scenario) slide back into civil war. In this scenario, it is assumed, the international community is reluctant to commit additional military resources for fear of being bogged down in a long war of attrition, with its expected high costs in human lives and financial means. It is also unwilling to commit additional amounts of economic aid, over and above current levels of assistance.

Politically, the Afghan Government remains vulnerable as long as its writ remains extremely limited outside Kabul and surrounding areas, its leaders are vulnerable to assassination or overthrow, and its ability to respond to economic, social and security problems is limited by inadequate amounts of foreign assistance. Current levels of per capita international assistance - \$63 per head in 2002 - compare poorly with levels in Bosnia, Kosovo and East Timor in the past. Because of Afghanistan's greater population (25 million compared with Bosnia's 4 million), the total costs of a given level of per capita ODA are much higher and this helps explain the difficulties that have been encountered in mobilising ODA resources. If not rectified, however, the consequence may be a growing gap between expectations of economic and social improvement and reality on the ground. Not least, there has been relatively little progress in tackling the growth in opium production, which now accounts for as much as half of total Afghan GDP, and has the potential to deeply destabilise Afghan society and politics, turning it into a 'narco-state'. The security situation is also fragile. Government military and police forces remain weak, and several years away from meeting the rebels'

challenge on its own. Yet so far it has not been possible to reach agreement on a substantial expansion of ISAF forces beyond Kabul. In late 2003, it took several months for NATO to obtain two desperately needed helicopters for ISAF, at a time when many more were deployed in Iraq. More recently, the extension of PRTs is a step in the right direction, but needs to be put into perspective. The UK-led PRT in northern Afghanistan, for example, has 50-70 soldiers in an area of operation the size of Scotland. If this level of security commitment cannot be improved, the risks of a further deterioration are significant.

Substantial progress has been made since 2001 and it would be wrong to dismiss the achievements made possible by current levels of military and financial assistance. It is possible that this progress could continue, with repeated US-led offensives wearing down rebel resistance, continuing economic assistance persuading key faction leaders to recognise the authority of the Kabul government, and the narco-economy increasingly being marginalised. But the risks of failure are substantial and have been increased by the relatively low level of IC resource commitment, measured not in absolute terms but in terms of the scale of the challenges faced by Afghanistan. Because of limited resources, progress is slower than it could have been, setbacks are more common, and the chances of a major crisis (e.g. in the aftermath of a Karzai assassination or a change of government in Pakistan) higher than they might have been. The risks may be particularly severe during the next 2-3 years.

On the assumption of no increase in available IC resources to Afghanistan, we therefore assess the probability of the conflict scenario (i.e. escalation to full-scale civil war) at 80% during 2004-2018. It is possible that Afghanistan will pull through without further assistance, but the risks are considerable. As a recent joint bid for additional ODA resources from the Government of Afghanistan and international organisations argued:

‘staying too close to a minimal effort for too long will adversely affect expectations and commitments of the different segments of Afghan society. In this scenario, the investment in building security and economic management institutions will not translate into outcomes quickly enough to convince people to invest in the country’s human and physical capital.....’ This will undercut the broad consensus that currently exists in the community for reforms in the economic and security domains. There are currently strong and concentrated interests in Afghanistan who are angling for a weak central government which will allow them to undertake narcotic production and illegal natural resource exploitation. Without visible and rapid progress, the consensus for reform will not be sustained (and) even modest levels of economic growth in legal activities will not occur.’<sup>18</sup>

## **2.6 CONFLICT PREVENTION PACKAGES**

### **Conflict Prevention Package 1**

This package is based around an increase in international financial assistance, in line with the plans elaborated by the Afghan Government, in co-operation with the WB, ADB, UNDP and UN Assistance Mission.<sup>19</sup> These plans, which are due to be discussed at a donor conference in late-March 2004, provide for an increase in international assistance to around \$4 billion per annum over a seven year period. As this proposal argues:

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<sup>18</sup> World Bank et al, *Securing Afghanistan’s Future*, March 2004.

<sup>19</sup> *Securing Afghanistan’s Future: Accomplishments and the Strategic Path Forward*, ADB / World Bank / UNDP / UNAMA, 17 March, 2004.

'This international assistance to Afghanistan should be looked on as an investment in stability, peace-building and development at local, regional and global levels. It is not charity. It will enhance regional stability, reduce the global threats of drugs and terrorism, and lower the associated defence and security-related costs of many nations. It should also be seen in the context of continuing international security costs in Afghanistan, including over US \$13 billion per year of spending on Coalition and ISAF forces, as well as the more than US \$2 billion spent over the past two years in responding to humanitarian emergencies that a failed state would have no capacity to address. Success in Afghanistan will permit drastic reductions over time in these expenditures.'<sup>20</sup>

These plans result from more than two years of reconstruction experience and correspond to estimates made in July 2003 by Care International, which estimated required funds to be between \$15 and US\$30 billion over a five-year period (\$3-6 billion per year). It corresponds to around \$160 per capita, still less than in the initial years of reconstruction in Bosnia (\$326 in 1996-99) and East Timor (\$195 in 1999-2001), but comparable to Bosnia or Macedonia in 2001 (\$157 and \$122 respectively), and amongst the highest levels of per capita ODA in the world. Moreover, because of the greater size of Afghanistan's population compared to these other post-conflict territories, this proposed aid package would make Afghanistan the largest ODA recipient in the world by a significant margin, with the possible (but probably short-lived) exception of Iraq.<sup>21</sup>

The proposed package is especially ambitious because, in contrast to many other post-conflict stabilisation programmes, it is assumed that the level of external assistance is maintained for seven years, rather than falling sharply after the first three years. Given the extent of Afghanistan's reconstruction and development needs, as well as the slow pace at which domestic revenue can be expected to recover, this is a reasonable assumption. However it is an ambitious target, given the limited global availability of ODA and the many competing demands that are likely during this period.

After year 7, we assume that ODA to Afghanistan will be reduced incrementally to a level of \$1 billion, more comparable to other major aid recipients, though still relatively high on a per capita basis. Since Afghanistan will remain one of the poorest countries of the world, and because of its new strategic and symbolic significance, it is assumed that this level will remain for the rest of the period.

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<sup>20</sup> Ibid.

<sup>21</sup> Because of its greater access to domestic revenues, Iraq might be expected to reduce dependence on concessional assistance much more rapidly than Afghanistan. Proposed ODA flows to Afghanistan exceed those to today's largest ODA recipients, all of which have much larger populations. In 2001, these were Pakistan (\$1938m), India (\$1705m), Indonesia (\$1501m), China (\$1460m) and Vietnam (\$1435m). World Bank, *World Development Report 2004*, Table 5.

**Table 6: Cost of conflict prevention package 1 (\$bn, 2004 prices)**

<i>Year</i>	<i>Current plans for ODA</i>	<i>'Securing Afghanistan's Future' programme</i>	<i>Additional ODA</i>
2004	1.4	4	2.6
2005	1.4	4	2.6
2006	1.4	4	2.6
2007	1.3	4	2.7
2008	1.2	4	2.8
2009	1.1	4	2.9
2010	1	4	3
2011	1	3	2
2012	1	2.5	1.5
2013	1	2	1
2014	1	1.5	0.5
2015	1	1	0
2016	1	1	0
2017	1	1	0
2018	1	1	0
<b>Total</b>	<b>16.8</b>	<b>41</b>	<b>24.2</b>

## **Conflict Prevention Package 2**

Although CP Package 1 includes financial support to the Afghan security sector, as well as to DDR, it does not include any additional provision for external military assistance. CP Package 2 remedies this, by adding a significant enhancement in the size of ISAF, allowing it to progressively deploy substantial forces in all provinces until Government forces are sufficiently capable of taking their place. Recent estimates suggest that 'international forces in Afghanistan are almost certainly short by at least 10,000 troops to meet the needs of creating lasting peace and stability.'<sup>22</sup>

These additional forces are required essentially to meet the short term security gap that exists while rebel and warlord threats to Kabul's authority remain strong, yet the Government's own security forces remain weak. Yet security concerns are likely to remain for much longer than in many other post-conflict environments, given both the traditions of local war-lordism and the destructive influence of the drugs economy. While the 'baseline' for external military involvement assumes a rapid rundown after 2007 and complete withdrawal by 2012, therefore, this package assumes a continued commitment of ISAF troops throughout the period, although the level falls to 5000 during 2010-12. This additional force is estimated to cost \$1.5 billion for 10,000 additional troops, based on an average annual cost per soldier of \$150,000.<sup>23</sup>

<sup>22</sup> Michael O'Hanlon and P W Singer, 'The Humanitarian Transformation: Expanding Global Intervention Capacity', *Survival*, 46, 1, Spring 2004, p. 80. This is similar to estimates made by SRSG Brahimi in 2003.

<sup>23</sup> The per soldier annual costs for US forces in Afghanistan and Iraq respectively are \$270,000 and \$240,000. Bradley Graham, 'Disparity in Iraq, Afghanistan War Costs Scrutinised', *Washington Post*, 11 November 2003. This compares with annual costs of around \$125,000 per soldier for UK forces in Iraq during 2003/04. Calculated from UK MoD, *Operations in Iraq: Lessons for the Future*, December 2003, Chapter 12. Given the leaner cost profile of European forces, more comparable to the UK than the US, we assume a \$150,000 annual per soldier cost.

**Table 7: Cost of conflict prevention package 2 (\$bn, 2004 prices)**

<b>Year</b>	<b>Additional ODA</b>	<b>Military: baseline costs</b>	<b>Additional ISAF costs</b>	<b>Total costs CP Package 2</b>
2004	2.6	13	1.5	4.1
2005	2.6	13	1.5	4.1
2006	2.6	13	1.5	4.1
2007	2.7	8	1.5	4.2
2008	2.8	3	1.5	4.3
2009	2.9	2	1.5	4.4
2010	3.0	1	1.0	4.0
2011	2.0	1	0.7	2.7
2012	1.5	0	0.7	2.2
2013	1.0	0	0.7	1.7
2014	0.5	0	0.7	1.2
2015	0	0	0.7	0.7
2016	0	0	0.7	0.7
2017	0	0	0.7	0.7
2018	0	0	0.7	0.7
<b>Total</b>	<b>24.2</b>	<b>54</b>	<b>15.6</b>	<b>39.8</b>

## **2.7 PROBABILITY OF CONFLICT WITH CONFLICT PREVENTION PACKAGES**

### **Probability of Conflict with Conflict Prevention Package 1**

In combination with the substantial existing level of external military assistance being provided through US military operations and ISAF, CP Package 1 would make a significant contribution to preventing conflict, providing confidence in the future for its citizens, encouraging rapid economic growth and consolidating the fragile finances of the Afghan Government. The probability of conflict would therefore be substantially less than the 80% probability that we assume under the baseline scenario, in which current levels of external resource provision is frozen then reduced.

At the same time, without additional security provision to fill the gap before government security forces can be sufficiently strengthened, this Package would be vulnerable to being derailed by powerful armed groups, both directly associated with Taliban / Al-Qaeda and by other actors with an interest in protecting illegal narcotic and resource extraction activities. Without physical security, moreover, it would be much harder to spread the benefits of the development package beyond the areas over which the government has effective control. Even if \$4 billion a year can be spent without such control, therefore, it may widen inter-regional disparities and contribute to further conflict. It is possible that existing commitments of external security forces will be able to overcome these obstacles without leading to a downward spiral, but it remains somewhat unlikely. We therefore assess the probability of large-scale conflict under CP Package 1 as being 40%.

## **Probability of Conflict with Conflict Prevention Package 2**

CP Package 2, combining both a massive programme of economic assistance and a substantial expansion and extension of ISAF, would be more likely to ensure that large-scale conflict was prevented over the next 15 years, thus putting Afghanistan firmly on the transition to becoming a 'normal' low-income South Asian country. Even this Package could not guarantee success were organised armed opposition to the Government and its foreign allies to intensify further. A longer period of foreign 'occupation' could inflame hostile feelings among Afghans, and might also attract foreign Islamist fighters, as is already occurring in Iraq. The success of the Afghanistan Government, moreover, still remains dependent on a relatively small number of personnel and on delicate political compromises between factional groups and ideological approaches. Were these gains to collapse, even a much-enhanced international presence might not be sufficient to protect Afghanistan from a slide into civil war.

On balance, therefore, we assess the probability of large-scale conflict under CP Package 2 as being 20%.

## **2.8 NET PRESENT VALUE AND ASSESSMENT**

This case study focuses on an ongoing conflict in which there is already substantial international community involvement. It has sought to estimate the cost-effectiveness of undertaking two additional CP Packages, both of which are already being discussed widely, but neither of which has yet been allocated sufficient resources for its implementation. The first package consists of the comprehensive assistance programme outlined by the Government of Afghanistan and international development organisations in March 2004, which it is estimated will cost around \$4bn a year over the next seven years. The second package also includes the deployment of a further 10,000 ISAF troops in order to provide higher levels of security in the areas of Afghanistan currently outside central government control. The total costs of the two packages are estimated to be \$24 billion and \$40 billion over the next 15 years respectively, in addition to the \$71 billion committed under current plans (most of which is needed for the continuing costs of US war-fighting operations).

On the assumptions made in the paper, both CP Packages are cost-effective to the IC if they produce reductions in the probability of civil war of 7% and 12% respectively. Unless the IC is confident that current levels of commitment to Afghanistan are sufficient to guarantee lasting peace, therefore, the case for further investment seems a strong one.

This conclusion depends heavily on the assumptions that (a) a return to full-scale civil war in Afghanistan will increase the costs of countering international terrorism and repairing the damage it causes by 20%; (b) the current costs to the IC of the global narcotics trade will be reduced by 5% if opium production in Afghanistan can be sharply reduced, as we assume is the case in the peace scenario. If either of these assumptions is diluted or removed, the cost-effectiveness of the Packages will be reduced. If it is assumed, for example, that civil war in Afghanistan will only increase the costs of international terrorism by 10% (compared to what it would have been in the event of peace), and if peace has no discernible impact on the damage done by the narcotics trade (either because Afghan production is maintained, or because alternative production sources are easily developed), then the breakeven probability reductions for the two packages become 15% and 24% respectively.

The prevention of conflict in Afghanistan would also have substantial benefits for Afghanistan itself and for its neighbours (\$74 billion NPV, compared to an estimated \$288 billion to the IC). If these potential benefits are also included in the calculation, the breakeven reduction in probability at which the CP Packages are cost-effective will be lower than in the above illustrations.

# **Uzbekistan 2004 – 2018**

**David Newton & Greg Austin  
March 2004**

### 3.1 EXECUTIVE SUMMARY

This study posits a conflict scenario consisting of a small-scale and localised civil war in the Uzbekistan part of the Ferghana Valley and estimates that the net additional costs of conflict are US\$31.6 billion in NPV at 2004 prices, broken up as follows:

□ to Uzbekistan:	\$27.3bn
□ to neighbouring states:	\$2.4bn
□ to international community:	\$1.9bn

The paper presents two CP packages, one consisting of direct prevention measures and the second also including support for long term reform. It estimates that, in order to be cost-effective to the IC, the CP Packages should reduce the probability of large-scale conflict by 10% and 28% respectively. If the savings to Uzbekistan and its neighbours are also taken into account, the breakeven probabilities are much lower: 0.6% and 1.6% respectively. These low 'breakeven' probabilities reflect the relatively low costs of both CP Packages, costing \$191m and \$542m respectively over 15 years.

Both Packages illustrate the merits, in terms of cost-effectiveness, of engaging in CP well before the onset of a conflict. The packages are only equivalent to around one sixth of current ODA flows to Uzbekistan, currently \$160m a year. In our judgement, this is enough to provide effective CP packages that are well targeted, politically driven and regularly re-assessed and reshaped.

The study may underestimate the costs of the conflict to the IC. First, costs that are incurred after 2018 are not included. Second, the size of the UN post-conflict force is assumed to be around 1000 personnel. If the perceived importance of Uzbekistan grows, a larger commitment may be possible. Third, the study makes no allowance for the conflict's impact on the incidence of international terrorism or the global availability of narcotics (including transit trade from Afghanistan).

One obstacle to the implementation of parts of the packages proposed here could be the willingness of the Uzbekistan government to allow their implementation. External support to opposition groups, human rights groups or independent media might, for example, meet such resistance. Similarly, the government is unlikely to view favourably the opening of OSCE offices in the Ferghana Valley. Both packages are designed as influencing strategies and the IC would need to implement those parts of the packages that it could. However at the core of both packages lies a suite of diplomatic pressures and dialogue, backed up by tough conditionality and sensitive implementation. As long as the Government of Uzbekistan remains relatively dependent on international support (including ODA), it will not be able to oppose implementation of most elements of the package. On the other hand, the fewer entry points the IC has (or is prepared to use), the less likely any CP measures are to work.

## 3.2 INTRODUCTION

This case study considers the relative costs of conflict prevention and post-conflict intervention for the state of Uzbekistan during the period 2004-2018.

Uzbekistan is situated in Central Asia, and is a former Soviet republic that gained its independence in 1991. It is home to 26m people, of whom 6.4m live in the arable and densely populated Ferghana Valley, on which much of this case study concentrates. Uzbekistan is bordered by five states, namely, Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan.

Uzbekistan faces the potential for conflict on a number of levels, including inter-state conflict. This case study concentrates on the potential for violent internal conflict, arising primarily between the government of Uzbekistan, a number of non-state actors and groups, including the Islamic Movement of Uzbekistan (IMU)<sup>24</sup> and Hizb-ut-Tahrir,<sup>25</sup> and the general population of the Ferghana Valley.

International engagement in Uzbekistan in the economic sphere has been significant. A number of international organisations are represented there, including the World Bank, IMF, UNDP, and OSCE. Engagement rose significantly following 11 September 2001, after which the US established a military presence inside Uzbekistan and significantly increased ODA flows to the country. Uzbekistan has been involved to some degree in attempts at closer regional cooperation, in particular through the Shanghai Co-operation Organisation. This has involved important security dimensions, though progress in co-operative measures has been constrained. The engagement by major powers with security in Uzbekistan has not been addressed so much to the problem of root causes of domestic conflict or conflict prevention as it has to the law enforcement aspects and support for military operations in Afghanistan. The Organisation of Security and Co-operation in Europe (OSCE) has been pressuring the government of Uzbekistan to respect human rights and this would contribute to conflict prevention goals if this pressure were having any effect. The international community is currently sending mixed messages to the government of Uzbekistan, particularly with regard to state responses to terrorism and the relative importance of human rights and freedom of religion. There is no evidence of any attempt by international actors to engage with either Hizb-ut-Tahrir or the IMU as legitimate opposition groups that need to be brought into political dialogue. No comprehensive approach is being deployed by any one international actor, nor by the international community as a whole.

A primary cause of internal conflict is the behaviour of the authoritarian Uzbek government. The suppression of political activity and non-official Islam, and widespread human rights abuses, combine with economic hardship and widespread rural poverty to alienate large parts of the population. The potential for violent conflict arises from the possibility of one or all of the IMU, Hizb-ut-Tahrir, the democratic opposition movements, or the Uzbek population at large, mobilising to use violence in response to these factors.

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<sup>24</sup> The IMU is an armed opposition group, included by the USA after the terrorist attacks of 11 September 2001 in New York in its list of terrorist organisations. The IMU advocates the overthrow of the government of Uzbekistan as one of its aims. In the past, it has launched cross border incursions into Uzbekistan and Kyrgyzstan, and has been accused by the government of Uzbekistan of being behind the bombings in Tashkent in February 1999. The IMU was also involved in high profile kidnappings in Kyrgyzstan during 1999 and 2000. The IMU and its leadership have frequently used Afghanistan as a base of operations, and the organisation is thought to have close ties to both the Taliban and the al-Qaeda terrorist network.

<sup>25</sup> Hizb ut-Tahrir al-Islami (The Party of Islamic Liberation) is a radical Islamist movement that advocates the overthrow of governments throughout the Muslim world and their replacement by an Islamic state in the form of a recreated Caliphate. It is apparently opposed to the use of violence, but is forced to remain underground in Uzbekistan.

There has been considerable international attention paid to the prospect of inter-ethnic violence (between Uzbeks and Kyrgyz, or possibly Tajiks) in the Ferghana Valley that straddles the borders of Uzbekistan, Kyrgyzstan and Tajikistan, but this is a more likely source of tension in Kyrgyzstan than in Uzbekistan. Whilst the possibility of inter-ethnic conflict does remain, this paper argues that the sources of conflict in Uzbekistan are wider and a more strategic approach needs to be employed.

The case study firstly outlines a 'conflict scenario' and a 'peace scenario' for Uzbekistan for the next 15 years. These represent hypothetical, but realistic and representative, possibilities for the development of conflict in Uzbekistan. The costs of violent conflict breaking out are then examined, both for Uzbekistan itself, for neighbours and for the wider international community. Two comprehensive conflict prevention packages are proposed and outlined in detail. Both are flexible, designed to respond to events and opportunities as they unfold over the next fifteen years. The first package (CP1) concentrates on direct or short term measures, while the second (CP2) adds in structural conflict prevention measures. The financial cost implications of both packages are examined.

### 3.3 PEACE AND CONFLICT SCENARIOS

#### Conflict Scenario

The conflict scenario in this study is about localised, though serious, violent conflict occurring in a small finger of territory (the Uzbekistan part of the Ferghana Valley) that is geographically distinct from and easily cut off from the rest of the country. It essentially involves a capital city ruling elite versus a community-based society, one that is more traditional and one that has been marginalised and oppressed. The prospects for violence in this area have been enhanced by its high population density relative to the rest of the country.

The end point of the scenario is significant armed conflict in the form of a small-scale and localised civil war in the Ferghana Valley, in which a number of opponents of the regime mobilise significant numbers of the civilian population to engage in armed violence against the security forces of Uzbekistan. By this stage of the scenario, violent clashes or incidents are occurring at the rate of four or five per day in different parts of the Valley and occasionally in or around Tashkent, the capital. Deaths are in the region of 3000 a year, with many more injured. There is widespread damage to property and mass displacement of the population. By comparison, in the Tajikistan Civil war (1992-1997), an estimated 50,000 people died and some 600,000 people were displaced inside the country. Houses, roads, bridges, schools, hospitals, water systems and other key infrastructure facilities were destroyed.

***The chances of this, or any other, large-scale armed conflict within the next four years are relatively limited. The main danger is that a continuation of current political and economic trends progressively prepares the ground for future conflict some time in the 10-15 year time frame. Factors contributing towards this trend include the suppression of opposition political activity and non-official Islam, widespread human rights violations by government, continuing deterioration of the economic situation and worsening rural poverty.***

In this scenario, the combination of these factors results in a spread of protests against local and central government, particularly in the Ferghana Valley.<sup>26</sup> These protests are met with increasing oppression from the security forces, radicalising previously passive elements of the population and generating more resistance. Hizb ut-Tahrir enjoys a steady rise in

<sup>26</sup> The situation is complicated by the fact that there are also large numbers of ethnic Uzbeks living in the Kyrgyz parts of the Valley, several Uzbek enclaves within Kyrgyzstan, and large numbers of ethnic Tajiks and Kyrgyz in the Uzbek part, with some inter-ethnic tensions.

membership, and the IMU renews its attacks from outside Uzbekistan. Meanwhile, the declining health of President Karimov leads to damaging infighting within the elite over political succession.

Other possible sources of conflict exacerbate the medium-term potential for conflict. The commissions working on the delimitation of the Uzbek-Kyrgyz border could break down. Border crossings could become increasingly difficult, as harassment, extortion and corruption by border officials – already at high levels – intensify. Violent border incidents and exchanges of small arms fire could become more frequent, with Uzbekistan continuing to mine its borders and the gas/water dispute with Kyrgyzstan worsening.

***In the scenario***, discontent, fuelled by the oppressive response of the government, results in the growth of organised violence, particularly in the Ferghana Valley, by the end of this decade. Islam is increasingly used as a basis for mobilising opposition to the regime. As circumstances worsen, the IMU establishes a stronger foothold within Uzbekistan's part of the Ferghana Valley and launches a small number of terrorist attacks in Tashkent. The leadership struggle within the political elite is settled in favour of an ally of Karimov, but the new leader attempts to consolidate control through continued repression.

Many people turn to illegal economic activity in order to survive. This includes drug smuggling, which is also linked to radical armed groups. In an attempt to combat these trends, borders are frequently closed. Several border incidents cause deaths of both civilians and military personnel, worsening diplomatic relations with neighbouring states. The Uzbekistan-Kyrgyzstan water/gas dispute results in falling reservoir levels, a lack of irrigation water and subsequent crop failures.

The probability of large-scale armed conflict increases over time in the conflict scenario, with the Ferghana Valley becoming a base for resistance and for sporadic attacks on the rest of Uzbekistan. Attempts by security forces to regain control of the Valley result in mass arrests, a declaration of a 'state of emergency' and guerrilla warfare. There could be around 3000 conflict-related deaths annually, widespread damage to property and up to 1 million people displaced from their homes. Many of the casualties are caused by indiscriminate targeting by government forces of civilian targets by way of reprisal. Most of the incidents by the armed opposition would be hit and run raids on civilian or police targets or isolated military units, or personnel, rather than full force on force engagements. Where these do occur, the clashes usually involve less than 50 combatants on each side. Attacks on suspected IMU bases in Kyrgyzstan and Tajikistan could include bombing raids by the Uzbek air force and could thus generate new inter-state tensions.

The fighting is highly concentrated (localised) in the Ferghana Valley, around the towns of Namangan, Ferghana and Andizhon. This is a geographically discrete area of the country, accessible from the capital Tashkent by only one major road or by roads that pass through neighbouring countries. All of these roads can be affected quite seriously by winter weather. The Valley is about 5 per cent of Uzbekistan's territory, but has about 25 per cent of the population living on 37 per cent of the country's arable land.

As remaining international investors lose confidence in the economic and political situation and withdraw, economic discontent starts to affect traditionally more prosperous urban areas, particularly as food shortages develop when supply from the Ferghana Valley is disrupted. This leads to occasional but serious rioting in urban areas. Although civil unrest in the capital is quickly brought under control by force, political instability is increased and low-intensity warfare in the Ferghana Valley continues for several years.

## Peace Scenario

**Peace is defined here as being the absence of large-scale violent conflict during 2004-2018. As discussed above, medium term risks of conflict in Uzbekistan result from the continuation and deepening of current political and economic trends. Our representative 'peace scenario', by contrast, assumes a gradual reversal of these trends, which in turn reduces the chances of conflict. Of course, there is no mechanistic relationship between these trends and the advent of conflict. For the purposes of establishing baselines against which CP packages can be assessed, however, the mapping out of two representative scenarios is a useful exercise.**

**In the peace scenario**, the government begins to embark on limited but significant reforms during 2004-2009. Restrictions on secular political parties, civil society and the press are reduced. Pressure on religious and human rights groups abates and the Muftiate is given greater independence. There are amnesties for some political and religious prisoners and there are fewer mass arrests. The use of torture in prisons is reduced, as steps are taken to improve Uzbekistan's negative image on human rights. At the same time, the government is working to achieve IMF economic targets. It is also reducing obstacles to the development of the private sector; lifts restrictions on private trade and enterprise and implements strategies to tackle rural poverty. Although terrorist incidents continue, the authorities react in a manner designed to avoid alienation of the wider population from the government.

After 2009, in this scenario, reforms build on the progress of the previous five years. Parliamentary elections are contested by three principle parties and monitored by the international community, although the campaign is marred by violations. A programme of security sector reform is slowly starting to produce visible results.

Since the government meets minimum requirements for basic economic, political and human rights reforms, the international community starts to engage more in the economy. Sustained investment flows to social infrastructure (particularly health and education) and promoting sustainable livelihoods, although unemployment remains a significant problem. Whilst some protests continue, many citizens of Uzbekistan now feel that they have a livelihood and are able to sustain their standard of living. Key groups feel less marginalised and persecuted and the population finds new ways to express their grievances within the political system.

On an international level, the border demarcation commissions complete their work, although agreements have yet to be reached over access to enclaves of Uzbekistan territory within the borders of Kyrgyzstan and Tajikistan. Visa requirements and border crossing procedures are simplified. Harassment, extortion and corruption among border officials is being brought under control. Uzbekistan and Kyrgyzstan start serious negotiations concerning the supply of gas and water.

Finally, during 2014-2018, new parliamentary and presidential elections are held and these are largely free and fair and are contested by a wide variety of parties and candidates. A vibrant civil society is developing and Islamic political groups and parties are legalised as long as they do not espouse violence. Religious rights are enshrined in law. Political and economic reforms generate rising domestic and international confidence. A more independent judiciary is now able to provide a more stable legal environment, although corruption still persists. More private investors are showing an interest in the Uzbek economy. Relations with neighbouring states improve considerably. There have been no violent border incidents for the past two years. The resolution of border demarcation issues has promoted greater co-operation on other issues, including water, gas, and trade. A regional co-operation structure is beginning to function effectively.

### 3.4 ADDITIONAL ANNUAL COSTS OF THE CONFLICT SCENARIO

The following pages examine the additional annual financial costs of the conflict scenario (compared to the peace scenario) in Uzbekistan over the period 2004-2018. Both direct costs and indirect costs (such as estimated economic losses) are examined.

#### **Additional costs to Uzbekistan**

Establishing a baseline for estimates of the cost of conflict to Uzbekistan is difficult given the relative weakness of available official statistics. Our conservative estimate for total costs to Uzbekistan over the 15 years of the conflict scenario amounts to \$5.6bn at 2004 prices.

#### **Direct costs**

The most significant direct cost would be increased expenditure on the military and internal security forces. Estimates of expenditure on military forces in 2001 vary from 1.1 per cent of GDP (UNDP) to 2.8% of GDP (IISS).<sup>27</sup> No detailed figures are available for expenditure on internal security forces, but some additional amount needs to be added to military spending for this purpose. Here we conservatively use an annual estimated spend of \$246 million in 2004 for military and internal security forces and agencies (2 per cent of GDP) as a baseline.<sup>28</sup> Assuming incremental increases in expenditure on the military and internal security forces in the conflict scenario to reach 5 per cent of GDP for 2014-2018, contrasted with maintaining the current level of forces and equipment (and reducing defence's share in GDP) in the peace scenario, the additional cost could amount to \$4.832bn in 2004 prices over 15 years.<sup>29</sup>

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<sup>27</sup> UNDP, *Uzbekistan: Human Development Indicators 2003*, ([www.undp.org/hdr2003/indicator/cty\\_f\\_UZB.html](http://www.undp.org/hdr2003/indicator/cty_f_UZB.html)) estimates spending at \$120m, or 1.1% of GDP. International Institute for Strategic Studies, *The Military Balance 2003-2004*, Table 33, estimates spending at 2.8% of GDP in 2001.

<sup>28</sup> This is rather less than average developing country levels. Hoeffler and Reynal-Queral suggest that during peacetime the average developing country spends about 2.8% of GDP on the military. During civil war this increases to 5%. Anke Hoeffler & Marta Reynal-Queral, *Measuring the Costs of Conflict*, March 2003.

<sup>29</sup> Using a higher 'baseline' level of security sector spending (e.g. 3% of GDP) would make no difference to this estimate of additional costs, provided that the increase as a result of conflict were the same (in this example, to 6% of GDP).

**Table 1: Additional Defence and other Spending in Conflict (\$m 2004 prices)**

Year	GDP in Conflict	GDP Growth %	Security Sector as share of GDP %	Security Budget in Conflict	Security Budget in Peace	Savings in Security Budget	Other Direct Costs
2004	12,300		2	246	246	0	0
2005	12,853	4.5	2.3	296	246	50	0
2006	13,432	4.5	2.6	349	246	103	0
2007	14,036	4.5	2.9	407	246	161	0
2008	14,668	4.5	3	440	246	194	0
2009	15,255	4	3.3	503	246	257	0
2010	15,712	3	3.6	566	246	320	0
2011	16,026	2	3.9	625	246	379	0
2012	16,026	0	4	641	246	395	110
2013	15,866	-1	4.5	714	246	468	110
2014	15,549	-2	5	777	246	531	110
2015	15,238	-2	5	762	246	516	110
2016	14,933	-2	5	747	246	501	110
2017	14,635	-2	5	732	246	486	110
2018	14,342	-2	5	717	246	471	110
<b>TOTAL</b>				<b>8,522</b>	<b>3,690</b>	<b>4,832</b>	<b>770</b>

Over the period from 2012, the total losses through destruction and damage to capital assets and infrastructure could be in the region of \$110m per year (based on 20 major public buildings, such as schools or hospitals, totally destroyed each year), around \$80m being sustained in the Ferghana Valley during the civil war and \$30m of damage being inflicted on the capital through terrorist attacks and rioting. There is at least one road tunnel on the main road linking Tashkent to the Ferghana Valley and this could well be the target of repeated terrorist attacks. While the estimates for total infrastructure damage seem low, it must be remembered that the Ferghana Valley is a rural area with little civil infrastructure apart from schools and clinics. The US\$ price conceals the exchange rate and the cost of buildings in local currency is quite low when expressed in US dollars.<sup>30</sup> The most important infrastructure elements in the region are the irrigation channels without which most of the population would essentially starve. The conflict scenario assumes no significant attacks on the water infrastructure. The total cost of care for a potential 800,000 IDPs is also likely to be significant, around \$240m per year. However, most of this is likely to be borne by the international community, with Uzbekistan providing perhaps \$30m a year from 2012.

<sup>30</sup> Sample project costs from 2003 include \$17,000 for the repair and rehabilitation of three water wells, in addition to the construction of a 3.5 kilometre water pipeline, with 52 public tap stands. Reconstruction, renovation and refurbishment of Tashkent airport, including baggage handling equipment, cost \$48 million. Refurbishment of the hot water supply (provided from a central water heating 'factory') in the town of Andijan cost \$15 million.

### **Indirect costs (loss of national income)**

The 15-year conflict scenario could cost Uzbekistan \$35 bn in lost GDP growth. This assumes an average growth of 4.5 per cent over the next fifteen years in the peace scenario (although the potential for growth if economic reforms were introduced and foreign investment increased could be substantially greater), compared with growth in the conflict scenario being sustained at 4.5 per cent over the next four years, but then declining to 2 per cent. (Growth between 1990 and 2001 averaged –1.5 per cent with no substantive conflict). The 4.5% annual growth rate is based on a continuation of trends in 2000-2002.<sup>31</sup>

**Table 2: Projected Loss in GDP Growth as a result of Conflict (\$bn 2004 prices)**

<b>Year</b>	<b>GDP in Conflict</b>	<b>GDP growth %</b>	<b>GDP in Peace</b>	<b>Lost National Income</b>
2004	12.3		12.300	0.000
2005	12.853	4.5	12.854	0.000
2006	13.431	4.5	13.432	0.000
2007	14.036	4.5	14.036	0.000
2008	14.667	4.5	14.668	0.000
2009	15.254	4.0	15.328	0.073
2010	15.712	3.0	16.018	0.305
2011	16.026	2.0	16.739	0.712
2012	16.026	0	17.492	1.465
2013	15.866	-1.0	18.279	2.413
2014	15.548	-2.0	19.102	3.553
2015	15.238	-2.0	19.961	4.723
2016	14.933	-2.0	20.859	5.926
2017	14.634	-2.0	21.798	7.163
2018	14.341	-2.0	22.779	8.437
<b>Total</b>	<b>221</b>		<b>256</b>	<b>35</b>

These figures may underestimate GDP loss. Agriculture, which accounts for 36 per cent of GDP,<sup>32</sup> is concentrated in the intensely cultivated Ferghana Valley and would be particularly severely affected by conflict there. Uzbekistan is now the world's second-largest cotton exporter, but this important crop is heavily reliant on water sources which originate in Kyrgyzstan and Uzbekistan and may be disrupted in the case of conflict.<sup>33</sup> Growth would also be lost by income foregone from investment outside the gas sector. There would, however, be some considerable compensation for losses from agriculture by increased national income from natural gas revenue from the Caspian Sea and this income, growing year on year, would remain unaffected by the civil violence at the other end of the country. The Caspian coast of Uzbekistan is a sparsely inhabited part of the country, poorly connected by road or rail.

<sup>31</sup> GDP growth was 4.5% in 2001 and 4.2% in 2002. WB, *Uzbekistan Country Brief*, 2002; WB, *World Development Report 2004*, 2004, p. 253.

<sup>32</sup> *CIA Factbook 2003*: <http://www.cia.gov/cia/publications/factbook/geos/uz.html>

<sup>33</sup> For example, if the conflict means power supplies to Kyrgyzstan from Uzbekistan are disrupted, Kyrgyzstan may choose to generate more of its own hydro-electricity in winter by releasing water from its reservoirs.

## Other human development costs of the conflict

In addition to the losses already outlined above, the civil war would have important consequences on human development. The diversion of resources into military and security expenditure and the disruption created by the conflict, would have a negative effect on provision of social services, including health and education.

Human development indicators for the region at the start of the period were not that impressive. Life expectancy and other key indicators of human development had declined in the decade after the collapse of the USSR. The 'share of GDP being spent on health and education dropped by roughly one third between 1992 and 1998, even as GDP per capita increased marginally; the number of visits to medical clinics doubled; the number of hospital beds shrank by 75 per cent; public pre-schools (kindergartens) became almost non-existent; and there was a precipitous decline in birth-rates throughout the country between 1993 and 1998, of the order of 25 per cent nationally and higher in some rural areas'.<sup>34</sup>

**Table 3: Human Development Indicators for Uzbekistan 1989, 2001, 2013<sup>35</sup>**

Year	1989	2001	2013 Peace Scenario	2013 Conflict Scenario
Per Capita GDP US\$PPP	2950	2460	4000	2000
HDI	0.729	0.728	0.750	0.700
Life expectancy	n/a	69.3	71	65
Infant mortality per 1000 births	n/a	52	48	54

## Additional costs to the neighbouring countries

The localised civil war in the Uzbekistan part of the Ferghana Valley would only have significant economic or financial effects on Kyrgyzstan and Tajikistan.

### **Direct costs**

The principal direct cost is assumed to be the destruction of physical infrastructure of \$10 million, for example if the Uzbekistan air force bombs suspected IMU bases or positions in these countries. These two countries are also likely to incur significant extra military costs as they attempt to secure their borders and contain the conflict within Uzbekistan. These extra military costs could amount to \$20m a year (\$10m each).<sup>36</sup>

The cost of caring for up to 100,000 refugees, the majority of whom would flee to either Tajikistan or Kyrgyzstan, could be \$30m per year.<sup>37</sup> Although the majority of this expense would be covered by the international community, the cumulative cost of hosting these

<sup>34</sup> UNDP, *Uzbekistan: Human Development Report 1999*, pp. 74, 79, 82. See ICG Report, 'Central Asia: Crisis Conditions in Three States', Asia Report No. 7, 7 August 2000, p. 14.

<sup>35</sup> For base indicators (2001), see UNDP, *Human Development Report 2003*.

<sup>36</sup> In 2001 Kyrgyzstan was spending between US\$19.2 million and US\$25.5 million annually on its military. Estimates for Tajikistan's military expenditure vary more widely, between US\$13.2m and \$35.6m (Sources: *UNDP Human Development Indicators*, and *CIA World Factbook 2003*)

<sup>37</sup> The UN Consolidated Appeal for the North Caucasus (Chechnya and Ingushetia) is requesting US\$62m for 2004 to provide assistance to around 1m people. However, many of these are still resident in Chechnya, and a large percentage of IDPs have found shelter with host families in Ingushetia. The Russian government also provides more assistance than Central Asian governments are likely to do. The per capita figure is therefore considerably higher in our scenario.

refugees could cost the countries of the region \$18m over the period 2012 – 2018, although these costs would also extend considerably beyond 2018 and the period of this case study.

### **Indirect costs**

These will be represented primarily by the knock-on effects of the direct costs outlined above and by a general downturn in the economic prosperity and potential of the neighbours, as they become associated with instability, and thus investment declines. In the conflict scenario we assume a fall in annual GDP growth over the fifteen years from 5 per cent to 3 per cent in the case of Kyrgyzstan and from 4 per cent to 2 per cent in the case of Tajikistan. Increased government spending on border security crowds out other government investment and FDI (totalling \$27.6m in 2001 for these two countries) is deterred. Damage to infrastructure, the disruption to economies which are still heavily interlinked and the loss of human capital, would also all have a negative effect on growth. The result is a cumulative loss of \$3.35bn over 10 years from 2009, as shown in Table 4.

**Table 4: Estimated GDP Loss for Kyrgyzstan and Tajikistan (\$bn 2004 prices)**

Year	Conflict	Kyrgyzstan growth rate %	Tajikistan growth rate %	Peace	Kyrgyzstan growth rate %	Tajikistan growth rate %	Net Loss
2004	2.88			2.88			0
2005	3.02	5	4	3.02	5	4	0
2006	3.15	5	4	3.15	5	4	0
2007	3.29	5	4	3.29	5	4	0
2008	3.45	5	4	3.45	5	4	0
2009	3.57	3	2	3.60	5	4	0.03
2010	3.70	3	2	3.77	5	4	0.07
2011	3.83	3	2	3.94	5	4	0.11
2012	3.97	3	2	4.12	5	4	0.15
2013	4.07	3	2	4.31	5	4	0.24
2014	4.18	3	2	4.51	5	4	0.33
2015	4.29	3	2	4.72	5	4	0.43
2016	4.40	3	2	4.94	5	4	0.54
2017	4.51	3	2	5.17	5	4	0.65
2018	4.63	3	2	5.40	5	4	0.77
<b>Total</b>	<b>56.93</b>			<b>60.28</b>			<b>3.35</b>

### **Additional direct costs to the wider international community in providing emergency assistance and in coping with other costs from the conflict**

The costs of emergency assistance would be considerable, and likely to be sustained over a long period of time. Groups in need of assistance would include:

- 100,000 refugees in neighbouring states in need of shelter, food aid and protection. Annual cost: \$30m
- 800,000 IDPs within Uzbekistan in need of shelter, food aid and protection. Annual cost: \$240m

- 300,000 residents of Uzbekistan in need of food aid and supplementary feeding.  
Annual cost: \$80m

Given the resources of Uzbekistan and neighbouring states, we assume that the international community would have to cover the majority of these costs, at an annual rate of \$320m from 2012.

The conflict may also generate other, less quantifiable costs to the international community. Uzbekistan has not so far been a centre for international terrorism or other threats to the international community, but a more active IMU might establish closer links with international terrorist networks. If, as a result of the Uzbek conflict, more personnel were recruited by those networks for terrorist operations elsewhere (for example, in Russia, Afghanistan, or Western Europe), then the costs to those other countries would be very considerable indeed.

Although Uzbekistan is an important source of oil and natural gas, these reserves are located in the west of the country. Given that our conflict scenario envisages armed conflict remaining largely confined to the Ferghana Valley, with occasional attacks in the capital, the operations of oil companies are unlikely to be substantially affected.

Uzbekistan is a transit area for drugs from Afghanistan. The drug traffic is already extensive and is not likely to increase as a result of the conflict scenario.

#### **Additional direct costs to the wider international community in stopping the conflict after it has started**

Given the geo-strategic importance of Uzbekistan and the region to a number of key international actors (US, EU, Russia), the international community would be likely to mobilise significant resources to attempt to halt violent conflict if it broke out. Uzbekistan neighbours Afghanistan, contains significant oil and gas reserves and is a major power in the region and an important ally of the US in its 'war on terrorism'. There would be a strong imperative to avoid a similar situation to that which occurred in Afghanistan, particularly if the IMU is regarded as a terrorist organisation, which could potentially directly threaten Western interests.

At a minimum, therefore, we assume that major states (US, EU, Russia) and international organisations (UN, OSCE) would respond to conflict by engaging in intense diplomatic activity, including visits by high-ranking politicians and officials, the appointment of a special representative and support staff and a considerably enhanced diplomatic engagement in the region. Estimated annual cost: \$5m.

Given Uzbekistan's importance, we assume that there is a 50% probability that the international community will come to the conclusion that it has to deploy military forces to intervene during the conflict, in order to ensure the delivery of humanitarian aid and possibly the protection of civilians. The scale of assumed military deployment is of the order of 1000 military and civilian personnel, supported by a two squadrons of helicopters.<sup>38</sup> The force could be accompanied by a large-scale deployment of international civilian staff under the auspices of the OSCE, to monitor a ceasefire and establish the foundations for a broader post-conflict engagement by the international community. Such a deployment (military plus civilian) is assumed to cost \$180m a year in 2004 prices. The conflict would also have left a large number of small arms in the hands of the civilian population and would have completely discredited the internal security forces. A large-scale programme of DDR would therefore be

<sup>38</sup> The average annual cost of the UN peacekeeping force in Tajikistan between 1994 and 1999 was \$10 million. This was an observer force that peaked at just over 120 personnel. Its costs in the last year of operations was \$14 million. The cost of the UN mission in Georgia for 2003/04 was budgeted at \$32million. This comprised: 127 international military personnel, 102 international civilian personnel and 179 locally engaged staff. See <http://www.un.org/Depts/dpko/missions>.

necessary, costing around \$5m a year. The total cost to the wider international community in simply stopping the violence after it had broken out using a peacekeeping package five times the size of the Georgia package could thus easily amount to \$190m a year, totalling \$950 million over the period 2014-2019. In reality this commitment would have to be sustained beyond this period, and combined with reconstruction and rehabilitation costs in the region of \$300 million per year, but much of this would fall outside the 15 year period of the scenario. These figures need to be weighted by the probability of the peacekeeping mission actually taking place since it would not be a certain outcome of the conflict. Adjusted for the 50% probability assumed above, the additional cost is reduced to \$97 m per year.

### Summary of costs of conflict for period 2004-2018

Table 5 provides a summary of additional costs to Uzbekistan, neighbouring states and the international community of the conflict scenario relative to the peace scenario.

Table 5: Summary of costs of conflict for period 2004-2018 (\$m 2004 prices)

Year	Additional costs to state of Uzbekistan		Additional costs to neighbouring states		Additional costs to IC of emergency assistance	Additional costs to IC of intervention to stop conflict
	<i>Direct</i>	<i>Indirect</i>	<i>Direct</i>	<i>Indirect</i>		
2004	0	0	0	0	0	0
2005	50	0	0	0	0	0
2006	103	0	0	0	0	0
2007	161	0	0	0	0	0
2008	194	0	0	0	0	0
2009	257	0	0	34	0	0
2010	320	305	20	72	0	0
2011	379	712	20	112	0	0
2012	505	1465	22	155	320	0
2013	578	2413	26	242	320	0
2014	696	3553	25	335	320	97
2015	682	4723	24	436	320	97
2016	666	5926	24	539	320	97
2017	651	7163	24	651	320	97
2018	636	8437	23	772	320	97
Total (US\$m)	5602	34,771	208	3350	2240	485
<b>Total</b>	<b>\$5.6bn</b>	<b>\$34.8bn</b>	<b>\$0.2bn</b>	<b>\$3.3bn</b>	<b>\$2.2bn</b>	<b>\$0.49bn</b>

**Total additional costs to Uzbekistan: \$40.40bn**  
**Total additional costs to neighbouring states: \$3.50bn**  
**Total additional costs to international community: \$2.69bn**

The continuing costs to Uzbekistan, neighbours and the IC after 2018 are not included in this assessment. Inter-alia, these include the reconstruction and rehabilitation costs that will be incurred after the conflict ends (possibly \$3bn to the international community), as well as the costs to the international community of rehabilitating regional economies in the long-term.

### **3.5 PROBABILITY OF THE CONFLICT WITHOUT CONFLICT PREVENTION PACKAGES**

This section assesses the probability of the scenario of 'significant armed conflict' developing in the next 15 years, without a comprehensive conflict prevention package. The outbreak of such conflict at any one time requires the presence of three key variables: a crackdown by the state and security forces, a reaction by the civilian population and ability and readiness of the IMU to engage in violence.<sup>39</sup>

Without a comprehensive conflict prevention package, we estimate that the probability of armed conflict breaking out in Uzbekistan during the next 15 years is high (around 70 per cent). Whilst the probability remains relatively low over the next five years, tensions will continue to build over, with a fair chance (about 25 to 50 per cent) that they will precipitate at least one major violent incident by 2009. Once such an incident has occurred, and elicited a harsh response from the state, the chances of violent conflict occurring increase considerably. Non-state actors will continue to organise over the next five years and would be in a better position to respond with violence. Violent actions by both sides could then easily combine with long-standing grievances to fuel a self-reinforcing cycle of rising tensions and new violence.

Without more sustained international engagement, there is little to suggest that the situation within Uzbekistan will improve. In 2003, there was continued harassment of opposition parties, Birlík and Erk, and the former was refused registration. Uzbekistan has yet to start to implement the recommendations of the UN Special Rapporteur on Torture and continues to deny some of his main findings. Security forces continue to raid the homes of suspected Muslim radicals and to arrest suspected members of Hizb-ut-Tahrir. Uzbeks trying to smuggle cotton out of the country in order to sell it for higher prices in Kyrgyzstan and Kazakhstan have been subjected to arrests and beatings. Even though some progress has been made in implementing IMF macro-economic reforms, this has been offset by the introduction of new laws that restrict trade and have devastated local markets and economies.

Whilst the probability for the start of significant violent conflict before 2009 is currently low (about 10 per cent), public protests, prompted by a range of grievances, have been increasing, indicating less fear of the consequences of such actions, coupled with a sense that the government is less able to maintain rigid control. This trend is set to continue and will be difficult to reverse. Hizb-ut-Tahrir now has 15,000 - 20,000 members in Central Asia. Whilst support for the IMU remains low, there is a risk that this could grow as frustrations build and there remains a lack of alternative outlets for its expression. There are some indications that the IMU is trying to re-group, although these are difficult to substantiate.

Given this steady build-up in tensions and protests, it is quite possible that a relatively small incident could precipitate a considerable deterioration of the situation in the period after 2009. In the context of the Ferghana Valley and Uzbekistan, there is evidence to suggest that a relatively small incident could provoke much wider violence and thus the probability of conflict rises over time, as the probability of such an incident occurring increases.

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<sup>39</sup> In 1999, for example, following a series of bomb explosions in Tashkent, which were blamed on the IMU, the Uzbek government instigated a widespread crack-down on religious and opposition groups. Over 30 people were convicted for the bombings and at least 19 executed. However, there was no outbreak of widespread violence, due primarily to the fact that the population as a whole were not prepared to mobilise in favour of violence.

Once violence did break out, it would be likely to be sustained and self-perpetuating. The internal security forces have significant military assets at their disposal and the opposition groups would have used the intervening period from 2004 to the outbreak of conflict, to organise and acquire weaponry. Whilst the conflict would be fought primarily with small arms, the impact on the local population would still be devastating. Human rights abuses would be widespread, ensuring a bitter conflict that would be difficult to stop.

### 3.6 CONFLICT PREVENTION PACKAGES

Despite the small chance (perhaps 10 per cent) of significant armed conflict in the next five years, there is a strong case for concerted international action aimed at conflict prevention now, in order to prevent the spark of violence that has the potential to generate a rapid deterioration in the situation towards much more widespread violence.

Although a number of international actors are currently financing ‘conflict prevention’ packages in Uzbekistan, current international engagement is not sufficient to significantly reduce the chances of the outbreak of armed conflict. There is a lack of coherence both within individual actors’ approaches (many are ‘projectised’) and within the international community as a whole. Mixed messages are being sent to the Uzbek government, particularly with regard to state responses to terrorism and the relative importance of human rights and freedom of religion. Many current conflict-prevention interventions focus on inter-ethnic conflict, often in the Ferghana Valley. Whilst these questions are important, the sources of conflict in Uzbekistan are wider and a strategic approach needs to be employed.

This section therefore outlines two additional conflict prevention packages (see Table 6 and Annex) that aim to prevent the outbreak of serious violent internal conflict within Uzbekistan, as described in the conflict scenario above. Package One (CP1) is a suite of direct measures targeted at key leaders and groups, while Package Two (CP2) includes the measures in CP1 and adds a range of structural measures aimed at institutional reform (both organisational and social).

The composition of the two packages has been informed by the lessons-learned literature in the field of conflict prevention, including a recent study undertaken with part UK funding by the International Peace Academy in New York. This study concluded, on the basis of a large number of case studies, that conflict prevention was least likely to succeed where only a few measures were deployed and where significant causes of conflict were left unaddressed.<sup>40</sup> Thus CP1 and CP2 each aim for comprehensive coverage of the main targets, the former concentrating on changing people’s views, the second incorporating both that approach and also targeting institutional reform. The aim of a comprehensive conflict prevention package is to position the international community with entry points for influence in most of the main leadership groups, institutions and communities at relatively low cost.

Both packages focus on targeting the key groups in Uzbekistan who have the potential to mobilise violence. In both cases, the strategy focuses on five key aims:

1. promoting accountable government, political participation, and the protection of human rights
2. developing accountable security forces and an end to impunity for human rights abuses and torture

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<sup>40</sup> Chandra Lekha Sriram, ‘Insights from the Cases: Opportunities and Challenges for Preventive Actors’, in Chandra Lekha Sriram and Karin Wermester (eds), *From Promise to Practice: Strengthening UN Capacities for the Prevention of Violent Conflict*, Lynne Rienner Publishers, Boulder CO, 2003, pp. 355-356.

3. preventing key groups from mobilising the population of the Ferghana Valley to violence, whilst also laying the foundations for wider participation in political and economic life
4. engaging Hizb-ut-Tahrir and the IMU, and persuading them to renounce the use of violence/reaffirm their commitment to non-violence, as part of an effort to establish a new 'civic agreement' on social order in Uzbekistan
5. promoting relationships and structures in the Central Asian region that facilitate the peaceful settlement of inter-state disputes

The two packages differ in the manner in which they approach these aims. Package one is a limited form of engagement, that seeks primarily to change attitudes and policies in the short-term, concentrating on factors that contain the potential for sparking off immediate violence. Package two envisages a broader engagement, that includes all the measures proposed in package one, but complements them with a wider approach that also aims to address the structural causes and institutions that underpin the conflict.

Table 6 and Annex 1 outline a basic framework for each of these packages. The key areas of engagement for CP1 are outlined in the first column, whilst the additional measures to be undertaken as part of CP2 are enumerated in the second column. It is important to understand both these packages as a cohesive strategy and not simply a series of projects. They would have to be based on an ongoing assessment of the areas most open to change in the short-term and of the current constellation of available resources and opportunities for effective engagement. The principle resources currently available to the international community are: embassies and missions in Tashkent; the OSCE mission to Uzbekistan; UN agencies active in Uzbekistan and particularly the UN Resident Co-ordinator and UNDP; the World Bank, IMF, ADB, and EBRD presence and programmes in Uzbekistan; international NGOs and domestic civil society

Table 6 summarises the first full year 1 of engagement (i.e. 2004) in which both packages aim to achieve concrete outcomes (for example, the cessation of egregious abuses of power by the state and its security forces), whilst CP2 also includes longer-term strategic goals. This includes enhancing the capacity of the international community to analyse and understand conflict in the region and respond appropriately, positioning international actors widely enough and in key positions in society, to facilitate effective engagement in conflict prevention in the long-term. Full details of these illustrative packages are given in Annex 1. In subsequent years, modifications to this basic package will be required as the situation in Uzbekistan changes. The timelines in Annexes 2 and 3 suggest appropriate modifications (and cost implications) for both Packages for years 2-15. A central proposition of this case study is the need for CP strategies to be flexible in response to developing circumstances. The detailed measures laid out in Annexes 2 and 3, as well as Annex 1, illustrate how this might be done.

**Table 6: Costs of Conflict Prevention Package in 2004 (\$m 2004 prices)**

	<b>CP Package 1: proximate causes</b>	<b>CP Package 2: structural causes</b>	<b>Total CP Package 2</b>
Accountable government	2.3m	3.2m	5.5m
Accountable security forces	1.5m	2.6m	4.1m
Ferghana Valley	4.3m	2.7m	7.0m
Radical Islamic groups	4.6m	5.2m	9.8m
Regional cooperation	1.1m	0.5m	1.6m
<b>Total</b>	<b>13.9m</b>	<b>14.2m</b>	<b>28.1m</b>

Neither package includes the costs of large scale military deployments for peacekeeping or monitoring (more than 250 personnel at any time) nor do they include costs for additional large scale development assistance programmes. Uzbekistan currently receives ODA of around \$200 million net per year and it is assumed that (other than the measures listed in Annex 1) this volume will not change significantly.

### **Conflict Prevention Package 1**

This package (CP1) is premised on the principle that CP measures must be targeted at specific leaders or key groups with a view to changing their attitudes to use of force.

The cost estimates are based on current levels of funding for conflict prevention measures in a number of countries of the former Soviet Union, especially Georgia, where the UK is a principal funder and where the international community has in place a comprehensive suite of measures. For around \$6 million (£4 million), the UK is now funding a suite of conflict prevention measures with key elements similar to those in the proposed CP1 for Uzbekistan, either independently or in collaboration with other donors and international organisations. About £2.2 million is directed through assessed contributions to UNOMIG and OSCE, with most going to UNOMIG and around £1 million provided as discretionary funding. Both UNOMIG and OSCE maintain well-staffed offices in Georgia and these along with other international agencies, such as UNHCR and UNDP, provide a rich resource for regular analysis and assessment in support of conflict prevention initiatives.

### **Conflict Prevention Package 2**

CP2 is premised on the view that a limited package such as CP1 may temporarily ameliorate the conflict situation, but that institutional reform and the possibility of institutional reform will be key to helping change conflict dynamics. Since CP2 engages with the structural underpinnings of the conflict, it directly addresses the underlying causes of conflict. Assuming that international actors manage to create the space for initial engagement and 'open the door', the package will influence future developments and gradually open new arenas for engagement, as reflected in the second timeline.

### **Comparison of Conflict Prevention Packages**

Table 7 below compares the costs of the two CP packages over time. The 2004 cost is explained in Table 6 and Annex 1. The changes in cost in subsequent years result from the changes in engagement outlined in Annexes 2 and 3.

The annual costs for CP1 are based on a restructuring of engagement in response to a deterioration in the conflict situation, although the annual cost remains relatively constant, as some areas of intervention that are no longer appropriate are dropped as new ones are taken up. CP2 anticipates a gradually expanding engagement in response to new opportunities that arise as the chances of conflict recede. Although this costs more in the long-term the value of the package is greater, as it engages in more structural reform, having a much greater effect on the probability of conflict.

During this period it is important to generate changes that would be felt in a direct manner by the population. Stopping egregious abuses of power and widespread human rights abuses would significantly reduce the potential for conflict, whilst the provision of at least some opportunities for political participation and sustaining livelihoods would give many people confidence that there is a reasonable future ahead. In both CP packages it is these immediately-felt impacts of the packages that prevent the probability of conflict rising before 2006.

It is after 2006 that the limitations of CP1 in comparison to CP2 become more evident. By focusing on direct measures and the factors likely to trigger violence, CP1 is able to maintain the probability of conflict at a lower level than would otherwise be the case, but is unable to stem the move towards the structural underpinnings of conflict worsening. CP2, on the other hand, by engaging with the structural factors as well, manages to keep the probability of conflict low until 2010. After this, if change becomes more institutionalised and non-state actors have become more convinced of the long-term durability of the changes that have been implemented, then the annual probability starts to fall and continues to do so as new changes in society and power structures continue to occur.

**Table 7: Costs of Conflict Prevention Packages (\$m 2004 prices)**

<b>Year</b>	<b>Cost of CP package 1</b>	<b>Cost of CP package 2</b>
2004	13.9	28.75
2005	14.1	30.65
2006	14.6	30.65
2007	15.1	50.65
2008	15.1	50.75
2009	15.5	55.75
2010	16.0	59.75
2011	17.3	59.75
2012	17.3	59.75
2013	17.3	59.75
2014	17.3	49.75
2015	17.3	44.75
2016	17.3	39.75
2017	17.3	34.75
2018	17.3	29.75
<b>Total</b>	<b>242.7</b>	<b>684.95</b>

**3.7 PROBABILITY OF CONFLICT WITH CONFLICT PREVENTION PACKAGES**

Without a conflict prevention package, the probability of large-scale armed conflict breaking out in Uzbekistan during the next 15 years is estimated to be around 70 per cent. Whilst the probability within the next five years remains relatively low, tensions are set to continue to build over this period, with a fair chance (about 25 to 50 per cent) that they will precipitate at least one major violent incident by 2009.

The changes in probabilities for violence brought on by the conflict prevention packages do not depend on elimination of all causes of conflict or the turning away from violence of all key players, but the delivery of a CP package can reduce the probability to a much lower level. This presumption is based on close monitoring of changes in political attitudes and adjustment in policy and diplomacy as a result.

It is estimated that CP1 would reduce the probability of the conflict scenario to 25 per cent over the 15 year period. This means in effect that one or two key leaders remain highly likely to resort to force and that they could mobilise a large number of supporters to violence

because a number of key underlying causes of conflict at the institutional level have not been addressed.

It is estimated that the delivery of CP2 would reduce the probability of the conflict scenario to around 10 per cent. This means in effect that one or two key leaders remain highly likely to resort to force, but are unlikely to be able to mobilise many supporters to violence because most underlying causes of conflict at the institutional level have been addressed. There would then need to be a serious crisis of some sort to bring on widespread mobilisation of people to fight.

### **3.8 NET PRESENT VALUE AND ASSESSMENT**

The paper estimates that, in order to be cost-effective to the international community, the two proposed CP Packages would have to reduce the probability of large-scale conflict by 10% and 28% respectively. If the potential savings to Uzbekistan and its neighbours are also taken into account, the breakeven probabilities are much lower at 0.6% and 1.6% respectively.

These 'breakeven' probabilities reflect the relatively low costs of both CP Packages, which cost \$191m and \$542m (NPV at 2004 prices) respectively over the 15 year period. The packages are only equivalent to around one sixth of current net ODA flows to Uzbekistan, currently \$160m a year, which it is assumed will continue.<sup>41</sup> In our judgement, this is enough to provide effective CP packages that are well targeted, politically driven and regularly re-assessed and reshaped.

The study may underestimate the costs of the conflict to the international community in several respects. First, because it assumes that the conflict does not begin to escalate until around 2010, the international community intervention (with humanitarian assistance and possibly a small peacekeeping force) only takes place in 2012-2013, towards the end of the 15-year timeframe of our methodology. Any costs that are incurred after 2018 are not included in the calculation. Second, the size of the UN peacekeeping force deployed from 2013 is assumed to be relatively small, around 1000 personnel and it is assumed that there is only a 50% chance that such a force will be deployed. If the strategic importance of Uzbekistan grows over the next decade, however, the international community may feel a much larger commitment is justified: increasing the costs of failing to prevent conflict now. Third, the study makes no allowance for the impact of the conflict on the incidence of international terrorism or the global availability of narcotics (including transit trade from Afghanistan). If one were to assume that a strengthening of Islamist armed groups in Uzbekistan, together with a growth in lawlessness in the Ferghana Valley, had a negative effect on the international community in these two areas, then the estimates given here for benefits of CP to the international community will have been substantially underestimated.

Both Packages illustrate the merits, in terms of cost-effectiveness, of engaging in CP programmes well before the onset of a potential conflict. Even if no additional CP is undertaken, the study estimates that large-scale conflict is unlikely before 2009 or 2010. The main impact of making a relatively small but sustained commitment to CP, therefore, is to reduce the chances of conflict in Uzbekistan after 2010.

To hedge against the small, but significant, risk of war occurring before 2010, the IC could implement more of Package 2 in the early years, bringing forward the \$20m increase in poverty reduction programmes from 2007 to 2005, and bringing forward the \$5m increase in institutional support from 2008 to 2005. This would increase the total cost of Package 2 by \$50 mn (NPV,

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<sup>41</sup> 2001 figure at 2004 prices. WB, *World Development Report 2004*, 2004, p. 260.

2004 prices) and would raise the breakeven probability for the IC to 31% and the breakeven (including Uzbekistan and its neighbours) to 1.9%.

One obstacle to the implementation of parts of the packages proposed here could be the willingness of the government of Uzbekistan to allow their implementation. External support of any kind to opposition groups, human rights groups or independent media might be the first elements of the packages to meet such resistance. Similarly, the government is unlikely to view favourably the opening of OSCE field offices in the Ferghana Valley. Both packages are designed as influencing strategies and the international community would need to implement those parts of the packages that it could. However at the core of both packages lies a suite of diplomatic pressures and dialogue, backed up by tough conditionality and sensitive implementation. These are to some extent invulnerable to sustained resistance by the Government of Uzbekistan. As long as it remains relatively dependent on international support (including ODA), it will not be able to oppose implementation of most elements of the package. Obviously, the fewer entry points the international community has (or is prepared to use), the less likely any CP measures are to work.

**Annex 1: Indicative Conflict Prevention Packages for Interested External Actors**

<b>Conflict Prevention Package 1: addresses proximate causes (to change actors' attitudes/policies) - short-term</b>	<b>Cost (US\$2004)</b>	<b>Conflict Prevention Package 2: addresses structural causes (to change institutional regimes &amp; social and economic structures)</b>
<b>Aim 1: to promote accountable government, political participation, and the protection of human rights</b>		
E. Intense diplomatic dialogue with key leaders (top five) of the GoU to reverse or avoid egregious abuses of power	100,000	d. EU, US and Russia to agree common structural changes required <sup>44</sup>
F. Monitor impact of this diplomacy and report publicly	50,000	e. Use Agreement on Strategic Partnership and Partnership and Cooperation Agreement to address these issues and draw up timetable
G. Establish Contact Group/Donor Assistance Group (including at least Russia, US, EU) to provide incentives behind this pressure	300,000	f. Technical assistance to support the executive, judiciary and legislative branches to implement the Constitution
H. Link further financial assistance to progress (and review negative signals from military assistance programmes <sup>43</sup> ) as normal part of donor group work	-	g. Work with others to draft and lobby for laws on the protection of religion
I. Work with opposition groups and external actors to report on and oppose egregious abuses (=sending the necessary signal that egregious abuse of power is not acceptable)	500,000	h. Support a new law on the freedom of expression
J. Enhanced OSCE office (with new staff) acting as focal/coordination point for this engagement	180,000	i. Provide financial and technical assistance to independent media outlets
K. Promote think-tanks (government-linked or independent) within Uzbekistan to work on these specific short-term issues	40,000	j. Support reform of electoral law and process
L. Mobilise support for a more open, fair and contested 2004 parliamentary election	100,000	k. Fund Uzbekistani media NGO(s)
M. Support OSCE in promotion of this goal and monitoring of processes	80,000	l. Technical and financial support to opposition (Birlik and Erk)
N. Mobilise media and civil society, in Uzbekistan and outside, behind these goals	1,000,000	m. Technical and financial support to parliament
<b>Total</b>	<b>2.3m</b>	n. Insist on the right of NGOs to register and operate without harassment
<b>Aim 2: to develop accountable security forces and an end to impunity for human rights abuses and torture</b>		
G. Intense private and public diplomatic dialogue with key leaders (top five) of the GoU	100,000	a. Include SSR in development plans, including Poverty Reduction Strategies
H. Technical support for full and immediate implementation of recommendations of Special Rapporteur on Torture	200,000	b. Fund research and seminars on police reform and security, focused both on short-term and long-term change
I. Encourage use of amnesty announced on 6 Dec 2002 to release prisoners	100,000	c. Encourage a public debate on the role and responsibilities of police
J. Engage police leadership in intense dialogue on role and responsibilities of security forces	100,000	d. Work on developing a police law, including UN Code of Conduct for Law Enforcement Officials
K. Place western trainers in key influencing positions in security forces	400,000	e. Fund independent complaints commission of civil society
L. Increase financing for international and local HRs NGOs	400,000	f. Fund independent legal aid service, including United Nations Basic Principles on the Role of Lawyers
M. Position international civilian accompaniers with local HRs NGOs for protection	200,000	g. Fund Ombudsman's Office so it has sufficient human resources to carry out its functions
N. Insist on right of ICRC to unimpeded access to prisons/detention centres	-	h. Press for moratorium on death penalty and punishment
		i. Provide 3 senior advisors to work with the government

<sup>42</sup> This column addresses specific changes to the institutional regimes & social and economic structures. Where financial and technical support for measures addressing the structural causes is specified, this should generally be for a minimum three-year period (preferably five years) if the support is to have any real value

<sup>43</sup> U.S. government, in keeping with the terms of the Cooperative Threat program and the Leahy Amendment to the Foreign Operations Assistance Act, should withhold security assistance until Uzbekistan's human rights record, including performance of the security services, improves significantly

<sup>44</sup> These should focus on working towards establishing the rule of law, separation of powers, a pluralistic political system, a free press, and a vibrant civil society

<sup>45</sup> These include the Human Rights Society of Uzbekistan and the Independent Human Rights Society of Uzbekistan

		<p>leadership on restructuring of forces</p> <p>j. Press for amendments to domestic p</p> <p>k. Press for establishment of independ</p> <p>l. Provide long-term technical &amp; financ</p> <p>protection to local HRs NGOs and lo</p> <p>access to detention centres</p> <p>m. Develop programme of assistance fr</p> <p>but make conditional on reform</p>
<b>Total</b>	<b>1.5m</b>	
<b>Aim 3: prevent key groups from mobilising the population of the Ferghana Valley to violence, whilst also laying participation in political and economic life</b>		
D. Develop thorough analysis of specific areas and issues of contention in the Ferghana Valley	200,000	a. IFIs to engage GoU in comprehensive focusing on poverty reduction
E. Open OSCE field offices in Ferghana and Namangan	400,000	b. Engage local authorities in formulation for regional and local development a
F. Target development interventions at areas and groups vulnerable to violence (Namangan, young unemployed men)	100,000	c. Engage community & religious leader local authorities as partners in plann
G. Use targeted Quick Impact Projects to provide income and promote livelihoods	2,000,000	d. Include in projects elements designe appropriate capacity of local authorit
H. Support cross-border conflict prevention initiatives	400,000	e. people
I. Expand the UNDP conflict prevention project beyond the four pilot communities in Batken Province (how up to date?)	600,000	f. Use the promotion of SMEs to help c
J. OSCE and local observers to monitor next local elections	200,000	g. Fund programmes to rehabilitate wa include the establishment of local ma
K. Make at-risk areas of Ferghana Valley (eg Namangan) priority areas for interventions in support of media and civil society (see aim 1)	200,000	h. local cross-border cooperation
L. Provide access and training on international law and border disputes to officials of all countries in FV	200,000	g. Promote a restructuring of the educa teaching religion, regional/internation
M.		h. Fund research into the financial cost laws that are currently restricting loca reform of these laws
<b>Total</b>	<b>4.3m</b>	
<b>Aim 4: to engage IMU &amp; Hizb-ut-Tahrir in dialogue and persuade them to renounce the use of violence/reaffirm</b>		
A. Develop expertise in Central Asian Islam in embassies	1,000,000	a. Develop regional Small Arms and Li
B. Remove IMU from US list of terrorist organisations	-	b. Work with others to draft and lobby f the protection of religion
C. Resist calls to ban Hizb-ut-Tahrir in Western countries.	-	c. Support reform of electoral law and l allow religiously-based parties to reg
D. Visibly pressurise the GoU to open up political and economic systems in ways that improve people's lives and allow freedom of religion.	100,000	d. Provide technical assistance on edu for religious establishments, and in c history of religion and comparative re
E. Combine private pressure for reform with unambiguous public statements that distance Western governments and institutions from the repressive policies of Central Asian regimes	100,000	e. Encourage GoU to pursue a fair prog accreditation, preferably under minis appropriate balance of religious and
F. Initiate contacts with leadership of IMU and H-u-T	200,000	f. Provide support for a network of relig in Central Asia to teach about world religion, and develop materials in loc
G. Facilitate behind-scenes dialogue with GoU	100,000	g. Long-term support and financing for (above) and human rights organisatio
H. Help negotiate amnesty/possibility of registration as political party	500,000	h. Fund libraries, resource centres
I. Fund Quick Impact Projects in FV to provide alternative incomes to young men	500,000	
J. Integrate religious and other leaders into aid and assistance programmes	1,000,000	
K. Expand exchange programmes within CA and with West, including focus on religion	1,000,000	
L. Provide funds and support for publishing ventures for religious scholars, and scholars of religion.		
<b>Total</b>	<b>4.6m</b>	

<b>Aim 5: promote relationships and structures in the Central Asian region that facilitate the peaceful settlement of</b>		
A. OSCE to offer services as mediator in serious border disputes	- 100,000	a. Provide technical support to the working commissions
B. Civilian border monitoring missions to be established where serious threat of conflict arising from border disputes	100,000	b. Provide technical and financial support for the functioning of the Interstate Coordination
C. Pressurise the GoU to cease mining borders and to sign up to the International Mine Ban Treaty	200,000 500,000	c. Provide technical and financial support for the functioning of the Basin Water-Management Commission for Amu-Darya and Syr Darya
D. Provide technical assistance to de-mining programmes	50,000	d. Support the development of the Shanghai Cooperation Organisation as a mechanism for regional security
E. Provide joint-training to border officials of all three FV countries	100,000	
F. Offer to mediate in inter-state disputes on the supply of/access to natural resource	20,000	
G. Fund local cross-border conflict prevention initiatives, and development and peacebuilding projects that span borders		
H. Fund water users associations		
<b>Total</b>	<b>1.1m</b>	

**Total cost of Conflict Prevention Package 1 (CP1) for year 1: US \$13.9m**

**Total cost of Conflict Prevention Package 2 (CP2) for year 1: US \$28.1m**

**Annex 2: Modifications to Conflict Prevention Package 1 (year 1) in response to key developments during the period 2004-2019**

<b>Events</b>		<b>Response</b>	<b>Cost <sup>46</sup> (US\$)</b>
Unfair parliamentary elections Protests in major cities Arrests follow	2004	Strong representations to GoU Observers at protests Finance extra staff person at INGO to monitor arrests and follow up	+200,000
IMU launches series of attacks from bases in FV, Kyrgyzstan and Tajikistan Security forces increase presence/activities in FV	2006	Facilitate inter-govt contacts Establish/increase OSCE border observation mission Deploy civilian monitors in FV	+500,000
Unfair Presidential elections Severe harassment of opposition parties and leadership imprisoned Large protests in Tashkent and cities of FV	2007	Expressions of severe concern Cancel any remaining military assistance Deployment of international monitors/observers at protests	+500,000
IMU terrorist attacks continue	2009	Publicly condemn attacks and GoU response Deploy special envoy Facilitate dialogue between FV states on response	+200,000
Attacks on security forces in FV by local young men Crack-down by security forces. Arrests. Some homes raided and destroyed Closure of borders in FV	2010	International civilian observers monitor situation	+200 000
Exchange of small arms fire with K and T border forces		Deploy OSCE border monitors Confidence-building measures	+500,000
GoU declares state of emergency in FV. Mass arrests. Start of guerrilla warfare	2011	Express concern Start detailed planning for humanitarian intervention in CPE Intense regional diplomacy	+300,000
GoU bombs IMU bases in K and T Food shortages in FV	2012	Try to negotiate ceasefire to allow humanitarian access Try to initiate dialogue between GoU and IMU	+1,000,000
Widespread fighting and human rights abuses Massive internal displacements of civilian population. Some cross as refugees into neighbouring countries. Food shortages in Tashkent. Protests turn into rioting.		Consider arms embargo International humanitarian relief effort. Extend humanitarian effort Plan for possible peacekeeping intervention	

<sup>46</sup> As well as possible additional expenditure, this framework also assumes the restructuring of current engagement in response to new developments; ie. some programmes may be wound down, whilst spending is increased elsewhere

**Annex 3: Modifications to Conflict Prevention Package 2 (year 1) in response to key developments during the period 2004-2019**

<u>Events</u>		<u>Response</u>	<u>Cost<sup>47</sup> (US\$)</u>
Basic political reforms implemented	2004	Acknowledge achievement and press for further reform	+50,000
Political parties and NGOs allowed to register and operate freely		Commit to long-term support of key NGOs and CSOs, independent media	+200,000
Relatively free parliamentary elections		Technical support and capacity building for parliament and parliamentarians	+400,000
Muftiate given greater independence	2005	Engage with muftiate in promoting religious education and tolerance	+400,000
Use of torture significantly reduced; recommendations of Rapporteur being implemented		Acknowledge progress. Seek to engage in reform of penal system. Initiate an expanded programme of SSR	+500,000
Restrictions lifted on private trade and enterprise		Extend support to SME, promoting local trade	+1,000,000
Freely contested presidential election.	2007	Release more ODA for programmes focusing on poverty reduction, health, and education	+20,000,000
		Expand engagement of IFIs and others in economic assistance	
Significant reforms implemented aimed at establishing rule of law, and separation of powers	2008	Encourage greater FDI in Uzbekistan	+100,000
		Intense technical and financial support to new institutions to ensure their success	+5,000,000
Freely contested parliamentary elections.	2009		
Border demarcation commissions finish work	2010	Expand programme of joint training for border officials	+2,000,000
		Invest extra resources in promoting mechanisms for regional cooperation	+2,000,000
Second round of parliamentary and presidential elections freely contested	2014	Start to scale down financial involvement	-10m per year

<sup>47</sup> As well as possible additional expenditure, this framework also assumes the restructuring of current engagement in response to new developments; i.e. some initiatives may be laid down, whilst spending is increased elsewhere.