



Aiding the State? International Assistance and the Statebuilding Paradox in Afghanistan

Contents

- I. Governance and the Current Crisis
- II. The Statebuilding Paradox
- III. Changes for the Better? Assessing the ANDS-Compact Framework
- IV. Ways Forward

Hamish Nixon is the Governance Researcher at AREU. This briefing paper is based on ongoing AREU research and a paper funded by the Heinrich Boell Foundation, available as Hamish Nixon, *International Assistance and Governance in Afghanistan*, Heinrich Boell Foundation: Kabul/Berlin, 2007 (see www.boell-afghanistan.org). The author thanks a number of AREU colleagues and anonymous reviewers for their helpful comments on a draft of this paper.

Summary

Afghanistan is moving from the transitional framework established by the 2001 Bonn Agreement toward a longer-term development framework defined by the Afghanistan Compact and the Afghanistan National Development Strategy (ANDS) development process. At the same time, Afghanistan is currently facing intensifying threats from insurgency, opium, and popular discontent. While these threats require short-term action, long-term solutions will only come through comprehensive improvements in governance and the emergence of a stronger state. The relationship between international assistance and statebuilding is complex, however. Long-term statebuilding processes can be hindered by short-term action, as well as by excessive dependence on external assistance. This relationship between assistance and long-term measures on one hand, and aid dependency and short-term measures on the other, forms a “statebuilding paradox”.

Aid dependence, donor-driven assistance, limited state control over resources, and both Core and External Budget assistance present issues for long-term statebuilding. Governance programmes seeking to strengthen and improve the capacity of the state have produced incomplete results in the security sector, public administration reform and subnational governance. The failure to achieve the desired results is in part due to conflicts between short-term political agendas and long-term statebuilding processes.

The Compact-ANDS framework represents an important shift toward a comprehensive and strategic approach to

security, development and governance in Afghanistan. This framework requires further elaboration by the Afghan government to increase its ownership of the development process. Donors can improve their contributions by supporting the government budget and systems and better harmonising and aligning their assistance, though a complete shift to Core Budget support is neither possible nor advisable.

Specifically, all actors should:

- Align their strategies with a realistic long-term statebuilding agenda incorporating more concern for fiscal sustainability and the interactions between short- and long-term measures.
- Emphasise an appropriate and aligned balance of Core and External Budget resources for public goods and service provision.
- Improve efforts to locate, build, and transfer human capacity.
- Improve social accountability.

Actions by the Afghan government should include:

- Emphasise prioritisation in the development of the full ANDS, using the

development of sector strategies as an anchor for this process.

- Gradually elaborate the subnational governance strategy.
- Strengthen communication strategies both within the state and between the state and citizens.

Actions by donors should include:

- Increase Core Budget support and contribute to state capacity development; consider the changing role of the Afghanistan Reconstruction Trust Fund (ARTF).
- Improve External Budget support by identifying which mechanisms are most effective and easiest to harmonise or align, and by improving reporting.
- Explore ways to increase multi-year commitments, both by examining their own procedures and using multi-lateral channels such as the ARTF.

I. Governance and the Current Crisis

In early 2007, more than five years after the Bonn Conference established a transitional political framework for Afghanistan, the country is at a crossroads. 2006 saw a rise in the violent anti-government insurgency, increased opium production, and growing popular discontent over corruption and government failures – both real and perceived – to improve the lives of “ordinary Afghans”. The triple threats of insurgency, opium and popular discontent risk to undermine progress and further destabilise Afghanistan.

Meanwhile, the Interim Afghanistan National Development Strategy (I-ANDS) and the Afghanistan Compact, launched at the January 2006 London

Conference, have introduced a new strategic framework for the joint effort of the Afghan government and the international community “to consolidate peace and stability through just, democratic processes and institutions, and to reduce poverty and achieve prosperity through broad based and equitable economic growth.”¹ This transition toward a comprehensive development framework, however, is not yet assured and still far from complete.

¹ Islamic Republic of Afghanistan, January 2006, *Executive Summary, Interim Afghanistan National Development Strategy*.

A central challenge both to achieving the long-term vision expressed by the I-ANDS and the Compact and to overcoming the current crisis is the establishment of sustainable, legitimate and effective governance. The intensified insurgency has been attributed not only to the state's inability to provide adequate internal security and to control its borders, but also to a lack of reconstruction and development. The recent surge in opium production also illustrates the state's inability to exercise administrative control and coordinate the provision of public goods such as stable and secure credit, safety nets, and alternative crops.² Moreover, poor

governance in itself – corruption, lack of transparency, and the inability to deliver public services – further contributes to popular discontent.

Governance is a key factor in making development assistance effective in reducing poverty; it is therefore important that reconstruction and development activities are framed in terms of comprehensive governance improvement.³ Statebuilding, as the process for reforming and supporting government institutions, is thus central to sustainably overcoming the threats facing Afghanistan.

Governance refers to the system for making collective decisions covering a range of public and semi-public goods, including security, education, economy, as well as more intrinsic values such as justice and citizenship. At the national level, the state usually provides the conditions for these collective decisions to be made and implemented. At a minimum, this includes provision of security, some administrative control and regulation, and the means for articulation of collective aspirations through representation. The governance system for development assistance in Afghanistan involves the state, international donors, Provincial Reconstruction Teams (PRTs), private firms, NGOs, and even “informal” institutions – all with different relative powers and inter-relationships.

Statebuilding is the attempt to reform, build and support government institutions, with the aim of making them more effective in generating the abovementioned public goods. Statebuilding also seeks to increase the strength and centrality of the state in the governance of development assistance.

² Christopher Ward and William Byrd, 2004, *Afghanistan's Opium Drug Economy*, World Bank: Washington DC; and David Mansfield and Adam Pain, 2005, *Alternative Livelihoods: Substance or Slogan?* AREU: Kabul.

³ Department for International Development (DFID), 2001, *Making Governance Work for Poor People*, DFID: London; World Bank, 2004, *Afghanistan: State Building, Sustaining Growth, and Reducing Poverty*, World Bank: Washington DC.

II. The Statebuilding Paradox

Statebuilding differs from many other kinds of post-conflict international aid, especially in the immediate reconstruction period. While other reconstruction activities involve putting resources toward a well-defined need, statebuilding involves decisions about collective goals and must therefore be led by the recipient society itself to be effective. The transition from immediate emergency assistance to sustainable development means a transition from working *around* the weak state to working with and through it as it strengthens.

Statebuilding can be undermined by excessive dependence on external assistance. In the case of Afghanistan, long-term statebuilding processes are often hindered by the acute short-term need to respond to the threats of insurgency, opium and popular discontent by means that do not allow for collective ownership by Afghan society. This relationship between assistance and long-term measures on one hand, and aid dependency and short-term measures on the other, forms a “statebuilding paradox”.

This section considers three important aspects of the relationship between statebuilding and international aid in Afghanistan:

- The effects of aid quantity on statebuilding;
- The effects of aid delivery on statebuilding; and,
- The effectiveness of aid in the form of statebuilding programmes.

1. Aid quantity and statebuilding

It is impossible to arrive at a definitive figure for the development assistance given to Afghanistan. The first donor conference after the fall of the Taliban regime, in Tokyo in January 2002, produced pledges of US\$5.2 billion in non-military aid over five years, against a hasty preliminary needs

assessment of over US\$14 billion.⁴ In April 2004, the Berlin conference resulted in US\$8.2 billion pledged against the seven-year, US\$27.5 billion plan laid out in “Securing Afghanistan’s Future”, a major fundraising document presented by the Afghan government. Assistance pledges have thus fallen far short of the assessed need.⁵

These pledges, however, do not reflect what was actually received or spent. Between SY1381 and 1383 (2002-05) only US\$3.3 billion was spent on assistance projects, and less than US\$1 billion worth of projects were completed during that time. This situation improved in 1384 (2005), when Afghanistan received more than US\$2.2 billion in aid.⁶ At the January 2006 London Conference, donors pledged US\$10.4 billion tied to the five-year plan laid out in the I-ANDS and the Afghanistan Compact. Assistance appears to be increasing and perhaps stabilising at approximately US\$3 billion per year, a figure broadly consistent with budget and domestic revenue figures for SY1385 and 1386 (2006-08).

There are different interpretations of these numbers. One interpretation is that Afghanistan has received *too little* assistance. This argument rests on comparing the aid promised or disbursed with assessed needs, or with that spent in other post-conflict countries. A frequently cited study states

⁴ Donor Assistance Database, cited in Barnett Rubin, Humayun Hamidzada, and Abby Stoddard, 2005, *Afghanistan 2005 and Beyond: Prospects for Improved Stability*, Netherlands Institute of International Relations: The Hague, 60-5. All figures in US dollars.

⁵ This gap can be exaggerated as some major donors such as the United States give year-on-year against multi-year requests. In addition, some carry-over from earlier to later pledges means these should not be treated strictly cumulatively.

⁶ Organisation for Economic Co-operation and Development, *Paris Declaration Monitoring Exercise*, draft, 6 October 2006. This underestimates total assistance as some donors did not respond to surveys and disbursement increased later in the year. Some sources estimate 2004-05 (1383) assistance at closer to US\$3 billion.

that Afghanistan received US\$57 per capita in the first two years of assistance, while Bosnia received US\$679, East Timor US\$233 and Haiti US\$73.⁷ In this view, there has been too little aid to meet the enormous challenges, which has in turn contributed to the failure to secure peace and prevent the crisis now facing the country. Proponents of the “too little” argument point to the Afghan government’s commitment to the ambitious UN Millennium Development Goals, the implementation of which would require significantly higher levels of assistance.

A second, conflicting, interpretation is that Afghanistan has received *too much* assistance. This argument holds that the large quantity of assistance is harmful to statebuilding: when the money comes from outside the country, that is where the accountability goes. In SY1383 (2004-05) international assistance constituted more than 40 percent of Afghanistan’s Gross Domestic Product (GDP), while domestic government revenues were only 5 percent of GDP — a very low ratio internationally.⁸ Despite increases in domestic revenues in SY1385 (2006-07), the ratio of assistance to total spending remains roughly the same. In other words, the Afghan state gets nine times more resources from international donors than from its own economy. Such extreme aid dependency may compromise the state’s sovereignty, negatively affecting statebuilding by undermining state legitimacy in the eyes of the population.⁹

Some proponents of the “too much” argument claim that extreme aid dependence also weakens the state’s ability to bargain with powerful non-state actors. The state may be more likely to accommodate such illegitimate power-holders, fur-

ther undermining its own legitimacy, because of uncertainty surrounding future aid flows. This problem is made worse in the context of Afghanistan’s opium economy, which provides these actors with an alternative source of income and power.

International assistance can thus have conflicting or undesirable effects on statebuilding and, by extension, on governance. On one hand, the relatively small amounts of aid money spent in Afghanistan may not be sufficient to meet needs or expectations, and this erodes government legitimacy. On the other hand, the Afghan government and its international partners must consider the negative effects of extreme aid dependence on statebuilding and accountability.

2. Aid delivery and statebuilding

The statebuilding paradox is also shaped by the way assistance is delivered and structured. Some features of aid delivery affect the development of effective and legitimate state institutions.

Aid has been supply-driven. Aid quantity and direction has been largely determined outside of Afghanistan, limiting the country’s ability to set priorities. The donor is driven to give, but the incentive for the recipient to expend effort is weak to the degree that assistance is assured. This can hamper government attempts to pursue reform of public institutions and to confront illegitimate power-holders.¹⁰ In Afghanistan, this has meant that while the formal benchmarks of the Bonn Agreement were mostly met, other important changes — such as the removal of corrupt officials or genuine reform of key ministries — did not take place.

Limited state control over resources. The bulk of assistance has been delivered outside the control of the Afghan government. In 2004, the government reorganised the system for budget reporting, introducing a Core Budget for funds channelled

⁷ James Dobbins, Seth G. Jones, Keith Crane, Andrew Rathmell, Brett Steele, Richard Teltschik, and Anga Timilsina, 2005, *The UN’s Role in Nation-Building: From the Congo to Iraq*, RAND Corporation: Santa Monica, CA, xxii. This argument must be considered with care, as there is no linear relationship between resources and success in post-conflict statebuilding.

⁸ World Bank, 2005, *Afghanistan: Managing Public Finances for Development*, World Bank: Washington, viii.

⁹ Astri Suhrke, 2006, *When More is Less: Aiding Statebuilding in Afghanistan*, Fundación para las Relaciones Internacionales y el Diálogo Exterior: Madrid; Ministry of Finance figures, www.mof.gov.af (9 October).

¹⁰ Elinor Ostrum, Clark Gibson, Sujai Shivakumar, and Kristin Andersson, 2001, *Aid, Incentives, and Sustainability: An Institutional Analysis of Development Cooperation*, SIDA: Stockholm, 4; Jonathon Goodhand and Mark Sedra, 2006, *Bargains for Peace? Aid, Conditionalities and Reconstruction in Afghanistan*, Netherlands Institute of International Relations: The Hague.

Table 1. The 1385 and 1386 Core and External Budgets

| | SY1385 (2006-07) | | SY1386 (2007-08) | |
|-----------------------------------|------------------|--------------|------------------|--------------|
| | USUS\$ million | % | USUS\$ million | % |
| Core Budget | 2205 | 60.73 | 2550 | 69.88 |
| Ordinary Budget | 884 | 24.35 | 1072 | 29.38 |
| Development Budget | 1321 | 36.38 | 1478 | 40.50 |
| External Budget | 1426 | 39.27 | 1099 | 30.12 |
| TOTAL | 3631 | 100 | 3649 | 100 |
| Domestic revenue | 542 | 14.93 | 716 | 19.62 |
| % of Ordinary Budget from revenue | | 61.31 | | 66.79 |

Source: Ministry of Finance Budget Decrees.

through the Afghan government's treasury and an External Budget that accounts for funds channelled outside the government. The Core Budget has "Ordinary" and "Development" components: The Ordinary Budget covers recurring expenses such as salaries, operations and maintenance (with some exceptions), while the Development Budget is for new investment. In SY1383 (2004-05), the External Budget – over which the government has no control – accounted for approximately 75 percent of all assistance, or US\$2.5 billion. While a lot of such "off-budget" support is not unusual in early post-conflict situations, it has a negative impact on statebuilding processes as discussed above.¹¹

As Table 1 shows, the SY1385 (2006-07) and SY1386 (2007-08) national budgets show increased Core Budget commitments of approximately US\$2.2 billion and US\$2.5 billion, respectively. The External Budget is dropping, from US\$1.4 billion in SY1385 (2006-07) to US\$1.1 billion in SY1386 (2007-08). Thus, on paper, the proportion of total assistance channelled through the Afghan treasury is increasing to around 70 percent of recorded budgets. These figures are misleading, however, due to incomplete spending of the Core Budget and problems with the External Budget. Incomplete and untimely reporting by donors of "off-budget" plans cause significant under-reporting of the External Budget. The same problem applies to the *spending*

of assistance through the External Budget: In 2006, despite a request from the Joint Coordination and Monitoring Board (JCMB), only seven donors representing 23 percent of the commitments presented expenditure reports to the Ministry of Finance within the requested time frame.¹²

In SY1386 (2007-08), domestic revenues are expected to reach US\$716 million, almost 67 percent of the Ordinary Budget and enough to cover most government salaries (some will still be paid through the Development and External Budgets).

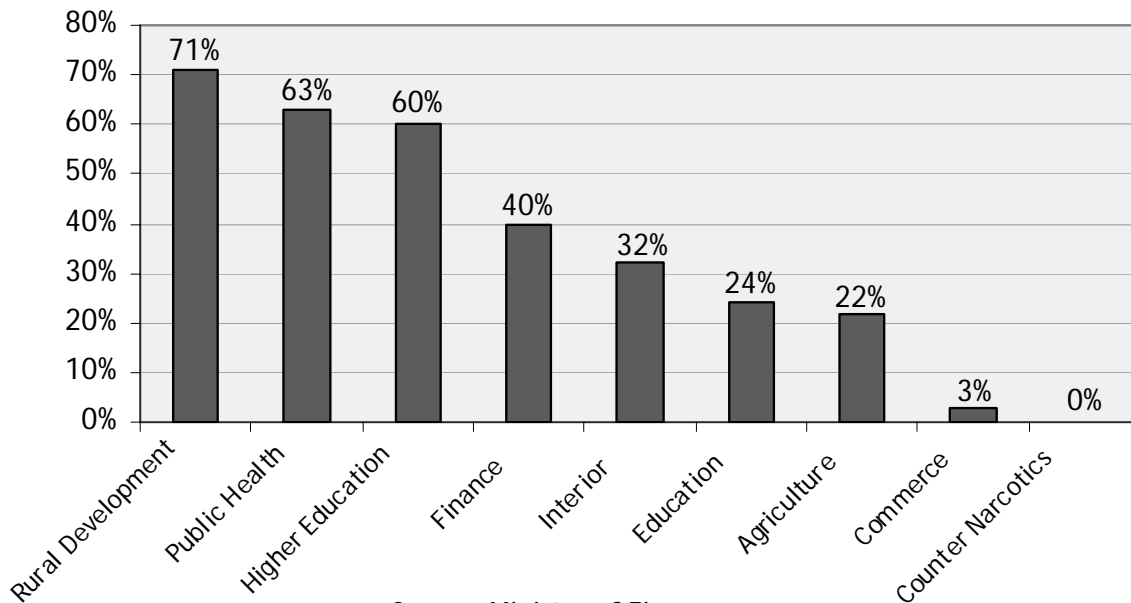
It is not possible to conclude from these numbers that government control over overall resources is increasing, or that domestic revenue contributions are growing in relation to the overall resources. What *can* be concluded is that more aid is channelled through the treasury, and that the contribution of the Afghan economy to the Core Budget is increasing – both positive trends.

Three arguments are frequently raised in support of channelling more money through the Core Budget:

- It is hard to account for funds spent outside the Core Budget; this makes it difficult to

¹¹ Ministry of Finance budget decrees, various years: www.mof.gov.af.

¹² Ministry of Finance, January 2007, *Progress Report from the Ministry of Finance on Aid Effectiveness (Monitoring matrix and external budget expenditures)*, JCMB: Kabul. Ministry of Finance work on a harmonised donor reporting format requested by the JCMB is proceeding well, but some donors have expressed limited concerns about additional effort involved in reporting with it.

Figure 1. Development Budget execution by line ministry (SY1384)

Source: Ministry of Finance

know how much and on what money is being spent. Even when budgets or plans are reported, spending may not be. In the absence of information, coordination is difficult.

- Spending money outside the Core Budget can make it difficult to match money with the priorities of the government, both across and within sectors.
- Channelling more money through the Core Budget will result in increased government capacity to handle funds.

One of the most important delivery mechanisms for channelling aid into the Core Budget is the Afghanistan Reconstruction Trust Fund (ARTF). The ARTF is jointly administered by the World Bank, the Islamic Development Bank (IDB), the Asian Development Bank (ADB) and the United Nations Development Programme (UNDP). In SY1385 (2006-07) the Fund handled US\$403 million in Core Budget support. The ARTF was created as a means for the Afghan government to meet recurrent expenditures while providing donors with a Core Budget support mechanism that meets international fiduciary standards. The ARTF allows donors to express

preferences for development programmes, but recurrent government costs have priority. As the transition to increased Core Budget assistance occurs, the balance of ARTF spending is shifting from the Ordinary Budget to the Development Budget.

Low and uneven government spending. In SY1384 (2005-06) only 62 percent of the Core Budget was spent. The Ordinary Budget was spent quite effectively, an important improvement over previous years when salaries and other recurrent expenditures were slowly or incompletely executed.¹³ Thus, the low rate of Core Budget spending was mainly due to low spending of the Development Budget: In SY1384 (2005-06) only 44 percent of the money budgeted for new investment was actually spent. For SY1385 (2006-07), the number is likely to be around 55-60 percent. As Figure 1 shows, Development Budget spending varies widely among ministries.

Some of the causes for poor spending are the same across sectors – such as the obvious difficulties planning and implementing development programmes in Afghanistan's challenging environ-

¹³ Anne Evans and Yasin Osmani, 2005, *Assessing Progress: Update Report on Subnational Administration in Afghanistan*, AREU/World Bank: Kabul, 1-3.

ment. The Development Budget also suffers from overestimation, which arises from ambitious targets, different fiscal years, some double-reporting by donors giving through multilateral donor agencies, and carry-over of previously unspent funds.¹⁴ Other problems are more specific and complex, arising from a combination of factors (see box). As the variation in spending levels among ministries indicates, some budget execution problems are sector-specific. Ministries vary widely in their ability to prioritise and plan, prepare the documents required by the Ministry of Finance and donors, manage procurement, and implement and monitor projects.¹⁵

Therefore, while there are many good arguments for channelling development money through the government's Core Budget, the fact remains that a large portion of donated funds may not be spent. In light of the popular discontent with the lack of visible reconstruction and development, this issue is of utmost importance. Some of the impediments to budget execution have already been noted and partially addressed: For instance, the budget process has been extended from three to nine months, allowing more time for the ministries to prepare projects, and there is an attempt to shift to more programme-based budgeting. These improvements,

Case study: Understanding an aid bottleneck

The National Solidarity Programme (NSP) is a nationwide community-driven development programme. It is run by the Ministry of Rural Reconstruction and Development (MRRD) and funded by various bilateral and multilateral donors, primarily through the ARTF.

NSP is supported by a number of NGO partners that facilitate the election of Community Development Councils (CDCs) and help these councils identify community development projects. The projects are funded by block grants delivered in three instalments. In SY1384 (2005-06), problems appeared in the disbursement of block grants. AREU research with CDCs in five provinces found that up to half of them experienced delays of up to a year, especially in the second instalment comprising 40 percent of the grant. As communities waited for the funds to be disbursed, some saw partially built projects degrade, and their frustration and suspicion increased. Some accused the partner NGOs of stealing the money, others became frustrated with the MRRD or the foreign donors overseeing the NSP. Previous negative experiences with development organisations were frequently alluded to, as faith in international assistance was undermined. Some of the smaller partner NGOs were forced to suspend operations.

A combination of factors contributed to these delays in grant disbursement. The donors to the ARTF were slow in converting their pledges into cash, and Ministry of Finance procedures slowed money transfers to programmes. A lack of information about NSP cash flow needs made it hard for donors to plan their cash deposits. Most importantly, although donors can express a preference for their ARTF funds to go to NSP, the rules of the Fund require that it pay recurrent government costs first. Thus, money intended for NSP was taken out to cover gaps in recurrent expenses, and could not be replaced by money earmarked for other projects. Due to cash shortages, the second grant instalments to some CDCs were delayed in order to keep NSP moving into new communities. The result was a chain of frustration and discontent that affects communities, NGOs, government and donors.

Sources: Ministry of Finance, AREU interviews with CDCs and facilitating partner NGOs throughout 2006.

¹⁴ Author interviews and Ministry of Finance documents; *OECD Paris Declaration Monitoring Exercise*, draft, 6 October 2006.

¹⁵ Ministry of Finance documents; interview with donor official, October 2006.

as well as the development of sector strategies within the Afghanistan National Development Strategy (ANDS) process, are crucial policy moments in further confronting the problems of budget execution.

Unclear, inefficient and harmful External Budget assistance. The serious problems with Core Budget spending do not mean that there are not equally significant issues with spending through the External Budget. Development spending that is not channelled through government institutions weakens state capacity to retain qualified personnel and undertake reform.¹⁶ When such spending occurs in areas that are later to become the responsibility of the state it can create liabilities in the form of inflated salaries or ambitious institutional designs, which endangers long-term fiscal sustainability.

External Budget development projects may have up to five layers of contracting, diluting accountability to donors by reducing incentives to accurately transmit information upwards. Downward accountability to beneficiaries is often an even bigger issue, in particular with regard to infrastructure projects – a problem widely reported by the media. Programme preparation by external actors may be faster, but often it is not, particularly in the case of some UN agencies. Or, programmes may be prepared quickly, but with much higher costs: USAID contractors, for example, can mobilise some high-quality resources fast, but have dramatically higher costs than other implementers.¹⁷ In contrast, some international NGOs, such as Oxfam or CARE, may through their own memberships have made a net contribution to the amount of aid actually delivered – an important

finding in light of the frequent criticisms of the role of NGOs in development assistance.¹⁸

Further analysis could identify which forms of external funding are least efficient and would be better used if channelled through the Core Budget. Unfortunately, the requirements that cause so much money to be spent through the External Budget are largely set in donor capitals and involve procurement, national security goals and visibility rather than aid effectiveness and statebuilding. When there are immovable constraints that prevent Core Budget support, the negative effects of External Budget spending on statebuilding can be mitigated by improved reporting, increased multi-year commitments, and the development of sector strategies.

3. Assessing statebuilding assistance

Since 2001, Afghanistan has seen a variety of projects and assistance efforts aimed at reforming and improving the capacity of its government institutions. On the whole, these statebuilding programmes have not produced the desired results, in particular with regard to increasing the strength and centrality of the state in the governance of development assistance. This lack of results is at least in part due to four features of the statebuilding effort to date:

Early reliance on pillars in security sector reform. At the beginning of the reconstruction effort, different donor countries were given lead responsibility for reform of different sectors – Germany for police, the United States for the Afghan National Army, the UK for counter narcotics, and Italy for the judiciary. In part due to the many cross-cutting issues and interlinkages among sectors, this approach slowed progress. It has now largely been abandoned.¹⁹

¹⁶ Ashraf Ghani, Clare Lockhart, and Michael Carnahan, 2005, *Closing the Sovereignty Gap: an Approach to State-Building*, Overseas Development Institute: London, 10.

¹⁷ Speaking of his tenure as Finance Minister, Ashraf Ghani estimated that US\$1 of USAID funding through contractors was equivalent to US\$5 of multilateral funding made available through the ARTF: Ashraf Ghani, Michael Carnahan and Clare Lockhart, 2006, *Stability, State building and Development Assistance: an outside perspective*, The Princeton Project on National Security, 6-7.

¹⁸ Nick Pounds, 2006, *Where Does the Money Go? A study of the flow of aid to NGOs in Afghanistan*, ACBAR: Kabul, 16.

¹⁹ Mark Sedra and Peter Middlebrook, November 2005, *Beyond Bonn: Revisioning the International Compact for Afghanistan*, Foreign Policy in Focus: Silver City, NM & Washington, DC.

Slow progress in public administration reform.

In the absence of public administration reform, the funds channelled through the government have not been strategically allocated or effectively delivered. The reforms to date have failed to enhance the legitimacy of a state still viewed by many as corrupt, inefficient and a vehicle for patronage and inter-group competition. Efforts to reorganise ministries and other government agencies have been heavily reliant on “bought capacity” rather than “built capacity”: Around one-quarter of all assistance in SY1384 (2005-06) was spent on international technical assistance. Only 11 percent of this assistance was coordinated, resulting in inefficient application across sectors.²⁰ More superficial reforms, such as the introduction of vetting procedures and to some degree salary reform, have proved more successful.²¹

Inadequate subnational spending. Very little of the non-salary Ordinary Budget has been spent outside of Kabul, meaning that provincial- and district-level civil servants have few funds to carry out their duties, or in many cases even to fuel their heaters or vehicles.²² This has caused government support to drop among provincial civil servants and residents of rural areas. Furthermore, the centralisation of all budgeting in Kabul complicates efforts at provincial input into development planning through elected councils and Provincial Development Committees. There is no integral connection between these provincial bodies and the budget process, since prioritisation across sectors at a provincial level does not need to be

reflected in the process when it occurs at the centre.²³ Provincial budget pilot projects currently underway recognise this issue, but still may not provide a clear means for bottom-up provincial plans to be integrated with the sector strategies being developed through the ANDS process. While the caution about decentralisation of budgets is understandable, electing bodies with no resources or power over resources does not create accountability, only expectations.

Conflicting short-term political and long-term statebuilding agendas. There has been a disjuncture between long-term statebuilding goals and the political short-term imperatives of counter narcotics, counter-terror and counter-insurgency efforts. Discretionary payments to militias and supportive provincial governors have impaired accountability between the centre and the provinces,²⁴ and opium eradication preceding the creation of alternative livelihoods for farmers has fuelled popular discontent with the government. Similarly, addressing urgent security needs by paying local auxiliary forces may negatively affect the long-term goal of creating a sustainable state security sector.

These practices feed perceptions that the government is a patronage machine more interested in accommodating illegitimate power-holders than in purging corruption and delivering services to the people. A security strategy that rests mainly on patronage and short-term pay-offs will not only undermine government legitimacy, but also ultimately fail due to the wealth of illicit and external resources available to counter it.²⁵

²⁰ Organisation for Economic Co-operation and Development, *Paris Declaration Monitoring Exercise*, draft (6 October 2006).

²¹ Sarah Lister, September 2006, *Moving Forward? Public Administration Reform in Afghanistan*, AREU: Kabul.

²² Author interviews with provincial and district civil servants in six provinces (July 2005-October 2006). In 1383 only 30% of non-salary ordinary expenditures was counted as spent outside of Kabul: World Bank, 2005, *Afghanistan: Managing Public Finances for Development*, Ch. 1. However, this figure does under-represent some central spending that diffuses to provincial departments.

²³ Sarah Lister and Hamish Nixon, 2006, *Provincial Governance Structures in Afghanistan: From Confusion to Vision?* AREU: Kabul.

²⁴ Author interview with AIHRC Official (June 2006).

²⁵ For several years income from the opium economy has consistently been estimated as more than twice that from international assistance, and in 2006 reached US\$7 billion: Rubin, Hamidzada, and Stoddard, *Afghanistan 2005 and Beyond*, 62; UNODC, 2006, *Afghanistan Opium Survey: Executive Summary*, UNODC/Ministry of Counter Narcotics: Kabul.

III. Changes for the Better? Assessing the ANDS-Compact Framework

“Institutional development and governance are the cornerstone of the I-ANDS”.

International Monetary Fund

The launching of the I-ANDS and the Afghanistan Compact at the January 2006 London Conference marked the end of the transitional process governed by the December 2001 Bonn Agreement. The I-ANDS is a comprehensive five-year strategy for the country’s long-term development, and the Compact is a commitment by the Afghan government and international community to implement and resource it. Some elements of an earlier attempt at a comprehensive development strategy, the National Development Framework (NDF), are found in the new framework.

Though linked, the I-ANDS and the Compact have different origins. The I-ANDS was drafted by the Afghan government in the latter half of 2005 as the country’s Interim Poverty Reduction Strategy Paper (I-PRSP), an instrument required by the World Bank to qualify for Highly Indebted Poor Countries (HIPC) assistance. It will be turned into a full PRSP by mid-2008, through the ANDS development process. The Compact, in contrast, originated from donor initiatives and Afghanistan’s commitment to the Millennium Development Goals process established at the 2000 UN Millennium Summit. Each Compact benchmark is reflected as a strategic objective in the I-ANDS.

These two documents now form “the framework for policy, institutional, and budgetary coordination and will remain the partnership framework

linking Government and the international community with regard to the utilization of external assistance aimed at economic growth and poverty reduction”.²⁶ The broad principles guiding this framework include: enhancing government ownership, harmonising donor and government policies, improving development outcomes and service delivery by building capacity, improving information and coordination, and sharing accountability.

The Compact identifies short-term and long-term benchmarks that the Afghan government and its partners should meet in pursuit of the strategic objectives set out in the I-ANDS. For donors, such benchmarks include: increasing the amount of money channelled through the Core Budget, increased multi-year commitments, improved information on External Budget spending, and support to sustainable institutions. The commitments of the Afghan government include: increasing domestic revenue, introducing anti-corruption measures, and achieving sector-specific policy benchmarks set out in the I-ANDS and its successor full strategy.

The progress of the I-ANDS toward a full national development strategy by mid-2008 is managed by a system of Consultative Groups and subsidiary Technical Working Groups. The implementation of the Compact and effectively the development of the full ANDS are coordinated by the Joint Coordination and Monitoring Board (JCMB), a joint international and Afghan high-level governing body. While it is still early in the implementation process, the third quarterly meeting of the JCMB in November 2006 found that progress was satisfactory on only seven of the eleven short-term benchmarks. The report emphasised the lack of progress on security, statebuilding and governance.

²⁶ Islamic Republic of Afghanistan, *I-ANDS*, Vol. I, 179. The Afghanistan Compact and the I-ANDS are available at www.ands.gov.af.

Figure 2: ANDS Structure

| Pillar 1 Security | Pillar 2 Governance Rule of Law & Human Rights | Pillar 3 Economic and Social Development | | | | | |
|----------------------------------------------|-------------------------------------------------------|------------------------------------------------|-----------------------|--------------------|---------------------------------------------|-------------------------------|--------------------------------------------------------------|
| Sector 1 Security | Sector 2 Governance, Rule of Law & Human Rights | Sector 3 Infrastructure & Natural Resources | Sector 4 Education | Sector 5 Health | Sector 6 Agriculture & Rural Development | Sector 7 Social Protection | Sector 8 Economic Governance & Private Sector Development |
| Gender Equity (cross cutting theme 1) | | | | | | | |
| Counter Narcotics (cross cutting theme 2) | | | | | | | |
| Regional Cooperation (cross cutting theme 3) | | | | | | | |
| Anti-Corruption (cross cutting theme 4) | | | | | | | |
| Environment (cross cutting theme 5) | | | | | | | |

The Compact and the I-ANDS — as well as the development process for the full ANDS — are structured around three pillars: 1) security; 2) governance, rule of law and human rights; and 3) economic and social development. These pillars are divided into eight sectors, and there are five cross-cutting themes (Figure 2).

The ANDS process is currently developing “ministerial strategies” that are to be integrated into “sector strategies”, and “cross-cutting strategies” corresponding with the ANDS structure. At the same time, however, a provincial consultation process is underway which will result in provincial development strategies. A crucial issue will be how these provincial strategies are integrated with the sector and cross-cutting strategies.

What is missing from the new framework?

The I-ANDS and the Afghanistan Compact are theoretically very significant steps forward in addressing the statebuilding paradox discussed above. But several areas of the framework are unlikely to fulfil expectations, or need further elaboration and action.

Ownership is still limited. The principle of recipient-country ownership embodied in the ANDS framework is unlikely to be fully realised. Ownership implies recipient-country participation in the design and implementation of policies. So far, participation has been limited to the elite-level process of Consultative and Technical Working Groups, with heavy international involvement. Participation by society and citizenry has been largely limited to consultation in the form of meetings and workshops with little decision-making power. Excessive consultation may have an undesired effect on state legitimacy: People do not only want to be asked what they wish for, they also want to be listened to and have their opinions incorporated visibly into decisions. A successful integration and communication of the provincial, sector and cross-

cutting strategies would be a vital step toward closing the gap between the process and the people.

Aid remains supply-driven. The ANDS-Compact framework does not overcome the challenge of binding aid recipients to its objectives. The JCMB acknowledged in its November 2006 report that benchmarks that are not met will simply have to be rescheduled. While the framework may produce more coordination and discipline among donors, it does not create guarantees that the Afghan government will achieve its goals or that progress will take place on the ground. This problem is reflected in slow progress in the areas of ministry reform, anti-corruption and drug trafficking. The World Bank's own reviews of PRSPs show that they are least effective in countries with "weak public sector capacity or with donor-dominated aid relationships".²⁷ In other words, the more the government can assert its own strategic priorities, the more effective the ANDS will be in linking aid to government obligations.

Monitoring is input-oriented and elite-level. The ANDS-Compact framework goes much further than previous efforts in identifying concrete methods for measuring progress. But measurements are still formulated in terms of improvements in aid supply or government structure (such as more coordinated, Core Budget spending or rationalising the number of government administrative units), rather than improvements in the lives of ordinary people. As general critiques of PRSPs note, despite more recipient-country participation in the creation of the strategy, its monitoring remains primarily an international and government task. As time

passes there needs to be an assessment of progress, using institutionalised dialogue and participatory politics rather than repetitive and formulaic consultations. Civil society could play an important role in this process — by serving as an independent monitor, helping to communicate the goals and limitations of development, creating accountability and providing services or social protection in coordination with the state.

Subnational strategy requires elaboration. The new framework pays increased attention to the subnational levels, but the long-term role of provinces and other units in the state's fiscal and administrative structures is far from clear. Moving to a full strategy will require a more detailed subnational vision, incorporating institutional goals and concrete plans to reach them. The extreme centralisation of the Afghan state is a likely contributor to popular discontent, and some disparate initiatives are exploring modest forms of decentralisation. New political impetus emerging from parliament and the provincial councils will continue to push this agenda, which needs to be managed more actively. This does not have to mean decentralisation of revenues or budgets; but it must entail, at a minimum, deconcentration of some service-delivery functions, including increased non-salary expenditures to appropriate subnational units. If subnational representative bodies continue to be created without visible links to budgets and other government processes, these bodies will undermine state legitimacy.

²⁷ World Bank Operations Evaluation Department, 2004, *The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003*, World Bank: Washington.

VI. Ways Forward

In 2001, conditions in Afghanistan were favourable for stabilisation, reconstruction, and improving governance. Since then, the inadequate and often incoherent application of resources, in combination with conditions beyond the control of the Afghan government and its partners, has replaced this opportunity with the current crisis. The three main threats facing the country today – insurgency, the opium economy, and popular discontent – all require visible improvements in the short-term. At the same time, sustainable long-term solutions to these issues can only occur through improved governance, which in turn requires realistic statebuilding goals that are not undermined by the “quick fixes”. Sometimes, increased efforts at statebuilding can produce the opposite effects desired; the challenge is to minimise the negative consequences while building strong and sustainable government institutions.

RECOMMENDATIONS FOR ALL ACTORS

1. Political strategies must converge with a realistic long-term statebuilding strategy.

All actors involved in Afghanistan’s reconstruction and development must recognise the state’s central role in the governance of aid and in the coordination or facilitation of public goods and services. A realistic statebuilding strategy in Afghanistan should not see the state as the provider of all services, but must recognise the role of external actors and civil society in the provision of public goods. Such a strategy should concentrate on the state developing intangibles that non-state or illegitimate actors cannot provide – such as security, rule of law, justice, respect for cultural and religious identity, and protection of rights.

- *Openly discuss fiscal sustainability.* Development and implementation of sector strategies must consider long-term availability of resources and prioritise programmes accordingly. This will require decisions about the likely mix of state and non-state provision of social services (edu-

cation is currently the largest External Budget sector), more consideration of the long-term fiscal basis for the security forces, and more information from donors about likely long-term External or Core Budget support. The current ambitious election calendar is fiscally unsustainable, and recommendations by the Independent Election Commission for streamlining it should be acknowledged. The government’s commitment to achieving the Millennium Development Goals is equally unrealistic, an issue that should be transparently resolved and communicated.

- *Rethink short-term measures in terms of statebuilding.* Counter narcotics policy must be oriented toward supporting legitimate institutions and reducing the corrupting force of drug money. Opium poppy eradication in the absence of alternative livelihoods is counterproductive from a statebuilding perspective: it encourages official corruption and price increases, while decreasing government support among farmers. Similarly, employing auxiliary forces to supplement the legitimate security forces for short-term counter-insurgency or counter-terror gains must be considered carefully. Because statebuilding should focus on institutions, not individuals, the government should cease measures like discretionary funds for governors and instead increase subnational funding through established channels.

2. Emphasise an appropriate and aligned balance of Core and External Budget resources.

The transition toward increased government control over resources is essential for long-term statebuilding. It must, however, take place in balance with improved budget execution and the need for service delivery. In the current context, channelling all resources through the government is not feasible; at the same time, the

large amount of aid that remains beyond government control undermines statebuilding.

- *Prioritise the resources spent through the Core Budget.* Funds channelled through the Core Budget must continue to prioritise recurrent expenses, followed by programme-based development spending. Recurrent expenses are the most important for the state to handle, and are likely to be partially met by increasing domestic revenues. The evolving role of the ARTF from funding mainly salaries toward programme funding should be monitored to maintain its effectiveness.
- *Plan for a continued External Budget.* Because many donors are subject to national caveats, substantial amounts of aid will continue to be channelled through the External Budget, and external implementers of Core Budget funds will continue to play a large role.

3. Improve efforts to locate, build, and transfer capacity. The ability of the government to handle resources must be improved.

- *Improve government strategic planning capacity.* Support genuine capacity creation in both the executive and legislative branches of government. Minimize the use of technical assistance or unsustainable policy management units. Certain specific areas for capacity-building, such as legislative drafting, have already been clearly identified.
- *Consider increased transfer of capacity from the non-state sector.* The role of non-state actors, such as NGOs, in developing capacity is currently largely ignored as a public resource. For example, NSP facilitating partners have trained thousands of young, motivated and gender-balanced

community organisers that could represent a future pool of state employees; meanwhile, many ministries have aging civil servant contingents. The Independent Afghanistan Reform and Civil Service Commission (IARCSC) implementation plans for pay and grading reform should consider long-term capacity transfer from the non-state sector.

4. Improve social accountability. The ANDS development process must incorporate methods of assessing progress in terms of impact on the lives of ordinary Afghans.

- *Develop impact assessments.* Build on existing government instruments such as the National Risk and Vulnerability Assessment (NRVA) to provide tools to measure input and outcomes.
- *Support civil society.* Civil society organisations can make a contribution in the development process by closing some of the gaps in the government- and donor-led monitoring structure. Limited monitoring initiatives by civil society focusing on budgets or specific sectors are more likely to be constructive than ambitious efforts at monitoring the whole ANDS.²⁸
- *Continue to support the monitoring role of parliament and the provincial councils.* Provide accurate and accessible information on assistance flows, structures and goals to representative bodies in order to encourage their constructive engagement in monitoring aid effectiveness.

²⁸ The “Economic Literacy and Budget Analysis Group” is one example of a focused civil society initiative just getting underway: for details see www.actionaid.org/main.aspxPageID=263.

RECOMMENDATIONS FOR THE AFGHAN GOVERNMENT

1. Emphasise prioritisation in the development of the ANDS. Prioritisation must replace needs assessment as the dominant way to inform planning. The development of sector strategies through the ANDS is an important step toward determining realistic resource envelopes and prioritising within them. A particular challenge will be to incorporate input from the subnational consultation process into these sector and cross-cutting strategies.

2. Elaborate the subnational governance strategy. The I-ANDS does not convey a plan for the long-term role of provinces, districts and municipalities in the state's fiscal structure. A concerted effort during the development of the full ANDS could begin to resolve this issue.

- *In the short term, improve subnational spending within current structures.* Improvements in salary execution demonstrate the potential for improved subnational transfers. Subnational allocations for operations and maintenance should be increased, and some spending decisions should be delegated to the provincial level. As domestic revenue covers an increasing proportion of salary expenses, the ARTF could shift its emphasis to recurrent subnational expenses, such as training, equipment and maintenance.
- *In the medium term, integrate sector and geographic planning processes.* A permanent and transparent link should be developed between subnational consultations and the sector strategies.
- *In the longer-term, consider relationships between representation and resources and responsibilities.* The creation of local representative bodies and development plans, whether at provincial, district, municipal, or village level, should take place within a framework that considers what resources and responsibilities exist to make those bodies and plans legitimate.

This may involve a more open discussion about fiscal decentralisation and current pilots of provincial budgeting should be analysed carefully to that end. The long-term role of PRT development spending should also be considered.

3. Strengthen government communications strategies. The government should be clear about its role as both coordinator and provider, and about society's role as co-provider. It should also support civil society and media as legitimate partners in the national development process, and articulate national values as a basis for development prioritisation. Communication is necessary not only between state and citizen but also between different levels of the state.

RECOMMENDATIONS FOR DONORS

1. Channel more funding through the Core Budget and support capacity development to handle increased resources. Increasing the proportion of aid that goes to the Core Budget will contribute to capacity development in individual budget units and increase government ownership of the development process. Without dramatic improvements in budget execution, however, a dogmatic rush to channel all assistance through the Core Budget will be counterproductive from a statebuilding perspective.

- *Increase the use and flexibility of the ARTF.* As the fiscal base of the state grows over time, ARTF funding will shift from salaries toward operations and maintenance or capacity-development programmes. Donors should monitor the effectiveness of the ARTF as its focus changes and consider using it to support liabilities created by external spending.
- *Harmonise technical assistance.* Recent initiatives to have ministries identify capacity constraints under the Compact monitoring process should be encouraged and expanded. Donors should support attempts to make technical assistance more effective.

tive by allocating consultants strategically, splitting responsibilities for training and implementation, and allowing government monitoring.

2. Improve External Budget support. Delivery of some public goods, such as improved security and welfare distributions, must so far occur through a range of state and non-state structures. Donors should consider the statebuilding implications of these activities.

- ***Assess External Budget mechanisms.*** Determine which types of External Budget support are most efficient and direct resources toward these. Reduce support to the least open, accountable and efficient types of External Budget support.
- ***Improve reporting on External Budgets.*** Coordinate with multilateral development agencies or international financial institutions to clearly allocate responsibilities for reporting to avoid omission or double-reporting. Support the budget process by reporting in good time both for the longer budget preparation timetable and the mid-year reviews. Support the emerging harmonised reporting format, and encourage headquarters to consider incorporating these requirements into long-term reporting and accounting systems.

3. Increase multi-year commitments. Donors should seek opportunities for making multi-year commitments, both through long-term reform of their assistance institutions and increased support for multilateral institutions able to make such commitments. Consider expanded trust-fund support as a means to make multi-year commitments in the short-term.

The problems facing Afghanistan have grown more acute in recent years, thus it is with good reason that more focus is falling on short-term actions. The current crisis, however, is at root related to long-term questions of governance and the role and capabilities of state institutions. The Afghan nation must consider these problems carefully and communicate potential answers more effectively. Afghanistan's international partners must set realistic statebuilding goals and resolve to meet them. It is time to move quickly, but not rashly, in more effectively turning words into action in Afghanistan.

The Afghanistan Research and Evaluation Unit (AREU) is an independent research organisation headquartered in Kabul. AREU's mission is to conduct high-quality research that informs and influences policy and practice. AREU also actively promotes a culture of research and learning by strengthening analytical capacity in Afghanistan and facilitating reflection and debate. Fundamental to AREU's vision is that its work should improve Afghan lives.

AREU was established in 2002 by the assistance community working in Afghanistan and has a board of directors with representation from donors, UN and other multilateral agencies, and non-governmental organisations (NGOs). Current funding for AREU is provided by the European Commission (EC), the United Nations High Commissioner for Refugees (UNHCR), the World Bank, and the governments of Denmark, Norway, Sweden, Switzerland and the United Kingdom.

All AREU publications are available for download at www.areu.org.af and in hard copy from the AREU office:

Flower Street (corner of Street 2), Shahr-i-Naw, Kabul

phone +93 (0)799 608 548 **website** www.areu.org.af **email** areu@areu.org.af