



ACBAR ADVOCACY SERIES

# FALLING SHORT



## Aid Effectiveness in Afghanistan

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## Executive summary

Increasing insecurity and criminality is jeopardising progress in Afghanistan. With low government revenues, international assistance constitutes around 90% of all public expenditure in the country, thus how it is spent has an enormous impact on the lives of almost all Afghans and will determine the success of reconstruction and development. Given the links between development and security, the effectiveness of aid also has a major impact on peace and stability in the country. Yet thus far aid has been insufficient and in many cases wasteful or ineffective. There is therefore no time to lose: donors must take urgent steps to increase and improve their assistance to Afghanistan.

Reconstruction assistance is a fraction of military spending. Since 2001 the United States has appropriated \$127 billion for the war in Afghanistan and the US military is currently spending nearly \$100 million a day in the country, some \$36 billion a year. Yet the average volume of international aid provided by all donors since 2001 is woefully inadequate at just \$7 million per day. This paucity of aid is reflected in comparative aid per capita figures. In the two years following international intervention, Afghanistan received \$57 per capita, whilst Bosnia and East Timor received \$679 and \$233 per capita respectively.

Since 2001 some \$25 billion has been spent on security-related assistance to Afghanistan, such as building Afghan security forces. Donors have committed to spend the same amount on reconstruction and development, yet some leading donors have failed to fulfil little more than half of their aid commitments. Thus, there is an aid shortfall of some \$10 billion – equivalent to thirty times the annual national education budget. Just \$15 billion in aid has so far been spent, of which it is estimated a staggering 40% has returned to donor countries in corporate profits and consultant salaries.

In absolute terms, the US is by far the largest donor, contributing one-third of all aid since 2001. Other major donors are: Japan, the UK, the European Commission (EC), the World Bank (WB), Germany and Canada; the relative contributions of The Netherlands, Norway and Sweden also are substantial. France and Spain, however, have made scant bilateral contributions since 2001 of just \$80 million and \$26 million.

Although a number of donors have major projects underway, according to Afghan government figures, the Asian Development Bank (ADB) and India have disbursed only a third of their commitments for 2002-2008. The US has to date disbursed only half of its \$10.4 billion commitment for this period; and the WB just over half its \$1.6 billion commitment. The EC and Germany have disbursed less than two-thirds of their respective commitments of \$1.7 billion and \$1.2 billion. These shortfalls are partly attributable to challenging operating conditions, high levels of corruption and weak absorption capacities – and government data may not capture all donor spending. However, the magnitude of the shortfalls underscores the importance of donors increasing efforts to mitigate or adapt to such problems, to factor them in to programme planning, and to improve the flow of information to the Afghan government.





Separately, a number of donors are not on track to fulfil their aid pledges for 2002-2011. Overall, \$39 billion has been pledged up to 2011; but, so far, less than 40% of that amount has been spent. According to Afghan government figures, Spain has disbursed only 10% of the aid it has pledged for 2002-2011, and the US and India have disbursed only 22% of their respective pledges of \$22.8 billion and \$940 million. Turkey, China, the ADB and WB and Saudi Arabia have all so far delivered less than 40% of their aid pledges for this period.

Much has been achieved in Afghanistan since 2001: there has been the establishment of democratic institutions and ministries, significant improvements in health care and immunization, the major expansion of primary education, the construction of roads and transport infrastructure, economic growth, and the formation of state security forces. There are many cases of well-delivered aid, for example in the education sector or in community-based rural development projects that are part of the National Solidarity Programme (NSP), which have made a significant difference to Afghan lives.

However, most Afghans still endure conditions of hardship and millions live in extreme poverty. Far too much aid has been prescriptive and driven by donor priorities – rather than responsive to evident Afghan needs and preferences. Too many projects are designed to deliver rapid, visible results, rather than to achieve sustainable poverty reduction or capacity-building objectives. One quarter of all aid to Afghanistan has been allocated to technical assistance – which is intended to build government capacity – yet much of such assistance has been wasteful, donor-driven and of limited impact. In the design or execution of projects, too often the promotion of the capabilities, status and rights of women is an afterthought or perfunctory consideration. Most aid has been directed to Kabul or other urban centres, rather than to rural areas where it is most needed and more than three-quarters of Afghans live. At a macro level, areas such as agriculture have been under-resourced due to a lack of prioritisation.

Whilst there are undoubtedly resource constraints in Afghanistan, donors have fallen short on pledges made under the Afghanistan Compact to use more Afghan human and material resources. Over half of all aid to Afghanistan is tied, by which donors often require procurement of services or resources from their own countries.

NGOs have a vital role in supporting rural development and are comparatively cost effective. Yet some donors have reduced funding for Afghan and international NGOs, which has limited their ability to support the delivery of essential services, especially in rural areas, and to build the capacities of communities and local government.

There are significant disparities in the geographical distribution of aid. This is due to a range of factors, but not least because aid is being used to achieve military or political objectives. A number of major donors direct a disproportionate share of their funds to the southern provinces where the insurgency is

strongest; if it were a state, Helmand alone would be the world's fifth largest recipient of funds from USAID, the US Agency for International Development. These disparities are also reflected in the pattern of combined government and donor spending: for 2007-2008 the most insecure provinces of Nimroz, Helmand, Zabul, Kandahar and Uruzgan have been allocated more than \$200 per person, whereas as many other provinces are due to receive less than half this amount, and some, such as Sari Pul or Takhar, are allocated less than one third.

Given the links between poverty and insecurity, the resentment which these significant disparities has generated, and the perverse incentives created for secure areas, which perceive that insecurity attracts aid, this approach is dangerously short-sighted and has contributed to the spread of insecurity.

Provincial Reconstruction Teams (PRTs) have gone well beyond their interim, security-focused mandate, engaging in substantial development work of variable quality and impact. Although arguably necessary in some highly insecure areas, by diverting resources which otherwise could have been devoted to civilian development activities, PRTs have in many cases undermined the emergence of effective institutions of national and local government, and other civil development processes. PRTs have also contributed to a blurring of the distinction between the military and aid agencies, which has thus undermined the perceived neutrality of the latter, increasing the risk for aid workers, and reduced humanitarian operating space and access.

Some two-thirds of foreign assistance bypasses the Afghan government, which undermines efforts to build effective state institutions, especially at sub-national level. This is partly attributable to problems in budget execution, weak governance, inadequate government human capacity and widespread corruption – which the Afghan government and donors over the past six years should have done more to address. It is of great concern that there appears to be a lack of political will to tackle high level corruption. Nevertheless, there has been an incremental increase in government capacity, for example, in the ministries of Finance and Education, and in improved public financial management systems.

Donors are failing to coordinate between themselves or with the government. According to an Organisation for Economic Cooperation and Development (OECD) survey, in 2005 little or none of the technical assistance provided by the ADB, EC, Germany, Japan and the UK was through coordinated programmes consistent with the government's strategy, and just one-third of donor analytical work was undertaken jointly. Largely due to lack of donor coordination and communication, the Afghan government says it does not have information on how one-third of all assistance since 2001 was spent – some \$5 billion. A large proportion of assistance is not in alignment with national and provincial plans, and only half is disbursed in agreement with the Afghan government.

Donors are failing to fulfil their commitment under the Afghanistan Compact to ensure taxpayers receive value for money. Vast sums of aid are lost in corporate profits of contractors and sub-contractors, which can be as high as 50% on a single contract. Minimal transparency in procurement and tendering processes stifles competition and efficiency. A vast amount of aid is absorbed by high salaries, with generous allowances, and other costs of expatriates working for consulting firms and contractors – each of whom costs \$250,000–\$500,000 a year; and with the recent deterioration in security such costs are increasing. Efficiency is further impaired by excessive donor bureaucracy.

There is limited donor transparency, and few mechanisms to hold donors accountable, or for effective scrutiny, monitoring and evaluation. The Afghanistan Compact has 77 measurable benchmarks for the Afghan government, but none for donors. Donors are subject to little independent scrutiny; reporting to the Afghan government has improved but is insufficient; and downward accountability to project beneficiaries is limited or non-existent.

## Conclusions and recommendations

The impact of assistance to Afghanistan is heavily affected by the wider social, economic, legal, security and political environment; thus, reforms are required in many spheres in order to maximise aid effectiveness. Aid has made a significant difference to Afghan lives, but major weaknesses have severely constrained its capacity to reduce poverty. Thus, donors and the Afghan government should urgently adopt the following recommendations.

**Volume of aid** In conjunction with steps to enhance its effectiveness, donors should increase the volume of development and humanitarian aid to Afghanistan, which is a fraction of military assistance.

Donors should seek to allocate more funds to the Afghan government (covered below) and to effective NGOs, fulfil aid promises, and provide more multi-year aid commitments. To avoid aid dependency, the government must strengthen efforts to increase domestic revenue.

**Distribution of aid** There needs to be a comprehensive and objective assessment of the reconstruction, development and humanitarian needs of Afghanistan's provinces, and a corresponding reconfiguration of government and donor spending. Whilst insecurity undoubtedly increases the costs of delivering assistance, there needs to be a more equitable distribution of resources and a high level of support for areas with greater development and humanitarian needs.

**Quality of aid** Donors should ensure their aid programmes have the primary or ultimate objective of reducing poverty, and that they are demand-driven, address needs as identified by Afghans, build local capacity, and are accountable to Afghan citizens and government. More aid must be directed to projects that benefit people living in rural areas, and gender equality objectives should be a primary consideration in the design and implementation of all development activities. Each donor should institute an annual aid review to measure its performance in each of these respects, and to assess consistency with the Afghan National Development Strategy (ANDS). The revised ANDS and other donor–Afghan government development plans should incorporate prioritisation and sequencing, according to the comparative importance and magnitude of poverty reduction objectives.

**Indicators of aid effectiveness** Donors and the Afghan government should collectively agree on indicators of aid effectiveness, with correlative targets, measuring the impact, efficiency, relevance, sustainability, accountability, and Afghan ownership of aid, as well as the use of Afghan human and material resources.

**Monitoring and accountability** A national, independent commission for aid effectiveness should be established to monitor aid practices, identify deficiencies and make recommendations. The commission could issue an annual 'report card' for each donor, highlighting levels of achievement in respect of the proposed targets. Measures should be taken to strengthen downward accountability to citizens. Donors should provide funding for civil society organisations to carry out monitoring of aid flows and budget processes, which helps to ensure sustainable scrutiny of aid effectiveness.

**Transparency** Donors should publicly provide full information on aid flows; the Afghanistan Donor Assistance Database should be overhauled, updated and allow full public access to aid information.

**Ownership and governance** To maximise Afghan ownership of the development process, donors should seek to increase incrementally the level of aid provided to the government sector and to increase the volume of funds channelled to the core budget, especially the development budget component. To justify this, the Afghan government should take steps to:

- Improve budget execution capabilities, particularly implementing capacities of line ministries;
- Strengthen financial management and fiscal controls;
- Expedite public administration reform, especially in the civil service;



- Ensure rigorous implementation of the government's anti-corruption strategy; enhance transparency; improve monitoring, oversight and audit; and streamline government processes and procedures; and
- Reform sub-national governance, de-concentrate centralised line ministries; build institutional and systems capacities at local level; and expand the participation of communities and civil society in designing, implementing, directing and monitoring development activities.

**Coordination and alignment** Donors should use existing mechanisms to improve donor-government coordination; the human and financial resources of both the Joint Coordination and Monitoring Board (JCMB) and UN should be strengthened for this purpose. Donors should provide the government with timely, comprehensive and accurate information on all aid flows, and ensure they are consistent with national and local development priorities, above all, the ANDS.

Donors should substantially increase support for sectoral programmes, through mechanisms such as the Afghanistan Reconstruction Trust Fund, and thereby exceed the Paris Declaration target of 66% of aid delivered through such programmes. Donors should also increase the proportion of joint analytical work from one-third to two-thirds and ensure that at least half of donor missions are undertaken jointly.

**Procedures** Donors should simplify and harmonise bureaucratic processes and procedures for project management; they should establish a working group for this purpose, with Afghan government and NGO representation.

**Technical assistance** Donors should ensure that technical assistance (TA) is cost-effective, demand-driven, coordinated, aligned with national priorities, and focused on capacity building national staff. Pooled funds should be established by donors to oversee the provision of TA to specific ministries.

**Contractors** Donors should only use contractors who have a record of efficiency, and avoid multiple layers of sub-contracting. They should agree common rules or principles for contracting and tendering.

**Provincial Reconstruction Teams** PRTs must enhance the quality and impact of their assistance, ensure it is aligned with official national or local priorities and coordinate fully with state institutions. They should adhere to their mandate to facilitate the development of a stable and secure environment, and, in line with their interim status, they should be downscaled, with closure plans for those in comparatively secure areas. Donor funds should be re-routed from PRTs to local and national government, such as through the NSP.

## THE FACTS ON AID TO AFGHANISTAN

- There is an aid shortfall of \$10bn – equivalent to thirty times the annual national education budget: donors committed to give \$25bn aid since 2001 but have only delivered \$15bn.
- An estimated 40% of aid goes back to donor countries in corporate profits and consultant salaries – some 6bn since 2001.
- Largely due to lack of coordination and communication, the Afghan government does not know how one-third of all aid since 2001 – some \$5bn – has been spent.
- The US military spends close to \$100m a day in Afghanistan; yet the average volume of aid spent by all donors since 2001 is just \$7m per day.
- Over half of aid is tied, requiring the procurement of donor-country goods and services.
- Over two-thirds of all aid bypasses the Afghan government.
- According to the latest OECD figures less than 40% of technical assistance is coordinated with the government and only one-third of donor analytical or assessment work is conducted jointly.
- Profit margins on reconstruction contracts for international and Afghan contractor companies are often 20% and can be as high as 50%.
- Most full time, expatriate consultants, working in private consulting companies, cost \$250,000–\$500,000 a year.

## Introduction

*The Agency Coordinating Body for Afghan Relief (ACBAR) is a leading alliance of 94 national and international non-governmental organizations working in Afghanistan. The Afghanistan Pilot Participatory Poverty Assessment (APPPA) is a project undertaken by ACBAR which aims, through civil society involvement, to collect, document, disseminate and advocate the opinions and priorities of Afghans for inclusion in the Afghanistan National Development Strategy (ANDS), due to be finalized this year, and more broadly throughout civil society. It has both a research, and advocacy component.*

*This paper is one of a series of papers forming part of the advocacy component of the APPPA, the purpose of which is to improve the quality of civil society, including NGO, engagement in the elaboration of national and sectoral development plans and activities. The paper attempts to address issues which have been identified through the APPPA research component as priorities for Afghan communities.*

It is clear that too much aid to Afghanistan is wasted. According to the former NATO Special Civilian Representative the cumulative impact of using donor-country contractors and costly expatriate consultants is that a staggering 40% of aid to Afghanistan flows back to donor countries.<sup>(2)</sup>

Yet aid to Afghanistan is essential. Although Afghan government domestic revenues are increasing, they remain extremely low at 8% of GDP, accounting for 66% of government operating expenditures and just 28% of total government spending.<sup>(3)</sup> Foreign assistance to Afghanistan accounts for around half of the licit economy<sup>(4)</sup> and around 90% of all public expenditure (which includes both donor and government spending).<sup>(5)</sup> Thus, how aid is spent has an enormous impact on reconstruction and development, and on the lives of ordinary Afghans.

Aid effectiveness also affects the levels of peace and stability in the country. Poorly delivered aid fails to mitigate the conditions of extreme poverty, which is a significant factor in the spread of insecurity. The constraints and costs of delivering aid in insecure areas, in turn affects the productivity of aid. Thus, the successful delivery of aid is not only important in itself but also in counteracting a vicious cycle in which poverty and insecurity are significant and mutually reinforcing factors.

Whilst there are many examples of effective aid delivery in Afghanistan which donors and politicians have publicised, the primary purpose of this paper is to highlight those areas where practices have been ineffective or inefficient, and could be improved. The paper thus sets out recommendations to that end.

It is expected that donors will provide significant funding for the implementation of the ANDS. We urge them to support and adopt these recommendations in order to enhance the effectiveness of aid, to ensure that it delivers maximum benefit for the poor and for the country's further reconstruction and development.

Consideration is first given to the past and current volume of aid to Afghanistan, before addressing the question of its use and impact. The paper then addresses the levels of Afghan ownership of the development process, donor-government coordination, the efficiency of aid, and finally, transparency and accountability.

As a caveat, it should be noted that there is limited and variable information on aid flows in Afghanistan, and that many of the figures used in this report are drawn from the monitoring survey carried out by the OECD for the Paris Declaration on Aid Effectiveness, published in 2006 (the 'Paris Declaration Survey').

## 1. Volume

Prior to 2001, over two decades of war, disorder and the absence of government had destroyed most of Afghanistan's institutions and infrastructure, and severely depleted its human capital. Thus, a huge amount of aid was and is still required to build the Afghan state. Whilst caution is required in order to avoid dependency on external assistance, compared to other post-conflict countries Afghanistan has received only minimal support, especially in light of the scale of the reconstruction required.

Since 2002 donors have provided some \$25 billion of security-related assistance, primarily for building Afghan security forces, yet only \$15 billion has been provided for civil reconstruction and development.<sup>(6)</sup> Funding for development is a fraction of that spent on military activities and operations. Since 2001 the US has appropriated \$127 billion for the war in Afghanistan (including for security-related assistance). The US military currently spends nearly \$36 billion a year in the country, some \$100 million a day;<sup>(7)</sup> yet the average volume of aid spending by all donors since 2001 is just \$7 million per day.

This paucity of aid is reflected in comparative aid per capita figures. It has been estimated that in the first two years following the international intervention in 2001 Afghanistan received \$57 per capita, whilst Bosnia and East Timor received \$679 and \$233 per capita respectively.<sup>(8)</sup>

Figure 1 (facing page), which is based on Afghan government data for development and reconstruction assistance, shows that the US is by far the largest donor to Afghanistan, contributing one-third of all aid since 2002. Other major donors are: Japan, the UK, EC, WB, Germany and Canada. Given the relative size of their economies, the Netherlands, Norway and Sweden also make substantial contributions (exact figures are at Appendix 1). France and Spain, however, have made scant bilateral contributions since 2002 of just \$80 and \$26 million.<sup>(9)</sup> France's economy is three times that of The Netherlands', yet its aid contribution is five times smaller. Given its historical involvement in Afghanistan, Russia's aid contribution is also minimal.

Donors are far quicker to make promises than to report on disbursements and shortfalls.<sup>(10)</sup> As a whole, the \$15 billion of aid to Afghanistan since 2002 is less than two-thirds of the \$25 billion that donors had committed to provide over this period.<sup>(11)</sup> As Figures 1 and 2 show, many donors have failed to fulfil their aid commitments (formal undertakings given to the Afghan government).

As exceptions, Japan and Canada have each delivered over 90% of their respective aid commitments for 2002-2008. Whilst a number of major projects are currently underway, according to Afghan government data, the ADB and India have disbursed only a third of their 2002-2008 commitments. The US has disbursed only half of its £10.4 billion commitment for this period; and the WB just over half its \$1.6 billion commitment. The EC and Germany have disbursed less than two-thirds of their respective commitments of \$1.7 billion and \$1.2 billion.

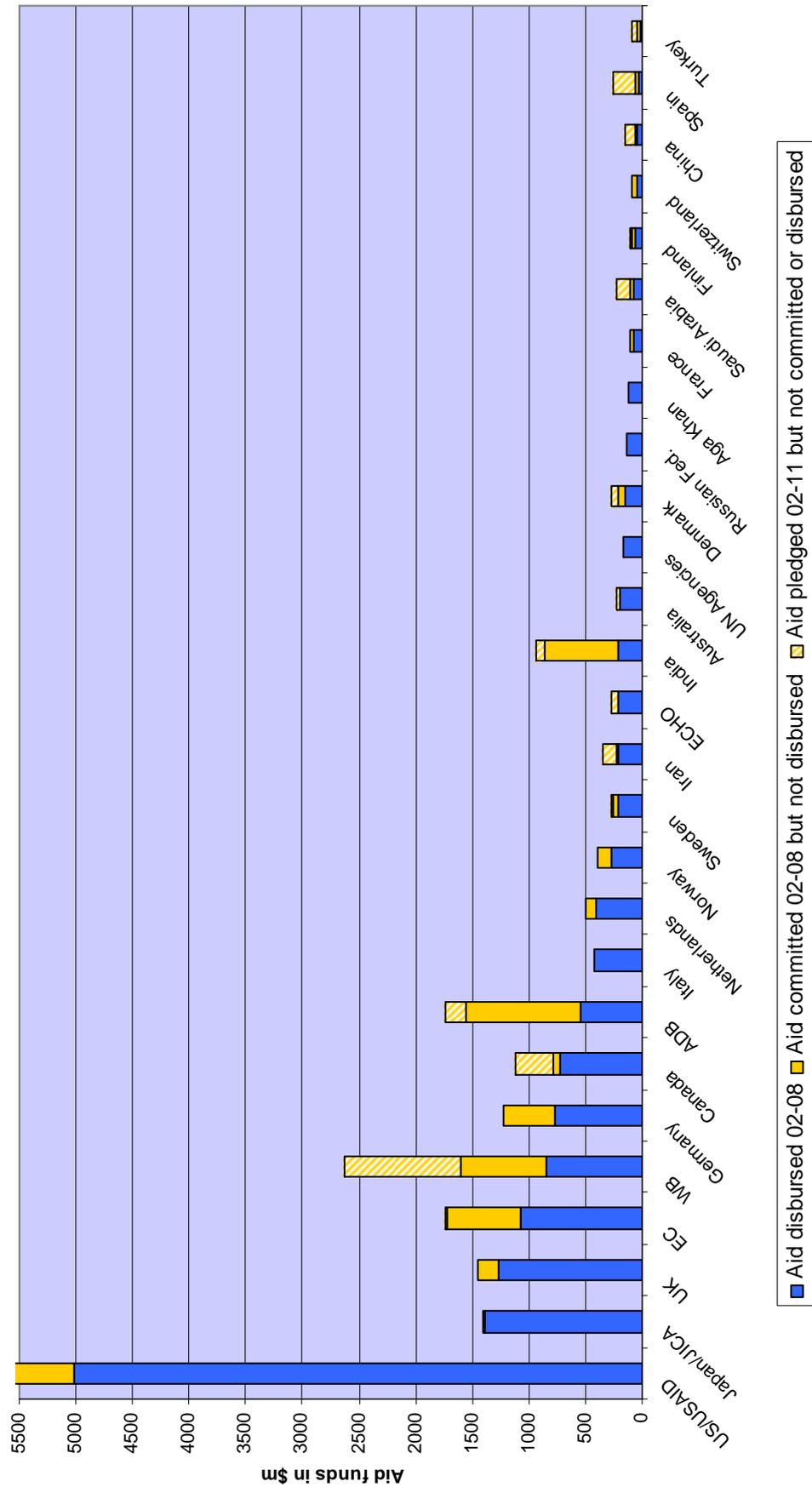
These shortfalls are partly attributable to challenging operating conditions, high levels of corruption and weak absorption capacities, and the figures may not capture all donor spending. However, given the magnitude of the shortfalls, they also underscore the importance of donors increasing efforts to mitigate or adapt to such problems, to factor them in to programme planning, and to improve the flow of information to the Afghan government.

Separately, a number of donors are not on track to fulfil their aid pledges for 2002-2011. Overall, donors have publicly pledged to provide \$39 billion up to 2011 but, as indicated above, in absolute terms they have so far disbursed less than 40% of that amount.<sup>(12)</sup>

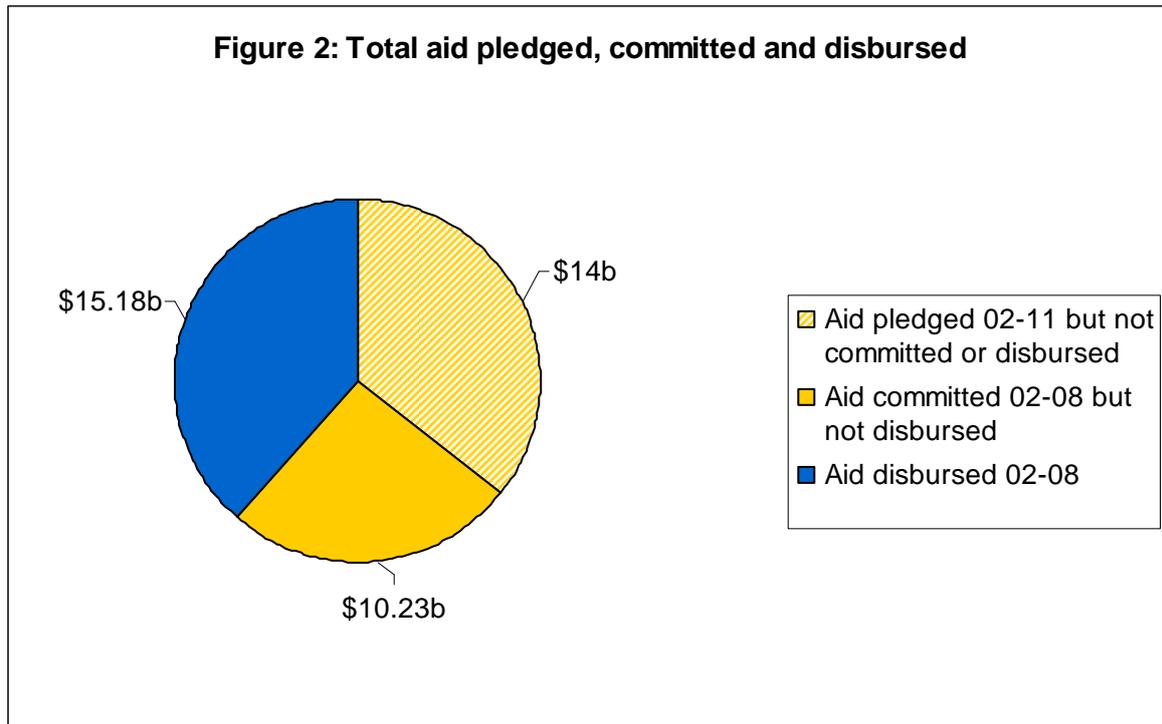
Figure 3, below, also based on Afghan government data, highlights those donors who have so far disbursed less than 40% of the sums they have pledged for 2002-2011. According to the Afghan government, Spain has disbursed only 10% of the aid it has pledged for 2002-2011, and the US and India have each disbursed just 22% of their respective pledges of £22.8 billion and \$940 million. Turkey, China, the ADB and WB and Saudi Arabia have all so far failed to disburse more than 40% of their aid pledges.

Again, there is no doubt that legitimate capacity constraints have prevented much of this aid being delivered, and some projects have lengthy timeframes. However, such high levels of under-spending underline the importance of efforts to address these constraints. Further, the ability of the Afghan government to undertake medium-term budget planning is significantly constrained if there is uncertainty about future aid flows, which is compounded by a relative lack of multi-year donor commitments.

Figure 1 Aid pledged, committed and disbursed 2002-2011



**Figure 2: Total aid pledged, committed and disbursed**



**Figure 3: Proportion of aid pledges 2002-2011 fulfilled**

	Aid pledged 02-11 in \$m	Aid disbursed 02-08 in \$m	Percentage of pledge fulfilled
<b>Spain</b>	253.29	25.6	<b>10%</b>
<b>India</b>	942.03	204.26	<b>22%</b>
<b>US/USAID</b>	22,789	5,022.9	<b>22%</b>
<b>Turkey</b>	90	20.8	<b>23%</b>
<b>China</b>	145.5	41	<b>28%</b>
<b>ADB</b>	1,740.58	547.8	<b>31%</b>
<b>World Bank</b>	2,627.2	852.72	<b>32%</b>
<b>Saudi Arabia</b>	220	76.9	<b>35%</b>

## 2. Purpose and impact

The volume of aid is important, but how successful is aid to Afghanistan in fulfilling its purpose?

Overseas aid, which is also known as Official Development Assistance (ODA), has the fundamental objective of reducing poverty. However, the means to achieve this are manifold and may be indirect, such as wider statebuilding measures and support for equitable and sustainable economic growth. The official definition of ODA is assistance which has 'the promotion of the economic development and welfare of developing countries as its main objective'.<sup>(13)</sup> ODA does not include military-related support, and although humanitarian assistance is within the definition of ODA it is not covered in the scope of this report (emergency and relief assistance is also excluded from OECD monitoring of Paris Declaration).<sup>(14)</sup>

Given that Afghanistan faces recurring humanitarian crises, and currently 2.5 million Afghans face severe food insecurity, a comprehensive review of the effectiveness of humanitarian assistance is urgently required as well as the relationship between humanitarian assistance and longer term development. This should include an assessment of the extent to which humanitarian aid to Afghanistan is delivered in accordance with the 23 principles and best practices agreed under the Good Humanitarian Donorship Initiative.

Much has been achieved in Afghanistan since 2001: there has been the establishment of democratic institutions and ministries, significant improvements in health care and immunization, the major expansion of primary education, the construction of roads and transport infrastructure, economic growth, and the formation of state security forces.

An important measurement of the effectiveness of aid is progress in social and economic indicators, as reflected in the Millennium Development Goals. These indicators show that whilst progress has been made, there is still much to be achieved. Infant mortality rates, for instance, have fallen by 25% since 2002, but still one in five children dies before the age of five.<sup>(15)</sup> Women receiving antenatal care or skilled assistance with child-birth has increased more than three-fold, but such support is currently only available to one in five.<sup>(16)</sup> Maternal mortality rates remain amongst the highest in the world.<sup>(17)</sup> Overall life expectancy remains at about 45 years.<sup>(18)</sup>

### Aid modalities

While aid has undoubtedly contributed to progress in Afghanistan, a large proportion of aid has been prescriptive and supply-driven, rather than indigenous and responding to Afghan needs. It has been heavily influenced by the political and military objectives of donors, especially the imperative to win so called 'hearts and minds'. It has tended to reflect expectations in donor countries, and what western electorates would consider reconstruction and development achievements, rather than what Afghan communities want and need. Projects have too often sought to impose a preconceived idea of progress, rather than nurture, support and expand capabilities, according to Afghan preferences.

This has resulted in projects which are designed rapidly to deliver visible results. Whilst there is no doubt that aid is required to address short-term, especially humanitarian, challenges, to some extent this has come at the expense of Afghan participation, and sustainable poverty reduction and capacity-building objectives.<sup>(19)</sup> There has been a tendency to overlook intangible dimensions of aid, especially the promotion of Afghan ownership, which is essential for achieving project relevance, utility and sustainability.

Aid is centralised and top-heavy, focussing on Kabul or other urban centres. Similarly, a large proportion of government spending is in Kabul, for example over 70% of the national operation and maintenance budget.<sup>(20)</sup> As a result the majority of Afghans who live in rural areas have experienced only minimal social and economic progress. The preparation of provincial development plans is a positive first step towards more attention to local development needs, though plans vary considerably in quality and feasibility.

A quarter of international aid to Afghanistan funds technical assistance, which is intended to support government capacity building. Whilst there is broad recognition of the need for the government to receive technical and managerial support, it has had a minimal impact. A major World Bank review concluded that 'technical assistance tends to be donor driven, and peppered around at high cost with little effective involvement from national decision makers and only marginal impact in terms of lasting capacity building.'<sup>(21)</sup>

In the formulation and implementation of development projects, strengthening the capabilities, status, and rights of women is often an afterthought or perfunctory consideration. Progress towards gender equality in Afghanistan will take time, and to be sustainable it will require efforts to promote an indigenous change in attitudes and behaviours, but this cannot happen without the substantive incorporation of gender considerations into development activities.

The above observations do not apply equally to all donors, however, due to the lack of comprehensive and comparable information on aid programmes, individual donors have not been specified. As argued below, it is essential that more information on donor activities is made available, to enable effective monitoring and evaluation and for bad practices to be identified and addressed.

At a macro level, there is a lack of prioritisation in the Afghanistan Compact and ANDS, and consequently key areas have been under-resourced. For example, despite the fact that over 70% of the population rely either directly or indirectly on agriculture for their livelihoods, it has received only \$400-500 million since 2001, a fraction of international aid to Afghanistan. This paper does not address the issue of prioritisation in any depth, but it is essential that the revised ANDS, and other national development planning, reflects appropriate sequencing and prioritisation according to the comparative importance and magnitude of poverty reduction objectives.

## Tied aid and use of Afghan resources

Under Annex II of the Afghanistan Compact 2006, donors agree to:

- 'Reduce the external management and overhead costs of projects by promoting the Afghan private sector in their management and delivery;
- Increasingly use Afghan national implementation partners and equally qualified local and expatriate Afghans;
- Increase procurement within Afghanistan of supplies for civilian and military activities; and
- Use Afghan materials in the implementation of projects [...]

Donors rarely, if ever, publicly report on these objectives and there is little evidence that they are being met. According to the Paris Declaration Survey over half of all aid to Afghanistan is tied.<sup>(22)</sup> By this means donors ensure the procurement of imported materials and labour, in many cases from their own countries, which deprives the Afghan economy of valuable support, and increases project costs. A very high proportion of US contracts are reputed to be subject to such procurement restrictions.

Drawing somewhat on external resources is unavoidable given the lack of suitable physical or human resources inside Afghanistan, but a large number of projects do so to an extent which cannot be justified. As a result international construction contracts in Afghanistan are estimated to have just 10-15% local economic impact.<sup>(23)</sup>

One grievous example of neglecting local resources, as reported by CorpWatch, was the reconstruction by a Chinese company of a wing of a Kabul hospital with unsuitable Chinese-made bricks. The wing subsequently collapsed killing 13 Afghan labourers.<sup>(24)</sup>

## NGOs

Although many Afghan and international NGOs could undoubtedly reduce bureaucracy and improve efficiency, according to a detailed study of NGO funding, their ability to draw on private resources and low operating costs means they are comparatively cost effective.<sup>(25)</sup>

Despite the fact that NGOs only receive an estimated 10-15% of all aid to Afghanistan, they nonetheless have a vital role in grassroots rural development. Whilst the primary, long-term responsibility for service delivery lies with the Afghan government, NGOs are supporting and facilitating the delivery of essential services and are helping to build the capacities of government, communities and civil society organisations. They have an essential role, for instance, as facilitating partners for the country's largest rural development programme, the National Solidarity Programme (NSP), which reaches over 16,000 communities. NGOs also have an important role in delivering the government Basic Package of Health Services, which has resulted in a nation-wide expansion of access to health care.

However, several major donors, including DFID, the official British development agency, have substantially reduced their funding for Afghan and international NGOs, which perhaps reflects increased funding for Provincial Reconstruction Teams (PRTs) - the military-led units which provide provincial security and reconstruction assistance. However, as indicated below, PRTs are not an effective means of promoting long-term development; Afghan communities are best served through strengthened civilian, development process, in which NGOs have a critical role.

## Disparities in the distribution of aid

A significant proportion of aid to Afghanistan is being used to achieve military or political objectives. USAID, the US government's development agency, is explicit about using aid to achieve counter-insurgency objectives<sup>(26)</sup> and concentrates more than half of its budget on the four most insecure provinces. If Helmand province (population 800,000) were a state, it would rank as the fifth largest recipient of USAID funds in the world.<sup>(27)</sup> DFID allocates one-fifth of its Afghanistan budget to Helmand, and Canada allocates over 25% of its aid budget to Kandahar.<sup>(28)</sup>

These disparities are reflected in the spending of PRTs, which is represented in Figure 4, produced by the International Security Assistance Force (ISAF). In terms of total completed, on-going and planned PRT spending, Uruzgan and Kandahar each receive \$150 per person; Helmand, Paktika and Zabul are allocated over \$75 per person, whilst Faryab, Daikundi and Takhar receive less than \$30 per person.<sup>(29)</sup> The figures reveal other significant disparities, not directly related to the insurgency in the south; for example, Panjshir province is allocated \$685 per person. The data also reflect the fact that PRTs, being nation-led, have widely varying levels of funding.

Geographical inequities are also illustrated in Figure 5 below, which shows the total of planned Afghan government spending and recorded donor commitments, per capita, per province, for the Afghan year 1386 (2007-2008). (See Appendix 2 for exact figures.<sup>(30)</sup>) The figures are based on Afghan Ministry of Finance data showing the provincial breakdown of the combined core and external budgets, which refers respectively to funds which are channelled through the Afghan treasury, and those which are spent by donors outside the government. The figures may include some but not all PRT spending.

Although these figures incorporate planned spending by the *government*, and include a proportion of foreign assistance which could not be considered ODA, such as security-related funding, they broadly reflect disparities in the direct and indirect geographical distribution of aid because of the predominance of the external budget, and the fact that donors provide the greater part of the core budget. Further, although the figures reflect spending plans or commitments, which can differ considerably from actual disbursements, they are still useful for highlighting *relative* disparities.

The figures show a high level of funding goes to Kabul, where planned spending per person is over \$600. To some extent this is to be expected, given the presence of government ministries and other agencies, but it also reflects excessive centralisation.

Whilst the explanation for some of the provincial disparities is not immediately apparent, and may reflect social, economic and political factors, the data show that spending is greater where the insurgency is strongest and where there is a greater international military presence. The most insecure provinces of Nimroz, Helmand, Zabul, Kandahar and Uruzgan are allocated more than \$200 per person, whereas as many other provinces are due less than half of this amount, and others, such as Sari Pul or Takhar, are allocated less than one third. Notably, provinces which have more recently experienced deterioration in security, such as Ghazni, Logar and Wardak are among the lowest recipients of funding.

This approach is not only inequitable but dangerously short-sighted. Insurgent and criminal activity is more likely to spread to areas where there is persistent poverty; the disparities in aid are widely regarded as illegitimate or unjust, which undermines confidence in the state; and the disparities also create perverse incentives, as insecurity is perceived as attracting more aid. Whilst there may be legitimate reasons for donors to provide development assistance to provinces where their troops are deployed, this should not be at the expense of other areas. Promoting development in the south and south-east is essential but, as we have seen over the last three years, if other provinces are neglected then insecurity could spread.<sup>(31)</sup>

## PRTs

As indicated above, a significant proportion of international aid to the south and south-east is delivered through PRTs, of which there are 25 led by 13 different nations. The mandate of PRTs is clear: to ‘assist the Islamic Republic of Afghanistan to extend its authority, in order to facilitate the development of a stable and secure environment in the identified area of operations, and enable Security Sector Reform and reconstruction efforts’.<sup>(32)</sup> The PRT Handbook also states that each PRT is an ‘interim structure’, which, on fulfilment of its mission, should be dismantled.

Notwithstanding their mandate, PRTs have undertaken extensive development activities, whether through military units (known as CIMIC – Civil-Military Cooperation) or government agencies. In some highly insecure areas this is justifiable, given the weakness of local government or inaccessibility for NGOs. However, being donor-driven, there are substantial variations in funding and approaches between PRTs, and different degrees of cooperation with local institutions and communities. As noted above, the variation between PRTs also leads to significant geographical disparities in levels of assistance.

Whilst many PRT projects are successfully executed, the frequent use of unqualified contractors, especially in the south, has led to projects of poor quality. A range of factors, including political pressure and short deployments has tended to result in a large number of small-scale projects. Difficulties in achieving community participation has adversely affected the use and suitability of projects, and association with the military has in some cases attracted militant attacks.

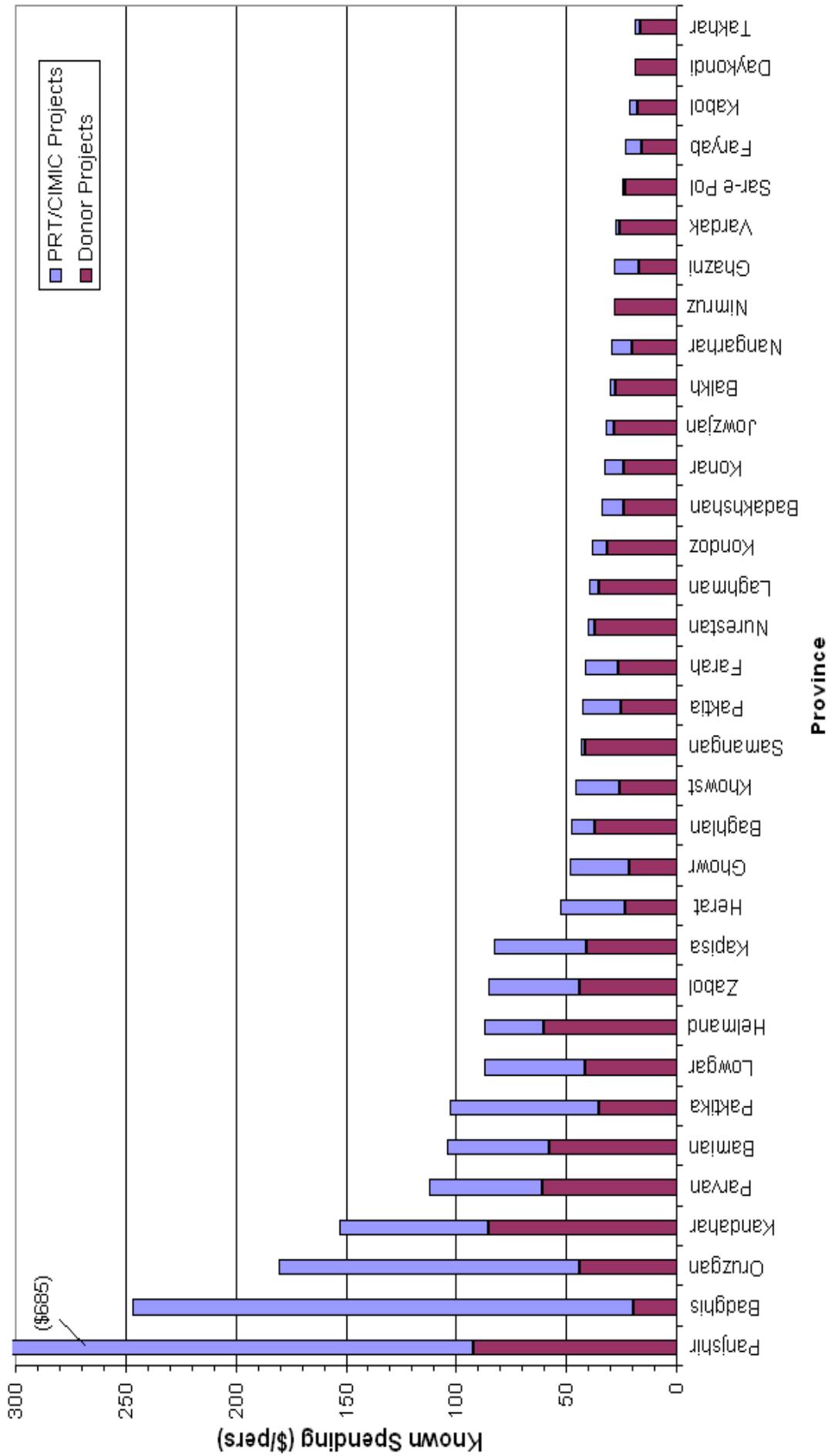
With greater funding and technical capabilities PRTs have often overshadowed and in some cases assumed the responsibilities of local government. Thus, they have slowed the emergence and development of state institutions at local level, which jeopardises the broader prospects for medium to long term statebuilding.<sup>(33)</sup> It also hinders efforts to increase Afghan ownership of the development process.

In addition, PRTs have blurred the distinction between the military forces and aid agencies, which has undermined the perceived neutrality of NGOs and increased the danger for aid workers. Ultimately, this has reduced the areas in which NGOs can safely undertake development and humanitarian activities.



Figure 4 Completed, ongoing, planned and funded PRT spending per capita, per province

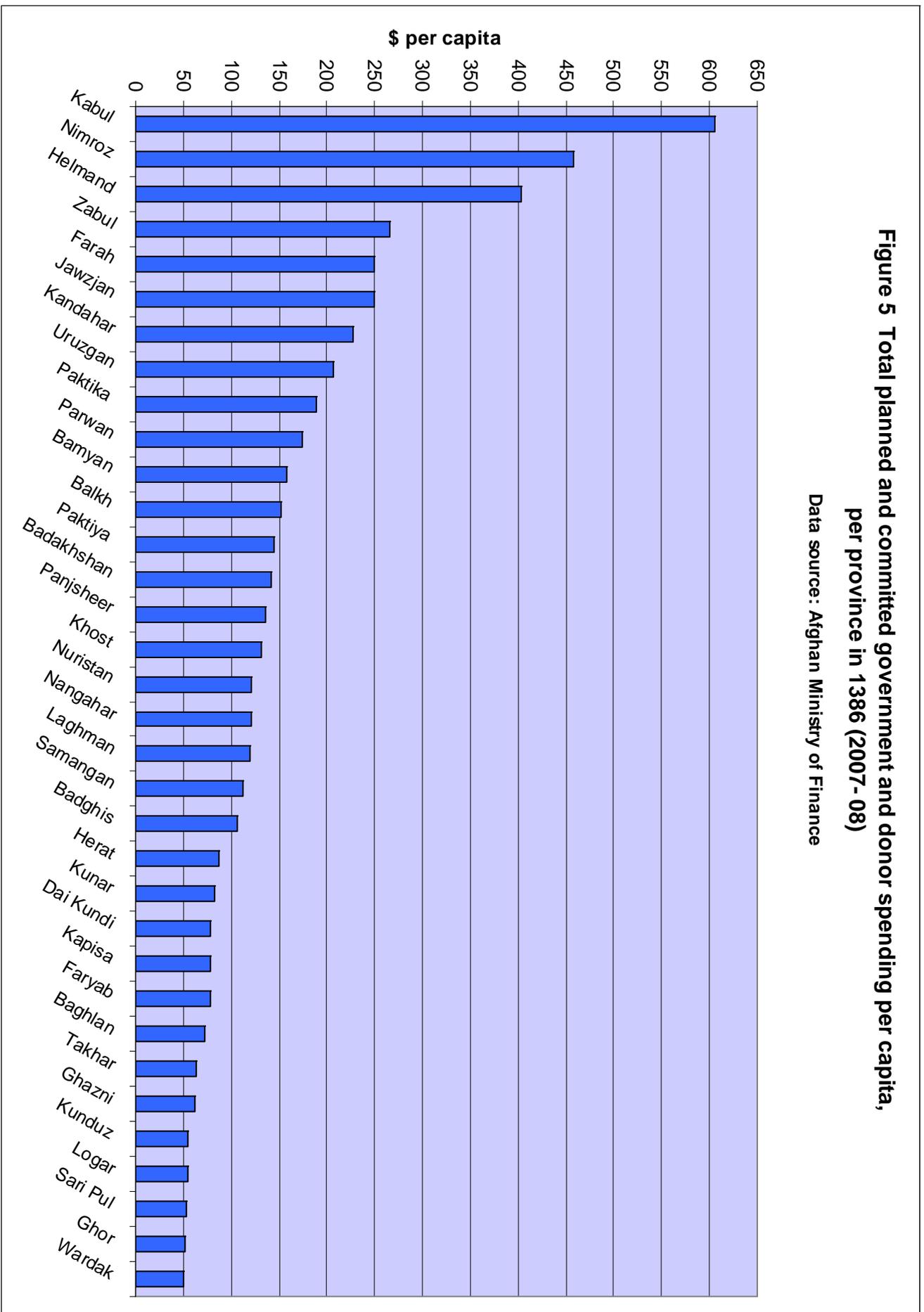
Source: ISAF, May 2007



According to ISAF, reported data captures an estimated 80% of all reconstruction and development. Totals do not include multi-million dollar road, power grid or ANA construction projects.

**Figure 5 Total planned and committed government and donor spending per capita, per province in 1386 (2007-08)**

Data source: Afghan Ministry of Finance



### 3. Ownership, alignment and coordination

#### Ownership

Promoting national ownership is a central element of the Paris Declaration on Aid Effectiveness, and is defined as a country's ability to lead and direct its development policies and strategies. As the OECD put it, 'ownership is critical to achieving development results'.<sup>(34)</sup>

As most assistance to Afghanistan has been centralised, 'currently little ownership of development exists at the local level, especially in insecure areas.'<sup>(35)</sup> As indicated above, the situation is only marginally better at a national level. According to the Afghan Ministry of Finance, of the \$15 billion provided to Afghanistan since 2001 for reconstruction and development, around \$5 billion was provided to the government.<sup>(36)</sup> Currently, over two-thirds of foreign assistance bypasses the Afghan government that donors say they want to strengthen.<sup>(37)</sup>

Whilst some donors, such as DIFD, provide 80% of their funds to the Afghan government, USAID spends the bulk of its funds outside the core budget.<sup>(38)</sup> This significantly constrains the process of statebuilding, and also limits ability of ministries to recruit and retain qualified staff as they are attracted by higher salaries with donors or donor-funded projects.

Although the size of the core budget for 2007-08 has increased by 14% over the previous year, the level of operating expenditure has increased at double the rate of investment expenditure (largely reflected in the 'ordinary' and 'development' budgets, respectively).<sup>(39)</sup> Even where assistance is provided to the government sector, just half is channelled through government public financial management systems (in other words the core budget),<sup>(40)</sup> which increases transaction costs and hinders the government's ability to record, report and audit expenditure.

The fact that so much aid bypasses the government is partly attributable to budget execution problems, such as capacity constraints, procurement delays and complex budget procedures. While the government has so far been able to disburse over \$4 billion of funds provided to the core budget,<sup>(41)</sup> in 2007-08 it has spent only half of its development budget and some ministries have spent substantially less than half. This underscores the enduring lack of government capacity, yet donors also share some responsibility for this, having devoted insufficient efforts to building the institutional and implementing capacities of line ministries.

The circumvention of the Afghan government is also due to concerns about corruption, which remains endemic and is compounded by limited financial oversight and weak governance. It is of great concern that there appears to be a lack of political will to tackle high level corruption. Yet there have been improvements in the government's public financial management systems, fiduciary controls and regulatory framework. International trust funds also constitute a more transparent and accountable means through which donors can provide funds to the government. The Afghan Reconstruction Trust Fund (ARTF), for instance, overseen by the World Bank and audited by PriceWaterhouseCoopers, provides a reliable source of funds for (primarily) recurrent government expenditure.

The finalisation of the ANDS and component sector strategies, together with a Medium Term Fiscal Framework which will provide expenditure forecasts for a three year period, should strengthen government planning and budgetary capabilities. Moreover, as the Afghanistan research and Evaluation Unit argued recently, 'the transition toward increased government control over resources is essential for long-term statebuilding.'<sup>(42)</sup>

The quality of government spending is of course as important as its quantity, and the transition to greater government financial responsibilities must be accompanied by rigorous measures to enhance the efficacy of public expenditure. In terms of service delivery, there is a widespread acceptance of the need to enhance the capacity of government institutions at sub-national level.

## Alignment and coordination

There is manifestly insufficient coordination among donors, and between donors and the Afghan government. The UN and JCMB, both of which are substantially under-resourced, have been unable to meet this challenge. The UN Assistance Mission in Afghanistan (UNAMA) is reported to be 20%-30% below approved staffing levels, with only some 200 international and 800 national staff.<sup>(43)</sup> As Crisis Group have argued, the JCMB is unwieldy and has become a 'travelling jamboree', achieving few substantive results.<sup>(44)</sup> Below the JCMB there are mechanisms to bring together interested parties to address key issues – eight consultative groups, five cross-cutting consultative groups, and 29 technical working groups – but they have varying degrees of effectiveness.

It is of serious concern that a significant number of projects in the external budget are not in alignment with national, provincial or local priorities. Donors could also ensure more aid is expressly agreed to by the Afghan government. According to the Paris Declaration Survey only 52% of ODA to Afghanistan is disbursed 'in agreement with the government'<sup>(45)</sup> (this includes all funds provided to the core budget plus those for projects where there is a signed agreement or memorandum of understanding with a ministry or government agency). The problem of alignment is compounded by the lack of prioritisation in the interim ANDS, which should be corrected in forthcoming, final version.

The OECD concluded that 'donors often channel funds directly to implementing partners or contractors, and do not always keep the relevant Afghan ministries informed about financial flows.'<sup>(46)</sup> Of all assistance since 2001 the Afghan government does not have information on how one-third of that amount was spent, some \$5 billion.<sup>(47)</sup> This is partly due to inadequate government record keeping in the years immediately following 2001, but also reflects insufficient donor-government communication. Indeed, the Afghan government has spoken of the 'dire need for more coordination of government-donor activities.'<sup>(48)</sup>

Donor support through sectoral programmes (known as programme-based support) for which the ARTF is an important source of funding, is regarded as being more conducive for coordination and alignment with government priorities. Yet around 45% of all aid to Afghanistan is provided in this way, against a Paris Declaration target of 66%.<sup>(49)</sup>

Of all technical assistance to Afghanistan, which accounts for a quarter of all official development aid to the country, less than 40% is coordinated with the Afghan government.<sup>(50)</sup> In a number of ministries there are consultants funded by and accountable to several different donors. The WB and Scandinavian countries have ensured that TA is provided in coordination with Afghan government. However, according to the Paris Declaration Survey little or none of the TA provided in 2005 by the ADB, EC, Germany, Japan and the UK was through coordinated programmes consistent with the government's strategy.<sup>(51)</sup> Further, according to the OECD, such assistance is 'poorly coordinated among the donors themselves'.<sup>(52)</sup> The World Bank review of TA concludes that, 'the widespread use of uncoordinated and non-strategically targeted technical assistance is neither fiscally nor politically sustainable.'<sup>(53)</sup>

Just one-third of donor country analytical work (research, analysis and assessment of conditions) is undertaken jointly with other donors. Although in 2005 Canada and the WB conducted over 60% of analytical work jointly, few other donors did likewise. In fact, none of the analytical work conducted by the US or UK that year was undertaken jointly.<sup>(54)</sup> Of all donor missions – which are formal interactions between donor headquarters staff and the Afghan government – only one quarter are undertaken jointly.<sup>(55)</sup> Nor is there sufficient collaboration between donors on project work, which inevitably leads to duplication or incoherence of activities.

## 4. Efficiency

Under Annex II of the Afghanistan Compact 2006, donors commit to ensuring that assistance is being used 'efficiently and effectively', and that 'taxpayers in donor countries are receiving value for money'. There are considerable differences in donor efficiency, but in a number of areas, it is clear that these commitments are not being met. As mentioned above, it is estimated that a staggering 40% of aid to Afghanistan flows back to donor countries in profits, salaries and allowances.

### Contractors

There is no doubt that contractors are required in the reconstruction process, but serious questions must be asked about their efficiency. In 2006 the then director of the World Bank in Kabul estimated that 35-40% of aid was 'badly spent' and that 'the wastage of aid is sky-high: there is real looting going on, mainly by private enterprises. It is a scandal.'<sup>(56)</sup>

Afghanistan's biggest donor, USAID, allocates close to half of its funds to five large US contractors in the country and it is clear that substantial amounts of aid continue to be absorbed in corporate profits.<sup>(57)</sup> According to the US based Centre for Public Integrity, the US government has awarded major contracts in Afghanistan, some worth hundreds of millions of dollars, to, *inter alia*, KBR, the Louis Berger Group, Chemonics International, Bearing Point and Dyncorp International.<sup>(58)</sup>

In some large contracts in Afghanistan there are up to five of layers international or national sub-contractors, each of which usually takes between 10-20% profit on any given contract but in some cases as much as 50%.<sup>(59)</sup> Thus, if there are two or more sub-contractors the funds available for project work are quickly and significantly depleted.<sup>(60)</sup> Procurement and tendering processes are rarely transparent.

There are some striking examples. One is the reconstruction of Khair Khana maternity hospital in Kabul to double its capacity, for which the Italian government contracted the UN Population Fund (UNFPA). According to Kabul Press, who investigated the project, UNFPA were given \$2.2m for the work, which was sub-contracted to the UN Office for Project Services (UNOPS), again sub-contracted to an Italian organisation, who in turn sub-contracted to an Afghan construction company. On the basis of a



government investigation and sources involved with the project, Kabul Press report that less than half of the total budget was spent on the project, and the quality of the work was so poor that it required further reconstruction.<sup>(61)</sup>

A further example is the construction of a short stretch of road between Kabul centre and the international airport in 2005, for which USAID contacted the Louis Berger Group, who in turn sub-contracted the project to the Afghan Reconstruction Company. According to Integrity Watch Afghanistan the road was constructed at a cost of over \$2.4m per kilometre, at least four times the average cost of road construction in Afghanistan, which, depending on the terrain and other factors, is between \$100,000 and \$600,000.<sup>(62)</sup>

A provincial example is the construction of a short stretch of road in Badakhshan, from Faizabad town centre to the airstrip, which was sub-contracted to a private company by USAID for just under half a million dollars. Local political representatives familiar with the project say that it was again sub-contracted to an Afghan private construction company for a cost of just \$250,000.

### Expatriate salaries and costs

A vast amount of aid is absorbed by high salaries, living, security, transport and accommodation costs for expatriates working for consulting firms or contractors, who also benefit from generous danger or hardship allowances. With the recent deterioration of security, these costs are increasing. A number of major contractors or organisations pay Afghanistan-based expatriates an additional 35% of basic salary as a danger allowance and a further 35% of salary as hardship pay.

Thus, the total cost of each full-time expatriate consultant, working in private consulting companies, is in the region of \$250,000 per year, with a significant number costing up to half a million dollars a year.<sup>(63)</sup> This is some 200 times the average annual salary of an Afghan civil servant, who is paid less than \$1000.

### Bureaucracy

As in other developing countries, excessive bureaucratic demands placed by some donors upon the government, NGOs and contractors absorb a large amount of time and energy which could otherwise be used for project implementation. Different donors often have different project management reporting requirements for the same project. Whilst financial and management controls are undoubtedly required, donors should seek to streamline reporting processes and avoid duplication. Separately, NGOs are also subject to excessive national bureaucratic requirements, such as for tax compliance, customs or vehicle regulations.

## 5. Transparency and accountability

Many donors in Afghanistan – and indeed many contractors and NGOs – do not publicly disclose details of their spending. Yet without increased transparency and accountability, it will be impossible for donors to fulfil their commitments to taxpayers to enhance efficiency and effectiveness.

As indicated above, the Afghan government has little or no information about one-third of all external assistance to the country since 2001; and some donors still refuse to disclose project information. In producing this paper, researchers approached senior staff of several contractors engaged in projects for major donors, and in nearly all cases they refused to provide costs information. Some donors have incomplete data on their own activities. One research organisation which investigated donor procurement practices found that ‘very few [donors] had accurate and full information readily available on their actual disbursements.’<sup>(64)</sup>

There appears to be only minimal accountability for donors, as required under the Paris Declaration. For instance, the Afghanistan Compact has 77 measurable benchmarks for the Afghan government, but none for donors. With the exception of national parliamentary inquiries, any detailed monitoring and evaluation of donor performance is usually confidential or little publicised. There is no effective peer review mechanism for donors and apart from infrequent OECD monitoring of conformity with the Paris Declaration, they are subject to little or no independent scrutiny. Donor reporting to the Afghan government has improved but is patently insufficient. Downward accountability to project beneficiaries is limited or non-existent.



## 6 Conclusion and recommendations

Aid is not delivered in a vacuum: it is heavily impacted by the wider social, economic, legal, security and political environment in which it is provided. Thus, reforms are required in a range of spheres in order to maximise the effectiveness of aid in Afghanistan, especially to address deteriorating security, and humanitarian concerns, such as increasing flows of refugees and internally displaced people.

However, there are considerable weaknesses in the delivery of aid, which has severely constrained its ability to reduce poverty. It has undoubtedly had a positive impact, but is a long way from fulfilling its potential. For this reason, and to address these weaknesses, we urge donors and Afghan government, in accordance with their commitments under the Paris Declaration on Aid Effectiveness and Afghanistan Compact, to support and implement the recommendations set out below.

Donors to Afghanistan, and the Afghan government, should act on these recommendations and should press all donors, especially the largest, to adhere to them. The US House of Representatives last year approved a further \$6.4 billion in economic and development assistance to Afghanistan.<sup>(65)</sup> How these funds are spent, together with the contributions of other major donors, will affect the lives of millions of Afghans.

### Volume of aid

There is a powerful case for more aid to Afghanistan, so long as this is in conjunction with steps to enhance its effectiveness and build government implementing capacity. A greater proportion of aid should be allocated to the internationally-administered Trust Funds, which offer an effective means of minimising waste, to the Afghan government (as detailed below) and to effective Afghan and international NGOs. Donors should also increase the predictability of aid by more determined efforts to fulfil their aid promises and providing more multi-year aid commitments. Given the size of their economies, France and Spain should significantly increase their aid contributions.

Any overall increase in the volume of aid to Afghanistan should not be at the expense of aid to other developing countries, unless objectively justified. In view of the huge imbalance of military and development spending, leading donors should provide greater support to the civil reconstruction and development process. Whilst it is essential that aid levels increase, in order to avoid excessive aid dependency the government must continue its efforts to increase domestic revenue. It should seek to achieve this through a range of measures, including continued tax administration reform, but it should not impose new taxes on NGOs engaged development initiatives such as the NSP or micro-finance projects.

### Distribution of aid

There needs to be a comprehensive and objective assessment of the reconstruction, development and humanitarian needs of Afghanistan's provinces, and of the levels of assistance which reaches these provinces, including governmental, donor, military and NGO support. Whilst insecurity undoubtedly increases the costs of delivering assistance, the distribution of aid should be reconfigured to provide a more equitable distribution of assistance, whilst ensuring a high level of support for those areas with the greatest development and humanitarian needs.

### Quality of aid

Donors, above all the United States, should ensure that the primary or ultimate objective of their aid programmes is poverty reduction, and that they are demand-driven, address genuine Afghan needs, build indigenous capacity and are accountable to Afghan citizens and government. Donors and the Afghan government must also ensure that more aid reaches rural areas, where it is desperately needed, and that greater technical support and resources are provided for the elaboration and implementation of provincial development plans. Gender equality objectives should be a primary consideration in the design and implementation of all development activities. Each donor should institute an annual review of their aid programmes to Afghanistan to measure their performance in each of these areas and to assess consistency Afghanistan's national development plans as reflected in the ANDS. The revised ANDS and

other donor-government development plans should incorporate prioritisation and sequencing, according to the comparative importance and magnitude of poverty reduction objectives.

## Indicators of aid effectiveness

As the JCMB has recommended, donors and the Afghan government should collectively agree on indicators of aid effectiveness, with correlative targets.<sup>(66)</sup> These should reflect objectives with respect to the impact, efficiency, relevance, sustainability, accountability, and ownership of aid; and those contained in the Paris Declaration on Aid Effectiveness.

Indicators should be established for each objective under Annex II of the Afghanistan Compact regarding the greater use of Afghan human and material resources; in particular, for each project donors should stipulate: (a) the amount of funds which flow to the Afghan private sector in the management and delivery of the project; (b) the proportion of work undertaken by Afghan partners and Afghan staff; (c) the proportion of supplies and materials which are locally procured; and (d) expenditure on expatriate contractors, consultants, advisers and other staff. The Afghan government should increase its pressure on donors to collect and provide such information.

## Monitoring and accountability: a national commission for aid effectiveness

An independent, Commission on Aid Effectiveness should be established, possibly with UN support, to monitor compliance with the proposed aid indicators, and identify deficiencies in the delivery of aid. The Commission could be linked to the Aid Coordination Unit in the Afghan Ministry of Finance and would have full access to information on donor aid flows in order to undertake detailed analysis. It would report on the extent to which donors meet or fall short of aid effectiveness targets, and make recommendations with a view to enhancing aid effectiveness. The Commission could issue an annual 'report card' for each donor, highlighting levels of achievement in respect of the proposed targets.

Donors and the Afghan government should seek to strengthen downward accountability to citizens by genuine engagement and consultation with sub-national state entities, especially Provincial Councils and Development Committees, as well as communities and civil society.

Donors should provide funding for civil society organisations to undertake monitoring of aid flows and budget processes, which helps to ensure independent and sustainable scrutiny of aid effectiveness, as demonstrated in other developing countries such as India. The international NGO ActionAid has successfully organised and promoted such monitoring in Afghanistan, and has for example conducted a comprehensive analysis of funding for the NSP.<sup>(67)</sup>

## Transparency

Donors should publicly provide comprehensive information on aid flows, including details pertaining to the indicators identified above. This should include details on contractors' fees and profit margins, procurement practices, and tendering procedures. The Afghanistan Donor Assistance Database, which is designed to record all aid flows to Afghanistan, should be overhauled, updated and made available online, to allow full public access to aid information. Donors should take steps to bring greater transparency to their decision-making processes for determining where and how aid is delivered.

## Ownership and governance

In order to maximise Afghan ownership of the development process, donors, especially the US, should aim to increase incrementally the level of aid provided to the government sector and the volume of funds channelled through the core budget, particularly the development budget component.

In order to justify a greater degree of government control of resources, the Afghan government should take the following action:



**Improve budget execution capabilities** Liaise with donors to ensure sufficient support for enhancing the implementing capacities of line ministries in order to improve execution of the development budget; and ensure the Ministry of Finance streamlines its budget allocation and fund release procedures.

**Strengthen financial management** Take further action to strengthen the quality of public financial management systems, enhance fiscal controls, and ensure adherence to the Public Finance, Management, Procurement, Auditing and Accounting Laws.

**Expedite public administration reform** Expedite pay and grading reform and ensure that the Advisory Panel on Senior Appointments and the Independent Administrative Reform and Civil Service Commission are effective, and that they fulfil their responsibility to ensure fair, transparent, and merit-based appointments.

**Tackle corruption** Ensure rigorous implementation of the government's anti-corruption strategy and institute concerted measures to enhance transparency of government operations, especially in tax, procurement and expenditure; build stronger mechanisms for monitoring, oversight and audit; streamline government processes and procedures; and overhaul the Anti-Corruption Commission to ensure its integrity.

**Promote sub-national ownership** To promote ownership of development at sub-national level, legislate to clarify the roles and responsibilities of state entities at this level; de-concentrate centralised line ministries; build institutional and systems capacities at local level; decentralise budgetary and planning responsibilities; and expand the participation of communities and civil society in designing, implementing, directing and monitoring development activities.

## Coordination and alignment

Donors should use existing mechanisms to accomplish greater levels of donor-government coordination and information sharing, such as the consultative groups. The human and financial resources of both the JCMB and UN should be significantly strengthened to coordinate donor activities.

Donors should commit to providing the Afghan government with timely, comprehensive and accurate information on aid flows by using the Afghan government's Harmonized Reporting Format (HRF).

Donors should ensure all aid programmes are consistent with Afghanistan's national and local development priorities, above all, the ANDS. To help achieve this, donors should substantially increase funding for programme based support, such as through the ARTF, and should take concerted steps to exceed

the Paris Declaration target of 66% of aid delivered through such programmes.

To reduce government transaction costs, the proportion of analytical work that is conducted jointly by donors should be increased from one-third to at least two thirds, and at least half of donor missions should be undertaken jointly.

## Procedures

Donors should establish a working group, with Afghan government and NGO representatives, to plan how donors could simplify and harmonise burdensome processes and procedures for project management, whilst retaining necessary measures for financial oversight and monitoring. Separately, the Afghan government should seek to minimise unnecessary bureaucratic requirements for NGOs.

## Technical assistance

Donors should seek to ensure that technical assistance is demand-driven, well coordinated, aligned with national priorities, and focuses on the transfer of skills and capacity to national staff. Donors should establish pooled funds for the provision of TA for any given ministry or agency to avoid multiple or duplicate TA providers. Even without such funds, donors should work together to select one TA provider either to provide all the TA to a given ministry/ agency or take responsibility for coordination and oversight of all other providers.<sup>(68)</sup> TA providers should not be commissioned by donors where expatriate consultant costs, or corporate profits, are excessive or unjustified.

## Contractors

Donors should avoid using contractors if they do not have a proven record of efficacy, or where multiple layers of sub-contracting would undermine efficiency, and should ensure contractors provide full information about profit levels.

Donors should also agree a common set of principles for contracting: tendering, bidding and selection procedures should be fair and transparent, with decisions made on the basis of objective considerations such as quality, speed, and cost-effectiveness.

## PRTs

As indicated above, the quality and impact of PRT assistance could in many cases be substantially improved. PRTs should also ensure that all their activities are aligned with official national or local priorities, and that full information on projects is provided to the Afghan government by the HRF.

There should be a sequenced change of emphasis of PRT activities, from development to security. So far as possible PRTs should adhere to their mandate: to facilitate the development of a stable and secure environment and they should only exist where security conditions make them necessary.<sup>(69)</sup> Consistent with the 'Oslo Guidelines' of 1994, the military should only undertake relief work in exceptional circumstances: where there is a critical humanitarian need and no civilian alternative, and their activities should focus on indirect assistance and infrastructure support.<sup>(70)</sup>

In line with their interim status, PRTs should be downscaled, and closure plans developed for those in comparatively secure areas. As much as possible donor funds should be re-routed from PRTs to local and national government, such as through the NSP.

## Appendix 1

Afghan Ministry of Finance data, provided February 2008, on aid pledged, committed and disbursed, in \$ million.

Donor	Aid disbursed 02-08	Aid committed 02-08 but not disbursed	Aid pledged 02-11 but not committed or disbursed
US/USAID	5022.9	5377	12389.1
Japan/JICA	1393.52	16.9	0
UK	1266.3	188.87	0
EC	1074.1	646.68	19.22
WB	852.72	750.72	1023.76
Germany	767.84	458.2	0
Canada	730.7181	48.12	338.8519
ADB	547.8	1009.7	183.08
Italy	424.41	0	0
Netherlands	407.1	85.5	0
Norway	277	122.3	0
Sweden	217.26	41.15	11.29
Iran	213.87	13.89	126.24
ECHO	207.68	2.23	58.29
India	204.26	650.85	86.92
Australia	194.81	0	27.55
UN Agencies	171	0	0
Denmark	152.79	59.38	63.03
Russian Fed.	139	0	0
Aga Khan	119.3	0	0
France	79.93	29.47	0
Saudi Arabia	76.9	30	113.1
Finland	64.0628	29.9176	14.0196
Switzerland	51.55	43.96	0
China	41	20.35	84.15
Spain	25.6	37.15	190.54
Turkey	20.8	22.82	46.38

## Appendix 2

Afghan Ministry of Finance data, provided February 2008, of total core and external budget allocations for the year 1386 (2007-08); population estimates for 2007-08 are from the Afghanistan Central Statistics Office.

Province	Total planned/ committed government & donor spending for 1386 in \$m	Estimated provincial population in '000	Spending in \$ per capita
Kabul	2,021.51	3335.2	606
Nimroz	62.94	137.4	458
Helmand	325.33	807.5	403
Zabul	70.72	265.9	266
Farah	112.02	448.8	250
Jawzjan	116.77	468	250
Kandahar	235.82	1037.1	227
Uruzgan	63.47	306.6	207
Paktika	72.08	380.7	189
Parwan	100.95	579.3	174
Bamyan	61.66	391.1	158
Balkh	171.43	1122.6	153
Paktiya	69.6	482.4	144
Badakhshan	118.13	831.2	142
Panjsheer	18.33	134.4	136
Khost	66.36	502.7	132
Nuristan	15.78	129.6	122
Nangahar	158.69	1309.4	121
Laghman	46.86	390.1	120
Samangan	37.8	338.3	112
Badghis	45.92	433.8	106
Herat	139.75	1611.2	87
Kunar	32.84	394.1	83
Dai Kundi	31.86	403.3	79
Kapisa	30.28	386.3	78
Faryab	67.7	868.8	78
Baghlan	56.89	789.5	72
Takhar	54.05	855.5	63
Ghazni	66.98	1073.7	62
Kunduz	47.86	866.7	55
Logar	18.79	342.9	55
Sari Pul	25.73	488.2	53
Ghor	31.12	604.4	51
Wardak	26.27	522.2	50

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<sup>31</sup> The Good Performers Initiative, which rewards provinces that do not produce poppy, is one attempt to address geographical disparities in assistance. At just \$22.5 million for 2006-07 it is wholly insufficient to address major imbalances in the overall distribution of aid.

<sup>32</sup> PRT Executive Steering Committee, 27 Jan 2005. It should be noted that there are generally two types of PRT reconstruction and development activities: projects carried out by the military / CIMIC (Civil-Military Cooperation) team, and those delivered or overseen by the relevant national development agency. There is insufficient space available in this paper to address issues relating to each of these types of assistance.

<sup>33</sup> Service Delivery and Governance at the Sub-National Level in Afghanistan, World Bank, July 2007, p xiv.

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<sup>39</sup> *Op. cit.* ActionAid, p 3.

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<sup>60</sup> *Op cit.*, Fariba Nawa p 8.

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<sup>63</sup> Delays Hurting U.S. Rebuilding in Afghanistan, New York Times, 7 Nov 2005; *op cit.*, Fariba Nawa, p 16; Review of Technical Assistance and Capacity Building in Afghanistan, Discussion paper for the Afghanistan Development Forum, World Bank, 26 April 2007, p 7. It should be noted salaries for NGO staff are significantly lower than those for consultants and contractor staff: for example a senior expatriate employee with an international aid agency might expect to receive \$50,000 p.a.

<sup>64</sup> Afghanistan Compact, Procurement Monitoring Project, Afghan Ministry of Finance and Peace Dividend Trust, April 2007, p 9.

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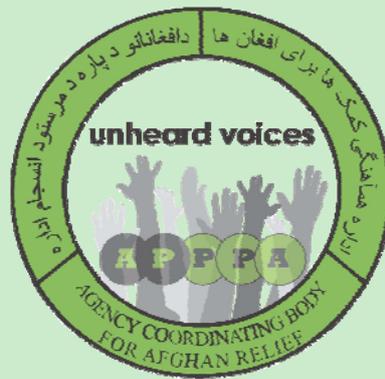
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