



Citizen-Centered Approaches
to State and Market



The Aid Relationship in Afghanistan: Struggling for Government Leadership

MANAGING AID DEPENDENCY PROJECT

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RELATIONS

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The Aid Relationship in Afghanistan: struggling for government leadership

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This case study explores the role of the Afghan authorities between 2001 and 2006—the Interim Administration, the Transitional Islamic State of Afghanistan and the Islamic Republic of Afghanistan—in shaping the ‘aid relationship’ between those authorities, and various components of the international community. It describes the strategies, frameworks, policies and systems that the Afghan authorities and the donors adapted or invented to manage aid. The case study analyzes the impact of those initiatives on the effectiveness of domestic and donor policy, and the drivers and constraints on the effectiveness of domestic policy.

Given how recently the events described unfolded it is no surprise that there are as yet, at least to the author’s knowledge, no accounts that convey the decision-making processes accurately. The account presented here is written from the perspective of a participant in many of the events in question who attended the core meetings and policy discussions of the period in the UN, the Government of Afghanistan, and most recently in NATO/ISAF. Recognising that the author is therefore a participant as well as analyst, the case study nonetheless attempts to provide a factual description of the process, together with an objective analysis of the advantages and disadvantages of approaches taken against the goals they were intended to serve.

Background

Afghanistan, aid and the geo-political context

The character of aid in Afghanistan has varied dramatically over the last few decades, in terms of the channels and purposes of aid, and the identity of its interlocutors. At various points prior to the years of conflict, a number of nation states and multi-lateral organizations had invested in Afghanistan’s physical and institutional infrastructure, and were motivated by a range of factors. It is possible to consider the evolution of the character of the ‘aid relationship’ in Afghanistan with reference to four distinctive ‘phases’. The first two of these describe the broad patterns of aid between the Soviet invasion and the fall of the Taliban, as a background to the second two, which describe two distinctive periods in the aid relationship between the fall of the Taliban, the Presidential elections, and 2006.

Afghanistan has been at war more or less continuously since 1979, following the invasion of Afghanistan by the former USSR, and the resulting resistance movement. From this period until 1989, when the Soviet forces withdrew, foreign financial assistance was channelled to the country through two main mechanisms. First, the USSR invested up to \$10 billion in Afghanistan (in today’s value in assistance). Approximately \$2 billion was invested in major physical infrastructure projects, including highways, power stations and tramlines, with the remainder taking the form of ‘military assistance’. At the same time

Western powers, mainly the US, channelled considerable resources to the mujahadeen, much of this through humanitarian assistance to refugee communities based in Pakistan. Even after the withdrawal of Russian forces in 1989, support continued to be channelled to various actors in the country.

As the seven parties, which had attempted to share power between them in the period 1992-6, turned their energies and resources against one other, governance became increasingly fragmented. A number of NGOs which had been channelling support to the Northern Alliance throughout the resistance years continued to be active, and together with UN agencies they attempted to sustain basic services for the population. A small number of NGOs gained specialized skills in particular areas and consolidated a network of service delivery organizations including, for example, the Swedish Committee which sustained large numbers of schools across the country, Dacaar which managed water supplies, and UN Habitat which established a network of Community Fora across six major urban areas.

In 1997, after the establishment of the Taliban, a group of donors under the leadership of the UN Office for the Coordination of Humanitarian Affairs (UN OCHA) established the 'Strategic Framework', which sought to establish and enforce protocols to ensure the coherence of humanitarian assistance, under a UN umbrella. The political arm of the UN – UNSMA - took a different view, urging some coordination with government structures. No distinction at this time was made between the political arm of the government - the Taliban leadership - and the administration - the professional civil servants in technical domains. During this time the World Bank kept a 'Watching Brief' on Afghanistan, which involved monitoring some aspects of the situation from a distance, but it maintained no on-the-ground presence or programs.

After the overthrow of the Taliban in November 2001 by US forces, leaders of developed nations pledged to 'rebuild Afghanistan'. This pledge took the form of various different kinds of aid. First, military assistance was deployed in four major forms; (i) the Coalition, which continued to focus on the elimination of terrorism in the territory and particularly the capture of Osama bin Laden; (ii) the International Security Assistance Force (ISAF) which was deployed initially in Kabul and then progressively across the country with the establishment of Provincial Reconstruction Teams (PRTs); and (iii) assistance from a variety of agencies from various countries geared to establishing the Afghan National Army and reforming the police force, border control and secret services. At the time of the 2004 Berlin Conference, the Government of Afghanistan estimated that the cost of the military presence between the Bonn Agreement and the Berlin Conference was at least \$30 billion, whereas it estimated that \$3 billion had been disbursed through the aid system in the same period. Military assistance vastly outweighed developmental assistance in financial terms, by a ratio of at least 10:1.

Second, political assistance was undertaken, most importantly through the UN's facilitation of the Bonn Agreement and its sustained diplomatic attention to the implementation of that agreement from 2001 to 2004. Third, developmental assistance was pledged to the country, in the form of support to recurrent and capital expenditures in order to restore services. Lastly, humanitarian assistance was pledged to the country in the form of fund-raising for UN agencies and NGOs to implement projects in a variety of domains, including food distribution and refugee assistance.

The extent of government dependency on each of these forms of assistance is linked to the speed and effectiveness with which the government can assume the functions. In terms of military and security assistance, the extent to which the government is dependent on the presence of foreign forces is linked to the pace at which a reliable domestic security service can be established, and the extent to which the national government can maintain its legitimacy in the eyes of the population. At the end of 2004, a National Army of 20,000 had been built, and the forces previously incorporated into the Ministry of Defence had been disbanded. However, the police had not received serious attention at the institutional level, and were reputed to be at the centre of criminal networks involving drugs-running, money-laundering and arms-trafficking (Delasgues and Torabi 2007:21, International Crisis Group 2005:24, Evans et al 2004:17-19). 'Illegal armed groups' existed across the country, plaguing the population with demands for payment of informal taxes, while non-governmental militia forces, at times funded by Western powers, continued to control the border posts.¹ The ongoing viability of the national government thus requires the ongoing presence of ISAF to underwrite its stability and prevent coups at the centre.

Since the Presidential elections in 2004, which formally ended the Bonn Process, and the beginning of 2005 when the new Government was formed, the government has been less dependent on political facilitation. The role of the UN, and of the United Nations Assistance Mission to Afghanistan (UNAMA) in particular, shifted from its earlier focus on co-producing the political process. With the Bonn Process completed, UNAMA began to monitor the Afghanistan Compact, agreed in London in January 2006, where a series of reform benchmarks were set out for the post-Bonn period, and a mechanism for monitoring them through the Joint Coordination Monitoring Board.² The majority of country governments engaged with Afghanistan now state that they support the state-building agenda, as expressed in the London Compact and key Government policy-processes.³ This contrasts sharply with the 2001-2003 period when many donors backed a multiplicity of objectives, ranging from the war on terror, to humanitarian assistance, to poverty-reduction, but did not view these within an integrated framework.⁴

ISAF continued to play a key role, with its mandate expanding from a peace-keeping mission confined to Kabul, to the oversight of a number of 'Provincial Reconstruction Teams', initially established over the North and West, but followed by extension to the South, and finally the East. ISAF came under NATO command in 2003. The mandate of ISAF includes reconstruction activities, which involve coordination, facilitation and direct implementation. The precise tasks undertaken by PRTs depend to some extent on the policies of the nations which staff them. More widely, the policy coming from the centre of ISAF has depended in practice upon the stance taken by the nation in command of the centre, and this has rotated every six to twelve months. Different commands have varied in the degree to which they have chosen to engage with broader governance issues. However, with the resurgence of the Taliban threat in 2005, the mandate of ISAF has grown from peace-keeping to a mixture of peace-keeping, reconstruction and counter-insurgency work. At the same time, Operation Enduring Freedom has reduced in scope.

Large amounts of bilateral aid have continued, increasingly in stated support of the Government's policy frameworks, with increasing amounts of finance channelled through the Government's Trust Funds although given the reluctance of some significant donors to channel significant proportions of their aid through these mechanisms, proportionately the balance of aid through and outside government channels has remained fairly consistent (World Bank 2006).⁵ In early 2005, the Government decided to dismantle or diminish

emphasis on the implementation mechanism - the national programs - that had been used during the 2001-4 period to support a nationally-led development strategy through joint donor implementation mechanisms. When these programs were abandoned, a number of donors who had hitherto supported them (and the government strategy) reverted to direct financing of UN agency, NGO and private sector financing.⁶

This period also coincided with two key trends. The first has been described by many commentators as the consolidation of the 'narco-mafia state', in which narcotics production increased dramatically, and where evidence suggests that governance increasingly became influenced by narco-mafia interests, and the economy increasingly criminalized (Ward and Bird 2004).⁷ The second is the resurgence of the Taliban, with attacks on Government and international personnel, including the use of Improvised Explosive Devices (IEDs) and suicide bombers, increasing and peaking in 2006.⁸

Internal versus External Resources

Afghanistan remains quite highly aid dependent. As Table 1 below indicates, Afghanistan's operational expenditure needs in 2003 were approximately \$500 million. Of this, approximately \$235 million was funded by external actors through the Afghanistan Reconstruction Trust Fund (ARTF), a World Bank administered trust fund through which donors could contribute to the Government's budgetary needs and its priority investment projects. The balance was met through domestic revenue collection, and largely through customs receipts. Table 2 sets out the revenue collection streams in more detail. The majority of the funds going into trust funds are channelled, through the ARTF, to the national budget and are used to pay the salaries of approximately 250,000 civil servants including teachers, health-workers and engineers, as well as operations and maintenance costs. Separate trust funds were established to fund the army, police and the demobilization process (through the Law and Order Trust Fund for Afghanistan). A small proportion of Afghanistan's capital budget is met by donor financing; the reconstruction window of the Trust Fund has received a total of \$1272 million in the years since establishment in 2002 (World Bank 2006). Other contributions were made to pay off many of Afghanistan's arrears so that it could commence borrowing from the International Financial Institutions (IFIs). Further contributions were made to financing donor-designed and managed projects. Only a small amount was provided to the Afghanistan budget directly. In 2002, \$3 million was provided by Oman, while India and Pakistan provided \$5 million each.

While Afghanistan remains fairly dependent on external resources for its core recurrent and capital budgets, there is significant potential to generate greater independence. Although the figures might indicate that Afghanistan is highly aid dependent, the potential to dramatically increase domestic revenue collection means that aid dependence is not inevitable for the future. Further, given the increase in trade flows since 2001 (for example, recorded trade flows with Pakistan increased from \$20 million in 2001 to at least \$700 million by May 2004), the potential customs revenue available for the domestic revenue base is immense (Khan 2004). The IMF agreed targets with the government for the mid-range future, which projected an incremental increase in revenue collection.

Table 1: Afghanistan's recurrent budget and proportion met externally

In millions of US Dollars	Est 2003/04 (1382)	Est 2004/05 (1383)	Est 2005/06 (1384)	Proj. 2/ 2006/07 (1385)
Donor assistance grants (to operating budget)	235	350	384	312
ARTF (recurrent window)	191	288	309	241
LOTFA	44	60	75	72
Operating expenditure	518	624	764	865
Wages and salaries	343	442	477	544
Purchase of goods and services	109	98	150	167
Transfers and Subsidies	15	18	48	56
Pensions	4	21	38	40
Capital expenditure	47	46	42	49
Interest			9	9
Grants as a % of operating budget	45%	56%	50%	36%

Note: For 2006-07, exchange rate for 2005-06 was used.

Table 2: Revenue collection

In millions of US Dollars	Est 2003/04 (1382)	Est 2004/05 (1383)	Proj. 2/ 2005/06 (1384)	Proj. 2/ 2006/07 (1385)
Domestic revenue	238	299	427	588
Tax revenues	146	223	289	449
Taxes on income, profits and capital gains	8	23	40	76
Taxes on international trade and transactions	125	169	212	326
Other taxes	12	30	37	46
Non tax revenues	91	76	138	140

Arguably, an earlier focus on revenue collection could have yielded immense domestic revenue flows. Much external and policy focus is direct to mobilization of aid resources; rather than on increasing domestic revenue collection through strengthening the financial base of the state. Such an effort could be supported through both internal policy reform, as well as regional trade and external financial instruments. Additional revenue could firstly have been generated by increasing customs revenue, including through a greater attempt to ensure that the national government was able to deploy its customs officers to the border without fear of being threatened by the militia forces who maintained control of those posts. For this, support from ISAF or the Coalition for revenue collection would have been necessary but was not possible to obtain at least until the end of 2004. In the medium term, the possibility exists of making Afghanistan a 'land bridge' for and between Central Asia, the Gulf, South Asia and Europe. If energy and trade linkages were to be intensified, the possibilities for increased revenue generation for Afghanistan would be exponential, and would also generate increased regional interest in Afghanistan's stability, and particularly amongst its neighbours. This in turn would require intensification of up-front investment in Afghanistan's transport and energy infrastructure, and renewed efforts to lift constraints to trade, including in the customs regime.

In addition, there are a number of other potential revenue sources. The GSM telecoms tender in 2003 had yielded not only a substantial contribution to the national treasury in the form of one-off license payments, but also \$80m in taxes in the first year alone. Similar transparent tenders in fuel import and distribution, pharmaceuticals, mining and cement were planned but have not yet been implemented, although they could yield significant domestic revenue. Further, broadening the tax base by improving the efficiency of personal, business, services and land tax collection could not only have yielded significant resources, but have helped to underwrite and reinforce the social compact between citizen and state.

The potential exists for significant growth in the Afghan economy, but this is often overlooked in donor analyses, which have tended to see Afghanistan as a 'charity case'. Economic potential exists for mining and associated industries (e.g. cutting, polishing, jewellery production) since Afghanistan contains marble, emeralds, copper and many semi-precious stones including lapis lazuli. Additionally, carpet manufacturing and other textile production, agricultural production of products such as fruits (fresh, dried and processed), nuts, vegetables, spices and cut flowers could all generate revenue, as could tourism.

Not only would a drive to increase domestic revenue alleviate the burden on donors, but it would arguably work to decrease the relative financial clout - and therefore the wider influence - of regional commanders or 'warlords', who derived much of their influence from the considerable resources that they have been able to amass from foreign support and illegal revenue collection, from 2001 onwards.

While in 2002-04 some external actors - most notably the IMF, World Bank and Government of Canada - focused much of their policy dialogue on revenue collection, others instead focused their attention on how to increase aid flows into Afghanistan. The projection of a mid-range goal of total revenue self-sufficiency and an end to aid dependency is something that neither donors nor governments commonly adopt. Yet, moving towards this goal is critical to the establishment of sustainable state institutions.

While there are now significant flows of aid into the country, most of these circumvent the government structures and systems, passing through the networks of parallel organizations. It is very difficult to estimate the precise amount of funding that flowed outside the government budget, either in the sense of having bypassed the Treasury system or in the sense of not even appearing as a donor project in the government's budget system. Estimates conducted by the Government of Afghanistan in 2003 posited that only 10-20 percent of donor financing flowed through the Government's systems in 2002-4 (Rubin, Hamidzada and Stoddard 2003). In early 2007, Afghanistan's Ambassador to the United States, H.E. Said Jawad, stated that out of 'the entire financial assistance that's been given to Afghanistan, only 5 percent has been given to the Afghan government. Twelve percent of the funds have been given to the Afghan reconstruction trust fund established for Afghanistan... The remaining 82 or 83 percent of the assistance has been spent outside the budget and control of the Afghan government' (McMahon 2007). It is questionable as to how effectively those flows have been used, or whether the net effect of any particular project or flow has been more helpful than damaging, and therefore it is not possible to examine whether the aid was 'needed'. These factors are examined in more detail below.

The political impact of a project-based aid system, where individual donor representatives can negotiate with individual ministers, department heads, and even governors to win projects, can be argued to have highly fragmentary effects, because in these circumstances the budget process quickly becomes meaningless. This stands in marked contrast to a rules-based aid system, where resources would only be channelled through the budget, and donors could not negotiate with individual ministries or departments. It is telling that in the 1970s, if a governor visited Kabul, he was obliged to report to the Ministry of Interior, who would manage his schedule of meetings with foreign dignitaries. Now, governors openly lobby hundreds of agencies for resources.

The Domestic Political System

The central task of the Bonn Agreement was to transform a pariah state - Taliban Afghanistan had only been formally recognized by three other nations - into a legitimate state. Turning the unrepresentative collection of people who met at Bonn into a legitimate government demanded the establishment of a process that would increasingly enfranchise broader stakeholder groups, endorsed through traditional gatherings. The Bonn Agreement - itself endorsed through the United Nations Security Council - thus recognized and pledged to support a *process* of legitimation, by offering assistance to the Afghan authorities in rebuilding their governance institutions. Thus the Afghan Government became the entity that international actors were, under international law, obliged to support. Yet in practice, international actors varied tremendously in the degree to which their actions matched their legal obligations.

A significant asset at the disposal of the state was the continued presence and capability of the Afghan civil service. Contrary to the assertions of many commentators who suggested that, devoid of domestic institutions, Afghanistan was a blank slate in 2001, the civil service had proven quite resilient through the years of war (Manning 2004:7). Payroll estimates showed that approximately 250,000 civil servants were in place at the end of 2001. Most of these were professional civil servants who had served since the 1970s through the successive regimes of the king, Daud, the Soviet occupation, Najibullah, the

seven-party rule and then the Taliban.

These civil servants represented a great asset in terms of knowledge, institutional memory, and skills for the future administration of the country. The government then requested that the World Bank conduct a study of this administrative resource (Manning et al 2003, Manning 2004, Evans et al. 2004). When this study confirmed the Government's view in 2003, donors responded by asserting that aid should be channelled through government systems. The World Bank-AREU study demonstrated that in 2002 the government had a considerable amount of capacity, in the form of at least 250,000 civil servants (Evans et al. 2004:38), with representation in all 32 provinces, a fairly robust and resilient legal system, and knowledge of the rules. The report recommended that unless resources were channelled through government systems, it would not be possible to begin to make the systemic changes necessary to improve quality.

The view that parallel organizations should be built to deliver basic services was, on this analysis, predicated upon the erroneous view that the government had 'no capacity' or 'little capacity'. Many of the UN agencies made this assumption, and asserted the need to create their own structures, without having made a systematic review of the capacity that did exist within the Government at the time, but they were by no means alone. External academic accounts also argued that the international community had to build the government from a blank slate (Fukuyama 2004:136-137). By contrast to this significant – if unnoticed – government capacity, at the end of 2001 no UN agencies had offices in the country since they were all based in Islamabad, although many were running programs in the country.

The top leadership of the Interim and Transitional Administrations was composed of people who ranged widely in skills and experience. The members of the Interim Administration had been chosen by the Bonn participants with the facilitation of the SRSG Lakhdar Brahimi, on the basis of technical competence. They included former leaders of the jihad, members of the king's court, and people with professional skills and experience from both inside and outside Afghanistan. This leadership team was recognized by the representatives at Bonn to lack the requisite legitimacy to lead a country in the long term, and was accordingly tasked with leadership during an interim period while a series of Loya Jirga and Commissions would select a Transitional Administration, and draft and adopt a constitution for the long term. Although this interim leadership was not representative, the *mechanism* had been recognized and endorsed by the international community as legitimate, and sovereignty was therefore vested in the Interim and Transitional Administrations.

The Transitional Administration made some changes to the composition of the leadership team, notably appointing to the Cabinet a number of 'technocrats' who had served inside and outside the country. These included Juma Mohamad Mohamedi, who was appointed as Minister of Mines and Industry, and who had been a water engineer with the World Bank and as well as Minister for Water leading the creation of the Helmand Authority in the 1970s; Ashraf Ghani Ahmadzai, appointed Minister of Finance, who had previously served as a teacher at Kabul University, an academic in the US, and anthropologist and analyst in the World Bank, as well as adviser to Kofi Annan during and after the Bonn Process; Massoom Stanekzai, appointed Minister of Telecommunications, who had established a large Afghan NGO, AREA, having previously managed large infrastructure projects as an engineer; Haneef Atmar, who after government service had been deputy for

the International Rescue Committee; and Ali Ahmed Jalali, a senior military planner in the Afghan resistance to the Soviet invasion, who later worked with Voice of America on the Afghanistan program.

These actors set out to partner with their Cabinet colleagues to form a unified team, at the same time as seeking to attract cadres of deputies, directors and managers with the personal integrity needed to reinvigorate Afghanistan's public institutions. The deputies recruited included Haider Reza, a former doctor with an NGO, as deputy in Foreign Affairs, Abdul Salam Rahimy, the former manager of the Afghan NGO CHA, as Deputy Finance Minister, Jelani Popal, a former Salvation Army manager, as Head of Customs, Seema Massoomi, former management consultant with Pricewaterhouse Coopers as Head of Budget, and Ehsan Zia, also an NGO worker, as Deputy in the Ministry of Rural Development.

The presence of technocrats such as these in government was one factor that led to the establishment of relationships of trust between international and national actors. Many donors privately cited the 'Ashraf Ghani' factor as the critical determinant of their willingness to give support to the government directly in the form of budget support or through the Afghanistan Reconstruction Trust Fund.

However, also critical to the establishment of trust were institutional mechanisms, including the management of the policy process according to predictable, transparent and reliable sets of rules. These included regularization of key governance processes such as the budget, reporting mechanisms, unification of the treasury account, and reform of the customs procedures. Management of the process was epitomized by the report, 'Progress against Promises' which referred back to President Karzai's promises set out in his Tokyo speech in January 2002, and to the National Development Framework, and documented progress in implementation against each of these promises.

Many donors did come to place their trust in government systems, teams and actors, and were willing to enter a partnership based on a long-term roadmap towards institutionalization of key government functions. Nevertheless, it is arguable that if support for a genuine state-building agenda ever really arrived it amounted to too little, too late. In early 2002, donors initially pledged \$20 million to the ARTF (to finance 260,000 civil servants for one year) while they provided \$1.8 billion to UN agencies and NGOs through the first consolidated appeals process. Many donors focused their attention on building parallel systems, particularly UN agencies and the US and Japanese aid actors. This course of action tended to be justified with reference to corruption as well as the 'lack' of government capacity. The alternative systems that were established, however, often involved complex layers of contracting arrangements that were managed from afar by Western firms that were incapable of operating in the Afghan security environment. It is not entirely clear that this alternative constituted a better value proposition. While the Bonn Agreement had requested the presence of ISAF in key cities and on roads across the country, this force was initially been confined to Kabul. NATO/ISAF only assumed command of the country in the fall of 2006. The legitimate governmental authority in Afghanistan was therefore initially equipped with \$20m, and an international force that was confined to Kabul. Had that authority been backed by \$200m and countrywide international military support from early 2002, it seems plausible that the situation might have unfolded differently, particularly in terms of the ability of the National Government to assert its authority over the 'warlords', and to pay and train administrators and police

officers capable of collecting customs revenue, in numbers, from 2002.

Over time, it has become increasingly evident that the failure to focus on building government institutions is compromising the global security agenda as well as the Afghan Government's ability to govern. It is now repeatedly claimed that the new front line in the war on terror is the quality of district and provincial administration and ability to deliver services.⁹

The relationship of government preferences & policies to domestic political concerns

In Afghanistan, domestic interest groups demanded that the government deliver on specific policies and provide them with certain benefits. In particular, accountability, transparency and effectiveness in public expenditure were emphasised. The Afghan authorities were empowered to lead and manage the reconstruction agenda, according to specific priorities, through a mandate deriving from a number of mechanisms:

First, at the Emergency Loya Jirga, each representative was asked to present in writing the key priorities and demands of their district. Then, at the second national meeting - the Constitutional Loya Jirga - representatives from each district listed their key demands, while ministers were asked to report on actions and policies implemented to date. Third, the domestically-led reconstruction process was managed through national programs. These programs were reported on regularly via the national media, allowing the President to maintain a direct relationship of accountability with the population on progress being made against the promises of the government. Fourth, by devolving significant resources to the local level for community implementation through the National Solidarity Program, villages themselves were able to exercise decision rights on expenditure. Fifth, President Karzai's electoral platform set out a series of promises for further reform, against which it is arguable that he was then elected. Sixth, since the most significant mechanism for domestic accountability is the budget, those resources that were channelled through the budget were able to be accounted for and reported on. This mechanism was undermined by the fact that much aid flowed outside the budget, and therefore could not be accounted for, despite the fact that extra-budgetary aid was against the laws of the country. This extra-budgetary aid, which flowed from donors direct to projects, effectively undermined the relationship of accountability between citizens and the state.

The inputs from these various processes were assembled and then articulated as a national agenda by the President and his key ministers in several fora including, the Tokyo speech, the National Development Framework and 'Securing Afghanistan's Future' and finally a plan for a Compact- a double pact between the government and the citizens on the one hand and the international community on the other, set out in a paper written in November 2004 and reflected in President Karzai's election manifesto.¹⁰ In addition to the popular mandate derived from the mechanisms listed above, a variety of interest groups, including the domestic NGOs, some of the Ambassadors and aid agencies, the domestic private sector, professional associations, and intellectuals all rallied behind this institution-building agenda. Those with an interest in its opposition would have included those who also had an interest in opposing the President's leadership, or an interest in perpetuating multiple flows of unaccountable financing.

Policy Process and Content

The Afghan authorities moved quickly to assert their leadership of the reconstruction agenda. The government used five main approaches to assert itself in this regard: agenda-setting, legislation, creation of coordination mechanisms, establishment of implementation mechanisms and pursuit of an institution-building agenda.

Agenda setting

The Government moved quickly to define the policy agenda. Hamid Karzai, then Chairman of the Interim Administration, made a speech at the pledging conference in Tokyo in January 2001 which set out his leadership-team's vision for the establishment of a prosperous, stable Afghanistan, and his intention to rebuild systems of governance through six national programs. The elements of his vision were based on intensive teamwork and consultation with the leadership team in January 2001. This vision and the programs were further articulated in the Government's strategy document, the 'National Development Framework', which was launched in April 2002 at Afghanistan's first donor meeting, held in Kabul, which was planned and chaired by the government. The programs were further developed and presented in the National Budget at a subsequent donor meeting, held in September 2002 in Kabul, and at meetings of the Afghanistan Development Forum, held in March of each year in Kabul.

While the donors had jointly prepared a 'needs assessment' in the fall of 2001, this had largely been assembled outside Afghanistan, in Islamabad and Manila, without consultation with civil servants or the government, with just two days of ad hoc consultation with some Cabinet members having been held in January 2002 - when the needs assessment was nearly complete. The costs of reconstruction had been radically underestimated. For example the original World Bank-Asian Development Bank-United Nations Development Programme needs assessment estimated that the Kabul-Kandahar road segment would cost \$35m. It eventually cost \$270 million (USAID 2003).

To prepare a more complete plan that was better aligned to the realities of the country, a consultative process was launched, led by the Government, with a steering committee which included the IMF, World Bank, UNDP and Asian Development Bank. The process involved dozens of sector experts seconded by the government, steering committee members, and other agencies. This process led to the preparation of 'Securing Afghanistan's Future' which set out Afghanistan's three, seven and twelve year fiscal and reform programs. A financing requirement of \$27.5 billion was presented to sixty of the world's Finance, Development and Foreign Ministers at Berlin in March 2004. The figure of \$27.5bn was endorsed, and \$8.2 bn was pledged for the financing requirements of the next three years. At the same time, the Government committed itself to the implementation of a medium term (three year) reform program with concrete benchmarks for implementation, and to a revenue compact in which Afghanistan would increasingly assume responsibility for its recurrent and capital expenditure.

This agreement set out the goal of state-building as the common, central objective of the Afghan Government, the international community and the people of Afghanistan. This state-building strategy was cemented in a 'double compact' between the Government and the people on the one hand and the Government and international community on the other.

It was then reflected in promises made to the population in President Karzai's election manifesto. This state-building strategy incorporated a series of benchmarks for institution-building that the Government would agree to implement, and the international community would act as monitor and referee of this implementation process.

This plan was further elaborated in the Afghanistan Compact, designed to set out a role for the UN for the post-Bonn phase of the process. A meeting was held in London in January 2006 to present this agreement.

Contestation over policy space

There were, on this reading, two competing policy and budgeting processes, which were set in motion by the needs assessment, but which then diverged into two parallel processes. The first was government led, backed by the World Bank, other IFIs, and like-minded donors. In this process, the groundwork laid by the needs assessment was incorporated into the Cabinet exercise in January 2001, which led to President Karzai's speech, the National Development Framework, the development of the national programs and the production of 'Securing Afghanistan's Future'.

At the same time, a parallel process was put into place by the UNDG, who sent officials to Kabul from UNDP New York in January 2001 to examine the needs assessment, to identify projects that could be implemented by the UN agencies, and to prepare the Immediate and Transitional Assistance Plan (ITAP) for Afghanistan. ITAP was developed entirely outside the government's budget, and was not shown to President Karzai or Cabinet members who were preparing national policies, despite requests. In April 2003 the UN then wrote to the Minister of Finance, asking him not to run a process whereby Afghan ministers would prioritize their own projects (i.e. the budget process), as this might *prejudice* the UN's ability to raise money for its projects.

The former, government-led, process increasingly gained traction for a number of reasons. First, the World Bank, Asian Development Bank and IMF were quick to endorse an approach that would be government-led and that would focus on the budget as the instrument of policy-making. The World Bank officials who had led the needs assessment worked collaboratively with government officials and advisers to streamline the needs assessment process and hand it over to the government. Second, a number of donors, especially EC, DfID, Netherlands and Norway, were quick to back this approach because of its emphasis on a nationally led process. Third, ownership of processes on the ground was asserted by the Government, through a consultation process, organized by Ashraf Ghani and his Cabinet colleagues, that required all visiting missions to report to the Government at the start and finish of their visits, and to submit reports to the Government. The government devised a series of mechanisms to place themselves at the centre of policy-making. Decisions about the participation and ranking of donors were made and expressed in various ways, including by allocating the location and number of seats and conferences, speaking slots and so forth. For example, Afghanistan organized and chaired its own international donors' conference in Kabul as early as April 2002, and orchestrated this event with an eye to leading and managing the reconstruction and development agenda before they became subordinated to it. Fourth, UNAMA itself was strongly in support both of government ownership and leadership, and a light footprint, as embodied by the Bonn Agreement. Fifth, key donors with significant political clout, including the

US, were strongly in support of the processes organized by the Ministry of Finance, and used their diplomatic leverage to back the processes, even when their own procedures did not formally allow them to channel their money in accordance with these processes.

However, in contrast to the UN's political arm as manifested in UNAMA, the UN agencies did not easily submit to government ownership, resisting any sharing of information, until the matter was referred by UN officials on the ground to the New York Headquarters, which then ruled that the Bonn Agreement required information to be shared with the Government of Afghanistan. As a result, UN agencies were required to share their project plans with the Government. The Government was not able to persuade the UN agencies to back a government-led process until late 2003.

The Government's strategies and policies (National Development Framework; Securing Afghanistan's Future, Six National Priority Sub-Programs) differed from the donor plan, as represented in the needs assessment process, in several ways. First, they provided a coherent, long-term vision, which set out a basic framework consisting of a long-term compact geared towards a state-building agenda over a period of several years. Second, they articulated the need for this coherence to be embedded in the use of the government's budget, treasury system and implementation mechanisms - which required that money be channelled through government systems rather than in parallel to them. By contrast, the UN Consolidated Appeal (CAP), which built on the needs assessment, put forward and then constructed implementation mechanisms that were premised upon the creation of parallel systems to implement hundreds of fragmented projects, outside government structures. Third, the government articulated the need to partner with and nurture the domestic private sector as the engine of growth in the country, and the creation of a level playing field that would create opportunity for Afghan youth, rather than relying purely on a redistributive model to combat Afghanistan's dire poverty. Fourth, they positioned Afghanistan as the land bridge of Central Asia, South Asia and the Gulf, envisaging a positive role for Afghanistan vis-à-vis each of its neighbours, through trade as well as regional transport, power and other networks. By contrast, the needs assessment had discounted the possibility of building railways linking Afghanistan to regional rail networks, on the basis that Afghanistan's position at second from bottom of the Human Development Index meant that it should not make public investments in items that comparable countries did not have. Fifth, they argued that there should be investment in secondary and tertiary education - much of it in English language - to allow Afghanistan to build a cadre of trained professionals both to staff its core medical, teaching and engineering services and to allow it to participate in the global economy. By contrast, the needs assessment argued against any public investment in sectors other than primary education. Lastly, the government's budgets posited that putting Afghanistan on a path to sustainability would require \$27.5 billion of public investment, whereas the needs assessment had called for \$4.5 billion, the majority of which was to go to UN agencies. At the same time the government stressed the importance of increasing domestic revenue collection to finance increasing proportions of this investment. The Securing Afghanistan's Future exercise was also known colloquially as the 're-costing' exercise, as its primary intention was to produce a plan that was more accurate and appropriate to context than the needs assessment, which had not been tailored to context (as the foregoing analysis should make clear), and had radically underestimated the cost of reconstruction.

Legislation

The Government established a set of *principles and rules* for donor interaction with its various agencies. These included:

- a. That the national budget should be the instrument of policy-making, and that any off-budget aid would be illegal;
- b. That any donor could only operate in a maximum of three sectors, unless at least \$30m was allocated to each sector;
- c. That financing should be channelled to the government through budget support or through one of the Trust Funds, or to a program account, in order of preference;
- d. That where possible, donors should indicate their financing commitments for the medium to long-term;
- e. That donors were required to provide information on allocations and disbursements on a timely basis to the government;
- f. That any entity through which funds were directed was obliged to issue full, accurate and timely reports to the Afghan public. These reports functioned as the basis for comparative analysis of the value of a dollar of aid in real terms, in order to take account of the reduction in value created by multiple contracting layers.

In practice, where donors refused to abide by such rules and laws, some negotiation tended to take place. In some cases, the Minister of Finance refused to accept aid altogether, while in other cases it was necessary to negotiate. USAID and Japan were the two significant entities that provided large amounts of off-budget aid and preferred not to put money through the Trust Funds. The US entered into very constructive dialogue with the Ministry of Finance on how to allocate their funding appropriately, but was constrained by its interpretation of the rules of Congress in not being able to fund either the Trust Funds or the national programs that were the key vehicles of Afghanistan's strategy and policy. Enforcement was incentivized not only through Government legislation but also through peer pressure. Several working groups were established under the Consultative Group mechanism, and the rules were designed by donors themselves in a participatory manner. It is arguable that in those groups, donors then put pressure on each other to adhere to the rules, as they had to negotiate with each other and the government on a sector-by-sector basis to prepare Public Investment Programs.

Coordination mechanisms

A number of mechanisms for managing donors were established:

- 1 The Afghanistan Development Forum (ADF) was established as the annual meeting between donors and government, to be chaired and hosted by the Afghan Government;
- 2 The Consultative Group process, designed by the government, was established as

the means of interaction between the donors and the government. Donors could participate in as many sectoral CGs as they wished, and each sectoral CG would be chaired by the relevant ministry. The overarching CG group would meet at least monthly, and was chaired by a committee of the four policy ministries;

- 3 At the same time, mechanisms for ensuring regional cooperation were developed. Major donors and trading partners from the region, such as Pakistan, India and Iran, were incorporated into the CG process, but a range of further multi-lateral and bilateral fora were developed to increase cooperation on trade and investment. These included frequent meetings with Iran and Pakistan, and a regional trade meeting that was established to remove constraints to cross-border trade;
- 4 Regular conference calls with a small group of donors providing budget support and support to the Afghanistan Reconstruction Trust Fund were held, with the facilitation of Under-Secretaries John Taylor (US Treasury) and Alan Larson (US State Department).

A careful coalition of the political representation of the UN (through UNAMA), the multi-lateral organizations, diplomatic representations, government, and NGOs was built around a common financing and implementation agenda and embedded in a series of rules and processes, including legislation and regulations for donor financing, meetings, and modalities of financing.

Implementation mechanisms

A number of implementation mechanisms were established to ensure accountability, transparency and effectiveness of expenditure. The ARTF was designed as the mechanism to pool donor-financing behind a single set of policies and implementation mechanisms, creating cost-effective modalities and policy coherence. International procurement, financial management and audit agents were contracted by the government to manage the flow of donor resources to key programs, through the ARTF. Sectoral policies were prepared in detail, based on in-depth analysis by Afghan teams of the history, context and needs of their country, as well as of new policy approaches and technologies. National program teams were established to design and manage programs that were national and even-handed in scope. To this end, specific laws and procedures were designed for these programs, including steering committees that included key donors. These mechanisms ensured that in both policy design and implementation the Government moved to establish itself with a high degree of credibility. The National Solidarity Program and National Emergency Employment Program, for example, were quickly established as two of the programs with the most credibility and effectiveness, both in disbursement and reconstruction terms, and in terms of establishing institutional processes that gained the confidence of Afghans.

Pursuit of an institution-building agenda

The Government articulated and began to implement an ambitious state-building agenda. Government leaders argued that the task of state-building - building the key institutions of the state, including revenue collecting capability - would be central to stability in the

country and ought to be privileged as the common policy goal of both the Government and the international community. This agenda was reflected in a number of instruments, including the Bonn Agreement, the reform benchmarks in *Securing Afghanistan's Future*, the national programs and policy agreements with the World Bank, IMF and Asian Development Bank, which formed a mutually reinforcing web of agreements.

Three sets of reforms were fundamental to the process. The first of these were fiscal, involving a succession of reforms in currency, banking, budget, treasury, customs and taxation. The second set of reforms took place in the security sector, and involved the creation of a new national army, police force and secret service. Thirdly, the administrative domain was reformed through three complementary programs at the village, district and provincial level. These reform processes were built on careful stakeholder analysis of the constituencies for reform, premised on the overwhelming desire of Afghans for a fair and predictable civilian authority that was responsive to their needs, and that at a minimum did not terrorize and torture them. Contrary to donor pressures to 'deliver the peace dividend' rapidly in the form of 'quick impact projects' implemented through NGOs, there were clear signs that the citizenry understood, unlike donors, that reconstruction of large infrastructure and public institutions would take years, if not decades. Afghan citizens therefore emphasised that they preferred to wait for projects to be adequately planned and implemented in a cost-effective manner. Other pressing citizen concerns, clearly revealed by analysis and categorization of the district reports to the Constitutional Loya Jirga, included customs reform (to prevent customs revenue being diverted to fund militias); steps to prevent corruption of the administration; and simplification of the procedures of governance. Consultations with different stakeholder groups took place on a regular basis to ensure participatory design and careful sequencing of reform measures. Implementation likewise emphasised maximum empowerment of and partnership with Afghan citizens. For example, the Government decided to partner with the Hawala dealers to manage the currency conversion; used elected Community Development Councils to manage implementation of projects through the National Solidarity Program; and deployed teams of Afghan traders to monitor the effectiveness of the implementation of customs reform.

The Government's articulation and pursuit of an institution-building and reform agenda was essential not only to maintaining the confidence of the population but also to building a relationship of trust and accountability with donors. This relationship was based upon an honest recognition of the constraints in the existing system; an articulation of a sequence of reforms to be carried; and credible progress on those reforms, keeping to promised timelines. This progress allowed donors to commit increasing proportions of their resources to shared funding mechanisms as trust in these mechanisms grew over time. The reform agenda in the form articulated and pursued between 2001 and 2004 was discontinued in 2005. The reasons for the redirection in policy in 2005 and its implications are outside the scope of this paper and will be discussed further elsewhere.

Some commentators have noticed an apparent decline in the government's ability to manage strategy and policy, maintain law and order, maintain the regional and international consensus, and maintain the trust and moral authority to govern since the end of 2004. The causes of the decline since January 2005 will need to be examined by historians in future years. However, there was a team of approximately 20 Afghans in place across government up until the end of 2004, who were responsible for strategy, budget and program planning and who managed key programs. They all left their posts in

early January 2005. This team had been systematically recruited, trained and invested in from October 2001 - through the program described above - until the end of 2004, and adhered to a common vision of building state institutions through Afghan leadership. One of them spent up to a third of his day working closely with the President to prepare his meetings and speeches. Many were recruited from Afghan NGOs and so had experience of building and managing teams of Afghans within Afghanistan. At that point there were a number of national programs in place that were embedded in a coherent strategic plan, and that were beginning to yield development results across the country. Following the departure of this team, the individuals who took over formal authority of the process decided to start strategy planning *ab initio*. This decision meant redesigning the development process from the strategic level, rather than carrying the implementation of the existing strategy forward. It also involved dismantling the national programs and many of the policies that underpinned these programs, so that the new planners essentially set the clock back from January 2005 to January 2002.

Other factors driving the decline of managerial capability and credibility of the Government might be present, but will not be documented in detail here. However, these could include the growth of the narco-mafia interests and the consolidation of their influence over government institutions; external factors driving the Taliban resurgence, including efforts on the part of Al-Qaeda, and the role of Pakistan; and the disappointment of the population with the reconstruction process, especially in the context of the high expectations created by the promises of the international community.

Evidence that the government exercised agency in the 2001-4 period in managing the aid relationship is in bountiful supply. A range of policy documents, legislation, reviews and analytic reports bear this conclusion out. In a number of instances, the Government rejected assistance that was not in line with the rules, procedures and policies that it had established, and both formal and informal reports illustrate the credibility afforded to the intention of the Government to implement its rules. However, given the geo-political context, and the policies and practices of some of the international aid community, in practice the response of donor agencies to this leadership varied. The next section will examine the aid negotiation process in more detail.

The Aid Negotiation Process: two mental models

The donor response to Government leadership

It is possible to consider two alternative ‘models’ of aid implementation in Afghanistan, and then to examine the extent to which donor behaviour fell within each of those models. *Model one* is that designed, articulated and legislated by the Government, as described above. Its characteristics can be summarised as follows:

- (i) Pooling of financing to the budget, either directly or through trust fund or common programming mechanisms;
- (ii) Alignment behind the Government’s strategy and policy agenda, most notably through adoption of the National Development Framework and the budget as the policy basis;

- (iii) Program implementation through Government-managed national projects and programs, tendered through transparent mechanisms to the most effective organization for the job, whether private sector, NGO or international organization;
- (iv) Reporting on implementation of the budget through a single annual report that is shared with the population, Parliament, media and international community.

Model two is a project-based, donor-managed approach. Its key characteristics include:

- (i) Financing flows directly from each donor agency to the respective implementation agency, and does not flow through the Government of Afghanistan;
- (ii) Strategy and policy for the financing program is determined by the donor in question, usually in national or international headquarters, and is not included in the Afghanistan budget process;
- (iii) Implementation (procurement, accounting, management) takes place through projects managed by international staff and project units outside the Afghan government;
- (iv) Reporting takes place from implementing agency to donor agency and is not incorporated in the national annual report.

Donor behaviour in Afghanistan 2001-06 could be seen to fall more or less into three categories:

State-building agenda & alignment behind Government systems: model one

A number of international organizations and donors adopted a state-building agenda at an early stage, aligning fully behind the government's strategic approach. The multi-lateral development banks (World Bank and IMF) did this by agreeing to subsume the needs assessment within the Government's visioning and strategy process, with the IMF also rapidly establishing a Staff Monitored Program, a mechanism for dialogue between IMF staff and the Government. The European Commission's early country strategy document, endorsed in February 2003, stated that it did not need to prepare its own strategy as it endorsed the Government's own strategy (European Commission 2003). A number of bilateral donors also pledged all, or most, of their support through the Afghanistan Reconstruction Trust Fund, and endorsed the government devised implementation vehicle: national programs. These bilateral donors included the agencies of Canada, the Netherlands, the United Kingdom and Norway. The UN's political arm also aligned behind this approach, supporting the Government's efforts to prepare a budget and embark upon an ambitious reform program that would harness the population's energies behind a positive agenda. Pakistan and India moved early to provide direct budget support to Afghanistan and, together with Iran, supported some large infrastructure and investment projects requested by the Government.

Persuading each donor to back the government's vision, strategy and policies, and to channel its money through government mechanisms, took a varying degree of dialogue, advocacy, persuasion and pressure in each case. The Government followed a systematic plan to persuade donors, which included enhancing its own credibility through creating a developed strategic approach, and creating consultative mechanisms that linked donors into the government's strategy preparation processes. The government also invested in dialogue with each donor, which proved to be a time-intensive process. In general, the ease with which a donor could be persuaded to align with the government strategy rested not only on the specific donor's general policies (for example, members of the Utstein Group might have been predicted to be most aligned to this approach), but also on personalities and relationships on the ground. Where donors moved towards a more aligned stance, this was usually as a result of advocacy by the core Ministry of Finance team working in partnership with other parts of the Afghan Government, either in capitals, or where a particularly far-sighted donor official visited or was appointed to Kabul. For example, the role of both Commissioner Patten and the EC officials on the ground in early 2002 was instrumental in forming an effective partnership between the European Commission and the Government of Afghanistan. Ambassador Bill Taylor and Under-Secretaries Al Larson and John Taylor from US State and Treasury Departments, as well as the Afghanistan Reconstruction Group headed by Jack Bell, were meanwhile instrumental in forming an effective partnership with the US Government on reconstruction. In Norway, on-the-ground leadership as well as Minister Hilde Johnson's advocacy were instrumental to Norway's support. In the UK, the personal interest taken by Clare Short (as Secretary of State for International Development) and the support of DfID and the FCO were both important factors.

Hedging Bets: hybrid model one and two

A number of donors provided some of their assistance through the Government's preferred modalities, but continued to finance a significant proportion of their assistance through parallel mechanisms. These included Germany, Italy and Sweden. In some cases, advocacy by the Afghan finance team helped persuade some donors, who had been preparing to implement assistance schemes through parallel systems of delivery, to operate at least partially through the government framework. In others this advocacy persuaded donors, who wanted to support government policy as well as maintaining alternative options, to move away from hedging and into closer alignment with the government.

Building parallel systems: model two

Two categories of agencies did not initially follow the Government's leadership either in terms of the strategic direction it had delineated, or the implementation modalities that it had determined. Instead, these agencies created parallel organizations and mechanisms to implement autonomously conceived agendas. The first of these categories is made up of the large bi-lateral donors, such as the US and Japan. Each of these initially prepared their own strategies, policies and projects, with little consultation with the Afghan authorities, and largely contracted the implementation of their strategies to domestic contractors. In the case of the US, these contractors included Louis Berger, Chemonics, Bearingpoint and Dyncorp, who in turn would contract implementation to other firms and to NGOs. In the case of the Japan International Cooperation Agency (JICA), implementation would be

contracted to UN agencies and Japanese NGOs. Both Japan and the US subsequently began to shift their orientation towards cooperation with the Afghan authorities in terms of priorities for expenditure, but implementation of their projects remained substantially with foreign organizations that functioned outside of government policy and government implementation frameworks.

The second group is composed of the United Nations agencies and humanitarian funding system, including through funding mechanisms such as the European Commission's Humanitarian Office (ECHO) and US AID's Office of Transition Initiatives (OTI). Arguing that money should not flow through the World Bank-managed ARTF, but rather through UN agencies, the UN agencies in early 2002 conducted a survey of Afghanistan and on the basis of ten day's preparation work issued an appeal for \$1.8 billion, followed by a second appeal for \$900 million, in 2003. Each appeal contained hundreds of projects, to be administered by international or national UN or NGO staff, and implemented through organizations that would be established for the purpose. Such a large UN agency field presence ran directly counter to the UNAMA/UN Secretariat analysis that a 'light footprint' would be the key to stability in Afghanistan. Analysis shows that such expenditure did not result in implementation of the promised projects, which, if they did not fail to materialise, were often not conducted in a cost-effective manner. This had a serious negative impact on the capacity of the state. The impact in terms of undermining the functionality of the state institutions, and the trust of the population in the state, is examined below. The consequences of such a decision on the prospects for Afghanistan's stability additionally warrant careful consideration and further study.

It must be recognized that some humanitarian assistance was certainly necessary in the post-2001 period. In particular, de-mining and refugee assistance were both highly necessary, and both were transitional in nature and provided no obvious rationale for building up state capacity. Furthermore, the agencies and the government both recognised the necessity of maintaining some flexible capability within the humanitarian system, in case either of political turmoil or humanitarian disasters.

However, it is questionable whether the volume and modality of the assistance earmarked as 'humanitarian' was required. For example, while some food assistance may have been necessary, it is questionable whether food assistance in the amounts delivered was necessary. Food - mainly wheat - was shipped from the US through prescribed shipping companies, mainly paid for by the European Commission, instead of being purchased internally from the Afghan market or in the region, where the price would have been considerably cheaper and transportation costs reduced or avoided. As a result of the volume of food imported, it has been suggested, the domestic market for wheat collapsed, with farmers across the country destroying their crops rather than harvesting them, as the product was not worth the cost of labour. The possibility exists of a connection between the collapse in the wheat price and the growth of the opium harvest, although this requires further research.

Other types of projects contained in the two UN appeals included a number of projects that were not strictly humanitarian in nature, including for example a project for hen-rearing in one province, delivery of bicycles to a boy's school in another, and many projects to build schools and clinics. As these latter projects were not linked to the national educational and health systems, there are many reports that such buildings remained empty as the projects did not inform the ministries where they were, and accordingly no personnel could be

allocated to operate them. Lastly, many projects were of dubious quality. A review team - under the guidance of then Director of the AACA Ashraf Ghani - reviewed all the projects in both the Immediate Transitional Assistance Programme (ITAP) and the Transitional Assistance Programme for Afghanistan (TAPA), according to the review criteria and standards used in the Quality Assurance Group (QAG) process at the World Bank. They found that 60 percent of the projects in ITAP did not meet the minimum standards required for a project to be approved in the World Bank. Reasons for failure included the proportion of overheads, which would at times be in excess of 50% of the project cost; the fact that many projects were limited to a single province or even a village, rather than being based on national policy; the fact that no consultation with the Government had been held; and the failure to address institutional and social issues. Despite reporting the inadequacies of a large proportion of the projects, the majority went ahead. There is yet to be a review of the effectiveness of implementation of projects contained in these two appeals.

At the time, the rationale for launching such an ambitious appeal was frequently stated to be that the administration had no capacity, but this contradicts the findings of the World Bank AREU study that there was a civil service containing 250,000 civil servants across the country with a fair degree of capacity. While the NGOs and UN agencies certainly had some capacity, it is questionable whether the ratio of financing between each set of organizations should have been 1:100. As described above, no UN agency had offices operational in Afghanistan at the time of the launch of the first appeal, and a large proportion of the resources raised by the appeal went to constructing an elaborate network of buildings, satellite equipment, land-cruisers, and international staff to operate the projects described above, while the Government did not have adequate funds to pay police-men and teachers.

Factors in determining whether model one or two were followed

It can be observed that several factors determined whether donors adopted model one or model two, including:

(1) Historical policies and practices of international agencies

Where donor agencies had both formal policies on aligning their assistance to government systems and a record of implementing those policies, a greater tendency to channel money through budget support mechanisms could be observed. Thus the 'like-minded' group of donors were among the first to support the government (Netherlands, Canada, UK, Norway), and those donors which did not have well-developed policies on harmonization, alignment and budget support (US and Japan) were observed to be less willing to align their support to the Government's policies. Perhaps an exception to this rule was the EC, which took an unprecedented step in directing the vast majority of its assistance through the ARTF and LOTFA.

The multi-lateral development organizations must by their internal constitutions interact with their Government counterparts (IMF, World Bank, Asian Development Bank).

Some donors were constrained by their internal rules and policies from supporting government programs. For example, donors were unwilling in 2003 to finance \$40m for a

government buildings program to replace the buildings that had been destroyed in civil war, on the basis that they did not support government buildings because these did not further a poverty reduction agenda. However, collectively, donors must have invested hundreds of millions in buildings for NGOs, UN agencies and contractors. Further, the World Bank was initially unwilling to allow the Afghanistan Stabilization Program, a program which supported governance at a provincial and district level, to be supported through the ARTF, on the basis that many of the provinces were dangerous places and the program could not be monitored.

(2) Relationship of trust between high-level leaders on national and international counterpart side

Where relationships of trust were established between Government leaders and leaders of international organizations on the strategy pursued by the Government for state-building, the international agencies showed a greater degree of alignment. In other cases, such relationships of trust were not established. It was also helpful where the Minister of Finance or his colleagues had personal trust and contact with heads of agencies, such that the local offices were more inclined to be flexible in the interpretation of the rules on the ground.

(3) Presence on the ground of staff within donor organizations with political economy/context-specific skills

In some cases the presence in Kabul of diplomats, managers and analysts with skills in political economy analysis was critical to persuading head offices to support a state-building agenda. A group of analysts collaborated in the preparation of a report on how the existing governance system functioned in 2003.

(4) Quality of the programs prepared by the Government

Where the Government prepared and explained high quality programs- either in terms of general fiscal management or specific sectoral implementation mechanisms, donors were more likely to invest resources in the Government, earmarking their resources to specific initiatives. For example, several donors were willing to channel resources through the Afghanistan Reconstruction Trust Fund, particularly after the preparation and demonstration of the six national programs launched by President Karzai.

(5) Consistent progress on part of Government in implementing reforms

Regular reporting from Government to donors on progress on the reform agenda was provided in both written form and during meetings. These meetings allowed for open and frank discussion, and were backed by IMF and World Bank verification of the results, which enhanced trust between Government and the international community.

(6) Theory and evidence of cost-effectiveness and sustainability of a Government-international community partnership on implementation of the aid agenda

The case for partnering with the Government, and involving Government managerial, regulatory and implementation capacity in implementing the aid agenda, was made from a cost-effectiveness, sustainability and practical perspective. An international staff member cost an estimated average of \$400,000 in annual costs to maintain, a government manager cost \$600 per annum.¹¹ Programs that relied on international management rather than mobilizing domestic management capability would not be cost effective. Further, the case was made that in an uncertain security environment, programs that relied on international staff could not be sustained as security conditions would restrict movement. Lastly, given the traditional trajectory of post-conflict settings, after four to five years, many personnel would move on, so that established projects would face discontinuities. An alternative model that built on and established long-term management structures would therefore be more sustainable. Those donors that paid attention to issues of cost-effectiveness were more likely to adopt model one.

(7) Whether or not agencies had to meet their core costs through percentages on projects

Where international agencies had their core budgets and staff costs met as a matter of course, regardless of whether their financing was channelled through government systems or through parallel organizations and projects, a greater willingness to choose the former modality was observable. Where agencies depended on percentages from projects, to finance both field staff and contribute to the operational costs of their headquarters, a greater use of parallel mechanisms and projects was observed.

(8) Ability to analyze the trade-offs and linkages between the security, political and economic domains

In 2004, it was estimated that international actors spent \$15bn on security and \$2bn on economic and humanitarian investment, of which \$200m was directed to the Government.¹² Those donors which did not separate their security, political and economic analysis, such as Canada, were more willing to support a Government-led state-building agenda than other governments, whose security, humanitarian and political analyses were conducted in more disjointed ways, and who did not necessarily see investment in Government institutions as the key to enhancing security.

(9) Leadership and projection of a vision by the Government of Afghanistan

Probably most significant in asserting the Government's ability to lead the reconstruction process was the creation of a team with the capabilities, integrity and mutual trust needed to pursue a clearly articulated and agreed-upon agenda. It is clear that building institutions requires different skills than management of stable institutions, and that teamwork and flexibility is required. As described elsewhere, the continuing expansion and training of a team, to whom management responsibility in their functional area was increasingly delegated, increased the capacity of the government to manage over time. Much time was invested, not only in identifying a suitable team, but also in fostering their personal development and in creating a common vision. This coherence and commitment allowed

reforms and programs to be implemented with increasing credibility and effectiveness, which in turn conveyed itself to donors, who often remarked on the professionalism, talent and commitment of the Afghan team.

Impact of donor behaviour on Government systems

Model one:

Where donors adopted financing along the lines of model one, several impacts on Government systems were observable. First, a collective approach to conditionality - through joint conditions embedded in the benchmarks set out by the Government - ensured a policy dialogue that was coherent across a number of donors as well as across government ministries, allowing focus on carefully sequenced reforms. Second, regular system audits would highlight attention to, and discussion about, constraints in the system and allow attention to be paid to fixing problems. Third, diplomatic pressure was aligned to the cause of bringing fiscal discipline and coherence to a hitherto highly fragmented field of financial flows that had contributed to conflict in the past. Fourth, synergies were established by concentrating the country's best leadership and management capability to managing the most significant programs, such as National Solidarity Program, National Emergency and Employment Program and the National Accounting and Audit Program.

Model two:

Effectiveness of expenditure

The value proposition of model two financing is quite poor. It could be postulated that anything between 40% and 90% of a project cost is spent abroad in overheads. Given the long contractual chain of many donor-managed projects, the resources that were available for a project on the ground would often be a fraction of that allocated to a particular project. For example, villagers in Bamiyan described a shelter project managed by an international agency where after five layers of contracting, each of which saw 20% going to a headquarters office in a foreign country, very little was left for the ground. What was left was used to buy wood from Western Iran, transported via Ismael Khan's trucking cartel, which turned out to be too large for the mud structures used by the villagers for their houses, so the wood was used for firewood instead. The cost-effectiveness of the USAID-managed school and clinic building program has now been well documented by a range of reviews and investigative reports. It is now estimated that \$600 million per year is spent on technical assistance to the government, which outweighs the cost of maintaining the entire civil service of 260,000 people (Stephens and Ottaway 2005a, Stephens and Ottaway 2005b).

Harm to state institutions

The impact of building organizations in chains to implement projects outside government structures across the country warrants analysis. Whereas \$20m was initially pledged from the donors to the government for 250,000 civil servants, \$1.8bn was requested for UN agencies which had seven staff in the country at the time, to implement hundreds of small projects. The implication of this decision is that there was little sense of policy coherence, with funding being directed to small projects across the country rather than to coherent

programs. A large number of international staff were deployed to the country, each requiring drivers, translators, secretaries, guards who were paid in the region of \$600 per month. This attractive salary, which the government could not match, saw a large number of support staff recruited from the civil service, where they had previously served as teachers, doctors and managers. It is arguable that much of the aid given had - and continues to have - a damaging impact on state institutions. In effect the international agencies were drawing staff from government positions to support an unsustainable aid bureaucracy that could not operate outside of Kabul in a declining security environment. The impact of this initial decision, to circumvent the ARTF support for core government staff and functions and build parallel UN and NGO organizations, has yet to be seriously studied. However, it is a source of much tension and resentment within the Afghan population.

Adding to these difficulties, the hundreds of different projects each came with specific internal rules for procurement, managing, and reporting. The parallel fields of rules thus created undermined the coherence of the laws and procedures in the country. Where there was a conflict between Afghan law and donor regulations, it was in virtually every case donor regulations that trumped Afghan law, even in 'rule of law' projects. It also created confusion in policy. An Afghan in a village would have no idea what, as a matter of law or policy, their entitlements were. This was because these entitlements often depended on the seemingly random decisions of NGO employees in the field, outside the purview of national regulations on standards and procedures for service delivery.

Perhaps even more harmful was the concomitant impact of the private security firms hired to protect the international contractors. Where foreign construction contractors were hired, particularly in the more remote provinces, it became practice for private security firms to be hired. These private security firms either attract existing police or army personnel away from Afghan national institutions, or train new personnel in the use of firearms and then hire them on short-term contracts. The potential dangers of such practices, involving tens of thousands of people, do not need to be spelled out.

Deflection of the attention of leaders and managers

Lastly, establishing hundreds of projects, each run through different sets of procedures, had the effect of deflecting the attention of the national authorities from formulating and implementing a national policy agenda to dealing with the minutiae of agreements, delegations and problem-solving for projects devised elsewhere. Further, it could be argued that such projects undermined the accountability of the government. Given that little information was supplied about their implementation, the government was unable to report on the implementation of the budget to the population, despite many requests from the population and their elected delegates, including through the two Loya Jirga, for this to happen.

What gives the government its 'negotiating position' relative to donors?

A number of factors limited the ability of the Government to set the agenda, and in particular to ensure that resources flowed through government systems. Firstly, its Treasury was literally empty as the last delivery of Afghanis, printed for the Government

in late 2001, had not reached or remained in the Treasury. The Government of Afghanistan was thus dependent on foreign assistance to fund its core budget. Early funding decisions taken by the UN Development Group provided the government with \$20 million and the UN agencies and NGOs with \$2bn in financing, thereby establishing the UN agencies and NGOs as autonomous from the Government in making policy.¹³ As late as April 2002, UN agencies refused to share their plans for reconstructing Afghanistan with Chairman Karzai. Secondly, the newly established central authorities - whose authority to govern was established under the Bonn Agreement - was dependent on the deployment of ISAF and Coalition forces to back its occupation of the physical spaces of power until national security institutions could be built. Thirdly, neither the previous government - the Taliban - nor its successor - the Northern Alliance that had occupied the spaces of government between the fall of the Taliban in November 2001 and the inauguration of the Interim Administration on 22 December 2001 - were recognized as legitimate by the majority of the world's nation states. While the Interim Administration was recognized as both legitimate and sovereign by the world community, as recognized by the Security Council resolution endorsing the Bonn Agreement, the memories and habits of international actors on the ground inclined them to treat the Afghan authorities as illegitimate. Lastly, and most significantly, where the enterprise failed in part was due to the immovability of the aid system, often not because its rules do not permit alternative configurations, but because practices are so embedded in an existing way of doing business.

On the other hand, there were conditions that allowed the Government to assert leadership of the process. First, the Interim Administration was endowed with *de jure* legitimacy as recognized in the Bonn Agreement, and as a legitimate government, it had the legal right and responsibility to set and implement policy. Much of the strength of the Government position was derived from law and process. According to the laws of the country, money had to be channelled in particular ways in line with the budget process, and alternative modalities were in contravention of Afghan law. Second, a group of individuals built on this *de jure* legitimacy, as well as the language of Afghan 'ownership' of the reconstruction process, to assert authority over the process. They built on the *de jure* legitimacy through projection of moral authority, of a post-conflict government established by international consensus and mandated to lead the country by a UN Security Council resolution, compounded by the personal integrity and reputation of a well-chosen team. They built credibility through the publication and active use of a series of policy papers and speeches, starting with President Karzai's speech at Tokyo. They then developed this approach - to creating national strategy and to forging a more propitious aid relationship - through a series of increasingly detailed and participatory policy exercises. The team effectively managed its policies and actively sought accountability for their implementation. Third, a credible team of Afghans and international partners were assembled who had deep knowledge of the country, international agencies and their workings, sectors, strategy for reconstruction, and possessed an understanding of how to manage projects and programs. A project financed by the Canadian government and a number of other donors to assemble teams of Afghans, with the facilitation of Ashraf Ghani and Mohamed Mohamedi, allowed groups of expert and professional Afghans to be convened around sectors to prepare strategies in advance of the launch of the National Development Framework. At the same time, the leading experts in each sector from the World Bank and other agencies were identified, and were requested for deployment to work in partnership with the Afghan teams. This allowed sector strategies to be devised which underpinned the preparation of the national vision. Authority to set the rules, in the

eyes of the population and the donors, was derived from dedication and professionalism on the part of teams within government who worked around the clock to prepare analysis and implement reforms. Fourth, consultative processes were organized that were considered to be legitimate because they were rooted in the Bonn Agreement and its processes, community consultation, and through the budget process. For example, a process was designed to combine the technical sectoral work managed by Afghans with the policy of the nascent Cabinet, through a series of interviews and focus groups conducted through January 2002, and others designed to consult delegates from across the country through interaction with the Emergency Loya Jirga and Constitutional Loya Jirga. Lastly, rapid donor support (largely through DfID) was provided to establish the AACA - the Afghanistan Coordination Assistance Authority - which functioned as a catalytic organization to support the writing of key policy documents, establish aid coordination modalities, establish the skeletal structures and design of key national programs (such as National Solidarity Program, National Emergency Employment Program), and put in place implementation mechanisms such as international procurement and audit agents.

Conclusions

There are many implications and lessons that can be drawn from the Afghanistan case study. First, Afghanistan has served as a catalyst for learning about new instruments and aid modalities, particularly in terms of long-term financing mechanisms, linking aid to long-term reform programs; the use of multi-donor trust funds; the use of national programs as cost-effective implementation mechanisms that promote national ownership and catalyze capacity-building; and the importance of the use of the budget as the instrument of policy-making. The Afghanistan model has already served as a source of learning, innovation and adaptation for a number of initiatives, including the Good Donorship in Fragile States initiative, and country processes elsewhere.

Second, the Afghanistan case perhaps serves to sound a cautionary note about the appropriateness of using foreign-based private contractors, UN agencies and NGOs, designed for short term interventions, for building up parallel mechanisms that then cannot fulfil their promises of delivering services to entire populations, and on the dangers of imposing conflicting policy priorities on a fledgling government.

Third, this case points towards the difficulty, even where a coherent leadership team articulates a sound vision and a UN mandate provides legitimacy, of corralling donors, who insist on dancing to their own tune. To keep even a limited number of donors behind a coherent agenda frequently required the Minister of Finance to call the heads of organizations, and huge investments of time, resources and energy. For example, to try to limit the negative impact of one of the parallel processes put into effect in competition with the national budget process, the eight senior managers of the AACA were required to work for 6 weeks during budget preparation time to review the \$1.8 billion projects already prepared by the UN agencies, instead of using their time to prepare and implement the national budget. Sixty percent of these projects were then rejected, on the basis of World Bank QAG rules.

The case also suggests that even where a recipient government does have adequate frameworks, policies and systems in place for managing aid, a substantial number of donors choose not to use them and instead bypass and undermine them. Many donors

consistently flouted the country's rules and laws for aid management, despite their own rhetoric about 'rule of law'. It is interesting to note that while the ARTF system provided international procurement, financial management and audit firms, internationally designed management programs, and comprehensive, audited annual reports, many donors elected not to use this system on the basis that they did not consider it transparent, accountable or effective enough. Instead UN agencies were financed, although as of 2004 they had yet to provide a financial report on more than \$3 billion of expenditure. Comparison of benchmarks and standards of transparency, effectiveness and accountability could be a useful exercise.

Fourth, where budget support is used as a mechanism it is not sufficient in itself; a number of other supporting mechanisms are required in order to build the institutional effectiveness to ensure implementation. In the case of Afghanistan the mechanism for implementation was the vehicle of national programs, which ensured full accountability, transparency and a high degree of effectiveness in implementation across the country. A second mechanism is to ensure a single procurement unit, with efforts to ensure that appropriate rules, procedures and personnel are in place to manage the process.

Fifth, this case points to the need to tailor approaches to specific context of time and place. Where mechanisms have been copied from Afghanistan to other contexts, they have not worked well, because they were designed with particular features of the context in mind. Where mechanisms developed in Afghanistan, which were designed for one point in time, are applied at a different point in time, they will not serve their purpose.

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Endnotes

¹ This issue emerged privately in discussions in Kabul in 2002 and 2003.

² Annex 1 of the ‘Afghanistan Compact’ sets out these benchmarks in detail. It is the role of the Joint Coordination and Monitoring Board to monitor progress against these benchmarks and report back to the President, National Assembly, UN Secretary General, public and donors.

³ This agenda was set out at a donor meeting in Brussels on 16 April 2003. It is fully described in a series of papers, including “Closing the Sovereignty Gap: An approach to state-building”, ODI Working Paper 253 September 2005, and “An Agenda for State-building in the 21st Century” Fletcher Forum of World Affairs, Winter 2006, and is incorporated into the overarching strategy document “Securing Afghanistan’s Future”.

⁴ The author conducted a review of key donor policy statements, made between 2001-6, which make clear the multiplicity of objectives.

⁵ The World Bank administered Afghanistan Reconstruction Trust Fund website provides a break down of contributions, by country, through solar years 1381 to 1384, with a projection of contributions this year (1385). This breakdown demonstrates the general increase in financing passing through the ARTF, as well as the unwillingness of certain donors to contribute significantly (Japan has chosen not to support the ARTF), or in proportion to their spending through other channels (the USA).

⁶ Interviews with key personnel working on Government programming, including representatives from UNAMA, UNDP, GoA and World Bank, 2006.

⁷ As Finance Minister, Ashraf Ghani warned of the possibility of Afghanistan becoming a ‘narco-mafia’ state in 2003.

⁸ Radio Free Europe maintains a chronology of suicide bombings in Afghanistan which emphasises this trend. Available at <http://www.rferl.org/featuresarticle/2006/01/9ac36a59-d683-4189-a2b9-94fe5fbf32ad.html>.

⁹ Statement, General Karl Eikenberry, Commander Coalition Forces Afghanistan, July 2005.

¹⁰ ‘Securing Afghanistan’s Future: Accomplishments and the Strategic Path Forward’, prepared for the International Conference of March 31st 2004, was drawn up by a team of experts from the UN family and multilateral development institutions in collaboration with Afghan colleagues to stress a co-produced state-building strategy for Afghanistan. “Some Issues Confronting Afghanistan’s Future”, November 2004: a policy paper setting out key upcoming issues, including the need for such a Compact.

¹¹ UN Financing Department, Kabul Estimate, 2002. At that time an average government official salary was \$50 a month.

¹² Conference Proceedings, Berlin Conference, Securing Afghanistan’s Future. 31st March – 1st April, 2004.

¹³ Interviews with UN Officials, 2002 and 2006.



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