

# **INTERNATIONAL ASSISTANCE AND GOVERNANCE IN AFGHANISTAN**

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Volume 2: International Assistance and Governance in Afghanistan

A study by Hamish Nixon

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HEINRICH BÖLL FOUNDATION  
**PUBLICATION SERIES ON PROMOTING DEMOCRACY  
UNDER CONDITIONS OF STATE FRAGILITY**  
**VOLUME 2**

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## PREFACE

In commencing this study, the Heinrich Böll Foundation wants to contribute toward an understanding of governance processes in the post-conflict reconstruction project in Afghanistan. While focusing its work in Afghanistan on women's rights, civic education and the support of the democratization process, the Heinrich Böll Foundation perceives the impact of the economic architecture and the influence of international aid on the processes of developing good governance as some of the key features for a sustainable governance process in the country.

The study provides the reader with background information on the aid economy and aid architecture in Afghanistan, and their impact on governance and development. It outlines some main features of the aid system governing assistance to the country. Moreover, the study provides an analysis of key issues that connect this system with the longer-term problems of governance, state-building, security and development in Afghanistan.

While in 2001 the situation in Afghanistan showed a good potential for stabilization through putting forward the process of development and governance, the situation in the year 2006 rather reflects people's dissatisfaction with the newly emerging governmental structures and the international communities' support of it; meanwhile there is a growing state of insurgency and the lack of options to reduce the production and trade of opium. Today there exists a lack of sustainable solutions that would contribute to an improvement of governance in Afghanistan.

The study states that the aid architecture so far has failed to facilitate the important mechanisms of state-coordinated public-service delivery. While keeping state-building as a central concern, the study suggests that a newly established framework for national and international assistance through the Afghanistan Compact and the Afghanistan National Development Strategy should be utilized to facilitate changes and eliminate hindrances.

The author concludes with recommendations on the reframing of stabilization, political and technical agendas with a long as well as short-term perspective. This reframing should remain in line with an appropriate balance of on and off-budget resources. Overall, it is important to develop strategies for governance. Other measures to be carefully recognized are, for example, the further developments of subnational strategies for governance, domestic monitoring and evaluation of the process.

The Heinrich Böll Foundation would like to thank the Afghanistan Research and Evaluation Unit and especially Mr. Hamish Nixon for conducting the study and therewith providing a valuable input toward the discussion of aid effectiveness in Afghanistan.

*Spring 2007*

*Marion J. R. Müller, Kabul*

*Gregor Enste, Lahore*

*Heinrich Böll Foundation*



# International Assistance and Governance in Afghanistan

## OVERVIEW

Afghanistan in 2006 faced an acute crisis with three inter-related dimensions: insurgency, opium, and dissatisfaction with the government and its international backers. Sustainable solutions to these challenges all require a long-term commitment to improved governance in Afghanistan. Governance involves more than just government, and encompasses broad questions of how Afghan society and its international supporters may deliver public goods in the area of security, representation, and welfare. Nevertheless, the state will have a central role in coordinating this delivery, and state-building is therefore the central concern for the country's future. The aid architecture to date has not been consistently oriented towards meeting this challenge, and changes are required both inside and outside the country to do so. The recent transition to an assistance framework based on the Afghanistan National Development Strategy and Afghanistan Compact presents opportunities to make these changes. However, this framework requires further elaboration to most effectively support governance-based solutions to the country's challenges.



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# ACRONYMS

- **ADB** Asian Development Bank
- **AIHRC** Afghanistan Independent Human Rights Commission
- **ANA** Afghan National Army
- **ANDS** Afghanistan National Development Strategy
- **AREU** Afghanistan Research and Evaluation Unit
- **ARTF** Afghanistan Reconstruction Trust Fund
- **CDC** Community Development Council (National Solidarity Programme)
- **CGS** Consultative Groups
- **DFID** Department for International Development (United Kingdom)
- **FY** Fiscal Year
- **GDP** Gross Domestic Product
- **GNI** Gross National Income
- **GOA** Government of Afghanistan
- **HIPC** Highly Indebted Poor Country
- **I-ANDS** Interim Afghanistan National Development Strategy
- **IDB** Islamic Development Bank
- **IFIS** International Financial Institutions
- **ISAF** International Security Assistance Force
- **JCMB** Joint Coordination and Monitoring Board
- **MDGS** Millennium Development Goals
- **MRRD** Ministry of Rural Reconstruction and Development
- **NDF** National Development Framework
- **NRVA** National Risk and Vulnerability Assessment
- **NSP** National Solidarity Programme
- **OECD** Organisation for Economic Cooperation and Development
- **PDC** Provincial Development Committee
- **PRSP** Poverty Reduction Strategy Paper
- **SAF** Securing Afghanistan's Future
- **SSR** Security Sector Reform
- **TA** Technical Assistance
- **TWGS** Technical Working Groups
- **UN** United Nations
- **UNDP** United Nations Development Programme
- **US** United States
- **USAID** United States Agency for International Development

# INTRODUCTION

Five years after the renewal and intensification of international assistance to Afghanistan that began at the Bonn Conference, Afghanistan confronts a situation more delicate than at any time since 2001. Large areas of the country are wracked by insurgency, unabated opium production and trafficking, and there is growing discontent over real and perceived failures to achieve improvements in the lives of 'ordinary Afghans'. These problems grew dramatically in intensity and significance during 2006. Parallel to these events, Afghanistan held parliamentary and provincial council elections in 2005, thus establishing many of the representative institutions called for by the 2004 constitution. These achievements signalled the effective end of the 'Provisional Arrangements in Afghanistan Pending the Re-establishment of Permanent Government Institutions' set out by the Bonn Agreement, and thus mark an attempted transition from a programme of relief towards sustainable reconstruction and longer-term development.

Despite 'mixed outcomes' being common in post-conflict reconstruction processes, there is growing and warranted concern that the severe triple threat of insurgency, opium, and declining legitimacy will combine to form a 'perfect storm' undermining these achievements and the future of the country.<sup>1</sup> It has become common in both policy and media sources to assess progress in Afghanistan in terms of a kind of 'balance sheet', where 2006 presents a declining balance but also presents opportunities to confront these challenges.<sup>2</sup> However, simply weighing up positive achievements against the increasing challenges obscures some of the most important dynamics of the post-conflict development process in Afghanistan: the relationships between the challenges and the successes, and the role of international assistance in producing both.

A major reframing of Afghanistan's development strategy and international assistance began in January 2006. The presentation of the Interim Afghanistan National Development Strategy (I-ANDS) and the adoption of the Afghanistan Compact at the London Conference introduced a new strategic framework for the Islamic Republic of Afghanistan and the international community's joint efforts 'to consolidate peace and stability through just, democratic processes and institutions, and to reduce poverty and achieve prosperity through broad based and equitable economic growth.'<sup>3</sup> This broad transition from the interim Bonn Process towards a development framework is far from complete or even assured, but means that the creation of sustainable institutions of governance is the central challenge for achieving Afghanistan's long-term vision.

This essay examines this nexus between governance as the central issue in the establishment of a stable, secure, and developing Afghanistan, and the international assistance architecture deeply involved in that project. It begins by asserting that the triple threat to Afghanistan's future can only be met through dramatic and sustainable improvements to the governance situation in the country, since each of them has origins in a failure of governance. It then reviews some principal features of the aid architecture in Afghanistan, and arguments surrounding its role in both supporting and undermining positive governance change. Against this background, it then turns to the potential and limitations of the transition heralded by the I-ANDS and Compact to improve outcomes, and concludes by highlighting some missing elements of this transition and recommendations for the future.

# THE CENTRALITY OF GOVERNANCE AND STATE-BUILDING

At its most basic level, governance concerns ways of organising resources and responsibilities towards collective ends. The context for this activity may include households, communities, societies and nation-states, as well as organisations such as firms, bureaucracies, and religious and non-governmental entities. Governance can be defined as ‘the process whereby societies or organisations make important decisions, determine whom they involve and how they render account’.<sup>4</sup> All governance therefore involves questions of *process, participation, and accountability*.

This approach to governance contrasts with earlier conceptualisations popular from the late 1980s and early 1990s, which focussed primarily on formal state institutions in general, and their role in economic development in particular.<sup>5</sup> Since then, understandings of governance have expanded to include: both informal or non-state organisations and institutions; a broad range of public and quasi-public goods, including security, health, education; an enabling economic environment including infrastructure, social capital and regulation; and more intrinsic values such as justice, citizenship, and legitimacy.<sup>6</sup> In short, governance issues can be as broad as a society’s collective goals, whether these are achieved through state action, ‘informal’ social regulation, external assistance, or as in Afghanistan, some dynamic combination of them all. Nevertheless, in the modern era a minimum of state effectiveness and legitimacy is the central ingredient of governance at a national level, whether the state plays a productive, co-productive, or simply co-ordinating role in generating a given public good.

The public goods that the state is involved in generating can be grouped into three broad categories: security, representation, and welfare.<sup>7</sup> This theoretical typology can obscure the real-world plethora of other actors, institutions, and relationships involved in providing the goods associated with each of these three categories. In the reality of conflictual and developing states, few of these functions are fulfilled by the state alone – if they are fulfilled at all. Nevertheless, while public security, representation, and welfare emerge from a variety of arrangements, without a state in a central role these goods are likely to be unstable and transient in the modern world system. While governance involves much more than state institutions, where the state can not coordinate governance, then governance and state-building are intimately connected.

In this light, a society moving from violent conflict to post-conflict conditions, and from there to sustainable development, can be interpreted as undergoing a state-building process with security, political, and economic dimensions.<sup>8</sup> It is important to again stress that this process must place the state at the centre of governance, but not equate the state with governance.<sup>9</sup> In turn, the legitimacy and therefore long-term stability of a state depends on its centrality and effectiveness in contributing to each of these three areas.

## Governance and Afghanistan’s challenges

In Afghanistan, these relationships between governance, public goods, and state-building have not been sufficiently well developed to prevent the current crises. In the

first instance, the threat of insurgency represents the state's inability to provide security, though this inability is also clearly conditioned by factors outside the control of Afghan actors, such as the porosity of the country's borders and the conditions in neighbouring countries. It will be necessary, but not sufficient, for the state to take a central role in providing security through improvements in the security sector much discussed elsewhere.<sup>10</sup> But even more, the current intensification of the insurgency has been increasingly attributed to lack of reconstruction and development, effectively reversing the conventional wisdom that security is the basis for development, and replacing it with the tenuous assumption that 'development' will bring security.<sup>11</sup>

The degree to which both the widening insurgency and general discontent can be addressed by development assistance will be heavily conditioned by the quality of governance. There is now considerable consensus that institutional context determines, in part, the effectiveness of development aid in reducing poverty.<sup>12</sup> One reason is that development causes change and transformation and can raise expectations or emphasise inequalities, thereby leading to conflict. In such a situation, governance institutions that can provide security, representation, and welfare can make those changes more legitimate or mitigate their effects by managing conflict.<sup>13</sup> Aid is more effective in good macroeconomic environments or politically stable countries, suggesting that security and governance must not be seen as products of development, but as contributors.<sup>14</sup> Security depends on more than just development, and both security and development depend on improved governance. This is a crucial lesson for Afghanistan, particularly in the insurgency-torn South, where emphasis on quick impact 'development' as a solution to insecurity may be supplanting attention to long-term reform of institutions.

The other threats identified above – the expanding opium economy and growing popular discontent with government and international assistance – also can only be addressed effectively and sustainably through improved governance performance in the areas of administrative control, regulation, and an enabling economic environment. The growth in opium production represents a failure of administrative control by the state over its territory to control production and especially trafficking, but more importantly a failure to provide credit, safety nets, and alternative products and markets.<sup>15</sup> For the reasons just mentioned, governance factors condition the lack of development so often cited by citizens as the main problem facing them, along with corruption and a widening sense of government and international inefficacy.<sup>16</sup> The popular discontent identified as the third strand of Afghanistan's triple threat is thus linked to the state-building problems of providing both representation and welfare.

In short, improving governance is the central issue in overcoming the challenges of Afghanistan today. In turn, the role of international assistance in creating improved state contributions to security, representation, and welfare, is a crucial element. This centrality is explicitly recognized in the I-ANDS and the assessment of external actors of that strategy: '[i]nstitutional development and governance are the cornerstone of the I-ANDS'.<sup>17</sup> However, the relationship between assistance and the development of effective and legitimate governance is unlike those in many areas of international assistance, especially in the immediate reconstruction phases of post-conflict scenarios. For example, in activities like refugee return and reintegration, rehabilitation of infrastructure, or food aid, aid-effectiveness can be viewed as a fairly straightforward measure of the effective application of resources to a defined problem such as food

insecurity, shortage of shelter or drinking water, or unemployment. No doubt these activities are not simple, and many programmes have been known to undermine their own goals.

By contrast, governance as just defined involves processes whose effectiveness and legitimacy often depend on their being led by the society itself, and thus lie at a greater distance from the reach of external assistance. If a society's governance arrangements are not legitimate and effective, it is very difficult for external assistance to change that situation without entering into complex relationships that do not always serve the goals of the society or its partners.<sup>18</sup> At root, governance is something that societies must do for themselves, and therefore large-scale international assistance presents particular challenges in achieving it.

Afghanistan faces three interconnected dilemmas stemming from the relationship between international assistance and governance. The first is time. Just as it is becoming apparent that the challenges facing the country can only be truly addressed through developing effective and legitimate governance institutions, the time required for such development may be greater than the time the threats that face the country may allow, or international interest may support. Second, there is an increasing sense that the delays in producing this improved governance are caused by international assistance as well as mitigated by it. It is this complex relationship between assistance and governance that the essay addresses next, after introducing some key features of the international assistance architecture. Third, the political challenges of stabilising and maintaining some order in Afghanistan have prevented or slowed many aspects of the technical reform agenda to bring improved governance to the country.

# THE ASSISTANCE ARCHITECTURE AND GOVERNANCE

The increase in international assistance to Afghanistan since the fall of the Taliban has been accompanied by an increase in the complexity of the architecture that delivers and receives it. The amount of assistance is significant both in its weight in relation to other resources available, and its relatively light quantity in comparison with other countries attempting to overcome conflict and its legacies. In addition, the aims to which it is directed, and the way that it has been delivered, are important factors determining its effects on governance and state-building. Each of these aspects of the aid architecture are products of the international context and Afghanistan's own history of institutions and capacity to deal with this new assistance. This section discusses these questions of 'how much', 'for what', and 'how delivered'?

## Aid quantity and governance

The question of how much assistance Afghanistan has received is more complex than it first appears. This is not just because it is impossible to arrive at a definitive figure for international assistance due to the many donors and military actors, and the complexity of the mechanisms involved.<sup>19</sup> When considering the amount of assistance to Afghanistan, it is also important to consider different interpretations of the amount of assistance and its purpose. Afghanistan, like many poor and post-conflict countries, is extremely dependent on international assistance. At the same time, the assistance it has received has been less on many measures than that given to other countries recovering from similar legacies of conflict. In short, the meaning of those amounts must be considered before one can describe them as 'a lot' or 'a little'.

One interpretation of the amount of assistance to Afghanistan is that it has been too little. This argument rests on comparing the aid promised or disbursed with assessed needs or requests, as well as on international comparisons with other post-conflict countries. The first donor conference on Afghanistan in January 2002 produced pledges over five years of \$5.2 billion, against a hasty multilateral preliminary needs assessment of over \$14 million.<sup>20</sup> In Berlin, \$8.2 billion of non-military assistance was pledged against the seven-year plan laid out in *Securing Afghanistan's Future (SAF)*, a re-costing exercise that requested \$27.5 billion. In this sense, pledges have fallen far short of the needs expressed by multilateral institutions or the government. While the dramatic disconnect evident in these figures can be exaggerated as many donors such as the United States are only able to pledge on a yearly basis against multi-year requests, this inability to make multi-year commitments must itself be of concern in the international aid system.

More importantly, these pledges do not reflect what was actually received or spent. In the period from 2002 to the end of the 2004/5 fiscal year (1381–1383) only \$3.3 billion of the \$13.4 billion pledged was spent on projects, and less than \$1 billion was spent on projects completed during that time. However, according to the Organisation for Economic Cooperation and Development OECD, in 2005 Afghanistan received more than \$2.2 billion in overseas development assistance, an amount equivalent to 38 per cent of the country's non-opium gross national income (GNI) and reflecting an

improved donor commitment to the first year of SAF.<sup>21</sup> In London in February 2006, donors pledged \$10.4 billion tightly tied to the five-year plan laid out in the I-ANDS and Afghanistan Compact. It is evident that initial 'light footprint' assistance levels are increasing and perhaps stabilizing near to \$3 billion per year, though doubts remain about the sustained commitment of major donors such as the US, which has reduced the USAID budget to Afghanistan by 29 per cent between FYs 2004 and 2007.<sup>22</sup> As detailed below, total spending in Afghanistan will fall by about \$450 million between the 1384 (2005/6) and 1385 (2006/7) budgets, though some of this drop may be attributed to the costs of parliamentary elections in 2005, which were over \$150 million.

These aid levels, over the first two years of post-Taliban assistance, have been compared on a per capita basis with other post-conflict countries. While Afghanistan received \$57 per head, Bosnia received \$679, East Timor \$233, and Haiti \$73; Congo, Cambodia, and Sierra Leone received less.<sup>23</sup> In this interpretation, assistance has been inadequate to meet the enormous challenges presented in 2002, and has contributed to the failure to secure a peace and prevent the crisis now facing Afghanistan. Therefore, the logical recommendation is that the delivery of pledged aid must be improved, and pledges should continue to increase to a scale commensurate with the country's needs. In the words of one critic, this approach suggests that a 'critical mass' of aid is needed to buy the support of the population and overcome challenges from alternatives such as the opium economy.<sup>24</sup> The development of the SAF and now the I-ANDS (although it will be some time before this is costed) do represent increased effort to determine just how much that critical mass might be.

A second interpretation of the quantity of aid, emphasising its weight in relation to the income of the country and its public sector, is that it is very large. In 2004/5 (1383) international assistance was more than 40 per cent of Gross Domestic Product (GDP), while domestic revenues for the government were only 5 per cent of GDP, a very low ratio for any country.<sup>25</sup> More strikingly, in that year international assistance still accounted for more than 90 per cent of total public spending, signalling enormous dependence on external actors. Despite domestic revenues approaching 6 per cent of GDP for 2006/7 (1385), the ratio of assistance to total spending remains largely unchanged.<sup>26</sup>

Comparisons of these ratios between aid and domestic revenues against total spending with other periods of Afghan history, such as the Daud Presidency or the communist regimes from 1978 to 1992, indicate that the government is much more dependent now on external assistance than ever in the past.<sup>27</sup> The current level of aid also dwarfs the approximately \$300 million per year allocated during Taliban rule, notwithstanding the difficulties of its delivery during that period.<sup>28</sup>

Internationally, the relationship between taxation and accountability is increasingly seen a central one in democratic state-building. In short, '[t]here are strong, direct connections between the ways in which governments raise revenue and the quality of governance that they practice.'<sup>29</sup> In this interpretation, the weight of international assistance overwhelms the ability of the state to fund itself and therefore direct its own policies. It creates a *rentier* state which does not enjoy sovereignty and which is not conducive to development or democratic rule.<sup>30</sup> Essentially, the argument runs that since the money comes from outside, that is where the accountability flows as well. This pattern has been examined in analyses of both European state formation and natural resource windfalls in developing countries.



However, it is important to remember that this argument rests on the two pillars of high aid as well as low domestic revenue. Certainly Afghanistan's revenue mobilization is very low, and its potential revenues also seem low in light of a heavily informal economy. However, revenue growth is occurring, and it is projected that in the next two years revenue will cover salaries, though probably not all operating expenditures.<sup>31</sup> In combination with some form of decentralisation of budgeting and spending, this development may lead to increased accountability relationships over time.

In the Afghan context, dependence on outside money also weakens the state's ability to bargain and make binding commitments with other power-holders, especially in the context of a growing opium economy that provides these challengers with alternative sources of *largesse* without such strings attached.<sup>32</sup> One policy recommendation based on similar thinking is that the Afghan state should not pursue a resource-heavy centralising role, as its resources would be inadequate, but rather act as a 'mediator' and network manager among regional power-holders; in one case, advocating a state establishing only 'the minimal conditions for medieval civilization' of a neutral capital and trade routes.<sup>33</sup> It was never apparent how such networks and neutrality were to be preserved without a deep military dependence on foreign actors, and this argument was ignored in the 2004 constitutional process.<sup>34</sup> However, dependence and uncertainty does mean that the state has more trouble confronting power-holders that challenge it, and is thus more likely to pursue policies of accommodation with them to maintain stability.

The question of 'how much' thus can have different answers, depending on the way the question is asked. From the point of view of governance, there are genuine concerns with both the lack of development and state-building. The small amounts of assistance reaching the ground are undermining governance by eroding legitimacy, and intensive efforts to increase government capacity have produced little sustainable change so far. Equally, the perverse effects of the aid given, in terms of state legitimacy and effectiveness, need to be considered. To look beyond simplistic conclusions about more or less aid, it is necessary to consider what the aid is spent on, and how it is delivered.

## **Aid delivery and governance**

Increasingly, international development discourse recognises that 'the problems of bad governance in much of the global South are directly linked to the way in which rich countries manage their relationships with poorer countries.'<sup>35</sup> International assistance to Afghanistan since 2001 has come from many sources and has been delivered in many different ways. The relationship between aid and the state-building process in Afghanistan centres on these mechanisms and their influence on the effectiveness of aid at improving governance outcomes. These relationships are especially important in light of the degree of aid dependence in Afghanistan, and some international studies suggest that aid dependence itself hinders governance improvement.<sup>36</sup> The architecture of aid across sectors has a number of features that affect the development of effective and legitimate institutions, and therefore conditions the country's ability to overcome its present challenges. This section discusses some of those features and then describes some of the aid delivery issues in governance-specific programming. The next section addresses the impact the transition to the ANDS framework may have on these relationships.

First, the aid architecture for Afghanistan has been supply-driven, in part due to the imperatives of the global war on terror. One effect of this agenda was a particularly strong military and relief bias in the early part of the post-Taliban period. In the first year after the fall of the Taliban, 84 per cent of international spending (including coalition military activities) was on military action, 9 per cent on humanitarian relief, 4 per cent on the International Security Assistance Force ISAF, while only 3 per cent was directed to reconstruction.<sup>37</sup> This supply-driven quality contributes to a lack of conditions on assistance. Such a situation produces a ‘Samaritan’s Dilemma’ in which the donor is driven to give, but the incentive for the recipient to expend effort is weaker since there is assured assistance.<sup>38</sup>

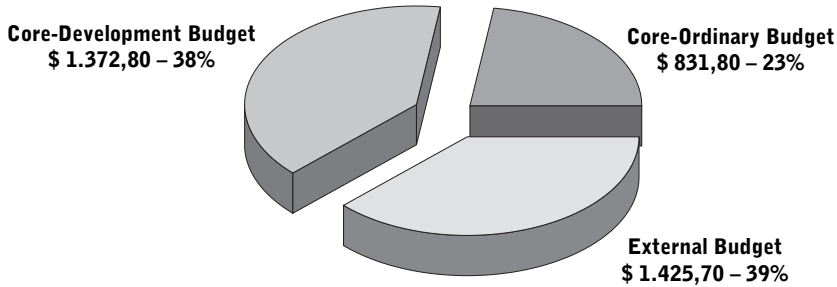
This is particularly true in Afghanistan in the area of reform of public institutions, where the elements of the Bonn Agreement were not attached to strict conditions for the government, and were in fact delayed and incompletely met.<sup>39</sup> This problem compounds the limitations that Afghan government actors have when trying to pursue reform or confront other power-holders. In Afghanistan this has meant that while the benchmarks of the Bonn Agreement were mostly met in the end, it was in the absence of other key changes such as the effective removal of corrupt officials or candidates, or genuine reform of key ministries. The problem is equally significant for assistance in other sectors, where at least some of the line ministries enjoy relative power over donors driven to ‘move the money’, and in some cases can even play donors against each other. On the positive side, this situation may reverse some aspects of the dependency discussed in the previous section and, under the right circumstances, might allow the government to assert its own goals more forcefully. The most important obstacle preventing the Afghan state from achieving this increased ownership is the slow development of more indigenous strategic capacity, for example due to suboptimal application of technical assistance (TA).

A second issue is the breakdown of aid delivered inside or outside government control. Up to the end of 2003/4 (1382), approximately \$3.8 billion of assistance was channelled outside the government budget, while only \$1.2 billion went through the government, in addition to about \$350 million raised by the government domestically.<sup>40</sup> In 2004 the government reorganised the system of budget reporting, introducing a ‘Core Budget’ with ‘Ordinary’ and ‘Development’ components. With some exceptions, the ordinary budget now pays recurring expenses, such as salaries and operations and maintenance, while the development budget is for new investment. Alongside it, an ‘External Budget’ accounts for donor-reported funds channelled outside the government. Roughly speaking, by 2004/5 (1383) 75 per cent of all assistance for that year, or \$2.5 billion, was still spent outside the government budget and institutions. While this is not unusual in early post-conflict circumstances, it poses dilemmas for government institutional development and legitimacy.

As figure 1 shows, the 1385 national budget details increased spending through government channels, up to 61 per cent of the total expenditures compared to 55 per cent the previous year. However, this higher proportion is largely explained by a reduction in commitments to the external budget by donors. Of \$2.9 billion in expenditure requests, only about \$1.4 billion were agreed – a drop of about \$750 million. Domestic revenues are expected to reach \$520 million, roughly 63 per cent of the operating budget and nearing the level needed to cover the wage portion of that bill (although currently some salaries are in fact paid through the development and even external

budget). At mid-year, revenues were ahead of the budgeted target, but still accounted for only 14 per cent of the spending, though they covered an increasing portion of the recurrent budget, perhaps the more relevant comparison.<sup>41</sup> In general then, while total resources have fallen by \$450 million, the overall level of aid dependence has also fallen slightly, and government control over total resources is increasing considerably.

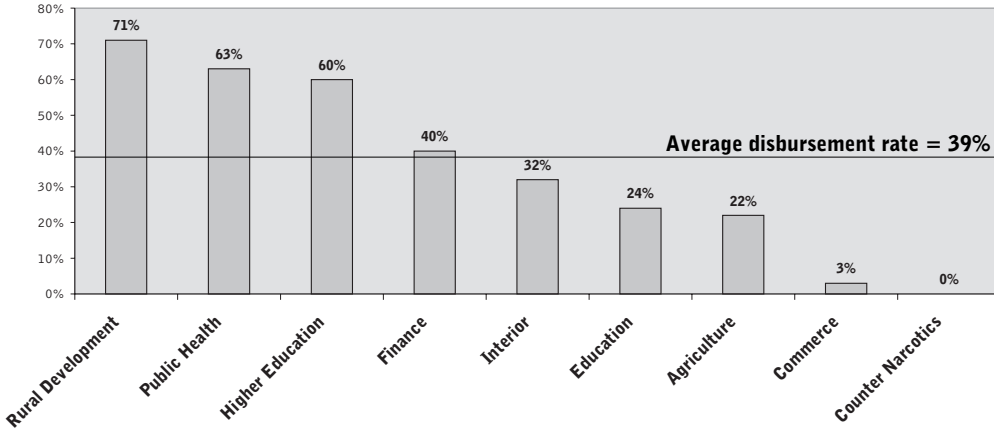
**Figure 1: The 1385 external and core budgets**



Source: 1385 Budget Decree, Ministry of Finance

However, the breakdown of resources going through government channels or outside them obscures some important factors regarding the delivery of aid, and where it goes. Money that is channelled through the treasury is spent slowly and unevenly. In 2005/6 (1384) the execution of the core budget – that is, the amount of money on the budget that was actually spent – was only 62 per cent of the total. This slow execution rate was mainly driven by the development budget: Only 44 per cent of the money budgeted in 2005/6 (1384) and controlled by the government for new investment was actually spent. Against this, recurrent expenditures are actually spent quite effectively: an important improvement over earlier years when salaries and other recurrent expenditures were slowly executed.<sup>42</sup> The development budget execution rate varied widely between ministries, for example from 71 per cent in the Ministry of Rural Reconstruction and Development (MRRD) to only 22 per cent in Agriculture across the same sector. It was somewhere in between for the ministries of Education and Interior, but much lower in a few sectors that involve a lot of off-budget spending, such as counter-narcotics. At mid-year of budget 1385 (9 October 2006), development budget execution was only 23 per cent and, even with the normal increase in disbursement in the second half of the year, seems likely optimistically to reach only about 60 per cent of the budget.<sup>43</sup> In short, while there are many good arguments for channelling development money through the government, the fact remains that 40 per cent of it is not likely to be spent this year. In light of the urgency of the demands for visible change in the country, this issue is of the utmost importance. Figure 2 illustrates the variation in budget execution across select ministries for 1384.

**Figure 2: Development budget execution by line ministry (1384)**



Source: Ministry of Finance data.

There are many reasons for this apparently poor performance. Some of these reasons affect budget execution across sectors, beginning with understandable problems in planning and implementing projects in the Afghanistan environment, particularly due to worsened security. There is also a general issue of overestimation in the budget – which in turn arises from ambitious targets for ministries to absorb – some double-reporting by donors who give through multilaterals, different fiscal years, and carry-over from previously unexecuted funds.<sup>44</sup> A second order of difficulties arise from the combination of unpredictability of donor disbursements and unclear cash flow plans, particularly for major programmes like the National Solidarity Programme (NSP) (see box 1).

This unpredictability is especially important in regard to the trust funds – mechanisms to allow donors to give general or preferential budget support to the government while international fiduciary standards are observed. The Afghanistan Reconstruction Trust Fund (ARTF) – the main trust fund jointly administered by the World Bank – the Islamic Development Bank (IDB), Asian Development Bank (ADB), and the United Nations Development Programme (UNDP), accounted for \$403 million in FY 2006/7 (1385).<sup>45</sup> These funds are used to cover recurrent costs first according to a split determined at the beginning of the year, and when flows are uncertain and produce gaps in cash flow, investment in projects in the development budget is interrupted or curtailed. After seven months of 2005/6 (1385), only 48 per cent of ARTF pledges had been paid in, suggesting these problems will recur.<sup>46</sup>

However, as the varying execution rates across ministries indicate, other problems are sector-specific. Different ministries vary widely in their ability to prioritise and plan projects, prepare the documents required by the Ministry of Finance and donors, manage procurement requirements, as well as implement and monitor projects themselves.<sup>47</sup> These variations have been exacerbated by a further, third feature of the aid architecture: the selective application of reform to some ministries ahead of others. In essence, during the first years after 2001 there were so many needs in the area of public administration reform that it was adopted ‘asymmetrically’, focussing on key

## A case study in popular discontent

It has become widely accepted that broad sections of the Afghan population are frustrated by the slow pace of development, the performance of NGOs, their government, and donors. Less effort is usually expended on finding out the specific events and experiences behind these sentiments.

The NSP is a national community-driven development programme run by the MRRD and funded by various bilateral and multilateral donors, primarily through the on-budget ARTF. As one of the largest national programmes, it represents half of the ARTF's funds. The programme is implemented by NGO partners that facilitate the election of Community Development Councils (CDCs) and help them to identify community development priorities to be addressed by block grant funds delivered in three instalments.

In 2005/6 problems appeared in the disbursement of block grant funds in many areas of the country. Research with CDCs in five provinces found more than half experienced serious delays of up to a year, especially in the second (40%) instalment for projects underway. As communities waited—or worse, saw partially built projects degrade over the winter while waiting—their frustration and suspicion increased. Some accused the NGOs of stealing the money, or if not, then the ministry or the foreign donors overseeing it. Previous community experiences of NGOs making needs-assessments and not returning, or building infrastructure without a maintenance plan, were alluded to frequently as faith in aspects of the governance of international assistance was undermined, making future gains that much harder. In addition, smaller NGOs were forced to consider suspending operations, and reconsider whether to bid on the next phase of the programme.

In fact, a combination of factors contributed to the delays. The donors to the ARTF have converted their pledges into cash unpredictably, and the Ministry of Finance disbursement procedures have slowed their disbursement to programmes. In turn a lack of information with the donors about the timing of NSP cash-flow needs has made it hard to plan ARTF-NSP deposits. Even though donors can express a preference for using their ARTF funds for NSP or other programmes, the rules of the trust fund require that it fund recurrent costs (about \$27 million per month), such as salaries, before any other expenses. When there is a gap in recurrent expenses, money intended for NSP has been taken out to cover the gap, and cannot be replaced by money frozen for other programmes. Faced with shortfalls, the NSP programme delayed the second instalments in order to keep the programme moving in new communities. The overall result is shortfalls in NSP-funding at crucial and unpredictable times, leading to a chain of frustration and discontent that affects communities, NGOs, government, and donors.

This example illustrates that the causes of popular frustration are multi-faceted and involve the aid architecture itself as well as the actions of donors, government, or NGOs. However, if more time is spent listening to people's particular grievances, solutions can be identified.

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

ministries that were able to meet application criteria, often due to their having foreign advisors or being perceived as having reforming leadership.<sup>48</sup>

### **Assessing support through the state**

In light of these difficulties, there are some advantages to spending money through the external budget. The development of the Afghan National Army (ANA) – funded almost entirely through the external budget from US sources – demonstrates that when steady funding is regularly available, and matched with concomitant capacity-building efforts and mentoring, legitimate and increasingly effective institutions can be created in relatively short timeframes.<sup>49</sup> In light of the frustration frequently cited over lack of services such as electricity, there is an argument to be made for continuing the funding of development projects externally, while increasing government budgets in a way that is balanced with the capacity of the government institutions to execute the budget.

However, it is important to stress that serious problems with on-budget spending does not mean that there are not equally or more significant problems with spending through the external budget. Externally delivered aid creates institutions and incentive structures that are often harmful to state-building. In many programmes, and especially those funded by USAID, there are two or three layers of contracting involved. Increased levels of contracting between beneficiaries and funders create multiple principal-agent problems, diluting whatever accountability there may be in such structures by reducing incentives to accurately transmit information upwards. Downward accountability to the population is even more difficult to create in such a situation.<sup>50</sup> Some of these problems can be mitigated through improved and harmonised reporting procedures, but they can not be removed entirely.

The delivery of spending through outside organisations strengthens a parallel state and thus weakens state capacity to spend money, retain qualified personnel, and undertake reform.<sup>51</sup> When such spending occurs in areas that are later to become the responsibility of the state, donors can create liabilities (through salary top-ups or ambitious institutional designs) that will affect long-term fiscal sustainability. External project preparation may be faster, but in many cases is not, as external organisations such as UN agencies often have to identify sources of funding for new projects or programmes as well. Cost structures over the long-term are likely to be higher, particularly in an environment where contracting, logistics, and security costs are especially high.

The USAID prime contractors have costs of 20 to 35 per cent, sometimes before the implementers (such as local construction firms) themselves see any money. Cost-overruns and faulty planning for sustainability in infrastructure projects are especially prominent in the media.<sup>52</sup> In comparison, it seems likely NGOs have lower average costs. They also brought in more than that their costs from their own funding in 2004. This means that NGOs have probably made a net contribution to the sum of bilateral and multilateral aid actually delivered – a point to be stressed more forcefully in the current harmful and polemical debate about the role of NGOs in the country.<sup>53</sup> Much more work can be done to identify which forms of external funding are least efficient and could be better used to bolster government coffers. Unfortunately, the requirements that cause so much money to be spent outside the budget are largely set in donor capitals and have little to do with aid effectiveness or government support. More

often they involve procurement, national security goals, visibility, and even poor timing of donor conferences. The problems that the aid architecture presents for improving the state's contribution to security, representation, and welfare are not only situated within Afghanistan.

Improving poor budget execution will be a process, and many of the impediments to improved execution are being noted and partially addressed. This is happening most significantly through a lengthening of the 2007/8 (1386) budget process from three to nine months, allowing more time for the primary budget units, the ministries, to prepare projects, and a shift to more programme-based budgeting. Internationally, efforts to monitor the terms of the Paris Declaration on Aid Effectiveness began in 2006, and the principles of this agreement should be closely observed to improve the predictability of funds through increased multi-year commitments and improved use of the funds by the government.<sup>54</sup> Increasing the amount of money that comes 'on-budget' is an important process that will contribute to the development of capacity in individual budget units, and will improve 'ownership' by the Afghan government. This will mean that national priorities can be set and followed through a coherent budgeting process, and that this budget and donor contributions can be better aligned with the ANDS as it is further developed.

However, dogmatic adherence to the principles of the Paris Declaration or rushing to channel all assistance through the government budget will not overcome the challenges facing the country. These challenges require that the supply-oriented changes to the aid architecture just outlined result in increased legitimacy for the assistance effort and the role of the state in governance in particular. To do so, they must not only deliver increased ownership, but also improve the effectiveness of that ownership in delivering results. In the short-term, delivery of some governance outcomes such as improved security and welfare distributions must occur through a range of structures: state and non-state. In parallel, attention must also be paid to aspects of the aid aimed directly at improving governance, and the context in which these efforts take place.

### **Assessing governance programming**

To date, the assistance effort to improve governance structures in the country has not had the desired effects, in part due to five features of those efforts. One such feature was the early reliance on a donor 'pillar' structure in reforms related to the rule of law. Under this structure, different donors were given lead responsibility for various sectors: Germany for police, the US for ANA, the UK for counter-narcotics, and Italy for the judiciary. While this early model aimed to deal with the enormous tasks confronting rule of law reform and produce donor-recipient accountability, the evident result has been uneven and uncoordinated development of these sectors, and a lack of coherence between them. As the problems that confront this sector – such as security sector reform (SSR), narcotics, and the reform of the justice system – cut across these institutions, this approach has slowed progress in confronting them.<sup>55</sup>

Second, without continued reform of public administration in keeping with the increased flow of funds through the government, these funds will not be strategically allocated, effectively delivered, or bring the needed legitimacy to a state that is viewed by many as corrupt, inefficient, and a vehicle for patronage and inter-group competi-

tion. These reforms have both technical and political dimensions. On the technical side, efforts to reorganise ministries and other government units have been less successful than the introduction of superficial vetting procedures and, to some degree, salary reform.<sup>56</sup> Efforts to reform public administration have been heavily reliant on 'bought capacity' rather than 'built capacity'. International TA comprised about one-quarter of all international aid to Afghanistan in 2005/6 (1384), and only 11 per cent of this TA is coordinated according to OECD definitions, resulting in uneven and inefficient application across sectors.<sup>57</sup> Similar inefficiencies plague international missions and analytical work: less than half of which is coordinated to harmonise goals and reduce costs. As long as increased on-budget spending is reliant on such inefficiencies in capacity provision, it is unlikely that the public view of either international assistance or government performance will be much improved.

Third, until more of the money that becomes available to the government is spent at subnational levels, increased ownership will not translate into the kind of results needed to garner wide support for the government's reach into the countryside. Despite improvements in salary structure and delivery, precious little of the non-salary ordinary budget is spent outside Kabul, meaning that provincial and district-level civil servants have no funds to carry out their duties or, in many cases, even to fuel their heaters or vehicles.<sup>58</sup> This problem has an impact on support for the government by both civil servants and the residents of rural areas.

Beyond this problem with spending under existing budget structures, the centralisation of all budgeting in Kabul also means that recent efforts to get provincial input into development planning through elected councils and Provincial Development Committees (PDCs) may be hollow, since there is no integral connection between these bodies' plans and the budget process.<sup>59</sup> While there is understandable caution about wholesale decentralisation of budgets in Afghanistan, there is a need to consider the balance between representation and resources, particularly if constitutionally-mandated elected bodies continue to be created at other levels. Electing bodies with no power or resources does not create accountability, only expectations, or new avenues for patronage. This problem requires a political vision for the role of subnational units in the state that brings government closer to its constituents.

Fourth, a political dimension to the relationship between international assistance and governance is the disjuncture between the technical aspects of the reform agenda, and the political imperatives of stability and counter-insurgency as pursued under the war on terror. Both at the international level and domestically, some actors have supported and accommodated powerful individuals and organisations in order to preserve stability or pursue goals not directly related to the long-term viability of Afghanistan's governance institutions. On the international level, the involvement of actors such as the United States has been characterised as 'Janus-headed', incorporating two approaches with 'the one prioritizing the war on terror and short-term stability and the other durable peace through state-building.'<sup>60</sup> For example, both the Emergency *Loya Jirga* and the Constitutional *Loya Jirga* have been characterised as part of 'a trend in which legal provisions to block warlord manipulation of the political process were compromised to maintain a precarious balance of power.'<sup>61</sup>

Domestically, President Karzai has used a policy of 'social fragmentation' or coercion and capital to co-opt, manipulate, or outright bribe tribal, religious, and local leaders, thereby slowly removing contenders for central power. However, this



process has increasingly fed perceptions that the government is also a patronage machine more interested in accommodating illegitimate leaders than providing an alternative that is effective, meritocratic, and relatively free of corruption. Large discretionary payments to militias and supportive provincial governors are common and do not build accountability between the centre and the provinces.<sup>62</sup> Recent activity to address urgent security needs through such payments to local forces needs to be scrutinised, and its effects on the long-term goal of a viable state security sector carefully considered.

This patronage-based approach to stabilisation can not succeed in the long-run due to the availability of resources through the opium economy, which depends on weak governance to thrive. For several years, income from the opium economy has consistently been estimated as more than twice that from international assistance, and in 2006 reached \$7 billion.<sup>63</sup> If the strategy for improved security and governance rests on patronage or the provision of short-term development assistance, this is a competition the government and its international backers will not win, due to the simple imbalance in resources. While a large amount of assistance has been directed to counter-narcotics, this has taken place in a way that is driven by the donor agenda to reduce production: More funding has been devoted to eradication efforts too early in the process than has been earmarked for interdiction or exploring alternative livelihoods.<sup>64</sup> From a governance point of view, the central goal of counter-narcotics policy should therefore not be to reduce consumption or production, but reduce the flow of money to traffickers, commanders, and spoilers within the state. Current policies stressing eradication have instead reduced farmer incomes while leaving the majority of the income from the drug economy untouched, and worse, risk increasing prices to the benefits of traffickers and their protectors among both the government and the insurgency.<sup>65</sup>

A final issue in governance programming is that there is relatively little progress seen in the development of civil society – an imbalance that suggests that governance has increasingly been equated with state-building. As discussed early in this paper, the state has a central role in coordinating the provision of public goods. However, its ability to do this effectively requires the accountability that comes with attention by media, social groups, and non-governmental organisations. The current situation of viewing civil society as a competitor with the state-building endeavour ignores the role of independent scrutiny in improving the performance of governance institutions. Beyond media and other organisations, NGOs must continue to be part of the solution, particularly in helping to meet short-term needs while the longer-term processes of governance improvement discussed here take place.

There is now a viable argument that the functioning of the aid system, rather than being a marginal or structural impediment to aid-promoting governance-improvements, is in fact part of the problem that the system itself is trying to address. This argument is particularly pertinent when it is the relationship between assistance and sustainable state-building that is being considered. However, there is an innate and powerful resistance among donors, implementers, and the Government of Afghanistan itself to consider this argument. Does the current ANDS transition address these issues?

# CHANGES FOR THE BETTER?

## ANDS and the Afghanistan Compact

The signing of the Afghanistan Compact and the introduction of the I-ANDS at the London Conference in early 2006 was meant to signal a change from the transitional arrangements of the Bonn Process towards a comprehensive five-year strategy for the country's longer-term development and political normalisation through deepening institutional reform and consolidation, combined with more structured international support for that agenda. While the National Development Framework (NDF) and SAF used to structure earlier donor conferences and had some elements of a comprehensive strategy, they were not so carefully tied to a series of performance benchmarks and commitments by donors. This section examines the origins and structure of the I-ANDS and Compact system in light of the issues raised above about the impact of the aid economy on governance in Afghanistan. While there are promising developments in the new framework, there are also a number of areas that need to be addressed before international assistance can sustainably support the kind of institutions that Afghanistan will need to overcome the long-term challenges it confronts today.

The origins of the I-ANDS and Compact are to be found both in the further elaboration of the goals set out in earlier development frameworks, and the international aid context. The Compact originally began through donor initiative combined with Afghanistan's involvement in the Millennium Development Goals (MDG) process. The I-ANDS was to begin the development of a Poverty Reduction Strategy Paper (PRSP): an instrument required by the World Bank to qualify for assistance under the Highly Indebted Poor Countries (HIPC) programme, and introduced after World Bank recognition of the failures of its structural adjustment policies to reduce poverty during the 1980s and early 1990s. Both of these initiatives converged admirably during 2005 to produce a framework that tied the Compact and its benchmarks closely to the I-ANDS.

### **PRSPs and governance**

Generally speaking, PRSPs have tried to combine policy prescriptions for growth along neo-liberal economic lines with a concern for social exclusion and poverty. From this concern comes a strong emphasis on participation by recipient governments in the design of prescriptions: In one description, the PRSPs are meant to represent a 'third way for the third world'.<sup>66</sup> However, doubts remain in the development world as to the reality of this new approach to development strategy. According to critics, PRSPs:

tend to reproduce a four pronged approach to poverty reduction. First, broad based growth, more recently rendered as "pro-poor" growth, focussing on "employment creating growth". Second, investments in human capital, typically in the health and education sectors. And third, "good governance", which has grown from anti-corruption and public accountability measures to embrace macro-economic fiscal management and decentralized governance. The fourth element includes special purpose financing arrangements, sometimes called "social safety nets", for those

adversely affected by the adjustment process and/or unable to participate in the growth.<sup>67</sup>

These policy prescriptions seem to emerge without a great deal of variation, belying the intended principles of participation and local ownership trumpeted as the main features separating PRSPs from earlier policy approaches by the International Financial Institutions (IFIs).

In addition, World Bank reviews of PRSPs show they are least effective in countries with 'weak public sector capacity or with donor-dominated aid relationships', and work best where relatively sound public administration is in place. In short, they are most effective where least needed.<sup>68</sup> In Afghanistan, then, considerable effort has been expended to incorporate state-building into the broader ANDS process, so as to avoid 'putting the cart before the horse' with the country's PRSP process. This convergence of development and poverty-reduction with state-building has generated concerns that development and peacebuilding are increasingly tied to a global expansion of 'Western' liberal political and market values, while 'humanitarian space' shrinks away.<sup>69</sup>

These general concerns about PRSPs find some echoes in the I-ANDS, even as this strategy has expanded beyond the requirements of the PRSP, and is intended to become 'the framework for policy, institutional, and budgetary coordination and will remain the partnership framework linking Government and the international community with regard to the utilization of external assistance aimed at economic growth and poverty reduction.'<sup>70</sup> The governance dimension of this transition is an increased emphasis on the Afghan state as both the appropriate long-term conduit for assistance and deliverer or coordinator of an increasing share of services ranging from security and governance to infrastructure, local development, education and health.<sup>71</sup> Backed by the Compact, this framework comprises 'a comprehensive and realistic peacebuilding agenda owned by the Afghan government and endorsed by the main international stakeholders.'<sup>72</sup>

## **Assessing the ANDS/Compact framework**

Both the I-ANDS and the Compact are structured around three pillars: security; governance, rule of law, and human rights; and economic and social development. These pillars each comprise a number of sectors, and are combined with several cross-cutting issues, including counter-narcotics and gender equity. The Compact identifies benchmarks for both the Government of Afghanistan and its partners in meeting the goals set out in the I-ANDS.<sup>73</sup> In broad strokes, the main principles guiding this framework for mutual engagement between the government and the international community have been described as follows: (i) enhancing government ownership; (ii) supporting effective public expenditure management systems; (iii) focus increasingly on expenditure outcomes and service delivery; (iv) enhance harmonisation between government and donor policies; and (v) share mutual accountability between government and donors.<sup>74</sup>

**Figure 3: Structure of the I-ANDS**

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

Source: Summary Report, I-ANDS (January 2006)

Many of these principles aim at dealing with issues identified earlier in this essay. On the donor side, they stress: increasing the amount of money channelled through the core budget; increased multi-year commitments and improved information on aid flows; and support to sustainable institutions. For the Government of Afghanistan, commitments include increasing domestic revenue, introducing anti-corruption measures and specific policy benchmarks in each sector that are set out in the I-ANDS and its successor strategy. The progress of the I-ANDS towards a full ANDS in 2008 is managed by a system of Consultative Groups (CGs) and subsidiary technical working groups. The implementation of the Compact is in turn supervised by the Joint Coordination and Monitoring Board (JCMB) – a joint international and Afghan government body that also received reports from the ANDS Secretariat.

While it is relatively early in the process, the third meeting of the JCMB on 12 November 2006 already found that progress on only seven of eleven short-term benchmarks was satisfactory, and that major challenges face the process. Besides ongoing security issues, these challenges all fall in the area of state-building, and the report stresses heavily the lack of progress in governance as a challenge to meeting the goals of the Compact and the I-ANDS.<sup>75</sup>

**What’s missing?**

The Compact/ANDS framework represents the further development of a comprehensive development strategy from its predecessors, the NDF and SAE. It is also significant in that it should generate important changes to the donor-recipient relationship. However, as the JCMB noted in its report, there is still a long way to go in moving ‘from *compact* to *impact*.’<sup>76</sup> Some areas which are important to the aid architecture’s impact on governance that are currently under-served by the Compact/ANDS framework are discussed here.

The overall principle of country ownership embodied in the ANDS framework, and indeed the context to it that is provided by the Paris Declaration, is not likely yet to be as fully realized as the ANDS documents suggest. Ownership implies country participation in the design and implementation of policies. Participation, as it has taken place so far and will likely continue in relation to the ANDS, does occur through the elite-level working group and consultative group process, with heavy international involvement. However, participation by society and citizenry falls far behind, and is limited to consultation. Current plans in the ANDS for provincial consultations, for example, do not go beyond meetings and workshops. While consultation is one form of participation, it does not necessarily involve decision-making power. There is a danger that excessive attention to consultation alone has the opposite effect on legitimacy as desired. People do not only want to be asked what they wish for; they also want to be listened to and have their opinion incorporated into decisions.

A related issue is that the I-ANDS does not overcome the supply-driven nature of assistance to Afghanistan and the associated difficulty of binding the recipient to its commitments. Within the first ten months of the agreement, the first benchmarks have already been adjusted by three months, and the JCMB acknowledges in its report that those that are not met will simply have to be rescheduled.<sup>77</sup> While it is very important that the framework may produce more coordination and discipline among donors, there seems little additional guarantee that the Government of Afghanistan will be more bound than it has been in the past without a credible threat associated with assistance. This problem is reflected in slow progress in the areas of corruption and trafficking, reinforced by the current corruption benchmarks' focus on institutional measures, not outcomes.

The framework as it stands now increases the attention on action at the sub-national level, but it still lacks a true subnational strategy. The long-term place of provinces and other units in the fiscal and administrative structure of the state is far from clear, yet there is increasing evidence that the dramatic centralisation of the Afghan state is one of the causes of widespread dissatisfaction with the provision of services. The I-ANDS glosses over issues like this as they have serious political implications and threaten the centre's ability to hold the purse strings. Until the political strategies of the donors and the government are brought into line with the technical agenda embodied in the ANDS process, uncertainty will increase over crucial issues like decentralisation. If subnational representative bodies continue to be created without strong links to budgets and other processes, these bodies will undermine legitimacy, not create it. While this does not have to mean full decentralisation of revenue or budgets, at a minimum it will entail increased deconcentration of service-delivery to subnational units.

While the Compact/ANDS go much further than past frameworks in trying to identify measures of progress, these are still very much oriented towards the supply of assistance (more coordinated, more on-budget) or organisational changes by the government (establishing an appointments mechanism, rationalising the number of administrative units). As general critiques of PRSPs point out, despite whatever participation there may be in the creation of the strategy (and this is limited as just noted), the monitoring of the framework is an international and government task. There needs to be an assessment of the results of these measures for ordinary people's lives as time

passes, using institutionalised dialogue and participatory politics over the holding of repetitive and formulaic ‘consultations’.<sup>78</sup>

Along these lines, the promotion of governance as opposed to government requires support for civil society – something which is still somewhat peripheral to the ANDS process. The nature of civil society in Afghanistan is itself an area of considerable questions because it does not conform to standard models drawn from the transition countries of Eastern Europe or democratisers in Latin America, and involves a wide range of groups organised on kinship, tribal, religious, military, and other lines. Nevertheless, a civil society will be essential to deliver governance improvements in Afghanistan, particularly in the relative absence for the foreseeable future of a strong state-society relationship forged through revenue and expenditure relationships. Media development is a relative bright spot in this area.

## CONCLUSIONS AND RECOMMENDATIONS

The current situation in Afghanistan presents a difficult paradox. While popular accounts stress the difficulties of intervening and assisting Afghanistan, in fact the conditions in 2001 were propitious for an attempt to stabilise the country, begin development processes, and work towards improved governance. Through the inadequate and incoherent application of resources since 2001 – as well as conditions outside of the immediate control of Afghan and even international actors – this opportunity has been replaced by a crisis of increasingly serious proportions, and consisting roughly of three interlocking dynamics: insurgency, the opium economy, and discontent over lack of progress. This crisis is now so acute that short-term solutions are imperative. At the same time, sustainable solutions to these issues will have to involve improvements to the state's ability to coordinate the delivery of public goods in the areas of security, representation, and welfare – a long-term prospect at best. The analysis of this essay suggests a few concluding recommendations that must be considered in trying to overcome the paradox of an acute crisis that will only be solved by long-term improvements in the way that the society as a whole structures participation, makes decisions about public goods, and renders account for their provision.

Before turning to these recommendations, it is important to stress that these are by no means exhaustive, and that without other changes, the challenges facing Afghanistan are not likely to be overcome. Primary among these is an improved regional approach to peacebuilding that confronts the broader – including regional – dynamics of both the insurgency and the drug trade. The contours of such a strategy fall outside the scope of this essay. Within this framework, the following recommendations concern the relationship between international assistance to Afghanistan and the governance challenges facing the country:

*Convergence of the stabilization, political, and technical agendas:* The current crisis is an opportunity for donors and government actors to recognise that pursuing one strategy for counter-insurgency and counter-narcotics – while pursuing another for state-building and development – is counterproductive. All actors in the complex aid architecture must recognise that long-term improvement of governance – with the state playing a central role – is essential. Current emphases on 'development' as the key to security must be reconsidered to incorporate the governance changes that will be needed to make such development possible and meaningful.

In that sense, the emphases on state-building in the ANDS process and its context in the Compact and the Paris Declaration must be taken seriously and implemented rigorously. A crucial issue in making the ANDS process more than an externally-driven façade of consultation is the improvement of strategic-planning capacity in the Afghan state. Attention must be paid to doing this through genuine capacity creation in both the executive and legislative branches, not the proliferation of technical assistance or unsustainable policy management units. This capacity can only emerge over time, but a first step is being taken in having some ministries identify their own capacity constraints under the Compact monitoring process, and this must be expanded and encouraged. Technical Assistance is currently one of the key areas where attempts at building capacity are not having the desired effects. Attempts to change this situation

through strategic allocation of consultants, or splitting consultant responsibilities for training away from implementation, must be supported. This convergence also means that corruption and patronage must be progressively rejected as a means for achieving stabilisation by the central government.

*Convergence between short- and long-term agendas:* At the same time, the acute challenges facing the country require short-term actions. What is crucial is that these short-term imperatives are framed in a way that does not undermine the longer-term governance strategy. Two areas in particular stand out for increased attention to the dynamics of short- and long-term policy. The first is counter-narcotics, where whatever policy is pursued must be framed around the singular goal of supporting legitimate institutions and reducing drugs money's impact on undermining the same, regardless of its impact on production, refining, or consumption in the West. The second is security sector reform, where any move to supplement the growth of a legitimate army and an improved police force with irregular forces must be scrutinised carefully.

*An appropriate balance of on- and off-budget resources:* The transition embodied in the ANDS process towards increased government control over resources is essential for long-term state-building. It must, however, take place in balance with the imperatives to improve budget execution and service delivery required in the current context of severe need for improved short-term delivery of services. Meeting this challenge requires overcoming a competitive vision of state and non-state sectors. In particular, the role of NGOs in both short- and long-term service provision must be clarified and communicated. One possible area of improvement is in the relationship between state and non-state sector employment, where the role of non-state actors in developing future public sector capacity might be enhanced. For example, the NSP-facilitating partner NGOs have trained large numbers of community organisers that may represent a future pool of state employees at subnational levels. Convergence in wages and expansion of lateral entry programmes must support opportunities in this area.

*Further development of subnational strategies for governance:* Improved governance at subnational levels will involve increased subnational spending within existing budgetary structures. It will also, over the longer-term, require consideration of the relationship between the representative structures at subnational levels and the access of those levels to resources and genuine decision-making over their allocation. The creation of elected bodies without these relationships with resources may be counter-productive in the longer-term, by increasing expectations without correspondingly increasing the ability to deliver accountability and results. In the medium term, this means addressing strategically the political and technical questions that surround decentralisation, regardless of the eventual depth of such reform.

*Domestic monitoring and evaluation of the process:* The ability of both the Afghan government and the Afghan society to assess progress in terms of real impact on the lives of Afghans must be further incorporated into the ANDS process. This may mean developing poverty-impact assessments to build on existing government programmes, such as the National Risk and Vulnerability Assessment (NRVA), and the strengthening of civil society's ability to participate substantively in goal-setting and monitoring. The current CG system has not incorporated civil society very well so far. Furthermore, these assessments must have more subnational content. One possibi-



lity is the replication of Compact-type agreements at provincial levels. Given the current configuration of civil society and the degree of centralisation of government and donor activity, these changes will require very creative and locally-grounded programming. Civil-society organisations must make a contribution to this process by being imaginative, flexible, and steadfast in closing some of the gaps in the government- and donor-led ANDS process, while engaging effectively with that process.

All of these recommendations will have to form part of a larger strategy of continued and even expanded long-term international assistance, as well as improvements in the sensitivity of the aid architecture to governance concerns. It is clear that a large part of the inter-locking set of crises in Afghanistan are related to the issue of trust, and in that light the most important element of the ANDS process will be its application. In the words of the former Finance Minister Ashraf Ghani, '[t]rust is created through the discipline of implementation, not the rhetoric of strategy.'<sup>79</sup> In this sense, it is time to move quickly, but not rashly, in more effectively turning words into action in Afghanistan.

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## NOTES

- 1 The experience of the 1990s dictates that assessing success in post-conflict development requires at minimum a decade-long view. For example, Cambodia experienced truncated electoralism and low-level insurgency for several years after post-conflict efforts wound down; El Salvador experienced a formally successful peacebuilding and democratisation process followed by an intense wave of criminal insecurity. See Charles Call, "Crime and Peace: Why Successful Peace Processes Produce the World's Most Violent Countries" (paper presented at the Annual Conference of the International Studies Association (ISA), Washington, DC, February 1999) and MacAlister Brown and Joseph Jeremiah Zasloff, *Cambodia Confounds the Peacemakers, 1979-1998* (Ithaca, N.Y.; London: Cornell University Press, 1998).
- 2 For examples, see Carl Robichaud, "Remember Afghanistan: A Glass Half Full, on the Titanic," *World Policy Journal*, no. Spring (2006); Peter J. Middlebrook and Sharon M. Miller, "Lessons in Post Conflict Reconstruction from the New Afghanistan Compact," (Silver City, NM/Washington, DC: Foreign Policy In Focus, 2006); and Morgan L. Courtney and et al., "In the Balance: Measuring Progress in Afghanistan," (Washington: Center for Strategic and International Studies, 2005).
- 3 Executive Summary, Interim Afghanistan National Development Strategy (January 2006).
- 4 Tim Plumptre, "What is governance", available at <http://www.iog.ca>.
- 5 World Bank, "Managing Development: The Governance Dimension," (Washington: World Bank, 1994).
- 6 See, for example, Isabelle Johnson, "Redefining the Concept of Governance," (Gatineau, Que: Canadian International Development Agency, 1997) and UNDP, "Decentralised Governance for Development: A Combined Practice Note on Decentralisation, Local Governance and Urban/Rural Development," (United Nations Development Programme, 2004), 3.
- 7 Jennifer Milliken and Keith Krause, "State Failure, State Collapse and State Reconstruction: Concepts, Lessons and Strategies," in *State Failure, Collapse and Reconstruction*, ed. Jennifer Milliken (Oxford: Blackwell, 2003), 4; Jonathan Goodhand and Mark Sedra, "Bargains for Peace? Aid, Conditionalities and Reconstruction in Afghanistan," (The Hague: Netherlands Institute of International Relations, 2006), 23; Sarah Lister and Andrew Wilder, "Strengthening Subnational Administration in Afghanistan: Technical Reform or State-building?," *Public Administration and Development* 25 (2005). These categories, with some variations, have a long heritage which is not limited to Western political thought, but in the West are associated respectively with Weberian, Lockean, and juridical political traditions: Simon Chesterman, Michael Ignatief, and Ramesh Thakur, "Making States Work: From Failed States to State-Building," (New York: International Peace Academy/United Nations University, 2004).
- 8 Marina Ottaway, "Rebuilding State Institutions in Collapsed States," in *State Failure, Collapse and Reconstruction*, ed. Jennifer Milliken (Oxford: Blackwell, 2003). Jonathan Goodhand notes the parallel with Ottaway's work: Goodhand and Sedra, "Bargains for Peace?," 4.
- 9 This essay does not argue that non-state actors do not have an important role to play in governance in certain areas of Afghan public life: for example, it is the author's view that social regulation through informal institutions will remain crucial to the resolution of disputes in Afghanistan for the foreseeable future.
- 10 For example, Barnett Rubin, "Afghanistan's Uncertain Transition From Turmoil to Normalcy," (New York: Council on Foreign Relations, 2006), 5-23.
- 11 Thanks to Andrew Wilder for discussion of the dangers of relying on 'development' to achieve security.
- 12 DFID (2001), *Making Governance Work for Poor People*, London, Department for International Development; and in the Afghan context in particular, World Bank, "Afghanistan: State Building, Sustaining Growth, and Reducing Poverty," (Washington: World Bank, 2004). This governance-development-poverty argument has been refined to identifying the parameters of 'good enough' governance for increased aid effectiveness. See Merilee S. Grindle, "Good Enough Governance Revisited," (Cambridge: Harvard University, 2005).

- 13 UNDP, "Governance in Post-Conflict Situations: UNDP Background Paper," (Bergen: Chr. Michelsen Institute, 2004).
- 14 Derek Headey, "Foreign Aid and Foreign Policy: How donors undermine the effectiveness of overseas development assistance," (St. Lucia, Queensland: University of Queensland, 2005), 2.
- 15 On the complex livelihoods dimensions of opium poppy cultivation see Jan Koehler and Christoph Zürcher, "Conflict Processing and the Opium Poppy Economy in Afghanistan," (Jalalabad/Berlin: Project for Alternative Livelihoods, 2005); Christopher Ward and William Byrd, "Afghanistan's Opium Drug Economy," (Washington: World Bank, 2004); and David Mansfield and Adam Pain, "Alternative Livelihoods: Substance or Slogan?," (Kabul: Afghanistan Research and Evaluation Unit, 2005).
- 16 The Asia Foundation, "Afghanistan in 2006: A Survey of the Afghan People," (Kabul: The Asia Foundation, 2006), 13; numerous press reports and personal observations. Any public opinion data in Afghanistan must be considered very carefully due to challenges both at the level of methods and meanings of given instruments. However, the identification of specific problems by respondents may present fewer of these challenges than more abstract political questions.
- 17 International Monetary Fund, "Islamic Republic of Afghanistan: Interim Poverty Reduction Strategy Paper - Joint Staff Advisory Note," (Washington, DC: IMF/World Bank, 2006), 6.
- 18 On the difficulty of political as opposed to technical change through assistance, see Francis Fukuyama, *State-Building: Governance and World Order in the Twenty-First Century* (London: Profile Books, 2004).
- 19 For example, there was a \$50 million gap in overseas development assistance reported by donors and the government in 2005/6. Some reasons given include differing fiscal years, double counting, conditionality delays, poor planning, slow procurement, weak horizontal coordination, overestimation of commitments due to carry-over from previous years, and many other issues: OECD. For a discussion of the difficulties in quantifying overall assistance, see Nick Pounds, "Where Does the Money Go? A study on the flow of aid to NGOs in Afghanistan," (Kabul: ACBAR, 2006).
- 20 Unless noted otherwise, the figures in this and the following paragraph are derived from the Donor Assistance Database and cited in Barnett Rubin, Hamayun Hamidzada, and Abby Stoddard, "Afghanistan 2005 and Beyond: Prospects for Improved Stability," (The Hague: Netherlands Institute of International Relations, 2005), 60–5.
- 21 OECD Paris Declaration Monitoring Exercise, draft (6 October 2006). This number underestimates total aid as it would miss increased rates of disbursement that often come towards the end of the Afghan FY, and is based on responses to donor surveys that did not include some small donors. Some sources estimate 2004/5 (1383) assistance at closer to \$3 billion.
- 22 USAID 2004-7 Afghanistan budget, available at <http://www.usaid.gov/policy/budget/cbj2007/ane/> (accessed 14 November 2006). Care should be taken in drawing conclusions from USAID budgets alone, as these represent only a part of US assistance which is being reduced due to US policy changes between the departments of State and Treasury.
- 23 James Dobbins et al., "The UN's Role in Nation-Building: From the Congo to Iraq," (Santa Monica: RAND Corporation, 2005), xxii. Such comparisons need to be used carefully, as they are not clearly related to success or failure of state-building endeavours. The same report noted an even more dramatic relative under-resourcing of Afghanistan in 'peacekeeping' troop numbers and policing.
- 24 Astri Suhrke, "When More is Less: Aiding Statebuilding in Afghanistan," (Madrid: Fundación para las Relaciones Internacionales y el Diálogo Exterior, 2006), 2.
- 25 World Bank, "Afghanistan: Managing Public Finances for Development," (Washington: World Bank, 2005), viii.
- 26 Ministry of Finance figures, see: <http://www.mof.gov.af> (accessed on 9 October 2006).
- 27 Suhrke, "When More is Less," 5.
- 28 It is important to remember that aid did not stop under the Taliban, and in fact the history of that period's NGO activity strongly influences community reactions to new programmes: author interviews with NSP-CDCs (July 2005–October 2006).

- 29 The idea is not new, as the ‘no taxation without representation’ rallying cry of the American Revolution demonstrates. For a policy perspective, see Centre for the Future State, “Signposts to more effective states: responding to governance challenges in developing countries,” (Brighton: Institute for Development Studies, 2005), 7–15.
- 30 This essay leaves aside broader economic arguments about the effects of ‘Dutch Disease’ on domestic economies with high foreign currency influxes, as the focus here is on governance. However, it is certainly true that both foreign aid and opium have contributed to an inflated, but also stable currency in the new *Afghani*.
- 31 Medium Term Fiscal Framework, available at: <http://www.and.s.gov.af>.
- 32 Suhrke, “When More is Less,” 6–8. This argument does not take into account the degree to which state actors themselves access the opium economy, preserving their independence and offering patronage through official posts with such access. It also assumes that binding commitments would be more possible with such regional power-holders if the government was less dependent on uncertain external assistance, an assumption not borne out by Afghan history: see Barnett Rubin and Helen Malikyar, “The Politics of Center-Periphery Relations in Afghanistan” (paper presented at the Workshop on Options for Afghanistan’s Fiscal Structure, World Bank, 2003).
- 33 Marina Ottaway and Anatol Lieven, “Rebuilding Afghanistan,” *Current History* (2002): 136; a more measured view stressing federalism is found in Aziz Hakimi, “The Politics of State Formation and State Fragmentation in Borderlands: The case of Afghanistan” (MA, King’s College London, 2005).
- 34 For a discussion of the 2004 constitutional process and the influences on the adoption of a centralized model, see Barnett Rubin, “Crafting a Constitution for Afghanistan,” *Journal of Democracy* 15, no. 3 (2004).
- 35 Mick Moore and Sue Unsworth, “Britain’s New White Paper: Making Governance Work for the Poor,” *Development Policy Review* 24, no. 6 (2006): 707.
- 36 Headey, “Foreign Aid and Foreign Policy.”
- 37 Barnett Rubin, Hamayun Hamidzada, and Abby Stoddard, “Through the Fog of Peace Building: Evaluating the Reconstruction of Afghanistan,” (New York: Center on International Cooperation, 2003), 5. It is important to note that comparing total spending on military operations with relief or reconstruction can be deceptive, as the nature and sources of the funds limit fundibility between sectors. For example, simply moving US money from Department of Defense spending to USAID would be hard to imagine even if there was the will to do so.
- 38 Elinor Ostrum et al., “Aid, Incentives, and Sustainability: An Institutional Analysis of Development Cooperation,” (Stockholm: SIDA, 2001), 4.
- 39 See Goodhand and Sedra, “Bargains for Peace?” 60.
- 40 Figures are rounded. All figures in this paragraph are from Ministry of Finance budget decrees: <http://www.mof.gov.af>.
- 41 Ministry of Finance budget statistics (9 October 2006).
- 42 Anne Evans and Yasin Osmani, “Assessing Progress: Update Report on Subnational Administration in Afghanistan,” (Kabul: Afghanistan Research and Evaluation Unit/World Bank, 2005), 1–3.
- 43 All figures from Ministry of Finance: <http://www.mof.gov.af>. Execution in the first half of the year was negatively affected by a delay in passing the national budget at the beginning of 1385.
- 44 Author interviews and Ministry of Finance documents; OECD Paris Declaration Monitoring Exercise, draft (6 October 2006).
- 45 The other trust funds are the Law and Order Trust Fund for security sector reform, and the Counter-Narcotics Trust Fund.
- 46 Figures in this paragraph are from ARTF Administrator, “Report on Financial Status as of October 22, 2006,” (Washington: World Bank, 2006).
- 47 Ministry of Finance documents; interview with donor official (October 2006).
- 48 Eklil Hakimi et al., “Asymmetric Reforms: Agency Level Reforms in the Afghan Civil Service,” (Washington: World Bank, 2004).
- 49 Although there are difficulties in interpreting opinion polls in Afghanistan, in 2006 87% of Afghans expressed trust in the ANA: The Asia Foundation, “Afghanistan in 2006.”

- 50 Ostrum et al., "Aid, Incentives, and Sustainability: An Institutional Analysis of Development Cooperation," 5.
- 51 Ashraf Ghani, Clare Lockhart, and Michael Carnahan, "Closing the Sovereignty Gap: an Approach to State-Building," (London: Overseas Development Institute, 2005), 10.
- 52 See, for example, Ann Jones, 'Why It's Not Working in Afghanistan', *Alarab online*, UK (1 September 2006).
- 53 Pounds, "Where Does the Money Go?" 16.
- 54 'Development budget execution impediments and solutions', Ministry of Finance (undated); *Paris Declaration on Aid Effectiveness*, High Level Forum (28 February–2 March 2005).
- 55 Mark Sedra and Peter Middlebrook, "Beyond Bonn: Revisioning the International Compact for Afghanistan," (Foreign Policy in Focus, 2005), 13–5.
- 56 For a review of the difficulties of public administration reform in Afghanistan, see Sarah Lister, "Public Administration Reform in Afghanistan: Realities and Possibilities," (Kabul: Afghanistan Research and Evaluation Unit, 2006).
- 57 OECD Paris Declaration Monitoring Exercise, draft (6 October 2006).
- 58 Author interviews with provincial and district civil servants in six provinces (July 2005–October 2006). In 1383 only 30% of non-salary ordinary expenditures was accounted as being spent outside of Kabul, though this figure under-represents some central spending that diffuses to provincial departments: World Bank, "Afghanistan: Managing Public Finances for Development," ch.1.
- 59 See Sarah Lister and Hamish Nixon, "Provincial Governance Structures in Afghanistan: From Confusion to Vision?" (Kabul: Afghanistan Research and Evaluation Unit, 2006).
- 60 Goodhand and Sedra, "Bargains for Peace?" 1–2.
- 61 *Ibid.*, 55.
- 62 Interview with AIHRC Official (June 2006).
- 63 On the size of the opium economy, see Rubin, Hamidzada, and Stoddard, "Afghanistan 2005 and Beyond," 62; UNODC, "Afghanistan Opium Survey: Executive Summary," (Kabul: United Nations Office on Drug Control/Ministry of Counter-Narcotics, 2006).
- 64 Rubin, Hamidzada, and Stoddard, "Afghanistan 2005 and Beyond," 64.
- 65 Ministry of Counter-Narcotics, presentation by Barnett Rubin (15 November 2006).
- 66 David Craig and Doug Porter, "Poverty Reduction Strategy Papers: A new convergence. What does it miss, and what can be done about it?" (paper presented at the Regional Conference on National Poverty Reduction Strategies, Hanoi, 4 December 2001), 3.
- 67 *Ibid.*, 1.
- 68 Operations Evaluation Department, "The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003," (Washington: World Bank, 2004).
- 69 Mark Duffield, "Social Reconstruction and the Radicalization of Development: Aid as a Relation of Global Liberal Governance," in *State Failure, Collapse and Reconstruction*, ed. Jennifer Milliken (Oxford: Blackwell, 2003) and Róisín Shannon, "NGOs Playing for Humanitarian Space in the New Great Game: Lessons from post-9/11 Afghanistan," (MSc, School of Tropical Medicine, 2006).
- 70 Islamic Republic of Afghanistan, I-ANDS, Vol. I, p.179.
- 71 *Ibid.*, pp. 15–16.
- 72 Goodhand and Sedra, "Bargains for Peace?" 5.
- 73 The texts of the Afghanistan Compact and the I-ANDS are available at <http://www.ands.gov.af>.
- 74 Middlebrook and Miller, "Lessons from the New Afghanistan Compact," 2.
- 75 Joint Coordination and Monitoring Board, 'Implementation of the Afghanistan Compact,' Bi-Annual Report (November 2006).
- 76 *Ibid.* p.1.
- 77 *Ibid.* p3.
- 78 On concepts of social accountability, see John M. Ackerman, "Social Accountability in the Public Sector," (Washington: World Bank, 2005).
- 79 Ashraf Ghani, Clare Lockhart, and Michael Carnahan, "An Agenda for State-Building in the Twenty-First Century," *Fletcher Forum of World Affairs* 30, no. 1 (2006): 17.