

POLICY BRIEF 2016-2

## Promoting the Effective Use of Aid in Afghanistan

*By Freshta Wardak*

### **Abstract**

For the past decade Afghanistan has been dependent on aid from other countries. According to the *2013 Development Corporation Report*, on average foreign aid constitutes nearly the entire development budget and approximately 52% of the operating budget of Afghanistan. More than 100 international actors are involved in Afghanistan's development and aid processes. The Aid Management Policy (2013), developed through a multi-stage consultative process with development partners, civil society organizations and government departments central to the Afghan Ministry of Finance's Aid Management Directorate, aims to support and accelerate Afghanistan's goal of achieving increasing self-sufficiency by 2025 and incorporates the key agreements of the 4<sup>th</sup> High Level Forum on Aid Effectiveness "New Deal for Engagement in Fragile States" held in Busan, South Korea in 2011. The document introduces at least 26 specific policies in 7 prioritised thematic areas to address the issues and challenges related to aid delivery in Afghanistan. Nonetheless, despite the existence of such a policy there are still a number of conflicts and misconceptions between the development players and the Government of Afghanistan. Accordingly, this paper intends to provide several recommendations to mitigate these challenges and align donor assistance to Afghanistan's development priorities.

### **Problem Statement**

Development partners are assisting Afghanistan through off-budget aid to specific initiatives of the donor countries rather than direct budget support, limiting the capacity of the Afghan government to control and monitor development projects. Off-budget aid is defined as any assistance spent by a donor partner and implementing agency outside of the Government's national budget; because the funds bypass the core national budget, the government has no control over these funds. On-budget aid, in contrast, is donor support provided directly to the Afghan Government and its national budget, allowing government the discretion to apply the funds to identified national priorities.

### *External Factors Affecting the Situation*

There are several external factors that affect the effectiveness of aid management in Afghanistan:

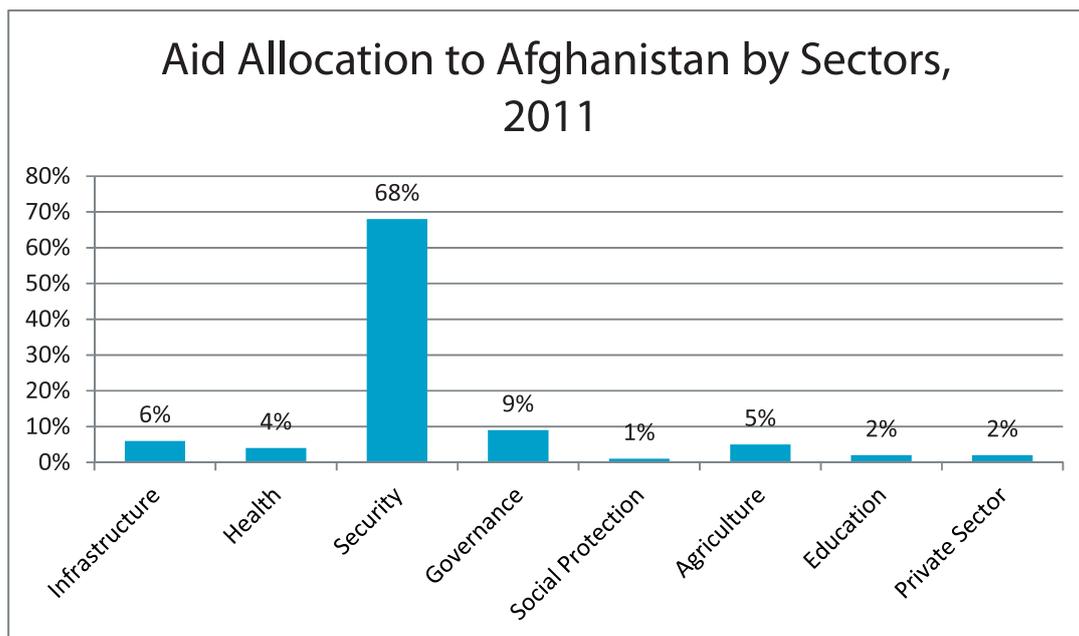
- **The transition process:** Responsibility for the security and development of the country is being transferred from the international community to the Government of Afghanistan. If the Government acquires ownership over the foreign aid processes, it will become responsible for the effective delivery of aid to the country.
- **Sustainability:** 82% of foreign aid was delivered outside of the government system (Ministry of Finance of the Islamic Republic of Afghanistan, 2013) through off-budget assistance, often without consultation or cooperation between donors or coordination with the government of Afghanistan on off-budget projects.
- **Capacity constraints:** The capacity of state institutions is a major hurdle for the effective implementation of development projects in Afghanistan. Not only must civil servants speak the language of donors, but they also require the necessary technical knowledge to understand the value of proposed development projects.

### *Purpose*

Since the collapse of the Taliban regime, Afghanistan has become one of the largest recipients of Official Development Aid (ODA) in the world. The Government of Afghanistan (GoA) has expressed its commitment to make better use of the aid money it receives. There are roughly 55 development partners and hundreds of aid and humanitarian agencies that support Afghanistan through their financial and in-kind resources. All 55 of these donors contribute to Afghanistan through on and off-budget mechanisms. However the GoA does not have full authority to control the off-budget aid money spent in Afghanistan. (Ministry of Finance, 2012). In this regard, the Aid Management Policy provides a strong foundation for facilitating constructive dialogue between the Afghan government and development partners, while accounting for the pressing challenges of the transition period, including the negative impacts of declining foreign aid and military spending in Afghanistan. Nonetheless, foreign aid will remain an important source of financing for Afghanistan, though the country's political situation will play a significant role in determining the extent of foreign aid and donor priorities. At present, data after 2014 is not available; however political issues contributed to a 37% decline in foreign aid levels (Ministry of Finance, Development Cooperation Report). As the country seeks to become fully self-sufficient by 2025, a revised set of policy guidelines and actions is needed for more effective allocation of aid that helps stimulate economic growth and alleviate poverty. The Afghan Government and Afghanistan's international donor partners should jointly revisit the Aid Management Policy and their commitments therein to target aid delivery and enhance its effectiveness.

### Rationale

The problems in the aid sector of Afghanistan persist despite the commitments of the 2002 International Conference on Reconstruction Assistance to Afghanistan (“the Tokyo Conference”) and the introduction of the Aid Management Policy. In particular, the problems between development actors and the Afghan government often stem from the fact that the Aid Management Policy does not specify whether aid received by the Afghan government should be on-budget or off-budget. Prior to the Tokyo Conference, development partners promised to deliver aid to Afghanistan in the amount of nearly US\$90 billion, and according to the *2013 Development Cooperation Report*, the Afghan Government has already received US\$57 billion (Ministry of Finance, 2013). However, this report shows that in the period from 2002 and 2010, 82% of this aid was distributed outside of the government system. In addition, the Ministry of Finance’s Aid Management Directorate (2012) reports that on average, 51% of foreign aid was channelled to the security sector from 2001 to 2010, while the remaining 49% was spent on development projects. In 2011, nearly 70% of foreign aid to Afghanistan was channelled to the security sector.



*Source: Development Cooperation Report (DCR)*

The Afghan government has no authority to control or manage these off-budget resources, and thus is not fully aware of the impact of off-budget aid. Nonetheless, it is important to identify strategies through which the Afghan government can encourage donors to review their commitments and help Afghanistan through predominantly on-budget aid. This prospect would be most effective in facilitating cooperation between the Afghan government and development partners to improve the effectiveness of aid delivery and maximise its impact across sectors.

### ***Benefits of On-Budget Aid and Challenges of Off-Budget Aid***

The Aid Management Policy of Afghanistan states that the government of Afghanistan needs increased on-budget support to strengthen its capacity to provide better services to the Afghan people. On-budget assistance strengthens the government systems of the recipient country, specifically in the areas of finance, procurement, reporting and auditing, and improves the capacity of civil servants in the areas of planning and implementation. In addition, on-budget projects are generally considered more sustainable because the government can control all aspects of the process and ensure that projects are aligned to national interests. Afghanistan is a post-conflict country; it needs greater development assistance. The *Development Assistance Database of Afghanistan*, which records donor projects, shows that the governance sector is the third largest sector following education and agriculture to receive donor assistance; however not enough focus has been paid to priority areas set by the Government of Afghanistan. Instead, efforts are often duplicated, and projects may have less impact on the government's development strategy. This is common in the off-budget model because the government is unaware of such projects during their planning phases, and is informed only during the implementation phase. At this point of the process, halting or amending such projects is extremely difficult. On-budget activities are more strategically planned and coordinated, and as a result have a far lesser likelihood of duplication. (Ministry of Finance, Development Assistance Database, 2012)

Off-budget support is often criticised on the grounds that such projects have poor development impact and / or do not enhance institutional capacity; are not aligned to the priorities of the recipient country and risk duplicating previous initiatives; lack transparency; and have high transaction costs. Nonetheless, development partners prefer to support Afghanistan through off-budget support, because on-budget assistance is a lengthy and time-consuming process, and poor coordination between donors and government ministries can delay the process of disbursing funds. However areas such as humanitarian relief, disaster recovery and reintegration of refugees require immediate action and thus offer more immediate and short-term impact. Yet, off-budget projects are often very expensive because most contracts are developed and issued according to the laws and regulations of the donor country and carry with them high operation costs, including the salaries of foreign contractors, which in turn flow back to the donor countries rather than remaining in Afghanistan. On the contrary, on-budget support appears to be more effective, since the cost of launching development projects with local contractors is significantly lower.

### ***Objectives***

The following objectives have been identified by the Afghan Government's Ministry of Finance as essential to improving the effective delivery of international assistance to Afghanistan and working towards the 2025 goal of increased self-sufficiency:

1. Greater government ownership and leadership in the development coordination and administration;
2. Strengthened economic management through increased development assistance via on-budget aid;
3. Coordination of off-budget flows from international donors and partners;
4. Operationalization of the commitments to aid effectiveness within the Tokyo Framework through a process of mutual accountability;
5. Increased transparency and accountability within the government of Afghanistan and between development partners.

### **Recommendations**

The economy of Afghanistan has improved significantly since 2002 because of substantial international assistance and investment, as well as subsequent dramatic improvements in agricultural production through foreign assistance. However, Afghanistan still remains a poor country, highly dependent on foreign aid. In order to promote the country's continued economic development, the following recommendations are proposed to the Government of Afghanistan:

1. Build a culture of assessment and analysis to the policymaking process. The Government of Afghanistan lacks an institutional tradition of monitoring and evaluation within policymaking that would allow for policies to evolve and improve as a result of assessing their implementation over time. The absence of this capacity leads government bodies to rely heavily on expensive foreign consultants paid through off-budget aid. This causes aid to cycle back to donor countries through expensive salaries and constrains the long-term sustainability of donor interventions.
2. Review and revise the Aid Management Policy to find a new approach to the ownership of aid to Afghanistan, and align donor assistance to the country's identified national priorities. If the Government has greater discretion over foreign aid through an on-budget scheme, it can better channel funds to priority sectors.
3. Build capacity in local governance through trainings and workshops and promote commitments to dialogue, coordination and information sharing between all interested parties.

### **Sources**

Ministry of Finance of the Islamic Republic of Afghanistan (2012) *Development Assistance Database*.

Ministry of Finance of the Islamic Republic of Afghanistan (2012) *Development Cooperation Report*.

Ministry of Finance of the Islamic Republic of Afghanistan (2013) *Aid Management Policy*.

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1 CPPA is an executive programme for civil servants, independent analysts and staff at think-tanks and non-governmental organisations. The Programme was offered in Kyrgyzstan, Tajikistan and Afghanistan. CPPA was delivered to Afghan civil servants through an agreement between UCA and the Afghan Ministry of Finance. CPPA was offered within the framework of UCA's Research and Public Policy Initiative (RPPI), supported by the International Development Research Centre, Ottawa, Canada, and the Aga Khan Foundation, Canada.