

1 AFGHANISTAN

INTRODUCTION

WORLD BANK DATA SHOW that Afghanistan has a population of 33 million and in 2007 had a gross domestic product of around USD 7 billion. Poverty is a serious problem; a household survey conducted in spring 2007 estimated that 42% of people live below the national poverty line.

Afghanistan faces numerous immediate challenges. These include: establishing security and stability; strengthening the capacity of state institutions; fighting corruption and improving governance; reducing unemployment; and the gradual elimination of poppy cultivation and the narcotics industry. Other major hurdles include: building the infrastructure for a modern economy and creating an environment that supports private-led sustainable economic growth; resettling millions of returning Afghans who sought refuge in neighbouring countries during years of conflict and instability; and reducing dependence on foreign aid

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Low	Large external aid budget is not concretely linked to implementing the Afghanistan National Development Strategy (ANDS)	Implement the ANDS in a prioritised and well-sequenced manner
Alignment	Moderate	Relatively weak country systems resulting in donor reluctance to make use of country systems	Government to lead in formulating and implementing development policies and programmes; donors align and respect such policies, and support implementation of national programmes
Harmonisation	Moderate	Lack of clear sector prioritisation and divergence between government and donor strategies	Implement the ANDS and improve co-ordination amongst donors regarding joint programming and co-ordinated missions and analytical work
Managing for results	Low	Very limited information on development-related indicators	Establish and implement a strategic plan for ANDS monitoring; invest in improving statistical capacity
Mutual accountability	High	Weak co-ordination mechanism to implement the Afghanistan Compact	Donors work to provide transparent and predictable aid; government implement the anti-corruption road map

OVERVIEW

Box 1.1:

Challenges and priority actions

Aid is of great importance to the Afghan economy. Total net official development assistance (ODA) provided by members of the OECD's Development Assistance Committee (OECD-DAC) amounted to USD 3 billion in 2006. In 2006, aid accounted for approximately 36% of Afghanistan's gross national income (GNI). For 2006-07, the volume of aid was almost double the level of central government expenditure.

Of those donors reporting their aid to the OECD in 2005-06, the United States was by far the largest donor – followed by the European Commission and the United Kingdom. Twenty-four donors responded to the 2008 Survey; their aid constituted 98% of aid provided to Afghanistan by members of the OECD-DAC. The high level of aid dependence and the large number of active donors working in a complex environment, make progress on aid effectiveness an imperative aim, as well as a major challenge. ■

OWNERSHIP

OWNERSHIP IS CRITICAL TO ACHIEVING DEVELOPMENT RESULTS and is central to the Paris Declaration on Aid Effectiveness. Aid is most effective when it supports a country-owned approach to development; aid is less effective when countries feel that aid policies and approaches are driven by donors that provide assistance. In the context of the Paris Declaration, ownership specifically concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

Ownership has many dimensions. Indicator 1 – assessed as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead* – provides an entry point to the issue. The World Bank assesses the operational value of a country's development strategy and policy against three criteria, all of which are essential features of any serious effort to harness domestic and external resources for development purposes: the existence of an authoritative, country-wide development policy which clearly identifies priorities and is well costed.

The World Bank rates the operational value of a country's development strategy against a five-point scale running from A (highest score) to E (lowest score). The Paris Declaration 2010 target is to raise, to at least 75%, the proportion of partner countries having operational development strategies – *i.e.* meriting a rating of A or B.

In the 2006 Baseline Survey, no assessment was made of the extent to which Afghanistan had an operational development strategy. Nevertheless, the country report highlighted some obstacles for implementing its former development strategy (the Interim Afghanistan National Development Strategy). These included: a lack of prioritisation among the many stated development targets and goals in the strategy; a budget poorly linked to the strategy; and very low levels of domestic revenue resulting in difficulties in implementing the strategy.

A number of these challenges are addressed in the recently approved Afghanistan National Development Strategy (ANDS). This comprehensive document sets out the long-term development vision for meeting the Millennium Development Goals (MDGs), as well as the benchmarks established by the government and donors in the Afghanistan Compact.

INDICATOR 1

Do countries have operational development strategies?

The ANDS includes well-defined development priority goals and objectives for each sector and proposes strategic methods to meet those objectives. A joint assessment of the ANDS – carried out by the World Bank and the International Monetary Fund (IMF) – acknowledged its strengths, particularly in poverty analysis, costing and prioritisation. However, challenges still remain in the implementation of the strategy.

The government is now in the process of integrating the ANDS fully into the national budget. Currently, the majority of ODA is not incorporated in the national budget, making it difficult for the government to exercise effective development leadership. It is hoped that integrating the development framework into the national budget will increase the willingness of donors to implement their projects through the government's executed budget, in line with the ANDS priorities. For the 2008 Survey, the World Bank's assessment (conducted as part of its work on Results-based National Development Strategies) is that Afghanistan's development strategy merits a rating of D. This indicates that there is considerable room for progress.

The challenge of strengthening ownership include: the costing, re-prioritisation and integration of all the ANDS sector strategies; mobilising the donor assistance (USD 20 billion) pledged at the Paris conference for implementing the ANDS; and strengthening the government's absorption capacity. Other significant challenges include weak capacity in many key areas (which may constrain the ability to effectively implement the ANDS), together with corruption and security issues in the fragile, post-conflict situation facing Afghanistan.

The country report notes that the preparation of the ANDS was inclusive: government ministries and agencies (at both national and sub-national levels), as well as donors and civil society, were actively involved in the process. Several mechanisms for dialogue between donors and government have been established, including the Joint Co-ordination Monitoring Board (JCMB), consultative groups and working groups. This structure was recently revised to strengthen government ownership in implementing development policies: a large number of the consultative and working groups have been transformed into four committees that will be used for donor-government dialogue on the most important issues. ■

ALIGNMENT

FOR AID TO BE EFFECTIVE, it must be aligned with national development strategies, institutions and procedures. The Paris Declaration envisions donors basing their support fully on country partner aims and objectives. Indicators 2 through 8 examine several dimensions of aid to assess the degree to which partner countries and donors achieve alignment.

The findings of the 2008 Survey demonstrate that Afghanistan's progress towards the Paris Declaration 2010 targets is patchy. Good progress is being made in four areas: budget realism; co-ordination of support for increasing capacity; reducing the stock of parallel project implementation units (PIUs); and the untying of aid. For other issues, such as use of country systems and predictability of aid, there has been little progress or even slippage against the 2010 targets.

BUILDING RELIABLE COUNTRY SYSTEMS

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. In each case, the focus is on the degree to which these systems adhere to broadly accepted good practices – or to which there is in place a reform programme to promote improved practices. If countries have reliable systems, donors will be encouraged to use such systems for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

INDICATOR 2a

How reliable are country public financial management systems?

Indicator 2a of the Paris Declaration assesses the degree to which partner countries either have public financial management (PFM) systems that are in line with broadly accepted good practices or have credible reform programmes in place to establish reliable PFM systems. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong) with half-point increments. To score highly, a country needs to meet all three of the following criteria: a comprehensive and credible budget linked to policy priorities; effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and, timely and accurate accounting and fiscal reporting, including timely and audited public accounts. The 2010 target is that each country will move up at least one measure (*i.e.* 0.5 points) on the CPIA scale for measuring the quality of PFM systems.

Afghanistan was not included in the 2005 Country Policy and Institutional Assessment scores. However, the country report noted that although formal institutions had recently been set up to improve the country systems, the country still faced significant problems in relation to corruption and the lack of coherent policies to improve such systems.

In the 2008 Survey, Afghanistan received a rating of 3.0 for the reliability of its PFM systems. For a country with Afghanistan's recent history, this moderately weak rating is reasonably encouraging and reflects a series of recent reforms focused on government capacity building as well as on improving the legal domain. To date, reforms have focused on enhancing the capacity of the national government and national-level projects and programmes. The future challenge will be to improve financial management capacity at the sub-national level, an issue that several donors have started to investigate. If the 2010 target of a rating of 3.5 is to be achieved, the reform programme's momentum must be maintained.

INDICATOR 2b

How reliable are country procurement systems?

At the time of the 2006 Baseline Survey, no mechanism was in place to systematically assess and quantify the quality of procurement systems in partner countries. Thus, it was impossible to set country-level targets on progress towards Indicator 2b.

In the context of the 2008 Survey, the quality of a country's procurement system is assessed through the Methodology for the Assessment of National Procurement Systems, which was developed by the Joint Venture on Procurement. The methodology includes two components: the baseline indicators compare the country's systems to internationally-accepted good practice; and a new set of indicators assess overall performance of the system and compliance with national legislation and standards. The results of the procurement system self-assessment are expressed as grades on a four-point scale running from A (the highest) to D (the lowest).

The reliability of Afghanistan's procurement systems was assessed for the first time in 2008, using the methodology for self-assessment developed by the Joint Venture on Procurement. Afghanistan received a rating of C on a scale running from D (weak) to A (strong).

The country's Procurement Law was approved in 2005. In addition, a Procurement Policy Unit was established in 2006 (under the Ministry of Finance) and a high-level government Special Procurement Committee was set up in 2007. With the assistance of the World Bank, a procurement reform process, focusing on capacity building and institutional strengthening, was recently initiated. These reforms have yet to bear fruit and the self-assessment notes a number of serious weaknesses in the current systems resulting from several factors: an incomplete legal framework; the absence of a common set of procurement manuals and standard bidding documents; and, in general, a low level of institutional capacity. Nevertheless, if the laws are effectively implemented, the Paris Declaration 2010 target of an increase to a rating of B may be attainable.

ALIGNING AID FLOWS ON NATIONAL PRIORITIES

Comprehensive and transparent reporting on aid, and how it is used, is an important means of ensuring that donors align aid flows with national development priorities. The degree to which development assistance to the government sector is fully and accurately reflected in the budget provides a useful indication of the degree to which serious effort is made to connect aid programmes with country policies and processes. It also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

Indicator 3 is a proxy for alignment. It measures the percentage of aid disbursed by donors to the government sector that is included in the annual budgets for the same fiscal year. The indicator is a joint measure of two components: the degree to which donors report aid flows comprehensively to partner countries; and the degree to which partner countries accurately record aid.

The final figure highlights any discrepancy between the government's budget estimates and actual disbursements by donors. The discrepancy (or gap) can be in either direction: budget estimates can be higher or lower than disbursements by donors. In order to have a single measure of discrepancy under 100%, the ratio is inverted when budget estimates are higher than donor disbursements. The 2010 target is to halve the proportion of aid flows to the government sector that is not currently reported on government budget(s), ultimately arriving at a point where at least 85% of aid is reported on the budget.

In the 2006 Baseline Survey, aid disbursements in Afghanistan amounted to only 55% of aid estimates in the budget. In other words, almost one-half of the aid the government had estimated and included in the budget was not disbursed. The 2008 Survey shows an improvement in the ratio to 69%, although significantly more aid is still included in the budget estimate than is actually disbursed. The ratio remains at 54% for the average donor. The overall improvement is the result of enhanced donor-government dialogue, as well as increased pooling of ODA to the three trust funds: the Afghanistan Reconstruction Trust Fund (ARTF), in which 24 donors take part; Counter Narcotics Trust Fund (CNTF), to which 14 donors contribute; and the Law and Order Trust Fund for Afghanistan (LOTFA), to which 9 donors provide funds. The country report notes that if aid for security were also reported as ODA, the score on alignment would be higher than indicated in the 2008 Survey.

INDICATOR 3

TABLE 1.1:
Are government budget estimates comprehensive and realistic?

	Government budget estimates of aid flows for 2007 (USD m)	Aid disbursed by donors for government sector in 2007 (USD m)	2005 (for reference)	2007*	
	a	b		c = a / b	c = b / a
Asian Dev. Bank	97	145	29%	67%	
Australia	2	12	30%	19%	
Belgium	3	8	--	32%	
Canada	214	240	84%	89%	
Denmark	32	21	93%		67%
European Commission	361	231	62%		64%
Finland	23	6	59%		27%
France	2	2	0%		90%
GAVI Alliance	0	--	0%		--
Germany	97	76	81%		79%
Global Fund	9	5	--		57%
Hungary	0	0	--		--
India	0	--	48%		--
Islamic Dev. Bank	1	0	--		32%
Italy	18	26	--		69%
Japan	39	37	35%		96%
Korea	1	3	--		43%
Netherlands	72	55	77%		76%
New Zealand	0	2	--		0%
Norway	0	--	91%		--
Spain	0	22	--		0%
Sweden	44	49	46%		90%
Switzerland	11	3	45%		23%
Turkey	0	13	0%		0%
United Kingdom	220	171	37%		78%
United Nations	43	69	22%		62%
United States	2 013	953	12%		47%
World Bank	345	349	62%		99%
Average donor ratio	--	--	46%		54%
Total	3 647	2 499	55%		69%

* Ratio is $c=a/b$ except where government budget estimates are greater than disbursements ($c=b/a$).

Note: Donor figures include contributions to trust funds, including the Afghanistan Reconstruction Trust Fund. For the purpose of the 2008 Survey, the data captures only the amount at the point of delivery of assistance.

On the government side, over-estimation of aid may result from double-counting and from the limited absorption capacities of line ministries. On the donor side, there are a number of procurement delays, both in national procurement systems and in relation to donors' own contracting and sub-contracting systems. In addition, the uncertain security situation coupled with low capacity for project implementation lead some donors to bypass the government and leave it uninformed about financial flows. If the Paris Declaration 2010 target of 85% is to be met, these issues will need to be addressed.

CO-ORDINATING SUPPORT TO STRENGTHEN CAPACITY

INDICATOR 4

Capacity constraints significantly undermine the ability of partner countries to capture, co-ordinate and utilise aid flows more effectively. Under the Paris Declaration, donors committed to providing technical co-operation in a manner that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Likewise, there is greater recognition that successful capacity building is endogenous – *i.e.* is led by the partner country. To this end, the partner country defines clear objectives to ensure that existing capacities are used effectively and that external support is harmonised within this framework.

Indicator 4 focuses on the extent to which donor technical co-operation – an important input into capacity development – is moving towards this country-led model. It measures the degree of alignment between donor technical co-operation and the partner country's

capacity development needs and strategies. The Paris Declaration 2010 target is that 50% of technical co-operation flows are implemented through co-ordinated programmes that are consistent with national development strategies.

Addressing human resource constraints through capacity building is a key priority in Afghanistan's development strategy and the country receives a significant amount of technical assistance. However, the 2006 Baseline Survey reported that only 37% of donor technical co-operation to Afghanistan was provided in a co-ordinated manner, highlighting poor co-ordination between donors themselves and suggesting that more attention should be given to pooling capacity-building funds.

Data for the 2008 Survey show that improvements have been made and that 54% of donor technical co-operation was co-ordinated with country programmes. However, this is somewhat at odds with the country report, which notes an ongoing lack of co-ordination mechanisms for technical co-operation together with a lack of donor pooling of resources. Moreover, the technical co-operation received by Afghanistan has generally been based on short-term gap-filling exercises rather than long-term human resource assessments.

Important challenges remain. In particular, donors need to reconcile long-term capacity building and short-term development objectives, and the government needs to exercise stronger leadership on how technical co-operation is used. The government is clearly committed to making progress in this regard and is planning to develop a policy for dealing with technical co-operation. The formulation of a policy and its effective implementation should certainly be priorities.

	Co-ordinated technical co-operation (USD m) a	Total technical co-operation (USD m) b	2005 (for reference) c = a / b	2007
Asian Dev. Bank	11	11	0%	100%
Australia	2	2	100%	100%
Belgium	0	0	--	--
Canada	0	0	--	0%
Denmark	2	3	100%	92%
European Commission	9	11	0%	76%
Finland	1	1	100%	100%
France	0	2	0%	0%
GAVI Alliance	--	--	--	--
Germany	3	17	0%	17%
Global Fund	0	0	--	--
Hungary	0	0	--	0%
India	--	--	100%	--
Islamic Dev. Bank	0	0	--	--
Italy	0	0	--	0%
Japan	0	17	0%	0%
Korea	2	2	--	100%
Netherlands	7	10	--	73%
New Zealand	0	0	--	--
Norway	--	--	85%	--
Spain	0	0	--	--
Sweden	1	1	100%	100%
Switzerland	0	0	25%	0%
Turkey	0	0	85%	100%
United Kingdom	11	27	4%	41%
United Nations	14	23	78%	62%
United States	69	164	20%	42%
World Bank	55	55	100%	100%
Total	188	347	37%	54%

TABLE 1.2:
How much technical
co-operation is co-ordinated
with country programmes?

USING COUNTRY SYSTEMS

INDICATOR 5

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the partner's long-term capacity to develop, implement and account for its policies – to both its citizens and its parliament. The Paris Declaration encourages donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. In this respect, Indicator 5 is directly linked to Indicator 2 on the quality of PFM and procurement systems, and measures the use of both.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding to the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting, and auditing) as a percent of total aid disbursed to the government sector. The 2010 target is relative to Indicator 2a on the quality of PFM systems.

TABLE 1.3:
How much aid for
the government sector
uses country systems?

	Aid disbursed by donors for government sector (USD m) a	Public financial management (PFM)					Procurement		
		Budget execution (USD m) b	Financial reporting (USD m) c	Auditing (USD m) d	2005 (for reference)	2007	Procurement systems (USD m) e	2005 (for reference)	2007
		avg (b,c,d) / a					e / a		
Asian Development Bank	145	145	145	145	67%	100%	145	0%	100%
Australia	12	11	0	0	--	31%	0	--	0%
Belgium	8	6	6	6	--	79%	6	--	79%
Canada	240	240	240	240	50%	100%	0	50%	0%
Denmark	21	21	21	21	50%	100%	13	50%	61%
European Commission	231	111	111	111	0%	48%	111	0%	48%
Finland	6	6	6	6	0%	100%	6	0%	100%
France	2	0	0	0	33%	0%	0	0%	0%
GAVI Alliance	--	--	--	--	33%	--	--	0%	--
Germany	76	33	52	33	9%	52%	52	27%	69%
Global Fund	5	3	0	0	67%	22%	0	0%	0%
Hungary	0	0	0	0	--	--	0	--	--
India	--	--	--	--	0%	--	--	0%	--
Islamic Development Bank	0	0	0	0	--	100%	0	--	100%
Italy	26	0	0	0	--	0%	0	--	1%
Japan	37	14	14	14	15%	36%	15	15%	40%
Korea	3	0	0	0	--	0%	0	--	0%
Netherlands	55	41	41	41	60%	75%	0	60%	0%
New Zealand	2	1	1	1	--	39%	0	--	0%
Norway	--	--	--	--	83%	--	--	83%	--
Spain	22	22	22	22	--	100%	0	--	0%
Sweden	49	20	20	20	100%	40%	20	100%	40%
Switzerland	3	2	2	2	0%	92%	2	4%	82%
Turkey	13	0	0	0	0%	0%	0	100%	0%
United Kingdom	171	154	112	113	100%	74%	3	100%	2%
United Nations	69	64	12	12	0%	42%	12	0%	17%
United States	953	58	58	58	100%	6%	61	100%	6%
World Bank	349	305	305	305	100%	88%	0	100%	0%
Total	2 499	1 258	1 168	1 149	44%	48%	446	44%	18%

Indicator 5b measures the volume of aid, as a percent of total aid disbursed to the government sector, that uses partner country procurement systems. The 2010 target is relative to Indicator 2b; thus, targets are indicated only for those countries that established scores for Indicator 2b in the context of the 2006 Baseline Survey.

The 2006 Baseline Survey reported that 44% of aid to the government sector in Afghanistan made use of country systems for PFM with all three systems – budget execution, financial reporting, and auditing – being utilised almost equally. The country report highlighted that the lack of absorptive capacity in line ministries and a lack of donor confidence were challenges for increasing the use of country PFM systems. As Afghanistan was not assessed for Indicator 2a in the 2006 Baseline Survey, no target was set for Indicator 5a. Similarly, with a rating of 3.0 for Indicator 2a in the 2008 Survey, no target for Indicator 5a has been set.

Significant PFM reforms have taken place in recent years, as noted by the World Bank's Public Expenditure and Financial Accountability report. The data show an increase in aid to the government sector making use of country PFM systems – from 44% to 48%. The percentage figure fails to show that the volume of aid making use of PFM systems has more than doubled. Nevertheless, challenges remain in terms of absorptive capacity, limited donor confidence in country systems and serious concerns about corruption.

Concerning donor use of procurement systems, the percentages show a significant slippage from the 44% reported in the 2006 Baseline Survey to 18% in the 2008 Survey. It is important to note that the slippage does not necessarily reflect a decline in use of country procurement systems, but rather a more rigorous application of the survey definitions which eliminated some of the double-counting of funds channelled through trust funds. Still, significant challenges remain in the use of country procurement systems. There is a need to build awareness of the new legal framework and to strengthen capacities for its implementation and enforcement. With a rating of C for its procurement systems, no 2010 target is set for the use of Afghanistan's procurement systems.

AVOIDING PARALLEL IMPLEMENTATION STRUCTURES

When providing development assistance, some donors establish specific project implementation units (PIUs), *i.e.* dedicated management units designed to support development projects or programmes. A PIU is said to be “parallel” when it is created at the behest of the donor and operates outside existing country institutional and administrative structures.

In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, parallel PIUs often tend to undermine national capacity building efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to “avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.” Indicator 6 is a count of the number of parallel PIUs being used in partner countries. The 2010 target is to reduce by two-thirds the stock of parallel PIUs in each partner country.

Due to shortage of skills in the public and private sectors in Afghanistan, donors have generally created parallel PIUs to ensure that projects have adequate capacity to be implemented. While noting that there was probably significant donor under-recording of parallel PIUs, the 2006 Baseline Survey reported 28 parallel PIUs. Data collected for the 2008 Survey show a stock of 26 parallel PIUs.

INDICATOR 6

TABLE 1.4:
How many PIUs are parallel
to country structures?

	2005 (for reference)	2007 (units)
Asian Dev. Bank	0	0
Australia	--	0
Belgium	--	0
Canada	0	0
Denmark	0	0
European Commission	0	0
Finland	0	1
France	0	0
GAVI Alliance	0	--
Germany	0	0
Global Fund	0	0
Hungary	--	2
India	0	--
Islamic Dev. Bank	--	2
Italy	--	1
Japan	0	0
Korea	--	0
Netherlands	0	0
New Zealand	--	0
Norway	0	--
Spain	--	0
Sweden	0	0
Switzerland	1	1
Turkey	0	0
United Kingdom	2	2
United Nations	23	17
United States	2	0
World Bank	0	0
Total	28	26

Steps to reduce parallel PIUs have been taken, including donor initiatives to share PIUs among themselves. In addition, to reduce dependence on parallel systems, a donor-financed management capacity programme (MCP) has been put in place with the aim of attracting skilled Afghans into government positions. Similarly, the United Nations Development Programme (UNDP) provides coaching services to Afghan civil servants within ministries and government agencies through the Capacity for Afghan Public Services (CAP) project. This project is implemented by the Capacity Development Secretariat of Independent Administrative Reforms and Civil Service Commission. It aims to strengthen common functions performed by Afghan civil servants such as human resources management; financial management; project management;

procurement; and policy and strategy. This will enable public servants to execute core government functions and use advisory services to strengthen leadership and policy-making skills, leading to sustainable skills transfer. Still, meeting the 2010 target of nine parallel PIUs of Afghanistan will be a considerable challenge.

PROVIDING MORE PREDICTABLE AID

INDICATOR 7

For many countries, development assistance constitutes a vital source of revenue and resources. Being able to predict aid disbursements – in terms of both how much aid will be delivered and when – is as an important factor in the ability of countries to manage public finances and undertake realistic planning for development. It is particularly crucial to enabling partner countries to implement medium- to long-term development plans and to optimise the allocation of resources within and across sectors. In this regard, the Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable fashion according to agreed schedules.

Indicator 7 examines in-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in the national accounting system as actually disbursed. Indicator 7 assesses predictability from two angles. The first angle is the combined ability of donors and government to disburse aid on schedule. The second is the ability of donors and government to record comprehensively disbursements made by donors to the government sector.

Indicator 7 is designed to encourage progress in relation to both angles, with the aim of gradually closing the predictability gap – by one-half – by 2010. The ultimate goal is to improve not only the predictability of actual disbursements, but also the accuracy of how disbursements are recorded in government systems – an important feature of ownership, accountability and transparency.

In the 2006 Baseline Survey, the level of in-year predictability of aid was 84%, with aid recorded being higher than aid scheduled by donors. However, the predictability of aid from the average donor was only 39%. With a global Paris Declaration 2010 target of closing the predictability gap by a half, the target for Afghanistan is set at 92%.

Data for the 2008 Survey show that aid predictability has decreased, with only 70% of total aid accurately accounted for in 2007. Predictability for the average donor stands at 45%. In the 2008 Survey, aid recorded was less than aid disbursed. Aid provided as budget support enhances the overall predictability of aid, but the provision of large portions of aid outside the government system lowers the overall percentage. There is room for improvement with regard to the timeliness of donor communication about their spending priorities, which has considerably slowed down the budget process in past years.

TABLE 1.5:
Are disbursements
on schedule and recorded
by government?

	Disbursements recorded by government in 2007 (USD m) a	Aid scheduled by donors for disbursement in 2007 (USD m) b	Aid disbursed by donors for government sector in 2007 (USD m) for reference only	2005	2007*	
				(for reference)	c = a / b	c = b / a
Asian Development Bank	95	168	145	67%	56%	
Australia	2	12	12	44%	17%	
Belgium	0	12	8	--	0%	
Canada	213	240	240	78%	89%	
Denmark	23	40	21	50%	56%	
European Commission	73	212	231	97%	34%	
Finland	7	13	6	9%	50%	
France	1	6	2	0%	23%	
GAVI Alliance	0	--	--	0%	--	
Germany	56	82	76	0%	68%	
Global Fund	9	9	5	--	98%	
Hungary	0	0	0	--	--	
India	0	--	--	0%	--	
Islamic Development Bank	0	4	0	--	0%	
Italy	18	29	26	--	63%	
Japan	4	16	37	64%	27%	
Korea	0	3	3	--	0%	
Netherlands	39	47	55	92%	83%	
New Zealand	0	0	2	--	--	
Norway	0	--	--	51%	--	
Spain	38	22	22	--	58%	
Sweden	22	47	49	69%	46%	
Switzerland	11	1	3	64%	8%	
Turkey	0	12	13	0%	0%	
United Kingdom	163	173	171	56%	94%	
United Nations	15	73	69	5%	21%	
United States	820	1 277	953	23%	64%	
World Bank	345	276	349	17%	80%	
Average donor ratio	--	--	--	39%	45%	
Total	1 953	2 772	2 499	84%	70%	

* Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a).

The government has initiated several reforms to increase aid predictability, such as the Harmonised Reporting Format, and has recently initiated an innovative bi-annual donor financial review. The Ministry of Finance has made considerable effort to produce regular donor financial reviews (DFRs) and to hold regular meetings of the aid effectiveness working groups. However, thus far, few donors have provided data using the new format and the financial review was initiated only in late 2007. Thus, the immediate challenges are to decrease the amount of aid channelled externally to the budget, improve communication between donors and the government, and implement the recent government initiatives.

UNTYING AID

INDICATOR 8

How much aid is untied?

Aid is said to be “tied” when it is provided on the condition that the recipient country will use it to purchase goods and services from suppliers based in the donor country. Experience shows that aid with such conditions attached increases the costs of goods and services provided to partner countries; it also increases the administrative burdens on both donors and partners. By contrast, untied aid helps build a country’s capacity to provide goods and services.

Country figures for untying aid are based on voluntary self-reporting by donors that are members of the OECD Development Assistance Committee (OECD-DAC). The 2010 target is to continue progress towards untying aid over time.

The 2006 Baseline Survey reported that only 44% of aid provided to Afghanistan by members of the OECD-DAC was untied, as compared to an average of 75% for participating countries. The country report suggests that the low level of untying was linked to much technical assistance provided by Western companies.

The Paris Declaration 2010 target for Indicator 8 is for continued progress over time with untying. The most recent data collected by the OECD-DAC show that 94% of member aid to Afghanistan is untied (for those OECD-DAC donors that report on tying status). Untying of aid from the United States constituted the greatest source of improvement. Aid has also become increasingly untied due to its being channelled through direct budget support and through existing aid programmes and multi-donor trust funds. ■

HARMONISATION

DECADES OF DEVELOPMENT EXPERIENCE show that poor co-ordination of aid increases the cost for both donors and partner countries, and significantly reduces the value-added of aid. Harmonisation of aid delivery procedures and adoption of common arrangements help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and share analysis.

Afghanistan records some notable developments as regards harmonisation, with good progress on increasing the proportion of missions and country analytical work conducted jointly. However, there was some slippage on the use of programme-based approaches (PBAs). The figures on harmonisation should be treated with caution as some changes may result from methodological refinements.

USING COMMON ARRANGEMENTS

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A sound mechanism for aid co-ordination can be described as one that builds on shared objectives and that reconciles, in a constructive manner, the various interests of stakeholders.

INDICATOR 9

TABLE 1.6:
How much aid is
programme based?

	Programme based approaches (PBAs)			Total aid disbursed (USD m) d	2005 (for reference)	2007
	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c = a + b			
Asian Development Bank	49	0	49	145	71%	34%
Australia	11	13	24	104	100%	23%
Belgium	0	0	0	12	--	0%
Canada	173	59	231	329	76%	70%
Denmark	18	9	28	43	67%	63%
European Commission	111	105	216	280	61%	77%
Finland	0	1	1	15	0%	9%
France	0	1	1	18	0%	5%
GAVI Alliance	--	--	--	--	100%	--
Germany	37	1	39	79	0%	49%
Global Fund	0	3	3	5	100%	65%
Hungary	0	0	0	3	--	0%
India	--	--	--	--	0%	--
Islamic Development Bank	0	0	0	0	--	100%
Italy	0	0	0	29	--	0%
Japan	0	0	0	155	140%	0%
Korea	0	0	0	3	--	0%
Netherlands	34	13	46	70	100%	67%
New Zealand	0	1	1	4	--	26%
Norway	--	--	--	--	42%	--
Spain	0	0	0	38	--	0%
Sweden	0	0	0	49	30%	0%
Switzerland	5	0	5	14	30%	34%
Turkey	0	0	0	18	0%	0%
United Kingdom	160	0	160	203	71%	79%
United Nations	39	0	39	76	14%	51%
United States	58	279	337	1 581	29%	21%
World Bank	80	180	260	349	100%	75%
Total	774	666	1 440	3 623	43%	40%

Indicator 9 assesses the degree to which donors work together by measuring the proportion of total ODA disbursed within PBAs. In practice, there are many different modalities for implementing PBAs, which operate at various levels. At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* sector policy) and establishing a single budget framework that captures all resources (both domestic and external). At the second level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that 66% of aid flows are provided in the context of PBAs.

Data for the 2006 Baseline Survey indicated that 43% of aid to Afghanistan made use of PBAs, with 54% of this reflecting direct budget support. The Paris Declaration 2010 target is that 66% of aid use PBAs. The 2008 Survey shows slippage to 40%, even though the ARTF is currently facilitating several ongoing PBAs. Proliferation of PBAs has been problematic in sectors that lack a clear strategy or in which donors and government do not share the same strategy. As sector prioritisations are formulated in the ANDS, this is expected to clear the way for greater use of PBAs.

The World Bank recently assessed the Afghan government's performance in implementing reforms for public expenditure and financial accountability (PEFA). The key PEFA findings confirmed significant improvements in strengthening the PFM. Out of the 28 performance indicators, 18 indicators improved, 2 indicators deteriorated and 8 indicators remained unchanged. It is expected that the unchanged or deteriorating indicators will improve.

CONDUCTING JOINT MISSIONS AND SHARING ANALYSIS

One of the most frequent complaints of partner countries is that donors make too many demands in relation to their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared.

Indicator 10 measures the extent to which donors are merging their missions (Indicator 10a) and analytical work (Indicator 10b) at the country level – either with country partner authorities or amongst the donor community (or both). It calculates the proportion of missions to the country undertaken jointly (*i.e.* by more than one donor) and the share of country-analysis exercises undertaken on a joint or co-ordinated basis. The 2010 target is that 40% of donor missions to the field are conducted jointly and that 66% of country analytical work is carried out jointly.

INDICATOR 10a

Data for the 2006 Baseline Survey showed that 26% of a total of 363 donor missions to Afghanistan were conducted jointly. Data for the 2008 Survey show that 43% of all missions in 2007 were conducted jointly and that the total number of missions decreased dramatically. This exceeds the Paris Declaration 2010 target of 40% of missions being conducted jointly .

	Co-ordinated donor missions*	Total donor missions	2005 (for reference)	2007 c = a / b
	(missions) a	(missions) b		
Asian Dev. Bank	0	0	0%	--
Australia	3	3	100%	100%
Belgium	0	0	--	--
Canada	1	15	0%	7%
Denmark	0	0	33%	--
European Commission	12	14	0%	86%
Finland	0	4	--	0%
France	0	8	0%	0%
GAVI Alliance	--	--	--	--
Germany	10	10	10%	100%
Global Fund	0	0	0%	--
Hungary	1	1	--	100%
India	--	--	0%	--
Islamic Dev. Bank	2	4	--	50%
Italy	0	3	--	0%
Japan	1	14	--	7%
Korea	1	3	--	33%
Netherlands	12	12	100%	100%
New Zealand	2	2	--	100%
Norway	--	--	33%	--
Spain	0	0	--	--
Sweden	0	0	10%	--
Switzerland	0	11	0%	0%
Turkey	6	6	100%	100%
United Kingdom	2	2	14%	100%
United Nations	35	42	58%	83%
United States	0	17	60%	0%
World Bank	22	22	0%	100%
Total	83	193	26%	43%

* The total of co-ordinated missions has been adjusted to avoid double-counting. A discount factor of 35% is applied.

TABLE 1.7:
How many donor missions
are co-ordinated?

	Co-ordinated donor analytical work*	Total donor analytical work	2005 (for reference)	2007 c = a / b
	(analyses) a	(analyses) b		
Asian Dev. Bank	0	9	0%	0%
Australia	0	0	--	--
Belgium	0	0	--	--
Canada	0	0	67%	--
Denmark	0	0	33%	--
European Commission	1	1	0%	100%
Finland	0	0	--	--
France	0	1	0%	0%
GAVI Alliance	--	--	--	--
Germany	0	0	0%	--
Global Fund	0	2	--	0%
Hungary	1	2	--	50%
India	--	--	100%	--
Islamic Dev. Bank	0	2	--	0%
Italy	0	0	--	--
Japan	0	3	0%	0%
Korea	0	1	--	0%
Netherlands	0	2	--	0%
New Zealand	0	0	--	--
Norway	--	--	33%	--
Spain	0	0	--	--
Sweden	0	0	32%	--
Switzerland	0	2	--	0%
Turkey	0	0	100%	--
United Kingdom	4	7	0%	57%
United Nations	27	32	58%	84%
United States	0	22	0%	0%
World Bank	9	11	63%	82%
Total	32	97	34%	32%

* The total of co-ordinated analytical work has been adjusted to avoid double-counting. A discount factor of 25% is applied.

TABLE 1.8:
How much country analysis
is co-ordinated?

The World Bank's Aid Effectiveness Report notes that several bi-lateral and multi-lateral donors co-ordinate their missions in areas such as appraisal, revenue and public expenditure management. However, the country report calls for further efforts to co-ordinate missions to support the implementation of the ANDS and measure progress against its agreed benchmarks.

INDICATOR 10b

Country analytical work encompasses the analysis and advice necessary to strengthen policy dialogue, and to develop and implement country strategies in support of sound development assistance. It typically includes country or sector studies and strategies, country evaluations, discussion papers, etc. The Paris Declaration recognises that donors have a responsibility in ensuring that the analytical work they commission is undertaken jointly, as much as possible. Doing country analytical work jointly has a number of benefits. It helps curb transaction costs for partner authorities, avoid unnecessary duplicative work and foster common understanding between donors. Donors need also to draw on partner countries' own analytical work and, where appropriate, work with government and other donors. Indicator 10b measures the proportion of country analytical work that is undertaken jointly.

Results related to Indicator 10b show a slight decrease from the 34% in the 2006 Baseline Survey to 32% in the 2008 Survey. Most donors that conducted a large amount of analytical work in 2007 also increased the share that was conducted jointly. However, more progress is needed to meet the 2010 target of 66%. If one or two donors conducted more of their analytical work jointly, good progress could be made. ■

MANAGING FOR RESULTS

INDICATOR 11

Do countries have results-based monitoring frameworks?

THE PARIS DECLARATION CALLS ON donors and partner countries to make a joint commitment to managing for development results – *i.e.* to manage resources according to desired results. This implies defining desired results and measuring progress toward them, as well as using information on results to improve decision making and performance. It also implies strengthening capacity to undertake such management and helping to increase the demand for a focus on results (*i.e.* adopt a results-based monitoring framework).

Indicator 11 utilises data collected as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The review focuses on three particular aspects of a robust results-based monitoring framework: the quality of the information generated; stakeholder access to the information; and the extent to which such information is utilised within a country-level monitoring and evaluation system.

The assessments are expressed in scores running from A (high) to E (low), with B representing a "largely developed results-based monitoring framework." The 2010 target is to reduce by one-third the proportion of countries lacking transparent and monitorable results-based monitoring frameworks (*i.e.* reduce by one-third the number of countries not attaining at least a B rating).

Afghanistan was not included in the World Bank's 2005 Comprehensive Development Framework, which was used to set baselines and targets for Indicator 11. The 2006 country report outlined noteworthy achievements in collecting development information for Afghanistan, although from very low initial levels. The first assessment of Indicator 11 (conducted in 2007) gave the country the rating of D. The Paris Declaration 2010 target is that all countries move up one grade, implying a target of a C rating for Afghanistan.

The country report highlighted the current limitations of quality and coverage of development information, as well as the need to improve capacity to monitor and track progress of development-related indicators – both of which would improve policy making and budget formulation. To reach the 2010 target, continued efforts will be needed by both the government and donors, for example to effectively implement the Statistical Master Plan. ■

MUTUAL ACCOUNTABILITY

THE PARIS DECLARATION RECOGNISES that for aid to be truly effective, stronger and more balanced accountability mechanisms are required at all levels. In particular, aid is more effective when both donors and partner country governments are accountable – to their respective publics and to each other – for the use of resources and management to achieve development results. The Paris Declaration calls for donors and partner countries to jointly assess (through existing country-level mechanisms) mutual progress in implementing agreed commitments on aid effectiveness, including commitments made under the Paris Declaration.

Indicator 12 is concerned with the specific question of whether there is a country-level mechanism for mutual assessment of progress on the partnership commitments arising from the Rome or Paris Declarations, or from local harmonisation and alignment plans. The 2010 target is for all partner countries to have in place such mechanisms.

A mutual assessment mechanism is in place through the Afghanistan Compact, which includes a number of commitments from both government and donors to improve the quality of aid in line with the objectives of the Paris Declaration. Implementation of the Compact is assessed through regular reports and meetings hosted by the Joint Co-ordination Monitoring Board (JCMB). The JCMB is co-chaired by a senior Afghan official (appointed by the president) and the special representative of the UN Secretary-General for Afghanistan. Donors are currently working on a joint donor response strategy, which will serve to assess performance in accordance with the objectives, priorities, and costed sector strategies of the ANDS. In addition, mutual performance within the framework of the ARTF is assessed through a performance assessment matrix (PAM). Finally, the Combined Security Transition Command has been established to track foreign assistance specifically directed to the security sector. ■

INDICATOR 12

Do countries have reviews of mutual accountability?

PROGRESS SINCE 2005 AND PRIORITIES FOR 2010

THE APPROVAL OF A LONG-TERM DEVELOPMENT VISION – THE ANDS – with clear priorities and strategies provides grounds for optimism in Afghanistan in terms of future progress on several of the aid effectiveness indicators. However, progress in aid effectiveness has been mixed since the 2006 Baseline Survey and there has been considerable slippage on some indicators. Donor doubts about the country PFM and procurement systems seem to be increasing, reflecting a lack of government capacity. Clearly, building capacity through technical co-operation that is aligned with country needs is a priority. The fact that a large amount of aid is still channelled through the external budget is another indication of the weakness in government institutions and of donor failure to align initiatives with national development priorities. This is expected to improve with the implementation of the ANDS. ■

SUMMARY

TABLE 1.9

INDICATORS		2005 REFERENCE	2007	2010 TARGET
1	Operational development strategies	N/A	D	C
2a	Reliable public financial management (PFM) systems	N/A	3,0	3,5
2b	Reliable procurement systems	Not available	C	B
3	Aid flows are aligned on national priorities	55%	69%	85%
4	Strengthen capacity by co-ordinated support	37%	54%	50%
5a	Use of country PFM systems	44%	48%	N/A
5b	Use of country procurement systems	44%	18%	Not applicable
6	Strengthen capacity by avoiding parallel PIUs	28	26	9
7	Aid is more predictable	84%	70%	92%
8	Aid is untied	44%	94%	More than 44%
9	Use of common arrangements or procedures	43%	40%	66%
10a	Joint missions	26%	43%	40%
10b	Joint country analytic work	34%	32%	66%
11	Results-based monitoring frameworks	N/A	D	C
12	Mutual accountability	Yes	Yes	Yes

CONTRIBUTORS

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ACRONYMS

ANDS	Afghanistan National Development Strategy
ARTF	Afghanistan Reconstruction Trust Fund
CNTF	Counter Narcotics Trust Fund
DFR	donor financial review
GDP	gross domestic product
GNI	gross national income
IMF	International Monetary Fund
JCMB	Joint Co-ordination Monitoring Board
LOTFA	Law and Order Trust Fund for Afghanistan
MCP	management capacity programme
MDGs	Millennium Development Goals
ODA	official development assistance
OECD-DAC	OECD's Development Assistance Committee
PAM	performance assessment matrix
PBA	programme-based approach
PFM	public financial management
PIU	project implementation unit
UNDP	United Nations Development Programme

