



Afghanistan Aid Bulletin

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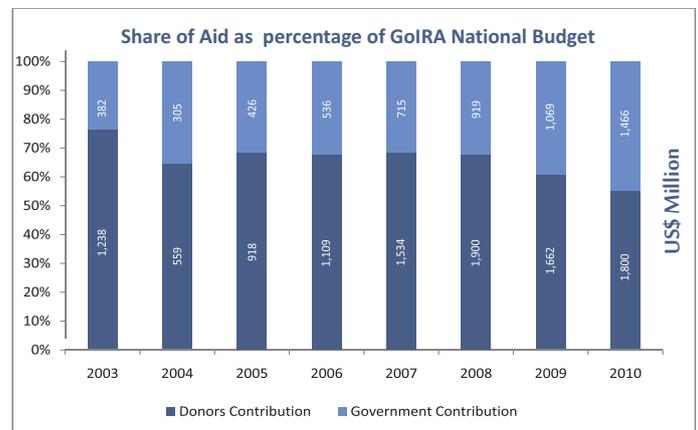
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DELIVERING AID THROUGH COUNTRY SYSTEMS

Since 2001, Afghanistan has been one of the largest aid recipients in the world. Approximately US\$57 billion has been disbursed for development work until 2010. At the Kabul Conference in July 2010, the donor community committed to channel at least 50% of their financial support through the government systems. It further committed to achieve 80% alignment with the priorities of the Government of the Islamic Republic of Afghanistan (GoIRA) within 2 years. However, only around 20% of the foreign aid has been channelled through the government systems so far.

Recently, in a promising initiative, some key development partners have been in negotiations with GoIRA on how to increase funding through GoIRA systems, as well as to align their funds with the National Priority Programs (NPPs). The empirical evidence globally suggests that aid provided through national systems of the recipient country and aligned with its national priorities is more cost effective, has greater economic and social returns, increases transparency and accountability and enhances national systems and capacity. The recent study done by the World Bank in Afghanistan shows that the local impact of aid spent through the National Budget is much higher than that managed externally. The study suggests that *“increasing on-budget aid and managing Operation and Maintenance through government systems would greatly improve aid effectiveness.”* Ownership by the recipient country is therefore crucial.



Absorptive capacity constraints, combined with low budget execution and procurement rates within government institutions, are indeed hurdles to increasing on-budget support by development partners. GoIRA has been addressing these challenges through diverse institutional reforms. For example, the Public Financial Management Roadmap, Strengthening Afghanistan's Budgets and Making Budget and Aid Work are ongoing initiatives to improve GoIRA's financial management systems and capacities in a broad sense. In addition, improvements in financial planning are helping to increase the budget execution of line ministries. GoIRA is also strengthening its revenue-creation policies, especially related to taxation, and improving grant and loan management. This will enable GoIRA to finance its priorities better by using the budget to both sustain improvements and also to bring further positive changes in lives of Afghans.

The Afghan National Budget is separated into operating and development budgets, which are 45% and almost 100% dependent on foreign aid, respectively.

The transition process of transferring responsibilities from the international community to GoIRA will be completed by 2014. The drawdown of international military forces will likely see a reduction in foreign aid, which will result in less revenue for GoIRA to finance its development activities.

The annual national budget is the only fiscal tool for the government to implement its various policies and priorities in order to ensure Afghanistan's sustainable growth and development into the future. The government has been underscoring since 2002 that if money is not channelled through government systems, it cannot prioritise it.

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GoIRA must, therefore, have a plan to take responsibility for its security, economic development and good governance initiatives. The national budget is the central tool for this plan's implementation. Despite the risks found in fragile states, GoIRA believes that confidence in improving government systems and provision of more on-budget support can enhance mutual accountability, national ownership and maximize development results, as well as facilitate a successful transition process.

SALAM



We are delighted to share with you the first edition of Afghanistan Aid Bulletin, a quarterly newsletter which will highlight news, views and events of the Directorate General of Budget (DGB) at the Ministry of Finance (MOF). With this and future AAB editions, we hope to raise a greater understanding among our partners, on the importance and impact of foreign aid in Afghanistan.

The Aid Management Directorate (AMD) in the DGB cooperates with our international partners to support Afghanistan's reconstruction and development. We track flows of aid, assist in the formulation and implementation of aid projects and undertake diverse aid effectiveness initiatives. Our aim is to ensure that aid – whether delivered through the national budget or external mechanisms – is utilised effectively and is in alignment with the government's priorities under the Afghanistan National Development Strategy (ANDS). In our aid dependent nation, AMD's role as a bridge between the Ministry and its partners such as donors, line ministries and civil society is integral to sustainable peace and prosperity in Afghanistan.

Afghanistan Aid Bulletin will bring you statistics, interviews and aid analysis encompassing a range of areas related to aid management in Afghanistan. We hope it improves mutual understanding cooperation and coordination between the government and our partners.

Happy reading.

Hamid Jalil
Aid Management Director

AID HIGHLIGHTS

IMF Board approves new program for Afghanistan

Following their mission to Afghanistan in October 2011, the IMF and the government reached a staff-level agreement for a 3-year program under the Extended Credit Facility (ECF) with the amount of US\$129 million. This was approved by the IMF board on 14 November. This follows the government's progress in providing measures to strengthen the financial sector and to safeguard fiscal sustainability. The program sets out an agreed path of reforms and—after a period of uncertainty—now gives approval for several donors to restart their funding through the Afghanistan Reconstruction Trust Fund (ARTF).

ADB approves support to transport sector

Asian Development Bank (ADB) has agreed to add US\$754 million for the coming five years in support of road and rail networks. This will improve 600 km of national roads, the construction and Operations and Maintenance of 225 km of railways, and to strengthen the capacity of the Ministry of Public Works. Such initiatives will promote trade and commerce and contribute to Afghanistan's role in the Central Asia Regional Economic Cooperation program.

USAID to develop Energy sector

In August 2011, the Minister of Finance, Minister of Energy and Water, and CEO of Da Afghanistan Brishna Sherkat (DABS), together with the USAID Administrator and US Ambassador, signed a Statement of Collaboration to support the energy sector in Afghanistan. Over four years, US\$1.2 billion will be provided to modernise Afghanistan's electricity generation, transmission and distribution infrastructures. This reflects further commitment from USAID to channel at least 50% of its financing through the government budget.

President of Islamic Development Bank visits Afghanistan

On 10 October 2011, Dr. Ahmad Mohamed Ali, President of the Islamic Development Bank (IsDB), paid his first visit to Afghanistan. He met with the President of Afghanistan, Second Vice-President, Minister of Finance and Minister of Foreign Affairs to discuss IsDB's present and future engagements. An MoU was signed during the visit. Dr Ali held discussions with Ambassadors and Heads of Agencies. The 56 member IsDB aims at fostering the economic development and social progress of member countries and Muslim communities. Overall commitments to Afghanistan total US\$71m to date but a 3 year funding plan of approx. US\$274m is being planned.

World Bank commits new medium term funding

In July 2011, the World Bank confirmed its new International Development Association tranche of funding (IDA 16) for the years 2012-2014. A total of US\$435 million (US\$145 million per year) has been committed during this period. The exact breakdown of funding by sectors/projects is to be finalized, but potential projects to receive funding include National Emergency Rural Access Project, Financial Sector Strengthening and Development Policy Grants.

Germany signs new projects

In August 2011, the government of Afghanistan and Federal Republic of Germany held negotiations to decide €110 million worth of funding allocations. This forms Germany's Tranche-2 funding for this financial year, in addition to the Tranche-1 of €133 million decided in February. €60 million will be spent on the Afghanistan Reconstruction Trust Fund and €20 million for technical assistance, with the remainder to be allocated to the Kunduz-Kholam Road and for water supply in Kabul.

Core Donor Consultations held for budget formulation

The annual Core Donor Consultations (CDCs) were held from 21-26 November with donors who fund through the national budget. These meetings were held in MOF with line ministries and development partners to provide an opportunity for all stakeholders to view different donor funding within each ministry. CDCs play a crucial role in determining donors' commitments and for collecting figures for formulation of the next Budget Statement.

10 YEARS ON: An Interview with Deputy Minister of Finance



Dr. Mustafa Mastoor is successfully leading reforms in the areas of preparation of the National Budget, Treasury operations and Aid management for the Ministry of Finance, as articulated in the highly regarded Public Financial Management Roadmap that he oversaw. Prior to his appointment as Deputy Minister at the Ministry of Finance, Dr. Mastoor was Alternate Governor of Afghanistan to the Islamic Development Bank and the Asian Development Bank. Currently, he is also the Alternate Governor of Afghanistan to the World Bank and the Governor of Afghanistan with the SAARC Development Fund. Dr. Mastoor obtained an MD from the University of Kabul in 1992 and an MBA from Preston University, Peshawar, in 2002. We spoke to Dr. Mastoor on his views on the use and effectiveness of aid and its future.

Could you highlight the importance of foreign aid in Afghanistan?

Afghanistan, as a post conflict country in 2001 with very low revenue and inadequate and low quality of essential services, needed to receive foreign aid. The needs were enormous, especially for reconstruction to build basic infrastructure, to provide basic services, to provide salaries to the civil servants, and to improve and develop new laws. What we received, in terms of aid, was to enable the government to provide those basic services, to build the capacity of institutions, and finally to stand on its feet. So this is why foreign aid was needed in Afghanistan after years of war.

Has the aid been utilised according to the priorities of government of Afghanistan?

It depends how you define priorities. In Afghanistan everything was a need, and the priorities were many. Therefore, whatever has been done so far could be considered a priority. If we define priorities this way, then we can say that aid has been utilised based on the priorities. However, if we define priorities as planned programmes of the government, from the beginning until now we can say that not all priorities received funding. In the beginning we didn't have a comprehensive and solid plan, but later on we developed good quality plans such as Securing Afghanistan's Future, ANDS, and NPPs. They are very solid programmes for prioritisation of development requirements. The setting of these priorities was done by the government, but we don't see that all those priorities were addressed. There was less alignment, less coordination, and until now we have received only 20% of aid through the government, and 80% outside of the government budget. Within the 20%, we are confident to say that aid was utilised based on the priorities of the government. However, within the 80% that bypassed the government budget, we are not 100% sure of the alignment to our priorities. This is why I am saying that not all priorities received funding.

What are the impacts of foreign aid on the reconstruction and development of Afghanistan?

To find impacts of development process or foreign assistance, it needs proper surveys, studies or assessments. But, generally I can say that at this moment the essential services that were absent in the beginning of this regime are existing now. If you compare, we have much better health care services, we provide better educational services at the primary, secondary and even higher levels. We have a better judicial sector, and improvements in other sectors of the economy such as transport, power, water, urban development, and media are good examples to say that aid has had a positive impact on the reconstruction and development of Afghanistan.

Our revenue has significantly increased since 2001, and the capacity within the government, private sector and the civil society organisations has improved as a result of foreign aid to the country.

So we can say that foreign aid has had a significant impact on the reconstruction and development of the country, but it does not mean that we could not have done better.

From the perspective of the Government, what are the principles to be considered in the delivery of foreign aid in the context of Afghanistan?

Actually for Official Development Assistance towards recipient countries there are certain principles that exist and are accepted globally. We can name the Paris Declaration, so all those aid effectiveness principles that are part of the declaration should apply to Afghanistan. In the meantime, all the ten principles of good international engagement in fragile states also apply in the context of Afghanistan. When it comes to practising these principles, I can say that on many occasions it was the government of Afghanistan that had to adapt itself to the donors' programmes or funding. So I can say that to a greater extent it has been a donor driven approach, rather than the government in the stewardship role. We responded to the urgent issues, and we have had many smaller projects compared to bigger infrastructure projects.

Overall, ownership is the aid effectiveness principle that Afghanistan was most successful at, but in terms of respecting these principles by the donors, on many occasions we found that it was not in a way that the government wanted or in the way that globally accepted aid effectiveness principles require. Related to alignment to the NPPs and country systems, I should say that it was not that extensive, but alignment is an important principle that we should consider in the Afghanistan context. Better coordination and harmonisation of the donors in the development business is needed here. Finally, mutual accountability is another principle that both the government and donors need to pay serious attention to.

What should each of us know regarding aid and its future?

One of the main messages for all Afghans to know is that no country in the world has been built by aid money. We know countries that have been receiving aid for many decades, even more than 50 years, but their status is either similar to Afghanistan or not much better than us. We should not wait for the international community to build Afghanistan; we need to do it by ourselves. We have to help the government to generate more revenues, we should avoid unnecessary spending, especially consumables. We have to invest in big infrastructure projects or in fundamentally important areas. We have to maximize the value for money of what we spend and ensure that efficiency is enhanced. We should support the local economy and local products and encourage more investment. I want to tell my people that although the impact of foreign aid on the reconstruction and development of Afghanistan has been significant, we should not expect aid alone to fully build our country.

ALL EYES ON BUSAN



부산 세계개발원조총회
4th High Level Forum
on Aid Effectiveness
29 Nov - 1 Dec 2011, Busan, Korea

In November/December 2011, the International Community will meet for the Fourth High Level Forum on Aid Effectiveness (HLF-4) in Busan, South Korea, to promote the global aid effectiveness agenda. The forum follows previous commitments regarding aid and development made in similar High Level Forums on Aid Effectiveness in Rome (2003), Paris (2005) and Accra (2008), which respectively produced the agreements of Paris Declaration on Aid Effectiveness and Accra Agenda for Action.

Since 2005, the global aid landscape has considerably changed with the emergence of new donors, transfers of economic power and the challenges of financial crises, demanding a new development and aid architecture to be taken forward by the development partners and recipient countries.

The HLF-4 will be an opportunity to tackle existing challenges in aid paradigms and discuss ways to present a more inclusive and effective global aid structure. As Hamid Jalil Aid Management Director, recently mentioned in an interview with the HLF4 organisers, *“with a shared understanding of aid effectiveness progress, we build more trust, deepen our partnerships and ultimately manage our aid better to improve people's lives”*.

HLF-4's main goals are to increase global momentum in achieving the Millennium Development Goal by 2015; to further enhance development partnerships; and to shape a result-oriented framework post-Busan that shifts global focus from aid effectiveness to development effectiveness.

Partner countries have so far contributed considerably to the contents of the forum by conducting surveys and evaluations of the implementation and application of aid effectiveness principles. The Government of Afghanistan also actively participated in the 2010 Paris Declaration Evaluation Phase Two and in the 2011 Survey on Monitoring the Implementation of the Paris Declaration. Results of these surveys will feed into the preparation, contents and decisions of Busan.

The government has also moved its national aid agenda forward to meet the targets outlined in the Paris Declaration and Accra Agenda for Action. Yet there is need for greater realisation that aid dependency must be addressed considering the contexts of fragility, conflict and post-conflict settings.

Hamid Jalil emphasises that *“as Afghanistan is a country in conflict and a member of the G7+, we expect the specific demands of all member countries under G7+ to be considered in Busan”*.

The Government of Afghanistan, which is sending a senior delegation to Busan, hopes HLF-4 will propose country-specific approaches for development and aid management, while developing a new aid agenda post-Busan. In particular, Afghanistan's main messages for Busan are:

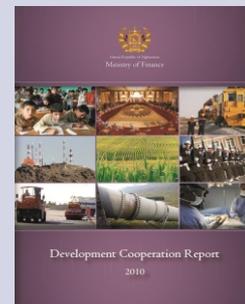
- Recognise the complexity of countries in conflict and fragility and honour the demands of G7+ (Group of Fragile States) called 'The New Deal'.
- Address unfinished business from Paris Declaration and Accra Agenda Action.
- Adopt country-tailored approaches for aid effectiveness.
- Develop strong and practical mechanisms for accountability of mutual commitments.

More on Busan at <http://www.aideffectiveness.org/busanhlf4/>

DEVELOPMENT COOPERATION REPORT

Following the successful first Development Cooperation Dialogues between MoF and Development Partners in November-December 2010, DGB produced Development Cooperation Report (DCR) 2010, which presents an overview of foreign aid to Afghanistan since 2001 and highlights some of the key issues associated with aid effectiveness in three chapters: Overview; Aid Effectiveness; and Introduction to our Development Partners.

DCR starts with a brief history of foreign aid to Afghanistan and outlines the journey of Afghanistan and its' International partners from Bonn conference in 2001 to Kabul Conference in 2010. It highlights some of the risks associated with being an aid dependent economy. In addition to presenting a wide range of quantitative information, DCR also encompasses qualitative analysis of foreign aid to Afghanistan.



The expectation is that regular publications of such reports will further promote accountability and transparency of foreign aid to Afghanistan as well as of the donors.

DCR can be downloaded at www.budgetmof.gov.af

UPCOMING EVENTS

December 2011: Budget Hearings between Budget Committee and line ministries to decide allocations for 2012-13 national budget

December 2011: Joint Monitoring and Coordination Board (JCMB) meeting to finalise key aid and development initiatives

January/February 2012: Development Cooperation Dialogues with donors; negotiations to concentrate on policy dialogue and strategic resource allocation.

Afghanistan Aid Bulletin is our first attempt to bring you the latest News and Views on Aid in Afghanistan. Going forward it would help us a great deal to know your views. Please contact us at jawid.omar@budgetmof.gov.af, or +93 700298718

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