

Gaps in Aid Accountability

A Study of
National Solidarity Programme (NSP) Finances

ACTIONAID INTERNATIONAL

ActionAid, International founded in 1972, works in 45 countries to fight against poverty and injustice. It has focused its work on food security, education, health and income generation. In recent years, ActionAid International has incorporated emergency and rights based approach in the work as a result of the increase in armed conflicts and natural disasters in different countries in Asia and Africa. The agency is also actively involved in gender mainstreaming, research and advocacy as a strategy to achieve wider impact on the causes of poverty, which include injustice and inequality.

Many people we work with face not only poverty, but also exclusion and discrimination. They include widows and orphans, former child soldiers, ethnic minorities, tribal peoples and those fighting for their land rights coping with natural disasters, modern slavery and HIV/AIDS.

ActionAid Afghanistan is a member of ActionAid International and works in the provinces of Jawzjan, Balkh, Kabul and Kandhar.

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INTRODUCTION OF ECONOMIC LITERACY AND BUDGET ANALYSIS GROUP (ELBAG) IN AFGHANISTAN

Since 2001, billions of dollars from bilateral and multilateral donors and internal revenues have been channeled through the Afghanistan's national and external budget. However, there are no mechanisms in place to ensure civil society's participation in evaluating if the money is being spent adequately and efficiently for the rehabilitation and reconstruction of Afghanistan. Participation by the poor and women in understanding, implementing and monitoring accountability of the fund is totally limited. This limitation prevents active agency and ownership of the national programmes by the Afghan people and institutions. Hence, it is imperative that people and civil society take initiative to promote accountability and transparency in the area of public finances. As members of civil society, ActionAid and ELBAG members feel that we should take an important role in broader advocacy work to hold the development actors in country accountable on spending money on behalf of the poor.

In this regard ActionAid Afghanistan with financial support of the European Commission and in partnership with Afghanistan parliament (upper and lower houses), All Afghan Women Union (AAWU), Agency Coordination Body for Afghan Relief (ACBAR), Sanayee Development Organization (SDO), Afghanistan Research and Evaluation Unit (AREU), Afghan Civil Society Forum (ACSF), International Rescue Committee (IRC), National Democratic Institute (NDI) Counterpart International, Center for Policy and Human Development (CPHD) and individual media correspondents has taken the initiative of Economic Literacy and budget analysis - ELBA work in Afghanistan since February 2007. The group has received special support of Ministry of Finance and Ministry of Rural Rehabilitation and Development and has been active in raising the voice of civil society on economic and budgeting issues.

Economic literacy and budget analysis (ELBA) is a tool that enables people to understand planning and budgeting processes at all level and mobilizes people act on the findings and understanding they have after analyzing the budget. With ELBA the focus is to see how planners allocate and spend the money meant for the welfare of the poor and excluded. ELBA has been successfully used by civil society actors in different countries to track the national and local budgets and hold the donors and government accountable on the money spent on various programmes aimed at the welfare of the citizens.

The ActionAid Afghanistan programme on promoting Economic Literacy and budget analysis Group (ELBAG) at three levels (national, provincial and district levels) in the country receives funding supports from European Commission (EC). The first phase of the programme will be conducted for 15 months, from January 2007 till March 2008. Key cluster of activities in accordance to the project plan are designed in a flow to support the understanding and action taking by group members.

In March 2007 ELBA experts from ActionAid International conducted a five days training workshop for 30 participants, comprised of parliamentarians, government officials, journalists, civil society activists and academia. Topics such as rights based approach, economic literacy issues, Afghanistan's political economy, globalization, role of civil society and community people in economic literacy and budget analysis, characteristics of a national budget, budget loss, and other issues regarding the economy and budgets were discussed in the workshop. As a result of this workshop, a national platform of committed people on taking ELBAG forward in Afghanistan was formed out of participants from the training. ELBAG Afghanistan aims at promoting a higher level of transparency and accountability in Afghanistan budget. A chairperson and secretary have been elected to connect group members, to structure the work and for purposes of transparency and accountability.

More important, ELBAG has also started working at the provincial level; there was four-day training in Sheberghan city, centre of Jawzjan province from 20th to 23rd May 2007. The training participants came from different groups of society such as: provincial council members, NGO workers, government officials, media, academicians and interested individuals. At the end of the training, the ELBAG Sheberghan was formed out of participants from the training. A total number of 19 people from provincial council, NGOs, government officials and academicians are part of this group.

Both ELBAG groups have prepared a term of reference for their further working mechanisms, they choose development programs to undertake budget analysis work at the national and provincial levels.

This report is a result of working process by ELBAG groups & AAA with international expert support.

Foreword

Afghanistan, throughout its recent history, has never found a chance to move towards development due to civil wars, wars against invaders, natural and other man made disasters. Now that after 28 years of bloodshed and instability the rehabilitation opportunities are available to the people due to political and economic changes; our people can at least think to not allow the violence and lawlessness overtake their affairs. They can think of not letting undemocratic governances overwhelm their life. We still live under drastic poverty; the new democratic governance is weak and involvement of people in all development processes is limited.

Despite all of that, the government of Afghanistan since the start of Bonn process has tried its best to utilize the political and economic commitments of international community to support the development work in different parts of the country. Nevertheless it is a fact that a lot of foreign money that has entered in the country from external sources, is used for special military and political reasons and people of this country have had limited benefits and chances to use this money for their social and economic rehabilitation. International donors have made a lot of commitments in past six years, but only limited amounts of aid have been given directly to the people of Afghanistan and its government.

This report which is a result of efforts of our colleagues in Economic Literacy and Budget Analysis Group (ELBAG) with support from ActionAid and EC, tries to look at whole Afghanistan's budget and financial situation through civil society perspective specially the report looks into the budgets and finances of one of the flagship programmes of Afghanistan government, the National Solidarity Program (NSP).

The study shows that a vast programme like NSP needs more attention from government, international community, and donors to

strengthen people's participation in rehabilitation process of the country and not to waste the efforts put by various actors in this program.

Lastly, I would like to express my deep appreciation to all ELBAG members and ActioAid Afghanistan, I hope that currying out such work; will lead to transparency and accountability, improvement in people's understanding on budgetary and financial issues and strengthening of democratic governance in Afghanistan.

Alhaj Mohammad Akbar "Wahdat"
Member of Parliament and elected chairman of
ELBAG

Acronyms

AAA	- ActionAid Afghanistan
ADA	- Afghan Development Association
ADB	- Asian Development Bank
ANDS	- Afghanistan National Development Strategy
ARTF	- Afghanistan Reconstruction Trust Fund
BGD	- Block Grant Department
BGF	- Block Grant Fund
BGU	- Block Grant Unit
CDCs	- Community Development Councils
CDP	- Community Development Plan
CIDA	- Canadian International Development Agency
DACAAR	- Danish Committee for Aid to Afghan Refugees
DF	- Disbursement Form
DFID	- Department for International Development (United Kingdom)
DSCRW	- District School Construction and Rehabilitation Window
EC	- European Commission
ELBAG	- Economic Literacy and budget analysis Group
EU	- European Union
FPS	- Facilitating Partners
GDP	- Gross Domestic Product
GoA	- Government of Afghanistan
Govt.	- Government
HQ	- Headquarters
IDA	- International Development Association
ISAF	- International Security Assistance Force
JSDF	- Japan Social Development Fund
LDCs	- Least Developed Countries
MISFA	- Microfinance Investment Support Facility for Afghanistan
MoF	- Ministry of Finance
MRRD	- Ministry of Rural Rehabilitation and Development
MTFF	- Medium-Term Fiscal Framework
NABDP	- National Area Based Development Programme
NATO	- North Atlantic Treaty Organisation
NEEP	- National Emergency Employment Programme
NGOs	- Non-Government Organisations
NOL	- No Objection Letter
NRAP	- National Rural Access Programme
NSP	- National Solidarity Programme

OC	- Oversight Consultant
OECD	- Organisation for Economic Co-operation and Development
PMU	- Provincial Management Unit
RRD	- Provincial Office of MRRD
SDO	- Sanayee Development Organization
UK	- United Kingdom
UN	- United Nations
UNDP	- United Nations Development Programme
UNH	- United Nations Habitat
US\$/ USD	- United States Dollar
US/USA	- United States of America
USAID	- United States Agency for International Development
WB	- World Bank



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Executive Summary

This report is an attempt to analyze the status of public expenditure in Afghanistan and the financial management of the National Solidarity Programme (NSP), in particular, from a civil society perspective. Since the end of US-led war in 2001, Afghanistan has been a major destination for international aid. The external assistance has been focused mainly on security and poverty reduction. Both insecurity and high incidence of poverty have been seen as major stumbling blocks for development in Afghanistan. To overcome these, the government and the donor community have devised numerous developmental programmes cutting across sectors. However, raising adequate resources and effective implementation of programmes have been real challenges to the Afghan government.

In total, the donors had committed to give about US\$ 19.9 billion (includes both core/internal and external budget supports) for the period of 1381-85 (2002-2006). Out of this, the donors disbursed only US\$ 14.7 billion during the same period. This has resulted in a whopping gap of about US\$ 5.2 billion between commitments and disbursements over the last four years i.e. a shortfall of about US\$ 1.3 billion every year on an average. For the Core budget, total donors' commitment for 1380-86 (2001-2007) is US\$ 5.25 billion. This includes commitments of US\$ 2 billion for Ordinary or Operating Budget and US\$ 3.24 billion for Development Budget. Out of the total commitments for Core Budgets from 1380 to 1386 the donors have disbursed only US\$ 3.68 billion so far. The donors have disbursed only 70 per cent of what they have committed to the core budget from 1380 to 1386 (2001-2007). While the donors have been strongly advocating for greater transparency and accountability in Afghanistan, they themselves

have failed to adhere to those values.

In the current year, almost 72 per cent of the Core Budget funds come from external assistance. The present domestic resource mobilization accounts for only 28 per cent of the Core Budget. Since aid is more volatile than raising domestic revenue, a lot more focus needs to be given to resource mobilization both from internal and external sources. The Core Budget expenditure for 1386 (2007-08) has increased by 14 per cent over the previous year. The increase in expenditures of operational and development budgets are 21 per cent and 11 per cent respectively over the previous year. Obviously, the rate of increase in operating budget expenditures is almost doubled that of the rate of increase of development budget expenditure. Though the increase in operating budget is necessary for building a strong governance base in Afghanistan, the development expenditure needs to grow at a commensurate rate. At least a matching level of increase in development budget expenditure is crucial for building democratic governance in Afghanistan.

Allocations for crucial sector such as Social Protection have declined at 46.7 per cent of the development budget over the previous year. Decline in funding for social protection that is assumed to cover key issues of single women, elderly, orphans etc. is negligence of most marginalized sections of the Afghan society. This very fact emphasizes the need for informed social mobilisation by civil society seeking a more responsible and inclusive mechanism for the poor and marginalized groups in the country. And greater donor accountability and consistency in committing and funding developmental activities in Afghanistan.

While there is a huge need for increased external assistance to Afghanistan, the dependence on external assistance, at present, has been causing hardships in promoting democratic governance system in Afghanistan. Over 72 percent of the total public expenditure in Afghanistan comes from external assistance. However, over three fourths of the external assistance is spent directly by donors, most of it without any reporting to the Afghan government. Without regular reporting or oversight, there is no accountability for an estimated 75% of the funds coming into Afghanistan. This rings alarm to all of us knowing that sooner or later Afghanistan will have to pay back the aids in forms of loans. Furthermore the practice of routing the money through the external budget undermines the authority of the Afghan government.

The National Solidarity Programme (NSP) was created by the Government of Afghanistan to develop the ability of Afghan communities to identify, plan, manage and monitor their own development projects. The program has laid foundation for a sustainable form of inclusive local governance, rural reconstruction, and poverty alleviation. NSP is the largest community development programme in the history of Afghanistan and is recognized as one of the main instruments for achieving the objectives of Afghanistan National Development Strategy (ANDS).

Under given circumstances of dealing with the aftermath of a prolonged war, poor infrastructure, limited human resource and weak institutions of governance MRRD, in partnership with FPs and other stakeholders, has done a commendable job of successfully rolling out a well conceived programme such as NSP in over 22,000 villages of Afghanistan.

Recently NSP, has been criticized for lethargic implementation. Like in any multi-stakeholder development programme elsewhere, NSP has been facing obstacles in implementation primarily due to (1) lack of available funding, (2) lengthy and overlapping procedures to be followed at various stages of implementation by different stakeholders and (3) lack of capacities at various levels of implementation. Though the procedural delays and lack of capacities can be addressed through proper management and training mechanisms respectively, the delays due to lack of funding can be addressed only through ensuring greater transparency and accountability of the donors; or actively raising funds from internal sources, which could be very difficult at this stage in Afghanistan. There are strong transparency and accountability safeguards put in place to check corruption during the implementation, however, there is no such mechanism to check the donors' accountability or transparency towards their commitments.

NSP is funded by various bilateral and multilateral donors, primarily through Afghanistan Reconstruction Trust Fund (ARTF). While the demand for expanding NSP throughout the country has been growing, the increase in funding commitments is rather little and future projections show a drastic decline. Being the largest developmental programme in the history of Afghanistan doesn't help NSP draw funds from the donors. The increase in projected funding for the current fiscal year at the beginning is only a mere 3 per cent over the previous year. Taking note of implementation of NSP-II this year, this amount falls much short of current year's requirement. The current commitments from the donors indicate a total cash deficit of US\$ 197.33 million for NSP-II. The projected shortfall for next year (1387/2008) is a whopping 87 per cent.

The World Bank's *ARTF Administrator Financial*

Status Report, July 2007 shows that a total of US\$ 111 million was pledged by seven donors for NSP for the current year to the ARTF. Out of the US\$ 111 million pledged, the donors had paid-in only US\$ 10.64 million (9.6 % of total pledge) as of July 22, 2007¹. While donors may have their own reasons for not providing the funds, what is at stake is hopes, lives and livelihoods of millions of Afghan in rural area who have been looking forward to these funds to undertake development works in their villages/communities.

The obstacles in fund management under NSP are not only limited to lack of funding. Problems in disbursing funds under NSP are also caused by lack of transparency, coordination and capacities. The provincial management units are heavily understaffed (Only two engineers are appointed at the PMU level to oversee around 14 districts covering over thousand projects). This cause unduly delays in project sanctions and release of installments for sub-projects.

The Facilitating Partners also face shortcomings in implementing the NSP. Some of them do not have the capacity to implement programmes like NSP. CDCs/communities, the ultimate beneficiaries of the NSP have their own limitations while contributing to the programme. More focus on CDCs knowledge and capacity building should be integrated under NSP towards expedition and consolidating the process of formalizing new local governance system in Afghanistan.

The poor state of public finance in Afghanistan is reflected in implementation of various

developmental programmes like NSP. While, NSP do have some specific implementing issues, the majority of the problems faced by the programme are a clear reflection of the overall macroeconomic situation. Giving specialized attention to NSP at the national level cannot be overstated considering the possible roles the CDCs can play in nurturing democratic governance in Afghanistan. But this needs more clarity, consensus and joint actions among the stakeholders.

The overall macroeconomic scenario in Afghanistan promises a huge potential for sustained growth over the next decade or so. While not undermining the potential, a careful look at the state of public finance in Afghanistan reveals a lot of impending threats to sustaining the development and ownership of the country and by the people. The heavy dependence on external financing for most of the public expenditure, including the running cost of the government needs to be urgently attended to and addressed. Raising domestic revenue must be done with utmost priority. At the same time, the need for more external assistance cannot be undermined. However, the current magnitude of external budgets should be immediately managed with greater resources being routed through the core or government budget. This will increase the credibility of the donors and the government. People of Afghanistan and the civil society should play an active role in demanding greater accountability and transparency in Afghanistan's public finances.

¹No any updated financial status report is available on World Bank's website for public consumption.

Key Recommendations:

General:

1. Strengthening tax administration, which includes widening the tax base and implementation capacities to enable the government to meet more of its core budget and especially the development budget through domestic resource generation.
2. Greater emphasis on the development budget by both the Afghan government and the donor community.
3. Routing more of the external budget, currently 75% of international aid, to the Afghan government while emphasizing capacity development
4. Reducing the gap between donor commitment and actual disbursement
5. Greater transparency on donor financial liabilities including regular reporting to the Afghan government, multi year funding and ensuring donor funding predictability
6. Greater emphasis on looking at Afghan priorities rather than donor priorities and reducing the amount of preferenced aid

On NSP:

1. Meet the shortfall in funding for NSP
2. Improving the fund utilization mechanism to minimize delays in funds transfer
3. Better needs assessment
4. Greater utilization of programme costs
5. Stronger coordination between Ministry of Finance and the Ministry of Rural Rehabilitation & Development.
6. Strengthening the Community Development Councils and empowering them with greater administrative responsibilities

1. Introduction

“Never doubt that a small group of thoughtful citizens can change the world. Indeed, it is the only thing that ever has.” Margaret Mead

1.1 General profile of Afghanistan

Afghanistan is located in the cusp of Central and South Asia, with a total area of 647,500 km². Afghanistan is bordered by Iran on the west, by Pakistan on the east and south, and by Turkmenistan, Uzbekistan, and Tajikistan on the north. A narrow strip, the Wakhan, extends in the northeast along Pakistan to the Xinjiang Uygur Autonomous Region of China. The capital and largest city is Kabul. The other major cities in the country are, in order of population size, Kandhar, Herat, Mazar-i- Sharif, Jalalabad, Ghazni and Kunduz².

The population of Afghanistan is estimated to be 27 million people. The country is multi ethnic and multilingual. **Ethnic Groups include:** Pashtun, Tajik, Hazara, Uzbek, Aimak, Turkmen, Baloch, Pashae Noristani and others.

Afghanistan's history is marked by the struggle for freedom. After three bloody wars with the British eventually Amanullah Khan led the country to independence from British rule in 1919. He was overthrown by Habibula who was soon replaced by Nadir Shah. The assassination of Nadir Shah led to Zahir Shah assuming the throne at a young age in 1933.

In the early 1970s the country was beset by serious economic problems, particularly a severe long-term drought in the center and north. Maintaining that King Zahir Shah had mishandled the economic crisis and in addition was stifling political reform, a group of young military officers led by General Mohammad Daud, a cousin of the king deposed him and declared Afghanistan a Republic. Though Daud had taken the help of pro-Russian parties, he was removed in a coup backed by the Soviet Union

soon after and executed. Deciding that they were not able to exert enough control over the communist leadership in Afghanistan, the Soviet Union subsequently sent in troops installing Babrak Karmal in power. In 1986 he was replaced by Dr. Najibullah who also oversaw the period of the Soviet troop withdrawal. After the Soviet withdrawal, the government steadily lost ground to the anti Soviet Mujahideen forces who took power in 1992.

The victorious Mujahideen proved unable to unite, however, and internecine and bloody battles for power continued until 1994 and the emergence of the Taliban, a Pashtun dominated force emerging from Southern Afghanistan with a puritanical Islamic agenda. In September 1996 the Taliban took control of Kabul and declared themselves the legitimate government of the Islamic Emirate of Afghanistan.

Though the Taliban controlled some 90% of the country by 2000, their government was not generally recognized by the international community (the United Nations recognized President Burhanuddin Rabbani and the Northern Alliance). In September 2001, following the attacks on the World Trade Centre in New York, Afghanistan was identified as the launching pad for the attacks thought to be engineered by Al Qaeda, and the Taliban government was asked to hand over Osama Bin Laden and his associates. When the Taliban refused the United States launched attacks against Taliban and Al Qaeda in Afghanistan in October which ended with the ouster of the Taliban in November 2001.

In early December a pan-Afghan conference in Bonn, Germany, appointed Hamid Karzai, as the nation's interim leader, replacing President Rabbani. While a large contingent of US troops remained in the country to continue the hunt for Bin

²From Wikipedia, the free encyclopedia

Laden and Al Qaeda operatives, an International Security Assistance Force was authorized and deployed by the U.N. comprising of Britain, Canada, and other NATO nations. NATO later expanded to cover the whole country.

The interim government of Afghanistan was replaced by an elected government of President Hamid Karzai in 2004. The first full fledged parliamentary elections were held in 2005. In 2004 a Constitutional Loya Jirga (Traditional Afghan Council) ratified a new Constitution.

1.2 Economy of Afghanistan

Afghanistan is usually perceived as one of the poorest countries in the world. Agriculture and livestock are the main economic activities in Afghanistan. Only a very small share of Afghanistan's land (about 15 percent), mostly located in scattered valleys, is suitable for farming; about 6 percent of the land is actually cultivated. At least two-thirds of this farmland requires irrigation. Wheat is the most important crop, followed by barley, corn, and rice. Cotton is another important and widely cultivated crop. Fruit and nuts are among Afghanistan's most prominent exports. Afghanistan is noted for its unusually sweet grapes and melons, grown mostly in the southwest, north of the Hindu Kush, and in the fertile regions around Herat. Raisins considered as a crucial export, while other key fruits such as apricots, cherries, figs, mulberries, and pomegranates are highly cultivated.

Livestock is nearly as important as crops to Afghanistan's economy. Karakul sheep are raised in large numbers in the north. The tight curly fleece of Karakul lambs is used to make Persian lamb coats, while other breeds of sheep, such as the fat-tailed sheep, and goats are commonly seen³.

Mineral wealth is virtually undeveloped, except for

natural gas. There are deposits of coal, copper, chromites, talc, barites, sulfur, lead, zinc, iron ore, salt, emeralds, and lapis lazuli; oil fields are found in the north. Some small-scale manufacturers produce cotton and other fabrics, soap, furniture, shoes, fertilizer, cement, and processed agricultural goods⁴.

Opium, fruits and nuts, hand woven carpets, lambskins (Karakul), textiles, and gemstones are the main exports, on the other hand machinery, foodstuffs, manufactured goods, and petroleum products are the main imports. As a result of the civil war, exports have dwindled to a minimum, except for the illegal trade in opium and hashish. The country has also become an important producer of heroin, which is derived from opium⁵.

The last 30 years of war have destroyed the economic infrastructure of Afghanistan. It stopped normal trade, business and import and export. The country saw a huge depletion of skilled manpower with the refugee exodus.

After 2001 and the direct intervention of the UN, World Bank (WB) and US in the economic sphere of Afghanistan, the scenario has totally changed. "The economy has improved significantly since the fall of the Taliban regime in 2001 largely because of the infusion of international assistance, the recovery of the agricultural sector, and service sector growth. Real GDP growth exceeded 8% in 2006. Despite the progress of the past few years, Afghanistan is extremely poor, landlocked, and highly dependent on foreign aid, agriculture, and trade with neighboring countries. Much of the population continues to suffer from shortages of housing, clean water, electricity, medical care, and jobs. Criminality, insecurity, and the Afghan Government's inability to extend rule of law to all parts of the country pose challenges to future economic growth. It will probably take the

³<http://www.afghanistans.com/Information/Economy/Agriculture.html>.(Dec 2007)

⁴<http://www.infoplease.com/ce6/world/A0856488.html> _ (August. 2007)

⁵<http://www.infoplease.com/ce6/world/A0856488.html> - (August. 2007)

Box 1: Afghanistan at a glance

Population:	27,538,900 (2007 estimate)
GDP (2006/07) excluding opium:	8.5 billion USD
Average Growth rate:	11%
Literacy rate:	23.5%
Infant mortality rate:	135/1000 live births
Maternal mortality rate:	1600/100,000 live births
Human Development Index (HDI):	0.345
Population with access to safe drinking water:	31%
Human development rank:	174 out of 178 countries
Currency Afg (Afghanis)	1 USD = 49.6 Afg

Sources: - Ministry of Economy's official website: <http://www.moec.gov.af/en/econafg/>,
-Afghanistan Human Development Report 2007, Center for Policy and Human Development, Kabul, Afghanistan

remainder of the decade and continuing donor aid and attention to significantly raise Afghanistan's living standards from its current level, among the lowest in the world. Expanding poppy cultivation and a growing opium trade generate roughly \$3 billion in illicit economic activity and looms as one of Kabul's most serious policy concerns. Other long-term challenges include: budget sustainability, job creation, corruption, government capacity, and rebuilding war torn infrastructure⁶.”

According to the 2007 estimations, GDP - per capita, purchasing power parity is \$1,490 and the GDP composition by sector: agriculture: 38%, industry: 24%, services: 38% (2005 est.). The estimations show that the labor forces are up to 15

million and by occupation: agriculture 80%, industry 10%, and services 10%⁷ Industries contain small-scale production of textiles, soap, furniture, shoes, fertilizer, and cement; hand woven carpets; natural gas, petroleum, coal, copper, marble⁸.

1.3 Humanitarian Aid for Afghanistan's reconstruction

After the establishment of the Afghanistan Interim government according to the Bonn agreement, the government of Afghanistan has received/ or expected to receive, billions of dollars through different commitments at different international conferences.

Table 1: Total aid pledged/announced amounts (excluding security expenditures)

Year	Conference	Amount
2002	Tokyo conference	US\$ 4.5 billion
2002	Berlin conference	US\$ 7.45 billion
2006	London conference	US\$ 10.39 billion
2007	Rome conference	US\$ 42 million
	Supplemental pledges	US\$ 15.47 billion
	Total	US\$ 37.85 billion

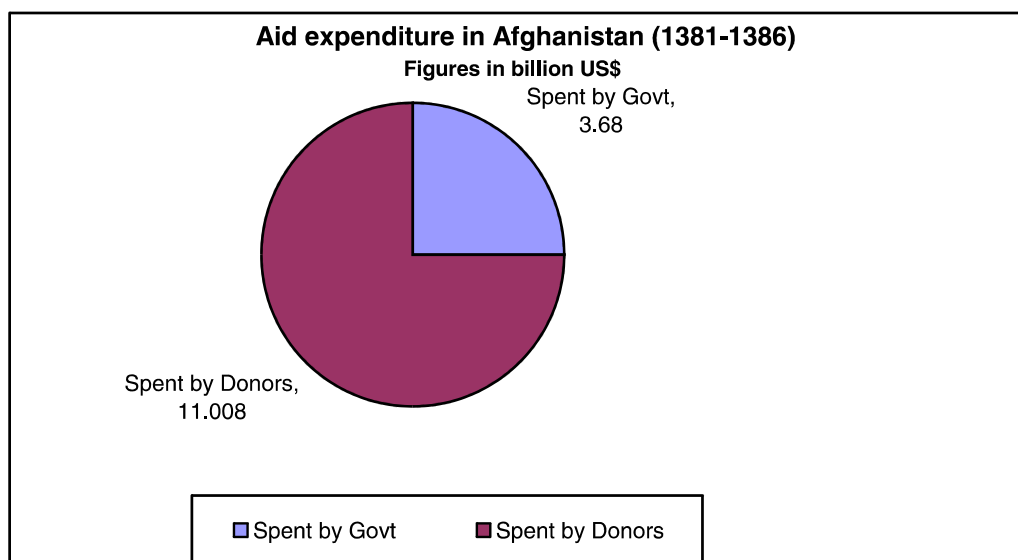
Source: Ministry of Finance, Govt. of Afghanistan, 2007

⁶ www.cia.gov/library/publications - (August. 2007)

⁷ www.cia.gov/library/publications - (August. 2007)

⁸ www.cia.gov/library/publications - (August. 2007)

Figure 1: Aid expenditure in Afghanistan (year 1381 - 1386)



Source: Ministry of Finance

“Of the total 14.69 billion USD of aid spent in Afghanistan from 1381 to 1386 the government of Afghanistan spent 3.68 billion USD and the donors directly spent around 11 billion USD.

The aid flow to the country was mainly used for the support of different investment/ development programs or projects and a portion of it was spent for the operating expenditure of the government (US\$ 1.74 billion)”⁹.

Afghanistan's key donors are ADB, Australia, Austria, IMF, Bahrain , Belgium, Canada , China, Denmark ,EC/EU, Finland, France, Germany , IDA, India , Iran, Ireland, Italy, Japan , Korea, Kuwait, Luxembourg, Oman, Pakistan, Qatar, Spain, Tajikistan, UAE, UN, Netherlands, New Zealand, Norway, Poland, Portugal, Saudi Arabia, Sweden, Switzerland, Turkey, UNDP, United Kingdom, United States of America and the World Bank. The largest donors are the World Bank and the United States.

1.4 Budgets and Budgeting Process

Since 2004, under the elected government of Afghanistan established by President Hamid Karzai, the following process has been used for making the country's budget:

1.4.1 Formulation Phase

The Ministry of Finance is the main body for formulization of the budget. MoF, finalizes and distributes yearly budget and in light of the Interim Afghanistan National Development Strategy (IANDS) reviews the budget plans of different line ministries. The MoF initiates Mid Year Review of last year's budget examining the first 5 months of expenditure. Fiscal Strategy Report is shared with Government Oversight Committee of ANDS, the Cabinet and the National Assembly. The final report is submitted to Cabinet for approval and the National Assembly for information.

The MoF distributes the budget circular to

⁹Personal communication, Ministry of Finance, 2007

budgetary units in different ministries in early September with indicative ceilings of next 2 year projections and guidelines for preparing budget submissions. MoF holds workshops to assist budgetary units in developing budgets. The donor financial review of core and external budget is conducted in early October to determine resource availability. Budget submissions and sector strategies are submitted to MoF in early November by line ministries. Negotiations between the Budget Committee and line ministries for “base budget” and new proposals in line with sequenced IANDS costing are held. The Afghan cabinet decides on the final budget allocations and projections.

1.4.2 Approval Phase

The MoF presents the budget to the legislature in early February. The budget first goes to the parliament's Upper House. The Upper House will review and suppose to approve it within 15 days. The budget then sent to the Lower House, it stays in Lower House for 30 days for final approval of the members.

After the approval by the National Assembly, the budget document goes for the final enactment by the President and only after that all budgetary units are obliged to adopt their plans with the final figures¹⁰.

Figure 2: Afghanistan National Budget formulation and approval process

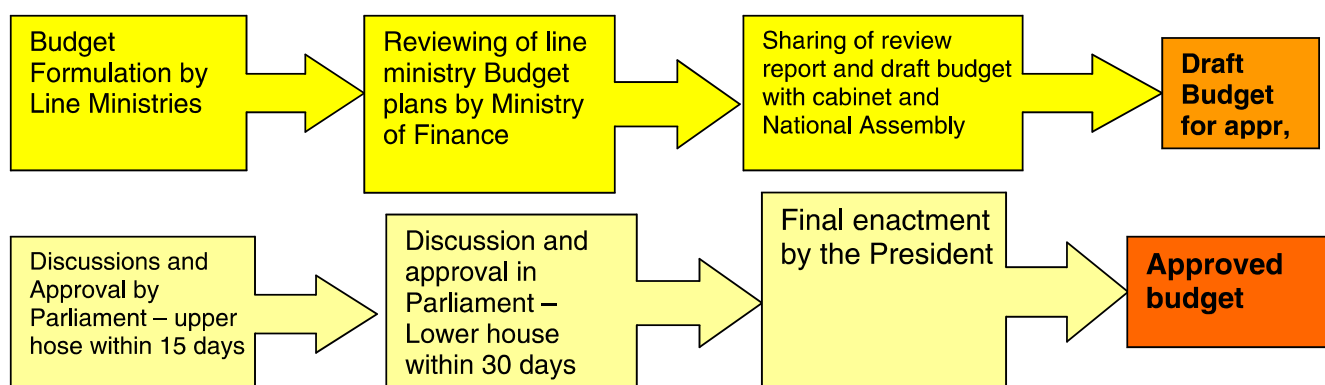


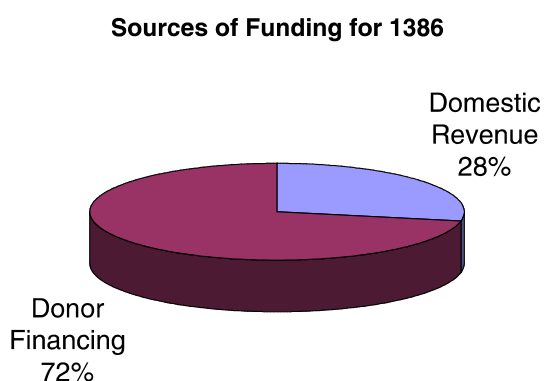
Table 2: Equivalence of Solar and Gregorian year¹¹

Solar Year	Gregorian Year
1380	2001 – 2002
1381	2002 – 2003
1382	2003 – 2004
1383	2004 – 2005
1384	2005 – 2006
1385	2006 – 2007
1386	2007 – 2008

¹⁰ 1386 National Budget, Ministry of Finance

¹¹ Solar Year starts from 21st March of a Gregorian Year

Figure 3 : Sources of Funding for 1386 (2007) for Government of Afghanistan



Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

1.4.3: Implementation and review phase

After final enactment through Presidential approval/deed, the budget is considered final and all budgetary units are obliged to adopt and implement their plans with the final figures mentioned in the approved budget. No over-expenditures of the budgetary units are accepted without written approval of the Ministry of Finance¹². Hence the line ministries are able to receive the allocations and implement their projects. MoF also organise mid term budget review to assess budget implementation and take corrective measures, if needed.

1.5 Brief Overview of 1386 (2007) Budget

Like most of the transitional countries, Afghanistan, at present is largely dependent on external donor assistance. Almost 72 per cent of the 1386 Core Budget is funded through external donor assistance. The size of the Core Budget for 1386 is US\$ 2.55 billion with a huge deficit of US\$ 1.83 billion, which comes from external sources such as

grants and loans.

International evidences show that aid can be more volatile than raising domestic revenue¹³. This creates challenges to Afghanistan's efforts to maintain a favorable macroeconomic environment. Uncertainty over available funding has made the budget making and implementing processes in Afghanistan more complex. While it would be difficult for Afghanistan to scale up its domestic revenue collections immediately, there is a wide scope for increasing domestic revenue generation through proper tax administration and by widening the tax base excluding essential commodities. This would help Afghanistan in stabilizing its budget to meet the huge requirements for funds. Some more information and discussion in the section that follows will present more data to support this observation.

¹²1386 National budget, Ministry of Finance

¹³Afghanistan: Managing Public Finances for Development (2005), Volume I: Main Report, World Bank

Table 3: Sources of Funding for 1386 (Figures in million US\$)

Description	Volume (mil USD)	Percentage of Total budget (%)
A. Domestic Revenue	715.46	28
B. Donor Financing	1,834.60	72
B1. Balance (end of period 1385)	476.53	
B2. New Financing	1,358.08	
Total Revenue (A+B)	2,550.06	100
Core Budget Deficit	1,834.60	72

Table Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

In most developed countries, the domestic revenue to GDP ratio is usually around 50 per cent. The same is around 20 per cent in poor (LDC) countries. The reasons for such low revenue to GDP ratio in these countries are plunder of wealth in the past, erosion of productive capacities over time, lack of investments in local economic regeneration and poor tax administration. However, in recent times, extreme underdevelopment and heavy dependence on external aid have aggravated the crisis further. In the case of Afghanistan, the revenue to GDP ratio was around 4.5 per cent during 1383 (2004-05) and 5.7 per cent during 1385 (2006-07) one of the lowest in the world. It may be even lower if the illegal opium trade economy is included in the GDP. The table below reflects where Afghanistan stands at the moment in comparison to other LDCs and developing countries.

Table 4: Central Government Revenue as a % of GDP

Country / Region	GDP Per Capita (US\$)*	Total Revenue as a proportion to GDP	Total tax Revenue as a proportion to GDP
Afghanistan (FY 2004/05 est.)	253	4.5	3.4
Sub-Saharan Africa	765	19.7	15.9
Asia and Pacific	1,447	16.6	13.2
Low-income Countries	n/a	18.0	14.9
Low-middle income countries	n/a	21.8	15.8
Non-OECD average	n/a	n/a	15.2
Selected Countries Average	n/a	17.4	14.8
Pakistan	420	16.4	12.4
Iran	1,700	20.5	8.6
India	470	18.5	14.3
Kazakhstan	1,520	22.3	18.4
Kyrgyz Republic	290	19.1	15.0
Azerbaijan	710	20.5	19.4
Uganda	240	11.5	10.7
Rwanda	n/a	10.4	n/a

Table Source: Afghanistan: Managing Public Finances for Development (2005), Volume I: Main Report, World Bank

Note for the Table: Figures refer to country average between 1997-2001, where available.

For each revenue classification, only countries for which data are available are included.

* Country data refers to GNI per capita (World Bank)

The present scenario suggests that Afghanistan is far behind many low-income countries in revenue mobilisation. The reasons for low domestic revenue mobilisation include underdevelopment, lack of public provisioning for agriculture, presence of large informal sector, absence of local industrial development, low tax base and very weak tax administration. Also, existing resources have been eroded during over three decades of war and conflict. At present, the country is heavily dependent on external aid, which is not a sustainable source of revenue in the long run. The dependence on aid for large part of the operating costs is a huge threat since many donors are usually reluctant to fund operating budgets. Experiences from other conflict prone countries

and low-income countries suggest problems relating to predictability and sustainability of donor aid in the long run. Hence, failing to expedite increase in revenue mobilisation poses a major threat to the stability of the Afghan government and governance.

Table 5: Sources of Domestic Revenue for 1386 (Figures in million US\$)

Description	Volume in Mil USD	Percentage of total budget	Percentage of total tax revenues
A. Tax Revenues	614.70	24	100
A1. Taxes on income, profits and capital gains	227.26	9	37
A2. Taxes on international trade and transactions	322.12	12	52
A3. Other taxes	65.32	3	11
B. Non Tax Revenues	100.76	4	16
B1. User Fees	100.76	4	16
Total Domestic Revenue (A+B)	715.46	28	116

Table Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

About 86 per cent of the total US\$ 715.46 million domestic revenue comes from tax collections. Within tax collections, taxes on international trade and transactions constitute over half of the total tax revenue. This suggests that a large chunk of revenue comes from external sources in the form of import duties, foreign remittances etc. This reflects the inability of the government to raise resources domestically. The reasons for such low turnovers are as discussed above.

1.5 Operating and Development budget increases

On the expenditure side, US\$ 1.07 billion is allocated for operational budget to meet the administrative costs of the government, and US\$ 1.47 billion has been allocated for development budget. The operating and development budget expenditures constitute roughly 40 and 60 per cent of the total core budget expenditures. It is interesting to note that there is a marginal shift in the composition of core budget expenditure. The

operating budget which constituted 40 per cent of the total core expenditures in 1385 has increased to 42 per cent in 1386 while the development budget has fallen to 58%. We need to monitor this shift closely in the coming days to avoid falling share of development budget. The Core Budget expenditure for 1386 has increased by 14 per cent over the previous year. The increase in expenditures of operational and development budgets are 21 per cent and 11 per cent respectively over the previous year. However, the rate of increase in operating budget expenditures is almost doubled that of the rate of increase of the development budget expenditure. Though the increase in operating budget is necessary for building a strong governance base in Afghanistan, it should not be at the cost of development expenditure. Adequate or at least matching level of increase in development budget expenditure is crucial for building democratic governance in Afghanistan.

Table 6: Core Budget Expenditure (Figures in million US\$)

	1385 (2006)	As a % of Total	1386 (2007)	As a % of Total	Increase as a %
Operating Expenditures	884	40	1,072.00	42	21
Core Development Expenditures	1,321	60	1,478.06	58	11
Total Core Expenditure	2,205	100	2,550.06	100	14

Table Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

2. Methodology

2.1 Rationale of the study

Following 9/11 and the ouster of the Taliban, Afghanistan has been one of the most important destinations for international aid and financial support. Billion of dollars have entered or claimed to be entering through different channels to government budgets, nevertheless the Afghan people and civil society have had no role in understanding the expenses and financial planning of the government and donors.

In many countries, budget and budget accountability have been a part of democratic debates. People and civil society take active part in formulating, lobbying for approval, implementing and monitoring the budget processes. In Afghanistan involvement of non-government organisations and other civil society organisations in national budget has been almost purely at the level of project implementation. Civil society has had no input into decision-making, nor has it had any involvement in monitoring and evaluation of budgets. The current report with support of MoF and MRRD is an attempt of the civil society to engage in budget analysis and accountability process.

ELBAG has been recognized as an effective tool to stimulate and promote people's participation in budget accountability through democratisation of budget knowledge and mobilisation of communities around budget actions. To improve the active role of Afghan civil society in budget process for advocating the rights of poor, ELBAG has been supported and initiated in Afghanistan. After a lot of discussions, the Afghanistan national ELBAG network decided to start picking up National Solidarity Programme (NSP) for budget analysis as (i) it has direct impacts to the rehabilitation and reconstruction of Afghanistan, to the live and livelihoods of the poor in whole country; and (ii) it involves wide range of stakeholders in the poverty reduction and development progress of

Afghanistan. This budget analysis of NSP will help ActionAid, Afghanistan national ELBAG network and public to understand NSP better from angle of pro-poor development, increasing budget transparency and accountability.

NSP is the most popular and heavily funded programs all over the country, managed by the MRRD through subcontracting to different NGOs, called the Facilitating Partners (FPs). It is a nationwide program empowering communities to decide on their own development needs and get funding to realize their plans. NSP has been financed by the development and external budgets.

This study will focus its attention and analysis on processes under NSP, including financial planning, financial implementation and financial status to determine the main obstacles and challenges.

Supplementary areas of analysis include:

(i) What are the roles of every stakeholders (donors, government, implementers NGOs) and how do they play their role in all of the above processes?

(ii) What is the value of this program through the eyes of donors, government and implementers and how does it benefit the communities? What is the status of budgeting and financial security for the program sustainability and futures steps?

Recommendations are provided based on the findings from analysis for better financial management and sustainability of the NSP, contributing to the transparency and accountability of the stakeholders involving in budget processes. Some initial solutions for stronger ownership and management by the Afghanistan government will be presented, too.

Based on the analysis Afghanistan national ELBAG comprising members from different sectors plan to use the findings for a broader

“budget advocacy” targeting the scenarios of donation and financial management of the NSP. The Afghan Parliamentarians, government officials, civil society organizations and media, have been engaged in the analysis process. The main objective of the exercise is to explicitly demand donor's accountability on NSP financial management.

During the advocacy campaign, the main audience would be: the Donor community, Government ministries Government auditors, Parliamentarians (both the houses), Media, Civil society representatives, Academicians, individual national personalities, Communities and the CDCs.

NSP is funded by the World Bank and several other donors as mentioned above with US\$343.31 million commitments for the second phase of the NSP, or NSP II¹⁴, which is expected to conclude in 2009. Afghanistan national ELBAG analyzes budgets of this NSP to:

- Understand the overall NSP financial management obstacles and challenges and generate awareness amongst the stakeholders to stimulate actions and ensure the sustainability and continuity of NSP.
- Hold the donors, government and other actors accountable on financial aspects of the NSP.
- Recommend ways to overcome the obstacles and increase ownership and independence of the Afghanistan government over the NSP.

2.2 Information gathering

Key methods for information gathering are desk study, interviews, focused group discussion, consultation and critical reviewing.

The analysis started with primary study of the NSP, by using experienced resource persons from the

MRRD and facilitating partners (FPs). The overall understanding about the program and its procedures were discussed during two primary program study workshops. In the third workshop the group decided about the main indicators for analysis and their relations to the key observations and recommendations. Data and information were mainly collected and extracted from the secondary sources about the different aspects of the NSP. Interviews with related staff in the MRRD, MoF, FPs, Parliamentarians were conducted to ensure the qualitative contents of the study. In the same workshop a task group within the ELBAG was formed to collect, compile and sort the data and information about the NSP.

2.3 Data analysis

A budget analyst was hired by AAA and ELBAG to unpack the available secondary data and information. The same analyst along with AAA ELBAG project coordinator conducted direct studies through open ended interviews with all NSP stakeholders.

Comparison with other similar processes in other/neighbouring countries was used for deeper analysis.

The report writing facilitated by support/review from AAA. The Center for Budget and Governance Accountability (CBGA), based in India provided their support by sending an expert to facilitate the process and consolidate the final report.

A framework for the analysis was prepared and four major areas of the analysis were pointed such as:

- 1) Mapping of Institutional Actors in NSP,
- 2) Mapping the Process of Planning/Need Assessment,
- 3) Mapping of Procedures of Fund Flow & Fund Utilization, and
- 4) Obstacles in Fund Management, Accountability

¹⁴NSP Donor Briefing Note, NSP-MRRD (as on October 2, 2007)

of Main Actors involved in NSP¹⁵.

Throughout the process, NSP has been analyzed as an integral part of the National programmes and budgets, in light of development strategies.

The primary findings were analyzed by the ELBAG members in a workshop and through different working groups they added new values on the primary analysis.

2.4 Report preparation

During the analysis process the reporting format was made and the analyzed data and information entered into the reporting format. When the whole structure of the report was finished it was shared with the ELBAG related network and for the people involved within the ActionAid internally and externally. Hence the final report with inputs and suggestions were revised and the final document circulated for language editing.

It is with pride to say that this report is a commonly shared and owned product of Afghanistan ELBAG members.

2.5 Challenges and limitations

- Difficulties in obtaining information such as non availability of exact data and information for public consumption, no clarity on whom to approach for particular information i.e. lack of role clarity among the NSP stakeholders.
- The sources for secondary information / data have been very limited and extracting exact data for budgetary and financial study was difficult.
- Because of bad security situation and limited facilities the analysis team was not able to interact in depth with the communities to understand more about their problems with regard to NSP implementation and obstacles of the financial management.

- As different figures were collected from different sources of information it was a challenge to compile into one document.
- The whole analysis process has been delayed by the ambition to get consistent and up to date information from different sources.

¹⁵For more details please refer to Annexure No 4

3. Analysis

This section critically analyze the current financial situation of the country. It is divided into three sub sections looking at international assistance to Afghanistan, overall Afghanistan budget and NSP budget.

3.1. International Assistance to Afghanistan

After the US-led war ended in 2001, many foreign governments and international agencies like World Bank (WB), Asian Development Bank (ADB) etc. pledged to help rebuild the war torn Afghanistan. As per the “*Afghanistan: Managing Public Finances for Development*” report brought out by World Bank, in 2005, Afghanistan was among only seven countries in the world with an aid to GDP ratio above 30 per cent. Considering the low domestic revenue mobilisation and prolonged wars, Afghanistan needs large external assistance

without any doubt. However, the most important point is external assistance over 45-50 per cent of GDP and over 90 per cent of the total public expenditures stresses the need for increasing aid effectiveness and greater transparency and accountability. International experiences suggest that external aid has declined sharply after a few years in post-conflict countries. Hence, a cohesive action plan should be made by the donors and Afghanistan government to avoid negative repercussions.

Figure 4: International Assistance to Afghanistan

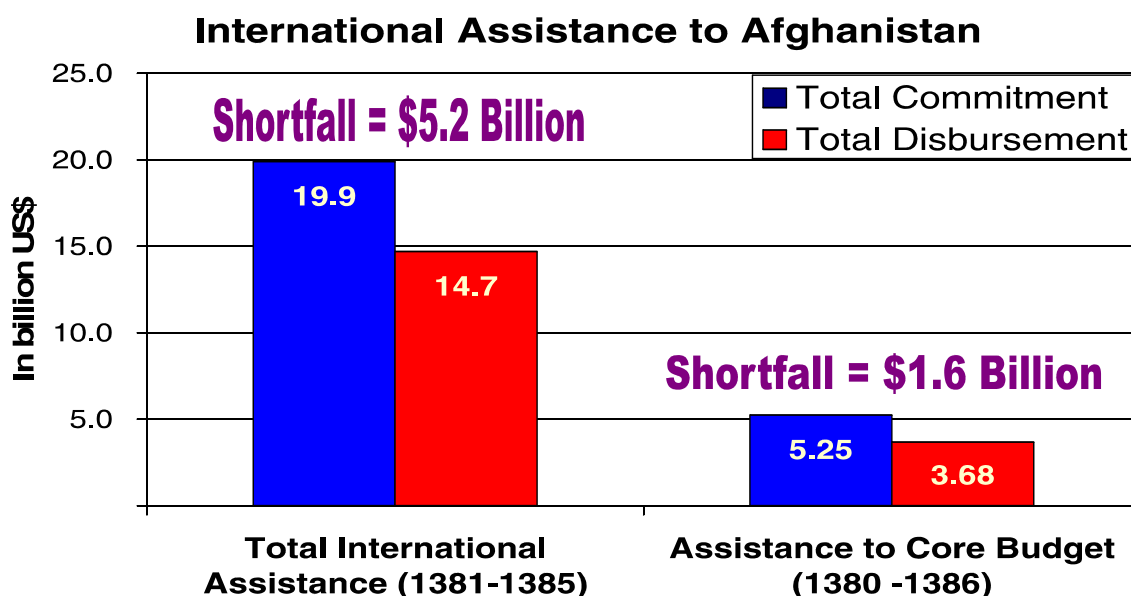


Chart Source: Ministry of Finance, Govt. of Afghanistan

The donors (bilateral and multilateral donors) have pledged to provide financial assistance to the tune of about US\$ 37.9 billion from 2001 to 2007. This pledge includes financial assistance to both internal (known as core budget) and external budgets. External budget is spent directly by the donors and the government of Afghanistan has no control over the funds allocated through external budget. Although, some of the donors report their external budgets to the government, most do not disclose their budget to the government¹⁶.

The World Bank report “*Afghanistan: Managing Public Finances for Development - 2005*” cautions that roughly three quarters of total aid to Afghanistan goes outside government channels. If we talk about the amount of international assistance disbursed for Afghanistan during 1381-1385, of 14.7 billions US dollars, the volume of aid went in to Afghanistan outside government channels is approximately 11 billion US dollars.

Though the information on this is necessary, it is usually incomplete because most of the donors fail to comply with reporting requirements to keep the Afghan government informed about their expenditure. This huge sum remains completely out of the national decision making and parliamentary oversight. This undermines the authority of the Afghanistan government and puts adverse effects on the nation building and reconstruction process.

Though routing the aid outside of the government channels might help in quick delivery of funds, which is needed at the beginning of the reconstruction period, it will hamper the development process in the long run. Why? Channeling official aid outside of government system may:

- (i) expedite the “privatization” the state functions, which should have been in the hands of public domain. The functions include delivery of public goods for all

- (ii) reduce the ownership of the government in designing, implementing and monitoring the development programmes, then in a longer term may affect the sustainability and accountability of the aid

This, apart from creating tremendous domestic pressure on the government, leads to questions on the role of the donors on how they visualize democratic development and governance process in Afghanistan.

It is important to note that there should be a balanced approach in managing international assistance. Depending on the priorities, donors should make available different channels for development aids. Civil society should be supported to have an active voice in promoting human rights and democracy in the country.

While the donors have been strongly advocating for greater transparency and accountability in Afghanistan, they themselves have failed to adhere to those values.

In total, the donors had committed to give about US\$ 19.9 billion (includes both internal and external budget supports) for the period of 1381-85. Out of this, the donors disbursed only US\$ 14.7 billion during the same period. This has resulted in a whopping gap of about US\$ 5.2 billion between commitments and disbursements over the last four years i.e. a shortfall of about US\$ 1.3 billion every year on an average.

¹⁶Information based on personal interviews at MoF in September 2007

Table 7: Donor Commitments and Disbursement to Core Budget during 1380-86 (2001-2007)

Type of Budget	Commitment in billion US\$	Disbursement in million US\$	Difference / Shortfall in %
Ordinary or Operating Budget	2.00	1.74	13
Development Budget	3.24	1.93	40
Total commitment to Core Budget	5.25	3.68	30

Table Source: Ministry of Finance, Govt. of Afghanistan

Total donors' commitment to Core Budget for 1380-86 is US\$ 5.25 billion. This includes commitments of US\$ 2.00 billion for Ordinary or Operating Budget and US\$ 3.24 billion for Development Budget. Out of the total commitments for Core Budgets from 1380 to 1386, the donors have disbursed only US\$ 3.68 billion so far. The gap of US\$ 1.57 billion between donor commitments and disbursement for 1380-86 core budget is equal to about 86 per cent of proposed donor commitments for 1386 core budget (US\$ 1.83 billion) alone. The donors have disbursed only 70 per cent of what they have committed to the core budget from 1380 to 1386. Once again we could see that the operating budgets far better in absorbing funds. The donors' disbursement to operating budget during 1380-86 is 87 per cent against 60 per cent for development budget for the same period.

The difference between commitment and disbursement for development budget for 1380-86 is two fifths of total commitments made by the donors for the development budget for the same period. Considering the need of larger financial

assistance for developmental activities in Afghanistan, the negligence of development budget by international donor community is a huge contrast to their stated mission in Afghanistan. This is added by weak absorbing capacity of different ministries resulting in low utilization of available funds. Having said that, it is necessary to look into the conditions of aid and other coordination mechanisms to find out more on the real reasons for slow and ineffective flow of aid in Afghanistan.

Box 2: Making Aid Work for Afghanistan

First, at the macroeconomic level, these massive **inflows of foreign exchange** compounded by very large flows resulting from opium exports challenge the management of monetary and exchange rate policies. These inflows increase demand for goods and services. Whereas demand for tradable can be met by an increase in imports, increased demand for non-tradable may encounter production bottlenecks, resulting in price increases, pushing up the real exchange rate. There is considerable uncertainty about this effect, known as “Dutch Disease”, but the magnitude of foreign exchange inflows and capacity constraints in Afghanistan require that this risk be monitored and managed. Certainly, the impact on the skilled labor market in Afghanistan is marked.

Second, also at the macroeconomic level, is the issue of **aid predictability**. International experience indicates that aid can be more volatile than domestic revenues. This is challenging in terms of maintaining a stable macroeconomic environment. Uncertainty about available resources also makes budget preparation more complex. This requires donors to provide as much predictability as possible to the Government, as well as reducing the constraints attached to their support (notably in the form of project earmarking). On the Government's side, an adequate budget formulation process is required, as well as a cautionary approach to programming pledges from donors (to make the budget realistic, some countries systematically discount pledges by as much as 30%).

The third, related issue is **fiscal sustainability**, including the risk of “aid dependency.” Afghanistan's severe fiscal constraint is of course eased by significant aid inflows but these inflows are difficult to manage. First, for a number of decisions it has to make (e.g. pay and grading reform; investment decisions with downstream maintenance costs), the Government needs

clarity from donors on their medium-term support. Second, there is a risk that incentives to raise more domestic revenues could be reduced by massive external assistance, also jeopardizing medium-term fiscal sustainability. This requires the Government to be upfront in preparing a Medium-Term Fiscal Framework (MTFF) and donors to establish a good dialogue around such a framework.

Fourth, massive aid inflows have implications for **strategic sector allocations**. The report reviews these issues, stressing the role of a Government-led strategic plan to guide budget allocations. This is especially important for building the State, where the Government can demonstrate its stewardship of the reconstruction process. This issue is related to the previous one: aid not only could be ineffective if not well spent, it could make Government's budget ineffective if aid forces the Government to use its resources to operate and maintain low-priority or low-quality investments.

Fifth, making aid effective requires **adequate delivery and management mechanisms**. At the very minimum, donors should follow the Government's strategic leadership and report to the Government on expenditures. More systematic use of Government systems can increase aid effectiveness, reducing the burden on the Government's limited capacity (e.g. to prepare dedicated reports) and clarifying accountability. However, the Government does not need to create the capacity to itself deliver a large development program. The modalities of aid delivery require attention. Finally, the implications of large amounts of external assistance for vulnerability to corruption need to be monitored.

Source: Afghanistan: Managing Public Finances for Development, World Bank

3.1.1. ARTF Funding for 1386 (2007)

The multilateral Afghanistan Reconstruction Trust Fund (ARTF) managed by the World Bank group has been the largest contributor to reconstruction and developmental activities in Afghanistan. The Afghanistan Reconstruction Trust Fund (ARTF) is administered on behalf of 27 donors and is managed under supervision of a management committee comprise of the Asian Development Bank, Islamic Development Bank, United Nations Development Program and the World Bank. Government of Afghanistan representatives (MoF) participate in the monthly management committee meetings as observers. ARTF enables donor countries to meet with specific aid disbursement criterion that prevents them from disbursing aid bilaterally to the recipient country¹⁷. Over the years, different donors through ARTF have pledged and contributed millions of USD for various developmental activities. However, a closer look at the commitments against disbursements shows a hazy picture. In many occasions, donors have failed to fulfill their commitments/pledges that have resulted in serious delays in implementing the planned activities mainly developmental activities.

The latest available ARTF Administrator's Report on Financial Status (July 22, 2007) shows that donors have paid-in only 22 per cent of what they have pledged for the current year. The gap for the current year is again a whopping US\$ 434 million. It is very disturbing to note that major donors, such as, EU/EC and USA have not provided any funds at all during this year. While the donors may have some reasons for not disbursing the money in time, such disbursement delays are a strong hindrance to the ongoing development process. The frequency and length of disbursement delays will determine the effectiveness of the development programme, as well as community perception of the new development agenda. Lengthy period and frequency of delays bring about the question on accountability of the donors as well as the reality of their rhetoric.

¹⁷Preliminary findings of a review and analysis of the experience with Multi-donor trust funds in conflict affected reconstruction presented at the Oslo Inception Workshop in May 2006 reported that the government of Afghanistan had strong ownership, and there was widespread support for the ARTF, especially in relation to its budget support. The report states: 'For all parties, having the ARTF as a funding source has been extremely efficient. For the Government of Afghanistan there is only one source of funding for the recurrent budget and thus only one actor with which to interact.'

However the review also found that there was no effective strategy for capacity development, either for the budget support functions or for the project implementation. Technical assistance has also been characterised by poor institutional arrangements with little coordination to capture best practice or avoid gaps and reduce duplication. The Inception Report found that the ARTF achievements are fragile, and are dependent on external technical assistance and continued improvement in national stability and security. (Inception Report: A Review and Analysis of Multi-Donor Trust Funds in Conflict Affected Reconstruction: Oslo May 2006)

Figure 5: ARTF Contributions for 1386 (as of July 22 2007)

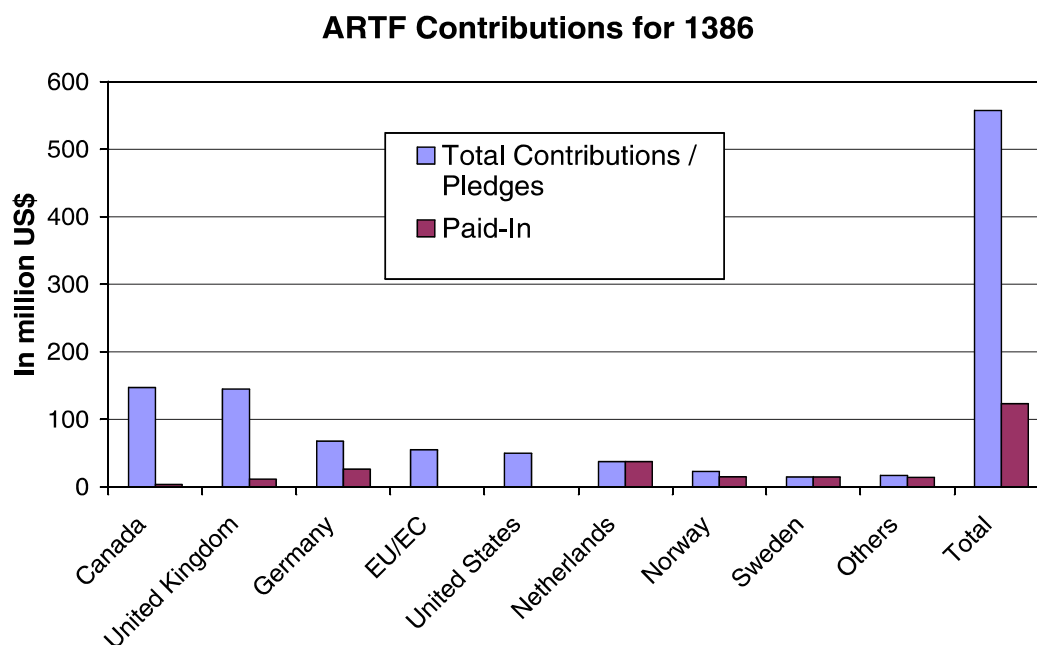


Chart Source: ARTF Administrator's Report on Financial Status, World Bank (as of July 22, 2007)

Table 8: ARTF Contributions for 1386 (2007)

(Figures in million US\$)

Main Donors	Total Contributions / Pledges	Of which without Preferences	Paid-In	Paid-In as a % of Contributions/ Pledges
Canada	147.201	38.312	3.531	2
United Kingdom	145.018	122.949	11.823	8
Germany	67.966	46.294	26.608	39
EU/EC	55.144	34.465	0.000	0
United States	50.000	40.000	0.000	0
Netherlands	37.265	33.265	37.265	100
Norway	22.958	15.122	15.122	66
Sweden	14.812	11.109	14.812	100
Others	17.013	8.082	14.256	84
Total	557.376	349.598	123.416	22

Table Source: ARTF Administrator's Report on Financial Status, World Bank (as of July 22, 2007)

3.2. Overall Afghanistan Budget Analysis

3.2.1. Development Budget Deficit

Afghanistan, like many developing countries, has been facing difficulties in funding its development programmes / schemes. It is usually seen that budget for development hardly meets with real requirements. In this case, the situation is much worse. Even in the limited total budget, funding for development is far too humble. Let's look at some numbers and analysis as below.

The total requirement of the development budget for 1386 as per the budget is US\$ 2.15 billion, while the projected funding for 1386 is only US\$ 1.47

billion (69% of the requirements). However, the current projected requirement for development budget itself may largely be inadequate considering the vast needs. Due to lack of funding options, the development budget expenditure has been limited only within the projected funding and not covering the actual requirements. In the long run, this will have very adverse effects in building true democratic governance in Afghanistan.

Table 9: Sectorwise Budget Estimates for 1385 & 1386 (2006-2007)

(Figures in million US\$)

Sectors	Operating Budget		Development Budget		Total/Core Budget (Opt + Dev)		% of Change
	1385	1386	1385	1386	1385	1386	
Security	365.88	426.88 (16.7)	54.85	29.59 (-46.1)	420.73	456.47	8.5
Governance, Rule of Law and Human Rights	63.87	69.11 (8.2)	42.26	39.53 (-6.5)	107.30	108.84	1.4
Infrastructure and National Resources	38.77	37.73 (-2.7)	560.27	616.28 (10.0)	599.04	654.01	9.2
Education	191.02	214.42 (12.3)	90.51	136.35 (50.6)	281.53	350.77	24.6
Health	26.81	28.08 (4.7)	71.60	77.84 (8.7)	98.41	105.92	7.6
Agriculture and Rural Development	18.48	20.84 (12.8)	399.80	381.81 (-4.5)	418.28	402.65	-3.7
Social Protection	19.86	19.95 (0.5)	20.39	10.86 (-46.7)	40.25	30.81	-23.5
Economic Governance and Private Sector Development	20.74	21.14 (1.9)	81.19	65.29 (-19.6)	101.93	86.43	-15.2
Others	138.07	233.84 (69.4)	0.00	0.00	138.07	233.84	69.4
Unallocated Funds				120.50		120.50	
Total	884	1,072	1,321	1,478	2,205	2,550	15.6

Table Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

Note for Table: Figures in parenthesis indicate change / growth (+ or -) over the preceding year.

The table pictured a particular concern over the decline in development budget for Social Protection: 46.7 per cent decline over the previous year (development budget). This decline is seen as 23.5 per cent allocations (total budget) over the previous year. We could see a trend emerging clearly where allocations for development budgets have been declining sharply. Decline in funding for social protection that is assumed to cover key issues of single women, elderly, orphans etc. is negligence of most marginalized sections of the Afghan society. This emphasizes the need for informed social mobilisation by civil society seeking a more responsible and inclusive mechanism for the poor and marginalized groups in the country.

Composition of total allocations reveals a threatening picture. Considering the huge need for public expenditure on health in Afghanistan, a mere allocation of just 4 per cent of the total budget expenditure is less than acceptable level. Allocation for Agriculture and Rural Development, a crucial sector for development of Afghanistan especially in the rural and remote areas, has declined by 4 per cent over the previous year.

Figure 6: Sectorwise Allocations for 1386

Sectorwise Allocations for 1386

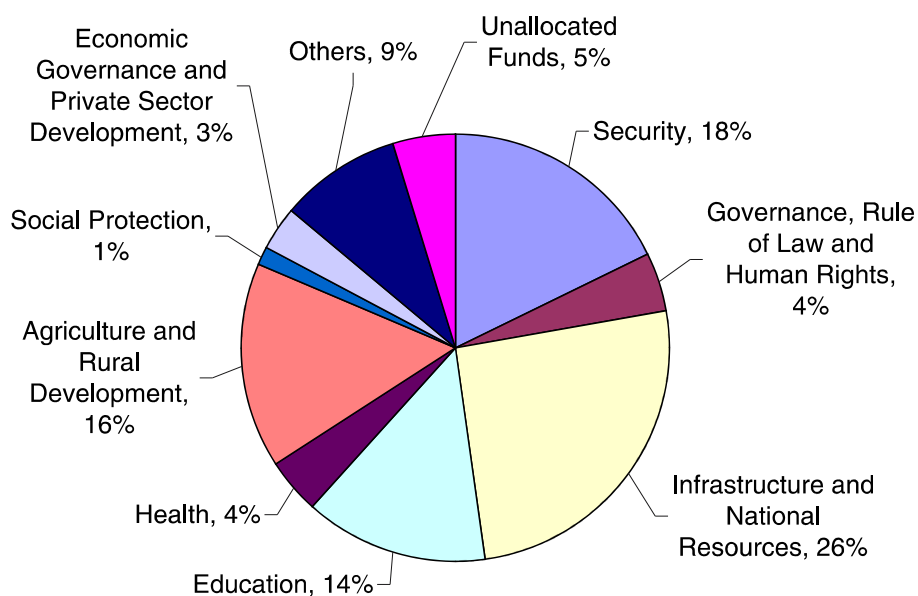


Chart Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

Figure 7: Development Budget for 1386

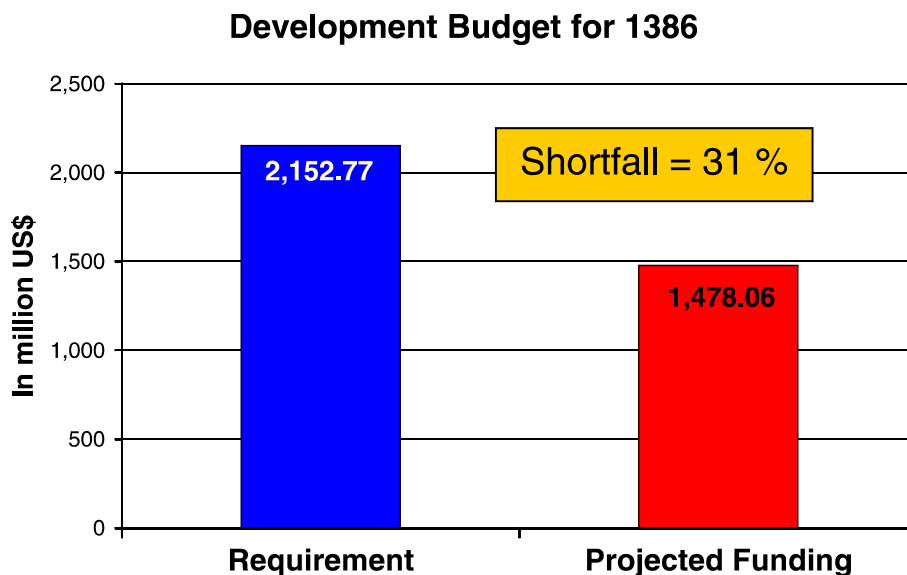


Chart Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

The current shortfall of development budget requirement is around 31 per cent, and the entire development budget is funded by donors' assistance. This very fact emphasizes the need for greater donor accountability and consistency in funding developmental activities in Afghanistan and elsewhere. Though there is an increase of about US\$ 610 million on projected funding for 1386 over the previous year, what needs to be studied is how much of the projected funding comes through. The experience so far, suggests that the actual disbursement by the donors is far less than their commitments. Hence, it's crucial to study the implications of false pledges and inaccurate disbursement of funds in Afghanistan.

3.2.2. Challenges in Execution and Utilization of Development Budget

Another disturbing trend that needs to be improved is budget execution. The aggregate execution rate of operating budget has been over 90 per cent of

the budgeted estimates. The execution rate of development budget is only 43 per cent in 1384 and is expected to be over 55 per cent in 1385. This reflects the low capacity and lack of coordination among ministries and departments. This is where the role of the Budget department at the MoF and Development department in MRRD and other ministries crucial. A large number of ministries have less than 40 per cent development budget execution rates, which is alarming. At the same time, the same ministries have managed to execute the operating budget without fail. Significant lack of capacity to understand, implement, coordinate and monitor the development programmes between different departments in a ministry and between different ministries has been highlighted in the interviews with different ministries. It partly is a result of neglect by government staff when dealing with development programmes as these usually require complex procedures.

Figure 8: Execution of Development Budget

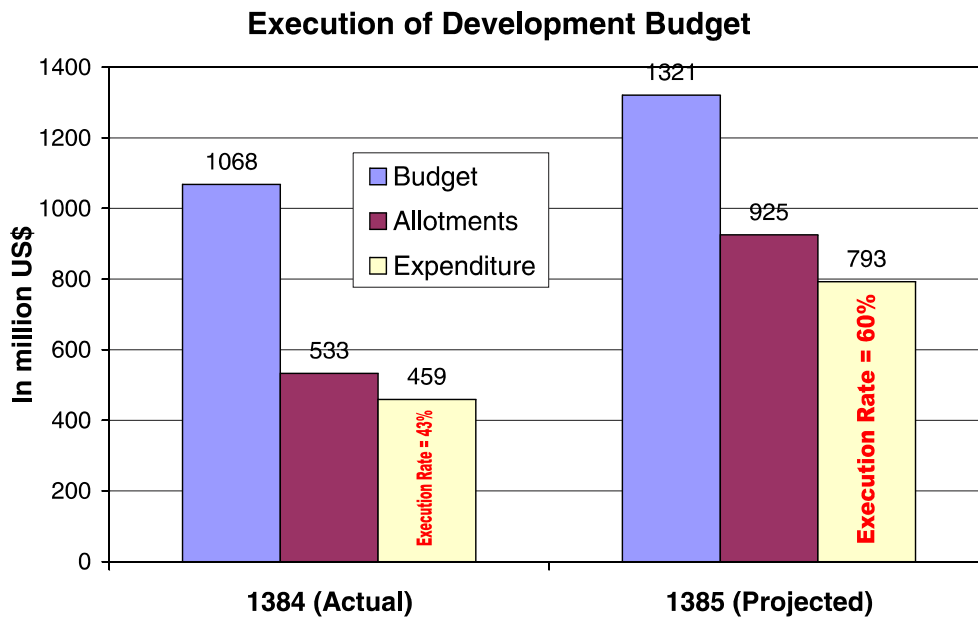


Chart Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

Several other reasons contributed to low execution rates of development budget. During 1384, 1385 and 1386 the budget was approved very late. The incomplete funding of several projects led to problems in implementation and low rate execution of the projects.

However, a major reason for low execution, as shown in the budget statement, is lack of predictability of external donors' disbursements and the security problems in some parts of the country. This reemphasizes the need for greater transparency and accountability of the donors towards their pledges/commitments to Afghanistan. Another important factor that cannot be undermined is low capacity of line ministries, particularly in the areas of financial management and procurement. It is important here to note that most of the complicated and sometimes overlapping procedures in budgeting, planning, implementing and monitoring development programmes are designed by donors and imposed

on Afghanistan government. The western system of management required, could take some time to start working in Afghanistan situation, let alone being utilized for the benefits of the poor people. Local and sustainable capacity building approaches need to be considered, from the experience of countries which have tackled similar situations and invested adequately in human resource development. Case studies from Cambodia tell us that expatriate technical and capacity support cannot be a solution to this. Apart from it, Afghanistan should also take a more active role in developing its own sets of procedures, harmonizing the needs for accountability and transparency by the donors, yet sufficient and cost effective in case of Afghanistan.

In the next section, we will be looking at the budget of MRRD the most important government agency in designing and implementing development programmes in Afghanistan.

3.2.3 MRRD Budget

The Ministry of Rural Rehabilitation and Development (MRRD), like other line ministries, has been facing a huge shortage of funds to carry out various developmental programmes/projects including the NSP. The projected shortfall for MRRD for 1386 is almost US\$ 90 million i.e. 21 per cent of the required funding. Like in other cases, the actual shortfall can be much higher since the projected funding is only indicative and much less than real requirements. The National Rural Water Sanitation, Hygiene Education and Sanitation Programme (NRWSHESP) has witnessed a shortfall of over 50 per cent of the total requirement. At present, it seems like the donors' assistance is more focused on their own priorities which at times do not incorporate social needs of people in this country.

By imposing a so called preference for most of their aid in specific sectors, projects and geographical areas, the donors are limiting and earmarking the

use of such aid. This will undermine other smaller programmes / projects and sectors, which could have larger positive impacts on the lives of communities. Hence, it is important to have a 'common pool' or non-designate aid for funding developmental activities in Afghanistan. This will help the government of Afghanistan to ensure timely implementation of developmental activities without discrimination.

Table 10: MRRD Budget for 1386

(Figures in million US\$)

Project / Programme	Requirement	Projected Funding	Shortfall	Shortfall as a %
NSP	255.44	204.01	51.43	20
NRAP/NEEP	74.71	62.08	12.63	17
MISFA	59.56	50.20	9.36	16
NRWSHESP *	30.30	14.86	15.44	51
Others	16.51	15.64	0.87	5
Total	436.52	346.80	89.72	21

Table Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

Note: *National Rural Water Sanitation, Hygiene Education and Sanitation Programme

Figure 9: MRRD Requirement and Projected Funding for 1386

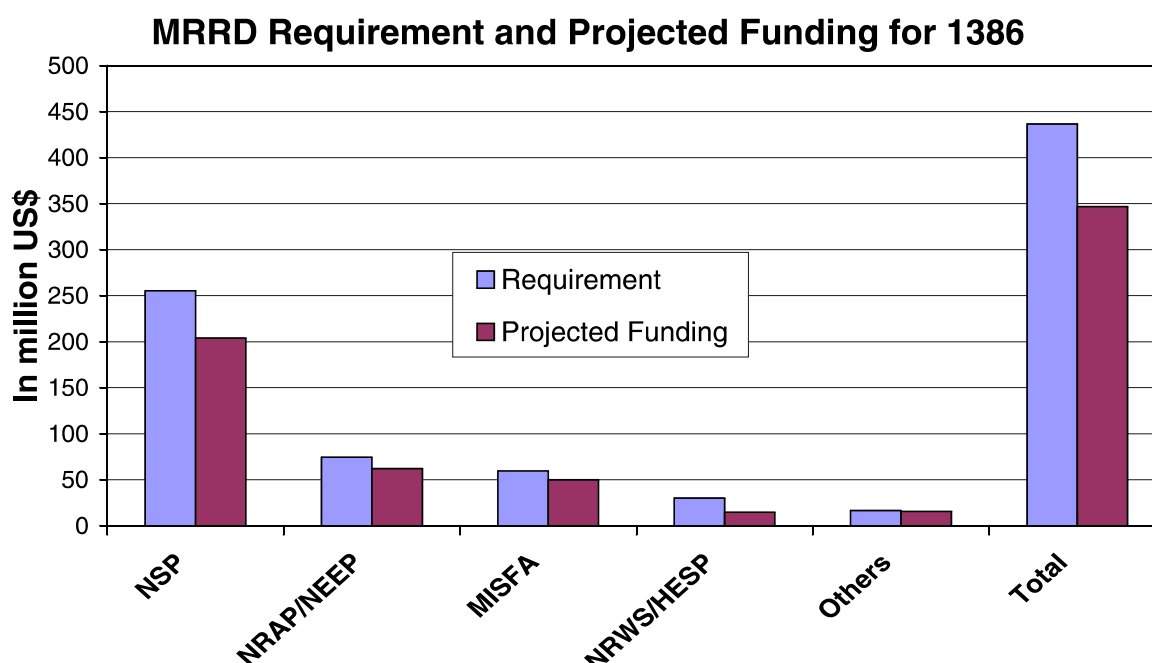


Chart Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

In short, generally Afghanistan national budget is:

- heavily dependant on the international assistance (aid and loans)
- lacking autonomous sources for its operational and development needs
- witnessing a sharp decline in budget for development
- facing challenges to disburse and utilize the projected funding

In specific we will try to analyze budgets for NSP, by evaluating the situation based on available data.

3.3 National Solidarity Programme

The National Solidarity Programme (NSP) was created by the Government of Afghanistan to

develop the ability of Afghan communities to identify, plan, manage and monitor their own development projects. NSP aims to deepen democracy and development, and in many ways symbolizes the aspirations of the Afghan people. NSP promotes a new development paradigm whereby communities are empowered to make decisions and manage resources throughout all stages of the project cycle. The program will lay the foundation for a sustainable form of inclusive local governance, rural reconstruction, and poverty alleviation.¹⁸ Being the largest community development programme in the history of Afghanistan, NSP is also recognized as one of the main instruments for achieving the objectives of Afghanistan National Development Strategy (ANDS).

¹⁸<http://nspafghanistan.org>

The NSP seeks to empower the grassroots of Afghan society by facilitating the establishment of local governance bodies - Community Development Councils (CDCs) in villages across the country. The Government gives block grants in cash directly to these elected bodies to help them build and restore rural infrastructure that communities choose through an inclusive decision-making process. The program is implemented by Afghanistan's Ministry of Rural Rehabilitation and Development (MRRD). It is financed by a consortium of international donors.

The NSP has contracted 28 national and international NGOs to facilitate the establishment of Community Development Councils (CDCs) in villages across the country. These councils are elected by communities then registered with the MRRD. Once consensus is reached on people's priorities for a small scale infrastructure or human capital development project, a block grant of US\$200 per family, subject to a maximum of US\$ 60,000 for each village is disbursed to the council to implement the project. Grants are disbursed directly to the councils to minimize avenues for corruption. The CDCs manages the grant through a bank account with a nearby Government bank. The participation of women in the CDCs is mandatory for communities to be eligible for the block grant. To build ownership, the community contributes about 10 percent of the cost of each project through voluntary donation of cash, labor, or construction materials¹⁹.

Although NSP is one of the well conceptualized programmes in Afghanistan, in recent times, it has come under criticism for huge delays in implementation. Like in any multi-stakeholder development programmes elsewhere, NSP has been facing obstacles in implementation primarily due to (1) drastic lack of available funding, (2) lengthy procedures to be followed at various stages of implementation by different stakeholders and (3) lack of capacities at various levels of

implementation. Though the procedural delays and lack of capacities can be addressed through proper management and training mechanisms respectively, the delays due to lack of funding can be addressed only through ensuring greater transparency and accountability of the donors. While there are strong transparency and accountability safeguards put in place to check corruption during the implementation, there is no such mechanism to check the donors' accountability towards their commitments on funding and disbursement of such funding. It is irony to note that the donors want complete transparency in implementation of NSP while forget to adhere to any such accountability measures for themselves.

3.3.1 NSP Funding

NSP is funded by various bilateral and multilateral donors, primarily through ARTF. While the demand for expanding NSP throughout the country has been steadfastly increasing, the increase in funding commitments is rather minimal.

Being the largest developmental programme in the history of Afghanistan doesn't help NSP draw funds from the donors. A World Bank Supervision mission (25th August - 12th September 2007) in its report also acknowledges this fact saying: "*The NSP is probably the most effective national program and it could therefore be reasoned that Government and donors make every effort to provide sufficient funding to ensure uninterrupted implementation. Unfortunately this has not been the case and the program has suffered from a sustained funding crisis.*" The increase in projected funding for the current year at the beginning of the fiscal is only a mere 3 per cent over the previous year. Taking note of implementation of NSP-II this year, this amount falls much short of current year's requirement.

¹⁹<http://web.worldbank.org>

Table 11: Projected Funding for NSP for 1385 & 1386

(Figures in million US\$)

Donor	Projected Funding		Change in %
	1385	1386	
ARTF	94.90	90.00	-5.2
Denmark	3.90	6.10	56.4
Netherlands	0.00	1.60	-
Japan	15.00	0.00	-100.0
Norway	3.70	0.00	-100.0
Switzerland		2.00	-
UK-DFID		24.21	-
World Bank	80.31	80.10	-0.3
Total	197.81	204.01	3.1

Table Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

NSP experienced a funding shortfall during March June 2007 although there were funds available, the new IDA Grant plus ARTF fund were not operational until the end of May 2007, as a result the funding backlog increased. The backlog was further compounded by procedural delays in obtaining reimbursement of block grant disbursements during August 2007. As a result MRRD requested and received a US\$30m loan from the MoF to enable a speedier disbursement of the backlog. This amount of \$30m was received in October 2007. It is anticipated that the loan will be repaid to the MoF towards the end of 1386 from ARTF NSP funds²⁰.

Most of the aid commitments by donors for Afghanistan change frequently due to both external and internal reasons. Hence, any aid preference should be studied from both political and development point of views.

So are the donors really interested in development of Afghanistan? This is the question Civil Society and people of Afghanistan ask.

Box 3: Daunting 515 Days!

During the last two years (1384-85), no single payment had taken place in NSP for a total of 515 days (out of total 728 days) due to non availability of funds.

²⁰NSP Donor Briefing Note, MRRD as on 18 November 2007 (1386)

Figure 10: Projected Funding for NSP for 1385 & 1386

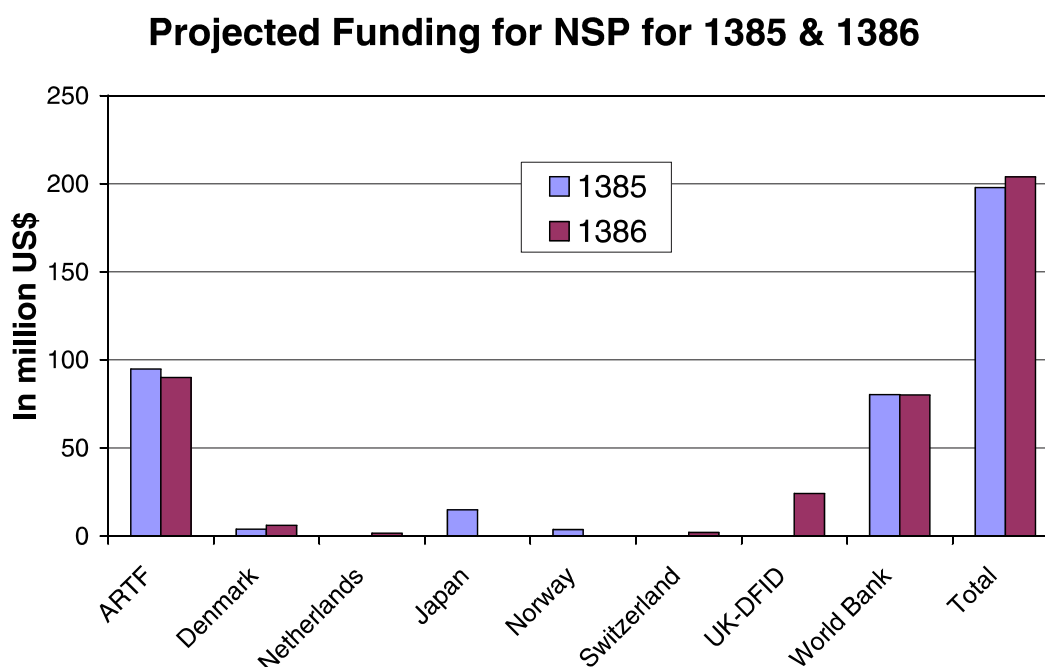


Chart Source: Budget 1386, Ministry of Finance, Govt. of Afghanistan

As shown in the previous table, majority of the funds for NSP come through ARTF and International Development Association (IDA) grants provided by World Bank. Unlike IDA, ARTF is a multi-donor trust fund managed by World Bank. Contributions to ARTF are of two types (a) funds with preference and (b) funds without preference. Donors prefer about 40% of their funds through ARTF- through saying which province or district the funds should be spent.

3.3.2 ARTF Preferred Donor Funding for NSP

The data used for analysis in this part of the report has been taken from the World Bank's *ARTF Administrator Financial Status Report* dated July 2007 as the latest report. The Donor briefing notes for October and November 2007 brought out by MRRD shows difference in data in multiple places

and contradict to the information provided in WB's report. For example, the preferred donor pledges as reported in the WB's report doesn't match MRRD's information. If we go by the MRRD's information, the total preferred donor fund for NSP in 1386 is much higher (at US\$ 170 million in November 2007) than what has been reported in WB's report (US\$ 111 million). Also, the MRRD's briefing notes show much less preferred donor pledges than as reported in WB's report. The November donor briefing note reports US\$ 68 million as preferred donor funds for NSP against WB's claim of US\$ 111 million in July itself.

The World Bank's July 2007 report shows that a total of US\$ 111 million was pledged by seven donors for the current year to the ARTF. Out of the US\$ 111 million pledged, the donors have paid-in only US\$ 10.64 million (9.6 % of total pledge) as of July 22, 2007 Except Germany, no other donor had paid any single cent. While donors may have their own reasons for not providing the funds, what is at stake are the hopes of millions of rural Afghans who have been looking forward to these funds for undertaking development works in their villages/communities. It is not only the entire implementation of NSP but also the communities that suffer when the funds are not available on time. The WB report of July 2007 shows that major donors like DFID and EU/EC had failed to honor their pledges. According to documents obtained

from the NSP, as of 22 November 2007, 8 months into the Afghan fiscal year most of the donors have failed to pay any single penny of their pledged amount. By withholding their payments the donors have severely jeopardized the efficacy of the NSP and severely curtailed the possibility of successful implementation.

Table 12: ARTF Preferred Donor Funding for NSP in 1386 as per WB (as of 22 July 2007)

Donor	Pledged in million US\$	Paid-in in million US\$	Paid-in as a % over Pledged
Canada	52.68	0.00	0
EC/EU	20.68	0.00	0
Finland	1.38	0.00	0
Germany	11.03	10.64	96.5
Norway	5.22	0.00	0
United Kingdom	10.25	0.00	0
United States	10.00	0.00	0
Total (A)	111.23	10.64	9.6
Preferred Contributions without Pledges			
Denmark	0.00	3.66	
Sweden	0.00	3.70	
Total (B)	0.00	7.37	
Grand Total (A+B)	111.23	18.01	16.2

Table Source: ARTF Administrator's Report on Financial Status, World Bank (as of July 22, 2007)

Table 13: ARTF Preferred Donor Funding for NSP in 1386 as per MRRD

Donor	As per MRRD's Donor Briefing Note for October 2007 (data as on 5 September 2007)			As per MRRD's Donor Briefing Note for November 2007 (data as on 22 November 2007)		
	Pledged	Paid In	Total for 1386	Pledged	Paid In	Total for 1386
Australia	0.000	0	0	0.000	0	0
Canada	23.994	52.407	76.351	0.000	77.238	77.238
Denmark	0.000	3.663	3.663	0.000	3.663	3.663
EC/EU	20.679	0	20.679	21.395	0	21.395
Finland	0.000	1.367	1.367	0.000	1.367	1.367
Germany	11.029	10.643	21.672	11.410	10.643	22.054
Norway	0.000	5.130	5.130	0.000	5.130	5.130
Sweden	0.000	3.703	3.703	1.559	3.703	5.262
UK DFID	10.246	0	10.246	10.225	0	10.225
UK DFID	13.445	0	13.445	13.445	0	13.445
US	10.000	0	10.000	10.000	0	10.000
Total	89.393	76.913	166.256	68.034	101.744	169.779

Table Source: Donor Briefing Notes for October and November 2007, MRRD

“Funding for development is a fraction of that spent on military operations: the US military is spending \$65,000 a minute in Afghanistan (\$35 billion for 2007)”²¹. Aid funds are following the fighting: USAID concentrates more than half of its budget on the four most insecure provinces; DFID

allocates one-fifth of its budget to Helmand²². Promoting development in the south is essential but, as we have seen over the last two years, if other provinces are neglected then insecurity could spread.

Figure 11: ARTF Funding for NSP for 1385 & 1386

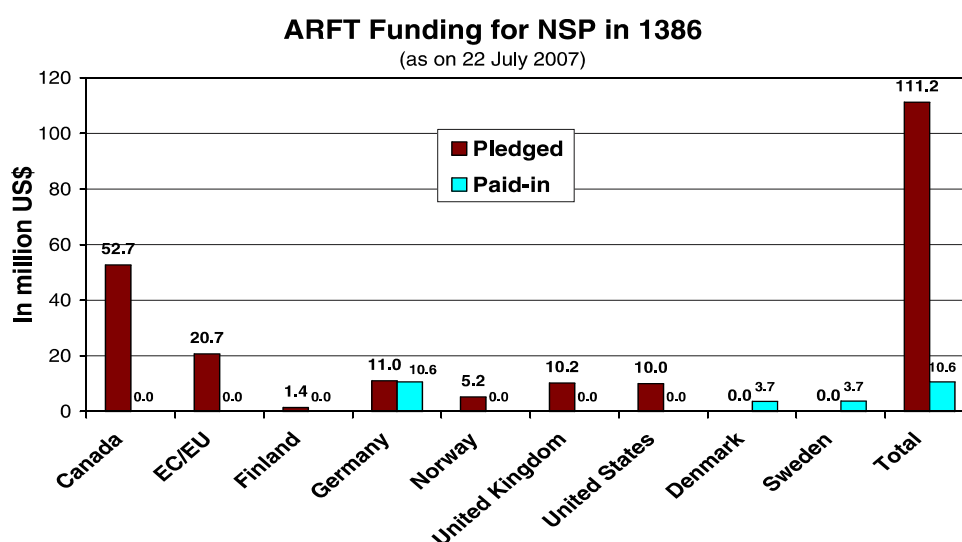


Chart Source: ARTF Administrator's Report on Financial Status, World Bank (as of July 22, 2007)

²¹ Report for Congress, The Costs of Iraq, Afghanistan and Other Global War on Terror Operations since 1911, Congressional Research Service, 16 July 2007.

²² Afghanistan aid must be spread, Financial Times, 19 March 2007.

Though the latest NSP Financial Status Report shows some improvement in donors' pledges, it is still unclear as how much of these pledges have been paid to the MRRD i.e. available in cash²³. The anticipated funding deficit for NSP has been reduced with more pledges from the donors. But, whether these pledges will become reality is a question that can be answered only by the donors. It mentions a huge amount as available for utilization, but fails to tell us how much of it is actually available and actually disbursed to Government of Afghanistan. This reminds us of an important issue the flexibility of using different meanings for different terminologies at different stages/places. Most of the times, the terminologies used by the donors, MRRD, MoF and other agencies mislead people in arriving at conclusions. The terminologies used, such as commitments, pledges and available funding do not help in clarifying the position regarding the difference between promises and actual delivery of cash. This might as well be some tactics coined by the stakeholders to avoid accountability. It is very important for the civil society organizations to demand the government and donors to give an

open explanation about the funding status of international assistance to Afghanistan and uniform definition for financial terminologies that are used liberally by the different actors.

3.3.3 NSP Disbursements in 1386

The present budget norms in Afghanistan do not allow line ministries to avail funding from stipulated donors more than what has been approved in the Budget. However, revisions and additions can be made during the Mid-Year review of the budget through fresh requests. The Mid-Year Budget review takes place during September or October. At times, this is used as an opportunity by the donors to justify delays in disbursement of committed funds. Any allocation to ARTF has to, at first, be approved by its governing body then if its middle of the financial year, it has to get the approval by the MoF during the Mid-Year Budget review. So, even if a donor wants to give funds just days after finalization of Budget, it has to wait till September or October for the acceptance. This process has been used by some donors to legitimize their delays in disbursing funds in time.

Table 14: Estimated Disbursement for NSP in 1386 (Figures in million US\$)

Disbursement Type	Disbursements Mar – Sept	Planned Disbursements Oct – Mar	Total Disbursements as requested in Mid-Year Review	% of Total Disbursement to be made between Oct – Mar
FP Payments	13.34	53.97	67.31	80
Block Grants	77.83	135.00	212.83	63
School Windows Block Grants	5.50	3.38	8.88	38
Consultancies	1.79	7.05	8.84	80
Vehicles and Equipment	0.00	2.45	2.45	100
Training	0.00	0.98	0.98	100
NSP Operation Funds	3.54	4.50	8.04	56
MRRD Incremental Operating Expenses	0.20	1.20	1.40	86
Total	102.20	208.53	310.73	67

Table Source: NSP Donor Briefing Note, NSP-MRRD (as on October 2, 2007)

²³At the time the data was gathered September 2007

Box 4: Unable to spend available funds!

During March–June 2007, NSP experienced a funding shortfall although there were funds available. The new IDA Grant plus ARTF fund were not operational until the end of May 2007, as a result the funding backlog increased. The backlog was further compounded by procedural delays in obtaining reimbursement of block grant disbursements during August 2007. As a result MRRD requested for a loan to enable speedier disbursement of the backlog. The MoF agreed and MRRD received a loan of US\$ 30 million from MoF in October 2007. It is anticipated that the loan will be repaid to the MoF towards the end of 1386 from ARTF funds.

(Source: NSP Donor Briefing Note, November 18, 2007, NSP-MRRD)

The above table indicates the estimated disbursements for 1386. It shows that half of the projected funding as reported in the Budget 1386 is already spent by September 2007. In the Mid-Year Budget Review, the MRRD-NSP has requested the MoF to increase the total expenditure for NSP to US\$ 310.73 million (by more than 130% increase). The MRRD-NSP estimates to spend a whopping US\$ 209 million (67 per cent of the total commitments made for the entire year) during the next 6 months. This is more than double of what it could disburse during the previous six months. While some would call it ambitious, what is more important to study is whether the estimated funds are available in cash for disbursement. Otherwise, this is misleading. This reflects poor planning and management of NSP.

3.3.4 NSP-I & NSP-II

NSP-I targeted to cover 17,406 communities in 279 districts with the help of 28 Facilitating Partners (FP). NSP-II is planning to cover an additional 4,300 communities in existing as well as 50 new districts. This would take the envisaged total coverage of NSP to 21,706 communities with the help of 35 FPs (NSP-I + NSP-II). NSP-I has faced many obstacles in implementing the programme. Various reasons like lack of funding, inadequate infrastructure, under-staffing and security have

created hurdles in implementation. As mentioned earlier in the report, lack of funding and complicated procedures have been creating more hurdles than the others, that are being corrected by the MRRD-NSP by additional staffing and adequate trainings. The table below indicates a cash requirement or deficit²⁴ of US\$ 246.82 million for NSP-I alone. More than one third of the block grant funds had not been disbursed. It is upsetting to see that NSP designed to fund developmental activities through community participation is not able to disburse funds for the very purpose.

²⁴Cash requirement or deficit and commitments refer here and in subsequent tables to the MRRD commitment to disburse funds and not donor commitment.

Table 15: Commitments and Expenditure on NSP-I (Figures in million US\$)

S.No.	NSP-I	Commitments	Expenditures	Balance
1	Block Grants*	452.56	283.67	168.89
2	Facilitating Partners	122.87	103.58	19.29
3	Works	0.54	0.54	0.00
4	MRRD Incremental Operating Cost	1.95	0.50	1.45
5	Oversight Consultant	33.12	26.81	6.31
6	District School Construction and Rehabilitation Window (DSCRW)	14.28	5.57	8.71
7	Goods/Equipment	3.61	3.61	0.00
8	NSP Operations (from Sept 06)	3.60	2.62	0.98
9	Other consultancies	3.83	3.83	0.00
Sub total NSP-I		636.36	430.73	205.63
10	MOF Loan			41.19
Total Cash Requirement / Deficit				246.82

Table Source: NSP Donor Briefing Note, NSP-MRRD (as on October 2, 2007)

Note: * Block Grant Funds for 17,406 communities with an estimated average block grant entitlement of US\$ 27,000.

The huge administrative costs under the NSP have been a major concern. The total administrative cost for NSP-I was about 26 per cent of the total commitment of expenditures. This proportion has increased steeply in NSP-II, where the total operating cost amount to about 45 per cent of the total commitment of expenditures. The possible reason could be the increase in number of CDCs. Under NSP-I, the utilization rate of administrative costs is 83 per cent compared to only 62 per cent programme costs. It is contentious to see that only 26 per cent of the MRRD incremental operating costs have been utilized or disbursed so far. Considering the central role of the MRRD in the implementation of NSP and the need for adequate finances for its operations, this is too small. Non availability of funds for its operations will hamper the functioning and monitoring strength of MRRD in NSP.

Table 16: Administrative Costs for NSP-I

Expenditure Head	Commitments in million US\$	As a % of Total	Expenditures in million US\$	Balance in million US\$	% of Utilization	Cost Per CDC in US\$*
Facilitating Partners	122.87	74.3	103.58	19.29	84	7059.06
MRRD Incremental Operating Cost	1.95	1.2	0.5	1.45	26	112.03
Oversight Consultant	33.12	20.0	26.81	6.31	81	1902.79
NSP Operations (from Sept 06)	3.6	2.2	2.62	0.98	73	206.83
Other consultancies	3.83	2.3	3.83	0	100	220.04
Total	165.37	100.0	137.34	28.03	83	9500.75

Table Source: NSP Donor Briefing Note, NSP-MRRD (as on October 2, 2007)
 Note for Table: * Calculated for 17,406 communities in NSP-I

Table 17: Programme Costs for NSP-I

Expenditure Head	Commitments in million US\$	As a % of Total	Expenditures in million US\$	Balance in million US\$	% of Utilization	Cost Per CDC in US\$*
Block Grants	452.56	96.1	283.67	168.89	63	26000.23
Works	0.54	0.1	0.54	0	100	31.02
DSCRW	14.28	3.0	5.57	8.71	39	820.41
Goods/ Equipment	3.61	0.8	3.61	0	100	207.40
Total	470.99	100.0	293.39	177.6	62	27059.06

Table Source: NSP Donor Briefing Note, NSP-MRRD (as on October 2, 2007)
 Note for Table: * Calculated for 17,406 communities in NSP-I

As seen earlier in overall budget execution, administrative costs have better utilization rate than programme costs. This reflects the poor implementation capacity of the various actors involved in the NSP. But what is more important to note is the huge backlog of pending payments to CDCs. The CDC box inserted in the report (Page 47) tells us community perception on delay in

disbursement of block grant funds. The programme cost for per community in NSP-II shows a healthy sign of increase. The programme cost per community has increased from US\$ 27,059 per community in NSP-I to US\$ 37,758 in NSP-II.

Table 18: Administrative and Programme Costs for NSP-II

Expenditure Head	Commitments in million US\$	As a % of Total	Expenditures in million US\$	Balance in million US\$	% of Utilization	Cost Per CDC in US\$*
Administrative Costs for NSP - I	165.37	100.0	137.34	28.03	83	9500.75
Programme Costs for NSP-1	470.99	100.0	293.39	177.6	62	27059.06
Total	639.36	100.0	430.34	205.63	145	36559.81

Table Source: NSP Donor Briefing Note, NSP-MRRD (as on October 2, 2007)

NSP-II has started with carried over outstanding commitments from NSP-I. Backlog balance worth of US\$ 205.63 million, including a loan of US\$ 41.19 million from MoF that was repaid in June

2007, has been carried over from NSP-I to NSP-II. Hence, the total cash deficit carried over to NSP-II was US\$ 246.82 million.

Table 19: Expected cash requirement for NSP-II as on October 2, 2007

S.NO.	Description	Commitments in million US\$	Total in million US\$
1	Block Grants (for NSP-II)	116.10	
	Block Grants (preference grants)*	43.56	
2	Facilitating Partners**	77.27	
	Facilitating Partners (preference grants)*	15.60	
4	MRRD Incremental Operating Cost for NSP-II	4.24	
5	NSP Management Consultant	8.55	
7	Goods/Equipment	2.70	
8	NSP Operations Fund for NSP-II	22.30	
9	Other consultancies	3.50	
	Total Expected cash requirement for NSP-II		293.82
	Carried over backlog from NSP-I		205.63
	MOF Loan		41.19
	Total Cash requirement NSP-II		540.64

Table Source: NSP Donor Briefing Note, NSP-MRRD (as on October 2, 2007)

Note: *Preference grants are donor commitments directed towards specific province

** FPs commitments of US\$ 77.27 million includes US\$ 41.60 million for Cycle-2 communities from NSP-I, US\$ 16.37 million for new communities in existing districts and US\$ 19.30 million for new communities in new districts

Table 20: Available Funding (Commitments) for NSP-II (Figures in million US\$)

Donors	1386	1387	1388	Total
1. IDA (and Grants Administrated by WB)	298.26	0.00	0.00	298.26
1.1 IDA grant	120.00*	0.00	0.00	120.00
1.2 JSDF	15.00	0.00	0.00	15.00
1.3 ARTF Grant No. 53939	13.26	0.00	0.00	13.26
1.4 ARTF Grant No. 1386	150.00	0.00	0.00	150.00
2. Bilateral Donors	8.91	4.60	2.00	15.51
2.1 Denmark	0.00	4.60	2.00	6.60
2.2 Switzerland	1.60	0.00	0.00	1.60
2.3 Netherlands (Baghlan)	1.71	0.00	0.00	1.71
2.4 New Zealand (Bamyán) in preparation	0.60	0.00	0.00	0.60
3. Special funds	9.44	14.30	5.80	29.54
3.1 USAID/NABDP Kandhar	1.20	0.00	0.00	1.20
3.2 UNH / CIDA Kandhar	1.44	0	0.00	1.44
3.4 CIDA / Kandhar	0.00	5.90	0.00	5.90
3.5 UK DFID for Helmand	6.80	8.40	5.80	21.00
GRAND TOTAL	316.61	18.90	7.80	343.31

Table Source: NSP Donor Briefing Note, NSP-MRRD (as on October 2, 2007)

Note: * The IDA Grant of US\$ 120 million includes US\$ 40 million for retroactive expenditure. This amount was used to repay the MoF loan of US\$ 40 million received in 1385.

The cash requirement for NSP-II is US\$ 293.82 million. Including the carried over liabilities of NSP-I, the total cash requirement for NSP until 2009 is US\$ 540.64 million. It is going to be very challenging for the MRRD and MoF to secure

donors' commitments for this huge sum to be spent in next three years under NSP. NSP-II has currently secured funding commitments of US\$ 359.57 million from donors for the next three years

Table 21: NSP II Cash Shortfall 1386-1388 (2007-2009)

Figures in million US\$

Year	Required	Available	Annual Shortfall	Accumulated shortfall
1386	350.73	316.61	(34.12)	(34.12)
1387	150.17	18.90	(131.27)	(165.39)
1388	39.74	7.80	(31.94)	(197.33)
Total	540.64	343.31	(197.33)	

Table Source: NSP Donor Briefing Note as at 18 November 2007 (1386)

Box 5: The Impact of fund disbursement delay to the community

A story from Mingajik village of Khwaja Du Koh district.

The CDC in consultation with larger community planned a sub project to construct a school building for the village. When the project was approved, the CDC received first installment for the sub project on 31 July 2004. Based on the sub project proposal, the CDC began the construction work immediately after receiving the first installment, and completed about 60 per cent of the proposed works by 7th February 2006 using the funds received in the first installment. Subsequently, CDC requested NSP to release the second installment for completion of construction. But, the money was not provided to them. CDC received the 2nd installment on 1/1/2007 through Jawzjan Bank after waiting for 11 months. For the past eleven months, CDC had made several requests to the NSP to expedite the payment since there were no other pending issues with regard to release the second and third installments. During this time, bricks that were bought for the school construction were stolen. This resulted a huge clash between CDC members and the community. FPs and others started negotiating to resolve the issues between community and CDC, though it was working, the time and energy wasted for this could be used for more important works.

Mingajik CDC, Code No 17-1702-1a, Total number of families -195, located in Khwaja Du Koh district.

The current commitments from the donors indicate a total cash deficit of US\$ 197.33 million for NSP-II. The projected shortfall for next year (1387) is 87 per cent. While considering the complaint from donors that both MRRD and MoF have failed miserably in persuading the donors against their pledges, it is going to be a challenging time for the ministries to secure funding for this flagship programme.

3.3.5 Process Delays in NSP

The obstacles in fund management under NSP are not only limited to lack of funding. There are wide range of issues that also need to be addressed apart from ensuring greater donor accountability. Currently NSP has two major disbursement channels (a) disbursement of Block Grant Funds (BGFs) and (b) disbursement of contract price of FPs. While studying the fund flow process and meeting with various stakeholders, it has become evident that part of the problems faced in

disbursing funds under NSP is not only linked to shortage of funds. The processes followed to receive BGFs and FPs' contract amounts are explained through a flow chart in the annexure 1.

The reasons for procedural delays in NSP are mainly due to lack of transparency, coordination and capacities. Both the NGO facilitating partners (FPs) and the Community Development Councils (CDCs) are not provided with receipts for submission of their invoices to the provincial office of the MRRD violating the NSP Operational Manual. Therefore there is no time frame or accountability in the processing of their claims and the release of grants, which impacts negatively on the implementation of the projects.

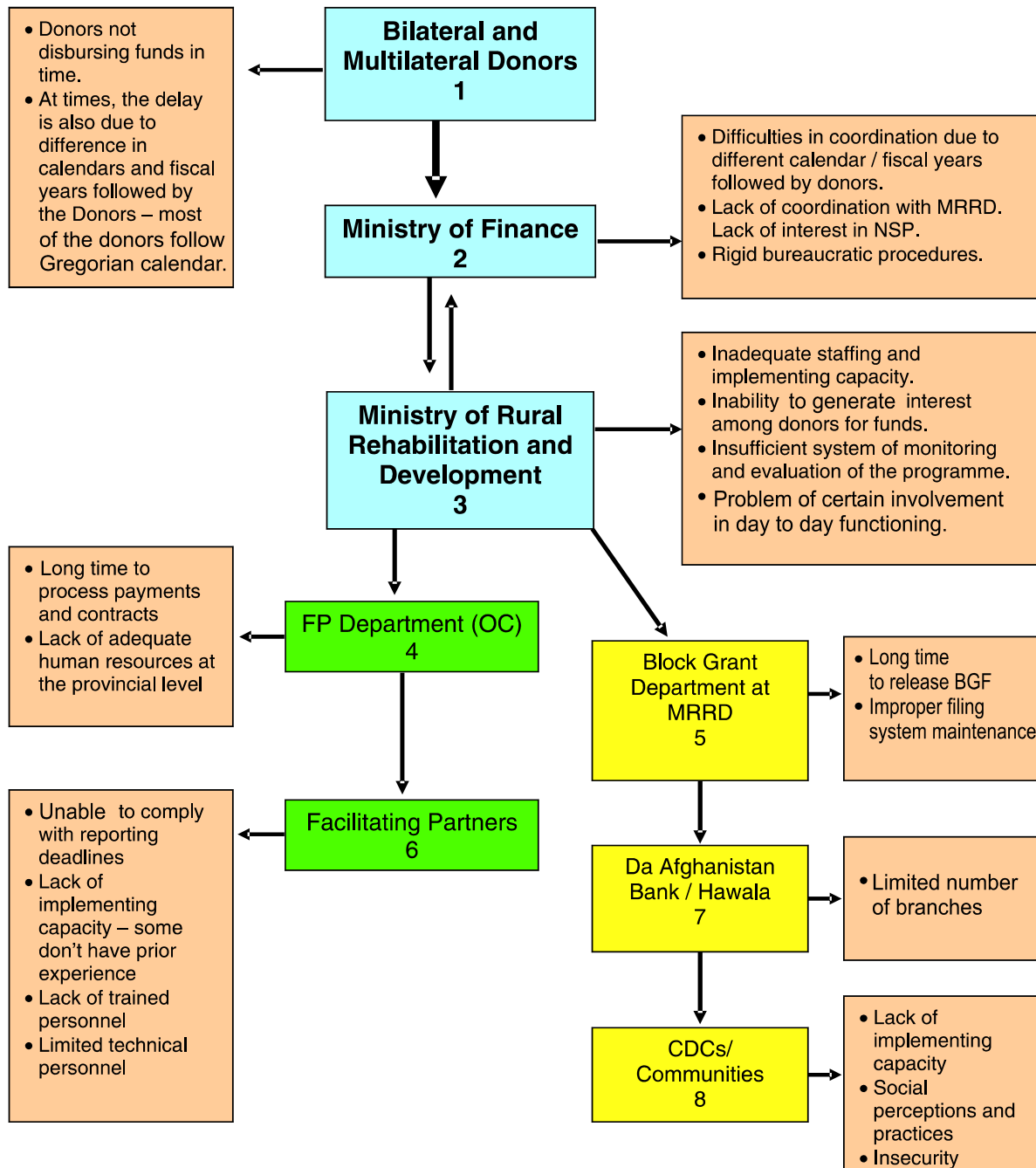
Evidence demonstrate that many CDCs and FPs have to wait for months to receive their Block Grant Funds. Many facilitating partners are forced to use funds from other projects to pay salaries of their NSP staff and some have been pushed to embarrassing situations where they are unable to pay salaries of their own staff for few months. Some FPs have even posted their staff at the Provincial Management Units (PMUs) and Block Grant Department (BGD) to expedite payments due to CDCs in order to ensure that their price of the contract comes through without delays.

As a representative of the donors, administrator of ARTF and IDA grant manager, the World Bank has been involved in day-to-day activities of NSP implementation. The Bank has put up very rigid procedures at the MRRD-NSP that mandates Bank's approval on many recurrent issues of implementation in the form of '*No Objection Letter*' (NOL). Even short-listing of candidates for recruitment at the NSP office has to wait for Bank's approval. This is another evident showing the rigid application of the Bank's manual on procurements

of services. This approach causes unwarranted delays and undermines the legal obligations of the line ministries. Control orientation of the WB leads to centralisation of the decision making and caused loss of initiatives of the team.²⁵

²⁵Information based on personal interviews at MRRD on September, 2007

Obstacles in Fund Flow of NSP



3.3.5.1 Lack of coordination between stakeholders

One of the major constraints that cause delay in implementation of NSP is very weak coordination between the stakeholders. The lack of coordination happens in all phases of NSP and at all levels.

At the national level:

Difference of fiscal years (Gregorian calendar and Solar calendar) followed by donors and government of Afghanistan has been a major concern. The MoF and MRRD face lots of difficulties in estimating available funds for programmes/projects according to Afghan fiscal year. This has resulted in false calculation of available funding at times. Also, led to uncertainty over donor commitments.

At the national level, coordination between the MoF and MRRD has always been weak. Difference of opinion and a tussle of authority have aggravated the gap between these two crucial ministries. Often, one could hear serious allegations accusing each other for the delay in transfer of funds. However, both the ministries have now formed a coordinating committee between them to minimize this error.

Coordination between the MRRD and the Oversight Consultant (OC) or Management Consultant, which used to be very weak, has been strengthened now by establishing the new management structure at the national level. It is also promising to see that MRRD has been involved with NSP planning for 1387. This will allow MRRD to gain more grounds in playing an active role in the implementation of NSP.

At the local level:

Better coordination between officials at provincial and district levels is also crucial for smoother

implementation of NSP. Many of the local officials other than those of MRRD, lack information on NSP and this prevents them from getting involved in a systematic manner. It is critical to start involving these officials in the implementation of NSP in order to strengthen the government structure in Afghanistan.

3.3.5.2 Lack of Human Resources and Capacities

One of the major reasons for the involvement of OC or Management consultant and other consultants in NSP management is the lack of adequate capacity within the MRRD. However, at times, implementation of NSP has been hampered by lack of adequate capacities within the OC as well. Inadequate staff strength and lack of technical knowledge at the OC cause enormous delays in approving and processing release of funds to CDCs and FPs. The gap in capacity could be seen at different levels:

- Gaps in quantity

High turnover of expatriate staff at the OC is a major concern. The PMUs have been heavily understaffed with very less technical personnel. Only two engineers are appointed at the PMU level to oversee 14 districts covering over thousand projects. It is inappropriate to expect these engineers to physically verify and approve project proposals submitted by the CDCs within the stipulated time. This causes undue delays in project sanctions and release of instalments for sub-projects.

The MRRD is heavily understaffed both at the national and provincial levels. Certain necessary procedures to release funds that go through the MRRD take undue time because of under staffing. In order to sustain the present Afghanistan development paradigm, it is highly important to strengthen the capacities of the line ministries with

more qualified staff and competitive salaries.

The Facilitating Partners face huge shortcomings in implementing the NSP. Some of them do not have the capacity to implement programmes like NSP. Many of the FPs are grossly understaffed on technical personnel. This under staffing can be attributed to the budget and human resource ceiling put up by MRRD and World Bank. Due to under staffing and lack of implementing capacities, the FPs find it difficult to adhere the reporting deadlines. This eventually causes delays in flow of funds to CDCs and receiving their own contract funds.

- Gaps in quality

CDCs / communities, the ultimate beneficiaries of the NSP have their own shortcomings while contributing to the programme. Most of the CDCs lack knowledge and capacity to implement the sub projects. Complete dependence on FPs is a serious concern in the view of future plans for CDCs. CDCs offer an enormous potential to form effective local governance system in Afghanistan going beyond implementing subprojects. More

focus on CDCs knowledge and capacity building under NSP should increase to speed up the process of formalizing new local governance system in Afghanistan.

4. Conclusions and Recommendations

4.1 Conclusions

The overall macroeconomic scenario in Afghanistan promises a huge potential for sustained growth over the next decade or so. While acknowledging the potential, a careful observation at the state of public finance in Afghanistan reveals a lot of impending threats to sustaining the growth and development.

- Heavy dependence on external financing for most of the public expenditure, including the running cost of the government needs urgent attention.
- Raising domestic revenue must be done with utmost priority.

It is important to maintain or even raise the volume of international assistance to Afghanistan reconstruction and development process. However, the current magnitude of external donor budgets should be checked immediately. This will increase the credibility of the government by being accountable to its constituencies on the most crucial tool of the State - revenue and expenditures.

There is lot of work that needs to be done at the national and regional levels to make the budget central to governance in Afghanistan. At present, the budgetary process lacks strategic outlook or objectiveness, and is not representative of the needs of the people. The lack of a comprehensive, realistic and people-driven budget has been resulting in (i) a huge gap in planned and real budget available for state management and development; (ii) high inflation; and (iii) macroeconomic instability. All of these lead to a further dependence on external assistance that most of the time comes as loans and with conditionalities. As the inflation levels increase, it will have adverse effect on the poor and the marginalised that have no alternate covers. Hence, the need to increase public expenditure through

the government and a comprehensive national budget is crucial to reassure the stability and future of the community.

It is time for donors, who have committed to the peace building and reconstruction of Afghanistan, to translate rhetoric into actions! The current lack of coordination and accountability mechanism amongst donors and/or between donors and government of Afghanistan has resulted in delay and ineffectiveness of the NSP which is considered as the most important initiative to support building of local governance in Afghanistan. It is time for donors to sit together and start giving the stake to the Afghanistan Government and assisting to build the trust, capacity and model which will ensure the sustainability and ownership of the Afghan government and people in their own development agenda.

The poor state of public finance in Afghanistan is reflected in implementation of various developmental programmes like NSP. While, NSP do have some specific implementing issues, the majority of the problems faced by the programme are a clear reflection of the overall macroeconomic situation. Giving special attention to NSP at the national level cannot be overstated considering the possible roles the CDCs can play in nurturing democratic governance in Afghanistan. But this needs more clarity and consensus among the stakeholders.

The current development paradigm has long undermined the role of new parliament. One should keep in mind that members of the parliament are people's representatives in Afghanistan. Uninvolvement of the parliament and its members at this crucial stage of national building will damage the credibility and principles of participatory democracy. Parliament should be entrusted with more proactive roles in successful nation building.

Through NSP in particular and other functions and programmes of the State should be designed for the people and by the people of Afghanistan. During the designing, budgeting, managing and monitoring of NSP, the role and participation of the beneficiaries and owners in all of those processes have been very limited. There are rooms for a meaningful participation of the people in their own development processes. If we could make it happen, the National Solidarity Programme will be successful and sustainable.

4.2 Recommendations

4.2.1 International Assistance to Afghanistan

Increase government's control over the external budgets to ensure accountability and transparency:

1. Immediate measures should be taken to control external budgets. Presently, the external budget constitutes about three fourths of total aid. More of the external budget funds should be routed through government channel. A cohesive action plan is needed to compel the donors to be accountable of their expenditure in Afghanistan.
2. Huge gap of disbursements against commitments by donors is a major hindrance for development in Afghanistan. Donors should play a more proactive role in committing realistically. Often huge commitments are made for political gains.
3. The donors should play more honest and proactive role with regard to their contributions to NSP and other programmes. False donor pledges / commitments have larger implications on the implementation and have the potential to diminish hope of the community.
4. Donors should adhere to transparency and accountability measures for themselves. Spending outside of the government

channels help donors escape accountability.

5. Donors should be sensitive to provide more funding for the development budget.
6. With regard to ARTF, World Bank along with the government of Afghanistan should play a more significant role to ensure funds disbursement by donors of their commitment. Considering the presence of World Bank all over the world, this will be a huge contribution to all developing countries.

4.2.2 Afghanistan Budgets

Reforming the structure of domestic production, trade and tax to generate more resources:

7. Tax administration is very weak in Afghanistan. A modern tax administration system should be put in place with extensive focus on better tax compliance and target based resource mobilization.
8. The domestic trade and production is largely informal. Formalizing internal trade and production will ensure more revenue.
9. Large portion of the domestic revenue comes from import duties and foreign remittances. Absence of wide tax base has limited scope to increasing domestic revenue. Tax base should be widened to raise more resources internally.

Priority for development budget:

10. Given the overwhelming need for community asset building and development, development budget excluding security should be prioritized for spending. Allocations for development budget should be enhanced in the forthcoming budget.
11. The government should ensure funds to cover the entire development budget requirement. The current shortfall of 31 per cent will accumulate a huge backlog of

development needs in Afghanistan. To achieve this, an effective donor advocacy strategy should be drawn with institutional support.

12. Pledges and written commitments (contracted) should be calculated separately for all the programmes to have more realistic funding projections.

Priority allocation for agriculture and social protection:

13. Declining allocations for agriculture is an alarming call for urgent attention. There should be more focused funding for agricultural marketing and support systems. This is crucial more for elimination of illegal poppy cultivation.
14. Allocations for social protection need to be enhanced. Increasing the allocations for social protection is essential to cover the needs of poor and marginalised.

Management of resources for development:

15. Execution of development budget should be prioritized. This would include realistic estimation and improvised implementation across sectors.
16. A more systematic and practical budgeting process should be adopted. Budget reforms should be introduced to strengthen public service delivery.
17. The allocations for MRRD should be increased. The current shortfall of 21 per cent against the requirement will hamper faster growth.

4.2.3 National Solidarity Programme

Immediate concrete actions to improve the quality and effectiveness of the NSP

18. NSP is the most effective national

programme; hence the government should ensure uninterrupted implementation. This is crucial considering the future of local governance system in Afghanistan.

19. Shortage of funding has been a long standing issue of concern with NSP implementation. The government and MRRD should adopt a strong assessment mechanism to avoid funding crisis. Regular donor briefings are required. It would be worthwhile to have a dedicated fund raising department within the MRRD to raise resources for the important national programme.
20. The government, MRRD and donors should work out a detailed fund utilization mechanism to minimize delays in fund transfers. It is very important to have strong safeguards at the approval stages to minimize the delay in getting approval which eventually delay cash flow. The same mechanism should be adopted at each stage of implementation BGF, FP costs and others.
21. Government, line ministries, donors and other stakeholders should come into common definitions for financial terms. This will bring in more clarity and help avoid misconceptions.
22. Special provisions should be made within the Afghanistan Financial Management Act to allow additional funding for certain important programmes between budget approval and mid-year review. This will help important programmes like NSP, eliminating fund shortages. Special committees within the parliament and MoF can be assigned with this responsibility.
23. More systematic and realistic need assessment and planning are needed at all stages of implementation. NSP should have more rigorous planning and budgeting process in place. More focus should be given to realistic need assessment. Eventually, NSP should have

detailed provincial and region-wise budgeting system. This will also help in strengthening the weak provincial governance system.

24. While administrative costs are needed to cover operating costs of the Government and its programmes, special focus should be given to programme costs which have direct correlation to asset and knowledge creation.
25. Utilization of programme costs should be prioritized to meet growing demand of NSP. At present, the utilization rate for programme costs is way below utilization rate of administrative costs.
26. The current projected funding shortfall for NSP for the forthcoming year (1387) is a whopping 87 per cent of the required funds. The MRRD and NSP should take up immediate measures to draw more funding for the programme. Otherwise, ongoing implementation of the subprojects under NSP will suffer immensely.
27. There is an urgent need to strengthen the monitoring and evaluation mechanism under NSP. A systematic large scale capacity building exercise on NSP financial procedures and management practices should be undertaken at each level of implementation involving all the stakeholders to minimize process delays.
28. A strong coordination between the MRRD and MoF is the need of the hour. This will eventually help attracting more funds and minimize delays in fund transfers.
29. The current centralized Management Information System (MIS) should be strengthened and MIS should be taken to provincial levels to allow constant monitoring. This will help identifying the gaps more easy without incurring additional expenditure.
30. NSP should carry out a massive

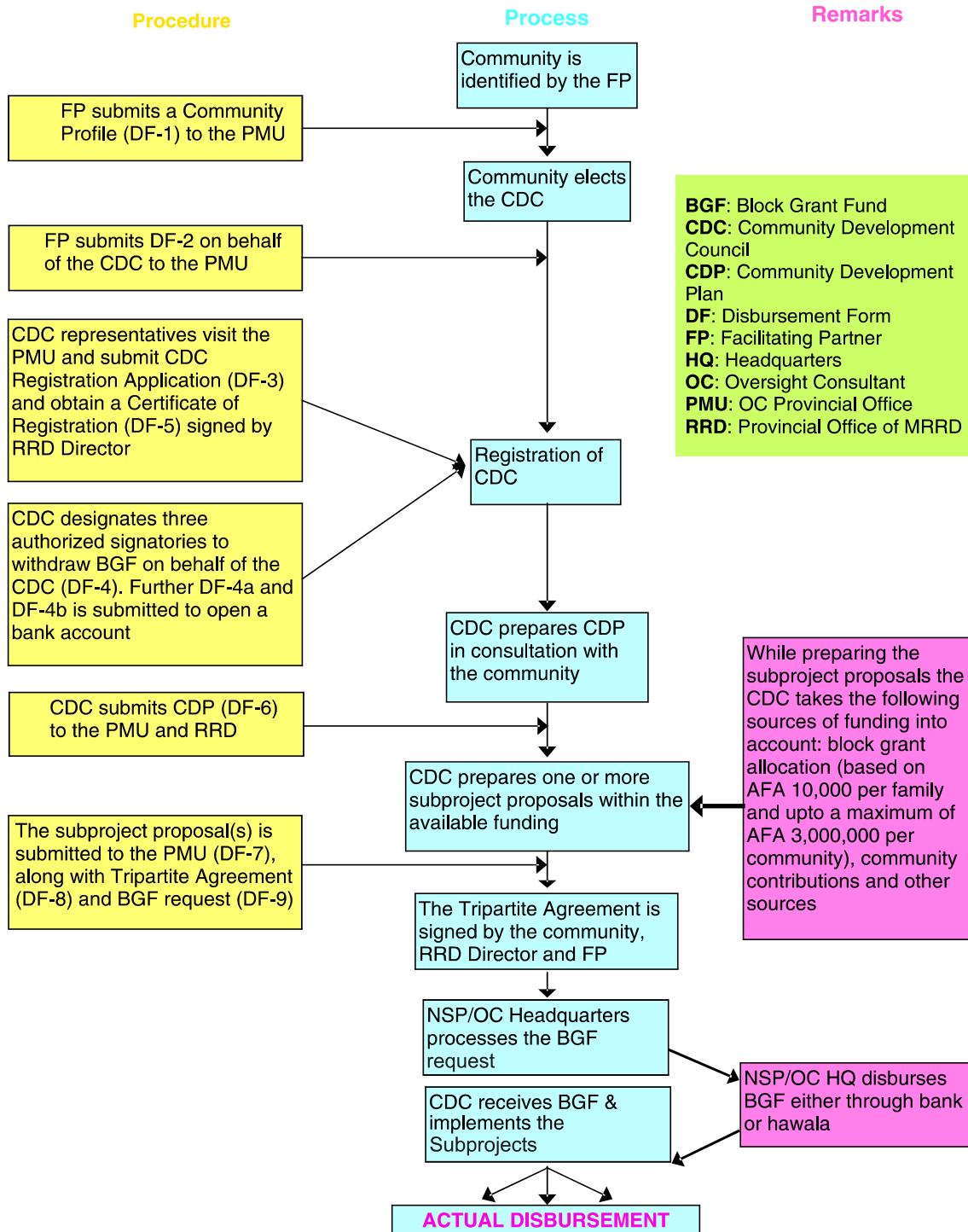
awareness building campaign both at the international and national levels. This will increase visibility and attract more funds.

31. Active involvement of MRRD in planning and budgeting of NSP is crucial for CDC sustainability and promoting rural development at large.
32. While contracting FPs, more weightage should be given on implementing capabilities and previous implementation experience.
33. Capacity building for staff in MRRD at national and provincial level.
34. Capacity building of CDCs on a number of operational and financial issues.
35. Sustainability of CDCs is a key concern. Decision making bodies should expedite the consultative process to arrive at constructive action plan on future of CDCs sooner.
36. Finally, greater involvement of the elected representatives (both at the national and local levels) in policy design and implementation should be given thrust. At this stage of development, genuine participation of people's representatives is crucial to sustain democratic governance in Afghanistan.

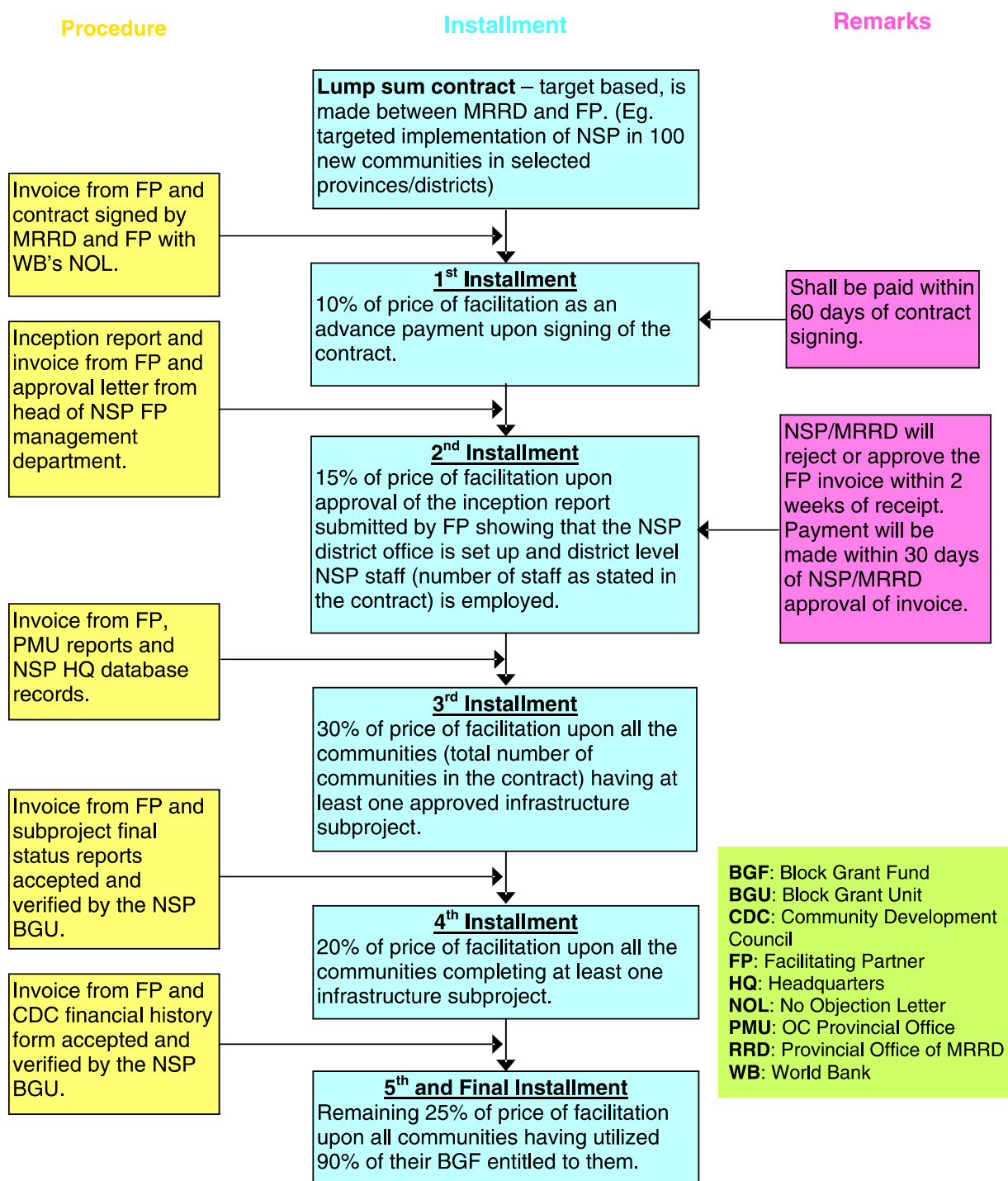
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ANNEXURE-1: Process for Receiving Block Grant



ANNEXURE-2: Fund Flow Process of Facilitating Partners



ANNEXURE-3: List of People interviewed

Group	Organisation	Person Met	Date
Donor	DFID	Ms. Alice Mann, Livelihoods Programme Manager, DFID Afghanistan Mr. M. Sabir Nasiry, Programme Officer, DFID Afghanistan	26 September 2007
	World Bank	Mr. Kenneth O. Okpara, Senior Financial Management Specialist, South Asia Ms. Anna Cestari, Engineer, Sustainable Development, South Asia	7 October 2007
Government	Aid Coordination Unit, Ministry of Finance	Mr. Farid Tanai, Aid Coordination Officer	25 September 2007
	Budget Department, MRRD	Mr. Rafiq Rahimi Deputy Director of finance	24 September 2007
	MRRD	Mr. Wais Ahmad Barmak, Executive Director, NSP	29 September 2007
	MRRD	Mr. William Middlemiss, Head, Financial Management, NSP	30 September 2007
National Assembly	Budget and Finance Committee	Mr. Bedar Zazi, Head of the Committee	23 September 2007
	Budget and Finance Committee, Upper House	Mr. M. Akbar Wahdat, Head of the Committee	22 September 2007
	Budget and Finance Committee	Mr. Mohammad Yaqoub	22 September 2007

Facilitating Partner	UN-Habitat, Parwan	Mr. Mirwaisuddin Saifi, Provincial Manager	8 October 2007
	AAIA	Mr. Humayun Ayubi, NSP Manager	23 September 2007
	AAIA, Kabul NSP Office	Eng Shafiq, Engineers and Social Organizers	24 September 2007
	DACAAR	Ms. Chrissie Hirst, Chief of Policy and Advocacy Mr. Abdul Sattar Safi, NSP Manager	27 September 2007
	ADA	Mr. Abdul Malik Rahmani, NSP Manager	27 September 2007
	SDO	Dr. Ziaullah Shafiq	27 September 2007
CDC & Community	SDO	Khvajawajood CDC	27 September 2007
	UN Habitat	Qalaboland CDC	8 October 2007
	UN Habitat	Qoraghchi CDC	8 October 2007
	ADA – Zabul province	Haji M. Ayaz, CDC	9 October 2007
	ADA – Zabul province	Damsala, CDC	9 October 2007
	ADA – Zabul province	Nawi Keli, DCD	9 October 2007
ELBAG	Group members		19 September 2007
	Group members		3 October 2007

ANNEXURE-4: NSP Budget Analysis Framework

Key Objectives of NSP Budget Analysis

1. Mapping of Actors involved in NSP
Institutions
 - a. Donors (External)
 - b. Nodal Implementing Agency (MRRD)
 - c. On the ground Implementers (OC, FPs)
 - d. Planning (FPs, CDCs)
 - e. Auditing and Evaluation
 - f. Community Participation (CDCs)
 2. Mapping of Fund-flow and Fund-utilization Processes
3. Obstacles in Fund Management under NSP
4. Accountability of Main Actors involved

Budget Analysis Framework

STEP-I: Mapping of Institutional Actors in NSP

Identify

1. Actors providing funds (Donors) {& conditionalities imposed (if any)}
2. Nodal Agency from Government of Afghanistan (MRRD)
3. Implementing Agencies at the National Level
4. Implementing Agencies at the Provincial Level
5. Implementing Agencies at the Community/Village Level
6. Actors undertaking Planning & Need Assessment at different levels (National, Provincial & Community/Village) which actors prepare the Plan for NSP
7. Actors undertaking Evaluation (if any) & Audit of Accounts (if any)

STEP-II: Mapping the Process of Planning/Need Assessment

Is bottom-up planning taking place?

1. Process of need assessment at the community level
2. Process for each Province
3. Preparation of overall national plan under NSP

Q1. Does the national level agency know diverse needs of different Provinces? (Overall NSP Budget)

Q2. Does the Provincial level implementing agency know diverse needs of the different communities? (Provincial Budget of NSP)

Q3. Does the CDC know the diverse needs of different sectors? (like health, education, water sanitation, roads etc.)

4. How are the Unit Costs of service provision arrived at? (rigid norms & guidelines)
5. Participation of women in Planning whether the needs of the women taken into account?

-
6. Assessment of the Norms and Guidelines rigid? or flexible enough?
 - a. Do the Norms and Guidelines under NSP provide enough scope to implementing agencies for accommodating local needs?

STEP-III: Mapping of Procedures of Fund Flow & Fund Utilization

1. The flow chart for Fund Flow (delay in flow of funds)
Donor MoF MRRD CDC
 - a. Installments (time period)
 - b. Utilization Certificates
 - c. Multiple Permissions/authorizations
 - d. Electronic Transfer
2. Delay in disbursement by the final implementing agency in the Community (delay in actual disbursement)
 - a. Availability of land or any such necessary component
 - b. Natural calamity/emergency
 - c. Elections of CDCs
 - d. Awareness of Norms and Guidelines
 - e. Capacity of the CDC/implementing agency
3. NSP Interventions
Recurring Vs Non-Recurring
 - a. Is the delay affecting mainly recurring interventions?

STEP-IV: Obstacles in Fund Management

1. Weakness in need assessment/planning
2. Rigid Norms and Guidelines
3. Low capacity/awareness of implementers
4. Delay in flow of funds
5. Delay in actual disbursement of funds

STEP-V: Accountability of Main Actors involved in NSP

1. Auditing of accounts and action taken (if any) on Audit Reports
2. Programme Evaluation
 - a. Objectives of the NSP
 - b. Beneficiaries
 - c. Outcome Assessment?
3. Accessibility of information generated above under 1 & 2 to the People (Transparency)
4. Scope for taking actions against agencies found lacking in their work (Incentives & Disincentives)
5. Legislative interventions in NSP
 - a. National Level
 - b. Provincial Level
 - c. Community Level

ANNEXURE 5: Schedule for CDC Information

Date:

Information Collected by:

Name of the Community:

Province:

Attach the Community Profile and Community Development Plan (CDP) with this schedule.

1. When was the CDC formed?
2. Did you face any difficulty in forming the CDC or bringing the community together for NSP? If yes, please state details.
3. When did the elections take place?
4. Did the community face problems in conducting free and fair elections? If no, please state details.
5. Does the community have separate sub-committee for women? If yes or no, please state details.
6. Does the CDC have women members? If yes, how many? If no, why?
7. Is the community/CDC is happy with the procedures that they have to follow under the NSP? If no, please state details.
8. How much time did it take to develop the CDP after forming the CDC ?
9. Did the community apart from the CDC members take active part in planning?
10. When did the community finalize the CDP in a community meeting – getting the acceptance/approval of the community on CDP (the date should be different from the CDP submission date to PMU)?
11. When did you submit the CDP to PMU and when did you get the approval (both dates – date of submission and date of approval)?
12. Did the Community join together with other communities for a subproject? If yes, give details of the subproject and reasons for why did they choose to join together with other communities?
13. What is the size of total CDP?
14. Is the maximum limit of 200 USD per household and AFA 300,000 per community under the NSP adequate to fulfill the immediate needs of your community? Please state details.
15. Please give details of each of the projects/programmes planned by the community as stated in the CDP – nature of the project and why the community needs such project.
16. Please state the following details project wise for above mentioned projects.

No	Name of the Project	Type of the Project (Infrastructure - IS / Human Capital Development - HDC)	Date of Submission of Project Proposal to PMU– all the necessary forms	Date of Approval by the PMU/OC	Date of Receipt of Funds in the CDC Bank Account / Hawala	If the community is yet to receive funds, please state reasons for delay.
1						
2						
3						
4						
5						

17. Is the community able to append the received funds without delays? If no, please state details (non-availability of land, no technical assistance, procurement, construction materials etc.).

18. Actual delay in disbursement. Please provide the following information project wise.

No	Name of the Project	Date of receipt of funds	Total approved budget	Total amount received so far	Total expenditure so far	Reasons for low utilization
1						
2						
3						
4						
5						
6						
7						

19. Please provide the following information project wise.

a. Detailed budget of each of the projects – component wise (labour, materials, overheads etc.)

No	Name of the Project	Total approved budget	Labour	Materials	Others-1 (write the component name)	Others-2 (write the component name)
1						
2						
3						
4						
5						
6						
7						

b. Detail expenditure of each project – component wise (labour, material, overheads etc.)

No	Name of the Project	Total approved budget	Labour	Materials	Others-1 (write the component name)	Others-2 (write the component name)
1						
2						
3						
4						
5						
6						
7						

20. What problems does the community face while implementing the above mentioned projects (anything that they may find causing delay or other problems)?

21. Does the community find NSP really useful for them? What changes should be made within NSP to make it much more effective and community friendly?

22. Any other comments.

ANNEXURE-6: Regionwise allocations for NSP in 1386

Regionwise Allocations for NSP in 1386

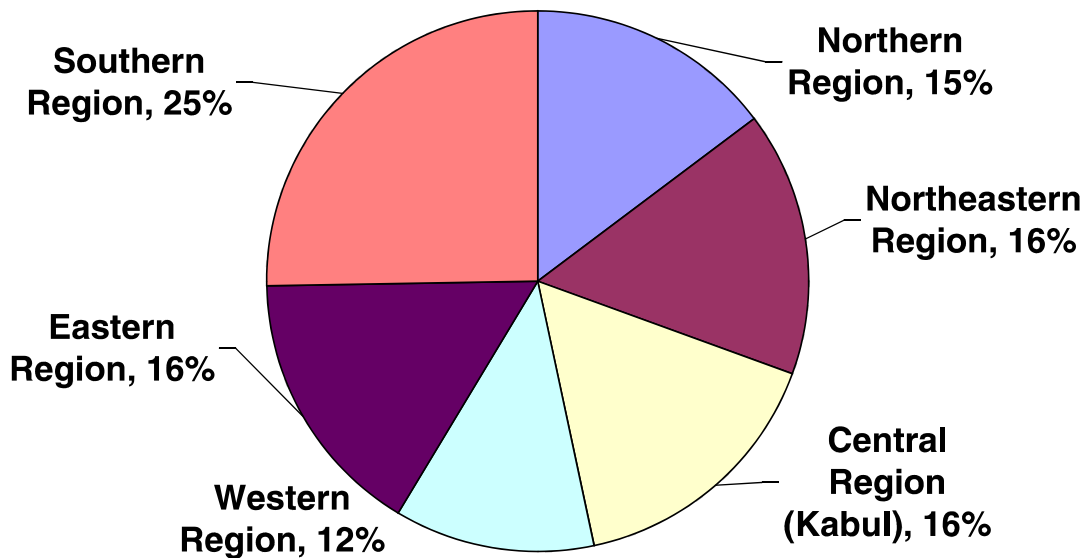


Chart Source: Budget Department-Aid Coordination Unit, MoF, Govt. of Afghanistan

Table: Region wise Allocations for NSP (Figures in million US\$)

Province	1386	1385	Change in %*
Northern Region	30.12	32.55	-7.5
Balkh	7.01	9.06	-22.6
Faryab	7.76	4.77	62.7
Jawzjan	5.09	6.83	-25.5
Samangan	4.73	4.87	-2.9
Sari Pul	5.53	7.02	-21.2
Northeastern Region	32.07	30.53	5.0
Badakhshan	10.99	10.55	4.2
Baghlan	7.23	8.52	-15.1
Kunduz	6.35	6.9	-8.0
Takhar	7.5	4.56	64.5
Central Region (Kabul)	32.74	211.89	-84.5
Bamyan	5.51	7.88	-30.1
Kabul	6	35.64	-83.2
Kapisa	3.31	8.23	-59.8
Logar	3.7	138.31	-97.3
Panjsher	3.78	5.01	-24.6
Parwan	4.65	7.98	-41.7
Wardak	5.79	8.84	-34.5
Western Region	24.39	27.77	-12.2
Badghis	5.25	7.32	-28.3
Farah	4.28	5.86	-27.0
Ghor	7.21	7.92	-9.0
Hirat	7.65	6.67	14.7
Eastern Region	33.22	17.16	93.6
Laghman	5.51	7.32	-24.7
Kunar	6.72	2.01	234.3
Nangarhar	15.5	6.08	154.9
Nuristan	5.49	1.75	213.7
Southern Region	51.47	45.49	13.1
Day Kundi	4.84	3.44	40.7
Ghazni	6.15	7.28	-15.5
Hilmand	4.59	5.54	-17.1
Kandhar	4.56	7.04	-35.2
Khost	6.66	7.41	-10.1
Nimroz	3.88	2.37	63.7
Paktika	6.11	4.73	29.2
Paktya	6.41	5.89	8.8
Uruzgan	4	0.57	601.8
Zabul	4.27	1.22	250.0
Total	204.01	365.39	-44.2

Table Source: Budget Department-Aid Coordination Unit, MoF, Govt. of Afghanistan

Note for Table: *- indicated negative growth over the previous year

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