

Afghanistan: Supporting State-building and Development

Afghanistan has made important progress since the Bonn Agreement in 2001 when representatives of various Afghan factions met in Germany to map out their people's future. However, the insurgency continues to spread into previously stable areas and security conditions have deteriorated in much of the country. Insurgents are using more sophisticated asymmetric attacks, and the opium economy—with its attendant violence and corruptive influences—remains pervasive. Governance and administrative capacity weaknesses remain and the rule of law has yet to be widely institutionalized. The prevalence of corruption, either through patronage or criminal activities, and the perception of a rising culture of impunity have weakened the legitimacy of the government in the eyes of the population. The results of significant amounts of government and international aid have generally fallen short of popular expectations. Assistance to Afghanistan remains fragmented with two-thirds of the resources entering the country flowing outside the government's budget.

Country Indicators	2002	2008
GDP excluding opium (billions US\$)	2.5	10.1
GDP per capita (US\$)	123	370 (2007)
Tax revenue/GDP (%)	3.2	11.1 (2007)
Children enrolled in grades 1–12 (millions)	3.1	6.1
Under 5 mortality rate (per 1,000 live births)	240	191
Fixed line and mobile telephones	90,000	8 million
Population (millions)	16 (1979)	27.1

Sources: 1979 Census, World Bank, government and project data

At the same time, Afghanistan has made remarkable progress in many areas. Important development results have been achieved in areas such as health, education, microfinance, irrigation and rural livelihoods, as well as in sound macroeconomic management and progressive improvements in public financial management. The results achieved to date reflect the massive support of the international community to help rebuild Afghanistan, the efforts and ingenuity of many enterprising Afghans who continue to deliver services in challenging circumstances, and the impact of strong leadership in key areas.

Since April 2002, the International Development Association (IDA), the World Bank's fund for the world's poorest countries, has channeled just under US\$1.89 billion for 41 reconstruction projects in Afghanistan, including three budget support operations. The World Bank also administers two trust funds: the Afghanistan Reconstruction Trust Fund (ARTF) which has become an increasingly important contributor to the government's recurrent and investment budget, and the Afghanistan window of the Japan Social Development Fund.



COUNTRY ACHIEVEMENTS

After two decades of conflict, the beginning of a political process in 2001 presented Afghanistan with a major opportunity for political stability and economic recovery.

A country in ruins

In late 2001, at the fall of the Taliban, Afghanistan faced a daunting set of challenges. Over a million Afghans (mostly civilians) had been killed in two-decades of fighting. Severe drought (which continued through 2003) cut cereal grain production by half and decimated livestock herds. Agricultural land had been rendered useless by mines. Roads, bridges, power lines had been laid waste. The risk of famine was real. Towards 6 million people had taken refuge in neighboring countries, including much of Afghanistan's educated elites.

The Afghan state had become non-functional in terms of policy-making and service deliv-

ery, although the structures and many staff remained. When the Afghan Interim Authority assumed power in 2001, parts of the country were still ruled by armed factions. There were still multiple issuers of currency, and hyperinflation had destroyed the value of the currency. Internal and external telecommunications were virtually non-existent.

The collapse of the state largely excluded the poor from access to services. Moreover, the poor tended to be disproportionately affected by insecurity and the loss of male heads of families. Numerous people were suffering (and still are) from poor nutrition, loss of assets and, disabilities (for example, from land-mine accidents).

The Taliban ban on opium poppy cultivation, imposed in 2000, did not much affect trade in opium (which drew on existing inventories), but was devastating to the livelihoods of rural wage laborers and poor farmers, many of which were heavily in debt to opium traders.

On the other hand, the fabric of families, kinship groups, and other pillars of traditional society had held together well, despite the penetration of the deleterious “warlord” and “commander” culture.

In sum, Afghanistan was essentially left out of the last 25 years of global development, with virtually no increase in income per capita during this period and average life expectancy of only 43 years.

The return of a legitimate government has delivered welcome change.

Political normalization proceeds apace. Afghanistan’s first constitution in three decades was ratified in January 2004. For the first time in history, presidential elections were held in the fall and a new cabinet was formed at the end of 2004. The National Assembly, with female representation of 28 percent, has now performed its mandated functions successfully for three and a half years since December 2005. The second Presidential and provincial council elections in Afghan history were held in August 2009 and parliamentary elections will follow in 2010.

Despite deteriorating security conditions, Afghanistan’s economy has grown strongly over the past six years, at around 12 percent per year. Average per-capita GDP nearly doubled since 2002, albeit starting from a very low base. Recent fluctuations in GDP growth rates demonstrate this fragility. In 2008/09 real GDP growth, excluding opium, declined to 3.4 percent from 11.5 percent in 2007/08, due to lower agricultural production as a result of drought.

The government is maintaining a stable macroeconomic framework: Monetary policy has been restrained, supported by the adherence

to strong fiscal discipline and a “no overdraft” rule that prohibits Central Bank financing of the deficit. Inflation has been moderate, the exchange rate has been stable and prudent fiscal and monetary policies have contributed to overall macroeconomic stability. The country, by and large, maintains a market-oriented, pro-private sector policy stance, and its trade regime is one of the most liberal in the region.

Nevertheless, Afghanistan remains a poor country facing complex and interlocking challenges.

Social development is low.

Afghanistan still ranks very poorly on all social indicators. Life expectancy in Afghanistan, 44.5 years at birth, is at least 20 years lower than in neighboring countries. In Afghanistan in 2006, almost one out of five children died before the age of five in rural areas (191 per 1,000 live births), much higher than the South Asia regional average (83 per 1,000 live births) or even that of sub-Saharan Africa (157 per 1,000 live births). Under a quarter of the population has access to an improved water source and only 12 percent have access to improved sanitation facilities.

Poverty and lack of human development in Afghanistan are compounded by vast gender disparities. The literacy rate of women is only half that of men, 19 percent versus 40 percent. Improving overall education, particularly for women, is a priority.

Capacity in the public sector remains weak.

The government remains highly dependent on international military and financial support. The June 2008 Paris Conference in Support

of Afghanistan, where the governments and representatives from over 60 countries pledged approximately US\$21 billion to the Afghanistan National Development Strategy (ANDS) for 2008-13, as well as the more recent conferences of the Hague and NATO allies, bear testimony to the recognition by the international community of the enormous and ongoing needs of the country and its overall strategic importance. The modality of delivery of this very high level of assistance is critically important to building capacity and legitimacy. Significant routing of assistance outside the government fails to strengthen the role of the state or assure public monitoring and accountability.

In addition, the government finds itself in competition with a “second civil service” that has emerged from the massive assistance effort consisting of non-governmental organizations (NGOs), consultants, advisors, and employees of United Nations and other international and bilateral agencies, including expatriate consultants and Afghans attracted by relatively high salaries.

These parallel structures have stolen some of the best talent from the government. More fundamentally, parallel structures mean that Afghans cannot hold their own elected government to account for the delivery of services, and perpetuate aid dependency.

Narcotics remain a challenge.

Opium poppy cultivation, insecurity, and poor economic conditions are strongly interlinked: 98 percent of the country’s opium is now grown in seven southern and south-western provinces where insurgent and organized crime groups are particularly active. These environments are also characterized by a lack of other livelihood options for rural

communities, making opium poppy a low-risk crop in a high-risk environment. Poppy reduction strategies by the government and international community face a very challenging task overcoming these realities. Reducing the country’s economic dependence upon opium is essential to contain and reduce the threat from the drug industry to the country’s state building and governance agenda, but will take time if it is not to damage the economy and increase poverty.

Insecurity is on the rise.

Security conditions remain paramount for both Afghans and the international community, and insecurity continues to frustrate efforts to restore livelihoods and engage in reconstruction. Over the past year, security has deteriorated in much of the country. While the Taliban insurgency receives significant media attention and is the dominant security challenge, the causes of violence and insecurity within the country are multi-faceted (criminal activities are thought to be driven by the increasing influence of local warlords, drug barons, and illegal armed groups).

State security forces are not yet able to perform their functions adequately. The Afghan National Army (ANA) has grown steadily since 2001 and is now a credible, albeit small, fighting force, but the Afghan National Police (ANP) has had a slower and less successful evolution, hampered by weak leadership, slow operational reforms, poor equipment and ineffective international support in earlier years.

To overcome these challenges Afghanistan and its partners must ground their approach in a well-thought out strategy, taking into account the political, regional and social context of development in Afghanistan.

IDA CONTRIBUTIONS

After more than 20 years of disengagement, IDA is playing a key role in supporting the Afghan people through a fragile transition to rebuild their state.

IDA's strategy has been to develop a flexible program centered around three key components: (i) building the capacity of the state and its accountability to its citizens; (ii) promoting growth of the rural economy and improving rural livelihoods; and (iii) supporting growth of the private sector. IDA continues to utilize its knowledge and experience to support government and other stakeholders in coming to consensus on strategies for addressing the country's long-term development challenges and opportunities, including the scope for greater regional cooperation.

Supporting State building.

From early 2001 IDA's program in Afghanistan has supported activities that strengthen and build capacity in core state functions, bolstering the national strategy to rebuild an effective and accountable administration.

At the heart of this effort is the support provided to fiduciary and public expenditure management functions, without which the Afghan state would not be able to mobilize the finances that keep government running and able to coordinate investments in key economic infrastructure.

Public administration reform is also supported more broadly through IDA's institution building development policy grants. IDA is implementing a multi-faceted approach to public administration reform. For example, IDA has

engaged with the Independent Administrative Reform and Civil Service Commission on a broad range of reforms aimed at improving the civil service management. Early in the reconstruction period, the Afghanistan Expatriate Project financed a critical number of advisory and civil service positions with support from the ARTF. This project aimed to increase the contribution of professional Afghans living abroad in the reconstruction of Afghanistan by enhancing public sector policy and institutional capacity and helping close the skills gap in information technology, engineering, and teaching. Local Afghans gained opportunities for on-the-job training to enhance their technical skills. Since September 2004, around 92 Afghan experts have been placed in government ministries and agencies.

Backing national priority programs.

IDA has put much of its support behind Afghanistan's national programs. The goal of these national programs is to unite the government, donors, the private sector, NGOs, and civil society around national policies defined by the government as opposed to a variety of ad-hoc projects with little accountability.

An early IDA post-conflict grant for community empowerment and public works played a key role in pioneering the approach used in the two programs generally acknowledged to have been among the most successful: the National Solidarity Program and the National Emergency Employment Program. Resources channeled to successful national programs have had a particularly strong impact, reaching across the country and improving the day-to-day life of millions of Afghans. These programs increasingly attract multi-donor co-financing.

Improving livelihoods through the expansion of rural services for the poor.

IDA has made improving livelihoods for the poor a central pillar of its strategy, providing access, employment and services to the most remote and vulnerable communities.

In a country like Afghanistan, where a lack of both physical and institutional infrastructure compounds the geographic difficulties of reaching remote communities, delivering on good intentions is no small feat.

IDA has developed a pragmatic strategy that builds on capacities on the ground—in the private sector, in NGOs and in communities themselves—to deliver or coordinate services while also gradually building up the capacity of local level and national government agencies.

IDA has also analyzed poverty and the provision of social protection, drawing on the results of a multi-donor national risk and vulnerability assessment carried out in 2005, to underpin policy reforms.

Leveraging IDA's convening power and knowledge to coordinate assistance.

Afghanistan's public expenditures depend heavily on donor funding. However, assistance to Afghanistan remains fragmented with two-thirds of the resources entering the country flowing outside the Government's budget.

In line with the internationally-recognized Paris Principles, IDA has consistently advocated for greater donor alignment around the government's policies, priority programs and systems. The establishment, in early 2002, of the Afghanistan Reconstruction Trust Fund

(ARTF) to support recurrent costs of government and public investments by providing fiduciary and administrative oversight for multi-donor contributions was a significant step in the right direction. Signatories to the Afghanistan Compact in London, January 2006, also committed to increasing the share of core budget support.

Pooling Efforts and Resources

To date, 30 donors have pledged contributions of over US\$3 billion to the Afghanistan Reconstruction Trust Fund (ARTF). An independent evaluation carried out in 2008 found that the ARTF has played a vital role in supporting the Afghan government to bring development to people throughout the country and also to strengthen its management of public finances. The ARTF is also evolving into a multi-donor platform for focused policy dialogue with the government.

IDA has also used its analytical work to help garner support from the donor community for national programs. In particular, in June 2008, *Building an Effective State—Priorities for Public Administration Reform in Afghanistan* proposed a 12-point agenda for government and donors for public administration reform, reflecting the difficult environment of state building in Afghanistan.

IDA's strategy has started to yield results in a number of priority areas.

Despite the challenges described above, there is an impressive surge of development on the ground. IDA contributions to Afghanistan's reconstruction span many different sectors.

Public administration: The government has made some major gains, supported by IDA programs, in the areas of public administration reform and public financial management.

IDA financed the government's emergency measures for financial management, audit and procurement capacity through a series of emergency public administration programs. Complementing these investments, IDA's development policy grants have supported the government's reform agenda in these areas, through financial incentives, policy dialogue, and monitoring.

Despite pressures to increase expenditure from the population, parliament and donors, fiscal discipline has been strictly enforced and maintained, notably through control over the government wage bill. This has been the essential ingredient of macroeconomic stability. **Domestic revenues have increased substantially**, covering 67 percent of the government's operating expenditures in 2006-07, up from 38 percent in 2002/03. Major efforts have been made to improve the budget process, which has come a long way since the first post-Taliban budget in 2002/2003.

Budget execution has improved: most civil servants are now being paid—and paid on time. Finally, the government has made a strong commitment to financial transparency and accountability, with progress in the external audit and oversight by the new national assembly. There have also been institutional improvements and capacity development, especially in the Ministry of Finance, which IDA's new public administration reform work will seek to consolidate.

Rural development: IDA has supported national livelihoods programs through its investments in the National Solidarity Program (NSP), rural access and employment programs, and microfinance.

The NSP, which began originally as a component of a community empowerment and public works project, has become a massive effort to address the needs of rural communities across Afghanistan, reaching approximately **16 million people in all of the country's 34 provinces**, or 68 percent of the population. It has become one of the government's most visible and successful national programs and shored up its credibility across the country.

The program is delivering results to citizens who are empowered to make their own decisions about their development priorities. Village-level elected bodies, known as Community Development Councils (CDC) chose priority rural infrastructure sub-projects—such as water supply and sanitation, roads and bridges, irrigation and rural energy—which are then funded through block grants in a transparent manner. As of July 2009, 22,161 CDCs—in which women play a key role—have been elected, of which 21,912 have received block grants to fund 44,279 community sub-projects. A total of 28,845 sub-projects have been completed to date. Besides providing basic rural infrastructure, the program generates labor, boosts the local economy and strengthens local governance.

Since its inception in 2002, the National Emergency Employment Program (now known as the National Rural Access Program) has rehabilitated about **3,000 kilometers of rural roads** throughout rural areas in Afghanistan. It has also rehabilitated 15,000 hectares of land by improving irrigation and drainage. The program have generated 5.4 million days of short-term employment for impoverished rural men, effecting cash transfer of \$20-30 million for work carried out by them under the project.

Both the NSP and the roads program started as IDA-financed projects and now receive multi-donor co-financing through the ARTF.

In addition, an IDA emergency irrigation rehabilitation project since 2003 has helped rehabilitate **irrigation systems, benefiting over 600,000 households** in all 34 provinces of the country. The improved availability of irrigation water has helped boost yields of staple crops such as wheat, maize, and rice, as well as of onions, melons, and watermelons. The project has also made a substantial contribution to building capacity within Afghanistan's Ministry of Energy and Water through hands-on training, particularly in identifying, preparing, designing and implementing irrigation rehabilitation schemes.

Microfinance: First introduced in 2003, microfinance has spread remarkably fast to fill a huge gap in financial services created by the collapse of the banking sector. To date, the project, supported by IDA and the ARTF, has provided more than US\$172.5 million in funds, including US\$118.2 million in loans. There are now 16 microfinance institutions (MFIs), with a network of **286 branches in 26 provinces**, and more than 447,000 savings and loan clients. To date, the program has disbursed a total of 1.4 million loans across Afghanistan worth US\$619.8 million. As of April 2009, the gross loans outstanding were US\$104.2 million. Sixty percent of the clients are women, and the loan repayment rate is 95 percent. The sector now employs 4,539 people; approximately 1,710 of whom are women, and over 90 percent of professional positions and 50 percent of management positions in the sector are occupied by Afghans.

Health: The health status of Afghans, particularly women and children, remains among the

worst in the world. Until the end of 2003, the performance of the public health system was generally poor, with the exception of mass campaigns such as measles immunization and Vitamin A coverage. Since the beginning of 2004, service delivery has increased. NGOs contracted to the Ministry of Public Health to provide a basic package of health services deliver about 85 percent of these services.

Thanks to the combined support by both IDA and some bilateral donors to the Ministry of Public Health, now about **85 percent of the population has access to primary health care**. The share of women receiving prenatal care per year has increased from 5 percent in 2003 to 32 percent in 2006 (based on health management information system data). An independent assessment of quality of care shows a 40 percent increase in patient satisfaction, provider knowledge, quality of patient interaction and utilization by the poor.

Strikingly, NGOs have been able to maintain and even expand services in unstable areas. In Helmand, one of the more insecure provinces, the number of patients seen more than doubled in 2004-06, despite the assassination of four health workers and the destruction of 15 percent of health centers.

Education: The country has made impressive advances in increasing **basic education**. More than 11,000 schools are providing education services to 6.3 million children, representing **a six-fold enrollment growth** between 2002 and 2008. Thirty-five percent of the student population now comprises girls. Similarly, the number of teachers has increased seven-fold to 158,000 of whom nearly 46,000 are women, although 80 percent of these are in urban schools. To date, **over 1,700 schools**

have been constructed and education quality grants have been provided to some 5,000 schools to improve quality of education.

Private sector: The World Bank Group supported the provision of national infrastructure and services, critical for private sector development, and advisory support to establish the legislative and regulatory framework for private sector development, including the development of the country's valuable natural resources. International Finance Corporation's investments in increasing access to financial, telecommunication services, and hotel services, as well as advisory services in the financial sector (including small and medium enterprises) and business skills training have been an important part of this strategy.

IDA's assistance to the Ministry of Mines facilitated an international tender for the world-scale Aynak copper deposit, potentially an area of large revenue for the country but with significant governance challenges. (According to Integrity Watch Afghanistan, the investor selection process was broadly satisfactory.) However, the private sector is not well developed and export development has been modest. Dominant activities are agribusiness, construction, trading and transportation. Despite survey evidence that the private sector has grown strongly since 2005, industry remains small with less than 10 percent of households estimated to receive income from industrial activity.

Energy: The North East Power Transmission System to enable flow of power from Uzbekistan to Kabul became operational in January 2009. The additional 30-40 MW power has provided significant **improvement in power availability** to the residents of Kabul. Significant future volumes of lower cost electricity

imports from the Central Asian republics for Kabul and other major load centers is projected over this transmission system. IDA helped link this system to the Kabul transmission system by financing new lines and rehabilitating the North and Northwest substation in Kabul, as well as optical ground wire between Pul-e-Khumri and Kabul. IDA is also working with the government to improve the performance of the power utility—Da Afghanistan Breshna Mosessa (DABM); rehabilitate the largest hydropower station in Afghanistan and associated transmission lines; and improve Kabul's distribution system. However, given the very low access to electricity and major power infrastructure rehabilitation needed for Afghanistan, significant challenges still remain to be addressed. IDA is supporting the government to prepare a suitable plan.

Telecommunications: With IDA's contribution, a US\$16 million Government Communications Network (GCN) was launched in 2006 and is providing internet access and voice telecommunications services, including long distance and international services, to over 30,000 government employees in Kabul and Afghanistan's provinces. A new radio spectrum monitoring system, to ensure proper use of the radio spectrum in Afghanistan, is operational since 2007.

Afghanistan now has approximately 8 million fixed and mobile telecommunication subscribers. Consequently, telephone subscriptions are equivalent to about 32 percent of the population. Moreover, the mobile telephony market is quite competitive, with four GSM-based networks and one CDMA-based network operating across the country and covering an estimated 75 percent of the population. About US\$1.2 billion has been invested in the sector and is expected to reach US\$1.5

billion by 2010. Approximately 15 percent of government revenues accrue from the telecommunications sector.

Regional Cooperation: IDA will continue to seek opportunities to partner with important regional players such as Pakistan, India, China and other neighboring countries to identify and develop sectors in Afghanistan that would meet their growing domestic demand, e.g. in power, mining and transit. IDA through its ongoing engagement in trade and customs is helping with border management, customs and trade and transit treaties with Afghanistan and its neighbors, especially Pakistan, in partnership with other donors such as USAID, the European Commission and the Canadian government. In particular, IDA is leading technical work on the northwest sub-region trade facilitation project in liaison with the United Nations Assistance Mission in Afghanistan. IDA and the IFC (through its InfraVentures project) along with the Islamic Development Bank, and possibly other partners, could move forward with preparation of the Central Asia-South Asia (CASA) 1000 project, a proposed transmission system to export surplus electricity from Tajikistan and the Kyrgyz Republic to Pakistan via Afghanistan by the middle of 2010.

CHALLENGES AHEAD

Afghanistan's achievements in the last seven years have in many ways been impressive. Nevertheless, the fruits of economic development have often been distributed unevenly, the quality of public services remains weak, and public expectations raised by major donor meetings remain unfulfilled.

Such an environment places high demands on the government, which is already coping with the challenges of new democratic institutions.

The next three years under a new World Bank Group Interim Strategy Note (ISN 2009-2011) will be critical to consolidate and expand the economic development gains to date.

To achieve this, the government will need more *prioritization* of its efforts and donors more focus on *implementation* and improving the *effectiveness* of aid.

This means further improving the capacity of the government to design and oversee the implementation of development programs and urging donors to channel aid through the national budget in response to government efforts to strengthen its budget management and fiduciary controls.

IDA's role during this period—beyond the provision of its own resources—must be to continue to make the case for these principles, and to help the government effectively prioritize its own resources.

Needs remain great in Afghanistan.

The Afghanistan National Development Strategy (ANDS), completed in April 2008 and presented to the international community at the Paris Conference in Support of Afghanistan, is Afghanistan's poverty reduction strategy for the five-year period from 2008 to 2013. The ANDS builds on a series of earlier strategy documents, and on the commitments made by Afghanistan in the context of the 2006 Afghanistan Compact. The total resource requirement estimated to implement the ANDS is US\$50 billion over five years, of which more than US\$43 billion is projected as donor assistance. So far, approximately US\$21 billion has been pledged by donors toward supporting the ANDS.

Afghanistan can absorb and make effective use of considerable IDA sums. Poverty alleviation through rural access, microfinance, NGO-partnerships for health and community-driven development badly need to be brought to scale. On average Afghan projects are executed at twice the average World Bank rate. Furthermore, IDA is one of the few multiyear predictable sources of development finance available to Afghanistan, maintaining a constant share of the overall donor envelope to Afghanistan by committing around US\$200-300 million per year since 2003.

Progress on governance is crucial.

Additional capacity building for the government, in the core areas of public administration reform and financial management, will be critical to maintaining its credibility with citizens and donors. The public administration reform program launched in 2003 has so far yielded modest results and government plans to roll out a pay and grading reform for the top layers of the civil service in the near future will not be sufficient. The government needs to show strong political commitment towards the creation of an efficient and clean civil service. IDA's upcoming analytical and advisory work on public expenditures review in Afghanistan will support the government's efforts to better formulate and prioritize the national budget.

Fiscal sustainability remains a key challenge.

Revenue mobilization remains substantially lower than that of other low-income countries. Operating expenditures are towards the lower end of the normal range for low income countries (although development expenditures include substantial amounts of recurrent spending). Substantial progress has

been made in raising the proportion of operating costs paid by domestic revenues, and Afghanistan can now cover the government civilian payroll from its own revenues. The government is committed to progressively increasing revenues over the next several years with the objective of reaching over 8 percent of GDP by 2010, through its IDA-financed customs project.

IDA's experience in the challenging Afghan context yields several lessons.

Capacity building takes longer than most expect: It is not simply a matter of training individuals, although that is important. Institutions and systems take time to develop, normalize and acquire predictability. Part of the challenge is to understand the political context and political economy incentives in the public sector. Assumptions about existing capacity need to be continually exposed to update or revision in order to avoid missing program milestones or deadlines. This may involve clearly defining the difference between short-term gap-filling (as with buying-in capacity) and longer-term capacity building.

Economic development is only one of the interconnected challenges: Rebuilding Afghanistan is more than the reconstruction of infrastructure or reviving the legal economy; it is nothing less than rebuilding the state itself. The challenge for Afghanistan is to neutralize the power of militias and criminal elements which had locked Afghanistan into an informal, low-level equilibrium at the end of the wars. For any one agency, including IDA, to be effective in this environment, requires strong partnerships with the security, development and diplomatic actors.

Public financial management is central to state-building: A key lesson coming out of the Afghan program has been the importance of government ownership and credibility. How the government handles international finances will be carefully watched by the population—corruption perceptions can be damaging to a minister or a government’s reputation. Without credibility, international actors will not support recurrent costs of government and public investments will also bypass the national budget systems.

Program flexibility is important: In a country like Afghanistan there is a need for continual program review and intense supervision to ensure that restructuring can take place where necessary. Smaller pilots are advisable to begin with so that assumptions about capacity and the broader program environment can be internalized before scaling up. The World Bank’s country management unit for Afghanistan has initiated quarterly portfolio reviews with the Ministry of Finance and the line ministries. These have already

facilitated restructuring the (few) parts of IDA’s engagement that suffer from ineffective leadership and weak capacity resulting in slow disbursements, and a lack of results focus.

Be prepared to innovate: Innovation may be necessary to get around security constraints on project implementation. Task teams, together with the implementing agencies, have found ways to supervise and perform physical verification of progress in insecure areas. In areas where staff cannot travel, geo-referenced photographs, counter-signed by project staff and local communities/beneficiaries are being used to verify physical progress, along with third party monitoring. The National Emergency Employment Program has adjusted its delivery mechanism in insecure areas, shifting to community-based contracts. On the supervision side, it uses local district engineers, who have access to unsafe areas.

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