

High-Risk, Post-Conflict Engagement—FM Work in Afghanistan

When countries emerge from conflict, they rarely transition smoothly to a golden age of peace and prosperity. In many post-conflict countries, infrastructure has been destroyed, armed groups create an atmosphere of insecurity, and the government is low in legitimacy and capacity but high in corruption. Indeed, even the “post-conflict” designation is elusive: many countries slip back into pockets of conflict, so that affected areas are unsafe for reconstruction operations. It is hard to use aid effectively in such environments, both because of the obvious physical and institutional constraints and because informal systems and social groupings tend to supersede sound business practices, internal controls, and “neutral” organs of security.

Afghanistan is a case in point. It is a high-risk country with extremely weak government capacity and institutions, poor infrastructure, and growing security concerns. In 2002, when the Bank recommenced operations in Afghanistan, the financial management (FM) system was manual, the budgetary process entailed the use of contingency accounts, and the most recent Government financial statements were eight years old. A key Bank priority was to establish an adequate FM system that would provide fiduciary assurance for the use of the funds of the Bank, other donors, and the Afghanistan Reconstruction Trust Fund administered by the Bank.

Bank Approach and Successes

Working with the IMF, the Bank’s primary approach to these enormous FM challenges was to centralize the Afghanistan FM system in the Ministry of Finance, deploy off-the-shelf software as the core of the computerized Afghanistan Financial Management Information System (AFMIS), and engage several international agents to support these embryonic country systems. With an FM agent providing operations support to the Treasury, an audit agent supporting the Auditor General in the Control and Audit Office, and a procurement agent supporting the Afghanistan Reconstruction and Development Services, a mainstream approach to using country systems was possible even in a very challenging post-conflict environment.

Using the procedures of OP/BP 8.50, *Emergency Recovery Assistance*, to prepare investment projects, over the past four years the Bank has helped Afghanistan achieve remarkable improvements in external financial reporting and

auditing. Financial statements for donor-funded investment projects and Government funds are now prepared on time and are audited to international standards. The first set of the country’s audited financial statements has now been submitted to the recently formed National Assembly. There have also been major improvements in budget planning and execution: budgets are now more complete and comprehensive.

Remaining Challenges and Bank Response

The Afghanistan FM team has also helped the country address other major FM challenges.

Lack of functional bodies to fulfill oversight responsibilities

The oversight function, which is generally important for project management, is even more important in post-conflict countries. The usual practice—placing oversight decisionmaking in the hands of a single individual—can lead to weak internal controls, leaving room for heads of ministries or implementing entities to capitalize on the lack of adequate institutions, structures, and systems for personal gain. To mitigate this risk, the FM team in Afghanistan ensures that the implementation arrangements set out in project documents include the appointment of a steering committee with defined terms of reference and minimum required meeting frequencies. The committee is expected to produce meeting minutes that Bank staff can review during supervision. In addition, a Memorandum of

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Understanding between the implementing units and the line ministries fully documents the procedures for processing procurements and payments.

Inadequate financial planning and reporting

Following the prolonged period of conflict, Afghanistan's line ministries had neither systems nor capacity to support adequate financial planning, management, and reporting. Today, with the support of the FM agent at the Ministry of Finance, the Government maintains AFMIS, a centralized FM information system that records all line ministry and project transactions and then generates monthly reports and annual financial statements. (Because AFMIS cannot yet produce interim unaudited financial reports, these are prepared manually using Excel.) Pilots are now under way to roll out AFMIS functionality to two line ministries and two provinces over the next few months, enabling them to generate the required reports and prepare detailed financial plans.

Poor budget preparation, implementation, review, monitoring, and performance

Sound preparation, execution, and monitoring of the budget are vital to the efficient and effective use of public funds and help ensure that resources are utilized for the intended purposes. In many post-conflict countries, information on the allocation of resources is closely held because it has great political value. Budget figures are usually unrealistic because there is no proper coordination and consultation with units responsible for implementation. Moreover, budget execution is not adequately monitored, midterm reviews are not conducted in consultation with those responsible for program implementation, and relevant reports are not prepared in time to support these reviews. In Afghanistan, budget committees for each project coordinate the budget process to ensure that those responsible for implementation of each component are involved in the budget preparation process. These committees also coordinate quarterly reviews, monitor budget execution, and report to the project steering committee.

To ensure that each committee is effective, the FM arrangements are clearly specified in the project documents and carefully reviewed during supervision.

Lack of local qualified and experienced professionals

The lack of local qualified and experienced indigenous accounting and auditing professionals has done much to shape the FM approach in Afghanistan. It is necessary for the FM team to rely heavily on international consultants and to give priority to building capacity. Thus, they organize frequent workshops for consultants and staff alike, and ensure that the terms of reference of the FM agent include building the capacity of the local staff involved in particular projects. However, it has been difficult for the agent to accomplish this because of the extremely weak capacity levels and the demand for continuous operational support. It has by no means been easy to lay the foundation for Afghanistan's first accounting and auditing professional institutions.

Inability to conduct physical verification

To drill down properly on sampled transactions and look beyond the invoice, a financial management specialist (FMS) may need to carry out physical verification and link the physical outputs to the financial outlay. In Afghanistan, the FMS cannot always visit a site: some previously safe areas are now inaccessible because of reemerging conflict, and supervision activities are sometimes cancelled on short notice when the United Nations issues a restriction order or declares a "white city" because of threats to human life (which means that staff must remain at home). When access is denied, the team relies on information supplied by facilitating partners working in the restricted areas. During periods of restricted movement, Bank international staff who reside near the office perform desk reviews, and they may invite Government staff to meetings at the Bank office. After restrictions are lifted, missions tend to bunch up; and to keep project activities on schedule, the FMS has to schedule meetings with multiple task teams during the evenings and weekends.

Lessons Learned

Broad lessons learned in post-conflict countries were adapted flexibly and refined in Afghanistan by the FM team. Among the key lessons that may help FMSs in other post-conflict countries are the following: (a) target a few core FM competencies and do them well; (b) quickly assess the skills and experience of counterpart staff and fill gaps with international agents in core areas for as long as needed; (c) develop and document FM practices and procedures in the local languages to continually reinforce prescribed behaviors; and (d) stabilize the accounting and reporting system in the Ministry of Finance before rolling it out to line ministries.

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This note series is issued by the Financial Management Anchor to summarize good practice and key policy findings on FM-related topics.

