

3. THE SUB-NATIONAL INSTITUTIONAL STRUCTURE: KEY FEATURES

A. THE SYSTEM

3.1 The institutional structure described above exhibits five important features. Collectively considered, these constitute the core of the “sub-national problem” in Afghanistan, and generate the basic challenges that efforts to strengthen the system must address.

3.2 **First, the overall structure is characterized by significant systemic contradiction.**⁵⁶ On the one hand, direct formal functional and budget authority for the delivery of most key services in the provinces - such as education, health, water and roads - is held by highly centralized Line Ministries which work in vertically integrated silos with relatively weak, “externalized” linkages between them. Thus, in an organizational sense, provincial and district “administrations” – defined as horizontally integrated entities in which different agencies responsible for specific sectors fall under a unified point of budget and executive authority – do not actually exist in Afghanistan. What is often referred to as a “provincial administration” is really just the aggregate of the provincial offices of the line ministries (i.e. the Provincial Departments), the Provincial Governor’s office, the Provincial Development Council and the like, with no “hard” institutional link between them. Equally, there is no such thing as a “provincial” (or “district”) budget, in the sense of an identifiable fiscal resource dedicated to expenditures in a specific province over which a single authority has allocation and execution responsibility. There are only aggregations of expenditure which take place for services delivered at the provincial level (e.g. by the Provincial Departments), which the central Line Ministries largely control, and which cannot even accurately be captured by the existing accounting systems.⁵⁷

3.3 *On the other hand, this highly centralized line ministry system co-exists with – and is cut across by – the Provincial Governor system* which allows the PGs to intervene in the affairs of the Line Ministries and other agencies (e.g. the Municipalities) through six “softer” institutional channels, some legislated, some not. First, as mentioned earlier, PGs hold extensive powers over the appointments of civil servants to Departmental positions in their provinces. Second, they are able to influence the day-to-day activities of these civil servants simply by virtue of being proximate to them. In fact, this power is being extended in a number of provinces as OOGs undergo PRR reform, gain increasing capacity in technical areas, and consolidate their influence through fora such as the Provincial Administrative Assemblies where they formally bring heads of provincial departments together in order to make joint decisions on operational matters such as financing priorities and procurement. Third, in some cases they have been able to gain effective influence over funds which allow them to build infrastructure in areas for which line Ministries are responsible (e.g. directly, through the “Governors Discretionary Fund”, now winding down, and directly through their influence over PRTs in their provinces⁵⁸). Fourth, they hold approval powers for all expenditures of all the PDs funded from the core budget (which power underlies the other powers they exercise e.g. on PD procurements through the Administrative Assemblies).

⁵⁶ The focus here is on the contradictions between systems internal to the government structure at the sub-national level. There are also contradictions between donor allocation and implementation systems and those of the government, which are well-known and are not necessarily specific to the sub-national level. Those which are most germane to sub-national service delivery and governance (e.g. the PRTs) receive attention at various other points in this report.

⁵⁷ MoF interviews

⁵⁸ See Rubin, 2007.

Fifth, they are able to exercise (varying degrees of) control over municipal budgets.⁵⁹ Finally, these formal and informal avenues of influence all exist within, and are reinforced by, an overall institutional culture which accords to the Provincial Governors a central and senior position in the political structure of the country, and which tends to defer to the inheritance of existing practices even when such practices are no longer consonant with institutional developments. So, for example, during the period in which actual allotments to provincial departments were significantly less than those budgeted, there may have been a legitimate role for PGs in the area of expenditure authorization – after all, someone had to ration the cash. This problem was solved some two years ago and the basis for the practice thus disappeared, but there has been no real initiative to review or curtail it.

3.4 *The main problem this overall system creates is that centralized modalities of service-delivery are combined with – and subject to – a range of interventionist powers on the part of the PGs in a way which blurs and undermines accountability and introduces significant organizational inefficiencies.* Governors are political appointees of the President, they have no formal responsibilities or budgets for service-delivery in the Province, have no institutionalized links downward to citizens or consumers for services, and thus cannot be held accountable for them. Yet they are able significantly to influence the way in which the chief service-delivery agencies (the line departments and the municipalities) operate and function. While there are undoubtedly some good governors who will exercise this influence benignly, given the accountability structure outlined above PG institutional incentives are unlikely to derive consistently from imperatives to improve service-delivery and it is thus unlikely that these interventions will be conducive to that purpose in aggregate. Moreover, the simple fact that an external agency is able to become involved both in high-level decision-making (such as senior appointments) and in the day-to-day operations (such as expenditure approvals) of the activities of the PDs is not conducive to operational efficiency on the ground, and provides a strong disincentive to the Ministries and their officers to seek improvements in this area (there is little point in doing so if such improvements can easily be overridden by Governor actions.) Finally, it is worth noting that a number of ongoing initiatives may well aggravate rather than ameliorate this problem. The PRR process underway in Balkh and other provinces is aimed at making the PGs more effective and improving the capacities of their offices. Unless these actions are carefully targeted, they may thus unwittingly also strengthen PG ability to interfere unhelpfully at the operational level.

3.5 **Second, even given the choice of a centralized governance and service-delivery intergovernmental structure for Afghanistan, existing institutional arrangements are often highly inefficient.** In particular, Line Ministries tend to be over-centralized, with their central offices in Kabul retaining functions which could much more efficiently be performed at the provincial level: teacher recruitment in the case of education, for example. To some extent this problem is not unrelated to the one discussed above. So long as Line Ministries perceive that any significant deconcentration of budget or functional authority to their Provincial Departments is likely only to make these authorities subject to influence and capture by the Provincial Governors, they are unlikely to have much incentive to do so.

3.6 **Third, the current system is both asymmetric and inequitable.** Institutional asymmetries in intergovernmental institutional arrangements are not uncommon internationally, of course, and are not intrinsically problematic – it all depends on why they exist and how they

⁵⁹ Research conducted by The Asia Foundation in course of their recent assessment of sub-national governance indicates that in some provinces the Provincial Governor plays a central role in determining the budgets of the larger municipalities.

affect the intergovernmental system as it evolves. In Afghanistan’s case it is fair to say that while some of these appear to make sense, others are the result of arbitrary processes connected with history, varying donor practices, and the like rather than considered design choices. The models of the Provincial Governors offices that are being implemented in the PAG provinces, for example, are rather different from those in Balkh and Herat – resulting in higher degrees of Governor influence in these provinces - and it is not at all clear why. Ultimately, these are likely to introduce significant strains and tensions at the SN level as the system consolidates and attempts to cohere.

3.7 *The inequitable distribution of resources across sub-national jurisdictions presents a more obvious and a more pressing set of difficulties.* Some preliminary work conducted within the Ministry of Finance provides a sense of the magnitude of these. The following table gives a breakdown of the per capita budget allotments and year-to-date expenditures (as of November 2006) for health and education in each province as well as the totals per for all Ministries for 1385.⁶⁰ It also provides basic statistical indicators of density and spread.

Table 3.1: Provincial Per Capita Expenditures on Health and Education, 1385

| PROVINCE | MoPH | | MoE | | ALL MINISTRIES | |
|-----------|------|--------|-----|--------|----------------|--------|
| | YTD | Budget | YTD | Budget | YTD | Budget |
| Badakshan | 17.1 | 62.1 | 379 | 510 | 666 | 1,188 |
| Badghis | 40.1 | 129.3 | 80 | 123 | 356 | 2,330 |
| Baghlan | 24.0 | 73.4 | 283 | 442 | 614 | 1,379 |
| Balkh | 35.5 | 55.8 | 238 | 342 | 897 | 1,789 |
| Bamyan | 8.0 | 10.6 | 184 | 344 | 400 | 3,117 |
| Daikundi | 5.2 | 8.4 | 37 | 85 | 156 | 329 |
| Farah | 15.7 | 20.4 | 141 | 222 | 390 | 645 |
| Faryab | 5.9 | 8.6 | 185 | 292 | 429 | 686 |
| Ghazni | 7.9 | 17.1 | 140 | 215 | 351 | 592 |
| Ghor | 47.7 | 102.8 | 139 | 197 | 376 | 566 |
| Helmand | 9.6 | 12.1 | 66 | 104 | 405 | 597 |
| Herat | 14.5 | 20.6 | 184 | 261 | 651 | 1,121 |
| Jawzjan | 34.1 | 47.2 | 236 | 333 | 820 | 2,850 |
| Kabul | 5.7 | 14.1 | 85 | 137 | 558 | 3,633 |
| Khandahar | 12.8 | 25.2 | 85 | 216 | 554 | 1,366 |
| Kapisa | 46.6 | 151.3 | 205 | 298 | 616 | 1,124 |
| Khost | 25.6 | 76.5 | 158 | 336 | 579 | 1,022 |
| Kunar | 10.3 | 14.4 | 213 | 325 | 873 | 1,604 |
| Kunduz | 16.3 | 34.1 | 163 | 256 | 414 | 696 |

⁶⁰ Using Ministry expenditures in each province as a proxy for sectoral expenditures, which is all that is possible with current data. MoF warn that the data should be treated with caution as current financial reporting systems make the identification of “provincial” expenditures difficult.

| PROVINCE | MoPH | | MoE | | ALL MINISTRIES | |
|-----------------------|-------------|-------------|-------------|-------------|----------------|-------------|
| | YTD | Budget | YTD | Budget | YTD | Budget |
| Laghman | 10.4 | 15.9 | 234 | 349 | 510 | 912 |
| Logar | 11.6 | 15.9 | 183 | 285 | 438 | 702 |
| Nangarhar | 18.6 | 25.3 | 155 | 207 | 516 | 772 |
| Nimroz | 19.2 | 29.5 | 133 | 231 | 836 | 1,488 |
| Nuristan | 16.1 | 26.1 | 213 | 375 | 876 | 1,453 |
| Paktika | 58.7 | 129.3 | 162 | 527 | 667 | 1,359 |
| Paktiya | 14.5 | 45.7 | 127 | 207 | 973 | 1,622 |
| Panjsher | 71.7 | 157.8 | 228 | 330 | 890 | 1,513 |
| Parwan | 48.8 | 129.1 | 290 | 373 | 650 | 977 |
| Samangan | 4.0 | 10.5 | 137 | 219 | 417 | 2,219 |
| Sar I Pul | 5.3 | 7.9 | 155 | 246 | 1,180 | 2,859 |
| Takhar | 12.1 | 30.4 | 195 | 285 | 669 | 1,520 |
| Uruzgan | 6.1 | 16.1 | 49 | 151 | 397 | 879 |
| Wardak | 6.2 | 10.3 | 172 | 259 | 372 | 586 |
| Zabul | 5.5 | 80.5 | 54 | 122 | 970 | 1,361 |
| | | | | | | |
| Average | 20.3 | 47.5 | 167.3 | 270.7 | 601.9 | 1,378 |
| Std. Deviation | 17.1 | 45.0 | 72.8 | 104.6 | 229.1 | 790.8 |
| Coeff. of Var. | 0.84 | 0.95 | 0.44 | 0.39 | 0.38 | 0.58 |

3.8 Health and Education were deliberately chosen because, while one might expect significant variations in per capita expenditures between provinces for Ministries such as Agriculture or Rural Development, where differing spatial and economic realities might rationally drive differing expenditure levels, for Health and Education roughly equal per capita expenditures⁶¹ will tend to indicate equitable distributions of expenditure across provinces. This is particularly so where a Ministry, such as Education, has made the provision of “equal access to quality education by all” an explicit policy objective.⁶²

3.9 In Afghanistan this is not the case. For instance, the budget allotment figure for health for the province of Panjsher is nearly twenty times that of Sar I Pul. Similarly, the budget allotment for education is six times greater for Paktika than for Daikundi. Nor do these magnitudes represent an “outlier” pattern, with a few provinces deviating strongly from the mean. The co-efficients of variation for budgetary allocation for Health and Education are .95 and .39 respectively; for YTD figures, .84 and .44 respectively. This indicates that the per capita expenditures in health and education differ widely and consistently between provinces and cannot be accounted for by physical and other conditions that might cause input costs in different

⁶¹ Discounting for the impact of factors which might affect the costs of delivery equal service levels, which in some provinces such as Badakhshan may be significant.

⁶² Education Sector Strategy for the ANDS, p. 1, March 2007.

provinces to vary (particularly where salaries, which constitute a large proportion of these costs, are not governed by market factors). These inequalities are also large relative to other countries, even those with intergovernmental structures similar to those of Afghanistan. In Laos, for example, which is generally recognized to suffer from large horizontal fiscal inequities between provinces, the co-efficients of variation for per capita expenditure on health and education were .40 and .38 respectively in 2003-04.⁶³

3.10 In other environments a limited degree of variation in per capita expenditure on health and education would not necessarily be regarded as problematic. Part of the rationale for increasing the autonomy of sub-national entities is that efficiencies arise when they are able to allocate their expenditures in line with – varying – local priorities. Afghanistan however, does not possess strong sub-national governance mechanisms for citizen voice. Thus expenditure variations are unlikely to reflect local preferences and so do not contribute to allocative efficiency at the sub-national level.

3.11 Finally, it should also be mentioned that these problems are aggravated by the fact that size, composition and regional distribution of significant fractions of the external budget, which comprises about 70% of total public sector expenditure in Afghanistan, is largely unknown. It is thus impossible to begin to distribute these expenditures in line with equity imperatives.

3.12 **Fourth, the most autonomous elements of the SN system – the Municipalities and CDCs - face issues of their own.** Municipalities have been established, under law, as important and self-sufficient local service-delivery and governance entities. Community Development Councils were established as community level infrastructure-delivery vehicles in rural areas under the NSP and have since become increasingly institutionalized to the point where they have begun to emerge as the de facto lowest level of local governance in Afghanistan. A common feature of these entities, which distinguishes them from entities at the provincial level is that, in principle, the elected authority in the municipal or community area is itself directly responsible for service-delivery in that area. In other words, in a structural sense, these entities are largely devolved local governments (or, in the case of CDCs, something approaching this) and do not suffer from the accountability and autonomy problems characteristic of the other organs of sub-national government in Afghanistan.

3.13 On the other hand, they confront significant issues of their own. Municipal council elections have yet to occur, and until they are held the potential of municipalities to deliver accountable local government in their areas will be highly circumscribed. In addition, the fiscal and functional framework governing them is both unclear and constraining of effective and efficient service delivery. CDCs face existential questions derived from the possible discontinuation of the funding which provides them with the basic wherewithal to play a meaningful role. Moreover, the level and scale at which they operate means that the roles that they play and the issues they face are very different from those of higher level bodies. These challenges are discussed in greater detail later – for the moment the important point is that the main issues CDCs and municipalities face are different in complexion to those at the provincial level and need to be addressed in their own right.

3.14 **Finally, like the rest of the Afghan state, the entire SN structure is afflicted by the sorts of problems which are characteristic of LICUS countries:** severe human resource weaknesses, an absence of properly functioning operational systems, shortages of equipment, and

⁶³ “The Central-Local Fiscal System in Lao: A Preliminary Assessment”, Roland White and Jorge Martinez, World Bank, March 2006.

sparse supporting infrastructure (such as electrical power and phone systems) necessary to get things functioning properly. Afghanistan is particularly badly affected by these and reform and strengthening of the SN system will be no less affected by them than any other significant institutional reform in the society.

B. THE REFORM ENVIRONMENT

3.15 The environment within which efforts to address the above problems unfolds generates both imperatives and parameters for action. The Introduction has already touched on some of the former; three factors are of particular importance in respect of the latter.

3.16 The first is **a constitutional dispensation and political climate which precludes any significant reform to the underlying intergovernmental structure in the short or medium term.** The Constitution refers to “preserving the principles of centralism”, and it is also clear that the dominant consensus within the current political establishment is committed to the current, de jure, centralized intergovernmental structure and has no appetite for substantial political devolution to sub-national levels.⁶⁴ This is a fundamental point of departure for the discussion on reform paths which follows.

3.17 Second, **there is weak oversight of the SN system at the central level.** A number of Ministries have overlapping responsibilities for the various sub-national organs (MoI and MoUDH in respect of municipalities, for example) and capacity to provide monitoring and management of any given aspect of the sub-national system is poor. In addition, the Ministries which are active at the SN level exhibit high degrees of bureaucratic and political rivalry, making it difficult to forge common, overarching reform perspectives, or to establish agreement on important reform initiatives. Reform and strengthening measures may thus well need to proceed in a focused, disaggregated and partial way rather than as part of a holistic, comprehensive reform with wide cross-government support.

3.18 Third, **although substantial progress has recently been made in trying to get greater alignment between donor activities which impact the SN level, donor initiatives remain weakly co-ordinated.** The very extensive funding which flows to sub-national initiatives through channels and modalities which lie outside of government systems compounds this problem. In addition, unlike many other countries where “the sub-national” is an important issue, and consumes significant donor time and funding, there is no joint donor forum in Afghanistan which focuses specifically on this problem and attempts to align donor resources across the broad range of research, analysis, policy formulation, institution reform and capacity-building activities which are necessary if sub-national systems are to be solidly built.⁶⁵

⁶⁴ See Rubin B., 2006 for a discussion of the dynamics underlying this.

⁶⁵ Such fora can be found in countries as diverse as Uganda, Cambodia and Indonesia.