



Post-war programme implementation and procurement

Some lessons from the experience of Afghanistan

Alastair J. McKechnie

August 2011

Acknowledgements

The author was the World Bank's Country Director for Afghanistan for the period 2002-2008 and previously served in a number of other World Bank positions, including as Regional Operations Director for South Asia, Energy Director for South Asia and Infrastructure Manager for the Mashreq countries in the Middle East, where he assisted in the reconstruction of Lebanon at the end of its civil war in the 1990s and in the early World Bank engagement in the West Bank and Gaza strip.

Clare Lockhart, Advisor to the Finance Minister of Afghanistan for the period 2001-2004, provided valuable comments on an earlier draft of the paper. The author would also like to thank all the World Bank staff who provided valuable insights during the preparation of the paper. These included Deepal Fernando, Quamrul Hasan, Els Hinderdael-Forger, Benjamin Loevensohn, Paul Sisk, Nancy Zhao and others.

Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, UK

Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
www.odi.org.uk

Disclaimer: The views presented in this paper are those of the author and do not necessarily represent the views of ODI or our partners.

Abstract

Compared to other countries emerging from violent conflict, Afghanistan was relatively successful in mobilising and utilising international assistance. International assistance arrived quickly and was disbursed quickly across a broad range of sectors, including for infrastructure. This investment led to significant results in areas such as access to health and education, infant mortality, community infrastructure, travel time on roads, improved electricity access and quality, and telecommunications becoming available to most inhabited areas. Yet typically in countries emerging from fragility, governments and their diplomatic and security partners complain about the slowness of development assistance. This is often blamed on complex donor procedures, particularly for procurement, which slow down the impact of development assistance on the transition from state fragility to resilience to shocks that could trigger recurrence of armed conflict. Despite difficult initial conditions, Afghanistan seemed able to minimise the delays in utilising development assistance when it re-engaged with the international community at the beginning of 2002. This paper describes the experience of programme implementation and procurement in Afghanistan and sets out lessons for other countries coming out of prolonged fragility and conflict.

Contents

	Contents	i
	Figures & boxes	ii
	Abbreviations	iii
	Executive summary	v
1	Background	1
2	Afghanistan in 2002	2
3	The World Bank in Afghanistan	3
4	The US reengagement in Afghanistan	6
5	Corruption: a major risk in Afghanistan	9
6	World Bank procurement in Afghanistan	11
7	The US approach to procurement in Afghanistan	14
8	What general lessons can be taken from the experience of Afghanistan?	16
9	What are the lessons from how procurement was undertaken in Afghanistan?	23
10	Conclusion	30
	References	30

Figures & boxes

Figures

Figure 1: Grant and credit approvals (US\$ millions)	4
Figure 2: Cumulative value of contracts (US\$ millions)	5
Figure 3: Cumulative number of contracts	5
Figure 4: US assistance to Afghanistan (US\$ millions)	7
Figure 5: Composition of US assistance to Afghanistan (%)	8
Figure 6: Average contract size (US\$ '000s)	11
Figure 7: Procurement type by number of contracts	12
Figure 8: Procurement type by size (US\$)	12
Figure 9: Procurement type by average contract size (US\$)	13
Figure 10: Typical process for investment project	18
Figure 11: Typical process for national programmes	20

Boxes

Box 1: Security in Afghanistan	vi
--------------------------------	----

Abbreviations

AACA	Afghanistan Authority for the Coordination of Assistance
ADB	Asian Development Bank
AIDAR	AID Acquisition Regulations
ANDS	Afghanistan National Development Strategy
ARTF	Afghanistan Reconstruction Trust Fund
CIA	Central Intelligence Agency
CFR	Code of Federal Regulations
CQS	Selection Based on the Consultant's Qualifications
DFID	Department for International Development
EC	European Commission
FAO	Food and Agriculture Organization
FAR	Federal Acquisition Regulations
FPA	Fiduciary Principles Accord
GCMU	Grant Coordination and Management Unit
GDP	Gross Domestic Product
GIROA	Government of the Islamic Republic of Afghanistan
GPS	Global Positioning System
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IDB	Islamic Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
I-PRSP	Interim PRSP
ISAF	International Security Assistance Force
LIB	Limited International Bidding
MDRI	Multilateral Debt Relief Initiative
MDTF	Multi-donor Trust Fund
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organisation
NSP	National Solidarity Program
OMB	Office of Management and Budget (US)
PCF	Post-conflict Fund
PEFA	Public Expenditure and Financial Accountability
PIU	Project Implementation Unit
PRSP	Poverty Reduction Strategy Paper
QCBS	Quality and Cost-based Selection
QUIP	Quick Impact Project
SIGAR	Special Inspector General for Afghanistan Reconstruction
SRSG	Special Representative of the UN Secretary-General
TI	Transparency International
UK	United Kingdom
UN	United Nations
UNAMA	UN Assistance Mission to Afghanistan
UNDP	UN Development Programme
UNICEF	UN Children's Fund
UN-HABITAT	UN Human Settlements Programme

UNOPS	UN Office for Project Services
US	United States
USAID	US Agency for International Development
US GAO	US Government Accountability Office
WFP	World Food Programme
WHO	World Health Organization

Executive summary

Afghanistan has been one of the largest recipients of development assistance among fragile states, particularly for a country of its size. Despite the deterioration in security from mid-2006, Afghanistan has in many respects been a story of development success, particularly considering the low base of 2002. Institutional capacity has deepened considerably, albeit unevenly, across government (less at the sub-national level). The country has been blessed with some outstanding leaders, as well as some mediocre ones and a few notorious rogues. Constitutional changes, elections, disarmament of militias and the development of civil society have taken place more or less as planned, although the 2009 presidential elections were flawed and corruption and abuse of power have become worse. Despite Afghanistan's low rankings on international indices of corruption, the government treasury system has generally worked well. Donor programmes have typically achieved results faster than in most other post-conflict settings. Contracts are usually signed soon after financing is approved and World Bank disbursement rates have been consistently twice or higher than the average for all countries, including those not affected by fragility.

Despite difficult initial conditions when the Taliban administration was replaced at the end of 2001, Afghanistan was able to mobilise considerable development assistance in both absolute and per capita terms for a large country of 30 million and to use most of this effectively. Two-thirds of assistance was off-budget; the remainder, from the multilateral banks and the Afghanistan Reconstruction Trust Fund (ARTF), was on budget and for the most part used the government's own fiduciary systems. Despite deteriorating security and governance, this approach worked. As such, the case of Afghanistan demonstrates that modalities for aid delivery through public systems that strengthen legitimate governance are feasible and can lead to significant development and state-building results.

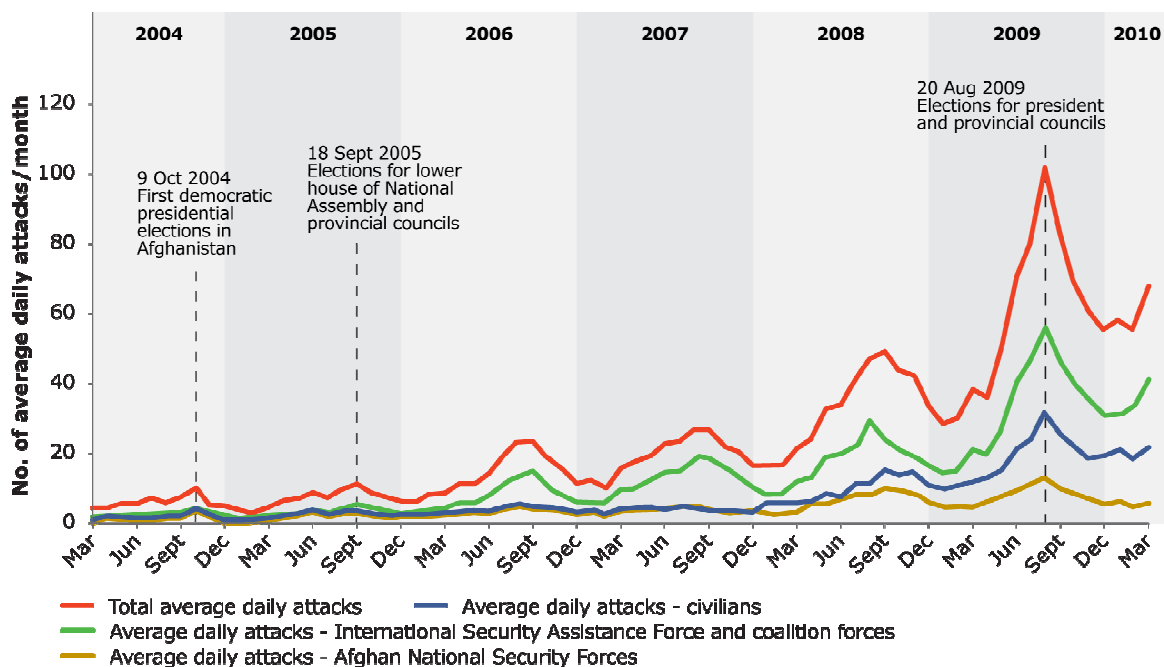
Procurement is typically the greatest source of both delay and discontent between governments of fragile states and their multilateral partners. This paper does not dwell on the entirety of international assistance to Afghanistan, but sets out the work of the World Bank in Afghanistan when a new government was established in December 2001. The paper does not attempt to explain the complex picture that emerged after 2005 when insurgency reignited, criminal networks became entrenched, corruption and abuse of power undermined public support for the state, institutional development slowed, and the electoral process ran into difficulties. It also discusses the somewhat different approach of the largest bilateral donor, the United States (US): the World Bank's policies required assistance to go through the government budget, whereas the bulk of US assistance went through parallel channels.

Even though corruption has increased in recent years, the experience of Afghanistan shows that, with good government counterparts and proactive risk management, plus well-designed and well-organised national programmes, it is possible to provide substantial funding through the government budget, using national procurement, financial reporting and audit systems.

Box 1: Security in Afghanistan

Following the collapse of the Taliban administration in 2001, there was relative peace throughout Afghanistan, although the risk of clashes among non-Taliban militias remained, and US forces carried out counterterrorist operations in the south and the east of the country. The North Atlantic Treaty Organization (NATO) and the International Security Assistance Force (ISAF), undertaking peace keeping in Kabul, saw little action, although incidents took place occasionally. However, security took a major turn for the worse in the summer of 2006 and has deteriorated since then.

Average daily enemy-initiated attacks reported by type, March 2004-March 2010



Source: US GAO (2010).

Establishing an environment favourable to implementation and procurement

Afghanistan offers lessons about how a positive overall environment in the international community and in the country itself can enable programme implementation and procurement:

- **Willingness to take risks** was higher than in other post-conflict settings, probably because failure in Afghanistan would have created security risks and threatened the strategic interests of its partner countries. The international financial institutions (IFIs) and some bilateral donors were able to balance fiduciary risks against the risks of not achieving results. However, other actors, particularly in the security sector, focused on short-term results at almost any cost, meaning Afghans became cynical about the waste and corruption that resulted and creating the conditions for the later deterioration in governance and security. Also, the international community and government were generally not effective in balancing short-term benefits against longer-term costs and in agreeing an integrated strategy for Afghanistan.
- **Organisational alignment for results:** the entire World Bank was committed to delivering rapid results in Afghanistan. This was also true of the US government – both the executive branch and the legislature. Such commitment mobilised human and financial resources and made it possible to overcome bureaucratic hurdles.
- **Strong government counterparts projected credibility to gain sustained support.** The Afghan government was able to present a coherent development framework a few months after it was established. Meanwhile, senior ministers with

personal integrity returned from the diaspora, and the *loya jirgas* and first elections bestowed upon the government high domestic and international legitimacy. Afghanistan was therefore able to establish effective high-level contacts with its main bilateral and multilateral partners, which were able to take more risks and mobilise more support. However, the reform effort faltered after the 2005 elections when dozens of reformers resigned. Possibly new institutions should have been given more time to grow deeper roots to establish better governance before elections were held.

- **Leadership quality matters and donors selectively chose which leaders to engage with.** The World Bank found that the single most important ingredient of success in terms of the impact of national programmes was the quality of ministry leadership. It took a decision to scale up those programmes that were effective and to slow additional finance to low-performing ministries, even in sectors of high priority to the government, until they could demonstrate ability to achieve results with the funds already available. A general lesson is that, in the current, post-financial crisis environment, foreign aid may be scarcer and therefore more likely to flow to countries, and ministries within them, that can deliver development results.
- **Build on the national capacity that exists.** At the beginning of 2002, there were as many as 240,000 Afghan civil servants, many of whom were doctors, teachers, nurses and engineers. However, the international community stripped capacity from the very services it aimed to deliver. This was exacerbated by difficulties in paying civil servants caused by a lack of financial resources (ARTF funds were not available until seven months after the new government was set up) and the lack of a system to disburse them. However, some ministries were able to use the talent they had and to promote existing staff alongside external recruits in line or advisory roles.
- **Programme and project design.** In 2002, there was a clamour for quick results and visible signs to the Afghan people that their country had changed for the better. Large, greenfield infrastructure projects would have taken several years to prepare and build, even in a more favourable environment. On the other hand, repairing existing assets had very high rates of return, could demonstrate early results and sometimes created opportunities for the local private sector. Larger projects required more careful design, and preparation started within the first year after the end of the conflict. The lesson is to seize some quick wins from early repairs and at the same time to start to prepare larger investments for the future.
- **Consolidating projects into national programmes** addressed lack of coherence and ability to scale up, particularly in sectors characterised by small investments. National programmes enabled government to direct investment to priority sectors, ensure horizontal (geographic) equity and coordinate international assistance through the budget. Meanwhile, donor-driven quick impact projects were usually unsustainable and expensive and may have exacerbated horizontal inequalities, created public perceptions of NGOs capturing resources intended to benefit Afghans and *not* reinforced the authority of the legitimate state. Some national programmes took time to set up, but the institutional capacity created during their initial phase enabled them to grow exponentially rather than in the usual linear way.
- **Use of community-based approaches,** whereby local communities took responsibility for deciding priorities and implementing small projects. The government established a framework for non-governmental organisations (NGOs) and United Nations (UN) agencies to mobilise communities to utilise cash grants provided directly to the community, which then managed its own procurement process. This bypassed the problem of weak sub-national governance, simplified procurement and transferred responsibility to communities accountable to their members. Small community managed projects also provided opportunities for the local private sector and employment creation. Meanwhile, communities understood the local reasons for delays in implementation, which defused the typical popular discontent at the slow pace of reconstruction.

- **Establishing grant coordination and management units (GCMUs) in sector ministries.** GCMUs addressed the problems of lack of capacity within key sector ministries and the tendency for project implementation units (PIUs) to proliferate in low-capacity environments. GCMUs were part of the ministry and reported to the minister. Most staff were on fixed-term contracts; many were Afghans returning from abroad or foreigners. Over time, more Afghan civil servants staffed the GCMUs, especially as civil service reforms spread and deepened.
- **Question donor ideologies and use non-state capacity for delivery.** Initially, the international community greatly underestimated Afghan institutional capacity. Government adopted an approach of setting overall policy, including on what public services it would deliver itself and which should be contracted out or left to non-state actors, even though some of these decisions conflicted with nationalist ideology of parts of the government or the sectoral ideologies of donors.
- **Ensure high-quality donor staff in the country.** Donor staff had a sense of mission related to the history of the country, and both the quality of Afghan counterparts and the likelihood of achieving results were high, while the bureaucratic environment at home was supportive. Human resources policies were applied flexibly to allow for family constraints and to support staff who wanted to extend their assignments. More generally, donor staff could have focused more on programme design and implementation and less on strategies and plans, which took a long time to produce, became outdated quickly and did not establish clear designs for programmes that could be financed and implemented.

Managing procurement to facilitate results

Specific lessons from Afghanistan related to procurement include the following:

- **Quickly establishing government procurement capacity** capable of meeting the requirements of donors was probably the single most important factor in rapid implementation. The first World Bank financing operation financed international consulting firms that provided fiduciary support, including procurement services. Afghanistan also established a reconstruction agency to expedite all project-related procurement, most of whose functions were later transferred to other ministries and agencies; elsewhere, such arrangements have set back capacity development, been difficult to wind down and created the conditions for corruption.
- **Build permanent procurement capacity in parallel.** Procurement consultants enabled the government to manage procurement to international standards but were largely unsuccessful in the capacity building part of their contract, which took second place to the short-term demand for transaction processing. A second firm was engaged later to provide capacity-building assistance, which involved training of government entities and the private sector. As capacity grew in sector ministries, more procurement responsibility was devolved to them, with the procurement consulting firm's staff in the Ministry of Planning concentrating more on large or complex items or ministries facing short-term investment demands.
- **Exploit the flexibility within donor policies and procurement rules.** The World Bank financed new grants and credits under Operational Policy 8.00, which cuts back substantially on processing time and allows flexibility in procurement, retroactive financing and streamlined financial management and disbursement procedures. This framework was initially designed for Bank financing after natural disasters and has been used in Afghanistan for nine years. The US used the flexibility allowed within its rules where overriding foreign policy considerations are invoked (e.g. single source procurement or negotiated contracts).
- **New procurement law and regulations.** Initially, Afghanistan used its old rules for small items and the procurement rules of the World Bank and the Asian Development Bank (ADB) for large items and items procured internationally. Early attempts at new laws were inconsistent with the rules of ADB and the World Bank

but converged substantially later. Lessons are that it is best to stick with processes that civil servants know how to operate; and that some basic procurement regulations are sufficient, at least in the early stages of a country's emergence from crisis. Major procurement reforms can wait, even though they are desirable.

- **Efficient procurement design** involves appropriate packaging to procure the items needed to implement the project. At one extreme, there could be one turnkey contract for a contractor to design, build and test a facility before handing it over to the government. Such contracts tend to be large and complicated and may take time to put in place, especially as the IFIs are likely to insist on international competitive bidding, although bilateral donors may not. At the other extreme, items to be procured can be broken into many small packages and procured locally through shopping, or national competitive bidding, which can usually be done quickly unless excessive fragmentation overburdens the country's procurement capacity. This also matches procurement to the capacity of the local private sector.
- **Build related institutions that support the procurement process**, such as financial management and auditing. These functions were also initially contracted out in Afghanistan, to the same consultants that provided procurement capacity building. With hindsight, it would have sped up implementation if other services had also been contracted to these firms, as it has taken time to strengthen the independence of the supreme audit institution, legislative scrutiny of audit reports and judicial and civil service administration action on misuse of public funds.
- **Dealing with risks of corruption.** Growing corruption in Afghanistan has undermined the state and provides a rationale for the insurgency. Much of this corruption concerns abuse of power by public officials rather than leakages from the treasury system. Even so, there remains potential to deepen the integrity of the Afghan procurement and public financial management system. Yet the Afghanistan experience shows that, with a strong ministry of finance, it is possible to maintain acceptable standards of public procurement in a highly corrupt environment.
- **Differentiating and managing risks.** While the risk of mis-procurement is high, the geopolitical significance of success or failure in Afghanistan has meant that the country's partners have been willing to run risks greater than in other fragile situations. For example, on budget financing took place before national fiduciary systems were in place, although the procurement and financial management agents mitigated this risk. US government agencies were also encouraged to take greater risks than usual, and used the full flexibility available to them. Other post-conflict countries may not have the geopolitical leverage Afghanistan used to encourage partners to tolerate such risks, but could deploy arguments related to aid effectiveness and the desire to shorten expensive military engagements and attract private investment that depend on stability, as well as offering improved fiduciary controls and co-management of some fiduciary processes.
- **Use of multi-donor trust funds to provide finance through national systems and to pool risk.** MDTFs are a mechanism whereby donor countries with similar tolerance can accept a differentiated level of risk. A feature of the ARTF was the use of national procurement and accounting systems for recurrent budget items such as salaries, government operating costs and small capital expenditures. Accepting higher levels of risk for a MDTF can also involve raising the limits for *ex ante* review and relying more on *ex post* reviews (including by specially appointed monitoring agents with a mandate to go beyond the Afghanistan limit to just recurrent costs) and different approaches to mis-procurement", e.g. designating expenditures as simply ineligible for reimbursement, greater use of single source contracting accepting a higher risk of program failure, and insulating the flow of donor funds from short term political events. The ARTF did not fully utilise its potential for greater risk taking, which would have required agreement among the donors and with the Bank.
- **Handling risk outcomes.** Greater tolerance for risk does not imply greater tolerance for risk outcomes. In Afghanistan, donors used their rights to investigate

misapplication of funds and impose sanctions on firms and individuals engaged in fraud and corruption. Meanwhile, the government knew its credibility was essential to increasing the flow of funds through the budget and that, had it lost its reputation, donors and the IFIs would either have provided assistance through parallel channels (NGOs and the UN) or imposed tight *ex ante* controls. In either case, there would have been setbacks to aid effectiveness and the building of national institutions. The pro reform parts of the government which received assistance through the budget therefore had a strong incentive to manage fiduciary risks well.

- **Adjusting to the commercial environment** in post-war Afghanistan also required flexibility and risk taking especially considering a general lack of interest by global firms in submitting bids, although smaller firms from the region around Afghanistan were usually willing to bid. The local private sector was small, informal and undercapitalised, and suffered from similar capacity and skilled labour problems as the public sector. Government-sponsored development activities had to compete with activities funded bilaterally for development, military or diplomatic purposes, which paid more and on time. The shallowness of the market for construction and other services influenced the design of procurement packages. In areas requiring high levels of expertise, single source or limited competition procurement took place. Other contracts were sized to the capability of regional firms or broken into small jobs that local contractors could handle. The World Bank adjusted its qualification requirements for bidders, for example concerning bid bonds, and took greater risks that firms might fail to complete their obligations. The US normally used a lead US contractor that would subcontract to local and regional firms. However, a greater effort could have been made to develop the capacity of the Afghan private sector, particularly in construction and construction materials.
- **Strengthening the local private sector** was given little priority by either donors or government, yet building capacity would have created sustainable employment and increased the ability of the economy to absorb aid efficiently. Although much entrepreneurial skill and private financial resources existed, more could have been done to train business people in modern techniques and to develop skills in accounting and bidding for public procurement. In retrospect, support to the Afghan private sector by the international community, such as through agencies and programmes designed to provide advice and finance, was grossly inadequate, especially in the early years. More generally, the supply of private sector employees could have been increased through vocational education and training and tertiary and secondary education. Overall, policy reforms to create an open, competitive business environment were not taken by the government, and much business depended on informal family or patronage connections with government.
- **A contractual role for the UN.** The government decided that UN agencies receiving funding from its budget should have contracts with ministries that specified inputs, outputs, overheads and delivery schedules. In some cases, the government insisted on agencies bidding for work. This was controversial, but aligned incentives with performance and gave the government more authority in a few instances when UN agencies did not deliver. Other post-crisis countries face the downsizing of UN capacity as peace-keeping or humanitarian mandates end, and how to transition to permanent institutional capacity within the country is an issue that deserves further attention. Afghanistan offers a model worth considering.
- **Capacity and role of donor agency procurement staff.** The seniority of procurement staff assigned to the country office and the level to which procurement-related decisions were devolved from headquarters also ensured an efficient procurement process. Staff were encouraged to build government procurement capacity and adopted a hands-on approach with their counterparts.
- **Adapting approaches to fiduciary management where security is a problem.** Corruption often involves charging for construction works and goods that are not delivered or poor-quality construction. The World Bank relied on

consultants, NGOs and UN agencies to monitor activities in areas where its own staff could not go. The US tended to rely on its prime contractors and development staff embedded in military provincial reconstruction teams. As security deteriorated, the Bank used global positioning system and date-tagged digital photography, satellite imagery and other means to verify that construction took place. The community-based approach and third party monitoring of the health programme were other ways of monitoring project implementation in violence-prone areas.

1 Background

On Sunday 9 September 2001, the assassination by al-Qa'eda suicide bombers of Ahmed Shah Masood, leader of the Afghan resistance, set in motion a chain of events that was to change history. The few followers of news from Afghanistan saw it as marking the end of the Northern Alliance's resistance: it was only a matter of time before the Taliban would control all of the country's territory and increase their international recognition. Two days later, four US aircraft were hijacked, with three of these used to attack the World Trade Center in New York and the Pentagon near Washington.

The US, unused to terrorist attacks on its own soil, was traumatised, and its focus shifted to Afghanistan, where the al-Qa'eda attackers had been prepared and controlled. Diplomatic negotiations failed to persuade the Taliban to hand over those alleged to be responsible for the attacks. A short war executed by Northern Alliance proxies supported by United States (US) special forces and bombing led to the collapse of the Taliban government. Northern Alliance forces entered Kabul in early November of 2001 and the Taliban abandoned Kandahar, their last stronghold, on 7 December. The war concluded without a complete surrender or any formal cessation of hostilities; the Taliban simply went home, or retreated across the border to Pakistan with their allies, and various Northern Alliance forces and local warlords filled the vacuum, some with at least tacit US support.¹

While the war was going on, a number of international conferences took place to plan for the future of Afghanistan (see Appendix). The most important of these was a conference near Bonn, which led to an agreement among Afghan factions (Taliban representatives were excluded) to appoint an interim administration led by Hamid Karzai, a royalist politician and former Deputy Foreign Minister, and to define a process leading to *loya jirgas* (grand councils) to elect a transitional administration and to agree a new constitution that would allow for democratic elections. These meetings culminated in a ministerial conference in Tokyo on 21-22 January 2002 which pledged \$4.8 billion in development assistance during the next 30 months and established an aid architecture overseen by the European Commission (EC), Japan, Saudi Arabia and the US. The Tokyo meeting also finalised an agreement to establish the Afghanistan Reconstruction Trust Fund (ARTF), which was to be administered by the World Bank and managed by a committee of Asian Development Bank (ADB), Islamic Development Bank (IDB), United Nations (UN) and World Bank representatives.²

¹ See Chase (2006) for an account of how this happened in Kandahar province.

² The Afghan authorities, represented by the Finance Minister, joined as observers several years later, and were recently given full membership. A donor forum met around four times a year, mainly in Kabul, to set policies for the ARTF, agree overall strategy and to ensure the accountability of the management committee and administrator.

2 Afghanistan in 2002

The first Karzai government, which took office on 27 December 2001, confronted the legacy of two decades of war – the consequences of the Soviet invasion in December 1979 and the civil war that followed the Soviet withdrawal in 1989 – and a potentially severe humanitarian crisis after two years of drought. While the international community believed the challenges lay in avoiding famine and quickly starting up post-war reconstruction of damaged assets, these issues hid a more complex set of issues. Public institutions had survived but were degraded as a result of war and the Taliban's neglect of administration; there was an institutional legacy of Soviet-supported socialism, necessitating a transition similar to those that had occurred in central and eastern European countries, albeit on a smaller scale; armed militias, which sometimes clashed with each other, contested the monopoly of violence of a government with few forces of any significance at its command; the formal justice system barely existed and the legitimacy of informal justice was undermined by the arbitrary rule of local strongmen; hyperinflation existed and a debased currency, with nearly identical banknotes in circulation issued by three different authorities; and the private sector, while connected to local and regional trading networks, was small, depended on the patronage of militia leaders, non-governmental organisation (NGO) and UN contracts and was sometimes engaged in criminal activities. While the Taliban had recently suppressed the production of opium poppy and heroin, Afghanistan was within a few years to become the world's largest producer of illegal opiates, with a drug economy equal to half the legal economy.

Government offices lacked windows, furniture and electricity, and there were no computers. The central bank had only a handful of satellite phones and no means of making electronic payments; its staff had to bring foreign cash in suitcases from abroad to enable the broken economy to function at all. However, the informal *hawala* system did function, transferring money from abroad and throughout the country. Remittances through the *hawala* system and limited food for work programmes provided the safety net that prevented famine. International pressure to close down the *hawala* system on the grounds of terrorist financing and money laundering was lifted when this was understood (Maimbo, 2003). Skilled labour was particularly scarce owing to emigration and the lack of an education system beyond the efforts of NGOs and the UN. Education of girls had been illegal under the Taliban in the period 1995-2001.

Despite these formidable problems, Afghanistan possessed some valuable assets: a government that was tremendously popular after the harsh rule of the Taliban and its failure to deliver services;³ an enormous flow of international goodwill and assistance; a well-educated diaspora willing to contribute to the rebuilding of their country; service delivery capacity available in humanitarian NGOs and the UN; a resilient society, particularly at the village level; and, despite the destitute appearance of the civil service, the existence of a basic framework of an administration, with veteran civil servants and systems even at the district level, even though the government lacked the resources even to pay public employees.⁴ At the beginning of 2002, there were as many as 240,000 Afghan civil servants, many of whom were doctors, teachers, nurses and engineers. Laws were in place and government offices existed in every province and nearly all districts and municipalities.

³ Public opinion surveys in the period 2002-2005 consistently showed support for the Taliban at around 10-15%.

⁴ See Evans et al. (2004). Lack of resources to pay public employees in early 2002 allegedly also owed to theft of treasury cash by the retreating Taliban and advancing militias.

3 The World Bank in Afghanistan

Once the 11 September 2001 attacks had been linked to Afghanistan, the World Bank prepared to reengage. At an international meeting in November 2001, the World Bank, ADB and the UN were asked to prepare a preliminary needs assessment on which to base donor pledges at the January 2001 Tokyo conference. As the war had not concluded, and without a government with which to engage (although meetings were held with expatriate Afghans who were to become leading figures in the first Karzai administration), this was carried out as a desk study, using whatever material existed and information obtained from the UN and NGOs active in Afghanistan. There was some discussion in later years as to whether this study underestimated the costs of rebuilding Afghanistan and whether the country could have absorbed more funding.⁵

Immediately after the Tokyo conference, a World Bank mission visited Afghanistan to agree a reconstruction programme that could be financed, to recruit local staff and to lease properties for offices and staff accommodation. A \$10 million project to provide emergency procurement, financial management, auditing and other public financial management support was approved by the Bank's board on 2 April 2002. This provided the government with the administrative and fiduciary capacity to allow the Bank to finance investments through the government budget system. A contract with the Crown Agents to provide procurement services was approved by the Bank in May and signed by the government on 5 July. (The Crown Agents had been awarded a smaller contract by the Afghan government on 10 April, with financing from an emergency grant from the United Kingdom's (UK's) Department for International Development (DFID), which provided urgently needed procurement services.)

Lack of a functioning payments system meant that funds initially had to be disbursed directly to suppliers and contractors from the World Bank, rather than through a government-managed special account, or 'float' of funds, which is replenished when a minimum balance is triggered – an arrangement the Bank prefers for administrative convenience. A contract with an international accounting firm to provide financial management services was signed by the government in August 2002. Both of these contracts were awarded through the provision in the World Bank's Procurement Guidelines for Selection Based on the Consultant's Qualifications (CQS), whereby the government selects a firm based on its qualifications and enters into negotiations on the basis of a technical-financial proposal from the selected firm.

A meeting in February 2002 in Washington, DC, with potential donors led to a full proposal for the ARTF being submitted to the Bank's board. This became operational in May after delays caused by a board member questioning the legal basis for financing police salaries through a pass-through arrangement with the UN Development Programme (UNDP). Around this time, it became evident that the Afghan government was having difficulties financing its employees' salaries and the operating costs of its administration, owing to underestimation of these costs and a lack of revenue. This led to donors mobilising funds quickly, including some large countries that were not initially supportive of the ARTF. A substantial disbursement for salaries in August enabled the government to make payments to civil servants that had been missed. As priority was given to salaries and other recurrent costs of government, only a small amount of ARTF funds were initially available for investments. However, ARTF has grown from its small beginnings: up to the end of the current 2010/11 financial year, donors had pledged \$4.58 billion and paid in \$3.98 billion, the greater part of which is now financing investments (World Bank, 2010).

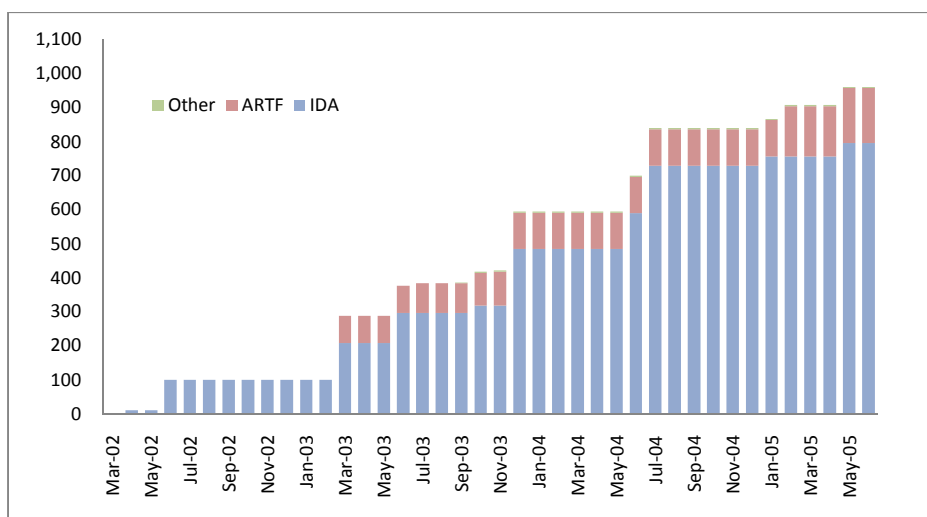
In 2002, Afghanistan had arrears to the international financial institutions (IFIs) amounting to \$55.2 million, but ADB and the World Bank were able to resume financing operations in November 2002 and February 2003, respectively, while these were being cleared through donor grants. Arrears to official bilateral creditors were more difficult to resolve, especially because of a disputed amount of around \$10 billion that had been incurred with the former

⁵ For a presentation of the case that Afghanistan was underfunded, see Rubin et al. (2003).

Soviet Union. After much negotiation, an agreement was reached with the three Paris Club creditors – Germany, Russia and the US – in July 2006, with an upfront 80% discount applied to Russian debt before restructuring under Naples terms, and all three countries were major providers of grants to Afghanistan after the war. Other bilateral creditors either forgave their debt or restructured it on terms comparable with the Paris Club agreement. In June 2007, Afghanistan qualified for Heavily Indebted Poor Countries (HIPC) Initiative debt relief. In January 2010, Afghanistan reached the HIPC decision point and qualified for \$1.6 billion in debt relief under HIPC, the Multilateral Debt Relief Initiative (MDRI) and additional Paris Club arrangements.⁶

By June 2002, the World Bank had approved all the \$100 million available from the International Development Association (IDA) for pre-arrears clearance grants. In addition to public financial management support, the Bank financed infrastructure rehabilitation, which included the critical Salang Tunnel linking the country to North and Central Asia, runway resurfacing and navigation upgrades at Kabul airport and power generation. Further grants financed the rehabilitation of schools and started what was to become the National Solidarity Program (NSP) of community-driven development and the National Emergency Employment Program.

Figure 1: Grant and credit approvals (US\$ millions)



Note: Includes \$80 million in direct budget support from the IDA. ARTF financing of recurrent costs excluded.
Source: Author's calculations based on World Bank ARTF annual reports (various years)

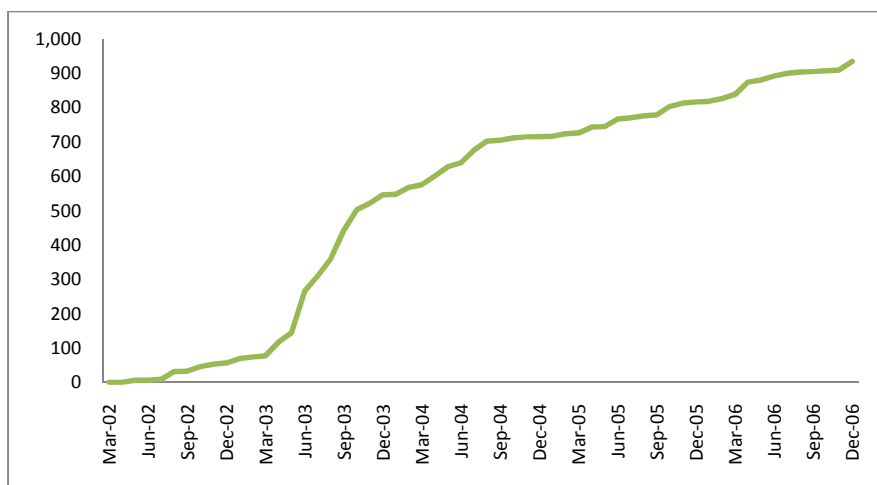
Once the IDA arrears issue had been resolved, in March 2003 the World Bank board approved a major \$108 million IDA credit for transport rehabilitation, which included rehabilitation of the main highway from Kabul to the border with Central Asia, and another package in June amounting to \$88 million for further fiduciary and public administration support, an innovative approach to providing basic health services through contracting out delivery to NGOs through competitive bidding and a programme of labour-intensive public works. During the first four years of the Bank's reengagement in Afghanistan (2002/03-2005/06), financing for investment grew to nearly \$800 million from the IDA and \$161 million from the ARTF. In addition, the ARTF had disbursed nearly \$510 million up to the end of the Afghan fiscal year ending in March 2005.

Implementation was able to keep pace with approvals of new financing, particularly after the procurement agent was in place. By the end of 2005/06, 800 contracts amounting to around

⁶ For more on Afghanistan's debt relief see IMF (2010) and World Bank (2007).

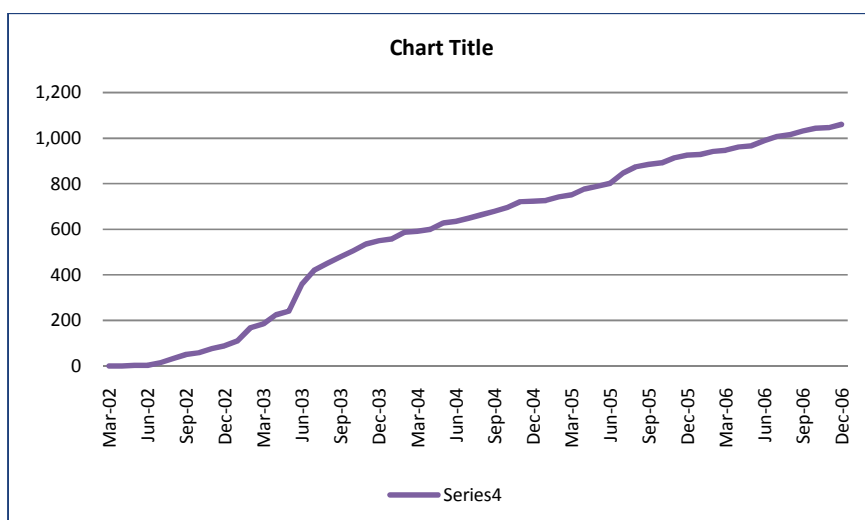
\$770 million had been approved. Annual disbursement rates in Afghanistan averaged around 40-50%, more than twice the World Bank average of around 20%⁷ (Figures 2 and 3).

Figure 2: Cumulative value of contracts (US\$ millions)



Source: Author's calculations based on World Bank borrower procurement reports (various years)

Figure 3: Cumulative number of contracts



Source: Author's calculations based on World Bank borrower procurement reports (various years)

⁷ Disbursement rate is defined as the ratio of disbursements during the period to the balance of credits and grants approved but undisbursed at the end of the preceding period. A 20% disbursement rate is roughly equivalent to a five-year implementation period of a project. Projects in Afghanistan were financed under the emergency recovery policy, which at that time envisaged a three-year implementation period. Disbursement rates are likely to be higher in a rapidly growing portfolio, especially as disbursements on operations approved during the period add to the total disbursement for the period.

4 The US reengagement in Afghanistan

Until it broke relations with the country after the Soviet invasion, the US had been an active development partner of Afghanistan since the 1950s. Given Afghanistan's strategic position, the US and the Soviet Union competed for influence during the Cold War, a contest not unlike the Great Game between the British and the Russians a century earlier. This competition also extended to development assistance. The US financed major development activities in the Helmand valley in the south, using a model similar to that which it used in the development of the Tennessee Valley in the 1930s and 1940s. The Soviets built the roads from Kandahar to Herat and the road and tunnel from Kabul to the border with the Soviet Union, while the US built the highway from Kabul to Kandahar (Rubin, 2002).

Following the invasion in 1979, the US provided humanitarian assistance to Afghan refugees in Pakistan and increasing support to the *mujahideen* resisting the invasion, mainly through government of Pakistan intermediaries. After the Soviet withdrawal from Afghanistan in 1989, the US (and most of the West) simply forgot about Afghanistan, particularly as the country descended into civil war among *mujahideen* groups. Attacks by the nascent al-Qa'eda on the US embassy and other targets in Nairobi, the car bomb attack on the World Trade Center in New York and the attack on the USS Cole in Yemen then led to US cruise missile attacks on training camps in Afghanistan and increasing US intelligence surveillance of al-Qa'eda in Afghanistan. While the Clinton Administration contemplated major strikes, these were not carried out owing to technical difficulties and the risk of collateral damage (Coll, 2004).

Prior to 2002, US assistance to Afghanistan was limited to humanitarian assistance provided through NGOs and UN agencies. In 2002, the US reopened its vacant and somewhat rundown embassy and State Department, and US Agency for International Development (USAID) staff moved back. USAID staffing had been allowed to run down since the end of the Cold War, yet the agency was able to quickly field some of its brightest and best, some of whom were later to fill senior positions in Washington, DC. Foreign aid and USAID (which administered it) had been popular neither in Congress nor in the George W. Bush Administration. USAID was under pressure to avoid leakage of funds through corruption – the Iraq Oil for Food scandal was breaking at the time – and to use private sector and NGO channels for humanitarian and development assistance. While US support made efforts to secure Afghan ownership, it typically was in parallel with the Afghan government's planning and budgeting systems. A consequence was that around two-thirds of all development assistance was outside the purview and policy frameworks of the Afghan administration. Ministers often complained that they had little knowledge of where funds were going and how much was being spent. However, when it became apparent that the Afghan government lacked the resources to finance civil servants and security staff, the US quickly provided a contribution to the ARTF and mobilised other donors to follow suit.⁸

US policy towards Afghanistan evolved considerably after 2001. Initially, policy was driven by counterterrorism and security concerns. As one official put it at the time, the US did not do 'nation building'. However, raising the living standards and meeting the development aspirations of Afghans was seen as contributing towards stability and security, as well as being ethically desirable, particularly considering the condition of Afghan women under the Taliban (Tarnoff, 2010). Early policy lacked coherence: counterterrorism and stability objectives often led to deals being cut between the security components of the US government and local militia leaders not known for good governance (Chase, 2006). Raids by Special Forces violated Pashtun customs. Agreements with tribal rivals to preserve stability alienated other tribes. Humanitarian space shrank as the insurgency was slowly rekindled, with growing support from across the border. On the other hand, the civilian side of the US government was trying to promote development and good governance despite pressures to spend money fast through non-government channels. The US press reported later that the Central Intelligence Agency

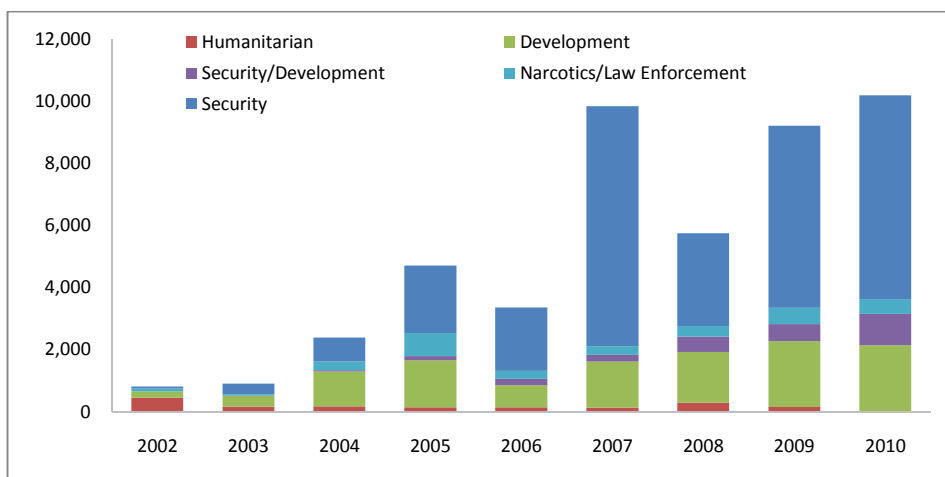
⁸ For an inside account of the mobilisation of international support for Afghanistan in 2002, see Taylor (2007), by the US Treasury Under-Secretary for International Affairs at the time.

(CIA) and other foreign intelligence services were making payments directly to senior government officials.

During the first years of international engagement with Afghanistan, insufficient resources were devoted to developing the country's own security forces, preventing the return of opium poppy cultivation and establishing a system of justice perceived by Afghans to be fair. These were areas that were to be the responsibility of 'lead donors', but the lead donor system failed, probably because of a lack of lead donor accountability, a lack of Afghan ownership and political pressure to trumpet success rather than learn from mistakes. In addition, aid that bypassed the budget meant it was not possible to generate Afghan government accountability for results or to build capacity through learning by doing.⁹ Lack of government responsibility and local ownership led to investments that were often of low quality – press reports mentioned schools with leaky roofs for example – and what was really wasteful spending to achieve quick peace dividends was seen by Afghans as corruption. These failures led to Afghan disillusionment with the international effort and the rise of narco and other criminal mafias, and created fertile ground for a cross-border insurgency.

As the insurgency spread in 2006, US policy shifted to give greater attention to building the capacity of the Afghan army and police and to strengthen justice and governance. US expenditure to equip, train and pay the Afghan security forces, which had been running at around \$2 billion a year, went up to \$7.7 billion in 2007. Around this time, the US refined its approach to counterinsurgency based on successes in Iraq, and this doctrine, which requires effective local governance that can deliver services, came into vogue in Afghanistan (US Army and US Marine Corps, 2006). Development expenditures and the funds allocated to military commanders for local development stabilisation expenditures also increased significantly (Figure 4). However, these projects, like others implemented in parallel with the Afghan budget, often turned out to be unsustainable (Boak, 2011).

Figure 4: US assistance to Afghanistan (US\$ millions)

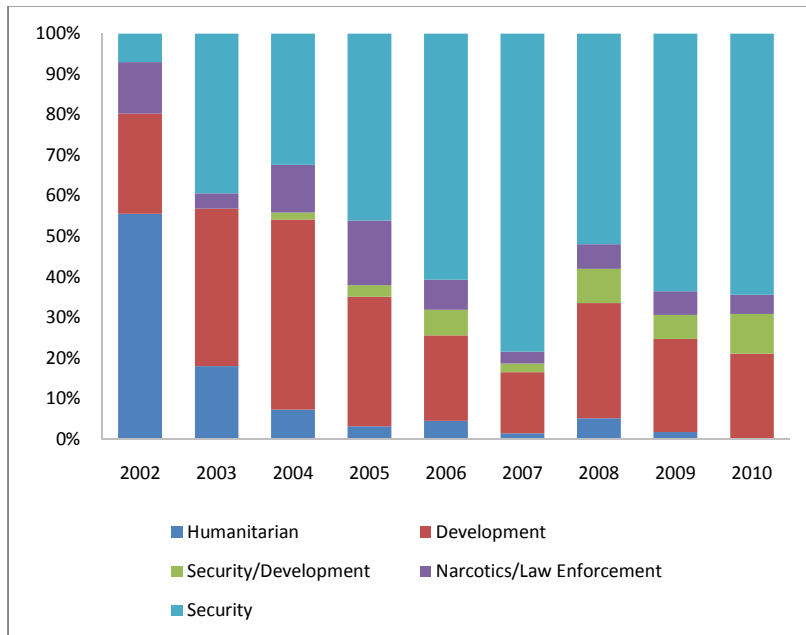


Source: Tarnoff, C (2010)

US expenditure in Afghanistan was highly skewed towards security assistance, which accounted for around two-thirds of US assistance towards the end of the decade. Development assistance amounted to around 20% of US assistance to Afghanistan and, not surprisingly, humanitarian relief declined during the decade, with temporary increases to respond to natural disasters and drought (Figure 5).

⁹ The aid effectiveness literature has shown that administrative quality is linked to the modalities of foreign aid delivery. See, for example, Knack and Rahman (2007).

Figure 5: Composition of US assistance to Afghanistan (%)



Source: Tarnoff, C (2010)

At the January 2002 donor conference in Tokyo, Secretary of State Colin Powell set out US development goals in Afghanistan as emphasising 'high-impact projects that quickly create jobs, generate income, get money flowing through the economy again, rebuild critical infrastructure, and encourage the successful return of the millions of refugees and internally displaced persons'.¹⁰ Longer-term US goals were reviving the agriculture sector, the heart of the Afghan economy and to provide alternatives to poppy cultivation; rebuilding the education and health systems; and rehabilitating and providing vocational training for the disabled (USAID, 2003).

Current US priorities in Afghanistan involve both development and counterterrorism objectives, and include agriculture, improving national and sub-national governance, rule of law, Afghan-led reintegration of former Taliban, counternarcotics, economic growth and development, health and education. Importantly, the 'how' of US support, as well as the 'what', has changed (US Department of State, 2010). First, the 'whole of government approach' has been strengthened to better integrate inputs from across the range of US government agencies into the overall strategy. Second, US development assistance is now better integrated into Afghanistan's poverty reduction strategy paper (PRSP), the Afghanistan National Development Strategy (ANDS), to deepen ownership and coordination of the US government's non-security assistance. Third, an increasing share of US assistance is flowing through the Afghan budget, including direct budgetary support to the health sector and increasing contributions to the ARTF, to which the US is now the largest donor. This shift in aid modalities is consistent with strategic shifts to a coordinated approach to counterinsurgency and state-building (sometimes referred to as governance or 'nation building' in the US).

¹⁰ See www.usaid.gov/pubs/cbj2003/ane/af/, accessed May 2011.

5 Corruption: a major risk in Afghanistan

Corruption has been a problem in Afghanistan, and the country has slipped steadily in international rankings of corruption perceptions. In 2010, Transparency International (TI) rated Afghanistan at 176 out of 178 countries, with only Somalia ranking lower (Afghanistan tied with Myanmar).¹¹ This was a substantial decline from the country's ranking at 117 out of 159 countries in TI's 2005 survey. According to World Bank (2009):

'Based on available survey evidence, most Afghans perceive that bribes must be paid in order to obtain services from the government. Much of the public may be willing to tolerate petty corruption on the part of poorly-paid government officials trying to make ends meet, but corruption is commonly perceived to have become organised and entrenched, involving corruption networks with people at all levels involved and those at the top reaping large rewards. Public positions and services are seen by many as being for sale. The police, justice system, municipalities, and customs department are widely seen as the most corrupt institutions. Extortion and other crimes by police and drug-related corruption are major issues in particular. Afghanistan's international partners also have become increasingly concerned about perceived corruption, although there are some significant differences in attitudes: Many Afghans consider high pay and overheads for NGOs, contractors, consultants, and advisors to be a form of corruption, irrespective of whether or not the relevant rules were followed in their contracting. For its part, the Afghan government is concerned about waste of aid resources that are channeled outside the national budget, irrespective of whether or not outright corruption is involved (e.g. through large and multiple overheads, especially those accruing to agency headquarters and staff outside Afghanistan).'

Much corruption in Afghanistan concerns abuse of power by public officials rather than leakage from the treasury system. Indeed, Afghanistan benchmarks well against other low-income countries in the Public Expenditure and Financial Accountability (PEFA) assessment, even against middle-income countries on some PEFA components, chiefly because of the role of external consultants in fiduciary processes (World Bank, 2008). However, World Bank (2009), which assesses vulnerability of procurement to corruption in Afghanistan, raised several issues that were a legacy of the old procurement regulations:

- Non-compliance with advertising requirements;
- Favouring direct purchases from state-owned enterprises;
- Issuing instructions for a second bidding round or awarding contracts to firms that did not participate in bidding but that may have provided a lower price.

The study also raised the issue of mistakes or non-compliance with the new procurement law, which may have owed to the inexperience of staff rather than corruption. Under the law, government employees were liable to administrative sanctions and payment of compensation for losses and prosecution. A zealous attorney-general launched an anti-corruption programme that resulted in arrests but few prosecutions. Some of these investigations or arrests were mistaken or inconsistent with the law, for example when the lowest bidder had been rejected for a bid that was not technically compliant (World Bank, 2009).

A consequence of the government's somewhat erratic approach to addressing corruption was a climate of fear and risk aversion among inexperienced government procurement staff, which slowed down procurement decisions. With strong encouragement from donors, Afghanistan signed the UN Convention Against Corruption in February 2004 and ratified it in August 2008. The UN's companion legislative guide runs to nearly 300 pages and mandates the establishment of an anti-corruption body and an approach that presupposes developed justice institutions, which have yet to be established in Afghanistan. As in other countries, there is a

¹¹ www.transparency.org/policy_research/surveys_indices/cpi/2010/results.

strong risk of anti-corruption institutions becoming politicised and being used to pursue political or personal vendettas.

Corruption in Afghanistan, or at least corruption where the benefits are perceived to be distributed unfairly, has undermined the Afghan state and provides a rationale for the insurgency. The political consequences of corruption have owed more to extortion and theft of public and private assets by state officials, or state-protected individuals, than to procurement-related corruption. World Bank (2009) indicates a number of areas where processes could be strengthened, including better implementation of procedures for single sourcing, improving advertising (radio has been used extensively in Afghanistan in the absence of national newspapers) and planning procurement to enable time for advertising and for bids to be prepared. With better communications and access to computers, there is also scope for gradually introducing e-procurement. However, increasing demand for clean government and strengthening accountability are also needed, particularly strengthening parliament to hold the executive accountable; training journalists and protecting freedom of the press; and raising the capacity of anti-corruption, investigation and prosecution institutions, possibly through training and twinning arrangements and, above all, through stronger leadership on anti-corruption and greater support to some high-profile prosecutions.

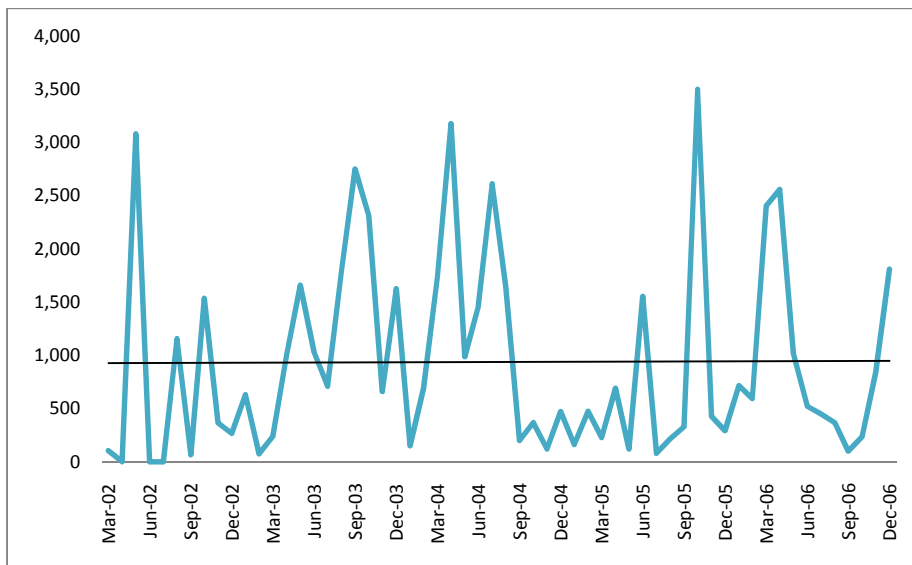
Concerns have led many donors to bypass government budget systems and implement projects through contractors and NGOs under their control, but this has not prevented significant corruption. The US is perhaps now the most transparent donor on the issue, and reports of the Special Inspector General for Afghanistan Reconstruction (SIGAR) set out the scale of the problem. For example, the January 2011 SIGAR quarterly report to Congress states,

'During this reporting period, SIGAR opened 35 new cases and participated in joint investigations that resulted in the payment of \$22 million in unpaid wages to Afghan workers and \$11 million in unpaid taxes to the GIROA [Government of the Islamic Republic of Afghanistan], \$500,000 in cost savings, the recovery of stolen equipment, the arrest of one contractor for bribery, and the proposed debarment of two individuals and two companies. SIGAR investigators also continued to work closely with investigators and prosecutors from the Afghan Attorney General's Office to identify and prioritise appropriate cases for joint investigative efforts. SIGAR is conducting 105 criminal and civil investigations of waste, fraud, and abuse of U.S. reconstruction dollars in Afghanistan. As of December 31, 2010, SIGAR is conducting 2 assessments, 52 preliminary investigations, and 51 full investigations. SIGAR closed 7 investigations during this quarter. Approximately 54% of SIGAR's open investigations focus on contract and procurement fraud, 26% on alleged bribery and corruption, and 20% on other criminal allegations, such as theft.'

6 World Bank procurement in Afghanistan

During the period from March 2002 until December 2006, the World Bank carried out a prior review of 1,060 contracts, amounting to \$935 million, before giving its 'no-objection' to the government signing with the selected contractor. Smaller items, particularly those financed under the ARTF recurrent window, did not require prior review. A sample of these was reviewed after contract award, by an international accounting firm contracted as the ARTF monitoring agent and Bank staff. While the average contract size was only \$882,000, the largest contract was \$31 million, awarded under international competitive bidding (ICB) for highway rehabilitation. There were several other contracts of a similar magnitude for power station rehabilitation, Kabul airport and other highway projects. The average contract size did not increase over time and was biased downwards by a large number of contracts for individual consultants providing temporary capacity in government entities (Figure 6).

Figure 6: Average contract size (US\$ '000s)



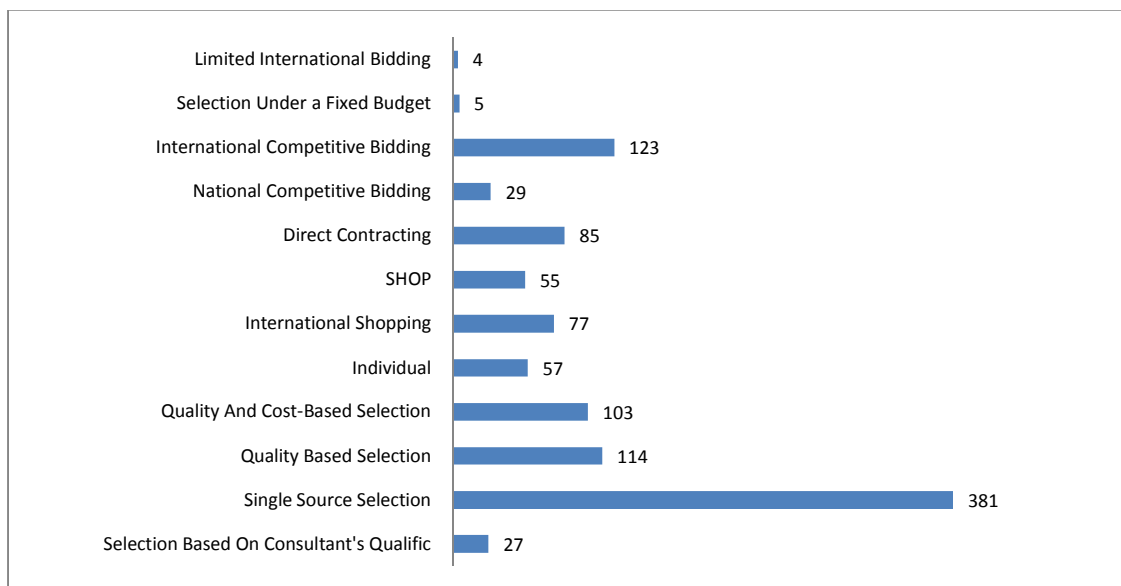
Source: Author's calculations based on World Bank borrower procurement reports (various years)

Bank staff were able to exploit the flexibility available within their procurement rules. To put the fiduciary agents in place quickly, CQS was used,¹² whereby a firm is selected by the government and invited to submit a technical and financial proposal which then forms the basis for negotiation. The alternative would have been Quality and Cost-based Selection (QCBS), the Bank's preferred method for procuring consulting firms, which in a post-conflict environment takes a minimum of six months and typically a year to complete.

Another innovation was in the health sector, where NGOs were selected on the basis of technical bids under a fixed budget to deliver a basic package of health services. Later contracts were awarded using QCBS. NGOs with experience operating in Afghanistan competed against each other for a provincial franchise. The role of the government shifted from service delivery (although this continued in some provinces and in other areas such as hospitals) to stewarding a publically funded health system. This provided transparency, accountability and secure funding for the NGOs selected. External monitoring of inputs, outputs, health outcomes and patient satisfaction showed dramatic improvements over a short period. For example, infant mortality dropped by around 20% in three years.

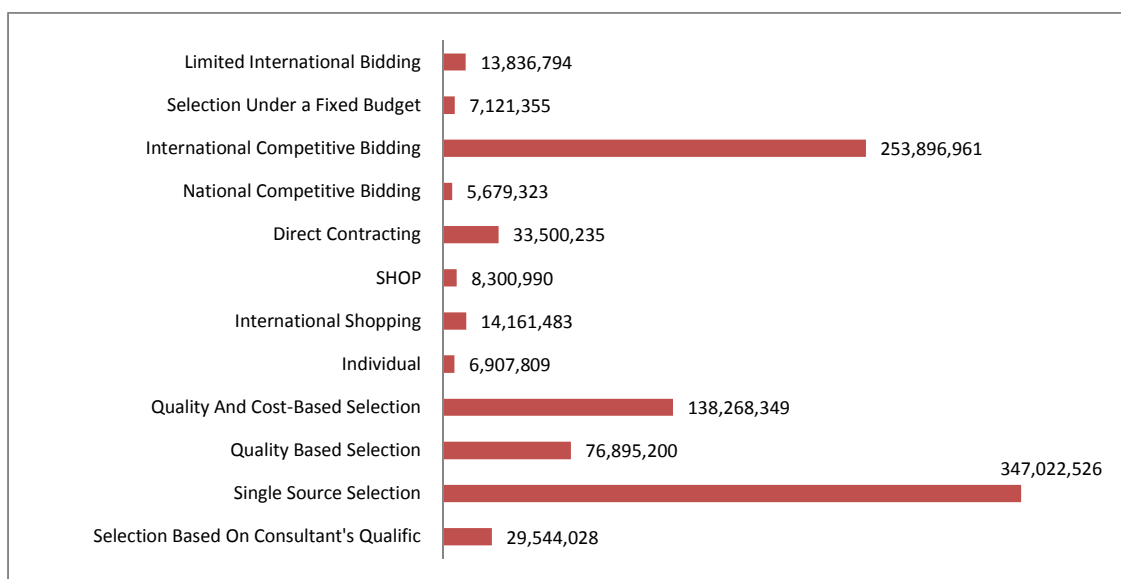
¹² The CQS procedure is set out in the rules for consultant selection of the World Bank: 'Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers,' <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20060656~menuPK:93977~pagePK:84269~piPK:60001558~theSitePK:84266,00.html>, accessed January 2011.

Figure 7: Procurement type by number of contracts

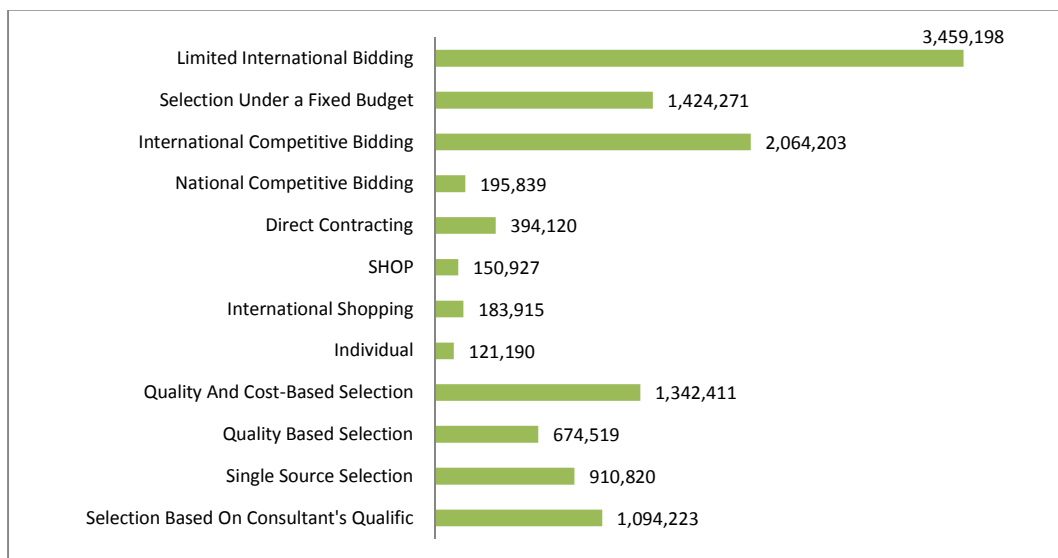


Source: Author's calculations based on World Bank borrower procurement reports (various years)

Figure 8: Procurement type by size (US\$)



Source: Author's calculations based on World Bank borrower procurement reports (various years)

Figure 9: Procurement type by average contract size (US\$)

Source: Author's calculations based on World Bank borrower procurement reports (various years)

While various sole sourcing arrangements were used to award half the contracts, most of these were small and for individual consultants (Figures 7 and 8). Large items were procured through ICB and limited international bidding (LIB) (bidding by invitation when there is a limited number of suppliers) (Figure 9). LIB, shopping and single source selection are appropriate when financing rehabilitation of existing assets, when it may be necessary to procure from the original manufacturer or a supplier of compatible equipment.¹³

The risk of wasting resources through consultants and suppliers overcharging, or even colluding, submitting fraudulent claims and bribing government staff, is higher when competition is limited through single sourcing and similar arrangements. However, potential competition was limited for several reasons. First, the nature of the procurement did not always lend itself to competition (e.g. procurement of replacement parts); second, suppliers often chose not to bid because of concerns about security, difficult in arranging insurance and the logistics challenge of delivery to a landlocked country lacking infrastructure; and third, Afghanistan was a difficult market for new entrants owing to the prevalence of informal institutions (e.g. lack of a formal justice system, concerns about timeliness of payments and language requirements). Risks were mitigated by the procurement, financial management and audit agents; the monitoring agent for ARTF recurrent expenditures; the leadership of the Minister of Finance and other diaspora Afghans; and the presence of Bank staff on the ground who could make assessments of what risks were safe to run with. Somewhat surprisingly, the number of cases brought to the Bank's anti-corruption body was small, possibly because new treasury systems were established quickly and good leadership existed in the key ministries with which the Bank worked. There may also have been easier and more lucrative possibilities for those inclined to corruption (e.g. narcotics, acquisition of state assets such as land). Moreover, more permissive environments may have existed outside the control of Afghan government systems – two-thirds of civilian assistance to Afghanistan went outside the government budget, and there were also large military contracts where speed of execution was at a premium.

¹³ These different procurement procedures are set out in the World Bank's consultant guidelines and in the World Bank 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants,' <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20060840~pagePK:84269~pPK:60001558~theSitePK:84266,00.html>, accessed January 2011.

7 The US approach to procurement in Afghanistan

US public procurement in Afghanistan (and within the US itself) is governed by a complex and lengthy hierarchy of regulations: the Code of Federal Regulations (CFR), the Federal Acquisition Regulations (FAR), the AID Acquisition Regulations (AIDAR), USAID Policies and Procedures, its Acquisition and Assistance Policy Directives and Office Management and Budget (OMB) Circulars.¹⁴ Other US government departments and agencies have their own acquisition rules that stem from the FAR, most notably the Department of Defense, which has developed an elaborate system linked to its special need to procure advanced technologies that are sometimes still under development, to protect its forces and to take into consideration national security. This paper focuses on civilian procurement, even though delivery of development-type assistance through military channels has been in vogue in Afghanistan and Iraq, as well as in other theatres related to counterterrorism or insurgency operations.¹⁵

Most US procurement is done directly by US government agencies, and their acquisition rules reflect the rational-legal constitutional basis of US governance, as well as the separation of powers, whereby Congress mandates the executive by law. Consequently, the laws and regulations that govern procurement are voluminous and complex, and sometimes include mandates imposed by particular congressional interests, e.g. shipment by US-flagged vessels. Without the flexibility that is built into the rules, this system would be unworkable at times of crisis, when quick decision making is needed. On the one hand, the US procurement system is so complex, particularly in comparison with that of the World Bank, that it requires an army of specialists and lawyers to run it. On the other hand, there is ample provision for single sourcing and other shortcuts, which can be invoked when conditions require. For example, the procurement rules contain an override 'to protect the foreign policy interests of the US' and a process to determine this and to manage single-sourcing procurement by US agencies. Indeed, there is more flexibility on paper in the US acquisition regulations than in the World Bank's procurement guidelines, but this flexibility needs to be specially invoked. Note that nearly all US procurement is done by US agencies on behalf of the host country, not by the host country's government, which means risks arise related to country ownership, appropriate design and sustainability. Furthermore, US congressional and other political mandates are required to be implemented unless waived.

Chapter 305 of the AIDAR sets out USAID's rules for procurement by the host country and is roughly comparable with the World Bank's procurement guidelines.¹⁶ Where the US contributes to a multilateral organisation or trust fund, e.g. the ARTF, the procurement rules of that organisation or trust fund are used. In some ways, Chapter 305 is more flexible than the Bank's rules, particularly in dealing with failed procurement (lack of responsive bids); single source selection; negotiating modifications or extensions of contracts; waiver of advertising to save time; and delegating authority to the mission director in the field (ability to waive competitive bidding (by mission committee), \$10 million contract size approval limit for competitive bidding, \$5 million when competition is waived). However, the host government also needs to comply with a number of US government mandates, which include constraints on the nationality of bidders or source (the US could not finance Iranian cement or bitumen in Afghanistan); inability to cover local taxes;¹⁷ requirement for contractors to pay workers compensation insurance (unless waived by the US Department of Labor); application of equal opportunity guidelines (unless waived); and air travel by US carriers (when available).

Afghanistan was a clear case of an overriding foreign policy and national security interest, and the US moved fast to secure a 'peace dividend'. A key early project was the rehabilitation of

¹⁴ For USAID procurement policies and documents, see www.usaid.gov/business/regulations/, accessed January 2011.

¹⁵ For US defence procurement and acquisition policy, see www.acq.osd.mil/dpap/index.html, accessed January 2011.

¹⁶ For regulations on host country procurement financed by USAID, see www.usaid.gov/policy/ads/300/305.pdf, accessed January 2011.

¹⁷ Payment of local taxes by non-diplomatic personnel and for imports related to donor-funded projects has been an issue in Afghanistan, where tax revenues were less than 10% of gross domestic product (GDP). Consistent with its policy, the World Bank allowed 100% of taxes and duties to be reimbursed.

the Kabul–Kandahar road, which reduced travel time from three days to five hours. The 389km section of the road financed by USAID cost \$270 million, including \$20 million for security and demining. An apparently single-sourced contract was given to a US consulting and engineering firm in September 2002 to implement the project. Construction started in January 2003, and the road was opened in December of that year. Further layers of asphalt were added in the spring and summer of 2004 to complete the project. This was the flagship US project in Afghanistan: President George W. Bush took a personal interest in the project and received regular reports on its construction.¹⁸ While the project made undoubted economic sense, the potential benefits were not realised fully when security deteriorated in the south (Gall, 2008). In addition to Taliban groups, criminals preyed on travellers, including the police, who extorted payments and beat Afghans who did not pay (Chivers, 2007).

Congressional concerns about the potential for corruption and the effectiveness of foreign aid have led to the establishment of an elaborate oversight system, described by former USAID Administrator Andrew Natsios as an example of ‘counter-bureaucracy’ which, in his view, encourages a conservative approach to risk that may lead agencies to avoid activities that promote difficult-to-predict and non-linear institutional transformation in host countries (Natsios, 2010). Lack of public and political support for foreign aid, and government programmes in general, led to USAID staffing being run down and much of its expertise eroding, so it lacked the resources and knowledge when huge demands were placed on it following the wars in Afghanistan and Iraq. Concerns about USAID’s capacity to meet the challenges it faces were laid out in an article by three former USAID administrators in *Foreign Affairs* in 2008 (Atwood et al., 2008).

A consequence of all this was a reliance on a small number of private contractors to implement programmes. Prime contractors in turn subcontracted the work to other contractors or NGOs: in the post-2001 period in Afghanistan, NGOs and contractors were often the same thing. While this may have worked in the case of the Kabul–Kandahar road described above, it was less effective in other areas, particularly programmes with many small investments, e.g. education, and in providing technical assistance. Programmes to build schools and clinics did not meet output objectives and resulted in substandard construction, costs substantially higher than in government-managed programmes and allegations of corruption in the subcontractor chain (Stephens and Ottaway, 2005). There were also allegations from a whistleblower of one of USAID’s prime contractors incorrectly charging overheads to work in Afghanistan, which led to it paying \$46.5 million to settle the case, \$4.1 million to settle other contractual disputes and \$18.7 million in criminal fines.¹⁹ Military contracting in Afghanistan was not problem-free either: a staff memo to a congressional committee put the number of military contracts in Afghanistan at 104,000 in late 2009.²⁰ The son of the Defence Minister was awarded a \$360 million fuel supply contract delivered through subcontractors amid allegations of payoffs to assure security of tankers in transit (DeYoung, 2010).

Maintaining compliance with a complex procurement system, while under pressure to deliver quick results amid insecurity, with limited staff rotating in and out on short assignments, was an almost impossible task. The volume of US assistance for 2010, of \$10.2 billion, was 61% of the International Monetary Fund (IMF) estimate of Afghan GDP, of \$16.6 billion, although not all of this is spent in Afghanistan. Allegations of waste, fraud and corruption as the absorptive capacity of the economy is stretched are not surprising, particularly as much assistance has been fragmented over hundreds of thousands of small subcontracts.

¹⁸ See www.usaid.gov/press/factsheets/2003/fs031214.html, accessed January 2011.

¹⁹ For details, see www.phillipsandcohen.com/CM/NewsSettlements/NewsSettlements619.asp, accessed January 2011.

²⁰ For details, see <http://mccaskill.senate.gov/pdf/121709/2009-12-16StaffMemo.pdf>, accessed January 2011.

8 What general lessons can be taken from the experience of Afghanistan?

Willingness of the international community to take risks was higher than in other post-conflict settings, probably because failure in Afghanistan would have created security risks and threatened the strategic interests of donor countries themselves, as the events of September 2011 had demonstrated – a point that Afghan officials were not slow to make.²¹ The IFIs and some bilateral donors were able to balance higher fiduciary risks against the risks of not achieving results. Other aspects of risk taking entailed committing administrative resources and some of their best staff to what seemed at the time to be highly uncertain outcomes, and putting the issue of Afghanistan's arrears temporarily to the side. Some other actors, particularly in the security sector, were focused on short-term results at almost any cost, so Afghans became cynical about the waste and corruption that resulted and conditions were created for the deterioration in governance and security that occurred later. Also, the international community and the government were generally not effective in balancing short-term benefits against longer-term costs and in agreeing an integrated strategy for Afghanistan.

Organisational alignment for results was a characteristic of the World Bank's engagement with Afghanistan. From the board to President James D. Wolfensohn to the South Asia region management, there was a deep commitment to achieving speedy results in Afghanistan and to ensuring that organisational procedures, including procurement, contributed to this end. Financing police salaries from the ARTF using a pass-through arrangement to UNDP would not have taken place without the personal support of the president. It also helped that, by chance, the country director for Afghanistan was also the South Asia regional operations director and the deputy for the vice-president, and could act with her full authority – a consequence of the lack of staff in the region with post-conflict experience and the uncertainty at the time about the future of Afghanistan. After the events of 11 September 2001, there was a similar unity of purpose in the US, cutting across the executive, the legislature and the general public. At least as important was the close alignment between the World Bank and the Afghan government's economic development policies. The government was able to set out a compelling vision, backed by national programmes that the Bank could help develop and finance. Also, the Bank's modality of providing finance on the government budget was consistent with the government's plea to the international community, which fell largely on deaf ears. These considerations also applied to the regional development banks, such as ADB.

Strong government counterparts projected credibility to gain sustained support. Government credibility mobilised international support and gave its partners the confidence to take risks with procurement, for example widespread use of single sourcing. Indeed, even the Interim Administration (December 2001-June 2002) was more strategic than most of its international partners. It was able to present a well-conceived National Development Framework as early as the international meeting in April 2002 to donors who unfortunately did not respond as strategically. A few senior ministers had returned from the diaspora with a vision of a modern Afghan government. The Bonn Agreement of 2001 and the *loya jirgas* and the first election gave the Afghan government high domestic and international legitimacy. Government-designed programmes for reform, aligned with the Bonn process, were critical for mobilising support from the international community.

Coming out of the Bonn meetings, there was a deliberate Afghan attempt to build the government's team, including a recruitment drive among the Afghan NGO leadership, so as to drive reforms forward. It helped, for example, that the first two finance ministers and the minister of mines and energy were former World Bank staff members, and the minister of rural development came from an NGO; all of these players knew what international financiers expected. However, some ministers, who were not the classic English-speaking foreign

²¹ The risk of a 'narco-terrorist state' were spelled out clearly in one of the scenarios in the report prepared by the Afghan government and partners prior to the 2004 Berlin meeting on Afghanistan (ADB et al., 2004).

technocrat, were also effective, such as the minister of health, who had been an officer in the post-Soviet army; meanwhile, a few ministers who had returned from abroad or had worked with NGOs achieved negligible results. Indeed, it was not easy to predict on the basis of education or prior experience which Afghan senior officials would be effective.

The reform effort faltered after the elections of 2005, when a less technocratic cabinet was installed and dozens of reformers resigned. One of the 'what if' questions is whether these elections were premature, given that the government had been legitimised by *loya jirgas*, and whether new institutions would have grown deeper roots to establish better governance (and less corruption) if the transitional administration had had more time. There was pressure from the international community for early elections, and Afghans certainly voted in large numbers, but in retrospect this was a high point before a decline in governance and security.

The core government strategic leadership team was also effective in establishing high-level contacts with its main bilateral and multilateral partners, which were critical in communicating the government's strategy and credibility as a partner. For example, the key members of the leadership team had regular access to the highest levels of partner governments and the presidents and senior managers of the IFIs. Regular videoconferences took place between Presidents Hamid Karzai and George W. Bush. Afghanistan's relations with the US government were broad-based, and economic ministers met with White House, defence, national security and congressional staff, as well as with more traditional counterparts in USAID, treasury and state. Afghanistan's US network was facilitated by an effective ambassador who was well-plugged into official Washington and the media. This relationship was based on substance and mutual interest rather than spin. However, Afghanistan's relations with the US faced setbacks after 2005 when reports grew of corruption, weak governance and wastage of resources.

Leadership quality matters and donors selectively chose which leaders to engage with. After the May 2006 riots in Kabul, which followed a road accident involving a military convoy, and a deterioration of security during that summer, World Bank management carried out a review of its programme in Afghanistan. This found the single most important ingredient of success was the quality of ministry leadership.

Well-led ministries made substantial progress. Afghanistan's national programmes provided the focus for the activities of these ministries. Their ministers either were recruited from those with the skills to lead a national programme, e.g. the NSP, or appointed well-qualified deputies; otherwise, ministries partnered with foreign expertise to build such programmes, e.g. in health, telecommunications, the army.

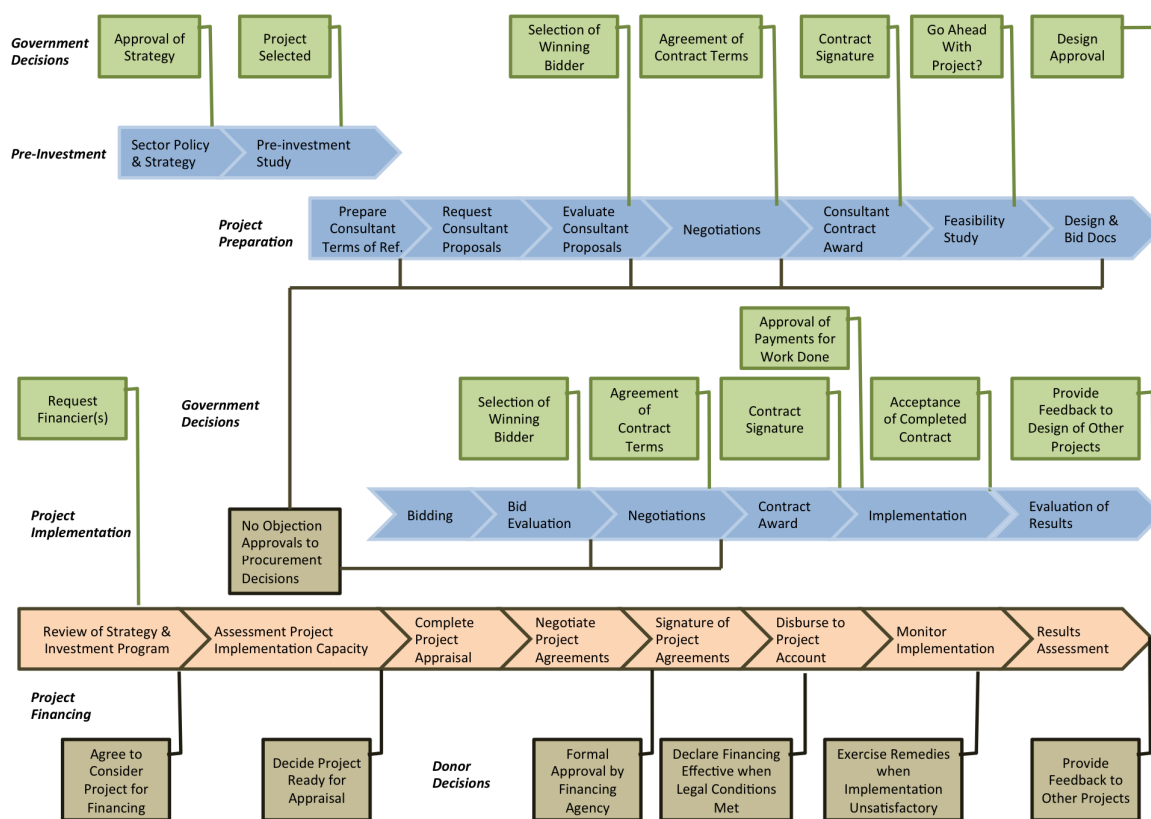
Poorly led ministries achieved little and dissipated their human, organisational and additional financial resources. Technical assistance and international staff support could achieve little traction. The Bank took a decision to scale up those programmes that were effective and to slow further finance to low-performing ministries. Some of these sectors were of high priority to the government, but the Bank avoided providing further finance until the ministry in question could demonstrate that it could achieve results with the funds already available. A general lesson is that, in the post-financial crisis environment, where foreign aid competes for scarce public resources, results matter, and money is more likely to flow to countries and ministries that can deliver development results.

Building on the national capacity that exists is vital. There was a misperception that there was no capacity in Afghanistan. As one former UN Special Representative of the Secretary-General (SRSG) put it, nobody tried very hard to find any. Yet, at the beginning of 2002, there were as many as 240,000 Afghan civil servants, many of whom were doctors, teachers, nurses and engineers. The international community stripped capacity from the very services they aimed to deliver. This was accelerated by difficulties in paying civil servants caused by a lack of financial resources – ARTF funds were not available until seven months after the new government was established, but were able to finance salaries retroactively – and of a system to disburse them, as formal banking had effectively collapsed. Despite these difficulties, some ministries were able to use the talent they had effectively and to promote existing staff and

complement them with external resources in line or advisory roles so as to enable the core functions of the ministry to operate.

Programme and project design. In 2002, there was a clamour for quick results and visible signs to the Afghan people that their country had changed for the better. Whatever the value of peace dividends – and the academic literature is divided on the extent to which economic development secures the peace²² – the long-suffering Afghan people, though more patient than foreigners thought, deserved respite after decades of conflict and deprivation. High levels of the government and some partners favoured large, visible infrastructure projects, but these would have taken several years to prepare and build, even in a more favourable environment. Expectations of early results from investments in, say, hydropower, or a new highway where no road already existed would likely be followed by disappointment. Surveys, decisions on sites, overall design parameters, conceptual design, land acquisition and detailed engineering design all take many months or years, irrespective of whether the country is fragile, industrialised, democratic or authoritarian. The process for a typical investment project financed by a multilateral bank is complicated and lengthy (see Figure 10).

Figure 10: Typical process for investment project



Source: Author's estimates based on World Bank (2010b)

On the other hand, assets from past investment were in disrepair, whether from war damage or from lack of maintenance. Repairs almost always have very high rates of return and could demonstrate early results, particularly as a combined design and bid preparation process could be short. Apart from highway reconstruction, other quick wins through rehabilitation were

²² The academic literature on the role of development assistance in securing peace dividends is uncertain. Research using a cross-sectional sample of 100 districts in Iraq indicates that the military handing out grants to local leaders was most effective in reducing the number of incidents of violence, whereas investment in infrastructure was the least effective (Berman et al., 2009). On the other hand, a paper on northern Kenya indicates that development-type activities by the military were ineffective (Bradbury and Kleinman, 2010).

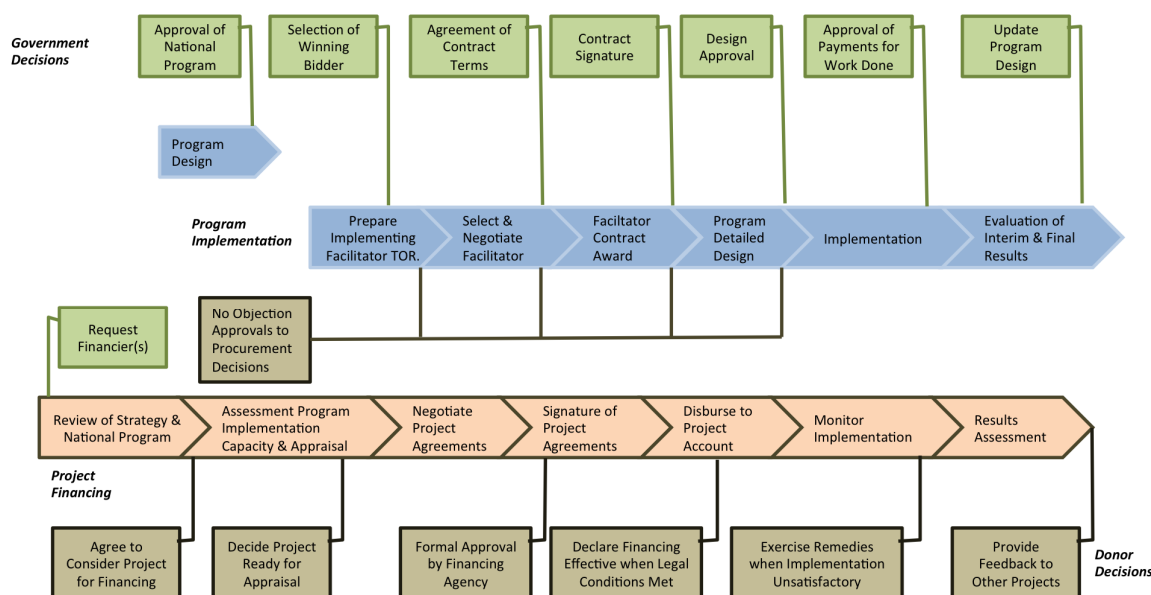
achieved in schools, irrigation and repair of secondary roads through labour-intensive public works. Some reconstruction projects, such as the upgrading of the Kabul thermal power station, for which equipment had been delivered to site years before, did not pass technical and economic assessment and were not implemented.

Other projects required more careful design, such as the Central Asia to Kabul power interconnection. It was clear that importing electricity from Central Asia, where hydroelectric plant construction halted during the Soviet transition was being restarted, not only offered cheap electricity but also avoided the organisational complexities of running a new power station in Afghanistan. The private sector was not interested in power generation in Afghanistan, so the option to transmit power to Kabul was chosen, which was cheaper and quicker than building a new power station. Other sectors that required more upfront design included urban water supply, where supply and bulk transport options needed assessment, and urban solid waste management.

In retrospect, more could have been done to systematically prepare infrastructure investment. This would have required stronger government leadership in terms of identifying investments of priority, and actions by the international community to finance the necessary studies to create a portfolio of programmes and projects. One reason for this was the project mentality of donors, who sought to carve out investments that fitted their priorities, administrative rules and financial resources, and rarely worked strategically with sector ministries in a coordinated way. It would have been better to provide technical advice and the funds to carry out feasibility and design studies from the beginning. The lesson from Afghanistan is to seize some quick wins from early repairs and, around the same time, start to prepare a portfolio of prioritised, larger investments to support growth and poverty reduction in the future.

Consolidating projects into national programmes was a key feature of successful development investment in Afghanistan and addressed the issues of lack of coherence and ability to scale up in sectors characterised by small investments. Around six national programmes enabled government to direct investment to priority sectors, ensure horizontal (geographic) equity and coordinate international assistance through the government budget. Early national programs included the NSP, labour-intensive public works (mainly repairs to roads and irrigation channels), provision of a package of basic health services across the entire country, highways, education and telecommunications (regulation and complementary investment for the private sector). The World Bank processed national programmes using its emergency procedures, resulting in a simplified process (see Figure 11) compared with the more complicated usual process shown in Figure 10.

Figure 11: Typical process for national programmes



Source: Author's estimates based on World Bank (2010b)

These national programmes contrasted with the donor-driven quick impact projects (QUIPS), which were usually unsustainable, expensive and located according to donor preferences. Rather than create peace dividends, these may have exacerbated horizontal inequalities, created public perceptions of NGOs capturing donor resources intended to benefit Afghans and *not* reinforced the authority of the legitimate state (Ghani and Lockhart, 2008).

While some national programmes took time to set up, the institutional capacity created during their initial phase enabled them to grow exponentially rather than in the usual linear, project by project, way. National programmes expanded rapidly to achieve countrywide scale. The NSP, for example, had expanded by late 2007 to cover 22,000 of the country's 30,000 villages. Many of the remaining 8,000 were either isolated hamlets or communities where active hostilities were taking place.

In October 2003, the first contracts were signed with NGOs that had been awarded provincial franchises to deliver health services. The results were sometimes spectacular. In one province, the number of pregnant women visiting clinics went from 4% to 60% in one year. Even though it was 18 months before the new health system was in place, repairs to clinics (and schools) went on funded by emergency recovery grants.

The main criticisms of national programmes were their overhead costs, as ministries contracted NGOs and consultants to manage them and, in the case of the NSP, to mobilise communities. Some argue that the programmes took too long to set up and failed to provide an early peace dividend; others counter that community mobilisation during the early stages of the NSP was the first time the central state had engaged with rural communities on a large scale,²³ and that some reconstruction got underway quickly through emergency recovery projects and labour-intensive public works.²⁴ The QUIPS alternative was not able to achieve scale, and many of these projects collapsed into disrepair around the time when Afghan disillusionment with the post-war situation was growing. Other national programmes, such as education, were slower to gain traction owing to frequent changes of minister, lack of strategic

²³ Private conversations with Afghan ministers.

²⁴ An advisor to the Afghan government mentioned that the NSP was up and running before most of the QUIPS started.

leadership by both government and donors and the short-term focus of donors and UN agencies. The World Bank initially planned to stay out of education and health given overwhelming donor interest in these sectors (World Bank, 2002). However, reformist ministers leading later invited it to fill the strategic gap by assisting in programme design.

Use of community-based approaches, whereby local communities took responsibility for deciding priorities and implementing small projects, simplified procurement and transferred responsibility from government to communities accountable to their members. A fundamental problem in Afghanistan was finding ways of facilitating development at the village level in a country where the sub-national administration was dominated by militia commanders and others of dubious legitimacy and integrity. The NSP was started in one of the first World Bank-funded projects and was prepared using funds from one of the central trust funds (the Post-conflict Fund (PCF)) managed by the Bank. The NSP involved the government setting the policy framework within which it procured NGOs and UN agencies to mobilise communities – community development councils were elected through secret ballot – and to assist them to determine their priorities for using a cash grant, which they managed according to their own procurement process. This might involve purchasing goods and engaging local contractors, thus facilitating the development of the local construction industry, and contributing community labour for free. The community itself provided oversight and the NSP had a record of very low levels of corruption. The process of community mobilisation and project preparation took time, and there was not much construction during the NSP's first 18 months. However, this often owed to the nature of decision-making processes within communities or other issues that communities understood, thus defusing the usual popular anger at the slow pace of reconstruction. Community-driven development contrasted with *ad hoc* donor-driven projects that lacked systematic design and real partnership and ownership, which often were not sustainable and also did not contribute to cementing lasting peace.

Establishing grant coordination and management units in sector ministries addressed the problem of lack of capacity in key sector ministries and the proliferation of project implementation units (PIUs) in low-capacity environments. GCMUs were integrated into the structure of the ministry and reported to the minister. Most of the staff were on fixed-term contracts, and many were Afghans returning from abroad or foreigners. These contracts were financed through a number of mechanisms, including programmes administered by UNDP, ARTF expatriate and skilled Afghan programmes and direct donor contributions. However, it was clear that the staff were accountable to the GCMU and the minister, not the organisation that managed their recruitment or paid their salary. Over time, more Afghan civil servants staffed the GCMUs, especially as civil service reforms spread and deepened.

Question sector ideologies and use non-state capacity for programme delivery. At the beginning of 2002, most post-war service delivery capacity lay in humanitarian NGOs and UN agencies. Formal public organisations appeared able to function only at a minimum level, owing to lack of financial resources and neglect of public administration by the Taliban. This caused the international community to greatly underestimate Afghan institutional capacity. Given the financial and organisational constraints, the government had to decide on which public services it would deliver itself and which should be contracted out or left to non-state actors. These decisions were taken either based on national programmes and the strategies that underlay them, or *ad hoc*, and depended on the leadership and imagination of the minister and the quality of advice from the international community. Some decisions conflicted with the nationalist ideology of the government or donors' ideologies. For example, the government decided to retain a centralised, public basic education system; invest in higher education; award health service delivery to NGOs through competition;²⁵ keep electric power

²⁵ This upset lower-level staff in the Ministry of Public Health, the UN, the World Health Organization (WHO) and other donors, three of which signed a letter protesting the new arrangements. Ministry staff were placated by retaining some provinces where they could deliver the same package of services under similar salaries and other arrangements to NGOs – the ministry staff performed well, perhaps because of the contestability of the new arrangements – and the donors eventually became financiers of the programme when it had demonstrated its success.

in the public sector; maintain a role for the state in telecommunications, even if most services were through mobile operators; and establish industrial parks to promote private industry.²⁶

Ensure high-quality donor staff in the country. The World Bank, like most other international agencies in Afghanistan, had little difficulty in recruiting high-performing senior staff with a sense of mission related to the calamities the country had suffered and the history that was in the making. The quality of Afghan counterparts was usually high, as were the prospects of achieving results. Other factors played a role, including a benign bureaucratic environment that supported risk taking, supportive fiduciary staff and lack of nitpicking administrative and budget constraints. Human resources policies were applied flexibly to cater for family constraints, support those staff who wanted to stay on and deal with performance or other issues when they arose. Similarly, the US mobilised experienced staff to fill positions in Kabul, including some of ambassadorial rank. Many of the USAID staff in Kabul moved to senior positions in the organisation after their duty in Afghanistan. Donor staff more generally could have focused more on programme design and implementation: there was a tendency to concentrate on strategies, particularly as turnover of donor staff in Kabul was frequent and each new team sought to learn and create plans to address an evolving situation. Strategies such as the ANDS took years to produce, became outdated quickly when security deteriorated and did not establish clear designs for programmes that could be financed and implemented.

²⁶ These last three were contrary to World Bank sector policies at the time. However, the process for awarding NGO health service contracts was an interesting fusion of knowledge between World Bank health sector and private sector infrastructure expertise. Awarding mobile telephone franchises to the private sector through competition went against the grain for some in and around government, who might have preferred less transparent direct negotiations, as happened with the first operator before the Karzai government took office.

9 What are the lessons from how procurement was undertaken in Afghanistan?

Quickly establish government procurement capacity capable of meeting the requirements of donors was probably the single most important factor in rapid implementation. As mentioned above, the first World Bank financing operation financed international consulting firms that provided fiduciary support, including procurement services. This was successful in Afghanistan, but less so in other contexts, such as Southern Sudan – which may have owed to counterpart arrangements and the quality of staff provided by the contractor. Afghanistan also established a reconstruction agency to expedite all project-related procurement, the Afghanistan Authority for the Coordination of Assistance (AACA), similar to other countries (e.g. Lebanon and Palestine). While these may achieve short-term results, they may also set back capacity development in line ministries, be difficult to wind down and enable corruption to become centralised. AACA's original design took these lessons in mind and imposed on itself a sunset clause of two and a half years. AACA was then scaled back, restructured and merged into the largely moribund Ministry of Planning for the latter to oversee the procurement consultant and programmes to recruit skilled Afghans for public service. Other functions such as procurement policy and administration of aid data were moved to the Ministry of Finance.

Build permanent procurement capacity. While the procurement consultants enabled the government to manage procurement to standards acceptable to the main providers of on-budget financing (ARTF, ADB, IDB, World Bank), they were largely unsuccessful in the procurement capacity building part of their contract, which took second place to short-term demand for processing transactions.²⁷ The second public administration project approved by the Bank's board in June 2003 provided for another consulting firm to provide capacity-building assistance, while the first firm provided assistance in procurement transactions. Capacity building involved training to government entities and the private sector at three levels. The highest level provided for accreditation by the UK-based Chartered Institute of Purchasing and Supply²⁸ for those who became leaders in procurement in Afghanistan. As capacity grew in sector ministries, more procurement responsibility was devolved to them, with the procurement consulting firm's staff in the Ministry of Planning concentrating more on large items, complicated procurement or ministries facing a short-term surge in procurement, for example the Justice Ministry.

Exploit the flexibility within donor policies and procurement rules. The World Bank financed new grants and credits under Operational Policy 8.00, which cuts back substantially on processing time and allows other flexibility in procurement, retroactive financing and streamlined financial management and disbursement procedures. This framework was initially designed for Bank financing after natural disasters and has been used in Afghanistan now for nine years. USAID used the flexibility allowed within its rules where overriding foreign policy considerations are invoked, for example single source procurement or negotiated contracts.

New procurement laws and regulations were not a short-term priority. Initially, Afghanistan used its old procurement regulations for small items and the procurement rules of the World Bank and ADB for large items and items procured internationally. A new procurement law was promulgated in 2005 and replaced by another law on public procurement in 2008, which was subsequently amended in 2009. The early laws were inconsistent with the procurement rules of ADB and the World Bank but substantially converged later. There was tension between those in government who saw public procurement as a means to exert patronage and cement political control and those who saw the efficiency gains from fair competition and political advantages of transparency and equity. Lessons from Afghanistan are that it is better to stick with processes that civil servants know how to operate; and that some

²⁷ See World Bank (2006). Other World Bank evaluations have pointed to the difficulty of the same contractor providing services and training local staff, as the service delivery role tends to swamp the other.

²⁸ See <http://www.cips.org/en/>.

basic procurement regulations are sufficient, at least in the immediate stages of a country's emergence from crisis.

Procurement for donor projects is one issue, but if domestic licensing and procurement systems are not given attention, the door may open for the growth of massive corruption that goes unchecked and unnoticed, as in Afghanistan. Major procurement reforms, such as separating procurement policy from transaction processing, need to be established on a slower track, but before government procurement becomes compromised.

Furthermore, the greater the consistency between national procurement practices and those of development partners, the less tension and fewer delays there will be as national staff try to master what may seem alien rules and processes. The World Bank's attempt to pilot greater use of country systems in procurement in non-fragile states appears to have failed, as no project using country procurement systems will likely be approved under the pilot by the time it ends on 30 June 2011 (World Bank, 2011a). Reasons for this include Bank insistence on equivalence between country and highly prescriptive Bank processes, lack of incentives for both countries and Bank staff to participate in the programme and lack of integration of new fiduciary systems into wider public sector reforms (World Bank, 2011b). There have been no proposals to use country systems in fragile or post-conflict situations, but greater flexibility on the use of country systems that result from reforms to country fiduciary institutions, with appropriate internal and external oversight, would seem worth pursuing, especially as some of the concerns of World Bank shareholders, such as lack of open competition that allows their national firms to compete, may be less applicable.

Even if donors find it difficult to use a country's own fiduciary systems, they could at least standardise their procedures among themselves. This would substantially reduce the need for weak capacity countries to master the procurement and reporting practices of donors with varying requirements.

Efficient procurement design involves how to package and procure the items needed to implement the project. At one extreme, there could be one turnkey contract for a contractor to design, build and test a facility before handing it over to the government. Such contracts tend to be large and complicated and may take time to put in place, especially as the IFIs are likely to insist on ICB. However, USAID had the flexibility in its rules to do this, as the Kabul-Kandahar road showed. At the other extreme, items to be procured can be broken into many small packages and procured locally through shopping, or national competitive bidding. This can usually be done quickly, unless excessive fragmentation overburdens the procurement capacity of the country.

Build related institutions that support procurement, such as financial management and auditing. As with procurement, delivery of these functions was initially contracted out in Afghanistan. Later, the same consultant that provided procurement capacity building also gave support to the strengthening of financial management and auditing. In addition, there were issues in Afghanistan related to the independence of the supreme audit institution, the legislative scrutiny of audits and the capacity of the judiciary and the civil service to take action on misuse of public funds. Formal rule of law has been slow to develop, and donor-supported activities to strengthen it have been too ambitious and unfocused, achieving limited results. Meanwhile, some of the ministers proposed for reappointment by the president who were not ratified by parliament had a reputation for corruption. More could have been done to strengthen the technical capacity of the parliament to fulfil its budget approval and accountability roles, particularly to review audit reports, which were often heavily qualified in the early years.

Deal with risks of corruption. Corruption in Afghanistan, or at least corruption where the benefits are perceived to be distributed unfairly, has undermined the Afghan state and provides a rationale for the insurgency. The domestic political consequences of corruption have owed more to extortion and theft of public and private assets by state officials or state-protected individuals, rather than to corruption related to procurement. However, reports of

corruption have made donors less willing to provide financing through the government budget and threaten donor country support for assistance to Afghanistan, both economic and military.

Any approach must deal with cases of procurement-related corruption aggressively and follow up transparently when something goes wrong. Actions are necessary on a broader front to reduce the possibilities for corruption through strengthening treasury systems, audits and legislative oversight, as well as simplifying and computerising the procedures of public administration. With better communications and access to computers, there is also scope for gradually introducing e-procurement and using mobile phones to register complaints of petty corruption. Increasing demand for clean government and strengthening accountability remain challenging in Afghanistan, particularly increasing the capacity of the parliament to hold the executive accountable; training journalists and protecting freedom of the press; and raising the capacity of anti-corruption, investigation and prosecution organisations, possibly through training and twinning arrangements. Above all, stronger leadership on anti-corruption and greater support for some high-profile prosecutions would enhance the government's credibility with its own people, reduce a driver of insurgency and sustain international support. Afghanistan's lessons show the consequences of not addressing all types of corruption vigorously, and that, with a strong ministry of finance, it is possible to maintain acceptable standards of public procurement in a highly corrupt environment.

Differentiate and manage risks. While the risk of mis-procurement is high, the consequences of programme failure are also high, particularly of armed violence, which would not only reverse the country's considerable development achievements of the past decade but also create security problems for the surrounding region and beyond. Because of the geopolitical significance of success or failure in Afghanistan, its partners have been willing to accept more risks than in other fragile situations. Examples of this include financing the recurrent costs of government through the ARTF, particularly in the earlier years when the monitoring agent found high levels of expenditures ineligible for reimbursement, and heavy use of single source procurement. Financing through the budget took place before the national systems, manuals, etc., were in place, although the procurement and financial management consultants mitigated this risk. There was a high level of prior and post review of contract awards by Bank staff, even for individual consultant contracts, where there was a high risk of nepotism and appointment of under-qualified acquaintances. This came at the cost of delay and Bank staff time, and one might question whether there could have been more wholesaling of individual consultant recruitment, for example to UN agencies or private contractors.

US government agencies were encouraged to take greater risks than usual and used the full flexibility available in situations of national priority. Those responsible for US development assistance were under strong pressure from the military as well as diplomatic actors to quicken development to secure the peace. However, it is unclear whether US oversight agencies recognised that Afghanistan required a greater tolerance for risk: their reports suggest a uniform standard of risk management across countries. This puts permanent staff in a predicament, as political masters and appointees who push risk taking move on, with staff left responsible for the outcomes. This balance between promoting both more risk taking and stronger accountability has also become an issue at the World Bank.

Other post-conflict countries may not have the geopolitical leverage that Afghanistan used to encourage international partners to tolerate risks that were higher than normal, but could deploy arguments related to aid effectiveness, the desire to shorten expensive military engagements and the need to attract commercial interests that depend on stability (e.g. related to the extractive industries), as well as offering improved fiduciary controls and co-management of some fiduciary processes.

Use of multi-donor trust funds to provide finance through national systems and to pool risk. At present, the World Bank's IDA window applies the same risk standards to all countries, determined by the appetite for risk of large shareholders where foreign assistance

may lack strong support in their legislatures.²⁹ In addition, its current policies require Bank fiduciary rules and standards to be applied to MDTFs that it administers. MDTFs are a modality whereby donors with a similar risk appetite in a particular country agree to pool the risks. This was essentially the approach adopted in MDTFs that funded recurrent costs in the government budget, the Holst Fund for West Bank Gaza and the ARTF in Afghanistan. In principle, it would seem possible for MDTF donors to require the trust fund administrator to adopt standards of risks appropriate to the country. This might involve raising limits for *ex ante* review and relying more on *ex post* reviews (including by having a monitoring agent with a mandate to go beyond just recurrent costs); different approaches to mis-procurement, for example designating expenditures as simply ineligible for reimbursement when there is no clear evidence of corruption; greater use of sole source contracting and limiting bidding to a preselected shortlist; accepting a higher risk of programme failure; and insulating funding from short-term political events. However, the ARTF did not fully utilise this potential for greater risk taking, which would have required agreement among the donors and the Bank. Reaching such agreement could delay the start up of a MDTF, as the ARTF experience in reaching agreement on financing police salaries demonstrates. Yet it is difficult to reach agreements on acceptable risk in advance, since the donors to the trust fund may not be known and each donor's allowable risk depends on the country concerned.

Handling risk outcomes. Greater tolerance for risk in fragile situations does not imply greater tolerance for risk outcomes (e.g. evidence of corruption). In Afghanistan, donors exercised rights to investigate apparent misapplication of funds, to impose sanctions on firms and individuals engaged in fraud and corruption and to refer cases to the appropriate criminal justice authorities. The government knew its credibility in public financial management, budget execution and avoiding corruption was essential to increasing the flow of funds through the budget. This provided a strong incentive to manage procurement well, and corruption incidents were rare in the period 2002-2008. Nevertheless, problems did arise, ranging from double invoicing of a \$200,000 contract for meat for the police to press reports of a \$30 million bribe to the mines minister related to the award of a foreign mining concession. The contract outcome might not have changed if the bribe had not been paid, and the minister was rejected by parliament when ministerial appointments were being renewed. The government's reputation also depended on the credibility of the finance minister, the central bank governor and the ministers responsible for the largest externally funded programmes, as well as the key staff supporting them. Had this reputation been lost, donors and the IFIs would either provide assistance through parallel channels, e.g. NGOs and the UN, or impose tight *ex ante* controls. In either case, there would have been setbacks to aid effectiveness and the building of national institutions. The departure of much of the core reform team and their director-level staff after the 2005 elections may have delayed the transition of donor funds to the budget that has picked up pace during the past two years.

Adjusting to the commercial environment in post-war Afghanistan also required flexibility and risk taking. Uncertainty about the security environment, which deteriorated sharply in mid-2006, lack of infrastructure and difficult logistics, difficulties in getting insurance at an acceptable price, presence of land mines, lack of large contracts, lack of a formal banking system, unfamiliarity with Afghanistan and other reasons led to a general lack of interest by Western international firms in submitting bids, although firms from the region around Afghanistan were willing to do so. The local private sector was small, undercapitalised and used to working either in a wartime economy, mainly in legal and illegal trade and transport that depended on patronage, or in small-scale works funded by NGOs and the UN. The Afghan private sector was undocumented, lacked the financial resources to expand rapidly and suffered from similar capacity and skilled labour shortages as the public sector. Also, development-related activities funded through the government budget had to compete with

²⁹ Fiduciary rules for IFI funding tend to be based on the standards of the most conservative large shareholders and the expectation that procurement will include outlier countries where governance is characterised by corruption and low domestic and international legitimacy. Knack and Eubank (2009) show that shareholder conservatism with regard to fiduciary risks is driven by the quality of public financial management in recipient countries and the level of support for development assistance in their legislatures. Because these factors differ among donor and recipient countries, the possibility exists for MDTFs to differentiate their risk standards.

activities funded bilaterally for development, military or diplomatic purposes, which paid higher rates and on time. A greater effort could have been made in developing the capacity of the Afghan private sector, particularly in construction and construction materials. The private sector capacity gap tended to be met by firms from emerging markets, particularly China, Turkey and, to some extent, India, Iran and Pakistan.

The shallowness of the market for construction and other services influenced the design of procurement packages. In areas requiring high levels of expertise, such as consulting services for management or conceptual design or specialised construction, single source or limited competition procurement took place. Contracts were sized so as to be within the capability of firms within the greater region, or broken into small jobs that local contractors could handle while they gained expertise.

The World Bank adjusted its qualification requirements for firms, particularly for bid bonds, for example permitting bid security declarations for small contracts and allowing for lack of bid security in the evaluation of bids. Deposits with *hawala* money traders were accepted as liquid assets, and advance payments were allowed to provide firms with working capital. This flexibility came with greater risks of firms backing out of contracts or failing to complete their contractual obligations. Fortunately, this was very rare. A firm's reputation for poor performance would spread informally, with consequences for future work and shame for the families of those responsible.

The US tended to manage these problems by having a lead US contractor that would subcontract to local and regional firms which had the capacity to implement and take responsibility for their delivery and record keeping. Controls over subcontractors were questioned by the oversight agencies, and USAID staff were required to monitor the subcontracting process closely.

Strengthening the local private sector was given little priority by either donors or government, yet building private sector capacity would have created sustainable employment and increased the ability of the economy to absorb aid efficiently. Although there was much entrepreneurial skill and private financial resources in the Afghan private sector, more could have been done to train business people in modern business techniques and to develop skills in accounting and bidding for public procurement. More generally, the supply of private sector employees could have been increased through vocational education and training and tertiary and secondary education. Some limited efforts were made by government and donors in these areas, but policy reforms to create an open, competitive business environment were not taken, and much business depended on informal family or patronage connections with government.

A contractual role for the UN. Much of the service delivery and project management expertise in Afghanistan lay in UN agencies such as the Food and Agriculture Organization (FAO), the UN Children's Fund (UNICEF), UN Human Settlements Programme (UN-HABITAT), the UN Office for Project Services (UNOPS) and World Food Programme (WFP), some of which had been providing humanitarian relief for more than a decade. Some of these agencies had become large as a result of needs arising from civil war, prolonged drought and neglect of governance. The UN SRSG, Lakhdar Brahimi, was an advocate of a 'light footprint' by the international community in Afghanistan, given the country's past history with foreigners on its soil. There was already some Afghan resentment at the UN's visible presence, its sometimes slow delivery and its lack of transparency and accountability – perhaps unfairly, given that the UN had helped Afghanistan avoid famine and humanitarian disaster.

The Afghan government took a bold decision that UN agencies receiving funding from sources it controlled should have contracts with the government that specified inputs, outputs, overheads and delivery schedules. In some cases, the government insisted that UN agencies bid for work, particularly when the work essentially involved the services of a project management contractor. However, UN agencies come from a diplomatic culture and may not always be familiar with the transparency and accountability required from contractors. This proved controversial, since UN agencies also perform roles related to global public goods and regulation at the global level, although it fitted more closely with the role of some agencies

such as UNOPS. However, this approach did align incentives with performance, improve transparency and give the government more authority in a few instances when UN agencies did not deliver. Other post-crisis countries face the downsizing of UN capacity as peace-keeping or humanitarian mandates end, and the issue of how functioning UN agencies and the human capacity within them transitions to permanent institutional capacity within the country is an issue that deserves further attention. Afghanistan offers a model to manage this transition that is worth considering.

The World Bank's procurement guidelines allow single sourcing to UN agencies. The Bank also agreed to follow the government's wish when it preferred competitive bidding. There were sometimes delays when UN staff on the ground needed to seek agreement on these contractual arrangements with their headquarters and to agree to the anti-corruption provisions of World Bank-funded contracts.³⁰ Today, the Fiduciary Principles Accord (FPA), signed later by the World Bank and 11 UN agencies, but not in effect during the Afghanistan immediate post-war period, would have allowed UN agencies to use their own procurement, anti-corruption and other fiduciary rules. The FPA has removed a major impediment to such agencies in receiving funding from trust funds administered by the World Bank, which caused minor delays in Afghanistan and significant delays in other countries such as Sudan. However, the FPA has been applied in only a limited number of cases globally, since it may not always be appropriate to use the UN instead of government agencies to implement programmes, and the recipient government and trust fund donors must all agree that the FPA should be used. The FPA seems not inconsistent with the practice of contracting UN agencies to deliver services.³¹

Capacity and role of donor agency procurement staff. Procurement efficiency is affected by the seniority of procurement staff assigned to the country office and the level to which procurement decisions are devolved from headquarters to regional or country offices. Junior staff may lack the knowledge or confidence to manage risks of mis-procurement and may fear that they will be punished or lose their job if there is an error. The World Bank appointed seasoned procurement staff in Kabul from other South Asia region country offices. They worked closely with the procurement hub in Delhi, which was headed by the former regional procurement advisor, who had guided procurement during the early reengagement with Afghanistan. Procurement staff in Kabul saw their job as much more than enforcing the Bank's procurement guidelines. Building procurement capacity of the government was equally important, and staff adopted a hands-on approach to helping government counterparts, which was at the limits of the Bank's policy of not engaging in the local procurement process.³²

Adapting approaches to fiduciary management where security is a problem. Corruption often involves charging for construction works and goods required in the contract but not delivered, or poor quality construction, for example reducing the amount of reinforcing steel or the amount of cement in concrete. The World Bank relied on consultants, NGOs and UN agencies to monitor activities in areas where its own staff could not go. The ARTF monitoring agent was an example of this. The US tended to rely on its prime contractors and the military, as well as development staff embedded in provincial reconstruction teams. The Bank did not have the security resources or the staff available to visit insecure areas. As security deteriorated, the Bank innovated by using global positioning system (GPS) and date-tagged digital photography, satellite imagery and other means for verifying that construction took place. The community-based approach of the NSP and the third party monitoring of the

³⁰ The issue was whether a UN specialised agency (the World Bank) had the legal right to investigate another UN body when there were allegations of corruption.

³¹ For more on the FPA, which followed a Partnership Agreement signed in October 2008 between UN Secretary-General Ban Ki Moon and World Bank President Robert Zoellick, see <http://go.worldbank.org/MXZ8KIO3M0>.

³² The World Bank has a policy of keeping the bid evaluation and contract award process at arms length. This stems from the time when the only resources it provided were from its International Bank for Reconstruction and Development (IBRD) window, which raises funds on international bond markets and on-lends them with a small margin above its AAA rating borrowing rates. Good banking practice is for the lender not to be engaged in decisions on the use of funds which it expects the borrower to repay, as this could create conflicts of interest and liabilities. Finance for fragile states is now almost always provided as grants where these issues are less relevant, as there is no obligation to repay. However, the implication of grants for the role of fiduciary staff is only starting to be reconsidered.

health programme were other ways of minimising the risks of non-delivery and poor quality in violence-prone areas.

10 Conclusion

Although initial conditions in Afghanistan were at least as bad as in other post-conflict settings, the country was able to use the outpouring of international assistance that followed the establishment of legitimate governance to make much progress in meeting its development goals. Both the World Bank and USAID were able to utilise the full flexibility allowed them in their operational and procurement rules. This would have been more difficult without the political support they received, which in turn depended on the credibility the government quickly established. Donors committed experienced staff to Kabul and provided the resources they needed. For its part, the government formulated well-designed national programmes capable of achieving results at a national scale. Government contracted out fiduciary services to ensure that procurement could be carried out quickly to international standards while it built its own capacity. The international community tolerated higher risks than in other countries, since failure in Afghanistan would have had consequences far beyond the country's borders. Donors managed fiduciary and reputational risks by pooling funds in the ARTF, which had a monitoring agent to verify expenditures for reimbursement. The ARTF also served to sharpen coordination, policy dialogue and alignment with national objectives, while building Afghan government capacity.

Even though corruption has increased in recent years, the experience of Afghanistan shows that, with strong government counterparts and proactive risk management, plus well-designed and well-organised national programmes, it is possible to provide substantial funding through the government budget using national procurement, financial reporting and audit systems.

References

- ADB, UNAMA, UNDP and World Bank (2004) 'Securing Afghanistan's Future: Accomplishments and the Strategic Path Forward.' A Government/International Agency Report, prepared for International Conference, 31 March-1 April.
- Atwood, B.M., McPherson, P. and Natsios, A. (2008) 'Arrested Development. Making Foreign Aid a More Effective Tool.' *Foreign Affairs* 87(6): 123-132.
- Berman, E., Felter, J. and Shapiro, J.N. (2009) 'Do Working Men Rebel? Insurgency and Unemployment in Iraq and the Philippines.' Working Paper 15547. Cambridge, MA: National Bureau of Economic Research.
- Boak, J. (2011) 'U.S.-funded Infrastructure Deteriorates Once under Afghan Control Report Says.' *The Washington Post*, 4 January.
- Bradbury, M. and Kleinman, M. (2010) 'Winning Hearts and Minds? Examining the Relationship between Aid and Security in Kenya.' Meford, MA: Feinstein International Center, Tufts University.
- Chase, S. (2006) *Punishment of Virtue*. Harmondsworth: Penguin.
- Chivers, C. (2007) 'Trouble on a Vital Road in Afghanistan.' *The New York Times*, 3 December.
- Coll, S. (2004) *Ghost Wars*. Harmondsworth: Penguin.
- DeYoung, K. (2010) 'Afghan Corruption. How to Follow the Money?' *The Washington Post*, 28 March.
- Evans, A., Manning, N. and Tully, A. (2004) *A Guide to Government in Afghanistan*. Kabul: Afghanistan Research and Evaluation Unit and World Bank.

- Gall, C. (2008) 'Afghanistan's Kabul-Kandahar Highway: A Lifeline Plagued with Insurgents.' *The New York Times*, 13 August.
- Ghani, A. and Lockhart, C. (2008) *Fixing Failed States*. Oxford: Oxford University Press.
- IMF (2010) 'IMF and World Bank Announce US\$1.6 Billion in Debt Relief to Afghanistan.' Press Release 10/15, 26 January.
- Knack, S. and Eubank, N. (2009) 'Aid and Trust in Country Systems.' World Bank Policy Research Working Paper No. 5005. Washington, DC: World Bank.
- Knack, S. and Rahman, A. (2007) 'Donor Fragmentation and Bureaucratic Quality in Aid Recipients.' *Journal of Development Economics* 83(1): 176-197.
- Maimbo, S. (2003) 'The Money Exchange Dealers of Kabul.' Working Paper 13. Washington, DC: World Bank.
- Natsios, A. (2010) 'The Clash of the Counter-bureaucracy and Development.' Washington, DC: Center for Global Development.
- Rubin, B. (2002) *The Fragmentation of Afghanistan*. 2nd edition. New Haven, CT: Yale University Press.
- Rubin, B., Hamidzada, H. and Stoddard, A. (2003) 'Through the Fog of Peace: Evaluating Reconstruction in Afghanistan.' New York: Center on International Cooperation, New York University.
- SIGAR (2011) 'Quarterly Report to the US Congress.' 30 January.
- Stephens, J. and Ottaway, D.B. (2005) 'A Rebuilding Plan Full of Cracks.' *The Washington Post*, 20 November.
- Tarnoff, C. (2010) 'Afghanistan: US Foreign Assistance.' Washington, DC: Congressional Research Office.
- Taylor, J.B. (2007) *Global Financial Warriors*. New York: W.W. Norton.
- US Army and US Marine Corps (2006) 'Counterinsurgency.' Field Manual 3-24. Final draft.
- US Department of State (2010) 'Congressional Budget Justification, Foreign Operations, FY2011.' Washington, DC: US Department of State.
- USAID (2003) 'FY 2003 Congressional Budget Justification.' Washington, DC: USAID.
- US GAO (2010) 'Afghanistan's Security Environment.' Memo to Congressional Committees, 5 May.
- World Bank (various years) 'Afghanistan Reconstruction Trust Fund (ARTF) annual reports.' Washington, DC: World Bank.
- World Bank (various years) 'Borrower Procurement Reports.' Washington, DC: World Bank.
- World Bank (2002) 'Afghanistan.' Interim Strategy Note. Washington, DC: World Bank.
- World Bank (2006) 'Emergency Public Administration Project Implementation Completion Report.' Report 35264. Washington, DC: World Bank.
- World Bank (2007) 'Decision Point Document on Assistance to the Islamic Republic of Afghanistan under the Heavily Indebted Poor Countries (HIPC) Initiative.' Report 39922-AF. Washington, DC: World Bank.
- World Bank (2008) 'Afghanistan Public Financial Management Performance Assessment.' Washington, DC: World Bank.
- World Bank (2009) 'Fighting Corruption in Afghanistan. Summaries of Vulnerabilities to Corruption Assessments.' Washington, DC: World Bank.
- World Bank (2010) 'Operational Manual, 2010b.' Washington, DC: World Bank.
- World Bank (2011a) 'Piloting Program in the Use of Country Procurement Systems: Second Progress Report.' Washington, DC: World Bank.
- World Bank (2011b) 'Strengthening Country Systems and Expanding their Use in Bank-supported Operations: Update Report.' Washington, DC: World Bank.

Appendix: Afghanistan timeline

2001	
9 September	Ahmad Shah Masood, leader of Northern Alliance, assassinated by al-Qa'eda.
11 September	Hijacked aircraft fly into targets in New York and Washington, DC.
7 October	US and UK launch airstrikes against Taliban targets.
13 November	Northern Alliance takes Kabul after previously taking Mazar-i-Sharif.
20 November	US State Department conference on Afghanistan reconstruction. World Bank proposes MDTF.
5 December	Afghan groups sign agreement in Bonn for interim government.
7 December	Taliban leave Kandahar, their last stronghold.
20-21 December	EC conference on Afghanistan reconstruction in Brussels agrees to establish trust fund.
22 December	Hamid Karzai sworn in as head of Interim Administration. Hedayat Amin Arsala appointed Finance Minister.
2002	
January	Foreign peace-keeping troops (ISAF) arrive in Kabul under UN mandate.
~14 January	Preliminary needs assessment completed by ADB, UNDP and World Bank.
21-22 January	Ministerial conference in Tokyo on Afghanistan reconstruction pledges \$1.8 billion for first year and \$4.5 billion for the first 2.5 years. Meeting agrees aid architecture of Steering Group (EC, Japan, Saudi Arabia and US) and Implementation Group (ADB, IDB, UN, World Bank and humanitarian coordination group).
20-21 February	Meeting at World Bank in Washington with donors agrees framework for ARTF.
10-11 April	First meeting of Implementation Group and donors to discuss reconstruction. Afghan government presents its National Development Framework and its budget for solar year 1381 (21 March 2002 to 20 March 2003).
May	The ARTF commences operation after delay caused by reaching agreement on modalities for financing police salaries.
June	Loya jirga elects Karzai as head of the Transitional Administration, who in turn appoints 30 ministers. Ashraf Ghani appointed Finance Minister.
2003	
August	NATO takes over ISAF and responsibility for peace keeping in Kabul.
2004	
January	Loya jirga approves new constitution with a strong presidency and centralised government.
March	Berlin conference: Afghanistan secures \$8.2 billion over three years. Afghanistan presents its development and reconstruction strategy 'Securing Afghanistan's Future'.
October	Presidential elections.
December	Hamid Karzai sworn in as President of the Islamic Republic of Afghanistan.
2005	
January	Anwar ul Haq Ahady replaces Ashraf Ghani as Finance Minister.
September	Parliamentary and provincial elections.
December	New parliament sworn in.
2006	
February	Afghanistan Compact signed at London conference, which pledges \$10 billion for reconstruction.
5 May	Government completes Interim PRSP (I-PRSP).
May	Violent demonstrations in Kabul after US convoy kills Afghan civilians in road accident in Kabul.
June	Joint IMF-World Bank staff assessment report on I-PRSP sent to their boards.
June	Work starts on full PRSP, ANDS, with support from UNDP.
July	NATO takes over command of military operations in south.

October 2008	NATO takes responsibility for security across all of Afghanistan.
April	NATO summit in Bucharest pledges long-term commitment to Afghanistan.
July	Paris conference on Afghanistan.
September	Troop surge begins: President Bush announces a build-up in US forces in Afghanistan; Germany pledges more troops in October.
2009	
January	Full PRSP (ANDS) completed.
March	President Obama unveils new Afghanistan policy and increase in US forces in Afghanistan.
August	Presidential and provincial elections.
October	President Karzai sworn in for second term.
December	President Obama announces troop surge.
2010	
January	Parliament rejects more than half of President Karzai's cabinet appointments.
January 18	London conference on Afghanistan.
July 15	ANDS Prioritisation and Implementation Plan issued by government.
July 20	Kabul International Conference on Afghanistan.
September	Parliamentary elections.
November	NATO Lisbon summit agrees to hand responsibility for security to Afghanistan in 2014.

Note: Political and security events are in black type, [development events are in blue type.](#)

Sources: BBC, author's notes.