



Islamic Republic of Afghanistan
Ministry of Finance

Development Cooperation Report

2012

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FOREWORD

I am delighted to present the second Development Cooperation Report (DCR 2011), which is the outcome of the second round of Development Cooperation Dialogues held between the Ministry of Finance and our development partners in April - May 2012. DCR aims to assess our joint development partnership in 2011, identify obstacles to development encountered by the government and the international community, and provide policy direction to further improve our partnership in the context of Transition (2012-2014), and the Decade of Transformation (2015-2025).

Over the past decade, together we have produced remarkable achievements in the areas of governance, education, health, infrastructure and economic growth, thanks to the gracious and generous support of our DPs. However, the question of how Afghanistan can achieve stability, self-finance essential services for the population, and reduce its reliance on external assistance to finance development needs is critical. At this crucial juncture, Afghanistan is moving towards taking full responsibility for its own security by the end of 2014, and positioning itself to lead the development process into the Transformation Decade. Afghans are glad to see that they are not alone to fight poverty and conflict, the two major challenges that we have been working relentlessly to address throughout the first decade of our partnership. We acknowledge the significance of the commitments of the Kabul Process, and appreciate the long term support of the international community, which got impetus at the Chicago NATO Summit in May 2012 and the Tokyo Ministerial Conference in July 2012.

DCR 2011, which focuses on emerging issues related to aid and development, contains quantitative and qualitative analysis of external assistance to Afghanistan. It is a tool to enhance transparency and accountability of external assistance. In addition to presenting an overview of assistance in 2011, the report includes analysis of progress on aid effectiveness, the commitments of the Kabul, Bonn and Tokyo conferences and their implications for transition and transformation. In addition, it introduces some of the initiatives aimed at accelerating the achievement of Afghanistan's vision to move towards increasing self-reliance by 2025. It is expected that the DCR will promote accountability and transparency of the external assistance and serve as a comprehensive source of information to all stakeholders and the Afghan public.



Dr. Omar Zakhilwal
Minister of Finance

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ACRONYMS

AAA	Accra Agenda for Action
ADB	Asian Development Bank
AGEs	Anti-Government Elements
AIF	Afghanistan Infrastructure Fund
AITF	Afghanistan Infrastructure Trust Fund
AMP	Aid Management Policy
ANA	Afghan National Army
ANDS	Afghanistan National Development Strategy
ANP	Afghanistan National Police
APRP	Afghanistan Peace and Reintegration Trust Fund
ARTF	Afghanistan Reconstruction Trust Fund
ASFF	Afghanistan Security Forces Fund
AUS	Australia
CAN	Canada
CAREC	Central Asia Regional Economic Cooperation
CERP	Commander's Emergency Response Program
CPIA	Country Policy and Institutional Analysis
DAD	Donor Assistance Database
DCDs	Development Cooperation Dialogues
DCR	Development Cooperation Report
DFA	Development Framework Agreements
DoD	Department of Defense
DoD-CN	Department of Defense and Counternarcotics
DoL	Division of Labor
DPs	Development Partners
DT	Decade of Transformation
EU	European Union
FY	Fiscal Year
GER	Germany
GDP	Gross Domestic Product
GoA	Government of Afghanistan
HLF	High Level Forum
IDB	Islamic Development Bank
IMF	International Monetary Fund
ISAF	International Security Assistance Force
JAP	Japan
LMs	Line Ministries
LOTFA	Law and Order Trust Fund for Afghanistan
MAF	Mutual Accountability Framework
MoF	Ministry of Finance

MoI	Ministry of Interior
MRRD	Ministry of Rural Rehabilitation and Development
MSU	Management Support Unit
NATO	Northern Atlantic Treaty Organization
NPPs	National Priority Programs
ODA	Official Development Assistance
PD	Paris Declaration
PFM	Public Finance Management
PRT	Provincial Reconstruction Team
SIGAR	Special Inspection General for Afghanistan Reconstruction
SWE	Sweden
TAPI	Turkmenistan-Afghanistan-Pakistan-India
TD	Transformation Decade
TF	Trust Fund
TMAF	Tokyo Mutual Accountability Framework
UAE	United Arab Emirates
UK	United Kingdom
UNAMA	United Nations Assistance Mission for Afghanistan
UNDP	United Nations Development Program
USA	United States of America
USD	United States Dollar
USDoD	US Department of Defense
WB	World Bank



EXECUTIVE SUMMARY

The Development Cooperation Report is a publication of the Government of Afghanistan (GoA) produced annually by the Ministry of Finance (MoF). The report is the product of Development Cooperation Dialogues (DCD), a series of annual meetings held with all development partners (DPs) working in Afghanistan to discuss policy and program priorities, suitable financing modalities, and progress on aid effectiveness indicators and other commitments made at international and local conferences. The report presents data and analysis of international aid provided to Afghanistan over the period 2011-2012.

Over the past year, aid to Afghanistan has reached its highest level. As of July 2012, the international community pledged USD 119 billion for security and development of Afghanistan, but disbursed USD 70 billion in support of projects and programs. In 2011 alone, the international community committed USD 16 billion to development and security activities of which USD 13 billion was reportedly disbursed. Of this amount, only USD 2.3 billion was channeled through the government budget, while the rest was spent directly by our development partners leaving the government in a position to only be able to account for the portion of aid that utilized the government systems.

Information on geographical allocation of aid is incomplete and presents a distorted picture of aid allocation across the provinces. Out of USD 13 billion disbursed during 2011, information on the provincial distribution is only available for USD 1.4 billion. The remaining USD 11.5 billion has been categorized as disbursements with 'nation-wide' impact. This is in spite of the government efforts to encourage donors to effectively capture and share information on provincial distribution of aid to achieve the goal of equitable investment across all administrative divisions.

In terms of sectoral allocation, security expenditures continue to dominate investment of aid in Afghanistan. During 2011, an estimated 68% of aid (USD 8.8 billion) was disbursed to finance security related expenditures. Development sectors, in contrast, were the recipient of USD 4.1 billion of which a sizeable portion (USD 367 million) or 9% were reported as "unclassified". Development sectors such as Governance (28%), Infrastructure (18%), Agriculture and Rural Development (17%) and Health (12%) were the largest recipients of development aid. The remaining 16% was invested in Education, Private Sector Development and Social Protection sectors.

A large portion of aid disbursed during 2011, continued to remain off-budget. Only USD 2.3 billion was channeled through the government systems of which 49% was in the form of bilateral contribution and the remaining 51% was routed through pooled



funding mechanisms such as the ARTF, LOTFA, AITF and others. A considerable amount of aid channeled through the trust fund mechanism (47%) was used to finance recurrent expenditures of the government. The US department of defense and LOTFA has been two of the largest sources of support to the operating budget, while ARTF's support to government's operating budget has slightly decreased during 2011.

Government of Afghanistan's efforts to prepare a realistic budget with medium term outlook was weakened by lack of predictable data on aid allocations. External assistance continued to finance close to 52% of the national budget. However, lack of timely information on annual donor commitments, even indicative, and actual disbursement data undermined the planning process. Available data shows that only USD 4.5 billion will be provided by donors to support development during 2013. This number is considerably lower than the level of aid provided during 2011 and inconsistent with the level of aid pledged at Chicago and Tokyo (i.e. USD 8 billion per year for the next four years).

The share of aid through the national budget allocated to development projects has declined in 2011. This is despite the fact that the share of aid channeled through the budget has experienced an increment of 17% over the year 2010. Out of USD 2.17 billion provided through the FY1390 (2011) national budget, only USD 688 million was used to finance development projects. This is in part because 86% of the remaining USD 1.48 billion was allocated to cover security related expenditures.

An important milestone for the international community, as it relates to aid effectiveness, was to deliver on their Kabul Conference commitments of channeling at least 50% of external aid through the budget and aligning 80% of their assistance with the national priorities within two years from July 20, 2010. In nominal terms the amount of aid through the budget has increased from USD 1.8 billion in 2010 to USD 2.17 billion in 2011. Yet aid through the budget as a percentage of total aid disbursements remained at 18% for both years, a clear indication that progress on achieving the Kabul Conference targets have been lagging during 2011.

In terms of achieving greater alignment of aid with national priorities, MoF is not in a position to present a clear picture of progress achieved through 2011. This is in part because the focus was invested in the preparation of National Priority Programs agreed to during the Kabul process. One measure that provides a good indication of donor's progress in improving alignment of aid is the extent to which they have used the national budget system. As mentioned earlier, only 18% of aid was disbursed through the national budget during 2011. Another measure of alignment is the extent to which projects funded through external aid are consulted with line agencies and are

designed in line with the overall development plan of the government agencies. This indicator, however, was difficult to measure given that information provided by donors did not explicitly describe the process through which aid was planned and allocated to development projects.

Moving towards security transition and the decade of transformation, there are indications that the level of development aid will gradually decrease from its current level. In the time of declining foreign aid, the GoA and the international community need to work towards improving the effectiveness of aid, ensuring that aid projects provide the max possible value for money, support the government's priorities and that aid is spent under a framework of accountability and transparency. Recognizing this need, the Afghan government and the international community agreed to a Mutual Accountability Framework (TMAF) at the international conference in Tokyo in 2012. The TMAF, although focused on reforms in the wider governance sector, has incorporated some key aid effectiveness elements the implementation of which will ensure that pledges made in Tokyo will be utilized more efficiently than before.

To complement the TMAF as a genuine partnership framework, the government in consultation with the DPs is developing an Aid Management Policy (AMP) to specifically articulate the steps necessary for making aid more effective. Some priority policy initiatives from the AMP are detailed in chapter two of this report, which is meant not only to clarify the purpose of the initiatives themselves, but also to address the questions and concerns of donors regarding their implementation. The GoA expects that the AMP, along with its implementation framework will provide a solid ground based on which the effectiveness aspect of international aid could be measured and progress along with recommendations will be presented in the subsequent issues of this report.

The AMP, although widely criticized as an ambitious plan, incorporates main elements from various international agreements to improve the effectiveness of aid in recipient countries. These agreements, particularly the Busan commitments, emerged to a large extent precisely because of the poor performance of donors in fragile and conflict affected states. To this end, the AMP is designed to share the burden of aid management with all development partners in order to achieve desired results for each dollar of aid money that is being spent in Afghanistan.

For aid to become effective, DPs would need to work in concert with the GoA to share the burden of implementing policy priorities included in the AMP. The cost of failure to adopt the AMP will be ample, considering that proper investment will guarantee the realization of the 'Towards Self-Reliance' vision and will reduce the dependency of Afghanistan on donor assistance.



INTRODUCTION

This report is a sequel of the Development Cooperation Report (DCR) published in 2010. The DCR in general aims to provide an overview of external assistance to Afghanistan since 2001 and analyzes its effectiveness. Similar to DCR 2010, this edition functions as the main outcome document of the Development Cooperation Dialogues (DCDs) held jointly between Ministry of Finance (MoF) and the Development Partners (DPs) during April and May, 2012.

The DCR contains quantitative and qualitative analysis of development assistance to Afghanistan. At the outset, it provides an overview of development assistance, with a special focus on 2011 disbursements. Although the report focuses on the volume and modality of aid spent in 2011, by the time it is published (December 2012), it includes a discussion on progress on aid effectiveness, the commitments of the Kabul, Bonn and Tokyo Conferences and their implications for transition and transformation. In addition, the report further talks about some of the initiatives such as the NPPs, the Aid Management Policy (AMP) and the Division of Labor Policy (DOL) that aim to accelerate the achievement of Afghanistan's vision to move towards increasing self-reliance by 2025. Finally, it provides a conclusion and a set of recommendations to enhance and maximize effective use of aid at this very important juncture.

Both the Overview and Aid Effectiveness chapters are underpinned by the information that Ministry of Finance has received from the DPs during the second round of the DCDs. DCDs are believed to be instrumental in improving coordination and effectiveness of development assistance. It is a process that provides an opportunity for the government and the DPs to discuss emerging and important issues in the arena of aid management in Afghanistan. The main focus of the recent DCDs was on future engagement of the DPs, their areas of investment and modalities of financing in pursuit of supporting the NPPs and achieving the mutual commitments set out in the Kabul Process.

It is worth noting that the data presented in the overview section are based on what the Ministry of Finance has received from the DPs. Some data, for example, data on geographical distribution and sectoral allocation of assistance, suffer limitations and are incomplete. MoF recognizes that this does hamper full analyses pertaining to these two parts.



CONTEXT

Afghanistan has come a long way. The first decade of development partnership (2001-2011) between Afghans and the international community produced remarkable achievements in the areas of governance, education, health, infrastructure and economic growth. The Bonn Conference in December 2001 marked a new beginning for Afghans to build a democratic and stable state. Drafting a new constitution, running presidential elections and creating a legislature were some of the early political benchmarks that were jointly achieved by Afghans and their development partners. Since 2003, real per capita GDP has been growing at an average rate of 9 percent, and domestic revenues have increased significantly from US\$ 130 million in 2002 to approximately US\$ 2 billion in 2011. Almost 8000 kilometers of national and regional highways have been either reconstructed or newly built. Around 8 million children are going to school, of which 38 percent are girls. Close to 60 percent of the Afghan population have access to basic health services. Overall, the first decade of development partnership has brought significant improvements in lives of many Afghans.

At the national level, there has been significant progress in terms of governance reforms, creation of state institutions and increased delivery of basic services in various sectors of the economy. Creation of a credible public financial management system has enabled the government to achieve significant revenue generation since 2002 and absorb more funding through the national budget. While the trend for revenue mobilization is expected to experience modest growth during the transition period, the long term financial prospects are promising as the extractive industries begin to generate higher revenues throughout the transformation decade and beyond. In terms of fiscal and budget transparency, Afghanistan has made great strides over the last couple of years. Allowing the public to access budget information, and providing them with the opportunity to participate in the budget process at the national level, Afghanistan was able to progress from a score of 8 in 2008 to a score of 21 in 2010. And there is an indication from the current review that the score will increase to 50 or above in the near future.

Despite considerable achievements, there are various development challenges ahead as Afghanistan enters a new phase of development. Conflict and poverty will remain as major challenges of the next decade. Aid dependency will continue throughout transition (2012-2014) and the transformation decade (2015-2025). The withdrawal of foreign troops by end 2014 may prompt possible declines in aid that could leave the country facing hard budget constraints and low economic activity in the years to



come. As a result, Afghanistan will face considerable funding gaps to finance its security and non-security expenditures throughout the transition and transformation periods.

While the financing gap between now and end 2014 will remain around US\$ 17 billion a year, given the annual amount of aid spent in Afghanistan in the past, aid is expected to decline to 28.3 percent of GDP in 2020 and 23.5 percent in 2025, respectively. (Towards Self-Reliance, July 2012) Growing from US\$ 2.6 billion in 2002 to around US\$ 16 billion in 2011, foreign aid, on average, has been equivalent to nearly 75 percent of GDP, the highest in the world. Aid has financed essential services and development activities in areas of infrastructure, health, education, governance, agriculture, security, and humanitarian activities. The question of how Afghanistan can itself finance such basic services for its population and cover operation and maintenance costs of all the government projects is critical.

In response to the challenges ahead, the Government of Afghanistan has elaborated its economic transition strategy in the document entitled “Towards Self-Reliance”, which merges priorities identified in the National Priority Programs (NPPs) with the commitments made at the Bonn Conference in December 2011, where the international community and the GoA once again renewed their mutual commitment to a stable and democratic Afghanistan, and reaffirmed that achieving commitments of the Kabul Process requires a stronger partnership as Afghanistan is passing through a critical period of security and development. The conclusions achieved at the Bonn Conference are promising in that the international community announced its engagement in support of Afghanistan beyond 2014. The commitments of the Kabul Process, of which Bonn was the last chapter, were boosted at the Tokyo Ministerial Conference on July 8, 2012 where the international community pledged to continue its assistance for Afghanistan in the future.

While the post-Bonn and Tokyo climate remains promising, the challenges of transition are indisputable. A possible decline in aid will require Afghanistan and its development partners to improve efficiency and effectiveness of aid resources in order to maximize results in key areas. At this important moment in time, close cooperation between Afghanistan and its development partners is of great significance. The Development Cooperation Report (DCR) is an important publication of the Ministry of Finance that aims to promote transparency and accountability of aid spent in Afghanistan. It is a tool for better decision making on how and where aid resources should be invested in order to achieve aid effectiveness.

CHAPTER 1

OVERVIEW OF EXTERNAL ASSISTANCE

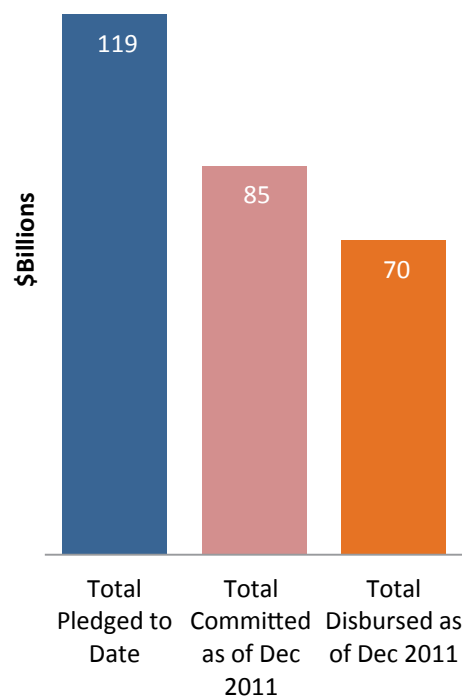


DISCLAIMER: this section of the report only presents an overview of external assistance reported to Ministry of Finance by the Development Partners during the Development Cooperation Dialogues held in April and May 2012. The next section will present an overall analysis of assistance provided in the year 2011, and discuss issues pertaining to aid effectiveness.

ABSTRACT

Since 2002, as **[Figure 1]** shows, the entire amount of pledges for Afghanistan as of July 2012 stand at USD 119 billion, which includes USD 16 billion announced in support of development by the Development Partners (DPs) at the Tokyo Ministerial Conference in July 2012, and USD 14 billion announced at the Chicago NATO Summit in May 2012 to support security. As of December 2011, the entire amount of external assistance committed to Afghanistan stands at 85 billion, of which a total of USD 70 billion has been disbursed. The recently announced pledges increases the total volume of pledges from USD 89 billion to USD 119 billion.

Figure 1: Overview of External Assistance

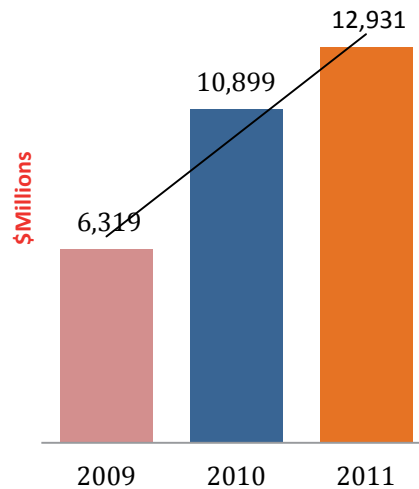


¹The Tokyo pledges might include pledges from previous years, which is being cross-checked with the DPs to identify the exact amount of new pledges.

VOLUME of DISBURSEMENTS

Available data shows an increase in the volume of disbursements from USD 6.3 billion in 2009 to USD 10.9 billion in 2010 and USD 12.9 billion in 2011, respectively **[Figure 2]**. More details on the geographical distribution, sectoral allocation, and modality of assistance, provided in 2011, are discussed under separate sections below.

Figure 2: Comparison of Disbursements (2009-2011)



Although the entire volume of disbursements increased in 2011 compared to 2010, individual DPs' level of disbursement showed different rates of change. For instance, the United States (USA), which is by far the largest provider of assistance for Afghanistan, disbursed USD 10.4 billion of security and development assistance in 2011, indicating a 22% increment from 2010. However, there is a fall in Japan's, the second largest donor for Afghanistan, level of disbursement, from USD 752 million in 2010 to USD 670 million in 2011. For more details refer to **[Figures 3 & 4]**

Figure 3: Volume of Disbursements in 2011 Compared to 2010

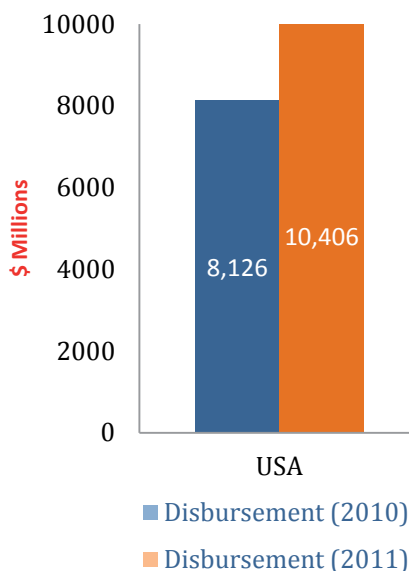
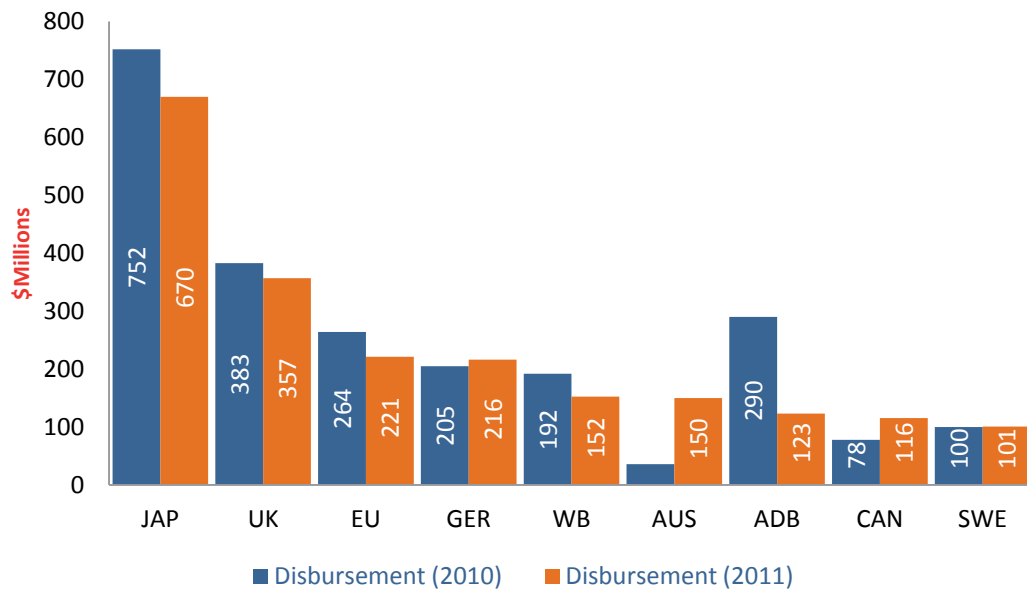


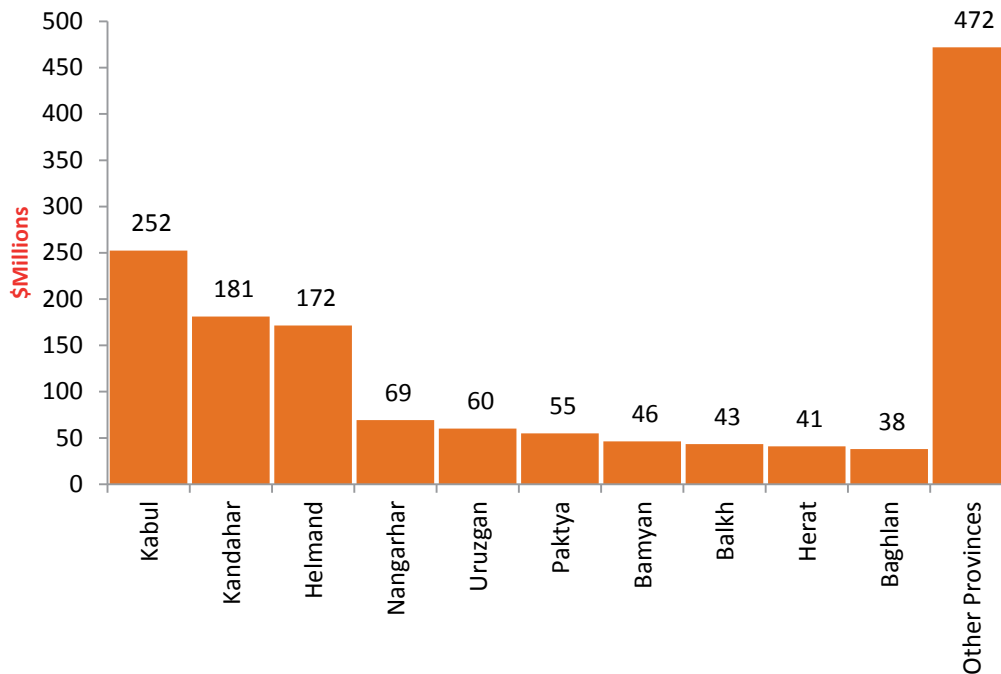
Figure 4: Volume of Disbursements in 2011 Compared to 2010



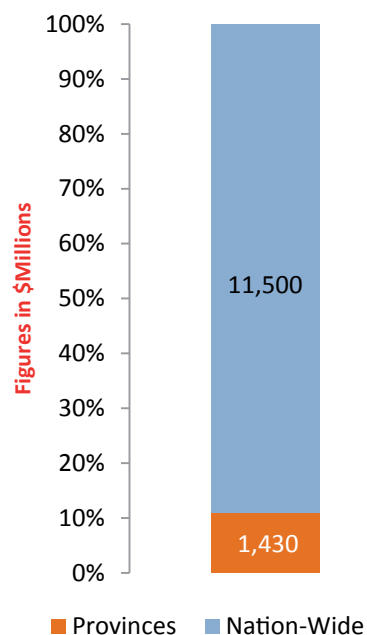
GEOGRAPHICAL DISTRIBUTION of ASSISTANCE

Collecting geographical information of aid has always been a challenge for the Ministry of Finance (MoF). Thus, external assistance that lack provincial information is incorporated in the “multiple-province” field, which indicates that the assistance has had “nation-wide” impact. From the USD 12.93 billion external assistance disbursed in 2011, USD 11.5 billion has been reported to have had a nation-wide impact, whilst the remaining USD 1.43 billion has gone to specific provinces. To obtain a snapshot of where the resources have gone, [Figure 5] reflects data for the 10 provinces that received the highest amount of external assistance in the year 2011. Of the US\$ 1.43 billion, the maximum amount goes to the capital Kabul (USD 252 million) followed by Kandahar (USD 181 million), and Helmand (USD 172 million). Provinces of Nangarhar, Uruzgan, Paktika, Bamyan, Balkh, Herat and Baghlan have, on average, received USD 50 million. Other provinces were the recipient of the remaining USD 472 million. For further details of provincial distribution of external assistance, please refer to [Table 11] in the Annex of this report.

Figure 5: Geographical Allocation of External Assistance (2011)



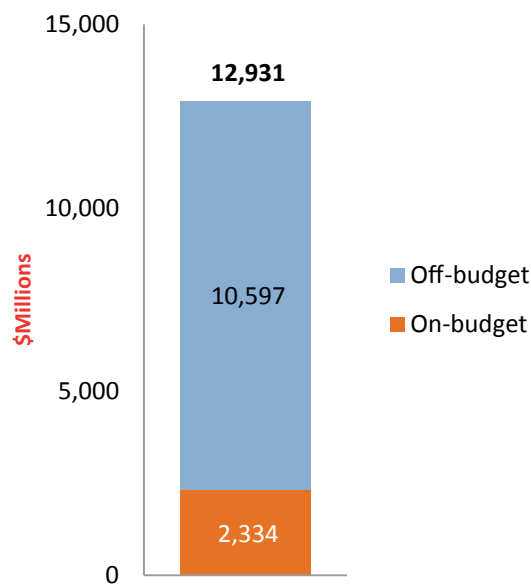
It is worth noting that almost 90% of aid provided in 2011 had “nation-wide” impact, which includes spending through military means such as the Commanders Emergency Response Program (CERP), the Afghanistan Security Force Fund (ASFF), and Provincial Reconstruction Teams (PRTs). Provincial breakdown of assistance provided through these mechanisms is not currently available at MoF. It has always been the view of the GoA that in order to make effective use of external resources and achieve sustainable development, there is a need for more equitable allocation of investments across sectors and geographical areas through regular consultations with central ministries and MoF.



MAIN DELIVERY CHANNELS of EXTERNAL ASSISTANCE

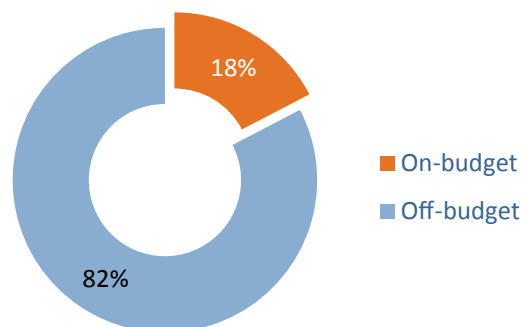
Information reported to Ministry of Finance illustrates that from the USD 12.93 billion disbursed in support of development and security activities in Afghanistan in the year 2011, USD 8.8 billion was spent in security sector, and the remaining USD 4.1 billion was invested in other sectors combined. With respect to delivery channels of the entire external assistance (security and development), only USD 2.3 billion or 18% was routed through the government national budget, including trust funds mechanism, whilst the remaining USD 10.6 billion or 82% bypassed the government systems. See [Figures 6 & 7].

Figure 6: Volume of On-budget Compared to Off-budget Assistance (2011)



For simplicity, we have divided the overview of external assistance into two main portions: (i) Security, and (ii) Development, which are discussed below:

Figure 7: Ratio of On-budget Compared to Off-budget Assistance (2011)

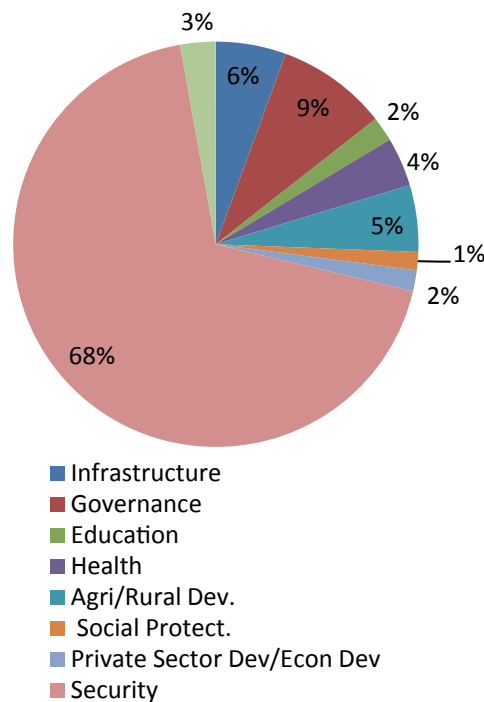


EXTERNAL ASSISTANCE for SECURITY SECTOR

It is the government's belief that a secure environment is conducive to sustainable development and peace restoration in Afghanistan. After the establishment of the Afghan National Army (ANA) and the Afghan National Police (ANP), security of the Afghan population has been high on the agenda of the GoA and the DPs. Our 10 year analysis of data (2001-2010) indicates that on average 51% of aid money has been invested in security. Therefore, it is no surprise to see that a huge portion (68 %) of external assistance, disbursed in the year 2011, was allocated to finance security expenditures. See **[Figure 8]**

Our analysis indicates that the USA provided the highest amount of external resources in support of security (95 %) in 2011, followed by Japan (3%), EU (1 %), whilst the remaining 1% came from other DPs. There are a number of mechanisms/delivery channels through which security expenditures are financed, which are described below: for more details, refer to **[Table 10]** in the Annex.

Figure 8: Security versus Development (2011)



U.S. DEPARTMENT of DEFENSE (USDoD)

The U.S. Department of Defense is the largest provider of assistance to the security sector. According to the SIGAR report of January 2012, in the year 2011, the USDoD

² Overall, the level of consultation with the GoA over planning, implementation and reporting of the USDoD funds remain languid. As a result, MoF had to rely on SIGAR report.

appropriated a total amount of USD 24.4 billion in support of the Afghanistan National Security Forces, of which USD 10.8 billion was committed, and USD 8.4 billion was disbursed. The Afghanistan Security Forces Fund (ASFF), Commander's Emergency Response Program (CERP), and Afghanistan Infrastructure Fund (AIF) are managed by USDoD and were the three main military programs funded by the USDoD in 2011.

AFGHANISTAN SECURITY FORCES FUND (ASFF)

Established to provide the Afghan National Security Forces with equipment, supplies, services, training and facilities, the ASFF's total appropriation in the year 2011 stood at USD 22.8 billion, of which USD 10.2 billion was committed, and USD 7.8 billion was disbursed (SIGAR, Jan 2012).

Table 1: U.S. Military Funding (2011)

Figures in US\$ billion			
Military Agency	Pledge	Commitment	Disbursement
	2011	2011	2011
ASFF	22.8	10.26	7.88
CERP	0.8	0.27	0.4
DoD-CN	0.04	0.12	0.12
AIF	0.8	0.224	0.01
Total	24.44	10.874	8.41

COMMANDERS'S EMERGENCY RESPONSE PROGRAM (CERP)

The Commander's Emergency Response Program (CERP) provides humanitarian relief and reconstruction assistance where the U.S. security forces are based and where there is a need for emergency and urgent assistance to help the local population. According to SIGAR report of Jan 2012, the total amount of U.S. assistance for CERP in the year 2011 reached an appropriation of USD 800 million, of which USD 270 million was committed, and USD 400 million was disbursed.

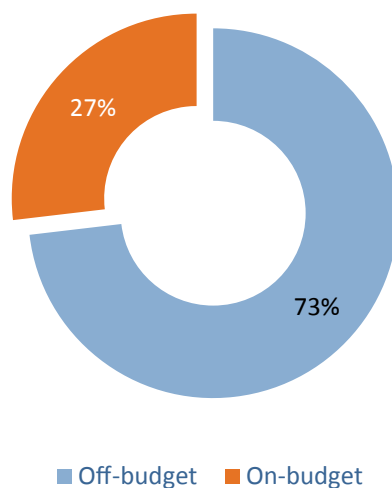
AFGHANISTAN INFRASTRUCTURE FUND (AIF)

Established in 2011, the Afghanistan Infrastructure Fund aims to support the counter insurgency strategy of the U.S. in Afghanistan. The AIF is designed to provide funding for high priority and large scale infrastructure projects in support of the U.S. civilian-military effort. As of December 2011, close to USD 224 million has been committed to this program, of which only USD 10 million has been disbursed. **[Table 1]**

LAW AND ORDER TRUST FUND (LOTFA)

Another mechanism through which DPs support security related expenditures is the Law and Order Trust Fund, administered by the United Nations Development Program (UNDP). As a multi-donor trust fund, LOTFA covers operating expenses of the police forces including salaries and food, in addition to supporting police reform activities and training. According to LOTFA financial report of March 2012, total DPs' commitments to this program in the year 2011 amounted to USD 615 million.

Figure 9: Ratio of On-budgets versus Off-budget (2011)



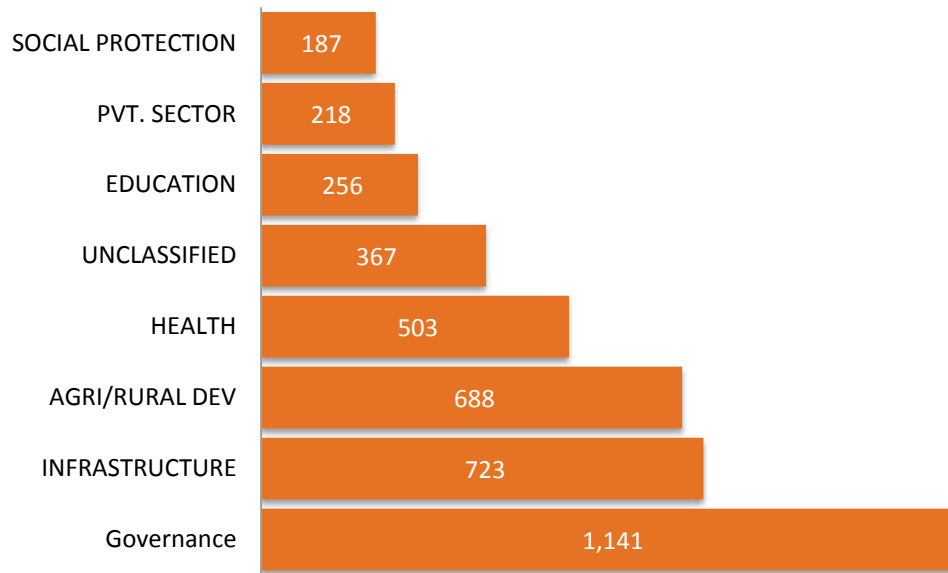
EXTERNAL ASSISTANCE FOR DEVELOPMENT

From the USD 4.1 billion disbursed in support of development sectors in 2011, USD 1,106 million (27%) was delivered on-budget, which includes USD 484 million through bilateral means and USD 622 million through trust funds mechanism. whilst the major portion, USD 2,998 million, was managed by the DPs and delivered off-budget. See **[Figure 9]**

In terms of sectoral distribution, reported information from the DPs demonstrate that the majority of disbursements (USD 367 million) or 9% in 2011 has been marked as "UNCLASSIFIED", which undermines our analysis of where the resources were precisely invested. However, our understanding is that the resources have either financed crosscutting issues such as gender, environment, human rights, etc. activities, or do not fit any of the Afghanistan National Development Strategy (ANDS) classification of sectors as indicated in **[Figure 10]**.

With respect to other sectors, USD 1,141 million was invested in Governance, followed by Infrastructure USD 723 million, Agriculture and Rural Development USD 688 million, Health USD 503 million, Education USD 256 million, Private Sector Development USD 218 million, and Social Protection, which received USD 187 million.

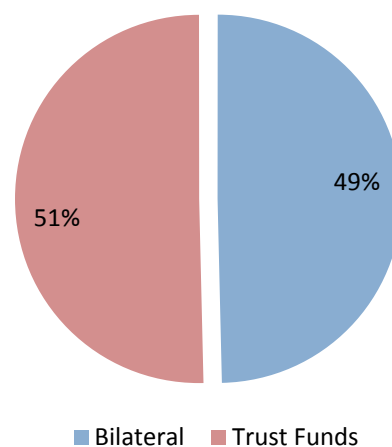
Figure 10: Classification of Disbursements by Sector (2011)



EXTERNAL ASSISTANCE THROUGH GOVERNMENT SYSTEMS

Generally, there are two mechanisms namely the trust funds and bilateral support for DPs to decide while supporting programs through the government systems. Overall, in the year 2011, the amount of external assistance routed through the government budget stood at USD 2,334 million [Security \$1,228m + Development \$1,106m], of which USD 1,158 million was provided on bilateral basis [\$484m for development + \$674m for security], whilst the remaining USD 1,176 million came through trust funds [\$622m for development + \$554m for security].

Figure 11: Modalities of On-budget financing (2011)

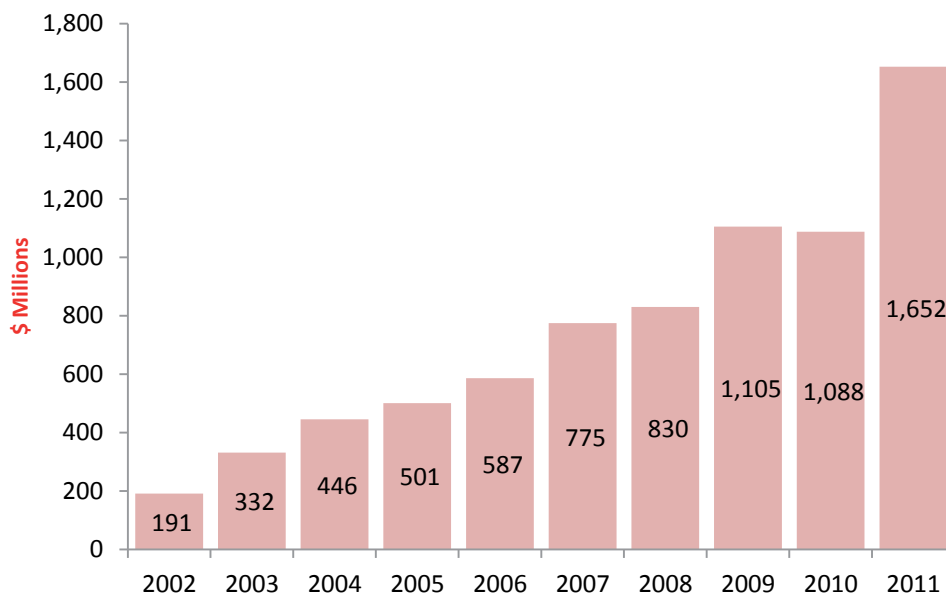


Both mechanisms are discussed below. **[Figure 11]** depicts the ratio of trust funds compared to bilateral support in 2011.

SUPPORT THROUGH TRUST FUNDS

Designed to mobilize additional on-budget resources, the prime focus of the trust funds mechanism (TF), namely the Afghanistan Reconstruction Trust Fund (ARTF) and the Law and Order Trust Fund for Afghanistan (LOTFA), was to harmonize support for the reconstruction effort. Since early 2002, a large number of donors have contributed to the trust funds making them the largest financier of the government national budget. While the ARTF and LOTFA still continue to support government priorities, the Afghan government entered into a new partnership with the international community in 2010 to establish the Afghanistan Peace and Reintegration Trust Fund (APRP) in order to help back up the peace process initiated by the government in 2010. The Afghanistan Infrastructure Trust Fund (AITF) is also a new initiative that was created in December 2010. In general, the entire amount of External Assistance contributed through TFs from 2002 reaches USD 7.5 billion by end 2011. See **[Figure 12]**

Figure 12: Summary of DPs' Total Contribution to Trust Funds



AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)

Established in April 2002, the ARTF is supported by a pool of donors that are engaged in the reconstruction and development of Afghanistan. It is administered by the World Bank and consists of two windows; recurrent window to support government's operating costs, and investment window to fund development projects that are aligned with government priorities. It is the largest contributor to the national budget for both windows. As of December 2011, total DPs' contributions to ARTF stand at USD 5 billion, of which USD 934 million was contributed in 2011.

LAW AND ORDER TRUST FUND FOR AFGHANISTAN (LOTFA)

The entire volume of DPs' assistance to LOTFA as of December 2011 amount to USD 2.2 billion, of which USD 615 million consists the amount provided in 2011. For further details on the contribution of DPs to the TFs, refer to [Table 14] in the Annex.

AFGHANISTAN PEACE AND REINTEGRATION TRUST FUND (APRP)

The APRP Trust Fund was established in 2010 after the consultative Peace Jirga in Kabul with the mandate to support the Peace and Integration Program. The program is led by the government aiming to provide a means for Anti-Government Elements (AGEs) to renounce violence, reintegrate and become a productive part of Afghan society. Provisions for increasing employment, sustainable livelihoods, and linking peace and development are intrinsic components of this peace-building initiative. This trust fund consists of three windows and is implemented by a joint secretariat of APRP and Line Ministries.

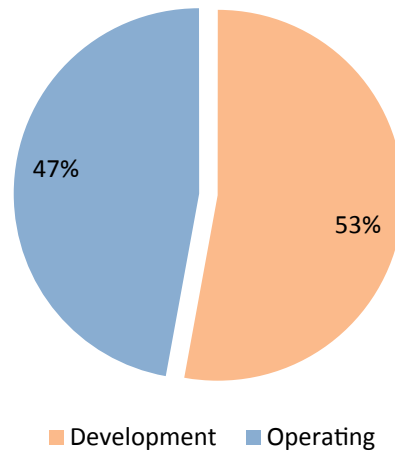
AFGHANISTAN INFRASTRUCTURE TRUST FUND (AITF)

The Afghanistan Infrastructure Trust Fund (AITF) was established in December 2010 to partner with Asian Development Bank (ADB) in financing infrastructure projects. ADB provides operational and project management expertise to enable GoA to implement the country's key infrastructure development plans. AITF fund is aimed to meet important infrastructure needs, including stronger transportation links (national, regional, rural and urban) railways, airports, energy security (generation, transmission and distribution) partnerships for the development of mineral resources, irrigation systems and private sector development. The key supporters of the AITF fund to date are Japan and the United Kingdom (UK).



In sum, total external assistance disbursed through the trust funds in 2011 stood at USD 1,176 million, of which USD 554 million was for operating expenses, whilst the remaining USD 622 million was invested in development programs [Figure 13]. Reportedly, USA was the largest contributor (USD 468 million) to the TFs, followed by Japan USD 240 million, United Kingdom USD 158 million, Germany USD 77 million, and European Union USD 60 million. For more details, refer to [Table 12] in the Annex.

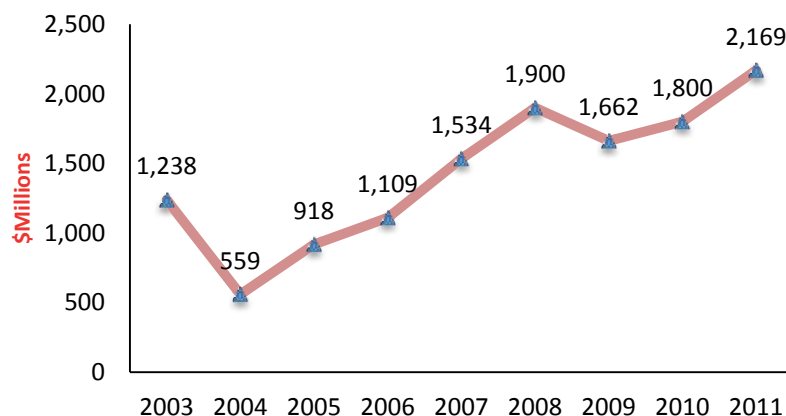
Figure 13: Summary of External Assistance through Trust Funds (2011)



THE AFGHANISTAN NATIONAL BUDGET

Since 2002 the DPs' contribution to the government budget has remained insignificant compared to the amount that has bypassed the government systems. The government of Afghanistan has continuously tried to attract more external funding to be spent on-budget, but there has not been any real concrete improvement to achieve this objective. Given the commitments of the London and Kabul conferences held in 2010 where the DPs agreed to channel at least 50% of their assistance through the government budget until end 2012, the GoA expects more on-budget support to finance its priorities.

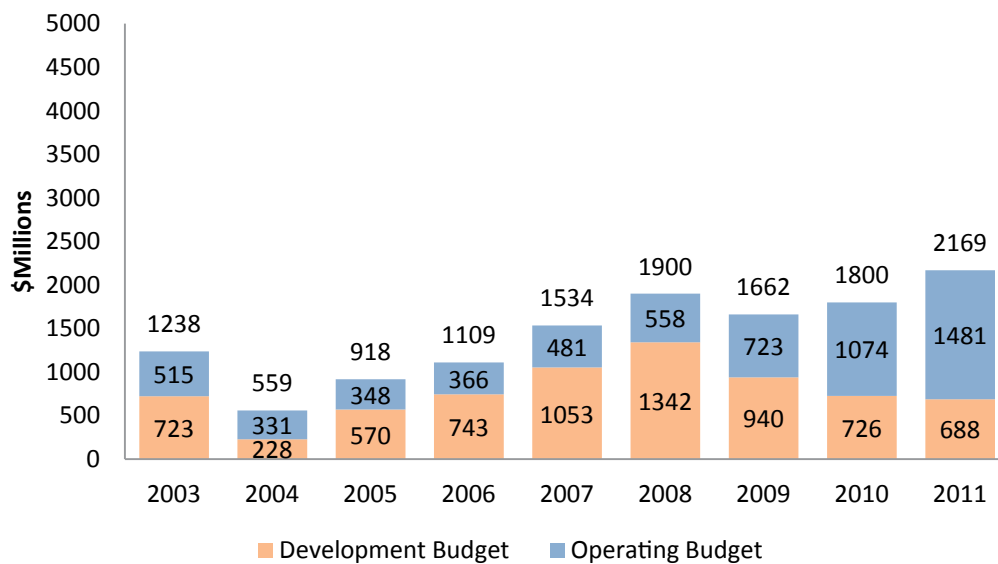
Figure 14: External Assistance through Government Budget (2003-2011)



Despite the fact that the volume of on-budget assistance has been lower compared to off-budget assistance, the amount of DPs' on-budget assistance has in absolute terms increased from 2005 onward. Although the amount of on-budget assistance has gone up in 2011 (USD 2,169 million) compared to 2010 [**Figure 14**], the overall volume of external assistance also increased from USD 10.8 billion in 2010 to USD 12.9 billion in 2011.

[**Figure 15**] illustrates that out of the USD 2,169 million reflected in the FY1390 national budget as part of on-budget support by the DPs, USD 688 million was budgeted for the development projects, whilst the remaining USD 1,481 million financed operating expenses, mainly security related (86%). 2011 is the year with the highest proportion of total assistance channeled through the government budget compared to 2010, indicating a 17% increment.

Figure 15: Classification of External Assistance in the National Budget



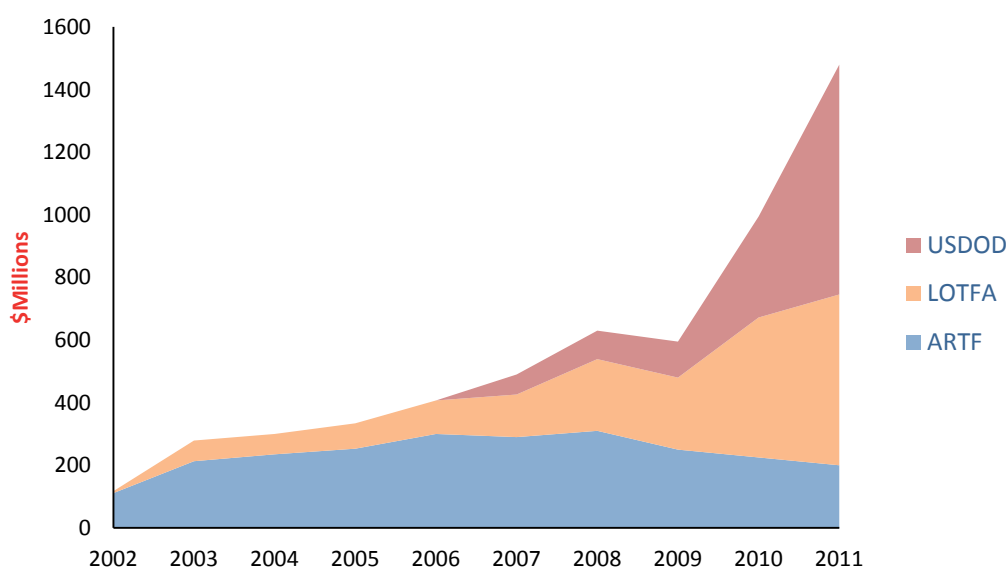
³The amount of DPs' contribution mentioned in the 1390 national budget (USD 2,169 million) is lower from what is reported by the DPs and mentioned in the start of the overview section (USD 2,334 million). One main reason from the MoF perspective is the difference between the Afghan fiscal year and those of DPs. A second reason could be higher contribution of DPs to TFs, but lower allocation to projects. Yet, another reason is that the above figures on the graph do not include carry forward figures from previous years.

Out of the USD 1,106 million reported to have financed development projects, USD 688 million was reflected in the 1390 (2011) national budget. Again the reason could be as stated above.

SUPPORT TO GOVERNMENT OPERATING BUDGET

A notable amount of external assistance (USD 1,481 million) channeled through the government budget in 2011 was provided to finance the operating budget. Although domestic revenues' contribution to support the government operating budget has been crucial, there have been other sources that have supported the operating budget significantly. In 2011 alone, the U.S. Department of Defense and DP's support through LOTFA have been two of the largest sources of support to operating budget, whilst ARTF's support to government operating budget, based on the agreed ARTF financing strategy, has slightly decreased compared to 2009 and 2010, and will further reduce in the future [Figure 16]. For more details, refer to [Table 15] in Annex of this report.

Figure 16: Major Supporters of the Government Operating Budget

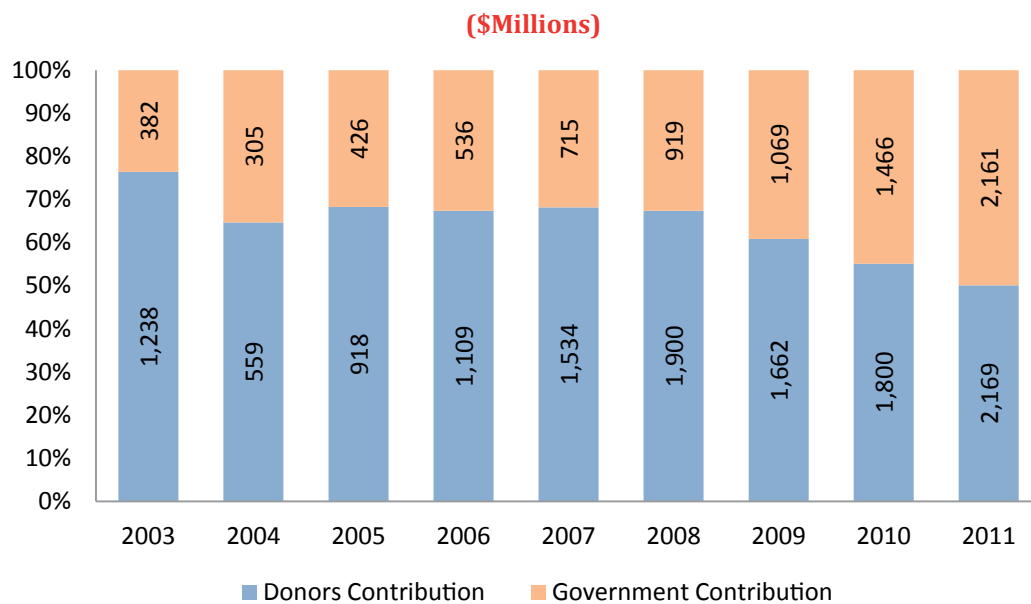


SHARE OF AID AS PERCENTAGE OF GOVERNMENT BUDGET

As stated above, the Afghan national budget has been supported by both domestic revenues and DP's assistance, and will continue to be so in future. Notably, the amount of domestic revenue in support of the government budget has increased from USD 382 million in 2003 to USD 1,466 in 2010. In the year 2011, the domestic revenue has increased again due to various initiatives in the mining and other revenue generating

sectors, which in turn resulted in greater government contribution to the national budget, approximately 48%, mostly supporting operating expenses. However, the share of external assistance to the budget was slightly higher at 52% due to larger size of the 2011 budget vis-a-vis the 2010 budget. Although it is envisaged that government's contribution to the national budget will increase in the future aiming to achieve fiscal sustainability, which is to finance 100% of its operating budget, the exact timeframe is yet to be defined. For further details, refer to the [Figure 17] below, and [Table 16] in the Annex.

Figure 17: Share of External Assistance as Percentage of Government Budget



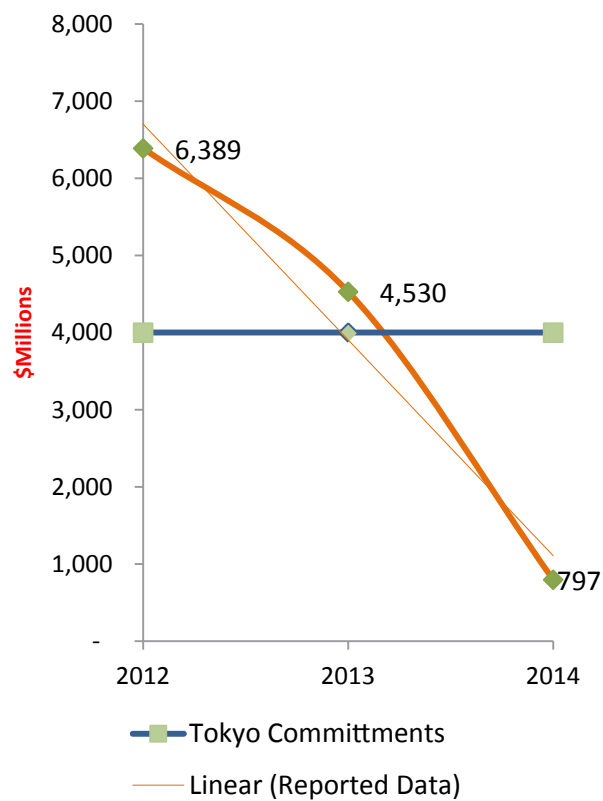
AID PREDICTABILITY

In the absence of predictable aid, it is difficult for a recipient country like Afghanistan to plan and budget effectively. Likewise, it is difficult for donors as well to harmonize efforts and achieve enduring development results. Under the Paris Declaration, DPs agreed to provide reliable, indicative aid commitments and to disburse in a timely manner according to agreed schedules. At Accra, the participants agreed to a number of additional actions to improve the predictability of aid, including strengthening national budgeting processes, providing full and timely information on annual commitments and actual disbursements to enable developing countries to record aid in their budget estimates and accounting

systems, and to provide 3-5 year forward expenditure plans, with at least indicative resource allocations.

In the context of Afghanistan, aid predictability has always been a challenging problem where most of the DPs have not provided the government with complete information on their rolling three-to-five-year onward level of assistance and/or indicative resource allocation for projects/programs that are implemented in the county.

Figure 18: Estimated Three Year Projection of External Assistance (2012-2014)



While the recently announced pledges at the Chicago and Tokyo conferences are promising, reported data shows a decline in the volume of external assistance between 2012 and 2014. Lack of information on the precise figures will make aid unpredictable over the coming three years. Our record shows that USD 6,389 million is estimated to be provided during 2012. The trend decreases to USD 4,530 million in 2013, and plummets to USD 797 million in 2014, respectively. However looking at the volume of disbursements in 2011 and the level of commitments made in 2012, it is worth noting that the 2013 and 2014 figures are best estimates only, and will change as more and accurate information is received from the DPs. See [Figure 18]

CHAPTER 2

ANALYSIS OF AID EFFECTIVENESS IN AFGHANISTAN



INTRODUCTION

Building on the overview of the data provided in previous section, this chapter presents analyses of the progress achieved on aid effectiveness principles, the existing challenges and the way forward. The analysis will focus on developments since the last Development Cooperation Report (2010) and some general issues over the period 2002 to 2011.

In the last two years (2010-2011), efforts to enhance international development cooperation experienced tremendous shifts at the local and global levels. Namely, the Fourth High Level Forum (HLF-4) in November-December 2011 in Busan introduced a new paradigm for development cooperation, enunciating more inclusive and broader partnerships while embracing diversity and emphasizing the key role of different development actors in improving the effectiveness of development aid. The HLF-4 rejuvenated the essence of South-South cooperation, triangular partnerships and the role of the private sector and wider civil society in the promotion of global development cooperation. Building upon the foundations laid in the Paris Declaration (PD) and Accra Agenda for Action (AAA), the HLF-4 produced the Busan Partnership for Effective Development Cooperation and the New Deal for engagement in fragile states, marking a turning point in development partnerships. The so-called post-Busan framework complements previous efforts in reaching the agreed development targets with more efficient and quicker approach than before by encouraging ownership of development priorities by developing countries, considering context specificity of the fragile states and demanding flexibility on the part of donors.

At the local level, however, in close partnership with the International Community, the Afghan Government sought to articulate these internationally agreed aid effectiveness commitments into tangible actions for implementation and application into its own development context. At the July 2010 Kabul Conference, the international community reaffirmed their London Conference commitments to channel at least 50% of development through the Afghan Government budget and to progressively align 80% of their aid to Afghan-defined priority programs within two years. At a subsequent international conference on Afghanistan in Bonn in December 2011, the International Community affirmed the special status of Afghanistan to receive donor assistance from Transition through a Transformation Decade in greater measures than similarly situated nations.



Underpinning these commitments was the recognition by the international community that aid should strengthen the leadership and ownership of the Afghan Government of the development process and that channeling aid through the government's systems is the most effective means of delivering development outcomes that Afghan's desire and a critical element in building state capacity. It was also recognized that increasing alignment of off-budget aid with Afghan development priorities is crucial to meet the reconstruction and development needs of the country.

As part of its commitments to furnish donors with clear and tangible development priorities, the Afghan Government commenced a collaborative process, through the Cluster mechanism, to develop its National Priority Programs. Rigorous work was undertaken to implement reforms that will strengthen the capacity of Afghan Public Finance Management (PFM) systems. The Afghan government continued to use the National Budget as a mechanism to coordinate international aid and effectively allocate aid in support of its development priorities.

Henceforth, through a presentation of the analysis progress achieved on the Kabul commitments, this chapter will introduce the initiatives undertaken and further planned to improve aid effectiveness, the measures undertaken to improve the realization and adaptation of Towards Self-Reliance for the country, and the challenges that remain for both the government and the donors.

Tokyo Conference on Afghanistan

The Tokyo Ministerial Conference held on July 2012, once again, brought the Afghan Government and the International Community on board to reaffirm and further consolidate a set of new commitments between the two and those which were previously pledged at the London Conference (2010), Kabul Conference (July 2010) and the Bonn Conference.

The Afghan Government articulated its development vision in the document Towards Self-Reliance complemented by a mechanism for mutual accountability to implement and monitor development and reform objectives laid down in the document "the Tokyo Framework." This vision aims for sustained development, economic growth and fiscal sustainability with declining reliance on donor financing from Transition to Transformation. To fulfill this vision, GIRoA has put together 22 NPPs and ,in consultation with DPs, developed the Aid Management Policy (AMP) to ensure optimal execution and effectiveness of international assistance and their full alignment with national priorities.

PROGRESS ON KABUL COMMITMENTS: THE 50%/80% BARGAIN

USING THE GOVERNMENT CORE BUDGET

At the Kabul Conference (2010), the international community and the Afghan government reached a consensus that aid delivered through the national budget is “among the most effective means of reducing dependence, delivering the shared governance, development and security outcomes that Afghans desire, and increasing the coherence of aid and Afghan Government capacity.”

The Development Cooperation Dialogues (DCDs) conducted annually by the Ministry of Finance, are the mechanism through which data on the use of the budget system has been collected to track progress on the commitment made by the international community to channel at least 50% of their aid through the Afghan Government core budget within two years. The data indicates that while some donors were able to surpass the 50% target, progress in general has been lagging. The table below shows the current ratio of aid channeled through the core budget by donor countries.

Table 2: Achieving the 50% On-budget Commitment of the Kabul Process

Donor	On-budget	Off-budget	Donor	On-budget	Off-budget
Asian Dev. Bank	100%	0%	European Union	27%	73%
Isl. Development Bank	100%	0%	Norway	27%	73%
World Bank	100%	0%	Poland	17%	83%
Finland	67%	33%	United States	11%	89%
Australia	60%	40%	France	6%	94%
Netherlands	58%	42%	India	0%	100%
Denmark	53%	47%	New-Zealand	0%	100%
United Kingdom	46%	54%	Switzerland	0%	100%
Japan	46%	54%	Turkey	0%	100%
Italy	44%	56%	United Arab Emirates	0%	100%
Germany	36%	64%			
Czech Republic	34%	66%			
Sweden	29%	71%			
Canada	28%	72%			

It is apparent from the above table that significant effort is needed in order to achieve the 50% on budget target. Two main obstacles were identified by donors during the 2012 DCDs that have stymied progress on this front. Some donors cited legal constraints that do not allow them to utilize the government systems beyond a certain threshold. Others expressed their lack of confidence in the capacity of the government's PFM system to utilize the aid money consistent with strict fiduciary standards that govern their aid programs.

These concerns need to be closely scrutinized in relation to the development context in Afghanistan.

Why use the Afghan budget systems?

Aid that is delivered through the Afghan budget system promotes a partnership-based approach where government has greater input into program design, policy formulation and conditionality. Through on-budget all government systems are used and thereby building local capacity, ownership and improving harmonization and alignment between Afghan Government and the donors. It also reduces the need for separate planning, management and monitoring systems which result to reduced transaction costs and enhanced domestic accountability to parliament, citizens and civil society. Similarly, it allows dialogue to be policy-oriented and not just process-oriented, as dialogue focuses more on the priorities expressed in the national plan than on aid instruments. Improving the allocation efficiency of public expenditure e.g. by giving flexibility to the Government to allocate aid in support of its national development priorities as well as predictability of aid flows which avoids fulfillment of disbursement conditions and other requirements and involves longer term commitments are the other advantages of on-budget mechanism. Hence, it is being justified that donors need to move more on budget.

The presence of legal constraints does indeed appear to be a condition that exists beyond the control and authority of the development missions of donor countries operating in Afghanistan. But for the sake of transparency and in the spirit of promoting effective partnership, donors need to furnish the Afghan government with specific information regarding such constraints. In addition, it is assumed that such countries are therefore not able to meet their Busan and other international commitments. This information will enable the Afghan government to manage its expectations as it relates to exercising more control over development spending and to reallocate and refocus its capacity on other aspects of aid effectiveness where progress is possible to achieve. For instance, if aid cannot be channeled through the government budget, efforts should be made to improve the alignment of aid with Afghan defined priorities.

Likewise, as noted in the 2011 monitoring survey of the Paris Declaration, considering the constraints faced by Afghanistan, expediting the process of reforms by the Afghan government should win the trust and confidence of donors and encourage them to change the way aid is delivered in the country. With regard to PFM reform, data from the 2011 monitoring survey of the Paris Declaration indicates that between 2007 and 2010 the quality of the Afghan PFM system, measured by the World Bank's Country Policy and Institutional Analysis (CPIA) score, has improved (i.e. from 3.0 to 3.5) but the amount of aid using the country system has declined from 54% to 24% for the same period. This is an uncomfortable outcome suggesting that despite immense efforts by the Afghan government to increase the quality of its PFM system to international standards and the strong commitment by donors to increase their portion of aid through the budget, tangible progress has been lacking.

One factor that can partly explain this lack of progress, uncovered during the 2012 DCDs, was the lack of awareness of donors of the reforms implemented and the improvements achieved in the quality of the PFM system. To this end, the Ministry of Finance is planning to conduct roundtable discussions and share periodic information with the donor community to help bridge this information gap. The expectation is that by learning more about the processes and the safeguards in place both in planning and implementation stages, the government will be able to build donor confidence in the quality of the PFM system and work with donors to increase their contributions through the budget to meet the 50% on-budget target of the Kabul Conference. Lastly, it is incumbent upon donors to clearly explain their conditions, benchmarks and intentions regarding when and how funds are able to go on budget. This is particularly important for the major donors. Without such information it is axiomatic that the government cannot measure progress towards the mutually agreed objective.

ALIGNING 80% OF AID WITH AFGHAN DEFINED PRIORITIES

Another key outcome of the Kabul Conference was the recognition by donors that greater alignment of aid with Afghan defined priorities is critical for achieving reconstruction and development results. Donors committed to progressively align, within two years, 80% of their funding with national priorities regardless of the delivery channel i.e. on-Budget vs. off-Budget.

The 2012 DCDs failed to effectively capture the extent to which donors have aligned their aid to national priorities. For aid channeled through the budget, alignment happens automatically. As a result the portion of aid channeled through the budget is the only credible indicator by which the government can determine the level of aid



alignment with national priorities. For off-budget projects credible data on donor disbursement to the government sector is lacking. The information available, however, indicates that donors continue to channel a large portion of their aid directly to implementing partners without informing the relevant line ministries.

One important factor that contributed to this situation is the differences between government and donor priorities. With adoption of the ANDS in 2008, the government was able to define its needs, articulate a strategy and development goals.

The off-budget assistance that aligns NPPs and their deliverables is one of the significant means of promoting national ownership and sustainable development. It paves the ground for achieving reconstruction and development results instead of producing quick-fix solutions. Aligning with NPP deliverables will allow government agencies to take part in review, appraisal, implementation and monitoring of off-budget projects. By doing so, off-budget projects will be included in the budget statement improving visibility and recognition by the Afghan government, Parliament and civil society. Similarly, it avoids duplication of efforts among different stakeholders active in the country and brings harmonization in the development interventions of development partners and government of Afghanistan.

The Kabul Conference helped translate these development priorities into focused and prioritized implementation plans in the form of 22 National Priority Programs (NPPs). These programs were chosen based on their contribution to sustainable economic growth, revenue generation, jobs and human development. The 22 NPPs are categorized together into 6 clusters (security, Human Resource Development Infrastructure Development, Private Sector Development, Agriculture and Rural Development and Governance). The goal of the Cluster mechanism is to increase collaboration between Ministries, remove over-lapping and duplication, and to develop and implement a clear, prioritized agenda aimed at addressing the key development challenges of the respective sector.

The NPPs are a credible programmatic approach to implement Afghanistan's long-term vision, through sequential (rolling) planning periods, creating implementation capacity, establishing credible state institutions, reforming concerned sectors and delivering essential services. The prioritized and focused implementation of NPPs will bring value for money leading to satisfaction of Afghan people as well as the international community. As of October 2012, 16 NPPs have been endorsed by Joint Coordination and Monitoring Board (JCMB), and the remaining 6 are in the process of preparation. In the aftermath of the Tokyo conference on Afghanistan, alignment is defined as donors aligning their development aid with the specific deliverables of the

NPPs and not with the broader goals of the government sector. In order for the alignment to happen at this level, the Afghan government and the international community need to agree on a mechanism through which donors will work in concert with the respective government agencies to design and implement projects facilitating the achievement of NPP deliverables. In the meantime, through the Development Assistance Database (DAD), off-budget disbursements in support of NPP deliverables need to be recorded in an effective manner to allow for better reporting and assessment of progress on donor alignment. The government's Aid Management Policy specifies that the government will issue concrete guidance to the DPs on how to achieve alignment.

Table 3: List of NPPs with their Status

I. Governance Cluster		Status of NPPs
1	Financial and Economic Reforms	Endorsed
2	National Transparency and Accountability Program	Under process
3	Efficient and Effective Government	Under process
4	Local Governance	Endorsed
5	Law and Justice for All	Under process
6	Human Rights & Civic Responsibilities	Endorsed
II. Infrastructure Cluster		Status of NPPs
7	(National-Regional Integrated Resource Corridor Program (NR-IRCP)	Endorsed
8	(National Extractive Industry Excellence Program (NEIP)	Endorsed
9	National Energy Supply Program	Under process
10	(Urban Planning Technical Assistance Facility (UP-TAF)	Endorsed
III. Agriculture & Rural Development Cluster		Status of NPPs
11	National Water and Natural Resource Development Program	Under process
12	National Comprehensive Agriculture Production & Market Development Program	Under process
13	National Rural Access Program	Endorsed
14	National Strengthening of Local Institutions	Endorsed
IV. Human Resource Development Cluster		Status of NPPs
15	Facilitation of Sustainable Decent Work through Skills Development and Market Friendly Labor Regulation	Endorsed
16	Education for All	Endorsed
17	Human Resources for Health	Endorsed
18	Increase Access and Improve the Quality of Higher Education	Endorsed
19	MoWA's NPP	Endorsed
V. Private Sector and Economic Development Cluster		Status of NPPs
20	E-Afghanistan	Endorsed
21	(Integrated Trade and SME Support Facility (ISSF)	Endorsed
VI. Security Cluster		Status of NPPs
22	Peace and Reintegration	Endorsed

BUILDING ON THE SUCCESS OF THE KABUL PROCESS

During the 2012 DCDs, the dialogue focused not only on Kabul commitments (50% on-budget and 80% alignment), but on other initiatives of the Afghan government to achieve greater effectiveness of aid. Notably the possibility of concluding long term development framework agreements, division of labor among donors at sector level, and support for the implementation of the Busan outcome document and the New Deal was discussed. These policy initiatives are part of the revised government Aid Management Policy that the Afghan government intends to finalize and commence implementation by December 2012.

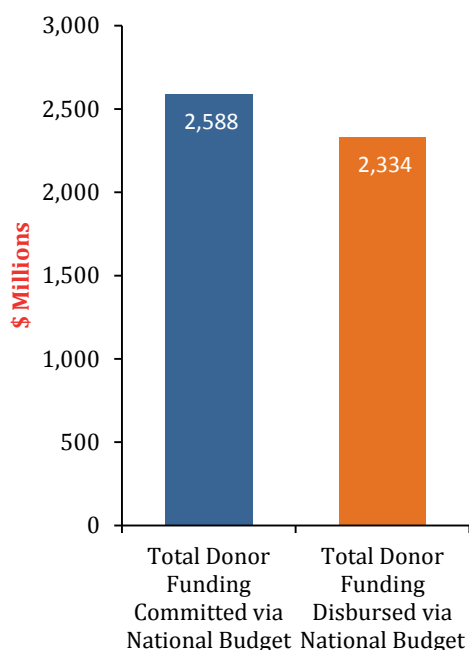
The discussions demonstrated a general agreement and willingness to implement these priority policy initiatives in the context of the government aid policy. This section of the report, intends to provide a brief introduction of these policy measures, demonstrate their applicability in the Afghan context and to highlight the benefits in terms of improving the predictability of aid, reducing fragmentation and bringing greater order to the existing aid architecture in Afghanistan.

IMPROVING THE PREDICTABILITY OF AID: DEVELOPMENT FRAMEWORK AGREEMENTS

Aid is predictable when donors provide reliable commitments over a multiyear framework and disburse aid in accordance with agreed disbursement plans and schedules. Likewise, when aid is predictable, the government is well positioned to prepare realistic budgets and set prioritized plans for development. In 2011, 90% of development aid budgeted by the Afghan government was actually disbursed by donors, which shows significant improvement from previous years. See [Figure 19]

Development Framework Agreements (DFA) are considered to be effective tools for improving the predictability of aid. DFAs

Figure 19: Commitment vs. Disbursement (2011)



are umbrella agreements reached between a donor country and the recipient government to cover long-term development arrangements. Fortunately, the international community made long-term development and financial commitments to Afghanistan in London (2010) and in the recently held Tokyo Conference (2012).

At present, Afghanistan is in a poor economic situation—with Per Capita GDP of \$ 528 in 2010/11; more than a third of the population lives below poverty line of which more than half are highly vulnerable to fall into poverty. About three-quarters of the population is illiterate. At the same time Afghanistan is faced with certain reduction in future aid flows resulting from continued financial turmoil in the world and the expected withdrawal of international security forces. This creates the need to develop framework agreements to ensure that aid is predictable, delivered in an effective manner, and in support of the national priorities of the government.

The DFAs will specify the responsibilities of each party, provide a mechanism for reliable assessments of performance, focus on transparency and promote mutual accountability. Through DFAs, both the government and DPs can achieve the internationally endorsed aid effectiveness principles of the Paris Declaration (2005), the Accra Agenda for Action (2010), the Busan Partnership for Effective Development Co-operation and pave the way for the implementation of the New Deal. Thus, the Afghan government intends to negotiate and sign DFAs with all the donors, as indicated in the Aid Management Policy.

PROMOTING GREATER HARMONIZATION: DIVISION OF LABOR (DoL)

Clear division of labor among donors is an effective tool to enhance harmonization, reduce transaction costs, avoid duplication of efforts and achieve balanced development across all development sectors. The Paris Declaration on Aid effectiveness recognizes that fragmentation of aid impairs aid effectiveness. In addition, a pragmatic approach to share the burden of aid management increases complementarity and can reduce transaction costs.

As early as 2004, the government of Afghanistan developed the criteria for division of labor (DoL) among donors to streamline their sectoral focus and achieve balanced distribution of aid across all development priorities. The criteria allowed each development partner to operate in a maximum of three sectors with the possibility of moving to the fourth sector provided that it had contributed a minimum annual

⁵Afghanistan in Transition: Looking beyond 2014. Volume No1, Page 5. May 2012



investment of \$30 million in the third sector. In 2011, the same initiative was recognized as a best practice in the Busan outcome document and the New Deal for engagement in fragile states document, committing the international community to adopt DoL in order to promote greater alignment of aid with national priorities and harmonization of practices.

During the 2012 DCDs, the Ministry of Finance collected data on donor engagement at the sectoral level. The table below provides a snapshot of donor involvement in ANDS sectors and the aggregate amount of aid they have contributed per sector during 2011.

Table 4: Classification of External Assistance by ANDS Sectors

ANDS Sectors	No. Of Donors engaged in ANDS sectors	Commitments (\$Million)	Disbursements (\$Million)	Commitments%	Disbursements %
Security	10	11,296	8,847	73%	70%
Infrastructure	19	1,353	723	9%	6%
Governance	20	1,092	1,141	7%	9%
Agriculture/Rural Development	18	491	688	3%	5%
Health	15	429	503	3%	4%
Social Protection	17	291	187	2%	1%
Education	18	242	256	2%	2%
Private Sector Dev/ Econ Dev	10	190	218	1%	2%
Total		15,384	12,563	100%	100%

The data presented in the table above defies our common belief; the larger the number of donors involved in a sector does not necessarily translate to more aid investment in that sector. The security sector, for instance, has benefited from the engagement of only 10 donors, but it received close to 70% of all aid disbursed in 2011. In contrast, the Agriculture and Rural development sector and the Education sector enjoy the highest number of donor involvement, but have been the recipient of only 5% and 2% of total disbursements, respectively.

This finding demonstrates the over abundance of donors in some sectors. When a sector is over-crowded by donors, coordination among donors and between donors and government becomes a tedious and expensive task. It not only increases transaction costs and results in duplication of interventions, but also undermines and overstretches the capacity of the government to effectively exercise leadership over the allocation of resources.

Disaggregating the data at donor level, a correlation emerges between the size of a donor portfolio and its sectoral engagement. Among the top 10 donors presented in table 5 below, except the Asian Development Bank and European Union, donors are involved in all eight or more than three sectors of the ANDS.

Table 5: DPs Engagement in ANDS Sectors

Ranked	Donors	Commitments (\$Million)	Disbursements (\$Million)	ANDS sectors engagement	Average Commitment per sector (\$Millions)
1	United States	13,027	10,406	8	1,628
2	Japan	670	670	7	96
3	Germany	305	216	6	51
4	World Bank	241	152	7	34
5	United Kingdom	352	357	7	51
6	Australia	209	150	6	35
7	European Union	194	221	6	32
8	Asian Dev. Bank	131	123	2	66
9	Canada	116	116	6	19
10	Netherlands	94	95	7	13

For those outside the top 10, as shown in table 6 below, donors with the smallest aid portfolio have the tendency to be involved in many sectors. For instance, donors with an average per sector funding portfolio of USD 15 million or less are participating in all eight (8) or fewer sectors of the ANDS. Czech Republic is the extreme case (USD 0.5 million/sector, 6 sectors) followed by Poland (USD 2.25 million/sector, 4 sectors) and Finland (USD 2.47 million/sector, 7 sectors).



Table 6: DPs Financing for ANDS Sectors

Ranked	Donors	Commitments (\$millions)	Disbursements (\$millions)	Sectors engagement	Average funding per sector (\$millions)
11	Sweden	101	101	7	14
12	Norway	77	77	6	13
13	India	72	0	5	14
14	Denmark	65	65	5	13
15	France	54	25	6	9
16	Italy	52	50	7	7
17	Finland	17	17	7	3
18	Turkey	13	13	7	2
19	Poland	9	9	4	2
20	Czech Republic	4	3	6	0.6

The above analysis, though short of any analysis of the reasons behind donor sectoral involvement, indicates a strong need for a rationalisation of the current situation and clear division of labor to be defined and implemented among donors. The Aid Management Policy of the government envisages the introduction of criteria and a guidance to donors to specify their sectoral engagement based on their sectoral expertise and their comparative advantage. Such a mechanism will help bring uniformity to sectoral engagement, promote the notion of balanced development and will reduce the transaction costs associated with donor coordination.

FROM KABUL TO TOKYO

At the 2010 Kabul Conference, the government of Afghanistan and the international community reached broad consensus on what constituted development priorities to facilitate meaningful transition in socio-economic sectors and to bridge the Transition and the Transformation periods. Year 2011, provided the time needed for the Afghan government to work closely with the international community and develop the comprehensive National Priority Programs (NPPs) and to craft a strategy that will guide Afghanistan towards self reliance and reduce its dependence on foreign aid for development and delivery of services.

This section of the report provides a summary of the the Afghan government's strategy for achieving self-reliance, the outcome of the Tokyo conference, and the aid management policy that will help Afghanistan steer foreign aid in support of its priority programs in an effective manner.

DEVELOPMENT AID IN SUPPORT OF AFGHANISTAN'S VISION FOR SELF-RELIANCE

In its vision paper *Towards Self-Reliance*, presented at the Tokyo conference on Afghanistan in 2012, the Government of Afghanistan aspired to gradually reduce its dependence on foreign aid and to improve revenue collection and generation to meet an increasing portion of its operational and development financing needs. The vision is grounded in two main premises. First, it highlights the need to increase the effectiveness of foreign aid, particularly in relation to greater government ownership and leadership of development so that aid is channeled towards foundational investments in sectors that are growth inducing such as infrastructure, agriculture and extractive industries. And second, the realization and commitment of the Government of Afghanistan to make progress in improving security, good governance, rule of law, protection of human rights and its commitment to curb corruption and create an inhospitable environment for narcotics and nepotism. Combined together, progress in both of these areas will create an environment in which the private sector, trade and not aid, will lead growth, create jobs and establish a vibrant and stable economy.

Three strategic milestones have been identified by the Afghan government which will gauge the progress of the country towards self-reliance. That is by 2015 Afghanistan aspires to take full responsibility for its security; by 2025 the country would have reduced its reliance on foreign aid to levels consistent with other least developed countries; and by 2030 the country would have achieved enough progress in development and governance that it will emerge as a model of a developing democratic state.

As demonstrated earlier, achievement of these milestones depends on the government's ability to implement a rigorous reform program to foster investment and improve service delivery and on the donor's commitment to work closely with the government and implement measures to improve the quality of aid and achieve value for the money that their tax payers contribute to the rebuilding of Afghanistan. None of these achievements would have been possible without an honest and constructive partnership between Afghanistan and the international community. During 2011, the international community provided USD 12.9 billion in development aid to the country. Although short of their Kabul conference commitment to channel 50% of their assistance through the government systems and to align 80% of aid with government priorities, significant progress has been made to improve the effectiveness of aid. In particular, USD 2,334 million provided through the national budget, of which the government was able to spend USD 688 million on priority development projects.



The peer review mechanism, which allows the government and donors, to discuss priorities and review progress on implementation, has proved to be a successful process.

While these achievements are worthwhile, the post Tokyo environment in 2012 provides an opportunity for both the government and the international community to adopt a more structured approach to reform institutions and to improve the effectiveness of aid.

In its Aid Management Policy, the government has identified a number of priority areas in which progress has been lagging in 2011, but would require rigorous focus in the years ahead. These aspects include predictability of aid through financing agreements, division of labor (DoL) among donors in each sector, investment in projects with the potential to improve regional cooperation and economic integration. Fundamental for achieving self-reliance, is the effective implementation of the outcome of the Tokyo Conference.

TOKYO INTERNATIONAL CONFERENCE ON AFGHANISTAN – 2012

The Tokyo Conference on Afghanistan held in July 2012, once again, brought together representatives from the GIROA and International Community to reaffirm their commitments and further consolidate their development partnership in Afghanistan from Transition and through the Transformation Decade. These commitments are built upon the outcomes of the London Conference (2010), Kabul Conference (2010) and specifically the recent International Conference on Afghanistan in Bonn (2011), where the Afghan Government and the International Community mutually renewed their long-term commitments in the areas of governance, security, peace building, economic and social development, and regional cooperation.

To support Afghanistan's vision of moving towards increasing self-sufficiency, the Tokyo Conference consolidated mutual commitments by the International Community and the GIROA into a Partnership for Self-Reliance in Afghanistan from Transition to Transformation. Thus forth, the International Community committed to providing over USD 16 billion through 2015, and sustaining support, through 2017, at or near levels of the past decade to respond to the fiscal gap estimated for the beginning years of the Transformation Decade by GIROA and the World Bank.

Under the commitments of Tokyo Conference, the International Community, once again, welcomed ownership of development investments by the GIROA and reaffirmed its commitment of aligning 80 percent of aid with the NPPs and channeling at least 50

percent of its ODA through the national budget in accordance with the Kabul Process commitments. The Tokyo Conference commitments go beyond aid quantity, the conference sought to establish a framework which can make aid to Afghanistan more effective and accountable. The Tokyo Mutual Accountability Framework (TMAF) includes commitments on stronger monitoring of issues such as the introduction and implementation of reforms, good governance and fighting corruption with reviews at regular intervals over the coming years.

TOKYO MUTUAL ACCOUNTABILITY FRAMEWORK (TMAF)

The Mutual Accountability Framework is one of the main outcomes of the Tokyo Conference held on July 8, 2012. Building on mutual commitments reached in the Kabul Process and the Bonn Conference, the MAF establishes a mechanism through which progress on development and governance goals will be monitored and reviewed jointly by the international community and the Afghan government on a regular basis. These goals include the commitment of the government to strengthen governance, gradually reduce Afghanistan's reliance on donor financing, manage aid resources effectively and transparently, and to achieve sustained economic growth and inclusive development. Effective implementation of commitments stipulated in the MAF will enable the international community to sustain its financial support to Afghanistan during transition and through the transformation decade.

The MAF is divided into three sections. The first section focuses on mutual commitments, requiring both the international community and the Afghan government to adhere to the global principles of aid effectiveness, ensure a functional democratic system based on credible and inclusive elections, support an efficient and strong civil society, promote access to justice and rule of law and respect for human rights particularly women rights, and to address humanitarian needs of the Afghan population.

Underpinning mutual commitments is the commitment by the government of Afghanistan to perform in five areas of development and governance. These areas include the government commitment to (i) conduct credible, inclusive and transparent elections in 2014 and 2015, (ii) Governance, improve access to justice including enforcement of laws and ensure respect for women rights, (iii) improve management and integrity of public finance and commercial banking, (iv) improve government capacity to collect revenue and strengthen budget execution, (v) promote inclusive economic growth and development through Regional Cooperation and Private Sector development.



Successful delivery of the commitments outlined in the MAF will depend on the effective implementation of the NPPs and the degree to which donors will align their commitments to specific deliverables of these programs. NPPs are the main tool for Afghanistan to achieve development, economic growth and fiscal sustainability and ones that will safeguard and sustain development gains when external funding declines and will help Afghanistan move towards Self Reliance.

THE AID MANAGEMENT POLICY

To supplement the Towards Self-Reliance strategy with a partnership framework through which the government will work with the international community to guide the allocation and effectiveness of aid provided to Afghanistan, the Afghan government prepared an Aid Management Policy (AMP) in 2012. The policy was prepared in close consultation with donors in time for the Tokyo conference, but the endorsement and approval of the policy was delayed. In the Tokyo Mutual Accountability Framework (TMAF) document, however, the government and the international community agreed on the need for the AMP to undergo further revision and to be endorsed by December 2012.

The government's first aid management policy was developed as part of the Afghanistan National Development Strategy (ANDS) in 2007. For Tokyo conference, the policy required substantive revisions in order to reflect the changing political and economic context at both national and international levels. There was also the need for the policy to incorporate the lessons learned during the implementation of the ANDS and to reflect the global aid effectiveness initiatives such as the Busan Partnership for Effective Development Cooperation and the New Deal for Engagement in Fragile States.

A NEW DEAL for Engagement in Fragile States

"Aid is especially important for countries in transition from conflict. No conflict affected country has achieved even one of the MDGs."(Ban Ki-moon, United Nations Secretary General, Busan 2011)

Endorsed at the 4th High Level Forum on Aid Effectiveness, the New Deal aims to provide a new development architecture and new ways of engagement in fragile contexts. The ND proposes key peacebuilding and statebuilding goals and identifies commitments to build mutual trust in fragile states. The ND commits the members of "the Dialogue" to:

- *Use the Peacebuilding and Statebuilding Goals (i.e. legitimate politics, security, justice, economic foundations, revenue and services) as an important foundation to enable progress towards the MDGs and to guide development work in fragile and conflict affected contexts.*
- *FOCUS on new ways of engagement to support country led and country owned transition out of fragility by conducting country-led fragility assessment, developing a One Vision One Plan, a Compact to implement the plan, PSGS indicators to measure progress and support inclusive political dialogue.*
- *Build mutual TRUST by enhancing transparency in the use of resources, sharing the risk of engagement, using and strengthening country systems, strengthening institutional capacities of the state and civil society and improving the predictability of aid.*

Unlike the previous international declarations on aid effectiveness, the ND recognizes the need to tailor development work to the situation and challenges of fragile contexts. It also recognizes the need to accept the risk of engagement during transition, noting that the risk of non-engagement can outweigh most risks of engagement.

Afghanistan is the co-chair of the global working group on the implementation of the New Deal. Furthermore, some international partners such as the UK, Denmark and the Netherlands are the piloting implementing partners of the ND in Afghanistan.

Developed through a multi-stage consultative process with full involvement of relevant stakeholders including bilateral and multilateral donors, civil society organizations and government departments central to aid management, the AMP covers a period of five years (2012 – 2017) and will undergo a mid-term review by early 2015 to reflect evolving domestic and global strategies on aid and development effectiveness.

The AMP is structured around principles of increasing ownership of the Afghan government of the development process, enhancing alignment of aid with national priorities, and improving accountability and results delivery. The policy aims to enable the government to achieve more with fewer resources and to achieve better value for the aid money spent in Afghanistan. More importantly, the policy provides a framework that will help Afghanistan reduce its reliance on foreign support and will reach towards increasing self reliance by 2025.

The AMP is expected to serve as the main cooperation and dialogue tool between GoA and the DPs for the period of Transition and well into the Transformation Decade. Among other things, the policy addresses the impact of declining military expenditure resulting from the exit strategy of NATO-ISAF along with the changes that would occur in provision and architecture of development aid over the next five years and beyond. The key issues of fiscal management, capacity development and development partnerships are also main focus areas of the policy.



CONCLUSION

FY 2011 was an exceptional year considering the overall level of aid committed and delivered by the international community in Afghanistan. At a level equivalent to the country's GDP, donors committed USD 16 billion and disbursed USD 13 billion in support of development projects. It is worth noting that a major portion of aid in 2011 (i.e. 68%) was disbursed through modalities that support the security sector. If compared with the average level of aid disbursed through the security over the period 2002-10, the FY 2011 represents a sharp increase in development spending. For this and other reasons, the Ministry of Finance is not in a position to independently verify or account for an extremely large portion of development aid disbursed during 2011.

As it was the case in the previous report, information on geographical distribution of aid is incomplete and as a result does not provide a useful picture of how aid was distributed across the country. This information though crucial for the public and the decision makers has been difficult to obtain and in most cases to disaggregate given the nature of some projects that target multitude of areas. Nevertheless, it was possible to show provincial distribution of aid for ten provinces of which Kabul has been identified as the largest beneficiary followed by Kandahar and Helmand provinces. The least impacted provinces, based on the data provided were Balkh, Baghlan and Herat.

In terms of aid delivery modalities, USD 2.3 billion was channeled through the government systems. Although short of the 50% on-budget commitment of the Kabul conference, the donors were able to channel only 18% of their total disbursements through the government budget in 2011. Not all the money channeled through the government budget was for development purposes. Our estimates show that only USD 1,106 million was provided for development projects through the budget representing only 9% of total disbursement made during 2011. This is not an encouraging finding particularly in the face of recent findings that the local economic content of development aid through on-budget is three times higher than aid through off-budget channels.

The numbers presented in the report highlight another important aspect of development aid that has received little attention in the past. The effectiveness with which aid has been delivered, in particular the predictability of aid, integration of aid into the national budget, alignment of aid with national priorities and the depth and correctness of aid reporting are major areas where progress has been lagging during 2011. As pointed out



earlier, only 18% can be assumed to have adhered to most aid effectiveness principles, while for the remaining larger portion of aid, credible information that could be used to determine the degree to which aid has been provided in the framework of aid effectiveness principles is lacking.

The preparation of NPPs and the establishment of a mutual accountability framework was an important milestone long overdue after the ANDS was endorsed in 2008. The NPPs are expected to add clarity and specificity to Government of Afghanistan's development priorities, a rational that donors often reverted to in the past to avoid the burden of better alignment and harmonization. The TMAF, which fixes the contours of the commitments of the government and the international community, will likely guide the actions of both partners in the future.

The AMP along with other global aid effectiveness initiatives sets out the government's approach to managing the delivery of international development aid in the country. The policy is expected to accelerate the achievement of Afghanistan's vision to move towards increasing self reliance by 2025, the commitments outlined in the Kabul and other conferences, and the short-medium term impacts of declining military and development expenditures over the next five years.

Lack of information to assess the effectiveness of external aid, as encountered during the preparation of this report, can be a serious problem in light of the indications that development aid will continue to decline while Afghanistan journeys through the transformation decade. In the years post transition, it will be the quality and not the quantity of aid that will determine the impact of development assistance and the delivery of development results.



ANNEX

DCR 2011 TABLES

Table 7: TOTAL PLEDGES as of July 2012 - (\$Billions)

Pledging Conferences for Afghanistan							Total Pledges by Conference	Supplemental Pledges	Grand Total of Pledges
Tokyo 2002	Berlin 2004	London 2006	Rome 2007	Paris 2008	Chicago 2012	Tokyo 2012			
5.1	5.6	8.7	0.04	14	14	16	63.44	56	119.44

Table 8: TOTAL COMMITMENTS as of DECEMBER 2011 - (\$Millions)

Rank	Donor	2002-2011 Commitment	2002-2011 Disbursement
1	United States of America	57,383	47,524
2	Japan	3,821	3,821
3	European Union/European Commission	3,077	2,816
4	United Kingdom	2,574	2,578
5	Germany	2,435	978
6	Asian Development Bank	2,400	1,129
7	World Bank	2,378	1,852
8	India	1,588	759
9	Canada	1,371	1,371
10	Netherlands	1,109	1,110
11	Australia	953	806
12	Norway	852	712
13	Sweden	736	736
14	Italy	697	589
15	Denmark	503	503
16	United Nations	446	182
17	Iran	399	367
18	France	376	199
19	Turkey	226	193
20	Spain	220	194
21	Finland	178	178
22	United Arab Emirates	169	151
23	.Russian Fed	151	147
24	Agha Khan Development Network	140	140
25	Saudi Arabia	140	103
26	China	139	58
27	Switzerland	138	120
28	South Korea	116	83
29	Czech Republic	111	105
30	Islamic Development Bank	77	24
31	Belgium	61	57
32	New Zealand	40	40
33	Poland	30	28
34	Ireland	22	21
35	Kuwait	19	19

36	Luxembourg	12	11
37	Hungary	6	5
38	Lithuania	5	5
39	Austria	5	5
40	Pakistan	5	0
41	Brunei	4	0
42	Greece	2	1
43	Singapore	2	2
44	Estonia	1	1
45	Portugal	1	0
Total		85,116	69,723



Table 9: DISBURSEMENTS TREND (2009-2011) - (\$Millions)

Rank	Development Partner	2009 Disbursement	2010 Disbursement	2011 Disbursement	Total Dis- bursements
1	United States	3,382	8,126	10,406	21,914
2	Japan	615	752	670	2,038
3	United Kingdom	310	383	357	1,051
4	European Union	322	264	221	807
5	Germany	140	205	216	562
6	Asian Development Bank	108	290	123	521
7	World Bank	174	192	152	518
8	Canada	201	78	116	394
9	Netherlands	184	91	95	370
10	Australia	130	36	150	316
11	Sweden	94	100	101	295
12	Norway	125	0	77	202
13	Denmark	70	70	65	205
14	India	93	77	0.20	170
15	Italy	65	37	50	152
16	France	33	38	25	95
17	United Arab Emirates	4	56	35	94
18	Finland	25	27	17	69
19	Spain	50		0	50
20	Switzerland	13	14	17	45
21	Turkey	10	21	13	44
22	South Korea	35	1	0	36
23	United Nations	34	0	0	34
24	Czech Republic	26	4	3	34
25	Iran	30	1	0	31
26	AKDN	16	12	0	27
27	Poland	7	7	8	23
28	Islamic Dev. Bank	5	5	7	18
29	New Zealand	2	2	6	10
30	.Russian Fed	5	3	0	8
31	Belgium	3	3	0	5
32	Ireland	3	3	0	5
33	China	2	0	0	2
34	Luxembourg	1	1	0	2
35	Lithuania	1	1	0	2
36	Hungary	1	0	0	1
37	Estonia	0.05	0	0	0.05
Total		6,319	10,899	12,931	30,148


Table 10: SECTORAL INVESTMENT OF EXTERNAL ASSISTANCE (2011) – (\$Millions)

Rank	Development Partner	Infrastructure		Governance		Education		Health		.Agri./Rural Dev		.Social Protect		Private Sector Dev/Econ Dev		Security		Unclassified		Total COMIT	Total DISB
		COMIT	DISB ¹	COMIT	DISB	COMIT	DISB	COMIT	DISB	COMIT	DISB	COMIT	DISB	COMIT	DISB	COMIT	DISB	COMIT	DISB		
1	United States	768	332	706	756	92	103	153	255	168	386	85	0	105	143	10,874	8,430	77	0	13,027	10,406
2	Japan	64	64	11	11	2	2	105	105	91	91	48	48	0	0	285	285	64	64	670	670
3	Germany	131	52	98	78	40	40	0	0.35	3	1	0	0	1	14	0	0	31	31	305	216
4	World Bank	102	36	0	13	0	18	0	21	98	44	0	1	41	18	0	0	0	0	241	152
5	United Kingdom	62	62	110	115	4	4	0	0	14	14	5	5	16	16	5	5	138	138	352	357
6	Australia	2	2	33	24	11	9	12	10	18	11	2	2	0	0	0	0	131	91	209	150
7	European Union	14	10	2	17	0	0	84	53	0.10	51	22	27	0	0	73	62	0.21	1	194	221
8	Asian Dev Bank	123	114	0	0	0	0	0	0	8	9	0	0	0	0	0	0	0	0	131	123
9	Canada	0	0	22	22	12	12	32	32	0	0	17	17	25	25	3	3	5	5	116	116
10	Sweden	8	8	36	36	25	25	0	0	7	7	21	21	1	1	3	3	0	0	101	101
11	Norway	5	5	8	8	3	3	0	0	24	24	14	14	0	0	22	22	0	0	77	77
12	Netherlands	13	13	6	6	7	7	0.45	0.45	12	12	0	0	1	1	24	24	31	31	94	95
13	India	30	0	3	0	13	0	2	0	0	0	24	0	0	0	0	0	0	1	72	0
14	Denmark	0	0	19	19	21	21	0	0	6	6	13	13	0	0	4	4	3	3	65	65
15	France	0	0	9	8	4	4	21	4	18	7	1	1	0	0	1	1	0	0	54	25
16	Italy	17	10	13	13	0	0	5	7	12	13	4	2	0.23	0.22	0	5	0	0	52	50
17	.United Arab Em	0.15	0.15	0.36	0.36	0.09	0.09	5	5	0	0	29	29	0	0	0	0	0	0	35	35
18	Switzerland	0	0	7	5	1	1	0.01	0.01	8	7	4	4	0	0	0.26	0.23	0	0	20	17
19	Finland	0	0	5	5	0	0	3	3	2	2	1	1	-	-	2	2	3	3	17	17
20	Turkey	1	1	0	0	5	5	5	5	0.41	0.41	1	1	0.22	0.22	0.09	0.09	0	0	13	13
21	Poland	6	6	2	2	0.43	0.43	-	-	-	-	-	-	0.15	0.15	-	-	-	-	8	8
22	Isl. Dev. Bank	7	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7	7
23	New Zealand	1	1	1	1	1	1	2	2	0	0	1	1	0	0	0	0	0	0	6	6
24	Czech Republic	0.28	0.28	0.23	0.13	1	1	0.07	0.07	1	1	0	0	0	0	0.47	0.35	0	0	3	3
Total		1,353	723	1,092	1,141	242	256	429	503	491	688	291	187	190	218	11,296	8,847	484	367	15,869	12,931

Table 11: PROVINCIAL BREAKDOWN OF EXTERNAL ASSISTANCE (2011) - (\$Millions)

Province	Amount Disbursed
Multiple Provinces	11,500.50
Kabul	252.47
Kandahar	181.25
Helmand	171.52
Nangarhar	69.37
Uruzgan	60.10
Paktya	54.91
Bamyan	46.24
Balkh	43.38
Baghlan	38.04
Herat	40.97
Kunduz	37.69
Ghazni	37.16
Kunar	35.84
Badakhshan	33.38
Khost	27.98
Faryab	36.92
Ghor	23.27
Takhar	23.04
Paktika	22.79
Wardak	21.80
Laghman	19.72
Zabul	19.22
Logar	18.11
Jowzjan	17.81
Parwan	16.10
Daykundi	12.47
Farah	11.73
Kapisa	11.33
Sar-e-Pol	9.49
Nimroz	9.28
Samangan	8.38
Badghis	8.15
Nuristan	5.32
Panjshir	4.94
Total	12,930.71

Table 12: DELIVERY MECHANISMS OF EXTERNAL ASSISTANCE (2011) – (\$Millions)

Rank	Development Partner	Breakdown of Disbursement			Total Disbursement
		Direct-budget	Through Trust Funds	Off-budget	
1	United States	674	468	9,264	10,406
2	Japan	70	240	360	670
3	United Kingdom	6	158	194	357
4	EU/EC	0	60	161	221
5	Germany		77	139	216
6	World Bank	152	0		152
7	Australia	90		60	150
8	Asian Development Bank	123	0	0	123
9	Canada		32	84	116
10	Norway	0	21	56	77
11	Sweden		29	72	101
12	Netherlands	0	55	40	95
13	Denmark	20	14	30	65
14	Italy	12	10	28	50
15	United Arab Emirates	0	0	35	35
16	France	2	0	23	25
17	Switzerland	0	0	17	17
18	Finland	1	11	6	17
19	Turkey	0	0	13	13
20	Poland	0	1	7	8
21	Islamic Development Bank	7	0	0	7
22	New Zealand	0	0	6	6
23	Czech Republic	1	0	2	3
24	India	0	0	0	0
Total		1,158	1,176	10,597	12,931

Table 13: PREDICTABILITY OF EXTERNAL ASSISTANCE (2012-2014) - (\$Millions)

Rank	Development Partner	2012	2013	2014
1	Asian Development Bank	213	198	219
2	Australia	208		
3	Canada	25	100	
4	Czech Republic	7		1
5	Denmark	64	40	64
6	European Union/EC	78	58	207
7	Finland	23	6	29
8	France	39	25	52
9	Germany	312	711	
10	India	500	399	
11	Italy	97	10	52
12	Japan	799	144	
13	Netherlands	100	35	42
14	New Zealand	8	24	3
15	Norway	56	5	
16	Poland	7		
17	Sweden	82	23	
18	Switzerland	18		18
19	Turkey	14		
20	United Kingdom	393	194	
21	USA	3,137	1,897	
22	World Bank	210	614	110
23	Agha Kahn Development Network			
24	Lithuania		1	
25	UNDP		36	
Total		6,390	4,532	797 ⁷

⁷Development Partners that are not listed on the table above have not provided information on their level of midterm commitments including 2012.

Table 14: SUMMARY OF DPS' COMMITMENTS TO TRUST FUNDS (\$Millions)

Trust Funds	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
ARTF	185	286	380	404	454	635	627	657	530	934	5,092
LOTFA	6	45	65	81	107	136	203	448	558	615	2,265
CNTF	-	-	-	16	26	4	0	-	-	-	46
APRP										102	102
AITF										3	3
Total by Year	191	332	446	501	587	775	830	1,105	1,088	1,652	7,506

Table 15: MAJOR SUPPORTERS OF THE GOVERNMENT OPERATING BUDGET (\$Millions)

Funding Source	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
ARTF	111	213	235	253	300	290	310	250	225	200	2,387
LOTFA	6	66	65	81	107	136	229	230	447	546	1,913
USDOD						64	91	115	322.5	735	1,327
Others										0.87	0.87
Grand Total	117	279	300	334	407	490	630	595	995	1,481	5,628

Table 16: DP'S SUPPORT THROUGH GOVERNMENT BUDGET (2002-2011) - (\$Millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Total Development Budget:	723	228	570	762	1,153	1,342	940	797	991
1.1. Donors' Contribution	723	228	570	743	1,053	1,342	940	726	688
1.2. Government's Contribution	-	-	-	18	100	-	-	72	303
2. Total Operating Budget:	897	636	774	884	1,096	1,477	1,791	2,469	3,340
2.1. Donors' Contribution	515	331	348	366	481	558	723	1,074	1,481
2.2. Government's Contribution	382	305	426	518	615	919	1,069	1,395	1,859
3. Total Budget:	1,620	864	1,344	1,646	2,250	2,818	2,731	3,266	4,331
3.1. Total Donors' Contribution	1,238	559	918	1,109	1,534	1,900	1,662	1,800	2,169
3.2. Total Government's Contribution	382	305	426	536	715	919	1,069	1,466	2,162

⁸ Source: Trust Funds Reports, January 2012.

⁹ Source: Trust Funds Reports, January 2012, and Afghanistan National Budget

¹⁰ Source: Afghanistan National Budget (2003-2011)

Table 17: STATUS OF NATIONAL PRIORITY PROGRAMS

THE INFRASTRUCTURE DEVELOPMENT CLUSTER			
No	National Priority Programs ((NPPs	Description	Status
1	The National Extractive Industries Excellence Program	This program support investment in the mining sector, overseeing development of mineral resources, and establishing connective links to the region. It aims to promoting Afghanistan's financial independence through building strategic partnerships and investment in extractive industries.	Endorsed
2	The National Regional Resources Corridors Program	This program focuses on developing the critical infrastructure needed to reap benefits directly from development of Afghanistan's mineral resources and indirectly from increased trade flows and labor mobility. Its purpose is to connect Afghanistan to the region and to the rest of the world through the promotion of interstate resource corridors. The resource corridor will serve as the means to help Afghanistan benefit from its natural resources and realize its growth, revenue and employment potential.	Endorsed
3	The National Energy Supply Program	This program is to develop a National Energy Policy and Road Map, increase sector commercialization and national generation capacity, and integrate rural electrification and other generation schemes. The program envisages a comprehensive program of sequenced investments in power supply chain (generation, transmission and distribution) coupled with sector reforms to strengthen governance, private sector participation, capacity development and accountability. It is aiming at providing energy security through affordable and sustainable supply of energy.	Under preparation
4	The Urban Planning Technical Assistance Facility Program	This program strengthens urban planning to support development of the private sector. Effective integration of land use planning and transportation planning is critical especially in support of extractive industry and resource corridor hubs. The goal of this program is to strengthen urban governance.	Endorsed

THE PRIVATE SECTOR DEVELOPMENT CLUSTER

5

The Integrated Trade and SME Support Facility Program

This program promotes an improved business environment, regulatory reform to encourage small and medium-sized enterprise (SME) and industrial development, a stabilized and predictable market with increased integration with regional and international markets, improved competitiveness and economic diversification by lowering market entry and exit costs, and a working National Quality Infrastructure. The goal of this program is to create a socially responsible market economy in Afghanistan, in which sustainable and equitable growth is led by the private sector and that growth leads to increased employment, higher living standards and a reduction in poverty.

Endorsed

6

The E-Afghanistan Program

This program is to create a modern and efficient Information and Telecommunications sector. It is strengthening legal, regulatory, policy and institutional frameworks, expanding the telecommunication network, establishing "E-Government" and "M-Government" options; and modernizing the postal sector. The purpose of the program is to make affordable communication services available in every district and village of Afghanistan through enabling market economy, so that all Afghans, men and women alike, can use ICT to expeditiously improve government, social services, foster the rebuilding process, increase employment, create a vibrant private sector, reduce poverty and support underprivileged groups and to make Afghanistan a forefront member of the E-global society.

Endorsed

THE AGRICULTURE AND RURAL DEVELOPMENT CLUSTER

7

The National Water and Natural Resources Development Program

The focus of this program is to reverse damage to irrigation and other water systems, soil, rangeland and forests for the agricultural economic sector to grow. It emphasizes on large/medium and small-scale projects in irrigation development and management along with water harvesting, community based natural resource management, leasing of government lands for commercial and semi-commercial purposes, and rural renewable energy development.

Under preparation

8	The National Comprehensive Agriculture Production and Market Development Program	This program supports to increase productivity in the areas of cereals, horticulture and livestock, contributing to national food security and surplus production for processing and domestic and export markets. The vision for this program is to achieve sustained increase in agriculture production, increase productivity and strengthen the value chains.	Under preparation
9	The National Rural Access Programs	This program would provide year-round access to markets, fundamental for better farming and rural growth. This program aims to promote equitable economic growth by ensuring year-round access to basic facilities in rural areas all over the country.	Endorsed
10	The National Strengthening of Local Institutions Program	This program builds upon existing work to increase rural growth potential. It will expand Community Development Councils to cover all of Afghanistan's villages, and it will provide additional resources to build simple village infrastructure. This program will also strengthen capacity through a clustering of villages for better efficiency and stronger linkages to formal government institutions, as well as working at the district level for local development. The overall goal of this program is to establish a productive, participatory partnership between the government and the people.	Endorsed
THE HUMAN RESOURCES DEVELOPMENT CLUSTER			
11	The Facilitation of Sustainable Decent Work through Skills Development and Market-Friendly Labor Regulations Program	This program is to diminish the skills gap by providing Afghan youth and adults technical and vocational education which is high quality, market-relevant, demand-driven and certified. For those who have been left out of the formal educational system, this program provides literacy training in combination with the development of marketable skills. The objective of the program is to effectively prepare Afghan nationals for the labor market.	Endorsed
12	The Education for All Program	This program improves access to quality basic education, with a particular focus on girls. It aims to maximize school attendance, improve the qualifications of teachers, and strengthen the management capacity of the Ministry of Education.	Endorsed
13	The Increase Access and Improve the Quality of Higher Education Program	This program emphasizes to increase access to higher education, especially in fields that directly contribute to economic growth in partnership with the private sector. Improving the quality of higher education through faculty and staff development and expanding the number of faculty members constitute the goal of this program.	Endorsed

14	The National Action Plan for Women of Afghanistan ((NAPWA	The program focuses on implementing the Government's commitment to promote gender equality. The program would develop the capacity of all relevant government entities to mainstream the commitments and goals of NAPWA into their policy, planning, programming, budgeting, implementation, and monitoring and evaluation processes. Expanding access for women improves basic human rights and increases the productive capacity of the nation while reducing poverty.	Endorsed
15	The Health for All Afghans Program	This program improves health infrastructure and service delivery. It aims at ameliorating the health and nutritional status of the people of Afghanistan in an equitable and sustainable manner through the provision of quality health services, advocacy for the development of healthy environments and living conditions and the promotion of healthy lifestyles.	Endorsed
THE GOVERNANCE CLUSTER			
16	The National Financial and Economic Reforms Program	This program moves Afghanistan toward fiscal sustainability through supporting increased domestic revenue collection, strengthening the budget as an instrument of national policy, improving budget execution, developing capacity to implement effective programming and increasing accountability and transparency in public finances. Under this initiative, municipalities will also have applied systems of revenue collection, budgeting and financial management.	Endorsed
17	The National Transparency and Accountability Program	This program is working to counter rising perceptions of corruption by increasing the transparency and accountability of procedures and controls. This is being accomplished through an ambitious agenda of legislative reform, investments in improved capacity in key national institutions, and clear decisions and actions to send the message that corruption will not be tolerated. The overall aim of the program is to strengthen public trust in government and creating an enabling environment for social and economic development.	Under preparation
18	The Efficient and Effective Government Program	This program improves public expenditure and civil service management. It introduces and implements broad-based policy, legal, and structural reforms in public administration, improves public service delivery by Government through simplification of procedures, developing comprehensive training activities, improving working conditions of the civil service, developing measures to change the ability and capacity of civil service to better carry out its responsibilities, and enables development of core economic functions of government as independent authorities.	Under preparation



19	The National Program for Local Governance	Through this program the government would prioritize local service delivery, implement the Sub-National Governance Policy (SNGP), and undertake necessary legal reform to remove obstacles to excellence in local governance. The overarching goal of this program is to bring the public sector closer to the people by ensuring that local government is both empowered and accountable.	Endorsed
20	The National Law and Justice for All Program	This program provide better access to judicial services for all Afghans, strengthen justice institutions, streamline legislation relating to judicial process, and deliver a measurable increase in the quality and quantity of judicial services provided. It aims to restore the faith of Afghans in the ability of the law to protect and defend their best interests as individuals and as a nation.	Under preparation
21	The National Human Rights and Civic Responsibilities Program	This program incorporates human rights and civic responsibility in Afghan state institutions, reflected in policies, processes and awareness. The Afghanistan Independent Human Rights Commission (AI-HRC) will ensure traditional and local institutions are recognized and strengthened.	Endorsed
THE SECURITY CLUSTER			
22	The Afghanistan Peace and Reintegration Program	This program promotes peace through the political approach. It will encourage regional and international cooperation, create the political and judicial conditions for peace and reconciliation, and encourage combatant foot soldiers and commanders - previously siding with armed opposition and extremist groups - to renounce violence and terrorism, and to join a constructive process of reintegration and peace. The Afghan peace process will follow a three-phased approach of outreach, demobilization, and community recovery in various parts of the country.	Endorsed

TABLE 18: COUNTRIES/ORGANIZATIONS THAT ANNOUNCED THEIR ASSISTANCE AT THE TOKYO CONFERENCE ON AFGHANISTAN

Name of Country/Organization	Assistance	Reference
Australia	Pledged to increase their development assistance to 250 million Australian dollars per year by 2015-16.	Statement at the Tokyo Conference and Press Release.
Canada	Pledged 300 million Canadian dollars throughout 2011-2014 and 227 million for the period of 2014-2017.	Statement at the Tokyo Conference and Press release dated July 8, 2012.
Denmark	Pledged to contribute 530 million DKK annually until 2017	Statement at the Tokyo Conference
Finland	Pledged to increase its annual funding by half up to 30 million Euros in 2014 and keep this level at least until 2017.	Statement at the Tokyo Conference
France	% Pledged to increase its assistance by 50	Statement at the Tokyo Conference
Germany	Pledged to sustain its civilian assistance at its current level of up to 430 million Euros per year at least until 2016.	Statement at the Tokyo Conference
India	The Indian Prime Minister pledged \$500 million for Afghanistan in May 2011, which will be spent from 2012 through 2015.	Statement at the Tokyo Conference
Japan	Pledged to provide up to around three (3) billion dollars of assistance to Afghanistan in about five years from 2012 in the field of socio-economic development and enhancement of security capabilities.	Statement at the Tokyo Conference
Korea	Pledged to provide a total of \$ 500 million to Afghanistan over the period of 2011-2015 (both for security and social/economic development).	Announced during the Foreign Ministers' Meeting of ISAF Contributing Nations held in April 2011
Netherlands	Pledged to provide over \$ 100 million in 2012	Statement at the Tokyo Conference
Norway	Pledged to maintain its development assistance at the present level of approx. \$125 million annually until 2017.	Statement at the Tokyo Conference
Oman	Pledged \$ 5 million.	Statement at the Tokyo Conference
Slovakia	Pledged 1 million Euros in 2012.	Statement at the Tokyo Conference
Switzerland	Pledged 70 million CHF 2012-2014.	Press release and Statement at the Tokyo Conference
Sweden	Pledged to maintain or increase the current level / \$ 1.2 billion 2015-2024.	Joint statement of the Nordic Countries and Statement at the Tokyo Conference

Turkey	Pledged \$ 150 million for development projects between 2015 and 2017 (not included in \$ 16 billion as part of the Tokyo commitments).	Statement at the Tokyo Conference
United Kingdom	Pledged to maintain funding at current levels 178 million pound per year for the next 5 years to 2017.	Statement at the Tokyo Conference
USA	The United States will request from their Congress assistance for Afghanistan at or near the levels of the past decade through the year 2017.	Statement at the Tokyo Conference
EU	The EU will seek to maintain funding for its cooperation and assistance programs to Afghanistan and the region, bilaterally as well as through the EU's budget, at least at current levels in the years to come (Council of the European Union, November 14, 2012)./ For the period from 2014 till 2020 the EU will continue to prioritize and enhance support to Afghanistan (Statement at the Tokyo Conference).	Conclusions of the Council of the European Union (November 14, 2012) / Statement at the Tokyo Conference
ADB	Pledged more than \$1.2 billion in assistance for the period of 2012-2016.	Statement at the Tokyo Conference
Islamic Development Bank	In the coming three years, IDB will contribute up to \$ 80 million.	Statement at the Tokyo Conference
World Bank	Pledged \$150 million per year for the period of 2012-2014.	Press release on the website



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