

## State-Building in Afghanistan

### *Aid, Politics, and State Capacity*

#### ABSTRACT

This article examines post-2001 state-building in Afghanistan. In so doing, it explores how interactions among aid, politics, and state capacity shaped the characteristics of the state by looking at the existing conditions, sources of state income, the development planning process, aid coordination and alignment, and interventions in building state capacity.

**KEYWORDS:** Afghanistan, foreign aid, state-building, politics, parallel institutions

#### INTRODUCTION

Sources of state revenue have implications for the building of state institutions and governance. State-building crucially depends on how revenue is collected, including the compromises rulers make with their citizens to collect (and use) revenue, the institutional capacity the state develops to achieve this task, and the extent to which the institutional arrangements reflect the interests of both the rulers and the ruled. The state-building literature demonstrates that revenue sources may have different implications for the pattern of state-building. Tax and non-tax revenues (oil and foreign aid) thus produce particular political and institutional outcomes.<sup>1</sup> Tax has played a central role

---

NEMATULLAH BIZHAN is a Senior Research Associate in the Global Economic Governance Programme, Oxford University, and Visiting Fellow in the Development Policy Centre, Australian National University, Canberra. An earlier version of this paper was presented at the Development Studies Association 2016 Annual Conference at Oxford University. The author wishes to thank an anonymous reviewer for helpful feedback and critique. Email: <nematb@gmail.com>.

---

1. Charles Tilly (ed.), *The Formation of National States in Western Europe* (Princeton, NJ: Princeton University Press, 1975); Deborah Brautigam, Odd-Helge Fjeldstad, and Mick Moore, *Taxation and State-Building in Developing Countries: Capacity and Consent* (Cambridge: Cambridge University Press, 2008); Hazem Beblawi and Giacomo Luciani, *The Rentier State* (London: Croom Helm, 1987).

*Asian Survey*, Vol. 58, Number 6, pp. 973–994. ISSN 0004-4687, electronic ISSN 1533-838X. © 2018 by The Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press's Reprints and Permissions web page, <http://www.ucpress.edu/journals.php?p=reprints>. DOI: <https://doi.org/10.1525/AS.2018.58.6.973>.

in the development of state capacity and representative institutions in Western Europe in particular. Unlike tax revenue, which requires extensive political and administrative efforts, oil revenue and aid enable states to derive revenue with little political and organizational effort, especially effort in relation to citizens. However, unlike oil revenue, foreign aid is conditional and less reliable, and the recipient government does not have full control over its use. Foreign donors' strategic relationship with the recipient government, and the recipient state's capacity, may determine the degree of aid conditionality, reliability, and recipient control. Aid may also result in the recipient government being accountable to foreign donors rather than to citizens and may thus have paradoxical effects on state-building.<sup>2</sup> Aid, therefore, can have mixed implications for state-building.

After 9/11, the notion of "bringing the state back in" received greater attention.<sup>3</sup> This shift did not occur primarily because of economic management, however. Security threats that state failure posed and which even crossed national boundaries brought state-building to the center of international policy. Afghanistan, in particular, attracted increasing attention, especially from the US. This shift took place following a decade of neglect and the tragic attacks on New York and Washington on September 11, 2001, which al-Qaeda planned from its safe havens under the Taliban regime (1996–2001) in Afghanistan. The US and its allies, as well as the anti-Taliban opposition forces, especially of the late commander Ahmad Shah Massoud (who was assassinated on September 9, 2001), removed the Taliban regime from power in late 2001. Subsequently, the US focused on waging a "war on terror." While it was initially reluctant to support state-building, lasting stability required extensive efforts to rebuild the state and economy in Afghanistan.

While Western economies built states and the social contract around taxes, the state in modern Afghanistan has been built, by and large, around aid. This was also the case after 2001. Although intended to support effective state-building, the way aid has been delivered has distorted the state and stunted the longer-term development of a social contract. On the one hand, aid helped to expand public services and build the capacity of some

2. Nematullah Bizhan, *Aid Paradoxes in Afghanistan: Building and Undermining the State* (Abingdon: Routledge, 2018): 9–36.

3. For more discussion see Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (eds.), *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985).

government departments. On the other hand, aid largely bypassed the state because of state weakness and corruption, diverting financial and political resources from reforming and building the state and reinforcing the inherited gap between state and society. The absence of a balance between short-term and long-term objectives, as well as a politics of patronage, exacerbated this situation.

Afghanistan thus experienced major state transformation and setbacks. The country had a weak state, with fragmented institutions and an economy in collapse. It subsequently received significant amounts of aid in grants, and extensive efforts were made to build public institutions. Government departments such as finance, health and education, the central bank, and the national army improved significantly. But others, such as the police and judiciary, continued to be weak and inefficient.

In 2003, with average per capita income estimated at less than US\$ 200, Afghanistan was among the least developed countries in the world.<sup>4</sup> The civil administration lacked capacity. As observed by the World Bank, while “many of the formal structures and some of the traditional practices of public administration remained in place, they lacked the human, financial and physical resources to do their job, particularly in modern context.”<sup>5</sup> With a devastated economy and without a viable source of domestic revenue,<sup>6</sup> Afghanistan, more than at any other time since 1747, when it was founded as a state, relied on foreign military and economic assistance.<sup>7</sup> Dependence of the Afghan state on external revenue thus reiterated a historical pattern of building the state with significant amounts of revenue from external sources.

A new political order, envisaged in the Bonn Agreement of 2001, was established. This emphasized the right of people to democratically determine their political future according to the principles of Islam, along with

4. Islamic Republic of Afghanistan, “Afghanistan National Development Strategy: An Interim Strategy for Security, Governance, Economic Growth and Poverty Reduction” (undated): 34. In 2001, the Afghanistan Human Development Index was 89, the last, after Niger. UNDP, *Human Development Report 2001: Making New Technologies Work for Human Development* (New York: Oxford University Press, 2011): 151.

5. World Bank, *Context and Prospects for Reform* (World Bank, n.d.): 3.

6. Nematullah Bizhan, “Beyond Armed Stabilization in Afghanistan: Poverty and Unemployment,” in Wolfgang Danspeckgruber (ed.), *Petersberg Papers on Afghanistan and the Region* (Princeton, NJ: Princeton University, 2009); Nematullah Bizhan, “The Effects of Afghanistan’s Political Evolution on Migration and Displacement,” *Migration Policy and Practice* 6:3 (2016).

7. Nematullah Bizhan, “Afghanistan: Foreign Aid and State Building, 2001–2009,” Australian National University, 2013.

promoting national reconciliation, stability, and respect for human rights. The deployment of the International Security Assistance Force, which the UN Security Council authorized, took place first in Kabul. Donors committed aid for Afghanistan reconstruction at the Tokyo conference in January 2002 and subsequent ones. These developments supported the implementation of the Bonn Agreement and reconstruction.<sup>8</sup>

The Bonn Agreement emphasized the formation of new Afghan security forces, judicial and legal reforms, establishment of an independent human rights commission, formation of a civil service commission, and creation of an independent central bank.<sup>9</sup> However, it did not set timelines for any of these goals. The political system was to be restructured around liberal democracy and the planned economy replaced with a market economy.<sup>10</sup> These priorities were later enshrined in the Constitution of 2004.

Burhanuddin Rabbani, president of the *mujahidin* government (1992–1996), whose supporters had recaptured Kabul after the fall of the Taliban regime, transferred power to an interim authority headed by Hamid Karzai in December 2001. Six months later, an emergency Loya Jirga (traditional grand assembly) elected Karzai the head of state for two years.<sup>11</sup> A Constitution Commission drafted a new constitution for Afghanistan, which the Loya Jirga approved in January 2004. Then the government held presidential and parliamentary elections in 2004 and 2005, respectively, and Karzai was elected president for a five-year term.

#### INSTITUTION-BUILDING, DEVELOPMENT, AND AID DEPENDENCY

The flow of aid to Afghanistan was volatile. In the two years following international intervention, Afghanistan received \$57 per capita, while Bosnia

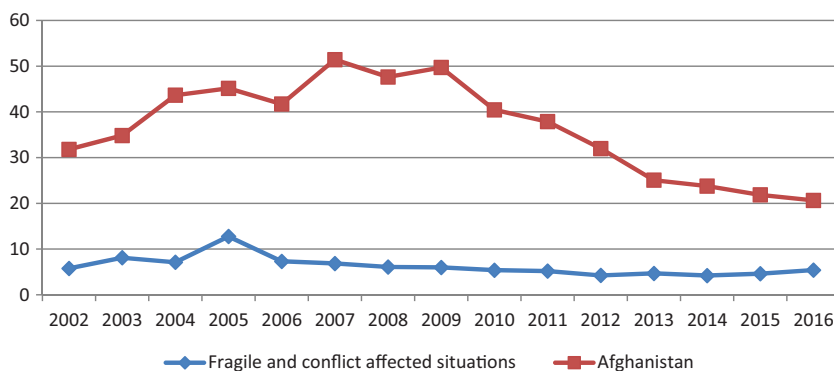
8. "Agreement on Provisional Arrangements in Afghanistan Pending the Re-establishment of Permanent Government Institutions," December 5, 2001; Ashraf Ghani et al., "The Budget as the Linchpin of the State," in James K. Boyce and Madalene O'Donnell (eds.), *Peace and the Public Purse: Economic Policies for Postwar Statebuilding* (Boulder, CO: Lynne Rienner, 2007): 155–66.

9. Although Afghanistan already had a central bank (Da Afghanistan Bank), the Bonn Agreement envisaged reorganizing it as an independent state organization.

10. Ministry of Justice of Afghanistan, "Qānoni Asāsi Afghanistan" [Afghanistan Constitution], <<http://moj.gov.af/fa/page/legal-frameworks/168329941684>>, accessed August 20, 2016.

11. The perception was that the former king, Zahir Shah, would nominate himself as head of the state. While he had the support of many tribal elders (traditional actors), most of the *mujahidin* leaders and the US did not support his candidacy.

FIGURE 1. Net Official Development Assistance, as a Percentage of Gross National Income, to Fragile and Conflict-Affected Situations and Afghanistan, 2002–2016



SOURCE: World Bank, “World Development Indicators,” 2018.

and East Timor received \$679 and \$233 per capita, respectively.<sup>12</sup> Later, the aid to Afghanistan increased, especially in response to a deteriorating security situation. Development and military aid funded 90% of public expenditure (through on- and off-budget mechanisms) between 2002 and 2009, and 61% in 2017.<sup>13</sup> Afghanistan received more development assistance (as a percentage of GNI) than the average of other fragile and conflict-affected countries (Figure 1).

The economy grew, and public services expanded. GDP per capita rose from US\$ 119 in 2000 to US\$ 459 in 2010 (in constant US\$).<sup>14</sup> About 8 million students attended school in 2013, in contrast to less than a million (which largely excluded girls) in 2003.<sup>15</sup> The government prepared development plans and strategies to allocate aid and domestic revenue effectively. Between 2001 and 2009, it prepared four main strategies and plans: the Afghanistan Development Framework in 2002; “Securing Afghanistan’s Future,” which was presented at the Berlin international conference in 2004; the Interim Afghanistan National Development Strategy in 2006; and the Afghanistan National

12. Matt Waldman, “Falling Short: Aid Effectiveness in Afghanistan,” Agency Coordinating Body for Afghan Relief, 2008.

13. Bizhan, *Aid Paradoxes in Afghanistan*, 77; Islamic Republic of Afghanistan, “Fiscal Year 1396: Budget,” Ministry of Finance, Kabul, 1396 (2017/18): 8.

14. *Ibid.*

15. USAID, “Afghanistan: Education,” <<https://www.usaid.gov/afghanistan/education>>.

Development Strategy (ANDS), a five-year (2008–2013) development plan presented at the Paris international conference in 2008.<sup>16</sup>

Donors, for their part, were interested to know what the government's priorities were so that they could align their funding where they matched donors' interests. Western donors (such as the US, the UK, and Canada), as well as the World Bank and UNDP, provided financial and technical support for the planning process. The strategic relationship between the Afghan government and the international community, including foreign donors, gradually changed. In 2006 the Afghanistan Compact, which succeeded the Bonn Agreement, redefined the relationship between the international community and the Afghan government, emphasizing mutual accountability.<sup>17</sup> The compact aimed to improve Afghan living conditions and security by achieving 43 five-year benchmarks (2006–2010) in security, governance, rule of law and human rights, and economics and social development. While the Afghan government committed to the compact's goals, the international community undertook to provide financial support for their implementation.<sup>18</sup>

However, these documents did not much help to overcome the problem of aid coordination and lack of coherence. Bilateral donors, in particular, continued to have their own plans and strategies, and even autonomous projects, independent of the Afghan government. These approaches were justified on the basis that the Afghan administration was weak and corrupt. As a result, a large portion of aid bypassed the state. This situation put the government in a position, especially in the first year of post-2001, of tracking projects funded by off-budget aid, instead of deciding on such priorities itself. Projects funded off-budget by donors were included in the national

16. In July 2002, the World Bank made its assistance to low-income countries conditional on the development of a Poverty Reduction Strategy Paper (PRSP). World Bank, "Poverty Reduction Strategy Papers," <<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120705~menuPK:51557~pagePK:41367~piPK:51533~theSitePK:40941,00.html>>. The ANDS served as Afghanistan's PRSP. However, it was more comprehensive than a PRSP because it also included measures to improve security and governance.

17. The Bonn Agreement benchmarks were concluded with the opening of the National Assembly in 2005. More than 60 governments and international organizations participated in the London Conference of 2006 and agreed on the Afghanistan Compact. ANDS Secretariat, "The London Conference on Afghanistan: The Afghanistan Compact," London, 2006.

18. UNSC, "Report of the Security Council Mission to Afghanistan, 11 to 16 November 2006 (S/2006/935)," New York, December 4, 2006; ANDS Secretariat, "London Conference on Afghanistan."

budget, a component referred to as the “external budget.” This situation, and aid conditionality on budget support, added pressure on the government to preoccupy itself with donors concerning aid management and tracking as well as negotiating with donors.<sup>19</sup>

In the politically contested context of Afghanistan, the policy process was approached as a technical process that involved consultation between different ministries and departments as well as between the Afghan government and foreign donors. Except for the ANDS, the public was not consulted. In 2007, the government launched a “sub-national” consultation with different actors for the development of the ANDS document for the first time. Public participation in the policy and planning process was not institutionalized.<sup>20</sup> This was not unusual. Even in the past, when the four Five-Year Plans had been developed (1956, 1961, 1967, and 1972),<sup>21</sup> the government in Kabul had prepared the plans alone. A similar pattern can be observed in some East Asian countries (e.g. South Korea and Taiwan after World War II), but they had greater state capacity and coherence to help postwar development and state-building.<sup>22</sup>

Funding of development programs was a long-term challenge. The Afghan government proposed the development component and a significant part of the operating cost of its budget to donors for funding. Donors noted that the government’s development strategies were poorly prioritized and sequenced. In fact the government was trying to include as many as projects as possible for donors to choose from, as the needs were huge. In addition, ministries and government departments had limited capacity to prepare more effective strategies, despite receiving technical assistance. By the standard of Afghanistan and the region, these strategies did show significant improvement and a vision for the future of the country. But the implementation process was a major constraint, and the strategies were only partly successful. They were

19. Interim Administration of Afghanistan, “National Development Framework (Draft for Consultation),” Afghanistan Assistance Coordination Authority, Kabul, April 2002, 5–6.

20. For details on ANDS consultation at the provincial level, see Islamic Republic of Afghanistan, “Afghanistan National Development Strategy (ANDS), 1387–1391 (2008–2013),” ANDS Secretariat, Kabul, 17–26.

21. Maxwell J. Fry, *The Afghan Economy: Money, Finance, and the Critical Constraints to Economic Development* (Leiden: Brill, 1974): 70.

22. Nematullah Bizhan, “Aid and State Building: Part I, South Korea and Taiwan,” *Third World Quarterly* 39:5 (2018): 999–1013.

neither fully funded nor fully implemented.<sup>23</sup> The ANDS, for example, required about \$10 billion a year, a total of \$50 billion for five years. It was estimated that domestic revenue would provide \$7 billion, and \$43 billion was requested from donors.<sup>24</sup> In the Paris Conference on Afghanistan in June 2008, donors pledged US\$ 20 billion in aid, of which US\$ 14 billion was confirmed to be new pledges.

Despite these efforts, the Afghan government and the donors could not develop a realistic development policy, as South Korea and Taiwan had done, for economic self-reliance and gradually phasing out development assistance.<sup>25</sup> The government perceived fiscal sustainability as a situation when domestic revenue financed its operating budget. The World Bank had a similar view of Afghanistan's fiscal sustainability. The strategies projected that domestic revenue would fund the government's entire operating budget within a decade. But the rising security expenditures made this target unrealistic within the projected timeframe.<sup>26</sup> Perhaps the multiple crises, ranging from insecurity to political instability and uncertainty in donors' long-term commitment to Afghanistan, resulted in short-termism.

#### AID COORDINATION AND ALIGNMENT AND FISCAL MANAGEMENT

As the flow of aid to Afghanistan increased, aid modality became one of the most important aspects of discourse in state-building (next to the amount of aid). Donors used two mechanisms to fund projects: on-budget and

23. For details see Islamic Republic of Afghanistan, "Afghanistan National Development Strategy: An Interim Strategy for Security, Governance, Economic Growth and Poverty Reduction, Summary Report," ANDS Secretariat; Transitional Government of Afghanistan, "Securing Afghanistan's Future: Accomplishments and the Strategic Path Forward," March 2004; Islamic Republic of Afghanistan, "Afghanistan National Development Strategy (ANDS), 1387–1391 (2008–2013)."

24. Islamic Republic of Afghanistan, "Afghanistan National Development Strategy (ANDS)," 51.

25. Nematullah Bizhan, "Continuity, Aid and Revival: State Building in South Korea, Taiwan, Iraq and Afghanistan," Working Paper 2015/109, Global Economic Governance Programme, University of Oxford, 2015.

26. The ANDS projected that by 2012/13 domestic revenue could fully fund the state's operating budget. However, in 2010, the government and donors agreed to increase the number of Afghan security forces to 352,000 by 2014, replacing the US and NATO combat forces, who planned to leave Afghanistan by 2014. This further delayed the projected target until 2030. Islamic Republic of Afghanistan, "Afghanistan National Development Strategy," 48; Transitional Government of Afghanistan, "Securing Afghanistan's Future," 103; Government of Islamic Republic of Afghanistan, "Public Finance Framework, Annex 2, Kabul Process: Building Afghanistan from Within," Kabul, 2011.

off-budget. The government defined on-budget (or core budget) as “the portion of the national budget that [was] controlled by the government . . . and the government [was] accountable for reporting on the expenditure of these funds.”<sup>27</sup> Domestic revenue, trust funds such as the Afghanistan Reconstruction Trust Fund and the Law and Order Trust Fund (administered by the World Bank and the UNDP, respectively), and grants and loans from the World Bank and the Asian Development Bank were on-budget. These funding mechanisms would use government systems and fund government priorities.

Off-budget aid was defined as “the portion of the budget that flow[ed] outside of the government accounts.” The government called it “external-budget” financing. Donors saw off-budget aid as a mechanism to bolster the Afghan government’s limited capacity and to avoid waste due to corruption in the Afghan public sector. The government thus had no fiscal control over off-budget expenditures, nor did it consider itself accountable for them.<sup>28</sup>

Of the US\$ 57 billion in aid disbursed between 2002 and 2010, only \$10.15 billion (18%) was provided on-budget.<sup>29</sup> The off-budget aid made societal actors who received direct funding from donors accountable to the donors. And only a small portion of the on-budget aid was discretionary, because donors earmarked the bulk of their aid for specific projects or decided where it was to be spent. Of the \$70 billion which the US Congress has approved for assistance to Afghanistan since 2001, only \$2.1 billion was on-budget, and of this, only \$46 million, or less than 1%, was at the discretion of the Afghan government.<sup>30</sup> Some bilateral donors operated differently; Denmark spent 58% of its aid through on-budget mechanisms (2002–2010). And multilateral donors other than the UN (the World Bank and Asian Development Bank) broadly used country systems and channeled almost all of their aid through on-budget mechanisms. Figures 2 and 3 show the flow of aid and its delivery channels from donors to Afghanistan.

A large portion of the aid was allocated to security. About one-third of the \$60 billion in aid that donors committed to Afghanistan between 2002 and

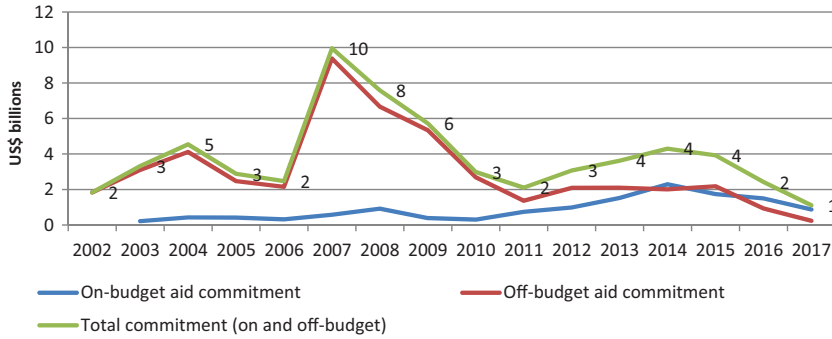
27. Transitional Government of Afghanistan, “Financial Report, 4th Quarter 1380–2nd Quarter 1383 (21 January 2001–20 September 2004),” Ministry of Finance, Kabul, October 2004, 4.

28. *Ibid.*

29. Islamic Republic of Afghanistan, “Development Cooperation Report,” Ministry of Finance, Kabul, 2012, 25–40.

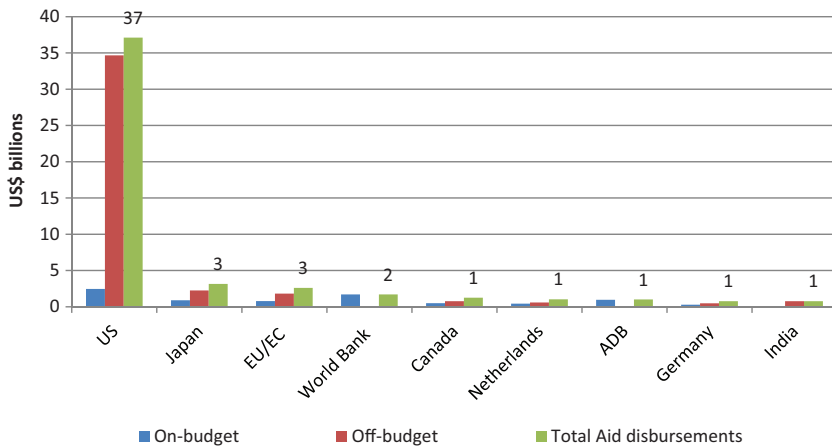
30. Ministry of Finance of Afghanistan, “Press Release (Clarification of the Special Inspector General for Afghanistan Reconstruction [SIGAR] Report),” Media Department, July 26, 2011.

FIGURE 2. Flow of Aid to and Delivery Channels in Afghanistan (Commitment 2002–2017)



SOURCE: Ministry of Finance, Kabul, 2018. This figure excludes some of the aid, especially military, which were not included in the Donor Assistance Database for various reasons.

FIGURE 3. Aid from Top 10 Donors to Afghanistan and Aid Delivery Methods, 2002–2010



SOURCE: Ministry of Finance, Kabul, 2011.

2017 went to the security sector. Military expenditure was largely off-budget and suffered massive waste and corruption.<sup>31</sup> And development spending by and large followed military priorities. Insecure provinces thus received

31. The US Congress created the Special Inspector General for Afghanistan Reconstruction (SIGAR, <https://www.sigar.mil>) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. It has documented waste and corruption in US aid.

relatively more aid. This aimed to improve stability and buy the “hearts and minds” of local communities, especially in insecure areas. For Iraq, Berman, Shapiro, and Felter found that improved service provision reduced insurgent violence, particularly for smaller projects and in the wake of the 2007 military “surge.”<sup>32</sup> However, this approach has not been effective in Afghanistan. Paul Fishstein and Andrew Wilder examined the relationship between aid and security in three insecure provinces in the south and east, Helmand, Paktia, and Uruzgan, by 2008—and relatively secure provinces (Balkh and Faryab) in the north, as well as Kabul. They found that, while in some areas aid projects may have helped facilitate relationships by providing a context to legitimize interaction between international and local actors, “there was little concrete evidence in any of the five provinces that aid projects were having more strategic level stabilization or security benefits.”<sup>33</sup>

Unlike the Taliban regime (1996–2001), which restricted the activities of development agencies in Afghanistan, the post-2001 government opened up space for them.<sup>34</sup> Donor agencies, multilateral financial institutions, UN development agencies, and international NGOs participated widely in development and state-building efforts. Sixty governmental donors, including 47 countries contributing military forces, many international organizations, and international and local NGOs (2,000 of them in 2004), operated in Afghanistan.<sup>35</sup> As the number of international actors with diverse and even sometimes conflicting interests increased, coordination of aid became a major problem, and was exacerbated by the use of off-budget mechanisms. Bilateral donors, such as the US and Japan, had their own strategies, policies, and projects. The UN also had its own reconstruction strategy for the country. Many of these strategies and policies were poorly aligned with Afghanistan’s needs and the Afghan government’s priorities.<sup>36</sup> While in

32. Eli Berman, Jacob N. Shapiro, and Joseph H. Felter, “Can Hearts and Minds Be Bought? The Economics of Counterinsurgency in Iraq,” *Political Economy* 119:4 (2011): 766–819.

33. Paul Fishstein and Andrew Wilder, “Winning Hearts and Minds? Examining the Relationship between Aid and Security in Afghanistan,” (Boston: Feinstein International Center, 2012).

34. Islamic Republic of Afghanistan, “Development Cooperation Report.”

35. Astri Surhke, *When More Is Less: The International Project in Afghanistan* (London: Hurst and Company, 2011): 1; IRIN, “Afghanistan: Concern at Ministerial Proposal to Dissolve 2,000 NGOs,” December 14, 2004; ANDS Secretariat, “The London Conference on Afghanistan.”

36. Clare Lockhart, “The Aid Relationship in Afghanistan: Struggling for Government Leadership,” Working Paper, Managing Aid Dependency Project, Global Economic Governance Programme, Oxford University, 2007, 20–22.

theory each international actor had a distinct role to play in Afghanistan, in practice many overlapping systems emerged.<sup>37</sup> Russia and India readjusted their aid and policy to the post-Taliban order, as did Iran and Pakistan. The US, however, remained the single most important foreign military and economic actor, and it contributed about two-thirds of the total aid to Afghanistan between 2002 and 2010.<sup>38</sup>

Lack of alignment of aid with government priorities was a major challenge. Afghanistan's needs and foreign donors' preferences did not easily match. There was also disagreement among external actors on strategic and long-term processes. Iran, the US, India, and Pakistan were all assisting Afghanistan, though each had its own views and strategies on such issues as the presence of NATO in Afghanistan and the "war on terror."<sup>39</sup> Pakistan, in particular, was playing a contradictory role because of its past and ongoing support for the Taliban, which undermined security and state-building efforts in Afghanistan.<sup>40</sup>

Aid and donor fragmentation were costly. How each external actor allowed a project to be delivered had a significant impact on its cost. The construction of a national ring road in Afghanistan is an important example. Different donors financed this project; it was implemented through different companies, "standards for different components of the ring road . . . differ[ed] from each other, and there [were] major variations in costs."<sup>41</sup>

37. Each donor country sponsored a particular sector and program. The US took the lead in building the Afghan National Army; Germany led the development of the Afghan National Police; Italy, the Justice system; and the UK, counternarcotics. UNICEF was engaged in supporting primary and secondary education, while Japan became the lead donor for disarmament, demobilization and reintegration of illegal armed groups. NATO took the lead on the ISAF. "Provincial reconstruction teams" of concerned donors followed their military presence in the provinces to deliver basic construction projects such as bridges, schools, and clinics for local communities, to "win the hearts and minds" of the population. The World Bank and IMF worked closely with the Ministry of Finance and the central bank of Afghanistan (Da Afghanistan Bank), focusing on public financial management and macroeconomic issues. The UN Assistance Mission in Afghanistan assisted and monitored the implementation of the Bonn Agreement and took a diplomatic lead.

38. Islamic Republic of Afghanistan, "Development Cooperation Report," 104.

39. Iran, in most of the multilateral meetings on Afghanistan, raised its concern regarding the presence of NATO and the US forces in Afghanistan, calling them a destabilizing force in the region. And Pakistan on many occasions remained distrustful of growing Indian influence in Afghanistan.

40. Dashiell Bennett, "Report: Pakistan Is Supporting the Taliban in Afghanistan," *Atlantic Wire: What Matters Now*, February 1, 2012.

41. Ashraf Ghani and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World* (New York: Oxford University Press, 2008): 218.

Projects were often subcontracted many times, with each subcontractor taking a percentage for overhead, reducing the benefit to the intended beneficiaries.<sup>42</sup> Some technical assistance projects also suffered from poor coordination. In 2007, the World Bank found that “the widespread use of uncoordinated and non-strategically targeted technical assistance is neither fiscally nor politically sustainable.”<sup>43</sup>

In comparison to off-budget aid, on-budget expenditure had more economic impact and was more cost-effective. Schools funded under the government’s community-development program (the National Solidarity Programme) cost a third as much as the schools funded by USAID. A study by the Peace Dividend Trust in 2009 found that “the local economic impact of ODA is dramatically high when monies are channelled through trust funds or directly to the government (80%) relative to funds provided to international companies or organisations (over 15%).”<sup>44</sup> While in the absence of adequate state capacity to deliver aid, off-budget spending seemed plausible to foster the implementation process, especially under Afghanistan’s rigid fiscal regime, it had little effect on the local economy. “Despite the large volume of aid, most international spending ‘on’ Afghanistan [was] not spent ‘in’ Afghanistan, as it [left] the economy through imports, expatriated profits of contractors, and outward remittances.”<sup>45</sup>

In some cases, the delivery of aid outside the state system also undermined the legitimacy of local state institutions. People would directly go to donors to negotiate for funds. Military Provincial Reconstruction Teams, which spent \$867 million from 2005 to 2008, used such a mechanism. And other types of off-budget spending, which bypassed the state and national mechanisms, also had negative repercussions for government legitimacy.<sup>46</sup>

The government made repeated demands for increases in on-budget funding, but the issue sometimes became politicized, depending on relations

42. Ashraf Ghani, “A Ten-Year Framework for Afghanistan: Executing the Obama Plan and Beyond,” Atlantic Council of the United States, Washington, DC, 2009, 7–8.

43. World Bank, “Review of Technical Assistance and Capacity Building in Afghanistan: Discussion Paper for the Afghanistan Development Forum,” April 26, 2007, 2.

44. Peace Dividend Trust, “Spending the Development Dollars Twice: The Local Economic Impact of Procurement in Afghanistan,” New York, 2009, 1.

45. World Bank, “Afghanistan in Transition: Looking beyond 2014,” May 2012, 2.

46. Nematullah Bizhan, *Building Legitimacy and State Capacity in Protracted Fragility: The Case of Afghanistan* (Oxford-LSE Commission on State Fragility, Growth and Development, and London School of Economics and Political Science, 2018).

between the Afghan government and donors. In 2012, for example, while President Karzai was under increasing donor pressure to reduce widespread corruption in his government, he argued that the nature of the international engagement contributed to violence and corruption: “The bigger corruption is the corruption in contracts. The contracts are not issued by the Afghan government. The contracts are issued by the international community, mainly by the [US].” While Karzai’s statement might represent a part of the problem, it was a political reaction to counter the critique of donors. This issue highlights the lack of consensus between the government and donors on how to channel aid and shows the level of distrust in government–donor relations regarding aid modality.

The Afghan government established multiple coordination mechanisms. In 2006, in addition to internal government and donor coordination structures, at least six types of coordination structures existed. These were 12 consultative groups, six cross-cutting consultative groups, and 45 working groups at the technical level, and a consultative groups standing committee (until 2005), an external advisory group, and three standing committees and the Joint Coordination and Monitoring Board (established in 2006) at the policy level.<sup>47</sup> The government called meetings on a quarterly basis. Up to 128 meetings took place annually. Government officials and members of aid agencies, international institutions, and civil society organizations would attend. JCMB members, the ANDS oversight committee, and the Cabinet would further consider the recommendations of the working groups and consultative groups.<sup>48</sup> Although these mechanisms improved aid coordination to some extent, they also had their limits. Most of the time coordination was perceived more as a process of information sharing than as a mechanism for policy adjustment and redirection of resources. Donors seldom shared the details of off-budget expenditures and their challenges. These mechanisms substantially increased internal communication among government departments, as they needed to regularly report on their achievements and their responsiveness to donors.<sup>49</sup> But they could not substitute for the inherent problem of institutional and actor fragmentation in Afghanistan and the

47. ANDS Secretariat, “London Conference on Afghanistan.”

48. Islamic Republic of Afghanistan, “Afghanistan National Development Strategy Progress Report 2006/07,” ANDS Secretariat, Kabul, 2007.

49. See e.g. JCMB Secretariat, “Joint Coordination and Monitoring Board, Annual Report, March 2007–March 2008,” Kabul.

incoherence in and lack of alignment of aid. Military expenditure, in particular, was prone to waste and corruption, as it bypassed the Afghan state and sometimes flowed secretly to politicians, strongmen, and militias.<sup>50</sup>

Discontinuity in government policies and changes in ministerial leadership undermined the donor–government relationship. The Ministry of Finance especially suffered in this respect due to changes in its leadership and aid policy. The ministry established some principles for donor investment in Afghanistan in 2002. These included limiting donor participation to a maximum of three sectors (unless at least \$30 million was allocated to each sector); emphasizing the channeling of aid on-budget as an instrument of policymaking; providing timely information on allocations and disbursements; and reporting to the Afghan public. But donor compliance with these principles was weak,<sup>51</sup> and when a new finance minister was appointed in 2005 they were abandoned. Unlike in 2003–2004, the government budget committee did not involve donors in the development budget hearings during budget preparation.<sup>52</sup> Although this latter approach increased the interaction between the Finance Ministry and other government ministries and departments, the abandonment of the previous policy on donor engagement allowed donors to attend to as many sectors as they wished.

#### AID AS AN IMPORTANT SOURCE OF FINANCE

With a distorted economy and an empty treasury, the government was not able to pay its employees or to finance reconstruction in 2002. Access to foreign aid thus became the top priority for the government. And thus the leadership became preoccupied with advocacy, bargaining, management, reporting, and monitoring of aid. In 2002, because of inadequate funds in the government treasury, the Minister of Finance had to repeatedly approach donors to secure payment of government employees. He spent nearly half his time approaching donors rather than managing internal issues.<sup>53</sup>

50. Bizhan, “Continuity, Aid and Revival”; Fishstein and Wilder, “Winning Hearts and Minds?”

51. Lockhart, “Aid Relationship in Afghanistan,” 15.

52. The budget committee was chaired by the finance minister, and the ministers for foreign affairs and planning and reconstruction and the head of the *tashkil* (staffing establishment or list of sanctioned posts) of the Office of Administrative Affairs were members.

53. Ghani et al., “Budget as the Linchpin,” 158; Michael Carnahan et al., *Reforming Fiscal and Economic Management in Afghanistan* (Washington, DC: World Bank, 2004).

The state's dependence on aid and external military support grew rapidly. Foreign military expenditure also increased, along with "war on terror" and counterinsurgency activities. By 2010, total foreign military operations in Afghanistan had cost in excess of \$ 243 billion.<sup>54</sup> The US military expenditure comprised the bulk of it. By the end of June 2010, the US Department of Defense reported that the cumulative total of war-related expenditure for Afghanistan was \$ 217 billion, including funds appropriated for the Afghan Security Forces.<sup>55</sup>

The dependence of the state on external military and development aid reinforced the historical pattern of building the state with external sources of revenue. Despite the growth of domestic revenue collection from 3% of GDP in 2002 to 10% in 2013,<sup>56</sup> it financed only a small portion of public expenditure because of the rapid increase in public spending, especially because of a deteriorating security situation and weakness of the economy and tax system.

Unlike the classic rentier states, in which the state has full discretion over natural resource revenues, off-budget aid (and on-budget aid with limited discretion) deprived the government of full control over aid and constrained it to use it for patronage.<sup>57</sup> The government still retained some influence. For example, it had control over permission to commence the implementation of some off-budget projects. But this left the government limited options to buy off adversaries with foreign aid. Karzai instead largely relied on other tactics. He awarded public offices in exchange for political support from strongmen and troublemakers to stay in and consolidate his power. This approach reinforced a patron–client governance system which was inconsistent with the needs of Afghanistan for building an effective and accountable state, something that Karzai promised during his presidential

54. Lydia Poole, "Afghanistan: Tracking Major Resource Flows, 2002–2010," Global Humanitarian Assistance, a Development Initiative, January 2011, 2.

55. Amy Belasco, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations since 9/11," Congressional Research Service, Washington, DC, March 29, 2011.

56. Bizhan, "Aid Paradoxes in Afghanistan," 110; Nematullah Bizhan, "Revenue and State Building in Afghanistan," in Srinjoy Bose, Nishank Motwani, and William Maley (eds.), *Afghanistan: Challenges and Prospects* (Abingdon: Routledge, 2017); Bizhan, *Building Legitimacy and State Capacity*, 15.

57. For further discussion see Thomas Barfield, *Afghanistan: A Cultural and Political History* (Princeton, NJ: Princeton University Press, 2010): 315.

campaign in 2004,<sup>58</sup> along with reforming the public administration and establishing a new program called “accountability and support to law enforcement.” Such appointments not only undermined the capacity of institutions but also made the institution-building process less effective. People appointed on political considerations were loyal to their political patrons and lacked necessary skills. The effect on provincial administration was significant, but largely remained outside the oversight of media and civil society activists.

The ways aid was allocated, managed, and channeled made it ineffective and, in some cases, had adverse effects on the development of institutions and accountability. Not only was four-fifths of aid spent off-budget (2002–2010), most of it did not reach Afghanistan. In the absence of strong public institutions, this approach helped expand service delivery. But lack of balance in the trade-off between the delivery of aid outside the state system and institutional development had negative effects. A more pragmatic approach to off-budget aid, using it as a transitional mechanism and with the aim of eliminating it in the medium term, could have shifted incentives and helped reinforce the state-building process.

### BUILDING AND UNDERMINING THE STATE

Given the state’s acute deficit of capacity, it was crucial to devise ways to provide public goods and also to build the state’s capacity. To do so, three strategies were adopted. The first was to buy capacity from outside the public sector and the country by hiring national and foreign consultants, and by outsourcing some of the government’s core functions. The second entailed donors bypassing the Afghan state and the national mechanisms to deliver their projects through the private sector. The third focused on building the capacity of the various government departments through reforms, training, and new hiring. Results have been mixed, and, as will be discussed later, these strategies in some cases proved counterproductive.<sup>59</sup>

58. Mūj’tami’ay’ Jāmi’ay’ Madam’ Afghanistan [Afghanistan Civil Society Forum], “Khar’ Mashi Nukhūstīn Nāmzadān-I Riāsat’ Jamhūr-I Afghanistan” [Afghanistan First Presidential Candidates Manifestos], Kabul, 1384 Solār *Hijri* Calendar (2005): 30–48.

59. For more information on state capacity see Bizhan, “Aid and State Building”; Nematullah Bizhan, “Aid and State Building, Part II, Afghanistan and Iraq,” *Third World Quarterly* 39:5 (2018): 1014–31.

First, reliance on technical assistance was a part of the strategy to buy capacity. From 2002 to 2014, on average, donors spent between \$250 million and \$1 billion annually on technical assistance projects, involving recruiting national and international staff. However, a large portion of the funding was off-budget. The Finance Ministry of Afghanistan estimated that as of 2010, 7,000 Afghans were working with civilian ministries (referred to as externally funded staff), recruited through donor-funded projects outside the government budgetary process. In 2011, 5,000 externally funded staff (almost all Afghans) worked in eight key ministries and one agency.<sup>60</sup> No reliable data are available on the number of consultants that worked with non-state actors. These technical assistance programs were ineffective. In 2008, a study sponsored by the Agency Coordinating Body for Afghan Relief found that even though “one quarter of all aid to Afghanistan has been allocated to technical assistance which is intended to build government capacity, much of this assistance has been wasteful, donor-driven, and of limited impact.”<sup>61</sup>

The government established an interministerial body for the coordination of capacity-building initiatives. In 2008, the government stated in the ANDS, “The Government will ensure that technical assistance will be demand-driven and aimed at building Government capacity. In addition, it will ensure that it is delivered in a coordinated manner. All technical assistance channelled outside the [government] budget should have capacity-building components and require Afghan counterparts.”<sup>62</sup> But while the process improved slightly, the problem remained intact.

The outsourcing mechanism was also used to attempt to overcome the state’s weakness. In the first few years after 2001, some government functions were fully or partially contracted out to the private sector. These included procurement, delivery of basic health services, and community-development programs. After building the initial capacity, the state restored some of these functions, such as procurement. But some services, like the delivery of basic health services and community-development projects, continued to be delivered by NGOs, using the government’s budget and procurement system.<sup>63</sup>

60. Richard Hogg, Claudia Nassif, Camilo Osorio, William Byrd, and Andrew Beath, *Afghanistan in Transition: Looking beyond 2014* (Washington, DC: World Bank, 2013).

61. Waldman, “Falling Short,” 4.

62. Islamic Republic of Afghanistan, “Afghanistan National Development Strategy,” 160.

63. Seema Ghani and Nematullah Bizhan, *Contracting Out Core Government Functions and Services in Afghanistan* (Paris: OECD, 2009): 97–113.

The civil service law was rigid and out of date. It barely allowed a civil servant to receive a decent salary; on average they received about \$50 per month in 2002. But projects funded off-budget paid competitive wages. As a result, civil administration became fragmented between “ordinary” and “secondary” civil services. The former included civil servants who were recruited under the existing law. The latter were recruited mainly on short-term contracts through projects funded off-budget. Thus, both the government and the donors relied on buying capacity from outside and contracted out some of the government’s functions to make up for the shortage of skills.

The second strategy was the bypass tactic, relying on off-budget mechanisms. Donors, by and large, bypassed the state and delivered their aid through private companies and NGOs. This helped create a parallel public sector to deliver public services and implement projects. The problem with the parallel mechanism and process was not that non-state actors implemented projects, but that the aid which flowed through this mechanism was much greater but also poorly aligned with local priorities, provoking institutional rivalry and fragmentation. There was also an intermediate approach using trust funds, such as the Afghanistan Reconstruction Trust Fund, which funded private-sector or non-state actors to implement projects. Unlike off-budget aid, the funding was channeled through the state treasury and was aligned with government priorities. This approach was relatively more effective. Between 2002 and 2012, on average, about half a billion US dollars annually was channeled through the Afghanistan Reconstruction Trust Fund.<sup>64</sup>

The third strategy included direct intervention in building state capacity. This process had mixed impacts. Those government departments and ministries that had exposure to donors significantly improved. The Finance Ministry was a notable example. But even here the capacity of the ministry varied and was less sustainable because of dependence on aid and technical assistance. The General Directorate of Budget of the ministry has significantly improved and reformed. But line ministries and departments had to execute the national budget. The low budget execution rate, therefore, does not represent a lack of capacity at the General Directorate of Budget. The General Directorate of Treasury also demonstrated increasing capacity. But this was not the case with the Directorates of Revenue and Customs, as

64. Islamic Republic of Afghanistan, “Development Cooperation Report,” 55.

corruption and nepotism have damaged their reputations. And some other institutions lagged behind. For example, the police and the Office of the Attorney General remained ineffective, weak, and corrupt.

Both the bypass tactic and the buying-capacity tactic had short time horizons. These strategies helped improve the delivery of public services and create islands of inefficiency, but they also led to fragmented administration and higher transaction costs. Bypass had adverse effects on capacity-building in the long run. It made the government's permanent institutions less attractive for competent candidates and diverted much of the financial and political resources away from building and reforming the permanent state institutions.

The building of civil administration was complex. The ordinary civil servants included two types: an existing and mostly poorly qualified staff, and the reformed part of public administration recruited under the civil service reform program after 2001. The ordinary civil servants (especially the older generation) were suspicious of changes in administration and reluctant to pursue reforms. They were acutely aware of the politics of survival and that in Afghanistan a reform could disappear along with its creator. A new minister, for example, would come with a new mindset and a reform package, or a new regime would abandon the programs of its predecessor. The civil servants had experienced this under the rule of the People's Democratic Party of Afghanistan (1978–1992), the *mujahidin* (1992–1996), and the Taliban (1996–2001). Also, the protracted armed conflicts in the country and sudden policy shifts had prevented them from developing skills. Pragmatically and for the sake of their survival, some of the civil servants had preferred to develop linkages with strongmen and engage in local rivalries. This compromised their commitment to public service, weakened state institutions, and hindered service delivery.

The secondary civil servants included contractors, referred to as consultants and advisers, who worked with ministries through about 35 implementation units, grant management units, project management units, and project management offices across the ministries. Donors funded these structures. By comparison with the total number of civil servants, these consultants were few in number. (In 2007, there were 307,288 public servants; 18% were women, and 16% had education above high school, including a small number with bachelor's and master's degrees.) But they played a most important role in shaping policies and managing implementation processes.

The process of building civil administration was fragmented and ineffective. It lacked a coherent vision and strategy. The emergence of the two elements of civil service eventually affected the integrity of public administration. Although the use of consultants helped to some extent to overcome the problems arising from administrative weakness in the short run, it discouraged ordinary civil servants, who felt marginalized. Large disparities in salaries created resentment. An internal government assessment, which followed a presidential decree in 2012, found that the dual approach to building administrative capacity undermined the development of permanent government structures.<sup>65</sup> Although the government attempted to integrate the consultants into its budget, it was not successful, because the civil service law was still inflexible and on-budget funds were insufficient.<sup>66</sup> These approaches produced mixed outcomes, helping to both build and undermine the state.

## CONCLUSION

After 2001, Afghanistan experienced both significant state transformation and setbacks. The process of state-building lacked coherence and was further undermined by the politics of aid and changing conditions and strategies that deprived the state of the necessary resources and commitment to implement reforms. Many internal and external actors participated in efforts to rebuild state institutions and reconstruct the country. Despite good intentions, some of the international policy responses to state weakness and corruption in Afghanistan had adverse effects. The conditions were not conducive to effective state-building. The state was extremely weak, and the economy was in a state of collapse, in late 2001. Domestic revenue failed even to finance government operations, let alone address the country's urgent development needs. The Afghan government thus relied on external military and financial aid, more than in any other period since 1747, to sustain its operations and finance development efforts. While access to aid helped

65. Commisiun Mu'zaf Ba Artibat' Juz' (14) Mādah Aval' Farmān Shūmārah (45) Mu'rikh 1391/05/05 Mūqam' Riāsāt' Jamhūri Aislānī Afghanistan, [*Designated Commission by the Presidential Decree*] "Gūzarish Commisiun" [Commission Report], Kabul, July 26, 2012.

66. Toby Poston, "The Battle to Rebuild Afghanistan," BBC News, February 26, 2006; Carnahan et al., *Reforming Fiscal and Economic Management*, 118; Tim Bird and Alex Marshall, *Afghanistan: How the West Lost Its Way* (New Haven, CT: Yale University Press, 2011): 120.

expand public services, build roads, and develop some institutions, the nature of the international intervention and aid fragmentation in some cases undermined state-building.

Given the state weakness and the corruption in public organizations, this situation created a triple dilemma in Afghanistan: How to build the state? How to deliver public goods? And how to meet the requirements for fiduciary control and accountability imposed by foreign donors? To overcome some of these challenges, donors preferred to bypass the state and to make the Afghan government increasingly accountable to donors. The former exacerbated institutional fragmentation by creating a parallel public sector. The latter made the government preoccupied with donors, which diverted its attention from domestic challenges and the citizens' demands. While this approach helped ensure the flow of aid to Afghanistan, it led to fiscal divergence between the state and society. These two strategies seemed weakly plausible, which hindered the process of building an effective and accountable state in the long term.

Post-2001 aid dependency, and the nature of the aid Afghanistan received, as well as the politics of patronage, thus produced paradoxical institutional and political outcomes. While some of the consequences were predictable, the risks could have been mitigated. A balance between short-term and long-term objectives, a greater reliance of donors on local capacity and institutions, and persistent pressure to reform could have significantly improved the process of state-building.