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LESSONS IN POST CONFLICT RECONSTRUCTION FROM THE NEW AFGHANISTAN COMPACT

A comprehensive look at the issues at stake in the London Conference.

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Introduction:

The forthcoming “London Conference” on Afghanistan (January 31-February 1, 2006), to be attended by President Hamid Karzai, British Prime Minister Tony Blair, and UN Secretary General Kofi Annan, will bring together high ranking dignitaries from the government of the Islamic Republic of Afghanistan and the international development



crafting a Constitution and holding elections for a president and a national assembly following the ouster of the Taliban in 2001.

The compact makes provisions for the attainment of joint government-cooperation partner benchmarks to enhance security, governance, the rule of law, human rights, and economic and social development to further consolidate the ongoing reform and reconstruction agenda. The compact provides the legal framework for continuation of the international assistance mission to Afghanistan for the next five years. In spite of certain shortcomings, the mission (UNAMA and other agencies) have played a vital role in guaranteeing the successful conclusion of political reform benchmarks set by the Bonn Agreement. The compact is unlike its predecessor, however, in that each benchmark is now derived from the elected government's Interim Afghan National Development Strategy (I-ANDS); to be presented at the conference as the cornerstone of government policy.

The Afghanistan Compact

The preparation of the Afghanistan Compact, which supersedes the Bonn Agreement, initially started as a parallel exercise. However, over time the compact became a fully integrated component of the I-ANDS policy framework matrix. The compact makes provisions for the attainment of joint government-cooperation partner benchmarks to enhance security, governance, the rule of law, human rights, and economic and social development (as well as tackling the drug trade) to further consolidate the ongoing reform and reconstruction agenda. The compact should assist the government of the Islamic Republic of Afghanistan in establishing a framework for cooperation with the international community designed to address the remaining security, governance, and development challenges facing the Afghan people. The compact will also establish a new mechanism for coordinating Afghan and international efforts, under the leadership of the UN. Furthermore, the Conference will provide an opportunity for the Afghan government to present its Interim National Development



Whilst the attainment of the I-ANDS benchmarks have yet to be fully identified, the government has already reaffirmed that \$4 billion in external funding for reconstruction continues to be required over the five years for (i) legal economic growth to begin to displace the illicit opium economy; (ii) for governance structures to be reformed; and (iii) for basic services to be provided and poverty goals to be met.

As over 90% of all reconstruction finance is provided by cooperation partners, with 75% being channeled outside of national accounts, enhancing the effective utilization of aid has become a top priority for Karzai's administration. The partnership between government and donors will require substantial changes in the way external aid is managed, in line with the recommendations of the Paris Declaration. Accordingly, under the I-ANDS, government aims to introduce new strategies to: (i) enhance government ownership; (ii) support effective public expenditure management systems; (iii) focus increasingly on expenditure outcomes and service delivery; (iv) enhance harmonization between government and donor policies; and (v) share mutual accountability between government and donors.

Reconstruction Challenges

The challenges facing Afghanistan remain immense; and are further complicated by congenital insecurity within Afghanistan's immediate neighborhood, as well as the continued prevalence of a large illicit economy. Many of the emerging constraints are perhaps best described as "*idiosyncratic*" (unique and contextualized), where as others are more "*generic*;" conforming closely to what has been seen in Kosovo, East Timor, Rwanda, and Iraq, among other cases of post-conflict reconstruction.

Idiosyncratic Issues: The failure of successive governments in securing peace and stability forced much of Afghanistan to adopt the "law of necessity," not the "law of the state." As a consequence, Afghanistan needs to establish an appropriate incentive framework that reaffirms



transformation. Insecurity continues to constrain the growth of the legal private sector, the opium economy continues to flourish (constituted 37% of legal GDP in 2005), and the costs of financing the security sector remain beyond the fiscal capacity of government for many years to come. The trade deficit is in the order of U.S. \$3 billion, and options for increasing legal exports are limited, as are options for substituting imports for domestic production.

The public sector too, in spite of considerable efforts to reform its core functions, remains largely incapacitated outside of Kabul. Poverty rates remains unacceptably high, increasing the tendency to depend on higher-value illegal activities, and maternal mortality rates are the worst reported globally. Domestic revenues lag behind expenditures by a factor of ten to one. Public sector pay levels remain so low, that given the current inflated costs of living, corruption could emerge as public enemy number one; undermining government's efforts to enhance aid flows through national accounts. To counter this, government has established an "anti-corruption strategy," as a key cross-cutting theme of the new national strategy.

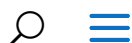
Increased revenue mobilization must occur to allow government to cover the core costs of funding essential state apparatus, wages, and basic services—particularly the high costs of maintaining national security. External aid too must enhance alignment between donor priorities and priorities stated in the government's national development strategy—with resources ideally being channeled through government accounts so as to strengthen Afghan sovereign capacities. Importantly, with the election of the new national assembly—greater support to build governance capacities outside of Kabul must also remain a primary focus for strengthening provincial relations with the center—which in the process strengthens the authority of the center itself. Furthermore, and as if this were not enough, the eradication of opium production will tear a considerable whole in the pockets of many poor farmers—as well as contracting the economy. Given that the government's new strategy is growth-oriented, the whole economy



Turkmenistan Afghanistan Pipeline (TAP) remains little more than a pipe dream in the eyes of its financiers—unfortunately the potential revenue gains to government therefore also remain illusive.

The political benchmarks of the Bonn Agreement were poorly sequenced with the rest of the reconstruction and development program. The key institutions of a plural, democratic, liberal, meritocratic state were quickly established (national assembly, civil service commission, justice commission, human rights commission, etc.) as were investment in support of political normalization (elections, demobilization, and disarmament—although illegal armed groups still persist—and security sector reforms). However, the functionality of the state, particularly with regard to service delivery, will take many years to develop, partially because key investments in subnational administration (excluding provincial security) have yet to be undertaken. Reform of the central Ministry of Interior has been heavily contested. With all subnational administration (provincial governors offices, district administration, and municipalities) classified as units of the central ministry, reforms have been heavily delayed. The election of a national assembly and provincial councils, however, serves to highlight that greater support for subnational administration should have been provided in sequence with the political reform program—back in 2004. Yet, in spite of various investments (the Afghanistan Stabilization Program) it is only with the new compact that serious efforts are now to be undertaken.

Generic Issues: Over the past 30 years, innumerable evaluations have been conducted reviewing post-conflict reconstruction activities—of varying depth and breadth of analysis—and most with a particular institutional or bilateral bias. However, with “complex emergencies” tending to evolve into “complex reconstruction” programs, evaluation exercises must increasingly look to embrace political (political defragmentation/reconciliation, domestic and foreign policy alignments, security—national and international—and justice), state-building (reconstructing core revenue and expenditure state



governance of development) spheres. In most cases, evaluation exercises have not taken a recipient government perspective with regard to assessing shortcomings and recommendations tend to be overly “aid system” centric.

The failure to listen to an incumbent government’s frustrating experience in dealing with an often deeply-divided international community and a multiplicity of different agency procedures—remains a systemic and enduring failure of external aid. In the Afghan context, although many of the constraints to reconstruction may not be new, they do represent a government perspective on what needs to be done to make aid more effective, as follows:

- Ensuring the primacy of the national strategy;
- Strengthening the national budget framework;
- Strengthening the medium-term fiscal and expenditure programs;
- Aligning donor and national priorities;
- Eliminating duplication and the development of parallel delivery systems;
- Moving toward sector-wide approaches thereby limiting budget projectization;
- Enhancing cost effectiveness;
- Simplifying donor procedures;
- Supporting the Afghan private sector;
- Developing performance standards;
- Limiting use of donor top-ups, which risk long-term service delivery;
- Supporting anti-corruption and greater fiduciary management;



Reconstruction needs assessments following conflict almost always underestimate the levels of external assistance required to reconstruct the core functions of state (governance, management, security, political, service delivery, monitoring, etc.) and to allow the government to move from conflict—through reconciliation—to delivering basic public goods that support economic growth and human development. In nearly all cases, the post-conflict reconciliation and reform program takes nearly a full decade, although needs assessment overly optimistically forecasts all costs against development outcomes over the first 2-4 years. The Afghanistan preliminary needs assessment (January 2002) originally forecast \$15 billion in external (non coalition security) reconstruction needs. In March 2004, the government and international community revised this figure to just short of \$28 billion on a 7-year commitment and 12-year expenditure program.

More often than not, post-conflict governments are chronically incapacitated with weak human resources, and making effective use of external assistance is therefore undermined from the moment external assistance flows into the country. In the absence of strong national governance systems (in particular budgetary and public finance management), combined with the political desire to rapidly deliver tangible public goods, external assistance circumvents national budgetary systems thereby creating parallel structures that soak up external assistance. The parallel aid structures created act as magnets drawing any residual “human” capacity that existed from the state to the aid community, leading to the creation of a *de facto* second civil service. Given the frequently excessive focus on delivery of humanitarian assistance, core policy and institutional reforms are more often than not neglected, undermining the pace of much-needed institutional strengthening. In most cases, reconstruction needs are predominantly translated by humanitarian agencies into humanitarian assistance and not assistance for state building *per se*, bypassing the emergent state in delivery, and undermining its visibility and efficacy to an overly expectant population. Donors reinforce this bias as



term development from a very early stage.

Logically, external investments only translate into durable public goods once the “form” and “functionality” of the new state are enhanced or reconfigured sufficiently to deliver basic services, whilst enabling the private sector as the engine of growth and employment. Thereafter, aid (external revenue for government) translates into increasingly worthwhile expenditure outcomes. However, in most cases (as evidenced by both Kosovo and Iraq) administrative reforms are not premised on a review of the new “functional assignments” with regard to service delivery, and the reform of institutions tends to be blueprint rather than contextual to their end function. The problem is compounded further as following the immediate aftermath of conflict when external assistance is at its peak, combined with political pressure on aid managers to spend, spend, spend, projects are essentially short-term and unsustainable.

Ironically, once state institutions are sufficiently endowed to channel what are wrongly perceived as continuing high levels of aid assistance, external support declines, often leaving behind a highly cost-inefficient state apparatus that absorbs the majority of national revenues just to fund basic operational costs. In many cases, the withdrawal of external assistance leads to contraction of the economy, reduces funding of aid agencies, and aid employees (many of whom were former government employees) leave to take up equally well-paid employment beyond the fiscal ability of state to afford.

Following conflict, the immediate boon in aid resources and the absence of a strong national budget to support allocation addressing priority needs, leads to the excessive projectization of aid resources. Many of these projects are focused on what might best be seen as nonessential investments given the highly insecure and weak governance climate that exists. With an ever-increasing number of projects, coordination and monitoring (aid and expenditure tracking) becomes a nightmare with government uncertain whether to monitor



favor more traditional expenditure channels through their own agencies and national private sector.

In many cases, particularly where a large “foreign” bilateral has adopted a particular mandate in the post-conflict state (i.e. in Afghanistan and Iraq), a preoccupation with particular national interests (i.e. terrorism) skews support away from core reforms to areas often of marginal returns for the state-building project. In Afghanistan, U.S. anti-terrorist and anti-insurgent operations led to the development of a fiscally unaffordable national army, despite the fact that co-investments in judicial reform and local administration would bring greater long term dividends in preserving peace and stability. The long-term costs to the Afghan government of funding the security sector—with pay and grading of the National Army not conducted by government—are fiscally unsustainable and long-term external assistance is now a precondition for maintaining the Army, unless a reduction in force size is to be entertained.

Regional Issues: Turning the spoils of war and conflict into the spoils of peace—security, growth, and prosperity—is a challenging process. However, whilst much has undoubtedly been achieved since the process of political normalization has been undertaken, the Afghan security and governance situation remains unstable, much of which is due to peripheral regional issues that are only being addressed indirectly. The December 4-5, 2005 conference to enhance regional cooperation demonstrated the opportunities for greater stability and economic cooperation. However, it also underscored that consensus around key issues has still to move beyond rhetoric. The Shanghai Cooperation Organization (SCO), which attended the conference, and is now recognized in the United States as a serious political counter-point in Central Asia, supports the expulsion of U.S. troops from Afghanistan’s northern neighbors.

The politics of access to oil and gas is also shaping Afghanistan’s prospects. Increasing demand for petroleum combined with high



countries such as China to adopt a more aggressive approach to energy market acquisition in countries such as Iran and Russia. Furthermore, inflated global petroleum prices also drive import-dependent countries to seek alternative markets for energy supplies—many of which involve strengthening foreign relations with non-traditional trading partners. Where governments (such as Bangladesh) operate strict price controls on imported fuels, the fiscal impact has been considerable—drawing finance away from basic services in education, health, and infrastructure, all of which are vital to sustain growth over the longer term. With continued instability in Afghanistan, combined with India's concerns regarding military relations with Pakistan, much of the Turkmen gas may eventually flow north—not south—as too might the Caspian basin reserves. Delays in reaching greater stability in Afghanistan represent very real lost future opportunities; a high cost for a weak nation-state. Success in Afghanistan will be expensive, and calls for un-blinking multilateral support for the present reform agenda—the new national development strategy.

Whilst the southern axis of U.S. foreign policy interests—which currently runs from Afghanistan through Pakistan to India, shows some signs of greater cohesion—Pakistan remains a politically-complex state, and the inimical northern states do little to support the emergence of greater stability on the Afghan side of the border. Drugs and military flows are regular trade. Bangladesh too shows signs of increased insurgent activity, and Iran—itsself an important stabilizer for Afghanistan—is under the spotlight of the UN with regard to its nuclear industry. The lesson is clear; creating greater stability in Afghanistan—a land locked state—as part of an emerging foreign policy realignment, requires a far more comprehensive and collaborative approach to regional security to be adopted.

Emerging Lessons in Post Conflict Reconstruction

The sequencing of post-conflict reconstruction is an art form, best



support over many years. A number of key conclusions can be drawn, many of which resonate with those learned in other post-conflict situations.

- **Political normalization is a sine qua non for all other reconstruction and development activities, as is a regional approach to non-interference:** In all post conflict situations, political normalization and defragmentation are fundamental for the reconstruction of state-building and economic growth gains. This has undoubtedly been one of the successes of the Bonn Agreement.

- **External support for state-building and humanitarian investments must be balanced to allow the rapid return of state delivery functions:** In many cases, the nature and composition of aid focuses too heavily on humanitarian support at the neglect of early investments in re-establishing the core governance functions of the state. Donors must develop expedited procedures that facilitate rapid disbursement of support for building public finance, civil service, and administrative reforms early on, both centrally and at the subnational level.

- **Needs assessments must look to prioritize key state-building reforms as the entry point for post conflict reconstruction and not create overly elaborate reform programs:** In most cases the initial needs assessments underestimate both the costs of reconstruction and the timeframe involved. Transactions costs are often three times higher than in other contexts. Furthermore, procurement of basic services, supplies, and works takes up to 18 months, a time that most post conflict countries can ill afford. In the future, a standard international system for costing post conflict needs assessments could be developed, along with a standard methodology.

- **The national budget must remain the instrument of policy reform, and trust funds are therefore essential to consolidating external assistance and minimizing projectization of the reform**



service delivery. Yet, in the absence of adequate fiduciary standards within the national administration, trust funds can play a central role in consolidating funding to support a more coordinated and cohesive approach.

- **Aid money does not always contribute to growth:** There is a tendency to assume that the key factor of successful reconstruction is the volume of external assistance provided per capita—but in many cases this assistance creates inflationary pressure on wages and basic commodities, including symptoms of “Dutch disease.” Furthermore aid should not try to create growth directly; rather it must work to establish an enabling environment for the growth of the private sector. This requires investments to remove the binding constraints to growth—many of which are almost summarily excluded—such as the reform of financial markets, justice reform, and the reform of land markets.

- **Reforms must reconcile the need for success with the constructing a fiscally sustainable state:** External support is often poorly sequenced. High volumes of humanitarian assistance flow in first—policy and institutional strengthening takes time—and by the time the state has established core capabilities, external assistance drops off. In many cases, expensive and unsustainable institutions are established with systems far too complicated for what remains a largely incapacitated state. Furthermore, the costs of highly-effective state institutions, whose start-up has been externally subsidized, are often fiscally unsustainable. As a result, domestic revenue mobilization often does little more than fund recurrent costs—competing for money that was best spent on contracted-out services. Another problem is the prevalence of donor “salary top ups,” which buy services in the short term, but place the provision of basic services in a precarious state.

- **Bypassing existing national administrative structures and governance systems undermines both immediate and medium-term capacities to self governance:** Donors must work to strengthen



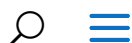
the aid system. As the majority of assistance is channeled outside of the national budget, parallel systems emerge that build what amount to little more than highly unsustainable project-based investments. Importantly, at a time when the newly elected government needs to demonstrate to its citizens what it can deliver, it is NGOs and aid agencies that often claim the credit. Projects with aid community flags all over them undermine the government visibility and yet donors continue to specify visibility in each contract signed.

- **Support for the domestic private sector:** Competitive international bidding often favors the highly competitive international private companies and the plethora of international and national NGOs, not domestic companies who are ill-equipped to compete with high-quality tenders, bid bonds, and performance guarantees on contracts. In Afghanistan, the national private sector placed the government under considerable pressure to leverage greater access to reconstruction contracts, few of which have been forthcoming.

- **Monitoring outcomes, not just inputs:** Given the volume of external assistance, and the complexity of tracking donor pledges, commitments, disbursements, and “actual” expenditures, early investment to support the development of national monitoring capacities that track expenditures and expenditure outcomes is vital. In Afghanistan, in spite of billions being invested since late 2001, government capacities to track expenditures and monitor the impact of external assistance are wholly inadequate to meet the demands to be placed on the executive by the national assembly.

Conclusion

The “Afghanistan Compact” marks the beginning of the second phase of reforms—a phase best characterized by greater government ownership, greater alignment with the national strategy and budget, and reforms that move beyond developing national policies to a heavy focus on building institutions that deliver services efficiently



security sector reforms must also look to strengthen and not undermine national security institutions; and in so doing build fiscally sustainable structures that address the root causes of insecurity—rather than its effects. Maintaining economic growth, with a focus on high-value production of export orientation is vital—but in itself this calls for government to remove all the binding constraints to investment—including those related to land, finance, taxation, labor enhancement, regulation, and natural resource management. Dealing with the economic implications of successful eradication, and the corresponding contraction of the economy, will again be a major challenge.

As a cross-cutting issue, the aid community must look to enhance support for the new national strategy, and the compact, by focusing efforts that build core governance capacities in a sustainable way. The principles of the Paris Declaration on the enhancement of aid effectiveness must be supported if today’s achievements are to pave the way for greater stability, peace, and prosperity tomorrow.

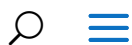
Whilst the participants of the forthcoming conference must acknowledge the work of the government in establishing a remarkably robust national strategy, the forthcoming conference must not prematurely celebrate its success—as the proof of the strategy is still in the making. Increased international community support for the Afghan administration’s interim strategy is vital if government is to deliver on its promises to a demanding Afghan people; a people now represented through the “eyes” and “ears” of the national assembly.

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