Foreign Aid and Economic Development in Afghanistan

Analysis of German assistance to Afghanistan with reference to the Paris Declaration on Aid Effectiveness

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Erklärung

gemäß § 25 Abs. 1 der Prüfungs - und Studienordnung des weiterbildenden Studiums „Public Policy“ an der Universität Erfurt


I affirm that the work I have submitted was done independently and without unauthorized assistance from third parties. All parts which I took word-for-word or nearly word-for-word from any sort of publication are recognizable as such. I did not use any means or resources other than the literature I have quoted. This work was not submitted in this or any similar form to an examination committee in or outside of Germany.

Erfurt, Germany ___________   ____________________________   ___________________
Datum/Date   Unterschrift/Signature   Name
I. **Acknowledgements**

First of all I am thankful to Almighty Allah who bestowed me with the talent and endeavors to complete this thesis.

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II. Abstract (English)

On 2\textsuperscript{nd} March 2005, the adoption of Paris Declaration on Aid Effectiveness improved the way donors were delivering international aid. The Paris Declaration formulated procedures and principles to increase the effectiveness of aid, and specified some measurable indicators to assess whether the aid to a partner country (such as Afghanistan) comply with Paris Declaration principles. The central aim of the Paris Declaration is to assess and improve the effectiveness of development aid to make the most of its benefits to the people.

Afghanistan’s GDP is substantially dependent on foreign aid amounting to a ratio of 71\% in 2010. Paris Declaration is very relevant to Afghanistan, and the subject of aid effectiveness has been high on the agenda of the international community, the Government of Afghanistan, and bilateral and multilateral development institutions. Regardless of this, foreign aid in Afghanistan is widely criticized for its ineffectiveness.

The aim of this thesis is to discuss the development assistance, in particular the German development assistance to Afghanistan with reference to the Paris Declaration guidelines for aid effectiveness. It scrutinizes the stand of Germany in meeting the Paris Declaration targets in Afghanistan. Further, it explores the key factors that hinder or support the implementation of Paris Declaration by German development assistance in Afghanistan, and presents recommendations to overcome the challenges.

III. Abstract (Deutsch)


Das Ziel dieser Arbeit ist es, insbesonders die deutsche Entwicklungszusammenarbeit in Afghanistan in Bezug auf die Richtlinien der Paris Deklaration hin zu diskutieren. Die Arbeit hinterfragt inwiefern die Bundesregierung, die Ziele der Paris Deklaration erreicht. Weiterhin ergründet sie die Schlüsselfaktoren, die der Umsetzung der Paris Deklaration durch die deutsche Entwicklungszusammenarbeit in Afghanistan zuwiderlaufen beziehungsweise förderlich sind, und präsentiert Empfehlungen diese Herausforderungen zu überwältigen.
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<th>Description</th>
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<tbody>
<tr>
<td>AAA</td>
<td>Accra Agenda for Action</td>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ANA</td>
<td>Afghan National Army</td>
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<tr>
<td>ANP</td>
<td>Afghan National Police</td>
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<tr>
<td>ANQA</td>
<td>Afghanistan National Qualifications Authority</td>
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<tr>
<td>ARTF</td>
<td>Afghanistan Reconstruction Trust Funds</td>
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<tr>
<td>BMZ</td>
<td>Bundesministerium Für Wirtschaftliche Zusammenarbeit - German Federal Ministry for Economic Development Cooperation</td>
</tr>
<tr>
<td>CESP</td>
<td>Committee on Education and Skills Policy</td>
</tr>
<tr>
<td>DAAD</td>
<td>Deutsche Akademischer Austausch Dienst – German Academic Exchange Service</td>
</tr>
<tr>
<td>DEG</td>
<td>Deutsche Entwicklungsgesellschaft - The German Investment and Development Company</td>
</tr>
<tr>
<td>DFR</td>
<td>Donors Financial Review</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product/Income</td>
</tr>
<tr>
<td>GIZ</td>
<td>Deutsche Gesellschaft für Technische Zusammenarbeit GmbH - German society for technical cooperation</td>
</tr>
<tr>
<td>GoA</td>
<td>Government of Afghanistan</td>
</tr>
<tr>
<td>GoIRA</td>
<td>Government of the Islamic Republic of Afghanistan</td>
</tr>
<tr>
<td>HIPC</td>
<td>To qualify as a Heavily Indebted Poor Country</td>
</tr>
<tr>
<td>HLF</td>
<td>High Level Forum</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>---------</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IFIs</td>
<td>International Financial Institutions</td>
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<tr>
<td>ILF</td>
<td>International Legal Foundation</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IRC</td>
<td>International Red Cross</td>
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<tr>
<td>KfW</td>
<td>Kreditanstalt Für Wiederaufbau -German Development Bank</td>
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<tr>
<td>LDC</td>
<td>Least Developed Country</td>
</tr>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MDTF</td>
<td>Multi Donor Trust Fund</td>
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<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MoPH</td>
<td>Ministry of Public Health</td>
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<td>MoPW</td>
<td>Ministry of Public Works</td>
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<tr>
<td>MoU</td>
<td>Memorandum of Understand</td>
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<tr>
<td>NGOs</td>
<td>Non-governmental Organizations</td>
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<tr>
<td>NEPS</td>
<td>North East Project System</td>
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<tr>
<td>NIEO</td>
<td>New International Economic Order</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>ODI</td>
<td>Overseas Development Institute</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<tr>
<td>PFM</td>
<td>Public Financial Management</td>
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Chapter 1

1. Introduction

Afghanistan’s current reliance and dependency on foreign aid is not only due to the past three to four decade of war and civil dissension, but came about even before the era of conflict. Afghanistan throughout the history in the last two centuries has never been a nation with a fairly good economy. During the history of Afghanistan, foreign aid has played an important role in the development of the country. Afghanistan has received its “first monetary assistance from the East India Company during the British rule in South Asia” (Ministry of Finance, 2010). This happened on the 26th of January 1857 when an agreement was signed between Afghanistan and the British India against Persian Aggression (LAWRENCE, 2011). With the passage of time and changes in the political and economic situations, the amount of aid and degree of aid dependency also changed in Afghanistan. “Although the mentioned financial assistance did not necessarily put Afghanistan in aid dependent nations’ category, the country has rarely achieved fiscal sustainability even after it gained de jure and de facto status of state” (Ministry of Finance, 2010, p. 7).

Afghanistan is one of the Least Developed Countries (LDC) where majority of its population has been living under the poverty line. The recent more than three decades of war and strife in Afghanistan have further destroyed both the already poor physical and human capital it had and have further led the state to fragility and instability. In order to run the state, since longtime the Government of Afghanistan (GoA) has been dependent both technically and financially on international development assistance.
Since the fall of the Taliban regime in December 2001, Afghanistan has become an engaging country in the eyes of international community and since then has become one of the largest recipients of foreign aid. The international community has pledged a huge amount of aid for the reconstruction and development of Afghanistan at the numerous pledging conferences on Afghanistan. According to the Ministry of Finance (MoF) of Afghanistan, from 2002 to 2013 the international community has pledged around USD 90 billion in aid, from which around USD 57 billion has been already delivered to Afghanistan in terms of development and military aid (support to Afghan National Army-ANA, and Afghan National Police-ANP). During this period, a substantial proportion of Afghanistan’s Gross Domestic Product (GDP) has been dependent on foreign aid, amounting to the ratio of 71% in 2010. Around 51% of the delivered aid has gone to security sector and yet insecurity has increased comparing to the years 2002 to 2005 (MoF - External Assistance to Afghanistan at a Glance, 2010).

Till 2005, aid provided to Afghanistan was unpredictable, uncoordinated, considerable opaque; while the aid process was campaigned by the donor priorities and was administered through the donor channels thus making it difficult for Afghanistan to take lead in pursuing its priorities. The management and effective utilization of such immense amount provided to Afghanistan is important for the economic development and sustainability of the country. It is both the GoA and donors that are responsible to spend the funds efficiently considering the development priorities and strategies of the country to reach the poor. It was March 2\textsuperscript{nd} 2005, when Ministers of over 100 developed and developing countries together with the heads of bilateral and multilateral development organizations met in a High Level Forum (HLF) in Paris to discuss the ways in which the money from the donors could be streamlined in aligning the work in the developing countries. “Paris Declaration broke new ground for achieving greater aid
effectiveness on the basis of shared principles and measurable time-bound indicators” (Roberts, 2009). The Paris Declaration on Aid Effectiveness has spelled out some indicators used by the donor countries and recipients to measure the progress made in achieving the five key principles (ownership, alignment, harmonization, mutual accountability, and managing for result) of Paris Declaration.

Effective aid delivery system is an important and challenging issue for the government of Afghanistan and the international community. The volatile security situation and decades of conflicts has also complicated the process of aid delivery. “In order to best guide this engagement; Afghanistan has developed a central strategy for reaching its development goals which was released on 21 April 2008 as the Afghanistan National Development Strategy” (OECD - UNAMA - UKaid, 2010).

Despite this all, aid provided to Afghanistan did not help the deteriorated economy the way it should, and Afghanistan is still one of world’s poorest countries. Larger part of aid money has been spent outside of government system without addressing the national priority needs of ANDS and Paris Declaration guidelines. This has further undermined the legitimacy of the government and has undermined the efforts of government in building capable, effective and accountable public institutions. Such practices also undermine the Paris Declaration guidelines for better and more effective aid implementation. Donor community while providing aid to Afghanistan fell flat to stand on their commitments made during Paris Declaration. Most of their projects and programs are not aligned with the ANDS priorities, there is a lack of transparency and accountability, and very importantly – there is a lack of ownership of the development aid with the government of Afghanistan.
According to Monitoring the Paris Declaration Survey report of 2008, published by Organization for Economic Co-operation and Development (OECD) “Afghanistan and its donors scored low for ownership and managing for results, moderate for alignment and harmonization, and high for mutual accountability” (Roberts, 2009). Though, Afghanistan with its development partners did well in only mutual accountability principle, but they still have to do a lot to reach the targets set in other principles. The purpose of this analysis is to find out the reasons behind the inability of the donors and Afghanistan to meet the targets of the declaration; while the main focus in this paper is given to the case of German development cooperation in Afghanistan. Afghanistan is chosen as a study case because of Germany’s high political, development and military involvement in Afghanistan after the establishment of the new government in Afghanistan, in 2002. This is also because Germany is one of major donors to Afghanistan; and the long term political, social, and economic relationships between the two countries.

The analysis in this thesis report is aimed to respond to the overarching question of the research *what are the key factors that hinder or support the implementation of the Paris Declaration by German development cooperation in Afghanistan?* This main question is backed up by some minor supporting questions that are crucial to be answered before answering to the major research question. The supporting research questions are “What does the Paris Declaration on Aid Effectiveness and its Monitoring Survey indicators stipulates? How much has the total German aid to Afghanistan been since 2001? How do the German-Afghan annual negotiations take place, and how does the decision-making process consider the interest of the two sides? What are the mechanisms of German-Afghan development cooperation? “To what extent does the German development assistance to Afghanistan fits the OECD Paris Declaration guidelines? What measures are taken by the two countries (Germany and Afghanistan) for aid effectiveness,
and what measures should be taken by the two sides to improve aid delivery system in Afghanistan? These are the most relevant issues to the overarching thesis question, but the analysis in this thesis report is not limited to these questions.

1.2 Thesis Structure

This thesis report is divided into five key chapters. The first chapter of the thesis report is aimed to introduce the main theme of the thesis, discuss the research problem, and introduce the overarching research questions. Literature Review is covered in chapter two of the thesis. This chapter helps to briefly portray the overall history, definition, the politics, and the steps taken towards the efficiency and effectiveness of aid money by the donors and recipient. The chapter starts with clarifying the concepts of aid and Official Development Aid (ODA), and the history of foreign aid itself. It further reviews in detail the Paris Declaration on Aid Effectiveness, its key principles and indicators for measuring the progress. It will respond to questions like, what is aid and ODA? When did the concept of aid come into existence? What does Paris Declaration and Accra Agenda for Action stipulate?

Chapter three of the thesis report reflects the analysis of the development aid to Afghanistan (volumes, types, sources, channels of delivery, etc) provided by the donor community; and its impact on the economic development of Afghanistan. The history of foreign aid to Afghanistan goes back to even before the time of King Ammanullah Khan; the time when Afghanistan sought foreign assistance for the first time was in the nineteenth century. In particular, the chapter describes the history of foreign aid to Afghanistan in the post Taliban or 9/11 era till date. The chapter will answer the questions like, why and when did Afghanistan become an aid recipient country for the first time? How much aid has been received by
Afghanistan throughout the history (1919 – to present day)? Is current assistance effective and does it consider the OECD guidelines and ANDS priorities?

Chapter four is focused on the analysis of the German-Afghan development cooperation with reference to Paris Declaration guidelines. It begins with the study of German development policy, and analysis of the German-Afghan development co-operation and political relationships in a historical perspective. It explores Germany’s stand in realizing the Paris Declaration principles in Afghanistan. As a result of the research work, literature reviews, and interviews, this chapter explores some factors that are inherent in the Paris Declaration Principles and its Monitoring Indicators, in the German aid system, and in the government system of Afghanistan that both support and hinder the implementation of Paris Declaration in Afghanistan. While there are many supporting factors placed into work to implement the Paris Declaration, this sub-chapter is mainly focused on the challenges and factors that complicate the implementation of Paris Declaration by development partners, in particular the German development cooperation in Afghanistan.

The final chapter of the thesis report is aimed at presenting an overall conclusion and some helpful recommendations for improving the effectiveness of aid and development strategies in Afghanistan. It will give a number of suggestions on how can the German and Afghan governments further improve the negotiation process considering the interests of the two sides. It will further give recommendations on how to tackle the factors that hinder the donors, in particular Germany to implement the principles of Paris Declaration on Aid Effectiveness in Afghanistan.
1.3 Research Methodology

This thesis report is the outcome of analyzing a number of books, articles, reports, online sources, and most importantly, interviews were conducted to collect primary data.

The research study relies mainly on two sources of data gathering, primary and secondary. The secondary data as a major source of data was gather from the review of books, journal articles, reports and documents related to international aid, and aid effectiveness papers produced by donors, recipients, and multilateral organizations and various news papers and magazines. Furthermore, various government strategic documents, such Afghanistan National Development Strategy document, German Development Policy, Paris Declaration on Aid Effectiveness paper, and the strategies of various implementing strategies were consulted to get a better understanding of the subject issue. In case of internet websites every effort was made to remain restricted to only credible and well-known website addresses.

The primary data is mainly collected from interviews. Interviews were conducted with officials of the German Federal Ministry of Economic Cooperation and Development (BMZ), Federal Foreign Office (FFO), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), KfW Development Bank, and in Afghanistan with officials of the Ministry of Finance. They are the key actors of the German-Afghan development cooperation, and play an important role in the aid co-ordination and aid effectiveness efforts in Afghanistan. The data received from the interviews is core to the analysis and answering the research question.
Chapter 2

2. Literature Review – Theoretical Analysis

This chapter is aimed at the theoretical analysis of the most contemporary literature available on foreign aid and aid effectiveness. This chapter will briefly describe the definitions of aid and ODA, the overall history and politics of aid, and the steps taken towards the efficiency and effectiveness of aid money by the donors and recipient countries.

2.1 What is Aid – and Official Development Aid (ODA)?

Before going to the history of the aid, it would be meaningful to have a brief explanation on the concept of aid. Like a nation’s foreign policy, it is not easy to understand the foreign aid. It is always attached with the interests from the donor and recipient countries. The concept of foreign aid may change over time, because the development process in the developing countries is not identical. Foreign aid has got an international importance today, as Thomas Balogh says that:

from being a voluntary contribution by sovereign nations, is becoming slowly (as it is already within communities organized as states) a civic or human duty to contribute in proportion, or more than in proportion to wealth to the progress of the less privileged populations. Foreign aid will then become a conscious weapon controlled intestinally to combat poverty and inequality in an international framework. (Balogh, 1963, S. 13)

The word ‘aid’ generally “refers to the nominal value of the direct and indirect flow of financial and other resources from governments of rich countries to those of poor countries; in
other words, foreign aid is the expression most frequently used to describe the flow of financial and technical resources from the developed world to the underdeveloped world” (Tripathi, 1981, S. 7-8).

The Britannica Encyclopedia defines the foreign aid as “the international transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population. Aid can be economic, military, or emergency humanitarian” (Victoria Williams, 2011).

The “most common type of foreign aid is (ODA)\(^1\), which is assistance given to promote development and to combat poverty” (Victoria Williams, 2011). The mostly agreed definition of aid is presented by the Organization for Economic Cooperation and Development (OECD). OECD defines ODA as:

*Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount).* (George, 2009)

The ODA can take the form of bilateral agreement between the two states, and through multilateral institutions. ODA can be provided in the form of financial resources; commodities like vehicles and food stuff; or technical assistance and training. It could be in the form of grants, credits, and debt relief.

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\(^1\) Support to the military is excluded from the OECD’s definition of ODA, since military aid does not have economic development and welfare as the main objective. This means that ODA could be considered as a sub-group of total foreign aid.
2.2 A Brief History of ODA

As the warring parties were considered a great deal and strategically significant in the past; military assistance was considered as the earliest form of the foreign aid. It happens in the nineteenth and twentieth century, when the powerful countries of Europe gave enormous sum of money to their colonies. It was mainly provided to “improve infrastructure with the ultimate goal of increasing the colony’s economic output” (Victoria Williams, 2011).

Though after the World War-II period, the international relations were dominated by the East and West relations, it realized that the more importance had been taken by the economic relations of North and South; “especially with the changes in the international economy which took place in the early seventies (collapse of the Bretton Woods agreements, the creation of OPEC and the increase of oil prices, etc.)” (Imbeau, 1989, S. 1). Ever since, the new acronym of international aid has been introduced in the field of international relations.

A new concern was brought by the search of New International Economic Order (NIEO), “both in the relations among countries and in the research about them. While up to this time, the main concern of both diplomats and political scientists interested in international relations had been war and peace, a new dimension was offered to their attention: problems of distribution between rich and poor” (Imbeau, 1989, S. 1). People at that time were interested to find the ways for the international political economy and the economic relations between the least-developed and developed countries. The development assistance to the countries of the Third-World was given more attention as part of the new dimension of economic relations.

Today, the modern scope and structure of the foreign aid can be sketched to the two main developments that took place after the World War II during 1944-46. First was the
implementation of the USA sponsored package of Marshall Plan, “to rehabilitate the economies of 17 western and southern European countries” and second was “the founding of significant international organizations, including the United Nations, IMF (International Monetary Fund), and World Bank” (Victoria Williams, 2011). The IMF was founded for the aim of promoting the international monetary stability, while the WB (World Bank) was established as an instrument for raising capital for Japan’s and Europe’s reconstruction. “Aid was viewed as a way of supporting ‘developing' country economies to industrialize, attracting large scale investments of capital and technical expertise that would lead to western style industrial development” (Aid Watch, 2011).

As modernization and industrialization was in progress in the 1949 and onward, the “development aid focused on the dominant economic and political theories of the time. US President Harry Truman stated that ‘underdeveloped' countries had to modernize and industrialize if they wanted to tackle poverty and economic problems” (Aid Watch, 2011). Although the modernization and industrialization policies were also favored by the developing countries’ elites, it proved largely disastrous for communities and environments mandated for development largely due to the power imbalance between the IFI’s (International Financial Institutions) and recipient countries in Africa, Asia and the Pacific” (Aid Watch, 2011).

As the process of decolonization happened in the 1950s and 1960s, and when many newly formed independent states faced the lack of industrialization; the notions such as the ‘developing’ and ‘developed’ countries emerged. (Emmerij, 2002) At that time there were debates and the “idea of tackling poverty took hold and the UN and Bretton Woods Institutions (originally formed for post-war reconstruction) became mechanisms for action on development,
although many would argue that the institutionalization of aid programs amounted to neo-colonialism” (Aid Watch, 2011).

A more human approach was considered in the development in 1970s. The World Bank and the UN and many of its family organizations realized that, “whilst the old model of development aid led to some significant economic growth, it had made little impact on social indicators of poverty such as life expectancy, infant mortality rates, income distribution and education levels” (Aid Watch, 2011). Therefore, the development and aid program focused more on social considerations like income distribution, gender equality, education, and issues related to health, rather than only macroeconomic growth. “This is known as the “basic needs approach“ promoted by WB president McNamara, as opposed to the modernization / industrialization / import substitution policies of the 1950s and 1960s and the structural adjustment policies of the 1980s and 1990s” (Kipping, Thesis Supervisor, 2011).

The eight MDGs (Millennium Development Goals) were adopted by the international community in the year 2000.² This was “partly as a response to the failure of explicitly growth-focused aid in alleviating poverty, governments come together to form an international action plan to increase the amount of aid by 2015 to 0.7% of GNI and to target poverty reduction in eight areas” (Aid Watch, 2011). The development cooperation has since continued to change and acknowledged as one of the key factors in advancing life standards in developing world, and global development. “But success has not always been evident: lacks of co-ordination, overly ambitious targets, unrealistic time- and budget constraints and political self-interest have too often prevented aid from being as effective as desired” (DAC, Development Co-operation Directorate, 2011). Therefore, over 100 countries of the developed and developing countries

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² The correspondence data on the eight MDGs can be obtained from Table 1 in the appendix.
together found out why the aid was not generate the development results that they wanted to achieve the MDGs. Therefore, they outlined principles and guidelines for maximizing the impact of aid and to provide more better and effective aid. These guidelines and “principles are rooted in continuous efforts to improve the delivery of aid, marked by three notable events: the High Level Forum on Aid Effectiveness in Rome, Paris and Accra in 2003, 2005 and 2008, respectively” (DAC, Development Co-operation Directorate, 2011).

Today ODA is one of key instruments in supporting developing countries. Every year over hundred billions of dollars are provided by developed countries to developing countries with aim to reduce poverty and to improve ill economies. However a majority of world population still lives in extreme poverty. In the last couple of years, there seems to be a historical boost in the amount of development aid. According to OECD around US$ 119 billion ODA was provided only in 2008, USD 119.6 billion in 2009, and USD 128 billion in 2010 which shows an increase of 6.5 % over 2009. Based on the figures provided in the below graph, the largest donors by volume in 2010 “were the United States, the United Kingdom, France, Germany and Japan. Denmark, Luxembourg, the Netherlands, Norway and Sweden continued to exceed to United Nations ODA target of 0.7% of GNI. The largest increases in real terms in ODA between 2009 and 2010 were recorded by Australia, Belgium, Canada, Japan, Korea, Portugal and the United Kingdom” (OECD, 2011).
Source: OECD 6 April 2011/ (OECD, 2011)
2.3 Paris Declaration on Aid Effectiveness

The month of February in the year 2005 saw the beginning of the changeover phase in the way the donors were channeling international aid. On 2nd March 2005, the international community joined forces at the Paris High Level Forum, a conference on Aid Effectiveness that was hosted by the French government and organized by the OECD. The conference came at a time when the role of aid in promoting development was attracting significance and scrutiny from the various corners of civil society (Organisation for Economic Co-operation and Development, 2008).

The conference mainly discussed the ways in which the money from the donors could be streamlined in harmonizing the work in the developing countries. This was because the aid provided till then was very uncoordinated, unpredictable and untransparent and the aid process was campaigned by the donor priorities and was administered through the donor channels thus making it difficult for the developing countries to take lead (Organisation for Economic Co-operation and Development, 2008).

The countries at the Paris meeting recognized the need for a deeper reform in the implementation of the aid and its true potential in overcoming poverty. And at the Paris meeting, the Paris Declaration on Aid Effectiveness was endorsed by the donors and the developing country governments and the multilateral donor agencies, the regional development banks and the international agencies (Organisation for Economic Co-operation and Development, 2008).

The Paris Declaration represented a broader consensus among international community about how to make aid more effective and the truly symbolized as the valued assistance to developing countries, their goals and the commitment towards the implementation of their national plans using their own planning and implementation systems. The declaration contained
56 partnership commitments for improving aid effectives and it laid down 12 indicators to provide a measurable and evidence-based way to track progress of the implementation and development of such aid based projects. The Declaration further laid down five mutually reinforcing principles that closely guarded the effectiveness of aid. They are:

2.3.1 Ownership

It is essential for the developing countries to take lead in their own development policies and strategies and to manage their own development work for maintaining a sustainable development. The role of donors would be to support developing countries in building up their capacity to exercise the leadership by strengthening the local expertise, institutions and management systems (Organisation for Economic Co-operation and Development, 2008).

2.3.2 Alignment

It was affirmed that the donors would line up their aid in congruence with the priorities outlined in the developing countries’ national development strategies. The donors would use the local institutions and procedures for managing aid in order to build sustainable structures. Further, it was decided that the donors would remain committed to make a better use of developing country procedures for public financial management, accounting, auditing, procurement and monitoring. Whenever and wherever the systems were not strong enough to manage aid effectively, the donors would strengthen this area and would improve the predictability of aid, to halve the amount of aid that is not disbursed in the year for which it is scheduled, and to continue to untie their aid from any obligation that it be spent on donor-country goods and services (Organisation for Economic Co-operation and Development, 2008).
2.3.3 Harmonization

It was committed that the donors would coordinate their development work better amongst themselves for avoiding duplication and the high transaction costs involved with the poor countries. It was decided that the coordination would be done at the country level to ease the strain on recipient governments (Organisation for Economic Co-operation and Development, 2008). A major break trough was seen in the way aid is pooled in support of a particular strategy led by a recipient country instead of investing in multiple individual projects (Organisation for Economic Co-operation and Development, 2008).

2.3.4 Managing for results

The donors would place a higher focus on the relationship between the aid and the impact created via a tangible difference on the lives of poor people. They would link the country programming and resources to the results and align them with effective performance assessment frameworks. And for this to happen, it was decided that better tools and systems must be developed to measure the impact. Also it was decided that the partner countries and the donor agencies would work together in a participatory approach to strengthen country capacities and demand for results-based management (Organisation for Economic Co-operation and Development, 2008).

2.3.5 Mutual Accountability

The modus operandi of being transparent was given high attention and the use of aid funds, the projects, the implementation, the results and the impact of aid were to be made available to the parliaments and to the citizens. Further it was decided that the partner countries and the donors commit to jointly assess the level of mechanisms and the commitments on aid
effectiveness, including the partnership commitments (Organisation for Economic Co-operation and Development, 2008).

Along with these five principles and the participants of the Paris Declaration also agreed on the outlines for measuring the progress through, indicators of development. There are twelve indicators that fall into various categories under the above principles. The indicators are summarized below:

1. Partners have operational development strategies
2. Reliable country systems
3. Aid flows are aligned on national priorities
4. Strengthen capacity by coordinated support
   5a. Use of country public financial management systems
   5b. Use of country procurement systems
5. Strengthen capacity by avoiding parallel implementation structures
6. Aid is more predictable
7. Aid is untied
8. Use of common arrangements or procedures
9. Encourage shared analysis
10. Results-oriented framework
11. Mutual accountability

Source: (Organisation for Economic Co-operation and Development, 2008)

After the Paris Declaration a first round of monitoring was done keeping in account the 12 indicators in 2006 based on the activities undertaken in 2005 in 34 countries. Later, in 2008, a second survey was organized in which 54 developing countries examined the progress against
the targets at country level. The survey covered the Official Development Assistance (ODA) delivered in 2007 which accounted for USD 45 billion. The survey pointed that there were positive results with more than one third of the developing countries that were surveyed had improved their systems for managing public funds and almost 90% of the donor countries had untied their aid and the technical cooperation was in line with the developmental programs of the developing countries (Organisation for Economic Co-operation and Development, 2008).

However, the improvements were not as high as expected and the progress remained too slow. A major setback was that although many countries made significant efforts to strengthen their national systems, donors in many cases were not willing to use them (Organisation for Economic Co-operation and Development, 2008). The problems later multiplied due to the irregularity in disbursing the aid thus making it hard for the government-s to plan ahead. Further there were continuous criticisms from the non-governmental aid organizations. On the whole, the 2008 survey presented, established the fact that there were many areas for improvement and some concrete measures must be taken to follow up with the mechanisms seen in the aid recipient countries. In addition to the 2008 survey, a few NGOs conducted their own evaluations showing that the Declaration is not being implemented as planned (EuroDad, 2008). The Overseas Development Institute (ODI), Britain’s leading independent think-tank viewed that a better monitoring must happen between the Paris principles and the development results at a sector level (Overseas Development Institute, 2008).

2.4 Accra Agenda for Action (Making Aid More Effective Through the Strengthening and Use of National Systems)

The Third High Level Forum on Aid Effectiveness (HLF-3) was held in Accra, Ghana from September 2–4, 2008 with the previous meetings held at Rome and Paris. The main aim of
the HLF-3 was aimed to speed up the progress towards the Millennium Development Goals. Senior ministers from more than 100 countries, representatives of multilateral aid institutions such as the European Commission, the World Bank, the United Nations and members of private foundations and civil society organizations attended the forum (Accra Agenda for Action, 2008).

The Accra meeting was different in a way that the developing countries played a more active role in the preparation and the agenda. The forum like its predecessors took place against a rapidly changing international aid landscape. The preparatory event saw the participation of around 80 developing countries and fifty-four developing countries participated in the OECD’s 2008 Survey of progress against the Paris Declaration targets. Civil society was also involved in discussions of aid effectiveness; as more than 300 civil society groups, including grass roots groups, were involved on a global scale. Donor countries such as China and India have become increasingly important as well as more global programs and funds that channel aid to tackle specific problems, such as the Global Fund to fight AIDS, Tuberculosis and Malaria. Similarly the Private funding sources such as the Bill and Melinda Gates Foundation were also equally active along with the various civil society groups. These actors brought substantial new resources and expertise to the aid process as well as decreased the complexities faced by the developing countries in managing aid. On the whole, the HLF-3 aimed to encourage the formation of broad aid partnerships, based on the principles of the Paris Declaration and that will encompass all players. The Accra Agenda for Action (AAA) was endorsed by ministers on the third day of HLF-3 after a series of nine roundtables and discussions (Accra Agenda for Action, 2008).

*Donors recollect and reaffirm their Paris Declaration commitment to provide 66% of aid as program-based approaches. In addition, donors will aim to channel 50% or*
more of government-to-government assistance through country fiduciary systems, including by increasing the percentage of assistance provided through program-based approaches (OECD, 2008).

After the conference, a ministerial statement was developed with support from a multinational consensus group working under the auspices of the OECD. Attention was focused on stepping up progress towards the commitments outlined in the Paris Declaration. This process was further taken forward by committing signatories to accelerate the pace of change by focusing on key areas that would enable them to meet the 2010 targets, as agreed in Paris. Drawing on the evidence from the evaluations in 2006 and 2008 the surveys on monitoring the Paris Declaration, and in-depth contributions from developing countries, the AAA identified three main areas where progress towards reform was too slow (Accra Agenda for Action, 2008).

1. Country ownership

The Accra Agenda for Action of 2008 pointed that “the developing-country governments need to take stronger leadership of their own development policies and engage further with their parliaments and citizens in shaping them”. (Accra Agenda for Action, 2008) The development partners agreed to channel at least 50% of their aid through the government treasury; and they also agreed that special rules apply for fragile states such as Afghanistan. Donors must commit to support the respecting countries’ by recognizing their priorities, investing in their human resources and institutions, making greater use of their systems to deliver aid, and further increase the predictability of aid flows (Accra Agenda for Action, 2008).

2. Building more effective and inclusive partnerships

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3 The correspondence data on the Paris Declaration 2010 targets can be obtained from Table 3 in the appendix.
The ministerial statement called for an increase in the incorporation of contributions of all development players like the middle-income countries, global funds, the private sector, civil society organizations into more inclusive partnerships. It was aimed to use the same principles and procedures, so that the efforts of all aid providers are coherent for having a greater impact on reducing poverty (Accra Agenda for Action, 2008).

3. Achieving development results—and openly accounting for them

It was laid down in the AAA that a demonstration of impact must be placed more squarely at the heart of efforts to make aid more effective. A strong focus should be put forth into helping developing countries to produce stronger national statistical and information systems to help them better monitor and evaluate impact. The developing countries were entrusted to make their revenues, expenditures, budgets, procurements and audits public. Donors also committed to disclosing regular and timely information on their aid flows. The AAA in its list of recommendations made the signatories who already agreed to the Paris Declaration to be more serious in implementing the action plans. But for the aims to be fulfilled, many donor and recipient governments were to make serious changes (Accra Agenda for Action, 2008).

2.4.1 Important Items of AAA from Afghanistan’s Perspective

Going through the agenda set for Accra and keeping in view the current situation of Afghanistan, one can conclude that there is still more to be done. However, the items set as the agenda for Accra are interrelated to a greater extent. From Afghanistan’s perspective I would suggest that important items are those which can enable country’s system to act as fertile land for bearing the fruit of public revenue and private investment. Following items from Accra agenda can serve the above purpose.
Country’s Ownership over Development:

To make development aid more effective, the ownership of the development should be entrusted to the country. It can help the country strengthen its Public Financial Management System. Moreover, it will help the country build its capacity. The resources should be channeled through the core budget of the country. It will give the control over the available funds to the Government. Covering ownership of its development resources, the government can also increase the local procurement that will further encourage private investment in the country. The economy will grow more quickly due to increased spending by the government.

Building of country’s institution:

To enable any country to take the lead of its development activities, it should be helped to build and strengthen its institutions. Institutions function as a vertebral column for a country to move ahead. The development partners should build the capacity so that it can strengthen the country’s institution. Afghanistan is in a fragile condition which has just emerged from conflicts. Building the institutions will also lead to improving governance.

2.5 Monitoring and Evaluating Paris Declaration

The Paris Declaration resulted in the commitment from the donors and the partner countries to increase the harmonization, alignment and the management of aid for results with a defined set of monitor-able indicators. The Accra agenda that followed built upon those commitments for establishing a firm set up in the program countries.

In these conferences it was decided that the monitoring and evaluation exercise be considered cautiously. It is in fact emphasized by saying that, the Monitoring and Evaluation is a
“distinctive feature of the Paris Declaration, providing a means of making sure that donors and partner countries act upon the commitments they have made” (Organization for Economic Cooperation and Development, 2011).

Such an emphasis on monitoring and evaluating resulted in the execution of three surveys in 2006, 2008 and 2011 to measure the effectiveness of the Paris Declaration. When the government ministries from around the world convened for the Accra agenda for action for the Third High Level Forum on Aid Effectiveness, the question that on top of their minds was whether the Paris Declaration was delivering its objectives on Aid Effectiveness after three years of its adoption (Organisation for Economic Co-operation and Development, 2008).

As a systematic monitoring and independent evaluation was called for in the Paris Declaration and the Accra agenda for Action to check for the implementation of the aid effectiveness commitments. These monitoring and the evaluation exercises are two different exercises that are complimentary in several ways.

The Monitoring Survey aimed to track progresses made against selected indicators (the “how much” or “how far”), the evaluation aimed at assessing the results achieved and the fundamental reasons (the “why?” or “why not”) (Organisation for Economic Co-operation and Development, 2008).

The monitoring surveys conducted earlier give a brief outlook on the evaluation of aid effectiveness. The measurement was seen through the numerical comparisons against the 12 qualitative indicators that were outlined earlier. The surveys however focused on a selection of commitments among the total of 56 that were outlined in the Declaration (Organization for Economic Cooperation and Development, 2011).

The results of the survey were circulated and they formed the base for the other evaluations that followed. It was mentioned in the OECD report released in 2011 that the results
of the 2006 baseline survey were a point of reference the 2008 Phase 1 Evaluation. The Phase 2 Evaluation took the results of the Phase I along with the 2008 survey as input for its own.

The Evaluation component in the Monitoring and Evaluation was a more in-depth exercise, conducted at only two points, in 2007 and 2010. The evaluation aimed to examine and explain the overall performance in implementing the Paris Declaration and AAA commitments in program countries as seen from the donor side. It also aimed to assess the contributions made to improve aid effectiveness to development. Hence, it focused on the understanding of progress and challenges in the implementation of the Paris Declaration, and provided explanations for some of the trends highlighted in the Monitoring Survey (Organisation for Economic Co-operation and Development, 2008).

The International Reference Group that comprised of the representatives of evaluation offices of the participating countries conducted the process. The evaluation was supported by the Paris Declaration Evaluation Secretariat. Communication, coordination and harmonization were present within most of the participating countries that were involved in the monitoring and the evaluation exercise. Though there were only a few participating countries, the countries that were involved in the evaluation have been burdened by the participation in the survey, some positives were given out by them agreeing to the benefits of participating in both complementary processes (Organisation for Economic Co-operation and Development, 2008).

At the Accra High Level Forum the findings of the Phase 1 evaluation and the 2006 monitoring results were reported and discussed. These discussions led to a few changes in the approach to the Aid effectiveness by the donor countries. In the 2011 monitoring Survey which is expected to be published in October 2011, would elaborate on the extent to which the targets agreed in the Paris Declaration have been met and the Phase 2 evaluation is further expected to
focus on the aid effectiveness and development results (Organization for Economic Cooperation and Development, 2011).

The results of the Phase 2 Evaluation and the 2011 Monitoring Survey would be the starting points for the Fourth High Level Forum on Aid Effectiveness that would be held from November 29-December 1, 2011 in Seoul, South Korea. Germany as a donor county and Afghanistan as a recipient country have also participated in all these surveys on monitoring and evaluating the Paris Declaration (Organization for Economic Cooperation and Development, 2011).

2.6 **Afghanistan National Development Strategy (ANDS)**

To qualify as a Heavily Indebted Poor Country (HIPC) eligible for debt relief, a country must produce a Poverty Reduction Strategy Paper (PRSP). The ODA a country receives through international conferences is based on the PRSP. Following two years of preparations, the Afghanistan Government has approved its PRSP, the ANDS in 2008. The ANDS represents the combined effort of the Afghan people and the Afghan Government to address major medium-term development challenges (2008/09-20012/13). The strategy focuses mainly on the five years, but also provides the county’s long-term vision for reaching the MDGs, decreasing poverty and increasing the self-sustainability. The ANDS lays down the most important sector priorities and financing needs for implementation. The total financing needs for the implementation of the ANDS are estimated at US$50.1 billion of which domestic revenues comprise US$6.8 billion. Given this, the required external (donor) funding is US$43.2 billion (DFR-MoF, 2008, p. 2). The chapter 10 of the ANDS outlines the relevance of the 2005 Paris Declaration on Aid Effectiveness as the:
key to enhancing aid effectiveness, in support of the national strategy and national budget. In that regard, it aims to be fully aligned with Annex Two of the Afghanistan Compact. The ANDS will enable international partners to increase alignment of external aid with Afghanistan priorities, systems and procedures, whilst assisting in building core capacities to enhance formulation and execution of the national budget (Afghanistan National Development Strategy, 2008).

Approval of the ANDS represents significant progress toward more efficient donor coordination and aid effectiveness. The Government expects that, in line with the Paris Declaration, the future donor assistance will be aligned with the ANDS priorities. This will improve harmonization and increase mutual (Government/donor) accountability in aid implementation. As mentioned above, the ANDS also sets out the Government Aid Effectiveness policy framework, which captures most important objectives (DFR-MoF, 2008).

According to the latest data, it is estimated that for the period of ANDS implementation (1387-1391) donors will provide about USD 20.9 billion for the implementation of ANDS resulting in extremely high ANDS external financing gap of around USD 22.3 billion (DFR-MoF, 2009, p. 12).

2.7 Aid and Influence

This sub-chapter is for theoretical purpose of the scope and limitations of foreign aid from Brown’s view. In his book ‘Aid and Influence 2006’, Stephan Brown has analyzed the politics of foreign aid and argued that how the developed countries use foreign aid as a tool to influence the developing countries. To strengthen his argument Brown has provided plenty of statistical evidence and has further argues that foreign aid has mostly failed to reduce poverty
Development is essentially a domestic matter. There is ample evidence that development progress depends critically on the way governments manages. The developing countries that are now emerging into middle and upper income status have mostly managed well. They have used facilitators of enterprise and progress. The developing countries that still languish have suffered from poor and inappropriate management (Browne, 2006).

Brown gives a strong statement in this book by saying that those countries that have developed very fast are the ones that have soon learned how to get rid of foreign aid.

As a general rule the well managed developing countries that have performed best in reducing poverty and meeting human needs are those that have learnt soonest to reduce their dependence on aid; up front are the Asian tigers – Singapore, Taiwan and South Korea, then Brazil, Chile, Costa Rica, South Africa and next come the emerging donors such as Malaysia and Thailand (Browne, 2006).

Finally Brown argues that “the less aid you have, the better you do” (Browne, 2006). Looking to the current channels of aid by the donors, the statement given by Brown seems to be a realistic one; because the less aid a country has the more independent the country will be, and will have full flexibility on the allocation of the resources based on the government priorities and needs of its people.
Chapter 3

3. Analysis of the History of Foreign Aid to Afghanistan

Throughout the history of Afghanistan, foreign aid has played an important role in the development of the country. In order to understand the modern and present-day role of foreign aid in Afghanistan, it is vital to realize the history of aid in Afghanistan before, during and after the conflicts. Dealing with the influx of foreign aid in the history of Afghanistan, it can be classified into three important time periods; the Pre-Cold War, Cold War, and Post Cold War Era (1919 to 2001), and the Post 9/11 Era which started in 2001 and continues till present.

3.1 Foreign Aid during the Pre-Cold War, Cold War, and Post-Cold War Era

During the time of King Amanullah Khan, numerous efforts were made to scale up the economic growth in order to modernize and centralize the economy. Such attempts included flaring the revenue sources of the government, such as tax collection. “The United Kingdom has also provided much military aid already in the 19th century, which has certainly helped the Afghan state to expand its revenue, raising capacity vis-à-vis competing sub-national powers” (Kipping, Thesis Supervisor, 2011). The most essentials of “domestic revenue mobilization came from the tax on agricultural products, accounted for 60% of domestic revenues” The export of such agriculture products in particular included the karakul fur (Kipping, Thesis Supervisor, 2011). The amount of revenue from this category declined to 18% in 1953, and 7% in 1958, respectively” (Ministry of Finance, 2010, p. 7). This reduction in the domestic revenues of the government resulted in the fiscal deficit. The government was not able to finance either of the operating or development budgets. In order to come out of the fiscal deficit, the government
sought for financial support from the rich countries of that time. Infrastructure and education were the most important sectors which received most of the foreign support during the period. The “selected results of such assistance can be cited as construction of schools- the most ancient ones, Malalai and Estiqlal, built with the help of the French Government; Germany constructed Amani, and the USA built Habibia High School. Due to lack of information, it is difficult to track the exact volumes of foreign assistance, their type, and the results achieved” (Ministry of Finance, 2010, p. 7).

As the British subsidy program to Afghanistan is considered to be the start of external vaccination to influence and maintain the internal political stability in Afghanistan, but later in the twentieth century the major finance feature for the Afghan state was the competitive interest and support between the United States and Soviet Union. “Afghanistan became a ‘rentier’ state with external finance playing an increasing role in funding domestic expenditure. It is said that “by the 1960s foreign aid accounted for more than 40% of the state budget. Aid enabled a fractious dynasty to maintain its precarious rule, but it also contributed to the creation of new elites who emerged from aid funded schools and the bureaucracy” (Goodhand, 2002, p. 841). This meant that the ruling people of the time that were in power never struggled for a stable economy and revenue generation; nor were they forced to domestic accountability. The “state-led modernisation programmes, funded by foreign aid, contributed to a bifurcation of the Afghan economy and society which Rubin (1995) characterises as society split between a rural, largely subsistence economy and an urban economy dependent on a state that in turn drew most of its income from links to the international state system and market” (Goodhand, 2002, p. 841).

Based on a report published by the MoF of Afghanistan, it is said between 1950s and 1970s, Afghanistan received around 50% of the foreign aid from the USSR, and almost 30% was from
the United States of America. The development assistance from the United States also included the loan commitments of about USD 160 million. Afghanistan also sought assistance from multilateral organizations like the ADB and World Bank. “Foreign assistance mainly focused on infrastructure and agricultural sectors. The major outputs were the Salang Tunnel and 1200 km of paved roads, which played an active role in economic growth” (Ministry of Finance, 2010, p. 7).

In 1970s, Afghanistan confronted severe droughts, shortage of food due to low agricultural production, and a hampered private sector investment due to the centralized economy. This period was marked as the severe economic downturn in the country, because during this period the westerns have also reduced their development aid to Afghanistan. Despite this, the Soviet Union continued and increased its financial support, provided subsidies and other resources to Afghanistan which then leaded the country rely on USSR aid. The “inflow of former USSR assistance to the country got further momentum, which helped to develop infrastructure and boost trade opportunities. In the decade of 1970s, the amount of loan Afghanistan received from the USSR stood at USD 11 billion” Though the fiscal deficit of that time was covered by the huge amount of aid provided by the USSR, this on the other hand had an unfavorable impact on the assistance from other potential western donors and multilateral organizations like the World Bank. Because, after the invasion of Afghanistan by the former Soviet Union, Western donors have abandoned their assistance to the government of the time, and switched to humanitarian and military support to the Mujahedin insurgency after 1978-79 (Ministry of Finance, 2010).

It is understood that throughout the 1980s, “the Soviet Union was the only truly relevant intervening power; other Eastern Bloc states provided no military forces and only limited amounts of civilian aid, political advice, and training for Afghans abroad” (Kipping, 2010). After
the invasion of Afghanistan the cold war was intensified and the West responded to Soviet invasion in 1980s. Soon Western aid started to support Afghan freedom fighters (Mujahidin) across border in Pakistan and also in the form of humanitarian assistance to Afghan refugees. “The delivery of humanitarian aid mirrored to a great extent the system of brokerage that developed around the arms pipeline to resistance groups. In the 1980s refugee and cross-border programs were seen by many as the non-lethal component of aid to Afghan resistance” (Goodhand, 2002, p. 842). The refugee camps in Pakistan became the cultivation source for the Mujahidin. There were seven registered and approved political/military parties of Mujahidin in Pakistan; and all refugees in Pakistan had to register in any of the seven. From this time there emerged hundreds of non-profit organizations (NGOs) which turned to be the main recipients of aid assistance for Afghanistan. Since it was an era of emergency almost all NGOs were involved in emergency response interventions outside Afghanistan in refugee camps in Pakistan and Iran as well as inside Afghanistan. There was not a focus on development activities.

It is understood that after the collapse of the regime of Dr. Najeebullah in 1992, the official inflow of foreign aid to Afghanistan also stopped. This is also marked the end of the Cold War. Based on some sources it is estimated that between the years 1978 and 1992, the government of USA transferred USD 6 billion, which some indicates the figure as high as USD 20 billion “worth of arms, training and funds to prop up the Mujahedin factions. Other Western governments, as well as oil-rich Saudi Arabia, kicked in as much again. Wealthy Arab fanatics, like Osama bin Laden, provided millions more” (Dixon, 2001). According to another source, around USD 40 to 60 billion was disbursed over the years by the CIA (Central Intelligence Agency) of USA and Saudi Arabia during the war against Soviet Union in Afghanistan. All the
funding and support to Afghanistan were channeled through the Inter-Service Intelligence (ISI) of Pakistan (Parenti, 2008).

When Taliban took over in the year 1996, this placed a new obstacle for the international community to continue its assistance in Afghanistan. However, “small scale humanitarian assistance from a few countries via NGOs and UN agencies continued between 1992 and 2000” (Ministry of Finance, 2010, p. 8). According to the OECD statistics, USD 1696.52 million was provided during the period 1992 and 2000 by various donors, NGOs and foundations. Of this amount USD 831.77 million was provided during the civil war time (1992-1996), and the remaining 864.75 million was provided during the Taliban regime of (1996-2000) (Statistics OECD, 2011). While the “primary actors within the aid system were the official aid donors, United Nations agencies, the International Red Cross/Red Crescent Movement and NGOs” (Goodhand, 2002). In December 2001, the Taliban regime was overthrown by the USA and Western powers after the 9/11 attack by the Al-Qaida on the world trade center and pentagon; and a new government of Western-selected Mujahedin was reinstalled.

3.1.1 Conclusion

The history of foreign aid to Afghanistan before the 9/11 period could be summarized that throughout the history, the country was depended on foreign inflows to support its fiscal budget. These inflows came from many different external actors in the forms of cash, goods, kinds and rarely technical assistances. Most of the aid provided by donors was for the purpose of political interest in the country and to strengthen influence in the internal governmental structure of each regime time by time. The governments of the time did not feel the responsibility of transparency and accountability, and could not use the aid money effectively for the economic development of
the country to reach the needy people. Although some humanitarian and development works did happen, but it was always inoperative and ineffective; and not a real stable economic development was made. According to Hanif Atmar and Goodhand the international aid during the late 1980s and early 1990s had been deeply driven by political interest which mainly assisted the Afghan Mujahedeen in their so called holy war against the Soviet army and their Afghan government hosts. This period was widely characterized by widespread corruption and overwhelming amounts of diversion to local Mujahedeen commanders. Aid workers report that agencies were lucky if 50 percent of the assistance provided during this era ever made it into the hands of needy Afghans. Atmar and Goodhand say that one aid agency director recalled the method by which aid was provided during this time: “We started off by carrying bags of dollars to commanders” (Goodhand, 2002).

_A clear lesson from the 1980s in Afghanistan is that the logic of war wins out every time over other concurrent policies, including diplomatic and humanitarian goals. Current policy appears still to be driven by particular list of the US interests with a focus on military objectives. The international agenda for action must therefore go beyond a minimalist position of attempting to ensure the country no longer harbours terrorists_ (Goodhand, 2002, p. 853).

### 3.2 The Post 9/11 Era (2001-Present)

The new era of assistance to Afghanistan started after the day when the USA in close coalition with the Northern Alliance and other militias brought down the Taliban regime in 2001. The post-Taliban or the Post 9/11 era was a “turning point in the economic history of Afghanistan as it was the first time since the end of the Cold War that Afghanistan moved to the
top of the ODA agenda” (Ministry of Finance, 2010). However “after an initial wave of humanitarian assistance, it was only after a delay of several years that civilian aid increase substantially” (Kipping, 2010, p. 5). The international community or the so called Western world for the global security reasons, had acknowledged the demand to help and transform Afghanistan into a stable state. They recognized their past mistakes of withdrawal from substantive engagement in Afghanistan and its resulting long term negative impacts. The “international community therefore re-entered Afghanistan, a country with war-torn infrastructure, feeble economy and weak governance incapable of delivering basic services to its people” (Ministry of Finance, 2010).

After the fall of the Taliban regime in 2001 the international community has committed to support the new democratic regime in Afghanistan by providing substantial aid assistance. Since 2002, Afghanistan has turned out to be one of the major countries in the agenda of development partners, and a biggest recipient of foreign aid. The international community provided aid in different forms such as, grants, loans, kinds, and other supports like technical assistance. Through a series of pledging conference and supplementary means, the international community has pledged USD 90 billion as aid for Afghanistan for the period 2002 - 2013. An official commitment of USD 69 billion has been made to be disbursed between 2002 - 2010. From the committed assistance, until 2010 around USD 57 billion has been actually disbursed (MoF - External Assistance to Afghanistan at a Glance, 2010).
Out of the entire money disbursed, 51% has been disbursed in the security sector only, and the rest of 49% have been spent across different sectors for the reconstruction and development purpose. We can see that a slightly heavier weigh of external aid is carried by security sector compared to all other sectors together (OECD - UNAMA - UKaid, 2010).

**ODA Disbursements for Reconstruction and Development:** During the period 2002-2010, the wholesome commitment for the development and reconstruction purposes reaches at USD 37.6, of which, so far only USD 28.1 billion has been disbursed. In the development sectors, infrastructure is considered as the largest sector where most of the foreign aid is invested amounting to USD 6.02 billion; followed by agriculture & rural development USD 5.44 billion, governance USD 4.67 billion, social protection USD 3.40 billion, health USD 1.75 billion, education USD 1.72 billion, private sector USD 1.13 billion. The USD 4.00 billion is not
classified, as there is no specific information about source of spending for this portion (MoF -
External Assistance to Afghanistan at a Glance, 2010).

![Figure 11: External Assistance for Reconstruction and Development (2002-2010)](image)

Source: (MoF - External Assistance to Afghanistan at a Glance, 2010)

**Annual Breakdown:** It is meaningful to look at the breakdown of the total amount of aid
committed and disbursed during the period 2002 to 2010. The below figure produced by the aid
management directorate of the MoF shows that taking the size of the total development
assistance to Afghanistan, the development cooperation between Afghanistan and the
development partners over the past decade. The USD 3.2 billion commitment in 2002 has
increased to USD 16.8 billion in 2010. This shows the increase in the total volume over the
years. “The reason for a two-fold rise in the amount of assistance in 2007 was due to an increase
in the volume of assistance from the United States (2007 Supplementary Budget)” (MoF -
External Assistance to Afghanistan at a Glance, 2010). The figure shows that the development
assistance over the years 2008 and 2009 has retained at similar levels. However, “2010 marked the peak of assistance committed to funding development and security related activities in Afghanistan” (MoF - External Assistance to Afghanistan at a Glance, 2010). Even though, there is a big jump seen in the total volume of commitments from the development partners, the actual total amount that has been disbursed amounts only “USD 10.9 billion, indicating a 65% execution rate of the total commitment in that particular year” (MoF - External Assistance to Afghanistan at a Glance, 2010).

**Figure 2: Classification of ODA by Year (2002-2010)**

![Classification of ODA by Year (2002-2010)](chart.png)

Source: AMD (MoF - External Assistance to Afghanistan at a Glance, 2010)

**Classification of donors in terms of ODA disbursements:** It is obvious that not all the commitments made by the donor community have been converted into a 100% disbursement. Most of the donors consider the security as a reason for not disbursing all their commitments. The donor community claims that the implementations of their projects are threatened by the
security situation in Afghanistan, the multiyear projection, and administrative hurdles of the Afghan and donor governments (such as tax clearance, land property issues, tendering procedures etc). But this could not be accepted as a sole excuse, because if we look at the below graph of MoF, it shows that donors like Japan, Netherlands, Canada, and the United Kingdom has fully disbursed their commitments made for the year 2002 – 2010. The biggest donor in terms of disbursement to date is USA, followed by Japan, European Union (EU), and UK; while India and Germany are at the lowest among the top-ten in terms of disbursements so far\(^4\) (MoF - External Assistance to Afghanistan at a Glance, 2010).

![Classification of ODA by Donor (2002-2010 – in US$ billions)](image)

(\textit{MoF - External Assistance to Afghanistan at a Glance, 2010}).

\textbf{On-budget versus Off-budget Ratio of Support:} The donors have used different modalities for the delivery of aid for instance; through implementing agencies, INGOs and

\(^4\) There is discrepancy between the OECD and MoF figures. The OECD statistics only for the years (2002-2009) show a total of USD 1315.66 million for Germany and USD 1835.24 million for UK. This difference in the figures of MoF and OECD applies to all other donors. (Statistics OECD, 2011)
private companies which spend funds externally with no control from government; and channeling through government treasury which is planned and controlled by the Government. For both security and development, the bulk of assistance disbursed by the international community in Afghanistan has been through two main channels of delivery.

1. **On-budget:** Based on the analysis done by the MoF of Afghanistan, only 18% of the donor money has been provided through the core-budget of the Government. This figure is the percentage of all amount disbursed during the period 2002 to 2010 (MoF - External Assistance to Afghanistan at a Glance, 2010). External funds that go to the Trust Funds like the ARTF, LOTFA, and APRTF are also considered as on-budget. Trust Funds are explained in more details below.

2. **Off-budget:** The remaining 82% of the assistance to Afghanistan has been implemented and managed by the development partners themselves. This portion of the assistance is implemented either by the programs and projects of donors implementing agencies themselves, or parallel to the programs run by the Government (MoF - External Assistance to Afghanistan at a Glance, 2010).

The government of Afghanistan is not capable of realizing most of its plans, strategies, and development priorities due to the lack of access to the desired funds, and other reasons like insecurity, lack of capacity and etc. This percentage of the total amount spent is very low compare to the commitments made by the development partners in the Paris Declaration and

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5 "On-budget support consists of assistance that either has been given to the Government as bilateral support, or provided through the Trust Funds. Most such on-budget programs are Government designed, implemented and monitored" (MoF - External Assistance to Afghanistan at a Glance, 2010).

6 "Off-budget support consists of such assistance that by-passes the Government’s Public Finances Management System with little or no Government involvement in planning, implementation or monitoring of the programs/projects” (MoF - External Assistance to Afghanistan at a Glance, 2010).
AAA; where development partners agreed to channel at least 50% of their aid through the

**Grants and loan proportion of ODA:** The amount of funds received by Afghanistan over
the past decades had been disbursed either in the form of grant or loan from bilateral and
multilateral donors. The total amount of “loan committed between 1966 and 2008 stands at USD
13 billion, of which USD 11 billion or the largest proportion has been provided by former Soviet
Union during the Soviet times in Afghanistan” (Ministry of Finance, 2010). Since 2002, although
larger amount of the total ODA to Afghanistan has been provided in grants, a portion of it has
been provided in the loan form, which sums around USD 1.5 billion. Afghanistan must repay the
amount of loan in the future to the donor community that provided credits to the country.

According to another source, under the debt relieve initiative program of the Heavily
Indebted Poor Countries (HIPC), Afghanistan received debt relief of USD 10.5 billion. For
Afghanistan, the total debt to be paid back amounts to USD 2.3 billion. “It is envisaged that
Afghanistan will receive a sum of USD 225 million as debt relief under the HIPC over the next
20 years” (MoF - External Assistance to Afghanistan at a Glance, 2010). According to Poole, “in
January 2010 Afghanistan’s Paris Club creditors announced a 100% cancellation of the country’s
USD 1.6 billion in debt liabilities under the Enhanced Heavily Indebted Poor Countries Initiative
(HIPC), in recognition of economic progress and reforms made by the Government of
Afghanistan. This represents around 96% of Afghanistan’s total external debts and will reduce
Afghanistan’s debt burden to 10% of GDP” (Poole, 2011).

**Aid to GDP ratio:** Based on the report published by the MoF, the “aid to GDP ratio is 71%.
Close to 100% of the development budget and approximately 45% of the operating (recurrent)
The budget is financed by donor assistance” (MoF - External Assistance to Afghanistan at a Glance, 2010). This quantitative analysis clearly points out that Afghanistan is among the most heavily aid dependent countries in the globe. In order to get out of the aid dependency, the country needs to improve the effective implementation of the foreign aid provided to Afghanistan, improved business and private sector development, attract foreign investors, and improve trade opportunities with the region and the global markets.

**Financial co-ordination mechanisms (Trust Funds):** In the early phase of reconstruction, the donor community jointly with the government of Afghanistan established some financial co-ordination mechanisms; such as the Law and Order Trust Fund (LOTFA), Afghanistan Reconstruction Trust Funds (ARTF), Counter Narcotics Trust Funds (CNTF), and the newly established Afghanistan Peace and Re-integration Trust Funds (APRTFs) in 2010. Because of the inability to disburse its funds accurately, the CNTF was closed down in December 2008 (CNTF, 2009). The trust funds are operated as external fund-channeling mechanisms and are well handled, which “give donors certain guarantees of transparency and accountability, while enabling the government to make decisions about fund allocations. Typically, the trust funds are a tool to direct non-allocated funds to priorities jointly identified by government, the donors and the fund managers” (OECD - UNAMA - UKaid, 2010). The below figure in the graph shows that funding delivery to the trust funds has been increased over the years USD 191 million in 2001 to USD 1,164 million in 2010.

Though the amount of Trust Funds increased, what happens in practice is that the donor community follows regional and sector-wise preferences; by this means country’s needs-based resource allocations are undermined. To a certain extent this is the case with the ARTF where the location of donors’ military presence or the Provincial Reconstruction Teams (PRTs) is linked to
their preferences and sector of engagement. Such fund allocations through pooled funding channels have been more effective, “with a significant delegation of authority to the trust fund managers. However, this does not in itself guarantee the effective use of the financial contribution, as contractual modalities and disbursement mechanisms of MDTFs can be complex and slow” (OECD - UNAMA - UKaid, 2010). The trust fund scheme “have reached various degrees of maturity and success, but are an essential element of effective aid, particularly since the largest share of the ODA is not channeled through government systems” (OECD - UNAMA - UKaid, 2010).

**Summary of Donors’ Contribution to Trust Funds (2002-2010)**

![Summary of Donors’ Contribution to Trust Funds (2002-2010)](image)

Source: (MoF - External Assistance to Afghanistan at a Glance, 2010)

**Practical Coordination Mechanisms in Afghanistan:** Afghanistan is considered to be not an easy environment for donor coordination. Currently there are several co-ordination mechanisms...

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7 Definition: In the context of international engagement, co-ordination consists in actions and mechanisms by which national and international stakeholders in the reconstruction processes engage with each other to strengthen development effectiveness, and ensure an optimum sectoral and geographical coverage of services.
mechanisms in place in Afghanistan. Surrounded by the Afghan Development Forum, the initial Afghan Assistance Co-ordination Authority and consultative groups set up in the wake of the Bonn conference; the Peer Review Mechanism which is been tested within two line ministries of Agriculture Livelihood and Livestock, and Ministry of Public Health; civil-military co-ordination platforms; and the technical donor co-ordination groups association in line ministries. The “co-ordination mechanisms are notably successful when there is a clear strategy for a specific sector, supported consistently by a limited number of those donors involved, or where there is strong ministry leadership with a clear vision on both the objectives and the means to achieve them” (OECD - UNAMA - UKaid, 2010). For the information of the reader, some of the existing donor co-ordination mechanisms are briefly explained below.

1. **Joint Co-ordination and Monitoring Body (JCMB):** For the purpose of preparation and implementation of the ANDS, The JCMB is considered to be the most important co-ordination structure beside the three Standing Committees of Security, Economic and Social Development, and Governance. JCMB has co-ordination bodies (Intern-Ministerial Committees) that group ministries according to the needs of the ANDS sectors.

2. **Peer Review Mechanism for Donor Co-ordination:** This co-ordination mechanism is currently implemented to the Ministry of Agriculture and Ministry of Public Health. It is aimed to optimize funding, and improve the overall program plans by aligning the donor programs with the ANDS priorities of the government.

Through these mechanisms, roles and functions of all stakeholders should be determined; funds can be pooled or channeled according to priorities identified across policy communities; and outcomes and achievements are documented and shared. (OECD - UNAMA - UKaid, 2010)
3. **High Level Committee on Aid Effectiveness:** This mechanism is lead by MoF and Ministry of Economy for the purpose of ANDS implementation, donor harmonization and reporting, and other issues related to aid effectiveness.

4. **Sectoral Technical Co-ordination:** It is often within ministries between donors and ministry managers. “Successful co-ordination, such as that in the health sector, shows its potential benefits when properly structured. Comparative advantages and the institutional experience of donors must be evaluated with reference to the defined national priorities (and not just the volume of the allocated budget)” (OECD - UNAMA - UKaid, 2010).

5. **Intra-Military Coordination:** This co-ordination mechanism is currently addressed by NATO. The purpose is to define rules, and specify the functions of the PRTs, and work jointly with the local authorities and local powers on the development projects, to increase the effectiveness of aid provided for the military and development purpose.

Source: Monitoring the Principles for Good International Engagement in Fragile States and Situations (OECD - UNAMA - UKaid, 2010)
Chapter 4

4.1 The Development Policy of Germany

As Dirk Niebel, the Federal Minister for Economic Cooperation and Development of Germany said that:

*Development cooperation is about giving people the freedom to shape their own lives and to build a bright future for their children, by making their own decisions and taking responsibility for them, without suffering material hardship. We want to help make globalization an opportunity for all* (BMZ, 2011).

Though the development aid given to the developing countries is aimed to benefit recipients; the development cooperation benefits the donors as well. This fact is very true in case of Germany as one of the well-known exporting countries. Germany’s “development cooperation creates 140,000 jobs in Germany alone. By far the greatest proportion of Germany’s development budget goes into investments. Every euro spent on development in our partner countries adds Euro 1.8 to German export revenues” (BMZ, 2011, p. 2). The partner countries benefit from the German skills, ideas and advanced technologies and products; which in turn for German businesses generates new markets. If implemented effectively, the development cooperation makes better-off both sides. This helps the developing economies to have a prosperous economy and sustainable development; it promotes and ensures new markets for the businesses of the donors for the future. This at the same time helps reduce poverty in developing countries; because the new businesses will create jobs for the people in those markets which enable them to generate income and decrease poverty.
In the year 2010, on behalf of the Government of Germany, “BMZ has a spending envelope of 6.07 billion Euros. That is 4.4 percent more than in 2009” (BMZ, 2011). In the Monterrey Conference in March 2002, Germany together with other 21 developed countries\(^8\) in a joint European schedule “agreed to make ‘concrete efforts’ towards the goal of each giving 0.7 percent of their national income as aid to the poorest countries” (poverty.com, 2010). To reach the goal, Germany in April 2005 has established a schedule to provide 0.7 percent of its GDP as a development aid to poor countries (poverty.com, 2010). Despite this, the figures for Germany show that it “currently stands at a little under 0.4 percent” (BMZ, 2011). The German government is still committed to its agreement, and wishes to reach the goal by increasing its development spending to the poor countries.

### 4.1.1 Structure of the German Cooperation

On behalf of Germany, “every two years, the BMZ meets for negotiations with the government of each partner country” (BMZ, 2011, p. 9). In case of Afghanistan, it is very unusual where the two sides meet for negotiations on annual basis. The two sides sit together to discuss the cooperation programs for the coming two years. “The aim of the negotiations is to agree on the priority areas of our cooperation and on the volume of Financial Cooperation, which can take the form of loans for development projects, and Technical Cooperation, for example practical support from German experts” (BMZ, 2011, p. 9). Once agreed on the projects, the BMZ request Germany’s implementing agencies like the GIZ and KfW to carry out the programs and projects in the partner country. These are Germany’s government-owned implementing agencies, and they work on behalf of Germany together with the partners in their respective countries.

\(^8\) The correspondence data on the list of member countries and their current status to their commitment can be obtained from Table 2 in the appendix.
4.1.2 Aims of German Development Policy

Today’s development cooperation is not only about providing charity to the poor, it aims to “help people to help themselves, enabling them to lift themselves out of poverty on the strength of their own efforts” (BMZ, 2011, p. 3).

The German development cooperation views the “development policy as a form of practical human rights policy” (BMZ, 2010). Therefore, it perceives human rights as basis for its development cooperation and key to sustainable poverty reduction. The German development policy is aid to “create a world worth living in, a world based on the principle of justice and solidarity—both for ourselves and our children” (BMZ, 2011).

Germany together with other 189 countries adopted the Millennium Declaration in 2000. In this declaration, the member countries agreed on eight Millennium Development Goals\(^9\) to be achieved by 2015. “The international community pledged that it would, by 2015, halve the proportion of people living in extreme poverty, give all children the opportunity of a primary education, significantly reduce maternal and child mortality, fight infections diseases and protect the environment” (BMZ, 2011, p. 3).

4.1.3 Focal Area of German Development Policy

The German development cooperation focuses on the following six priority areas.

*Poverty reduction:* It is the goal of Germany development policy together with other international community members to achieve their commitments to MDGs of 2000. For

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\(^9\) The correspondence data on the eight MDGs can be obtained from Table 1 in the appendix.
Germany a sustainable poverty reduction is primary to all other goals; above all to deal with educational poverty.

Reducing structural deficits: Germany promotes good governance in countries with which it has development cooperation engagements. The core of the “German development policy is to achieve greater policy coherence for development within the German government, the European and international organizations” (BMZ, 2011, p. 6).

Improving effectiveness: Effectiveness is fundamental issue for any development cooperation. It is vital that “every euro of taxpayers’ money should be made to work as hard as possible to fight poverty” (BMZ, 2011, p. 7). As an important part of its development policy, Germany strives to make the development cooperation still more effective. Germany together with the international community signed the Paris Declaration on Aid Effeteness in 2005. “In the Paris Declaration of 2005 and the Accra Action Plan of 2008 on enhancing the effectiveness of international development cooperation, the international community established guidelines to make development cooperation more effective” (BMZ, 2011, p. 13).

Connecting business and industry: The “German government promotes corporate social responsibility and development partnerships with the private sector” (BMZ, 2011, p. 7). Private sector businesses play a key role in the sustainable economic development which then leads to sustainable development. Development cooperation turns to be more effective when there are more businesses and progressive growth in the economy.

Strengthening civil society: Civil society plays an important part in the development process of a society. Germany encourages the engagement of civil society in the development both in Germany in the partner countries.
Enhancing visibility: Like every other policy, the BMZ needs the hold of the public for a successful development policy. BMZ make efforts to inform, educate, and create public awareness about the objectives and issues concerned the development policy. (BMZ, 2011)
4.2 Analysis of Afghan-German Political Relations & Development Cooperation in a Historical Perspective

Afghan-German political relations can be traced back to more than a century by now. "What is hardly known is that there are over a hundred years of good relations between both countries" (Maas, as cited in Luscher, 2001).

4.2.1 From Afghanistan’s Independence in 1919 to 1929

The German-Afghan political relations started with the defeat of British army in the third Anglo-Afghan War of 1919, which brought about the independence of Afghanistan from the British Empire. This was the time when Russia was preparing to test new ways of integrating Asian colonies. Afghanistan’s foreign policy was also driven by these political changes in the region. Afghanistan had to find developed countries with which it could maintain economic and technical cooperation in order to carry on with its modernization agenda. Afghanistan could neither benefit from Russia nor from England in this regard, however Germany proved to be an important European partner in pursuit of its modernization goals. In March 1921, the first ever Afghan delegation arrived in Berlin to discuss the establishment of mutual diplomatic relations. As a result the first German embassy was inaugurated in Kabul in 192310. As part of the technical and developmental cooperation, a group of 40 young Afghans were given scholarships to study in Germany in 1922. By 1924 there were 72 German experts stationed in Afghanistan, constituting the largest European community in Afghanistan at that time. In the same year, a secondary school named Naderia High School was constructed with the financial

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10 Though as a result of discussion with my second supervisor, Martin Kipping, “The first German delegation arrived in Kabul already during the First World War (the German attempted to make the Afghan attack British India – a proposal that the king fortunately denied)”, however, I could not find any other source online.
and technical help of Germany, where German language was taught as a second language. The contribution of this high school to the political, social and economical spheres of the country cannot be underestimated as majority of children of the social elite class was either studying in this school or another school called Amani High School\textsuperscript{11} supported by France. Since 1930s until the communist Coup of 1978, there has not been a single government in which at least one minister had not graduated from one of these schools or had not been to Germany for studies. In 1926, the Afghan-German Friendship Treaty was signed between the parties. The German experts were actively involved in the areas such as road construction, establishment of radio and telephone systems, and electricity. King Amanullah Khan’s European tour of 1927 further strengthened the friendly relationship between Germany and Afghanistan (Hamed, 1999, pp. 1-4).

4.2.2 Afghan-German Relations in 1930s

The role of Germany as an important partner in the modernization process of Afghanistan remained unchanged. However, unlike 1920s, when Great Britain was considered the most threatening enemy, in the 1930s the Soviet Union popped up to the top of the list. To carry on with its modernization agenda Afghanistan needed a peaceful environment, though Afghanistan was concerned about maintaining friendly relations with Germany when Hitler came into power. Since Nazis were inclined to pursue quite an aggressive expansionary agenda which would potentially disrupt the world peace. However, at that time the former Soviet Union was the primary threat to the stability of Afghanistan during 1930s. So in order to defend itself from the potential threat of former Soviet Union, Germany was considered an important strategic ally for Afghanistan (Hamed, 1999). “In 1935 Kabul decided to rely primarily on Germany for economic

\textsuperscript{11} The name of the school was later on changed to Lycée Isteqlal in 1931
and military modernization. As a consequence, by 1936..., Germany was beginning to increase commercial transactions and weapons deliveries in Afghanistan” (Stone, 1999).

Germany also had in mind the potential supportive role of Afghanistan in launching a major attack against India at the brink of World War II. “The Organization provided plans and supervision for major infrastructure projects such as roads, bridges, airfields, and industrial plants while German officers undertook a program designed to equip and train the Afghan armed forces to Western standards” (Stone, 1999). The then Afghan ambassador to Germany Ghulam Siddique was living in exile in Germany, who travelled with Peter Kleist; an officer at the foreign office of Germany in efforts to resume the exiled King Amanullah Khan back on the throne of Afghanistan.

According to Hamed, below are some of the major projects which where implemented in during 1930s with the technical and financial support of Germany

1. Establishment of Mechanic School in 1937 to produce Afghan Engineers.

2. Construction of Puli Khumri power plant in the northern Afghanistan which was completed in in five years, i.e., from 1936 to 1941.

3. In 1938, the German airline Lufthansa started flights between Kabul and Berlin.

4. In 1939 a loan agreement was signed between Germany and Afghanistan under which Germany provided 50 million Deutsche Mark (the then German currency unit) to finance projects such as sugar mills, cement factories, coal mines exploration and extraction, construction of power stations, etc (Hamed, 1999, p. 2).
4.2.3 Afghan-German Relations from 1945 to 1980

At the end of World War II, the world politics transformed from traditional military cooperation to economic and technical cooperation among the states. Fortunately Afghanistan remained on the same track of relations with the newly founded Federal Republic of Germany as it was before with the German Reich. “Although Kabul sought German assistance in part because Berlin offered such favorable terms (...), the Afghan government also saw Germany as a useful and unthreatening counter-weight to its Soviet and British neighbors” (Stone, 1999).

Ghulam Muhammad Farhad, the then mayor of Kabul was among the first who established trade and economical relations with the Federal Republic of Germany’s corporations in the late 1940s. German experts were debriefed on economic opportunities and situations in Afghanistan and consequently several of the German industry representatives including a delegation from Siemens corporation were invited to Afghanistan. In 1952 the Cultural Office of Afghanistan was inaugurated in Munich city of Germany. It was followed by the establishment of a permanant Afghan Trade and Industry Mission in cities of Munich and Hamburg. That is why today Hamburg is home to the largest Afghan community in Germany, and serving as the center for Afghanistan’s exports and imports to Europe and United States (Hamed, 1999).

In 1958 an agreement was signed between the Afghanistan and Federal Republic of Germany on Economic and Technical Cooperation that was later on amended several times, but basically served as a principal framework for cooperations between the two countries. Germany’s developmental cooperation with Afghanistan including both grants and loans (with a very low interest rates and other favorable terms such longer grace and maturity period) amounted to 400 million Deutsche Mark up to the year 1979. The Federal Republic of Germany
was the third largest donor country behind the former Soviet Union and the United States. However, in terms of conditionalities, Germany’s assistance was tied with softer terms and longer maturity periods as compared to the Soviet Union’s and the United States’ assistance. The German assistance was targeted towards projects such as: educational enhancement, provision of health care facilities, trade enhancement, agriculture, geological surveys etc. “In the 60s and 70s, Afghanistan was a key aspect of West German development aid. Aid efforts are still fondly remembered today, as is evident from the technical centers (Technikum) in Paktia and Kandahar” (Nachtwei, 2011).

The modernization process of Afghanistan though remained intact, but only limited to urban areas under the control of the government after Soviet Union’s backed communist coup of 1978 and a subsequent invasion of Soviet Union in December of 1979. Such geo-political situations could not allow the traditional Afghan-German cooperation to continue thereafter, as it was envisaged.

4.2.4 Afghan-German Relations after Soviet Invasion of Afghanistan in 1979

The communist coup of 1978 and the subsequent invasion of Afghanistan by Soviet Union in 1979, practically left no ground for continuation of the same traditional policy of Afghan government with Germany as policies were virtually dictated from Moscow to Kabul. Kabul remained to not more than a symbolic capital of Afghanistan. Therefore, Germany could not continue to be an effective partner in the modernization of Afghanistan, as the last West German consultant left Afghanistan in 1980. However, German humanitarian assistance continued in Afghanistan even in 1980s. “In 1980, German World Hunger Aid
(Welthungerhilfe)\textsuperscript{12} began working in Afghanistan; in 1989, Karla Schefter, a surgical nurse from Dortmund, arrived and built a hospital complex in Wardak province near Kabul” (Nachtwei, 2011).

### 4.2.5 Afghan-German Cooperation After 9/11

The Afghan-German political relations were resumed after the ouster of the Taliban regime, the German diplomatic mission was re-opened in December 2001. “The German Embassy maintains close contact with political representatives in Afghanistan and supervises German humanitarian aid and reconstruction projects” (Federal Foreign Office of Germany, 2011). Germany is not only involved in development cooperation, but its troops are also part of the International Security Assistance Forces (ISAF) in Afghanistan. There are about 5,000 German soldiers deployed in Afghanistan (BMZ, 2011).

Keeping the historical tradition of being a friendly country to Afghanistan, Germany once again showed a keen interest in political and reconstruction efforts of Afghanistan after the incidents of September 11, 2001. Germany hosted the first ever UN meeting on Afghanistan after the defeat of Taliban regime, at Petersberg mansion of Bonn in December 2001. The outcomes of the meeting was the establishment of an interim government and setup of an initial framework for the future development and restoration endeavours in Afghanistan by the international community. This initial meeting was followed by another meeting in the same place in December 2002, aiming at integrating the suggestions and recommendations of Afghanistan’s civil society organizations into the agenda of Afghanistan’s future pathway.

\textsuperscript{12} The organization’s formal English translated name is, ‘German Agro-Action’
towards reconstruction, stability and reconstruction (German Embassy Kabul, 2010; Federal Foreign Office of Germany, 2011).

Another important donor conference was convened in Berlin, Germany during March/April, 2004, in which donor community made a commitment of 8.2 billion\textsuperscript{13}. This was followed by another conference, Co-chaired by Germany in May, 2004 in Doha, Qatar. The conference was aimed at strengthening the cross-border policing among the neighbouring states of Afghanistan, in which representatives of neighbouring and several other countries participated (Federal Foreign Office of Germany, 2011). Germany announced in the past three conferences of Tokyo, Berlin and London held during the years 2002, 2004 and 2006 respectively an yearly contribution of 80 million euro towards development assistance until 2010. However, Germany’s development assistance kept an upward trend, as during 2007 it jumped from the previous 80 million euro of yearly contribution to 115 million euros, followed by another 80 million euro increase, which in total becomes 195 million in 2008 (BMZ, 2010).

The London conference held in 2010 experienced an even further stronger commitment of Germany towards rebuilding of Afghanistan, where Germany raised its contribution to more than double i.e., from a previous 195 million euros in 2008 to 430 million euro for the period of 2010 to 2013. In this way, the overall German commitment for Afghanistan’s rebuilding from the establishment of interim government in 2002 to 2010 reaches to around 1.4 billion euro (BMZ, 2011). In principle the German development cooperation well reflects the priorities areas set forth in Afghanistan National Development Strategy. According to Herrmann & Reinhard (2010, p. 5):

\textsuperscript{13} There is a considerable amount of discrepancy in the commitment figure given by Afghanistan Ministry of Finance (i.e., USD 5.6 billion) and the figure given in the Berlin Declaration document (i.e., USD 8.2).
The German and Afghan governments have agreed to concentrate on the following priority areas in response to the country's diverse problems:

- Economic development
- Energy supply
- Water
- Education
- Good governance, focusing on the rule of law, gender and regional development
- Development-oriented emergency and transitional aid

Germany is responsible for the military command of northern Afghanistan, for the ISAF troops in the north. Germany has interest to concentrate more in the regions where they are present militarily. The German Provincial Reconstruction Teams (PRTs) are also engaged in the civil reconstructions. Germany has got two PRTs in Kunduz, one in Faiz Abad – Badakhshan, and a small Provincial Advisory Team (PAT) in Takhar. Germany is also running two big projects in Balkh, the provincial hospital project, and the airport project. This is the main region where Germany is leading, but Germany’s achievements in the country especially the FFO’s work is not limited to these provinces. FFO is also heavily involved in the capital city of Kabul, like the training of the judges, the police academy. FFO also runs a school project in Khost and Uruzgan, and a technical school project in Kandahar. Ghazni is chosen as the 2013 cultural Islamic capital of the world, Germany supports a project to rehabilitate the old city walls of Ghazni. (Interviews, 2011)
Below is a brief description of the projects implemented in the category some of the thematic areas (six areas as discussed above) of Germany’s development assistance for Afghanistan (Ministry of Finance - Afghan German Negotiations, 2011).

Projects Financed by German Development Assistance to Afghanistan: Table

<table>
<thead>
<tr>
<th>Project</th>
<th>Title</th>
<th>Committed (USD)</th>
<th>Disbursed (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFG/0524402</td>
<td>North East Power System / construction of 2 substations in Mazar and Pul-i-Khumri</td>
<td>36798320</td>
<td>35098245</td>
</tr>
<tr>
<td>AFG/0847201</td>
<td>Building and developing the Police Force</td>
<td>59842296</td>
<td>25527480</td>
</tr>
<tr>
<td>AFG/0314701</td>
<td>Emergency Rehabilitation of Kabul 15/0.4kV Kabul city network and Substations</td>
<td>21099680</td>
<td>23331838</td>
</tr>
<tr>
<td>AFG/0048901</td>
<td>Rehabilitation of water supply</td>
<td>15100000</td>
<td>15100000</td>
</tr>
<tr>
<td>AFG/0800001</td>
<td>Water Supply Kabul II</td>
<td>37328748</td>
<td>13719726</td>
</tr>
<tr>
<td>AFG/0342604</td>
<td>KfW/MOH Basic Health Services project</td>
<td>12000000</td>
<td>10200000</td>
</tr>
<tr>
<td>AFG/0799901</td>
<td>Water Supply Heart</td>
<td>6955917</td>
<td>9704318</td>
</tr>
<tr>
<td>AFG/0848901</td>
<td>Preparation of presidential and parliamentary elections in 2009 and 2010</td>
<td>10118686</td>
<td>9672450</td>
</tr>
<tr>
<td>AFG/0364803</td>
<td>School Construction and Rehabilitation</td>
<td>13200000</td>
<td>9000000</td>
</tr>
<tr>
<td>AFG/0341801</td>
<td>National Disaster Management and Response</td>
<td>8961000</td>
<td>8961000</td>
</tr>
<tr>
<td>AFG/0389801</td>
<td>Water Supply Kabul</td>
<td>10998000</td>
<td>8369400</td>
</tr>
<tr>
<td>AFG/0800201</td>
<td>Basic Education (Technical School Kabul)</td>
<td>30948611</td>
<td>7799610</td>
</tr>
<tr>
<td>AFG/0847301</td>
<td>Refugees and Returnees, Humanitarian Mine Clearing</td>
<td>9150000</td>
<td>7575472</td>
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<tr>
<td>AFG/0048801</td>
<td>School rehabilitation</td>
<td>7550000</td>
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<tr>
<td>AFG/0048801</td>
<td>Rehabilitation of hospitals</td>
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</tr>
<tr>
<td>AFG/0050001</td>
<td>Reconstruction of Afghan Police Force</td>
<td>8000000</td>
<td>7000000</td>
</tr>
<tr>
<td>AFG/0315601</td>
<td>Reconstruction of Sarobi and Mahipar Hydro Power Plants</td>
<td>20453804</td>
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<td>AFG/0363201</td>
<td>Mine And UXO Clearance</td>
<td>1270000</td>
<td>5600000</td>
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<tr>
<td>AFG/0059901</td>
<td>Animal disease investigation and control with emphasis on local capacity for diagnosis and response to Transboundary animal disease and for re-establishing food hygiene inspection (meat and milk)</td>
<td>5381600</td>
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</tr>
<tr>
<td>AFG/0049001</td>
<td>Rehabilitation of power supply</td>
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<td>5000000</td>
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<tr>
<td>AFG/0389701</td>
<td>Road Repair Kabul (120 kms)</td>
<td>5500000</td>
<td>4884000</td>
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4.3 The Afghan-German Annual Negotiations

The formal process of the German-Afghan development cooperation starts with the Government negotiations. As part of the German development policy, the two sides meet for development negotiations on annual basis. Germany as a donor, and Afghanistan as a recipient country sits together to discuss the multi-annual projects and programs. The BMZ represents the Federal Republic of Germany, and the MoF represents the Islamic Republic of Afghanistan at the negotiation table by the two sides. The negotiations takes place either in Kabul or in Berlin and agree on the projects under the certain reserved amount of funds approved by the German government. The negotiation is aimed to agree on the priority areas, projects and programs between the two sides. Once agreed on the projects, the BMZ hire Germany’s implementing agencies like the GIZ and KfW to carry out the programs and projects in Afghanistan. These are Germany’s government-owned implementing agencies, and they work on behalf of Germany together with the partners in Afghanistan and other countries. (Interviews. KfW, 2011)

The German implementing agencies like the GIZ & KfW are then mandated to prepare those projects. But in reality they try to prepare the projects before the agreement by feasibility studies and then they send the appraisal report to the BMZ; after that they are authorized to conclude financing agreements with the MoF and line ministries. The tendering process starts after that and the contracts are awarded to the implementers such as the supply contracts and service contracts; once the contracts are awarded, the projects start. (Interviews. KfW, 2011)

The recently held Government negotiations on development cooperation between Afghanistan and Germany held on 22 February 2011 in Kabul. The Afghan delegation was headed by Dr. Mustafa Mastoor, Deputy Minister of Finance and head of the Afghan delegation
during the negotiations. The German delegation was headed by Dr. Ulla Mikota, Director Development in the ISAF Regional Command North, and German Representative for Development in Afghanistan. (Sulaiman, 2011) The two sides agreed on the projects in the existing priority areas for bilateral development cooperation between Afghanistan and Germany. The priority areas of German engagement in Afghanistan are, Good Governance and trust funds, Energy Supply (with a focus on renewable energies), Water Sector (focus on urban water and – increasingly – sanitation), Sustainable Economic Development, and Education (basic and vocational).

The two sides agreed to remain focussed on the North of Afghanistan (Germany’s geographical preference in Afghanistan since 2003/2004), while Germany will continue to provide support at national level for policy and institutional development and by funding the trust funds and other national priority programs in Afghanistan through multi-donor mechanisms. (Sulaiman, 2011) During this year’s negotiations, the BMZ made the commitment for the year 2011 in two instalments; “the BMZ initially pledged Euros 133 million to the Afghan government for 2011, to be used for further reconstruction and development measures” (Ministry of Finance - Afghan German Negotions, 2011). German Development Minister Niebel said that the reason behind “dividing this year’s commitment into two installments is that we want to create additional incentives for the Afghan government to accelerate its reform efforts with regard to improving governance, combating corruption and protecting human rights, especially the rights of women” (Ministry of Finance - Afghan German Negotions, 2011). On March 31st, 2011, a summary record of the negotiations between the two governments on the bilateral Afghan-German development cooperation was also signed by Dirk Niebel, the German Development Minister, and Dr. Omar Zakhilwal, Finance Minister of Afghanistan.
The Afghan Finance Minister notices the bilateral negations as an effective process and key towards Afghan ownership and alignment with ANDS priorities. He said that “we were very pleased to see that the German contribution reflects Afghan priorities. We hope that this is the beginning of a trend that will lead to more Afghan ownership of development assistance, and the transition of support to the national budget as our capacity for sound and transparent management grows” (Ministry of Finance - Afghan German Negotions, 2011).

4.3.1 Federal Foreign Office's Programs in Afghanistan, and its Role in the Negotiations

The FFO does not negotiate its funds with the Government of Afghanistan. It is the BMZ only that negotiates with the Afghan partner. The FFO is primarily responsible for the foreign policy not for development. FFO’s mission is for short and medium term, not long term development cooperation like the BMZ. However, there is some co-ordination and consultation directly with the line ministries, and other Afghan institutions in Afghanistan. (Interviews, 2011)

The main focus of the FFO in Afghanistan is how to stabilize the country and the means for achieving the goals are defined and limited. The horizon of the FFO is very much short-term, because FFO has more or less guaranteed funds only until 2013. Everything FFO does is to be sustainable, but the efforts of FFO are not guaranteed for longer period. The FFO is in Afghanistan to achieve its political goals and get out of civilian assistance in the country once the goals are achieved. (Interviews, 2011)

Germany at the beginning of 2010 in the London conference has doubled its civil funds pledge for Afghanistan amounting to Euro 430 in total. Of the total amount, Euro 250 is for BMZ and Euro 180 for FFO per year. The FFO funds for Afghanistan’s security amounts about Euros 70 to 80 million per year. The biggest single budget purpose is financing police, the
security sector reform, training, infrastructure, and the LOTFA funds. (Interviews, 2011) The FFO spends its budget in Afghanistan through many different channels; the infrastructure work for the police or procurement is through GIZ, the training is in kind which is done by the German police officers coming to Afghanistan, and the cash to LOTFA trust funds which is for the salaries of the police. The biggest implementing partners of the FFO are GIZ and KfW which spends almost Euro 100 million of its budgets.

FFO is also supporting the Northern Afghanistan Stabilization Program, an Afghan Border Stabilization Program with Tajikistan and Pakistan. It also supports the law and order, justice sector, efforts to strengthen the justice and legal system in Afghanistan through a very renowned German legal institute called Max Planck Institute; and International Legal Foundation (ILF) which trains criminal lawyers in Afghanistan. FFO has signed a Memorandum of Understand (MoU) with the supreme court of Afghanistan to train judges of the High Court, Supreme Court, and print handbooks in Pashto and Dari for the participants.

Afghanistan has the criminal law, civil law, but there is no public law which deals with the relationships between the state and citizen; FFO is now working on a new project to introduce a public law. (Interviews, 2011)

The FFO provides a financial support of Euro 50 million over the five years to Afghan Peace and Reconciliation Program (APRP)\(^4\), which equals to Euro 10 million per year. The APRP is an Afghan program established last year, and Germany supports this through the UNDP window. Another example of the FFO engagement is in the project of the High Peace Council which is lead by Prof. Rabani is part of the APRP that is aimed at the reintegration of Taliban fighters back into society.

\(^4\) The APRP is a program newly designed to assist bring about peace in Afghanistan through reintegrating Taliban fighters back into society.
and other insurgents into the Afghan society. FFO implements project through different ways, either direct implementation, through NGOs, German implementing agencies like KfW and GIZ, and DAAD. (Interviews, 2011)

The German Government is hosting another foreign minister’s conference on Afghanistan. The conference is supposed to take place in the month of December this year. The main agenda of the conference chosen so far is focused on the following three items:

1. Long term engagement after 2014: This agenda will ask the international community to continue supporting the Government of Afghanistan even after the 2014 when the international troops get out of the country.

2. Political process – reconciliation: The current process of reconciliation with the Taliban is supported by the government of Afghanistan, and the international community, while the Taliban’s official position remains negative. This agenda will find ways and discuss conditions for the reconciliation with the Taliban. The newly established sanction regimes of ‘Listing’ and ‘De-Listing’ by the Security Council against Taliban are a good progress towards reconciliation process.

3. Transition process: This item of the agenda is aimed at the slow and gradual withdrawal of the international troops from Afghanistan over the next 3 to 4 years.

The FFO work in Afghanistan goes hands and hands with the transition process. This means the transformation of the security responsibility to the Afghans, which already started in 7 provinces and districts namely Panjshir, Mazar-e-Sharif in Balkh province, Bamiyan Province, Lashkar Gah city in Helmand province, and Mehtarlam city in Laghman province.
4.3.2 German Implementing Agencies (GIZ, KfW), their Programs and role in the Negotiations

4.3.2.1 KfW Development Bank

As a major implementer to the German projects and programs in Afghanistan, although not a direct participant, the KfW do take part in the negotiation process. Where the KfW sees the opportunity to start a project, they prepare project proposals internally to the BMZ. Before the project is been agreed upon the KfW provides a brief summary (Kurzstellungnsahme) of what is planned and what is expected. We then send the appraisal reports to the BMZ and start negotiations. There are several internal ministerial documents and meetings of the BMZ before planning the negotiation, and when planning the negotiation, the KfW is asked to take part in all those documents because they have all the expertise and knowledge about what is happening. The KfW is involved in all these process. (Interviews. KfW, 2011)

The development work of KfW in Afghanistan is divided into the five focal areas, energy, water supply, economic infrastructure and support development, education, and governance. The KfW is working in parallel and in close cooperation with the GIZ in supporting the education programs, like teacher training centers in the five Northern Provinces of Afghanistan (Kunduz, Balkh, Badakhshan, Takhar, and Baghlan) are being financed by KfW. Also some pilot-schools where the teachers are being trained and the GIZ is then working on the curriculum and providing the practical training. Such projects are being implemented in close cooperation by the two organizations. (Interviews. KfW, 2011)

KfW implements financial cooperation, such as the capital investment and accompanying technical assistance; while the GIZ provides technical cooperation through their junior and senior
experts. (Uwe Ohls - KfW, 2009) All German projects are believed to be aligned with the Afghan Government’s ANDS development strategy.

The budget of KfW to Afghanistan has increased gradually over the years. It started working in Afghanistan in 2002, but the first regular negations with the government of Afghanistan were only held in 2005. At that time the budget was just about 30 to 35 million Euros per year, but it increased over the years from Euro 30 to 60, 70, and 90 millions. The budget was doubled and reached to Euro 170 millions in 2010, and is planned to continue the commitment of Euro 170 to Euro 180 million Euros each year until 2013. Most of the KfW projects in Afghanistan are funded by the BMZ. In addition to that last year in 2010 the KfW signed an agreement of Euro 92 million with the FFO (German Federal Foreign Office), but the funds from the FFO is not so steady as compare to the one of the BMZ. (Interviews. KfW, 2011)

As far as the approaches towards the aid effectiveness are concerned, the institutional setup of the KfW is difficult to compare with the setup of the OECD guidelines. This refers more to the donor coordination at government level. That coordination is primarily done in Afghanistan, because all the development partners are there with their respective offices and embassies. On the German side, the BMZ and the German embassy in Kabul take part in those meetings, and when needed the KfW participates. (Interviews. KfW, 2011) The monthly meeting in Kabul between the donors in one sector of focal area (such as water sector) is a struggle towards aid coordination and effectiveness. All donors are trying to bring all bilateral programs under the framework of the National Priority Programs. There are around 32 national priority programs created in all development areas, such as basic education and technical vocational education. The line ministries are formulating objectives for the sector and formulating main areas of engagement, meanwhile the donor community is trying to be in line with their projects.
All KfW projects are coordinated with all the concerned line ministries, discussed beforehand and agreed on all the specific project details. All the reports of the consultants to the ministries have to be signed or at least read by the line ministries. When signing the consulting agreements, the officials of the respective line ministry are fully involved in the process. This is almost a semi-core budget support, and the German approach differs from the one USAID when it comes to the harmonization and aid effectiveness.

KfW provides 25% of its funds through the ARTF trust funds. “If we say that we contribute 25% to the core budget, it does not mean that the rest of the 75% are spent completely outside the ministerial framework. It is coordinated with all the concerned line ministries, discussed beforehand and agrees on all the specific project details” (Interviews, Project Manager, 2011).

The KfW is trying to coordinate their work with other donors for better and effective aid considering the OECD guidelines. One of the joint works of Germany’s KfW work with other donors is the project of NEPS (North Eastern Power System). It is concerned with the import of electricity from Uzbekistan and later also from Tajikistan into the country. NEPS is “an Afghan Government initiative and a multi-donor project consisting of generation, transmission, and distribution, which will combine imported power with domestically generated power for a least cost electrical power solution for Afghanistan” (Electricity Beyond Borders, 2006). Through the project of NEPS, the “estimated cost of import power: $.04-.05/ kW-HR” while the current unsustainable power generated through diesel costs “$.25-.30/kWh” “Hydro power maybe cheaper, but needs large investment & takes long time to develop” (Electricity Beyond Borders, 2006).
The NEPS project is funded by Germany’s KfW together with USAID, India, ADB, and World Bank. It consists of different components and various projects. Germany’s KfW started working on the substations in Pul-e-khumri and Mazar-e-sharif, and now they are working Aibak and Khulm. KfW also worked on some parts of the project in Kabul. The project is coordinated under the leadership of Ministry of Economy and the committee is called ICE (Inter-Ministerial Committee for Energy). (Interviews. KfW, 2011)

Source: (Electricity Beyond Borders, 2006)
TVET (Technical - Vocational Education and Training) in Afghanistan is another example of KfW’s joint coordinated project work with other development partners. The overall goal of the program is “to provide relevant and quality technical and vocational educational opportunities for post basic education students and all young and unemployed male and female Afghans in order to equip them with marketable skills that meet the needs of the labor market” (CESP, 2010). The KfW started to work with the ministry of education’s TVET program last year, and they agreed upon building two agricultural schools. To be aligned with other donors
and harmonize the work and procedures, KfW agreed to use the already existed model of the ministry of education. (Interviews, Project Manager, 2011) “There has been a huge expansion in school enrollment in recent years from 900,000 in 2002 to almost 7 million in 2010. Many of these students who graduate from secondary schools will have to be provided with post-secondary education” (CESP, 2010).

DEG (Deutsche Entwicklungsgesellschaft - The German Investment and Development Company) is the subsidiary of the KfW which also has projects in Afghanistan. It finances and implements the projects of the German development cooperation in various countries together with the KfW. DEG aims to “promotes the private sector as the engine for sustainable growth,” and “has been financing private-sector investment in developing countries since 1962. By promoting private sector development, DEG contributes to the creation of jobs and income and to better living conditions in the partner countries” (DEG, 2011). The DEG in Afghanistan finances the private sector development. For example they finance the sugar factory in Baghlan and the SME (Small and Medium-Size Enterprises) credit guarantee fund.

4.3.2.2 GIZ

The GIZ is also not involved in the direct negotiation with the Afghan Government. The BMZ and Government of Afghanistan negotiate on annual basis to agree on areas of engagement, and projects for the coming year. Once agreed bilaterally by the two governments, the GIZ receives the corresponding requests from this commission for implementing the projects together with the Afghan partner. The role of GIZ is to give very limited consulting advices to BMZ on what kind of project should be done, but the final decision is made by the two countries based on their economic and political agendas. (Interviews A., 2011)
The main clients of the GIZ are BMZ, FFO, and Federal Ministry of Defense (BMVg). The GIZ is also receiving funds from other governments like the Dutch, Belgium, and Canadian governments. The sector-wise budget allocation is done by the BMZ during the negotiation with the government of Afghanistan. Before the BMZ transfers the funds to the GIZ, the GIZ discuss the projects with the Afghan partner ministries about the objectives and desired achievements of the projects.

The GIZ is working in close coordination with the KfW in most of our sectors of engagement. The GIZ is working on improving the services and capacity, and the KfW is doing the construction and infrastructure. The German political foundations are working on the policy and political support, they have a limited coordination with the GIZ, and for example when it comes to improving the capacity of a ministry, the GIZ helps them. (Interviews A., 2011)

The selection of experts for Afghanistan depends on the kind of experts. Experts to manage a project are hired by the GIZ, and the integrated experts are hired by the Afghan partners. These integrated experts are selected from the local and international markets that are paid by the government and are provided with a top up by GIZ. This is a particular instrument provided by a GIZ subsidiary – Center for International Migration (CIM). If complained by the Afghan partners, the experts are changed by the GIZ which often did not happen in the past.

GIZ in Afghanistan is working in the area of water, education, economic development, energy supply, good governance, and other development oriented emergency and transitional aid. (GIZ, 2010)
In the governance sector there are projects on the promotion of Rule of Law, aimed at promoting legal awareness, and supporting the legal rights on different groups; project working in the field of gender mainstreaming, supporting the civil society in question related to gender.

GIZ works on a project that provides drinking water by supporting different Afghan institutions in rural areas. This is to help how to run kinds of services that are sustainable, so that they can provide good services and drinking water to the people and the people will pay for the good services provided to them in the long run.

Electrification: The electrification program is focused in the rural areas. This program is aimed at bringing electricity to the rural areas in the north area of Afghanistan. These activities are not only aimed at the social use of electricity like TV, radio, and lighting of the houses, but also aimed at fostering economic development. Small businesses use the electricity to improve the services of the goods they produce with the higher value in the market. For example in the past, people producing the walnuts in Badakhshan were only able to sell the walnuts itself, but now because of the support of electricity they are able to process the walnut into oil which has a higher value in the market. This improvement and additional value stays within the region. Other example could be the lapis lazuli extracted in Badakhshan, and sent out to Pakistan for further processing of cutting, polishing and designing. This is done by the Afghan craftsmen themselves now due the availability of electricity. (Interviews A., 2011)

Sustainable business development: The project of electricity is aligned with the sustainable business development project of the GIZ in Afghanistan. This program is focused on providing and building up capacities to support local businesses. The education sector is considered to be a very important sector for the good future of Afghanistan to have well educated
people. The GIZ is supporting schools and training centers which are training and educating teachers. The GIZ is also working in the vocational training centers, supports the vocational schools and building up new curricular for new jobs which are also demanded from the business. In the rural area development sector, the GIZ is working on projects aimed at improving living conditions of people in the rural areas. (Interviews A., 2011) (GiZ, 2010)
4.4 German Aid and Paris Declaration in Afghanistan

As explained in chapter two, the “Paris Declaration broke new ground for achieving greater aid effectiveness on the basis of shared principles and measurable time-bound indicators” (Roberts, 2009). The Paris Declaration has spelled out some indicators used by the donor countries and recipients to measure the progress made in achieving the Paris Declaration five key principles.

The analysis in this sub-chapter will respond to the question: To what extent does the German development assistance to Afghanistan fits the OECD Paris Declaration guidelines? ‘What are the main factors that hinder or support the implementation of the OECD Paris Declaration Principles by the German development cooperation in Afghanistan? What measures are taken by the two countries for aid effectiveness, and what measures should be taken by the two sides to improve aid delivery to Afghanistan? These are all the questions this sub-chapter will answer through the research work; and interviews conducted with the officials of the German ministries and implementing agencies (namely, BMZ, FFO, GIZ, and KfW); and officials of MoF of Afghanistan.

4.4.1 Germany’ Stand in Meeting the Targets of Paris Declaration in Afghanistan

There “The quantitative assessment by the OECD of the progress towards 2010 reveals considerable delays of partner countries. Germany, while having advanced and partly being ahead of the donor average, has yet to make further efforts to achieve the targets by 2010” (German Development Institute - d'i'e, 2008).

Below is a quantitative representation of Germany’s stand in meeting the Paris Declaration targets in Afghanistan. The figures in the table corresponds the results of the 2006
and 2008 OECD monitoring survey on Afghanistan. The baseline data shows that Germany like all other donors is dawdled behind in all the targets (comparing the 2005 basis and 2010 targets). Partly the reason behind this is because of some targets indicators for the 2010 are based on the 2005 progress. The 2005 Monitoring Survey result showed very less progress in meeting the commitments of the Paris Declaration; therefore targets for 2010 were made based on the low performance of the donors in 2005 Survey.

Germany in comparison to 2005 baseline has made a good progress in 2007 in almost all indicators, except indicator 3. There has been a great progress of 90% in indicator 10a, 68% in indicator 7, 49% in indicator 9, and 43% to indicator 5a in 2007. If the sample of 2007 was used as basis, the progress might have been less noticeable in relationship to 2010 targets. If we look at the indicators 8, and 10a, Germany has by 2007 already overachieved the targets of 2010 in Afghanistan, whereas the other targets have not yet been met completely. The biggest gaps still to be covered refers to indicators number 10b, 4 and so on. There is no quantitative data available on Germany’s stand in Afghanistan with reference to indicator 1, 2, 11, and 12. Overall

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15 Indicator 3 focuses on percent of aid flows to the government sector that is reported on partners’ national budgets (acknowledgement of partner countries’ responsibility and priorities) (German Development Institute - d’i’e, 2008).

16 Indicator 10b focuses on percent of joint field missions (reduction of costs), that how many donor missions are co-ordinated? (German Development Institute - d’i’e, 2008).

17 Indicator 7 examines percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks (improving the predictability of aid) (German Development Institute - d’i’e, 2008).

18 Indicator 9 evaluates the percent of aid provided as programme-based approaches reducing fragmentation due to many individual projects (German Development Institute - d’i’e, 2008).

19 Indicator 5a monitors the percent of aid flows that use public financial management systems in partner countries (strengthening of partner countries’ responsibility and structures) (German Development Institute - d’i’e, 2008).

20 Percent of aid (excluding technical cooperation) that is untied (untying aid increases the value for money) (German Development Institute - d’i’e, 2008).
Germany has performed well compared to other donors in 2007, but yet to achieve the 2010 targets; it needs further efforts to meet the targets in Afghanistan.

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<tr>
<td>1</td>
<td>Operational development strategies - Do countries have operational development strategies?</td>
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<td>..</td>
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<td>..</td>
<td>..</td>
<td>75</td>
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<tr>
<td>2</td>
<td>Percent of aid flows to the government sector that is reported on partners’ national budgets (acknowledgement of partner countries’ responsibility and priorities)</td>
<td>67</td>
<td>81%</td>
<td>76</td>
<td>79%</td>
<td>-2</td>
<td>50% of countries improve score</td>
</tr>
<tr>
<td>3</td>
<td>Percent of reliable public financial management (PFM) systems</td>
<td>0</td>
<td>0%</td>
<td>3</td>
<td>17%</td>
<td>17+</td>
<td>50</td>
</tr>
<tr>
<td>4</td>
<td>Percent of aid flows that use public financial management systems in partner countries (strengthening of partner countries’ responsibility and structures)</td>
<td>22</td>
<td>9%</td>
<td>39.33</td>
<td>52%</td>
<td>43+</td>
<td>80</td>
</tr>
<tr>
<td>5a</td>
<td>Percent of aid flows that use partner country procurement systems (see 5a)</td>
<td>22</td>
<td>27%</td>
<td>52</td>
<td>69%</td>
<td>42+</td>
<td>80</td>
</tr>
<tr>
<td>5b</td>
<td>Percent of aid flows that use partner country procurement systems</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>611</td>
</tr>
<tr>
<td>6</td>
<td>Number of parallel project implementation units in the partner countries surveyed (in parentheses: on average per country)</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>611</td>
</tr>
<tr>
<td>7</td>
<td>Percent of aid disbursed according to agreed schedules in annual or multi-year frameworks (improving the predictability of aid)</td>
<td>0</td>
<td>0%</td>
<td>56</td>
<td>68%</td>
<td>68+</td>
<td>71</td>
</tr>
<tr>
<td>8</td>
<td>Percent of aid (excluding technical cooperation) that is untied (untying aid increases the value for money)</td>
<td>0</td>
<td>0%</td>
<td>39</td>
<td>49%</td>
<td>49+</td>
<td>66</td>
</tr>
<tr>
<td>9</td>
<td>How many donor missions are co-ordinated? Percent of joint field missions (reduction of costs)</td>
<td>1</td>
<td>10%</td>
<td>10</td>
<td>100%</td>
<td>90+</td>
<td>40</td>
</tr>
<tr>
<td>10a</td>
<td>How much country analysis is co-ordinated? Percent of joint country analytic work (see 10a)</td>
<td>0</td>
<td>0%</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>66</td>
</tr>
<tr>
<td>11</td>
<td>Sound frameworks to monitor results - Do countries have results-based monitoring frameworks?</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>35</td>
</tr>
<tr>
<td>12</td>
<td>Mechanisms for mutual accountability - Do countries have reviews of mutual accountability?</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>100</td>
</tr>
</tbody>
</table>

*All percentages are based on the aggregate volume of German aid to Afghanistan (weighted averages)

**The targets apply either to all donors (including Germany) or to Germany only, depending on the individual baseline value of 2005 (indicated by G in parentheses)

***The percentage figures for the indicator 8 are based on Germany’s overall stand for all countries (there is no specific data on Afghanistan)

4.4.2 Key Factors that Hinder or Support the German Development Cooperation in Implementing the Principles of Paris Declaration in Afghanistan

As a result of the research work, literature reviews, and interviews, this part of the thesis lays out some factors that are inherent in the Paris Declaration Principles and its Monitoring Indicators, in the German aid system, and in the Afghan system that both support and hinder the implementation of Paris Declaration in Afghanistan. While there are many supporting for the implementation of the Paris Declaration, this sub-chapter mainly focuses on the challenges and factors that complicate the realization of Paris Declaration by development partners, in particular the German development cooperation in Afghanistan.

Before discussing the problems to meet the Paris Declaration Principles by Germany and other donors, this part will discuss the general limitations and challenges of Paris Declaration in Afghanistan.

4.4.2.1 Limitations and Challenges of Paris Declaration:

a. **Paris Declaration indicators:** The indicators used in the monitoring of Paris Declaration are bureaucratic and do not deliberate the political dimensions of ODA. “Although intended to enhance aid effectiveness, the Declaration may have precipitated a shift in focus from the impact of aid on development to the technical aspects of managing aid“ (Roberts, 2009).

b. **Complex process and mechanisms:** Due to the complex process and mechanisms of aid delivery, the development efforts towards improving the lives of people are troubled. In Afghanistan, it is recognized that “there has been a focus on the process rather than the outcomes” While the Paris Declaration is intended to increase the effectiveness of ODA,
“the Declaration may have precipitated a shift in focus from the impact of aid on development to the technical aspects of managing aid” (Roberts, 2009).

c. Political complexity of aid: There is increasing international recognition about the present form of the Paris Declaration that it “is technocratic and fails to address the political complexities of aid or to demand partnerships between donor and recipient governments that are more than bureaucratic relationships” (Roberts, 2009). This is believed to be one of the core reasons behind the failure of effective implementation of the declaration in Afghanistan.

The discussion of the key factors that hinders to meet the Paris Declaration Principles by Germany and other donors is presented as following.

4.4.2.2 Complexity in the German aid system

Although the aid system of the German development cooperation at overall has some institutional strengths like “its representation at the cabinet level, its own ministry (BMZ), experienced implementing organizations, flexible implementation (once contracts have been signed between BMZ and the implementing agencies) and sound technical expertise” (DAC - OECD, 2010), the German aid system is still considered to be complex and fragmented at various Development Assistance Committee (DAC) peer reviews of 2001, 2005, and 2010. The below chart is a graphical representation of the current German aid system in Afghanistan and other countries.
The German institutional system of aid delivery is fragmented because of many reasons. First, it consumes much of the BMZ time to co-ordinate with its various agencies and ministries; second it is mysterious to its partners; third “it runs the risk of being supply-driven and with limited contestability; and is weighted far too heavily towards the implementing agencies at the expense of BMZ capacity, risking ineffective oversight” (DAC - OECD, 2010).

Although there is some progress and reform happened in the government’s institutional system, as the three German technical co-operation agencies (i.e. German international capacity building agency InWent, DED-German Development Service, and GTZ) have merged since this year; the German aid system is still perceived complex due to its numerous governmental bodies and implementing organizations involved in the same business. There are several German governing bodies working in Afghanistan, i.e. the Federal Foreign Office (FFO), Federal Ministry for Economic Cooperation and Development (BMZ), Federal Ministry of Defense
(BMVg), and the German Federal Ministry of the Interior (BMI). These governing bodies further use implementing agencies (e.g. GIZ, KfW, DEG (Deutsche Investitions- und Entwicklungsgesellschaft - The German Investment and Development Company), and other German political foundations and NGOs) for implementing their projects. These all governing bodies and implementing agencies and foundations are somehow involved in implementing the political and economic agendas of Germany in Afghanistan. This makes the aid system very complicated and complex to manage both for the German government especially BMZ, Afghan government, and other development partners in the country. The “transaction costs for Germany’s development partners of having to deal with so many different government departments and agencies are very high” (DAC - OECD, 2010). The inconsistency between the partial decentralization of the German implementing agencies KfW, DEG and GIZ, and the centralized oversight function of BMZ could be another problem in the German aid system that causes confusion among Germany’s partner. Other reason could be that it difficult to harmonize their work not only with other donors in Afghanistan, but also within and among the German ministries and implementing agencies, which hinders the effective implementation of development projects, such challenges in the aid system of Germany undermines the harmonization, mutual accountability, and alignment principles of Paris Declaration in Afghanistan.

There is institutional separation of German technical and German financial co-operation when it comes to the implementation of projects in Afghanistan. Although working for the same governing body, the two big German organizations (KfW and GIZ) are separated in their functions, KfW providing financial co-operation and GIZ serves as a technical cooperation agency. This makes it complex and the connections between BMZ and many implementers of its
development co-operation aggravate the issue of capacity, and limit the overall impact of the German aid in Afghanistan. This complexity is assumed as it:

(i) constrains the ministry’s capacity for independent supervision and monitoring of the implementing agencies and their work; (ii) creates some potential conflicts of interest within the development co-operation system; (iii) limits the range of advice and expertise available to the German and partner governments; and (iv) diverts BMZ’s attention from, and actually prevents, streamlined engagement with partners. (DAC - OECD, 2010)

Although the two organizations claim that they work in close cooperation and achieve their goals in Afghanistan as one entity; it is not easy to effectively harmonize the work between these organizations of different nature with unlike goals and setup, to the one of the BMZ and partner country Afghanistan. However Germany in comparison to other donors in Afghanistan is relatively doing well in realizing the declaration, yet such a complex system might also hamper and be a reason behind implementation of BMZ’s plans of 100% achieving the targets of Paris declaration indicators in Afghanistan.

This is understood that a large proportion of the German technical co-operation provided by GIZ in Afghanistan is actually tied and provided in kind. As shown in quantitatively in indicator 3 Monitoring Survey of 2008, Germany did not do well in 2007 (76%) compare to 2005 (81%), while the target settled for 2010 is 85% to be achieved. This hinders indicator 3, on the percent of coordinated technical assistance provided by Germany consistent with the Afghan national development strategy.

When it comes to the negotiations with Afghan-German development cooperation, on country level there is not enough representation. BMZ is doing its best in representing Germany
at the negotiation table, but this is still not enough as the full amount of German development aid to Afghanistan is not negotiated, and the FFO does not negotiate its funds. If we look at this technically, it shows insufficient delegation of decision making authority at national level. This in fact also hampers the Afghan ownership of the FFO funds and its alignment with the ANDS priorities.

If we look at this from the transparency and accountability perspective, according to the officials of the MoF, the German assistance through BMZ is considered transparent, and BMZ and government do take the accountability. However, the assistance from FFO are neither transparent and nor accountable. This also hinders the implementation of the mutual accountability principle of the Paris declaration.

4.4.2.3 Weak National Development Policy

The ANDS strategy which is considered as a ground for long term future progress of the aid effectiveness indicators, and provide optimism in Afghanistan; there has been substantial fall on some indicators. There has been a lack of government capacity, and increasing doubts from the donor community about the country Public Financial Management (PFM) and procurement Systems. “Clearly, building capacity through technical co-operation that is aligned with country needs is a priority. The fact that a large amount of aid is still channeled through the external budget is another indication of the weakness in government institutions and of donor failure to align initiatives with national development priorities” (Roberts, 2009).

Another challenging issue to the national ownership of ODA is because of the external influences in designing the ANDS. To meet the HIPC deadline, it was believed that the timescale was brought ahead for producing the ANDS, and very rushed at the last stages. The Paris
Declaration on Aid Effectiveness make efforts to “supporting national development plans but at the same time donors required recipient countries to produce a PRSP. Consequently, donors themselves can have a significant influence on the creation of these national plans which can undermine or limit national ownership” (Roberts, 2009).

The assessment done by the World Bank “conducted as part of its work on results-based National Development Strategies” for the Survey of 2008, shows that the national development strategy of Afghanistan scores a rating of ‘D’ (the lowest); which “indicates that there is considerable room for progress” (OECD - Monitoring Survey on Afghanistan, 2008). The costing of ANDS, “re-prioritization and integration of all the ANDS sector strategies; mobilizing the donor assistance…for implementing the ANDS; and strengthening the government’s absorption capacity” are the challenges to strengthening the country’s ownership. (OECD - Monitoring Survey on Afghanistan, 2008)

Germans claims that their assistance is fully aligned with ANDS. However, the point is how reliable ANDS is? ANDS do not have specific projects with its concept papers or the logic that why those projects under the ANDS are considered priority or it’s just a random list developed by few foreigner and with low capacity of national staff. Besides that, the project costing is a complete mess and there is no rational behind the costing of ANDS. The objective of the ANDS is very broad, the specific projects are not very well define so it give a sound basis to donors to consider all their projects aligned as they are aligned with the objective and they cannot be aligned with the specific projects as they have problem in costing and rational for the selection of those projects. (Sulaiman, Aid Coordination Officer - Focal Point to German Development Cooperation at MoF, 2011)
4.4.2.4 Largely off-budget support

The Paris Declaration states that recipient countries should “exercise effective leadership over their development policies, and strategies and co-ordinate development action” (OECD - Paris Declaration on Aid Effectiveness, 2005). This supports the national government and its population to own the development process, and make sure that the needs of the poor people are met by the development interventions. According to the report from the 2008 Survey on Monitoring the Paris Declaration, Afghanistan and donors were bad and scored ‘low’ in implementing the ownership principle. This is because the majority of the ODA at present is not incorporated with the government’s core budget, and “large external budget is not concretely linked to implementing the Afghanistan National Development Strategy (ANDS). This makes it difficult for Afghan government to take the effective leadership of its development policies”. Like all other donors, Germany is also rated ‘low’ with reference to the indicator 1 (ownership principle) of monitoring the Paris declaration in Afghanistan. In an interview with the MoF official, The German assistance to Afghanistan is channeled through external budget and never comes through Government treasury, which obviously shows no ownership to the Government. However, Germany does channel some amount through multilateral trust funds like ARTF and supports programs like National Solidarity Programs (NSP), and Education Quality Improvement Program (EQUIP). As per an interview with the BMZ, KfW, and MoF officials, the trust fund support amounts to roughly 25% of German development funds to Afghanistan.

The German Embassy in Kabul claims that all the projects are selected in the negotiation and Afghan Government has 100% ownership. However, from the Afghan Government perspective, German Government runs their own development programs which are influenced by their political agenda. They usually consider those projects which have ultimate impact over their
presence in Afghanistan but those projects have high importance to Government of Afghanistan as well. (Sulaiman, Aid Coordination Officer - Focal Point to German Development Cooperation at MoF, 2011)

While KfW’s Katharina Heiss stated, that BMZ and the embassy agree on the OECD guidelines and other processes like the Kabul process, where development partners re-committed the AAA commitments of contributing 50% percent of the ODA through on-budget. This commitment is aligned with the OECD and Paris Declaration guidelines. The BMZ in coordination with its implementing agencies are finding ways on how to achieve the target of 50%. To reach the target, KfW channels 25% of its funds through the ARTF (Afghanistan Reconstruction and Trust Funds) which is also considered to be core budget. This is one of the modalities used by the KfW on how to be aligned with the OECD guidelines. (Interviews, Project Manager, 2011) Although Germany claims that 25% of the aid is channeled through the Government, still 75% of aid is channeled through off-budget which undermines the ownership and alignment principles of Paris Declaration, and AAA.

The monthly meeting in Kabul between the donors in one sector of focal area is another struggle towards aid coordination and effectiveness. All donors are trying to bring all bilateral programs under the framework of the National Priority Programs. There are around 32 national priority programs created in all development areas, such as basic education and technical vocational education. The line ministries are formulating objectives for the sector and formulating main areas of engagement, meanwhile the donor community is trying to be in line with their projects. (Interviews, Project Manager, 2011)
4.4.2.5 Capacity

To achieve the ownership of ODA, the national government should have capacity. The lack of capacity is one of the major challenges and limitations facing Afghanistan in retaining the ownership. Without effective capacity in the governmental institutions, Afghanistan cannot have the ownership of ODA, and is unable to effectively control the management of ODA. The problem of the lack of capacity is felt throughout Afghanistan at all levels, which has a great impact on the management of aid.

- **Lack of capacity in the Afghan ministries:** Indeed, the challenge faced by the German development cooperation in Afghanistan is that in many ministries it is hard to find an Afghan counterpart who is technically expert in the respected field to work technically on the projects. There is very limited number of experts in the line ministries; therefore the government of Germany and GIZ or KfW takes the lead on advising how the project could be designed. Beside the capacity problem at the ministries, sub-national level is even less developed on the provincial level. There are internal problems between central level and provincial level when it comes to authority and budgeting. The provincial offices often are not able to feed in the information to the budgeting cycle and process. (Interviews, Program Manager, 2011) If the capacity of the Afghan partner grows, there is a vital link that the ownership of the Afghanistan will grow simultaneously. For example the capacity of the Ministry of Education is quite high as compare to the Ministry of Water and Energy; because the Ministry of Education adopted a national education strategy attached with the indicators which are very clear in their objectives and desired achievements, and their demands from GIZ regarding the expertise
that they need to achieve their goals. The GIZ provides a supporting role in achieving the planned goals. (Interviews A. , 2011)

- **Lack of coordination among the ministries:** Like all other countries, the coordination between the line ministries is quite challenging in Afghanistan. Each ministry wants to stand by itself and wants show their sole achievements rather than showing common achievements by working with other ministries. In particular the ministers who are political figures, who do not want to share their glory. (Interviews A. , 2011)

  Responsibilities in different ministries of Afghanistan still have to be improved, because sometimes the ministries feel that they have the responsibility of implementing something rather than to be governing activities. For example, the Ministry of Education at Kabul level should not run schools by itself; it rather has to set the framework in which the schools operate. (Interviews A. , 2011)

- **Employment turnover in Afghan ministries:** Capacity is considered to be the most important challenge in line ministries. They are not able to attract the young talented Afghans to work for the ministries. There is a problem of poaching good Afghan staff by the international organizations and NGOs in Afghanistan. The international organizations offer the young talented Afghans with good competitive salary, which the government of Afghanistan does not and cannot offer to them. This problem needs to be solved by the Government of Afghanistan, a small number of talented and efficient employees are considered to be more efficient than a big number of employees with less output. (Interviews A. , 2011)

4.4.2.6 **Undeveloped economic markets**
Markets in Afghanistan are still very much underdeveloped when it comes to Afghan construction companies and the availability of materials. The KfW always prefers to offer contract to the national or local companies, but for bigger construction works it is very difficult to find capacity on a local level. For instance, in a hydro-power station project, there is no Afghan company producing generators and turbines. The Afghan companies are often contracted for buildings and road construction projects. The lack of availability of materials is another problem for the aid effectiveness and ownership; for example when the frontier border with Pakistan was closed, no material at all came in to the market. The smaller the size of the lot is, the easier it is to find a local company to implement the project. On big projects, there are also joint-ventures between the Afghan companies and international companies. The KfW is trying to involve the local companies as much as possible in the implementation of its projects. It is because they want the local companies to rise up and contribute to the Afghan economy and ownership. The underdeveloped economic market situation in Afghanistan, results in hindering the country ownership of the German projects, higher costs due to the involvement of international companies, no or low revenue generation for central government. (Interviews, Project Manager, 2011)

4.4.2.7 Corruption

The high level of corruption in the governmental institutions is considered to be another important factor that impedes donors from giving the ownership of the aid money to Afghanistan. In an interview with the GIZ official, corruption was pointed as a big challenge, meaning that people are not ready for changes, to give up the existing procedures which itself open ways for corruption. GIZ is working to avoid corruption and bring transparency in the governmental procedures of Afghanistan; these are the basis for any effective cooperation. GIZ
has the audit and control unit to avoid corruption during and after the contracting period. Though such measures are taken by the GIZ to avoid corruption, this disease still exists in the Afghan government’s administration which concerns Germany to channel its funds through government treasury. (Interviews A., 2011)

In another interview with the KfW officials, it was said that corruption is a very disturbing problem to the implementation of the German development projects in Afghanistan. Corruption plays a major role in Afghanistan, in order to avoid corruption and delays in the works, KfW has advisors in all sectors and projects who are involved in control of corruption. The KfW tries to avoid corruption cases in many circumstances, but the corruption in Afghanistan is a very frequent phenomenon, which rooted in the Afghan system. (Interviews. KfW, 2011)

A KfW official said that “corruption is always there, and one cannot exclude it, it is embedded in the system. The international partners print the big money, so that opens the door for bigger corruption. But the Afghan system brings already the windows of corruption because of its corrupt system” (Interviews, Project Manager, 2011) The complex and large scale of corruption at the administrations of the government of Afghanistan hinders the German development co-operation to effectively implement its development projects. This is also a reason behind the German’s no or low commitments to supporting the government’s core-budget. This is therefore understood to hinder the ownership and accountability principles of Paris Declaration.

Afghanistan’s weak procurement policy which in the 2008 monitoring survey of Paris declaration rated ‘C’ (A as highest, and D as lowest), is framed with high level of corruption in
the procedures and processes. This is another reason the German implementing agencies are not using the country procurement system, which hinders the alignment with country’s procurement system, and country’s ownership (Indicator 2b, and 5b of Monitoring Survey on Paris Declaration). (OECD - Monitoring Survey on Afghanistan, 2008)

Corrupt framework, the problem of the land rights is another serious problem when it comes to the KfW and all other donors’ infrastructure and construction projects in Afghanistan. There is a lack of land rights in Afghanistan, even once the Minister or Governor commits that the land belongs to this specific project, but they still construct a private house on mentioned land. They do not back their previously made decisions, and ask the donors to find another land to implement their projects. Such corrupted and complex frameworks distrusts the German implementing agencies to implement their projects on the scheduled commitment. This hinders the ANDS implementation, and the accountability and alignment principles of the Paris declaration as a result.

4.4.2.8 Insecurity

Insecurity is considered to be other major threat to implementation of donor supported projects in almost all over Afghanistan. As an example, in interview with the KfW official, on standard level the cost of a dam producing one mega watt should not exceed Euro 2 million internationally, and the cost for a dam producing 8 mega watt should not exceed Euro 16 million. But in view of the security situation in Afghanistan, it is very difficult now to have a high degree of competition. There are only few companies now who are prepared to work for example in Kunduz province, much has to be reserved than provided for the security measures; because the
costs for the security measures are very high. Therefore, the cost for the construction of hydro-
power dam producing only 16 mega watt electricity exceeds to further Euro 30 up to 40 million
in Afghanistan. This increase in the cost could be due to many factors like, corruption, and
difficult framework conditions like security and limited competition among bidders and
suppliers. The KfW is trying to involve the consultants and as many companies and possible in
the competition, but the lesser the competition is, the higher chances for corruption to happen.
(Interviews. KfW, 2011)

Due to the security problems in the country, like other big donors (US and UK in the
Southern provinces) the German financial cooperation projects are implemented in the Northern
provinces, and greater Kabul area, and not at the Southern or South Easter parts of Afghanistan.
These geographical preferences of donors might undermine the alignments with the geographical
preferences of ANDS.

According to the GIZ official, security is a big challenge which hinders the effectiveness
of aid, as some amount which is secured for the development purposes are spent on physical
security measures, such as the higher costs of armored vehicles, building higher walls and thicker
windows to protect offices. (Interviews A., 2011)
Chapter 5

5. Conclusion and Recommendations

As clearly stated in the AAA, “effectiveness of aid is reduced when there are too many duplicating initiatives, especially at country and sector levels” (OECD, 2008). The transaction costs are decreased and the effectiveness of aid will increase, when there is better country-led division of labour among donors. The government of Afghanistan should take the lead to avoid higher costs and duplication of donors’ activities; all donors should support the initiative of Afghanistan and act accordingly.

Larger part of aid money has been spent outside of government system without addressing the national priority needs. This has further undermined the legitimacy of the government and has undermined the efforts of government in building capable, effective and accountable public institutions. Such practices also undermine the OECD guidelines for better and more effective aid implementation. Donor community while providing aid to Afghanistan should stand on their commitments made during Paris Declaration and AAA. Their projects and programs should be aligned with the ANDS priorities, and very importantly, the ownership of the development aid must fall in the hands of the Government of Afghanistan.

The brain-drain of qualified and trained civil servants during the three decades of civil war has contributed to a drastic low capacity of human resources in Afghanistan. This has resulted in tough competition between government, UN agencies, International Agencies and NGOs in hiring skilled and qualified personnel. Due to the low salary scale the government cannot compete with UN, NGOs and other international agencies. Most qualified individuals work...
either with international agencies, UN or NGOs. Hence, in order to build the capacity of civil servants and to carry out its activities the government has been heavily relying on donors to provide technical assistance. Due to lack of an effective monitoring and evaluation system for technical assistance, both the government and donors have failed to manage the technical assistance effectively and efficiently. Most of technical assistance has been used to carry out the routine operational works at government institutions and have been failed in transferring the required skills and knowledge to their Afghan counterparts.

Goodhand says that “aid policy is likely to have profound impacts on the future shape of the state and the economy, just as it has within the wider region; aid policy must be geared towards re-legitimizing and building the capacity of the state” (Goodhand, 2002). Despite the fact that internationally community is emphasizing on sending more technical advisors to Afghanistan and improving local capacities, Afghan government is still dependent on the technical assistance for performing their strategic activities. The strategy to build the capacity of civil servants through technical assistance is still to be improved.

Three high-level policy recommendations are believed to strengthen the capacity of foreign aid to encourage development. These recommendations suggest that


governments and donors should work together to systematically set up efforts to use and strengthen country systems as a way of reinforcing country ownership of aid; to strengthen accountability for development resources; to curb the cost of delivering and managing aid; at present, too many donor activities remain uncoordinated at the country level (OECD - Survey on Monitoring the Paris Declaration, 2008).
Building up the capacity in Afghanistan is very crucial to the effectiveness of the aid and sustainable development. Focusing on improving university and school education, and training on the job, and on the right conditions are very crucial. The project based hiring of the employees by the ministries is not a good long lasting thing, we have to identify and make Afghan ministries make attractive for young people to work there. Then we can support these young people to grow and develop so the performance of the ministries also develops.

The internal structure, personnel capacity, and employee turnover are seemed to be of serious problems within the line ministries in Afghanistan. Most of the young professionals which are provided training in the specific fields at the ministries are leaving the ministry and projects in the middle and join an NGO or another donor implementing agency simply because they are paying much higher amount of salary than the government. The government must tackle this problem. Because as the transition process is going on, so what will happen once most of the development partners depart from Afghanistan?

For Germany’s effective implementation of the Paris Declaration in Afghanistan, it is recommended that the alignment of the GIZ and KfW projects with the government priorities is among the key principles of their projects in Afghanistan; and be ANDS oriented. Therefore, it’s suggested that the projects are designed in direct consultation with the line ministries and implement the projects together to give the ownership to the Afghans and align their programs with the Afghanistan development policies.

Although the ANDS is demanded and approved by the Government and international community; it lacks the ownership element both in designing and implementation of the paper.
As Roberts state in her paper ‘reflections on the Paris Declaration and Aid Effectiveness in Afghanistan’ that the:

*Process of producing Afghanistan’s PRSP, the ANDS, was expensive and time-consuming for a national and international actors. It diverted resources from elsewhere and, although it was argued publicly that it was an Afghan document, there were a lot of negotiations behind the scenes as the international community tried to shape the ANDS into what it required* (Roberts, 2009).

There is need for more attention to capacity building. The ANDS to be implemented needs capacity in the area of planning and execution. It is very important to concentrate on the area of capacity within the ministries.

The volume of tied aid needs to be reduced as per Paris Declaration. Tying of aid is a major obstacle in the way of aid effectiveness. Local procurement has been hindered due to the same reason. Moreover, untied aid will help in creating more employments in the country. More job opportunities mean discouraging narcotics industry which is home to crimes and violation.

To increase the role and impact of aid to Afghanistan, there is need for radical change in the strategies of Afghanistan. Major focus should be given to the human capital building. Moreover, the implementation of ANDS should be given major attention. Benchmarks and objective result should be chalked out. ANDS should be implemented through the annual budget. To attract foreign investment and encourage industrial sector, security should be focused. The National Army and Police need to be improved in terms of resources and training. Energy sector should be improved.
The OECD survey recommends that Afghan government in partnership with the development partners should “implement the ANDS in a prioritized and well-sequenced manner” (OECD - Monitoring Survey on Afghanistan, 2008).

One another factor leading to the growth of an economy is the starting of infrastructure development projects like damn, roads and railway tracks construction. A donor like Germany is doing very well in this sector, which guarantees like long term sustainable development. Hydro Electricity is a potential cheap source of energy and power in Afghanistan; this can save huge amount of foreign reserve spent in the import of petroleum as a source of energy. Moreover, it can boost the industrial sector which can further create employment opportunities and hence improve living standard. The government should provide such environment to convince the donors to channel their aid through core channel of budget. Moreover, anti corruption strategies need to be strengthened.

The 2008 monitoring survey report on Paris Declaration gives a clear-headed answer that “some progress has been made, but not enough” As per the OECD quantitative assessment, “the progress towards 2010 reveals considerable delays of partner countries” (OECD - Survey on Monitoring the Paris Declaration, 2008). It will not be possible to meet the aid effectiveness targets, without faster action and further reforms.

The alignment principle of Paris Declaration asks donor community to “base their overall support on partner countries’ national development strategies, institutions and procedures” (OECD - Paris Declaration on Aid Effectiveness, 2005). According to the report from the 2008 Survey on Monitoring the Paris Declaration, Afghanistan with reference to the principle of alignment scored ‘moderate’. This is because of the limitation that “relatively weak country systems resulting in donor reluctance to make use of country systems” (OECD - Monitoring
There is a need for “government to lead in formulating and implementing development policies and programs; donors align and respect such policies, and support implementation of national programs” (OECD - Monitoring Survey on Afghanistan, 2008).

While hiring experts for Afghanistan by the German implementing agencies like the GIZ, it is noticed that a very limited role is given to the Afghan partners. It would be more effective if the GIZ closely coordinate with the Afghan partner ministries, and give them the opportunity to be involved in the selection process. During the selection process, it would be meaningful to keep in mind that the experts have the knowledge and experience of fragile states like Afghanistan, and a little knowledge about its culture and people.

The Afghan partner is lacking the ownership of the completed projects. According to an interview with the KfW officials, most of the time once a project is completed and handed over to the Afghan partner, they don’t check if there is any mistake in the infrastructure, either or not the dam or hydro power station properly works. Once operated and found a fault, they simply call upon the donors again to repair or build a new one. This is a serious problem and should be tackled by the government of Afghanistan. The Afghan government needs to have the ownership of the products once completed.

There is a lack of land rights in Afghanistan, and the lack of owning the responsibility of the projects once completed by the donors. The government of Afghanistan should tackle this problem, which is core to the country’s ownership and donors trust on the system.

When it comes to the negotiations with Afghan-German development cooperation, on country level there is not enough representation of Germany. It is the BMZ only who negotiates
its funds and projects with the Afghan partners. But this is still not enough as the full amount of German development aid to Afghanistan is not negotiated, because the FFO does not negotiate its funds with Afghan government. FFO should also be brought to negotiate it funds, and more ownership should be given to Afghanistan to implement its priority projects through FFO. Another option would be to decrease the assistance funds of FFO and increase the BMZ funds to Afghanistan. Alignment and harmonization of FFO activities with the government, priorities should be increased. Although this is part of Paris declaration which is also signed by Germany, but no considerable attention has been given so far. The aid predictability needs to be improved. Doing so will help the government to plan its development projects.

It is understood that the line ministries of Afghanistan play a little role on the allocation of funds to particular sectors. Because it is the MoF on behalf of Afghanistan involved in the negotiation process with the BMZ, and the MoF makes the last decision on the sectoral allocation of the funds. In practice very often the MoF does not negotiate this with the line ministries. Line ministries should be involved in the negotiation process, if not direct with the BMZ, on national level there should be a role given to line ministries.
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X. Appendix

Table 1: Eight Millennium Development Goals (MDGs)

The eight Millennium Development Goals

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development
Table 2: List of member countries and their current status to their 0.7% goal commitment

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>For each $100 earned in the country, how much is donated in aid</th>
<th>Aid as % of income</th>
<th>How close the country is to reaching the 0.7% goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>110 cents</td>
<td>1.10</td>
<td>Already reached goal</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>109 cents</td>
<td>1.09</td>
<td>Already reached goal</td>
</tr>
<tr>
<td>Sweden</td>
<td>97 cents</td>
<td>0.97</td>
<td>Already reached goal</td>
</tr>
<tr>
<td>Denmark</td>
<td>90 cents</td>
<td>0.90</td>
<td>Already reached goal</td>
</tr>
<tr>
<td>Netherlands</td>
<td>81 cents</td>
<td>0.81</td>
<td>Already reached goal</td>
</tr>
<tr>
<td>Belgium</td>
<td>64 cents</td>
<td>0.64</td>
<td>Scheduled to reach in 2012</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>56 cents</td>
<td>0.56</td>
<td>Scheduled to reach in 2013</td>
</tr>
<tr>
<td>Finland</td>
<td>55 cents</td>
<td>0.55</td>
<td>Scheduled to reach in 2015</td>
</tr>
<tr>
<td>Ireland</td>
<td>53 cents</td>
<td>0.53</td>
<td>Scheduled to reach in 2015</td>
</tr>
<tr>
<td>France</td>
<td>50 cents</td>
<td>0.50</td>
<td>Scheduled to reach in 2015</td>
</tr>
<tr>
<td>Spain</td>
<td>43 cents</td>
<td>0.43</td>
<td>Scheduled to reach in 2015</td>
</tr>
<tr>
<td>Switzerland</td>
<td>41 cents</td>
<td>0.41</td>
<td>No schedule yet</td>
</tr>
<tr>
<td>Germany</td>
<td>38 cents</td>
<td>0.38</td>
<td>Scheduled to reach in 2015</td>
</tr>
<tr>
<td>Canada</td>
<td>33 cents</td>
<td>0.33</td>
<td>No schedule yet</td>
</tr>
<tr>
<td>Australia</td>
<td>32 cents</td>
<td>0.32</td>
<td>No schedule yet</td>
</tr>
<tr>
<td>Austria</td>
<td>32 cents</td>
<td>0.32</td>
<td>Scheduled to reach in 2015</td>
</tr>
<tr>
<td>Portugal</td>
<td>29 cents</td>
<td>0.29</td>
<td>Scheduled to reach in 2015</td>
</tr>
<tr>
<td>New Zealand</td>
<td>26 cents</td>
<td>0.26</td>
<td>No schedule yet</td>
</tr>
<tr>
<td>United States</td>
<td>21 cents</td>
<td>0.21</td>
<td>No schedule yet</td>
</tr>
<tr>
<td>Japan</td>
<td>20 cents</td>
<td>0.20</td>
<td>No schedule yet</td>
</tr>
<tr>
<td>Greece</td>
<td>17 cents</td>
<td>0.17</td>
<td>Scheduled to reach in 2015</td>
</tr>
<tr>
<td>Italy</td>
<td>15 cents</td>
<td>0.15</td>
<td>Scheduled to reach in 2015</td>
</tr>
</tbody>
</table>

Source: OECD. The figures for 2011 are due out in April 2012.
Table 3: Paris Declaration 2010 Targets

**CHART 1.1: How far are we from meeting the targets? (33 countries)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005 baseline</th>
<th>2010 targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Operational development strategies</td>
<td>17%</td>
<td>24% Distance to target (in 2007)</td>
</tr>
<tr>
<td>2 Reliable public financial management (PFM) systems</td>
<td>—</td>
<td>36%</td>
</tr>
<tr>
<td>3 Aid flows are recorded in country budgets</td>
<td>42%</td>
<td>48%</td>
</tr>
<tr>
<td>4 Technical assistance is aligned and co-ordinated</td>
<td>48%</td>
<td>60%</td>
</tr>
<tr>
<td>5a Donors use country PFM systems</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>5b Donors use country procurement systems</td>
<td>39%</td>
<td>43%</td>
</tr>
<tr>
<td>6 Donors avoid parallel PIUs</td>
<td>1,817</td>
<td>1,601</td>
</tr>
<tr>
<td>7 Aid is more predictable</td>
<td>41%</td>
<td>46%</td>
</tr>
<tr>
<td>8 Aid is unified</td>
<td>75%</td>
<td>88%</td>
</tr>
<tr>
<td>9 Donors use co-ordinated mechanisms for aid delivery</td>
<td>43%</td>
<td>47%</td>
</tr>
<tr>
<td>10a Donors co-ordinate their missions</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>10b Donors co-ordinate their country studies</td>
<td>42%</td>
<td>44%</td>
</tr>
<tr>
<td>11 Sound frameworks to monitor results</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>12 Mechanisms for mutual accountability</td>
<td>22%</td>
<td>26%</td>
</tr>
</tbody>
</table>
Xx. Interview Questionnaire

- How much has the total annual German aid to Afghanistan been since 2001? How much of this is through the Government treasury?

- What are the mechanisms for German-Afghan development cooperation?

- How do the German-Afghan annual negotiations take place, and how does the decision process consider the interest of the two sides? What are the mechanisms of German-Afghan development cooperation?

- What are the political and geographical preferences of Germany while providing aid to Afghanistan? How does the political setup support the implementation of OECD guidelines for effective aid?

- How far does the German development aid program in Afghanistan fit the OECD-Pairs Declaration guidance on aid effectiveness?

- How far the German development aid program in Afghanistan is aligned with the ANDS priorities?

- What does the ownership and alignment mean to Afghan perspective, and how is it considered by the German development aid?

- How do procedures and institutional setup help to implement the OECD guidelines?

- What are the reasons for Germany in implementing/not implementing the PD in Afghanistan?

- What are the factors that hinder/favour the implementation of Paris Declaration by German in Afghanistan?

- What is required to be done by the two sides (Afghanistan & Germany) in order to overcome the challenges, and further improve the processes for effectiveness of aid?
Xxx. List of Interviewees

Mr. Tobias Becker – Deputy Head of Afghanistan/Pakistan Division – GIZ – Eschborn

Mr. Jens Klausen – Division Chief Crisis Response Asia – KfW – Frankfurt am Main

Ms. Katharina Heiss – Project Manager, Afghanistan Division – KfW – Frankfurt am Main, Kabul

Mr. Gregory Bledjian – Task Force Afghanistan/Pakistan – FFO – Berlin

Ms. Traudel Kohler – Program Manager, Afghanistan/Pakistan Division – BMZ – Berlin

Dr. Martin Kipping – Desk Officer for Afghanistan, Afghanistan/Pakistan Division – BMZ-Berlin

Ahmad Sulaiman Aslam – Aid Coordination Officer – Aid Management Directorate, MoF – Kabul

Habib Mayar – Aid Effectiveness Manager – Aid Management Directorate, MoF – Kabul

Hamid Jalil – Aid Management Director – Aid Management Directorate, MoF – Kabul

Interviewer:

Mohammad Lateef Totakhail – Student of Master of Public Policy – Willy Brandt School of Public Policy, University of Erfurt – Erfurt, Germany.
Places where German troops are stationed