

# Chapter 12

## Development assistance

12.1 Conflict, continuing hostilities and instability are critical barriers to social and economic development. Numerous studies indicate that resurging violence in Afghanistan could not only impede further advancement but even undo the progress made to date in the country.

12.2 The withdrawal of foreign troops means that the Government of Afghanistan will be required to take on a larger share of security spending, as well as manage an economy with reduced purchases of domestic goods and services by foreign troops.<sup>1</sup> In this chapter, the committee considers development assistance in light of the fast-approaching transformation decade and the anticipated decline in Afghanistan's revenue base. It examines in detail the economic environment in Afghanistan and its implications for the delivery of Australian aid. The committee considers the ways in which Australian assistance is being planned in anticipation of Afghanistan's immediate and longer-term future.

### International conferences

12.3 Following the announcement that Afghanistan would take charge of its own affairs, the international donor community held a number of important gatherings to consider how best to manage the transition.

#### *Bonn meeting 2011*

12.4 In 2011, 85 countries and 15 international organisations gathered in Bonn and, wishing to build on the shared achievements of the past ten years, renewed their commitment to work in partnership for the transformation decade.<sup>2</sup> They agreed that this decade would:

...see the emergence of a new paradigm of partnership between Afghanistan and the International Community, whereby a sovereign Afghanistan engages with the International Community to secure its own future and continues to be a positive factor for peace and stability in the region.<sup>3</sup>

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1 The ADB noted that Afghanistan would face additional security and budgetary challenges with the planned withdrawal of foreign troops in 2014 and the gradual reduction in foreign support that its development partners have forecast. ADB, *Islamic Republic of Afghanistan, Country Assistance Program Evaluation, Independent Evaluation CE-28, 2012-13*, paragraph 169.

2 The International Afghanistan Conference in Bonn, 'Afghanistan and the International Community: From Transition to the Transformation Decade', Conference conclusions, 5 December 2011, paragraph 5.

3 The International Afghanistan Conference in Bonn, 'Afghanistan and the International Community: From Transition to the Transformation Decade', Conference conclusions, 5 December 2011, paragraph 30.

12.5 The conference recognised that as the transition gathered momentum there would be economic risks, identified by the World Bank and the International Monetary Fund, including the economic effects linked to a reduced international military presence.<sup>4</sup> An Afghanistan Research and Evaluation Unit brief prepared for the conference stated:

Dependence on donor funds is high across all sectors. Many health, education and rural development programmes may become unsustainable because a reduction in aid flows will likely accompany the military drawdown toward 2014.<sup>5</sup>

12.6 The international community undertook to direct financial support towards Afghanistan's economic development and security-related costs to help the country address its continuing budget shortfall. The intention was to secure the gains of the last decade, make the transition irreversible, and for Afghanistan to become self-sustaining.<sup>6</sup> Australia was one of the many countries that gave its support for this objective.

### ***Chicago summit 2012***

12.7 The nations contributing to ISAF and the Government of Afghanistan met in Chicago on 21 May 2012 and restated their pledge to strive for a 'sovereign, secure and democratic' country.<sup>7</sup>

### ***Tokyo 2012 and mutual accountability framework***

12.8 On 8 July 2012, the Afghan Government and the international community gathered in Tokyo to consolidate their partnership to assist Afghanistan through the transition to transformation.<sup>8</sup> They acknowledged that they could not continue 'business as usual' and must 'move from promise to practice'. To do so, they adopted a mutual accountability framework, which set out both the commitment of international partners to sustain financial support for Afghanistan's development and the Afghan Government's undertakings to make progress on critical economic and social reforms.<sup>9</sup>

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4 The International Afghanistan Conference in Bonn, 'Afghanistan and the International Community: From Transition to the Transformation Decade', Conference conclusions, 5 December 2011, paragraph 21.

5 Afghanistan Research and Evaluation Unit, *Afghanistan Looking Ahead, Challenges for Governance and Community Welfare*, Research Briefs for the 2011 Bonn Conference, December 2011, p. 4.

6 The International Afghanistan Conference in Bonn, 'Afghanistan and the International Community: From Transition to the Transformation Decade', Conference conclusions, 5 December 2011, paragraph 22.

7 North Atlantic Treaty Organization, Chicago Summit Declaration on Afghanistan, issued by the Heads of State and Government of Afghanistan and Nations contributing to the NATO-led International Security Assistance Force (ISAF), 21 May 2012, paragraph 1.

8 Preamble, Tokyo Conference on Afghanistan, The Tokyo Declaration, 'Partnership for Self-Reliance in Afghanistan from Transition to Transformation', 8 July 2012, paragraph 1.

9 Tokyo Mutual Accountability Framework, 8 July 2012.

12.9 The conference recognised that tangible commitments were required to provide the necessary long-term support for Afghanistan to achieve fiscal and economic sustainability beyond 2014. At this conference, Afghanistan's partners pledged US\$16 billion over four years from 2015–16 to support the country's development needs.<sup>10</sup> The following section considers in greater detail the economic problems facing Afghanistan.

### **Predictions and international responses**

12.10 The International Monetary Fund (IMF) identified two main challenges facing Afghanistan over the coming three to five years:

- an expected gradual decline in overall donor support over the medium term, with a larger share of donor support possibly being channelled through the budget; and
- the scheduled departure of foreign troops by 2014, requiring the government to take over an increasing share of security spending.

12.11 It found that from an economic perspective, these developments would 'make it more difficult for the government to address Afghanistan's large social and development needs'.<sup>11</sup>

12.12 A number of other substantial studies also referred to the harmful effect that the drawdown of foreign troops could have on Afghanistan's economic growth and the government's revenue base.<sup>12</sup> A recent World Bank report formed the view that the withdrawal of most international troops by 2014 would have a 'profound and lasting impact on the country's economic and development fabric'. It cited international experience and Afghanistan's own history to show that an abrupt cut off in aid could lead to 'fiscal crisis, loss of control over the security sector, collapse of political authority, and possibly civil war'.<sup>13</sup> The report suggested that the greatest adverse effect of transition would be fiscal as aid flows to Afghanistan were expected to decline from 2012 onward and 'may fall faster after 2014'.<sup>14</sup> Indeed, in September 2012, cuts to UNAMA's 2013 budget were expected to be between 18 and 19 per cent. The Secretary-General noted that:

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10 DFAT, *Submission 22*, p. 4 and Ms Jennifer Rawson, *Committee Hansard*, 3 December 2012, p. 3.

11 IMF, Program note, Islamic Republic of Afghanistan, last updated: July 12, 2012, <http://www.imf.org/external/np/country/notes/afghanistan.htm> (accessed 26 October 2012).

12 See for example, IMF, Program note, Islamic Republic of Afghanistan, last updated: July 12, 2012, <http://www.imf.org/external/np/country/notes/afghanistan.htm> (accessed 26 October 2012).

13 The World Bank, *Afghanistan in Transition: Looking Beyond 2014*, vol. 2, Main Report, May 2012, p. 1.

14 The World Bank, *Afghanistan in Transition: Looking Beyond 2014*, vol. 2, Main Report, May 2012, p. 4.

...a reduced footprint and fewer resources will necessarily affect operational capacity and underline the need to focus on core strategic goals.<sup>15</sup>

12.13 According to the World Bank, Afghanistan faces a projected financing shortfall of 25 per cent of GDP by 2021–22, even higher in some of the intervening years (DFAT cited World Bank estimates of a fiscal gap—before donor contributions—of more than 40 per cent of GDP in 2014–15). This gulf would be enormous despite hoped for robust growth in domestic revenue.<sup>16</sup> The World Bank reported:

Without continued and substantial international funding for security—even if security costs decline—the government will not be able to pay for its security forces and equipment, nor have any money for its development budget. In such a scenario, past development gains would not be maintained, potentially risking instability if people's expectations went unmet. The total future package of core basic services to be maintained will depend on government and donor choices about what they can afford and their priorities going forward.<sup>17</sup>

12.14 The Bank concluded that with civilian aid likely to fall well below the current US\$6 billion annual figure, Afghanistan would be hard pressed to fund all its civilian programs at current levels. It noted further that political, social and economic considerations were likely to limit the government's room to manoeuvre.<sup>18</sup> A recent ADB independent evaluation of Afghanistan's country assistance program stated that:

The external grants made available to Afghanistan account for 82% of total public spending—that is, central government spending plus off-budget development partner spending that bypasses the budget process.<sup>19</sup>

12.15 As noted above, this flow of funds was expected to diminish. The ADB was concerned that the level of support underpinning improvements in areas such as education, access to health services and gender issues, rehabilitation of critical

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15 United Nations, General Assembly, Security Council, A/67/354–S/2012/703, 13 September 2012, paragraph 54. The Secretary-General spoke of closing nine provincial offices, a reduction of approximately 25 per cent of the authorized international and national staff (629 positions) and an adjustment to the Mission's logistical support, a revision downward of authorized number of military and police advisers. He noted further, 'National reach remains at the core of the Mission's mandated activities, but will now be carried out more flexibly, with regional offices functioning as hubs with logistical and substantive capacity to cover adjacent provinces, wherever possible', paragraph 55.

16 The World Bank, *Afghanistan in Transition: Beyond 2014*, vol. 2: Main Report, May 2012, p. 60. See also DFAT, answer to written question on notice no. 2.

17 The World Bank, *Afghanistan in Transition: Beyond 2014*, vol. 2: Main Report, May 2012, p. 61.

18 The World Bank, *Afghanistan in Transition: Beyond 2014*, vol. 2: Main Report, May 2012, p. 61.

19 ADB, *Islamic Republic of Afghanistan, Country Assistance Program Evaluation, Independent Evaluation CE–28, 2012–2013*, p. xiii.

infrastructure, improved transport routes and access to electric power was unsustainable. While the evaluation drew attention to the need for the international community to continue its support, it underscored the importance of ensuring that far stronger action on capacity development and reforms to improve development effectiveness accompanied this assistance.<sup>20</sup> According to the ADB, sustainability and risk management should be the priority.<sup>21</sup>

12.16 A number of witnesses also referred to the anticipated fall in foreign aid.<sup>22</sup> They appreciated that the reduction in ISAF and decline in government revenue was expected to have far reaching effects on Afghan society. They understood that as the Afghan Government assumed more responsibilities and increased the remuneration of its public sector workers, it would need to find revenue it did not have to fund these activities, including significant operations and maintenance costs.<sup>23</sup> For example, according to Save the Children, Oxfam and World Vision, there was a serious risk that in light of the projected decline in international funds, progress in education would not be sustained.<sup>24</sup> Caritas Australia informed the committee that given the dependency of the Afghan economy and social sectors on foreign aid, there was a risk that development gains—notably in health and education—would be compromised after military withdrawal. It argued that the anticipated reduction of foreign aid was likely to produce economic consequences that 'must be mitigated by investing in service provision that works and viable livelihoods'.<sup>25</sup>

### *Committee view*

12.17 The committee has highlighted the impressive achievements made in Afghanistan to date. Even so, evidence has also pointed to the poor state of the country with its stubbornly low levels of development, the government's lack of capacity to deliver basic services and endemic corruption. As the country moves toward the transformation decade, continuing or escalating conflict combined with government revenue shortfalls are set to compound Afghanistan's problems. Clearly, the achievements to date are fragile and much more needs to be done to sustain progress and secure the gains already made.

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20 ADB, *Islamic Republic of Afghanistan, Country Assistance Program Evaluation, Independent Evaluation CE-28, 2012-2013, Preface.*

21 ADB, *Islamic Republic of Afghanistan, Country Assistance Program Evaluation, Independent Evaluation CE-28, 2012-2013, paragraph 167.*

22 See for example, Save the Children, Oxfam and World Vision Australia, *Submission 6*, pp. 31-32; Caritas, *Submission 10*, p. 4.

23 Mr Paul Lehmann, AusAID, *Committee Hansard*, 3 December 2012, p. 5.

24 *Submission 6*, pp. 31-32.

25 *Submission 10*, p. 4. See also Mercy Corps, which foresees two significant likely economic consequences to the military drawdown: a significant reduction in Afghanistan's GNI from the fall in the spending power of NATO-led forces and the fact that security is likely to become a more urgent issue. Mercy Corps, written evidence to UK Select Committee p. [1].

12.18 Even though the international community has indicated that it was prepared to support Afghanistan well into the future, some commentators have reservations about sustaining this level of assistance, especially given Afghanistan's already heavy reliance on international aid.<sup>26</sup> The overriding message is that donors need to make important choices about what they can afford and where they should focus their aid to assist Afghanistan, as best they can, through its transition.

### **Australia's assistance post 2014**

12.19 AusAID acknowledged that the road to development and reconstruction in Afghanistan would be long and difficult.<sup>27</sup> DFAT suggested, however, that by remaining deeply engaged in Afghanistan's development over the coming decades, Australia could consolidate the gains of the past decade and reduce the risk that Afghanistan would 'again become a major source of regional instability and international terrorism'.<sup>28</sup> It indicated that Australia could help Afghanistan 'find its niche in the Asian Century'.<sup>29</sup>

#### ***Commitments—increased funding, accountability***

12.20 At the Chicago summit, Australia pledged to increase its development assistance to Afghanistan from \$165 million in 2011–12 to \$250 million by 2015–16. This pledge formed part of the international community's commitment to provide US\$16 billion over four years from 2014.<sup>30</sup> On 20 May 2012, the Prime Minister explained that the increased assistance would contribute to Afghan-led multi-donor efforts to:

- increase school enrolments to approximately 10 million students;
- increase coverage for Diphtheria, Pertussis and Tetanus vaccinations by 60 per cent; and
- construct approximately 3,000 kms of rural roads which would also help to provide jobs in the immediate post transition period.<sup>31</sup>

12.21 Australia endorsed the Tokyo Mutual Accountability Framework, whereby the Afghan Government made important commitments to strengthen governance,

26 See for example, the Afghanistan Research and Evaluation Unit, *Afghanistan Looking Ahead: Challenges for Governance and Community Welfare*, Research briefs for the 2011 Bonn Conference, 'Local Governance for Local Needs', p. 4.

27 See for example, *Submission 16*, p. 7.

28 *Submission 22*, p. 1.

29 *Submission 22*, p. 1.

30 Prime Minister, the Hon Julia Gillard MP, Statement to the House of Representatives—'Progress in transition, preparation for the future', 31 October 2012, <http://www.pm.gov.au/press-office/statement-house-representatives-%E2%80%9Cprogress-transition-preparation-future%E2%80%9D> (accessed 1 November 2012).

31 Prime Minister of Australia, the Hon Julia Gillard MP, 'Vital aid assistance for Afghanistan', 20 May 2012, <http://www.pm.gov.au/press-office/vital-aid-assistance-afghanistan> (accessed 10 September 2012).

combat corruption, promote the rule of law and uphold the rights and freedoms for Afghan men and women guaranteed in the Afghan Constitution.<sup>32</sup> At the end of October 2012, the Prime Minister indicated that through its aid program, Australia would encourage the Afghan Government to fulfil these reform commitments. She stated that Australian aid would also support the electoral process by helping the Afghans prepare for the 2014 Presidential elections.<sup>33</sup>

12.22 The Prime Minister recognised the 'great work' of the Australian-led PRT in Uruzgan, which had contributed to improvements in education and health services and a stronger provincial administration. She told the Parliament that as transition proceeded in Uruzgan, Australian aid workers and diplomats would continue their important task.<sup>34</sup>

### *Protecting the gains*

12.23 Although most witnesses were apprehensive about Afghanistan's future, they nonetheless accepted the inevitability of the transition and advanced numerous suggestions on the ways in which Australian assistance could make a positive difference. While recognising the significant improvements made in areas such as education, health and governance, they noted that these gains remained vulnerable and possibly unsustainable.<sup>35</sup>

12.24 As noted in chapter 10, there is a real fear that the security situation in Afghanistan could deteriorate. With this in mind, Professor Maley stressed the importance of considering not only how to sustain Australia's current aid program, but how to salvage something of benefit for the Afghan people should the situation in Afghanistan take 'a truly dire turn'.<sup>36</sup> In light of the expected deterioration in revenue, Professor Howes suggested that assistance should concentrate on securing the foundations already laid. He noted that the government should 'stop putting so much focus on investment':

There is no point building new assets if you are not going to have the funds to maintain them, and the emphasis should go much more onto operations

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32 Prime Minister, the Hon Julia Gillard MP, Statement to the House of Representatives—'Progress in transition, preparation for the future', 31 October 2012, see footnote 30 above.

33 Prime Minister, the Hon Julia Gillard MP, Statement to the House of Representatives—'Progress in transition, preparation for the future', 31 October 2012, see footnote 30 above. See also Memorandum of Understanding, 'Development Framework Agreement', between the Government of the Islamic Republic of Afghanistan and the Government of Australia, 2012–2017, p. 4, <http://www.aisaid.gov.au/countries/southasia/afghanistan/Documents/aus-afghanistan-development-framework-agreement-2012-17.pdf> (accessed 18 January 2013).

34 Prime Minister, the Hon Julia Gillard MP, Statement to the House of Representatives—'Progress in transition, preparation for the future', 31 October 2012, see footnote 30 above.

35 In Dr Bizhan's assessment, Afghanistan's future appeared gloomy unless the international community provided a sizable package of international assistance to make up for its military withdrawal and the Afghan government managed the transition well. *Submission 13*, p. 3.

36 *Submission 4*, p. [5].

and maintenance rather than asset creation at this particular stage where you are facing possible resource shortfalls in coming years.<sup>37</sup>

12.25 NGOs in particular saw potential for increased and improved efforts and were interested in finding ways to safeguard the advances made to date. For example, Mr Leahy, CARE Australia, stated:

...if the appropriate mechanisms and policies are put in place, then many if not most of the gains that have been made under the recent UN and American sponsored stability...can be maintained. At the same time I think the move to transition will open up new opportunities as well for organisations like CARE.<sup>38</sup>

12.26 According to DFAT, despite the very difficult operating environment, it was vital that Australia consolidate the gains of the past 11 years through sustained engagement during the coming decades.<sup>39</sup>

12.27 For many witnesses, it was important to have a phased and carefully staged process that would see a gradual transition allowing the Afghan Government to take over the direct delivery of services.<sup>40</sup> Dr Bizhan argued that the most important priority was continuation. He stated that an immediate jump from one area to another would lead to the collapse of some already funded programs.<sup>41</sup> Lack of capacity was recognised as a major obstacle to effecting continuity as the Afghan Government takes charge of its own affairs. Mr Leahy explained:

...it is in everybody's interest that the Afghanistan government be able to have the capacity to deliver services. In the short term, that capacity, we believe, does not presently exist and alternative means of providing services to the Afghan communities, particularly around education and health, need to be found.<sup>42</sup>

12.28 Clearly, NGOs in partnership with national and provincial administrations have been able to fill that service delivery gap and provide the building blocks for the eventual transfer of full responsibility to government agencies.<sup>43</sup> The challenge is to ensure that the transfer of responsibilities from NGOs to government and local administrations occurs without significant disruption or breakdown.

12.29 Because of the security and fiscal risks accompanying the transition, another key consideration for donors is determining their priorities by identifying the core strategic goals on which they should focus.

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37 *Committee Hansard*, 4 December 2012, p. 14.

38 *Committee Hansard*, 4 December 2012, p. 40.

39 *Committee Hansard*, 3 December 2012, p. 7.

40 *Committee Hansard*, 4 December 2012, p. 36.

41 *Committee Hansard*, 4 December 2012, p. 24.

42 *Committee Hansard*, 4 December 2012, p. 36.

43 See the committee's discussion on the contribution of NGOs in chapter 6.

### *Focus and priorities*

12.30 A recent independent review of the ARTF noted that the transition phase for the fund was likely to be 'a period of increased uncertainty, reduced implementation options, uneven political will and capacity to implement across the country and sectors'. It was expected to be a time where economic returns to activities may be lower and more difficult to measure. The review argued that, for the moment, the ARTF should scale back ambitions regarding expanding into new sectors and focus on defending the gains achieved by concentrating on the more successful activities/sectors. They included public finance management, social sectors, and rural development.<sup>44</sup>

12.31 This observation about the careful and judicious selection of projects provides a valuable reminder for all donors. Indeed, with respect to Australian aid, a number of witnesses spoke of the need for Australian aid to be well-targeted.<sup>45</sup>

12.32 Professor Maley stated that much could be said for 'doing a small number of key things well rather than attempting too much and achieving too little—a good rule of thumb is to invest in what is foundational: what has proved successful in the past'.<sup>46</sup> As an example of success, he cited primary health, which had 'witnessed some notable achievements, especially in the area of child immunisation, as well as community development under the NSP'.<sup>47</sup> Mr Krishnan likewise saw great value in concentrating on one or two crucial areas—to focus and deepen activities—to ensure that there was impact and sustainability in those areas.<sup>48</sup> Dr Bizhan also suggested that the goal of Australia's ODA should concentrate on a small number of sectors, including education, agriculture, mining and public financial management. Within each one, the focus should be on attainable objectives 'essential for a successful exit strategy of donors from Afghanistan'.<sup>49</sup>

12.33 His view supported the weight of evidence underlining the importance of Australia investing in priority sectors with clear, critical, concrete and well-targeted objectives.<sup>50</sup>

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44 Scanteam, Analysts and Advisors, *ARTF at a Cross Roads: History and the Future*, Final Report, Oslo, September 2012, p. 2.

45 *Independent Review of Aid Effectiveness*, April 2011, p. 149.

46 Attachment to *Submission 4*, William Maley, 'Reconstruction: A Critical Assessment' in Amin Saikal (ed.), *The Afghanistan Conflict and Australia's Role*, Melbourne University Press, 2011, p. 93.

47 Attachment to *Submission 4*, William Maley, 'Reconstruction: A Critical Assessment' in Amin Saikal (ed.), *The Afghanistan Conflict and Australia's Role*, Melbourne University Press, 2011, p. 93.

48 *Committee Hansard*, 4 December 2012, p. 57.

49 *Submission 13*, p. 1.

50 *Submission 13*, p. 2.

## **Conclusion**

12.34 Clearly there is a serious risk that in light of the projected decline in international funds, advances in key areas such as the delivery of education and health services may be unsustainable or even reversed. The emphasis for the delivery of aid should be on:

- continuity—ensuring that the transition to self-reliance is sure-footed and smooth;
- consolidation—ensuring that the gains made to date form a solid foundation for future growth; and
- strategic focus—ensuring that attention is given to the sectors that are foundational and have a proven track record of success in contributing to Afghanistan's development.

12.35 In the following chapter, the committee considers Australia's development assistance in light of the importance of continuity, consolidation and potential to make a lasting difference.