



# The Effects of Current Aid System on Institutional Capacity Building At Afghan Ministry of Finance

In Partial Fulfilment of Obtaining the Degree of Masters of Business Administration

Ghulam Haidar Habib

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## **List of Acronyms and Abbreviations:**

AFMIS	Afghanistan Financial Management Information System
AMD	Aid Management Directorate
ANDS	Afghanistan National Development Strategy
APFM	Afghanistan Public Financial Management
ARTF	Afghanistan Reconstruction Trust Fund
ASYCUDA	Automated SYstem for CUstom DAta
BC1	Budget Circular One
BC2	Budget Circular Two
CB	Capacity Building
CBR	Capacity Building for Results
DAD	Development Assistance Data Base
DCR	Development Cooperation Report
DPs	Development Partners
GDP	Gross Domestic Product
HRM	Human Resources Management
IARCSC	independent administration reform and civil service commission
ICRG	International Country Risk Guide
ICT	Information Communication Technology
IMF	International Monetary Fund
LMs	Line Ministries
MBAW	Making Budget and Aid Work
MoF	Ministry of Finance
NGOs	Non-Governmental organizations
NPP	National Priority Programs
O&M	Operation and Maintenance
ODA	Official Development Assistance
PB	Program Budget
PIU	Project Implementation Unit
SBPS	State Budget Planning System
SDG	Sustainable Development Goals
TAs	Technical Assistance / Advisors
TC	Technical Cooperation
UN	United Nations
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development

**Abstract:**

This paper analyzes the effects of foreign aid on institutional capacity building. The research uses the Ministry of Finance, government of Afghanistan as the case for the study. The hypothesis that whether or not foreign aid can help to develop institutional capacity in developing countries is explored in this research study. This hypothesis was tested studying and analyzing the foreign donor funded capacity development programs at the Afghan Ministry of Finance, while specifically focusing on the effects of foreign aid on institutional development. While the findings of previous studies are generally mixed, the results of this study also indicate that foreign aid has mixed (good and bad) effects on institutional capacity development.

**Keywords:** Foreign aid, Institutional Capacity Development, Technical Assistance/Cooperation. Afghanistan.

# Chapter 1:

## Introduction

### 1.1 Background:

After the end of World War II in 1945, the United States set up the International Bank for Reconstruction and Development (IBRD now the World Bank) and the International Monetary Fund (IMF) to reconstruct Europe and Japan. The United States donated an amount of approximately \$130 billion under the Marshall Plan which was almost the first formal foreign aid in the history of international development.

While this first bunch of foreign aid was very effective and successful for developing many European countries, it proved disastrous in many other countries in Africa, Asia, and the Pacific. The unsuitable and vague mandates of the foreign aid caused power imbalances between the international development institutions and the recipient countries that have resulted in counter productivity and high level aid dependency.

From the perspective of governments, aid in its most basic definition is "*resources given from one country to another*" in order to help people in need. Aid (also referred to as Foreign Aid, Foreign Assistance, Overseas Aid, International Aid, Development Aid/Assistance, and or Economic Aid) is all usually understood as **Money**, **Materials**, and **Manpower** given by rich (developed) countries to poor (underdeveloped, developing) countries helping them develop institutional capacities for social and economic development. This type of foreign aid is distinct from that of military aid.

There are various views on foreign aid and its effects on institutional capacity building. The pro-aid views consider aid as necessary and effective for capacity development while others insist on the clarity of development goals of foreign aid which has the potential to build capacity, and establish strong central institutions. According to Bräutigam and Knack (2004), aid has the power to release the recipient country from pressure of revenue constraints and is considered to be an important factor for development of institutions. It also empowers the recipient countries to strengthen their institutions for delivering quality services. Foreign aid in the form of Technical Cooperation/Assistance (TC) has the potential to fill up the capacity gap in countries lacking skills and knowledge for building strong public institutions.

Foreign aid in the form of Technical Cooperation (TC) according to the Organization for Economic Co-operation and Development (OECD) is, the activities funded and supported by donor organizations aims to enhance the capacity, skills, techniques and knowledge of human capital for managing the resources in the recipient countries. Aid as technical cooperation (TC) is also defined as "provision of personnel hired by the donor agencies with the short term and long term

contracts to supply missing skills and train local people in the recipient country.” (Arndt 2000:123).

Howsoever, as aid may serve one or more purposes of the donor country but its flows through different channels and the ways it is delivered have great significance and effects on the recipient country. High levels of aid continued for a long period of time making it difficult for the developing countries to establish better public institutions mostly due to delivery mechanisms, low level of capacity, preferences of donors in types and channels of aid, and the On /Off budget<sup>1</sup> funding methods. Many scholars argue that too much aid does not have the potential to build good quality institutions in aid dependent countries; this does not mean that the amount of aid should be decreased but the aid to flow and channel through government budgetary structure could help in establishing quality institutions in the recipient countries.

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## **1.2 Problem Statement:**

The decades’ long war in Afghanistan has destroyed its state structure and the public institutions at all levels including the Ministry of Finance. In year 2001, before overthrow of the Talib regime, the Ministry of Finance was in a complete inactive and extremely poor condition. There was no single international donor agency, the economic and financial policy system was not existed at all, the annual fiscal budget and its administrative affairs were performed manually, and the ministry did not have proper guidelines and effective financial and budgeting mechanisms for other sectoral ministries.

However, since the establishment of the new post-Taliban government and the inflows of the foreign aid, the Afghan Ministry of Finance with the financial and technical support of the international donors could strengthen its position and built a computerized budgeting system. The Ministry has initiated E governance program for developing institutional capacity which includes major ICT projects such as Afghanistan Financial Management Information System (AFMIS) operating across the country, the Automated SYstem for CUstom DAta (ASYCUDA), the Development Assistance Database (DAD) and many others. Furthermore, the Ministry also developed policies and provided some effective guidelines and reforms such as program budgeting to other line ministries to enable them forecast and design their annual budgets efficiently, and prioritize their development programs based on real economic and social needs. Recently, the Ministry has also launched the Capacity Building for Results (CBR) program to develop the institutional capacities for properly implementing the Sustainable Development Goals of the United Nations (SDG) and the Afghanistan’s National Development Strategy (ANDS), the national framework for social and economic development.

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<sup>1</sup>On-budget is the proportion of aid channeled to the government national budget aligned with the government national priority within its own procedures and planning, whereas, Off-budget is the amount of funding that are planned and implemented by the donor agencies with their own policies and strategies without the government involvement and priorities.

While the foreign aid received by the Ministry of Finance has partly succeeded in few above mentioned areas, lack of civil servants institutional capacities in the areas of policy making, budget formulation & execution, fiscal sustainability, payments processing and collecting revenues are yet the greatest challenges that despite of huge foreign financial and technical aid, are still largely existed and make it difficult for the Ministry to independently function without receiving foreign aid and assistance. The Ministry of Finance still lacks both individual and institutional capacities to deliver its very basic functions i.e. internal audit, financial & budgeting operations, implementing the financial reforms in other line ministries, and program budgeting by its own without donors' financial and technical support. This lack or partly inexistence of institutional capacity has made the Ministry largely dependent on foreign aid particularly the technical assistance through buying capacity via recruitment of Technical Advisors (TAs) with high salaries and less productivity. This mechanism of filling capacity gaps with buying capacity from outside without building and sustaining it within the institution, has taken away the opportunity from the Ministry to build its own permanent capacity, has increased its operational costs, and raised over dependency on foreign and external aid to function. Moreover, this problem has faced the Ministry of Finance with future challenges of independent functionality, having long term sustainability, and in-house institutional capacity development.

This research study is therefore analyzing the effects of foreign aid particular the Technical Assistance (TA) on institutional capacity building via studying the Afghan Ministry of Finance as the case for research. The research is focused on the current aid system at Ministry of Finance and its effects on the long term institutional capacity building taking Peter Morgan, UNDP's and Cohen & Wheeler capacity development indicators<sup>2</sup> into consideration to measure and understand the relation between foreign aid and institutional capacity development within the Ministry of Finance.

### **1.3 Research Questions:**

In order to find out what are the reasons behind the afore stated capacity problems at the Ministry of Finance and also to research how foreign aid in terms of TAs has affected the institutional capacity building process at the ministry, this research study is formulated and designed to answer the following main research question and the substantial questions:

#### **1.3.1 Main Question:**

*What are the effects of current aid system on institutional capacity building at Afghan Ministry of Finance?*

The main research question is focused on the analysis of foreign aid in relation to the institutional capacity building and addresses how aid has affected the overall capacity building

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<sup>2</sup> These three capacity development measurement indicators are described in the literatures in chapter two.

process at the Ministry of Finance. The main question is further elaborated by posing the following three substantial questions.

### **1.3.2 Substantial Questions:**

1. What are the effects of foreign aid and institutional capacity building at Afghan Ministry of Finance?
2. How does foreign aid channeled through non-government budgetary structure affect institutional capacity building at Afghan Ministry of Finance?
3. How does donor fund technical assistance (TA) affects institutional capacity building?

### **1.4 Research Objective:**

While one of the objectives of this research paper is the partial fulfilment of the degree of Masters of Business Administration, this research is mainly intended to analyze the effects of foreign aid and institutional capacity building looking at the Afghan Ministry of Finance as the case for this study. This research has also the following objectives:

- To apply recent theories in order to analyze the capacity development of Afghan Ministry of Finance.
- To analyze the institutional impact of aid at Ministry of Finance.
- To analyze the aid delivery mechanism and its effects on capacity building at Ministry of Finance.
- To analyze role of short term donor funded Technical Advisors (TAs) in building institutional capacity at the Ministry of Finance.
- To obtain knowledge & information about conducting academic research.
- To provide suggestions and recommendation for the Ministry of Finance, government and donor agencies on improving their engagement in capacity development programs.

### **1.5 Research Methodology and Data Collection:**

The research methodology followed for this study is a combination of qualitative and quantitative data collection techniques, the former is conduction semi-structure interviews with government officials at Ministry of Finance particularly the project implementation staff, Technical Advisors (TAs), civil servants and other research related individuals.

However, the later quantitative technique is mainly focused on reviewing and analyzing a number of project reports, academic journals and resources, business data, and up to date online sources. This technique also includes review and analyzing some of the most important Afghan government and international donors' documents namely the Afghanistan National Development Strategy (ANDS), the United Nations' Sustainable Development Goals (SDGs), and Annual

Reports from few selected donors funded Capacity Development Projects at the Ministry of Finance.

## **1.6 Structure of the Paper:**

This Research Paper is constructed with Six Chapters. The current chapter one includes the background, problem statement, research questions, research objectives, methodology and limitation of the study. The next chapter two is the theoretical frame work of this study, this chapter discusses the theories concerning the foreign aid and its effects on institutional capacity building in aid receiving countries. For further and most relevant academic literatures, this chapter describes the Stephen Knack and Deborah analysis of aid and institutional impact as the most relevant literatures to the research study. Chapter 3 describes in detail the methodology and strategy of this research study by using both quantitative and qualitative data collection (Mixed Method) followed by semi-structured interviews' format.

Chapter 4 mainly describes and discusses the indicators for the measurement of institutional capacity building at the Ministry of Finance, using various capacity development measurement tools and indicators. Chapter 5 further discusses the effects of foreign aid on institutional capacity building through analysis of the On-budget and Off-budget methods of funding and it also describes an overall review and analysis of capacity building programs through three donor funded development projects at the Ministry of Finance and discusses its pros and cons. The final chapter is the conclusion, recommendations and reflection of the study.

## **1.7 Limitations of the Study:**

As Afghan Government has more than thirties ministries with thousands of national and sub-national institutions, so for considering the time limit and deadline to submit this case study to The Hague University of Applied Sciences, it covers only the Ministry of Finance as case study. In order to dive deeper and gain more profound understanding of the case, the study initially narrowed research by defining topic to the effects of “Technical Assistance” component of the foreign aid on institutional capacity building which is mainly conducted through the recruitment of “Technical Advisors” (TAs) in three donor funded projects who have affected the capacity development opportunities at the Ministry of Finance because of their skills, knowledge, experience, or other factors such as high salaries and donors' interests.

## **Chapter 2: Literatures Review**

### **Introduction**

This chapter is intended to review and discuss various academic literatures pertaining to aid, its overall effects on the receiving country particularly on building institutions, the donor funded capacity building agenda, and the relation between foreign aid and institutions capacity building.

This chapter covers seven sections, section one is describing various concepts, views and definition of foreign aid and its effects on institutional capacity building. Section two mainly discuss the Technical Cooperation/Assistance type of foreign aid which is generally meant provision of expertise and knowledge to develop institutions and capacities. Section three is analyzing the Official Development Assistance (ODA) and the institutional capacity building practices in conflict affected and fragile states. Section four briefly gives idea about Stephen Knack Cross-Country Empirical Test while section five reviews and discusses the two (Stephen Knack and Deborah) analysis of aid and its impacts on the institution building in the recipient country. Sections Six further elaborates the three main indicators used by the United Nations' Development Program (UNDP), Cohen & Wheeler, and Morgan for measuring capacity development and the final section ends with conclusion.

### **2.1. The Concept of Aid:**

Aid in its most basic definition is "resources given from one country to another" in order to help people in need. Aid (also referred to as Foreign Aid, Foreign Assistance, Overseas Aid, International Aid, Development Aid/Assistance, and or Economic Aid) is all usually understood as Money, Materials, and Manpower given by rich (developed) countries to poor (underdeveloped, developing) countries helping them develop institutional capacities for social and economic development. This type of foreign aid is distinct from that of military one.

There are various views on foreign aid and its effects on institutional capacity building. The pro-aid views consider aid as necessary and effective for capacity development while others insist on the clarity of development goals of foreign aid which has the potential to build capacity, and establish strong central institutions. According to Bräutigam and Knack (2004), aid has the power to release the weak state from pressure of low national income problem and is considered to be an important factor for enhancing the public sector institutional capacity. It also empowers the recipient countries to strengthen their institutions for delivering quality services.

On the other hand, Edgren defines aid dependency as "a process by which the continued provision of aid appears to be making no significant contribution to the achievement of self-sustaining development." (Edgren et al. 1996: 24). However, according to Deborah Bräutigam aid dependency is a circumstance in which "a country cannot perform many of the core functions



of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid and expertise.” (Bräutigam 2000: 3).

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## **2.2. Technical Cooperation Analysis:**

There are various views of organizations and individuals about technical cooperation. Organization for Economic Cooperation and Development (OECD) defines as activities fund and supported by donor organizations aims enhance the capacity, skills, techniques and knowledge of human capital for managing the resources in the recipient countries. (OECD 1998). Technical cooperation aims to develop institutional technical capacity i.e. improve the public sector institutional capacity for better management and operating efficient and effectively within the country to deliver fast services to its people. In addition, any services or activities funded by donor agencies that help in design and implementing of the projects for achieving better result is called Technical Cooperation (Ibid). Meantime, Charming Arndt calls technical cooperation as “the short and long term contract based staff recruited by donor agencies for providing skills and training programs to recipient country’s local people” (Arndt 2000:123). Moreover, Arndt states that many of the technical cooperation programs are also provided short term courses to local staff within the recipient country or sending them abroad to attend conferences, specialize courses and degree programs. According to Arndt, the knowledge and skills in most of these training programs are transferred via pairing of experts (Technical Advisors) with their local counterparts (Ibid). In such technique of knowledge transfer, the TAs work with their local counterparts to gain skills practical and joint working.

However, there are some views who largely criticize the technical cooperation type of foreign aid particularly the provision of TAs which severely undermines the institutional capacity building as Edward Jaycox says, “Technical Assistance (TA) is a systematic destructive force that undermines the development of capacity, it is imposed by the donors without any need and demand in the recipient country.” (Jaycox 1993: 32). Meanwhile, Meyer also criticized that variability of high level foreign aid adversely effects on institutional capacity building in the recipient country as calls “high aid variability in a recipient country lead to a shorter-term, project-oriented emphasis by the donor agencies that disrupts existing institutions and replacing them with new ones, and collapse when funding ends.” (Meyer 1992: 635).

Moreover, Brain Lucas in his 2009 report named “*Changing approaches to Technical Assistance (TA)*” has criticized the technical cooperation /assistance type of foreign aid in many ways, he states that, “TAs are supply-driven, there is no country ownership for the recipients, donors control everything via the establishment of parallel Project Implementation Units (PMUs), the donor hired TAs are more accountable to donors than to the recipient governments, the TAs are highly expensive and distort public sector salaries, there is lack of transparency in the recruitment of TAs to ensure the required skills and their abilities in transferring knowledge and skills, and most importantly, there is no exit strategy and alternatives” (Lucas 2009: 12).

### **2.3. Official Development Assistance (ODA) and Institutional Capacity Building in Conflict Affected and Fragile States.**

Foreign aid and assistance not only play important role in filling expenditure gap and bridging revenues in non-conflict affected states but also contributes enormously at the initial states of institutional capacity building process in fragile areas. According to Rice and Patrick, fragile countries are not having “the essential capacity and/or will to fulfill four sets of critical government responsibilities: fostering an environment conducive to sustainable and equitable economic growth; establishing and maintaining legitimate, transparent, and accountable political institutions to secure their populations from violent, conflict and controlling their territory and meeting the basic human needs of their population.” (Rice and Patrick 2008: 3). Fragile states which are often called weak states are highly at the risk of violent conflicts as defined by the *OECD's Principles for Good International Engagement in Fragile State & Situations*. The structure of these states “lack political will and/or capacity to provide the basic functions needed for poverty reduction, capacity development and to safeguard the security and human rights of their population” (OECD 2007: 2). Therefore, as Boyce and Forman 2010 state, the development assistance both technical and financial for the conflict affected and fragile states are crucial factors in post-war state recovery process. Furthermore, foreign aid is playing important role in building a stable government structures, institutional capacity building and enable the country to gain public trust through the provision of goods and services and it helps by ensuring the state not to fall back to violent and conflict. In addition, it also helps to create foundation for permanent self-reliance through building a strong fiscal capacity, institutional capacity and well tax base system which have priority for building an effective state.

However, despite of the importance that aid as an external factor plays major role in institutional capacity buildings in conflict affected countries, it is also criticized in many ways. The low impact of aid on capacity development in some countries is due to the mismatch between high level aid and low absorption capacity as Forman and Patrick 2002 states, the flowing high level of aid at the begging conflict years with recent decline decrease the aid effectiveness and adversely effects on these states. In similar way, Paul Collier 2007 also argues that the high level of aid with low institutional capacity in conflict affected countries will never bring positive results as says “you keep on increasing aid, you get less and less bang for the buck; the first million dollars is more productive than the second and so on.” (Collier 2007: 101). Moreover, Collier says that, the available aid system has made it harder for the recipient to develop its institutions and led to lack of concentration on building capacities which resulted in diminishing returns in these countries (Ibid).

Furthermore, (Boyce and Forman 2010) state that high level of aid is channeled through non-government budgetary structure also waken the institutional capacity of the recipient states in multiple ways, it helps in establishing duel public sector where the one is called national and the second is international that further undermine the capacity of government employees who have had before receiving foreign aid, the talented employees are attracted by donor agencies through

bidding up high salaries, government officials are spending more time on meeting with donor agencies and making agendas.

And finally, Ghani and Lockhart also argue such foreign aid system that weakens recipient governments' budgetary system, they state that, "the largest adverse impact of the aid system has been the undermining of a country's budget as the central instrument of policy; when hundreds or thousands of projects are funded through parallel systems, implemented by the private sector, NGOs, and UN agencies, and supervised by donors, the budget of the recipient country tends to become undermined." (Ghani and Lockhart 2008: 101). They further state that, "the projects' separate decision making, contracting, management, maintenance accounting, and auditing rules fundamentally circumscribe the budget's role in deciding a country's priorities and allocating resources to implement them in a disciplined way." (Ibid: 101).

#### **2.4. Stephen Knack Cross-Country Empirical Test:**

Stephen Knack's Cross-Country Empirical Test shows that countries which receive a high level of foreign aid are having weak institutional capacity. Stephen states that aid dependency weakens the quality of government institutions through multiple ways such as siphoning off the already government scarce qualified staff by donor agencies, rent seeking, lowering accountability and conflict over control of aid (Knack 2001). Stephen's argument of aid dependency and its adverse impact on public institutions building is based on cross-country data test in which he measures the state's quality from the subjective indices of International Country Risk Guide (ICRG). The three ICRG's variables (corruption, bureaucratic quality, and rule of law) are measured by Knack for foreign aid's outcomes and effects on public institutions whereas, there are two alternative variables for measuring the level of aid dependency I) ODA as percentage of government expenditures II) official development assistance (ODA) as percentage of gross national product (GNP). The results from Stephen's cross-country data test shows that there is negative relation between institutional qualities and aid dependency of these states that receive more foreign aid for long time and also showing low points in institutional coding system of ICRG.

However, the recipient country to have effective and efficient reforms, Knack proposes provision of aid as direct budgetary support, he further states that, "If donors are not designing and implementing projects, or providing tied aid and technical assistance, recipient governments may face greater opportunities to build administrative capacity, and to negotiate with civil society over service provision, if not over revenues." (Ibid: 326).

#### **2.5. Stephen Knack and Deborah Bräutigam analysis on aid and institutional Building:**

High influx of aid plays important role in improvement and developing government institutions if it channels from the government budget structure with clear development goals that could help in developing plan, policies and strategies for improving the quality of services through establishing a strong administration (Bräutigam and Knack 2004). Although, the high level of aid

flows for long time and the way its delivering to recipient states weakens the government institutions in multiple grounds i.e. more expenses associated to aid, more development donor funded projects that due to civil war or crisis government employees do not have capacity to manage these projects, attracting already scarce government talented employees by donor agencies through high salaries, and most importantly, missing the opportunities of learning by doing (Ibid).

The existence of multiple donors funded projects in an aid receiving country as Knack and Deborah discuss, are resulted in miss-management and an “institutional destruction”. According to Knack and Deborah, such multiple projects requires more government supervision, reporting, and participation in donors’ meetings and makes it tough for the government employees to pay more attention to priority of ministries (Ibid). They further add that, the government staff do not have the capacity of managing these multiple donors funded projects, therefore, this circumstance leads to the establishment of separate independent Project Implementation Unites with Off-budget funding mechanism parallel to government public sector.

Finally, the inflows of high level foreign aid via different separate channels and following the idea of funding multiple projects by donors directly affect the process of building quality and strong public institutions as such system of aid “poaching” off already scarce talented employees from the government by donor agencies through bidding up high salaries. (Ibid).

## **2.6. Institutional Capacity Development Measurement:**

### **2.6.1. Capacity Measurement Mechanisms of UNDP:**

UNDP’s Result-Based Approach is used to measure the capacity development that empowers public sector institutions to move out from the current fragile situation to a desire state of future capacity and is further helps to institutional capacity enhancement enormously. The framework is further measuring the changes between the current state and the future desire state of any government institution that use the “existing endowment” of materials (human resources and financial assets), and its current ability is to display inputs into outputs i.e. change in regulation’s compliance, policies and changes in skills and knowledge (UNDP 2010).

In order to measure changes in institutional capacity, UNDP result based approach has used three elements called (development stability, institutional performance, and adoptability) which measures with three levels, **A) The impact Level:** An overall change in human capital, **B) The Outcome Level:** Change in stability, institutional performance and adoptability, and **C) The Output Level:** Change in quality of services produced through the enhancement of capacity i.e. strong accountability, leadership and increase in skills, experience and knowledge.

Howsoever, this approach shows that all three levels are interconnected with each other and move forward against the strategic goals which are driven by the changes in the

government institutions' performance, stability and adoptability. Based on this approach, the performance of institutions is measuring through changes in effectiveness and efficiency to deliver its annual mandates, the stability is measuring through its regularity over period of time, and adoptability is measuring through adjustments for making changes.

## 2.6.2. Capacity Development Indicators of Cohen and Wheeler:

Cohen and Wheeler in order to measure capacity development of some African countries' public sector has developed a list of indicators which are important in measuring institutional capacity development. In doing so, they have picked up the attrition and retention rates of civil service employees in line ministries to assess and measure if institutional capacities are developed. These measurement indicators as mentioned in below box; mainly focus at individual level capacity development in African public sectors.

### **Cohen and Wheeler's Capacity Development Measurement Indicators**

- The trained staffs' retention rate in target line-ministries.
- The trained staffs' retention rate in other government institutions and donor agencies.
- The trained staff attrition rates in line-ministries (for how long they keep on their job in public sector and line-ministries).
- Declining of technical staff and advisors recruited by donor agencies.
- The profile of staff who are leaving the government sector: whether the qualified staff stayed on their job with government or left the government sector.

*(Source: Cohen and Wheeler cited in Alokozai 2016, pp.9)*

By using the above mentioned indicators as Mizrahi states, the measurement analysis has found an increase in level of retention rate than was expected in spite of poor performance, low salary, insufficient office tools and less commitment to their job (Cohen and Wheeler as cited in Mizrahi 2004). However, the question is raised that why government staff has still stayed on their job in public sector and in spite of low turnover of personal why in those line-ministries still the bureaucracies exist to perform weakly?? Cohen and Wheeler's capacity development measurement's analyses found the answers to these questions as "government staff considered their duty as a small element of their salaries, these employees have save government positions until finding higher salary job in others institutions. Similarly, due to their low performance, they are taking maximum

advantage of the current job by using office materials and hours for a private life activity” (Ibid: 13). This measurement analyses further found that, due to lack of clarity and roles, lack of accountability & transparency, nor performance evaluations and low salary scale within the government structure are specific reasons for government staff to stayed on their job and to keep working in public sector (Cohen and Wheeler as cited in Mizrahi 2004).

### 2.6.3. Peter Morgan’s Principles for Measuring Institutional Capacity Development:

Peter Morgan in his article “*The design and use of capacity development indicators*” discusses some basic principles and described some operational guidelines to measure the capacity development of public institutions. According to Morgan’s argument as cited in Mizrahi 2004, “capacity measurement is different from performance measurement” (Mizrahi 2004: 14). Mizrahi further argues that, “the indicators of capacity could not be based on the conventional ‘inputs-outputs outcomes-impact’ which is broadly used in developmental organization and they could focus further on behavioral change and process.” (Ibid: 14).

However, Morgan argued that for capacity development there is no any clear indicator but he found some guideline and principles that could be used to measure the capacity of organization.

#### **Peter Morgan’s “boiler plate” Capacity Building Measurement Principles**

- The capacity development comprises increase in human capital and their development of skills, knowledge and infrastructure. But the important component is called Institutional capital (i.e. what exactly the institution can do).
- Capacity development also means to changes in behavior of human such as in their attitude, the new skills they have acquired, value and relationships created over time. It’s about maximizing strengths and generating new opportunities.
- These new competencies and abilities placed in group unit. These are better than property of individuals which shows structural improvement.
- The last one, current new behavior should have remained even when specific employee leave institutions. Development of Capacity should have a sense of sustainability.

*(Source: Peter Morgan article, the design and use of CD indicators, as cited in Alokozai 2016, pp. 10.)*

### 1.7. Conclusion:

The literatures reviewed throughout this chapter discuss various arguments on the effects of foreign aid and institutional capacity development in fragile and conflict affected countries. As discussed, some of these literatures support more inflows of foreign aid and insist that foreign aid contributes enormously in making effective government structures, develop institutional capacities, enable the recipient country to gain public confidence through the provision of quality services in the short term, and help to ensure the state does not fall back to violence and conflicts. Similarly, some other scholars state that high influx of aid plays important role in improvement and developing government institutions if it channels from the government budget structure with clear development goals that could help in developing plan, policies and strategies for improving the quality of services through establishing a strong administration. There are also a group of scholars who support the technical cooperation category of foreign aid for building institutional capacities and argue, *“Provision of personnel hired by the donor agencies with the short term and long term contracts to supply missing skills and train local people in the recipient country”*.

However, there are also the critical category of scholars who are critical of foreign aid particularly of the technical cooperation as according to them foreign aid in the long term erode public institutions in fragile and conflict affected areas and make them aid dependent. They argue that high level of aid flows for long time and the way its delivering to recipient states weakens the government institutions in multiple grounds. Moreover, there are also scholars who criticize the technical cooperation type of foreign aid as this weakens public institutions; others argue that low capacity and non-budgetary funding system create parallel structure within the government and challenge state’s authority and supervision.

Among these above reviewed literatures, there are also scholars and researchers who strongly criticized the technical cooperation in the form of technical advisors (TAs) and their adverse effects on institutional capacity development which calls TAs as “systematic destructive force” and hired by donors only without any demand from recipient country. Some say that most of the donor funded technical advisors (TAs) are accountable to donors only, twist recipient government’s salaries, high cost attached and increased the sense of dependency.

Reviewing the above various literatures on foreign aid and its effects on institutional capacity building, the theoretical framework for this research paper is formulated based on three specific capacity development’s measurements offered by Peter Morgan, Cohen and Wheeler, and the UNDP’s measurement indicators described above to study and analyze the effects of foreign aid on institutional capacity building at the Afghan Ministry of Finance.

The reason I pick these literatures and focus on capacity development measurements is that I would like to assess the effects of current aid and funding system of institutional capacity development to find out whether or not foreign aid helps to develop institutional capacity at the Afghan Ministry of Finance. In order to do so, I first need to measure the capacity being developed by donors over the last one decade at the Ministry of Finance against the indicators described in the literatures as the theoretical frame for this research study.

Further, considering the afore mentioned literatures, particularly those who support more inflows of foreign aid but at the same time insist on transparency and efficiency, this paper will specifically review and analyze a number of donor funded capacity building projects within the Ministry of Finance to cross-check the outcomes of these projects against the indicators set for the measurements of capacity to find out whether and to what extent these donor funded and controlled programs help to develop institutional capacities. Additionally, in order to further describe the effects of foreign aid on institutional capacity development, the study focuses on specific methods of funding namely the On/Off budget funding system to analyze which funding method help to build capacity and which doesn't.

## **Chapter 3: Research Methodology**

### **Introduction:**

The methodology of this research study, although explained in more details in this paper, consisted of arriving at a solid research question pertinent to both quantitative and qualitative data collection (Mixed Method) followed by semi-structured interviews' format, opportunistic method for participants' selection, and an interpretative analytical approach.

### **3.1. Research Design and Approach:**

This research paper is designed to analyze and understand the effects of foreign aid on institutional capacity development at the Afghan Ministry of Finance, the study case for this research. In order to dive deeper and gain a more profound understanding of the case, I initially narrowed my research defining topic to the effects of "Technical Assistance" component of the foreign aid on institutional capacity building which is mainly conducted through the recruitment of "Technical Advisors" (TAs) who have affected the capacity development opportunities at the Ministry of Finance because of their skills, knowledge, experience, or other factors such as high salaries and donors' interests.

My understanding of foreign aid's effects on institutional capacity building is one of various research strategies to analyze and measure both quantitative and qualitative capacities due to the effects of foreign aid taking into account the very specific case of the Ministry of Finance, government of Islamic Republic of Afghanistan. More so, studying the relations between capacity development and the foreign aid has been significant for understanding the concept of "effects" which include both positive and negative changes in regards to the development of institutional capacity. This focus will allow me to identify with two possible problems at the Ministry of Finance: (i) whether foreign aid, particularly the (TAs) program has helped to develop capacity or actually has not over the time; and (ii) a comparative analysis amongst the



capacity development projects will depict contrasts. The main goal of this research is to demonstrate the contrast between perceptions and reality.

The research question evolved as I progressed through my readings of the research topic and support of my research supervisor. Ultimately I proceeded with a focus on effects of foreign aid particularly the provision of Technical Assistance (TAs) on institutional capacity development how the current aid system has affected the institutional capacity development process at the Ministry of Finance. This research study was to help me gain understanding on the perceptions and realities of donor funded capacity development programs at the ministry over sixteen years' period of time with a particular focus on the donor paid Technical Advisors scheme which has been primarily designed to build and develop capacity at the ministry.

### **3.2. The Research Question (s):**

My preliminary research on the effects of foreign aid and the institutional capacity development process at the Ministry of Finance demonstrated a perception that the foreign aid and the way it has been received by the ministry to develop its institutional capacity, has not been as much useful and effective as it should have been. In addition, I have identified with the perception that the recruitment of Technical Advisors (TAs) is a short term, ineffective, and inappropriate strategy for institutional capacity development and has further made the ministry dependent on foreign aid to function.

Therefore, my research questions will maintain a neutral balance between perceptions and realities, allowing me to highlight where exactly the perception clashes with the reality. With this mind, I narrowed and concluded the main research question to be: ***What are the effects of current aid system on institutional capacity building at Afghan Ministry of Finance?***

However, in order to fully and appropriately answer this main question, I have then formed the following three substantial questions:

1. What are the effects of foreign aid and institutional capacity building at Afghan Ministry of Finance?
2. How does foreign aid channeled through non-government budgetary structure affect institutional capacity building at Afghan Ministry of Finance?
3. How does donor fund technical assistance (TA) affects institutional capacity building?

### **3.3. Data Collection:**

The research data were collected on the basis of qualitative and quantitative approaches. The approaches for collecting data were:

## **I. Face to Face Interviews (semi-structured):**

According to Denzin and Lincoln (2008:74), “qualitative interview attempts to understand the complex behavior of member of society without imposing any prior categorization that may limit the field of inquiry.” In other words, they are more typically concerned with opinions about particular subjects, as they seek to understand patterns of behaviors rather than explain. However, for achieving the maximum right and relevant answers to the interview questions, I kept in mind some of the following things for the interview:

- Accessing the setting
- Understanding the culture and language of the respondents
- How to present myself
- Gaining trust
- Building rapport
- Collecting empirical material and taking notes
- Use of language and specific terms
- Non-verbal communication

Additionally, I also planned for all contingencies i.e. prepared an interview schedule and data recording system when conducting the interviews as the method of choice to collect qualitative data for this research study. Furthermore, while conducting an interview, I was generally starting off by breaking the ice with the respondents and then moving from more general to specific questions, being also cautious of not getting involved in a “real” conversation with the respondents, or answering their questions instead of asking them about the specific research problem.

## **II. Use of Secondary Data (documents review):**

The use of secondary data approach was mainly focused on reviewing and analyzing a number of project reports, academic journals and resources, business data, and up to date online sources. This approach also included review and analyzing some of the most important Afghan government and international donors’ documents namely the Afghanistan National Development Strategy (ANDS), the United Nations’ Sustainable Development Goals (SDGs), and Annual Reports from few selected donors funded Capacity Development Projects at the Ministry of Finance.

### **3.4. Participants’ Selection:**

For me to explore and obtain relevant information through my interaction with the participants I developed questions that would allow me to probe in order to get clarification on the answers provided by the respondent – I used semi-structured interview. This form of interviews as

(O'Leary 2004:164) suggests are “neither fully fixed nor fully free, and are perhaps best seen as flexible”.

I intended to employ the ‘snowball’ sampling technique, which is based on participants identifying specific respondents who meet the participant’s selection criteria. After conducting the interview with him or her, then the person was asked to recommend any other person appropriate to take part in the interview. Despite my intentions, there was a shift in participants’ selection because of time constraints and participants’ availability. Given that, I decided to use the ‘opportunistic’ sampling method. This method according to Patton comprises of “on-the-spot selection” of participants in order to take advantages of new opportunities while conducting the research (Patton 1990). Therefore, I selected the participants based on their availability and willingness to take part in the study.

Given that, the participants were selected based on their availability and willingness, but I also put some specific criteria of research related knowledge and information, experience with donor funded projects, and capacity development skills. Furthermore, as I implemented an opportunistic method for participants’ selection, setting these extra criteria has worked well with collection relevant and first hand data.

### **3.5. Data Analysis:**

One of the biggest challenges for me as new researcher was to interpret and analyze the information that was collected: reviewing the interview recordings, notes, reports, transcripts and documents. My intention was how to gather the answers and found categories that best represented my research findings. Up until that point, all the information was considered raw information and I needed to go deeper into analysis. Using the data collected from the interviews and the documents review, I had two parts of the analysis where in part one I interpreted the information and related the main objectives which was ultimately to answer the main and substantial questions.

In part two; I furthermore identified the associations between the variables, such as aid, institutional capacity development and their relationships. In a deep analysis way, I linked particular information to general concepts and relationships in accordance with the interpretative analysis method.

### **3.6. Consideration of Ethics:**

As we all live in a social world where considering the ethical issues is important part of this world, this research paper has paid strict attention to consider social and academic ethics both in its qualitative and quantitative aspects of the data collection and analysis as Punch (2005) states that, considering ethical issues in research studies is an important phenomenon as it intrudes more in human environment.

This research paper has therefore considered all academic and social ethical principles to minimize the risk of harms, obtaining informed consent, protecting anonymity & confidentiality, and avoiding deceptive practices during and after the study. Considering these points, all related participants were given great detail about the study before taking part in this research. Participants were explained about the aims and objectives of this study and the data collection; they were also informed that at any time they can withdraw from the study without being allowed and answering any question.

### **3.7. Quality Concern of the Study:**

As the paper was followed by mixed method of research, under the quantitative quality, there are three best parts. The first is the reliability that comes from measurement theory and refer to data consistency, this paper was applied by three theories that measures the capacity of the civil servant. The second part is measurement validity, a test is valid if its measure. The third is the research validity which is broader than measurement validity as it shows the overall quality of the whole study.

On the other hand, there are also three quality concerns in qualitative study, first is the insipid data that focused only on individual meaning that doesn't have any procedure to decide whether the specific meaning is interesting or not, the second part is the quality of the researcher, according to Mors Richards (2002) that any study is only as good as the researcher and third part is the lack of quality safeguarded.

### **3.8. Conclusion:**

The research methodology followed for this research study as explained, is a combination of qualitative and quantitative (mixed) methodology. This mixed method of research is the perfect approach to find the best possible answer to the research questions as only a quantitative or qualitative approach without being supported by each other is not an accurate and proper method to conduct research on issues which include both qualitative and quantitative dimensions as is the case with this research study.

Therefore, based on the specifications and two (qualitative and quantitative) dimensions that the research problem of this study has, I have carefully chosen the mixed method as the methodology for conducting this research study.

## **Chapter 4: Capacity Development Analysis of Civil Servants at Ministry of Finance:**

### **Capacity Development Analysis of Ministry of Finance using Peter Morgan, UNDP and Cohen & Wheeler Institutional Capacity Development Measurement Tools.**

This chapter begins with an overall review of the capacity development activities within the Ministry of Finance launched and funded by various foreign donors under different projects and programs since 2001. However, in order to measure and analyze whether or not the capacity within the Ministry has developed over this course of time, in the next following sections, the three main capacity development measurement tools namely; the Peter Morgan capacity measurement principles, Cohen and Wheeler indicators, and UNDP mechanisms as described in details in chapter two, will be applied as the theoretical framework for this research study to measure and analyze the capacity development at the Afghan Ministry of Finance.

#### **4.1. Capacity Development Overview at Ministry of Finance Since 2002.**

The decades' long internal war, migration, displacement, and most importantly, the young brain drains have all severely and adversely affected the government apparatus as a whole and the Ministry of Finance in particular. This scenario washed-out everything within the Ministry, there were no desks and chairs to sit on and work, no single computer device, what the Ministry staff then had were pens, pencils and white papers at all, there was no public financial management and governance system, no central revenue collection and tax system, and the GDP was shrunk (Planning Directorate 2015: 21)<sup>3</sup>.

However, since 2001, with the help of foreign donors, the Ministry of Finance has had made some progress in few areas, the share of domestic revenues to GDP was increased from 3% in 2002 to 11.6% in 2011, the electronic governance system has developed which includes major ICT projects such as Afghanistan Financial Management Information System (AFMIS) operating at central and provincial departments of the ministry, computerized custom & revenue collection system has installed, the Development Assistance Database (DAD) has developed to record the financial progress status of all donor funded projects and the Automated SYstem for CUstom DAta (ASYCUDA).

Moreover, the Ministry has expanded its capacity development and institutional building programs to other line ministries and has brought some effective reforms such as program budgeting by which each line ministry becomes able to transparently and efficiently forecast its required budget for every upcoming fiscal year and enter it into the State Budget Planning System (SBPS). Additionally, the Ministry has also introduced some reform programs for institutional capacity development such as the Capacity Building for Result (CBR), pay and grade system, and the Civilian Technical Assistance Program (CTAP) which offers the line ministries the opportunity to identify and articulate their own needs to find the right Technical

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<sup>3</sup> Planning and Registration Directorate, Internal Report 2015, Ministry of Finance, Afghanistan pp. 21.

Advisor (TA) for building their capacities. The ministry has also provided a number of short terms in-house and abroad donor funded training programs for its civil service staff to enhance their individual capacity to gain knowledge and skill for better and professional performances.

Nevertheless, due to limited capacity of civil servants, the Ministry of Finance has not been able to provide the quick and quality services; hence the capacity gap has still been existing. There are still revenue collection departments not been digitalized, there are no transparent and efficient mechanisms for tax reforms which have resulted in increased corruption, the delay in daily office functions, and the decreasing level of revenues, where all these are today's requirements for quality services in the country. While, a large number of capacity development and technical cooperation projects funded by foreign donors have been implemented for the last sixteen years, the ministry of finance has not yet been able to deliver its quality institutional functions by its own.

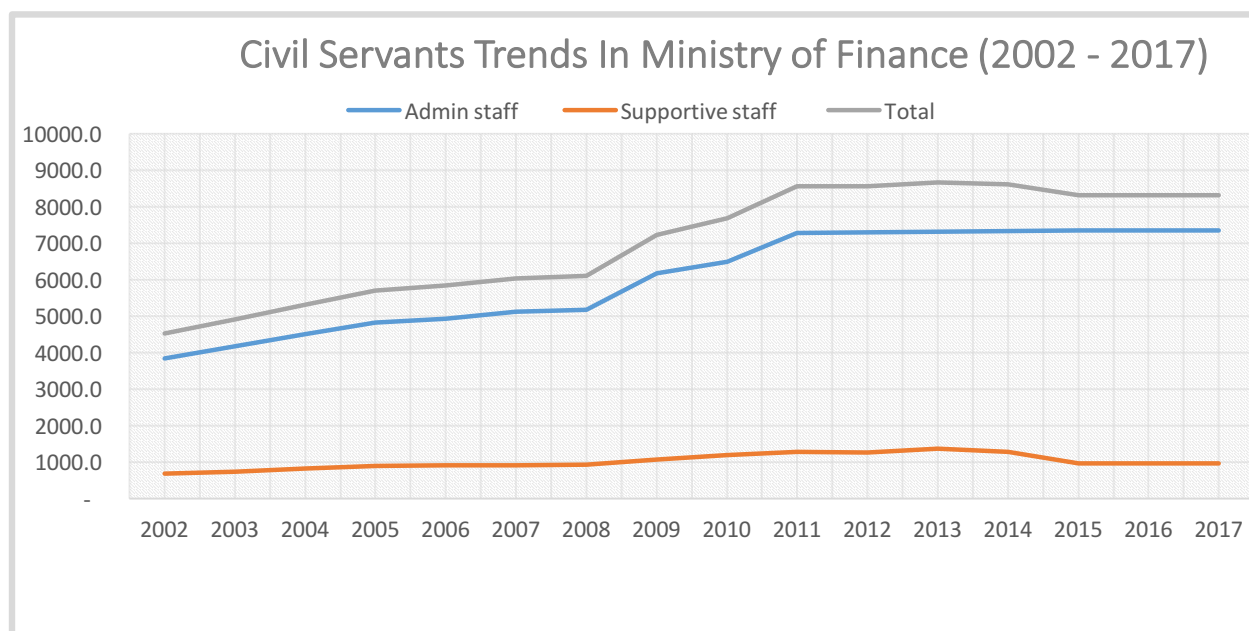
Furthermore, due to the low capacity of the government employees, the Ministry of Finance is contract out number of its organization's projects, functions and services to national and international private companies that has increased the cost to ministry and resulted to further lead to fragility and dependency over external assistances that created daunting institutional capacity building challenges in the future.

#### **4.2.In-house Staffing at Ministry of Finance:**

There has been a significant change (in number) in the civil service staffing within the Ministry of Finance during 2002 to 2017. At the beginning year of 2002, Afghan Ministry of Finance had total number of 4,522 civil servants out of total 3,844 were permanent admin staff, and the remaining 678 were supportive staff (Ministry of Finance, HRM, 2017).

However, since 2002, a large number of administrative and supportive staff in ministry has been increased and almost become double. The below (*Figure No.4.1*) and (*Table No.4.1*) indicates the trends in the number of civil servants over the time 2002-2017 at the Ministry of Finance with a current total number of 8,310 employees.

**Total number of civil service staff at Ministry of Finance Since 2002 to 2017:**  
**Figure No 4.1**



Source: Author construction based on the data received from Human Resources Department, Afghan Ministry of Finance, 2017

**Total number of admin and supportive staff by % (2002-17):**  
**Table No 4.1**

Year	Admin staff	Supportive staff	Total	%Admin staff	%of Supportive Staff
2002	3.844	678	4.522	85%	15%
2003	4.176	725	4.901	85%	15%
2004	4.499	814	5.313	85%	15%
2005	4.822	884	5.706	85%	15%
2006	4.931	903	5.834	85%	15%
2007	5.124	914	6.038	85%	15%
2008	5.174	920	6.094	85%	15%
2009	6.164	1.068	7.232	85%	15%
2010	6.485	1.194	7.679	84%	16%
2011	7.277	1.273	8.550	85%	15%
2012	7.291	1.259	8.550	85%	15%
2013	7.304	1.361	8.665	84%	16%
2014	7.325	1.284	8.609	85%	15%
2015	7.342	967	8.309	88%	12%
2016	7.343	967	8.310	88%	12%
2017	7.343	967	8.310	88%	12%

Source: Author construction based on the data received from Human Resources Department, Afghan Ministry of Finance, 2017.

### **Analysis of (Table No 4.1):**

As is shown in above (Table No 4.1), there are two categories of staff at Ministry of Finance such as the administrative staff and supportive staff. Since 2002 to 2017, enormous increase can be seen in total number of civil servants particularly in number of admin staff which makes an average of 85% in comparison to the number of supportive staff which is 12% over the same period of time.

### **4.3.Capacity Development Measurement at Ministry of Finance:**

#### **4.3.1. Analysis of Capacity Development of Ministry of Finance by applying Peter Morgan Principles:**

As discussed in chapter two, Peter Morgan sets two basic principles for measuring capacity development; first is the quantitative change (basically change in numbers of civil service staff), and the second is qualitative change (change in educational qualifications, skills, and knowledge). However, in order to apply these two principles in the context of Ministry of Finance, I will first look into the quantitative changes in number of civil service employees (the administrative staff) to measure and analyze the capacity development trends over the period from 2002 to 2017.

##### **4.3.1.1. Measuring Capacity through Chang in Quantity of Admin Staff hired (2002- 2017):**

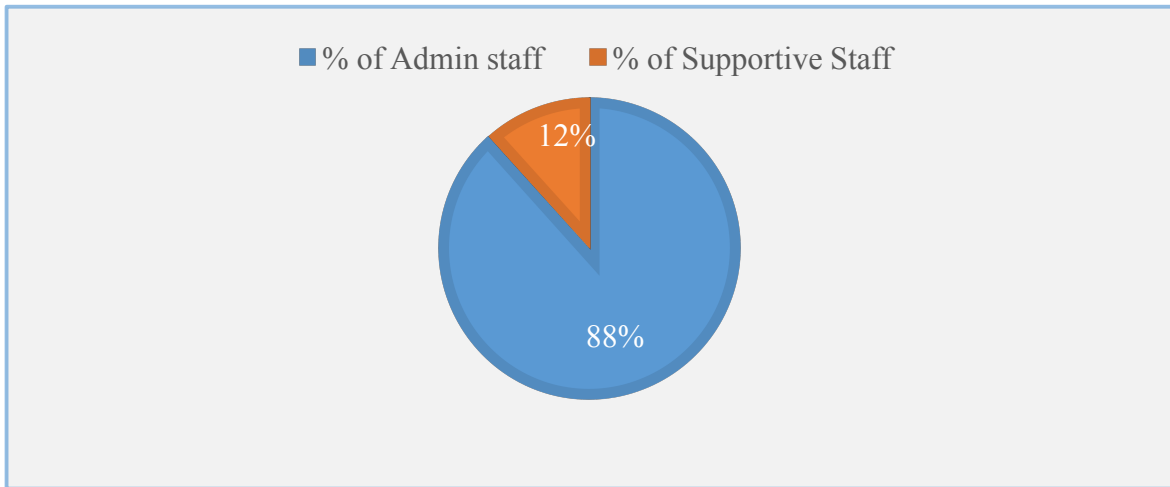
There seems to be a significant increase in quantity (number) of civil service employees at the Ministry of Finance over the period of sixteen years (2002-2017), this increase (quantitative change) in numbers of admin staff is mainly due to the increasing demand for public services and expansion of institutional activities of the ministry across the country.

As the above (Figure No 4.1) shows, the total number employees (both admin and support staff) at the Ministry of Finance over the period (2002-2017) has increased from 4,522 in 2002 to 8,310 in 2017, similarly, the number of civil service employees (the admin staff only) over the same period of time has also increased from 3,844 in 2002 to 7,343 in 2017. However, for the purpose of this study, in order to measure and analyze the quantitative capacity development with the help of Morgan's first principle of (quantitative change), I am focusing on changes in number of civil service employees (admin staff only) who are mainly involved in decision making, policy development, projects implementation and overall administrative activities in the ministry.

Below (Figure No 4.2) shows percentage share of the total administrative and support staff in the Ministry of Finance as of 2017.



**Figure No 4.2: Percentage Share of Admin and Support Staff in Year 2017**



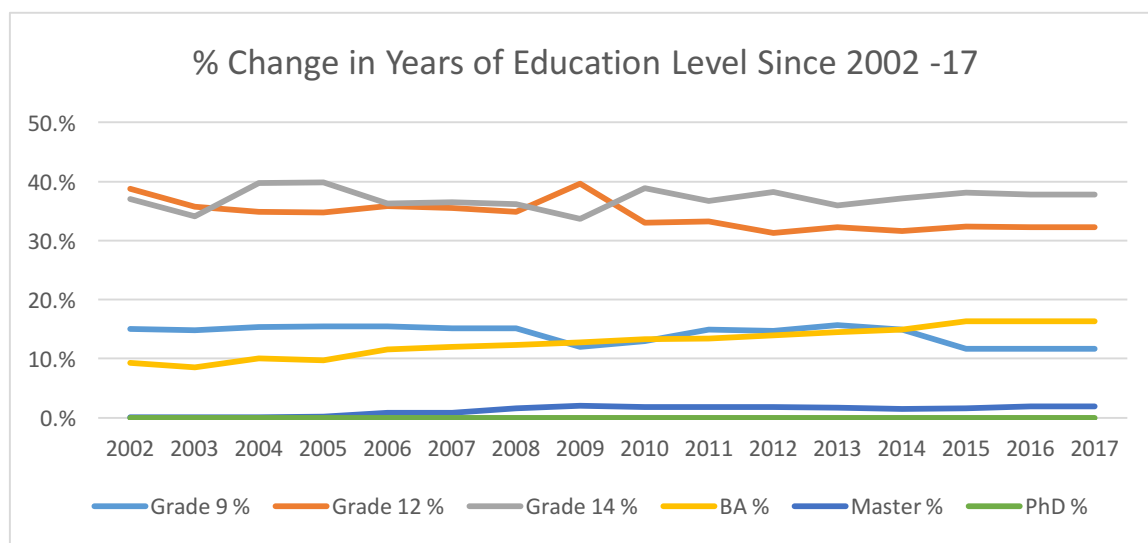
*Source: Author construction based data received from Human Resources Department, Afghan Ministry of Finance, 2017*

#### **4.3.1.2. Measuring Capacity through Change in Educational Levels Since 2002 to 2017:**

Morgan's second principle considers the change in educational level as an important (qualitative change) in measuring capacity development. based on Morgan's principle the increase in the years of education and qualification level of administrative and supportive staff shows a positive effect on capacity development of Ministry of Finance, this qualitative change in education levels further forward to enhance knowledge and skills of the civil service employees of the ministry. This will help in behavioral changes for long term i.e. the value and attitude of administrative staff who receive new skills and education that will efficiently help the overall system development and institutional improvement of the ministry.

On the other hand, low education level of civil servants indicates that capacity building activities have not helped to achieve the institutional upgrading targets of the ministry over the course of time. As below (figure No 4.3) shows, the impact of capacity development on education level. The figure shows the trends in civil servants' education level and their skills that have been hired throughout sixteen years in Ministry of Finance.

**Figure No 4.3 Trends in civil servants' years of education levels from (2002-17):**



Source: Author Construction based on data received from Enrolment and Registration Department of Ministry of Finance, 2017

**Table No 4.2: Percentage of Civil Servants Annual Educational Qualification Level from (2002-2017):**

Change in Years of Educational Level of Civil Servants of Ministry of Finance Since (2002 - 2017)													
Year	Grade 9	Grade 9 %	Grade 12	Grade 12 %	Grade 14	Grade 14 %	Bachelor	BA %	Master	Master %	PhD.	PhD %	Total Staff
2002	678	15%	1.751	39%	1.673	37%	418	9%	2	0,0%	-	0,0%	4.522
2003	725	15%	1.751	36%	1.673	34%	418	9%	2	0,0%	-	0,0%	4.901
2004	814	15%	1.851	35%	2.113	40%	531	10%	4	0,1%	-	0,0%	5.313
2005	884	15%	1.983	35%	2.275	40%	555	10%	9	0,2%		0,0%	5.706
2006	903	15%	2.094	36%	2.114	36%	676	12%	47	0,8%	-	0,0%	5.834
2007	914	15%	2.144	36%	2.205	37%	724	12%	51	0,8%		0,0%	6.038
2008	920	15%	2.122	35%	2.206	36%	750	12%	96	1,6%	-	0,0%	6.094
2009	868	12%	2.865	40%	2.432	34%	922	13%	145	2,0%	-	0,0%	7.232
2010	994	13%	2.533	33%	2.987	39%	1.023	13%	142	1,8%		0,0%	7.679
2011	1.273	15%	2.844	33%	3.138	37%	1.144	13%	151	1,8%		0,0%	8.550
2012	1.259	15%	2.673	31%	3.273	38%	1.194	14%	151	1,8%		0,0%	8.550
2013	1.361	16%	2.794	32%	3.112	36%	1.254	14%	144	1,7%		0,0%	8.665
2014	1.284	15%	2.724	32%	3.195	37%	1.283	15%	123	1,4%		0,0%	8.609
2015	967	12%	2.693	32%	3.164	38%	1.354	16%	131	1,6%		0,0%	8.309
2016	967	12%	2.684	32%	3.142	38%	1.359	16%	157	1,9%	1	0,0%	8.310
2017	967	12%	2.684	32%	3.142	38%	1.359	16%	157	1,9%	1	0,0%	8.310
Average %		14,2%		34,3%		37,1%		12,8%		1,2%		0,0%	

Source: Author construction based on the data received from Human Resources Department, Afghan Ministry of Finance, 2017:

#### 4.3.1.3. Analysis of above (Table No 4.2) and (Figure No 4.3):

As shown in above table, the educational level of civil servants at the Ministry of Finance is divided into six categories; it starts from grade 9 and ends with PhD level.

#### Grade Nine (9) Staff:

If we look at the above table, the staff with grade 9 level of education has been reduced from 15% in the year 2002 to 12% in year 2017. The Table also indicates that from 2002 to 2008 the

grade nine education level has remained 15%, later the number has reduced to 12% in year 2009. However, the grade nine education level has gone up to 16% in 2013 and remained high till end of the same year. The table further indicates that over period of 16 years, from the total civil servants that doing job at Ministry of Finance, only 14.2% an annual average base is having grade nine education level, so, it seems that Ministry of Finance has still less improvement to upgrade the grade nine staff to grade twelve.

#### **Grade Twelve (12) Staff:**

As indicated in table, the percentage of civil servants with grade 12 education level have decreased from 39% in year 2002 to 32% in 2017. Throughout the period of 16 years, the highest education level is 40% in 2009 and the lowest is 31% in 2012. Out of the total civil servants of the ministry, an average percentage of 34.3% are having grade 12 level of education and considered the 2<sup>nd</sup> highest portion of the total staff at the Ministry of Finance.

#### **Grade Fourteen (14) Staff:**

The percentage of the civil servants with grade 14 education level is 37% in the year 2002 and it has increased to 38% in 2017. The table further shows that the highest percentage of the civil servants throughout the 16 years is 40% between 2004 to 2005 and the lowest is 34% between 2003 to 2009. The average percentage out of the total civil servants of the Ministry of Finance is 37.1% which is considered the largest portion of the ministry's staff. Considering these trends and changes, the ministry has not been able to upgrade capacity of the grade fourteen staff to bachelor level of education.

#### **Bachelor's Education Level:**

The percentage of civil servants of Ministry of Finance with bachelor level education was 9% in year 2002 and has increased to 16% in year 2017, while the education level of the civil servants has gradually increased since 2002 to 2017, it seems that the ministry has upgraded the civil servants' bachelor level of education. However, the average percentage of the bachelor level education of the civil servants out of the total civil servants of the Ministry of Finance is 12.8% which is the lowest percentage in comparison with grade 9, 10 and 14 level of education.

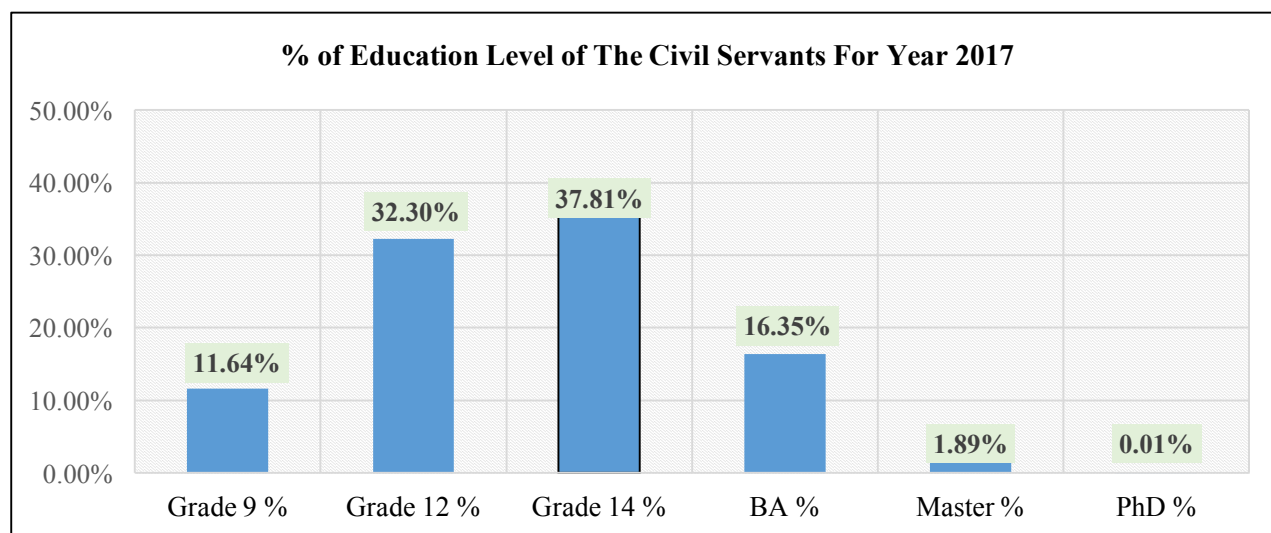
#### **Master and PhD Level of Education:**

There were only two employees with master's degree in the Ministry of Finance in 2002 and it has increased to 157 employees in 2017. The number of civil servants has slightly increased since 2002 and the average percentage of master's level out of the total civil servants of the Ministry of Finance is 1.2% which is the lowest percentage in comparison with other education

levels. Similarly, there were no PhD level employees at all since 2002 to 2015 but during the recent last two years there are only 2 PhD employees available.

However, in order to measure the capacity development through change in the civil servants' education qualification level at the Ministry of Finance, it is shown that the capacity has not been developed. A high number of government employees in ministry are having grade 12 level of education which counts for almost 35% out of the total and grade 14 which counts for 37% level of education out of the total admin staff at the ministry, however, on the average base, the bachelor, master, and PhD civil servants counts almost 14% out of the total civil servants of the ministry.

**Figure No 4.4: Percentage of education levels of civil servants as of 2017:**



*Source: Author construction based on the data received from Human Resources Department, Afghan Ministry of Finance, 2017*

## **Conclusion:**

According to Morgan's quantitative and qualitative capacity measurement principles, as I have statistically measured and analyzed the capacity development of the civil servants at the Ministry of Finance from 2002 to 2017, I have eventually come up with the following two different results.

- I)** If we measure the capacity development of the civil servants of Ministry of Finance through change in the number of employees throughout the 16 years, the civil servants have increased from 4,522 to 8,310 which is a positive change in the sense that the number of civil servants have been increased. This means that based on Morgan's principle one, the civil servants' capacity has been developed and positively affected by the donor funded capacity development programs.

- II)** On the other hand, if the study measures the capacity building of civil servants of the ministry through change in the educational qualification's level, we have found that the skills and knowledge of the civil servants of the ministry has not been upgraded since year 2002.

Moreover, during the analysis, on average base, we have found almost 90% of the civil servants were having grade 9, 12 and 14 education levels. Civil servants with such a low level of education adversely impact on institutional capacity and make it difficult for the ministry to formulate policies and plans to implement the development projects and hence make the ministry failed to reach its mission and vision.

According to Morgan, all the capacity building programs are associated with individual level of capacity development, although, in order to measure the whole ministry's institutional (capacity, efficiency, ability, performance, resources, and management to achieve their mandates), the study further use the UNDP's results based approach for the measurement of capacity development which will help reader to understand the current overall performance and ability of the civil servants at Ministry of Finance.

#### **4.3.2. Capacity Measurement of the Ministry of Finance using UNDP's Result Based Approach:**

As discussed in the literature, the UNDP's result based framework is based on using 3 key elements (Performance of institutions, stability and adoptability) for measuring the institutional capacity development. I will use mentioned tools to measure the overall institutional capacity development of the ministry looking into some of the key performance indicators as follows.

##### **Budget Execution Rate of Ministry of Finance:**

Based on UNDP's result based approach, we are measuring the institutional performance of Ministry of Finance through its budget execution rate from year 2011 to 2017. Low budget execution rate shows the weakness and poor performance of the ministry that could not able achieve its annual mandates, whereas, high budget execution rate shows high performance, efficiency, and ability of the ministry and can achieve its mandates. Below (Table No 4.3) indicates the six years' annual development and operating budget execution rates at Ministry of Finance.

**(Table No 4.3): Development and Operating Budget Execution rates at Ministry of Finance from (2011-2016) in Millions of USDs:**

Development and Operating Budget of Ministry of Finance from year (2011 -2016)				
Year	Total Development Budget	% of Spent	Total Operating Budget	% of Spent
2011	74.577	42%	107.211	89%
2012	68.723	61%	126.765	98%
2013	73.845	63.5%	122.876	97%
2014	88.822	46.4%	83.388	95%
2015	67.125	63.7%	101.063	97%
2016	69.244	55%	109.063	99%

*Source: Author construction based on the data received from 6 years Decrees, Directorate General Budget, Afghan Ministry of Finance, 2017*

**Analysis of above table:** As is shown in the table, there are two types of budget in Ministry of Finance. A) Development budget which is used for implementing development projects, capital expenditure and infrastructure activities, and B) Operating budget that covers the annual salaries, goods and service of the civil servants of the ministry.

In the above table, we see that the lowest annual development budget execution rate is 42 % in year 2011 and the highest is 63% in the year 2015, however, an average base, over a period of six years the development budget execution rate is 53% which indicate low absorption capacity and makes the ministry unable to achieve its mandates to execute 100% development budget till end of the year. based on UNDP result base approach, the ministry's institutional capacity has not been developed over the period of six years.

The table also shows the ordinary/operating budget and its execution rates, the lowest rate is 89% in 2011 and the highest is 99%, however, an average base over a period of six years, the execution rate is 96%. This indicates that the ministry has the ability to spend the ordinary budget while operating budget covers only civil servants' salaries.

However, as discussed above, the number of civil servants at the ministry has been increased throughout the 16 years but their capacity and performance is still weak as they could not able to spend development budget. This means that there is still needs for capacity development programs for improving its policies, project implementation process and attraction of qualified staff.

On the other hand, such a low budget execution rate also shows high employees turnover in ministry. This high turnover particularly of talent employees put Ministry of Finance to further perform weakly. Eventually, based on analysis we have found that the Ministry of Finance is still

having poor performance and the capacity development programs provided by the technical cooperation were not effective throughout sixteen years.

### **Conclusion:**

While measuring the capacity development of the Ministry of Finance through the budget spending rate, we have found that the ministry's institutional performance still remained weak and has not been improved throughout six years. The average annual development budget execution rate of the ministry was 53% which clearly indicates underperformance and inability of the ministry to deliver its mandates.

Howsoever, to further analyze the institutional capacity development at the Ministry of Finance and to find out the reasons for poor performance, in the next following section, the Cohen & Wheeler's capacity development measurement framework as discussed in chapter two will be applied here to measure the capacity development through attritions and retentions rate of civil servants with in the ministry over some period of time.

### **4.3.3. Capacity Development Measurement, of Ministry of Finance using Cohen & Wheeler's Framework:**

As discussed in the literature, for assessing capacity development, Attrition and retention measurement tools have used by Cohen and Wheeler. According to these two scholars, high rate of attrition and retention of the civil servants does not always show high performance and quality services in institutions if an institution does not have a well recruitment, management and performance based system. Civil servants with low performance and low level of education might stay in government institutions for long time, if the institutions lack of well performance evaluation system, clarity of role & law, availability of corruption and poor salary structure. This mechanism of low performance will be keep on until the institutions attract the talented staff through rewarding and promotion system. Based on this measurement framework, I analyze and measure the Cohen & Wheeler's attrition and retention rates in the context of Finance Ministry's administration reform package of civil servants which already indicates that, high rates of attrition and retention does not help in bureaucratic performance. According to this argument, I am looking into the Afghan government's public administration (Pay & Grade) reforms program within the Ministry of Finance aimed to retain and attract qualified staff.

#### **4.3.3.1. Impact of Pay & Grading System on Capacity Development:**

Pay & Grading reforms was the first project funded by donors and initiated in 2008. It has been operating under the direct supervision of Afghan independent administrative reform civil service commission. This package does not only provide assistance to paying & grading of civil servants at the ministry but to the entire government's civil servants as well. (Ministry of Finance 2016: 23)<sup>4</sup>. This project aims to arrange all the civil servants' jobs in 8 grade system for attracting and

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<sup>4</sup> MoF (2016) "Ministry of Finance civil servants' salary structure internal report" Human Resources Department, pp. 23.

retaining the capacity through a stable and balanced salary incentives based on their educational qualification level and experience. Below is the Pay and Grade structure of the government, shows salary scale of civil servants with their qualification levels.

**(Table No 4.4): Grade Based Civil Servants' Salary Structure at Ministry of Finance.**

Grade and salary of civil servants based on years' of work experience and qualification										
Grades	Steps	Monthly Salary	Title	PhD.	MA	BA	Grade 14 graduate	Grade 12 graduate	Grade 10-11	Grade 9 graduate
1	5	32,500	Director General							
	4	31,100								
	3	29,800								
	2	28,500								
	1	27,200								
2	5	22,400	Director							
	4	21,400		48						
	3	20,400		45						
	2	19,400		42	45					
	1	18,400		39	42					
3	5	16,000	Senior Manager	36	39					
	4	15,250		33	36	39				
	3	14,500		30	33	36				
	2	13,750		27	30	33				
	1	13,000		24	27	30				
4	5	11,900	General Manager	21	24	27				
	4	11,400		18	21	24	48			
	3	10,900		15	18	21	44			
	2	10,400		12	15	18	40			
	1	9,900		9	12	15	36			
5	5	9,200	Manager	6	9	12	32			
	4	8,900		3	6	9	28			
	3	8,600		0	3	6	24			
	2	8,300			0	3	20			
	1	8,000				0	16			
6	5	7,500	Officer				12			
	4	7,250					8			
	3	7,000					4			
	2	6,750					0			
	1	6,500								
7	5	6,200	Support staff skilled						14	
	4	6,050							7	16
	3	5,900							0	8
	2	5,750								0
	1	5,600								
8	5	5,400	Support staff - general							
	4	5,300								
	3	5,200								
	2	5,100								
	1	5,000								

Source: Ministry of Finance, civil servants grade based salary structure internal report 2016. PP. 23

#### 4.3.3.2. Analysis of (Table No 4.4):



The above pay and grade reform covers the civil servants' grade, step, salary, title, education and qualification levels. As is shown in the table, there are eight grades, and in each grade, there are five steps. Grade one is the highest and is placed for the Director General, required PhD level of education with 48 years of work experience and the per month maximum salary is AFN 32,500 equal to almost (\$ 450), while grade eight is the lowest and is placed for supportive personal, their per month salary in step five is AFN 5,400 equal to (\$80) and qualification is not required for them.

In addition, second grade has been allocated for the Director level positions with maximum per month salary AFN 22,400 with having PhD level of education and 45 years of work experience is required; grade three is allocated for the senior Managers with per month salary in step five AFN 16,000 and is required to have 30 years of work experience with master degree education level. Grade four is placed for General Manager with per month salary in 5<sup>th</sup> step AFN 11,900 required to have master degree and 21 years of work experience; while 5<sup>th</sup> grade is for Manager with per month salary AFN 9,200 required to have master degree and nine years of work experience. Eventually, the officers per month maximum salary is ANF 7,500 and is required to have bachelor degree education and twelve years of work experience, and grade 7 is allocated for the skilled & supportive personal with per month salary ANF 6,200 required to have grade 11 and 14 education level.

### **Incompatibility in qualified staff Attrition and Retention at Ministry of Finance:**

Pay and Grade reform program is not only functioning in the Ministry of Finance but throughout the entire public institutions of Afghanistan and it ensure that civil servants receives the appropriate salary based on their assigned grades and steps. However, to compare the pay and grade reform with ministry's available employees' education levels, its looking quiet incompatibility to retain and attract talented employees in multiple grounds as follow:

**I:** Based on Cohen & Wheeler's approach, we have found that the high proportion of civil servants of the Ministry of Finance are having grade twelve (12) and grade fourteen (14) education levels, but the requirement of first grade of (pay & grade) reform is 48 years of work experience with PhD level of education and maximum monthly salary of almost (\$450). It indicates that high proportion of staff are working under low grades with average per month salary (\$120). However, due to high living expenses in Afghanistan, public service employees could not able to manage their family expenses as a family in Afghanistan with 5 kids on average based monthly expenses is almost (\$450); therefore, this situation leads public servants for corruption.

**II:** In pay and grade reforms program, if any employee upgrades from one grade to another, he or she is required to have at least five years of work experience and qualification. However, sometimes in upgradation, the working years of civil servants are considered rather than their experience and skills, hence it indicates high attrition rate but it does not mean that their capacity has been developed.

**III:** People with PhD and master degree education levels are less motivated to join the public sector institutions due to the low salary ranges and also availability of high salary market of private companies and donor organizations.

Since pay and grade reform has been implemented throughout Afghan government institutions, therefore, all government employees have been receiving same salary incentives according to their, qualification and work experience, this salary method decreased the motivation of government employees for leaving and joining other public institutions within the country, hence it has resulted the high rate of attrition and retention of the government employees at the Ministry of Finance and in other line ministries. However, this poor salary range adversely affects on civil servants' morality that resulted less commitment to their jobs and also increased the preferences of qualified civil servants to work NGOs and donor agencies rather than government institutions for receiving high salary incentive.

However, with demoralized environment, high retention rate, poor salary incentives and poor institutional performance, civil servants have been still working in Ministry of Finance. Here the question might be raised that why they have been still working in ministry?? This study has found answer to this question by in-depth interview with Musa Kamawi, Human Resources Director General of Ministry of Finance in few sentences, as he says that “I) *a large number of government employees working in Ministry of Finance are underqualified, unskilled and do not have higher education level to be recruited by private companies and donor organizations*, II) *many of civil servant are old people and satisfied with this low salaries*, III) *few civil servants save their position until finding another better salary job in national and international companies*, and IV) *there is no proper performance evaluation system and accountability for civil servants in the Ministry of Finance so it gives them the opportunities to utilize office equipment for their private purposes are main reasons for the government employees to continue their jobs at the Ministry*” (Kamawi 2017, personal interview)<sup>5</sup>

#### **4.4.Conclusion:**

The number of civil servants at the Ministry of Finance have been increased throughout 16 years, but their capacity and education level is still remained weak as a large number of government employees are having grade 12 and grade 14 years of education level. This low level of education and lack of skills of civil servants have resulted to have poor performance that further led to low annual budget execution rate of the Ministry of Finance. This study further described that the civil servants still have low capacity and do not have the ability to smoothly implement the development projects throughout 16 years. The unrealistic financial planning, low level of budget execution rate, and poor institutional capacity have put the ministry in a destructive cycle and led to low disbursement of foreign aid that channels from government budget structure, therefore it adversely affects on national income that further creates government budget

limitations to attract and retain talented employees and provide good salaries to such a high proportion of employees as government financial resources is already limited.

## **Chapter 5: The Effects of Aid on Institutional Capacity Development at Afghan Ministry of Finance:**

### **Background:**

As discussed and analyzed in the previous chapter four, despite of the enormous foreign aid inflows into the Afghan ministry of finance, the individual and institutional capacity of the ministry is not developed as it should have been. This research study has found that, among other, the issue of poor human resources performance system has had the greatest adverse effects on developing institutional capacity – thus, has affected the retention and attrition of qualified staff at the ministry of finance.

The next first section of this chapter discusses the effects of aid on institutional capacity development at Afghan Ministry of Finance following the Bräutigam and Knack argument to analyze the relation between the effects of aid and institutions' capacity development. This chapter further describes how high level of aid and the ways it has delivered to the Afghan Ministry of Finance (un-necessary and expensive technical advisors, multiple donor funded development projects, lack of qualified employees and missing the opportunity of practical learnings) have all effected the institutional and individual capacity development process of the ministry. However, in order to go deeper into the reality of aid effectiveness, this chapter is designed to discuss and analyze three donor funded capacity development projects of the ministry of finance and the effects these projects have on institutional development. In order to do so, this chapter begins with an analysis of the current aid modality, its delivery mechanisms, and the effects on institutional capacity building at the Afghan Ministry of Finance.

### **5.1.Aid Modality and its effects on Capacity Building in Afghanistan Since 2002:**

Afghanistan has received high level of aid through bilateral and multi-lateral modalities. Most of the aid Afghanistan has received since 2002 to 2010 has been bilateral and forms almost 86% of the total foreign flowed to Afghanistan during this period of time. Most of this bilateral aid has been spent by donor countries separate from Afghan government's budgetary structures.

However, the percentage of the multilateral aid flowed to Afghanistan since 2002 to 2010 is an 11% of the total foreign aid received by the country during the same period of time. Much of the multi-lateral aid has been disbursed by the United Nations agencies and international private companies. According to Boyce and Forman, receiving aid through multilateral donor agencies is more effective than bilateral aid in fragile countries like Afghanistan (Boyce and Forman 2010:

24). Boyce and Forman further add that, receiving such a high level of aid through multilateral donor agencies to a state with poor institutional capacity could also create many challenges and also put institutional burden on public sector to communicate with many donor organizations that further create the opportunities for corruption (Ibid). Thus, the overviewing of foreign aid to Afghan government helps us to critically explore the aid modality of Afghan public sector and also to analyze how aid delivery mechanisms affect the overall institutional capacity development at the ministry of finance.

#### **5.1.1. The Level of Foreign Aid Dependency in Afghanistan – Ministry of Finance:**

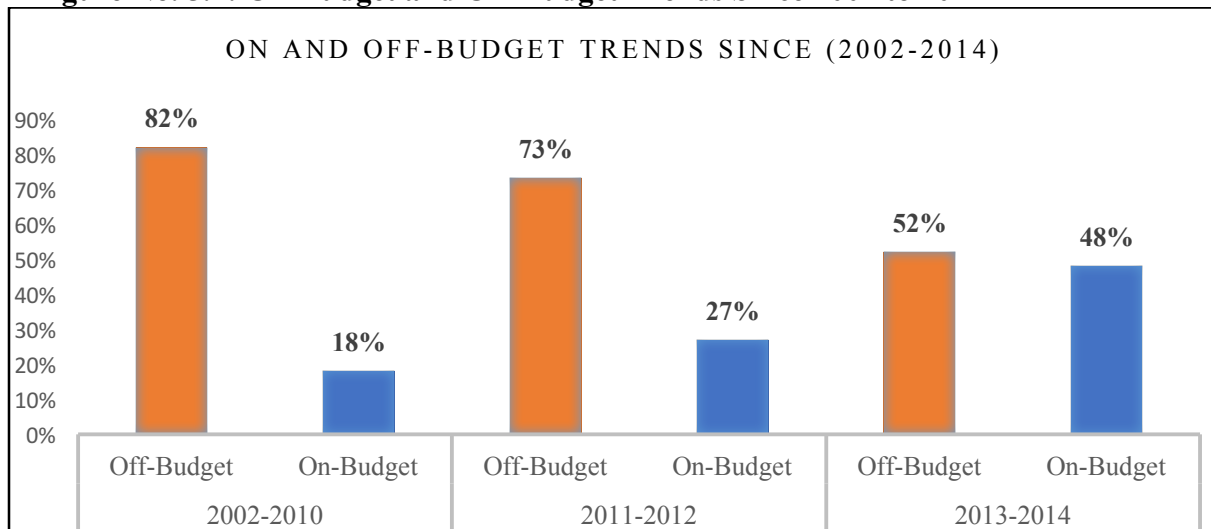
As argued by Stephen Knack in chapter two, the literatures' review, if the Official Development Assistance (ODA) ratio to Gross Domestic Product (GDP) of a country's expenditure reached to 10% on annual base, then the country is considered to be aid dependent. According to this statistic, Afghan government with 71% of foreign aid to GDP from year 2005 to 2011 has been considered one of the highest aid dependent countries in the world. However according to the annual report of the ministry of finance, since 2012, as the level of foreign aid has decreased, still, total developmental and 45% of the operating budget of the Afghan government has been funded by foreign aid while the revenue ratio is less than 10% to gross domestic product (Ministry of Finance, 2010). This means that Afghanistan is highly dependent on foreign aid and cannot secure its annual budget without foreign aid.

#### **5.1.2. Mechanisms of Foreign Aid Delivery to Afghanistan:**

Foreign aid has been generally delivering to Afghan government via two (On-budget and Off-budget) mechanisms. The On-budget aid delivery mechanism is the channeling of foreign aid through the government's budgetary structures and is mainly offered as bilateral or through different trust funds. However, the Off-budget is the amount of funding that is planned and implemented by the donor agencies with their own policies and strategies without the government's involvement and priorities.

As can be seen from the below (*figure No. 5.1*), there has been different trends of On-budget and Off-budget delivery mechanisms over the years from 2002 to 2014 with different percentages of ratios.

**Figure No. 5.1: On-Budget and Off-Budget Trends Since 2002 to 2014**



*Source: Author Construction from Development Cooperation Reports Years (2010 to 2014), Ministry of Finance, Afghanistan.*

## **5.2. The Mechanisms of Foreign Aid Inflows and Its Effects on Institutional Capacity Development at the Afghan Ministry of Finance:**

In this section, I am describing the various ODA channels and the types of aid disbursements to the Afghan Ministry of Finance since 2002. It also further analyzes and describes the multiplicity of donor funded projects at the ministry and how this multiplicity of projects affect the institutional capacity development of the civil servants and the already poor quality employees in the Ministry of Finance.

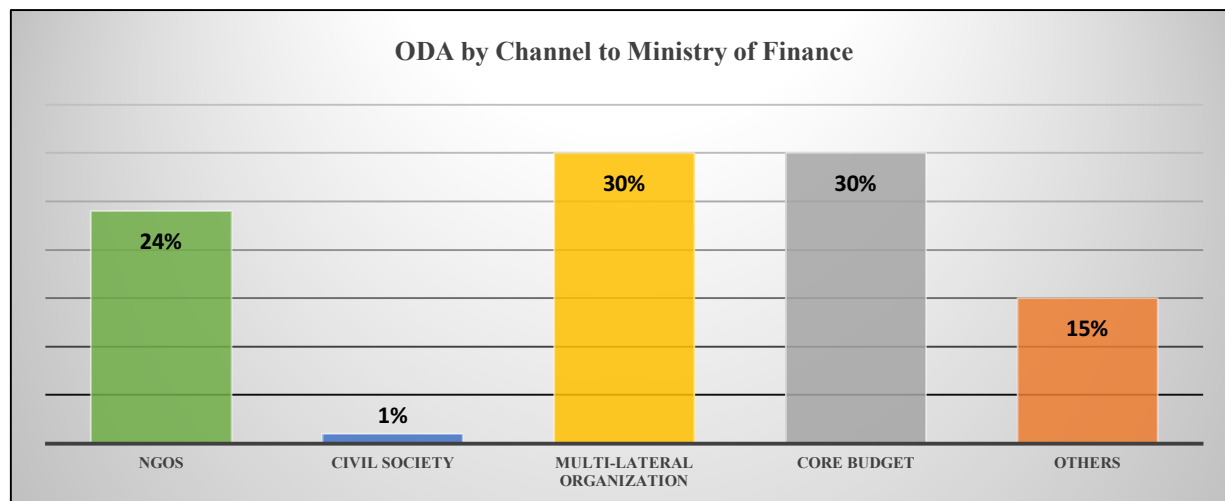
### **5.2.1. Official Development Assistance Flow by Channels to the Ministry of Finance since 2002 – 2014:**

Since 2002, the ministry of finance has been receiving foreign aid (ODA) both through On-budget and Off-budget funding mechanisms. As discussed above, Off-budget has been implementing and disbursing outside of the ministry's budgetary structure and is fully managed by the donors' agencies. However, On-budget aid is channeled to the ministry and has been disbursing according to the government's strategic plans and policies. The high amount of bilateral and multilateral aid has been implementing by various donor agencies and NGOs outside of the Afghan government's budgetary structure.

The (figure No 5.2) below shows that, since 2002 to 2014, 70% of the foreign aid has been channeled via project type interventions mostly the multilateral organizations, private companies, civil societies, and others whereas the remaining 30% of the foreign aid has been channeled through the Afghan government's budgetary channel. Furthermore, the foreign aid channeled via the project type interventions has mostly been spent by national and international private companies that have been operating through parallel structures (Project Management Units)

which are irresponsible and separate from the existed government organizations and only follow the procedures and guidelines of their funding donors (Ministry of Finance 2015).<sup>6</sup>

**(Figure No, 5.2), Official Development Assistance (ODA) by Channels to the Ministry of Finance from (2002 to 2014):**



*Source: Author constructed from Development Partners and Cooperation Reports, Aid Management Unit, Afghan Ministry of Finance.*

### **5.3.The Effects of (On-Budget and Off-Budget) Funding Mechanisms on Institutional Capacity Development at the Ministry of Finance:**

As discussed above, from 2002 to 2010 on 18% of the total foreign aid flowed to Afghanistan has been channeled and spent via On-budget mechanism. This portion of the foreign aid has had positive effects on institutional capacity process in Afghan ministries including the ministry of finance. The amount of foreign aid channeled to the ministry of finance via On-budget mechanism to some extent has positively changed the overall institutional system at the ministry of finance, for instance; initiating of the E-governance programs for developing institutional system which includes major ICT projects that connect the national departments with sub-national departments, Automated SYstem for CUsom DAta (ASYCUDA) helping in transparently collecting revenue across the country, the Development Assistance Database (DAD) and AFMIS that generates projects and institutions statistical information to government, donors and parliament, formulated effective guidelines and reforms, implementing of Sustainable Development Goals of the United Nations (SDG) and the Afghanistan's National Development Strategy (ANDS), and the development of National Framework for Social and Economic Development.

However, since the remaining big chunk (82%) of the total foreign aid over the same period of time (2002-2010) has been channeled via Off-budget mechanism and has been spent outside of

<sup>6</sup> Development Cooperation and Aid Partners' Reports, Years (2002-2014), Aid Management Unit, Ministry of Finance, Afghanistan

the Afghan government's budgetary system, has been entirely less effective and has had totally an adverse effect on the institutional capacity development of the government institutions. This huge imbalance in aid's channeling mechanism and the ineffectiveness of the Off-budget funding mechanism have raised questions of instability, aid dependency, and waste of money as most of the projects funded and implemented by donors have been either unsustainable or not according the priorities and plans of the Afghan government. In addition, the donors pushing for Off-budget funding mechanism have all reasoned that, low rate of development budget execution, low capacity of civil servants, security problems, and corruption issues are the main reasons they provide aid through Off-budget mechanisms. In order to discuss and analyze how much the donors have been reasonable to justify the Off-budget funding mechanism, below I would like to briefly discuss the effects of these core issues (insecurity, corruption, low capacity, and low budget execution rate) on institutional capacity development in relation to the Off-budget funding mechanism.

**I) Low Rate of Budget Execution and Low Capacity (Off-Budget):**

Low execution rate of developmental budget and low capacity of civil servants at all ministries including the ministry of finance are the two main reasons for development partners not have been channeling their aid through Afghan government's budgetary system (Ministry of Finance 2010). As described earlier in chapter four, according to the UNDP result based approach in the context of the ministry of finance, over the period of six years, the average development budget execution rate was 53% which means the capacity of the civil servants was low and the ministry was not able to achieved its annual mandates. The low level of education, lack of skill, incompatibility with donor agencies' procedures and less experience is yet other major factors for low capacity of the civil servants. Here the low capacity of civil servants has been mainly linked with Off-budget mechanism in multiple grounds. First, the high level of aid that has been spending through multilateral organizations, national and international private companies has been pulling away qualified employees from the ministry of finance, second, with existence of the Off-budget mechanism, the ministry of finance has missed the opportunity to learn practically as working together with donors will help the ministry to create realistic plans and effectively implement the projects rather than to create parallel structure units, and third but most importantly, the high salaries offered by foreign donors and private companies demoralized the government employees which resulted in high turnover of the qualified employees at the Afghan Ministry of Finance.

**II) Corruption & Off-Budget Effects:**

Due to the existence of more corruption in Afghan public sector institutions particularly in the Ministry of Finance made foreign aid donors hesitant to flow aid through Afghan budgetary structure (Ministry of Finance 2012). However, according to the Ministry of Finance 2012 report, the donor agencies have not provided any evidences about the existence of corruption in Afghan budgetary structure and also

there is no evidence of non-existence of corruption in off-budget mechanism of donors. Therefore, the foreign aid donors have been using the existence of corruption in Afghan budget structure as an excuse for not flowing the aid through the Afghan government budgetary structures (Ibid).

However, based on the arguments discussed earlier, Off-budget system has also increased the corruption level in all ministries including the ministry of finance. This mechanism has deprived public sector specifically the Ministry of Finance from establishing a stable institutional system that helps to lower the level of corruption, moreover, as according the analysis of this research study, low institutional capacity is mostly caused by Off-budget funding mechanism and an increasing level of corruption created by this un-controlled and ghost spending system.

### **III) Issues of Insecurity:**

Insecurity is another main reason that donor agencies have been flowing aid through Off-budget mechanism. In most of the provinces and villages in Afghanistan, religious people dislike the presence of foreign troops that made the government and development partners failed to access these areas and to deliver the message of peace through development programs, thus, the development partners have been implementing projects mostly through international private companies for delivering faster services to the fragile areas (Ministry of Finance 2012). In order to make bridging between the people and government, high level of aid has been allocating to insecure areas through international and national companies since 2002.

Nonetheless, allocating such a high level of aid to insecure areas adversely affected on Afghan institutional capacity development and aid effectiveness, therefore, both the donor agencies and government were not able to monitor the quality of the projects that have contracted out to these companies (Ministry of Finance 2012).<sup>7</sup> Additionally, as Donni 2006 states, this high level of aid allocation to insecure provinces has also created unequal aid distribution with those of secure ones and deprived them from development programs which further led to insecurity.

However, security as reasoned by donors is not a valid reason for channeling aid through Off-budget mechanism as a senior official of the ministry of finance states, “this is true that there are insecurity issues in some provinces, but it does not belong to the capacity development issues of the civil servants, how can you describe the insecurity as reason when you are working in secured and highly protected institution or in donor compound in capital? In addition, if national private companies with local knowledge do not have the capacity to implement the development projects then how

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<sup>7</sup> Development cooperation report, 2012, Directorate General Budget, Afghan Ministry of Finance.



is it possible to implement it by International companies, so that does not have reality” (Mustafa Mastoor, personal interview, 2017)<sup>8</sup>

#### **5.4. Conclusion:**

Since 2002, the ministry of finance has received a high level of foreign aid implemented by both bilateral and multi-literal donor agencies. According to Boyce and Forman (2010), receiving aid through multilateral donor agencies is more effective than bilateral in fragile states like Afghanistan. Similarly, aid that has channeled through the government budgetary structure creates allot of opportunities and benefits to the ministry of finance such as civil servants find opportunities to learn by doing and can improve their capacity, reduces the government staff turnover, decreases salary disparities, and enables the ministry to efficiently deliver services.

However, as a large portion of the foreign aid channeled outside of the Afghan government’s budgetary structure over the period of last one and half decade, has decreased the aid efficiency and effectiveness and has created multi-dimensional challenges to the Afghan public sector particularly to the ministry of finance such as undermining the civil servants’ capacity by missing opportunities to learn by doing, and improper and inefficient services delivery. Moreover, the low institutional capacity at the ministry of finance is mostly connected with lack of talented employees who have already attracted with high salaries by the donor agencies. This high salary disparity has made it tough not only for the ministry of finance but to all other public institutions to attract and retain talented employees. As a result, this lack of qualified human resources has deprived the ministry of finance to build and develop a strong, stable and self-reliant civil service administration system.

#### **5.5. Technical Advisors (TAs) and its effects on Institutional Capacity Development at Ministry of Finance:**

As discussed and analyzed in the previous section of this chapter, the channeling mechanisms of foreign aid have had major effects on institutional capacity development at the Ministry of Finance as the On-budget funding mechanism was more effective, useful, and positive in developing institutional capacity while the Off-budget funding mechanism was the main obstacle toward building and developing strong and stable institutions. However, in this section, I will mainly discus and analyze how donor funded technical advisors (TAs) affects the institutional capacity building and whether the donor recruited TAs have helped developed to develop individual and institutional capacities or have rather weakened the institutions. Moreover, this section will also analyze the effects of aid that bypasses the Ministry of Finance channel and

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<sup>8</sup> Personal interview with Mustafa Mastoor, Admin & Finance Deputy Minister on topic of Off-budget funding for Ministry of Finance, Kabul, Afghanistan, May 7, 2017.

goes through independent Project Implementation Units (PIU) of donor agencies since 2002; however, my main focus is to find out the effects of TAs on civil servants' capacity development.

There are two pro and against opinions about the role and effects of TAs on institutional capacity development. The Organization for Economic Co-operation and Development (OECD) is supporting the TAs approach in developing both individual and institutional capacities, according to OECD, the TAs are any activity that is funded and financially supported by the donor agencies and organizations with the main objective of increasing knowledge and technical know-how, these activities (TAs) are important to increase the stock of human intellectual and capacity for managing and monitoring the resources (OECD 1998), whereas some anti-TA scholars have criticize this approach and indicates that, TAs are supply-driven force, they are paying more attention to the donors only than to the host government, this method of capacity development taken by foreign donors pulls the government sector salaries and increases the cost of the TAs (Lucas 2009: 12).

#### **5.5.1. The TAs and Capacity Development at the Ministry of Finance:**

Since 2002, Ministry of Finance together with development partners has recruited a big number of national and international technical advisors to meet urgent needs and improve the civil servants' capacity. Donor agencies have allocated a large portion of aid through technical advisors to the Ministry of Finance for developing the capacity of civil servants in many departments. There are more than **850** technical advisors who are working throughout all departments of the ministry of finance, funded by donors and report both to Ministry of Finance and the donor agencies or those who recruited by Ministry of Finance and funded by donors (Ministry of Finance, 2017)<sup>9</sup>.

The TAs are involved in almost each and everything at the ministry as one of the interviewers states, "Technical advisors in all departments have not only involved in implementing policies, reforms and daily office activities but also develop the capacity of civil servants in various departments and in line ministries through arranging capacity building workshops and trainings to assist them in their daily activities and operations."(HRD team 2017, personal interview)<sup>10</sup>.

However, according to the documents of the Making Budgets and Aid Work (MBAW) project, TAs in the initial steps are responsible for installing new system, developing strategy and reforms in Ministry of Finance and then conducting the capacity development programs for the civil servants and eventually the TAs should submit all operational activities and responsibilities to the government employees (MBAW Project Report 2010). The TAs somehow helped to

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<sup>9</sup> Donor funded TAs internal report 2017, Directorate General Finance, Ministry of Finance.

<sup>10</sup> Personal interview with group of 6 TAs' on their role and functions in various departments at Ministry of Finance, HR directorate, April 29, 2017.

develop the overall capacity of the ministry of finance to some extent as one of the TAs working at the ministry of finance says, “the ministry had the ability to implement useful reforms i.e. policy formulation, revenue collection system, equitable provincial budgeting, program budgeting, gender responsive and pro poor budgeting reforms in Ministry of finance and to its line ministries with support of national and international TAs” (PIU team 2017, personal interview)<sup>11</sup>.

The objective of Ministry of Finance is to link and align the strategies and policies with Afghanistan National Development Strategy (ANDS) and the National Priority Programs (NPPs). In addition, in this connection the ministry has tried to develop its internal institutional and individual capacities as another interviewer says, “a number of civil servants of Ministry of Finance were provided trainings, workshops and capacity building program on short and long term base within the country and abroad” (PIU team 2017, personal interview)<sup>12</sup>. However, in order to understand better how the TAs and donor funded capacity development projects helped the ministry of finance to build and develop its individual and institutional capacity, in the next coming sections, I am analyzing the implementation effects of the three main capacity development projects specifically designed to technical support to the ministry for developing institutional and civil servants’ capacity.

## **5.6.The Effects of TAs under Capacity Building for Result (CBR) Project:**

The Capacity Building for Results (CBR) program is an On-budget project facilitated by the World Bank and funded by the Afghanistan Reconstruction Trust Fund (ARTF) under the Afghan national budget structure; this project started its operations with a total of USD 350 million at the national and sub-national levels in 2012 and is expected to end in December 2018 (CBR 2008)<sup>13</sup>. The main objective of the CBR program is to support the Afghan government in enhancing the capacity of line ministries and to carry out their mandates, addressing the over reliance on external technical assistance and to deliver services through national priority programs (NPPs).

The TAs under the CBR project are different from other On-budget development projects in the ministry of finance as an interviewer says, “under the CBR project the TAs are busy both in project implementation and developing the capacity of civil servants, whereas in other development projects such as MBAW, Adam Smith International, Reform Implementation Management Unit and Afghanistan Public Financial Management, technical advisors were only involved in implementation of the projects.” (HRD 2017, personal interview)<sup>14</sup>.

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<sup>11</sup> Personal interview with the team 7 employees of Project Implementation Unit, the impact of TAs on development projects of Ministry of Finance, May 3, 2017.

<sup>12</sup> Personal interview with the group of 6 employees of Project Implementation Unit on the capacity building and training programs at Ministry of Finance, May 3, 2017.

<sup>13</sup> Capacity building for results (CBR) project documents, March 2012.

<sup>14</sup> Personal interview with HR specialist on activities of TAs in different development projects at Ministry of Finance, May 4, 2017.

For achieving this program, a specific result based systematic monitoring and reporting institutional capacity building programs were required to be implemented. There are four main components of the CBR program, I) The provision of technical assistance in implementing project II) The recruitment of caliber civil servants, III) The training of civil servants, and IV) The project monitoring and evaluation.

#### **5.6.1. The Pros and Cons of the Capacity Building for Result (CBR) Project:**

The TAs recruited under this project had achievements in some parts whereas it also created daunting challenges that adversely effects on institutional capacity development, here I will briefly describe the pros of this program and will then also point out some its challenges.

##### **5.6.1.1.Pros of the Capacity Building for Results (CBR) Program:**

###### **1. Technical Assistance in Implementing CBR Project:**

In order to successfully implement the Capacity Building for Results (CBR) program on national and sub-national levels, CBR has recruited 85 TAs for Ministry of Finance and in line ministries. With technical support of the TAs, eight line ministries were able to successfully develop the human resources (HR) manual based on Afghan civil service labor law that resulted in more than 70% of the civil servants' vacancies to be filled with new qualified recruitments, all civil servants' positions of 8 ministries have been re-graded based on pay and grading system and the strategic plans have been drafted (CBR annual Report 2016).

###### **2. Building Human Capacity:**

Capacity Building for Results (CBR) program has recruited qualified senior level civil servants for financial management, human resources, internal audit and procurement units in 10 line ministries. This has resulted in improving the planning, accounting, budgeting process, drafting of HR manuals and implementing procurement plans. Furthermore, CBR program has recruited and provided trainings to 820 civil servants of (Grade 4, 3) in four line ministries including Ministry of Finance to become future civil service managers and directors (CBR annual Report 2016).

###### **3. Civil Service Training:**

For ensuring the civil servants skills and knowledge that the Ministry of Finance could be able to deliver its mandates, TAs under the CBR program have supported HRM departments of the Ministry of Finance and line ministries by conducting a number of trainings and capacity building programs such as short term trainings on techniques and methods of preparing duties & responsibilities, announcing civil servants' vacant positions, workshops on civil servants' recruitment mechanisms and its standard forms used by CBR, it also arranged meetings with HRD directors of Ministry of Finance and

line ministries on better and practically using of CBR recruitment structure, workshops on preparing all recruitment files based on checklists for ensuring a quality recruitment process.

#### **4. Project Management, Monitoring and Evaluation:**

CBR program coordination, evaluation and monitoring has been regularly conducted through two Project Support Units based in the Ministry of Finance and independent administration reform and civil service commission (IARCSC). Similarly, World Bank has also facilitated and supervised the delivery of program as ARTF administrator.

#### **5.6.1.2. The Cons of the Capacity Building for Results (CBR) Program:**

However, as the CBR program was aimed to improve the capacity of the civil servants at the Ministry of Finance and line ministries for ensuring to deliver their mandates and to address the parallel structure in government, it was not as effective as it was expected to be. Below are some of the challenges this program posed to the institutional capacity development process at the ministry of finance.

##### **1. Short Term Trainings:**

The two days' trainings and workshops held by program TAs to civil servants have not contributed in transferring the knowledge and skills to civil servants as one of the interviewers who himself has taken part in these trainings says, "trainings and workshops have been conducting only for one or two days, so it's not easy for us to learn the complete recruitment mechanism, HR manual and CBR standard forms in few trainings and workshops that held twice in three months." (Civil servants team, personal interview)<sup>15</sup>.

##### **2. Salary Disparity:**

There are salary disparities existed between the CBR technical advisors and the civil servants. According to the data from the finance department of the ministry of finance, the minimum per month salary of a TA is (\$700) and the maximum is up to (\$4,500) while the average monthly salary of a civil servant is around (\$120) (Finance Directorate, 2017)<sup>16</sup>.

This unbalance and huge difference of salaries have demoralized the civil servants and created a conflictive work environment with technical advisors as one of the civil servants interviewed for this study describes it, "the comparatively low salaries decrease the commitment of civil servants to their duties and responsibility and also dishearten them as they could not able to run their families by such low salary given by Ministry of

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<sup>15</sup> Personal interview with a group of civil servants who participated in CBR workshops, May 6, 2017, Ministry of Finance

<sup>16</sup> Finance and Accountancy Directorate salary & payroll report, May 5, 2017.

Finance.” (Civil Servants team, interview, 2017)<sup>17</sup>. Hence, the commitment of civil servants was adversely affected by their poor salaries which they have been receiving from Ministry of Finance.

### **3. Staff Turnover Challenges:**

The annual HRM plan and staff turnover challenges have created by the CBR project at the Ministry of Finance. There is high turnover among the TAs as one of the interviewers from the human resources department of the ministry of finance says, “technical advisors have been recruited on contract base and can leave the Ministry of Finance for any local private sector companies or donor agencies, if they receive at least (\$100) extra from their current monthly salary which has created challenges for our Ministry, as they are not only leaving us at the middle of the program implementation but also difficult for us to recruit another talented employee because of lengthy Human Resource hiring process and procedures which takes two to three months to have another on board.” (HR team, personal interview, 2017)<sup>18</sup>.

### **4. Dependency on TAs:**

Over dependency of Ministry of Finance on technical assistants have led the Ministry to further fragility. “Capacity of the civil servant in Ministry of Finance has been developed compare to other line ministries and public institutions but the skills and knowledge which is required to implement the Capacity Building for Result (CBR) project is still limited and the exit strategy of technical advisors will decrease the budget execution rate at Ministry of Finance.” (PIU staff, personal interview, 2017).

### **5. High Cost of TAs:**

Another problem of the CBR project is the attachment of the high cost of the TAs, based on the CBR project report, more than 50% of the total budget spent on capacity building of civil servants and caliber salaries at Ministry of Finance and other line ministries which limited the funds from other development activities (CBR 2012)<sup>19</sup>.

## **5.7.The TAs under the Making Budget and Aid Work (MBAW) Project:**

MBAW development project was funded by Canada, Germany and UK from 2007 to 2015 with total budget USD 33.5 million. As per the project documents, it was Off-budget project aimed to provide technical assistance to Budget Directorate of the Ministry of Finance for implementing new systems and reforms such as improving the budget planning, project management & implementation, budget performance reporting, strengthening provincial budgeting and capacity building programs in all line ministries (MBAW 2015)<sup>20</sup>.

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<sup>17</sup> Personal interview with 5 civil servants on their salaries incentives, at Ministry of Finance, May 4, 2017.

<sup>18</sup> Personal interview with HRD team on turnover of TAs at Ministry of Finance, May 5, 2017.

<sup>19</sup> Capacity Building for Results (CBR), Operational plan 2016, Ministry of Finance.

<sup>20</sup> Making budget and aid work (MBAW) Project final report, 2015, Ministry of Finance.

### **The Effects of the TAs under the MBAW project on Institutional Capacity Development:**

The recruitment of technical advisors through Making Budget & Aid Work (MBAW) project has had both positive and negative effects on institutional capacity building. The positive effects of technical advisors were implementing of many pilot projects and reforms in Afghan Ministry of Finance and in line ministries. However, technical advisors under this project have also created some challenges for institutional capacity development. Here, I am first discussing and analyzing the positive effects of this program and will then discuss the adverse effects.

#### **5.7.1. The Pros of the Making Budget and Aid Work (MBAW) Project:**

Below are some reform and project activities that successfully implemented by technical advisors and brought positive changes in overall system in the Ministry of Finance and in all other line ministries.

##### **1. Program Budgeting Reforms:**

Program budgeting reforms package has introduced in 2006, it is an important tool used to formulate the budget and was successfully implemented by TAs in the Ministry of Finance and all line ministries. The program budget reform package has been contributing with all ministries to appropriately estimate the operation and development budget based on Ministry of Finance guidelines, strategic plans and create links to the National Priority Programs (NPPs) and Afghanistan National Development Strategy (ANDS). Since this reform package has replaced the traditional budgeting, it brought many improvements i.e. better accountability, transparency and result based budgeting into the budgetary structure of the Ministry of Finance and line ministries. Similarly, program budgeting manual also covers the budget circular one (BC1)<sup>21</sup> and budget circular two (BC2)<sup>22</sup> which includes costing, designing, planning and budgeting.

##### **2. Gender Responsive Budgeting (GRB):**

Gender responsive budgeting is another tool successfully implemented and technically supported by MBAW project's TAs in all sectoral ministries. The concept of this tool was to address disparity issue and to achieve the outcomes that create link with Afghanistan National Development Strategy (ANDS). The main objective of this tool was to allocate the budget based on separated needs of men and women in the society and to allocate resources efficiently for meeting the needs of both male and female to ensure equal distribution of budget between male and female in way to reduce poverty and to achieve sustainable development goals (SDG).

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<sup>21</sup> Budget Circular One (BC1) is an excel forms detail costing package issuing by Ministry of Finance to line ministries for estimating their upcoming year's operation and development budget.

<sup>22</sup> Budget circular two package is also used for budget forecasting and is prepared based on budget ceiling given by Ministry of Finance to line ministries.

### **3. Strengthened Budget Execution Processes:**

For improving the budget execution rate, the MBAW project TAs supported the Ministry of Finance and line ministries in applying the International Monetary Fund's budget classifications and to keep coding error at minimum. Similarly, TAs developed the concept of Afghanistan Financial Management Information System (AFMIS) operation regarding budget spending and management. In addition, TAs have enhanced the information exchange and support problem solving on operation and development budget progress between the Ministry of Finance and other line ministries.

### **4. The Development of State Budget Planning System (SBPS):**

It's one of the important activities, successfully implemented in the Ministry of Finance and all line ministries with support of the TAs of MBAW project. This system aimed to improve the institutional capacity in monitoring and reporting that resulted to improve the budget execution rate. The system is quite efficient and producing accurate budget related information to the government, parliament, donor agencies and people through media.

### **5. Institutional Capacity Building Programs:**

As of December 2010, the MBAW project fully financed the salaries of 56 TAs staff who smoothly run the daily institutional functions of the Directorate General of Budget at the Ministry of Finance. Similarly, these technical advisors have provided technical support to the Ministry of Finance and line ministries in preparing financial plan, implementing budget reforms and annual budget performance reporting by regularly conducting capacity building programs and trainings to only those TAs who involved in the project implementation.

#### **5.7.2. The Cons of the Making Budget and Aid Work (MBAW) Program:**

The recruitment of the TAs under MBAW project also brought some changes that adversely effects on institutional capacity building and created daunting challenges to Ministry of Finance and to other line ministries.

#### **1. Technical Advisors were busy in Implementation of Project:**

Based on above analysis and after reviewing of project documents, we have found that TAs of MBAW project were mostly busy in project implementation. Similarly, MBAW project was functioning within Budget Directorate of the Ministry of Finance through a separate independent implementation unit with its own director and manager positions as one of the interviewers say, "the national and 3 international advisors that have recruited under MBAW project were responsible for implementation of project only rather than



providing capacity development and trainings programs to government employees.” (MBAW team, personal interview, 2017)<sup>23</sup>.

However, in Capacity Building for Result (CBR) project, TAs were recruited mainly for providing capacity development and training programs to government employees that contributed to self-reliant. On the other hand, TAs recruited under the MBAW project were mainly involved in project implementation, so their salary expenses were considered as operation expenses of the MBAW project. As result, such a short term buying capacity through TAs without providing capacity building programs to civil servants led the Ministry to further dependency. This type of funding mechanism addressed only temporary institutional requirements but has not helped in building permanent capacity of civil servants.

## **2. Providing Capacity Building to TAs Only:**

MBAW project provided short term capacity development and training programs nationally and internationally to technical advisors who fully involved in project implementation. “MBAW program arranged many project related trainings and capacity development programs by their own experts to TAs only and government employees were deprived from such programs and trainings. (civil servants group, interview 2017).

## **3. Creation of Parallel Structures within the Ministry of Finance:**

As discussed above, MBAW was an independent unit with having its own policies and procedures that parallel to the Ministry of Finance. The project created many challenges for the Ministry of Finance such as the government employees cannot learn by doing, attracting the already government scarce qualified staff through high salaries, no capacity building programs to civil servants and exit strategy.

## **4. Ministry of Finance increased reliance on TAs:**

MBAW program from start to end was fully implemented by technical advisors. It has started operation from a small department with limited number of TAs in Ministry of Finance but later expanded its activities to implement new systems in line ministries and provincial departments, they increased the number of TAs and established 2 more departments within Ministry of Finance. The already implemented reforms and new systems by TAs have been still running by TAs themselves which should have been run by civil servants. This not only adversely effects on civil servants’ capacity but also increases dependency on TAs which increases the Ministry’s reliance on foreign aid and assistance.

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<sup>23</sup> Personal interview with a group of TAs recruited under MBAW project, on topic of their responsibility in civil servant’s capacity building, at Ministry of Finance, May 6, 2017.

## **5.8. Effects of TAs under Afghanistan Public Financial Management (APFM) Project:**

Afghanistan Public Financial Management (APFM) is a USAID funded project, started operation at central level with total budget of USD 22.1 million. APFM has provided technical advisory and training support in order for Ministry to achieve fiscal sustainability.

The project has been managing by four international and twenty-four national advisors. These TAs have been conducting one day trainings to civil servants of four line ministries for building their capacity in budget planning, formulation, provincial budgeting and monitoring for increasing the development budget execution rate at mentioned ministries.

In addition, APFM technical advisors have also provided trainings and services to Revenue Department in collecting non-tax revenues from five line ministries (USAID 2015)<sup>24</sup>. The main components of this project are: 1) budget planning and execution; 2) domestic revenue mobilization; and 3) Public financial management cross-cutting priorities that aligned with second public financial management road map (PFMR II) of Afghanistan. APFM project has brought slight improvements in some few institutions which discussed as following:

### **1. Increased Domestic Revenue:**

As Revenue collection was one of the crucial activity of Afghanistan public financial management (APFM) project that technically supported the revenue department of Ministry of Finance to collect AFN 165 billion equal to (USD 2.5 million) annually.

### **2. Increased Budget Execution Rate:**

As of 2016, with technical support of TAs and efforts of Ministry of Finance, the development budget execution rate in targeted line ministries has increased only 2.6% compare to the previous year.

### **3. Linked Budget with NPP:**

With technical support of APFM advisors, the operation & maintenance (O&M), provincial budgeting and non-tax policies have been successfully developed and linked to national priority programs of the Ministry of Finance.

### **4. Payroll is Decentralized:**

With support of the technical advisors of APFM, payroll and registration are successfully decentralized to provinces. This system helps in giving regular update of payroll and record reconciliation of staff.

However, the project has had improvement in above mentioned areas but it has not developed the capacity of civil servants as it was expected by the Ministry of Finance and in line ministries in many ways as following:

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<sup>24</sup> United States Aid for International Development (USAID) APFM project documents, 2015, Ministry of Finance, Afghanistan.

### **1. Ineffective Trainings:**

APFM technical advisors have provided one-day training and workshop programs to civil servants that have not contributed in transferring the required knowledge and skills in developing civil servants' capacity as one of these trainees says, "it's not easy for us to learn public financial and expenditure management (PFEM) law, operation & maintenance budget guideline and provincial budgeting policies in one-day workshop that has been conducting once in a month." (civil servants, interview, May 8, 2017).<sup>25</sup>

### **2. Learning by Doing:**

Most of the participants of the workshop were not fully involved in project management and decision making, "in workshop, TAs were explaining the project objective, activities, guideline and procedures that we are not in the picture, we need to learn practically rather than to learn theoretically through one-day workshop." (Civil servants team, interview May 8, 2017).<sup>26</sup> Since all projects operations have been entirely managed by technical assistance and there were no chances given to the civil servants-thus, this did not contribute to the developing of the civil servants' capacity.

### **3. No Contribution of TAs:**

The four international advisors recruited with very high salaries for supporting the implementation of the project have not contributed as it was expected according one of the correspondents, "the per month salary of one international advisor is USD 25,000, they do not have any visible contribution to institutional capacity development, they do not know about Afghanistan financial law, system and language" (civil servants team interview, Policy Unit)<sup>27</sup>. All technical advisors have recruited with high salaries but they have not played important role in developing the capacity of the civil servants rather they destruct their capacity and demoralized them to their duties and responsibilities.

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<sup>25</sup> Interview with five civil servants who participated in Afghanistan Public Financial Management (APFM) one-day workshop on issue of capacity developing and transferring skills and knowledge, Ministry of Finance, May 8, 2017

<sup>26</sup> Interview with group of six civil servants of Finance directorate of Ministry of Finance, May 8, 2017).

<sup>27</sup> Personal interview with five civil servants on issue of workshop participation, Policy Unit, Ministry of Finance, May 9, 2017

## **Chapter 6:**

### **6.1.Conclusion:**

This research paper which is a partial fulfilment of the requirements for obtaining the degree of Masters of Business Administration, analyzes the effects of foreign aid on institutional capacity development at the Ministry of Finance, Government of Islamic Republic of Afghanistan. This research paper is specifically focused on whether the current aid system has any (positive/negative) effects on institutional capacity building at the Afghan ministry of finance. This question is studied and analyzed in three ways. First, there is a comprehensive review of the literatures on foreign aid and its effects on institutional capacity development in conflict affected countries like Afghanistan. Second, considering the academic literatures, a theoretical framework is set to measure and indicate institutional capacity development. Third and finally, there is a descriptive analysis of the data from a range of sources (donor funded capacity development projects) within the ministry of finance to evaluate and analyze the effects of foreign assistance/aid on institutional capacity development.

These effects are analyzed using the data from various capacity development projects under foreign aid funding schemes, while accounting for the measurement of capacity development via different aid channeling systems in these projects as well as the effects these different aid systems have on institutional capacity development at the ministry of finance. One of the contributions of this paper is its input to the existing empirical knowledge on the effects of foreign aid on institutional capacity development at the Afghan ministry of finance through its thorough analysis covering a number of important capacity development projects funded by foreign donors.

The study focuses on the time period 2002-2017 and 3 major capacity development projects namely, the Capacity Development for Results – CBR, Making Budget and Aid Work – MBAW, and Afghanistan Public Financial Management – APFM. In order to better understand the effects of aid on institutional capacity development as well as any changes of its effects over the period 2002-2017, three separate models for the measurement of institutional capacity development namely; the UNDP's capacity measurement mechanisms, the Cohen and Wheeler's capacity development indicators, and the Peter Morgan's principles for measuring institutional capacity development were also applied. Then these models were tested for different qualitative and quantitative measurement of institutional capacities at the ministry of finance. Finally, the models were applied and checked against outcome and results of three different capacity development projects under foreign aid scheme.

The major point emerging from this research work is that foreign aid has a mixed impact on institutional capacity development at the very specific case of the Afghan ministry of finance.

First, when the measurement models were tested to measure qualitative capacity development in different time periods, foreign aid variable has a negative sign in all three major projects assessed and analyzed, indicating that foreign aid appears to have an adverse effect on qualitative capacity development in the ministry. In addition, this coefficient is not statistically significant in any of the three project cases. Second, when the models were tested to measure quantitative capacity development over the same period of time and for the same three projects, foreign aid variable has a positive sign, indicating that foreign aid appears to have positive effects on developing quantitative capacity at the ministry of finance. However, this positive effect is not surprising given that ministry of finance is the largest recipient of foreign aid than any other ministry and hence has to recruit more employees to get more aid and assistance.

Finally, when the models were applied to measure three specific capacity development indicators namely; the attrition and retention rate of the civil servant, the budget execution rate, and the upgradation of education qualifications, foreign aid variables again have mixed (positive and negative) signs in these three cases, indicating that foreign aid appears to have a positive effect on increment of the number of civil employees over the 16 years mainly due to the need for attraction of more aid and more spending without considering the quality and skills for better and efficient performance. However, these variables are negative for improving the budget execution rate and upgrading the education qualifications of the civil servant indicating that foreign aid has a negative effect on overall qualitative institutional capacity development of the ministry of finance. Thus, the findings of this research study are, for the most part, consistent with findings of previous studies on the effects of foreign aid on institutional capacity development in Afghanistan.

The broad conclusion of this research is that rhetoric fails to meet reality in terms of the role of foreign aid on institutional capacity development in the very specific case of the Afghan ministry of finance. While donors are increasingly, highly and publically calling upon Afghan government and the ministry of finance in particular, to improve its fiscal performance and public service delivery; there is not much evidence to suggest that donors have paid requisite attention to building and developing state and institutional capacity in Afghanistan when they make aid allocation decisions. As is pointed out earlier and throughout this entire study, this result may change when individual donors and specific aid channeling systems are considered.

Finally, foreign aid the way it has been and is flowing to Afghanistan has not yielded in more productive results as it was perceived and should have been, foreign aid in most cases including the Ministry of Finance had adverse effects on the institutional capacity building process. The very particular Off-budget aid has had more inefficient and ineffective outcomes in terms of building and developing capacity at the Ministry of Finance, this aid channeling method brought a lot of future sustainability and structure challenges to the ministry and made the ministry more dependent on foreign aid and assistance. Additionally, one of the reasons that foreign donors in

Afghanistan have sought to condition their aid disbursement to improving institutional capacity and fiscal performance is due to the adverse effects of the foreign aid on institutional capacity and performance as the inappropriate and ineffective aid schemes could not improve the institutional performance and capacity, thus – the poor management of aid and the inexistence of proper coordination between the Afghan government and donor countries missed the learning opportunities for the Afghan government institutions and increased the level of corruption both within the Afghan government and donor agencies.

Overall, this research paper concludes the following three main points pertaining to the very specific case of the Afghan ministry of finance:

### **1. Civil Servants' Low Level of Education:**

As analyzed in chapter four, the number of civil servants has increased throughout sixteen years in ministry of finance but their education level and skills have still remained weak, as most of civil servants were having grade twelve and grade fourteen level of education. This low level of education and skill associated with poor capacity which resulted in poor performance and low budget execution at the ministry and made the ministry more dependent on foreign aid (TAs) to perform and achieve its mandate.

### **2. Off-Budget Funding Mechanism:**

The aid flowing through Off-budget mechanism at the ministry of finance has established a separate independent project implementation unit parallel to the ministry's formal structure which created multi-dimensional challenges such as depriving the civil servants from the opportunities to learn by doing, attracting the already scarce talented government employees through high salary, and creating projects duplication. Furthermore, all project components from planning to implementing are managed by donor recruited TAs who are busy in following and serving the donors rather than developing the capacities of their counterpart civil servants or working to transfer knowledge to them.

### **3. Provision of Technical Advisors:**

Aid through provision of technical advisors to the public institutions for long period of time weakens the government institutional capacity. Technical Advisors (TAs) who are recruited by donor agencies are accountable to them only; they are very expensive and highly paid, and create high salary disparities to government employees which weaken their moral to do their jobs honestly – hence prone to corruption.

## **6.2.Recommendations:**

In order to improve the effectiveness and efficiency of foreign in regards to building and developing institution capacity, I would like to present the following rather short policy recommendations for future improved and efficient use of the foreign aid to developing institutional capacity at the ministry of finance:

- In order to make sure foreign aid has its positive effects on institutional capacity development at the ministry of finance, both the government and donor agencies have to establish and agree on an appropriate mechanism of coordination and cooperation in which foreign aid can be channeled via a transparent and efficient way to build and develop strong and responsible public institutions. The Afghan government and the international community have to build trust on each other and involve the government in decision making and aid allocation rather than just providing and accounting aid.
- As discussed throughout this research study, channeling aid via government budgetary structures is much more efficient and effective than the non-budgetary channels, hence, the donor countries should let the aid be channeled through On-budget structure where the government is given more opportunity to properly use and allocate money.
- Institutional capacity development is a continuous process; therefore, short term project type activities will not help to achieve this long term goal. Instead, the international community and organizations engaged in institutional capacity development should have long term plans for capacity development, they need to involve Afghan government and give it the chance to learn by practice. Imposing just donors own agendas will simply not have positive outcomes as described in this study.
- The Technical Assistance (TA) type of foreign aid has not had tangible results in institutional capacity development, this practice has rather created lots of future sustainability and self-reliance challenges for the ministry of finance, it would be better and more logical to invest in government's civil service and provide them with means of individual and institutional capacity development.

## **6.3.Discussion and Reflection:**

As a new and inexperienced researcher, I learned how to conduct an academic research, how to develop the research methodology, questions, and tools. The entire research process was very much learning for me as someone who not only lacks research skills but also has great interest in research. Furthermore, this research study provided me with intense knowledge and understating of the research topic and has motivated me to stronger commitment to future PhD research and studying. While there were lots of limits and difficulties in terms of accessing accurate data and proper sources, the research helped me to make new contacts and networks with people at the ministry of finance and other organisations I have been dealing with during the research time. Additionally, I have been learning much while discussing with my supervisor and other colleague interested in the research topic, they have all provided me useful and constructive

inputs for which I am thankful to all of them. My research work has thought me a lot in terms of building my academic skills and capacities, this small but challenging academic work has further developed my critical thinking!

#### **Appendix I: List of Interview Questions:**

1. What is the total budget of the particular donor funded project?
2. Through which donor the project is funded?
3. When the project has started and ended?
4. What are the reasons donors make to prefer Off-budget over On-budget funding mechanism?
5. What are the objectives of the donor funded project?
6. What is the total number of national and international TAs under this specific project working at national and sub-national level?
7. What are the roles and functions of TAs, do the TAs involve in institutional capacity building or in implementation of the projects only?
8. What are the impacts of TAs on institutional capacity building?
9. What are the challenges of the project during implementation stage?
10. What are the long term effects of the project on civil servants' capacity development?
11. Does the project develop the capacity of the civil servants if yes how, any?
12. How far the foreign aid in Afghan Ministry of Finance is aligned with Afghanistan National Development Strategy (ANDS).
13. What are the achievements of the project particularly in capacity development of the civil servants?
14. Do the civil servants still depend on TAs or TAs have transferred knowledge to them and they are not dependent anymore?
15. If TAs are still unable to improve capacity of the civil servants, then what are the reasons behind this and why civil servants are not interested to learn and to build their capacity?



## **Appendix II: Transcript of Interviews:**

There were a total number of 15 questions included in the interview questioner. Most of these questions were answered out of the projects related documents and reports studied and analyzed for this research study. However, some of the questions were also asked from the interviewees in personal face to face individual and group interviews. There were a total number of 8 personal interviews out of which 5 (1 interview per group) were conducted with groups of civil servants, human resource team, planning and policy team, project managers, and Technical Advisors/Assistants (TAs). The remaining 3 interviews were conducted individually with the senior officials of the Ministry of Finance, namely the deputy finance minister, the director general for budget & finance, and the director for human resources.

Below is the overall summary of the transcript of interviews conducted in groups and individually for the purpose of this research study:

**Question for discussion:** What are the roles and functions of TAs, do the TAs involve in institutional capacity building or in implementation of the project only?

**Answer by a group of 6 Technical Advisors:** “The ministry had the ability to implement useful reforms i.e. policy formulation, revenue collection system, equitable provincial budgeting, program budgeting, gender responsive and pro poor budgeting reforms in Ministry of finance and to its line ministries with support of national and international TAs” (PIU team).

**Answer by a group of Project Implementation Staff:** The national and 3 international advisors that have recruited under MBAW project were responsible for implementation of project only rather than providing capacity development and trainings programs to government employees” (MBAW team).

**Answer by a group of 6 Human Resources Officers:** Technical advisors in all departments have not only involved in implementing policies, reforms and daily office activities but also develop the capacity of civil servants in various departments and in line ministries through arranging capacity building workshops and trainings to assist them in their daily activities and operations” (HRD team).

**Answer by Human Resources Director:** Under the CBR projects the TAs are busy both in project implementation and developing the capacity of civil servants, whereas in other development projects such as MBAW, Adam Smith International, Reform Implementation Management Unit and Afghanistan Public Financial Management, technical advisors were only involved in implementation of the projects” (HRD team).

**Question for Discussion:** Does the project develop the capacity of the civil servants if yes how, any?

**Answer by a group of Project Implementation Staff:** A number of civil servants of Ministry of Finance were provided trainings, workshops and capacity building program on short and long term base within the country and abroad” (PIU team).

**Answer by a group of Civil Servants:** Trainings and workshops have been conducting only for one or two days, so it’s not easy for us to learn the complete recruitment mechanism, HR manual and CBR standard forms in few trainings and workshops that held twice in three months” (Civil Servants team).

**Question for Discussion:** What are the impacts of TAs on institutional capacity building?

**Answer by DG for Budget and Finance:** Technical advisors have been recruited on contract base and can leave the Ministry of Finance for any local private sector companies or donor agencies, if they receive at least (\$100) extra from their current monthly salary which has created challenges for our Ministry, as they are not only leaving us at the middle of the program implementation but also difficult for us to recruit another talented employee because of lengthy Human Resource hiring process and procedures which takes two to three months to have another on board” (Budget and Finance Team).

**Answer by a group of Civil Servants:** The comparatively low salaries decrease the commitment of civil servants to their duties and responsibility and also dishearten them as they could not able to run their families by such low salary given by Ministry of Finance” (Civil Servants team).

**Question for Discussion:** What are the challenges of the project during implementation of project?

**Answer by a group of Civil Servants:** It’s not easy for us to learn public financial and expenditure management (PFEML) law, operation & maintenance budget guideline and provincial budgeting policies in one-day workshop that has been conducting once in a month” (Civil Servants team).

**Answer by a group of Civil Servants:** In workshop, TAs were explaining the project objective, activities, guideline and procedures that we are not in the picture, we need to learn practically rather than to learn theoretically through one-day workshop” (Civil Servants team).

**Answer by a group of Civil Servants:** The per month salary of one international advisor is USD 25,000, they do not have any visible contribution to institutional capacity development, they do not know about Afghanistan financial law, system and language” (Civil Servants team).

**Question for Discussion:** What are the reasons donors make to prefer Off-budget over On-budget funding mechanism?

**Answer by Deputy Finance Minister:** This is true that there are insecurity issues in some provinces, but it does not belong to the capacity development issues of the civil servants, how can you describe the insecurity as reason when you are working in secured and highly protected institution or in donor compound in capital? In addition, if national private companies with local knowledge do not have the capacity to implement the development projects then how is it possible to implement it by International companies, so that does not have reality” (Deputy Finance Minister, MoF).

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