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Sector Director:	Sadiq Ahmed; SASPR
Sector Manager:	Ijaz Nabi; SASPR
Task Manager:	Nicholas Manning; SASPR

GLOSSARY OF TERMS

Dari Terms

<i>Agir</i>	Government staff hired on fixed-term contracts
<i>Babs</i>	The six major expenditure codes: 1000 personal emoluments 2000 services 3000 tools and materials 4000 maintenance and repairs 5000 land and structural equipment (capital expenditures) 7000 subsidies, grants, contributions, and pensions
<i>Fasils</i>	The more detailed line item expenditure codes, such as overtime, fuel, and office supplies.
<i>Loya jirga</i>	"Grand council." The institution, which is centuries old, is a similar idea to the Islamic "shura," or consultative assembly.
<i>Karmand</i>	Permanent, tenured government staff
<i>Mujahidin</i>	(Arabic: "fighters") In Afghanistan, the guerrilla rebel fighters who opposed invading Soviet forces and the Afghan communist government (1979-92).
<i>Mustoufiat</i>	The provincial department of finance
<i>Mustoufie velayat</i> or <i>Mustoufie</i>	The provincial agent of the Ministry of Finance
<i>Safayi</i>	Municipal service charge and property tax
<i>Sharwali uluswali</i>	Rural municipality
<i>Sharwali welayat</i>	Provincial municipality (Article 111 of the 1964 Constitution indicated that municipal councils are to be established by "free, universal, direct, secret election." Article 6, chapter 8 of the new 2004 Constitution notes that municipalities shall be established to administer city affairs.)
<i>Shura</i>	Council or association
<i>Takhsis</i>	Budget allotment
<i>Tashkeel</i>	Staffing establishment or list of sanctioned posts
<i>Uluswal</i>	District administrator
<i>Uluswali</i>	District administrations (Article 108 of the 1964 Constitution indicated that "subdivisions are to be fixed by law," and this is elaborated in the Law of Basic Organization of Afghanistan. Article 5, chapter 8 of the new 2004 Constitution makes reference to districts and villages.)
<i>Wali</i>	Provincial governor
<i>Wolayat</i>	Province (Article 108 of the 1964 Constitution provided that "the unit of local administration is the province. The number, area, subdivisions, and organization of the provinces shall be fixed by law." The law enacted under these provisions and remaining in force during the period of the 1964 Constitution is the Law of Basic Organization of Afghanistan, 20 Mizan 1344. Articles 34-46 deal with local administration. Article 42 names 28 provinces, as well as each of the districts. Article 1, chapter 8 of the 2004 Constitution specifies that the local administrative unit is the province.)

A more complete list of terms is provided in the companion reference volume, *A Guide to Government in Afghanistan*.

Abbreviations and Acronyms

AACA	Afghanistan Assistance Coordination Authority (now abolished)
AFMIS	Afghanistan Financial Management Information System
AKDN	Aga Khan Development Network
AREU	Afghanistan Research and Evaluation Unit
ARTF	Afghanistan Reconstruction Trust Fund
ASI	Adam Smith Institute
ASP	Afghanistan Stabilization Program
CCA	Cooperation Center for Afghanistan
CIDA	Canadian International Development Agency
CoAR	Coordination of Afghan Relief
DAB	Da Afghanistan Bank (central bank)
DACAAR	Danish Committee for Aid to Afghan Refugees
DfID	Department for International Development
IAA	Interim Additional Allowance
IARCSC	Independent Administrative Reform and Civil Service Commission
IMF	International Monetary Fund
IOM	International Organization on Migration
LOTFA	Law and Order Trust Fund for Afghanistan
MAC	Ministerial Advisory Committee
MoE	Ministry of Education
MoF	Ministry of Finance
Mol	Ministry of Interior
MoLSA	Ministry of Labor and Social Affairs
MoPH	Ministry of Public Health
MRRD	Ministry of Rural Rehabilitation and Development
MSH	Management Sciences for Health
NSP	National Solidarity Program
OAA	Office of Administrative Affairs
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
PBU	Primary budget unit - there are 40 including all the Kabul ministries
PDF	Provincial development fund
PED	Provincial education department
PHD	Provincial health department
PIP	Public Investment Program
PMIS	Personnel Management Information System
PRR	Priority Reform and Reconstruction decree This authorizes enhanced salaries for restructured ministries and departments.
SBU	Secondary budget unit (including provincial departments)
SCA	Swedish Committee for Afghanistan
TISA	Transitional Islamic State of Afghanistan
UNAMA	United Nations Assistance Mission in Afghanistan

Other Terms

Bonded trustees Agents who transport cash for salary payments from the provincial capital to a budget unit.

Central agencies Organizations in the executive that coordinate the activities of, and provide guidance to, the line ministries and agencies. Central agencies in Afghanistan are the President's Office, the Office of Administrative Affairs, the Ministry of Finance, the Ministry of Labor and Social Affairs, the Civil Service Commission and the former Afghanistan Assistance Coordination Authority.

<i>Compression ratio</i>	The ratio of the highest salary to the lowest on a salary scale. The Organization for Economic Cooperation and Development(OECD) measures wage compression in OECD countries as the mean of ninth decile salaries divided by the mean of first decile salaries. The OECD's approach ensures that a handful of salaries will not dramatically skew the compression ratio. However, all compression ratio approaches can be misleading if there are significant monetary allowances not captured in the calculations, or if the perceived value of non-monetary rewards represents a significant proportion of total rewards.
<i>General Control and Inspection Presidency</i>	The supreme audit authority for the whole of government, under the auditor general.
<i>Grade creep</i>	The regrading of staff into higher grades in order to provide pay raises.
<i>Job evaluation</i>	A process that compares jobs with each other, against a common or accepted set of criteria, and places them in rank order. Grading is grouping together of jobs within a range of similar quality or job weight.
<i>Lateral entry</i>	Entrance to the civil service by external recruitment or otherwise, rather than through promotion or transfer from within the service. Arrangements for lateral entry are generally most widespread in position-based systems, where the emphasis is placed on selecting the best-suited candidate for each position to be filled, whether by external recruitment or via internal promotion or mobility.
<i>Nominal roll</i>	A detailed list of legitimately employed staff.
<i>Personal grade</i>	The grade that the individual post holder has reached through promotion.
<i>Position grade</i>	The civil service grade assigned in the <i>tashkeel</i> to a particular post.

Calendar

Afghanistan uses the Solar *Hejra* Calendar. This calendar has twelve months, corresponding to dates in the western calendar as follows:

Solar month	Western month and date (begins)	
Hamal	March	21
Saur	April	21
Jawza	May	22
Saratan	June	22
Asad	July	23
Sonbola	August	23
Mizan	September	23
Aqrab	October	23
Qaus	November	22
Jadi	December	22
Dalv	January	21
Hoot	February	20

Hamal 1, SY1381 corresponds to March 21, 2002. The solar year, SY1382, began on March 21, 2003.

All financial figures are provided in new afghanis (afs.) except where noted. The most significant exception to this are data relating to the development budget, which is officially published in \$US, and therefore is also provided in \$US in this report. The current conversion rate is 49 afs. per dollar.

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PREFACE

This report draws its data from many sources, but rests largely on a major program of provincial assessments undertaken by the Afghanistan Research and Evaluation Unit and the World Bank. The six provincial assessments (Badakhshan, Bamyan, Faryab, Herat, Kandahar, and Wardak) were undertaken between December 2002 and July 2003 (see Figure 1). Provincial assessment teams consisted of national and international public administration, public finance, health, and education specialists who interviewed relevant government employees, NGO staff and local community leaders in provincial capitals as well as in several districts in each province.

This policy paper is accompanied by a companion reference volume: *A Guide to Government in Afghanistan*. That volume is factual rather than policy-oriented, and has three objectives:

1. To provide newcomers to the administrative and political scene in Afghanistan with a basic guide to the structures and processes of government;
2. To provide reformers with some understanding of how to work "with the grain" of the existing institutional arrangements; and
3. To pay tribute to the remarkable people who have kept the system running and who are now reforming it.

It is in turn accompanied by detailed case studies of the six provinces that can be found on the World Bank websites on Administrative and Civil Service Reform and on Decentralization at:

<http://wwwl.worldbank.org/publicsector/civilservice/subcases.htm>

<http://wwwl.worldbank.org/publicsector/decentralization/topic2.htm>

and on the AREU web site at:

<http://www.areu.org.af>

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Within the World Bank, guidance has been provided by: Sadiq Ahmed, Director; Ijaz Nabi, Sector Manager, South Asia Poverty Reduction and Economic Management; and Alastair Mckechnie, Country Director for Afghanistan.

William Byrd, World Bank Country Manager for Afghanistan, has been a consistent source of practical knowledge and valuable guidance. Additional assistance has been provided by Michael Carnahan, Clare Lockhart, and Larry Seale, Ministry of Finance.

The team members, their agencies and the provincial assessments to which they contributed were as follows:

Badakhshan

Akbar, Mohammad	SCA
Bennett, Christina	AREU
Byrd, William	World Bank
Chatterjee, Meera	World Bank
Evans, Anne	AREU Consultant
Hager, Rob	USAID/BearingPoint
Osmani, Yasin	AREU Consultant
Safi, Naqibullah	UNICEF
Tokhi, Rafi	AREU
Wilder, Andrew	AREU

Bamyan

Amin, Aminullah	Save the Children, US
Evans, Anne	AREU Consultant
Fishstein, Paul	MSH
Joyenda, Mir Ahmad	AREU
Lim, Janet	UNAMA
Manning, Nick	World Bank
Mansory, Amir	SCA
Miwa, Keiko	World Bank
Navarro, Richard	UNICEF
Osmani, Yasin	AREU Consultant
Roshan, Yaqub	UNAMA
Safi, Yusaf	USAID/BearingPoint
Shah, Mubarak	MSH
Tully, Anne	World Bank
Wilder, Andrew	AREU

Faryab

Farooq, Ghulam	CARE
Fishstein, Paul	MSH
Francino, Mike	Adam Smith Institute

Kirby, Helen	Save the Children, US
Latif, Abdul	Adam Smith Institute
Mckechnie, Alastair	World Bank
Saboor, Amin	AREU Consultant
Tokhi, Rafi	AREU
Tully, Anne	World Bank
Van Gelder, Linda	World Bank
Wilder, Andrew	AREU

Herat

Bosch, Christophe	World Bank
Chatterjee, Meera	World Bank
Evans, Anne	ASI
Johnson, Chris	ODI/World Bank
Joyenda, Mir Ahmad	AREU
Majeed, Sayed Ezatullah	UNICEF
Manning, Nick	World Bank
Miwa, Keiko	World Bank
Rinne, Jeffrey	World Bank
Taaj, Abdul Ghani	Ockenden International

Kandahar

Ahmadzai, Ahmadullah	MSH
Amin, Aminullah	Save the Children, US
Evans, Anne	AREU Consultant
Fishstein, Paul	MSH
Joyenda, Mir Ahmad	AREU
Miwa, Keiko	World Bank
Osmani, Yasin	AREU Consultant
Wilder, Andrew	AREU

Wardak

Bahaduri, Sefatullah	SCA
Fritsche, Gyuri	SCA
Joyenda, Mir Ahmad	AREU
Karlsson, Pia	AREU Consultant
Kluyver, Robert	Foundation for Civil Society and Culture
Middlebrook, Peter	World Bank
Nassir, Hayatullah	CARE
Rafiqi, Khaliq	UNICEF
Their, Alex	Asia Foundation
Tully, Anne	World Bank
Zakhilwal, Omar	CIDA/MRRD

Additional technical guidance was provided by many patient experts:

ARTF monitoring agents (PriceWaterhouseCoopers)	Data on payroll delays
Carnahan, Michael (Ministry of Finance)	Evolution of the budget process
Christensen, Asger (World Bank)	National Solidarity Program
Cox, Aidan (UNDP)	Development budget implementation
Esmail, Talib (World Bank)	National Solidarity Program
Goga, Soraya (World Bank)	Kabul municipality

Goldsworthy, Diana (DfID)	Proposals for supporting cabinet
Guimbert, Stephane (World Bank)	Allotments and budget execution data
Hirabayashi, Kunihiko (UNICEF)	Health sector issues
Lee, Jonathan (AREU Consultant)	Civil servant profiles
Lister, Sarah (AREU Consultant)	Political economy
Loevinsohn, Benjamin (World Bank)	Health sector issues
Lwin, Than (USAID/BearingPoint)	Allotment data
Middlebrook, Peter (World Bank)	Sectoral budget analysis; development budget implementation
Prasad, Satyendra (World Bank)	Capacity building and the PRR decree
Prince, Keir (ASI/DfID)	All details of public sector employment totals
Salama, Peter (UNICEF)	Health sector issues
Scott, Graham (Southern Cross International/World Bank)	Health sector contracting
Weinbaum, Marvin (Middle East Institute)	History
Wilson, Greg (DfID)	Civil service legislation
Wilson, Julian (DfID)	Proposals for supporting cabinet
Winkler, Don R. (World Bank)	Post-conflict education reform
Venner, Mary (USAID Treasury Advisor, USAID/BearingPoint)	Allotment procedures

Useful peer review comments were provided in the following areas by four experts:

Dorotinsky, William (World Bank)	Public expenditure
Ebel, Robert (World Bank Institute)	Intergovernmental relations/post conflict
Leader, Nicholas (formerly UNAMA)	Political economy
Stevens, Michael (World Bank)	Public administration

Valuable comments were provided on an earlier draft by William Byrd (World Bank), Steve Symankysy (IMF) and Ghulam Nabiyyar (former provincial director of education, Badakhshan province).

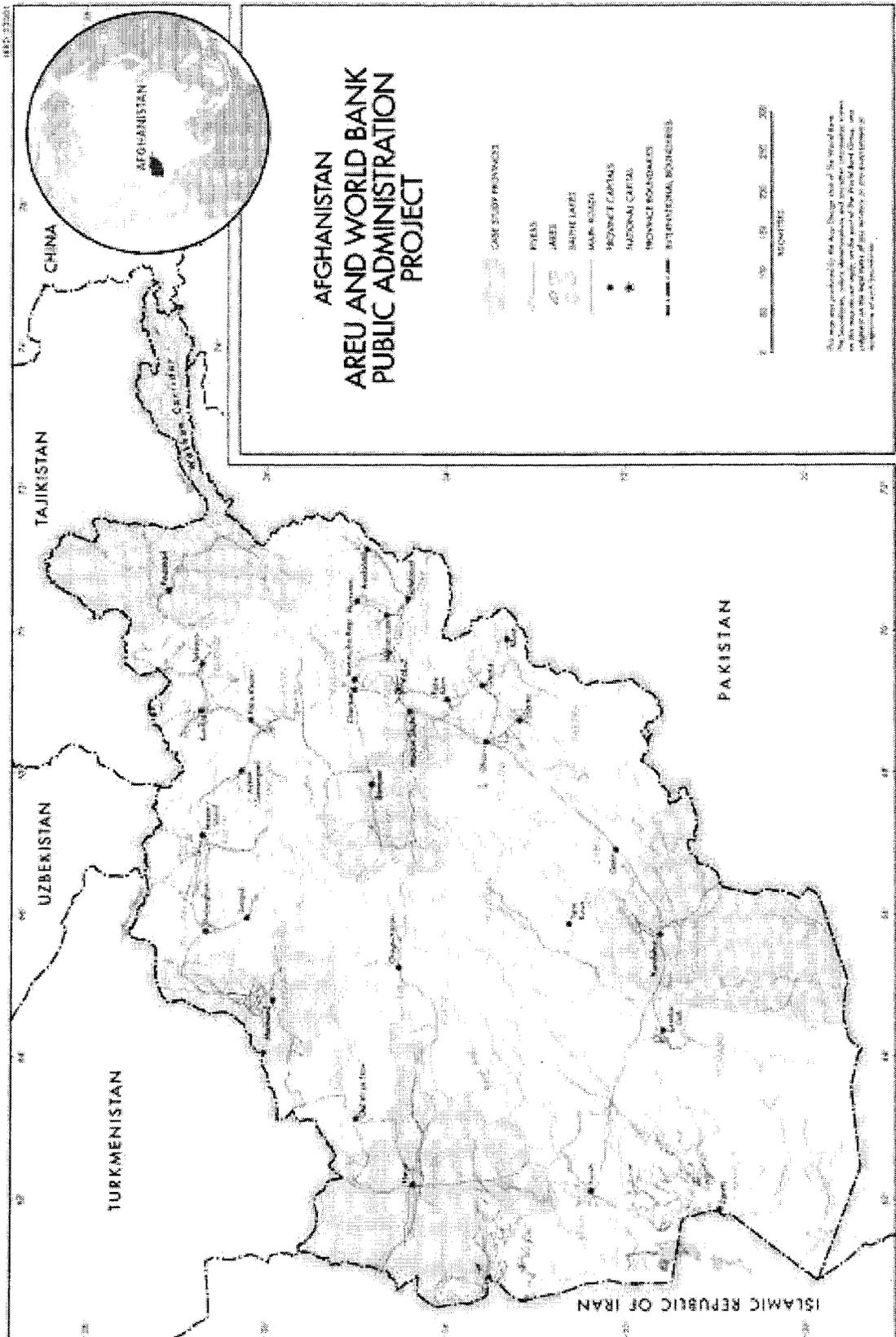
Additional guidance was provided by more than 100 senior provincial officials who attended a workshop organized by the Ministry of Interior, with AREU, UNAMA, and the World Bank, entitled "Strengthening Provincial and District Government," held at the Ministry of Interior, on October 21, 2003.

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Figure 1: Map of the Six Case Study Provinces



SUMMARY

Background

Throughout its development, the centralized state structure of Afghanistan has coexisted uneasily with a fragmented, decentralized traditional society, and the interplay - and at times conflict - between the two has been one of the recurrent themes of modern Afghan history. There is still much to understand about the fiscal and administrative arrangements in Afghanistan. However, a picture is beginning to emerge. The simplistic assertions that the state collapsed in Afghanistan as a result of several decades of conflict, or that the public sector is an institutional blank slate, are not borne out by the facts. Politically, there was undoubtedly a collapse. The onset of conflict from 1978 stopped any further consolidation of central authority, and there is a continuing crisis of political legitimacy in much of the country. But the administrative structures of the state have proven to be surprisingly resilient. The arrangements are strongly centralized, but provide a coherent management and accountability framework for government. The administrative practices are basically sound, and those practices are relatively well understood if not always adhered to.

The coherence of the fiscal and administrative systems, the common understanding of how they are intended to work, and the entrenched discipline of staff are valuable resources. The overarching principle that must underpin all assistance to the public sector is to work with these strengths, nurturing the discipline that has remained despite the many years of conflict.

This picture cannot be fully understood without a sober appreciation for the complex political dynamics that overlay the fiscal and administrative systems. The result of several decades of political upheaval is a state where most areas outside of its capital are authoritatively dominated by regional and local commanders whose source of power is their financial and military resources, as well as historical and factional loyalties. However, despite the many political challenges this picture presents, there is a basic bureaucratic structure at the subnational level that can be made to function - and indeed to help - to reassert the authority of central government. But this opportunity is time-limited; if no action is taken

soon, the skills, experience, and commitment to public service that are still evident throughout the country will have completely drained from the system. Furthermore, the strong desire by the vast majority of public servants in the provinces to see a strong central government re-emerge will diminish if they receive little or no support from the center. These front-line representatives of government - the face of government for most Afghans - play a critical role in linking central policy to local needs.

The Proposed Strategy

There are immediate steps that can and should be taken to restore basic operations of government at provincial and district levels. Achieving the government's goal of higher levels of service delivery will require some cautious delegation of day-to-day management decisions. This needs to be done in the context of maintaining the integrity of the current unitary structure of government in Afghanistan whereby all political authority is vested in the government in Kabul.

This report proposes a two-pronged strategy of government action for securing progress in subnational administration, using the structures and discipline that form the distinctive heritage of the Afghan state. One strand calls for the center to commit itself to delivering some basic support for provinces, districts, and provincial municipalities in their functional role as service provider or commissioner, and in their political role as local representative of the unitary state.

The second strand of the strategy is comprised of tailored incentives for subnational administrations that reflect their institutional and historical roots. Some of these incentives will require some cautious increases in delegation, but such increases in delegated authority should not be taken to mean broad-based decentralization. The task is to make this deconcentrated system work, not to seek heroic or destabilizing radical change. Effective incentives at the subnational level will entail providing valued resources that are triggered by simple measures of administrative *effort*, not *performance*, and tailoring the incentives to suit the specific situation of the administration with distinct differences between the incentives provided to provinces, districts, and provincial municipalities.

In sum, this report proposes unconditional commitments from the Government in Kabul to:

- Complete the pay and pension reform
- Build confidence in the central agencies by demonstrating progress in the Independent Administrative Reform and Civil Service Commission (IARCSC) and by increasing Treasury authority over payroll, by providing procedural guidance from the Ministry of Finance, and by enhancing oversight of the ordinary and development budgets
- Build loyalty to Kabul by removing delays in processing the payroll and in staff appointments, by updating the *tashkeel*, increasing the levels of non-salary cash flow, by improving Kabul presence in the field and re-orienting Kabul ministries, and by stabilizing district jurisdictions
- Restore provincial dignity and capacity by physical reconstruction and priority support for provincial health and education departments
- Revive districts by physical reconstruction and support for a return to written procedures.

It proposes matching these commitments with conditional incentives for subnational administration, based on a combination of grants, modest delegation, and technical assistance, with

triggers based on simple measures of administrative effort. The incentives that it proposes are tailored to suit the specifics of each level of subnational administration:

- Provinces - with specific proposals concerning the governor, the *mustoufiat*, and line departments, particularly the health and education departments
- Provincial municipalities
- Districts.

This is not to say that there are no obligations on the part of subnational government; it is also essential that provinces improve their reporting and remittance of all revenues to Kabul. But provinces will have stronger reasons for supporting a government that provides more tangible support to subnational administration. The underlying approach proposed is one of modest and selective deconcentration to give the center more practical control over local operations.

For their part, donors need to manage their assistance in ways that reinforce the recommendations for government in this report, by providing financial support through the government's budget processes where possible and by designing specific project support in ways that help shift the focus towards pro-province and pro-service delivery objectives.

1. CONTEXT

A Partially Centralized State

In strictly formal terms, on all three dimensions of decentralization - administrative, fiscal, and political - Afghanistan is highly centralized.¹

All staff are employees of the central government and take direction from the center through their respective ministries. All revenues formally belong to the national government and provincial expenditures are allotted through central ministry budgets. All political positions at the subnational level are appointments by the national government. On an operational level, however, regional and local commanders wield considerable power, backed by financial and military muscle, and either work around or through the subnational government structures.

These two seemingly contradictory views can be understood by distinguishing between "de jure" and "de facto" states.² The de jure state is the formal, legal structure, and the de facto state is how it works in practice. Box 1 illustrates the

degree of alignment between the de jure and de facto states in Afghanistan. The administrative relationships between Kabul and the provinces are the most aligned; the basic rules, such as the staffing quotas and grades contained within tashkeels (staff allotments) are well understood and remarkably well adhered to. There is also a general acceptance of the rule that all staff positions above grade 6 have to be approved by Kabul, though it was often the de facto rather than the de jure power of senior officials in Kabul that influenced the approval of provincial appointments. There is some alignment in terms of fiscal relationships as the basic budget rules of the de jure state are understood and accepted at the provincial level. However, there is less alignment when it comes to practice, especially with regard to the remittance of locally raised revenues to the center. There is strong de facto political decentralization and very limited political power for the de jure state at the subnational level.

Box 1: The Degree of Alignment Between de Jure and de Facto States		
	de Jure	de Facto
Administrative central/provincial relationships	Strong de jure administrative centralization, with virtually all administrative decisions made at the center	<ul style="list-style-type: none"> • Most provinces accept that Kabul has a role to play in approving senior level appointments, but there are significant departures from this for some provinces, particularly with regards to police. • All provinces accept the basic rules of the administrative game concerning grades and tashkeels.
Fiscal central/provincial relationships	Strong de jure fiscal centralization, with no own-source revenues or authority over expenditures at the subnational level	<ul style="list-style-type: none"> • Provinces do report and transfer locally raised revenues to the Ministry of Finance; however, there are significant amounts of unreported (and locally withheld) revenues. • All provinces accept the basic rules of the fiscal game concerning budget preparation and execution.
Political central/provincial relationships	Strong de jure political centralization, with all subnational political positions appointed by the national government, and no mandatory regional representation in the national government	<ul style="list-style-type: none"> • Self-evidently, politically there is major de facto decentralization, with regional warlords or local commanders setting policy.

Weighing in favor of central authority, the centralized administrative and fiscal structures are being restored and strengthened. Politically, Kabul's links to the provinces have been strengthened as many of the factional leaders (or their representatives) who enjoy power in the provinces are in the Cabinet. However, local power politics and the strength of the regional commanders may negate the potential for political consolidation, at least in the short term. Indeed, some ministers at times operate quite independently, knowing their government position stems from their military power in the provinces.

There is considerable popular sentiment in favor of centralization. Most officials and citizens have expressed a strong desire that the influence of the central government should increase at the expense of regional warlords and their local commanders. The combination of nostalgia for the days of relative peace under King Zahir Shah and the experience of two decades of rule by local commanders and regional warlords, made interviewees in all six provinces virtually unanimous in their support for central political authority over provincial administration. Other poll-based research has provided evidence that there is a strong attachment to the idea of central government even though citizens are all too aware of its limited capacity.³ However, in the provincial assessments, there was much frustration at how little had been done by the international community and the current government to assert its influence. Interestingly, this sentiment was often expressed most passionately by those who owed their appointments to various commanders, suggesting that these loyalties may not be so deep.

The Key Subnational Actors

The powers and responsibilities of the provincial and district administrations are determined (and therefore may be withdrawn) by central government. Though provinces and districts are legally recognized units of subnational

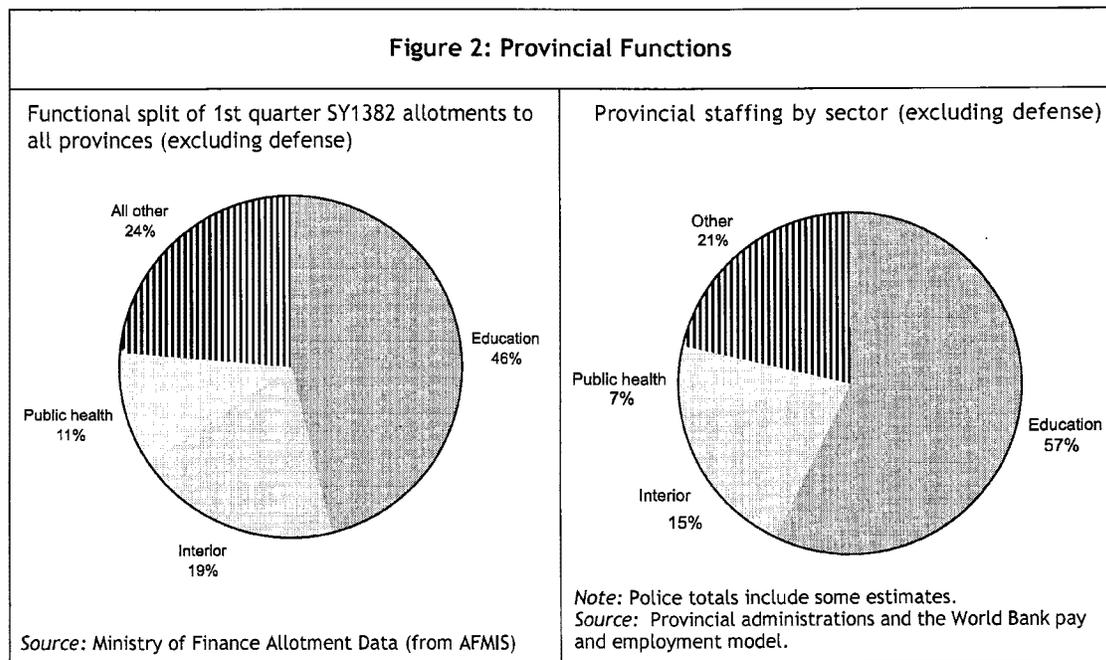
administration, they are not intended to be autonomous in their policy decisions other than through some flexibility in implementing centrally determined programs. Within the 32 provinces, there are 355 districts, classified by the Ministry of Interior according to size: grade 1 (65 districts); grade 2 (172 districts); and grade 3 (118 districts).

Municipalities are distinctively different and come closest to an independent level of government. There is one provincial or primary level municipality in each province and some districts also have a "district" or "rural" municipality. There are a total of 217 municipalities in Afghanistan consisting of at least 5,000 people.

Provinces:

- Are comprised of a set of departments from most ministries - the departments are secondary budgetary units, and thus receive allocations at the discretion of the ministry, the primary budget unit (see Figure 2)
- Have little latitude in determining their own structure - the parent ministry, in negotiation with the Office of Administrative Affairs, determines the internal structure of each department
- Have no budget per se - the budgetary allocations for the provinces are simply the total of the administrative decisions that have been made by the various Kabul ministries concerning the allocations to their provincial departments
- Have no independent authority to borrow
- Collect a range of locally generated revenues on behalf of the central government (the most significant of which is the customs tariff) - all tax and customs rates are set by the central government.

Figure 2: Provincial Functions



Districts:

- Are tertiary budget units and as a result are even more dependent on administrative decisions, in that their budgetary allotments depend on the decisions made by the relevant provincial level departments (secondary budget units) of the Kabul ministries (primary budget units)
- Collect minor taxes on business premises
- Have an administrative and fiscal relationship with the province that replicates the center-provincial relationship - however the Ministry of Interior in Kabul determines the district staffing allocations.

Municipalities:

- Are largely self-sustaining entities with responsibility for providing some services (trash collection, recreation, and park services), and collecting minor revenues from local service charges and retail licenses
- Are, in principle, a separate level of government in that they have some limited autonomy in budget execution

and in budget preparation (the Ministry of Interior controls their staffing establishment and approves their budgets)

- Can undertake construction of canals and ditches, solid waste management, supervision of parks, preservation of green areas, paving roads, cultural services, and expansion of food markets. In cooperation with other government line ministries, municipalities can also be indirectly involved in the construction of the city sewage system, water supply, prefabricated apartments, city power, communications, public health, education, and sport
- Take the form of provincial or district municipalities.

Provincial municipalities:

- Are similar to provincial departments, in that they report to a parent ministry in Kabul (the Ministry of Interior) that approves the municipality's budget, organizational structure, and staffing numbers, via the governor
- Differ from provincial departments in that the budget is completely

- financed by a range of local revenues, which are established in regulation by the Ministry of Finance (cleaning and sanitation tax, property taxes, property rents, business taxes, property sales, and various fees and licenses)
- Are the only units of subnational administration that go through any sort of budget planning process, beginning with estimating revenues and then compiling a budget that fits within this constraint prior to the budget being submitted to the Ministry of Interior for approval.

Rural or district municipalities:

- Exist where there is a large enough village and tax base to warrant it
- Are intended to have the same financial and reporting relations with the Ministry of Interior as the provincial municipality, but the practice appears to vary substantially
- Are financially self-sufficient (as with the provincial municipalities), can run a surplus by collecting more revenues than needed for their approved budget, and can hold this amount in their local bank account.

2. KEY FINDINGS

Given Expectations, There is Surprising Resilience

One of the significant findings is that the subnational structure of the state is more robust and functional than anyone had expected at the beginning of this study. It appears that administrative and fiscal mechanisms, which had been standardized before the war, have continued

in use throughout the country despite the lack of an ongoing relationship with Kabul. Indeed, old protocols are often strictly followed, despite the difficulties presented by the very poor state of telecommunications. Staff are being paid, albeit slowly, and revenues are being collected, although not always reported (see Box 2).

Box 2: The Staff View

Staff interviewed for the research conveyed a combination of pride and frustration at their present situation. The dominant themes from the interviews were:

A sense of pride - Serving in the government is a mark of distinction, and something to be proud of.

Disarmament is critical - "Disarmament is the top priority. The administrative system cannot function as long as people are armed because you have to do what the armed people tell you to do, not what the rules tell you to do." (a provincial deputy governor)

Leadership from the center - Staff want this and would welcome this. But so far, there is a real concern about the lack of any support or guidance from Kabul.

Inadequate salaries - Too little and too late. The payroll system is weak and inefficient.

Problems with selection and appointment of staff - The current system is overly centralized, cumbersome, subject to nepotism, and staffed with many unqualified personnel.

Lack of resources to do the job - Inadequate buildings, furniture, equipment, transport, communications, and office supplies. The non-salary budget does not bear any resemblance to needs.

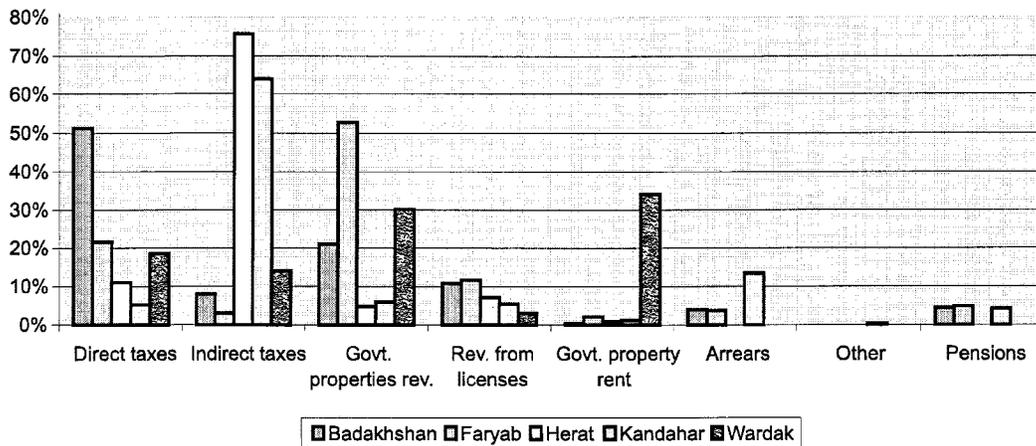
Captured revenues - What revenue is generated at the provincial level is often captured by commanders and does not enter the government coffers.

Outdated tashkeels - They are no longer relevant to the needs of the district; some departments require additional staff, such as education, and others, fewer staff. Tashkeels do not always match the allotments.

Corruption - While the degree differed across provinces, corruption seems to be a growing problem and bribes often need to be paid at every step of the way to get government paperwork processed.

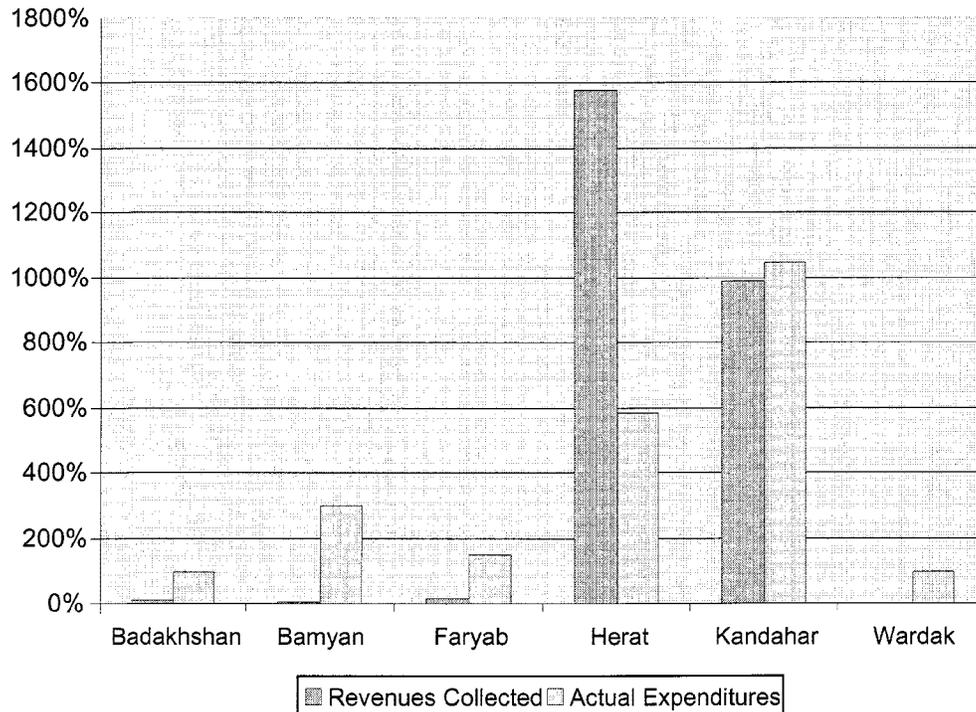
Figure 3: Provincial Revenues and Expenditures, SY1381

Sources of revenue as percent of total



Source: Provincial mustoufiats.

Revenues and expenditures as percent of budget



Note: UNDP salary payments included in allocation for Wardak only. Budget allocations and expenditures have not traditionally been aggregated on a provincial basis, as expenditures are established and tracked through each separate central ministry-provincial department reporting line.
 Source: Provincial mustoufiats.

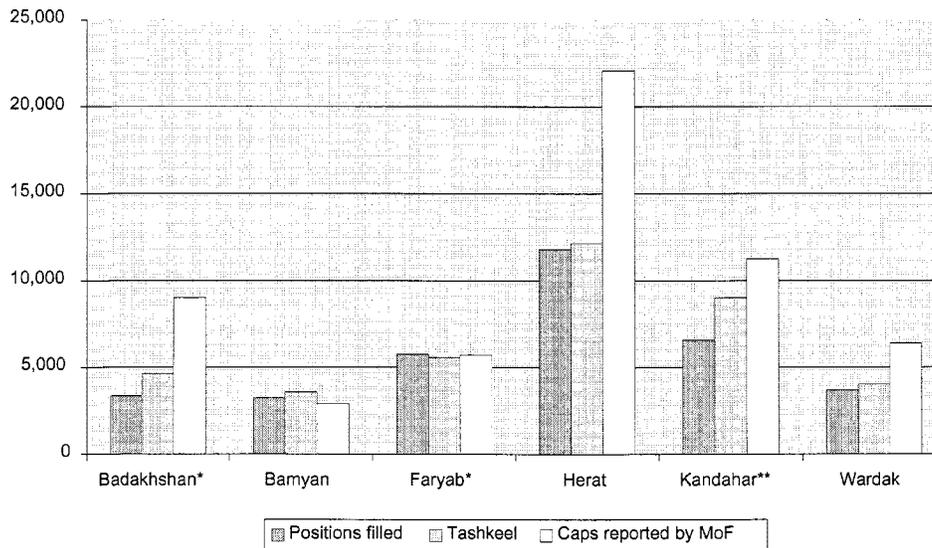
One of the signs of the unexpected robustness of public administration is that it has not dramatically grown in size. Doubtless there has been significant patronage hiring both in Kabul and at the provincial and local levels over the last two years. However, considering the pressure that the public sector must have been under to provide jobs, the evidence suggests that the existing establishment control systems have helped prevent a tide of patronage appointees (see Figure 4). Low pay has also been a major factor in limiting new hires, and with the recent increase in teacher and police salaries, this trend may change. (Perhaps even more surprisingly, given the low level of pay, is the number of staff who have remained in the

civil service.) But the control systems have clearly played a role.

There are thirteen grades, and people and positions are graded separately. Thus a civil servant in a grade 8 position, for example, can have a personal grade of 6 as a result of promotion in post.

Figure 5 illustrates that staff in the provinces are disproportionately in the middle grades. This suggests that if there was a temporary hiring frenzy following the establishment of the Interim Administration, this affected Kabul more than the provincial administrations.

Figure 4: Summary of Staffing by Province, Excluding Police, SY1382



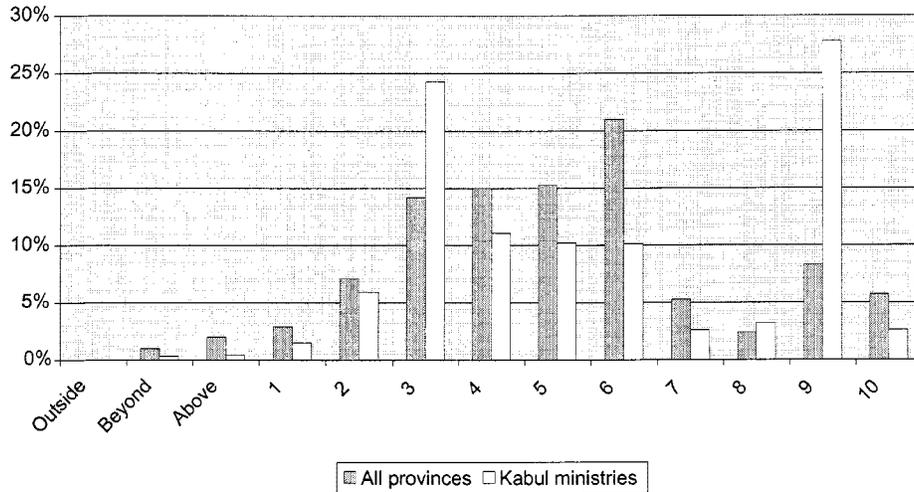
* Positions filled and tashkeel for SY1381.

** Tashkeel for SY1381.

Note: The staffing caps shown above were reported to MoF by the respective line ministries, as requested following the 1382 budget process. It is not clear what the relationship these caps have to the tashkeels.

Source: Provincial administrations.

**Figure 5: Staff Composition by Grade in the Provinces and in Kabul
(for civilian staff excluding the Ministry of Education and the Ministry of Interior)**

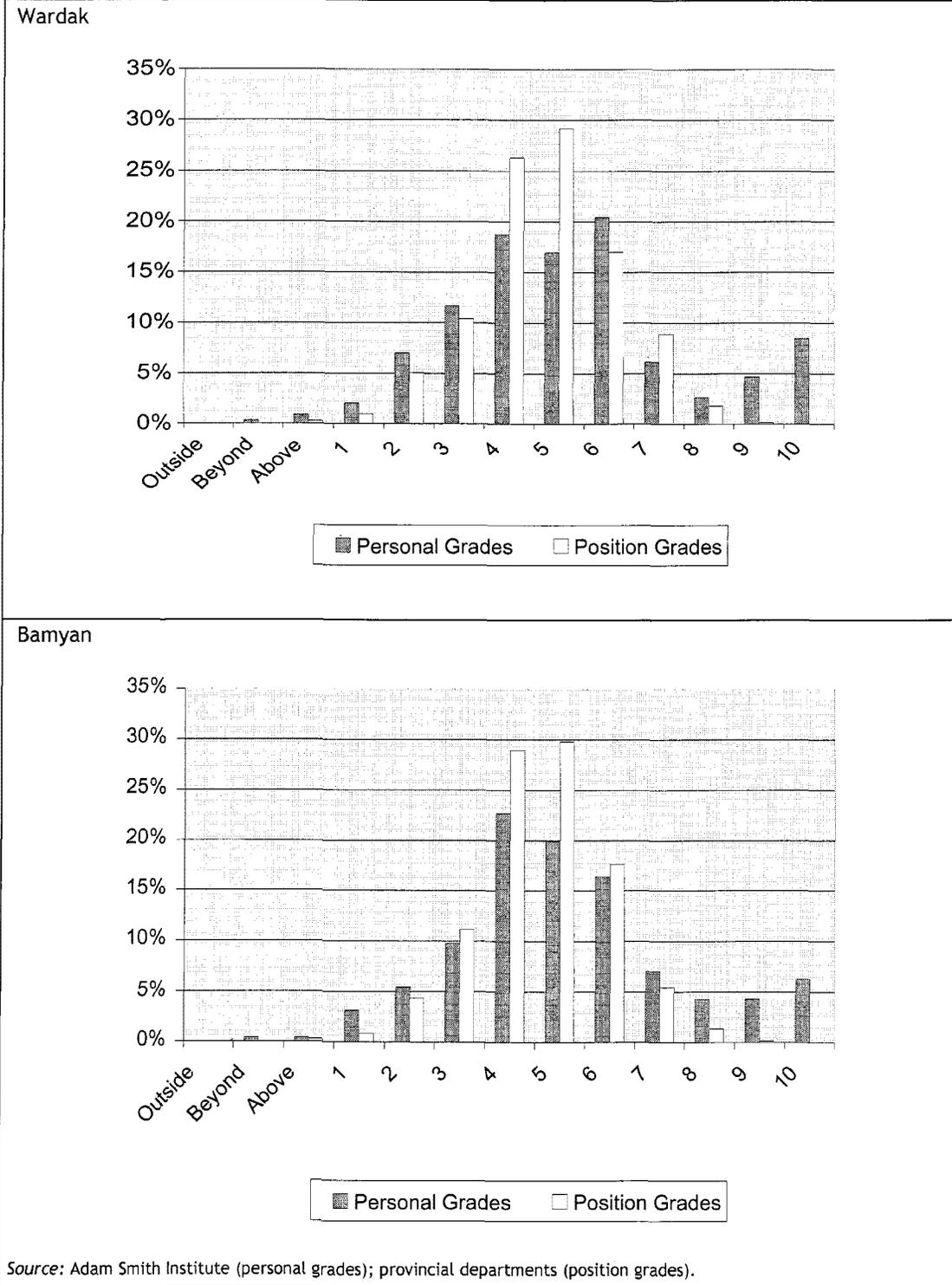


Source: World Bank analysis of the ASI head count data for Sonbola SY1381.

Although the national government has approved pay increases in the last several months for the army, teachers, and police, and most recently for all other civilian staff, these increases have been necessary, controlled, and modest. At the subnational level, even in those areas where there is access to significant resources, national pay rates have been observed. One notable exception was in Kandahar, where in 1381, the governor paid staff increases of 50 to 70 percent; but this

practice was ended at the direction of the Ministry of Finance in Kabul. At the provincial level, there is also relatively little evidence of grade creep (the movement of staff to higher grades in order to provide pay raises). This points to a significant degree of discipline; when pay is low, there are many incentives to allow rapid promotion to maximize the modest increases available to higher-level staff.

Figure 6: Distribution of Karmand Grades (excluding education)



This general observation masks significant regional variations. Upheavals and the atomization of power in the country have produced very uneven results. In some areas, governmental structures have continued to function reasonably well. In other areas funds, projects, and appointments have been completely placed at the disposal of local commanders. In some cases, lack of resources, benefactors, and attrition have atrophied the system, producing districts that have staff in posts but little knowledge of their responsibilities and no resources to implement them. District municipalities are particularly varied; some are independent as the law envisages, subject only to budget approval; others, however, are treated as district offices of provincial municipalities, their main (and even sole) responsibility being revenue collection, which is then transferred to the provincial municipality. However, municipalities are generally active and show some signs of revenue effort.

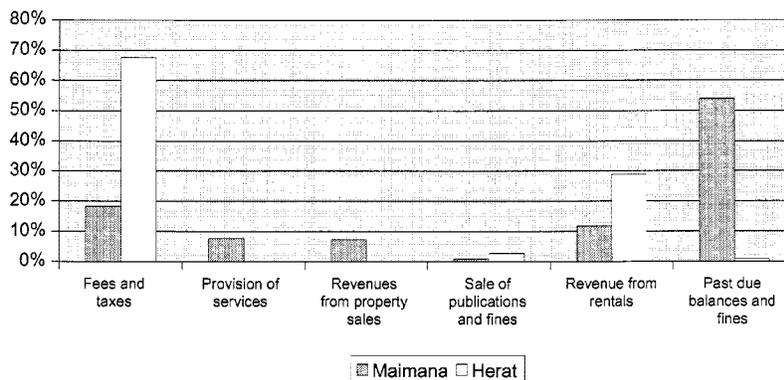
Figure 7 illustrates a key fiscal distinction between provinces and municipalities. The picture of revenues and expenditures shows that the budgets for provincial municipalities are nearly balanced. Municipalities must live within hard budget constraints, so they tailor their expenditures to fit within the available resources. Figure 3 showed the revenues and expenditures for the provinces. There is no obvious relationship; other than for Herat, provincial expenditure is determined from the top down by the Kabul ministries and is disconnected from any revenue effort on the part of the province.

Progress Has Been Possible

Many will make the point that this resilience of the fiscal and administrative arrangements is double edged. The downside is that government is encumbered by an entrenched structure that may be difficult to hew into the lean, responsive public administration envisioned in the National

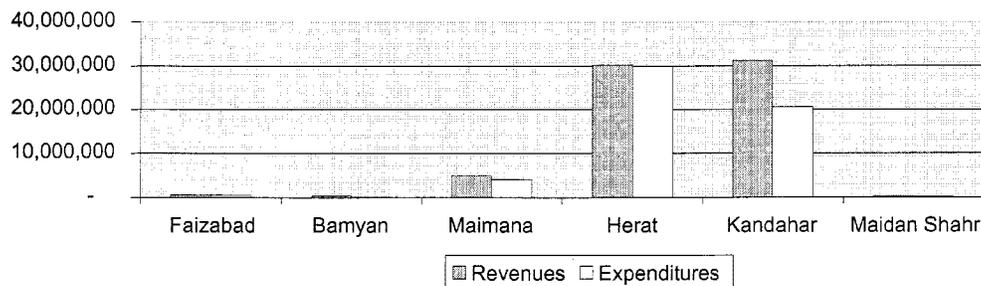
Figure 7: Municipal Revenues and Expenditures, SY1381

Sources of municipal revenues (Maimana [Faryab] and Herat [Herat])



Note: "Past due balances" refers to taxes owed from previous years that have now been paid.
Sources: Municipalities of Maimana and Herat.

Provincial municipalities: revenues and expenditures (afs.)



Source: Provincial municipalities.

Development Framework (NDF). In particular, the "resilient" administrative structures and functional responsibilities inherited in the health and education sectors could be incapable of meeting the expectations of the current population, however much they are revived. Nevertheless, the discovery of an administrative bureaucracy that is functioning beyond expectations is a blessing. It implies that government employees share a common understanding of how the system is intended to work and that there is a significant degree of discipline entrenched at all levels. These represent valuable resources, without which future reforms would be considerably harder to launch and sustain.

Significant progress has been made in re-activating the basic administrative system and setting the stage for future improvements in functional responsibilities and performance. Some institutional reforms have been implemented at the national level, showing that at least some modest progress is possible. Budget making in Afghanistan has evolved considerably; government has taken increasing control over the allocation of resources. The first budget was little more than an attempt to describe what was happening - particularly in the case of bilaterally funded development or reconstruction projects. However, as the government approaches its third budget, the level of technical sophistication and understanding has increased, and the budgets have become more prescriptive and are used more substantively to allocate both cash and in-kind contributions to the government's highest priority tasks.

Overall, the budget process has done significantly more than prepare an expenditure plan for the government. It is the major tool that built the capacity of the government decision-making process, as expenditure decisions were the first ones that the government was required to make. It is also playing a major role in defining the structure of the government and is the catalyst that is forcing the discussion of major policy issues. In addition, the IARCSC has been established; it is responsible for appointing senior civil servants based on merit, and for designing and implementing the overall reform program. The Ministerial Advisory Committee (MAC) on Public Administration Reform provides a sounding board for reform proposals and, consequently, some

political legitimacy for the difficult choices that must be made. Some early steps in pay reform have been taken, with the Priority Reform and Restructuring (PRR) decree now allowing targeted pay increases, and the Decree On Regulating Externally Funded Reimbursements and Allowances for Civil Servants (the "top-ups" decree) passed, if not as yet implemented. Behind these headlines, the formal administrative system is now coming back to life. The payroll has stabilized in both Kabul and the provinces and, despite earlier concerns, total head count numbers are not growing detectably.

These have all been critical steps towards restoring the credibility of the central administration in the eyes of the international community, as well as with subnational government actors. And they have laid the groundwork for future improvements in functional responsibilities and performance.

A Crisis is Imminent

There are very real risks of losing the benefit of these gains in the provinces and districts, and there is a significant possibility that a generational opportunity to secure an improved level of service delivery and governance throughout the country will be lost for the following reasons:

A new generation of staff that does not know the rules

The groups of staff at the provincial and district levels that have first-hand experience in the bureaucratic systems of government are ageing and about to retire. In most of the provinces and districts visited for this study, there was very little written guidance on procedures - rules of business, personnel regulations, and procurement guidelines. In a few cases, staff had copies of legislation or manuals written many years ago, but nothing reflecting current procedures to the extent that they have changed. Learning from older staff is the only option for newer hires who wish to understand appropriate procedures. Moreover, those appointed by patronage may not be interested in making even that effort. If this older generation leaves before the written rules are in place and before the younger staff have been trained, the practical knowledge of how to operate this cumbersome - but essentially sound - system will be lost.

Dashed hopes and growing disappointment

Since December 2001 provincial and district staff have been waiting to hear from Kabul. They

understand the present centralized system and, broadly speaking, they support it. For example, there are some, but surprisingly few, provincial concerns expressed about the top-down, Kabul-centered process for preparing the budget. Provincial departments are well accustomed to a system in which they have virtually no involvement until they begin to receive their organizational charts with staffing levels, and their first quarter funding allotments. They generally accept and expect a strong leadership role from the center.

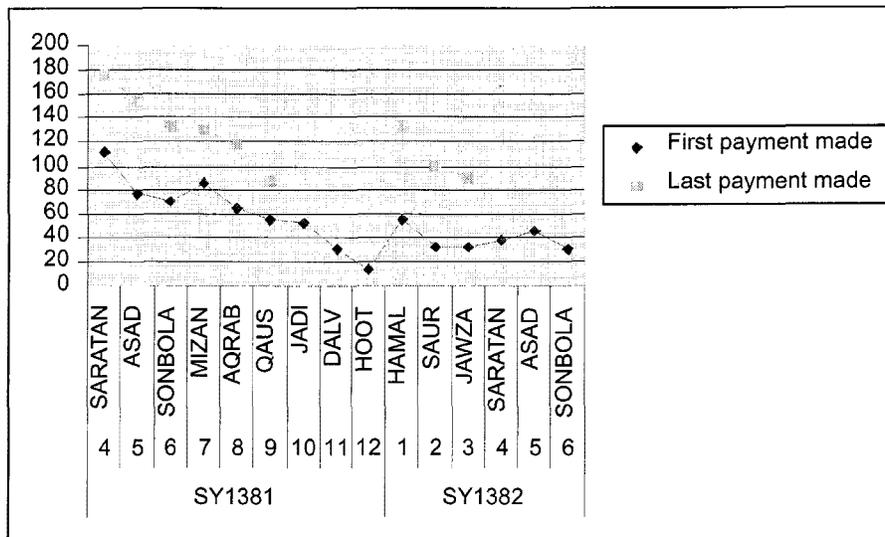
However, there are indications that this "acceptance" is beginning to erode. Concerns over the low level of non-salary allotments have been frequently voiced - and more specifically the lack of cash in some provinces that has made it very difficult to actually spend the small allotment they receive. A more significant issue has surfaced since the start of SY1382. The *takhsis* that set the staffing establishment levels of all ministries, provincial departments and districts have become disconnected from the *takhsis* (the budgetary allotment), creating particular uncertainty regarding the authority of the provincial and district departments to hire staff.

While it is not inherently wrong to have a funding allotment that is lower than the staffing establishment when faced with fiscal constraints, this is a radical departure from historical practice in Afghanistan, whereby provinces and districts were simply told how many staff they could hire.

Provincial staff hoped that some relief to their difficult working conditions and poor compensation would be forthcoming from Kabul quickly. But for various reasons, the relief has not arrived. They comment, increasingly angrily, that the Kabul staff receive their salaries on time while they must wait for several months. Government has made considerable progress in this regard, but delays remain chronic.

Provincial staff also note that Kabul ministries have access to a non-salary operating budget, with the cash to support it, to cover the costs of maintenance and repairs etc., while they do not (see Figure 9 for the distribution of allotments and Figure 10 for non-salary budget execution for SY1381). The consequence, they note, is that they cannot do their jobs. Or, they are forced to be dependent on local commanders and other political elite who can provide funds to repair school windows or provide other non-salary running

Figure 8: Delays in Salary Payments for the Provinces (number of days, excluding police)



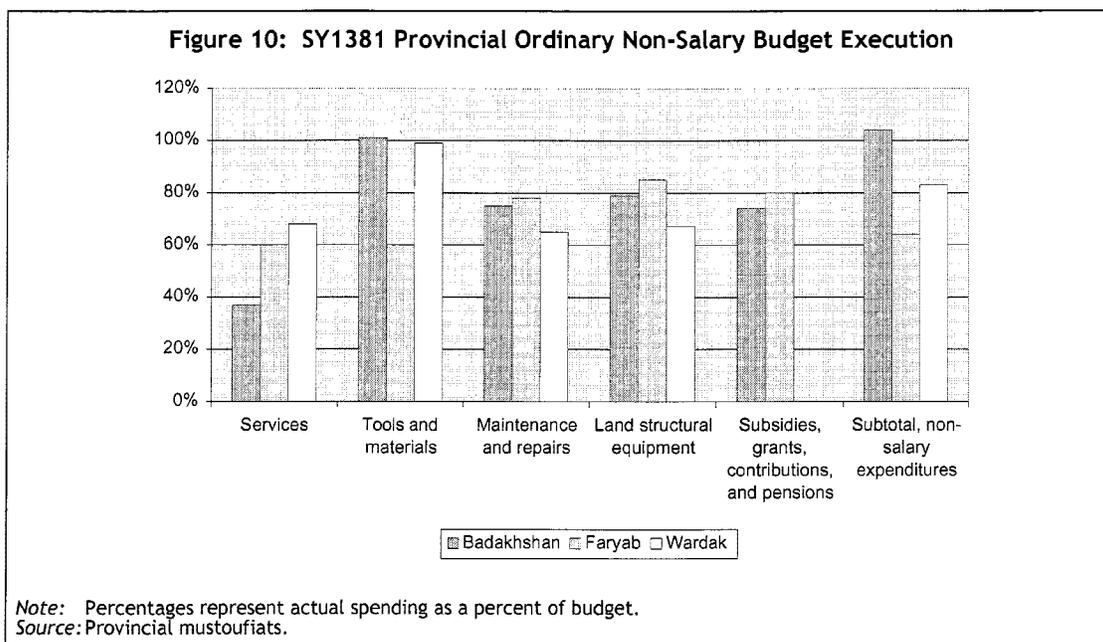
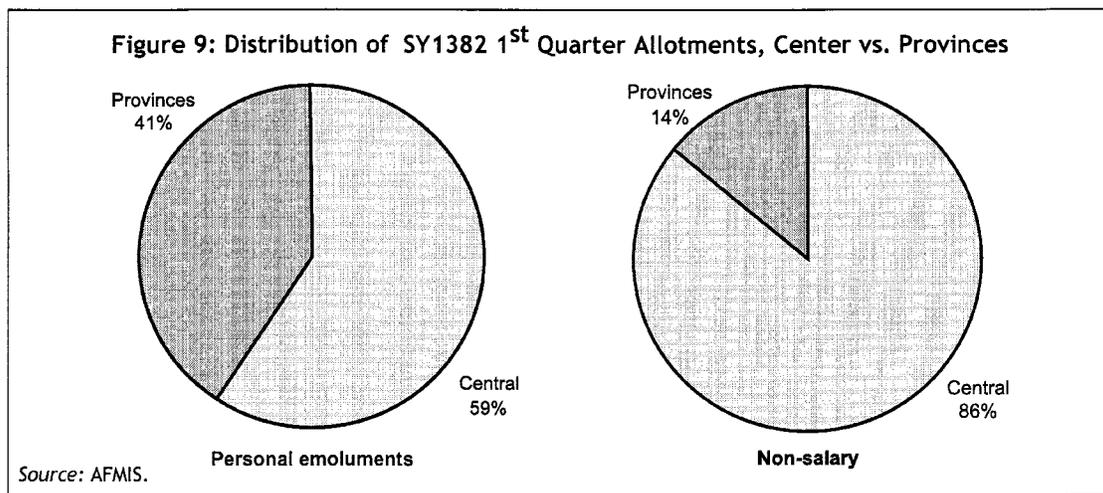
Source: PWC, ASI and World Bank staff calculations.

costs, thereby further entrenching the power of these commanders.

teachers, and others will only temporarily diminish these expectations.

Growing disappointment is matched by rising expectations on other issues. Low salaries are creating many problems, including some difficulties in attracting and retaining qualified staff and the creation of ghost workers as a means to supplement salaries. Many staff that remain in provincial or district employment view their current meager salaries as a marker - a sign that when salaries are increased, they will benefit. The recently announced salary increases for police,

As an additional source of frustration, some rumors of the public administration developments in Kabul have reached provincial and district staff, including the creation of the IARCSC and the passage of the PRR decree. There is extensive cynicism - but also some frustration - that details of these measures have not been provided to them, leaving once again a sense that they have been overlooked.



A perceived distant and hostile central administration

The problems created for provinces and districts as a result of the general lack of basic procedures manuals and other guidance are exacerbated by an apparently high-handed approach taken by the Kabul ministries to their provincial and district colleagues. This high-handedness is evident in many ways:

- Kabul ministries intimidate provincial staff by responding to questions with unclear responses, coupled with implicit threats about actions to be taken if the ministry determines later that they have acted inappropriately.
- The widespread delays in the Kabul ministries' provision of the staffing establishment list (tashkeel) and the budget allotments (takhsis) mean that provincial departments, in turn, are forced to delay hiring and paying staff.
- Adding insult to injury, there are many cases this year of an inconsistency between these two documents, leaving provincial staff with no logical way of interpreting the authority that they have received.
- Finally, many staff with lower qualifications than those formally required for the post were appointed on a temporary basis in SY1381, because qualified staff were often not available. Kabul ministries are neither confirming these staff in post, nor discharging them, leaving the staff to wait and see whether they get paid for work already done.

This tension between staff based in the capital and those outside is found in every country to some degree. However, it is exaggerated in Afghanistan because of the differential treatment in relation to the timeliness of salary payments noted above. And because the flood of donor activity has been so strongly Kabul-centered, it has created a sense that the Kabul center is the only layer of government that ultimately matters. Adding further to these tensions, donors have launched some schemes that have overlooked the existence or the functioning of provincial and district level government structures. In the process, the provincial role as service provider has been eroded, and its potential role as regulator has been disregarded.

To be fair, it must also be recognized that the center's highhandedness may be a response to the provinces' unwillingness to report and remit all revenues - revenues that are critical to the government's viability. Action clearly needs to be taken on both sides. But within the logic of the system, Kabul essentially has a support function, ensuring that appropriate budgets, guidance, standards, and recruitment authorities are provided to the provinces and districts to enable them to perform their tasks adequately. If the cynicism about the role of central administration becomes entrenched in the minds of provincial and district staff, then the 200,000 staff outside Kabul (including police) - who, at present, are proponents of a strong central administration - will become active critics.

A growing sense of impotence and confusion in the social sectors

Provincial staff in the education and health sectors face additional difficulties in their capacity to plan, deliver, and monitor complex services, and in their ability to shape the delivery of future services and structures in their sectors. The resources available to NGOs and others providing services outstrip those of the provinces and districts many times over. In addition, the introduction of institutional reforms in the social sectors has created confusion for many provincial and district staff. The result is that district and provincial staff feel that all decisions are made elsewhere. Frustration and resentment will grow unless realistic and distinct roles can be devised. Current reforms in the health sector are moving it toward a purchaser-provider relationship as major contracting arrangements for primary health services are introduced. However, currently provincial staff have almost no knowledge and certainly no understanding of this proposal or their role in it.

In the education sector, despite the years of neglect, there continues to be a strong sense on the part of the community that provision of education services is a key responsibility of the government. However, some form of community-based management will be essential if teachers and schools are to face real incentives to perform and government is to expand service delivery. Without change, and despite growing rhetoric, community participation in schools exists largely as a result of NGO activity and potentially will disappear along with donor financing.

3. CONCLUSIONS FOR GOVERNMENT

Administrative and Fiscal Improvements Strengthen Central Authority

Some of the political influences that are resisting the re-imposition of central authority have deep roots. However, the study concludes that weaknesses in the fiscal and administrative arrangements are a contributing factor. Delays in salaries, the under-provision of the non-salary budgets, and a high-handed central administration contribute to a justification for provinces to refuse to remit the revenues to the central treasury. This contributes to the massive inequalities between provinces, which in turn provide the governors or local power holders with a justification for their actions as they claim credit for getting the job done (see Figure 11). Ill-equipped, poorly paid and ineffective provincial and district administrations serve only to undermine the presence of central government in the eyes of the population. Getting funds out to the provinces and districts needs to be the critical issue for the central government, not only to support service delivery but also to shore up the weak loyalties to Kabul.

Weak administration contributes to a vicious circle of centrifugal pressures. In the security sector, for example, civilian administrators are unable to rely on competent and loyal police forces to maintain security within their provinces. Not only are senior police officers usually appointed by local commanders, police forces across the country are being weakened through the practice of accommodating large numbers of former combatants. Most provincial and district police chiefs that were interviewed had *mujahidin* backgrounds, as did their officers and soldiers. These demobilized forces are usually untrained, often unqualified, and therefore lack the capacity to function as professional police. The lack of professional security forces loyal to the center increases the reliance of administrators on local commanders for security, thus further exacerbating the situation and entrenching the control of commanders.

In the civilian sector, the same circle can take hold. Many senior civilian government employees owe their employment, and therefore their loyalties, to local and regional power holders rather than to the central government. Although these appointments are supposed to be approved by the central government, in many situations

the governor or commander will refuse to accept the central appointee, or the center is compelled to approve local recommendations. Some political factions provide subsidies to their representatives in local government, which further reinforces loyalty to regional and local power holders. The control of civilian appointments by commanders limits the professional conduct of civilian administrators, who feel forced to abide by the decisions of local and regional commanders. It also prevents the appointment of qualified and competent bureaucrats, further weakening the administration both in practice and in legitimacy.

Attempts have been made to transfer government employees away from their home areas, thus cutting their ties to their networks and supporters. Historically, this policy was used to ensure that government employees did not build up their own power bases, and the re-introduction of such a policy had widespread acceptance among interviewees in this study. However, the attempts made so far have only been partially successful, and have not managed to break the power of commanders, many of whom simply refuse to obey orders to move. In Badakhshan, for example, when a policy was announced to transfer all district governors to different districts, only 10 of the 27 district governors - those without strong factional or commander connections - were transferred. Furthermore, transferring government employees will only be a viable strategy once salaries have increased, as most government employees cannot afford to live away from their homes where they get free rent and can often supplement the incomes from their government jobs.

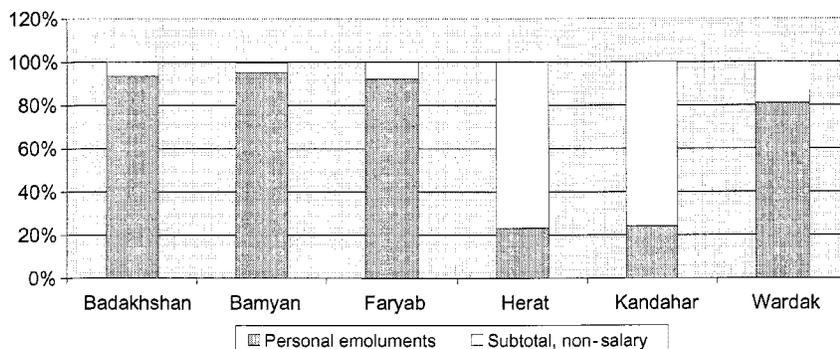
The existence of politically fragmenting forces has been a constant phenomenon in Afghanistan. However, the lack of legitimacy of decentralized power holders in most of Afghanistan today, and the strong desire of Afghan communities for a strong central government stand in marked contrast to the historical tension between a decentralized society based on the power of traditional institutions and substantial popular legitimacy resisting the encroachments of a centralizing state.

Credible Commitments from the Center

Credibility requires that the center should only promise what it can safely deliver. It can deliver

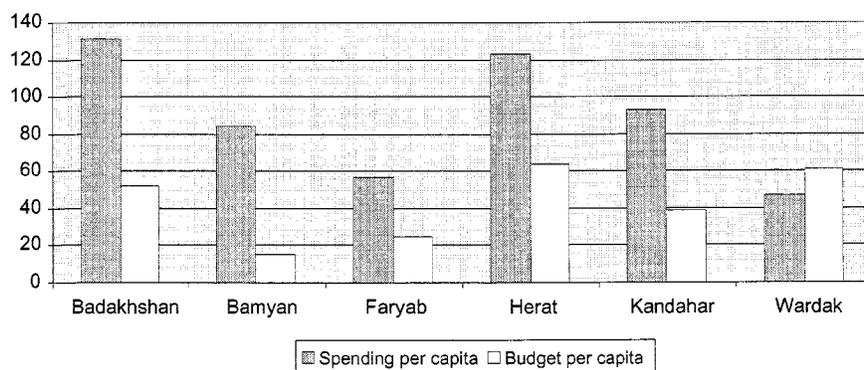
Figure 11: Inequitable Expenditures

Total provincial expenditure shares by category, SY1381



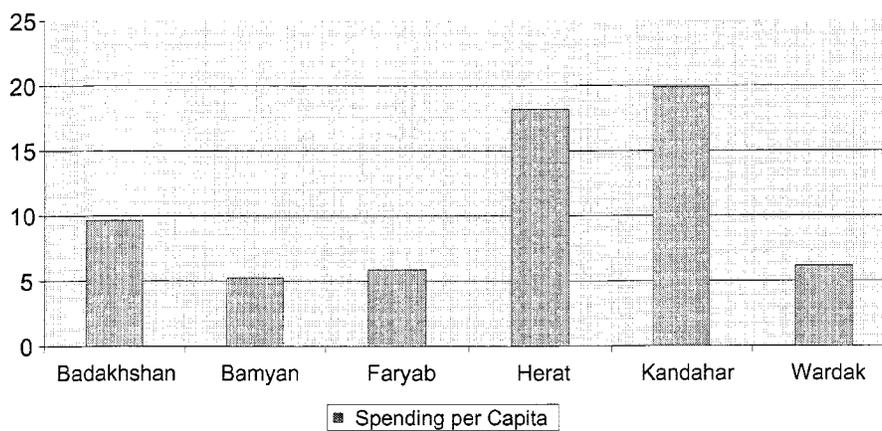
Source: Provincial mustoufiats.

Education spending per capita (afs.)



Source: Provincial mustoufiats and education departments; Ministry of Finance; population data CSO 2003.04 estimate.

Health spending per capita (afs.)



Source: CSO 2003/04 estimate; National Health Resources Survey, September 2002, MoPH/USAID/AHSEP/ SY1381 actuals/202 population statistics.

some basic support for the provinces in their service-provider role. Overall, the ambitions of the sector ministries must be constrained by the vision of a lean, competent bureaucracy in Kabul, supporting provincial and district administrations that oversee the delivery of core services.

A credible commitment from the central administration to support the subnational administration in its functional role as service provider or commissioner, and in its political role as local representative of the unitary state, could include an undertaking to:

- Complete the next stage of pay and pension reform
- Show that the central agencies (IARCSC, and Ministry of Finance in particular) can back up their authority with distinctive competence and operationally helpful services
- Rebuild loyalty to Kabul by removing delays in processing the payroll and in staff appointments, updating the tashkeel and increasing the levels of non-salary cash flow, and re-orienting Kabul ministries towards providing back-office support
- Restore provincial and district dignity and capacity through some modest funds for basic physical reconstruction and support for written procedures
- Offer particular support for provincial health and education departments.

In each of these areas, the commitment will entail both steps that government can take immediately, and steps that will require considerable planning and preparation. A simple score card can be developed that shows the degree to which these commitments have been met. Ideally the provinces also need to play their part, in particular by submitting and reporting all revenues. This step more than any other will give the center more confidence in subnational administration. However, the actions from Kabul should be undertaken regardless.

The Subnational Level can be Motivated to Deliver Services

Additional progress in subnational administration can be secured by using the structures and discipline that form the distinctive heritage of the Afghan state. The key is to provide resources matched by tailored incentives for the provinces, for the municipalities, and for the districts that

reflect their institutional and historical roots. Some of these incentives will require some cautious increases in delegation, but care must be taken to signal that increases in delegated authority do not mean broad-based decentralization. Within a unitary state, service delivery can be "deconcentrated" to provincial centers, while political accountability remains at the center. Modest delegation of day-to-day administrative decision making can enable provinces (and districts) to deliver services more effectively. The challenge is not to fundamentally change Afghanistan's unitary system - the new constitution ratified by the Constitutional *Loya Jirga* in January 2004 did not adopt any such radical moves. The task at hand is to make this deconcentrated system work.

The key to effective incentives at the subnational level is likely found in:

- Providing valued resources triggered by simple measures of administrative effort - not performance
- Tailoring the incentives to suit the specific situation of the administration.

The incentives to be provided differ between the three key subnational actors. For *provinces*, it is important to avoid confusing their status with that of an independent subnational government. Incentives need to take the form of very modest delegation provided to the governor, to the *mustoufie*, and to the line departments. Provincial health and education departments will require some additional incentives for effort.

Provincial municipalities are, in principle, a semi-autonomous level of government and are the only administrative units outside of central government with an independent budget process. It is important to distinguish between this *de jure* point, and the *de facto* reality that there is weak capacity and considerable corruption. However, this is a unit of administration for which the provision of modest grants can be appropriate as long as they are provided cautiously and are triggered by simple measures of administrative effort.

Districts present the greatest challenge because their capacity is so limited and their *de facto* and *de jure* autonomy so constrained. For this reason, effort-based incentives should take the form of training only.

Box 3 summarizes the proposed strategy for government.

Box 3: The Strategy for Government	
Unconditional commitments from Kabul	<ul style="list-style-type: none"> • Further pay and pension reform • Build confidence in the central agencies <ul style="list-style-type: none"> ◦ Demonstrate progress in the IARCSC ◦ Demonstrate the authority of the Treasury Presidency over payroll ◦ Provide clear guidance from the Ministry of Finance ◦ Enhance oversight of the ordinary budget ◦ Enhance oversight of the development budget • Build loyalty to Kabul <ul style="list-style-type: none"> ◦ Remove delays in processing the payroll ◦ Remove delays in staff appointments ◦ Update the tashkeel ◦ Increase the levels of non-salary cash flow ◦ Improve Kabul presence in the field ◦ Re-orient Kabul ministries ◦ Stabilize district jurisdictions • Restore provincial dignity and capacity <ul style="list-style-type: none"> ◦ Step up physical reconstruction ◦ Support provincial health departments ◦ Support provincial education departments • Revive districts <ul style="list-style-type: none"> ◦ Step up physical reconstruction ◦ Support a return to written procedures
Conditional incentives for subnational administration	<ul style="list-style-type: none"> • Incentives based on a combination of grants, modest delegation, and technical assistance • Triggers based on simple measures of administrative effort tailored to suit the specifics of the administration: <ul style="list-style-type: none"> ◦ Provinces <ul style="list-style-type: none"> ■ Governor ■ Mustoufie ■ Line departments ◦ Provincial municipalities ◦ Districts

4. DETAILED RECOMMENDATIONS FOR GOVERNMENT

Unconditional Commitments from Kabul

Commitments to further pay and pension reform

Current salary levels present a serious problem. There are still no labor market surveys that provide any robust comparators, but there is every reason to assume that at the higher levels of the civil service, and in skilled professional areas, salaries are insufficient to attract or retain qualified and competent staff. This was particularly the case when many government staff were being recruited by donors, the UN, and NGOs, though the worst of this phenomenon is already over as many of the most qualified staff have already left government service. Most immediately, a labor market survey is essential to improve the quality of the debate on potential pay raises for staff, and to provide a rational basis for planning. Any meaningful salary decompression will first have to remove many anomalies through a comprehensive job evaluation and regrading exercise.

Pension levels are so low that their immediate practical value seems negligible. It is not clear that many are being paid. However, some consideration must be given to the future levels and coverage of pensions, and their contribution to providing a basic social safety net. As with pay, it is important that a comprehensive, full, actuarial review of the pension system be conducted soon, as expectations are undoubtedly growing.

Pay reforms will have some recurrent fiscal impact in the short and long term, not least because there are few opportunities to trade off staff numbers against pay. Retrenchment is politically implausible at least in the immediate future and would save very little as current salaries are low. The eventual goal of pay reform, building on the opening provided by the PRR decree, is a fully decompressed pay structure, with higher-paid, professional career civil servants at one level, and a broader range of support staff on a second level.

Current public sector wage levels relative to per capita GDP (official GDP, excluding poppy) average at around a multiple of 2.6 (teachers: 2.7, police:

2.6, civilian government including health: 2.6).⁴ This compares reasonably well with other countries, confirming that the apparently chronically low pay in Afghanistan is less unreasonable when set against the overall economy. However, Afghanistan is in the unfortunate position of depending on many expatriate and international staff, highlighting the problem of attracting and retaining local talent within the civil service. Average wages must increase significantly in order to allow for the necessary increases in pay at the senior levels.

It is a reasonable target that the average pay for core civil servants should initially exceed the annual increases in GDP - reaching a multiple of almost five times per capita GDP would not be unreasonable within five years - but then leveling off and returning to a multiple of just over three. This allows for significant pay decompression.

Although most health staff will be employed by NGOs on contract to government, the wages for the remaining government health staff should be on a par with the rest of the non-teaching civilian government workforce. The average wage for the sector will be higher as staff are graded somewhat higher in this sector. A reasonable target for teacher pay is a multiple of 3.2 times per capita GDP. (This is the average teacher salary in better performing education sectors.⁵) For the police, a reasonable target is for pay to change in line with general public sector pay. A key difference will be that patrolmen remain at a lower rate than all other civil servants, though the present rate of 800 afs. per month is unsustainably low.

Average pay can be increased in the short term by the continued incremental roll-out of the PRR decree. However, comprehensive pay reform is inevitable and one way of estimating the overall salary increases necessary is to assume that all staff are placed on PRR levels in late 1384. This is a very crude assumption and needs refining in the light of detailed pay and grading studies. However, this assumption generates the correct order of magnitude of the likely pay raises needed.

With these assumptions, and reflecting the likely changes in staff composition as new staff join at

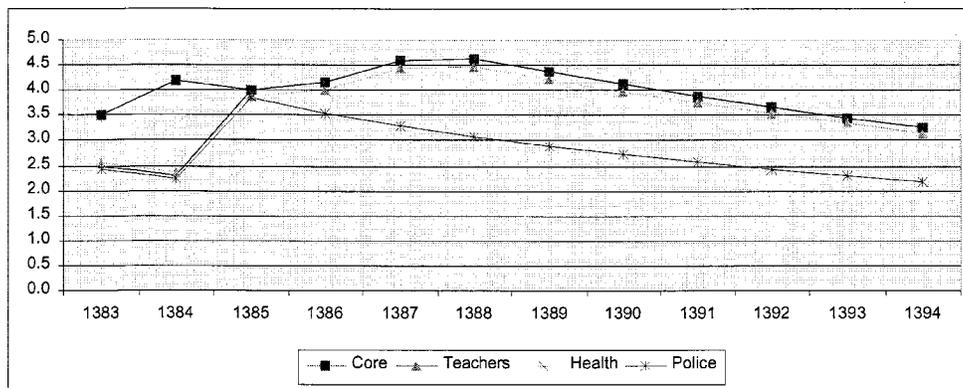
lower grades and older staff retire, a plausible scenario for pay, relative to per capita GDP, is shown in Figure 12.

It seems a reasonable assumption that the total number of staff will remain reasonably constant. It is possible that there might be some retrenchment - but equally possible that there will not be, or that if there is, the political pressures for rehiring will lead back to the same total. Within that overall assumption, the number

of health staff in government employment is likely to fall from their current levels to about 15,000 over the next decade. It is plausible that total teacher numbers could increase significantly over the next decade as, at 0.3 percent of population, current teacher employment is somewhat lower than in other countries.

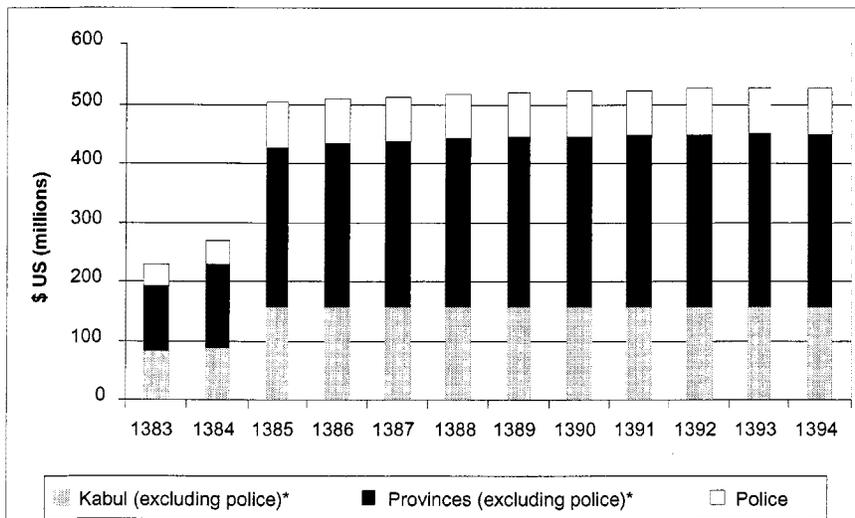
On these assumptions, the total wage bill follows the trajectory set out in Figure 13.

Figure 12: Projected Wages as Multiple of Per Capita GDP



Source: World Bank staff estimates.

Figure 13: Projected Wage Bill



* Includes IAA paid to an increasing number of employees under PRR (30,000 by 1383 and 60,000 by 1384).
Source: World Bank staff estimates.

The key message is that the reconstruction and reform agenda that Afghanistan must pursue in order to build a secure and stable government and improve basic services will increase the recurrent costs of government. While there are some savings to be gained by increased efficiencies and streamlining government, they are minimal when compared to the need to extend basic services across the country.

Commitments that build confidence in the central agencies

Demonstrate progress in the IARCSC. The Independent Administrative Reform and Civil Service Commission is now formally responsible for appointing senior civil servants based on merit, and for designing, organizing, leading, and implementing the overall reform program in order to bring about an efficient public administration system. After some considerable period of uncertainty about the role and responsibilities of the IARCSC, it is undoubtedly a major step forward to have it in place with a well-considered structure and remit. This is a solid foundation, but some additional technical and policy actions are necessary to ensure that the Commission delivers on its new responsibilities quickly. In particular, it is important that the IARCSC has an independent appointments board in place, with the capacity to identify and recommend to the president the recruitment of civil servants at grade 2 and above. This might be undertaken by some contracting out of the initial testing and recruitment to a

reputable external firm. A technical assessment of IARCSC procedures and documentation necessary to recruit senior staff needs to be completed, together with a similar technical review of options for contracting out the recruitment and selection process.

Systematic rebuilding of the administrative structures is necessary but insufficient to achieve a detectible increase in the policy or implementation capacity of government within the short term. As a kick-start to improved policy formulation and program management within Kabul ministries and provinces, it is essential to recruit a significant number of short-term contract staff, at remuneration levels that are sufficient to attract experienced managerial staff from national and regional NGOs and private sector organizations. Paying technical assistance staff more than their national counterparts generates understandable resentment and tensions, and allowing them to report outside of the line management structure can make them difficult to control or to hold accountable for their work. Making arrangements that manage these tensions is a particular challenge for the IARCSC.

Sustaining the capacity improvement provided by this short-term fix will require the massive training of new staff for fast-track entry at junior levels. This implies a very significant investment in training facilities. More modest approaches include training for identified "high fliers" within

Box 4: Managing resentment at international consultants

The problems of resentment are exacerbated by the fact that most international staff providing technical assistance (TA) have support staff working for them either as translators, data entry clerks, or general office support. These staff are also paid considerably more than civil servants.

In addition to the recent pay raise, the pay disparities are being ameliorated to some degree by the Priority Reform and Restructuring (PRR) decree. Although the implementation of this decree is not taking local staff to levels that are remotely comparable with international staff, it is enacting a significant proportionate increase and also clearly signals that this rolling program is available to other departments that undertake reforms.

To minimize expectations, serving civil servants should consider the rates of pay for international consultants to be clearly exceptional and not providing any benchmarks or comparators. Thus it is important that the claim of contract staff to international rates of pay is credible and that they can demonstrate they are indeed marketable within an international or at least regional labor market.

The issue of dual accountability can be mitigated by requiring that all contract staff funded through technical assistance have a single employer, and cannot go around managerial decisions by appealing to their funding body. This effectively places such TA-funded consultants into two groups. The first group comprises those whose funding body is prepared to ensure that the staff operate as though they were subject to civil service

management and discipline. This means that the consultants can be removed or have their work program redirected by their line manager with no appeal to the funding body.⁶ To assist in creating the right incentives, these consultants should have very little prospect of further employment from the funding agency (and ideally none). For consultants in this group, the traditional caveat against TA-funded consultants acting in line positions no longer applies. The second group comprises TA-funded consultants where government is not confident that they can be directed (and effectively disciplined) by a line manager within the civil service. The work of these staff is likely to be given the status of useful suggestions from external agencies, but not regarded as core to the agency's business. It is important that these consultants are not liable to regularization without further recruitment procedures; they have been appointed on the basis of criteria laid down by their funding agency and not by government.

Even with this careful positioning, there will be a need to provide all TA-funded contract staff with training on how government works. Although they may be experienced managers with much to offer, a speedy orientation to the workings and nuances of the system will have to be provided in order for them to be effective contributors who can motivate and lead staff.

the existing staff complement and the recruitment on contract and retraining of recently retired staff.

These approaches imply a significant increase in the capacity of the IARCSC to recruit openly and on merit - an increase that is only likely to be achieved quickly if this task is contracted out, though the commissioners must themselves retain authority over appointment decisions.

The basic laws that underpin the civil service are not clear. Arguably, this is not a major problem in the very short term, as there is sufficient consensus on current public employment practices to allow for basic managerial control. However, some implications of the legal uncertainty have been masked by the lack of tough managerial decisions and the ability of the president to issue somewhat arbitrary decrees. No major retrenchment or significant repostings of staff have been attempted to date; but if major reforms involving these or other painful reforms were to be introduced, it is doubtful that a presidential decree would be seen to embody sufficient legitimacy to carry public opinion. In the longer term, detailed personnel policies and procedures cannot be developed without clarity on the underlying legislation. Again, this is a commitment that the IARCSC could make.

Demonstrate authority of the Treasury Presidency over payroll. Currently there is no "nominal roll" or list of legitimately employed staff against which salary payments can be validated. When payrolls are processed, there is no record of the staff that should be paid. The Treasury Presidency has made significant progress in its management

of budget execution, including its operation of the Afghanistan Financial Management Information System (AFMIS) and its management of the mustoufiats. Plans to develop a computerized payroll module linked to AFMIS with the possible subsequent roll out to provinces will allow for strategic management of the payroll. This development would also allow the establishment of a basic personnel management information system (PMIS), linked to the payroll system, and would pave the way for a subsequent civil service census.

Enhance oversight of the ordinary budget. Now that the budget has become institutionalized, enhancing oversight of the ordinary and development budgets further entrenches them and builds their credibility and legitimacy as key policy vehicles for government, enhancing confidence in the Ministry of Finance. This might entail publishing the national budget and provincial consolidated budgets prior to the start of the fiscal year, on a department and *bab* (major expenditure code) level of disaggregation, accompanied by annual staffing limits, by department and by province. Once reliable systems are in place, data might be published on budget execution on a quarterly basis.

Other actions from the Ministry of Finance should include issuing a comprehensive set of all financial management instructions to all districts and provinces.

The General Control and Inspection Presidency of the Council of Ministers, the supreme audit authority for the whole of government under the auditor general, has little presence outside of

Kabul. It will be important that audit reviews are conducted at provincial and municipal levels; apart from their intrinsic value for accountability, they will be necessary as key triggers for delegation of authority.

Enhance oversight of the development budget. For the development budget, improved expenditure tracking against commitments with analysis of long-term recurrent implications and the level of inherent recurrent financing could increase its legitimacy, and provincial-level (and, ideally, district-level) tracking of execution could assist in using the budget to build regional equity.

Commitments that build loyalty to Kabul

Delays in processing the payroll and a high-handed and unresponsive approach from Kabul are turning provincial and district staff into active critics rather than loyal supporters of government. The actions needed to address this are primarily policy reforms within government, requiring that payroll stages are completed within specified periods, and that payroll processing is returned to the provincial level as soon as practicable.

Delays can also be reduced by requiring Kabul ministries to issue a takhsis prior to each quarter, and by the aggressive implementation of the Ministry of Finance payroll pilots to streamline and accelerate existing processes. A further goal is to end the system of cash being transferred to individual civil servants through an opaque and unaccountable system of bonded trustees.

Delays in staff appointments can be removed by imposing a two-month deadline for confirming or rejecting staff appointments; in the absence of a decision, approval should be automatic. Furthermore, Kabul ministries should ensure that senior professional-level appointments that come from the center are merit-based. Some delegation of appointments for lower grade staff to the provinces might be considered in the medium term. It will also be necessary to establish provincial arms of the IARCSC, or at least the capacity to show a regular presence in the provinces, to review staff appointments. This might require the appointment of more commissioners.

Tashkeels can be kept current by requiring Kabul ministries to issue them prior to the start of the

fiscal year, and ensuring that no tashkeels are issued without approval of the Ministry of Finance to maintain consistency with the expenditure allotment (takhsis). For the SY1383 budget process, provincial departments should be consulted on revisions to the tashkeel, within predetermined staffing limits. Subsequently, some authority could be delegated to provincial departments to adjust the deployment of staff within the tashkeel, subject to review by the IARCSC. In the future, a shift could be made to controlling staff through the allotment rather than through the takhsis, but this change would move significant authority over staffing to the provinces - a major departure from current practice - and should therefore only be done through a careful and planned process.

The low levels of non-salary allotments and cash flow available to the provinces and the districts are damaging to morale and service delivery. The issue can be resolved through a combination of policy actions. There should be a tighter requirement on ministries when developing their budget submissions to justify their split of non-salary expenditures between the central ministry and the provinces, and they should make every effort to increase the share going to provinces. In addition, when the Ministry of Finance reviews ministry budget submissions, it should also review the consolidated impact on individual provinces, taking into account all ministry submissions, so that it can make appropriate adjustments if deemed necessary. In addition, once approved budgets are in place, the Ministry of Finance should be making monthly advances to mustoufiats and districts in line with their quarterly allotments. These moves will have some recurrent fiscal impact, and there are development budget costs associated with the necessary improvements to the Da Afghanistan Bank (DAB) facilities.

Resolution of the difficulties caused by the *lack of field presence of the Kabul ministries* and the absence of data on Kabul ministry administrative performance can be resolved through policy actions with no significant associated costs.

In the six provinces reviewed for this study, *civil administrative divisions were being altered* in a variety of ways to control resources or to reward local commanders or different political factions. In Faryab, four districts have unofficially been transferred to Jawzjan province because of access

to customs revenues. In Badakhshan, 14 new districts have been created in the past 12 years, and there is consideration of splitting the province in two. In Bamyan, a new district has been created to accommodate political influentials. Such changes are not only thoroughly demoralizing to staff, but can have destabilizing political consequences, especially in the lead-up to national elections. In principle, these changes can be vetoed by the Ministry of Interior, but in practice this is not always feasible.

Commitments that restore a measure of provincial dignity and capacity

The authority and standing of provinces can be bolstered by making funds available to the governor for basic *provincial office reconstruction*. This must be handled judiciously as the governor reports to the Minister of Interior and has little direct authority over the other provincial departments. However, the role of the governor in repairing the basic structures of government would undoubtedly be welcomed by provincial departmental heads.

Support for provincial health departments (PHDs) should emphasize information and training. Informing provincial and district health staff about planned reforms in the health sector, training programs for health staff in order to develop management and financial skills, and the active involvement of provincial health directors in developing transition strategies for each province are required commitments. Longer-term plans for expanding the pool of educated health care workers, particularly women, through improved educational opportunities, are necessary.

Support for provincial education departments (PEDs) could build planning capacity in provincial and district offices - focusing on priority setting, costed action plans, and performance indicators. This would entail engaging senior educators, both inside and outside government, in a dialogue about education reform to gain consensus about problems and priorities for change.

Commitments that revive district functioning

The provision of a basic package of office facilities is required in order for district administrations to meet minimal performance expectations. The package should include a radio and fax, basic facilities for all staff including the DAB, the governor, as well as police equipment. A pilot

project has already been designed by UNAMA and the rollout to all districts is being planned.

Supporting a *return to written procedures* requires a commitment to develop training programs for staff in key provincial and district positions, such as senior mustoufiat staff, district finance officers, heads of administration, and directors of health and education. Training programs would be focused on core job functions. Commitments are also necessary to develop step-by-step procedural manuals for key job functions, especially financial and personnel management processes. In addition, and in support of this recommendation, Article 159 of the new 2004 Constitution (chapter 12: Transitional Provisions, section 2) requires that in the transitional period following adoption of the 2004 Constitution and until the date of the inauguration of the National Assembly, the Transitional Islamic State of Afghanistan issue decrees regarding the structure and authorities of the courts, and the civilian basic administration structures within one year.

Details of these proposed commitments are set out in Table 5 in ANNEX 1.

Conditional Incentives for Subnational Administration

Simple, effort-based triggers

Table 1 sets out some possible and easily measurable indicators that could be used to distinguish levels of administrative effort in provincial and district administrations and in municipalities.

A key indicator for assessing readiness for any more advanced delegation to the provinces would be the effective functioning of the administrative council. The law of Provincial Administrative Councils, 28 *Qaus* 1343, enacted with the first laws after the 1964 Constitution, created a council of provincial officials - the governor, the deputy governor, the mustoufie, and a security commander. Currently, administrative councils do operate in some provinces, and can include all heads of provincial departments. Using the administrative council as a check on the governor's discretion in spending reconstruction funds is logical, but would require careful monitoring. Article 3, chapter 8 of the 2004 Constitution specifies that a provincial council with elected members is to be formed in every province. In

Table 1: Possible Criteria for Assessing Progress in Capacity and Effort		
	Criteria for accessing modest delegation	Criteria for advanced delegation
Province	<ul style="list-style-type: none"> • Three-month record of monthly payroll forms (M41) for all provincial staff submitted within one month of the end of the payroll period • Three-month record of monthly expenditure reports submitted within one month of the end of the period • Three-month record of monthly revenue reports submitted within one month of the end of the period; • Copies of financial procedures in all district offices • Existence of proper staffing records in all provincial and district offices, as evidenced by an audit review 	<ul style="list-style-type: none"> • Accuracy of financial reports, as evidenced by an audit review • Existence of basic financial control procedures, as evidenced by an audit review • Completed budget requests submitted by the due date that comply with instructions (including fiscal ceilings) • Completed tashkeel requests submitted by the due date that comply with fiscal ceilings • Demonstrated track record in following proper, merit-based recruitment procedures, with appropriate qualifications required for staff appointments as evidenced by audited documentation • Functioning administrative council that can act as a watchdog over the use of additional funds provided to the governor
Provincial municipality	<ul style="list-style-type: none"> • Three-month record of monthly expenditure reports submitted within one month of the end of the period • Three-month record of monthly revenue reports submitted within one month of the end of the period 	<ul style="list-style-type: none"> • Accuracy of financial reports, as evidenced by an audit review • Existence of basic financial control procedures, as evidenced by an audit review • Implementation of a simplified tariff structure for municipal taxes
District	<ul style="list-style-type: none"> • Three-month record of monthly payroll forms (M41) for all provincial staff submitted within one month of the end of the payroll period • Existence of proper staffing records in all provincial and district offices, as evidenced by an audit review 	<ul style="list-style-type: none"> • Completed budget requests submitted by the due date that comply with instructions (including fiscal ceilings) • Completed tashkeel requests submitted by the due date that comply with fiscal ceilings

the longer term, these bodies would provide a more robust check.

The key is that the criteria should be clear and reasonably objective and communicated to all provinces, provincial municipalities, and districts. Meeting the criteria would make the administration eligible for specific incentives. Conversely, if at some point in the future they no longer comply, they could also lose their incentives. Structuring incentives in this way is consistent with the theory and practice that provincial administrations are the deconcentrated arm of the central government ministries.

In addition to the province-wide criteria suggested in Table 1, sector specific criteria will be necessary to identify the provincial health and education departments that are eligible for specific assistance.

Incentives for the provinces

For provincial governors that meet basic criteria of administrative effort, additional funds for reconstruction and a package of modest delegation of authority might be provided. To be consistent with the logic of the fiscal and administrative architecture, such transfers to provincial governors should be relatively modest, essentially amounting

to office reconstruction funds available to the governor. Such funds would be budgeted through the Ministry of Interior and would lapse at the end of the year, as with all other unspent funds.

For provincial governors that meet more advanced criteria of administrative effort, an enhanced delegation package can be considered including the provision of some additional staff on contract, and the delegated authority to make staff appointments up to grade 3.

For mustoufiats, incentives could comprise re-decentralization of payroll to the mustoufiat, returning to the previous payroll arrangements that pertained prior to the Taliban, and some modest increased procurement authorities. In the longer term, advance payments sufficient to cover longer periods could be provided.

Specific incentives are necessary for the health and education sectors in the provinces. For the provincial health departments (PHD), initial incentives would focus on offering PRR pay levels in return for active participation in the reform process as they are transformed into planning and contract management units for a service that is essentially outsourced.

In the education sector, despite the years of neglect, there continues to be a strong sense that provision of education services is a key responsibility of the government. As such, the roles are likely to evolve differently from the health sector. While NGOs and UNICEF remain important actors in the sector, largely responsible for provision of textbooks and materials, school inspection, teacher training, and in some cases, direct assistance to schools, there is a general agreement that the government holds overall responsibility for service delivery and for educational outputs. The task for the education sector is to set the provincial education departments (PED) on a course that relegates Kabul to a regulatory, curriculum-setting, and teacher assessment role, while opening up the possibility of community participation in school management and the effective use of community support and capitation grants.

As with the PHDs, initial incentives would include the possibility of PRR pay levels in exchange for active planning towards a new role for the provincial departments. The first priority would be to demonstrate that a planning capacity is

being constructed in provincial and district offices - with the capacity to set priorities and develop costed action plans and performance indicators.

Subsequent targets and associated incentives, would include offering grants for school improvement plans along the lines of the NSP.

Incentives for provincial municipalities

Municipalities come closest to an independent level of government. As such, the forms of incentives that can be offered are distinctively different. While it is inappropriate to provide significant unprogrammed funds to the provincial level, as there is no provincial budget as such, this is not the case at the municipal level. There is a clear budget process with some significant degree of autonomy for the districts. If this is to be a genuine - albeit very tentative - step towards a developed system of intergovernmental transfers, it is important that funds transferred are fully on budget (and not provided, for example, in the form of technical assistance, however flexible).

Consequently, it is a reasonable strategy to provide grants to provincial municipalities, conditioned only on a list of permitted expenditure objectives and with no intention that the funds should lapse at the end of the year. Incentives can be established by providing non-lapsing conditional grants in subsequent periods, with the conditions requiring that the preceding grant be expended only within the permissive list. Likely priorities reflected in the permissive list would be labor-intensive works, local roads, water, and sanitation, and reconstruction of the municipality's own buildings. Article 141 of the new 2004 Constitution (chapter 8, section 6) requires that the mayor and members of municipal councils be elected by free, general, secret, and direct elections. Before the Soviet occupation, mayors were directly elected. This practice appears to have lapsed and the Ministry of Interior has subsequently appointed mayors. Should the provision in the 2004 Constitution provide a renewed impetus behind elections of municipal councils and mayors, this would provide an added element of accountability to the provision of grants to provincial municipalities.

Rates for all taxes and fees collected by provincial municipalities are set in Kabul. However, revenues remain in the municipality and fund all municipal expenditures. The tax rates are over-elaborate,

lead to inefficiencies and provide opportunities for corruption, and require review. For example, the valuation of property for the *safayi* tax last occurred in 1978. The highest charge on this tax is currently about 200 afs.

Only provincial municipalities should be considered for a major program of investment in the short and medium terms. The district municipalities are a very mixed bag and are generally very weak. Among other difficulties, the accountability relationships of district municipalities vary significantly from one province to another, though their independence is clearly set out in legislation. In the longer term, it will be important to disentangle the lines of accountability (district municipalities should not be reporting through provincial municipalities as they do in some cases) and to specify service expectations for municipalities with differing revenue-raising capacities. However, the challenges of building capacity at this rural level are so great that there is little advantage in considering them as part of the more immediate strategy.

Incentives for districts

Finding incentives for the districts presents particular challenges. As tertiary budget units, they have no possible claim to independent budgets and neither recent experience nor checks and balances that might predispose them to using discretion wisely.

Capacity at the district level is so weak that, initially, the priority must be physical reconstruction and the simple provision of basic equipment. The absence of written procedures can be resolved at minimal cost through the development of procedural manuals and training programs for staff in key provincial and district positions. Once provinces and districts are meeting certain performance expectations, the incentives to be offered at this stage should be limited to additional training for all staff.

Details of the full set of proposed incentives are set out in Table 6 in ANNEX 1.

5. CONCLUSIONS FOR INTERNATIONAL ASSISTANCE

A Greater Emphasis on Budget Support

Clearly, the international community has a critical role to play in supporting the government if it is to effectively implement the recommendations outlined above. In particular, the benefits from strengthened government structures that result from providing support directly through the budget are significant. Nevertheless, it should be noted that direct budget support is only feasible for some donors - and even then only through the structures of the Afghanistan Reconstruction Trust Fund (ARTF). For many donors, funding can only be provided for specific projects that cannot be executed via government. However, to the extent that there is a choice available for some donors, there is a case to be made that direct budget support is not as impractical as might otherwise have been thought as a mechanism for scaling up service delivery outside of Kabul.

There is an often-cited concern that the fiduciary risks of using the government's processes are too

great, and too much money is likely to disappear. While these risks certainly exist, there are some basic systems already in place as shown in Table 2, particularly for pre-approval and pre-audit, that reduce the extent of the risk. In addition, some technical assistance that is already underway, particularly in Kabul, will help to further address this issue.

There are, of course, risks other than fiduciary ones in using budget support to scale up service delivery outside of Kabul. In particular, poor municipal revenue forecasting capabilities could lead to the approval of expenditure budgets that are not realistic. In such a case, cash rationing could lead to priority programs not being funded. Similarly, political pressures could result in spending decisions that shift funds away from priority investments. There is much work to be done to improve these systems in Afghanistan; in particular, technical assistance to improve revenue and customs collection process, revenue

Table 2: Sources of Fiduciary Risk and Mitigation Measures

Level of administration	Source of risk	Risk mitigation measures in place
Province	<ul style="list-style-type: none"> • Procurement procedures weak or not enforced. • Cash payments are subject to rent-seeking by intermediaries. • Audit procedures fail to report improprieties. • Program funds are used for salaries in order to make patronage-based hires. 	<ul style="list-style-type: none"> • Detailed procurement procedures do exist, with points of authorization and pre-audit, multiple bid requirements. • Mustoufiat staff do a pre-audit to ensure funds are available. • Multiparty purchase teams reduce opportunity for rent in the bidding process. • The tashkeel system deters over-hiring • Provincial administrative councils can act as a check on discretion in provincial spending.
Municipality	<ul style="list-style-type: none"> • Procurement procedures weak or nonexistent. • Cash payments are subject to rent-seeking by intermediaries. • Audit procedures do not exist or fail to report improprieties. • Program funds are used for salaries in order to make patronage-based hires. 	<ul style="list-style-type: none"> • Municipal spending cannot exceed revenues as there are no other sources of funds. • Detailed procurement procedures do exist, with points of authorization and pre-audit, multiple bid requirements. • The tashkeel system deters over-hiring. • Administrative councils provide additional accountability for staff.

forecasting capabilities generally, and the support mechanisms for the decision-making process of Cabinet are critically important. Corresponding capacity building at the provincial or municipal level has yet to begin.

Providing direct budget support does not mean that government will be implementing all aspects of projects directly. In fact, many small-scale projects at the provincial or municipal level that government executes from its own budget would be undertaken through local contracts with private-sector providers. There are functioning, local procurement rules that determine how contracts for these sorts of small-scale projects can be let.

There are some operational benefits that could result from direct budget support to the extent that government execution of projects funded from its own budget is likely to be faster than donor-funded or executed projects, at least for relatively small contracts. There are two reasons for this. First, government is able and willing to take more fiduciary risks than donors. This is not to argue for recklessness, but it is to note that government can trade speed in implementation for other factors in a way that is not possible for donors. Second, in many districts and some provinces, security concerns mean that donors and their contractors are unable to operate.

But the government's ability to deliver projects faster is limited by (a) the capacity of the provinces and municipalities to manage many contracts at once; and (b) the contract size and technical complexity as provinces and municipalities do not have the capacity to design complex projects.

Taken together, putting funds into the budget for project execution by the provinces and municipalities is not without significant fiduciary risks, but these risks are less than they could be given some basic systems are already in place, and there is the promise of more speedy implementation than stand-alone donor projects. Such an approach could:

- Speed delivery of small rehabilitation projects and associated operating and maintenance costs that are not well handled through conventional projects
- Ensure delivery of projects in regions that may be out of reach to donors and their contractors for security reasons

- Show the presence of the central government and its capacity to deliver
- Strengthen the administrative structures.

Work with the Grain of the Existing Institutions

Beyond the issue of direct budget support, donor projects that assist in creating central administrative capacity should emphasize the use of monitorable indicators that track progress meeting any of the "unconditional commitments" from Kabul to subnational administration, including pay and pension reform, building confidence in the central agencies, strengthening loyalty to Kabul, restoring provincial dignity and capacity, and supporting district revival.

Donors should be cautious of entrenching a Kabul-centric view that denies the critical role of subnational administration as the service providers and project implementers. Instead, project design should emphasize a shift in the orientation of the Kabul ministries from project implementers to program managers (i.e. implementation happens through contracts or through provincial administration). To do this requires that Kabul ministries develop a program management capacity.

It is important to note that traditional project implementation units can create as many problems as they solve because of the resentment generated in staff that do not work in them, their narrow focus on a few individual projects and the confusion in accountabilities generated by external consultants who are effectively in line positions. The remedy is (a) to focus project support on *program* management rather than *project* management, so the staff are engaged in a range of projects and not excessively loyal to the implementation of one particular operation; (b) to build program management *functions* rather than a program management *units*, using existing departments if appropriate, and applying PRR where helpful; and (c) to bring in contract staff to plug critical senior and middle management-level capacity gaps under the priority actions proposed for the IARCSC described above.

Make Support for Subnational Administration Contingent on Effort

In recognizing the significant role of provincial administrations and municipalities, there is a risk of creating donor dependency. Project support to subnational administration should, as far as

possible, be conditional on the triggers of administrative effort proposed in Table 1, so that there is ongoing pressure on subnational government to strengthen its capacity.

Support the Proposals in "Securing Afghanistan's Future"

While many of the recommendations in this report will carry minimal cost - they are either policy decisions or require modest technical assistance that should be manageable within current levels of financial commitment - some will need

substantial additional funding. The recommendations that carry major financial implications are summarized in Table 3 and Table 4.

The government, together with the donor community, has recently engaged in a major strategic review to identify the major reforms and investment requirements that will be needed over the next several years to "secure Afghanistan's future." The recommendations of this study, as well as the cost implications, are reflected in the review.

Areas for action	Short-term actions		Medium-term actions	
	Ordinary budget	Development budget	Ordinary budget	Development budget
Complete pay and pension reform.	<ul style="list-style-type: none"> Scale up implementation of the PRR decree. 		<ul style="list-style-type: none"> Roll out new pay scales. 	
Build confidence in the central agencies.	<ul style="list-style-type: none"> Recruit and train for fast-track entry at junior levels. 	<ul style="list-style-type: none"> Contract out the recruitment of senior staff under the supervision of the IARCSC. Recruit lateral entry staff on contract. 	<ul style="list-style-type: none"> Roll out recruitment and training for fast-track entry at junior levels. 	<ul style="list-style-type: none"> Roll out program of recruitment of lateral entry staff on contract. Roll out computerized treasury payroll system. Establish a basic personnel management information system (PMIS) linked to payroll system. Conduct a civil service census.
Build loyalty to Kabul.				<ul style="list-style-type: none"> Ensure functioning of provincial DAB branches.
Restore provincial dignity and capacity.		<ul style="list-style-type: none"> Make funds available to the governor for basic provincial office reconstruction. 		
Revive districts.		<ul style="list-style-type: none"> Pilot provision of basic package of office facilities required to meet minimal performance expectations to district administrations. Develop training programs for staff in key provincial and district positions. 		<ul style="list-style-type: none"> Roll out pilot to all districts.

Target	Modest administrative effort	Significant administrative effort
Provinces		<ul style="list-style-type: none"> Funds for more advanced reconstruction package.
Provincial municipalities	<ul style="list-style-type: none"> Grants to provincial municipalities, with a list of permitted expenditure objectives. Program of growing conditional grants to provincial municipalities. 	
Districts	<ul style="list-style-type: none"> Enhanced training. 	

6. IMPLEMENTING THE RECOMMENDATIONS

Immediate Actions

Over the next year, the country will be facing many challenges, not least of which will be holding national elections. These will likely be turbulent times; during this period, the national government needs to be committed to a service-delivery and institution-building agenda.

In order to take ownership of a pro-province, pro-service delivery agenda, in which all parties have a role to play, the government might wish to publicly commit itself to the policy actions recommended in this report:

- Complete pay and pension reform
- Build confidence in the central agencies
 - Demonstrate progress in the IARCSC
 - Demonstrate authority of the Treasury Presidency over payroll
 - Enhance oversight of the ordinary budget
 - Enhance oversight of the development budget
- Build loyalty to Kabul
 - Remove delays in processing the payroll
 - Remove delays in staff appointments
 - Update the tashkeel
 - Increase the levels of non-salary cash flow
 - Improve Kabul presence in the field
 - Re-orient Kabul ministries
 - Stabilize district jurisdictions
- Restore provincial dignity and capacity
 - Improve physical reconstruction
 - Support provincial education and health departments

Government could offer this list of policy actions to the donors, inviting conditional funding with these policy commitments as benchmarks.

The incentives on offer to the provinces, provincial municipalities, and districts should be widely disseminated. This will require a strong communication strategy with a clear and simple message provided to provinces, provincial municipalities, and districts concerning the actions that they will see from Kabul, the levels of effort that are required from them, and the incentives that are to be provided. The re-decentralization

of payroll at the *mustoufiat* level for provinces, PRR pay levels for health department staff in return for active provincial participation in the reform process, and block grants to provincial municipalities with a list of permitted expenditure objectives are particularly pressing.

In addition, there is a need to identify a focal point within the government that will be responsible for overseeing and coordinating the reforms. A strengthened office dealing with local organizations within the Ministry of Interior may be the most appropriate place for organizing this effort in conjunction with other central agencies such as the Ministry of Finance, the Office of the President, and the IARCSC. This organization could also take responsibility for collecting standardized information on staffing, capacities, and resources of the provinces and other levels of administration, following the templates provided by this study.

The Potential of the Afghanistan Stabilization Program

There is a need for some urgency in addressing these issues. Providing a secure and enabling environment for the restoration of economic growth, the provision of international assistance, and for the reestablishment of central government authority throughout the country depends on restoring the efficacy and effectiveness of government at district and provincial levels. There is no deadline, but evidence gathered in this study points to a closing window of opportunity for ensuring that the administrative system at district and provincial levels can work as effective arms of the central government. The Afghanistan Stabilization Program (ASP), recently proposed by Cabinet, offers a vehicle for the necessary immediate actions, and can also carry forward the longer-term recommendations. The proposal in the ASP for an inter-ministerial task force chaired by the Minister of Interior can provide the necessary coordination.

The ASP comprises integrated governance and reconstruction components for the provinces and districts. It will be coordinated with a security and stabilization component and with a substantial focus on coordinated military operations, law and order, and disarmament, which will be managed

through the National Security Council (NSC) and dedicated mechanisms. The program itself will focus on the governance component to cover reconstruction of provincial and district facilities, oversight of merit in recruitment, rapid training of staff, and judicial reform. The ASP recognizes that, as noted in this report, government execution of projects is likely to be faster than donor-funded or executed projects, at least for relatively small contracts. Budgeting for project execution means that the provinces and municipalities need both non-salary recurrent funds and some funds for capital works.

The ASP establishes provincial development funds (PDFs) to provide resources for minor capital works. Initially, the PDFs must be extra-budgetary as there is no available budget machinery to manage significant unallocated funds at the provincial level. Although extra-budgetary, the arrangements place government in charge of disbursements as the mustoufie will hold the funds and be responsible for their release to contractors. The ASP can respond to the need to provide provinces with a larger non-salary budget to address the recurrent implications of the PDF investments and to cover operations and maintenance expenditures that reflect the larger range of buildings and physical facilities that the provinces and districts have to maintain. If circumstances allow, a substantial non-salary ordinary budget would be provided to provinces for this financial year, and the provinces involved more substantially in the budget preparation process for the next financial year.

In the longer term, the PDF mechanism can be used as a test of a small, unprogrammed resource that could be available for allocation at the provincial level. This should be provided with conditions that require the governor to follow due processes and which reward administrative effort. The PDF arrangements provide a point of entry to that type of conditional approach as audit teams, proposed under the ASP, will assign an overall ranking of administrative performance of the province. Non-compliance with requirements of the program could result in future fund releases being withheld pending corrective action. Conversely, provinces with a superior record of performance could receive an increased allocation.

The PDFs do not provide for block grants to provincial municipalities. These will be developed separately.

The challenge for the ASP will be to reflect the reality that additional budget allocations for the provinces and districts are necessary but insufficient to improve service delivery. A key aim of the program is for Kabul ministries and agencies to address the process problems that create administrative hurdles for the provinces, contribute to the alienation of provincial administrators from Kabul, and the capture of provincial and district administrations by local commanders.

ANNEX 1: COMMITMENTS AND INCENTIVES

**Table 5: Proposed Unconditional Commitments From Kabul
(Likely major implications for the ordinary and development budgets italicized)**

Target	Short-term actions	Medium-term actions
<p>Complete pay and pension reform.</p>	<ul style="list-style-type: none"> • Dissemination of the PRR decree and processes. • <i>Scale up implementation of the PRR decree (ordinary budget implications).</i> • Conduct labor market survey to establish realistic comparators to inform the pay reform debate and defuse political claims/special pleading. • Develop a corps of staff qualified in job inspection. • Develop a systematic program of job evaluation and regrading • Introduce revised pay scales. 	<ul style="list-style-type: none"> • <i>Roll out new pay scales (ordinary budget implications).</i> • Conduct full actuarial review of the pension scheme.
<p>Build confidence in the central agencies. Demonstrate progress in the IARCSC.</p>	<ul style="list-style-type: none"> • Assess IARCSC procedures and documentation necessary to recruit senior staff. • Review options for contracting out the recruitment and selection process. • Prepare draft progress report on public administration reform progress and problems, and send to the MAC for comment by June 2004. • Review existing legislation to determine the status of laws in force • Appoint an independent appointment board. • <i>Contract out the recruitment of senior staff under the supervision of the IARCSC (development budget implications).</i> • <i>Recruit lateral entry staff on contract (development budget implications).</i> • <i>Recruit and train for fast-track entry at junior levels (ordinary budget implications).</i> • Train promising existing staff. • Review existing legislation to determine the status of laws in force. 	<ul style="list-style-type: none"> • Review IARCSC structures and mandate. • Revise legislation to provide clarity about the role and functions of the civil service and the terms on which civil servants are employed. • <i>Roll out program of recruitment of lateral entry staff on contract (development budget implications).</i> • <i>Roll out recruitment and training for fast-track entry at junior levels (ordinary budget implications).</i> • Revise legislation to provide clarity about the role and functions of the civil service and the terms on which civil servants are employed.

<p>Demonstrate authority of the Treasury Presidency over payroll.</p>	<ul style="list-style-type: none"> • Pilot a computerized payroll module linked to AFMIS. 	<ul style="list-style-type: none"> • <i>Roll out a computerized treasury payroll system (development budget implications).</i> • <i>Establish a basic personnel management information system (PMIS) linked to payroll system (development budget implications).</i> • Check personnel data held by the Manpower Department of the Ministry of Labor and Social Affairs against the personnel files held by the individual ministries and administrative units. • <i>Conduct a civil service census (development budget implications).</i>
<p>Enhance oversight of the ordinary budget.</p>	<ul style="list-style-type: none"> • Publish a national budget and provincial consolidated budgets prior to the start of the fiscal year on a department and bab level of disaggregation. • Publish annual staffing limits, by department and by province, prior to the start of the fiscal year. 	<ul style="list-style-type: none"> • Publish data on budget execution on quarterly basis once reliable systems are in place.
<p>Enhance oversight of the development budget.</p>	<ul style="list-style-type: none"> • Improve expenditure tracking against commitments with analysis of long-term recurrent implications and the level of recurrent financing inherent within the development budget. • Track provincial-level (and ideally district-level) execution. 	
<p>Build loyalty to Kabul. Remove delays in processing the payroll.</p>	<ul style="list-style-type: none"> • Require Kabul ministries to issue a takhsis prior to each quarter. • Establish payroll process pilot 1 with M16s data sent by phone or radio, eliminating need for the mustoufie to make the trip and with deadlines imposed on the Treasury Presidency for processing payrolls once submitted: <ul style="list-style-type: none"> o Deadlines for requesting corrections; and o Deadlines for transferring cash to the provincial DAB branch. • Establish payroll process pilot 2 with decentralization of payroll authorization to selected mustoufies. 	<ul style="list-style-type: none"> • Assign cash payment process to the DAB.

<p>Remove delays in staff appointments.</p>	<ul style="list-style-type: none"> • Impose a two-month deadline for confirming or rejecting staff appointments; in the absence of a decision, approval should be automatic. 	<ul style="list-style-type: none"> • Establish provincial arms of the IARCSC to review staff appointments.
<p>Update the tashkeel.</p>	<ul style="list-style-type: none"> • Require Kabul ministries to issue a tashkeel prior to the start of the new year. • Ensure that no tashkeels are issued without approval of the Ministry of Finance to ensure consistency with the takhsis. • Request input from provincial departments on revisions to the tashkeel within predetermined staffing limits for the SY1383 budget process. 	
<p>Increase the levels of non-salary cash flow.</p>	<ul style="list-style-type: none"> • Require ministries to justify their split of non-salary expenditures between the central ministry and the provinces, with the objective of increasing the share to provinces as part of the SY1383 budget process. Ministries should request input on non-salary requirements from provincial departments. In addition, when the Ministry of Finance reviews ministry budget submissions, it also should review the consolidated impact on individual provinces, taking into account all ministry submissions so that it can make appropriate adjustments if deemed necessary. • Require provinces to provide districts with non-salary allotments to aid in service delivery and to develop management and financial capacities. Where feasible, employ a similar advance system. • Provide monthly advances to mustoufiats based on quarterly non-salary allotments; instructions should be drawn up by the Treasury and issued to the central bank on a monthly basis in order to affect the transfer of funds. Ongoing transfers would be based on establishing a sound record of expenditure reporting. 	<ul style="list-style-type: none"> • Ensure the functioning of provincial DAB branches (development budget implications).
<p>Improve Kabul presence in the field.</p>	<ul style="list-style-type: none"> • Require Kabul ministries to visit provinces on a regular basis to inspect activities, discuss problems, and update provinces on current directives, and policies. • Require provincial departments to visit all districts at least on a quarterly basis. 	<ul style="list-style-type: none"> • Require the Ministry of Interior to coordinate regular dissemination of information on developments within the public sector in conjunction with an upgraded communications network.

<p>Re-orient Kabul ministries.</p>	<ul style="list-style-type: none"> • Establish standard administrative performance targets for the Ministry of Finance, DAB, central line ministries, provinces, and districts. Targets could include deadlines for reporting expenditures, revenues, payrolls, meeting audit tests of accuracy, deadlines for approving and processing payrolls, deadlines for approving or rejecting staff appointments, and deadlines for issuing tashkeels and takhsis. • Require transparency in achievement of performance targets through regular reporting communicated across government. 	<ul style="list-style-type: none"> • Build performance indicators for service delivery sectors.
<p>Stabilize district jurisdictions.</p>	<ul style="list-style-type: none"> • Put a moratorium on further changes to district and provincial boundaries until a census has been taken. • Link community-level planning (NSP) to the existing district administrations. 	<ul style="list-style-type: none"> • Revise the community-level planning procedures of the NSP to link these plans to the district and provincial level budget planning process. • Design future new programs and policies to build on existing administrative structures, and ensure there are clear linkages.
<p>Restore provincial dignity and capacity. Improve physical reconstruction. Support provincial health departments.</p>	<ul style="list-style-type: none"> • Make funds available to the governor for basic provincial office reconstruction (development budget implications). • Inform provincial and district health staff about planned reforms in the health sector; information should include timetables, transition strategies, and role for government staff. • Develop training programs for PHDs and other senior provincial and district health staff in order to develop management and financial skills. It may be that a new cadre of PHDs needs to be recruited (retaining some existing staff) and trained reflecting their new roles and responsibilities. • Actively involve provincial health directors in developing transition strategies for each province. • Design a detailed plan for recruiting and retaining female health care workers. • Conduct an impact review of the contracting out model to ensure sustainability over the long term. 	<ul style="list-style-type: none"> • Develop new organigrams for provincial health departments, detailing new functions and staffing requirements. • Ensure that pay levels in the NGO delivery structures are roughly aligned with anticipated post-pay reform levels in the public sector (at least order of magnitude). • Develop long-term plan for expanding the pool of educated health care workers through improved educational opportunities.

<p>Support provincial education departments.</p>	<ul style="list-style-type: none"> • Build planning capacity in provincial and district offices as an initial priority, including priority setting, costed action plans, and performance indicators. • Engage senior educators, both inside and outside government, in a dialogue about education reform; gain consensus about problems and priorities for change. • Focus capacity building on core central functions, including curriculum design, teacher assessment, student assessment data management and analysis, and policy analysis at the central ministry level. 	
<p>Revive districts. Improve physical reconstruction.</p>	<ul style="list-style-type: none"> • <i>Pilot provision of basic package of office facilities required to meet minimal performance expectations to district administrations. Package should include radio and fax for mustoufiat, basic facilities for all staff, and police equipment (development budget implications).</i> 	<ul style="list-style-type: none"> • <i>Roll out pilot to all districts (development budget implications).</i>
<p>Support a return to written procedures.</p>	<ul style="list-style-type: none"> • <i>Develop training programs for staff in key provincial and district positions, such as mustoufié & senior mustoufiat staff, district finance officers, heads of administration, and directors of health and education. Programs should be focused on core job functions (development budget implications).</i> • Develop step-by-step procedural manuals for key job functions, especially financial and personnel management processes. 	<ul style="list-style-type: none"> • Develop broader training programs focused on skills upgrading.

Table 6: Proposed Conditional Incentives for Subnational Administration (likely major implications for the ordinary and development budgets italicized)		
Target	Modest administrative effort	Significant administrative effort
Provinces Governor	<ul style="list-style-type: none"> Funds for more advanced reconstruction package (development budget implications). 	<ul style="list-style-type: none"> A fixed number of lateral entry staff on contract to be allocated where the province thinks best. Delegation to governor approval of staff appointments up to grade 3.
Mustoufie	<ul style="list-style-type: none"> Re-decentralization of payroll to the mustoufiat. Modest procurement reforms. 	<ul style="list-style-type: none"> Advance payments sufficient to cover longer periods.
Line departments	<ul style="list-style-type: none"> Authority to hire above personal grade (for lower grade positions) and to recommend such hiring to the minister or president (for senior staff). 	<ul style="list-style-type: none"> Delegation of authority to provincial departments to adjust the deployment of staff within the tashkeel, subject to review by the provincial arm of IARCSC.
Health departments Education departments	<ul style="list-style-type: none"> PRR pay levels in return for active participation in the reform process. NSP school improvement grants for communities that have school development plans consistent with the provincial education plan. 	<ul style="list-style-type: none"> Capitation (per capita) grants to schools for non-salary supplies and equipment, such as textbooks; could be started on a pilot basis.
Provincial municipalities	<ul style="list-style-type: none"> Grants to provincial municipalities with a list of permitted expenditure objectives (ordinary budget implications). 	<ul style="list-style-type: none"> Program of growing conditional grants to provincial municipalities with conditions that preceding grant be expended within the permissive list (ordinary budget implications).
Districts	<ul style="list-style-type: none"> Enhanced training (ordinary budget implications). 	

NOTES

1. For a fuller discussion of the dimensions and degrees of decentralization, see Evans and Manning (2003).
2. This distinction is made by Jackson (1990) and developed in Ottaway (2002: 1001-1023). De jure states are those that exist by fiat of the international community, which recognizes them as sovereign entities whether or not they have a government that can effectively control or administer the territory. De facto states are those that actually administer a territory. States that enjoy international recognition and exercise control through strong institutions are both de jure and de facto.
3. Human Rights Research and Advocacy Consortium (2003: 29-30).
4. Per capita GDP is of course a moving target, and recent macro projections prepared by the World Bank assume that the annual growth in per capita GDP will increase to 10 percent in SY1385, reducing to an average of 6 percent by 1389.
5. See Bruns, Mingat, and Rakotomalala (2003:63).
6. The "top-ups decree" seeks to deter such split accountability for lower level government staff.

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