



SPECIAL REPORT

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ABOUT THE REPORT

This report explores the Tokyo Mutual Accountability Framework (TMAF) for Afghanistan, which, after three years of implementation, donors and Afghan officials will refresh in 2015. Based on fieldwork and interviews and funded by the United States Institute of Peace (USIP), the report looks into the dynamics shaping the agreement and discusses its background, how this has limited reform progress, and how political, economic, and cultural factors constrain the policy options for those seeking to adjust it.

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Lessons and Opportunities from the Tokyo Mutual Accountability Framework

Summary

- The Tokyo Mutual Accountability Framework (TMAF), the primary development agreement between donors and the Afghan government, provides political guidelines for Afghan reform and continued donor support.
- With a new administration inaugurated in the fall of 2014, donors and Afghan officials are looking to refresh the three-year-old agreement. President Ashraf Ghani set out his vision for reform in “Realizing Self-Reliance,” a policy document released in conjunction with the December 2014 conference in London, and reiterated some of these goals in his March 2015 state visit to Washington, DC.
- The TMAF has proven useful as a coordinating mechanism among and between donors and the Afghan government, but various factors—political, social, financial, and bureaucratic—have limited results.
- Addressing the policy trade-offs requires a clearer vision of TMAF’s ultimate purpose. Is the document intended to organize policy-level cooperation on all development efforts or is it a targeted and sequenced blueprint for enabling Afghan financial independence?
- A shift in overall emphasis toward economic growth and revenue generation will be key to lasting gains for individual Afghans.
- Narrow focus and an inherently political nature inhibited progress on rule of law, gender, and anticorruption. Future indicators should give space for policy discussion on health, education, jobs, agriculture, and infrastructure.
- On-budget and alignment efforts should maximize use of existing engagement forums and project design mechanisms to help shift aid reforms away from contentious debate and toward more reciprocal and productive dialogue.

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- The TMAF has implied conditionality built in. Donor use of incentive mechanisms should help drive policy dialogue but may arise from a breakdown of trust. Incentives require a calculated strategy that features clear, objective metrics. Pragmatic and collective use of monitoring may support the data for such metrics.

Introduction

Endorsed on July 8, 2012, the Tokyo Mutual Accountability Framework (TMAF) is the primary development agreement between donors and the Afghan government for the country's transformation decade.¹ Now that a unity government has been formed, the December 2014 London Conference has concluded, and three years of implementation experience have accumulated, it will soon be time for donors and Afghan officials to reexamine the document and make adjustments.

The TMAF aims at coordinating development aid and government reforms over the coming transition decade, from 2014 through 2024. At the 2012 Tokyo Conference, donors pledged \$16 billion in development aid from 2012 to 2015 and to sustain support through 2017 to address the fiscal gap as estimated by the World Bank in exchange for Afghan reforms across five thematic areas.² Afghan reforms address elections, human rights, gender, public finance, banking, government spending, and development. Donor commitments relate to overall funding, reaffirm previous commitments to place 50 percent of total assistance on the Afghan budget, and align 80 percent of assistance to Afghan National Priority Programs and other pledges to improve aid effectiveness. The TMAF calls for progress reviews using a Joint Coordinating and Monitoring Board (JCMB) and Senior Officials Meetings (SOM) every other year to review progress and update indicators where needed, and biennial ministerial meetings to assess commitments and resource requirements.

The commitments and context of Tokyo were not new. The TMAF is the most recent in a series of coordination efforts undertaken since the 2001 Bonn Agreement. As policymakers look toward a 2015 "refresh" of the TMAF in the next SOM, it is important to understand the patterns that have emerged over the course of nation building in Afghanistan. The two leaders of the National Unity Government (NUG), President Ashraf Ghani and CEO Abdullah Abdullah, as well as many Afghan counterparts, have been present in various forms since the beginning of the post-Taliban era. Few donor staff or policymakers have the same depth of experience.

The past fourteen years of conferences reflect a long-standing involvement of key Afghan politicians, increasing trends toward accountability and conditionality, rising efforts to implement aid effectiveness, and a regular discrepancy between the strategy and requests of Afghans and their international community partners.³ Abdullah Abdullah participated in the Bonn 2001 conference and has been a frequent fixture at subsequent donor conferences. Ashraf Ghani played a lead role in Berlin 2004, working with the World Bank on the guiding strategy document, *Securing Afghanistan's Future*, which sought to address fiscal gaps and "create a self-sustaining country that can fund its operations."⁴ Berlin raised \$8.2 billion of its \$27 billion goal.

The Afghanistan Compact of the 2006 London Conference created mutually agreed upon targets and deadlines as well as introducing a Joint Coordinating and Monitoring Board (JCMB) to monitor progress. The Afghanistan Compact met with only limited success but was followed by the 2008 Afghanistan National Development Strategy and the 2010 London and Kabul Conferences. London introduced the "ambition" of delivering 50 percent of development aid through the Afghan budget. Kabul extended these ambitions with donors committing to 50 percent on budget (within two years) and to aligning 80 percent of their programming to Afghanistan's National Priority Programs (NPP).

The NPPs are a set of twenty-two thematic plans based on the Afghan National Development Strategy (ANDS) intended to prioritize government and donor actions across six clusters: governance, agriculture and rural development, private sector, infrastructure, human resource, and security. However, all too often NPPs were political wish lists for ministries, favoring new projects and infrastructure over focused development priorities and complicating the endorsement process. For example, Governance NPP5: Law and Justice for All calls for \$325 million, \$222 million of which is for “increasing physical assets” but only \$15 million for capacity building.⁵ Total NPP cost exceeds the entire \$16 billion TMAF donor commitment.

NPP costs complicated discussions between donors and Afghan officials. At stocktaking events such as the 2013 SOM, the parties were not able to agree on how much donors had fulfilled their 50 percent on-budget and 80 percent alignment commitment. These challenges suggest that despite progress, the two sides approach pledges from very different perspectives.

The 2012 Tokyo Conference and the TMAF reflected many of the elements developed previously. Like Berlin and Kabul, it featured a strategy paper guiding development commitments, *Towards Self-Reliance*. Since London 2006, both the Afghan government and donors sought to increase the level of accountability. Tokyo made the notion of implied conditionality more explicit than before. At Tokyo, donor commitments on improving aid effectiveness were the strongest yet, reflecting a growing drive for increased country-led development.⁶ This drive is reflected in the New Deal for Engagement in Fragile States, or New Deal. Endorsed in 2011, the New Deal is part of a decadelong global aid reform effort that Afghanistan has helped shape. The New Deal emphasizes state and peacebuilding goals for a focused, country-led transition out of fragility.⁷ Afghanistan is a pilot country for implementation and the UK, Denmark, and the Netherlands implementation partners. Segments of the Afghan Ministry of Finance are ardent supporters, sometimes leading to a more ideological approach to aid reform.

This past December 2014, London hosted its third international conference on Afghanistan. Similar to the 2010 London Conference, the event came on the heels of a heavily contested presidential election, restricting its scope. However, London 2014 succeeded in outlining President Ghani’s agenda via a paper entitled “Realizing Self-Reliance”, similar to his Berlin paper a decade earlier. Donors reiterated their political and financial support to Afghanistan, and both sides reaffirmed their commitment to the TMAF, agreeing to develop implementation details and a refresh of TMAF indicators for a Senior Officials Meeting in 2015.

As policymakers look forward toward the SOM, a few trends are worth remembering. One, Ghani, Abdullah, and many government staffers have a far deeper institutional memory than donors do. Two, Afghan officials view the pre-conference strategy papers—such as *Towards Self-Reliance* and “Realizing Self-Reliance”—as the documents that shape the reform agenda more than the multilateral joint reports that conclude conferences. Three, whereas strategic papers have focused on a path to independence, conferences have centered on donor pledging. Four, as donors remain concerned with the lack of government progress on promised reforms and develop incentive programs, they should note that the Afghan government bristles with a view that 50/80 commitments and aid effectiveness reforms are incomplete. As progress is mutual, so is frustration. Finally, although working-level implementation of TMAF is separate from the security sector, higher level politics on both sides is always linked to security.

The Political Challenge of Reform

National Unity Government (NUG) reform efforts are constrained not only by limited government resources and capacity, but also by a history and culture that has often resisted radical change and by the political compromise nature of the NUG. Afghan history can be seen as

an evolving balance between inward-looking conservative social values centered on independence and outward-looking economic dependence. Afghan leaders must bring together a diverse population proud of the notion that their nation has never been conquered, while managing an economy that has never been productive enough to support itself.

Two former leaders offer brief illustrative examples of the historical and cultural constraints that President Ghani and CEO Abdullah face as they pursue reforms. The “Iron Amir” Abdur Rahman Khan is a model Afghan leader and built the Afghan nation state as we know it. He successfully balanced economy and society by uniting the Afghan public around Islam while receiving support from the British government. In contrast is the cautionary lesson of Amanullah Khan, whose rule from 1919 to 1929 led to civil war. Amanullah’s ambitious social reforms, particularly regarding the treatment of women, alienated the religious ulema. His economic programs required new taxes that angered the public. Ultimately, Amanullah was overthrown and his reforms abolished.⁸

Like Amanullah, President Ghani was significantly influenced by time abroad, is outspoken about reform for women, and has a tendency to brusque behavior. Ghani’s rise to the presidency suggests that he learned from the past. However, he has also shown a propensity to micro-manage and centralize governance in a way that has alienated much-needed political allies.⁹

Beyond historical parallels, the NUG faces its own challenges. Both Ghani and Abdullah owe a degree of their political power to select segments of Afghanistan’s ethnic, regional, and political power holders. These debts played out with the nearly three-month delay of cabinet nominations. The process was exacerbated with Ghani’s insistence that no former cabinet members serve in his administration. Such an insistence does help make a clean break from warlord dominance, but those left out in the cold are unlikely to provide full throated support for the administration’s reform efforts. Indeed, ex-mujahedeen leaders such as Abdul Sayyaf and Ismail Khan have voiced their opposition to Ghani’s sidelining warlords in cabinet selections.¹⁰ The move also meant that some reformers and managers who had been in the previous administration could not continue in office.

As president, Ghani has shown a penchant for sweeping declarations and struggled to deliver on them. Blowing past his forty-five-day deadline on cabinet nominations dented Ghani’s political capital. In the context of such challenges and delays, policymakers should be wary of a refreshed TMAF that establishes reform benchmarks beyond the government’s capacity to deliver in a contested political environment. Donors would be wise to be mindful of the unique and complex Afghan political and social structures, which are often opaque to foreigners when making political demands.

Many present concerns parallel Amanullah’s lessons. One, Ghani cannot push too hard or fast on social reforms, particularly in regard to women. Rural areas provide the barometer for acceptable change. Two, the administration faces high programmatic and security expenses and has limited capacity to balance its finances. Revenue generation options, such as the VAT, need to be implemented on a measured basis. Three, internal conflict hobbled Amanullah and Ghani acknowledges the huge cost that fighting the Taliban imposes on the budget.¹¹ Four, Ghani needs a degree of support from key religious groups as well as the larger public. Effective engagement with the ulema and civil society groups will help foster continued support. Five, even with broader public support, the NUG is a naturally divided political entity and must satisfy its patronage networks. Finally, the donor community needs to remain mindful that its engagement with a narrow swath of Kabul elite will not reflect the tone or complexity of ongoing political dialogue in Afghanistan.¹²

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Afghan Progress on TMAF Reforms

The TMAF is part of a long legacy of success and failure in Afghanistan. Given significant increases in life expectancy, literacy, access to health care, clean water and education, the nation is without question transformed.¹³ At the same time, the Afghanistan conflict is the longest in U.S. history and more expensive than the Marshall Plan.¹⁴ Despite incomplete results and shrinking donor budgets, principle donors show little desire for a total international community withdrawal that would risk repeating the problems of the 1990s. TMAF implementation thus far has involved a host of subindicators that include “hard deliverables,” “priorities going forward,” and “next steps.” Although such items do create measurable objectives, the process of negotiating them detracted from discussions on development results. This examination of Afghan reform progress is therefore not a performance yardstick but instead an effort to learn and adjust course for the post-transition era. As a refresh of the TMAF approaches, donors face difficult trade-offs. Addressing these trade-offs requires a clearer vision to the TMAF’s ultimate purpose: is the document designed to organize policy-level cooperation on all development efforts or is it a targeted and sequenced blueprint for establishing Afghan self-sufficiency?

Area 1: Elections

The 2014 presidential elections made history and great controversy. The first and second rounds of voting on April 5 and June 14 brought historic voter turnout despite violence in certain parts of the country. Ashraf Ghani’s swearing in on September 29 marked the first peaceful transfer of power in Afghanistan. At the same time, despite significant Afghan and international effort, suggestions of fraud in as many as two of the eight million votes marred the elections.¹⁵ The four-month delay in resolving the elections included rumors of a coup and ultimately required U.S. Secretary of State John Kerry’s intervention.¹⁶ Although generally accepted by the international community, the months-long delay in releasing results, accusations of massive vote fraud, and internationally negotiated settlement make it difficult to say that the elections fully met the “credible, inclusive, and transparent” bar in the TMAF.¹⁷

Resolving issues with the elections system will help foster long-term political stability and fulfill the negotiated agreement between Ghani and Abdullah. Past collective donor discussions around the TMAF proved successful, using the 2013 Senior Officials Meeting to roundly denounce poor legislative progress. Two weeks later, the Afghan parliament passed elections legislation.

The run-up to the 2014 elections allowed donors to be forceful, but they now face a more delicate process. Secretary Kerry’s deal was a face-saving compromise enabling both parties to move past allegations of fraud. Consequently, donors, particularly the United States, may seek to remain gently positive and avoid potentially picking sides. Ghani has largely remained quiet on reform; his twenty-four-page London conference paper contained only one sentence on electoral reform.¹⁸ Abdullah, by contrast, has been vocal on the need for reform, even criticizing Ghani’s approach after the president announced an eleven-person reform commission just before his March 2015 U.S. visit.¹⁹ Parliament and the IEC present an additional layer of political complexity. In December 2014, the Wolesi Jirga released its proposal for electoral commission reform.²⁰ The IEC, however, has not supported establishing such a commission.

Although donors may remain cautious to avoid further appearances to influencing elections or upsetting fragile political alliances, reform remains important to full legitimacy. Consequently, donors may need to play a more active role, particularly with delays making the 2015 parliamentary elections timeline increasingly unrealistic. The EU and UK have begun to voice concerns. In the absence of a clear picture on reform strategies from Ghani’s

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“Realizing Self-Reliance,” the EU’s report on elections—which includes eight categories for suggested reforms—may be a helpful template for discussion.²¹ Ultimately, as was the case before the 2014 elections, the TMAF should not be the sole avenue. Rather, the TMAF can help set standards for Afghans while fostering collective donor action.

Area 2: Human Rights, Gender, and Rule of Law

Area 2 of the TMAF covers some of the most contentious issues—human rights, gender, and rule of law—on which donors and the Afghan government have frequently been at odds over the depth and pace of reform. Implementation has followed a far narrower scope than TMAF goals. However, Ghani has sent signals to suggest he is more reform oriented than his predecessor. Even with a reform-minded president, however, substantive changes must overcome the political obstacles of a unity government and cultural resistance like that Amanullah faced nearly a hundred years ago.

Human Rights – Time for the Long View

Afghanistan’s poor human rights record stems from decades of war, entrenched poverty, and a culture that views human rights differently than traditional donor nations do. Despite the indicator calling for the government to “ensure respect for human rights of all citizens,”²² TMAF efforts over the past two years focused narrowly on the status of the Afghan Independent Human Rights Commission (AIHRC) with the International Coordinating Committee of National Institution for the Promotion and Protection of Human Rights (ICC).

The government made progress with AIHRC by placing it in the national budget. However, unilateral appointments by then president Karzai caused international stir and risked the AIHRC’s A-status with the UN Commission for Human Rights.²³ Ghani’s “Realizing Self-Reliance” paper notes that the A-status will be maintained with the ICC but takes a broader approach to human rights than what has been pursued thus far.²⁴ The paper anchors human rights in the concepts of good governance and citizen’s rights. It commits to “promoting human rights in the justice and security sector” through improvements in the court system, police training, prison reform, and child protection.²⁵ This expanded and institutionally focused approach may enable a more cooperative relationship on human rights and promote better development outcomes.

Afghanistan will require many years for human rights practices and institutions to recover from the aftermath of Taliban rule and decades of war, especially as abuses continue in certain areas.²⁶ Given such a time line, donors need to consider the ultimate purpose of the TMAF. Is it a big tent framework for cooperation on all development efforts or a sequenced blueprint for enabling the country to reach financial independence? Inasmuch as donors seek an Afghan-led approach, “Realizing Self-Reliance” clearly follows the latter. In taking the development focus tack, donors and the Afghan government will need to make significant adjustments to avoid missing segments of the human rights effort, such as internally displaced people, security sector abuses, or child abuse. Such an approach to human rights is comprehensive but suggests an impossibly long wish list for a cash-strapped, low-capacity government. Political will alone will not ensure that Afghanistan has the institutional capacity to fully address human rights issues. One solution could be sequencing specific benchmarks, which may provide balance between a comprehensive approach and an achievable one.

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Gender – A New Chance for Afghanistan’s Women

From the National Geographic’s “Afghan Girl” to the iconic blue burka, the plight of women and girls has played an outsized role in shaping Western views and donor support for Afghanistan and been an emotive issue for many Afghans. Starting from abysmal levels in

2001, conditions for women in Afghanistan have improved dramatically; maternal mortality plunged 80 percent, life expectancy increased by twenty years, girls in school went from 0 percent to 37 percent, and women now hold key posts in government.²⁷ Yet the TMAF has not played a driving role in supporting this progress.

As is true for other areas, TMAF's gender goals are significantly broader than implementation thus far. Although the goal calls to "ensure women fully enjoy their...rights," the specific indicator shrinks to implementation of the Elimination of Violence Against Women law (EVAW) and National Plan for Women (NAPWA).²⁸ Interim deliverables for 2013 were narrower still, solely calling for a report on EVAW law implementation. Despite real value in specific, time-bound measures, donors fell victim to the diminished standards of pursuing low-hanging fruit. At the 2013 Senior Officials Meeting, no notable progress was made on gender. At the 2014 JCMB six months later, an EVAW report was touted but delivered two weeks late. Collective donor pressure created positive outcomes in areas such as 2013 elections legislation, but was not as effective with gender. Clearly, political will was the limiting factor.

Ashraf Ghani's election to president represents a significant potential shift in the tone of Afghan politics toward women. First Lady Rula Ghani is active in public life. Ashraf Ghani and Abdullah Abdullah helped four women ultimately get approved for the cabinet in April 2015.²⁹ On the donor side, the U.S. Agency for International Development (USAID) launched PROMOTE, the largest gender program to date.³⁰ This shift in attitude is reflected in "Realizing Self-Reliance." The paper presents a three-pillar strategy for empowering women: addressing discrimination and violence, increasing economic and educational opportunities, and focusing on government. I suggest that reforms pressing against conservative social values are likely to meet with resistance, as parliamentary obstacles to the EVAW law demonstrate. By bringing gender into economic and institutional spheres, Ghani offers a mechanism to improve women's lives without directly challenging social values.

Despite meaningful progress on gender over the past decade, issues remain before the TMAF can have maximum impact on the lives of Afghan women. One, by only pursuing low-hanging fruit, such as an EVAW implementation report, standards for the whole of gender reform were lowered. Two, the Afghan government is not monolithic and donors can do a better job enlisting gender reform supporters. Three, gender should not be constrained to one subsection of the TMAF; economic participation is essential to achieving meaningful gender equality as well as full economic growth. Shifting the scope of gender efforts into the economic realm should prove less divisive than the political tack taken thus far. Finally, supporting women in Afghanistan is the right thing to do.

Rule of Law – Overlooked Foundation for Self-Reliance

TMAF rule of law efforts have been narrowly pursued, focusing largely on asset declarations rather than a strategic approach to "improving access to justice for all" as the TMAF goal states. (In practice, asset declarations are coordinated with public financing and commercial banking.) Although the United States has five federal agencies involved in rule of law reform, and other donors make similar efforts, lack of Afghan political will has led to a reduction in the scope of engagement for TMAF.

Since 2012, TMAF policy discussions spent little time addressing the capacity or fairness of the judicial system, land ownership, or counternarcotics, despite the impact of these issues on instability and economic growth. A broader scope for rule of law in the TMAF does present some questions, notably counternarcotics. Although explicitly cited as part of the area 2 goals, counternarcotics have been ignored in TMAF implementation. Involvement in the TMAF raises issues of how to manage the civil-military institutional divide, how to

coordinate across multiple Afghan institutions, and how to address Russia's and Iran's role in counternarcotics. Going forward, donors and the Afghan government need to decide more completely whether counternarcotics will become an active part of TMAF or will be addressed independently.

Regardless of TMAF scope, rule of law efforts presently lack a clear mechanism for policy-level coordination. Expanding the scope of TMAF dialogue on rule of law and linking it with "Realizing Self-Reliance" benchmarks will create such a coordination mechanism. As is true for any change in scope, donors and Afghans must be strategic in their thinking. A trade-off exists between comprehensive development planning and focused accountability on achievable results. In a refresh, donors should answer how rule of law in the TMAF will contribute to Afghanistan's functional independence.

Area 3: Public Finance and Commercial Banking

Scandal, corruption, and inefficiency have marred Afghanistan's ability to attract investment and bring funds into government channels. The \$900 million-plus Kabul Bank scandal remains a symbol of entrenched corruption, and despite public financial management (PFM) reforms, the government cannot absorb all of the on-budget funds the TMAF calls for. Area 3 addresses Kabul Bank, the IMF program, public finance reforms, and anti-money laundering (AML) and counter funding of terrorism (CFT) efforts. For donors, area 3 is the de facto area for coordination on anticorruption. Despite bolstering donor coordination in this area, the TMAF has not translated to notable results in banking or anticorruption, though President Ghani's focus on strengthening the financial sector brings a new start.

Kabul Bank – A Critical Reboot

By reopening the Kabul Bank case, Ghani made a dramatic statement on his stance toward corruption. The new trial extended the sentences of the two primary defendants, Sher Khan Feroz and Haji Khalil Ferozi, and froze the assets of Mahmood Karzai, former president Karzai's brother.³¹ These are important steps in establishing justice and faith in the banking sector, but corruption remains deeply entrenched.

Ghani promised to accept the recommendations of the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC), aggressively pursue asset recovery, and confiscate the property of those implicated. Entrenched interests suggest limits to how much progress is possible. It remains unclear whether the apparent change in political will is sufficient to generate substantive investor and public confidence. Future TMAF indicators should center on bolstering such confidence.

PEFA – Paper Progress Needs Sustainability

In contrast to prior government obstinacy on the Kabul Bank scandal, MOF improvements in PFM are noteworthy, as indicated in the 2013 Public Expenditure and Financial Accountability (PEFA) assessment. Donors acknowledged this progress during the July 2013 SOM.³² In considering a refresh of TMAF indicators, policymakers should look to make these improvements sustainable and translate into greater government ability to absorb on-budget funds. Indeed, a World Bank study found that while postconflict nations can reform public finance management, such improvements come largely on the back of externally funded technical assistance and do not lead to increases in on-budget assistance.³³ Afghanistan has very large on-budget flows but much of this runs through the ARTF and depends on foreign technical assistance. Public finance reform efforts should be more closely tied to on-budget assistance challenges than PEFA scores.

IMF Program – Key to Continued Financing

The IMF program provides an example of external reform benchmarks helping create shared agendas between donors and the Afghan government. Using the IMF Extended Credit Facility program as a benchmark reduces donors' management burden and increases objectivity through an external standard. In December 2014, the IMF welcomed the new government's focus on macroeconomic stability and pro-growth reform agenda and suggested that "good progress" was made in discussions with the new government.³⁴ Such progress is key because the program has not disbursed fund tranches since 2012, though the IMF reached an agreement on a Staff-Monitored Program in March 2015.³⁵

FATF – Begrudging Progress

The final component of area 3, Financial Action Task Force (FATF) compliance, is critical for Afghanistan's linkage to the international banking system. In June 2014, Afghanistan narrowly missed being placed on the FATF blacklist after passing—under heavy donor pressure and the real threat of black listing—anti-money laundering and counter funding of terrorism legislation.³⁶ Looking forward, FATF recommendations are another example of external benchmarks that reinforce the broad objective of financial self-reliance.

Despite mediocre progress on area 3 to date, a new government presents opportunities to strengthen the financial sector and reduce corruption. In a complex political environment, donors may choose to allow the president and CEO to work their process under an umbrella of donor support. Regarding TMAF indicators, area 3 makes smart use of PEFA, FATF, and IMF as external benchmarks, thereby enhancing objectivity and shared reform agendas.

Area 4: Revenue, Budgeting, and Subnational Governance

In light of shrinking donor funds, the Ghani administration is acutely aware that it cannot continue relying on foreign aid. A self-sustaining Afghanistan cannot be achieved without sufficient revenue and effective budgeting that reflects both national and provincial priorities. "Realizing Self-Reliance" therefore centers on improving revenue collection and budgeting. Despite these issues, donors have not given this area the same degree of political or programmatic attention as they have to gender, anticorruption, or elections. Because area 4 is key to the new administration and requires relatively less political or financial capital than other areas, donors have an important opportunity to bolster Afghan financial independence.

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Revenue Collection – Faltering Backbone of Independence

Despite TMAF commitments, the Afghan government has consistently missed revenue collection targets, falling short by close to 35 percent in 2014, an overall decline of 8 percent from 2013 revenue.³⁷ Afghanistan relies heavily on customs duties for government revenues, covering nearly a third of revenue.³⁸

Afghanistan's customs system is byzantine, the forty-seven agencies involved leaving generous space for corruption and nepotism. The Ghani administration walks a tightrope between maintaining support from regional power brokers and addressing customs revenue holes. Thus far, donor efforts to modernize and clean up customs collections have met only middling success. One could argue that customs corruption presents a greater threat to financial independence than the Kabul Bank.

Complementary to customs reform is the VAT roll out, which will require time and a balanced approach to make a reliable impact on revenue. Ghani has stated he will have a "full strategy to stabilize revenue" by the 2015 Senior Officials Meeting.³⁹ Donor engagement

on a revenue strategy is critical to independence and must replace past tendencies to offer MOF bailouts and create moral hazards.

Budget Execution – Process not Numbers

Budget execution rates are often highlighted as a sign of government's inability to handle the massive on-budget flows required by the 50 percent on-budget commitment and that provinces cannot absorb additional assistance. This is only partially true. One, even with difficulties, Afghanistan processes significant on-budget funding. Two, the TMAF indicator here does not differentiate between operational and development budgets, the former generally being fully spent.

A one-year budget cycle creates inefficiencies in Afghanistan's procurement process, particularly given its top-down nature, and inefficiencies provide space for corruption. Presidential efforts to streamline and strengthen the procurement process through a procurement office are important efforts, but also need to reinforce existing institutions.⁴⁰ Future TMAF efforts regarding budget execution should examine more than a number to ensure policy discussions focus on the right issues.

Subnational Governance – Key to Legitimate Institutions

Despite budget challenges, the Afghan government has made progress on its subnational governance policy. In 2014, USAID released \$15 million in incentive funding in recognition of a strengthened policy.⁴¹ Improvements in how the central government engages with provinces on governance and budgeting are essential to building self-sufficient institutions, reducing waste, and improving budget execution. The Independent Directorate of Local Governance (IDLG), tasked with managing provincial governments, has been somewhat of an orphan, sitting outside the MOF budgeting process and service ministries. Meanwhile, the Ministry of Rural Rehabilitation and Development (MRRD) has had significant resources, particularly through the World Bank funded National Solidarity Program (NSP), to conduct local development. As former minister of finance and transition adviser, Ghani is well placed to empower and integrate IDLG into the system and clarify MRRD's role. He has taken positive steps with provincial councils.⁴² New TMAF indicators could seek to address the parallel structures within the government and the disconnect between allocation of government resources and roles. Although donors do not have uniform views on the next step, forming an SNG working group was a positive action in developing consensus; further efforts should continue at the working level.

"Despite Afghanistan's well-deserved reputation for independence," Thomas Barfield notes, "no government there was ever stable without access to foreign sources of revenue."⁴³ Donors need to be realistic about the economic gains that can be made over the coming decade, and a meaningful move toward self-reliance cannot occur without greater focus on revenue and budgeting. This reality is further evidence for the need to make a strategic choice between focusing the TMAF on organizing development and sequencing financial independence.

Area 5: Inclusive and Sustained Growth and Development

Area 5 is a medley of development topics and has received only minimal policy attention relative to other TMAF segments. Despite notable Afghan government and donor progress, area 5 lacks a coherent reform strategy to address the spectrum of health, education, extractive industry, private sector, transportation, and trade. Moving forward, opportunities for cementing progress exist if donors and the Afghan government clarify reform objectives, sequence efforts, and address gap areas where development challenges exist but the TMAF does not address.

Donors need to be realistic about the economic gains that can be made over the coming decade, and a meaningful move toward self-reliance cannot occur without greater focus on revenue and budgeting.

Health and Education – Time to Discuss Sustainability

Aid agencies often tout population health and education as evidence of taxpayer-funded impact. From the two decades added to Afghan life expectancy to the millions of boys and girls attending school, gains were huge. However, the TMAF does not provide a space to address challenges in health and education. Rather than be rolled into an indicator on millennium development goals, health and education need to be split apart to allow policy discussions. Furthermore, the time has come to shift the focus from producing results to addressing financial sustainability for the Afghan government.

Extractive Industry – Persistence and Balance

Over the transformation decade, the extractive industry should play an increasingly large role in Afghan self-reliance. With a potential value of as much as \$1 trillion, mineral and hydrocarbon mining has received its share of attention and controversy from Afghans and foreigners alike.⁴⁴ Despite differing views, donors were able to come together with the ministries of finance and mines to push for passage of the Minerals Law, which was essential for foreign companies to begin mining.⁴⁵ Yet environmental, land, social, and oversight concerns mean that a balanced approach will be necessary to help Afghanistan avoid the resource curse. Donors should continue to engage all parties and ensure that the TMAF supports a balanced view.

Private Sector, Employment, Agriculture, Water, Infrastructure – Missing Keys

Despite being a grab bag for development items not covered elsewhere in the TMAF, area 5 is notable in its failure to fully address key items, particularly the private sector and job development, agriculture and water, and infrastructure. Each is essential in a functioning Afghan economy. By mentioning only the private sector via the World Bank's Doing Business Index, job growth is left out. The WTO and extractives are important entities, but at present the TMAF has no overall strategy for addressing private-sector growth and is overly reliant on government involvement. Similarly, despite being both the main livelihood for upward of 80 percent of the Afghan populace and critical to food security, agriculture and water are only tangentially addressed in the TMAF. A Kabul-centric donor group needs to rethink the role that agriculture and water play in the sustainability and stability of Afghanistan. Similarly, despite massive donor investment, infrastructure does not receive explicit attention. Although road, rail, and civil aviation institutions are essential to Afghan transportation, so are the operations and maintenance of Afghan roads. The O&M Facility, which is part of the World Bank's Afghanistan Reconstruction Trust Fund (ARTF) and designed to incentivize increased operations and maintenance spending and improve fiscal flows to provinces, is a positive step toward supporting infrastructure in Afghanistan.⁴⁶ The TMAF would benefit from making infrastructure its own measure, though donors may be weary of inviting calls for project support.

In looking to refresh the TMAF in the SOM, donors and the Afghan government have an opportunity to adapt area 5 to create space for policy discussions on key topics. This means splitting indicators into discrete items without creating a laundry list. TMAF indicators should be high-level, long-term policy priorities. Health, education, private sector, agriculture, and infrastructure are each essential to Afghan sustainability and should be treated as such. These issues also provide space for an expanded policy discussion on gender.

These areas have a direct impact on the lives of voting Afghans and thus a bearing on government legitimacy. Should donors and Afghan officials weary of a bloated TMAF, then a separate mechanism for addressing the food, health, and employment of millions of Afghans may be needed. Lacking the political or social complexities of other TMAF segments, area 5

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should drive cooperation on items that are essential for Afghanistan's financial self-reliance and the well-being of Afghan citizens.

Donor Commitments to Aid Effectiveness

The second half of the Tokyo Mutual Accountability Framework addresses donor reform commitments. Specifically, it includes a reaffirmation of donor commitments to place 50 percent of aid onto the Afghan budget (conditional on further progress on PFM, anticorruption, and budget execution), align 80 percent of programming to National Priorities, efforts to improve aid effectiveness, and above all, financial support through 2017.⁴⁷ It also seeks to address the ownership, efficiency, and transparency of aid in Afghanistan. Although Afghan efforts to direct aid stretch over a decade, donors feel a squeeze between fulfilling TMAF commitments and satisfying oversight agencies such as the Special Inspector General for Afghanistan Reconstruction (SIGAR).

Neither side seems to appreciate the other's context, and therefore TMAF implementation is plagued with complex metrics and negotiations rather than development solutions. Given the fewer dollars and staff going forward, donors and their Afghan counterparts face trade-offs. Better taxpayer funding protection requires robust monitoring and management of fiduciary risk, and reinforcing Afghan institutions requires investments of capital as well as, according to many, hearty on-budget flows. Limited donor resources cannot fully satisfy both options.

On-Budget Assistance

The commitment to placing 50 percent of assistance on budget is perhaps the most complex donor pledge. Globally, donors—including the World Bank, Asian Development Bank, and the United Nations Development Program (UNDP)—increasingly see advantages with on-budget assistance (OBA) in building domestic capacity, strengthening the budgeting process, and reinforcing state legitimacy.⁴⁸ Afghanistan's ministries of public health and of education have effective on-budget programming. However, on-budget projects are more time and labor intensive for donors, partly because of onerous procedures. For Afghans, the one-year budgeting cycle, convoluted procurement system, and inadequate institutional capacity limit ability to absorb funds, creating a pipeline of billions in unspent funds. Furthermore, most donors use the World Bank's ARTF for their on-budget commitments.

Should the Afghan government seek to shift programming, it must either create enough financial safeguards for a new avenue or engage the World Bank to change ARTF programming. Both options entail significant obstacles, making the government essentially locked in to existing programming.

Meeting the 50 percent on-budget target leads to difficult policy decisions and tense donor-government engagement. To maintain funding, aid agencies must fulfill their fiduciary responsibility and satisfy oversight agencies. SIGAR audits have found numerous "critical or high" risks in ministries planned or receiving on-budget assistance.⁴⁹ In practice, addressing these concerns often requires USAID to choose a balance between fiduciary responsibility and TMAF commitments. Most U.S. on-budget projects have milestones that must be met before funds are disbursed. This protects U.S. funds but complicates efforts for a cash-strapped Afghan government that must front funds for many projects. Throughout TMAF implementation, Afghan officials have focused on such donor policies and skirted absorptive capacity concerns, seemingly unaware that such a ballooning pipeline makes justifying high levels of funding to Congress increasingly difficult.

The Ghani administration brings a shift in attitude that may allow for greater collaboration. “Realizing Self-Reliance” states that “the government will take all necessary measures...to enable donors to further increase their on-budget assistance.”⁵⁰ Forming a procurement office and shifting to a three-year budgeting process are good steps to addressing absorptive constraints. If the government, particularly the MOF, is open to new measures, donors would do well to develop a clearer consensus within the international community on the specific challenges facing on-budget assistance.

Addressing on-budget challenges for the next phase of TMAF will require trust, frank discussion, and pragmatism at both policy and project levels. On the policy side, rather than finger pointing, discussions need to focus on what must be adjusted in the budget cycle, procurement process, and PFM systems to achieve development results. At the project level, donors and the Afghan government should expand existing collaboration in the project design phase. Front-end discussions on specific ARTF or bilateral projects may result in a longer design timelines, but will support the intent of reforms with meaningful Afghan input. For Afghans, it will be important to be active in the design phase but then allow donors to implement projects according to their own regulatory requirements.

National Priority Program Alignment

Commitments to align donor programming with Afghan priorities are intended to ensure substantive host country leadership in donor programming. Instead, alignment with Afghan National Priority Programs (NPPs) has been contested throughout the TMAF and created paperwork exercises. Joint reports for the 2013 SOM and 2014 JCMB meetings only agreed to disagree: “differences in the interpretation of the term alignment mean that it is not possible to confirm the precise degree of alignment with NPPs.”⁵¹ This disagreement extends beyond debate over control of priorities and programs to the practical obstacles of actually aligning projects and plans. While the Afghan government and general consensus suggest alignment should be at the deliverable (output) level, some NPPs do not have deliverables. Others match in spirit but not specific language. Furthermore, many ministries drafting NPPs used them to create infrastructure wish lists rather than meaningful prioritization. Given these challenges, a reboot of the alignment effort is in order.

President Ghani suggests just such a process: “the current 22 national priority programs are too many to manage properly. They will be reduced to 10-12 and restructured around results.”⁵² With so many NPPs focusing on infrastructure rather than outcomes, the current system is indeed unwieldy and virtually ignored as a guide for project design. Ghani will face political opposition as winners and losers are chosen from existing NPPs. Donors would be wise to use a light touch in pushing for NPP readjustment.

Whether or not NPPs are cleaned up, donors should expand the involvement of Afghan ministries in the project design process. Ex post facto alignment is cumbersome and problematic, and donor-ministry collaboration during project design has seen some success. Such collaboration occurs at the technical rather than policy level, generally resulting in a more practical discussion. To encourage such collaboration, donors need to be more flexible and involve Afghan partners earlier and more extensively in their project design process. At the same time, Afghan counterparts need to understand the financial and regulatory limits facing donors.

The “Realizing Self-Reliance” paper calls for introduction of monitoring systems. Donors and Afghan officials do well to emphasize monitoring in a refreshed TMAF. As they do, it is essential that issues of management, costs, and reporting are addressed up front. Establishing clear arbiters of progress ahead of time, perhaps during the project design cycle, will reduce bureaucratic wrangling later.

Donors need to be more flexible and involve Afghan partners earlier and more extensively in their project design process. At the same time, Afghan counterparts need to understand the financial and regulatory limits facing donors.

Partnership Reforms

Beyond donor commitments to overall support, on-budget assistance, and alignment, the TMAF calls for a number of reforms that reinforce Afghan leadership and are intended to increase efficiency. The New Deal and a decade of aid delivery shape these commitments.

Donors make frequent use of technical assistance in capacity-building projects. These programs have too often substituted for rather than built Afghan capacity, however, and are often not fully coordinated with actual needs. Donors must ensure that technical assistance builds long-term capacity rather than simply plugs in holes. Linked with adjusting technical assistance is salary reform. Adjusting pay scales will help ensure that the Afghan government can attract and keep capable staff. The National Technical Assistance Policy and World Bank's Capacity Building for Results program are good steps and deserve better donor attention.

Transparency is a recurring issue in the donor-government relationship. Historically, many donor projects were not registered or coordinated with the Afghan government. As the government takes a larger role in initiating and maintaining development projects, information sharing becomes more essential. Yet a combination of trust and technical issues related to the Donor Assistance Database (DAD) inhibit cohesive donor-government sharing. Donors are weary of excess data calls and government intervention with implementing partners as Afghan ministries seek to understand and budget for projects in particular locations. Both the government and donors need to use existing annual forums such as Donor Coordination Dialogues and project design collaboration as their primary mechanisms for information exchange.

Regional and Domestic Collaboration

Essential to a soft landing from aid dependency is improved collaboration with Afghanistan's neighbors and its own civil society and private sector. The Tokyo Declaration endorses such collaboration but without explicit goals. TMAF implementation played only lip service to it.

This contrasts with President Ghani's early visits to Pakistan, China, Saudi Arabia, and Turkmenistan. As discussions on refreshing the TMAF proceed, a more clearly articulated role for regional and domestic collaboration will reinforce broader TMAF objectives. Enhanced focus on regional collaboration requires Western donors to address the involvement of China, Russia, Iran, and Pakistan in Afghan development. These regional partners play a larger political role than their aid dollars suggest. Expanding the 5+3 coordinating group is not feasible, but strategic and measured engagement would help avoid blind spots, particularly regarding Iran's role in trade and Russia's counternarcotics interests.

Ghani's vision for Afghanistan as a "regional roundabout" and efforts such as the Central Asia South Asia (CASA-1000) power project, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, the Turkmenistan, Uzbekistan, Tajikistan, Afghanistan and Pakistan (TUTAP) energy project, and the Istanbul Process should be harmonized with the TMAF coordination process.⁵³

Despite participation in the London and Tokyo conferences, civil society and the private sector have not received regular or active roles in TMAF implementation. Mutual interests of donors and these groups outweigh the complications brought by having them in the room. Civil society and the private sector play critical roles in a self-reliant Afghanistan. Donors should ensure regular participation by these groups yet be aware of their political dynamics.

Incentives and Conditionality

The TMAF has an implied conditionality built into its language. Recently, donors have acted on this conditionality by developing incentive programs, most notably the U.S. Incentive Fund. Considered a mechanism to drive results, incentives and conditionality are complex

and can produce negative consequences. In Afghanistan's multifaceted political environment, incentives are unlikely to produce major reforms. The ARTF's Incentive Program is an example of moderate success. Modest incentive programs can drive dialogue and help targeted reforms tip toward success.⁵⁴

Monitoring

Monitoring is essential to effective development and often required by development agencies and Afghan government partners yet has not been strategically integrated into the TMAF. There is a symbiotic opportunity, however, for the TMAF to serve as a coordination mechanism for monitoring efforts and those efforts to feed data that helps TMAF policy decisions. Thoughtful pairing of benchmarks and monitoring efforts should lead to a more streamlined, objective process. A trade-off does exist between precise, monitorable benchmarks and flexibility on policy decisions. When donors focus on development outcomes rather than metrics, they are less likely to be forced into adversarial conditionality decisions. Consequently, monitoring should inform on development results more than on metrics.

Recommendations

This report argues that the TMAF is an effective avenue for coordination on development but that results for both Afghans and donors have been mixed given political and social constraints, bureaucratic wrangling, and a patchwork approach to fostering self-reliance. TMAF efforts should consistently answer whether engagement is focused on satisfying metrics or producing development results.

These recommendations are intended to provide policy options for evolving TMAF strategies and principles to approach to accountability, monitoring, and incentive challenges. With that in mind, specific benchmarks should involve the input of subject matter experts in each relevant field.

General Conclusions

- Using the Afghan government's "Realizing Self-Reliance" agenda as a blueprint for refreshing the TMAF and aligning the paper's seven critical areas will help reduce disagreement, but parties should be weary of overly ambitious aims.
- Determining whether the TMAF should drive for self-reliance or organize overall development assistance will provide a focus for allocating resources and strategy. Given the political environment and limited resources, a focus on financial independence may be more realistic.
- TMAF implementation process must emphasize efficiency and development results over bureaucratic wrangling. Engaging and delegating work to clusters, working groups, and shared tasks is key to implementation with limited staff.
- Expand TMAF's scope but narrow its ultimate purpose. History provides cautionary lessons for leaders who overreach on reform and donors that do not address the full scope of the problems. A broader scope for addressing issues should be paired with modest and disciplined ambitions for reform.
- TMAF implementation should involve a broader range of actors. Active participation by service ministries as well as the ministry of finance, regular involvement of civil society and the private sector, and a thoughtful link to regional players will reinforce TMAF efforts. More efficient use of working groups and clusters should help offset the larger audience.

- New indicators should focus on institution building and be sequenced to avoid overburdening reform efforts. Using external indicators such as PEFA and FATF bring clarity and objectivity. Terms must be clearly defined in the TMAF. Donors must avoid the trap of diminished outcomes brought by pursuing low hanging fruit or submetrics. Intermediate indicators such as hard deliverables may be used as a management tool only so long as creating and monitoring them does not eclipse reform efforts. Sequenced and time-bound objectives may balance the need to avoid a laundry list of metrics, monitor progress, address broad development issues, and prioritize effort.
- Greater focus on institutional development and sustainability is necessary for self-reliance. Reforming pay and technical assistance imbalances, increased focus on O&M, and expanded dialogue on financial sustainability, particularly in health and education, are needed to make lasting strides in Afghanistan’s development.
- Incentives can be used to set the agenda, spur the unity government, and encourage greater intergovernmental collaboration.

Afghan Progress

- Economic growth is key to transforming Afghanistan. Political and social issues such as gender and anticorruption are decades-long efforts. The Amanullah trap is an example of potential challenges facing rushed reform without comprehensive social support. Reform timelines, especially given challenges facing the NUG, should therefore be modest.
- All the elements of budgeting and revenue generation—including customs, subnational governance, and development budget execution rate—need far greater donor attention.
- Health, education, agriculture, jobs, and infrastructure need their own place in the TMAF indicators to allow for policy discussion.
- Private-sector and job growth cannot be buried in a subsection of area 5.
- Rule of law deserves a larger platform if it is to support changes that foster stability, good governance, and economic growth.
- Anticorruption should be addressed more broadly than just Kabul Bank and asset declarations. Customs problems need to be addressed.
- An expanded thematic scope for the TMAF can be addressed, in part, through strategic decisions to focus the framework’s ultimate purpose, greater emphasis on development results in policy dialogue, and more complete and efficient use of forums such as working groups and thematic clusters. Regardless of scope, TMAF implementation requires more disciplined and productive dialogue.
- Gender should be mainstreamed into other segments of the TMAF, particularly economic efforts in area 5.

Donor Commitments

- Finding trust will be essential for productive collaboration. Efforts should focus on development results rather than finger pointing.
- On-budget and alignment efforts should be split into project-level efforts pairing service ministries with relevant technical experts during the project design phase and policy-level efforts helping solve management burden and absorptive capacity issues through dialogue at existing annual meetings.

- Reducing NPPs is a valuable goal that should be pursued with a focus on development results.

The Tokyo Mutual Accountability Framework should help Afghanistan have a soft landing from the conflict and chaos it has faced over the past thirty years. The coming decade brings hard realities that can be better dealt with through collective effort under the TMAF umbrella provided that pragmatism, efficiency, and results become watchwords for both Afghans and donors alike. With diligence and a measure of luck, these efforts will create a successful Afghanistan where the TMAF is no longer relevant.

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