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Strategic Directions for the National Solidarity Program

Assessment of Strategic Issues and Recommendations for Future Directions

March 31, 2015

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SOUTH ASIA



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TECHNICAL ASSISTANCE PAPER

on the

National Solidarity Program

of the

Islamic Republic of Afghanistan

Assessment of Strategic Issues and Recommendations for Future Directions

Global Practice for Social, Urban, Rural, and Resilience

South Asia Region

March 31, 2015

TECHNICAL ASSISTANCE PAPER

NATIONAL SOLIDARITY PROGRAM: ASSESSMENT OF STRATEGIC DIRECTIONS

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List of Acronyms

AREDP	Afghanistan Rural Enterprise Development Program
ARTF	Afghanistan Reconstruction Trust Fund
CDC	Community Development Council
CCDC	Cluster Community Development Council
CDD	Community Driven Development
DPs	Development Partners
ERR	Economic Rate of Return
EU	European Union
FPs	Facilitating Partners
GoIRA	Government of the Islamic Republic of Afghanistan
ICR	Implementation Completion and Results (report)
IDLG	Independent Directorate for Local Governance
IE	Impact Evaluation
ISAF	International Security Assistance Force
MAIL	Ministry of Agriculture, Irrigation, and Land
MoE	Ministry of Education
MoH	Ministry of Health
MRRD	Ministry of Rural Rehabilitation and Development
NSP	National Solidarity Program
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development
O&M	Operation and Maintenance
PIU	Project Implementation Unit
SIKA	Stabilization in Key Areas (project)
TA	Technical Assistance
USAID	United States Agency for International Development
USG	United States Government

I. Key Conclusion

1. **Afghanistan is in the midst of a dramatic security, political and economic transition which increases uncertainty and instability. However, if managed well, the transition also provides an opportunity to restore people's lost confidence, address fragility, and generate a new momentum for reform.** The new Government has laid out an ambitious vision to realize self-reliance through economic growth and improve people's welfare through better governance and tangible service delivery. The Government will need to strategize how to prioritize the competing development needs and allocate its limited resources effectively in order to achieve its vision. To this end, the Government has already initiated a process of consolidating and developing new National Priority Programs (NPPs) to improve the effectiveness and efficiency of development interventions.
2. **The Government plans to launch a so-called "Citizens Charter" initiative that would guarantee a minimum set of core services to all citizens, using Community Development Councils (CDCs) as the primary vehicle for that service delivery.** This requires the National Solidarity Program (NSP) and the role of Ministry of Rural Rehabilitation and Development (MRRD) to be significantly altered. The Government has committed to formalize CDCs through a CDC Law as a "whole-of-government" platform for local governance and service delivery, mandating line agencies to plan and manage local level service delivery through CDCs. At the same time, the Government is determined to achieve efficiency gains by consolidating and revising the existing NPPs. Such reforms require MRRD to shift from being a direct provider of various services to an enabler that strengthens these local institutions (CDCs) and facilitates interaction between CDCs and sub-national governments and line ministries to enhance local governance and service delivery.
3. **NSP has an important role to play in supporting positive outcomes through the transition.** Given the long-standing role that NSP has played in supporting CDCs and the demonstrated positive results of the program to date, coupled with the myriad uncertainties and risks inherent in the transition that Afghanistan is entering, NSP should continue to be supported through the transition, assuming the program addresses key challenges and adapts to evolving realities, as outlined in this paper.

II. Main Findings and Recommendations

4. **NSP has extended the reach of Government to almost all rural communities in the country,** has helped increase access to key basic services, helped improve accountability of government, and enhanced the role and perception of women among the rural population, and has done so in a cost effective manner. The program has served as an important tool in the Government's strategy to build legitimacy and trust among the Afghan people, critically important in the challenging transition the Government and country are currently facing.
5. **However, NSP has notable weaknesses.** Independent studies have demonstrated a lack of sustained economic impacts as a result of subproject investments, uneven performance and legitimacy of CDCs across regions. Stakeholders have also raised concerns about NSP's overall costs as compared with other Government priority programs, its dependence on external-- and viewed by some as costly-- facilitating partners, and its use of a parallel management structure composed of contract staff versus civil servants.
6. **The extension of CDCs to nearly all rural villages in the country is widely considered the most important achievement of NSP. This review concludes that this coverage should be sustained in order**

to support and strengthen the citizen-state relationship, local governance, and basic service delivery; core ingredients for stability. This is consistent with the new administration’s proposal to institutionalize CDCs through a CDC Law. However, various studies have noted that the status and quality of CDCs is inconsistent across the country.

7. Political economy factors at the national and local levels have undermined the legitimacy of CDCs. At the national level, a climate of competition for external resources persists among line ministries. MRRD, and by extension NSP, is in some quarters resented for its relative success in attracting substantial levels of resources, and line ministries have little incentive to collaborate. At the local level, nearly forty years of violent conflict have seriously damaged the social fabric and associated set of informal institutions that governed day-to-day interactions in rural Afghanistan where the central state had little, if any, presence. Outsiders, including the urban Afghan elite, have difficulties acquiring information from rural areas, where deteriorating security sustained infrastructure gaps have hindered access. Therefore knowledge of highly dynamic constellations of local power holders and institutions that constrain and enable behaviors is limited at best. What’s clear is that establishing and strengthening CDCs via NSP represents the boldest, and longest-running attempt at bottom-up state building of transparent, rules-based institutions by the post-Taliban Government. CDC members draw authority primarily through their role in a project that has delivered at most two rounds of block grants over an 11-year period. It should therefore not be surprising that local elites that draw authority from other sources often eclipse CDC members’ stature and influence in rural Afghanistan. Actions by the Government, such as enacting the CDC Law and the Citizens Charter, will address some, but not all of the political economy challenges facing MRRD, NSP, and CDCs.

8. To strengthen the CDCs and to equip them to take on expanded roles implied under the Citizens Charter and CDC Law, greater capacity building assistance from NSP and the facilitating partners (FPs) will be called for. This demand creates tensions with the called for reduction of FP roles recommended by the President’s Office. This review recommends a gradual approach to revising the role of FPs so that facilitation support is not undermined, and that MRRD consider alternative options for cost reduction such as “contracting in” (i.e., hiring individual resource persons as facilitators) as is done under other large scale CDD programs worldwide, or privatizing (as done under Afghanistan Rural Enterprise Development Program: AREDP).

9. The provision of block grants to CDCs in support of over 60,000 completed rural infrastructure sub-projects has generally improved access to basic services and, in so doing, enhanced the legitimacy of Government through tangible benefits to the population. However, evidence suggests that around half of NSP sub-project investments for economic infrastructure have not produced sustained economic gains. Though further research is required, this review tentatively concludes that the lack of economic impacts of certain types of investments is due to: (a) irregular and relatively small transfers to very poor villages over a long time period; and (b) absence of secondary infrastructure to which tertiary infrastructure could link to improve productive outcomes. Nonetheless, this review also concludes that block grant support to CDCs (in some form) should continue as a way to strengthen the capacity and credibility of CDCs. To mitigate the constraints in the effectiveness of sub-project investment, the infusion of block grants would need to become more regular and more support should be provided for better planning and coordination with other ministries to ensure linkages with secondary infrastructure. However, block grants would need to be reduced in value in response to Afghanistan’s projected decline in available development funds, but balanced off through an increase in line ministries’ use and funding of CDCs.

10. **The transition of NSP should follow a carefully phased multi-year process so as not to disrupt key gains made to date** (including women's empowerment) that would otherwise negatively affect stability. In the short- to medium-term, NSP should continue to provide block grants directly to CDCs to safeguard the delivery of basic services, though likely on a declining basis as line agencies step up use of CDCs. In the longer-term, it is expected that funding flows would become part of a sub-national fiscal transfer system. The transition would depend on progress made by line agencies to directly engage with CDCs, and on sub-national government policies, regulations, and capacities.

11. **More specifically, and in the short-term, NSP should be supported in its current form with greater operational cost-efficiencies** (as indicated by several recently concluded internal program assessments) **and more strategic focus on economic and productive infrastructure investments**. In the longer-term, NSP should evolve into a mechanism that supports the institutional development and reform of CDCs as local-level institutions, which undertake community governance, local development planning, and support service delivery by relevant sector agencies. In other words, NSP would become a facilitating agent working with and through CDCs to ensure the delivery of services by other ministries, as opposed to delivering these services themselves. NSP's financing would therefore decline as other line ministries work more closely with and channel resources through CDCs.

12. **The nature and timing of the transition for the NSP will be informed by a number of on-going policy considerations and other factors**, which most importantly include: (i) passage of a proposed CDC Law and subsequent enabling policies and regulations (including incentives) to enhance linkages with other line ministries; (ii) formulation of the Citizens Charter Program; (iii) strengthening CDCs' capacity to take on broader governance roles and functions; (iv) the recommended consolidation of MRRD's five rural development projects into a single Ministry program; (v) clarification of the role of MRRD in the delivery of certain rural services, such as irrigation and micro-hydro power; and (vi) the physical and financial capacity of the line ministries to take on those other services and support that MRRD has been performing to date.

III. Rationale and Organization of Paper

13. **The objective of the Technical Assistance (TA) paper is to provide evidence to inform policy debate and facilitate decision making by the Government regarding the future role of the NSP and CDCs in the context of Afghanistan's broader transition.** The paper discusses NSP's relative strengths and shortcomings in detail and recommends ways forward for Government to balance competing demands and trade-offs as it navigates a challenging transitional phase.

14. **This report is based on an extensive review of reports, evaluations, and related data on the implementation and performance of the NSP and other similar programs in Afghanistan, and on Community Driven Development (CDD) programs worldwide.** This review was complemented by a set of short-term missions to Afghanistan (in November 2013, March 2014, and November 2014) that allowed the TA task team to interact with key stakeholders to Afghanistan's development with specific relationship to the NSP. Importantly, the review was finalized at a time when the country's transition was already well underway, and the Government of National Unity, under the leadership of President Ghani, was moving ahead quickly with a number of strategies and reforms that have a direct effect on the role of NSP's parent ministry—MRRD—and on the program itself. This has had the advantage of allowing the team to test some of the key conclusions with our main stakeholders, and the disadvantage of working with a

somewhat moving target. As such, some of the conclusions include recommendations for further analysis and clarification, as part of what we now see as a process of operationalizing this review.

15. **This paper aims to build on and complement a large body of internal and external research focused on various operational issues faced by NSP to date.** While the complete list of resources referenced is attached as an annex, the following studies in particular, along with this paper, collectively inform the strategic debate regarding NSP's future directions.

- **“Randomized Impact Evaluation of Afghanistan’s National Solidarity Programme” (Harvard/MIT, 2013):** This independent impact evaluation is a multi-year randomized control trial designed to measure the effects of NSP-II on a broad range of economic, political and social indicators.
- **“The Sustainability of CDCs” (Altai Consulting, 2013):** The study’s aim was to assess the feasibility of maintaining CDCs as a governance and service delivery platform post-2014 for the transition to Village Councils (VCs). The study identified legal, financial and political conditions that guarantee the legitimacy, sustainability, and the effectiveness of CDCs.
- **“NSP Subproject Sustainability” (Altai Consulting, 2013):** This study aimed to assess the condition of NSP subprojects and the quality of operation and maintenance (O&M) activities performed, analyze the factors that affect the physical condition and the level of O&M, and provide a yearly cost estimate of O&M for all NSP subprojects.
- **“Options for Transition and Sustainability of the National Solidarity Program” (Geopolicity, 2014):** The objective of the study was to examine options for efficient, effective and sustainable NSP program management arrangements.
- **“Impact Evaluation of Cluster Community Development Council (CCDC) Pilot Project” (University of York/Tadbeer, 2014):** The qualitative impact evaluation analyzes the efficacy of the CCDC pilot and recommends any changes to the design and/or implementation of the CCDCs.
- **“Draft Review of Implementation of the High Risk Areas Strategy (HRSA) and Community Recovery Intensification and Prioritization (CRIP); National Solidarity Program” (December, 2013):** This qualitative assessment was conducted as part of the July 2013 NSP III Mid-Term Review, and aimed to assess the effectiveness of NSP’s High Risk Areas Strategy.

16. The remainder of the main report summarizes separate analyses of: NSP impacts, key transitional considerations that affect a future program, and NSP institutional, implementation, and design challenges to be addressed; and recommends a strategic approach for the future program. Annexes include a more detailed analysis of NSP’s background, results, and costs; Afghanistan’s transitional challenges and opportunities; NSP’s overall program costs and financing; and the evolution of community development councils; as well as a bibliography and list of all stakeholders met with and interviewed for this assessment.

17. The study team consisted of Makiko Watanabe, Naila Ahmed, Richard Spencer Hogg, Robert Wrobel, and Sean Bradley. Guidance, clarifications, and additional inputs were provided by Ladisy Komba Chengula and Mohammed Omar Joya of the NSP task team and Afghanistan Country Team, respectively, and Susanne Holste, Lead Social Development specialist and former task team leader of NSP. A first draft of the summary conclusions of the report was shared with key development partners of NSP, and task team members of several World Bank’s global practices, both in Kabul and Washington in late 2014. The draft report was reviewed and commented on by staff and consultants of the NSP project management unit in early 2015, and peer reviewed by Joel Hellman, Chief Institutional Economist, Governance Global Practice, Illango Patchamuthu, Senior Advisor to the Vice President of Europe and Central Asia of the World Bank and previous World Bank Afghanistan Country Portfolio Manager, and Parmesh Shah, Lead

Rural Development Specialist, Agriculture Global Practice. The revised report was then discussed with GoIRA representatives of the new Government following the Bank's formal decision meeting, and adjusted accordingly prior to dissemination.

IV. Afghanistan in Transition¹

18. Afghanistan has made significant economic and social progress over the last decade from a low base. Although volatile, economic growth has averaged 9.4 percent per year during 2003-12 driven primarily by aid and security spending. This has helped raise GDP per capita from \$186 in 2002 to \$688 in 2012.² Key social indicators have also improved. Net primary school attendance rate increased from 37 percent to 57 percent in 2007-11, while girls' net attendance rate increased from 29 percent to 48 percent in the same period. Primary health care coverage expanded by more than eight times from 8 percent to 68 percent in 2001-08. Access to other services also improved significantly. Access to electricity increased by three-fold during 2005-11; access to drinking water rose from 27 percent to 46 percent in 2007-11;³ and travel times between major cities such as Kabul, Kandahar, and Herat have been reduced to a quarter of what it used to take.⁴

19. Yet a major security, political and economic transition over the coming years will likely result in heightened insecurity and resource constraints, threaten stability, and undermine or worsen the socio-economic and development gains made to date. The first democratic political transition in Afghanistan, which spanned over six months, resulted in two rounds of presidential elections, a protracted period of dispute over the election results, a vote recount, and a U.S.-mediated formation of the National Unity Government. With more than five months since the new Government was sworn in, a full Cabinet is yet to be nominated. In the meantime, the 130,000-strong international security forces have been drawn down to about 13,000, handing the primary security responsibility to the Afghan National Security Forces. Economically, the transition has taken a heavier toll than initially expected. Economic growth has fallen sharply from an annual average of 9.4 percent during 2003-12 to 1.5 percent in 2014.⁵ Domestic revenues have fallen to 8.7 percent of GDP in 2014 from the peak of 11.6 percent in 2011. The sizeable fiscal gap has pushed Afghanistan to a fiscal crisis.⁶ Unless Afghanistan can restore political, economic, and fiscal stability quickly, it will not only lose the socio-economic gains made to date but aggravate the development gaps that remain. Some key transitional issues include the following:

- a. **Fragility and conflict.** While estimates vary among sources, as well as depend on the time of year, some observers suggest that as much as 30 percent of the country is inaccessible due to insecurity. With the downsizing and ultimate withdrawal of the International Security Assistance Force (ISAF), there are already indications that this area is increasing, with a concomitant reduction in state presence. Such a trend will likely lead to lower citizen security and further deterioration of the state-citizen relationship and trust—shown to be critical in post-conflict recovery. Deteriorating security will also undermine private sector and investor

¹ Refer to Annex 3 for more detailed discussion of these transitional issues.

² Hogg, Richard, Claudia Nassif, Camilo Gomez Osorio, William Byrd, and Andrew Beath. 2013. "Afghanistan in Transition Looking Beyond 2014." Directions in Development. Washington, DC: World Bank.

³ Central Statistics Organization (2014), National Risk and Vulnerability Assessment 2011-12. Afghanistan Living Condition Survey. Kabul, CSO.

⁴ Hogg, et.al. (2013) op. cit.

⁵ World Bank Afghanistan Systematic Country Diagnostic; Draft Concept Note. March 2015.

⁶ Islamic Republic of Afghanistan. "Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership." London Conference on Afghanistan. December 2014. Kabul.

confidence which will have negative knock-on effects on jobs and the ability of the GoIRA to raise domestic revenues. Furthermore, qualified Afghans in the private and public sectors may be forced to seek refuge in cities or outside of the country, thereby undermining the effectiveness of Government service delivery at a critical juncture.

- b. Confidence in the state is low due to a combination of limited presence, weak capacity, and corruption. Most development assistance has been delivered off-budget and through *ad hoc* project structures and institutions. Afghanistan's unitary, centralized state devolves few resources and responsibilities to provincial or district governments, undermining their legitimacy, and capacity is weak or non-existent in many areas. Line ministries, including the MRRD, have become dependent on highly-paid "secondary civil service" contract staff to deliver goods and services, while the civil service arm of the ministries is left underfunded and poorly trained. Recent surveys of Afghan perceptions of well-being cite corruption generally, and by national government authorities specifically, as one of the primary reasons for pessimism.⁷ Dissatisfaction with the status of basic services, including electricity, roads, drinking water, health and education top the list of people's concerns at the local level.⁸ Perceived high levels of corruption and failure to deliver basic services drive grievances that insurgent groups seize upon, thereby contributing to persistent fragility and conflict.
- c. Acute fiscal constraints. In 2014, Afghanistan ran an estimated fiscal deficit of over \$500 million, with domestic revenues estimated to have fallen to 8.7 percent of GDP, as compared to a 11.6 percent in 2011, and external aid remaining roughly constant.⁹ Afghanistan receives the highest levels of official development assistance (ODA) in the world and has among the highest levels of per capita aid, and of aid as a percentage of GDP per person.¹⁰ However, this level of support is projected to fall in coming years (by at least 13 percent based on OECD analysis). The World Bank, administrator of the Afghanistan Reconstruction Trust Fund (ARTF), is also projecting falling levels of donor commitments in the coming 3-year period. It estimates that total Government and off budget donor spending will decline from 55 percent (2013) to 40 percent by 2018, at which time it is estimated that the financing gap for priority services will reach 25 percent.¹¹ It will therefore be imperative for the GoIRA to prioritize those initiatives that have a proven track record in delivering economic and human development gains over the past 10 years.
- d. Economic downturn and rising unemployment. The WDR highlights the importance of jobs as a short-term means of helping to secure peace in post-conflict situations. This will be a particular challenge for Afghanistan's transition as the economy's high average growth rate of over 9 percent from 2003-2012 is projected to decline to around 5 percent per year from 2015-18.¹² Moreover, the job-intensive construction and service industries heavily supported by the security forces are expected to see the largest decline, and cuts in ODA should also negatively impact employment. While not expected to affect more than 10 percent of the working population (given the relatively low percentage of ODA and security expenditures

⁷ The Asia Foundation. 2013. "Afghanistan in 2013: A Survey of the Afghan People,"

⁸ Ibid.

⁹ Statistics on Resource Flows, December 2013. OECD/DAC, and Fragile States 2014: Domestic Revenue Mobilization in Fragile States. OECD, 2014

¹⁰ Ibid.

¹¹ Hogg, et.al. (2013) op. cit.

¹² Ibid.

linked directly to the local economy¹³), the impacts will be concentrated in the urban centers and in the more insecure areas where both security and aid spending have been the highest. Overall, the current rates of under- and unemployment of 25 and 29 percent in urban and rural areas, respectively, are expected to worsen in the short- to medium-term.

- e. Fragile gains in service delivery and women's empowerment. As noted, the estimated financing gap for priority service delivery will reach approximately 25 percent of GDP by 2018, suggesting that the current level of expenditure cannot be sustained going forward. Moreover, expected growth in security sector expenditures and increasing operation and maintenance (O&M) costs are expected to further crowd-out non-military expenditures and particularly investments. Civilian expenditures will need to be spent more selectively on core service delivery goals, and done so in a way that is more cost-effective. Reducing expenditures for core services could diminish the development gains made to date and widen already increasing inequality, which in turn could undermine people's perceptions of government's capacity and legitimacy.¹⁴ All assessments of Afghanistan's development gains since 2003 have taken particular note of the impressive improvements in the lives of women and girls.¹⁵ However, there is rising concern among development partners that the transition will necessarily involve trade-offs with more conservative segments of society that could negatively affect these gains.¹⁶
- f. Urban pressures. While Afghanistan will remain a predominantly rural society for the foreseeable future, with an estimated 72 percent of the population currently living in the rural areas, urban centers will likely grow more rapidly and experience greater pressures in the coming transitional period. This is due to natural migration trends and also in response to security and unemployment pressures. Increasing insecurity in rural areas will likely push some populations to move into more secure provincial centers and larger urban areas where Government presence is stronger.¹⁷ And while the higher relative loss of employment opportunities in the urban centers may create a reverse migration back to rural areas, given other dynamics it is more likely to result in increased social and political pressures in the urban areas.

20. **Lastly, the new Government has proposed a “Citizens Charter” that provides a minimum set of core services to all citizens, and that will use CDCs as the primary vehicle to ensure delivery of these services. This also implies an important transition for NSP and MRRD.** The Government has committed to formalize CDCs through a CDC Law as a “whole-of-government” platform for local governance and service delivery, mandating line agencies to plan and manage local level service delivery through CDCs.¹⁸ At the same time, the Government is determined to achieve efficiency gains by consolidating and revising the existing NPPs. MRRD has been directed by the President to consolidate its five existing national

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Measuring from 2005 to 2011, these include an increase in girls' primary school enrollment from 29 to 48 percent, increased literacy of young women (between the ages of 15 and 24) from 20 to 32 percent, an increase in the percentage of women served by trained birth attendants from 16 to 40 percent, declines in the proportion of women married below the age of 18, and increase in women's labor market participation (Women's Role in Afghanistan Future: Taking Stock of Achievements and Continued Challenges, World Bank Report No ACS 4474, 2013)

¹⁶ Powell, Catherine. “Women and Girls in the Afghanistan Transition” Council on Foreign Relations Working Paper, June 2014.

¹⁷ Afghans are also highly mobile, with almost 19% of the population residing in districts other than those where they were born.

¹⁸ CDCs are also expected to undertake limited administrative roles among those listed in Schedule 2 of the Subnational Governance policy for Village Councils (see Annex IV for the full list).

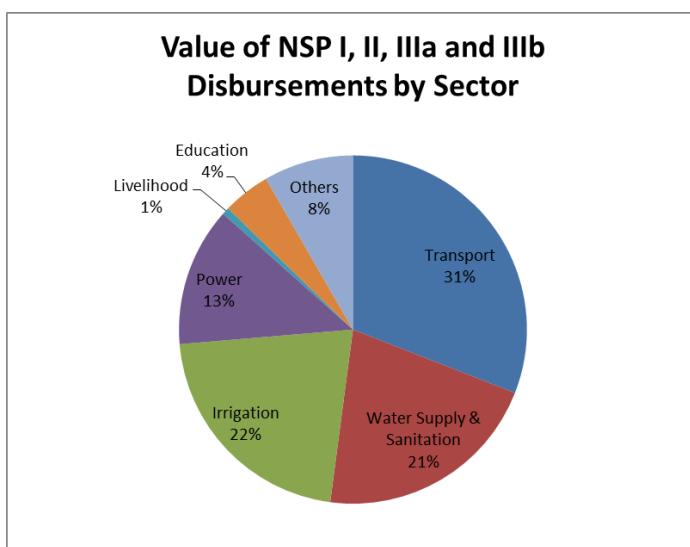
programs under the umbrella of NSP, while NSP is transformed into a new NPP that supports the implementation of the Citizens Charter and facilitates local economic growth. Such reforms require MRRD to shift from being a direct provider of various services to an enabler that strengthens these local institutions (CDCs) and facilitates interaction between CDCs and different sub-national governments and line ministries to ensure good local governance and adequate service delivery.

21. While these transitional issues pose major challenges, if managed well, they also provide an opportunity to restore people's lost confidence, address fragility, and generate a new momentum for reform. The Government has laid out an ambitious vision of self-reliance through economic growth and improving people's welfare through better governance and tangible service delivery. The Government will need to strategize how to prioritize the competing development needs and allocate its limited resources effectively in order to achieve its vision. To this end, the Government has already initiated a process of consolidating and developing new National Priority Programs to improve the effectiveness and efficiency of development interventions.

V. NSP's Impacts to Date¹⁹

Most reviews of NSP show it to be an effective program on several different levels, while noting weaknesses that need to be addressed. As of March 2015, NSP was approaching national coverage through the establishment and training of more than 34,000 CDCs. Communities, through democratically elected CDCs, have engaged in participatory analysis and visioning, prioritization of development needs, and implementation and monitoring of sub-projects. To date, over 87,000 social and economic sub-projects worth more than \$1.5 billion have received financing for investments and services primarily in the water supply and sanitation, transport, irrigation, and power sectors.²⁰

22. The program has been widely analyzed, including a robust difference-in-difference impact evaluation (IE) of NSP II, one of the few such comprehensive evaluations carried out for any of the sizeable national priority programs or bilateral donor-implemented projects in Afghanistan. This and other reviews of program performance over the past decade provide detailed information on program performance in terms of costs, outputs, and of service delivery, economic welfare, governance, and state-building outcomes. Highlights of these are presented below.



23. Basic Services. The IE showed that the project improved access to clean drinking water(which represented slightly less than 21% of NSP block grant investments), both by reducing the time households spent collecting water and increasing the use of protected water sources, and electricity (13%

¹⁹ Refer to Annex V for more detailed discussion of NSP results, impacts, and comparison to other national and international programs.

²⁰ Source: NSP Weekly Status Report, March 13, 2015.

of NSP block grant investments).²¹ The IE also showed increased access to education (4%), health care (less than 1% of NSP investment), and counseling services for women, as well as improved school attendance and quality of learning for girls. However, the IE showed no measurable improvements in access due to investments in transport infrastructure (31%), or irrigation services (22%), other areas of significant of NSP investment.²²

24. Economic Welfare. While not specifically indicated as intended program results, the IE found fewer statistically significant positive impacts of NSP on quantitative measures of economic welfare (production, consumption, income) of rural villagers.²³ While there is weak evidence of increased diversity of household income sources and caloric intake, the evaluation finds no conclusive impacts on production or marketing outcomes, agriculture yields, productivity, or harvest sales. That economic effects of NSP are primarily short-term indicates that impacts are driven more by the “stimulus” effect of the block grant injection rather than the completed projects’ ability to deliver sustained increases in livelihoods.²⁴ This is perhaps inevitable given that block grants of an average of \$33,000 were only provided once over the course of 8-9 years where almost no infrastructure existed at the community or secondary level. However, the IE did show that the program appears to improve villagers’ perceptions of their economic well-being. Women in particular were more likely to have sustained positive economic perceptions, which is demonstrative of the economic, institutional, and social improvements brought to women through participation in NSP. Similar positive perceptions also were noted in the 2014 financial and economic analysis of NSP III.²⁵

25. Governance and state-building. NSP seeks to lay the foundation for community-level governance through establishment and strengthening of CDCs. At present approximately 34,000 CDCs have been established (of which approximately 33,500 have received block grant financing²⁶), and by the end of the current phase in 2016 it is expected that more than 91 percent of the total estimated number of Afghanistan’s rural villages will have established a CDC. There is near universal appreciation by key stakeholders of the national coverage and positive social gains achieved through these institutions. Spontaneous or intentional linkages between line agencies and CDCs are happening notably under projects in MRRD, Ministry of Agriculture, Irrigation, and Livestock (MAIL), Ministry of Education (MoE) and other implementing partners working with bilateral donors (including the EU in the agriculture sector and USAID in support of sub-national government administration (specifically the Stabilization in Key Areas project)).²⁷ To date, over 34 development partners and NGOs have had projects either implemented

²¹ Beath, et.al. (2013) op.cit.

²² While further analyses are needed to clarify the lack of impacts of half of NSP’s investments, there are at least two possible explanations. First is that infusion of a single block grant over 8-9 years was insufficient to transform the rural Afghan economy. Second is that tertiary infrastructure constructed under NSP had limited effects in the absence of secondary roads, irrigation, and markets which to link.

²³ While such impacts were not explicitly projected for NSP, they might be expected given the relatively large amount of subproject investments going toward economic infrastructure.

²⁴ Beath, et.al. (2013) op.cit.

²⁵ Atos Consulting “National Solidarity Programme, Phase III Financial and Economic Analysis, Final Report”. August 2014.

²⁶ NSP Weekly Status Report, March 13, 2015.

²⁷ For example, National Rural Access Program (NRAP) under MRRD outsources civil works below US\$60,000 in addition to routine and emergency maintenance to CDCs. National Area Based Development Program (NABDP) under MRRD creates District Development Assemblies (now to be consolidated into District Coordination Committees) wholly from CDC representatives. National Horticulture and Livestock Support Project (NHLP) under MAIL uses CDCs as an entry point for project introduction, targeting, monitoring, and procurement. Under On-Farm Water Management Project (OFWMP) under MAIL, CDCs mobilize unskilled labor for construction, minor repairs, and cleaning of small irrigation schemes, and Irrigation Associations are formed based on CDCs and *Mirab*. Under Second Education Quality Improvement Project (EQUIP-II) with MoE, at least one CDC member is included in the school management *shura*. The Ministry of Public Works has initiated a program in which CDCs are

or coordinated by CDCs,²⁸ and a conservative estimate shows that CDCs have executed at least \$71 million in sub-projects financed by sources other than NSP.²⁹ While the degree of CDC involvement varies, the increasing number of initiatives that use CDCs confirms that they are recognized as a useful vehicle for local development and service delivery. Numerous studies and key stakeholders spoken with as part of this review have highlighted the advantages of working with and through CDCs in terms of their capacity, geographical and social outreach (to remote and insecure areas as well as to the most vulnerable groups), cost efficiency, and resilience to insecurity.

26. The IE also found that CDC elections appear to have increased villagers' satisfaction with local governance services, increased the provision of these services to women, and increased the proportion of women involved in local assemblies. NSP strongly increased villagers' favorable view of government agencies at the mid-line survey (in May to October 2009), but this effect faded at the time of the end-line survey (in 2011) when most sub-projects were closed and the second round of block grants had not yet disbursed. The IE concludes that NSP "creates a durable channel for female representation that persists beyond project completion," (Beath et al, 2013:58). The IE also found robust evidence that NSP increased voting by men and women in the 2010 parliamentary elections. On the other hand, the IE found that people's perceptions of the quality of local governance worsened as a result of the program. The IE authors note that the effect is not driven by dissatisfaction with NSP-funded sub-projects, but rather through dissatisfaction with functions carried out that were beyond the official mandate of CDCs, such as dispute mediation and crime resolution.³⁰

27. Other qualitative assessments' findings on CDCs and local governance are equally nuanced. In terms of CDCs' impact on local governance, some observed that CDCs were inducing a gradual transfer of authority from traditional elites to a younger and better educated group of leaders and that NSP reduces the power of warlords and corrupt elites.³¹ Others found that the creation of CDCs had varied effects, ranging from the reinforcement of local elite that has no consideration for the collective interest of its constituents to the empowerment of high capacity community members who were able to facilitate useful services for the rest of the village.³² On the other hand, regarding CDCs' performance and legitimacy, some assessments found that majority of people were aware of their CDC, and of these, 63 percent were satisfied with the council's performance, and that CDCs are managing NSP funds transparently and are seen as being accountable to communities.³³ Yet some studies suggest that local elites largely dominate

contracted to maintain rural roads. The recently approved Central Asia-South Asia (CASA) Electricity Transmission and Trade Project Community Support Project sees MRRD partnering with the Ministry of Energy and Water to work through CDCs to strengthen community support for construction of the large scale CASA-1000 transmission line.

²⁸ Communication with NSP Operations Advisor.

²⁹ Data provided by NSP on August 8, 2014.

³⁰ The IE authors draw from a range of quantitative and qualitative assessments to conclude that the negative effects on perceptions of the quality of local governance are driven by ambiguities in authority and accountability created by the introduction of CDCs into a local governance environment that includes pre-existing customary institutions competing for resources and influence. The IE notes, drawing from the VBDA analysis, that negative perceptions are not observed for tasks in which CDCs are assigned clear responsibility. This analysis suggests that NSP's irregular, one-off block grant transfers represent a missed opportunity to reinforce and consolidate an alternative governance structure to customary institutions that tend to exclude women and the poor. Furthermore, those that draft the CDC Law should give careful consideration to assigning a clear, achievable set of authorities to CDCs while acknowledging that customary institutions will likely be contesting the legitimacy of CDCs to assume certain functions.

³¹ Barakat, S. 2006. Mid-term Evaluation Report of the National Solidarity Programme (NSP), Afghanistan. York, U.K. Post-War Reconstruction and Development Unit (PRDU), University of York; and Boesen, I. 2004. From Subjects to Citizens: Local Participation in the National Solidarity Programme. Kabul: Afghanistan Research and Evaluation Unit.

³² Altai Consulting. "The Sustainability of CDCs," April 2013.

³³ The Asia Foundation (2013) op.cit.; and Wang, C. "Rule of Law in Afghanistan: Enabling a Constitutional Framework for Local Accountability," Harvard International Law Journal, Volume 55, Number 1, Winter 2014.

the CDCs and report cases of elite capture of funds,³⁴ while another suggests that CDCs are only accountable to the NGOs whom they report to rather than to the communities or local government.³⁵ Others found that there was variation in the perceived capacity and legitimacy of CDCs across different communities that depended on a number of factors such as the profile and behavior of the CDC members, the level of the community's available resources, local security conditions, and strength and behavior of the local customary institutions. Overall, CDCs were found to derive their legitimacy primarily from their role of managing local development but they would often contribute to dispute resolution, linking the communities with the government and harmonizing social affairs.³⁶ Finally, several other studies show that the NSP has been able to operate more effectively in insecure areas and is perceived more favorably by communities and stakeholders than other development programs.³⁷

28. MRRD created 67 cluster CDCs (CCDCs), each comprising 5-10 CDCs, on a pilot basis since 2009 in three provinces of Balkh, Bamiyan, and Nangarhar.³⁸ The aim was to finance larger subprojects, promote linkages between CDCs and local authorities, enhance CDCs' capacity and enhance inter-communal social cohesion. The CCDC evaluation found key benefits such as greater benefits through investment in larger scale infrastructure, enhanced inter-communal cohesion and stronger voice, CDCs' improved capacity, and emergence of new leadership. On the other hand, it also found that CCDCs can potentially create tensions at the community level, inadvertently creates greater opportunities for manipulation by the local elites, and dilutes benefits of NSP such as community ownership, accountability, participation, and gender representation.³⁹

29. **Women's Empowerment.** The program has led to a number of important positive impacts for women, which are particularly noteworthy given prevailing cultural norms and attitudes toward women in rural Afghanistan. The IE found that the mandating of female participation by NSP results in increased male acceptance of female participation in public life and broad-based improvements in women's lives, encompassing increases in participation in local governance, access to counseling, and mobility. These and other economic, institutional, and social impacts of NSP further drive increases in girls' school attendance and in women's access to medical services, as well as improved economic perceptions and optimism among women.⁴⁰ A recent paper from the Council on Foreign Relations also notes that: "Through successfully managing the CDCs and administering programs, women are challenging gender norms and breaking down misconceptions about women's capacity to lead. The ability of women to lead within these organizations helps local women exchange ideas and express themselves, building

³⁴ Barakat. (2006) op.cit.; Pain, A. & P. Kantor. 2010. "Understanding and Addressing Context in Rural Afghanistan: How Villages Differ and Why." Kabul: Afghanistan Research and Evaluation Unit

³⁵ Brick, J. 2008. Investigating the Sustainability of Community Development Councils in Afghanistan. Kabul: Afghanistan Research and Evaluation Unit.

³⁶ Altai. (2013) op.cit.; Nixon, H. 2008. "The Changing Face of Community Governance? Community Development Councils in Afghanistan." Kabul: Afghanistan Research and Evaluation Unit; and Torabi, Y. 2007. "Assessing the NSP: The Role of Accountability in Reconstruction." Kabul: Integrity Watch Afghanistan.

³⁷ CARE International. "Knowledge of Fire: Attacks on Education in Afghanistan. Risks and Measures for Successful Mitigation," September 2009; and Fishstein, P. and A. Wilder. "Winning Hearts and Minds? Examining the Relationship between Aid and Security in Afghanistan," Feinstein International Center, Tufts University. January 2012.

³⁸ The CCDC pilot was funded by the Japan Social Development Fund with \$10 million funding.

³⁹ University of York and Tadbeer. 2014. "Impact Evaluation of Cluster Community Development Council (CCDC) Pilot Project" (draft). Kabul.

⁴⁰ Source: <http://nsp-ie.org/results.html>

confidence.”⁴¹ Other studies also found that NSP sets in motion a slow but substantive change in views on female participation in local governance and even in household decision-making.⁴²

30. **Short-term employment generation.** NSP estimates that it has generated 49 million labor days through sub-project implementation between 2003 and 2013.⁴³ The NSP III Economic and Financial Analysis sampled 135 sub-projects and found that 14 percent (\$484,000) of sub-project costs (\$3.6 million) was spent on 85,500 labor days at an average wage of \$5 per day. Further investigation is needed to determine the extent to which NSP sub-project are, on average, labor-intensive and to what degree this can be increased as NSP sub-project investments are a potentially large source of short-term employment support for rural areas. If NSP sub-projects do indeed allocated close to 30% of sub-project costs to skilled and unskilled labor at \$5 per day, this would amount to \$278 million in wages under NSP III alone.

VI. NSP's Relevance to the Transition

31. **The new Government must take concrete steps quickly to bolster its legitimacy and build confidence and trust of the citizenry by responding to critical core grievances,** particularly regarding corruption and lack of accountability. In addition to building confidence, the World Development Report of 2011 argues that Governments emerging from conflict will remain vulnerable to violence unless they delivery early results on commitments, and build the legitimacy, capacity, and accountability of institutions of the state.⁴⁴ The new Government itself echoes these sentiments in its recent statements at the London Conference, in which the President highlights the need for economic growth and tangible service delivery, and cautions against cutbacks in the role of the state, in securing the overall stability of the country.⁴⁵

32. **The NSP, working through CDCs, helps the Government address these general concerns and specific core grievances by supporting the implementation of the Citizens Charter and facilitating local economic growth.** First, through the mobilization of CDCs throughout most of the country, these village institutions extend the outreach of the Government and improve the state-citizen relationship. Second, CDCs are inclusive and representative bodies which, as demonstrated through findings from the IE and other assessments, strengthen good governance and accountability at the local level. Third, CDCs under NSP have managed block grants to finance activities that improve people’s access to services and support short-term wage transfers. In so doing, this work helps to build confidence in the Government’s capacity and responsiveness.

33. **More specifically, the NSP, with national coverage and service delivery capacity, responds to a number of transitional issues and concerns highlighted below.** These are:

⁴¹ Powell, Catherine, (2014), op.cit.

⁴² Barakat. (2006), op.cit.; and Echavez, C. 2010. Does Women’s Participation in the National Solidarity Programme Make a difference in their Lives? A case Study in Parwan Province. Kabul: Afghanistan Research and Evaluation Unit.

⁴³ The NSP Engineering Department analyzed a sample of 10 sub-projects and found on average 30% of sub-project budgets are spent on skilled and unskilled labor.

⁴⁴ World Bank. (2011), op.cit.

⁴⁵ See paragraph 12 of “Realizing Self-reliance; Commitments to Reforms and Renewed Partnership” London Conference on Afghanistan, December 2014, Government of the Islamic Republic of Afghanistan.

- a. **Continue supporting the provision of basic services and investments** throughout the country, especially where and while other line ministries do not fully reach, including where security is or is becoming a greater challenge;⁴⁶
- b. **Promoting, through CDCs, good governance at village level**, through the program's operating principles of democracy, inclusiveness, transparency, and accountability;
- c. **Helping to maintain gains achieved in women's empowerment**, directly through both the mandated inclusion of women in CDCs, and the resulting attitudes toward women's role in local governance and their improved economic perceptions and optimism, and indirectly in terms of access to education and health services for girls and women;
- d. **Enhancing economic and job-creation impacts of productive investments in rural and peri-urban areas**; a majority of NSP investments go toward economic infrastructure (for transport, irrigation, and power) that could, if more strategically targeted and linked with meso-level infrastructure, enhance rural productive activities. In addition, wide-spread work in peri-urban areas provides for short-term employment and could better help to enhance local market linkages, again with improved technical support and guidance.
- e. **Providing short-term wage transfers as part of subproject implementation**. NSP estimates that, to date, it has created approximately 50 million labor-days of short-term skilled and unskilled employment relating to the implementation of the subprojects.⁴⁷ This level of short-term wage transfer in rural areas, generally when agricultural activities are at a lull, represents a potentially important safety-net for rural populations and, as the WDR concludes, a critical area to be promoted for post-conflict recovery.

34. **Therefore, given the long-standing role that NSP has played in supporting CDCs and the demonstrated positive results of the program to date, coupled with the myriad uncertainties and risks inherent in the transitional period that Afghanistan is entering, this review concludes that NSP should continue to be supported by Government and the international community.** This conclusion is consistent with the lessons learned in other countries that have moved from conflict to stability, where delivering on basic commitments is critical to building longer-term confidence in Government's capacity and legitimacy.

35. **In the short-term, the review recommends that NSP continues in its current form, but with enhanced emphasis on efficiency of delivery, strategic links for productive investments, and increasing capacity of CDCs to take on their proposed new roles.** In the medium to longer term, NSP should evolve into a mechanism that focuses its support on the institutional development and reform of CDCs as local-level institutions, which would be responsible for community governance, local development planning, and supporting and monitoring the service delivery of relevant sector agencies. Careful phasing will be crucial in realizing the transition so as not to disrupt the gains made to date and leave critical gaps in local service delivery, thus weakening the legitimacy of the new government.

⁴⁶ NSP estimates that at any given time it can operate in 85-95 percent of all villages in the country. While clearly not a solution to insecurity, the fact that the program has managed to operate in areas considered high-risk and inaccessible by other partners and programs of government indicates that NSP provides an important potential alternative approach to help maintain government presence and to deliver critical services. This, in turn, helps bolster Government legitimacy, a key element in post-conflict transitions.

⁴⁷ Source: NSP MIS; August 8, 2014.

36. **To fulfill this vision, the Government must address some key policy issues and challenges to allow NSP to best respond to the transition.** Failing to do so will negatively impact people's confidence in Government. These challenges are discussed in detail in the following section.

VII. NSP Institutional and Operational Challenges to be Overcome

37. While this review recommends continuing to support the NSP going forward, a number of issues will need to be addressed in response to expected changes in the institutional and financial landscape of the country, as well as in response to current observed operational constraints. These issues, discussed in greater detail below, concern CDCs, program costs, institutional arrangements, and program design features.

CDCs⁴⁸

38. **The Government intends to formalize CDCs through a CDC Law and use them as the primary vehicle for service delivery and local governance to advance the Citizens Charter initiative. However, unless political economy issues surrounding CDCs are addressed head-on, compliance may be low.** Despite various attempts to institutionalize CDCs in the past, and some progress in the utilization of CDCs to help extend and improve delivery of some services, the acceptance of CDCs as the “whole-of-government” institution is still limited and linkages between CDCs and line ministries are on an *ad hoc*, project-level, basis.⁴⁹ The fundamental issue is that CDCs are perceived as products of MRRD/NSP and vehicles to deliver NSP sub-projects. Some line ministries also resist using CDCs because they fear that the community groups they've created will be “subsumed” by CDCs, and all the credit, funds, and power will be monopolized by MRRD. There are three possible solutions to this problem. First is to clearly define the role of CDCs as “coordination/facilitation”, allowing technical groups created by each line ministry to continue to exist as CDC sub-committees and to deliver actual services. Second is to provide budgetary and political incentives to line ministries that proactively use CDCs. Third is to gradually “de-link” CDCs from MRRD/NSP, and more formally align them with the sub-national governance structure.

39. **In the meantime, pragmatic constraints that impede line ministries from utilizing CDCs need to be addressed through policies and regulations that complement the CDC Law.** These constraints include: (i) different “catchment areas” for different services; (ii) the need to involve specific constituents; and (iii) Public Financial Management (PFM) rules that prevent direct public funds transfers to CDCs absent project legal agreements. First, basic services for irrigation, education, and health are often delivered at cluster-village level that transcends the boundaries of one CDC, and therefore requires a higher level management and coordination body than CDCs can play. The CDC Law (or Citizens Charter) should clearly delineate the functions to be performed by CDCs and the relevant technical groups (health or school *shuras*)—for instance, CDCs to inform planning, mobilize beneficiaries, and monitor services at village level while *shuras* support delivery of facility-based services. Selective use of cluster CDCs might also be considered to address such cases. Second, these same technical groups have different, specific,

⁴⁸ See Annex VI for a more detailed discussion of the evolution of CDCs.

⁴⁹ Previous attempts to institutionalize CDCs include the passage of CDC By-Law which was approved by the cabinet in 2006, followed by the Sub-National Governance Policy (SNGP) which was approved by the cabinet in 2010. The By-Law was not legally binding to any ministries other than MRRD and had little impact. Due to lack of IDLG's capacity and financial resources, the provisions of SNGP were never implemented. The most recent attempt is the joint MRRD-IDLG “Policy for Improving Governance and Development in Districts and Villages” (the Policy), approved by the Cabinet in December 2013. The Policy effectively expands the CDCs' mandate from one that applies participatory and inclusive processes in resource allocation and project implementation under a development project to one that encompasses broader socio-economic development and governance at the community level. But many line agencies are not even aware of or are not willing to adhere to the Policy due to lack of political will and unclear legal status of the Policy itself.

membership requirements than CDCs—for instance the need to include health workers or teachers and students rather than general members of a community. Again, this issue can be addressed by clearly distinguishing the roles and responsibilities between CDCs and these technical groups or committees. Finally, the existing PFM regulatory framework prohibits the transfer of public funds to CDCs as they are not legally recognized entities. NSP and other programs that work through CDCs overcome this constraint through project financing agreements that supersede national PFM rules. However, this represents an important stumbling block on the path to institutionalizing CDCs as local governance and development bodies. With the passage of the CDC Law, relevant complementary laws, regulations, and guidelines that enable the operationalization of the Law will also need to be prepared, approved, and put into force.

40. The passage of the proposed CDC law will require additional capacity building and institutional support to ensure the fulfillment of intended responsibilities. Studies (referred to earlier) have found that legitimacy and performance of CDCs vary greatly across the country. At the same time, the implication of the Citizens Charter is that the role of CDCs will expand, from sub-project planning and implementation, to broader development planning, governance, and coordination or support of other service delivery responsibilities. This revised role would also include enhanced mechanisms of accountability to monitor, report on, and advocate for delivery of basic services. This expanded vision of the roles of CDCs implies greater capacity-building and assistance from NSP and its FPs. NSP's CDC maturity assessment which measures CDCs' capacity in terms of internal management, transparency, accountability, linkages with external constituents, etc. provides a useful tool to gauge CDCs' readiness to take on these new roles. Based on this analysis, NSP should assess the capacity building needs, design appropriate training modules for CDCs with different levels of maturity, and phase the expansion of CDCs' roles accordingly. There will be an inevitable trade-off between the need to strengthen support for CDCs and the called-for reduction of the FPs' role for cost savings, which will require carefully consideration. (See the implementation section below for further discussion.)

Program Costs⁵⁰

41. NSP is one of the largest national priority programs in Afghanistan, absorbing a large share of the development budget and ODA, while Government is facing declining resources. The program's current estimated annual costs (of approximately \$330 million per year) represent approximately 6.9% of total core budget expenditures in 2013, and 23.5% of the Government's development budget.⁵¹ While recognizing that the Government's Annual Fiscal Report only captures on-budget expenditures, this review concludes that, at current unit cost rates, implementation arrangements, and projected declining revenues, the NSP will be challenged to maintain this level of financing even as development needs in rural areas remain high. Similar to all Government activities, the NSP is primarily donor-funded, with approximately 13 percent of total funding coming from communities themselves. Due to NSP's strong delivery to date, Afghanistan's development partners (DPs) have been very supportive of the program, with 15 major donors⁵² having "preferred" an average of 20% of their financing to the program.⁵³ Of the external funding sources, nearly 90 percent comes from the Afghanistan Reconstruction Trust Fund (ARTF), and NSP represents more than 25% of the ARTF's financing commitments and 19% of

⁵⁰ Refer to Annex VII for more detailed discussion of NSP costs, financing, and financial projections.

⁵¹ Islamic Republic of Afghanistan, Ministry of Finance "Annual Fiscal Report; 1392", April 2014.

⁵² This includes 14 ARTF donors, including 9 of the top 10 contributors, and the World Bank.

⁵³ Preferencing refers to the practice in multi-donor trust funds of allowing donors to indicate a preferred area of financing for their contributions. While the Bank's policies and procedures for multi-donor trust funds discourages one-to-one matches between donor contributions and project financing, the trust fund administrator tracks and reports on the overall achievement of such "targets", and donors consider this in determining future pledges and contributions. In the case of the World Bank, preferencing refers to how much of the total available IDA resources have been committed to the NSP from 2003 to date.

disbursements to date.⁵⁴ While the ARTF administrator estimates that trust fund financing will continue at approximately current levels of between \$800 million to \$1 billion per year, this review concludes that the willingness and ability of the both bilateral donors and the ARTF to maintain this level of support for the NSP may be at risk. First, while indicating continued support for the NSP, a number of DPs have expressed some concerns about the “size” of the program.⁵⁵ Second, the USG’s 50 percent reduction in development assistance voted by Congress in January 2014 will ultimately have a direct impact on overall development financing (and preferencing for NSP).⁵⁶ Third, the likely overall reduction in bilateral support in the coming years, as international forces withdraw and worldwide ODA priorities shift, will create greater competition among national programs for these declining resources. Even if external assistance remains unchanged, and more of these resources come on-budget, the sheer size of NSP, coupled with the on-going economic crisis faced by Government, strongly suggest a need to reduce the overall size of the program.

42. The size, frequency, and means of calculating the CDC block grants limit program effectiveness. The international literature on CDD shows that new behaviours become institutionalized after at least three rounds of predictable resource transfers.⁵⁷ However, the second round of block grants under NSP has only begun recently and in some cases 8-10 years after the first block grant transfer. The evident need to make these transfers more regular and frequent is, however, directly at odds with the fiscal constraints described above. All indications are that the current level of block grants, at an average of \$39,000 per CDC, would be unsustainable at full national coverage.⁵⁸ The review also noted issues with the block grant formula, which caps the funding size at a maximum of 300 households, and which therefore creates incentives for rural communities to artificially divide themselves in order to maximize the block grant allocation. Finally, the application of a uniform block grant value (of \$200/household), regardless of poverty rate or other measures of development, reduces the opportunity to potentially improve poverty impacts of the program.⁵⁹

Program Implementation

43. The arrangements for and functions of Facilitating Partners (FPs) under NSP will need to be carefully assessed. Currently, investments in facilitation and capacity building of CDCs through FPs stand at 21 percent of the overall cost of the NSP. While high by international standards (globally, facilitation and capacity building costs average 15.7% of total for national CDD programs), this level would appear reasonable considering the additional costs associated with the work in Afghanistan—including much higher levels of security related costs and the requirement for additional female community facilitators. Nonetheless, the new administration has indicated a clear desire to minimize the role of FPs as outsourced providers of services (for CDC capacity building and supervision of sub-projects). While the transfer of certain subproject supervision tasks (technical and financial) over the MRRD provincial offices is considered feasible, the expanded range of contemplated responsibilities for CDCs suggests that more, rather than less, support will be required.⁶⁰ In the short-term, MRRD should develop a clear strategy on

⁵⁴ Source: ARTF Administrative Report, October 2013. See Annex VII (table 10) for additional details of ARTF funding.

⁵⁵ Authors' discussions with key development partners in November 2013 and March 2014.

⁵⁶ At almost \$2 billion, the USG is the largest donor to the ARTF and in the past preferred a bit more than 44% of its contribution for the NSP.

⁵⁷ See Wong (2012) for an overview.

⁵⁸ Assuming 39,000 CDCs, and a block grant every other year, a BGE of \$39,000 would equal approximately 50% of the current GOLRA development budget.

⁵⁹ Though it is recognized that applying the same unit rate in calculating block grants equally across all areas may help to avoid conflicts.

⁶⁰ Please refer to Annex VI for a detailed list of potential CDC responsibilities based on the Subnational Governance Policy paper.

what the necessary facilitation and capacity building needs are to equip CDCs for their expanded roles and clearly define the FPs' roles and functions within the overall scope of facilitation. Simultaneously, MRRD should develop a roadmap with clear timeline on how the FPs' services will be phased out over time. While evidence from other programs clearly indicates that facilitation is needed to ensure development outcomes, alternative options exist. These include "contracting in" (as is done under other large scale CDD programs worldwide, such as in Indonesia and the Philippines), or privatizing (as done under AREDP).

44. Sustaining existing infrastructure and related services supported through NSP and other programs will become an increasing challenge, undermining program and overall development gains. Under NSP alone, communities have completed construction of over \$1.2 billion in rural infrastructure since 2002. The importance of and the significant short-falls in operation and maintenance (O&M) investments in key sectors that NSP supports (roads, irrigation, and power) is clearly described in "Afghanistan in Transition" (Hogg, et.al., 2013).⁶¹ In addition, the NSP IE findings suggest that differences in observed outcomes for key economic investments between mid-line and the end-line survey may be due to a lack of proper O&M. At present, however, O&M costs are not considered eligible block grant expenditures under NSP.

Program Design

45. Support of rural productivity and jobs can be enhanced. The Government's vision of self-reliance places particular emphasis on promoting productive economic activities, and specifically identifies the agriculture sector as one of the key engines of growth for the country.⁶² On the other hand, the impact evaluation of NSP II did not find any measurable results relating to household production, consumption, or income. While further analyses are needed to explain the lack of impacts of NSP's economic investments, such as transport and irrigation sub-projects, there are at least two possible explanations. First is that infusion of a single block grant over 8-9 years was insufficient to transform the rural Afghan economy. Second is that tertiary infrastructure constructed under NSP had limited effects in the absence of secondary roads, irrigation, and markets which to link. Understanding better the nature of previous NSP economic investments and relationship between these investments and possible productive activities would be useful in enhancing NSPs impact in this area.

46. To date, sub-national linkages and local (provincial) government ownership of NSP has been weak. CCDCs were formed in part to promote coordination between CDCs and sub-national governments by creating a sub-district level platform. Qualitative impact evaluation of the CCDCs found that clustering helped strengthen the voice and bargaining power of the communities in relation with the local authorities. CCDCs helped serve as conduits through which community issues could be relayed to district authorities. While active, CCDCs served as points of contact for district government to relay important information to the communities as well. However, without intensive and continuous support, their sustainability is fragile. Ultimately, **the CCDC evaluation concludes that while expansion of CCDCs is recommended, they should not come at the expense of CDCs, and that CDCs should remain the fundamental unit of local development.**⁶³ The findings of the CCDC evaluation supports this paper's recommendation that NSP needs to make more concerted efforts to link CDCs with local government structures and development planning processes, basic service delivery norms, and, eventually, sub-national fiscal transfers. This transition, however, is dependent on progress with sub-national government

⁶¹ Based on this report's estimates, in 2011 a US\$555 million gap existed in O&M financing for infrastructure and services in the education, health, transport, rural livelihoods, and power sectors, or approximately 30% of the core budget for these same sectors.

⁶² GoI RA, (December 2014), op.cit.

⁶³ University of York and Tadbeer, (2014), op.cit.

policies, structures and capacities; progress on civil service reform; and possible changes to the mandate and structure of MRRD under the new Government. These dynamics can only be appreciated or marginally influenced by the NSP, however. Nonetheless, it is recommended that three key principles guide future actions and decisions in relation to sub-national structures: (i) any institutional transition needs to be gradual to safeguard the on-going implementation of the program and delivery of support and services to communities; (ii) the transition should seek to minimize loss of human resource capacity; and (iii) partnering with IDLG represents a logical continuation of discussions on the “Policy for Improving Governance and Development in Districts and Villages”, the proposed CDC law, and the intended direction of the NSP.

VIII. Recommendations for the Future Program

47. Based on a detailed review of NSP results to date, an assessment of key transitional issues that Afghanistan is currently facing, and an initial appreciation of the indicated priorities of the Government of National Unity, **this TA study recommends that a future program that builds on the basic elements of NSP be supported by the GoIIRA, World Bank, and Afghanistan’s key development partners.** The following section outlines the specifics of this overall recommendation.

48. **Build on the existing, successful, NSP program, structures, and related policies.** MRRD has established an institutional set-up to manage the NSP in a way that has proven effective in delivering intended support and services, and doing so in accordance with sound technical and fiduciary requirements of the GoIIRA and various development partners. Adjustments over time also have made the structures more efficient and less dependent on outside technical assistance, and changes are continuing to further streamline and mainstream these functions within the normal structures of MRRD.⁶⁴ These processes and revised structures should be used as the basis for supporting CDCs under the new law and as the Citizens Charter is operationalized.

49. **Pursue key recommendations of a number of studies carried out under the current NSP to improve program efficiency and effectiveness.** These studies include an assessment of the sustainability of CDCs, the effectiveness of cluster CDCs, the status of operation and maintenance of sub-projects, and institutional options for a future NSP.

50. **Use the on-going change management process that MRRD is leading to address key structural issues within the Ministry that are relevant to this review.** This includes the mainstreaming of core functions across projects (financial management, procurement, human resources, MIS, etc.), and a shift from contract staff to civil servants in handling the Ministry’s main service areas. This 3-year program aims to strengthen the capacity of specific MRRD Directorates/Departments through (a) systems development; (b) capacity building; and (c) technical assistance, which will enable the Ministry to take over the responsibilities of the support functions presently performed by the individual MRRD Programs. This process would also support the recommended merging of MRRD’s five projects into one program, which is presumed to be NSP.

CDCs

⁶⁴ On-going adjustments and efficiencies supported by this review include: consolidation of core project functions (for procurement, financial management, MIS, and human resources) of the multiple donor-supported projects currently managed by MRRD; mainstream NSP functions into MRRD structures with priority given to FM, contract management, M&E, communications); entering into MOUs with partner line ministries to support shared use of CDCs; and exploring different methods and models of facilitation including that used by the Basic Health program.

51. Support a process that will establish CDCs as the whole-of-government institution through which relevant service providers deliver the “last mile” of basic services, through the passage of a CDC Law that would formalize and mandate line ministries and development partners to work through them. This law would build on the joint MRRD-IDLG “Policy for Improving Governance and Development in Districts and Villages” that was endorsed by the Cabinet in December 2013.⁶⁵ To operationalize the law, it will need to be accompanied by revision of regulations that address, among other issues, public financial management and administrative procedures to allow public funds to be channeled to CDCs, and incentives to encourage ministries to work with and through CDCs.⁶⁶

52. Work with key line agencies to define standards and operational modalities to deliver on the proposed Citizens Charter. It is expected that the Citizens Charter will define communities’ rights to a minimum threshold of basic core services (health, education, and basic infrastructure), while also imposing certain requirements on communities regarding access (such as the inclusion of women and marginalized groups). CDCs are expected to play a key role in the planning and management of the delivery of these services. In at least the short- to medium-term, NSP should serve as the principle source of support and institutional capacity building for this purpose.

53. Continue to work closely with IDLG to support the operationalization of the policy and development of the CDC law, in helping identify arrangements and pre-conditions for moving through the phases, to build the linkages between districts and villages in support of governance and local service delivery, and to support closer integration with sub-national structures as the policy environment and institutional capacities evolve. Given its mandate, IDLG could more easily pursue opportunities for harmonization and convergence between the NSP and other sectoral/local government initiatives as they arise. And, as a separate entity, IDLG could help to address some of the political economy issues between MRRD and other line agencies regarding CDCs.

54. Amend Public Financial Management (PFM) rules that prevent direct transfers of public funds to CDCs absent project legal agreements. Existing PFM regulatory framework prohibits the transfer of public funds to CDCs as they are not legally recognized entities. NSP and other programs that work through CDCs circumvent this constraint through project financing agreements that supersede national PFM rules. However, this represents an important stumbling block on the path to institutionalizing CDCs as local governance and development bodies. With the passage of the CDC Law, relevant complementary laws, regulations, and guidelines that enable other agencies to use public funds to work with and through CDCs will also need to be prepared, approved, and put into force.

55. Progressively expand use of CCDCs in complement with CDCs. Development of CCDCs was piloted partly to respond to a gap in *meso*-level infrastructure and service delivery needs, and partly to promote linkages between CDCs and the sub-national government at district level. Various line ministries such as MAIL and MOH whose unit of intervention or “catchment area” for service delivery is at the sub-district or cluster level also support the creation of CCDCs. CCDCs are also being promoted by the Government from a financial and administrative efficiency perspective. While MRRD and IDLG promote the creation of CCDCs in the “Policy for Improving Governance and Development in Districts and Villages”, their formation is left as voluntary as CCDCs do not officially constitute a part of the proposed sub-national

⁶⁵ In this context it should be noted that, based on review team discussions in March 2014, key central level senior Government officials at the time were either unaware of the policy or did not feel it concerned their ministry. The fact that the “Policy” also indicates that MRRD retains full operational and financial management responsibility for CDCs may further complicate the process of its operationalization.

⁶⁶ This could include additional budget resources for increased service delivery through CDCs or, alternatively, the reallocation of under-executed budget to CDCs (directly or through NSP).

governance structure. The draft CCDC impact evaluation⁶⁷ also suggests that benefits notwithstanding, CCDCs should not be developed at the expense of CDCs. This study supports this view. CCDCs should be progressively expanded where appropriate as an option for complementary service delivery mechanism, but they should not be made mandatory or created in a top-down manner to replace CDCs.

Phasing

56. **Follow a phased, multi-year process for reforming institutional arrangements and mechanisms of support** (including block grant values, facilitation/capacity building, oversight) from the current NSP operational arrangements to one where MRRD is responsible for providing institutional support to CDCs, while other line agencies are responsible for working with CDCs in the delivery of a minimum package of basic services and ultimately, sub-national fiscal transfers replace NSP block grants. Specifically:

- a. **In the short-term (1-3 years):** NSP continues—with recommended enhancements, efficiencies, and incentives to encourage other ministries to work with and through CDCs—to sustain and deepen gains in local governance, service delivery, and rural infrastructure; block grant financing would be channeled through the program and at a level adequate to cover the cost of an average sub-project (~\$19,500);
- b. **In the medium-term (3-5 years):** institutionalize closer linkages with line ministries and sub-national structures (districts) to better integrate with national systems and financing; block grant value is reduced over time (average of \$12,500) as other ministries channel funding through CDCs in support of basic service delivery (as part of the Citizens Charter initiative); minimum basic funding (~\$5,000) for administration and possibly O&M to continue under the program;
- c. **In the long-term (6 years+),** national CDC support and capacity building program under MRRD or other structure/ministries to plan, coordinate, monitor, and report on service delivery by line agencies; direct sub-national transfers to CDCs for administration and governing of basic services, augmented by sectoral financing for basic services as appropriate and defined in Citizens Charter.

Table 1: Phases and Dimensions of NSP Transition

Dimension	1-3 Years	3-5 Years	6 years+
Stability	Highly fragile	Fragile	Less fragile/stable
Institutional Arrangements	NSP IV	NSP w/: <ul style="list-style-type: none"> • increased sector links • increased SNG presence & capacity 	CDCs w/: <ul style="list-style-type: none"> • sectoral support • MOF sub-national transfers

⁶⁷ University of York and Tadbeer, (2014), op.cit.

Program Management	MRRD Control	MRRD in partnership (w/ IDLG, sectors)	MRRD/other agency support CDCs
Program components	Full BGE, facilitation and proj. mgmt.	Patial BGE, facilitation and full mgmt.	CDC capacity building & partial mgmt.
Annual costs*	\$411 million	\$295 million	\$90 million
SNG linkages	Clarify/operationalize CDC “policy” & SNG strategy	Capacity building of SNGs; establishment of VCs	Transfers and facilitation controlled by SNG structures

* Including costs of facilitation and program management adjusted upward from current NSP percentages (of 20% and 6% respectively) to reflect higher relative costs as BGE value is reduced (refer to Annex VIII for cost projection details and assumptions).

Costs and Financing

57. **Adjust the size of block grants to reflect emerging fiscal constraints.** In the absence of major changes and consolidations to the Government’s and bilateral donor’s development programs, and given projected declining revenues, the review recommends reducing the size of the block grant from its current average of \$39,000, initially to \$19,500, and progressively down to around \$5,000, per cycle under the recommended follow-on program. An initial allocation of \$19,500 per block grant would allow a community to finance a number of different types of sub-projects,⁶⁸ based on the unit cost database of NSP, thus helping to maintain basic service delivery in the initial phase of the program transition. Subject to further analysis as part of the preparatory process of the recommended follow-on program, this level of BGE could be provided to all CDCs that have only received 1 round of BGES as of the close of NSP III (estimated to be 27,000 CDCs). Subsequent block grant financing channelled through the program would depend on progress made in advancing the modalities for the Citizens Charter, and incentives to line agencies to work through CDCs for delivery of basic services. Table 1 assumes that, in the medium term (3-5 years), all CDCs (39,000) would receive another BG under the program ranging in value from \$19,500 to a minimum of \$5,000.⁶⁹ The post-5-year scenario assumes that following the completion of the recommended follow-on program, all block grant financing for investments in basic infrastructure and services, and for the costs of general administration and governance, would be transferred to CDCs independently of the support program. Annex VII outlines key parameters and assumptions for costing of the different phases.

58. **Block grants should be more frequent and predictable, and the basis of calculation refined.** Block grants should be delivered predictably at least every 2-2.5 years to help reinforce positive governance behaviours. The scenarios presented in Table 1 above assume block grant funding every 2.5 years. In addition, given incentives to artificially sub-divide communities based on the limit on the number of households that a community can include in its BGE calculation, the review also recommends considering alternative means of confirming household numbers and calculating block grant amounts.

⁶⁸ According to the NSP cost database, \$19,500 would cover the average cost of most irrigation and WATSAN sub-projects, and some transport and power sub-projects.

⁶⁹ For the purpose of estimating costs, an average of \$12,500/BGE has been used to project out the annual program cost.

Consideration should be given to possibly varying the levels of household allocations based on regional or provincial poverty data or other measures of relative service delivery or well-being.

59. Allow the financing of operations and maintenance activities that safeguard or sustain existing infrastructure investments, or that rebuild infrastructure that has been damaged by natural disasters. Allowing O&M as an eligible subproject activity could help to improve the effectiveness and the service-related outcomes of previously constructed infrastructure, whether by NSP or other development programs. O&M activities would also generally lead to a proportional increase in wage transfers under sub-project investments, as the overall percentage of labor (to capital) costs for O&M activities is generally much higher than for new investments. O&M also represents the types of activities that could be feasibly financed under the lowest level of proposed block grant allocation of \$5,000.

Design

60. Pay particular attention to how NSP approaches and investments can be used to increase economic activities and jobs. NSP can enhance its impact on economic productivity and employment in three distinct ways. First, by looking at rural economic investments (which currently represent approximately two-thirds of NSP sub-project investments) in a more strategic/networked way to ensure more productive linkages with local agricultural activities, rural value chains, meso-level infrastructure, and relevant technical and financial services. Closer analysis of why previous productive investments have not yielded apparent changes to production, income, or consumption should be carried out as part of the preparation of a follow-on operation to help inform this more strategic approach. Second, by continuing to work in smaller urban or peri-urban municipalities (such as district and provincial centers) thereby relieving employment and other pressures caused by the contraction in the construction and service industries. And third, by adopting enhanced labor-intensive approaches with on-going sub-project implementation (and allowing the inclusion of maintenance, which is generally more labor-intensive) as an eligible subproject activity.

Implementation

61. Clearly define the capacity requirements, gaps, and required support to CDCs to equip them for their expanded role (as contemplated under the new law and/or in support of the proposed Citizens Charter), and how best to provide this support. Capacities would include improving quality of service delivery through community development plans, participatory mechanism for targeting, and forums for information flows (including community monitoring); enhancing the role of women in governance and delivery of basic services; providing systems and capacities to manage funds; and providing intermediate structures (facilitators) through which communities can be organized, and sectoral information can be disseminated. CDCs will also be responsible for certain administrative tasks and might have an explicit role in dispute resolution. MRRD and NSP must phase the expansion of CDCs' roles based on their maturity and capacity, as measured by the CDC maturity assessment conducted by NSP, and establish a robust mechanism to hold CDCs accountable. MRRD must also clearly articulate the roles and functions of FPs, MRRD, and other actors in doing this, and develop a roadmap with clear timeline on how these roles will be phased from current arrangements to new ones over time. This review assumes on-going facilitation and capacity building support to CDCs throughout the phases outlined in Table 1 and recommends that any transition of FPs be done gradually so as not to adversely affect the on-going delivery of services. Any transition of support to CDCs, should consider security (and access by Government agencies vs. FPs) and CDC maturity. This review does not recommend that civil servants become facilitators, but rather that government maintains its oversight function.

62. Eliminate parallel project management structure with substantial differences in benefits from those of the civil service and overlapping mandates with other PIUs in MRRD. The review notes that MRRD is taking steps to address this issue, by implementing a “change management” program that will consolidate certain project management functions, such as financial management, procurement, HR, etc., into central Ministry units. MRRD is also strengthening its provincial offices to take on more of the responsibilities of its facilitating partners and consolidating its various rural development programs into a single NSP program “umbrella,” thereby fully addressing this issue. The change management process and unit should also be used to align the ministry’s roles and organization to support the Citizens Charter initiative and its implementation modalities as they apply to MRRD.

63. Establish a “transition unit” at inter-ministerial level to oversee and provide policy guidance in the operationalization of the CDC Law, Citizens Charter, and other policies that relate to the recommendations above. Without the full support and guidance of the highest levels of Government that transcends individual ministry mandates, the challenges of the various and interrelated recommendations above will potentially stall or become compromised in the likely political negotiations between different stakeholders. A transition unit, created above any specific ministry comprising members from key line ministries will help ensure that the key elements of this strategy are realized and done so in alignment with the broader vision of the Government as outlined in the “Realizing Self-Reliance” document, and future strategic directions.

64. Key considerations/issues for further analysis. Stemming directly from this assessment, and building on other analyses, the following issues should be taken up as part of the preparatory process for the recommended follow-on operation:

- a. Inputs to the drafting of the CDC Law, especially in relation to CDC roles and responsibilities, and interface with customary institutions; lessons learned from other recent/similar legislative initiatives;
- b. PFM rules and regulations that constrain use of CDCs by other line agencies and short- to medium-term fixes;
- c. Definition and costing of a minimum package of services to operationalize the Citizens Charter initiative;
- d. Definition of minimum skills required and estimation of gaps in CDC capacities, and development and costing of training/capacity building program;
- e. Phase-over plan from FPs to government-led institutional support for CDCs;
- f. Policy and calculations of repeater block grants for CDCs with only 1 BGE to date;
- g. Review options for alternative means of calculating block grants based on improved GIS and other data on communities and households;
- h. Estimates of line ministry funding that may be channeled thru CDCs, technical and fiduciary arrangements and incentives to optimize such transfers;
- i. Assessment of apparent disconnect between economic investments and productive and economic outcomes.

Annex I: Individuals Met/Interviewed

Government		
Name	Designation	Agency
H.E. Ashraf Ghani	President	
Wais Barmak	Minister	Ministry of Rural Rehabilitation and Development (MRRD)
Tariq Ismati	Deputy Minister	MRRD
Farid Mamundzay	Deputy Minister	Independent Directorate of Local Governance (IDLG)
Mustafa Mastoor	Deputy Minister	Ministry of Finance (MoF)
Abdul Baqi Popal	General Director, Municipal Affairs	IDLG
Abdul Qadir Qadir	Director General, Policy, Plan and External Relations Affairs	Ministry of Public Health (MoPH)
Javed Qaem	General Director, Plan, Policy and Programs	Ministry of Agriculture, Irrigation and Livestock (MAIL)
Scott Guggenheim	Advisor to the President	
Zia-Ur-Rahman Haleemi	Director, Budget Policy and Reform	MoF
Mirwais Mirzad	Director, Project Coordination Unit, Irrigation Restoration and Development Project (IRDP)	Ministry of Energy and Water (MEW)
Amir Mohammad	Deputy Director, National Education Quality Improvement Program (EQUIP)	Ministry of Education (MoE)
Fazul Haq Bakhtari	Advisor, Directorate of General Water Affairs Management	MEW
Abdul Raheem Daud	Program Manager, National Area-Based Development Programme (NABDP)	MRRD
Mohammad Naser Temory	Head, Project Implementation Unit, National Rural Access Program (NRAP)	MRRD
Rafiq Rafimi	Budget Advisor	MoF
Abdul Rahman Ayubi	Executive Director	National Solidarity Program (NSP)
Hayatullah Fazel	Deputy Executive Director	NSP
Rasoul Wahid Rasouli	Director of Operations	NSP
Brigitte Bode	Policy Advisor	NSP
Jovitta Thomas	Operations Advisor	NSP
Nasrullah Ahmadzai	Head, FP Management Department	NSP
Mamoon Khawar	Manager, Donor Relations	NSP
Jalaluddin Hamid	Head, M&E Department	NSP
Mohammed Ashraf Himmat	Head, Engineering Department	NSP
Assadullah Daudzai	Head, Capacity Dev. Department	NSP
Nabiullah Azimi	Head, Procurement Department	NSP
Mohammed Shoaib Suba	Head, Admin Department	NSP
Rafiullah Daudzai	Head, HR Management Department	NSP

Latifa Hamidi	Head, Gender Office	NSP
Sayed Murtaza	Senior Field Coordinator	NSP
Wali Azizi	Senior Field Coordinator	NSP
Hares Adhib	Senior Field Coordinator	NSP
Ahmad Shah	FP Management Department	NSP
Development Partners		
Mohammad Zia	Senior Program Manager- Development	Australian Embassy
Dr Zamarai Samim	Senior Program Manager	Australian Embassy
Sinikka Koski	Counsellor, Head of Development	Embassy of Finland
Fabio Minniti	Program Manager	Embassy of Italy, Development Cooperation Office
Giulio Doronzo	NSP Program Manager	Italian Cooperation
Somaia Nezami	Senior Policy Officer	Embassy of the Netherlands
Mohammad Sabir Nasiry	National Programme Officer	Norwegian Embassy
Anders Wirak		Norwegian Embassy
Annika Siwertz	Counsellor	Embassy of Sweden
Anders Öhrström	Head of Development Cooperation/Counsellor	Embassy of Sweden
Matthew Short	Deputy Head, Growth and Livelihoods Group; Team Leader, AFTF	UK Department for International Development (DFID)
Nic Bowler	Governance Advisor	DFID
Chris Dunnett	Sr. Deputy Coordinating Director	US Embassy
Amy Stull	OPPD Office Director, Office of Program and Project Development (OPPD)	USAID
Cecilia Costa	Aid Coordination and Regional Cooperation	European Union
Bruno Declercq	Task Manager, Water and NRM	EU
Simone Raudino	Attaché, Governance and Rural Development	EU
Wali FARHODI	Programme Manager-Rural Development	EU
Giampiero Muci	Task Manager – Agriculture	EU
NGOs		
Ziggy Agarwal	Country Director	ACTED
Hidayatullah Omari	NSP Country manager	ActionAid
Inge Dethlefsen		UN-Habitat
M. Najib Amiri	Sr. Program Coordinator	UN-Habitat
Joop Teeuwen	Country Director	Zuid Oost Azie Refugee Care
Janardhan Rao		CONCERN
Inge Detlefsen	Country Director	Relief Int'l
Sulaiman Sarwary		Afghan Aid
Kishor Patnaik	Country Manager	S&N SoSSMBC Jv NTHDOA
Masomullah Arify	NSP Country manager	Afghan Business Capacity Development (ABCD)
Ghulam Yahya Abbasy		CHA
Daniel Bichanich	Chief of Party, ARTF Monitoring Program	International Relief and Development (IRD)
Rick Broadhead	Project Manager, ARTF Monitoring Program	IRD

Paddy Smith	Consultant, ARTF Monitoring Program	IRD
Private Sector		
Peter Middlebrook	CEO	Geopolicity
World Bank		
Robert J. Saum	Country Director	
Illango Patchamuthu	Operations Manager	
Stephen Ndegwa	Operations Manager	
Richard Spencer Hogg	Governance Advisor	
Naila Ahmed	Rural Development Specialist	
Alvaro Soler	Sr. Agriculture Specialist	
Ghulam Sayed	Sr. Health Specialist	
Zahidullah Hatam	Social Protection Specialist	
Haroon Chakhansuri	Agriculture Specialist	
Asha Narayan	Sr. Financial Management Specialist	
Guillemette Sidonie Jaffrin	Sr. Private Sector Dev. Specialist	
Silvia Redaelli	Economist	
Asta Olesen	Sr. Social Dev. Specialist	
Asif Ali	Sr. Procurement Specialist	
Kamran Akbar	Sr. Rural Dev. Specialist	
Zahidullah Hatam	Social Protection Specialist	
Lucian Bucur Pop	Sr. Economist	
Ditte Fallesen	Sr. Operations Officer	
Azada Hussaini	Operations Officer	
Andrew Beath	Economist	

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Annex III: Afghanistan's Transition; Challenges and Opportunities

1. Afghanistan has made significant economic and social progress over the last decade.

Although volatile, economic growth has averaged 9.4 percent per year during 2003-12 driven primarily by aid and security spending. This has helped raise GDP per capita from \$186 in 2002 to \$688 in 2012.⁷⁰ Key social indicators have also improved. Net primary school attendance rate increased from 37 percent to 57 percent in 2007-11, while girls' net attendance rate increased from 29 percent to 48 percent in the same period. Primary health care coverage expanded by more than eight times from 8 percent to 68 percent in 2001-08; infant mortality rate fell from 111 to 48 deaths per a thousand live births in 2007-11; access to electricity increased by three-fold from 23 percent to 69 percent during 2005-11; access to potable water rose from 27 percent to 46 percent in 2007-11;⁷¹ and travel times between major cities such as Kabul, Kandahar, and Herat have been reduced to a quarter of what it used to take.⁷²

2. Yet a major security, political and economic transition over the next few years will likely result in heightened insecurity and resource constraints, posing serious threats to the sustainability of the socio-economic gains and aggravating the development gaps that remain.

Despite the formidable accomplishments, Afghanistan remains one of the least developed countries in the world. Afghanistan's per capita GDP is the lowest in Asia and among the lowest 20 in the world. Over 77 percent of population over 25 years has had no education. Adult literacy rate is at a low 31 percent, and even lower for women at 17 percent. Despite the rapid economic growth, poverty incidence has remained constant at 36.5 percent for 2007-11 while rural poverty increased during the same period.⁷³ Afghanistan is also highly dependent on foreign aid which finances 47 percent of GDP. It is also becoming clear that the transition has taken a heavier toll than initially expected. Economic growth has fallen sharply from an annual average of 9.4 percent during 2003-12 to an estimated 1.5 percent in 2014. Domestic revenues have fallen to 8.7 percent of GDP in 2014 from the peak of 11.6 percent in 2011. The sizeable fiscal gap has pushed Afghanistan to a fiscal crisis.⁷⁴ In this context, there are various issues that can be negatively affected by the transition.

- (i) **Insecurity:** As international security forces' support for Afghan security forces dwindle, the state's capacity to provide security diminishes. If the new government cannot extend its control beyond Kabul, about 30 percent of the country that is currently inaccessible can further expand. Lower citizen security and state presence undermines state-citizen relationship and may lead to increased dependence on tribal/ethnic lines creating a vicious cycle of further constraining the government control. Declining business confidence negatively impacts economic growth potential, and with limited economic opportunities,

⁷⁰ Hogg, R., et.al., (2013), op.cit.

⁷¹ Central Statistics Organization (2014), National Risk and Vulnerability Assessment 2011-12. Afghanistan Living Condition Survey. Kabul, CSO

⁷² Hogg, R., et.al., (2013), op.cit.

⁷³ Central Statistics Organization (2014), op.cit.

⁷⁴ Islamic Republic of Afghanistan. (2014). Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership. Kabul.

reliance on opium and other illicit activities will increase. Faith in government declines, and encourages political actors/armed groups to challenge the state's authority, further fuelling insecurity. Women's participation in labor market will decline drastically.

- (ii) **Poverty:** Due to the low domestic content (only 38 cents of every aid dollar spent in Afghanistan reaches its economy), impact of aid decline on the Afghan economy is limited. Still, the economic growth which averaged at 9.4% for 2003-12 fueled by aid and security spending is expected to decline to 5% for 2015-18. Lower economic growth results in slow progress in poverty reduction and raising average per capita income.⁷⁵ This is problematic when national poverty incidence has remained constant at 36.5 percent for 2007-11. With rapid population growth at 2.5 percent, this means that the absolute number of poor has actually increased. Rural poverty incidence also increased from 36.9 to 37.7 percent in 2007-11 most notably in the Northeast where the figure sharply increased from 36.4 percent to 50.9 percent. The economic inequality is also growing as measured by Gini coefficient which increased nationally from 29.7 to 31.6 between 2007 and 2011.⁷⁶
- (iii) **Jobs:** Lower aid flow negatively affects services and construction sectors which are labor intensive, reducing the household incomes. Direct employment impact of declining aid is not excessively large as only 6 - 10 percent of the working population benefit from aid-financed job opportunities and most are short-term. However, impact on underemployment and household income is expected to be high. Impact of transition on employment will be felt more acutely in conflict-affected areas, where the decline of aid will be more severe, and in urban centers where construction and service sectors are more important.⁷⁷ This poses a significant security threat in that people especially in high conflict areas will feel let down by the government further alienating themselves, and disgruntled people will be concentrated in urban and peri-urban areas, the last place government wants to see turn against them. It also presents an employment challenge in a country where 400,000 - 500,000 new workers are entering the labor force every year, yet 25 percent of the labor force is not gainfully employed and labor market is already short of 1.8 million jobs. Rural areas where 29 percent of the people cannot find adequate work will struggle, and perhaps more so as people who lost jobs in urban areas return to their villages. It is likely that the already lagging women's labor participation, where only 1.3 million out of the total 7.2 million people are women, representing only 19 percent of all women, will further drop.⁷⁸
- (iv) **Service delivery:** Financing gap is estimated to reach approximately 25 percent of GDP by 2018⁷⁹ which signifies that current level of expenditure cannot be sustained going forward. As security expenditure grows with increasing operation and maintenance (O&M) costs, safeguarding funds for development and service delivery will become a challenge. Civilian

⁷⁵ Hogg, R., et.al., (2013), op.cit.

⁷⁶ Central Statistics Organization (2014), op.cit.

⁷⁷ Hogg, R., et.al., (2013), op.cit.

⁷⁸ Central Statistics Organization (2014), op.cit.

⁷⁹ Hogg, R., et.al., (2013), op.cit.

aid will need to be spent more selectively on core service delivery, essential infrastructure development, and O&M to safeguard the development gains. Service delivery will also need to be delivered in a more cost-efficient manner. Lower levels of service delivery and insufficient O&M budget could diminish the development gains made to date and widen the already increasing inequality. This in turn may deteriorate people's perceptions of government especially as their expectations on the levels of service delivery have been raised.

- (iv) **Women's empowerment:** Despite the criticisms over the effectiveness of aid in Afghanistan, the progress made on women' empowerment deserves recognition. Girls' net primary school enrolment rate increased from 29 to 48 percent between 2005 and 2011; increased adult literacy for women between the age of 15 and 24 from 20 to 32 percent between 2005 and 2011; increase in women served by skilled birth attendants from 16 percent in 2005 to 40 percent in 2011; declining proportion of women who are married below the age of 18; and increase in women's labor participation (though still extremely low).⁸⁰ These gains will be at risk if economic outlook worsens and insecurity grows.
- (v) **Heightened contestation over limited resources:** With diminishing aid inflow, there is likely an increase in corruption/rent-seeking activities as available resources shrink. This inevitably results in winners and losers strengthening perceived injustice/inequality among different groups, possibly leading to higher factional conflicts.

3. While transition poses a major challenge, the newly formed Government of National Unity and its commitment to reforms provide an opportunity to restore people's lost confidence in government and to generate a new momentum for transformation. This is obviously no easy task where existing state institutions are weak, corrupt, and resistant to change. Increasing insecurity and people's unreasonable expectations (either too low or too high) compound the problem. There is limited window of opportunity and the new government will face constant risk of losing legitimacy. The 2011 *World Development Report* on Conflict, Security and Development underlines the importance of confidence building in the short-term, and provision of citizen security, jobs, and justice through institutional strengthening in the longer-term. But since developing institutions can take decades, the new government needs to send "early signals of intent" that convinces people that the new government is serious about implementing institutional and social change.⁸¹ The signals have to address the core grievances that are at the heart of the people, which in case of Afghanistan would be a strong sense of injustice stemming from systematic corruption by the elites. The new government's swift move to arrest the people involved in the Kabul Bank scandal has indeed helped send a strong signal about its commitment to fight corruption and reinforce accountability measures.

4. The new administration's vision to realize self-reliance through economic growth and tangible service delivery, and its commitment to use Community Development Councils (CDCs)

⁸⁰ Central Statistics Organization (2014), op.cit.

⁸¹ World Bank. 2011. *World Development Report 2011: Conflict, Security and Development*. Washington DC: World Bank.

as the primary vehicle for service delivery provide a strong justification to continue NSP. At the same time, the government's reform agenda requires the current NSP and the role of MRRD to be transformed. The new administration has laid out a vision to develop a Citizens Charter that sets a minimum threshold of core services to be provided to all communities. To better address the needs of the growing urban poor, the government is determined to create CDC like organizations in the cities which help organize both formal and informal communities, improve self-reliance, and create a platform to deliver services. The government has also committed to formalize CDCs through a CDC Law as a whole-of-government platform for local governance and service delivery, mandating line agencies to plan and manage local level service delivery through CDCs. CDCs will continue to play an important role in promoting women's empowerment and improving transparency and accountability. At the same time, the government is also determined to achieve efficiency gains by consolidating and revising the existing National Priority Programs (NPPs). MRRD has been directed by the president to consolidate its five existing national programs into the umbrella of NSP, while NSP is transformed into a new NPP that supports the implementation of the Citizens Charter and facilitates local economic growth. Such reforms require MRRD to shift from being a direct provider of various services to an enabler that strengthens the local institutions (CDCs) and facilitates interaction between CDCs and different sub-national governments and line ministries to ensure good local governance and adequate service delivery in both rural and urban areas.

5. **In implementing these reforms, it is essential that the transition does not disrupt the gains NSP has made to date and leave a critical gap in local service delivery which puts Afghanistan's stability at risk.** Weak government that is unable to deliver basic services to the people is easy prey for dissident or radical groups.⁸² It is thus important to keep in mind the following key contributions NSP can make to Afghanistan's transition and safeguard them.

- (i) **Promote good governance at the local level:** NSP is as much if not more about promoting good governance at the village level as it is about promoting socio-economic development. NSP embodies the principles of good governance such as democracy, inclusiveness, transparency, and accountability. While outcomes vary across regions, studies have shown that community feedback has been positive in general and communities' description of NSP has been consistent, describing NSP as transparent, responsive, inclusive, and equitable.⁸³ If the new government is serious about signaling their commitment to stem corruption and pursue good governance, NSP can help demonstrate it to the citizens.
- (ii) **Maintain state presence in insecure areas:** Over 30 percent of Afghanistan is now inaccessible by the government due to security. Lack of adequate governance and service delivery leads to people's disenchantment and lack of proper oversight fuels corruption. This in turn exacerbates people's grievances and reinforces the sense of injustice, giving insurgents an opportunity to draw people away from the government and garner support for themselves. A common notion in high conflict areas is that it isn't that the Taliban are

⁸² Islamic Republic of Afghanistan. (2014). Realizing Self-Reliance. op.cit.

⁸³ Fishstein, P. and A. Wilder (2012) op.cit.; and The Asia Foundation (2013) op.cit.

winning, but that the government is losing.⁸⁴ NSP has managed to continue its operations in high risk areas by adapting its operational procedures and by working through NGOs with good knowledge of local conditions and who are trusted by communities. NSP allows the government to maintain its presence in insecure areas and ensure that communities that will see a drastic drop in aid continue to receive basic services and infrastructure.

- (iii) **Help address rural poverty:** 84 percent of the poor in Afghanistan reside in rural areas, and agriculture generates over 40 percent of employment. As agriculture is expected to be the key sector driving growth post-transition, the government needs to channel a significant amount of investment in rural areas. Investments in irrigation, market linkages, extension services, and value chain development of higher value-added products will help leverage the sector's potential. NSP can help inject smaller but regular investments for productive infrastructure such as tertiary irrigation, hydropower, farm to market roads, storage facilities, and CDCs can help expand the outreach of extension services.
- (iv) **Create jobs:** While NSP does not generate permanent jobs, it can create short-term jobs. The NSP Engineering Department estimates that NSP has generated 49 million labor days through sub-project implementation between 2003 and 2013.⁸⁵ Short-term jobs are perhaps sufficient in rural areas where underemployment during post-harvest season is the problem for subsistence farmers. NSP can further contribute to job creation if it is expanded to peri-urban areas such as district centers that are classified as urban areas but in reality are rural. Providing investments and generating jobs in peri-urban areas is important, as they will feel the impact of aid decline more acutely than in rural areas. By expanding into peri-urban areas, NSP will be able to promote rural-urban market linkages.
- (v) **Improve frontline service delivery:** CDCs provide the most extensive outreach throughout the country and can serve as a highly cost-efficient platform for service delivery. To reduce the level of overall expenditure post-transition, the new government is forced to prioritize the level of services that can be delivered. A lot of savings can be made by streamlining the delivery platform and necessary support to CDCs. Additionally, CDCs can also provide social accountability to hold the government agencies accountable for the quality and levels of services delivered.
- (vi) **Sustain women's empowerment:** NSP's independent impact evaluation found that gender-balanced CDCs have greatly contributed to women's empowerment. For example, female representation in local institutions increased by 38 percentage point, and the provision of governance services particularly to women increased due to NSP. As post-transition uncertainty could potentially have negative impact on the sustainability of women's empowerment, continuation of gender-balanced CDCs and NSP's policies on women's empowerment can help safeguard some of the gains that have been made to date.

⁸⁴ Fishstein, P. (2012). op.cit.

⁸⁵ The NSP Engineering Department analyzed a sample of 10 sub-projects and found on average 30% of sub-project budgets are spent on skilled and unskilled labor.

Annex IV: Schedule 2 of the Subnational Governance Policy

Village Councils are responsible for:

- Preparation and implementation of village development plans
- Oversight, monitoring and evaluation, quality assurance
- Performance management over the government service delivery
- Liaison with communities, civil society and media
- Help maintain peace, security, public order and stability
- Help maintain rule of law
- Protection, promotion and extension of human rights
- Good governance
- Poverty reduction
- Attainment of Millennium Development Goals
- Elimination of customs contrary to the law and Sharia
- Counter---narcotics
- Disaster management
- Administration
- Fiscal authority of expenditure and financial management coordination
- Delivery of services as per extant policy of the government
- Co---production of development goods and services
- Regulation such as construction regulations, security regulations and zoning etc
- Social protection
- Dispute resolution
- Management of village commons
- Natural resources management
- Environmental protection
- Land registration/management
- Determination of village boundaries
- Population registration and vital statistics
- Facilitation of the activity of CDCs
- Coordination with governance entities at higher level

Annex V: NSP Background, Results, and Cost Comparisons to other Related Programs

Description of NSP

65. In May 2003, the Government of the Islamic Republic of Afghanistan (GoIRA) rolled out the first phase of its National Solidarity Program (NSP). The program's development objectives were to "lay the foundations for strengthening of community level governance, and to support community-managed sub-projects that improve access of rural communities to social and productive infrastructure and services". NSP, which is implemented by the Ministry for Rural Rehabilitation and Development (MRRD), utilizes a community-driven development approach (CDD) in which rural communities, organized around an elected "Community Development Council" (CDC) are responsible to plan, select, manage, oversee, and maintain local development projects financed through direct block grant transfers to community bank accounts. MRRD contracts the services of national and international NGOs as "Facilitating Partners" (FPs), to provide technical assistance and build the capacity of rural communities participating in the program. Key functions fulfilled by the FPs include: the organization of open and transparent CDC elections; provision of training for CDC and other community members; and provision of technical assistance to communities to design, implement and maintain sub-projects. The MRRD maintains a dedicated NSP Program Management Unit (PMU) headquartered in Kabul, and six regional and 34 provincial offices. The PMU carries out program planning; maintains and updates the Program Operations Manual, which defines program principles and basic standards for implementation, such as elections processes and training curricula; monitors program progress; and advises the ministry on policy changes needed to improve program performance.

66. By the end of NSP I in March 2007, NSP had succeeded in mobilizing CDC elections and financing sub-projects in 17,223 rural communities. NSP II, which ran from April 2007 to September 2011, expanded the program to a further 5,957 communities. The third and current phase of NSP, which runs from October 2010 to September 2015, aims to complete national coverage by mobilizing CDCs and financing sub-projects in 15,876 new communities, and consolidate local governance gains by providing repeater block grants in 11,844 existing communities. By the conclusion of NSP III it is expected that NSP will cover all but 2,400 communities, which are the hardest to reach and most insecure in the country.⁸⁶ Table 1 provides a summary of progress across the three phases of NSP.

Table 1 NSP I-III coverage and costs, 2003-2015

Phase	CDCs elected	1 st round of BG	2 nd round of BG	Total Cost (US\$)
NSP I	17,223	17,223		429,967,000
NSP II	5,957	5,957		704,300,000
NSP III	15,876	15,876	11,844	1,138,055,200
Total	39,056	39,056	11,844	1,248,072,520

Source: Geopolicity, 2014

Why a CDD Approach?

⁸⁶ Source: World Bank. Aide Memoire, National Solidarity Program Implementation Support Mission, January 6, 2014.

67. The GoIRA supported the roll-out of a national CDD program for several reasons. For one, decades of armed conflict had severely weakened political institutions, fragmented political authority, hardened tensions rooted in ethnic and regional identities, and destroyed already sparse infrastructure in rural areas where around 80 percent of the population lived in 2002.⁸⁷ NSP's direct transfer of resources and devolution of responsibility and decision-making would ensure development resources were used for priorities identified locally, a key feature given Afghanistan's extremely challenging geography and limited reach of state institutions. Vesting authority in rules-based CDCs would emphasize the transparent, accountable, and inclusive use of development resources, principles on which the GoIRA wanted to build its state from the bottom up. Engaging national and international NGOs as FPs would build on the local knowledge and established relationships that these organizations had cultivated through decades of work with rural communities around the country, and responded to a lack of capacity to provide a comparable level of services in the private sector. Finally, a set of simple, flexible operating policies based on the aforementioned principles would provide FPs and communities with the flexibility to respond to diverse local needs and environments, and enabled the program to adapt to, among other conditions, a deteriorating security environment through the application of the High Risk Areas Implementation Strategy (HRAIS) from 2008 onwards.

NSP's Results

68. Despite Afghanistan's challenging terrain and volatile security environment, NSP has delivered an impressive set of results. These results have been recounted in a number of other documents, including NSP's regular Status Reports, and as such only a brief overview is presented here.

69. To date NSP has mobilized CDCs in over 32,200 communities, and financed over 77,000 sub-projects worth \$1.46 billion. These investments benefited over 23 million rural Afghans in NSP I and II, and thus far NSP III has benefited nearly 21.5 million rural Afghans.⁸⁸

NSP's Impacts

70. To the authors' knowledge, NSP is the only program in Afghanistan to have undergone a large-scale, rigorous impact evaluation that incorporates random assignment of program treatment and control locations. Moreover, NSP has been the focus of a number of other studies that use a range of methodologies thereby constituting what is likely to be the largest evidence base on efficacy and impacts of any development program in Afghanistan. This section briefly recounts key findings from the impact evaluation report⁸⁹ (IE), and supplements them with related research that was either not available at the time the IE report was being finalized or was not considered by the IE report authors.

a. Access to utilities, services, and infrastructure

71. The impact evaluation presents evidence that the NSP, after a single block grant cycle, improves access to certain utilities and basic services. NSP water and electricity projects improve access to clean drinking water and boost energy usage, respectively. Water projects also reduce the time households spend collecting water, and result in a higher usage of protected water sources. Of the five primary categories of NSP community sub-projects: transport, water supply and sanitation, irrigation, power, and

⁸⁷ Source: NSP II ICR

⁸⁸ As per email communication with NSP PMU dated May 13, 2014.

⁸⁹ Beath, A., et.al. (2013). op.cit.

education, evidence from the impact evaluation suggests that water supply sub-projects are the most successful.

72. NSP also improves access to services for women and children, which represents an important achievement when viewed together with the positive impacts on women's participation in local governance described below. NSP increases access to education, health care, and counseling services for women, as well as girls' school attendance and quality of learning.

b. Economic welfare

73. The impact evaluation reports fewer statistically significant positive impacts of NSP on the economic welfare of rural villagers. The program improves villagers' economic perceptions, particularly those of women, but few impacts are recorded on quantitative measures of economic activity. There is weak evidence of increased diversity of household income sources and caloric intake. The evaluation finds no conclusive impacts on production or marketing outcomes, agriculture yields, productivity, or harvest sales.

74. The Economic Rate of Return (ERR) analysis conducted as part of the NSP II Implementation Completion Report (ICR), which concluded that NSP community sub-projects have an ERR of at least 15 percent. The weighted ERR for sampled sub-projects was 69.3 percent, while the Financial Rate of Return was calculated at over 100 percent.⁹⁰ The ICR concludes that "it is fair to infer that NSP II had a significant positive impact on Afghanistan's rural economy."⁹¹ An ERR analysis commissioned under NSP III⁹² reaches a similar conclusion. It estimates an overall ERR of 41.4 percent with a Benefit Cost Ratio of 2.5:1 for the four primary investment sectors (transport, irrigation, power, and water) under NSP III.⁹³

75. The impact evaluation by contrast draws from a larger sample of community sub-projects (514) and uses a sampling methodology that allows findings to be generalized across regions of rural Afghanistan aside from the southern provinces. Thus the findings on economic impacts cannot be easily dismissed. There are a number of hypotheses as to why economic impacts of NSP community sub-projects are relatively weak.

Hypothesis	Plausibility
1. The impact evaluation endline survey was conducted before most sub-projects were completed, thereby making it impossible to measure the full impact of sub-projects.	Low. Page 33 of the impact evaluation reports that only 1 percent of sub-projects had not been completed by the time of the endline.
2. A single block grant investment of around \$33,000 per village over an eight-year period is insufficient to transform the rural Afghan economy. A corollary to this hypothesis is that tertiary infrastructure constructed	High. Evaluations of CDD programs in Indonesia ⁹⁴ and the Philippines ⁹⁵ show returns to tertiary infrastructure due to linkages into a robust secondary infrastructure base.

⁹⁰ The ICR authors note that the findings should be treated with caution given the small sample size (84 out of over 36,000 completed sub-projects at the time) and sampling methodology.

⁹¹ Implementation Completion Report, NSP II, p. 14.

⁹² "NSP III Financial and Economic Analysis," Atos Consulting, August 2014.

⁹³ The NSP III ERR analysis is based on a random sample of 135 sub-projects from a total of 24,950 sub-projects financed under NSP III.

⁹⁴ World Bank. "PNPM Rural Impact Evaluation," April 2012, Jakarta.

⁹⁵ World Bank. "The KALAHICIDSS Impact Evaluation: A Revised Synthesis Report," January 2013, Manila.

through NSP had limited effects given the absence of secondary transport, irrigation, and market infrastructure with which to link.	
3. The quality of NSP community sub-projects is low because communities maximize the use of unskilled labor in project implementation rather than better skilled contractors. ⁹⁶ This in turn led to lower overall returns on investments due to sub-standard operational performance or premature malfunctioning.	Unknown. The Afghanistan Reconstruction Trust Fund (ARTF) Third Party Monitor data shows that NSP community sub-projects are on average of lower quality than larger-scale projects implemented by contractors (Table 2). However, a comparison of sub-project quality in rural transport from the same source shows that sub-projects implemented by CDCs are by and large of the same quality as those implemented by contractors (Table 3). Requires further investigation is needed to test this hypothesis.
4. The study does not take into account that the collection of end-line data took place in a drought year. Given that the IE asked about perceptions in changes in income from one year to the next (2010 to 2011), it is likely that farmers, anticipating or experiencing general price inflation because of the drought, may have answered negatively. ⁹⁷	Further investigation required.

Table 2 Project Quality Grades, ARTF Third Party Monitor⁹⁸

Program	Sector	Average Grade ⁹⁹	Overall Grade ⁹⁹
EIRP	Station	3.73	
EQUIP	Education	3.27	
IRDp	Canals	4.03	
NERAP	Secondary Road	3.29	
NERAP	Tertiary Road	3.27	
NSP	Irrigation	2.59	
NSP	Power	2.35	
NSP	Rural Development	3.01	
NSP	Transport	2.46	
NSP	Water Supply and Sanitation	2.61	

⁹⁶ Proposed in an email communication by Andrew Beath, the lead impact evaluation author, March 21, 2014.

⁹⁷ "Key Issues with the NSP II Impact Evaluation (IE)," NSP Executive Director's Office, Unpublished Memo.

⁹⁸ Email communication with Daniel Bichanich, ARTF Third Party Monitor Chief of Party, April 8, 2014.

⁹⁹ The Third Party Monitor uses a 5-point scale by which it grades sub-project quality, 1 being Poor and 5 being Excellent. The grading scale aims to indicate whether a sub-project is functional as designed and operational for a reasonable period of time. For NSP, each sub-projected is graded for the quality of workmanship, materials, design, and maintenance. The final grade for a sub-project is the average of four grades assigned. The "Average Overall Grade" is therefore the average the grades for all NSP sub-projects monitored in a given sector. Average Overall Grades for EQUIP and NERAP follow the similar logic of functionality and sustainability. However, given that the outputs of these programs are more uniform and predictable relative to NSP (e.g. EQUIP builds schools, NERAP constructs roads that consist of culverts, retaining walls, etc.), specific formulas are used to determine the Average Overall Grade for EQUIP and NERAP. Email communication with Daniel Bichanich, ARTF Third Party Monitor Chief of Party, September 12, 2014.

Table 3 ARTF Third Party Monitor Average Grades for Rural Transport Projects

Contractor Name	Type of Project	Number of Projects	Number of IRD Inspections	Average Grade
Abram Global CC	Gravel road	2	4	3.94
ACLU	Gravel road	1	2	2.58
ACU	Bridge	1	1	4.00
Afghan Wardak CC	Gravel road	1	6	3.00
Ahmad Mukhtar CC	Bridge	1	1	3.00
Alimy Brothers CC	Gravel road	1	3	2.83
Arab Shah CC	Bridge	2	2	3.44
Ariana Asia CC	Bridge	1	1	4.00
Aziz Aria CC	Gravel road	1	2	3.19
Azmoon CC	Bridge	1	1	4.00
Bakhtar Afghan CC	Bridge	1	1	3.50
Baradaran Dolatyari CC	Gravel Road	1	2	3.89
Barish CC	Gravel road	3	5	3.17
Bradaran Dolatyari Construction Company	Gravel road	1	1	3.99
Buildtech CC	Asphalt road/Gravel road	8	17	3.31
CDCs	Gravel road	10	14	2.94
Elham Taha CC	Gravel road	1	3	3.06
Enayat Baseer CC	Gravel road	1	3	3.24
Ghulam Nabi Yaqoobi CC	Gravel road	1	1	3.98
Hamkar CC	Gravel road	2	4	3.07
Herat Ghorband CC	Gravel road	2	6	3.12
Hero CC	Bridge	1	3	3.00
Khaja Abdul Mohyudin CC	Bridge	1	1	3.00
Mashreq Engineering CC	Bridge	1	1	4.00
Meraj Construction Company	Bridge	1	1	4.00
Mir Bachakoot CC	Gravel road	1	3	3.33
Musawer Mansoor CC	Gravel road	1	2	3.63
Mushtaq Hamidi CC	Gravel road	1	5	3.25
Nero Engineering CC	Bridge	2	2	3.84
Noman Jilani CC	Bridge	1	1	4.00
Orfan CC	Gravel road	1	2	3.23
Rafiq Bawari CC	Box Culvert	1	1	4.00
Safi Building and Road CC	Bridge	1	1	3.00
Samir Nisar CC	Asphalt road	1	2	3.92
Shamal Haidary CC	Gravel road	1	2	3.88
Sheghnan CC	Bridge	1	1	3.50
Technical Builder CC	Bridge	1	1	3.00
Yaqobe & Samir Sair CC	Bridge	1	1	3.00
Yahya Ysufi CC	Box Culvert	1	1	4.00
Z Plus CC	Gravel road	1	2	3.98

Source: ARTF Monitoring Program Quarterly Report, September 2013-November 2013.

76. It is thus concluded that several viable hypotheses regarding the relative absence of economic benefit detected through the impact evaluation require exist, and merit further investigation.

77. **Short-term employment generation.** The NSP Engineering Department estimates that NSP has generated 49 million labor days through sub-project implementation between 2003 and 2013.¹⁰⁰ The NSP III Economic and Financial Analysis sampled 135 sub-projects and found that 14% (\$484,000) of sub-

¹⁰⁰ The NSP Engineering Department analyzed a sample of 10 sub-projects and found on average 30% of sub-project budgets are spent on skilled and unskilled labor.

project costs (\$3.6 million) was spent on 85,500 labor days at an average wage of \$5 per day. Further investigation is needed to determine the degree to which NSP sub-project are on average labor-intensive as NSP sub-project investments are a potentially large source of short-term employment support for rural areas. If NSP sub-projects do indeed allocated close to 30% of sub-project costs to skilled and unskilled labor at \$5 per day, this would amount to \$278 million in wages under NSP III alone.

c. Local governance

78. The impact evaluation reports NSP impacts that are both positive and negative on aspects of local governance. On the positive side, CDC elections increase villagers' satisfaction with local governance as measured across four dimensions.¹⁰¹ Furthermore, NSP produces changes in local governance structures by increasing the proportion of local assemblies that contain at least one woman, and increases the provision of local governance services specific to women. Again such positive impacts on women's participation in local governance and the provision of services for women are remarkable given social norms and attitudes towards women in rural Afghanistan.

79. Other recent studies confirm NSP's positive impacts on local governance. A 2013 survey conducted by The Asia Foundation found that 58 percent of survey respondents are aware of CDCs operating in their area of residence. Of these 63% percent are satisfied with CDC performance.¹⁰² The Asia Foundation's findings are somewhat surprising given that nearly all CDCs had managed only one block grant over the period 2003 to 2013, which led many to assume that CDCs would fade into irrelevance in the absence of a block grant to manage. As discussed later in this report, CDCs have sought out and managed a range of development activities external to the NSP block grant. Another recent study concludes that NSP has achieved a significant level of success in enforcing program rules, which results in transparent budget management by CDCs and accountability of elected CDC members to community members outside of the CDC¹⁰³. A Special Inspector General for Afghanistan Reconstruction (SIGAR) audit of NSP concludes similarly that "numerous oversight and internal controls implemented by the World Bank, the Afghan government, and members of rural Afghan communities...provided reasonable assurance that NSP funds would be used as intended."¹⁰⁴

80. On the other hand, the IE found that people's perceptions of the quality of local governance worsened as a result of the program. The IE authors note that the effect is not driven by dissatisfaction with NSP-funded sub-projects, but rather through dissatisfaction with functions carried out that were beyond the official mandate of CDCs, such as dispute mediation and crime resolution. The IE authors draw from a range of quantitative and qualitative assessments to conclude that the negative effects on perceptions of the quality of local governance are driven by ambiguities in authority and accountability created by the introduction of CDCs into a local governance environment that includes pre-existing

¹⁰¹ Wang, C. (2014) "Rule of Law in Afghanistan: Enabling a Constitutional Framework for Local Accountability," Harvard International Law Journal, Volume 55, Number 1, Winter 2014. The four dimensions measured are: (i) whether the respondent agreed with decisions of village leadership; (ii) whether the respondent attributes positive economic changes to village leadership actions; (iii) whether the respondent is satisfied with the work of the village leaders; and (iv) whether the respondent perceives that his/her family is better off than it was last year, (p. 238-239).

¹⁰² "Afghanistan in 2013: A Survey of the Afghan People," The Asia Foundation, 2013.

¹⁰³ Wang, C. (2014). op.cit. p. 238-239.

¹⁰⁴ Office of the Special Inspector General for Afghanistan Reconstruction, "Afghanistan's National Solidarity Program has Reached Thousands of Afghan Communities, but Faces Challenges that Could Limit Outcomes." Audit 11-8, March 2011. United States Government, p. ii.

customary institutions competing for resources and influence. The IE notes, drawing from the VBDA analysis, that negative perceptions are not observed for tasks in which CDCs are assigned clear responsibility. This analysis suggests that NSPS's irregular, one-off block grant transfers represent a missed opportunity to reinforce and consolidate an alternative governance structure to customary institutions that tend to exclude women and the poor. Furthermore, those that draft the CDC Law should give careful consideration to assigning a clear, achievable set of authorities to CDCs while acknowledging that customary institutions will likely be contesting the legitimacy of CDCs to assume certain functions

d. Political attitudes and state-building

81. The impact evaluation finds some evidence that NSP impacts positively on political attitudes and aspects of state-building. There is strong evidence, for example, that NSP increased voting among men and women in the 2010 parliamentary elections. As mentioned above, NSP increased appreciation of the use of democratic processes, such as electing local leaders through secret-ballot elections. NSP improved perceptions of government at the midline survey, but these effects did not persist in the endline. During project implementation a strong increase in villagers' reported favorable view towards government entities was observed, but this effect fades after project implementation concludes. NSP does not affect the likelihood of a participating village suffering violent attacks.

82. These findings must be interpreted within a context of deteriorating security conditions throughout the country. While evidence from the most insecure parts of the country is hard to come by, several studies suggest that NSP is able to operate effectively and is appreciated in communities vulnerable to violent conflict. A 2009 study of violence directed at government schools finds an association between the existence of NSP CDCs and an absence of attacks on schools.¹⁰⁵ A 2012 study of the relationship between aid and security in Afghanistan found that development projects were consistently described as negative by Afghans. A major exception to this finding was communities' positive views of NSP. People viewed NSP favorably because of mechanisms for the transparent allocation of benefits and resources within and across communities and participation in sub-project selection, factors critical in mitigating program-related conflicts. Afghans interviewed also felt that CDCs were less prone to corruption.¹⁰⁶ A preliminary review of NSP's High Risk Areas Implementation Strategy concluded that modifications to the standard program design has provided a degree of flexibility needed to maintain operations in highly fluid security environment that exists throughout the country.¹⁰⁷ Data from the ARTF Third Party Monitor (Table 4) and an independent study¹⁰⁸ show that NSP's grievance redress system is effective in capturing and resolving complaints relative to other programs. While such village-level dynamics may seem trivial relative to the macro-level challenges faces in overcoming a violent insurgency and building state institutions, programs that "do no harm" are key to rebuilding social relations within communities that have endured violence and upheaval, as well as reestablishing trust in the state.

¹⁰⁵ "Knowledge on Fire: Attacks on Education in Afghanistan," CARE International and the Afghan Ministry of Education, September 2009.

¹⁰⁶ Fishstein, P. and A. Wilder (2012). op. cit., p. 51-52.

¹⁰⁷ "Review of Implementation of the High Risk Areas Strategy (HRSA) and Community Recovery Intensification and Prioritization (CRIP), National Solidarity Program, Draft manuscript, December 2013.

¹⁰⁸ Wang, C. (2014). Op.cit.

Table 4: ARTF Third Party Monitor Grievance Redress Database¹⁰⁹

Program	Sector	# of Projects Inspected	# of Projects with Grievances Redress System in Place	# of Projects that Recorded Grievances	# of Projects that Resolved a Grievance
EIRP	Station	0	0	0	0
EQUIP	Education	734	43	18	0
IRDP	Canals	81	3	7	0
NERAP	Secondary and Tertiary Roads	212	588	108	66
NSP	Range of Rural Development Sectors	1462	193	55	50

e. Social norms

83. NSP's impacts on social norms, particularly those related to women, are extraordinary. The impact evaluation finds that the program reduces the proportion of female villagers who report being unhappy with their lives, which is likely due to improved access to basic services and utilities, increased participation in local governance, or other benefits that accrued to women that were reported earlier. NSP also increases men's acceptance of women's participation in political activity and local governance, which includes men's openness to women's participation in elections and to women working in government offices or for NGOs. The evaluation also finds durable impacts on women's participation in local governance, which include increased participation of women in dispute mediation, and aid allocation. NSP increased the frequency by which women travel beyond their village to visit a neighboring village or the district center in the past month. Thus although the impact evaluation does not cover southern provinces in which social norms towards women differ from those of other regions, the evaluation does not find a backlash against specific efforts made by NSP to increase participation of women in development activities, such as through the introduction of quotas for CDC composition, or in identifying women as direct beneficiaries of sub-projects.

A Comparative Analysis of NSP's Costs

84. This section assesses NSP's component costs in relation to large-scale CDD programs internationally, large-scale development programs in Afghanistan, and community development program in Afghanistan to identify whether NSP's cost structure deviates substantially from that of other similar projects, and if so, why.

a. NSP component costs compared to other large CDD programs

85. This section of the analysis concludes that, despite Afghanistan's challenging physical terrain, inclement weather, poor infrastructure, and volatile security situation, and weak institutions, NSP's component costs do not deviate substantially from those of other large-scale CDD programs. The reader

¹⁰⁹ Email communication with Daniel Bichanich, ARTF Third Party Monitor Chief of Party, April 8, 2014.

should keep in mind that since 2003 over 500 villagers, FP and NSP staff have been killed, injured, or kidnapped while working on NSP (Table 6).

Table 5: NSP Program Stakeholders Affected by Violent Incidents, 2003-2014

	Injured	Kidnapped	Killed
CDC Members	40	78	251
FP Staff	14	44	63
NSP Staff	4	7	12
Total	58	129	326

(relatively long-run). The projects selected are: (a) Nigeria FADAMA III, (b) Haiti CDD, (c) Burundi Community and Social Development Fund, (d) Indonesia's National Community Empowerment Program for Rural Areas (PNPM-Rural), (e) Indonesia's National Community Empowerment Program—Healthy and Bright Generation (PNPM Generasi), (f) Philippines' KALAHID-CIDSS, (g) Philippines' Autonomous Region of Muslim Mindanao Social Fund, (h) Nepal's Poverty Action Fund (PAF), and (i) Pakistan's Poverty Action Fund (PPAF). NSP's costs are presented as broken down per phase and as a total over the three phases. Average total NSP costs are compared with a sub sample of large-scale CDD projects and a sub sample of CDD projects in FCS.

87. The projects surveyed vary in terms of the definition of project components. For the purposes of this analysis, the author uses the following working definitions of components.

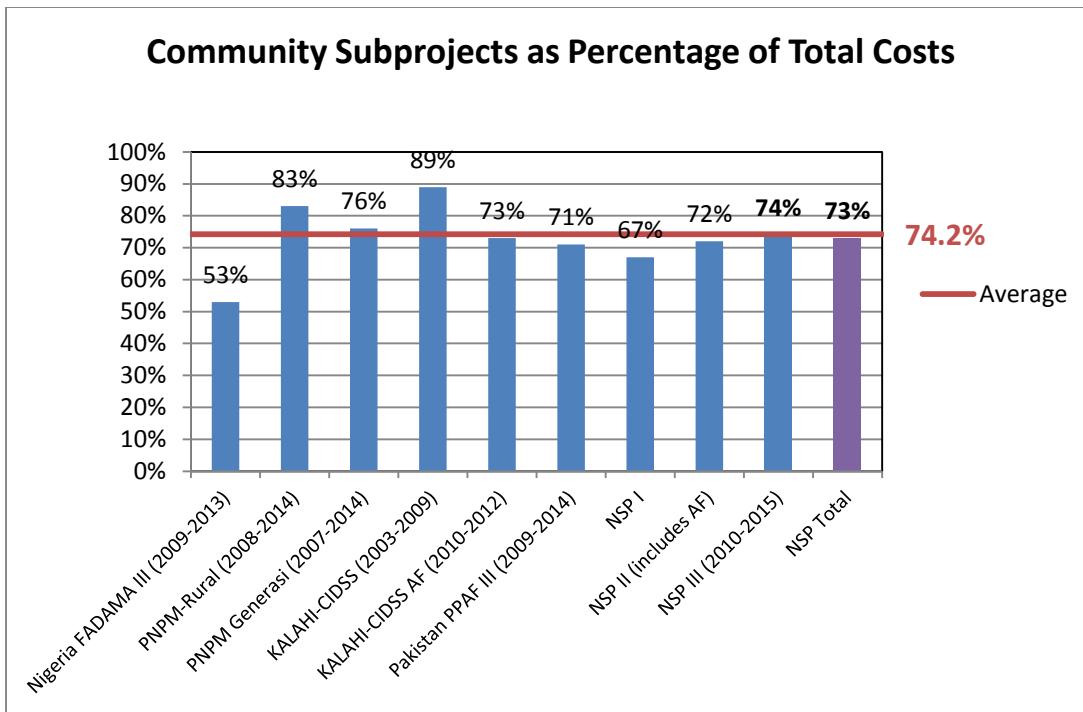
- i. Community subprojects. Includes investments in small-scale infrastructure or livelihoods activities that are prioritized, selected, implemented, monitored, and maintained by community user groups (e.g. implementation teams, farmer's cooperatives, etc.). NSP block grants fall under this category.
 - ii. Institutional development and facilitation support. Includes costs related to the mobilization and training of local facilitators/social mobilizers who in turn train community user groups in a variety of development planning, governance, and project management tasks, which vary according to project design and objectives. This component also includes investments in developing market linkages where livelihoods support is a project objective. NSP facilitating partner costs fall under this category.
 - iii. Project Management. Includes costs related to project secretariat functions, M&E, travel costs for project management personnel. Costs of the NSP project management team based in MRRD and offices outside of Kabul, and other MRRD-related costs, including MRRD advisors, fall under this category.

88. Costs are categorized based on the descriptions of project components provided in Project Appraisal Documents. It should be noted that project teams and client governments take different views as to how certain costs should be categorized, for example, whether a cost should be defined as institutional development as opposed to project management. The analysis does a basic calculation of average costs over the life of the individual projects, and does not account for exchange rate differences, inconsistently in the time periods over which projects are implemented, and so on. This analysis therefore cannot guarantee absolute consistency in how costs are categorized across the projects surveyed. It should also be noted that cost data referenced in PADs does not necessarily reflect all sources of funding for a given program component. For example, the project management cost estimates for KALAHICIDSS

4

and the ARMM Social Fund in the Philippines (Figure 3) do not include a substantial amount of government co-financing, which thereby overestimates the percentage of KALAHI-CIDSS funds invested in community sub-projects (Figure 1).

Figure 1: Community Sub-project Investments as a Percentage of Total Project Costs

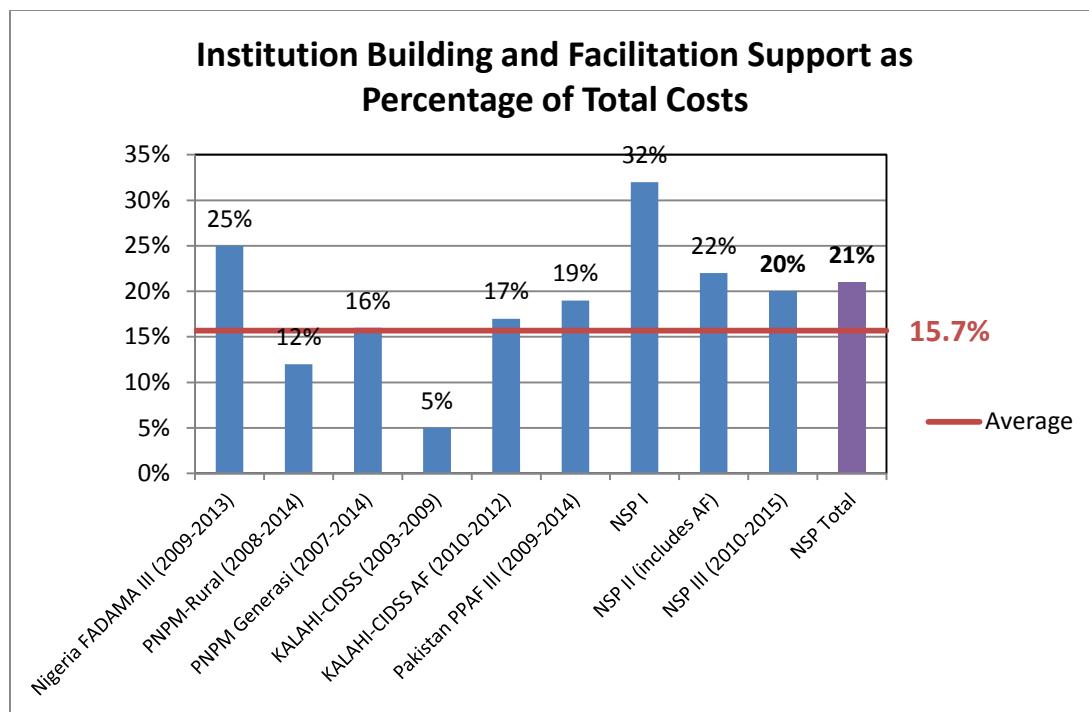


89. Figure 1 shows that on average the large-scale CDD programs sampled devoted 74.2 percent of program costs to community sub-project investments. Over its three phases NSP's investments in community sub-projects are slightly below this average at 73 percent of program costs. Nigeria FADAMA III appears as an outlier as it includes sizeable components for capacity building for communities and local governments, and a special research program.

90. The “NSP Total” figure includes US\$71.9 million in community subproject funding that was implemented through or coordinated by NSP CDCs.¹¹⁰ This figure is a very conservative estimate of the amount of external funding that is channeled through CDCs, as hundreds of external sub-projects recorded by NSP management to do not include budget details, and even more are not captured in the MIS as all. However, the fact that CDCs are attracting funding and implementing project and other development-related activities gives credence to the positive impacts on local governance described earlier.

¹¹⁰ Figures provided by the NSP Engineering Department.

Figure 2: Institution Building and Facilitation Support as Percentage of Total Program Costs¹¹¹

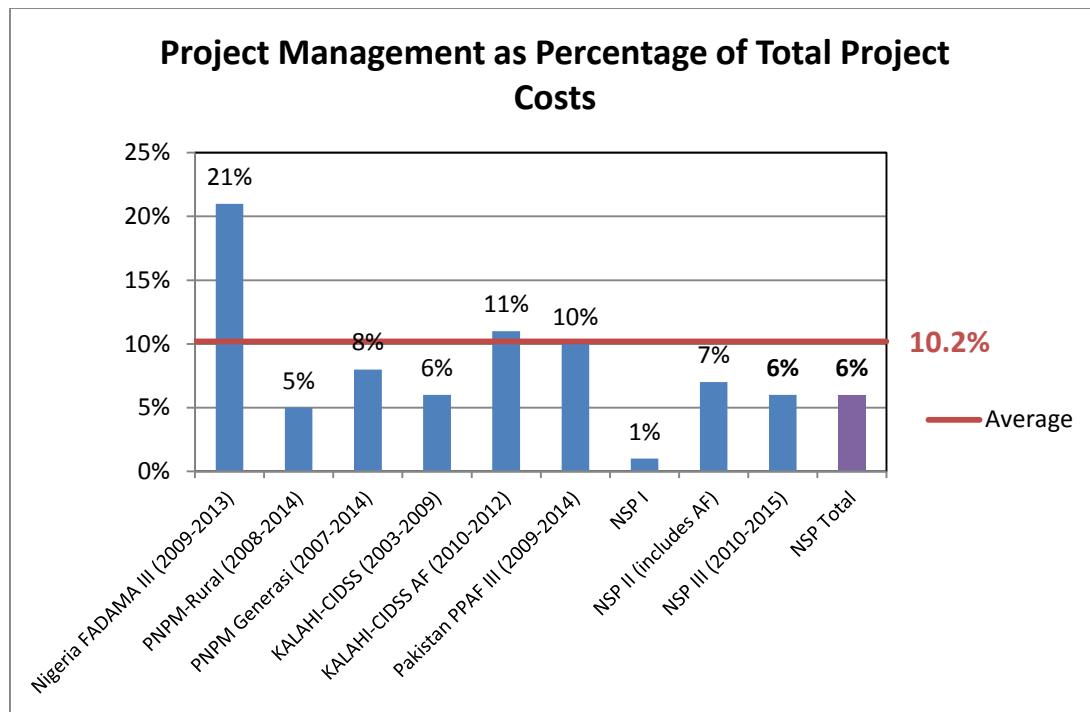


91. 21 percent of total NSP funding is spent on institution building and facilitation support, activities that are carried out primarily by national and international NGO facilitating partners (FPs). This is above the average of 15.7 percent of funds spent by the other program sampled. The NSP figure includes high-cost items such as the overheads charged by FPs to mobilize women social mobilizers. In Afghanistan women facilitators must be accompanied by a chaperone, which in effect raises the facilitation cost by one-third. This figure also includes security premiums charged by FPs working in high risk areas. As shown below these costs are much lower than those charged by contractor implemented project. Only Nepal PAF, which includes large market linkage and capacity building components, and Nigeria FADAMA III, which includes a large component to strengthen farmer's cooperatives devote a larger share of project financing to this cost category than NSP III. The first phase of KALAHICIDSS invested only 5 percent of project funding in this category. This increased to 17 percent during the additional financing phase, which is likely due to the project's expansion to remote, hard to reach areas.

92. The NSP figures show that over time the percentage of funds spent on institutional building and facilitation support is declining. This is somewhat counterintuitive given that the program is expanding to more insecure, geographically isolated locations under NSP II and III. This therefore suggests that NSP management and facilitating partners are finding efficiencies. Program benefits to women described above also suggest that the returns on high-cost items such as female social mobilizers are high.

¹¹¹ Cost categories are inconsistent across the three phases of NSP. In NSP I, Oversight Consultant costs were categorized as institutional development and facilitation whereas the Oversight Consultant costs were categorized under project management in NSP II and III.

Figure 3: Project Management as Percentage of Total Project Costs



93. NSP's average project management cost of 6 percent is well below the average of 10.2 percent for the programs sampled. If Nigeria FADAMA III, an outlier, is removed from the sample, the average project management cost is 7.2 percent.

b. NSP average component costs compared to CDD projects in FCS

94. An analysis of CDD project costs in Fragile and Conflict Affected Situations (FCS) only¹¹² shows that these projects cost on average 65 percent for sub-projects, 22 percent for facilitation and institution building, and 13 percent for project management. NSP I-III therefore spends more on basic services and infrastructure sub-projects (73 percent) and less on facilitation and institution building and project management (21 and 6 percent respectively) relative to CDD programs in other FCS.

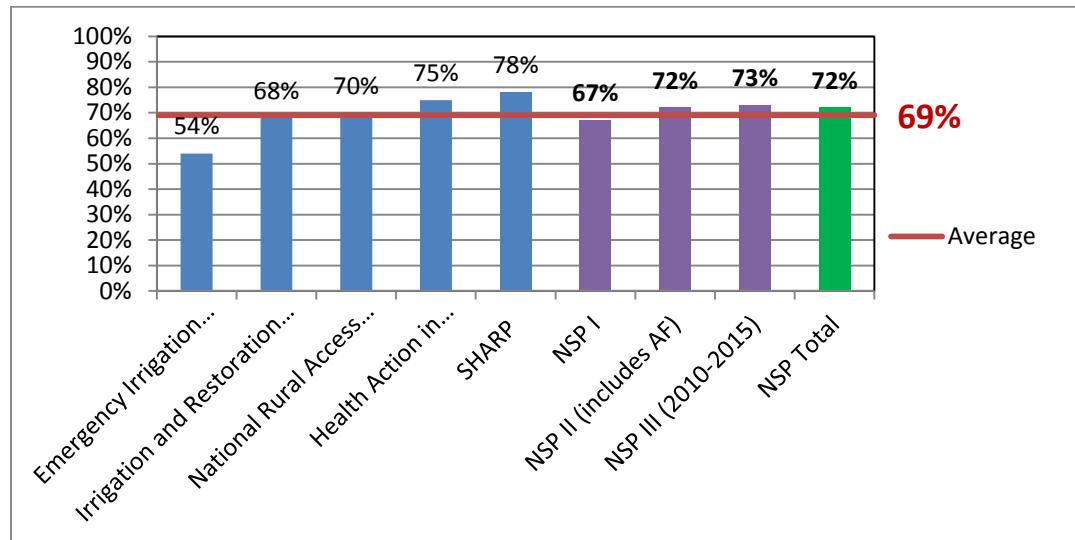
c. NSP component costs compared to other projects in Afghanistan

95. The same methodology is used to evaluate NSP component costs relative to other projects in Afghanistan. This analysis is hampered by the difficulty in obtaining cost data from projects in Afghanistan, particularly those financed off-budget. As such this section relies exclusively on data made publicly available through World Bank project documents. The sample is therefore limited to National Priority Programs that include (a) the Emergency Irrigation Rehabilitation Project, (b) its successor the Irrigation Restoration and Development Project (IRDP), (c) the National Rural Access Project (NRAP), (d) the Strengthening Health Activity for the Rural Poor (SHARP) project, and the (e) Health Action in Transition (SEHAT) project.

¹¹² FCS sample include projects in Haiti, Burundi, Nepal, South Sudan, and Myanmar.

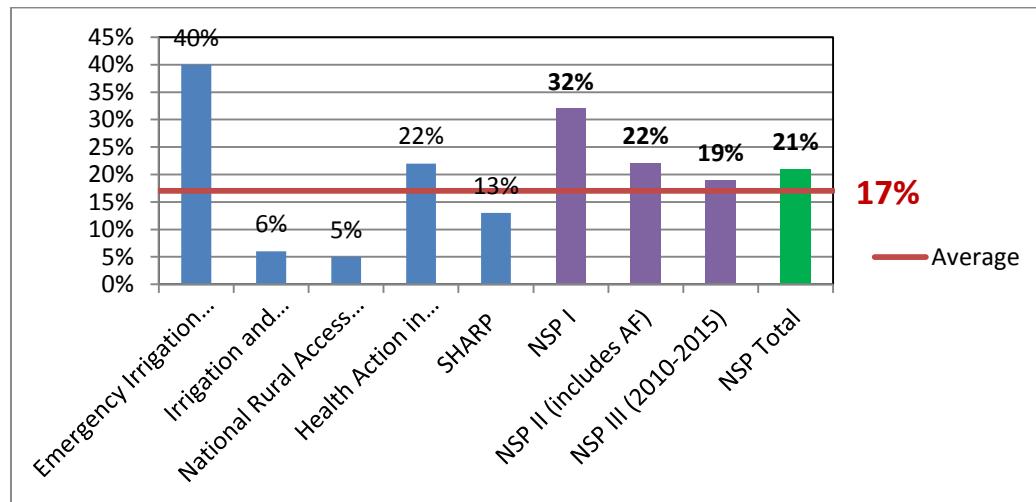
96. There are significant limitations in making direct comparisons with these projects, as projects in the sample have differing development objectives, implementation arrangements, geographic coverage, and outputs, to name some of the more salient differences. The analysis below therefore at best provides a general sense of NSP's costs relative to other relatively large-scale government executed projects in Afghanistan.

Figure 4: Investments in Basic Services and Infrastructure as a Percentage of Total Project Cost



97. Investments in Basic Services and Infrastructure make up on average 69 percent of total project costs across the projects surveyed. NSP's allotment of 72 percent of project funds for this category is therefore slightly above average.

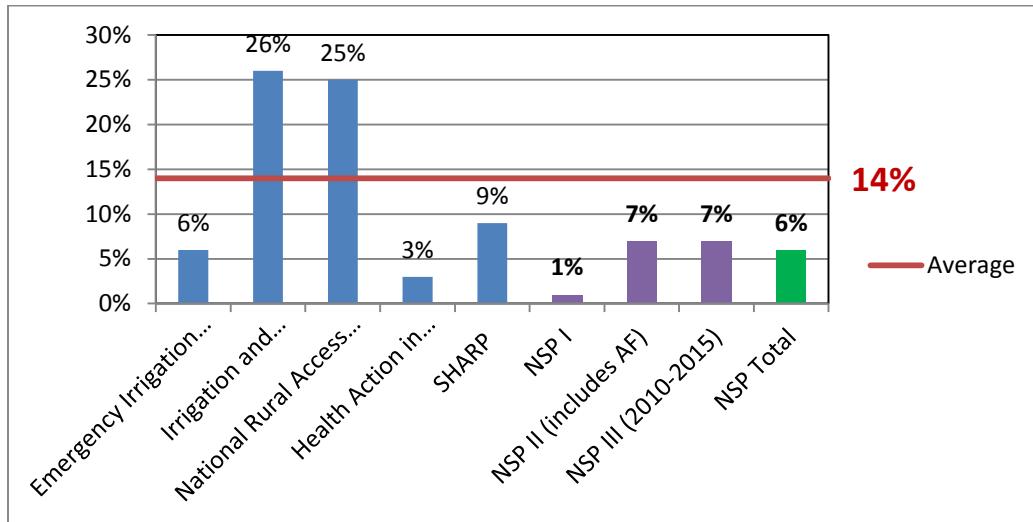
Figure 5: Institution Building and Facilitation Support as a Percentage of Total Project Cost



98. The surveyed projects in Afghanistan invest on average 17 percent of total costs in institution and facilitation support. That NSP has spent 21 percent of total costs on this category is unsurprising given its national scale and its objective of strengthening community capacity in a difficult operating environment. It should be noted that the Emergency Irrigation Rehabilitation Project was implemented at time when

the Ministry of Water and Power was operating at minimal capacity. The project's component therefore included funds to rebuild the ministry's physical infrastructure.

Figure 6: Project Management as a Percentage of Total Project Costs



99. Finally, NSP's allocation of six percent of project funds for project management is below the average of 14 percent for the other Afghanistan projects surveyed. The NRAP project makes substantial investments in the project management capacity and implementation support for the Ministries of Rural Rehabilitation and Development and Public Works. Similarly, IRDP invests substantially in the Ministry of Water and Power.¹¹³

d. NSP component costs compared to bilateral donor-funded projects in Afghanistan

100. This section of the analysis attempts to compare NSP's component costs with similar projects financed by bilateral donors and implemented by third party contractors. This implementation modality is common in Afghanistan, and comprises a large share of development and reconstruction aid to the country. According to the Special Inspector General for Afghanistan Reconstruction (SIGAR), the United States government has appropriated \$96.57 billion between 2002 and June, 2013 for Afghanistan reconstruction for the Departments of Defense, State and the United States Agency for International Development (USAID).¹¹⁴ Again data from off-budget, third party implemented projects is difficult to obtain. The analysis below therefore relies exclusively on audits made available publicly on the SIGAR website. The USAID-financed Local Governance and Community Development (LGCD)¹¹⁵ and Stabilization in Key Areas (SIKA) projects make interesting comparators with NSP. Similar to NSP, LGCD and SIKA made

¹¹³ It is worth mention that, using a slightly different methodology, Atos consulting (in their cost analysis for NSP III previously cited) calculated a breakdown of 78.8% for block grants, 4.7% for CDC institution building, and 15.6% for delivery costs (basically management and overheads).

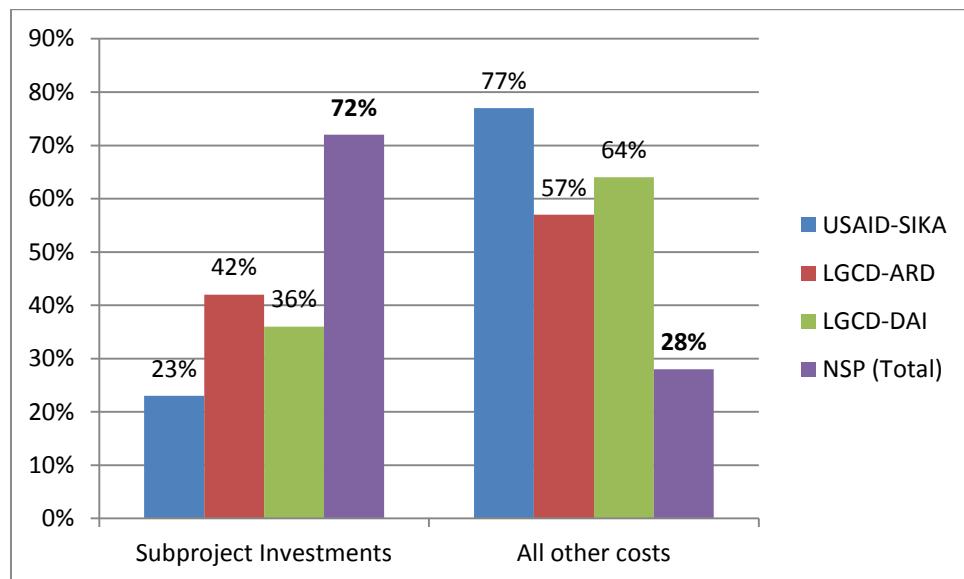
¹¹⁴ Office of the Special Inspector General for Afghanistan Reconstruction. "USAID Assistance to Afghanistan Reconstruction: \$13.3 Billion Obligated between 2002 and 2013," SIGAR, January, 2014.

¹¹⁵ Office of the Special Inspector General for Afghanistan Reconstruction. "USAID Spent Almost \$400 Million on an Afghan Stabilization Project Despite Uncertain Results, but Has Taken Steps to Better Assess Similar Efforts," SIGAR Audit 12-8.

community-level investments in infrastructure and basic services. Likewise these projects aimed to build the capacity of sub-national governments, and operate in high risk areas.

101. The SIGAR audit materials allow project costs to be broken down into two primary components: (a) sub-project investments, including small-scale infrastructure, basic services, vocational training, and so on; and (b) “all other costs,” which consists of project management fees, overheads, and security costs for the USAID projects. For NSP, the “all other costs” category refers to the institutional and facilitation support and program management components.

Figure 7: Percentage of Project Costs Invested in Community Subprojects and "All other Costs"



102. Figure 6 shows that NSP invests a far greater percentage of total costs in community sub-projects than LGCD or SIKA. NSP expenditures on institution building, facilitation support, and project management are minuscule relative to LGCD and SIKA. The SIGAR audit found that SIKA had spent \$157 million on “estimated plus fixed fee” for only \$46 million in grants under contract.¹¹⁶ These figures, although based on a small sample, suggest that bilateral donor funds for community development can be invested much more efficiently through NSP as opposed to third party contractors.

e. Sub-project unit cost comparison

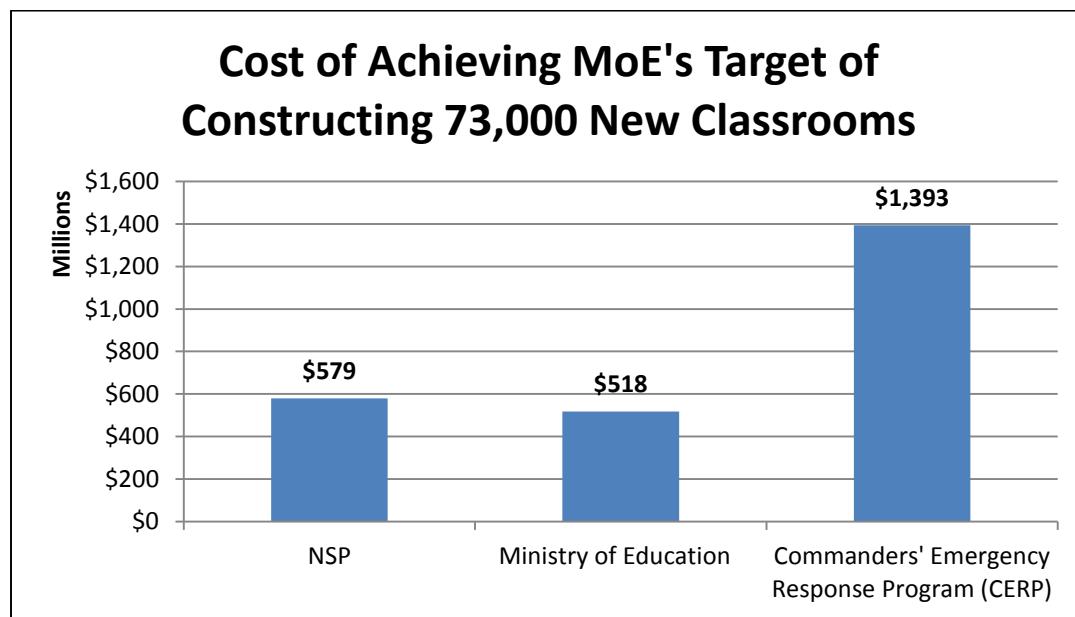
103. This chapter concludes with an attempt at comparing NSP sub-project unit costs with unit costs of other projects in Afghanistan.¹¹⁷ The NSP Engineering Department maintains an extensive database of unit costs. However, unit cost data from other projects in Afghanistan is again difficult to obtain. The matrix of unit costs in Annex 1 therefore relies on information made available publicly. An analysis of the limited data available shows that, with the exception of classroom construction, NSP sub-projects are cheaper than similar sub-projects implemented by third party contractors and NGOs.

¹¹⁶ Office of the Special Inspector General for Afghanistan Reconstruction. “Stability in Key Areas (SIKA) Programs: After 16 Months and \$47 Million Spent, USAID Has Not Met Essential Program Objectives,” SIGAR Audit 13-16, p. 5.

¹¹⁷ The NSP III Financial and Economic Analysis report includes a unit cost analysis that draws on additional sources of data on unit cost comparisons. The report also concludes that, with the exception of school classroom construction, NSP sub-project unit costs are at the lower end of comparator unit costs from other programs.

104. It costs NSP between \$7,700 and \$8,100 to construct a primary or secondary school classroom. The Ministry of Education, in its “National Education Strategic Plan for Afghanistan, 1385-1389” estimates that it would cost \$7,099 per classroom if constructed through the ministry.¹¹⁸ A school construction project implemented by a third-party contract financed through the Commanders’ Emergency Response Program, by contrast, cost over \$26,000 per classroom.¹¹⁹ Figure 7 uses this unit cost data to extrapolate the cost of achieving the Ministry of Education’s target of constructing 73,000 new classrooms. It would cost NSP approximately \$61 million more than what the Ministry of Education estimates it would cost via its internal construction department. However, policymakers would need to weigh this potential cost savings against the positive externalities of constructing schools through NSP, including rural employment generation and greater community ownership, which increases the likelihood that the schools will be protected and maintained.

Figure 8: Estimated Costs of Construction 73,000 New Classrooms through NSP, the Ministry of Education, or the CERP Contractor Modality



105. NSP unit costs for health clinic construction are significantly below those reported for a CERP-financed clinic, and two clinics constructed by the NGO Swedish Committee for Afghanistan (SCA) in a remote part of Samangan province. The NSP cost of \$390 per solar panel is similar to the cost of \$383 per panel incurred by the contractor International Relief and Development to equip ten shopkeepers in Kandahar City. NSP’s unit cost of \$10,725 for one km of tertiary road graveling is well below what USAID’s estimate of \$47,000 per km as the lowest cost incurred for tertiary road graveling.

¹¹⁸ “National Education Strategic Plan for Afghanistan, 1385-1389,” Islamic Republic of Afghanistan Ministry of Education, *Hamal 1386*, p. 113. It should be noted that NSP reports actual costs while the Ministry of Education reports estimated costs.

¹¹⁹ Office of the Special Inspector General for Afghanistan Reconstruction. “Bathkhak School: Unauthorized Contract Design Changes and Poor Construction Could Compromise Structural Integrity,” SIGAR Inspection 13-10.

Attachment 1: Sub-project Unit Cost Comparison

Sector	Subproject Title	Main output unit	Program/ Agency	Financed Subprojects					Data Source
				# of subprojects	Total expected output	Total Budget (US\$)	Average cost/subproject (US\$)	Average cost/ output (US\$)	
Education	Primary School Building Construction	# of Rooms	NSP	750	3,213	26,163,530	34,885	8,144	NSP Engineering Department
	Secondary School Building Construction	# of Rooms	NSP	395	1,678	12,960,115	32,810	7,725	NSP Engineering Department
	School Building Construction	# of Rooms	CERP	1	10	262,899	262,899	26,290	SIGAR Inspection 13-10
	School Building Construction	# of Rooms	Ministry of Education		73,000	518,200,000		7,099	Estimated National Education Strategic Plan for Afghanistan, 1385-1389
Health	Clinic Building Construction	#	NSP	109	61	3,695,402	33,903	60,820	NSP Engineering Department
	Clinic Building Construction	#	CERP	1	1	160,000	160,000	160,000	SIGAR Inspection 13-7
	Clinic Building Construction	#	SCA	2	2	302,000	151,000	151,000	http://www.swedishcommitt ee.org/sca-constructs-basic-health-centers-in-remote-areas-of-samangan
Power	Solar Panel Supply	# Panels	NSP	2,256	125,347	48,940,753	21,694	390	NSP Engineering Department
	Solar Panel Supply	# Panels	IRD	300	1,800	690,000	2,300	383	SIGAR Alert 13-2
Transport	Tertiary Road Gravelling	Km	NSP	6,350	14,008	150,232,346	23,659	10,725	NSP Engineering Department
	Tertiary Road Gravelling	Km	USAID					47,000	http://www.usaid.gov/afghanistan/frequently-asked-questions

Annex VI: CDCs; Strategic Issues and Options

I. INTRODUCTION

1. **The near national coverage of CDCs is widely perceived by key line ministries and development partners as the most important achievement of NSP that should be sustained.** By the end of NSP-III, CDCs will be established in 37,230 communities or approximately 91 percent of the total 41,000 communities expected to be present in Afghanistan¹²⁰, providing the most extensive outreach throughout the country. There is wide recognition that CDCs' national outreach has helped establish government presence and institutional structure to deliver local governance and development in remote and insecure areas of Afghanistan, and helped improve state-citizen relationship. This has resulted in wide recognition that CDCs' coverage as well as the social gains made through CDCs need to be sustained and capitalized on. Key line ministries, albeit to varying degrees, acknowledge the potential role CDCs can play in helping extend various aspects of their services. The NSP impact evaluation¹²¹ provides evidence that corroborates these views. The evaluation found durable impacts beyond the project that the creation of gender-balanced CDCs increases the female representation in local institutions by 38 percentage point and increases the provision of governance services particularly to women. It also found some other positive impacts though they were only observed during CDCs' sub-project implementation and not beyond; increase in the service provision by village leaders and institutions; increase in the villagers' participation in local governance¹²²; and improvement of people's perception of government legitimacy.

2. **Communities also have generally positive views on CDCs, though the support is contingent on their perceived performance and legitimacy.** The Asia Foundation's Survey of the Afghan People in 2013, which surveyed a nationally representative sample of 9,260 Afghan men and women, found that 58 percent of the respondents are aware of the CDCs, and among those, 63 percent are satisfied with their performance.¹²³ A study by Tufts University¹²⁴ also found that communities across the country consistently provided positive views on NSP despite their generally negative view of most development programs. According to the study, "the language community members used to describe NSP was remarkably consistent, such as: 'responsive to the community,' 'transparent,' 'communities identify their own needs,' 'NSP is in our own hands,' and 'people came to believe that their vote had meaning.'" People also largely reported being pleased with the choice of projects. That said, other studies have found that there is significant variation in the levels of community support for CDCs, which is contingent on CDC's perceived performance and legitimacy primarily defined as the ability to mobilize development funds and manage project implementation. Perceptions of performance and legitimacy are in turn influenced by the profile and behavior of the CDC members, prior experience with the government, security level, pre-existing norms and institutional structure among others.¹²⁵

II. RELEVANCE OF CDCs TO AFGHANISTAN'S TRANSITION

¹²⁰ Based on NSP estimate.

¹²¹ Beath, A., et.al. (2013). Op.cit.

¹²² This is measured by the attendance in general village assembly meetings and the desire to change the decisions of leaders.

¹²³ The Asia Foundation (2013). op.cit.

¹²⁴ Fishtein, P. and A. Wilder (2012). op.cit.

¹²⁵ Altai Consulting (2013); Nixon (2008), Brick (2008), Torabi (2007).

3. As Afghanistan goes through a major transition, the new government needs to seize the limited window of opportunity to restore people's lost confidence in government and generate a new momentum for the country's reform. The new government needs to build its credibility by moving quickly to address people's core grievances. These grievances include perceived or real corruption in national and local state institutions and lack of government accountability. While it takes a long time to establish effective and responsive institutions, the Government can capitalize on already established and relatively functional CDCs to send signals to its citizens that it is serious about tackling corruption and improving government accountability.

4. CDCs can help the Government address people's core grievances in three ways. First, given the near universal coverage, CDCs extend state outreach to remote and insecure areas which are inaccessible by the Government and help improve the state-citizen relationship. Second, CDCs' use of NSP block grants to finance activities that improve people's access to basic services helps strengthen the Government's legitimacy. Finally, by instilling inclusive and transparent local decision-making that allows the poor and the vulnerable to participate, CDCs give voice to the marginalized and help build downward accountability at the local level. These are all core ingredients to help the Government consolidate its state building efforts.

5. Support to CDCs through NSP, however, should evolve over time and be right-sized in relation to Afghanistan's changing needs and circumstances. The roles and functions of CDCs as well as the extent and type of support to be provided by NSP to CDCs need to change in light of the transition. MRRD's new policy to emphasize rural productivity enhancement, consolidate existing five national rural development programs into NSP,¹²⁶ and increase financial efficiency will have significant impact on the revised roles and implementation modality of CDCs. Moreover, with declining external donor resources, the level of NSP inputs to support the CDCs will need to be recalibrated while securing alternative funding sources.

III. CDCs' FUTURE DIRECTION

6. In the short-term (2-3 years), NSP should continue to support CDCs in its current form so as to safeguard the gains made to date and avoid creating gaps in service provision, with more emphasis on productive investments and cost efficiency. CDCs should continue to fulfill the following core functions in the short-term while continuing the ongoing change management efforts to gain cost efficiency¹²⁷:

- (i) **Maintain government outreach.** CDCs' coverage needs to continue to expand throughout the country to ensure government presence especially in insecure and remote areas. As CDCs derive their acceptance and legitimacy primarily from their ability to mobilize financial resources for their communities, it is vital to ensure that smaller but more frequent block grants are provided under NSP until they can secure a regular alternative funding stream.

¹²⁶ The four national programs to be streamlined are the: (i) Afghanistan Rural Enterprise Development Program (AREDP), which aims to provide increased income and employment opportunities through rural access to finance and small/micro rural enterprise development; (ii) National Area Based Development Program (NABDP) which provides productive infrastructure at the district-level and strengthens District Development Assemblies for socio-economic development planning; (iii) National Rural Access Program (NRAP) that provides rural road access at the district and community level; and (iv) Rural Water Supply, Sanitation & Irrigation Program (Ru-WatSIP), which is currently under preparation and will aim to provide access to water and sanitation services. The concept note being prepared by MRRD will indicate how the Ministry proposes to transition these projects, each with their own separate mandates, legal and financial agreements with relevant development partners, into a single umbrella program.

¹²⁷ See Geopolity report that specifically looks into NSP's efficiency issue.

- (ii) **Provide basic services.** CDCs will need to progressively turn into a “whole-of-government” platform that plans and coordinates local level service delivery from other line ministries. There is also strong pressure from the current administration to spin-off services that can be provided by other line ministries such as tertiary road and irrigation canal construction. However, until line ministries develop the capacity to take over some of the service delivery roles that CDCs have been fulfilling, CDCs should continue to provide those services using NSP block grants so as not to leave any critical gaps in local service provision.
- (iii) **Promote good governance.** CDCs should continue to promote good governance at the local level by implementing principles of participation, inclusiveness, transparency, and accountability through NSP’s project implementation cycle. CDCs should also help maintain the gains achieved in women’s empowerment through the mandated inclusion of women in CDCs, which has resulted in changing attitudes toward women’s role in local governance.
- (iv) **Contribute to rural productivity enhancement/income generation.** As MRRD consolidates Afghanistan Rural Enterprise Development Program (AREDP) along with other rural programs into NSP, NSP should scale-up AREDP’s activities. Concretely, NSP should continue to generate short-term employment opportunities through labor intensive infrastructure construction, emphasize on connecting local level infrastructure to *meso*-level infrastructure to maximize the economic impact, organize CDC members and provide access to skills and credit as small rural enterprises, and help link CDCs to value chains.

7. Use of cluster CDCs (CCDCs) should progressively expand, but they should not replace CDCs. MRRD started piloting the creation of CCDCs since 2009 in three provinces of Balkh, Bamiyan, and Nangarhar. The Government is now promoting the idea of clustering primarily for efficiency as both transaction and investment costs would be considerably lower in dealing with about 6,000 CCDCs rather than close to 40,000 CDCs. While impact evaluation report is yet to be completed, anecdotal evidence suggests that CCDCs bring benefits in terms of: (i) reduction in facilitation costs; (ii) reduction in the size of necessary block grants; (iii) greater economic impacts through investment in larger scale infrastructure; (iv) promotion of linkages between CDCs and higher sub-national government; and (v) enhanced social cohesion across communities. On the other hand, clustering also poses some serious challenges such as: (i) constraints in women’s substantive participation; (ii) operation and maintenance of larger and more complex sub-projects; (iii) possible elite capture/inequitable distribution of benefits across communities; (iv) complexity in facilitating inter-communal decision-making and ensuring technical quality of more complex sub-projects; and (v) difficulty in standardizing the size and composition of CCDCs as optimal style will vary based on socio-geographical contexts and needs on the ground. This study therefore recommends that CCDCs should be progressively expanded where appropriate as an option for complementary service delivery mechanism, but CCDCs should not be made mandatory or created in a top-down manner to replace CDCs.

8. In the longer-term (3-7 years), CDCs should evolve into “whole-of government” local-level institutions that undertake community governance, local development planning, and support service delivery of relevant sector agencies. Concretely, CDCs should craft comprehensive community development plans in a participatory manner that serve as *the* village development plan which other line ministries and development actors finance, and CDCs must serve as a platform through which relevant service providers deliver the last mile services. By unpacking the necessary functions for each service, one can discern a set of generic functions common across all sectors that CDCs are well placed to fulfill. These include: community mobilization; participatory targeting; information dissemination (e.g. vaccination

awareness campaign); monitoring (e.g. social audit); provision of systems and capacities for procurement and financial management; operation and maintenance (O&M) mobilization; and supporting enhanced role of women in service delivery. Indicative list of service delivery functions CDCs can perform in key sectors is summarized in the table below. Whether CDCs take on limited administrative roles, and if so which ones among those listed in Schedule 2 of the Subnational Governance Policy for Village Councils (see Annex), should be determined through a broader discourse that assigns specific functions to different levels of sub-national government.

CDCs' Indicative Service Delivery Functions in Key Sectors

Sector	Current Functions	Possible Functions
Health		<ul style="list-style-type: none"> • Targeting of the marginalized e.g.- Kuchis • Immunization awareness raising/coverage • Micro-nutrients awareness raising • Encourage screening • Clinic referral • Construction of health service sub-centers • Construction of potable water facilities at clinics and schools • MIS data validation • Targeting validation for conditional cash transfer • Collecting client feedback on services
Education (EQUIP)	<ul style="list-style-type: none"> • At least 1 out of the 10 community members in school management <i>shuras</i> are CDC members. • School <i>shuras</i> are provided with below \$100,000 school construction; \$3-5,000 school quality enhancement grant; and \$2,500/school for O&M. 	<ul style="list-style-type: none"> • Mobilization of operation and maintenance (O&M) funds from respective communities. • Mobilization of unskilled laborers for school construction. • School construction management. • Financial management of the school grants.
Rural Roads (NRAP)	<ul style="list-style-type: none"> • Small culverts, graveling of small roads below \$60,000/CDC provided to CDCs. • Annual performance-based contracts for routine maintenance and emergency maintenance. • CDCs provide unskilled laborers to the contractors. 	<ul style="list-style-type: none"> • Performance evaluation/beneficiary feedback on contractor-implemented roads. • Consensus building for land acquisition/involuntary resettlement for new road construction or road widening.
Irrigation	<ul style="list-style-type: none"> • Tertiary irrigation schemes for below 100ha or 1-2 villages are constructed by CDCs through NSP. • For primary and secondary, CDCs are consulted to identify the water needs, though <i>Mirab</i> plays the central role. • CDC members are included in the irrigation associations established for each irrigation canal. 	<ul style="list-style-type: none"> • Facilitate outreach to women through female CDC members. • CDCs can be a part of the Community Problem Solving Committee that is entrusted with the construction and O&M of the irrigation schemes.
Agriculture	<p>[NHLP]</p> <ul style="list-style-type: none"> • CDCs help identify Lead Farmers. • CDCs mobilize their members to come to project orientation meeting. • CDCs procure goods, works and services below US\$60,000. Cash is transferred to their NSP bank accounts. • MoU signed between NHLP and CDCs to give access to communal land for dryland horticulture. 	<ul style="list-style-type: none"> • Distribution of agricultural inputs. • Social audit on the use of communal land. • Help outreach to ensure no exclusion based on ethnicity, religion, gender. • Strengthen social audit.

	<p>[OFWMP]</p> <ul style="list-style-type: none"> • CDC members that are users of small irrigation schemes are members of the irrigation association established under the project for O&M. • CDCs mobilize unskilled labor for construction, minor repairs, and cleaning. 	
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IV. PRECONDITIONS FOR CDCS' SUCCESSFUL TRANSITION

9. **Successful transition of CDCs must be carefully calibrated and phased over several years so as not to disrupt the gains made to date.** There are three key preconditions that need to be met to make the transition successful: (i) legalizing CDCs with well-articulated governance and service delivery roles; (ii) establishing an enabling policy framework to enable direct funds transfer from line ministries to CDCs; and (iii) equipping CDCs with necessary skills to fulfill their expanded roles and functions, and strengthening the accountability mechanism.

A. Legalization of CDCs

10. **While there has been incremental progress in the utilization of CDCs to help extend and improve service delivery, acceptance of CDCs as the “whole-of-government” local governance and development institution is still limited.** Spontaneous or intended linkages between CDCs and line agencies are happening under projects by MoE, MRRD, MAIL, and other development partner-funded projects.¹²⁸ To date, over 34 development partners and NGOs have had projects either implemented or coordinated by CDCs.¹²⁹ While the degree of CDC involvement varies among projects, the increasing number of projects that use CDCs is a testament that they are recognized as a useful vehicle for local development and service delivery. Indeed, key stakeholders from multiple agencies interviewed for this study highlighted CDCs’ geographical and social outreach (to remote and insecure areas as well as to the most vulnerable groups), cost efficiency, capacity on project management, and ability to function in insecure environments as key benefits to using CDCs. However, acceptance of CDCs as the “whole-of-government” institution is still limited, and linkages between CDCs and line ministries are on an *ad hoc* project basis.

11. **The joint MRRD-IDLG “Policy for Improving Governance and Development in Districts and Villages”¹³⁰ (the Policy) is a step in the right direction but lacks compliance.¹³¹** The Policy, which was

¹²⁸ ARTF funded national programs in particular have made conscious effort to utilize CDCs where possible. For example, National Rural Access Program (NRAP) under MRRD outsources civil works below US\$60,000 to CDCs and contracts them for routine and emergency maintenance. National Area Based Development Program (NABDP) under MRRD creates District Development Assemblies (now to be consolidated into District Coordination Committees) wholly from CDC representatives. National Horticulture and Livestock Support Project (NHLP) under MAIL uses CDCs as an entry point for project introduction, identification of lead farmers, monitoring, procurement of goods (such as saplings) below US\$60,000, and have signed Memorandum of Understanding (MoU) between NHLP and CDCs to gain access to communal lands. Under On-Farm Water Management Project (OFWMP) under MAIL, CDCs mobilize unskilled labor for construction, minor repairs, and cleaning of small irrigation schemes, and Irrigation Associations are formed based on CDCs and *Mirab*. Under Second Education Quality Improvement Project (EQUIP-II) with MoE, at least one CDC member is included in the school management *shura*.

¹²⁹ NSP data.

¹³⁰ GoIRA (2013).

¹³¹ Previous attempts to legitimize CDCs include the passage of CDC By-Law which was approved by the cabinet in 2006, followed by the Sub-National Governance Policy (SNGP) which was approved by the cabinet in 2010. The By-Law was not legally binding to any ministries other than MRRD and had little impact. Due to lack of IDLG’s capacity and financial resources, the provisions of SNGP were never implemented.

approved by the Cabinet in December 2013, acknowledges that insecurity and lack of resources have prevented constitutionally mandated Village Councils (VCs) from being established, and proposes CDCs as the means to provide development and governance at the village level as an interim measure. It also encourages that CDCs continue to be established across the country. The Policy effectively expands the CDCs' mandate from one that applies participatory and inclusive processes in resource allocation and project implementation under a development project to one that encompasses broader socio-economic development and governance at the community level. Yet many line agencies interviewed by the study team were not aware of or were not willing to adhere to the Policy due to lack of political will and unclear legal status of the Policy itself.

Principal roles of the CDCs - Policy for Improving Governance and Development in Districts and Villages¹³²

- To act as a formal institution for the Government and other actors to ensure community representation and participation in community-based governance and socio-economic development, including service delivery;
- To act as a formal institution for the Government and other actors to exercise oversight of planning, decision-making and delivery in the implementation of development projects and services at the village level, and to undertake service delivery where resourced to do so; and
- To provide inputs to bottom-up development planning.

12. Legalizing CDCs through a “CDC Law” with well-articulated service delivery and governance roles is key to operationalizing the Policy. To put an end to the decade-long debate on the relations between CDCs and VCs, the current administration intends to formalize CDCs through the passage of a “CDC Law” and clearly distinguish CDCs from VCs. The law would constitute CDCs as a “whole-of-government” platform for community development planning, coordination, and monitoring that aims to institutionalize the principles of good governance with limited formal administrative functions, consistent with their voluntary nature. The law would mandate all line ministries to work through CDCs as appropriate, and would enable public funds to be channeled to CDCs. Such formalization of CDCs will go a long way in addressing the long standing political resistance among line ministries to use CDCs which are still perceived as the products of MRRD/NSP and vehicles to deliver NSP sub-projects. MRRD, together with IDLG and Ministry of Justice, is expected to draft the law in the coming months. “CDC Law” should clearly articulate the CDCs’ roles and functions so as not to cause confusion when specifying the roles of different sub-national governments.

B. Establishment of an Enabling Policy Framework

13. Legalization alone is not enough. Supporting policies that allow line ministries to channel funds directly to CDCs also need to be crafted. Currently, CDCs can only receive NSP funds in their bank accounts. For line ministries to transfer funds to the CDCs’ bank accounts, they either have to draw up a Memorandum of Understanding (MoU) between Da Afghanistan Bank, MRRD, and MoF, or open a separate bank account. If the former, there is a question on how to manage funds from different sources. If the latter, it requires additional effort by the CDCs to maintain a number of accounts. There are existing practices of both options. Going forward, rather than creating numerous separate bank accounts that are cumbersome for CDCs to manage, it is advisable to enable the current CDC bank account to receive funds from multiple sources through a blanket MoU between Da Afghanistan Bank, MRRD, MoF, and interested ministries. Additionally, NSP manages to transfer funds to CDCs in a timely manner as they maintain a floating account, which is not allowed for other ministries. Unless MoF drastically improves its business

¹³² Policy for Improving Governance and Development in Districts and Villages.

process, the conventional fund flow takes too long. Discussions on improving the policy framework needs to take place concurrently with the discussions on “CDC Law” through an inter-ministerial working group (at the level of the Deputy Minister) so that policy environment that allows CDCs to function in their new capacity is ready once the law is enacted.

C. Strengthening CDCs’ Capacity

14. **CDCs’ capacity and accountability to undertake expanded roles need to be strengthened.** CDCs’ capacity varies greatly across the country based on various factors including the profile and quality of members, exposure to development programs, security level, pre-existing norms and institutional structure. To ensure that CDCs actually have the capacity to take on broader responsibilities, NSP should assess the capacity building needs and design appropriate training modules. It is important to phase the expansion of their roles based on the CDCs’ maturity. NSP’s CDC maturity assessment which measures CDCs’ capacity in terms of internal management, transparency, accountability, linkages with external constituents etc. is a useful tool to gauge CDCs’ readiness. The results of the maturity assessment should be widely shared with all line ministries. Furthermore, MRRD needs to explore measures to strengthen CDCs’ accountability mechanism vis-à-vis the government and the communities. Measures could include strengthening of grievance reporting and redress systems; applying information and communications technology (ICT), such as the use of mobile phones to report grievances and/or mobile survey apps to seek information from the communities; strengthening independent monitoring; regular monitoring by MRRD and other line ministries; and clear guidelines on penalties to be imposed in case of misbehavior.

15. **MRRD must assess the necessary facilitation to equip CDCs for the newly mandated roles, and revisit the role and functions of the Facilitating Partners (FPs).** Current administration has a strong policy to minimize if not completely eliminate the role of the FPs. While this may not be realistic in the short-term, MRRD needs to develop a clear strategy on what the necessary facilitation is to equip CDCs for their expanded roles on rural productivity and as a whole-of-government body for local governance and service delivery. Subsequently, there is a need to articulate who is going to provide what kind of support, clearly define the FPs’ roles and functions within the overall scope of facilitation, and develop a roadmap with clear timeline on how the FPs’ services will be phased out over time. The capacity building for CDCs should include economic development skills to diagnose constraints and identify opportunities for economic development and income generation, such as spatial planning, market chain analysis, micro-enterprise development, access to finance, as well as general development skills to conduct participatory situation analysis, develop a holistic community development plan, mobilize resources from different agencies, manage development interventions, and resolve disputes.

16. **Continue to inject smaller but more frequent block grants to sustain CDCs while tapping into alternative funding streams.** Studies¹³³ show that CDCs derive their acceptance and legitimacy primarily from their ability to bring in financial resources to their communities. Moreover, international literature on CDD¹³⁴ shows that new behaviors become institutionalized only after at least three rounds of predictable resource transfers. While provision of current levels of block grants is not realistic, the government must routinize predictable though smaller block grant transfers to CDCs while exploring alternative sources of regular funding from other line ministries.

¹³³ See Altai Consulting (2013) for example.

¹³⁴ See Wong (2012) for an overview.

Annex VII: NSP Costs and Financing

1. Overall Program Costs in Relation to Similar Programs Worldwide

1. With total external financing of more than \$2.4 billion over approximately 12 years, NSP is one of the largest CDD programs in the world. The table below presents a selection of other large CDD operations from around the world, based on World Bank data.¹³⁵

Table 6: Sample of Larger CDD Programs Worldwide

Country	Project Name(s)	dates	\$ mil (IDA/IBRD)	\$ mil (TF)	\$ mil (total)	notes
Indonesia	KDP (I, II, III, IIIB) PNPM (I, II, III, IV)	2000-'14	3464.78	100.72	3565.50	
Afghanistan	National Solidarity Prog I, II, III	2004-'15	398.00	2004.77	2402.77	
Philippines	KALAHII-CIDSS, NCDDP	2002-'19	638.12	3.92	642.04	significant co-financing (ADB & MCC)
Nigeria	FADAMA I, II, III	1993-'17	617.50	2.48	619.98	
Morocco	National Initiative for Hum. Dev. I, II	2007-'16	400.00	0.00	400.00	significant Gvnt c/part financing
Tanzania	TASAF (I, II) Productive Safety Net	2000-'17	496.20	2.46	498.66	
Pakistan	Poverty Alleviation Fund I, II, III	1999-'15	891.00	3.42	894.42	
Ethiopia	Productive Safety Nets I, II, III	2005-'15	1120.00	420.58	1540.58	
India	National Rural Livelihoods Project	2011-'17	1000.00	0.00	1000.00	

2. While overall NSP is a large program, as table 2 illustrates, in terms of block grant investments, NSP is not the most costly on a per capita per annum basis. This is due to the fact that, to date, only one block grant has been provided in a majority of NSP communities (which overall has financed an average of 1.5 sub-projects per community).¹³⁶ It is only under NSP III that a second round of block grants is being provided to CDCs.¹³⁷ Nonetheless, as Table 2 also shows, NSP is much more costly than a sampling of other international programs when costs per year are considered as a proportion of GDP, and among the most costly in terms of costs per person per year as compared to GDP per person per year. These data indicate that while NSP is not out of line on a per capita cost basis (as has been argued in previous reviews of the program's costs), Afghanistan does invest a larger percentage of its national wealth on the program than do other countries.

¹³⁵ Table 1 indicates only World Bank financing (including Trust Funds administered by the Bank) for these indicated projects. Some programs such as Indonesia's KDP/PNPM, the Philippines' KALAHII-CIDSS, and Morocco's INDH have significant additional levels of co-financing from the respective governments and from other donor sources.

¹³⁶ While several of the larger and longer-running CDD programs shown in Table 1 provide for between 3 and 4 block grants to targeted communities in the course of a 5-year project.

¹³⁷ As of December 21, 2014, approximately 11,200 CDCs have been re-mobilized for a second round of block grants, and \$382.6 million has been disbursed for 4,576 sub-projects. (Source: NSP Monthly Program Report: Qaws 1393; 22nd November to 21st December 2014)

Table 7: Cost Comparisons of Selected CDD Programs

Programs	total cost (US\$ mils)*	est. benef. pop. (mil)	Cost per Capita (US\$)			Anl costs per GDP (%)	
			overall	per year	per cycle	overall	per pers**
PNPM (Indonesia)	6,410.0	45.0	142.44	28.49	28.49	0.15%	0.80%
NCDDP (Philip.)	1,082.0	13.5	80.15	16.03	20.04	0.09%	0.62%
NSP III (Afghan.)	1,342.0	19.0	70.63	14.13	70.63	1.31%	1.86%
Total NSP (Afghan.)	1,958.6	19.0	103.09	8.59	79.91	0.80%	1.13%
PAF 2 (Nepal)	245.0	3.7	66.22	7.36	7.36	0.14%	1.07%
Haiti CDD	60.1	1.2	50.08	6.26	6.26	0.10%	0.81%
Burundi CSDP	41.1	3.5	11.81	2.36	2.36	0.33%	0.94%
Yemen Social Fund	85.0	7.0	12.14	2.02	2.02	0.04%	0.14%
MASAF 4 (Malawi)	107.0	4.1	25.85	6.46	6.46	0.63%	2.41%
MASAF 3 APL2 (Malawi)	64.0	1.6	40.00	8.00	8.00	0.30%	2.98%
Laos PRF	30.0	0.4	75.00	15.00	15.00	0.06%	1.06%
South Sudan	89.6	4.1	21.85	4.37	21.85	0.18%	0.46%

* excluding community/local Government contributions
** GDP and GDP/capita from WB data; 2012. GDP/capita is PPP

3. A review of costs per major category of expenses—which for CDD operations is generally divided between three components: block grants, community capacity building/facilitation, and project management (including monitoring and evaluation)—indicates that NSP falls within an acceptable range of percentage costs (see figures 1, 2, and 3 in Annex V of this technical paper). At present, block grants represent 73% of total project expenses, while project management stands at 6%. The slightly higher than average costs for community capacity building and facilitation (21% versus an average of 15%) is due to the higher than normal costs involved in contracting independent facilitating partners (NGOs) and their higher than normal costs for security and access, and the additional costs associated with female mobilizers. These higher than average facilitation costs, however, are in part compensated by project management costs that are below the average of 9%. The fact that NSP component costs are more or less in line with CDD programs around the world is particularly noteworthy given the tremendous logistical, capacity, and security challenges that the program faces. NSP component costs were also comparable to those of other national priority programs managed by the Government (where the average investment cost for direct services and infrastructure is 69% of total costs), but are significantly better than international programs aimed at delivering similar types of community level support (where sub-project investment costs averaged only around 35% of total project costs).¹³⁸

2. Current Program Costs in Relation to Other National Programs and Priorities

4. NSP is one of the largest national priority programs in Afghanistan, representing a large portion of the budget and absorbing a large proportion of official development assistance (ODA). The estimated \$330 million per year of NSP costs represent approximately 6.9% of total core budget expenditures in 2013, and 23.5% of the Government’s development budget.¹³⁹ In terms of the Afghanistan Reconstruction Trust Fund (ARTF), which is the single largest source of GoIRA on-budget financing from external

Table 8: NSP in relation to National Budget (FY 1392)

NSP and National Budget Analysis (FY 1392)	
Est. Expenditures	US\$, mil*
GoIRA Core Budg.	4,805.26
GoIRA Dev. Budg.	1,407.04
NSP Annual cost**	330.00
% NSP to Core	6.87%
% NSP to dev	23.45%

source: GoIRA Ministry of Finance Annual Fiscal Report, 1392, April 2014
* at 57 Afghanis/1 US\$
** based on total NSP III costs over 5 year

¹³⁸ Based on financial analysis by the USG Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) of the USAID-SIKA program and of two contractors running the Local Governance and Community Development Project.

¹³⁹ Islamic Republic of Afghanistan, Ministry of Finance “Annual Fiscal Report; 1392”, April 2014.

partners, NSP represents more than 25% of the ARTF's financing commitments and 19% of disbursements to date (see Table 3).

5. As compared with spending in other priority sectors of the Government, spending on the Agriculture and Rural Development sector (where MRRD and NSP are reflected) is the fourth highest, absorbing approximately 8.9% of total expenditures for FY 1392. However, the same sector accounts for 27.9% of the overall development budget of Government, and NSP accounts for 84.2% of the ARD development budget.¹⁴⁰ Nonetheless, it should be noted that the Government's Annual Fiscal Report only captures on-budget expenditures, which, depending on the sector, results in varying degrees of underestimates of total financing. For instance, it was estimated that bi- and multi-lateral partners provided at least the same amount of off-budget development financing for the rural development sector

Table 9: NSP as percentage of ARTF

ARTF financing of NSP (as of Oct 22, 2013)*		
	US\$ million	
	committed	disbursed
NSP I	168.69	168.69
NSP II	447.95	447.95
NSP III	950.00	544.80
Total NSP	1,566.64	1,161.44
Total ARTF	6,096.97	6,116.77
NSP as % of ARTF	25.7%	19.0%

* Source: ARTF Administrator's Report on Financial Status as of October 22, 2013.

for fiscal year 2010/11, making the overall "size" of NSP to national development financing much smaller, but still significant.¹⁴¹

6. The estimated annual cost of \$330 million for NSP is based on NSP III budgeted costs over a 5-year project cycle. However, it is important to note that this annual average costs is based on a single block grant of \$41,000 over a 5-year program period for a total of 26,800 communities (or approximately 69% of the estimated accessible communities in rural Afghanistan)¹⁴². Thus, future NSP financing projections would need to consider, and revise as appropriate, these key parameters of coverage, frequency and size of block grants.

¹⁴⁰ Ibid.

¹⁴¹ Hogg, et.al., 2013. Op.cit.

¹⁴² NSP estimates that there are 41,000 villages in the country, however, only approximately 39,000 are accessible due to security concerns.

3. Projections on Likely Financing

7. Estimates by the ARTF administrator, based on discussions and projections of current and future development partner commitments and pledges, suggest that the ARTF will continue to be financed at approximately the same current level of between \$800 million to \$1 billion per year. This estimate is backed in part by the commitments made by development partners at the Tokyo conference in July 2013, and by the relatively good performance of the Government on the Joint Monitoring Framework. As the single largest source of financing for the NSP, this bodes well for the program. However, actual funding flows into the ARTF and financing of NSP will ultimately depend on the continued positive performance of the program and the country (politically, economically, and in terms of security).

8. To date, NSP has enjoyed wide-spread and substantial support from many of Afghanistan's key development partners. Table 5 illustrates the extent to which NSP has been "preferred" by major donors supporting Afghanistan's reconstruction efforts. This table includes nine of the ten top donors to the ARTF.¹⁴³ At more than 20% of available funding from these sources on average, it is clear that direct support for the NSP has been both wide-spread and substantial. The extent to which this level of specific interest in financing will be maintained is not certain, however. Representatives of several development partners have expressed the opinion that the program is "large" and there is a need for the Government to "prioritize" its investment decisions going forward.¹⁴⁴

9. Looking ahead, it is expected that NSP will face increased challenges for securing adequate funding from the ARTF, for two main reasons. First, there is a strong likelihood that the competition from other line ministries for the resources made available through the ARTF will increase, and possibly increase substantially. This is due to a gradual reduction in funding of off-budget line activities, particularly those that are currently financed by USG given its indicated reduction of up to 50% of financing. Second, NSP costs are likely to rise if the current management model remains in place, and a desirable expansion of coverage and frequency of block grants are instituted. For example, if block grants were provided twice in a 5-year program cycle at the overall NSP average sub-project value (of \$19,500), and coverage reached all accessible 39,000 villages, given current (NSP III) cost parameters, the overall estimated annual cost of NSP would be at least \$400 million per year, or \$2 billion for a 5-year program—an estimated 40% of the projected ARTF.

10. This combination of factors will make it increasingly difficult for NSP to secure needed funds from the ARTF. Moreover, reports of slowing growth, reductions in revenue collections, and related budget austerity measures¹⁴⁵ reinforces the sense that there will be a need to seek economies and consider different operating models under the NSP—by reducing overall direct costs, optimizing management

Table 10: Indicative Preferencing by Major

Preferencing of NSP*			
Development Partners	US\$ million		%
	NSP pref.	tot. comt.	pref.
Australia	14.42	257.27	5.6%
Belgium	4.01	10.63	37.7%
Canada	147.39	596.97	24.7%
Denmark	8.02	91.62	8.8%
EU	84.11	473.96	17.7%
Finland	16.56	77.90	21.3%
Germany	80.17	543.11	14.8%
Italy	1.46	102.00	1.4%
Japan	69.00	273.00	25.3%
Norway	31.85	344.42	9.2%
Spain	9.79	91.50	10.7%
Sweden	44.23	256.36	17.3%
UK	79.68	1,260.95	6.3%
USA	865.00	1,961.82	44.1%
World Bank	398.00	2,667.00	14.9%
TOTAL	1,853.69	9,008.51	20.6%

* From CY 2002-CY 2013.

Source: ARTF Administrator's Report on Financial Status (Oct 22, 2013) and internal World Bank financial data for total IDA resources committed for activities in Afghanistan from 2002-2013.

¹⁴³ The exception being the Netherlands, the sixth largest donor to the ARTF.

¹⁴⁴ Based on discussions between the Technical Assistance team and key AFTF development partners in November 2013, and March 2014.

¹⁴⁵ See "Afghanistan Economic Update", World Bank, April 2014, and related reports.

arrangements (between NSP and MRRD and FPs), and joining forces with other sector ministries to support basic infrastructure and services. In addition, the new administration's indicated emphasis on and prioritization of rural productive investments and job creation could shift support away from the NSP.

4. Options and Recommendation for NSP Financing going forward

11. In considering costs and financing options looking forward, this assessment believes that there are some key principles that the Government and development partners should bear in mind, which are based on discussions of development needs in Afghanistan as well as evidence from other CDD operations worldwide. These are:

- Continuing to deliver services to a majority of the population will be critical to stability in the transition and NSP's efforts through CDCs has proven to be effective in doing this;
- The national coverage of and support to CDCs should not be reduced as a cost-savings option;
- CDCs should be provided some level of block grants under the program to bolster their utility and legitimacy,¹⁴⁶ and
- The frequency of block grants should be increased and regularity improved to enhance impacts and strengthen Government-community linkages.

12. Maintaining national coverage and block-grant financing, and proposing to increase the frequency of that financing, will result in a further increase in NSP costs, which will be difficult to sustain. Therefore, consideration must be given to cost and financing alternatives. The table below illustrates the potential impact of the following options on a typical 5-year program:

- Reduce block grant value to the current average sub-project size of \$19,500, which should allow on average 1 sub-project per CDC,¹⁴⁷
- Further reduce block grant value to \$10,000, which alone would only allow for very small-scale investments or support of operation and maintenance activities of existing infrastructure. Alternatively, this level of block grant funding could be combined (i) across 2-3 CDCs to finance a shared inter-CDC investment (such as a school or irrigation system); or (ii) over multiple years to allow for the pooling of block grant resources in a single CDC;
- Mandate co-financing of community investments through CDCs by other line ministries and development partner programs (in conjunction with or addition to the BGE variations proposed above); and/or

¹⁴⁶ The NSP Impact Evaluation found that "...the institutional relevance of the CDC – relatively strong at midline – fades substantially following project completion" (page 97). Similarly, the impact evaluation for the Philippines national CDD program (KALAHII-CIDSS) also found that participation in village assemblies and the frequency with which local officials met with community representatives had increased at mid-term but fell off at the time of the end-line survey, which was more than 12 months after sub-projects were completed in treatment areas.

¹⁴⁷ The NSP sub-project database suggests that most types of irrigation, transport, and water supply sub-projects would be feasible at this level of financing, while education, health, and rural electrification sub-projects—with average costs of more than \$21,000—would not be feasible as currently designed or financed.

- Though sensitive particularly where ethnic divisions correspond with conflict dynamics, vary BGE allocations by provincial poverty incidence so that poorest regions receive greater relative investments under program;

Table 11: NSP Costing Scenarios

	US\$ ('000)			
	Full BGE	Sub-proj	Pov. Weight**	Min. BGE
BGE unit cost (US\$)	41,000	19,500	12,500	5,000
Block grant*	3,198,000	1,521,000	975,000	390,000
Facilitation ***	716,352	411,081	263,514	105,405
Management	300,612	123,324	79,054	31,622
Total	4,214,964	2,055,405	1,317,568	527,027
Annual Cost	842,993	411,081	263,514	105,405

* assumes 2 BGEs/5 year program; 39,000 CDC coverage
** BGE of \$5k-\$19.5k based on provincial poverty data
*** Facilitation and management costs based on % costs under NSP III
(FP 20% and Mgmt 6%)