

**Afghanistan Compact
Procurement Monitoring Project
April 2007**

Frequently Asked Questions (FAQs)

1. What was the context and purpose of the Afghanistan Compact Procurement Monitoring project?

Under the Afghanistan Compact, donors agreed to channel an increasing proportion of their assistance through the core government budget, either directly or through trust fund mechanisms. Where this is not possible, the Compact recognizes the importance of three things: using national partners rather than international partners to implement projects; increasing procurement within Afghanistan; and using Afghan goods and services wherever possible, rather than imported goods and services. This approach is founded in the understanding that by using development assistance in this way, the local economy can be kick-started. Thus, development assistance projects deliver a dual benefit: they provide a service to the community while providing local incomes and employment.

Following the signing of the Compact, there was little empirical evidence on the economic impact of donor spending in Afghanistan and therefore no way to measure progress on those commitments related to enhancing the effectiveness of international aid through increased local procurement. As such, the Ministry of Finance of the Afghanistan Government sought partnership with Peace Dividend Trust (PDT), due to its technical expertise in economic impact analysis, to carry out a study.

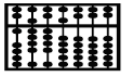
2. Who was asked to participate in the study?

The 14 largest donors were asked to participate in this project. This included: US, UK, WB, EC, Canada, India, Germany, Netherlands, Sweden, Denmark, Norway, ADB, Japan, and the United Nations and its agencies.

3. What data did the project use to carry out its analysis?

The project team was assessing how money channeled through donor agencies was actually spent locally. To do this, interviews were carried out with all donors where data was requested on Official Development Assistance (ODA) disbursements¹ in FY1384 (2005). This included details on how much money was disbursed through different channels (e.g. trust funds, UN agencies, INGOs, or directly to the Government of Afghanistan) and was to be broken down by international contracts and local contracts. In addition, PDT conducted interviews with local and international companies and organizations to collect information on where goods and services were purchased to carry out project work.

¹ In order to estimate local impact of donor spending for FY1384/2005 this project did not factor in committed funds, but looked at disbursements only.



4. *What were the major findings of the research?*

Of the approximately \$1.36b spent in Afghanistan by the major donors from whom data was obtained to carry out this project, there was an approximate 31% impact on the local economy – meaning that it was used to buy locally produced Afghan goods and services. This money (less the value of any imported inputs used in that production) is in the form of wages paid to Afghan labor, rents paid to Afghan landowners and goods and services produced by Afghan businesses.

There were major challenges in obtaining accurate and reliable information from most donor agencies. As a result, a major conclusion of this project is that in many cases the capacity to provide data on donor disbursements is very limited or is not seen as a priority.

5. *Why does the report site trust funds as having a much higher local impact than funding international contractors?*

Available data showed that funding to Afghanistan provided through trust fund arrangements has a significantly higher direct impact on the local economy (around 85%) compared to funds provided to international companies or international NGOs (around 15%). This is because trust funds are used to pay local wages and fund major programs such as block grants or microfinance, all of which put money directly into the hands of Afghans.

Please note that this project did not measure the broader systematic economic impact a project might have. By way of illustration, the study measured how much money a road-building project spent in Afghanistan, not how much of an impact the existence of the road had on the Afghan economy.

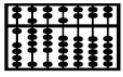
6. *Were there any major caveats to this research?*

Yes. This study provides preliminary estimates on the local economic impact of ODA spending in Afghanistan. The quality of these estimates is intimately linked to the quality of the data that was presented by donor agencies to the Ministry of Finance and the PDT project team. That said, to date it offers the first and only assessment of the local economic impact of ODA spending on the Afghan economy. To the extent that there is dispute over the accuracy of the results, the next step is for interested donors or other parties to do a more comprehensive analysis with better quality data to improve upon these estimates.

In some places where it was not possible to estimate the local impact based on limited or unavailable data empirical research was drawn upon to make those estimates. Using the United Nations agencies as an example - it was assumed that the local impact of operations was the same as that for INGOs and international contractors. This assumption coincides with results obtained in other studies of the local impact of United Nations peacekeeping operations carried out by PDT.

7. *Does the report claim that INGOs are not good conduits for donor funding?*

No. This project did not set out to measure impact of specific programs, but again was assessing how money was actually spent locally (i.e. what reached the Afghan economy).



8. Does this research assess quality or need of certain types of projects?

No. It does not speak to the quality of a project or need of the service being carried out, but aimed to measure local impact. As a result, some projects will inevitably have a greater impact than others on the local economy (e.g. building a road or a hospital versus a public information project).

9. What were the major barriers to carrying out the study?

The terms of reference for this project identified the ability of donors to provide accurate and timely information on disbursements from their ODA programs as a critical factor in monitoring progress to achieve commitments made under the Afghanistan Compact. However, in most cases, data was not readily available, or was not compiled in a way that accessible or amendable to analysis. The lack of priority accorded to measuring disbursements and assessing the impact of projects represents a major challenge to understanding the true local impact of ODA in Afghanistan.

10. What recommendations were made to address some of the concerns identified in the report?

Recommendations in the report were categorized into three principle areas:

- 1) Improving data collection;
- 2) Altering funding channels to increase local impact; and,
- 3) Opportunities to increase local procurement.

Please see the report for further details.

11. Will there be a follow-up study?

PDT is looking forward to working collaboratively with donors and others to refine our approach and get the best information possible to ensure that the money provided to the people of Afghanistan can be used as effectively as possible. Additional research, like this study, will support the Government of Afghanistan and the international community in obtaining a better understanding of the local impact of development spending, and therefore be better placed to meet their shared obligations under the Afghanistan Compact.

12. Who was the project funded by?

The United Kingdom's Department for International Development (DFID).

13. Who can I contact for more information?

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