

Postconflict reconstruction is about much more than new roads, bridges, and schools. It is largely about building capacity for market-based recovery and sustainable growth. This is where the multilateral development banks can and do play a critical catalytic and supportive role.



Special Theme
REHABILITATION AND RECONSTRUCTION
ADB's Role in Afghanistan and the Region

More than 5 decades ago, in July 1944, representatives of 44 countries met in New Hampshire, United States (US), for a set of meetings that led to the establishment of the Bretton Woods institutions, and a spirit of a true “international community.” The first test of the new group’s collective will—and its first success—came in 1948 in Europe as the world community joined under the Marshall Plan to help the continent reconstruct its battered economies and infrastructure in the wake of World War II. Building on this experience, the international community has since compiled an impressive, albeit depressingly long, record of postconflict rehabilitation and reconstruction in many parts of the world.¹

Asia has seen several conflicts resolved in recent decades. In 2002, Asia, and indeed the world, again focused on postconflict as Afghanistan began to rebuild after more than 20 years of fighting. As it is doing in Afghanistan, the Asian Development Bank (ADB) played an important role in postconflict rehabilitation in several countries, including Cambodia, Sri Lanka, Tajikistan, and Timor-Leste.

This chapter examines the rehabilitation and reconstruction process, drawing lessons from postconflict countries with Afghanistan as the case study.

Challenges of rebuilding

Every society that suffers conflict must rebuild on several fronts: humanitarian, human and social, security, political, rehabilitation/reconstruction, and development. For decades, the international community has struggled to devise an optimal set of strategies to deal with these challenges. Given the diverse nature of postconflict situations, a single strategy will not suffice. For every situation, there must be a unique, multipronged approach that can be flexibly applied in view of the objective realities on the ground.

Providing humanitarian and social assistance

The first task of postconflict reconstruction is often providing basic humanitarian relief such as food, medicine, nutritional supplements, shelter and repatriation, reintegration, and resettlement assistance. The scope of the challenge can be daunting, but the international community has done well in providing humanitarian relief both during and after conflicts.

The need for basic assistance reflects the devastating human cost of conflict. People pay a high price in conflict situations. Their lives are disrupted. They lose self-confidence. Many fall into despair and experience feelings of helplessness, fear, insecurity, vulnerability, and a loss of faith and confidence in others, including institutions. Fighting can leave large numbers of people ill, disabled,

widowed, orphaned, displaced, or suffering from post-traumatic stress disorder. The scars can take many years to heal and often remain for life. National governments, international donors, and nongovernment organizations (NGOs) have developed programs to help individuals deal with the harsh realities of conflict.

On a broader level, the impact of conflict is in the fragmentation of society; the loss of social persona and identity; and the breakdown of social norms, traditional values, respect for elders and authority, and the informal social safety net. Social cohesion, values, and norms are not easy to restore. The international community can facilitate the process by helping create an enabling environment. But communities must work together to regain their lost harmony. Old relationships need to be revived. New relationships need to be established to reflect changes in the environment and to take advantage of opportunities presented by the prospect of lasting peace and stability.

Ensuring security

The security challenge rests primarily in the law-and-order situation in a postconflict region. The lack of security can threaten public safety. And the situation can be aggravated by the presence of many armed men and women who lack leadership or organization. Disarming war combatants and warring factions has proven to be most difficult in postconflict reconstruction. Building trust in the ability to provide mutual safety and security takes time; and rehabilitating combatants can present a financial, logistical, and physical nightmare for governments. In many postconflict countries, this transition to real security is excruciatingly painful. A weak government structure or central authority can further complicate the process as it becomes difficult to police demobilization and violations of human rights. Hostile neighbors and the presence of large amounts of unexploded ordnance can accentuate physical insecurity. The international community can, as it has occasionally, come forward with a security assistance force to keep conflicting parties apart and to preserve peace. The international community’s assistance in removing unexploded ordnance has saved many lives.

Establishing a political authority

Each postconflict situation also poses a political challenge, as various factions must agree on an acceptable political contract. The primary need is for national political reconciliation to bring all parties together to seek peace and stability, and the establishment of an acceptable political authority with representation from all groups concerned. The representative nature of the political authority must be embodied in new codes, laws, and constitutions, or constitutional provisions that facilitate the transition to democratic, efficient, transparent, and accountable governance. Without a legal, constitutional, and representative political authority, peace and stability can be very short-lived and the dream of rapid rehabilitation and reconstruction can easily be shattered.

The central challenge is to establish a nexus among security, political stability, and reconstruction. The three do

¹ The list of transition/postconflict countries or regions is long—Afghanistan, Angola, Armenia, Azerbaijan, Bosnia-Herzegovina, Burundi, Cambodia, Central African Republic, Chad, Democratic Republic of Congo, Croatia, Djibouti, El Salvador, Eritrea, Ethiopia, Georgia, Guatemala, Haiti, Lebanon, Liberia, Mali, Mozambique, Namibia, Nicaragua, Niger, Peru, Rwanda, Solomon Islands, South Africa, Southern Philippines, Sri Lanka, Tajikistan, Timor-Leste, Uganda, West Bank and Gaza, and Yemen.

not occur in sequence. Experience in postconflict Cambodia showed that reconstruction can strengthen the political process and enhance security.

Reconstruction and the development continuum

Successful reconstruction requires a clear conceptual understanding of the nature of relief, rehabilitation, reconstruction, and the development “continuum.” Although it is called a continuum, the progression of development is not necessarily linear and the transition from one stage to the next is not seamless, although this is a cherished goal. The pain of transition, in fact, can be as acute as the pain inflicted by conflict.

To ease the transition, three key elements for maintaining peace must be strengthened: physical security, political stability, and economic growth. This requires coordination and consultation among key players, an understanding of the multisectoral and multidimensional nature of reconstruction, and the establishment of political and economic linkages at all levels.

Broadening the approach

These challenges form the backdrop of each postconflict situation. They must be considered as the international community conceptualizes and operationalizes the strategies for short-term rehabilitation and reconstruction that set the foundation for medium- and long-term development.

Early success in dealing with these challenges is no guarantee of lasting peace. Tension resulting from poor governance, economic difficulties, or political struggles can

quickly thrust a country back into conflict. This reality has led the international community to broaden its approach to postconflict assistance to include conflict prevention, preparedness, and mitigation (*see Box below*). Prevention and preparedness require an understanding of a country’s social and political landscape, the presence and nature of antagonistic forces, the areas of contention, and the situations that could trigger conflict. Each aspect must be mapped to form a prevention strategy that, when coupled with well-defined actions in case of conflict and mitigation, will constitute an integral part of postconflict assistance.

From postconflict to reconstruction

Stages of transition

Postconflict countries go through stages during rehabilitation and reconstruction. In the days and months immediately following a conflict, relief efforts are spearheaded by international agencies such as the United Nations (UN) High Commissioner for Refugees, World Food Program, International Committee of the Red Cross, and various NGOs. This period may be relatively short and may include some reconstruction activities.

Reconstruction starts in earnest once the situation is stable and the environment is secure. Resource gaps are large during these phases and a country must often depend on external assistance.

Development resumes when normal economic activities are revived, internal resources are generated, and financial intermediation is dynamic and rapid.

Conflict prevention and preparedness

- assess vulnerability and risk
- gather, analyze, monitor, and disseminate information
- use periodic participatory assessment
- conduct periodic surveys and publish vital indicators
- prepare an early warning system
- equip and train specialized human resources
- develop national, regional, and subnational conflict prevention strategies
- establish a legal, security, policing, and regulatory framework to avoid conflict
- accelerate growth, development, and poverty reduction
- introduce sensitivity to conflict with poverty assessments in country strategy and program formulation
- maintain a knowledge base, build partnerships, and position for rapid response

Mitigation

- reinforce vulnerable social structures
- balance development by region and population groups
- establish an appropriate power sharing and leadership rotation structure
- strengthen democratic institutions and values
- ensure appropriate mechanisms are in place to ease tensions
- mobilize communities against, and sensitize about, the potential for conflict
- recognize sources of conflict early
- set national, regional, and international mechanisms to promote and assist discussion among conflicting parties
- promote institutional capacity building and good governance

Sometimes the transition is more complex. In Afghanistan, for example, a war against terrorism is ongoing. Relief operations are constantly under threat and new faces join the relief lines every day. In this situation, relief must be carried out simultaneously with resettling displaced persons, disarming people, demining, and neutralizing armed opponents of the legitimate authority.

Financing the transition

Each phase of postconflict recovery and development requires substantial external financing. The international community has usually been generous in the years immediately following a conflict. Much of the aid is directed toward relief and limited amounts toward reconstruction. This usually reflects a country's limited absorptive capacity in the initial phase, hence considerable early attention must be paid to capacity building and policy and institutional reforms. A funding problem may arise later, however, because the initial enthusiasm to provide assistance can wane before a postconflict country is ready to absorb larger amounts of aid for reconstruction and development.

Postconflict assistance and the international community

The international community has had mixed experiences in delivering postconflict assistance.

To be most effective, aid pledges must be translated promptly into accessible resources that can be flexibly used for reconstruction according to the priorities of the country concerned. Slow disbursement of funds pledged by donors only adds to the problems that the postconflict country faces. In Cambodia, Lebanon, Mozambique, Rwanda, and West Bank and Gaza, there was a considerable lag between pledges and commitment, and between commitment and disbursement.

Aid pledges must be realistic. Given the high public profile of pledging conferences, promised assistance can be overstated and then be difficult to deliver. The ad hoc nature of pledging conferences makes it difficult to bind donors to their commitments. Sometimes pledges are made according to donors' priorities rather than those of the recipient.

Pledges are often linked to policy conditionalities: macroeconomic; peace; and governance, human rights, and democratic reform. But the donors' approach and emphasis in each of these areas may differ, thereby creating confusion in the recipient country and ultimately reducing the effectiveness of postconflict aid. Sometimes, in an effort to organize assistance at the onset, donors impose conditions that a postconflict government finds impossible to achieve.

Linking or bridging relief and development efforts should be improved. The availability of resources and their allocation among relief, rehabilitation, reconstruction, and development can pose problems. Donors often fail to resolve the overlapping nature of different activities, and are usually reluctant to shift resources from relief to reconstruction or from reconstruction to relief—even if the case for the shift is well understood.

The challenges and problems discussed in this chapter manifest the difficulties of aid coordination. Considerable work is under way to improve the situation. Success has been slow, but collective efforts continue.

Role of MDBs

In the aftermath of World War II, reconstruction, initially of Europe, was facilitated by transferring resources from capital-surplus to capital-deficient countries. The World Bank was founded to facilitate this transfer. With restrictive capital flows and associated high risks, many postconflict countries were unable to attract the capital needed to finance their social and economic development. The four regional development banks were founded on the same principles, given the congruity of needs of postwar Europe and the newly independent countries of Africa, Asia, and later Eastern Europe.

Throughout much of the postwar period, the operations of multilateral development banks² (MDBs) were guided by their founding principle: provide finance for government-led investments in development projects. Over time, their operations evolved to include responding to emerging world challenges such as oil price shocks, natural disasters, and civil conflict.³

MDBs are usually not involved in relief efforts. Their operations are designed to take a longer-term perspective and provide much-needed assistance for capacity building, rehabilitation, reconstruction, and eventually, development.

MDBs play a primarily catalytic role, helping the country rebuild its institutions, formulate policies, and train people needed to maintain peace and establish a sustainable system of government that will enable the economy and the people to prosper.

MDBs as financiers

Initially, MDBs handled postconflict assistance within their general assistance framework for developing member countries (DMCs). Some special funds were available for lending at concessional rates, but none were targeted specifically for war-torn countries. Most funding available specifically for postconflict assistance was provided in grants and each institution allowed only limited amounts to be disbursed for such uses. *The practice in four MDBs is shown below; ADB's role in providing postconflict assistance is included in the discussion on Afghanistan.*

African Development Bank: AfDB's emergency assistance operations are geared primarily toward

² The term "multilateral development banks" is used collectively for the following institutions: African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and World Bank.

³ At their June 1995 Summit in Halifax, Nova Scotia, the leaders of the G-7 nations (Canada, France, Germany, Italy, Japan, United Kingdom, and United States) called on the World Bank and the International Monetary Fund "to establish a new coordination procedure to facilitate a smooth transition from the emergency to the rehabilitation phase, and to cooperate more effectively with donor countries in assisting postconflict reconstruction." Patrick, Stewart. 1998. "The Check is in the Mail: Improving the Delivery and Coordination of Postconflict Assistance." New York: New York University.

protecting or rehabilitating AfDB-funded projects, helping resuscitate development activities, and creating the conditions necessary for other donors to intervene in a country. AfDB's approach to peace building and conflict prevention is to design and finance, in collaboration with other donors, projects that contribute to economic growth and poverty reduction. In postconflict situations, it assists in institutional reforms and capacity building to change systems and structures, which may have contributed to creating economic and social inequities.

Relief and some preparedness operations are financed by grants from the \$5 million annual budget for AfDB's Special Relief Fund. Rehabilitation and reconstruction operations are financed mainly through regular loans, and are subject to normal processing and implementation procedures. Such assistance may not exceed \$500,000 for any one operation in a given country.

Inter-American Development Bank: IADB established its special financing mechanism, the Emergency Reconstruction Facility (ERF), to respond to natural and unexpected disasters.⁴ The ERF complements IADB's Operational Policy for Emergencies arising from natural and human-made disasters. The President of IADB is authorized to expedite, with board consent, up to \$100 million for loans that meet emergency eligibility criteria.⁵ The maximum amount of an individual ERF loan approved under this delegation may not exceed \$20 million for ordinary capital and \$10 million for concessionary financing for preestablished eligible activities. These include help in hastening the restoration of services, financing temporary repairs, and cleaning up in the aftermath of a disaster.

International Monetary Fund: The primary role of IMF in postconflict situations is to help countries restore macroeconomic stability and the basis for sustainable growth. IMF provides technical assistance and policy advice, with financial assistance given once a situation is sufficiently stable for it to be used effectively. In 1995, IMF expanded its policy on emergency assistance to cover postconflict situations.⁶ Its emergency postconflict assistance is provided from its General Resources Account and is thus on nonconcessional terms. Since 1995, eight countries have received this assistance from IMF.⁷

Through its Emergency Postconflict Facility, IMF can provide 25–50% of quota with limited conditionality and front-loading of disbursements in a lump sum.

⁴ IADB. 1999. PR-806 The Emergency Reconstruction Facility.

⁵ These criteria include (i) an official state of emergency has been declared; (ii) the scope is within the emergency as set forth in the operational policy paper; and (iii) government assurances are provided to strengthen capacity for emergency preparedness, prevention, and management.

⁶ Emergency postconflict assistance is designed for countries (i) that have an urgent balance-of-payments need to rebuild external reserves and meet external payments; (ii) where IMF support is part of a concerted international effort to assist the country comprehensively; and (iii) where administrative capacity has been so disrupted by conflict that the country is not yet ready to develop and implement a comprehensive program that could be supported by an IMF arrangement, but where the authorities nevertheless have sufficient capacity for policy planning and implementation.

⁷ Albania (\$12.0 million), Bosnia-Herzegovina (\$45.0 million), Democratic Republic of Congo (\$23.2 million), Guinea-Bissau (\$4.8 million), Rwanda (\$20.3 million), Sierra Leone (\$50.7 million), Tajikistan (\$20.1 million), and Yugoslavia (\$151.0 million).

World Bank: The World Bank also has emergency reconstruction loans (ERLs) for assisting countries experiencing natural or human-made emergencies.⁸ The ERLs typically have no ceiling, use standard International Bank for Reconstruction and Development/International Development Association rates, and, where possible, use blend funding or mobilize bilateral money to subsidize the loan interest rate.

In postconflict situations, the World Bank—in partnership with UN agencies, bilateral donors, and NGOs—contributes to the establishment of a peace process; economic revival and resumption of trade, savings, and domestic and foreign investment; macroeconomic stabilization, and appropriate legal and regulatory frameworks; social safety net building; improvement of governance and civil society activities; rebuilding of physical and social infrastructure and human capital; development of food security; reintegration of displaced populations, and demobilization and reintegration of ex-combatants; demining; community development; and aid coordination.

The World Bank lent more than \$6.2 billion to 18 postconflict countries between 1980 and 1998.⁹ To develop policy, cross-country learning, and expertise in specific postconflict skills, it created a Postconflict Unit in July 1997. In August 1997, the World Bank established a new grant facility—the Postconflict Fund—as part of a larger Development Grant Facility to help it respond rapidly to early postconflict reconstruction.

MDBs as long-term partners

From a conceptual and practical point of view, rebuilding social and physical infrastructure requires a long-term perspective. Most postconflict societies, including Afghanistan, are forced to deal with profound change. Principal players have changed; new alliances have been and are being established; people's attitudes are being altered; prospects for foreign assistance may be improving; and new opportunities may not be far off. Expectations may be high.

MDBs know that a knee-jerk solution has little chance of producing a lasting solution to problems associated with these changes. Postconflict reconstruction must be based on a detailed needs assessment and adequate contextual analysis, and must take into account the policy and institutional framework, regional context, global dimension, environmental and social impact assessments, and psychosocial impact of the conflict.

There is a need for a comprehensive medium- to long-term strategic framework into which rehabilitation and

⁸ The World Bank Articles of Agreement call for special consideration for war-torn societies. In determining the conditions and terms of loans made to such members, the World Bank pays special regard to lessening the country's financial burden, and to expediting restoration and reconstruction.

⁹ This flow included large amounts to Angola (\$197 million), Bosnia-Herzegovina (\$150 million), Cambodia (\$237 million), Croatia (\$265 million), Eritrea (\$25 million), Lebanon (\$175 million), and Rwanda (\$120 million). In addition, the World Bank has committed \$550 million to Afghanistan.

reconstruction activities can fit. But again, creating a successful framework depends on the quality and viability of the economic, financial, social, and environment investments during and after the rehabilitation and reconstruction phases. Some rehabilitation projects—such as those with immediate impacts—can be undertaken provided they will not negatively impinge on the long-term strategy. Other investments should proceed only when all options have been evaluated and the advantage of a particular proposal has been established.

MDBs as catalysts

Postconflict reconstruction is much more than just new roads, bridges, and schools. It is primarily about capacity building, which suffers most during a conflict. It is also about identifying and implementing the right set of policies and institutions to develop free markets, enable individual initiatives to thrive, encourage women to participate equitably in all aspects of society and economy, allow civil society including NGOs to operate freely, enhance trade and commerce, restore internal and external financial linkages, reopen and strengthen regional links, and increase factor mobility. Postconflict reconstruction is largely about building capacity for market-based recovery and sustainable growth. This is where MDBs can and do play a critical catalytic and supportive role.

ADB's approach and comparative advantage

Postconflict reconstruction is closely linked to ADB's overarching goal of reducing poverty in Asia and the Pacific, which aims to improve living standards in the region. This objective assumes even greater urgency in postconflict situations because the human cost of civil conflict is felt most acutely by the poor who are most vulnerable to external shocks.

ADB follows a three-pronged approach for postconflict reconstruction, which is designed to support government efforts at overcoming the challenges of establishing and maintaining security and a stable political environment. ADB focuses on building capital; rehabilitating production and income, especially for the poor; and building capacity to improve aid absorption. This focus and the corresponding outputs are designed to contribute both directly and indirectly to the central objective of poverty reduction.

ADB does not have a separate mechanism for providing postconflict assistance; like other MDBs, ADB deals with these situations through its existing mechanisms.¹⁰

¹⁰ For more on ADB's assistance, see <http://www.adb.org/Documents/Manuals/Operations/om25.asp>. ADB. 1987 and 1989. *Rehabilitation Assistance After Disasters*. Manila: ADB. 1997. *Change in the Loan Ceiling for Loans Processed under the Bank's Emergency Rehabilitation Assistance Loan Facility for Small DMCs*. For more on this loan facility, see <http://www.adb.org/Documents/Manuals/Operations/om24.asp>.

The sequence of actions in developing a postconflict strategy closely follows ADB's programming cycle (see *Figure on page 19*). Each conflict situation in a DMC is monitored and reports are prepared for, and reviewed by, Management. During a conflict, staff members develop a detailed knowledge base on the changing situation and create an analytical framework for postconflict response. When possible, missions are fielded to conduct needs assessments and an interim country strategy and program

(CSP) is prepared for providing emergency assistance. Assistance is extended for both natural and human-made disasters, with the natural claiming over 90% of the total disbursed to date. In the past, emergency loans were concentrated on infrastructure rehabilitation.

Comparative advantage

ADB's database of knowledge about DMCs in the Asia and Pacific region positions it to act quickly and efficiently in postconflict situations. Its regularly updated in-house database on

each DMC is supplemented by its worldwide network of resident missions and offices (see *the Knowledge and Support Activities chapter*). Through its country economic reviews (CERs) and CSPs, ADB learns lessons that can be internalized and disseminated to its development partners. These instruments, along with annual CSP updates, provide a picture of each DMC and enable the rapid articulation of an emergency response should it be required.

Ways MDBs could respond to emergencies in DMCs include streamlining the production of knowledge instruments and emergency preparedness programs; monitoring reports; and conducting needs assessments and environmental and social assessments prior to formulating transitional assistance strategies (see *Box on page 16*).

Operational flexibility

Speed is crucial to a successful postconflict response. ADB's knowledge base allows it to respond rapidly and effectively when opportunities for providing aid arise. A rapid response requires flexibility over a range of areas, including mobilizing staff and budgetary resources and interpreting administrative procedures. The existing emergency policies provide for some latitude in decreasing the time involved in project and program processing cycles. This flexibility is extended to fund flow and payment systems to enable rapid disbursements of committed capital.

Operational and administrative flexibility, combined with the ability to undertake rapid assessments prior to formulating an intervention strategy, has enabled ADB to effectively address diverse conflict situations in Cambodia, Sri Lanka, Tajikistan, and Timor-Leste, among others. Further streamlining procedures and softening loan terms could be elements of an emergency policy.

Long-term commitment

The reconstruction process is long and complex. The difficult decisions made by the government in the early stages will impact on the future of the nation and its ability to remain peaceful. ADB and other funding agencies provide the government in this situation with financial and technical support, which, in turn, signifies the international community's confidence and commitment to rebuilding the country, its institutions, and infrastructure.

Political stability is central to postconflict reconstruction and must be assured by the ruling authorities. As ADB learned in Cambodia (see *Box on Cambodia on page 17*), early reconstruction assistance is as much about building partnerships with the government as it is about providing aid. The relationships formed early on will facilitate implementation in the long term.

Economic growth can be expected to be rapid in the initial years of peace, before returning to levels that more accurately reflect the country's situation. To capitalize on this growth, assistance should peak in the first postconflict year, and should focus on strengthening the government's absorptive capacity. Further allocations would depend on the availability of concessional funds and aid effectiveness.

Countries emerging from conflict in recent years have been able to take advantage of the ongoing revolution in transport and information and communication technology, allowing them to regain more quickly the economic strengths and capabilities lost or destroyed by conflict. This may allow them to extend the initial period of high growth. In this case, the approach used by the funding agencies to implement postconflict assistance would differ. It requires a commitment to maintain assistance at a relatively high

level for a longer period and to focus such support toward creating the capacity necessary to take advantage of new technologies. This pattern of aid and expected growth would imply a much greater impact on ADB's central objective of poverty reduction.

Financing reconstruction

As a premier regional financial institution, ADB has committed relatively large sums to the reconstruction of postconflict DMCs as of 2002:

- Cambodia, \$122.7 million;
- Philippines, \$192 million;
- Solomon Islands, \$10.5 million;
- Sri Lanka, \$84 million;
- Tajikistan, \$28.6 million; and
- Timor-Leste, \$8.7 million.

In addition, ADB has committed \$500 million in assistance to Afghanistan over a 30-month period from January 2002. This represents 11% of total donor commitments to the country.

Macroeconomic and sectoral involvement

ADB's assistance to postconflict DMCs emphasizes its catalytic role in both macroeconomic and sector development issues. To achieve macroeconomic stability, it is important to implement both sector policies and institutional reforms, and follow these with capital investments. ADB has followed this pattern.

In Cambodia, for example, early assistance was geared toward macroeconomic management, followed by assistance for multisector rehabilitation. In Sri Lanka, ADB's postconflict program largely supported rehabilitation of roads, schools, petroleum storage facilities, and community infrastructure (see *Box on Sri Lanka at right*).

STRATEGIC APPROACH TO EMERGENCY ASSISTANCE

Dealing with emergencies is part of dealing with development. In the past decade, natural and human-made emergencies increased by over 60%, reaching 784 such emergencies by 2000. The events left almost 3 million people dead, another 2.4 billion affected, and trillions of dollars in financial investments and physical assets foregone or destroyed.

Of the 15 poorest countries in Asia and the Pacific, nearly two thirds have experienced a conflict or natural disaster. In each event, the poorest members of society were hardest hit. Poverty and increased vulnerability are both a result and source of civil strife.

Efforts toward reducing poverty depend on preventing, mitigating,

and addressing the risk, vulnerability, and impact of emergencies. This, in turn, requires a greater focus on issues such as providing sustainable livelihood, improving weak governance, providing a transitional safety net, building institutional capacity, and dealing with depleted human and social capital. Effective and efficient emergency assistance requires resources and a strategic organizational response to events.

Interventions in emergency preparedness and response should include prevention, transition, and emergency recovery phases.

- **Prevention phase:** Strengthen analysis of countries at risk and design a portfolio of interventions to address and mitigate risks.

- **Transition phase:** Emphasize partnering with humanitarian relief agencies during the critical transition period from relief to development.

- **Emergency recovery phase:** Prepare a damage and needs assessment jointly with partners to identify priorities, provide emergency response, and initiate design of medium- to long-term comprehensive reconstruction program.

Ensuring fast and effective rehabilitation and other emergency assistance requires flexible policies and lending instruments that enable approval of urgently needed short-term and small loans.

In Tajikistan, ADB helped the Government formulate a poverty reduction strategy, entered into a poverty partnership agreement with the Government, and followed these steps with reforms in transport and power, and rehabilitation

loans in the agriculture and social sectors. All were combined with emergency assistance for natural disasters (see *Box on Tajikistan* on page 18). In Timor-Leste, ADB provided technical assistance grants in support of capacity

RECONSTRUCTING CAMBODIA

Cambodia is one of Asia's poorest countries. The agenda for economic and governance reform is large, and the challenge of poverty reduction is huge. But Cambodia is making progress as it works to rebuild, and to heal the deep scars left by decades of war and civil strife.

Cambodia joined ADB in 1966. After nearly 2 decades without operations, ADB reentered Cambodia in 1992, before the United Nations sponsored elections the following May. This early start led to a strong working relationship with the Government.

ADB's first technical assistance was provided in 1992 and included four components: development planning, economic statistics, fiscal management, and monetary policy. The project—implemented in cooperation with the International Monetary Fund and United Nations Development Programme—helped

formulate the country's first comprehensive economic strategy.

In November 1992, ADB approved its first loan to Cambodia in about 2 decades. The \$70 million multisector emergency loan funded the reconstruction of basic physical infrastructure, such as the primary road network, schools, institutes, universities, and irrigation schemes. Electricity was restored in the major cities of Phnom Penh, Siem Reap, and Sihanoukville.

ADB prepared its first full country operational strategy for Cambodia in 1995, with capacity building as the main pillar of support. At the same time, ADB helped the Government formulate its Socioeconomic Development Plan, 1996–2000.

ADB operations were soon expanded to rural Cambodia, home to 90% of the population and the worst poverty. ADB targeted more

than 70% of its assistance to the countryside.

In 2000, ADB's focus turned to governance and the lack of basic laws and accountability institutions. ADB helped formulate a legislative framework and helped strengthen accountability institutions such as the National Audit Authority.

A comprehensive governance assessment studied public administration reform, fiscal reform, decentralization, legal and judicial reform, and regional integration. The Government used the assessment in preparing its Governance Action Plan, the recently formulated second Socioeconomic Development Plan, and the National Poverty Reduction Strategy. A key theme in each is the need for good governance and the rule of law. *For more on Cambodia, see page 84 and <http://www.adb.org/Cambodia/>.*

RESPONDING TO PEACE IN SRI LANKA

Since 1983, armed conflict between the Sri Lankan Government and the Liberation Tigers of Tamil Eelam (LTTE) has claimed more than 60,000 lives and displaced a further 700,000–800,000 people. The conflict is estimated to have cost the equivalent of the country's 1996 gross domestic product, and to have lowered economic growth by 2–3% per year for the past 20 years.

In February 2002, the Government and the LTTE signed cease-fire agreements that essentially ended daily conflict. The Government lifted restrictions on the movement of essential commodities into and out of LTTE-controlled areas. The cease-fire has held.

However, the physical and social infrastructure in the northeast of the country is in ruins. The area's economy is improving, but recovery is slowed by the extent of the

devastation and the presence of land mines and unexploded ordnance.

For much of the conflict, ADB's strategies and programs acknowledged the existence of the fighting and its impacts but did not specifically address them. This changed in 2001, when ADB approved a \$25 million loan to help finance the Northeast Community Restoration and Development Project. The Project aimed at improving small-scale social and economic infrastructure and income generation.

The project design was defined by the need for balance among communities, between Government and LTTE-controlled areas, and between rural and urban needs; the need for flexibility to permit a rapid response to changing security and humanitarian requirements; and the need to involve communities in determining the nature of assistance.

The flexibility built into the Project in its design and during implementation made it effective in the post cease-fire period.

ADB's support facilitated the mobilization of loan resources for other projects to undertake essential and symbolic operations in the conflict areas once the cease-fire was in place. These included reconstructing the highway linking the northern city of Jaffna with the rest of the country and restoring Jaffna's power distribution system.

As the peace process moves forward, the international community will find itself working in an environment of temporary institutions and fluid structures. Flexibility in program design will be key. *For more on Sri Lanka, see page 108 and <http://www.adb.org/Srilanka/>.*

building in the transport, power, telecommunications, microfinance, and other sectors (see *Box on Timor-Leste* below).

Capacity building

ADB's technical assistance facility helps build essential security, technical/administrative, and political capacity in postconflict countries, without which the ability to effectively absorb aid would remain low. ADB is able to flexibly reallocate its technical assistance resources to meet the requirements of postconflict countries.

Between 1987 and 2001, ADB provided 11 capacity-building technical assistance projects to postconflict countries. Cambodia's projects were in the transport and

agriculture sectors. In Sri Lanka, the emphasis was on environment, with technical assistance provided for integrating cleaner production techniques into industrial development. In Tajikistan, ADB supported institutional strengthening of the transport and energy sectors and provided capacity building for flood disaster management. All assistance to Timor-Leste was grant-financed for capacity building to manage key sectors of the economy.

Experiences and lessons

ADB has accumulated rich experiences in post-conflict reconstruction through its activities in Cambodia, Sri Lanka, Tajikistan, and Timor-Leste

RESTORING TAJIKISTAN

Tajikistan gained independence following the breakup of the Soviet Union in 1991. The sudden demands of nationhood and the 1992–1997 civil war left the economy in ruins. By 1996, gross domestic product had contracted more than 60%. Unemployment exceeded 30%, and it was estimated that over 80% of the population lived in poverty.

A reconciliation process that began in 1997 culminated in parliamentary elections in 2000, and the ensuing strong economic growth has supported social stability.

Building on the work of its development partners and in consultation with the Government and non-government organizations, ADB

prepared an interim operational strategy for Tajikistan in October 1998. ADB focused on supporting the transition to a market economy, assisting in postconflict rehabilitation, and supporting natural disaster rehabilitation. Efforts to rebuild agriculture, infrastructure—particularly roads and power—and social sectors were given priority.

ADB and Tajikistan concluded a poverty partnership agreement (PPA) in 2002 based on the national poverty reduction strategy, marking ADB's first PPA with a Central Asian republic. Growth and exports have improved, but poverty is still widespread. ADB is supporting the Government in ensuring that economic

opportunities are broad-based, addressing the narrow base of economic growth, and achieving fair distribution of the benefits of growth.

ADB has approved 10 loans to Tajikistan totaling \$173 million. The loans cover postconflict rehabilitation, road and power sector reform, agriculture sector support, emergency assistance efforts, and regional cooperation.

Support to strengthen human and institutional capacity is key to development, and ADB has approved 29 technical assistance projects worth \$15 million to aid this work. *For more on Tajikistan, see page 82 and <http://www.adb.org/Tajikistan/>.*

DEVELOPING TIMOR-LESTE

The people of East Timor, now Timor-Leste, voted overwhelmingly for independence in 1999. Within weeks, an estimated 70% of the country's physical infrastructure had been destroyed and close to 80% of the population displaced.

Three months later, in December 1999, the Trust Fund for East Timor (TFET) was created at a donors' meeting in Tokyo. Priorities for use of the fund were set with support from ADB and the World Bank.

ADB took on the task of rehabilitating infrastructure: initial efforts focused on the urgent need for roads, ports, water, and power supply. Comprehensive support for capacity building was needed in all areas. Road rehabilitation and maintenance

work linked previously isolated communities and created an estimated 300,000 person-days of employment. Two water supply projects brought safe water to 240,000 people in rural areas and 15,000 in Dili, the capital city. These labor-intensive projects created an estimated 90,000 person-days of employment.

A focus shift from emergency, humanitarian, and security needs to development activities is reflected in ADB's port and microfinance projects. They focus on poverty reduction and economic and social development.

Since operations began in Timor-Leste, ADB has approved 20 technical assistance projects worth \$8.6 million. Many support

TFET-funded projects with project preparation and capacity building.

A poverty assessment—undertaken by the Government, ADB, Japan International Cooperation Agency, United Nations Development Programme, and World Bank—helped prepare the country's first National Development Plan, released in May 2002. The Plan includes a national poverty reduction strategy based on four elements: promoting opportunities for the poor; improving access to basic social services; enhancing security, including reducing vulnerability to shocks and improving food security; and empowering the poor. *For more on Timor-Leste, see page 97 and <http://www.adb.org/Timor-Leste/>.*

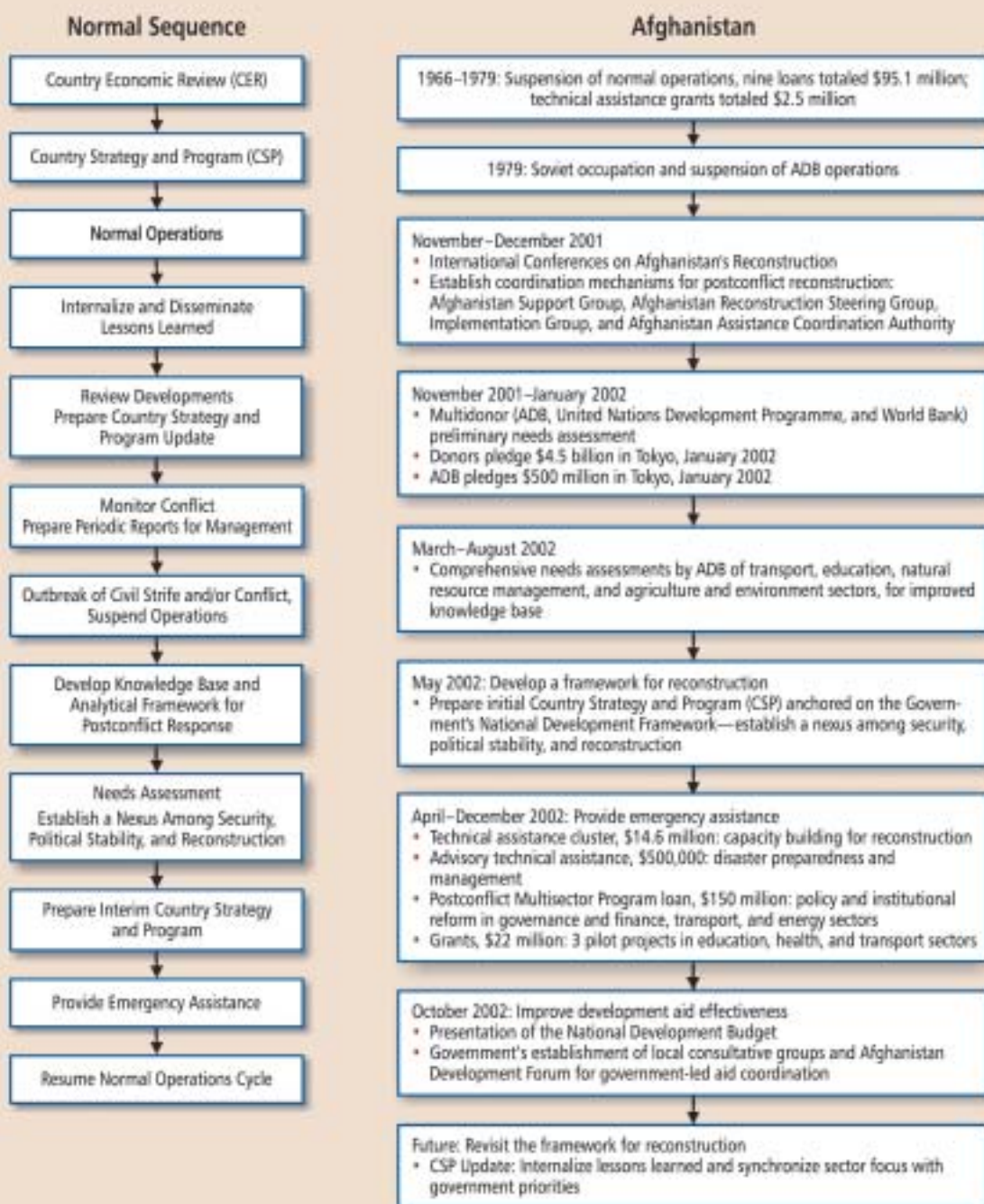
(see <http://www.adb.org/Countries/>). As ADB prepared to resume operations in Afghanistan in 2002, it was able to draw on these experiences and the following lessons.

Allocate significant resources for developing institutions: Poorly performing projects are often associated with an inappropriate policy or institutional framework. Cambodia's policy-formulation capability could not maximize the potential of international assistance and external support was needed to formulate and implement the additional policy changes required.

Sequence policy and institutional reforms appropriately: In Tajikistan, ADB learned the importance of sequencing policy and institutional reforms, especially when the situation remained volatile. Early efforts were followed by successful infrastructure rehabilitation in the road and power sectors.

Prepare emergency loans: Lessons from Cambodia suggest that emergency loans should exclude components requiring long-term preparation; should adopt a process approach to allow flexible adjustment during

ADB's Approach to Conflict and Postconflict Situations



implementation; should include flexible financing provisions, particularly for operation and maintenance; and should be complemented by follow-on projects that address policy and institutional issues.

Coordinate activities among agencies at central and local levels: Experience in all postconflict countries highlighted the importance of efficient coordination among agencies to ensure rapid and effective implementation of emergency projects.

Factor in postconstruction maintenance of project facilities: In all cases, it was evident that quality control in project preparation and adherence to safeguard provisions must be maintained in emergency assistance.

Develop a strategy: Effective assistance for reconstruction requires a strategy for the country and for agency operations. The process of restoring and establishing human dignity, building an identity for the country, and restoring confidence of the people in their government cannot be left to chance.

Afghanistan and ADB: a partnership renewed

ADB's return to Afghanistan after an absence of 23 years started one cold, misty morning in February 2002. An ADB team arrived at Kabul airport for meetings that would mark ADB's first formal contact in the country with the ruling Interim Administration of Afghanistan (IAA). It was a quiet beginning to a new era of partnership.

The revival of the relationship between ADB and Afghanistan was achieved through well-defined steps (see *Figure on page 19*).

Afghanistan was a founding member of ADB, joining in 1966. Operations began in 1969, and in 1970, the first loan was approved. Nine loans to the country, totaling \$95.1 million from the Asian Development Fund (ADF), were approved by 1979.¹¹ ADB focused on small- and medium-sized agriculture and irrigation projects, and did some work in transportation, hydropower, and vocational education. In 1979, following the Soviet occupation of the country, ADB suspended its operations in Afghanistan.¹²

In the more than 2 decades that passed before ADB returned to Afghanistan, the country was devastated by external aggression and civil war. Its economy and physical infrastructure were in ruins; its social, political, and ethnic fabric destroyed. The destructive impact of Soviet aggression, civil war, and the brutally repressive Taliban regime was aggravated in the late 1990s by 4 years of drought, which seriously affected agricultural, horticultural, and livestock production. For all practical purposes, the economy came to a standstill. Production, consumption, trade, savings, investment, and capital accumulation either collapsed or fell to very low levels. Between 1998 and 2002, per capita gross national product declined an estimated 35% to about \$205.

¹¹ ADB also provided technical assistance grants totaling \$2.5 million.

¹² All outstanding loans were canceled and disbursements stopped.

In December 2001, with the signing of the Bonn Agreement, power in the country was vested in the IAA, which quickly proclaimed its desire to revive the nation's economy and restore peace and stability. The Afghan people have shown a strong commitment to take control of their destiny and transform their land into a well-governed country focused on reconstruction and spreading prosperity to all Afghans.

They face three formidable challenges: They must answer the human costs of decades of fighting; they must establish a viable peace; and they must develop the administrative and political capacity needed to run a modern state. The reconstruction of Afghanistan will test its people and the will of the international community. It will also be a testing ground for the latest thinking and theory on the best way to establish a close and continuous connection between humanitarian assistance and reconstruction.

Postconflict rebuilding

Ensuring country leadership

A broad-based political authority, the IAA was established in December 2001 following the Bonn Agreement. It was agreed that Afghan men and women at the national, provincial, local, and grassroots levels should be involved in and lead the reconstruction process in all stages, from planning to implementation. Afghan ownership is crucial to the success of rehabilitation and reconstruction efforts.

ADB, as a partner in the international coalition for the reconstruction of Afghanistan, worked closely with the Government in developing an approach to postconflict assistance that is largely driven by the country itself. The Government is deeply committed to promoting a lasting peace-building process, which will be the bedrock for all future work. Without government support, rehabilitation and reconstruction efforts will yield little in improving the well-being of the Afghan people.

At the International Conference on Reconstruction Assistance to Afghanistan in Tokyo on 21–22 January 2002, the IAA presented its vision of a prosperous and secure Afghanistan that would contribute to the prosperity of its trading partners and increase regional stability. The IAA intends to build a credible state with an efficient and transparent government accountable to Afghan citizens and the international community. The IAA stressed the importance of building a vibrant and competitive private sector and a well-developed civil society with democratic institutions. The IAA identified key outcomes for the reconstruction program, including political stability and security, access to basic services, an adequate standard of living for the people, economic growth—and, in the longer term—independence from foreign aid.

Building a new identity

Postconflict reconstruction is predicated on building institutions and infrastructure to bind people together and infuse country leadership with meaning. What does this mean for Afghanistan?

CHANGING ATTITUDES: GENDER IN AFGHANISTAN

Women are returning to work outside the home and girls are back in school. These are symbols of a new beginning—a new era of opportunity for women in Afghanistan.

During the Taliban rule, women could not work outside the home and girls could not attend school. Now they actively participate in government and civil society. But equality remains a far way off. In the Government, women head 2 of the 29 ministries. There are four women deputy ministers, five female generals, and two commissioners on the nine-member panel drafting the constitution.

Despite this progress, the number of women employees in government offices has not reached pre-Taliban levels. Indeed, most Afghan women remain bound by traditional practices, limited rights, and economic hardship.

The Government and nongovernment organizations (NGOs) are working to change attitudes and promote women's status. The new Ministry of Women's Affairs seeks

to advance women's status and improve their welfare on a long-term sustainable basis.

During the Taliban rule, NGOs helped women in various areas, including health and livelihood. Many of these efforts are being carried out now in cooperation with the Government. There are over 30 NGOs in Kabul alone working to create opportunities for women to gain or improve vocational skills and commence or restart their education. Although many are underfunded, NGO projects are helping. The number of health facilities for women is increasing, and small-scale job creation programs have begun.

ADB recognizes that women are vital to the rehabilitation, reconstruction, and reconciliation of societies. The Government's National Development Framework (NDF) recognizes that national development could not be achieved without the input of women in policies and resource allocation and without specific programs for

women. "All programs must pay special attention to gender, and not include it as an afterthought. We have to engage in a societal dialogue to enhance the opportunities of women and improve cooperation between men and women on the basis of our culture, the experience of other Islamic countries, and the global norms of human rights."¹

Women's empowerment is an integral part of ADB efforts in Afghanistan. The Kandahar-Spin Boldak road rehabilitation project, for example, includes livelihood training and credit facilities to create income-generating activities for home-based returning women refugees. Nutrition and child care will also be offered. Support to community-based basic education will promote the education of girls. The challenge of improving the status of Afghan women is enormous and success will require the continued support of development partners.

¹ National Development Framework, p. 12.

NGOS IN AFGHANISTAN

Nongovernment organizations (NGOs) have worked in Afghanistan and in support of Afghan refugees abroad for more than 20 years. As of mid-2002, more than 400 groups were active in the country, including some 280 local organizations. Together, they administered an estimated \$125 million in relief aid in 2001. That figure may exceed \$200 million in 2002.

NGOs support projects in a wide range of sectors, including agriculture, construction, education, immunization, health, income generation, mining, relief and repatriation, community and social work, veterinary services, and water and sanitation.

NGOs provide crucial assistance to refugees and populations in remote areas, and successfully filled the gap when political circumstances prevented multilateral and bilateral activities inside the country. Many have long experience in Afghanistan and their deep understanding of local needs and culture enables them to provide fast and effective aid.

In March 2002, ADB contributed to the design of the World Bank's Community Block Grants Project. This community-based, grant-funding mechanism aims to provide a framework for local governance and institutional development to support local action, to

promote ways for boosting participatory planning and strengthening village development capacities, and bring resources to communities in support of local priorities. NGOs are helping implement the Project throughout much of Afghanistan.

Also, NGOs are involved in ADB technical assistance activities that provide advisors, equipment and supplies, repair and maintenance of offices, as well as training to ADB counterpart agencies in the transport, energy, education, health, agriculture, and financial sectors. ADB is committed to developing effective partnerships with NGOs to help rebuild Afghanistan.

The strategic thrusts guiding reconstruction can be found in the Bonn Agreement, government statements, and the National Development Framework (NDF). Each calls for Afghans to lead the process; for social order to be built from within the country and its people; for potentially disruptive forces to be transformed into productive partners;

and for an approach geared toward stimulating the processes of economic stabilization, recovery, and growth primarily through private sector development. The IAA leadership seeks

- a national identity based on respect for the revitalized administrative authority at all levels, law and order, and the judicial process;

Many Afghans' lives were destroyed by war. Depletion of family assets such as land, livestock, and literacy has resulted in malnutrition, displacement, and social disintegration. The pain of war was deepened by persistent drought that left millions of people displaced. As the country struggles to maintain political stability and start reconstruction, poor families are still fighting to stay alive.

The Government's National Development Framework focuses on ensuring security and human development to support poverty reduction, rebuild physical infrastructure,

and create a viable private sector for sustainable, pro-poor growth.

Afghanistan's 25 million people have the worst health status of any population in Asia: malnutrition is high and increasing; the infant mortality rate is about 165 per 1,000 live births, among the highest in the world; average child mortality is about 257 per 1,000 live births, and may reach twice that among the displaced; and maternal mortality has remained among the highest in the world.

Women and girls are particularly vulnerable due to their low social status and limited access to services.

Children, too, face higher risks due to malnutrition, lack of safe drinking water, poor hygiene, and exposure to common infections. Other vulnerable groups include displaced families lacking income, persons traumatized by war, and war widows and orphans. These people require basic services and emergency relief.

The Government aims to provide all citizens with a package of basic health services, costing about \$3 per person per year, and wants to explore a more coordinated role for nongovernment organizations in expanding primary health care.

- national ownership of all reconstruction and development initiatives;
- conflict resolution through dialogue, reasoning, logic, and peaceful negotiation rather than armed conflict;
- a balanced society through protection of human rights, social inclusion, promotion of gender balance and sensitivity, and strengthening of democratic values and institutions and participation;
 - transformation of warlords and provincial leadership into partners of the central leadership in Kabul, leading to social, political, and economic changes in the interest of all Afghans;
 - reintegration of war combatants into the society as productive agents through training and exchange of arms for production inputs;
 - an efficient but lean institutional/administrative framework to formulate, coordinate, and implement policies, strategies, programs, and projects;
 - good governance and sound economic management;
 - harmonized regional cooperation; and
 - eradication of illicit drug production, marketing, and consumption.

Establishing priorities

Rehabilitation and reconstruction activities were carried out sporadically at first, with NGOs, bilateral donors, and UN agencies undertaking small-scale rehabilitation work mostly outside the national budget process. Funds pledged at the Tokyo conference were used primarily for relief operations. Following the presentation of its ordinary budget in April 2002, the Afghan Government had to regroup and augment its capacity to prepare a development budget that could capture all rehabilitation activities and their financing. Much of the Government's time was spent seeking funds for relief and reconstruction: the budget deficit of \$244 million was met without resorting to deficit financing.

ADB and other development partners welcomed the IAA's initiative to consolidate its leadership role in reconstruction and development, and more specifically in

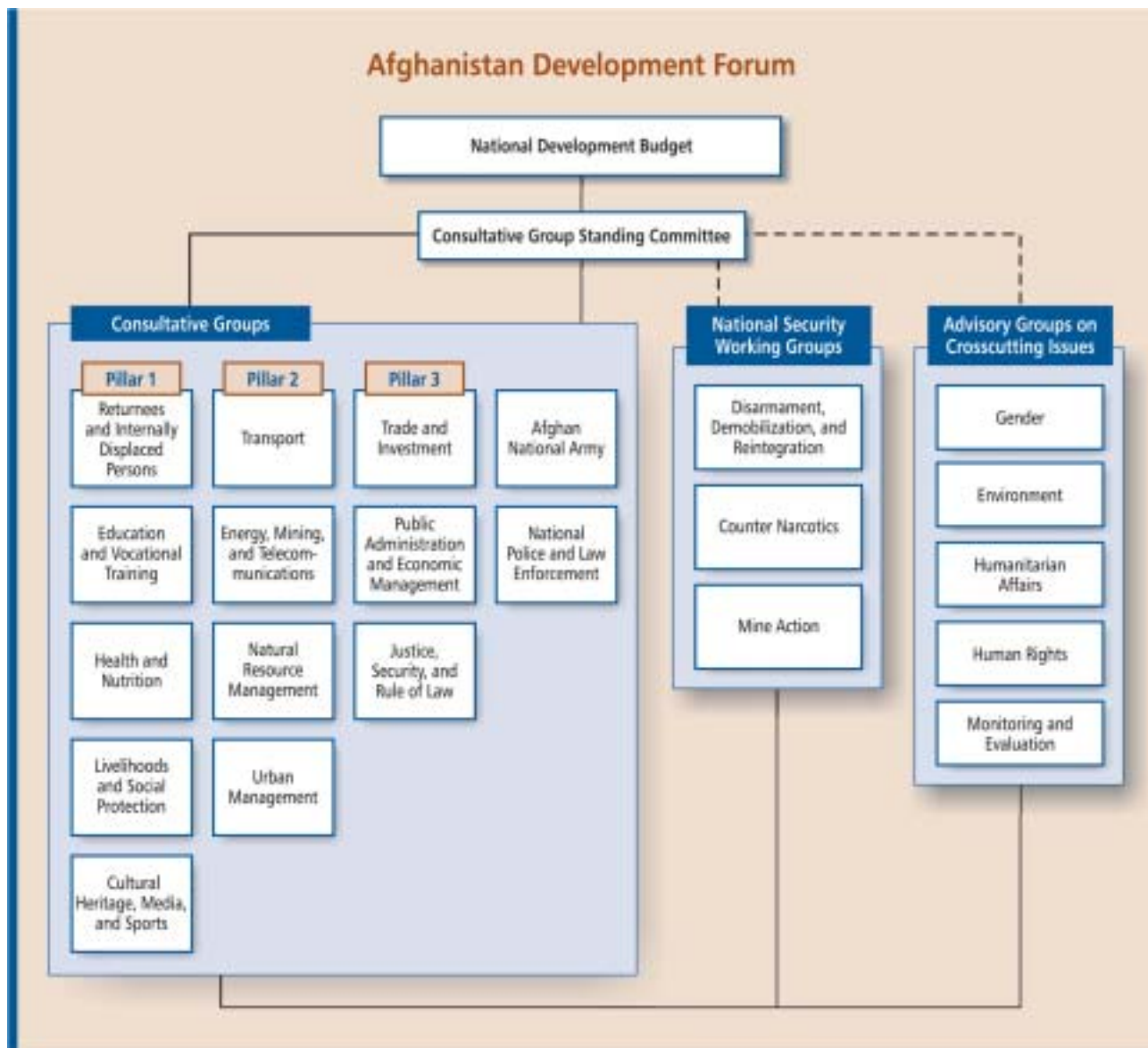
aid coordination. To streamline both areas and claim full Afghan ownership of the nation's destiny, the IAA established, through a decree issued by its Chairman, the Afghanistan Assistance Coordination Authority (AACA).¹³ A point of reference for dialogue, discussion, debate, and path finding was thus established.

The Government also recognized the importance of creating a development framework to lay out the direction for policy and institutional changes, and underlying national objectives, goals, and priorities. In preparing the NDF, the Government drew on the information contained in the preliminary needs assessment prepared by ADB, UNDP, and World Bank; and the comprehensive needs assessments for the agriculture, transport, education, and environment sectors prepared by ADB, as the lead agency, and other development partners. The Government presented the NDF at the First Meeting of the Implementation Group in Kabul in April 2002.

NDF: The goal of the NDF is to provide a strategic plan for the development of Afghanistan, around which all players can unite to address poverty and provide economic opportunities through a series of concrete programs and projects. The NDF is based on five principles.

- The development strategy must be domestically owned, with the Government in the driver's seat.
- Markets and the private sector are more effective instruments than the state in delivering sustained growth.
- Aid cannot be effective without the state investing in human capital and without an institutional framework that allows the rule of law to prevail.
- Sustainable economic growth requires the active participation of the population.
- Externally funded investments must be anchored in the Government's development program to be successful over the longer term.

¹³ According to the decree, the primary activities of the AACA include (i) coordinating funds, agencies, and technical assistance; (ii) developing an information system for monitoring and evaluating programs; (iii) establishing financial control and procurement systems; and (iv) directly managing a limited portfolio of national programs.



The NDF focuses on three pillars of development: promoting security and human development, rebuilding physical infrastructure, and enabling the creation of a viable private sector as the engine for sustainable and inclusive economic growth (see *Box on page 25*). Restoring security and reestablishing law and order, administrative and financial reform, and gender equity are crosscutting priorities. The key short-term challenges and priorities are to quickly establish basic security for the population, revitalize agriculture, facilitate private economic activity, and rebuild infrastructure and social services.

CSP: These elements were at the foundation of the initial country strategy and program (CSP) for Afghanistan, endorsed by ADB's Board of Directors on 28 May 2002, paving the way for the approval of a \$187 million emergency assistance package (including \$15.1 million in technical assistance and \$22 million in grants) to Afghanistan in 2002. For more on these grants, see *Box on page 141 in the Management's Discussion and Analysis chapter*.

ADB's initial CSP is designed to assist the Government in rehabilitation and reconstruction to ensure a seamless transition from humanitarian relief to reconstruction and development assistance. In a daylong visit to Kabul in early April 2002, ADB President Tadao Chino discussed elements of ADB's assistance strategy with the authorities, including the IAA Chairman.

The initial CSP identified transport as a key sector for ADB assistance, along with education, agriculture, and environment. ADB has taken the lead in these sectors; however, it will also provide major assistance for rehabilitation and reconstruction efforts in health, energy, rural development, and finance. The transitional Government's priorities are fully reflected in ADB's 2003 proposed assistance program, consisting of capacity-building technical assistance and a program loan.

Monitoring early achievements

Early indicators show improvements in the macroeconomic picture, although it remains far from normal or

optimal. Production is increasing and agricultural production, especially wheat, is projected to be well above levels in 2002. Small-scale industrial, trade, and commercial activities have gained momentum. In secure areas like Kabul and other major cities, a mini-construction boom is under way. Transport and services including hotels, restaurants, and others are expanding. Healthy markets have developed in Kabul, Kandahar, and other areas for used or reconditioned cars imported from the Gulf area and Pakistan. Small private sector activities are thriving while large private initiatives, both domestic and foreign, seem to be lagging behind, primarily due to inadequate financial resources and lingering concerns about security.

The Government drafted a new "Law on Domestic and Foreign Private Investment in Afghanistan," addressing tax waivers, land leasing, transfer of capital and profits, share transactions, banking, seizure and confiscation, and dispute resolution. The Government has successfully floated a new Afghan currency, the new afghani, which has had a stabilizing influence on prices and exchange rates. Kabul's consumer price index declined about 3% in December 2002, reversing increases in previous months. The exchange rate appreciated from 59.8 new afghanis per US dollar in November 2002, to 50.8 in December 2002, and 46.0 in January 2003. *For more on Afghanistan's economy, see page 101 of the Country Reports chapter and the Asian Development Outlook 2003 at <http://www.adb.org/publications/>.*

The Government is maintaining and strengthening this momentum by developing a coherent budgetary process and improving government-led aid coordination.

The National Development Budget (NDB) of about \$3.2 billion for 2002–2004, presented by the Ministry of Finance (MOF) on 12–13 October 2002, has five objectives.

- Develop the capacities of the public administration for good governance.
- Accelerate reconstruction of basic infrastructure and services.
- Accelerate economic growth as the precursor to any policy for poverty reduction.
- Improve economic competitiveness and reduce national and household vulnerability to economic shocks.
- Extend access to basic services such as education and health.

The NDB translates the priorities of the NDF into programs and projects¹⁴ while simultaneously providing a vehicle for policy development. It provides an outline of ongoing and proposed investments for 2002–2004¹⁵ and consolidates investments under national development programs.

¹⁴ The national development programs under pillar 1 include (i) returnees and internally displaced persons, (ii) education and vocational training, (iii) health and nutrition, (iv) livelihoods and social protection, and (v) cultural heritage, media, and sports; under pillar 2 include (i) transport, (ii) energy, mining, and telecommunications, (iii) natural resource management, and (iv) urban management; and under pillar 3 include (i) trade and investment, (ii) public administration and economic management, and (iii) justice, security, and rule of law. The national priority subprograms are (i) education infrastructure, (ii) solidarity program and emergency public works, (iii) transport, (iv) water resource investment, (v) urban infrastructure, and (vi) governance infrastructure.

¹⁵ The Ministry of Finance presented a new National Development Budget for 2003–2005 at a donors' meeting in Kabul in March 2003.

PRIVATE SECTOR

The Interim Administration of Afghanistan (IAA) recognizes the importance of the private sector as the engine of economic growth. However, during rehabilitation and reconstruction, and while an enabling environment is being created for the private sector, the Government expects to play a lead role. Agricultural markets are largely managed by private operators and this should continue, with the Government providing policy, institutional, and infrastructure support.

The private sector and nongovernment organizations (NGOs) can play an important role in rural finance. Improved land titling will help develop land, labor, and capital markets in rural areas.

In the nonfarm industry and informal sectors, private small- and

medium-scale enterprises can create employment opportunities that are beyond the capacity of the Government. Gas production and distribution as well as exploitation of other minerals need to be opened up to private investments on a competitive basis. The same is true of fuel and electricity supply. The private sector could participate in the development of hydroelectric resources; distribution of electricity to towns, cities, and rural communities; and repair and creation of fuel storage facilities, bottling facilities, and distribution outlets. The Government plans to open up the energy and infrastructure sectors to private investment and to establish an appropriate policy and regulatory framework. NGOs are involved in urban water supply

and sanitation. Private companies could provide urban services, with the public sector providing investment support.

Private provision of health care services, including private clinics and pharmacies, will be more efficient in serving the public. Market-based health care delivery may have to be supplemented by affordable basic health care delivery by the public sector and NGOs. Nationwide, a community-based approach to the delivery of infrastructure services in rural areas would be welcome. Finally, the private sector is likely to take the lead in investment and service expansion in the telecommunications sector, assuming that a policy and regulatory framework is developed quickly.

From postconflict: preconditions for reconstruction

Ensuring security

Security in Afghanistan is essential not only for efficient humanitarian action, but also for rebuilding the country: without assured security and stability, further progress will be seriously compromised. Security in both Kabul and outside the city remains tenuous, and the Government's grip on the country as a whole is not as strong as had been hoped for at this stage. Warlords continue to exercise power in their areas of influence and indulge in factional fighting. In Kabul, the 4,800-strong International Security Assistance Force (ISAF), first under British, then Turkish, and now German and Dutch leadership, has been a power for peace and stability.

Security and stability will, however, continue to be a problem as long as warlords retain their own armed forces. This point was highlighted by the Government in October 2002 and was an important theme of the Wilton Park Conference in London in the same month. On its first anniversary, the Government issued an appeal to the international community for assistance in disarming the warlords.¹⁶

The process of disarming the population has also been painfully slow. Although the Government comprises ethnic factions and is holding together, there is ample evidence of widespread serious factional tensions. Efforts are under way to establish rule of law, bring provincial and local authorities under central control, build a national army and a police force, and extend the tenure and expand the role of the ISAF.

Another issue closely linked to security is the illegal production, trade, and consumption of opium. In January 2002, the Government issued a decree banning poppy cultivation. Two other decrees have been issued since then—one in April 2002 outlining an eradication program and another in September 2002 for enforcing the ban on cultivating, producing, abusing, and trafficking drugs. But, according to the UN Office on Drugs and Crime, 3,400 tons of opium were produced in Afghanistan in 2002.¹⁷

Facing the political challenges: constitution and elections

Stability in Afghanistan is contingent upon the establishment of secure political processes. The country has not held an election since the 1970s, neither has a national census been undertaken. The current Government has been charged with two key tasks that will shape the nation's future: writing a new constitution and preparing for national elections in 2004. A Constitution Commission has started work on the new constitution but progress has

been slow. Concern has been raised over whether a draft document and election preparations will be completed by the end of the 24-month term of the Government, which began following the Emergency Loya Jirga, a grand council of Afghan political and tribal leaders, in June 2002.

As it works toward these goals, the Government must also proceed with a third crucial task—that of extending civilian authority over the entire country.

Three political parameters are essential to the rehabilitation and reconstruction process:

- accepting the supremacy of the central Government;
- creating conditions for political plurality and democracy without external interference; and
- improving the capacity and efficiency of the Government to provide political leadership.

Establishing a durable political balance will require further progress in developing democratic institutions, creation of a framework for equitable power sharing among ethnic groups, and agreement on an acceptable relationship between the central Government and the provinces. These issues will shape the fundamental character of the new constitution.

Preparations for Afghanistan's first elections in over 20 years are progressing slowly. A census is being planned with assistance from the UN Population Fund. A key element in election planning is the development of a smooth succession plan. For the donor community's contributions to be used effectively beyond humanitarian aid, a workable balance must be struck among all conflicting parties in the country. Without that balance, time and resources will be wasted and the suffering of the Afghan people will continue.

Cooperating regionally

Afghanistan's reconstruction must be viewed in a regional context. Peace, stability, and prosperity in Afghanistan could be a catalyst for rapprochement or closer bonds between its neighbors such as Iran and Pakistan, or India and Pakistan, and between any one of these countries and the Central Asian republics.

Pakistan is a main trading partner of Afghanistan, and reexports to Pakistan through unofficial channels form an important component of total trade. It is clear that an open trading regime and deeper subregional integration would have many advantages for Afghanistan and its partners (see *Box on regional cooperation at right*). Afghanistan may consider entering into mutual trade agreements with neighboring countries such as Iran, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan, and to allow the free movement of goods and services and implementation of a common external tariff system. In exploring the option of greater subregional cooperation in trade, the complementary and competitive nature of production among participant countries should be considered. A process of harmonization and convergence of policies and strategies would help remove constraints to growth and development, allowing each participating economy to reach its production potential. The aim would be to improve the competitive efficiency of each country. Regional trade will be

¹⁶ At a conference in Tokyo in February 2003, donor nations pledged an additional \$50.7 million toward a UN-backed program to disarm, demobilize, and reintegrate Afghanistan's fighters.

¹⁷ The 2002 opium production was on 74,000 hectares in five provinces (Badakshan, Helmand, Kandahar, Nangarhar, and Uruzgan). Although less than the peak production of 4,600 tons in 1999, the 2002 production level was well above that in 2001, when production plunged to 185 tons following a strict ban on poppy cultivation by the Taliban regime.

fostered by regional cooperation in transport initiatives and resource management and development.

ADB has identified projects in the transport, power, and energy sectors for possible assistance, including a 1,600-kilometer natural gas pipeline project from Turkmenistan to Pakistan through Afghanistan. A technical assistance project in support of the pipeline is now under way.

Setting the policy and institutional framework

ADB is working to see that an appropriate policy and institutional framework is in place in Afghanistan to support investments in rehabilitation and reconstruction.

The governance, policy, and institutional frameworks necessary for a well-functioning economy must be established urgently. This is imperative for significant investment in Afghanistan's reconstruction, and for stimulating confidence among private investors, both domestic and foreign, to participate in development opportunities. Transparency, accountability, community participation, and the rule of law are the basis for good governance, which must be established at all levels of government. Policy reforms are needed to help mobilize resources and ensure their productive use. Substantial institutional capacity building is necessary to ensure effective reconstruction and development of the economy and social systems.

Toward reconstruction: financing the transition

Coordinating the response

Aid coordination on the rehabilitation and reconstruction of Afghanistan has been intense. In late 2001, several

international conferences were held to ensure that donor activities would avoid duplication and waste.

During these meetings, the Afghanistan Support Group (ASG),¹⁸ founded in 1996 by the 15 largest donor countries and the European Union, emerged as an important Afghan advocacy group. The ASG contributes to reconciliation, social and economic development, and sustainable peace and progress in Afghanistan. It is focused on improving coordination between donors and promoting human rights in aid initiatives, thereby laying a foundation for urgently needed reconstruction.

The Afghanistan Reconstruction Steering Group (ARSG, also known as SG) was established¹⁹ to provide policy guidance for Afghanistan's reconstruction. It created an Implementation Group (IG), which served as the primary umbrella for coordination among funding agencies until the Consultative Group (CG) mechanism took charge.²⁰

A Senior Officials' Meeting in Washington, DC, in November 2001 requested ADB, UNDP, and World Bank to

¹⁸ The members are Australia, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Russia, Sweden, Switzerland, United Kingdom, and United States.

¹⁹ It was established at the Senior Officials' Meeting on Reconstruction Assistance to Afghanistan on 20 November 2001. The European Union, Japan, Saudi Arabia, and United States are the co-chairs of the SG.

²⁰ The IAA chairs the IG. ADB, the Islamic Development Bank, UNDP, World Bank, and the ASG Chair (currently Norway) act as vice-chairs. The IG was mandated to prioritize requirements identified by the ongoing needs assessments; monitor the coherence of aid activities within an integrated reconstruction framework, and seek to prevent overlaps or gaps; identify logistical and policy shortcomings in program execution; suggest potential solutions and seek political guidance from the SG as necessary; and inform the SG of the progress and issues related to the program. The IG participants include all bilateral and multilateral assistance agencies directly involved in Afghanistan, including neighboring states; Afghan official representatives as determined by the IAA and its successors; representation from the international and domestic NGO community; and a UN representative nominated by the UN Secretary-General's Special Representative to Afghanistan.

Afghanistan is central to the promotion of regional trade and commerce. For several thousand years up to the 16th century, Afghanistan was a meeting ground: a route for trade and the communication of ideas, religions, and skills between Europe and the Middle East, and the People's Republic of China (PRC) and the Far East. With the advent of commercial shipping, which proved safer and cheaper than trade over land, the region lost its geographic importance and turned inward.

Afghanistan's isolation deepened in the 19th century with the industrialization of Europe and the partial de-industrialization of Asia. In the mid-20th century, the country acted as a buffer between Cold War groups. Isolation and occupation of

the country in 1979 prevented implementation of the planned Asian-Eurasian East-West highways envisaged to connect Europe and Turkey with Southeast Asia and the PRC through Central Asia.

The collapse of the Soviet Union, the emergence of Central Asian republics, the defeat of the Taliban, and the subsequent assumption of power of the present Afghan administration, should allow the country to resume its central role in regional economic cooperation.

Afghanistan could potentially engage in regional cooperation in trade, energy, power, transportation, agriculture, mining and industry, and water resources.

Essential to realizing greater benefits from regional cooperation

is rehabilitation of Afghanistan's road infrastructure, harmonization of customs systems, and rationalization of existing transit trade agreements.

The Government has demonstrated interest in reactivating Afghanistan's role in regional cooperation. With help from ADB, it is reviving road links with Turkmenistan and Uzbekistan in the north, and Pakistan in the southeast. Ongoing rehabilitation of damaged transmission lines in the northern power grid will enable imports of power from Turkmenistan and Uzbekistan. Transit rights are being negotiated for the proposed Turkmenistan-Afghanistan-Pakistan natural gas pipeline. Cross-border trade facilitation initiatives are also under way.

- 1966 Afghanistan joins ADB as one of 31 founding members
- 1979 ADB suspends operations to Afghanistan following Soviet occupation
- 11 September 2001 Terrorists attack World Trade Center
- 22 November 2001 Japan and United States co-host first meeting of the Afghanistan Reconstruction Steering Group in Washington, DC. ADB President attends
- 20 December 2001 Afghanistan Administration led by Chairman Hamid Karzai assumes office
- 21–22 January 2002 Afghanistan Reconstruction Steering Group Ministerial Pledging Conference takes place in Tokyo
- 21–22 January 2002 International Conference on Reconstruction Assistance to Afghanistan is held
- 4 April 2002 ADB President Tadao Chino visits Kabul; holds discussions with Chairman Hamid Karzai and Cabinet on ADB's prospective program of assistance
- 13 June 2002 Loya Jirga elects Hamid Karzai as President, Islamic Transitional Government of Afghanistan
- 12–13 October 2002 Implementation Group Meeting in Kabul meets to present the Government's National Development Budget and development financing modalities
- 31 October 2002 ADB Board of Directors approves establishment of an ADB Resident Mission in Kabul
- 14 November 2002 Access to ADF VIII resources by Afghanistan is secured
- 3 December 2002 The Department for International Development of the United Kingdom helps clear Afghanistan's arrears to ADB of \$17.9 million
- 4 December 2002 ADB resumes lending to Afghanistan after 23 years

conduct a needs assessment for the Afghanistan Reconstruction Steering Group Ministerial Pledging Conference held in Tokyo on 21–22 January 2002.

ADB stated in late 2001 that its assistance program to Afghanistan would evolve in full partnership with the Afghan people and in full collaboration with other international financial institutions and international agencies. In preparing the preliminary needs assessment, ADB worked closely with UNDP and the World Bank, and participated in extensive consultations with Afghans, NGOs, and UN agency staff experienced in and familiar with Afghanistan. Staff of the three institutions also traveled to Kabul to consult with the Government.

Assessing preliminary needs

The preliminary needs assessment presented at the Ministerial Pledging Conference provided the basis for the international community's pledge of \$4.5 billion in development assistance around agreed sector priorities and policy and institutional frameworks. ADB pledged \$500 million in highly concessional loans and grants over a 30-month period ending 30 June 2004. It was agreed at the conference that comprehensive needs assessments of all key sectors would follow to put sector development plans on a firmer footing. ADB acted as the lead agency for the assessments of the agriculture, transport, education, and environment sectors.

In-depth consultations were held with the IAA in preparing the comprehensive needs assessments. The Government expressed concern that the process and the outcome were largely supply-driven and that government involvement was not optimized. The Government also perceived that work on the assessments had pulled scarce human resources away from formulating projects and programs for immediate implementation. The contribution made by the assessments in providing for sector development frameworks—including policy and institutional frameworks—was, according to ADB, important for immediate implementation and long-term sector plans and should be valued.

Establishing the mechanism

The Afghanistan Reconstruction Trust Fund (ARTF) was conceived in December 2001 to provide a coordinated financing mechanism for the Government's operating and development budget, including investment projects and programs in priority sectors. The ARTF is an important multidonor initiative designed to

- promote transparency and accountability of reconstruction assistance;
- help reinforce the national budget as the vehicle to align the reconstruction program with national objectives;
- reduce the burden on limited government capacity while promoting capacity building over time; and

- help fund the recurrent budgetary expenditures required for the Government to function effectively.

The ARTF covers salaries, nonproject technical assistance, operation and maintenance, and other recurrent costs, including interest payments in the IAA's budget; relatively small unfunded investment activities and programs, including quick-impact recovery projects; contributions to reconstruction by Afghan experts residing abroad; and in-country training programs for Afghans. The fund is administered by the World Bank, which carries overall fiduciary responsibility. ADB, together with the Islamic Development Bank, UNDP, and World Bank are members of the management committee, which is responsible for determining resource allocations in consultation with the Government. The key principle guiding ARTF financing is its response to country requirements as articulated by the Government. A monitoring agent has been appointed by the World Bank to ensure proper fiduciary management.

The ARTF has grown rapidly, with pledges topping \$376 million by 22 countries. This has exceeded expectations, but remains short of Afghanistan's needs. Of these pledges, paid-in contributions totaled \$184 million as of 7 March 2003. Disbursements have picked up in recent months, with cumulative disbursements reaching over \$114 million or 63% of total paid-in contributions as of 7 March 2003. Disbursements are expected to reach \$147 million by the end of the Afghan fiscal year on 21 March 2003. Seven ARTF investment projects have been approved, for a total commitment of \$48.6 million.²¹

Despite a slow start, commitments for the Government's operating budget have increased significantly and, to a large extent, closed the government deficit, with the ARTF serving as the main instrument for funding recurrent costs.

During its first 10 months, the ARTF has shown its capacity to disburse funds throughout the country in support of the national operating budget and to account for these expenditures, with progressive improvements in documentation and timeliness. Early indications suggest that the same is likely to be true for the development budget. Based on these encouraging early results, the Government has requested a major increase in donor contributions to the ARTF.

The Government intends to use the ARTF as the primary funding mechanism for moving forward.²² This reflects its view that the National Development Budget should be the central instrument for policy and resource allocation, implying a high premium on coordinated financing instruments that provide resources to and through the budget. The Government sees the ARTF as a source of funds for providing services, and it is deemed effective by Afghan citizens in helping build a legitimate and sustainable state. The Government also sees the

ARTF as a capacity-building instrument. In line with this, the Government proposes to sharply increase donor contributions to the ARTF to about \$600 million for the fiscal year ending 21 March 2004, including about \$200 million to cover recurrent costs and an estimated \$400 million for investment projects, expatriate Afghans, and training. (Preliminary estimates suggest that the operating budget will be about \$500 million, with domestic revenues around \$200 million, and external financing of security expenditure at \$100 million, leaving a deficit of \$200 million to be covered by the ARTF.) Compared with the current level of pledges for the year to 31 March 2004 (approximately \$156 million as of 7 March 2003), the ARTF has a funding gap in relation to the Government's request of about \$450 million.

In addition to the ARTF, the Government intends to use the National Development Budget as a planning tool for mobilizing both domestic and external resources. This budget will remain the central instrument for policy and institutional reform, and for coordinating aid resources. The Government has expressed strong views on assistance modalities, and wants each donor to focus on three sectors to achieve greater effectiveness. The Government also perceives the sector focus as necessary to avoid stretching the capacity of the funding agencies.

ADB appreciates the Government's desire for ADB to focus on the transport, energy, and agriculture and natural resource management sectors. How this policy might affect ongoing and planned ADB support for Afghanistan's social sectors is not known. ADB was the lead agency in preparing the comprehensive needs assessment for education, and several grant-financed activities are planned and under implementation. In addition, the interim CSP envisaged several loan-financed operations during 2003 and 2004. The Government is apparently favorably disposed to ADB continuing its existing grant programs in health and education, despite strong reservations on borrowing for social sector investments. Dialogue with the Government will continue.

Limiting donor activities to three sectors is intended to maximize the benefits of assistance while achieving better coordination. The Government created a new consultative group as an institutional counterpart for aid coordination that is linked closely to the budget process. The national budget will be planned, financed, and implemented within the CGs. This CG structure (*see page 24*) will be led by the Government. The Government has established local level donor-government CGs, covering national development programs with one designated donor acting as the focal point for each group. An annual forum will review the progress of the previous year, discuss the budget for the coming year, and outline national priority areas and policy objectives.²³

In addition, the Government has established crosscutting donor-government advisory groups for gender,

²¹ The seven projects include salaries of police officers (two projects totaling \$4.9 million), Feasibility Study Fund (\$8.0 million), National Emergency Employment Program (\$25.4 million), Microfinance Project (\$1.0 million), Chief Financial Officers Project (\$9.0 million), and Telecommunications Microwave Link to Pakistan (\$0.3 million).

²² Letter to donors dated 25 February 2003 from the Government.

²³ The first meeting of the CG, the Afghan Development Forum, was held in Kabul in March 2003.

Resources for education are limited in Afghanistan. And with the lifting of Taliban restrictions on girls attending school, demand for learning opportunities is rising fast.

About 900,000 students attended school under the Taliban regime, and donors expected that number to rise to 1.5 million in 2002 under the new Government. Instead, 3 million students enrolled. Donors now expect 4 million children to be in school by the end of 2002.

Their needs span the full range of formal education, nonformal education, and skills training. Classes are now made up of students of varying levels of skills and ages. During the conflict, some children attended nongovernment organization (NGO)-run schools in Pakistan, others went to government schools in Iran. And many, especially girls, had no opportunity to study.

As these children return to classes, their desire to learn is hindered by the limitations of devastated infrastructure. Afghanistan has about 5,000 schools, two thirds of which require reconstruction or major repairs. Many schools lack a water source or toilets. To teach at least 3 million students, more than 7,500 schools are needed.

The needs go beyond physical infrastructure. Teachers have not been trained for some time, particularly women who were prevented from working during the Taliban regime. Qualified new teachers will remain scarce in coming years as most teacher training institutions have been damaged or destroyed. Schools are seriously underresourced in terms of facilities, equipment, teaching-learning materials, and supplies. The cost

of education reconstruction has been estimated at more than \$1 billion over 10 years, excluding annual recurrent costs.

To support the rehabilitation of the system, ADB, in coordination with its development partners, is helping build professional capacity at the Ministry of Education and the Ministry of Higher Education to improve training, planning, and management activities. ADB is also implementing a community-based basic education project.

Afghanistan's expectations for an improved school system are high. Classrooms crowded with eager boys and girls represent early success in the drive for better education. Now the Government and donors must work to keep these children in school by providing accessible, secure, and quality education.

environment, humanitarian affairs, and human rights, with one donor acting as the focal point for each group. ADB has been designated as the focal point for two national programs (transport and natural resource management), and one crosscutting area (environment). ADB is also a donor member of two other CGs—energy, mining, and telecommunications; and public administration and economic management—and is actively engaged in the proceedings of the CGs.

Borrowing

The Government favors obtaining flexible financing to undertake complex reforms in key economic sectors. Accordingly, ADB approved in December 2002 a \$150 million Postconflict Multisector Program loan. By accepting the loan, the Government demonstrated its determination to carry forward policy and institutional reforms vital for long-term sustainable growth. Rapid economic recovery depends on the rehabilitation and reconstruction of infrastructure and its efficient and environmentally sound management. With this in view, the program loan focuses on three sectors—governance and finance, transport, and energy.

The program loan is a milestone in cooperation among the Government, ADB, IMF, and World Bank; and the governments of Italy, Japan, Norway, United Kingdom, and others in arranging clearance of Afghanistan's arrears with ADB prior to loan approval.

The Government of Afghanistan has been reluctant to borrow funds for financing the budget gap or reconstruction, maintaining that these should be financed through grants. Also, the Government believes that social sector

activities should be funded from bilateral and multilateral grant resources. The Government and ADB have agreed, however, that while ADB will do its part to increase grant financing in its total assistance to Afghanistan, the bulk of aid will be provided through highly concessional loans. ADB's Postconflict Multisector Program loan carries an extended repayment period of 40 years, including a 10-year grace period. The interest rate is 1% per annum and the interest charge during the grace period will be capitalized, implying that no payment on the loan to ADB will be required until 2011.²⁴ Efforts to convince the Government of the benefits of borrowing, taking into account the full range of debt sustainability issues, are ongoing.

Toward development: setting the stage

Building capacity

Afghanistan suffers from a serious capacity gap that hinders governance and economic management. ADB responded to the Government's request for rapid provision of grant assistance for capacity-building and quick-impact projects by extending \$15.1 million in technical assistance and mobilizing \$22 million in bilateral grants to finance three innovative pilot projects in transport, education, and health in 2002.

²⁴ ADF loans usually have a repayment period of 24 years, including a grace period of 8 years, and carry an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter.

ADB's operations in postconflict situations resulted in several lessons.

General

- All players should have a clear mandate.
- Rehabilitation and reconstruction after a long conflict provides an opportunity to introduce new methods of development, but all interventions should be sensitive to a country's culture and traditions.

Country leadership

- Client orientation must be strongly embedded in postconflict operations. People should be at the center of all operations, and the Government should be a genuine partner in reconstruction.
- The strategic focus of donor operations should be closely linked to the Government's own strategies and priorities, allowing synchronization of sector and government priorities.

Security and stability

- Security and stability are preconditions for reconstruction and development.
- Implicit in the above is a new paradigm establishing a nexus among security, political stability, and reconstruction. Reconstruction supports and strengthens the political process and security. Government stability should be enhanced through capacity building.
- Central government authority must be established on all fronts within a framework of equitable power and resource sharing.

Regional cooperation and development

- Regional economic cooperation should be fostered. The international community should assist the Government in realizing its potential for regional cooperation in trade, energy, power, transportation, agriculture, mining and industry, and water resources.

Aid coordination

- Aid coordination is crucial to avoid duplication and delays. The responsibility for managing external

resources rests with the recipient government, and cannot be abdicated to donors.

- The aid management entity should be located in a core organ of government, normally the ministry of finance. External resources should be integrated with domestic resources into a single overall budget and financing program. The central aid management entity should collate project selection decisions and maintain a central database.
- ADB should continue to coordinate its activities closely with its partners. The essence of cooperation is working together in accordance with the division of labor and comparative advantage of donors.

Policy and institutional framework

- An appropriate policy and institutional framework is required. The Government's commitment to the reform process must be strong.
- Sound macroeconomic management is essential for non-inflationary growth and strengthened investor confidence.
- The Government should be assisted in formulating a comprehensive and realistic budget. Current attempts to present ordinary and development budgets in Afghanistan, for example, are moves in the right direction. Work should start on a medium-term expenditure framework. To the extent feasible, donor funds should be channeled through the budget for accountability.
- Broad-based participation in market and democratic processes should be fostered.
- A balance between the private and public sectors should be agreed.

Capacity building

- Emphasis must be given to capacity building to improve administration, financial management, planning, and project design and implementation.
- Sector ministries should be provided additional technical assistance to enable them to contribute to project and program formulation and implementation.

• Funding communities must work closely with the ministry of finance and the central bank to develop a viable and working payment system to facilitate funds flow. The establishment of banks, other financial intermediations, and credit is essential.

- Contracts for consulting services should engage local staff for working with experts to build local capacity.

Reducing risks of renewed conflict

- Risk and vulnerability analysis should be undertaken to design mitigation measures. The structure of risks should be identified to establish priorities for risk reduction. Risks associated with dominance, deprivation, lack of participation, and traditional enmity and misunderstanding must be addressed. Constitutional safeguards and international guarantees may have to be considered. Military, financial, and technical assistance are required to sustain peace.

Communications strategy

- A proactive communications strategy should be developed to manage expectations and prevent misunderstandings.

Operational flexibility

- Particular emphasis should be placed on providing management support during project implementation.
- Donors' guidelines for procurement should be flexibly applied to expedite procurement of equipment and services.

NGO partnership

- NGOs can play a vital role in rehabilitation, reconstruction, and development. The donor-government-NGO relationship should be close, trusting, and complementary.

Other considerations

- Long-term productive rehabilitation of displaced populations should be factored into all assistance programs.
- Postconflict countries can benefit greatly from recent advances in information and other technologies.

A technical assistance cluster of \$14.6 million will provide long- and short-term advisors, equipment and supplies, repair and maintenance of offices, and training opportunities to ADB counterpart agencies in the transport, energy, education, health, agriculture, and financial sectors. Substantial progress is evident in strengthening the capacity of key government and civil society institutions to support the country's rehabilitation and reconstruction. Sector reviews are under way and sector plans are being prepared. Training programs are being implemented and visits abroad are being organized. Policy, institutional, and investment options are also being analyzed and evaluated. A supervisory and regulatory framework is being developed and options for privatization of public services and private sector development are being explored and promoted. The technical assistance also supports basic steps toward creating a foundation for transparent, well-functioning public administration and finance. A second technical assistance of \$500,000 is helping the Office of Disaster Preparedness improve readiness and management efforts during calamities.

Two thirds of the Postconflict Multisector Program loan was disbursed rapidly, but implementation of pilot projects and technical assistance grants has been slowed by procedural delays, security issues, and administrative and implementation capacity. ADB is working with the Government to overcome these hurdles. To build local capacity, for example, consulting services contracts should include provisions for engaging local staff to work with experts. Emphasis should be on providing management support during project implementation. Guidelines for procurement should be flexibly applied to expedite procurement of equipment and services.

Recent advances in information and other technologies provide Afghanistan with an opportunity to advance in these areas. The relative proliferation of information technology, Internet cafes, computerization, and mobile phones in Kabul and other parts of the country testifies to the usefulness of these new technologies. ADB supports computerization in Afghanistan under its technical assistance grants.

Conflict prevention

The transition from reconstruction to development can be undone by renewed conflict. The risks of renewed conflict can be minimized through growth and poverty reduction. Poverty is endemic in Afghanistan. A large proportion of the population lived below any acceptable poverty line prior to the outbreak of civil conflict. The conflict has left them poorer and has forced even more people into poverty. A preliminary ADB estimate suggests about 53% of the population live below the poverty line of \$102 in annual per capita income. Clearly, a much higher percentage live below the \$1-a-day poverty line. All donor projects, including those financed by ADB, are aimed at addressing

the specific problems of these vulnerable groups through rehabilitation, production, employment, and income-generation support.

It is important to address social issues as well. ADB worked with its development partners to conduct an analysis of social sectors and identify areas where assistance would be most helpful. Basic health, nutrition, and reproductive health of the rural poor have improved through an innovative partnership of the Government, NGOs, and communities in developing sustainable community-based health care (see Box on page 23). In the education sector, ADB supports a sustainable and comprehensive approach to community-based, gender-sensitive basic education (see Box on page 30). The long-term goal is to reduce poverty by equipping the young people of Afghanistan, particularly girls, with education that stimulates their self-help capacities for overcoming poverty (see Box on page 21).

To reduce the risks of renewed conflict, the Government must address the situation of displaced populations and former combatants. Both settled and displaced populations have been provided relief. The rehabilitation of refugees is moving slowly, but significant progress has been made. All programs and projects supported by development partners must, on a priority basis, provide for full integration of the displaced population into the

rehabilitation process, preferably in their places of origin. It is not enough to create temporary employment for the unemployed or destitute. Conditions need to be created to generate longer-term employment and income generation in productive pursuits.

Looking ahead

ADB completed its country strategy and program update for Afghanistan in April 2002. In 2003–2005, an appropriate mix of modalities of assistance could be developed, taking into account the evolving situation in Afghanistan and the Government's desire to achieve a balance between project and program assistance. Drawing from the NDF and NDB, ADB assumes it will need to meet requirements of \$600 million in concessional assistance and \$58 million in grant assistance over the period. Detailed programming is being worked out in consultation with the Government.

In 2003, if approved, ADB could build on the progress made in policy and institutional reforms under the Postconflict Multisector Program loan to support an Emergency Infrastructure Rehabilitation and Reconstruction Project (EIRRP). The validity of this sequence of actions was proven in ADB's operations in postconflict Tajikistan. The main objective of the EIRRP would be to help the Government rehabilitate and reconstruct key infrastructure in the transport and energy sectors. The Project would contribute to reviving economic activities across the country, thereby providing employment and reducing poverty, and would maximize the use of local labor and

It is not enough to create temporary employment for the unemployed or destitute. Conditions need to be created to generate longer-term employment and income generation in productive pursuits.

provide equal opportunity to women. Other EIRRP objectives would include the promotion of peace and security, social integration and stability, regional cooperation and integration, natural resource development and conservation, and private sector development.

The way forward: lessons from postconflict reconstruction

Reviews of ADB emergency policies and lending over the past decade have identified key gaps and limitations, including the failure to fully address critical issues such as sustainable livelihoods, weak governance, institutional capacity, and human and social capital depletion; the need to place greater emphasis on early warning, prevention, mitigation, and preparedness; inadequate financing; and the dispersed and ad hoc organizational response to emergency assistance. ADB is drafting a comprehensive

emergency policy to address these concerns and strengthen the link between postconflict operations and ADB's overarching goal of poverty reduction.

Postconflict reconstruction is about growth and poverty reduction to accelerate the transition from reconstruction to development, and to minimize the risk of resumed conflict. Achieving these goals requires developing income-generating activities, providing safety nets, and improving governance and institutional capacity as well as human and social capital. Actions should be designed for all phases of reconstruction: conflict prevention, transition, and emergency recovery.

Throughout these phases, ADB must continue to act as catalyst in helping its members in postconflict situations to address the human costs of conflict, to establish and maintain security, and to develop a political process that enables the country to move forward with confidence as it builds a brighter future for its people.