

## **REVIEW OF THE AFGHANISTAN COUNTER NARCOTICS TRUST FUND (CNTF)**



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**SUBMITTED FOR CONSIDERATION TO THE CNTF MANAGEMENT BOARD  
SEPTEMBER 2007**

### **NOTE ON REVIEW SCOPE**

While the scope of this review is strictly limited to the CNTF, the review team considers it necessary to assess fund efficiency and effectiveness issues from a more systemic point of view, largely because the CNTF is little more than a financial resource to be deployed within the given CN policy, planning and budgeting framework; the overall architecture of which exists, although many essential elements remain highly dysfunctional. In this regard it is the view of the review team that the failure of the trust fund to disperse substantial financial flows in support of the NDCS is not the fault of the trust fund per se, but rather the compound impact of various decisions made by numerous stakeholders made within a weak leadership framework.

### **NOTE ON DATA**

The data contained herein is drawn from various sources, although primarily from data and information provided by UNDP as trust fund administrator and the Ministry of Finance. The data sources are attributed within the main narrative text and are, to the extent possible, up to date at the time of the review. However, there were a number of discrepancies between the data provided by UNDP as administrator and the MoF, related to differences in reporting between expenditures and advances by donor which could not be reconciled. This is probably due to the co-existence of different financial management systems and financial reporting.

### **CURRENCY EQUIVALENTS**

Currency Unit = Afghani  
US\$1.00 = AF 50.00  
(As of August 2007)

### **GOVERNMENT FISCAL YEAR**

March 21 – March 20

2001/02 = 1380  
2002/03 = 1381  
2003/04 = 1382  
2004/05 = 1383  
2005/06 = 1384  
2006/07 = 1385  
2007/08 = 1386

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AEF	Afghan Eradication Force
ANDS	Afghanistan National Development Strategy
ANP	Afghan National Police
ARTF	Afghan Reconstruction Trust Fund
BEDT	British Embassy Drugs Team
CAO	Control and Audit Office
CND	Counter Narcotics Directorate
CNPA	Counter-narcotics Police
CNTF	Counter-narcotics Trust Fund
DAB	Da Afghanistan Bank
DIAG	Disbandment of Illegal Armed Groups
GDP	Gross Domestic Product
HIES	Household Income and Expenditure Survey
IARCSC	Independent Administrative Reform and Civil Service Commission
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
ISAF	International Security Assistance Force
JCMB	Joint Coordination and Monitoring Board
LOTFA	Law and Order Trust Fund
MAI	Ministry of Agriculture and Irrigation
MCN	Ministry of Counter-narcotics
MDG	Millennium Development Goals
MISFA	Microfinance Investment Support Facility in Afghanistan
MoAAH	Ministry of Agriculture and Animal Husbandry
MOE	Ministry of Education
MOEW	Ministry of Energy and Water
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoHA	Ministry of the Haj
MoI	Ministry of Interior
MoJ	Ministry of Justice
MPW	Ministry of Public Works
MoLSAMD	Ministry of Labor, Social Affairs [ ]
MoPH	Ministry of Public Health
MoWA	Ministry of Women's Affairs
MRRD	Ministry of Rural Rehabilitation and Development
NABDP	National Area Based Development Program
NDCS	National Drugs Control Strategy
NEEP	National Emergency Employment Program
NPP	National Priority Program
NSC	National Security Council
NSP	National Solidarity Program
ONSC	Office of the National Security Council
PFM	Public Finance Management
PEP	Poppy Eradication Programme
PRR	Priority Reform and Restructuring
PRSP	Poverty Reduction Strategy Paper
PRTs	Provincial Reconstruction Teams
SSR	Security Sector Reform
TISA	Transitional Islamic State of Afghanistan
UNAMA	United Nations Assistance Mission to Afghanistan
UNDP	United Nations Development Program
UNODC	United Nations Office of Drug Control

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## **ACKNOWLEDGEMENTS**

This report was prepared by Middlebrook & Miller LLC by a team including Dr. Peter J. Middlebrook, Sharon M. Miller, Thomas Kramer and Michael Stone. The review team would also like to acknowledge the substantial contribution of Sachin Anand in the early stages of this review.

The report was prepared under the overall supervision of the members of the CNTF Management Board and benefited greatly from support and guidance provided by Deputy Minister of Counter Narcotics General Khodaidad, Deputy Minister of Finance Sharhani and Haleem Wahidi from the Counter Narcotics Trust Fund (CNTF).

The review also benefited from comments and suggestions made by participants of the CNTF Review ‘Kick-Off’ meeting held in Kabul on July 30, 2007 and the final mission de-briefing presented to the members of the CNTF Management Board in Kabul on August 6, 2007. The comments and suggested received in these two focal group meetings allowed the team to benefit from a wide range of experiences across different CNTF functions as well as to present preliminary findings for open discussion prior to report finalisation.

The report also benefited greatly from various exchanges with key informants as diverse as Taj Mohammad Mojahed the CN focal point in the national assembly, Nancy Dupree, Deputy Minister of MRRD Asif Rahimi, Heads of donor agencies, Michael Alexander (European Commission), the UK Foreign Office (Lucia Wilde, Damon Bristow, Chris Brett, David Belgrove, Katrina Aitkin) and UK DFID (Chris Pycroft, Miguel Laric, Alice Man and David Mansfield) and Mariam Sherman and Bill Byrd (World Bank) and the Provincial Reconstruction Team and Poppy Elimination Team in Nangarhar.

Finally the report benefited from support and suggestions made by Anita Nirody, Country Director of UNDP Afghanistan, Guadalupe Sanchez (CNTF Manager), UNODC (Patrick Halewood, Elisabeth Bayer, Zalmay Sherzay) and USAID Director Loren Stoddard responsible for the Good Performance Initiative.

## EXECUTIVE SUMMARY

*The following narrative presents the results of the review of the Counter Narcotics Trust Fund (CNTF) review conducted by Middlebrook & Miller LLC during July and August 2007 on behalf of the members of the CNTF Management Board.* This short summary presents the high level findings of the review, as substantiated within the main report text, focused on assessing CNTF performance to date and its future. To re-invigorate support for the National Drugs Control Strategy (NDCS), the review proposes a Ten Point Action Plan of corrective measures for the consideration of the CN Cabinet Sub-committee and Steering Committee within which the various constraints outlined in the report can be addressed.

### REVIEW OBJECTIVES

i. *The review objectives, as provided in the overall terms of reference are to assess both performance to date and the future of the CNTF* by identifying core constraints affecting operational efficiency and effectiveness with regard to (a) strategy implementation (b) institutional development and capacity building; and, (c) fund management and administration.

### THE AFGHAN NATIONAL DRUG CONTROL STRATEGY

ii. *The Afghan National Drug Control Strategy (NDCS) provides the framework for CN investment prioritisation, outlining at the strategic level the overall roles and responsibilities of key strategy stakeholders.* The NDCS is established on four priority areas as follows: (i) disrupting the drug trade (ii) strengthening and diversifying legal rural livelihoods (iii) reducing the demand for illicit drugs and treatment of problem drug users and (iv) developing state institutions at the central and provincial level. To implement these four priorities the NDCS demands coordination across an extremely complex organisational and administrative architecture at national, provincial, district, community and international cooperation levels, within which the execution of the eight thematic pillars of the strategy can be discharged. The review team believes that the NDCS and correlated Implementation Plan can not be judged solely through the various policy and strategy documents themselves, but rather through a review of their actual structure and impact at the provincial level where the battle to eradicate poppy production must surely be focused.

iii. *The complexity of putting in place a cohesive, well coordinated, efficient and effective CNTF as the cornerstone of NDCS financing is not to be underestimated even though substantial progress in this regard has already been made.* Given the complexity and interconnectedness of institutional roles and responsibilities around the CNTF it is impossible to review the CNTF without recourse to the institutions, structures and procedures that surround it. To this end the review team believe that a systemic approach must be adopted if efficiency and effectiveness concerns are to be successfully identified within the current structure. Moreover, given that both the MCN and CNTF are now positioned as pivotal functions within the NDCS architecture, even though their capacity to oversee the implementation and administration of NDCS remains weak given the challenges to be addressed, it is of little surprise that entrusting such a challenging programme to nascent institutions requires a long term commitment to be adopted from the very start.

### THE COUNTER NARCOTICS TRUST FUND

iv. *In early 2005 the idea of establishing a Counter Narcotics Trust Fund (CNTF) was first proposed and a Terms of Reference were subsequently approved by GoA and signed by UNDP Headquarters in May 2005 with the formal Programme Document being endorsed on October 29 2005; following clarification over issues such as asset ownership.*<sup>1</sup> A Trust Fund Manager (UNDP) was first recruited at the end of August 2005 and Implementation Plans for NDCS were developed in October 2006

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<sup>1</sup> The Programme Document was signed by the Minister of Finance, the Minister of Counter Narcotics and UNDP Country Director on 29 October 2005.

but never implemented. The Implementation Plan contained a proposed budget for 2006 of US\$2.4 billion. The management arrangements for the Board are described in the Programme Document (signed 29.10.05) having an original implementation period of 42 months, an indicative trust fund amount of US\$900 million and a 3% General Management Support (GMS) fee. The trust fund was originally conceived as a tool to 'ring-fence', simplify and harmonise donor assistance to be channelled through the core budget (Programme Document, Pg. 5). The Terms of Reference for the establishment of the trust fund were signed on May 17, 2005 designating the Country Director of UNDP Afghanistan as the trust fund manager outlining how contributions to the fund are to be provided, utilised, administered and reported on. The TOR states that the *'fund will be used to support of programmes and initiatives identified by the Government and recommended by the Cabinet Sub-committee on Counter Narcotics, led by MoCN'*. However, a programme approach was never formally developed and the sub-cabinet committee appears not to have provided the guidance required, as expected in the terms of reference.

### **CN LEADERSHIP STRUCTURE**

v. ***The Ministry of Counter Narcotics is responsible for 'coordination, policy making, monitoring and evaluation of all CN activities including efforts at both national and provincial levels' (MCN website).*** The Ministry of Finance is the Executing Agency responsible for the MoF is responsible for the financial management of the trust fund' (Management Arrangements, Pg. 10). UNDP has been appointed trust fund administrator and according to the Programme Document 'the role of UNDP as administrator of the Trust Fund is essential in the delivery of the Fund in the way that it ensures national ownership, guarantees effective and efficient delivery and gives support to the Ministries.' (Programme Document, Pg. 6). In this regard the success of the overall CNTF is more than heavily contingent on the capacity of UNDP to discharge its functions according to normative standards of efficiency and effectiveness in the current context.

vi. ***Political ownership however must remains essential for success with the Presidential and Executive bodies of state, the national assembly, Provincial Governors and Provincial Councils therefore taking full unequivocal responsibility for the war on drugs, backed up with the staunch support of the international community.*** The review team believes that the current administrative set-up weakens not strengthens national political ownership and therefore accountability, but also places too great a responsibility on the adjunct and poorly aligned Ministry of Counter Narcotics and international donors to deliver on the NDCS where the political establishment does not. Furthermore, the placement of the Ministry of Counter Narcotics as the implementing agency, even if working with facilitating partners, for the Good Performance Initiative now further obscures the path towards mainstreaming, undermining the potential role of existing line ministries, with the MCN now taking on an implementing function too.

### **FUND FINANCIAL AND PROJECT STATUS**

vii. According to the Programme Document CNTF originally had a target budget of US\$900 million, but as of July 31, 2007, only US\$82.9 million, or less than 10% of planned funds had been committed, of which funds on account of US\$42.6 million had been received and only US\$3,419,620 expended at the time of this review. Although CNTF is a multi-donor trust fund with 14 donors, almost three quarter of all commitments (74.8%) come from two donors (UK (53%) and EC (21%)) although at the level of actual receipts this picture changes with the EC actually providing 33% and the UK 37% as at the time of the review. Furthermore, USA recently committed US\$8 million for the Good Performance Initiative (GPI), operating as a 'window' within the CNTF, although the funds have yet to be formally received. The trust fund administrator (UNDP) is also a donor to the CNTF; however, these donations are earmarked to cover CNTF-Directorate staff salary and operational costs, which do not flow through treasury, totalling US\$1,112,721. As of July 31, 2007, a total fund of US\$9,206,236 had been advanced from the fund to treasury, of which US\$2,499,002 has been expended through treasury as of June 30, 2007. Of the US\$5,245,499 advanced in 2007, US\$2 million is provided for the GPI initiative.



## CNTF INVESTMENT FORMULATION AND EXECUTION APPROACH

viii. *The current strategy compliance, budget formulation, procurement, implementation and monitoring arrangements for the CNTF are hugely complex, at times convoluted, slow and unlikely to meet the challenges of the NDCS as currently conceived.* While the GPI may go some way to bypassing slow line Ministry project gestation periods, ultimately well designed projects can not be conceived within a fast track framework given the need for adequate planning and high quality execution. Furthermore as the absorption capacity of line departments at the central level is limited, this negatively impacts CNTF funding demand. To compensate, MCN and the CNTF Directorate are somewhat laboriously trying to supply drive small sub-projects for funding even though their eventual contribution to the NDCS remains very marginal at best. The CNTF Project Document, implicitly at least, highlights the need for a provincial based programme approach to be adopted, and the thematic implementation plans developed in June 2006, along side the Government's Provincial Needs Assessment Project in July 2006, went even further towards a comprehensive provincial based planning approach for CNTF funded projects. As documented above, the current approach remains overly centralised and bureaucratic. The impact of a poorly designed planning process is a low funding rate - 10% of projects submitted - and even slower disbursement rate.<sup>2</sup>

## REVIEW FINDINGS

ix. *This report has concluded that many of the key elements of an effective counter narcotics strategy, including the implementation plan and funding and monitoring frameworks are already substantially in place.* However the presence of (i) an ambiguous leadership and accountability structure (ii) an overly centralised programme design that limits provincial, district and community engagement and ownership (iii) a planning and budget formulation process focused almost solely based around isolated sub-projects not comprehensive provincial based investment programmes (iv) implemented nation state wide under insecure conditions, not in high priority CN target provinces (v) and is implemented through national budget and procurement procedures is almost destined to failure; particularly when being implemented by an extremely weak administration structure already operating well beyond its absorption capacity. Furthermore, given the undue expectations thrust upon the trust fund from the start combined with extreme underperformance on the expenditure side, a series of corrective measures are urgently required to draw the various elements back together in a more cohesive, sequenced and prioritised fashion. The review team draws the following conclusions:

x. *CNTF Aims and Objectives:* The current aims and objectives of the CNTF are closely aligned to those of the NDCS and as a result are considered by the review team to be far too ambitious for a newly established trust fund operating through national execution. The attainment of NDCS aims and objectives requires nothing less than a whole-of-government approach to be adopted, with the CNTF playing an important complimentary role without inheriting the entire responsibility.

xi. *CNTF Contribution to NDCS Objectives:* The review team believes that the NDCS and correlated Implementation Plans can not be judged solely through the various policy and strategy documents themselves, but rather through a review of their actual structure and impact at the provincial level where the battle to eradicate poppy production must surely be focused. Five of the eight CN thematic pillars under the NDSC have yet to incur expenditures and those that have equal less than US\$2.5 million after two years. Furthermore, there appears to be very little correlation between CNTF strategic investments and the poppy planting reality on the ground. Moreover, the failure to develop costed and thematically prioritised provincial based implementation plans has led to the development of poorly integrated, targeted and ad hoc sub-projects whose impact on NDCS objectives is unknown.

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<sup>2</sup> The Government believes that the CNTF should be disbursing in the order of US\$300 million each year to have a visible impact on the ground.

xii. ***Strengths and Weaknesses of the Current Approach:*** There is little doubt that the CNTF has raised the visibility of government and international community CN activities and the leadership role provided by the CNTF Directorate in a complex environment needs to be acknowledged. The high profile establishment of the fund and the MCN, at national and national levels has provided – in principle at least – a vehicle for the delivery of a targeted and sequenced CN strategy although incapacity to programme funds strategically (geographically and thematically), with associated huge underspend and poorly targeted investments have undermined public perception with regard to both the fund and the Ministry itself. The current approach adopted by MCN through the CN Cabinet Sub-committee, Steering Committee and Management Board actively champions the formulation of small un-integrated sub-projects across all provinces irrespective of their strategic value with regard to the NDCS. Furthermore, the coexistence of competing strategy frameworks and institutions (government and international community) runs against the principles of the Paris Declaration and undermines the emergence of a cohesive national-provincial approach to poppy reduction. As CNTF is established as a government trust fund working through normal government procedures, and is demand driven by line ministries who already suffer aid absorption constraints, CNTF funds are not afforded high priority by line ministries or their sub-national departments. Furthermore, as there is no direct route for provinces to access CNTF funds except via sub-national departments, fund underspend could have been predicted.

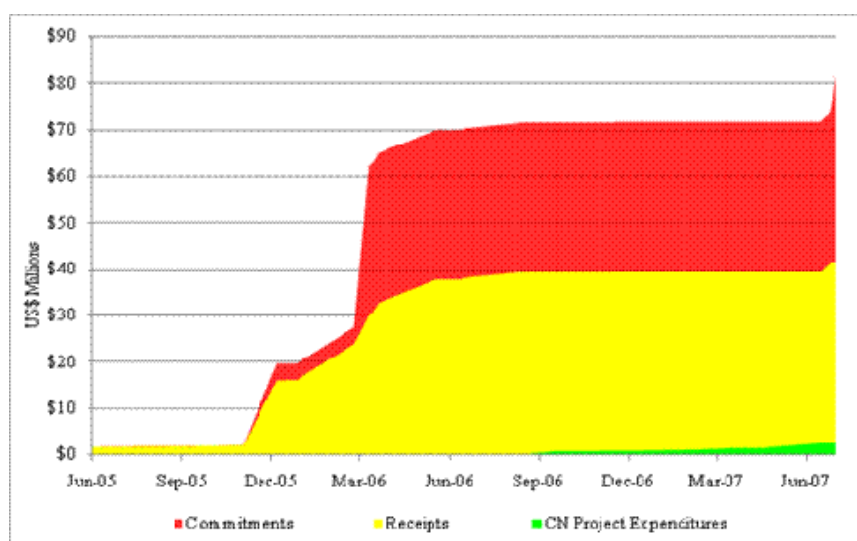
xiii. ***Contribution of Existing Management Arrangements to foster CNTF Objectives:*** As so little of the fund has so far been disbursed, it is difficult to assess potential future performance of the CNTF. However, the existence of the following constraints impact negatively on CNTF performance: *(i)* donor commitment preferences for selective provinces, projects and themes which undermine fungability *(ii)* weak capacities of the fund administrator to support the development of provincial programmes of sub-projects *(iii)* lack of prior fund management experience within the funds administrative team *(iv)* MCN, CNTF Directorate and UNDP Administrative staff across different offices *(v)* lack of direct CN and economic policy experience within the CN Directorate *(vi)* lack of provincial and thematic prioritisation *(vii)* weak fiduciary management capacities at the project level *(viii)* lack of policy and coordination guidance provided by the CN Cabinet Sub-committee and Steering Committee to the Management Board as directives *(ix)* poorly formulated projects and *(x)* slow disbursement procedures must remain priority areas for strengthening. Furthermore, the existing management arrangements actively discourage political leadership from taking primary responsibility for the attainment of NDCS objectives despite the fact that ownership is an essential pre-condition for success.

xiv. The review team sees that the failure of the trust fund to disperse large amounts of money is not due to trust fund management or its administration per se, but rather this is caused by the failure of government line ministries in particular to develop coherent inter-ministry programmes of sub-projects at a provincial level to be funded through CNTF. In the absence of such planning capacities, the CNTF and UNDP have struggled to fill this planning gap with viable sub-projects, a number of which have now received support through CNTF. In this regard CNTF aims and objectives need to be re-stated to reflect a new approach (as advocated in Chapter 5) while being unpackaged to short and medium term outcomes. In terms of improving the programming of CNTF funds to meet NDCS objectives, lessons could be drawn from ARTF which has developed model national programmes that meet provincial needs. However unlike ARTF, where national programmes are supported through a hundreds of provincial sub-projects and clear task team leadership, Government with the support of MoCN/CNTF has failed to establish a comprehensive provincial based programme approach within which sub-projects support local CN priorities, gaps and investment requirements.<sup>3</sup>

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<sup>3</sup> What is more disturbing however is that over the course of the past year both MoF and MCN have advocated such an approach within the Management Board, but no decision was taken even though the implementation plans for CN provide a compelling argument for such a move.

xv. **CNTF Efficiency:** Based on disbursement analysis provided in Chapter 3, the CNTF has been inefficient as vehicle for disbursing donor funds. The original commitments to the fund totalled US\$82 million to date, yet almost two years after the fund was established, only around US\$3.4 million has been disbursed of which \$2.5 million for CNTF projects. The implications of this for both EC and Japan donations has been that the financing agreement signed with UNDP now faces problems as the Japanese funding was provided over a 3 month disbursement forecast for drought response some 15 months ago, although these details were not formally stated within the Bilateral Agreement signed with UNDP, and the EC funds were not expended within the usual 12 month time frame. As a consequence, even though there have been a number of recent new commitments to the fund,<sup>4</sup> some donors are reluctant to commit further funds to the CNTF unless there is a significant turn around in disbursements. The chart below highlights the significant underspend of the fund compared to total commitments and receipts.



### PROPOSED CORRECTIVE MEASURES

xvi. *The review team believes that the number of institutions (national and international) and their functional responsibility against NCDS implementation remains unclear, both at the national and provincial level.* The creation of the MoCN as a line department could be seen as undermining a mainstreaming approach, adding another layer to the already overly complex number of CN stakeholders. What is proposed is a Ten Point Action Plan of suggested corrective measures for the consideration of the CN Sub-cabinet committee and Steering Committee to allow the CNTF to emerge as a model of best practise in the war against drugs in Afghanistan. These proposals are based on a pragmatic review of what is feasible in the current CN capability context with a particular focus on enhancing leadership as well as the linkage between policy compliance, planning and budgeting as the cornerstones of investment success. In all cases the action plan builds on existing strategy guidelines and procedures, so as not to duplicate efforts or to create parallel structures. The proposed matrix of correction measures covers the following core issues:

- **Phase I: Immediate Actions:** including (a) Strengthening National Leadership (b) Strengthening International Support for the NDCS (c) Recasting and Re-phasing CNTF's Aims and Objectives and (iv) Strengthening Trust Fund Administration and MB Arrangements;
- **Phase II: Secondary Actions:** including (a) Strengthening Provincial Prioritisation (b) Strengthening CN Thematic Prioritisation (c) Developing Comprehensive Provincial Strategy/Implementation

<sup>4</sup> During the first semester of 2007, CNTF received new contributions from: Spain (US\$336,022); Sweden (US\$2,000,000); USAID (US\$8,000,000) and a pledge from Japan to renew its US 5m contribution

Plans (d) Strengthening the Economic Incentive Framework and (e) Strengthening Community Ownership.

- **Phase III: CNTF Mainstreaming and Phase Out:** involving the full integration of CNTF into regular government business plans by 2010.

xvii. The review team believes that if *(i)* 4-6 priority provinces are selected based on open and transparent criteria (see Box 5.2 for suggestions) and *(ii)* a consolidated provincial based planning process is adopted (See Box 5.3), leading to the submission of consolidated funding tranches to be released from the CNTF then the fund should be continued until such a time that the models created have become standard and can be mainstreamed into the national budget framework. However, if both of the above conditions are not met, and a un-integrated sub-project approach is continued, the review team is in favour of closing down the trust fund as soon as possible and utilising the remaining resources through a direct budget support arrangement with government to work towards opium reduction in the next opium seasons. Under such a scenario, any direct budget-support would need to be benchmarked around a set of opium reduction indicators for select provinces, as a proxy indicator of wider NDCS success.

## CHAPTER 1: BACKGROUND, RATIONALE AND OBJECTIVES

1. This chapter provides and introductory background to the Afghanistan Counter Narcotics Trust Fund (CNTF)<sup>5</sup> review which was initiated by the CNTF Management Board. The chapter outlines the background and rationale, its review objectives, terms of reference and the structure of the final report.

### 1.1 BACKGROUND AND RATIONALE

2. *The first draft of the Government of Afghanistan (GoA) National Drug Control Strategy (NDCS) was presented in May 2003 with an updated five-year strategy approved by Cabinet in January 2006 to support the implementation of the Counter Narcotics Drugs Law (CNDL) which had been presented in December 2005<sup>6</sup>.* The NDCS focused on four priority areas as follows: (i) disrupting the drug trade (ii) strengthening and diversifying legal rural livelihoods (iii) reducing the demand for illicit drugs and treatment of problem drug users and (iv) developing state institutions at the central and provincial level. Over the same period the Counter Narcotics Directorate (CND) which had been established in October 2002 within the National Security Council (NSC) was evolved into the Ministry of Counter Narcotics (MCN) in December 2004. In early 2005 the idea of establishing a Counter Narcotics Trust Fund (CNTF) was first introduced and a Terms of Reference were subsequently approved by GoA and signed by UNDP Headquarters in May 2005 with the formal Programme Document being endorsed on October 29 2005, following clarification over issues such as asset ownership.<sup>7</sup> A Trust Fund Manager was first recruited at the end of August 2005 and the first CNTF project approved in April 2006. The Implementation Plans for NDCS, which contained a proposed budget for 2006 of US\$2.4 billion, were developed in October 2006 but never implemented.

3. *The CNTF was established to provide greater resources for the Government's counter narcotics efforts, ensure transparency and accountability in the allocation and use of those resources, enable increased Government ownership over counter narcotics implementation, and promote greater coherence in the funding of counter narcotics related activities.* As the CNTF is executed through the National Execution (NEX) modality the GoA retains overall responsibility for the programme through its designated institutions – the Ministries of Finance and Ministry of Counter Narcotics. The line ministries are designated the implementing partners of the Trust Fund working closely with the MCN to identify, develop and plan counter narcotics related projects within their mandated area. As a result the CNTF was expected to resource the following eight pillars of the NDCS: Institution Building; Law Enforcement; Demand Reduction; Eradication; Criminal Justice; Public Awareness; International and Regional Cooperation, and Alternative Livelihoods (MCN 2006a).

4. *The review comes at a time where concern has been publicly expressed within the international media with regard to the capacity of the CNTF to discharge its stated functions vis a vis meeting the objectives of the National Drugs Control Strategy (NDCS).* The concerns raised are very clear; as of August 2007, almost two years after the establishment of MCN and CNTF less than US\$2.499.002 million has actually been expended through the CNTF against a total donor commitment including that of UNDP of US\$82.8, the majority of which had already been committed by July 2005. The fund had an initial needs requirement of US\$900 million although due to disbursement delays, donors have only

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<sup>5</sup> In this report the CNTF refers to the trust fund directly and not the functions of various institutions and staff working in an administrative capacity, to avoid confusion. There is a tendency to confuse descriptive functions on the ground with the CN Directorate for example being referred to as the CNTF. Given that under the Tashkeel MCN was intended to have nearly 800 staff across all functions, including the national CNTF and Provincial (14) Directorates, the Directorate with MCN is referred to as CNTF-D and those within the provinces as CNTF-PD.

<sup>6</sup> The Drug Law was initially drafted in 2002/2003 but was not presented before the Parliament until 2005.

<sup>7</sup> The Programme Document was signed by the Minister of Finance, the Minister of Counter Narcotics and UNDP Country Director on 29 October 2005.

advanced US\$42.6 million as of August 2007.<sup>8</sup> In terms of actual CN projects, a total of 30 projects have so far been financed through the fund valued at US\$29,033,159 although as of the end of June 2007 less than 10% had been expended by Government. The review was commissioned by the members of the CNTF Management Board, composed of GoA and donor representatives to address many of the core concerns with regard to trust fund management and administration. The review was conducted by Middlebrook & Miller LLC for the CNTF Management Board between 25 July and 20 August 2007

## 1.2 REVIEW OBJECTIVES AND TERMS OF REFERENCE

5. *The review objectives, as provided in the overall terms of reference are to assess both performance to date and the future of the CNTF by identifying core constraints affecting operational efficiency and effectiveness with regard to (i) strategy implementation (ii) institutional development and capacity building; and, (iii) fund management and administration.* In assessing performance to date and the future of the CNTF the review team were requested to seek answers to the following questions:

- i. *Key issues with regard to performance to date:* (i) To what extent does the CNTF, as currently structured, achieve its mandated aims and objectives? (ii) To what extent does the CNTF and its approved projects (e.g. Capacity Building Project and Needs Assessment) support Afghanistan's National Drug Control Strategy? (iii) What have been the strengths and weaknesses of the current approach, and what measures can be taken to maximize the impact of the CNTF? and (iv) To what extent do the existing management arrangements (including financial management; project selection; general administration) contribute to the achievement of the CNTF's aims and objectives?
- ii. *Key issues regarding the future of the CNTF:* (i) What changes, if any, should be made to the CNTF in terms of overall vision; management and administration arrangements; interaction with the Government of Afghanistan; and interaction with other stakeholders (including donors) to maximise its impact (ii) Is the CNTF efficient in using donor resources? (iii) How should the CNTF be structured in order to improve performance (iv) What are the major constraints that the CNTF faces as currently structured? How can these constraints be addressed and (v) what should be the role of the CNTF Steering Committee and Management Board?
- iii. *Review Outputs:* The review team will be responsible for the production of (i) a comprehensive but concise report that addresses the objectives of the review of no more than 25 pages including annexes and (ii) recommendations, contained within an Executive Summary (5 pages maximum), and in the main body of the report for consideration by the Management Board. It is also stated that the review will focus on improvements to the operating performance of the CNTF within the context of the CN policy of the Government of Afghanistan and the broader international community.

## 1.3 REPORT STRUCTURE

6. *The report is structured as follows:* Chapter 2 overviews the relationship between the NDCS and CNTF, the overall CN framework, the organisation and leadership structure and roles and responsibilities and financial status of the fund. Chapter 3 outlines the fund policy/strategy – budget formulation – budget execution and monitoring and evaluation framework, through a detailed assessment of legal and actual functions at the operational level. Chapter 4 presents high level conclusions and recommendations and Chapter 5 outlines a suggested road map of corrective measures to strengthen the contribution of the CNTF to meet its designated objectives. A list of key references and documents consulted are also provided at the end of the report. The report annexes provide a list of key informants (Annex 1) and fund financial tables (Annex 2). The two Aide Memoir's presented following the 'Kick-Off' and 'Finding' session are not provided within this report but will be made available upon request.

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<sup>8</sup> The US\$900 million was established as an indicative funding level, following which a fully costed annual CN programme was to be worked out, although this never formally materialised.

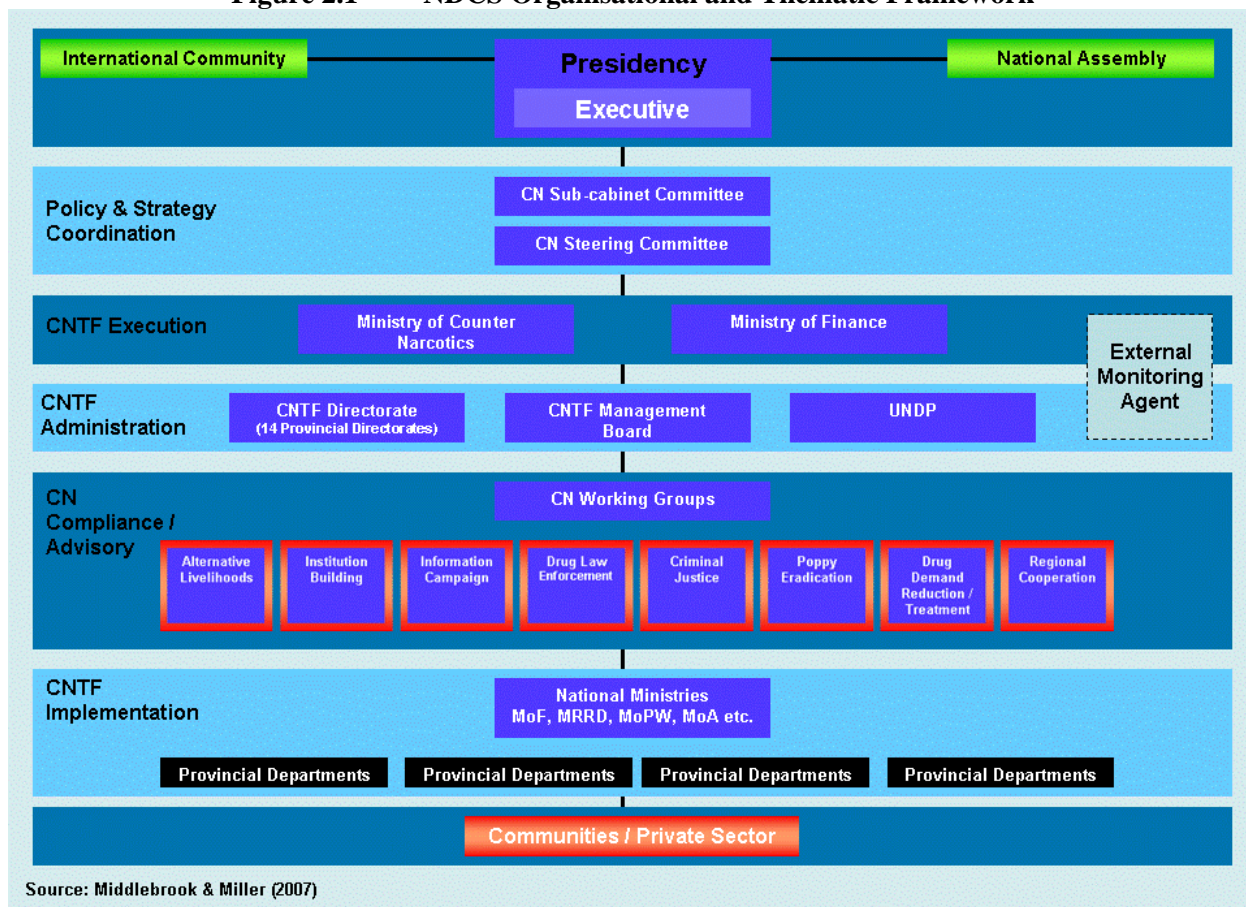
## CHAPTER 2: CNTF MANAGEMENT FUNCTIONS AND CYCLE

7. *This chapter presents an overview of the current CNTF roles and responsibilities and management cycle, from the process of policy/strategy implementation, through the commitment process, through project formulation, appraisal and approval, execution and monitoring and evaluation.* This analysis is based on the legal text that guides the formal roles and responsibilities of government and international community stakeholders with regard to CNTF management and administration. In so doing the chapter outlines a number of major structural constraints to CN strategy implementation, the resolution of which will be vital if national poppy reduction objectives are to be met.

### 2.1 OVERALL CN INSTITUTIONAL FRAMEWORK

8. *The Afghan National Drug Control Strategy (NDCS) provides the framework for CN investment prioritisation, outlining at the strategic level the overall roles and responsibilities of key strategy stakeholders.* The NDCS is established on four priority areas as follows: (i) disrupting the drug trade (ii) strengthening and diversifying legal rural livelihoods (iii) reducing the demand for illicit drugs and treatment of problem drug users and (iv) developing state institutions at the central and provincial level. To implement these four priorities the NDCS demands coordination across an extremely complex organisational and administrative architecture at national, provincial, district, community and international cooperation levels, within which the execution of the eight thematic pillars of the strategy can be discharged. Figure 2.1 below outlines the overall CN program organisational architecture.

**Figure 2.1 NDCS Organisational and Thematic Framework**





9. ***The complexity of putting in place a cohesive, well coordinated, efficient and effective CNTF as the cornerstone of CN financing is not to be underestimated even though substantial progress in this regard has already been made.*** Given the complexity and interconnectedness of institutional roles and responsibilities around the CNTF it is impossible to review the CNTF without recourse to the institutions, structures and procedures that surround it. To this end the review team believe that a systemic approach must be adopted if efficiency and effectiveness concerns are to be successfully identified within the current structure. Moreover, given that both the MCN and CNTF are now positioned as pivotal functions within the NDCS architecture, even though their capacity to oversee the implementation and administration of NDCS remains weak when compared to the challenges to be addressed, it is of little surprise that entrusting such a challenging programme to nascent institutions requires a long term vision and commitment to established from the very start. Moreover, as under the GPI the MCN is no longer just a policy and coordination ministry, but one charged with direct implementation, the overall role, alignment and functions of the ministry are considered to be unacceptably broad.

## **2.2 CNTF TERMS OF REFERENCE**

10. ***The Terms of Reference for the establishment of the trust fund were signed on May 17, 2005 designating the Country Director of UNDP Afghanistan as the trust fund manager.***<sup>9</sup> The TOR outlines how contributions to the fund are to be provided, utilised, administered and reported on. Of particular significance to this review, and in spite of the insistence on National Ownership, UNDP was designated chair of the Management Board, through the terms of reference, which originally excluded any government participation although this appears never to have been formally practised and a co-chair arrangement was introduced in early 2006 upon modification of the MB TOR by the MB. It also states that the *'fund will be used to support of programmes and initiatives identified by the Government and recommended by the Cabinet Sub-committee on Counter Narcotics, led by MCN'*. However, a programme approach was never formally developed and the sub-cabinet committee appears therefore not to have provided the overall guidance required, as expected in the terms of reference. The management arrangements for the Board are described in the Programme Document (signed 29.10.05) which had an original implementation period of 42 months, an indicative trust fund amount of US\$900 million and a 3% General Management Support (GMS) fee. The trust fund was originally conceived as a tool to 'ring-fence', simplify and harmonise donor assistance to be channelled through the core budget (Programme Document, Pg. 5).

## **2.3 CNTF LEADERSHIP STRUCTURE**

11. ***The CNTF Programme Document clearly describes the roles and responsibilities of the various CN entities in discharging CNTF related functions.*** The overall responsibility for the NDCS is retained by the President and the members of the executive, although day to day executive functions are discharged through a CN Cabinet Sub-committee (responsible for policy and strategic direction) chaired by the Minister of MCN. Below this there is a Steering Committee whose function is to provide strategic oversight and policy guidance on CN and 'ensure effective, efficient and transparent implementation of the UNDP Administration Support'.<sup>10</sup> The fund is being executed through the National Execution Modality (NEX) which stipulates that the government of Afghanistan retains the overall responsibility for this nationally managed programme through its designated institutions – the MoF as the Executing agency and the MCN as the Implementing Agency. As a result all funds are channelled through the core budget and treasury system and executed in line with the national budget and national procurement laws. UNDP has been appointed as the trust fund administrator with 'the role of UNDP as administrator to

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<sup>9</sup> The World Bank was asked to administer the CNTF but declined as the Articles of Agreement of the bank forbid World Bank involvement in such a programme.

<sup>10</sup> The CNTF Steering Committee (SC) is co-chaired by the Minister for MCN and UNDP Country Director. The SC members are comprised of major donors to the trust fund (UK, EC, Japan), Administrators (UNDP, UNODC) and government (MoF and MCN).. As of May 31, 2007, the SC has met three times.



‘deliver the Fund in the way that it ensures national ownership, guarantees effective and efficient delivery and gives support to the Ministries’ (Strategy, Pg. 6).

12. ***The line ministries, including the Ministry of Interior, serve as the implementing partners of the Trust Fund and work closely with the MCN to identify, develop and propose counter narcotics related projects within their mandated area.*** In the case of the Good Performance Initiative (GPI) MCN has a line implementation function bypassing other central Ministries to work directly at the provincial level. Working groups within each of the pillars, excluding institution building and law enforcement, were established and composed of key line ministries and international partners. NDCS-WGs are supposed to report through the Strategy, Policy and Coordination Unit (SPCU) to the Office of Director General (Policy and Coordination) at the MCN. In principle at least oversight of the executive is provided by the membership of the national assembly, represented by the CN Focal Point.<sup>11</sup>

13. ***What is alarming is that the Provincial Governors and elected Provincial Councils, who as political and elected appointees should be central to the entire counter narcotics efforts have yet to be fully acknowledged in the leadership and management structure of the NDCS, in spite of the fact that the strategy and the fund must surely be judged by performance on the ground in the provinces.*** No formal CN forum currently exists to bring these constituents together around the executive to lend breadth and credibility to the entire CN process. In the future, and in line with MoF plans, strengthening the role of sub-national administration around budget formulation (planning) functions, including CN mainstreaming must be considered by the Cabinet Sub-committee to strengthen the current leadership arrangement. At the Management Board level the revolving co-chair arrangement between MCN and UNDP serves to undermine clear leadership, and therefore clarity with regard to responsibility and accountability too.

## **2.4 CNTF ADMINISTRATION AND MANAGEMENT<sup>12</sup>**

14. ***The Ministry of Counter Narcotics is responsible for ‘coordination, policy making, monitoring and evaluation of all CN activities including efforts at both national and provincial levels’ (MCN website).*** The Ministry of Finance is the Executing Agency responsible for the MoF is responsible for the financial management of the trust fund’ (Management Arrangements, Pg. 10). UNDP has been appointed trust fund administrator and according to the Programme Document ‘the role of UNDP as administrator of the Trust Fund is essential in the delivery of the Fund in the way that it ensures national ownership, guarantees effective and efficient delivery and gives support to the Ministries.’ (Programme Document, Pg. 6). In this regard the success of the CNTF is heavily influenced by the capacity of UNDP to discharge its functions according to normative standards of efficiency and effectiveness in the current context.

15. ***The Management Board is responsible for governing the trust fund and is expected to meet each month.*** The Board is also tasked with approving eligible projects for finance based on the criteria and guidelines provided by the Government, as well as meeting UNDP funding requirements and that ‘ensuring that the project proposals comply with sound project design principles and are consistent with the policies and guidelines of the NDCS, and the priorities approved by the cabinet subcommittees on CN’ (Management Board TOR). In addition to UNDP, a CNTF Directorate (Directorate) with a staffing establishment of 12 professional has been established within the MCN dedicated to the administration of the Trust Fund. However, while the Directorate officially reports to the Minister of MCN its personnel are currently contracted directly to UNDP who cover salaries and operational costs through UNDP core

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<sup>11</sup> In this regard there are different opinions as to whether or not, and how effectively the working groups actually support CNTF projects, signifying the existence of continued grey areas of responsibility.

<sup>12</sup> In terms of legal authority, the functional mandates for the key stakeholders are set forth in the Programme Documents.

funds.<sup>13</sup> Financial management and fund disbursement is carried out in accordance with UNDP Financial Regulations and Rules.

16. ***Line Ministries are described as partners of the trust fund and whilst being designated to work closely with MCN to identify, develop and propose counter narcotics related projects within their mandated areas, they did not formally sign the Programme Document.*** Officially, the line ministries are responsible for the implementation of the various projects funded through CNTF although this can include options for sub-contracting. Under the Programme Agreement responsibilities for project level monitoring are extremely vague, with responsibility for ‘projects and activities funded through CNTF to be regularly monitored by line ministries, MCN, UNDP and other stakeholders’ presumably implying the line ministries too (Agreement, Pg. 13). UNDP finally appointed an external Monitoring Agent (Joshi & Bhandary) in July 2007 almost 2 years after the establishment of the fund, given that prior to this point there was no financial activity to Monitor.

## **2.5 FUND MANAGEMENT CYCLE**

### **COMMITMENT AND UTILIZATION PROCESS**

17. ***Under the CNTF Terms of Reference it is stated that contributions to the CNTF (operating as an Open Trust Fund), in cash or in kind, may be accepted by UNDP, as the trust fund administrator, from Governments of Member States of the United Nations, of the Specialised Agencies or from inter-Governmental or non-governmental organisations, or from private sources.*** Donors (trustees) seeking to contribute to the fund sign a bilateral administrative arrangement with UNDP which specifies the financial commitment, disbursement schedule, support and administrative fees, reporting requirements, use of funds and termination clause. Commitments can be as (i) voluntary contributions (ii) as contributions specific to a project or projects under third party cost-sharing (iii) as contributions to a specific projects or projects through a subsidiary trust fund agreement or (iv) a contributions to a project or projects under a management service agreement. Funds are deposited into designated bank accounts and are managed according to the UNDP financial regulations and rules. Following receipt of funds UNDP subsequently credits designated funds to a ledger account (42020 or 42026) depending on the purpose of the contribution. Exchange rates for transfers are affected at UN operational exchange rates on the day of payment and interests are earned, all financial accounts and statements are expressed in US\$ and interests derived from fund contributions is credited to the overall fund in accordance with UNDP regulations, rules and directives.<sup>14</sup> Each commitment is governed by the generic Terms of Reference of the CNTF, as well as any specific bilateral funding arrangements as outlined in the bilateral agreement. This includes, as outlined above, the option to ‘ear-mark’ funds for specific projects, CN thematic elements and provinces (CNTF Administrative Arrangement UNDP and DFID).

18. ***Fund utilization is through the NEX system whereby UNDP designates Executing Agencies responsible for execution of the programme to be financed by the fund.*** The Ministry of Finance and Ministry of Counter Narcotics have been formally designated this responsibility and the Management Board, originally established without Government membership, was expected to ‘review and approve by consensus the proposals for projects to be executed under NEX’ (CNTF TOR). MoF is responsible for guaranteeing that CNTF funded projects are reflected within the core budget, both through the annual budget process and mid-year review. Disbursements from the UNDP trust fund account held in New York are disbursed to the Treasury Department of the Ministry of Finance, with advance payments made at the request of the MoF to Da Afghanistan Bank covering forecast quarterly expenditure requirements. A standard protocol establishes the controls to be performed before authorisation of payments, the establishment of accounts and the report requirements take place between the Grant Management Unit (GMU) of the respective line Ministry, the Development Budget and External Relations Unit (DBER) and

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<sup>13</sup> Excludes seven support staff.

<sup>14</sup> As of July 31, 2007, a total of \$1,551,794 in interest has been earned and allocated to the respective donor contribution.

the Special Disbursements Unit (SDU) of the MoF. The SDU within the treasury department is responsible for management and banking, disbursement activities and final reporting. MoF releases funds through the treasury department to the line ministries implementing projects. In most cases the MoF makes payments of verified and eligible expenditures. Quarterly, MoF in cooperation with MCN provide UNDP with detailed expenditure reports as well as the forecast for the coming quarter against which UNDP then commits new funds less the unspent balance from the previous quarter. The external monitoring agent will support the attainment of minimum fiduciary standards through compliance of national public finance and procurement procedures.

### **CN PROJECT FORMULATION PROCESS**

19. *Perhaps the most critical component of the NDCS is the formulation of investment projects to stimulate sustained growth and employment in the licit economy.* As such, investment programmes and associated sub-projects must be conceived and planned in an integrated way, although the draft Procedural Guideline prepared by CNTF does little to encourage such a process. Currently, line ministries, with support provided by MCN Project Development Unit and the CN Working Groups are supposed to be responsible for preparing CN projects in accordance with the CNTF Application Guidelines for submission to the Trust Fund for financing. However, due to poor capacity at the line ministries most projects submitted to MCN are little more than project concepts without any detailed design work undertaken (costing, feasibility studies, economic rate of return calculations etc.). As such, the CNTF Directorate is most often responsible for developing the project idea and drafting the project proposal directly. As a result, projects can be poorly contextualised and ownership and sustainability are compromised.

20. *According to the Programme Documents, all projects submitted for financing must address the CN relevance of the project as stated in Annex I of the Programme Document, “Counter Narcotics Projects’ Indicative Eligibility Criteria.”* This matrix outlines the objective, investment criteria, related national development programmes and priorities, and relevant ministries by pillar. In practice, the line ministries complete the ‘Justification under NDCS Criteria’ section of the CNTF application to justify the CN component for the project only. While “all projects must be integrated at the provincial level (MB meeting April 18, 2006), the application is completed in English which undermines ownership by provincial line ministries’. CN thematic implementation plans were developed to guide the development of provincial programmes, but they were never implemented. A list of CN project indicators have been developed but as the monitoring of outcomes is currently nonexistent CN impact is rarely documented. As of August 2007 273 projects have been formulated with only 30 funded; a failure rate of 90%.

### **INVESTMENT APPRAISAL AND APPROVAL PROCESS**

21. *Following project formulation the project concept is submitted to the MCN for consideration of funding through CNTF using a standard CNTF Application Form.* This application form is accompanied by the B4 Budget Summary Form required by the MoF including a general budget worksheet and project work plan. Once registered on the CNTF database the MCN assigns a focal person from the Directorate and the proposal is submitted to the relevant NDCS Working Group for technical consideration, to gate keep CN funding compliance. Following technical inputs from the working group, and associated re-drafting (anecdotal evidence suggests that these functions are not being adequately delivered), the proposal is submitted to the CNTF Secretariat for consideration. In any case, the submitting Ministry is supposed to receive feedback within 12 working days, although the review confirmed that this does not always occur.<sup>15</sup> Finally the proposal is submitted for internal and external review although no CN expertise currently sits on the external review committee. Following submission

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<sup>15</sup> The various international partners (e.g. ASI, BEDT and UNDOC) provide advisory support to the MCN, including the NDCS WG, Directorate and CNTF Secretariat; however, none of these partners appear to provide the much needed CN expertise required to guarantee that project formulation is in-line with the NDCS.

to the Management Board a written response to the relevant line ministries is sent detailing the final decision. Following MB approval a Project Approval Certificate, Letter of Agreement, draft MoU, signing ceremony, disbursement protocol and press release are finalised as outlined below. This is followed by the budget allotment and disbursement process which involves completion of forms B27, PCS and M16.

<b>Table 2.1 Formal Vis a Vis Actual Roles and Responsibilities for CNTF Stakeholders</b>			
<b>Institution</b>	<b>Formal Mandate</b>	<b>Actual Role</b>	<b>Area of Concern</b>
<b>EXECUTIVE</b>			
<b>Political Leadership</b>			
<b>Sub-cabinet Committee</b>	The 'Cabinet Sub-Committee on Counter Narcotics will review and agree overall allocation of CNTF resources, but individual projects will be approved by the CNTF Management Board' ( <i>Management Arrangements, Pg. 12</i> )	Having not met in 2007 and given that the directives have not formally been provided to the MB, there is concern that this important entity is not providing the leadership required.	Without directives that provide strategic guidance to the members of the management Board with regard to comprehensive provincial based programming an un-integrated sub-project
<b>Steering Committee</b>	'Ensure effective, efficient and transparent implementation of the UNDP Administration Support. '	Discusses the strategic use of funds in isolation from the Sub-cabinet committee. Has only met on three occasions.	Programme steerage is not being provided to the MB with regard to geographical, thematic or sequencing prioritisation
<b>CNTF Management Board<sup>16</sup></b>	Responsible for 'ensuring that the project proposals comply with sound project design principles and are consistent with the policies and guidelines of the NDCS, and the priorities approved by the cabinet sub-committees on CN' ( <i>Management Board TOR</i> )	Discuss operational issues such as project status, capacity constraints and financial status. Approves sub-projects.	A consensual approach is leading to a lowest common denominator approach. What is required is strong intellectual leadership of this body to guarantee synergy between CNTF approved projects and the NDCS.
<b>International Community</b> ( <i>Financiers</i> )	UK has the lead on CN within the G8 and UNAMA leads multi-lateral political discussions. UNODC has a formal function to provide CN advisory support.	Ambiguous. There are strong bilateral interests for different strategic investments that undermine the fund. MCN is becoming a misaligned adjunct.	A common one voice whole-of-international community support programmes for the NDCS has not materialised.
<b>ADMINISTRATION</b>			
<b>Ministry of Counter Narcotics</b> ( <i>Implementing Entity</i> )	Responsible for 'overall coordination, policy making, monitoring and evaluation of all Counter Narcotics activities and efforts at both national and provincial levels' (Management Arrangements, Pg. 10, MCN website)	Responsible for policy and coordination, but also now for direct implementation with provinces.	The role of MCN is becoming too wide, undermining political leadership and ownership across the executive.
<b>CNTF Directorate</b>	Develop project proposals, review and evaluate project proposals and budget plans submitted by line ministries, facilitate the implementation of projects	Operating as primary entity for project preparation in place of line departments.	Insufficiently qualified to lead such a complex programme. Recommend building capacities directly within line ministries.

<sup>16</sup> The management board is co-chaired by Minister of Counter Narcotics and UNDP. Members include MCN, MoF, UNDP, ADB, UK and EC.

	where capacity is low and monitor and report on the implementation projects approved by the MB. ( <i>CNTF Procedural Guide</i> )		
<b>Line Ministries</b> ( <i>Project Implementers</i> ) <sup>17</sup>	With the MCN, 'identify, develop and propose counter narcotics related projects'. ( <i>Management Arrangements, Pg. 11</i> )	Never formally signed the Programme Document, although they did apparently signed bilateral agreements with MoF, and CNTF projects seen as fund of last resort. CNTF not viewed a core part of business.	Lack of leadership and prioritisation of line Ministries leads to poorly developed and overly centralised projects.
<b>NDCS Working Groups</b>	'the key vehicle for inter-ministerial coordination of the NDCS implementation process. The Working groups will provide the forum for collection and analysis of data relevant to their individual pillar plans.' ( <i>Working Group TOR</i> )	Incapacitated to perform their designated function. International advisory support provided by UNODC, US or UK <sup>18</sup> with regards drug policy although the effectiveness of such support has not been assessed.	Ineffective and poorly tooled.
<b>Ministry of Finance</b> ( <i>Executing Agency</i> )	'Responsible for the financial management of the trust fund.' ( <i>Management Arrangements, Pg. 10</i> )	Performs usual PFM and fiduciary functions.	Has clear role to play in leading provincial based budget formulation and planning but role being undermined in MB
<b>UNDP</b> ( <i>Trust Fund Administrator</i> )	Responsible for the 'coordination and management of funds,' 'liaison with relevant institutions and stakeholders,' 'monitoring of expenditures,' 'review of quarterly work plans and reports' and 'follow-up of recommendations of monitoring missions.' ( <i>Management Arrangements, Pg. 11-12</i> )	Due to mobilisation of core funds and UNDP's developmental mandate UNDP plays a far greater role than trust fund administrator with regard to NDCS and CNTF.	Better to focus efforts on CNTF programming and administration although current staffing compliment appears insufficiently tooled to perform such a strategic programming functions.
<b>Joshi &amp; Bhandary</b> ( <i>External Monitoring Agent</i> ) (MA)	'The overall goal of the MA team is to provide audit check & control, support and report on the accuracy, as well as efficient and effective implementation, of the financial controls of approved CNTF funded projects.' ( <i>TOR Monitoring Agent, Pg. 4</i> )	According to their July 2007 Inception Report, the MA will spend the first two months developing a detailed work plan and implementation strategy. Further, the MA will issue the first month financial report in August 2007 and will conduct project site visits as necessary.	Ability to guarantee fiduciary accountability at the project level where oversight is weak and risk of corruption substantial.

<sup>17</sup> According to the Programme Document, 'the line ministries will also be responsible for the implementation of the individual projects funded.'

<sup>18</sup> The UK provides a full-time adviser to work on AL as well as policy advisory support provided by members of the British Embassy to the other groups.

## PROJECT EXECUTION PROCESS

22. *Procurement is conducted in line with the national procurement law, although an expedited arrangement has just been concluded for the GPI.* Once the line ministry prepares work and procurement plans for the project, it will initiate the procurement process of bidding and selection, recruitment and site visits. At the same time the MoU is drawn, the MCN will also sign a Certificate of Approval, which is forwarded to UNDP to initiate the Letter of Agreement (LoA) between UNDP and MoF for funding of the approved project. The MoF then drafts the Disbursement Protocol, creating a fund code and transfer budgets in the process. As the CNTF is a nationally executed programme, with funds flowing through treasury and the national budget all projects are submitted for bidding in accordance with the national Procurement Law. However, in order to reduce the long procurement cycle, the MoF recently adopted the GPI Fast Track process also for CNTF projects to reduce the procurement period to 28 days. The GPI fast track procurement process is outlined in Box 3.1 below.

### BOX 3.1: GPI FAST TRACK PROCUREMENT PROCESS

Once the project proposals are approved by the GPI Project Review Board (PRC) they will be submitted to the CNTF/MCN Procurement Unit (PU) who will prepare the tender documents, advertise the project, receive the bids and then evaluate the bids. The process can be summarized as follows:

- (a) Once the GPI/CNTF Project Review Committee (PRC) approves a project proposal they send it to the CNTF/GPI Procurement Office to launch an open tender process. The PRC also recommends the composition of a bid review or evaluation committee;
- (b) The PU then prepares documentation for the tender such as Bill of Quantities. It would speed up the tender preparation if project proposals are developed with the necessary 'description of works.' (The time allocated to this work is 4 working days);
- (c) Once the tender docs are prepared they are sent to the head of GPI/CNTF for approval and once approved the tender is advertised through ARDS and other sources. (The bids will be put out to tender for 14 days);
- (d) The PU receives and registers all the bids and organizes the bid opening meeting. The CNTF/GPI bid evaluation committee appointed by the PRC is responsible for the bid opening and subsequent evaluation of all the bids received. (7 days);
- (e) Once the bid evaluation has taken place and a bid evaluation report is prepared with a bidder recommended it is forwarded to the Director or CNTF/GPI or the MCN Minister/Deputy Minister for approval;
- (f) The PU will also prepare the contract and review the contract terms with the Bid Committee if necessary. All documentation is then sent to MoF for a no objection and for the necessary advance payments;
- (g) At the same time it is provided to GPI/CNTF monitoring and reporting team to follow up on implementation progress. It will be the responsibility of MCN/CNTF to verify project invoices and submit the request for payment to the MoF; and,
- (h) The MoF will pay properly verified project invoices from the special CNTF/GPI account. CNTF will be responsible for preparing monthly financial reports for the Board and Donors.

Source: GPI Operating Strategy, February 13, 2007

23. *Following selection of suppliers, the line ministry is responsible for monitoring the progress of the project, ensuring that the work completed is in accordance with the original bidding documents and that the expenses are in-line with the detailed budget and can be supported by original receipts.* The line ministry will submit a disbursement request to the MoF, ensuring that the disbursement complies with the government processes in accordance with Public Finance and Expenditure Management Law. Each quarter, the Ministry of Finance prepares the CNTF Financial Report which reconciles both funds received and CN project expenditures. If the balance of funds held in Treasury is insufficient to cover the next quarter's forecasted expenditures, the MoF will request an advance from UNDP.

## MONITORING AND EVALUATION

24. *Under the Programme Agreement, the responsibility for monitoring and evaluation lies with numerous stakeholders, including line ministries, MCN, Auditor General, UNDP and other stakeholders' (Programme Agreement, Pg. 13).* The newly appointed Monitoring Agent will primarily focus on accounting records (receipts, GL reports from MoF), monthly financial reports and project site visits. The Auditor General from the Control and Audit Office of Afghanistan conducted a limited scope

audit of the CNTF expenditures in accordance with the International Organisation of Supreme Audit Institutions for the calendar year ending December 31, 2006. The audit report noted that the statement of expenditures, assets and equipment and cash present fairly represent balances recorded as of December 31, 2007. However, there were seven audit findings noted in the report, which fall into three categories as follows: (i) poor cash management of advances (ii) lack of fixed assets register, and (iii) human error. With the exception of US\$130,824 cash advance paid on a CNTF funded Mushroom project, all other findings were low to medium in impact severity. As the expenditures paid as of December 31, 2006 were minimal (US\$799,440), it is difficult to assess the capacity of the GoA to manage the CNTF in accordance with PFM standards. Furthermore, while the Audit did not perform an internal control audit, it did review the internal control environment and noted significant weaknesses, including weak internal control department at both UNDP and MCN. It is expected that the hiring of the Monitoring Agent will help to address these concerns.

## 2.6 CONCLUSION

25. ***The current strategy compliance, budget formulation, procurement, implementation and monitoring arrangements are hugely complex, at times convoluted, slow and unlikely to meet the challenges of the NDCS as currently conceived.*** While the GPI may go some way to bypassing slow line Ministry project gestation periods, ultimately good projects cannot have a fast track given the need for adequate planning and high quality execution. Furthermore as the absorption capacity of line departments at the central level is limited this negatively impacts CNTF funding demand. To compensate, MCN and the CNTF Directorate are somewhat laboriously trying to supply drive small sub-projects for funding even though their eventual contribution to the NDCS is marginal at best. The CNTF Programme Document at least was ‘implicitly’ clear that a provincial based programme approach was essential, and the thematic implementation plans developed in June 2006 along side the Government’s Provincial Needs Assessment Project in July 2006, went a long way towards a comprehensive provincial based planning approach. As documented above, the current approach remains overly centralised and bureaucratic. The impact of a poorly designed planning process is a low funding rate - 10% of projects submitted - and even slower disbursement rate.



## CHAPTER 3: CNTF FINANCIAL AND PROJECT STATUS

26. *This chapter provides the current financial and project status of the CNTF as of June and July 2007 for expenditures and receipts respectively, detailing contributions by donor over time, actual expenditures to date, as well as the number of projects received for funding consideration, as well as those actually approved by the Management Board.* The analysis confirms that expenditures have been extremely low given the two year life span of the fund when viewed against the background of burgeoning poppy cultivation. In this sense, the key opportunity costs lost is not money, it has been time.

### 3.1 FINANCIAL ANALYSIS

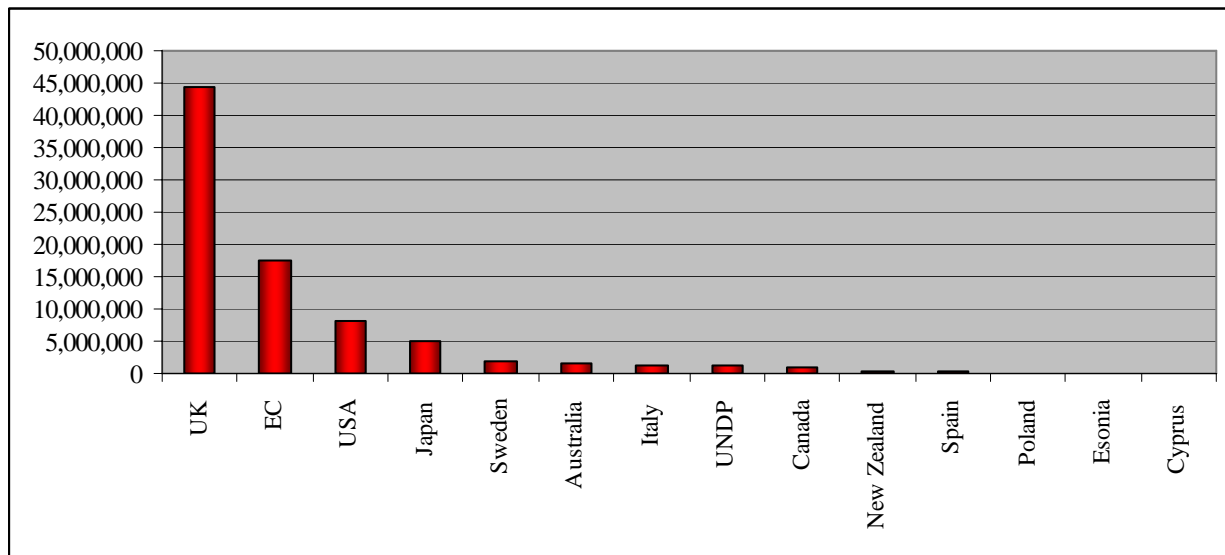
27. *According to the Programme Document CNTF originally had a target budget of US\$900 million, but as of July 31, 2007, only US\$82.9 million, or less than 10% of planned funds had been committed, of which funds on account of US\$42.6 million had been received and only US\$3,419,620 expended at the time of this review.* Although CNTF is a multi-donor trust fund with 14 donors, almost three quarter of all commitments (74.8%) come from two donors (UK (53%) and EC (21%)) although at the level of actual receipts this picture changes with the EC actually providing 33% and the UK 37% as at the time of the review. Furthermore, USA recently committed US\$8 million for the Good Performance Initiative (GPI), operating as a 'window' within the CNTF, although the funds have yet to be formally received. The trust fund administrator (UNDP) is also a donor to the CNTF; however, these donations,, totalling US\$1,112,721 are earmarked to cover CNTF-Directorate staff salary and certain operational costs, which do not flow through treasury. As of July 31, 2007, a total fund of US\$9,206,236 had been advanced from the fund to treasury, of which US\$2,499,002 has been expended through treasury as of June 30, 2007. Of the US\$5,245,499 advanced to cover 2007 operations, US\$2 million is provided for the GPI initiative. **Table 3.1** below summaries the financial commitment, receipts and advances by donor as of July 31, 2007, also highlighting (commitments of US\$10,000 from Cyprus and US\$50,000 Estonia) that staunch support from the international community to support this fund has not always been forthcoming (See **Chart 3.1** below). Furthermore, initial receipts from Australia, New Zealand and the EC in 2005 were not topped in either 2006 or 2007 due to lack of fund disbursement. Detailed Financial charts, by thematic areas, donor and implementing Ministry are provided in Annex 2 and 3.

<b>Table 3.1 CNTF Financial Statement (July 31, 2007) (US\$)</b>						
<b>Donor</b>	<b>Commitment</b>	<b>Receipts</b>				<b>Total Advances<sup>19</sup></b>
		<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Total</b>	
Australia	1,526,718	1,526,718	-	-	<b>1,526,718</b>	<b>1,482,250</b>
Canada	1,052,632	-	1,052,632	-	<b>1,052,632</b>	-
Cyprus	10,000	-	10,000	-	<b>10,000</b>	-
EC	17,647,059	14,117,647	-	-	<b>14,117,647</b>	<b>7,333,103</b>
Estonia	50,000	-	50,000	-	<b>50,000</b>	<b>48,544</b>
Italy	1,317,523	-	1,317,523	-	<b>1,317,523</b>	-
Japan	5,000,000	-	5,000,000	-	<b>5,000,000</b>	-
New Zealand	352,609	352,609	-	-	<b>352,609</b>	<b>342,339</b>
Poland	100,000	-	100,000	-	<b>100,000</b>	-
Spain	336,022	-	-	336,022	<b>336,022</b>	-
Sweden	2,000,000	-	-	2,000,000	<b>2,000,000</b>	-
UK	44,347,826	-	15,652,173	-	<b>15,652,173</b>	-
UNDP	1,112,721	300,000	312,721	500,000	<b>1,112,721</b>	-
USA	8,000,000	-	-	-	-	-
<b>Total</b>	<b>82,853,109</b>	<b>16,296,974</b>	<b>23,495,049</b>	<b>2,836,022</b>	<b>42,628,045</b>	<b>9,206,236</b>

Source UNDP Financial Statements as of July 31, 2007

<sup>19</sup> Advances refer to the funds transferred from UNDP special account in New York to the GoA treasury account (Da Afghanistan Bank).

**Chart 3.1 CNTF Commitments by Donor (US\$)**



28. *The combined expenditures of all CN Projects and UNDP support in 2005, 2006 and 2007 totals US\$8,225, US\$1,427,920 and US\$1,983,475 respectively; for a consolidated total CNTF spend of US\$3,419,620 since fund inception.* In terms of fund utilization to date a total of 73.1% or US\$2,481,324 have been for actual CN Projects and 26.9% or US\$920,618 has been to cover CNTF administration expenditures, including UNDP General Management Service fee (GMS) and the CNTF Directorate<sup>20</sup>. As a consequence, two years after the establishment of the fund administrative costs have equalled 26.9% of all spending to date (including start up and installation costs) although in 2007 administrative costs as a percentage of total spend lowered to 14.3% per cent. **Table 3.2** below presents CNTF expenditures by pillar as well as the CNTF administrative fee since fund inception.

Pillar	Approved Budget	Expenditures				% of Total	# Projects
		2005	2006	2007	Total		
Alternative Livelihood (AL)	19,233,670	-	764,749	1,116,497	1,881,246	75.3	21
Drug Reduction & Treatment (DR)	2,115,576	-	34,691	565,387	600,078	24.0	4
Institution Building (IB)	1,378,345	-	-	-	-	0.0	2
Public Awareness (PA)	5,955,568	-	-	17,678	17,678	0.7	2
Law Enforcement (LE)	350,000	-	-	-	-	0.0	1
<b>Total CN Projects</b>	<b>29,033,159</b>	-	<b>799,440</b>	<b>1,699,562</b>	<b>2,499,002</b>	<b>100</b>	<b>30</b>
UNDP GMS**	\$870,995	-	23,983	50,987	74,970		
CNTF-D Salaries & Op Fees ***	1,100,000	8,225	604,496	232,926	845,648		
<b>Total Administrative Expenditures</b>	<b>\$1,970,995</b>	<b>8,225</b>	<b>628,480</b>	<b>283,913</b>	<b>920,618</b>		
<b>Total</b>	<b>\$31,004,154</b>	<b>8,225</b>	<b>1,427,920</b>	<b>1,983,475</b>	<b>3,419,620</b>		<b>30</b>

\* Source: MoF Expenditure Analysis, June 30, 2007 and Quarterly Financial Reports

\*\* GMS Fees are calculated based upon 3% of CN Project expenditures.

\*\*\* UNDP Project Budget Balances (2006 and 2007)

29. *CNTF administration expenditures (as outlined in Table 3.2 above) do not flow through treasury as UNDP pays for salaries and operational costs of the CNTF Directorate (CNTF-D)*

<sup>20</sup> CNTF staff was originally recruited through the civil service exam and all expenditures were paid through the recurrent budget of the MCN. Beginning in 2006, UNDP entered into a financial arrangement with the MCN to directly pay the salaries and certain operational costs CNTF-D. The CNTF-D expenditures are paid using UNDP core funds.

*directly.*<sup>21</sup> In 2005 and 2006, UNDP paid a total of US\$612,721 for CNTF-D, of which only 27% related to salaries with the balance covering the start-up costs of equipping and furnishing the CNTF-D office. As of July 31, 2007, a total of US\$232,926 was paid for CNTF-D salaries and operational expenditures, of which 71% relate to salaries, reflecting the recurrent spending of CNTF-D. GMS expenditures are credited to UNDP directly from the CNTF Special Account held in New York.

### **BOX 3.2: CNTF ADMINISTRATION AND PUBLIC FINANCE MANAGEMENT**

Issues of operational efficiency and effectiveness, the strategic allocation of resources to support the NDCS, the impact of budgetary outcomes and fiscal sustainability are vital issues for all trust funds. Trust funds such as CNTF should not be seen as permanent features, even in weak and fragile states, but rather as interim arrangements to allow external assistance to be ring fenced to support the emergence of a fully sovereign state; at which point external support can be ramped down. There are concerns for both ARTF and LOTFA that high levels of external support to cover government's recurrent costs are highly unsustainable over the short to medium term. For CNTF, the only direct fiscal concerns relate to UNDP support for CNTF Directorate staff although if the fund were ever hugely ramped up, the long term recurrent costs of capital investments would have a knock on affect for the budget as a whole. For MCN there are of course concerns that with the recent withdrawal of UK support for MCN wages, even through PRR provides a transitional option, the effective lowering of staff salary scales will lead to a reduction of more qualified staff; as has already begun to occur. In terms of operational efficiency and strategic allocation of resources the CNTF has been a resounding failure so far. Furthermore, from a PFM point of view the review team is concerned that the current Kabul based managerial staff of the fund were unsighted on a number of essential issues including fiduciary management, budgetary support, financial reporting and reconciliation, perhaps reflecting lack of prior experience.

In terms of financial reporting the review team was unable to reconcile some discrepancies between UNDP and MoF financial statements (See Annex 2, CNTF Financial Statements), between the CNTF project database on a monthly and quarterly basis. UNDP has not provided the Quarterly Progress Report to donors on project status or financial activity in 2007; although a CNTF Directorate May 2007 Progress Reports covered much of the CN Project progress detail, it did not provide sufficient coverage of fund financial status. Finally, the turn over of UNDP Fund Managers, including interim positions which were appointed to cover a period of over six months until a full time manager could be recruited, undermined continuity.

## **3.2 PROJECT ANALYSIS**

30. *According to the CNTF-D project database, a total of 273 projects have been formally submitted to MCN for consideration valued at US\$213,258,694<sup>22</sup>, and 30 have been approved; 21 in 2006 and 9 so far in 2007.* The 30 approved projects totalled US\$29,033,231, of which US\$799,440 was spent in 2006 and US\$1,699,562 was spent in 2007, for total project expenditures of US\$2,499,002 as of June 30, 2007. During the last quarter, there has been an increase in disbursement, with 67% of 2007 expenditures incurred between May and June 2007. It is to be noted that even projects approved by the MB often require additional design and technical work before procurement procedures can begin. Weak project design submissions have therefore led to significant delays between the date of approval and the date expenditures are actually incurred. For example, only 10 of the 21 projects approved in 2006 had actually incurred expenditures by June 30, 2007.<sup>23</sup> An example of delays in implementation can be seen through the Needs Assessment Project which was approved by the MB in August 2006, but due to lack of agreement by the MB with regard to the TOR, this project remains un-disbursed. While the so called 'Fast Track' procurement procedures may improve the procurement cycle they will not address the bottlenecks related to project formulation.

31. *A major area of concern, given the close alignment of NDCS and CNTF objectives is the composition of project funding by CN thematic area, as outlines in Chart 3.2 below.* Currently,

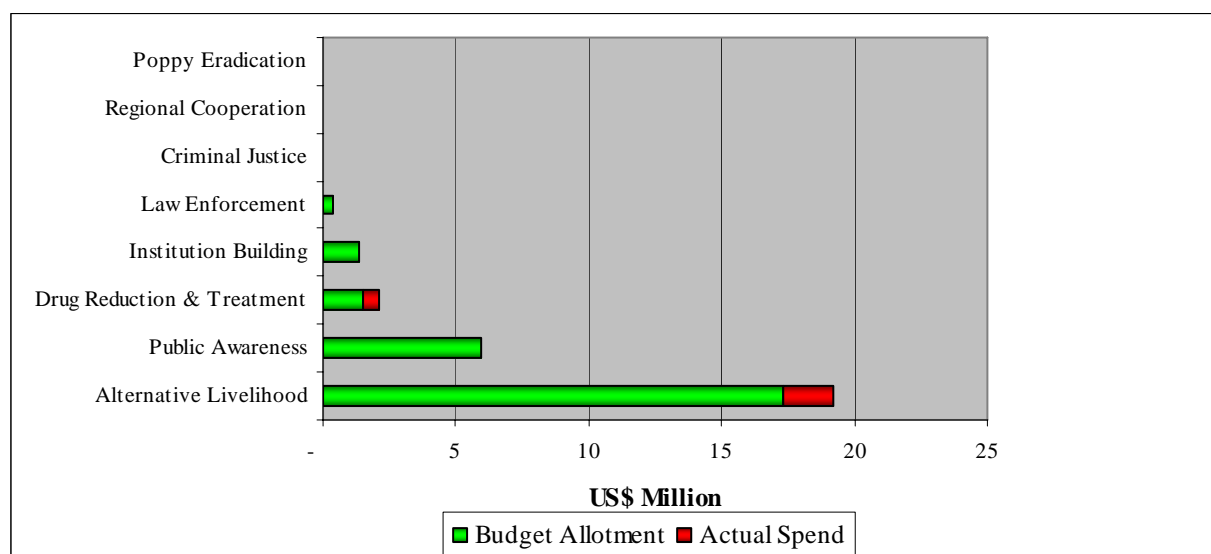
<sup>21</sup> For the purposes of this report, administrative expenditures are calculated as the sum of CNTF-Directorate expenditures (paid through UNDP core funds) plus the General Service Management fee (3% of expenditures to MoF).

<sup>22</sup> In 2006, a total of 121 were submitted to the MB, of which 21 were approved, for an approval rating of 17.4%. Through review of the MB minutes and discussions with members of the MB, it appears that the majority of CN project rejected were due to poor design and proposal quality as opposed to the CN relevance of the project.

<sup>23</sup> Of the 11 2006 projects approved with zero expenditures to date, 4 were in the process of technical redesign or tendering, and the remaining 7 had commenced operations but had payments pending.

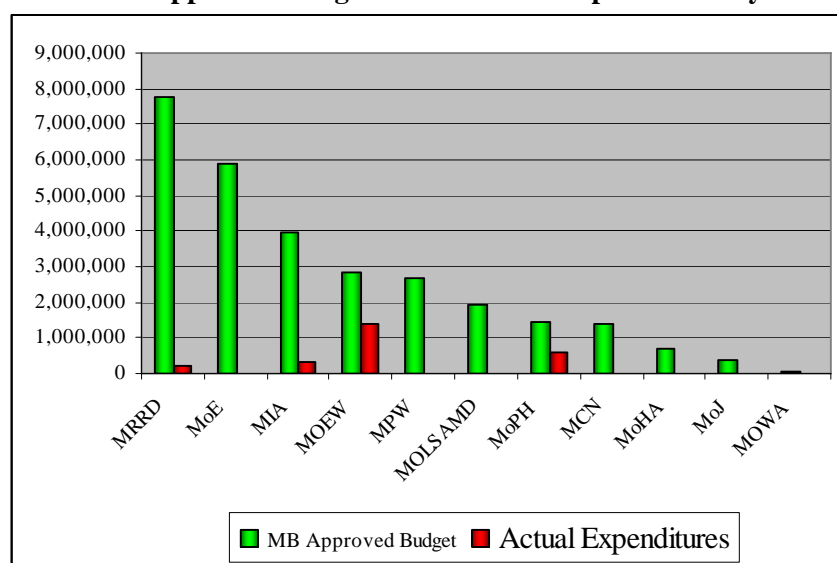
expenditures have only been made for three of the eight thematic areas (alternative livelihoods, drug reduction treatment and public awareness) with the other five thematic areas of the NDSC so far receiving no funding. This is largely due to the preference expressed by donors contributing to the fund and per fund programming performance at the level of the administration. Furthermore, as highlighted by the chart below, slow actual spend rates over planned reflect poor absorption capacities within government. There is a high concentration of projects from the AL pillar (21 out of 30), representing 75% of total expenditures to date with remaining expenditures spent on reduction (24%) and public awareness (0.7%). The current pipeline of approved projects diversifies the projects across different pillars, with 66.2% relate to AL, 20.5% for Public Awareness, 7.3% for Drug Reduction and Treatment, 4.7% for Institution Building and 1.2% for Law Enforcement.

**Chart 3.2 Budgeted Against Actual Expenditures by NDSC Pillar (US\$)**



32. *As noted in Chapter 2, line ministries lack the absorption capacity to implement CNTF projects as evidenced Chart 3.3 which highlights low levels of disbursements even against approved budgets..* Of the total approved budget, only 8.6% has been expended as of June 30, 2006 for 10 out of 30 approved projects. Of the total budget for approved projects, three ministries represent 61% of the total with US\$7,779,004, or 26.8% for MRRD, US\$5,915,200, or 20.4% for MoE and US\$3,978,384, or 13.7% for MAI. In terms of expenditures, however, 55.1% of total expenditures to date, or US\$1,376,895 relate to two MoEW projects with spending to date further concentrated on one single project of 3 Micro Hydropower systems in Badakshan which has expended US\$1,224,669 or 49% of total expenditures since CNTF inception. **Chart 3.3** highlights that Ministries with a higher project approval rate are not necessarily those able to disburse quickly, perhaps, in the case of MRRD and MoE due to the level of other ongoing commitments. Annex V provides a more detailed analysis of budget and expenditures by Ministry.

**Chart 3.3 MB Approved Budget versus Actual Expenditures by Ministry (US\$)**



33. *The alignment between CNTF funded projects and actual expenditures and poppy cultivation by Province is weak to non-existent, highlighting that CNTF funded projects have very little strategic alignment with the NDCS.* Table 3.3 below highlights that even though Helmand is forecast to cultivate 42% of all poppy in 2006, only 3% of CNTF approved projects are in this province. At the other extreme Kunduz which has cultivated no poppy in 2006 has been allocated 9% of all CNTF approved resources so far. Clearly, the contribution of the CNTF towards meeting NDCS objectives needs to be further honed.

### 3.3 CONCLUSION

34. *Almost two years since its inception, with over 272 projects submitted for approval to the Management Board, only 30 projects have so far received funding, with less than US\$ 3 million actually being expended from a fund with commitments equalling US\$82 million.* Furthermore, donor commitments are often heavily earmarked by province, CN thematic area and by project, undermining the potential of the fund to be fungible across CN objectives and geographical areas. As shown in the charts above, there also appears to be little alignment between CNTF prioritisation and poppy cultivation. Furthermore, it is clear that line department absorption capacity for the CNTF remains very limited.

**Table 3.3 Forecast Poppy Cultivation by Province against CNTF Budget and Expenditures**

	2006 Cultivation		Approved Projects		Total	% of total
	HA	% of total	Budget	% of total	Expenditures	
Helmand	69,324	42%	\$ 923,181	3%	\$ -	0%
Badakshan	13,056	8%	\$ 2,804,634	10%	\$ 1,237,751	50%
Kandahar	12,619	8%	\$ 360,159	1%	\$ -	0%
Uruzgan	9,703	6%	\$ 696,639	2%	\$ 16,261	1%
Farah	7,694	5%	\$ 360,135	1%	\$ 62,444	2%
Balkh	7,232	4%	\$ 1,189,058	4%	\$ 142,051	6%
Day Kundi	7,044	4%	\$ 173,976	1%	\$ -	0%
Nangahar	4,872	3%	\$ 2,933,225	10%	\$ 517,172	21%
Ghor	4,679	3%	\$ 2,084,254	7%	\$ 62,444	2%
Zabul	3,210	2%	\$ 245,896	1%	\$ -	0%
Badghis	3,205	2%	\$ 2,046,324	7%	\$ -	0%
Faryab	3,040	2%	\$ 673,742	2%	\$ -	0%
Baghlan	2,742	2%	\$ 2,044,112	7%	\$ 16,618	1%
Herat	2,287	1%	\$ 400,370	1%	\$ 13,082	1%
Sari Pul	2,252	1%	\$ 937,321	3%	\$ -	0%
Takhar	2,178	1%	\$ 2,315,708	8%	\$ 13,082	1%
Jawzjan	2,024	1%	\$ 258,543	1%	\$ -	0%
Samangan	1,960	1%	\$ 680,375	2%	\$ 105,384	4%
Nimroz	1,955	1%	\$ 329,870	1%	\$ 62,444	2%
Nuristan	1,516	1%	\$ 327,772	1%	\$ -	0%
Kunar	932	1%	\$ 360,159	1%	\$ -	0%
Laghman	710	0%	\$ 212,315	1%	\$ 3,536	0%
Kapisa	282	0%	\$ 173,976	1%	\$ -	0%
Khost	133	0%	\$ 360,159	1%	\$ -	0%
Parwan	124	0%	\$ 173,976	1%	\$ -	0%
Kunduz	102	0%	\$ 2,552,626	9%	\$ 75,526	3%
Kabul	80	0%	\$ 1,584,612	5%	\$ 13,082	1%
Bamyan	17	0%	\$ 342,953	1%	\$ 75,526	3%
Ghazni	-	0%	\$ 342,953	1%	\$ 75,526	3%
Logar	-	0%	\$ 223,705	1%	\$ 3,536	0%
Paktia	-	0%	\$ 360,159	1%	\$ -	0%
Paktya	-	0%	\$ 173,976	1%	\$ -	0%
Panjshir	-	0%	\$ 173,976	1%	\$ -	0%
Wardak	-	0%	\$ 212,315	1%	\$ 3,536	0%
<b>Total</b>	<b>164,972</b>	<b>100%</b>	<b>29,033,159</b>	<b>100%</b>	<b>2,499,002</b>	<b>100%</b>

Source: UNODC Afghanistan Opium Rapid Assessment Survey, Feb. 2007, CNTF Project Database and MoF Expenditure Analysis as of June 30, 2007. Allocation of CN project budget and expenditures was done on a pro rata basis based upon the provinces targets per the CNTF Project Database.

## CHAPTER 4: CONCLUSION

35. *This review was requested to assess past performance and the future of the CNTF.* This chapter presents the conclusions of the review team in line with the terms of reference, based on the analysis provided in Chapters 2 and 3, providing the framework within which a coherent road and matrix of reform measures can be developed to guide the members of the Steering Committee and Management Board in supporting the NDCS through the CNTF as originally envisaged. The following chapter outlines the review conclusions and recommendations.

### 4.1 PAST PERFORMANCE

36. With regard to performance to date the review team was asked to assess the following issues, the findings of which are presented below.

37. *To what extent does the CNTF, as currently structured, achieve its mandated aims and objectives?* The current aims and objectives of the CNTF are closely aligned to those of the NDCS and as a result are considered by the review team to be far too ambitious for a newly established trust fund operating through national execution. The attainment of NDCS aims and objectives requires nothing less than a whole-of-government approach to be adopted through the entire national budget, with the CNTF playing an important complimentary role but not inheriting the primary responsibility. This is also undoubtedly true of the MCN which is now seen as the almost sole Ministry responsible for CN performance in Afghanistan, which it is not. In this regard, the review team suggests that the aims and objectives of the CNTF be made less ambitious, and are unpackaged to include short and medium term objectives more in line with the potential of the fund based on current actual capacity. The following chapter proposes generic aims and objectives for the fund based on the outline road map.

38. *To what extent does the CNTF and its approved projects support Afghanistan's National Drug Control Strategy?* The review team believes that the National Drugs Control Strategy (NDCS) and correlated Implementation Plan cannot be judged solely through the various policy and strategy documents themselves, but rather through a review of their actual structure and impact at the provincial level where the battle to eradicate poppy production must surely be focused. However, there is little doubt that the establishment of the Ministry of Counter Narcotics and the CNTF has raised the profile of NDCS at both national and provincial levels, although the fund's impact vis a vis poppy reduction is considered to be very marginal to non-existent. Even though the fund has failed to attract the US\$900 million originally envisaged, even if it had, it would clearly not have been disbursed given the failure to programme substantial tranches through a more comprehensive and integrated provincial approach. As outlined in the previous chapter, five of the eight CN thematic pillars under the NDSC have yet to incur expenditures and those that have equal less than US\$2.5 million after almost two years. Furthermore, as indicated by Table 3.3, there appears to be very little correlation between CNTF strategic investments and the poppy planting reality on the ground. Even though the fund is hampered by implementation through a highly centralised approach characterised by time consuming national planning and procurement procedures, and impacted by lack of capacity within line departments the failure to develop costed and thematically prioritised provincial based implementation plans has led to the development of poorly integrated, ad hoc and poorly targeted sub-projects, as evidenced by the current list of CNTF approved projects.<sup>24</sup>

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<sup>24</sup> Human resources capacities with regard to CN and Alternative Livelihoods specific investments are limited, and their remains great confusion with regards to what a CN or AL programme should be composed of. To this end, CN and AL advisory services as present within UNODC, the UK and US Embassies etc. are not being sufficiently tapped to strengthen the overall CN approach. The term alternative livelihood appears to confuse rather than simply a planning process that should be growth enabling for the non opium economy.



39. ***What have been the strengths and weaknesses of the current approach, and what measures can be taken to maximize the impact of the CNTF?*** There is little doubt that the CNTF has raised the visibility of government and international community CN activities. The high profile establishment of the fund and the MCN, at national and national levels has provided – in principle at least – a vehicle for the delivery of a targeted and sequenced CN strategy although incapacity to programme funds strategically (geographically and thematically), with associated huge underspend and poorly targeted investments have undermined public perception with regard to both the fund and the Ministry itself. The current approach adopted by MCN through the CN Cabinet Sub-committee, Steering Committee and Management Board actively champions the formulation of small un-integrated sub-projects across all provinces irrespective of their strategic value with regard to the NDCS. Furthermore, the coexistence of competing strategy frameworks and institutions (government and international community) runs against the principles of the Paris Declaration and undermines the emergence of a cohesive national-provincial approach to poppy reduction. Yet, as much of the ground work to establish a strategy, legally mandated institutions and specialised financing modalities have already been put in place (including guidelines for provincial based implementation plans and CN outcome indicators) what is required is an informed and accountable leadership structure, geographical and thematic prioritisation and a comprehensive planning and budgeting process within priority provinces. Then, and only then, can the CNTF overcome its biggest single weakness; planning CN investments at the provincial level.

40. The review team is unable to review many of the fiduciary and expenditure management issues under CNTF as less than US\$3 million has so far been disbursed to project activities. However, based on a provisional review of documents provided by UNDP with regard to financial reporting, the trust fund seems to be operating in line within the established legal framework, although there does appear to be some weaknesses in internal controls and financial reporting. As CNTF is established as a government trust fund working through normal government procedures, and is demand driven by line ministries who already suffer aid absorption constraints, CNTF funds are not afforded high priority by line ministries or their sub-national departments. Furthermore, as there is no direct route for provinces to access CNTF funds except via sub-national departments, fund underspend could easily have been predicted.

41. ***To what extent do the existing management arrangements (including financial management; project selection; general administration) contribute to the achievement of the CNTF's aims and objectives?*** As so little of the fund has so far been disbursed, it is difficult to assess potential future performance of the CNTF. However, the existence of the following constraints impact negatively on CNTF performance: (i) donor commitment preferences for selective provinces, projects and themes which undermine fungability (ii) weak capacities of the fund administrator to support the development of provincial programmes of sub-projects (iii) lack of prior fund management experience within the funds administrative team (iv) MCN, CNTF Directorate and UNDP Administrative staff across different offices (v) lack of direct CN and economic policy experience within the CN Directorate (vi) lack of provincial and thematic prioritisation (vii) weak fiduciary management capacities at the project level (viii) lack of policy and coordination guidance provided by the CN Cabinet Sub-committee and Steering Committee to the Management Board as directives (ix) poorly formulated projects and (x) slow disbursement procedures must remain priority areas for strengthening. Furthermore, the existing management arrangements appears to actively discourage political leadership from taking primary responsibility for the attainment of NDCS objectives despite ownership being the essential pre-condition for success.

42. The review team is concerned that removal of top-up salaries, whilst required for reasons of fiscal sustainability, will lead to the wholesale downgrading of the MCN in particular. The graduation of staff on to PRR scales will probably prove insufficient to retain the most competent and experienced staff leading to a ministry with a policy coordination and strategy compliance mandates that simply cannot be achieved.



43. ***Is the CNTF efficient in using donor resources?*** The answer to this question, based on disbursement analysis provided in Chapter 3 is a resounding NO. The original commitments to the fund totalled US\$82 million to date, yet almost two years after the fund was established, only around US\$3.4 million has been disbursed of which \$2.5 million for CNTF projects. The implications of this for both EC and Japan donations has been that the financing agreement signed with UNDP now faces problems as funding has not been disbursed within the expected time frame. As a consequence, some donors are reluctant to commit additional funds to CNTF and unless there is a substantial turn around in performance. Furthermore, as the trust funds are established through bilateral agreements with UNDP, often being earmarked for particular activities anyhow, expenditures would undoubtedly have been far higher and the impact on the NDCS similar at worst, if the trust fund had never been the vehicle of first choice. Finally, and this is of huge significance, once funds have been disbursed to Treasury they still have to be committed in line with national PFM and procurement laws, implying in this case an implementation period of perhaps 3 years or more for a given project. As a result the CNTF and the management systems surrounding has failed to emerge as an expedited model for CN financing.

## **4.2 THE FUTURE OF CNTF:**

44. ***What changes, if any, should be made to the CNTF in terms of overall vision; management and administration arrangements; interaction with the Government of Afghanistan; and interaction with other stakeholders (including donors) to maximise its impact?*** The review team sees that the failure of the trust fund to disperse large amounts of money is not due to trust fund management or its administration per se, but rather this is caused by the failure of government line ministries in particular to develop coherent inter-ministry programmes of sub-projects at a provincial level to be funded through CNTF. In the absence of such planning capacities, the CNTF and UNDP have struggled to fill this planning gap with viable sub-projects, a number of which have now received support through CNTF. In this regard CNTF aims and objectives need to be re-stated to reflect a new approach (as advocated in Chapter 5) while being unpackaged to short and medium term outcomes. A log frame for the entire fund could also be developed to support output to purpose reviews in the future.

44. In terms of improving the programming of CNTF funds to meet NDCS objectives, lessons could be drawn from ARTF (See Box 4.1 below) which has developed model national programmes that meet provincial needs.<sup>25</sup> However unlike ARTF, where national programmes are supported through a hundreds of provincial sub-projects and clear task team leadership, Government with the support of MCN/CNTF has failed to establish a comprehensive provincial based programme approach within which sub-projects support local CN priorities, gaps and investment requirements. Options for addressing this are outlined in Box 4.2 below. What is more disturbing however is that over the course of the past year both MoF and MCN have advocated such an approach within the Management Board, but no decision was taken even though the implementation plans for CN provide a compelling argument for such a move.

45. ***How should the CNTF be structured in order to improve performance?*** It is not the CNTF that needs to be restructured but rather the planning and implementation process that feeds into and flows from it. To this end the failure to develop comprehensive provincial based CN strategies within which to underpin provincial implementation efforts negatively impacts the cohesiveness and the effectiveness of the national strategy itself. That said it is clear that the leadership structure surrounding the fund is hugely ineffective. The review team is particularly concerned that the requisite leadership structures required to

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<sup>25</sup> There are a number of substantial differences between the ARTF, LOTFA and CNTF that need to be acknowledged. ARTF covers both recurrent and development spending. The development of ARTF funded projects is provided through Task Team Leadership provided by the World Bank as administrator. These programmes (NSP, NARP, MISFA etc.) are very substantial national programmes comprised of hundreds and perhaps thousands of sub-projects. LOTFA largely covers recurrent spending and centralized procurement. CNTF currently does not benefit from a consolidated provincial programme approach where provincial task-team leadership is provided through the fund to established programmes of sub-projects.

safeguard the main aims and objectives of the strategy are also largely dysfunctional. The Sub-cabinet committee, Policy advisory Group (PAG), CNTF Steering Committee and CNTF Management Board appear to operate almost independently of each other with decisions made by one function having little to no impact on decisions made by the other. As a result, strategic decisions in relation to prioritisation are not being made within the framework of the national budget formulation and execution cycle and CNTF Management Board has become little more than a sub-project approval body.

46. The Sub-cabinet committee rarely meets and has failed to provide directives to the Steering Committee to develop a coherent and comprehensive provincial based programme. The Steering Committee has attempted to tackle many of the core issues impeding the programme but in the absence of Government leadership, it has failed to provide sufficient steerage to the Management Board. At the MB level where Steering Committee members also sit, and given that only sub-projects are being developed, the MB has also failed to encourage a more strategic investment approach. It is proposed that the Sub-Cabinet Committee and Steering Committee be merged into one entity, a more powerful 'CNTF Steering Committee', meeting quarterly and providing directives to Management Board with regard to strategic programming. It is suggested that the international community be represented through the UK as G8 lead and UNAMA. The review team is concerned that the plethora of CN meetings (Steering Committee, CNTF Management Board, PEP teams, Working Groups etc.) is taking human resources away from the task of developing costed and integrated provincial programmes for funding through CNTF. A quarterly meeting, reporting and action framework in line with the national budget would also be more efficient.

47. ***What are the major constraints that the CNTF faces as currently structured and how can these constraints be addressed?*** The review team believes that the number of institutions (national and international) and their functional responsibility vis a vis NCDS implementation remains unclear, both at the national and provincial level. The creation of the MCN as line department could serve to undermine a mainstreaming approach, adding another layer to the already overly complex number of CN stakeholders. In this regard, the review proposes a 10 Point Action Plan with an associated Matrix of Measures to be approved by the Cabinet Sub-committee and Steering Committee including a set of recommendations as to how the CNTF Steering Committee and Management Board can be strengthened. The full details of this plan are provided in Chapter 5.

#### **BOX 4.1: TOWARDS A PROVINCIAL BASED PROGRAMMATIC APPROACH**

There appears to be concern within certain institutions supporting CN in Afghanistan as to the viability of adopting a provincial based programmatic approach to CN, in spite of the fact that the MCN and MoF have already proposed such an approach to the Management Board on a number of occasions; including in July 2006.<sup>26</sup> As the TOR for the CNTF unequivocally states that the Management Board should 'ensure project proposals comply with the policies, guidelines and priorities prepared by the MCN' there would appear to be little need for additional justification. Given that MCN is legally responsible for 'overall coordination, monitoring and evaluation of ongoing counter narcotics projects... and identification and development of future projects... for the development of the National Drugs Control Strategy, implementation plans, policies and guidelines' all that would appear to be required would be for such an approach, as advocated by government, to be formally endorsed by the Management Board (see Page 36, CNTF Programme Document). However, if additional justification is required for such an approach the review team believes that the following factors are wholly supportive of such a move:

- i. The MoF, MCN and other Ministries such as MRRD believe that a comprehensive and integrated provincial based investment approach is required, to support the central role to be played by Provincial Governors and the Provincial Council;
- ii. A number of provincial governors are already developing provincial based programmes for drugs control,
- iii. The last national budget was not immediately passed by the national assembly because the various members of parliament could not differentiate within the national budget spending by province;
- iv. The current trajectory of public administration reform, being supported by UNDP, involved building the capacity of provincial bodies with regard to budget execution;
- v. The Good Performance Initiative (GPI) is already a provincial based initiative, and one fully welcomed by government and CNTF donors alike; and,
- vi. The Implementation Plans, which essentially involved provincial based prioritisation to take place, across the 8 pillars of the NDCS, were initiated but not implemented, for reasons unknown to the review team.

As CNTF funds are channelled through the core budget, are formally appropriated, and are reflected in the national budget, and require approval of the national assembly, such an approach would strengthen and not undermine the unitary state. Adopting such an approach would (i) allow balanced thematic programmes across the pillars of the NDCS to be developed on a provincial basis (ii) enhance coordination of all core and external budget resources, including those outside of the CNTF, to be supportive of the NDCS (a mainstreaming approach) (iii) allow greater prioritisation of investments vis a vis resource constraints (iv) enhance provincial ownership where the responsibility for drugs control is currently lacking and (v) increase fund efficiency and effectiveness through the development of a programme approach within which many hundreds of sub-projects could be implemented. Of course, and adopting such an approach would benefit from a rolling start where a number of high priority provinces were selected as pilots. It is important to note however that adopting a provincial based approach does not exclude the involvement of central Ministries, it merely seeks to strengthen the partnership arrangement through the budget on the formulation side; something which is wholly commensurate with the current budget law.

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<sup>26</sup> Furthermore, the provincial programmatic approach has already been discussed both at the technical fora and CNTF Management Board on numerous occasions and the needs assessment activities launched following Management Board approval was an important step in this direction. Moreover, the CNTF Rapid Project Generation Initiative/Needs Assessment project is acknowledged to be the first step towards a Provincial Programmatic approach.

## CHAPTER 5: PROPOSED STRENGTHENING MEASURES

48. *This report has concluded that many of the key elements of an effective counter narcotics strategy, including the implementation plan and funding and monitoring frameworks are already substantially in place.* However the presence of (i) an ambiguous leadership and accountability structure (ii) an overly centralised programme design that limits provincial, district and community engagement and ownership (iii) a planning and budget formulation process focused almost solely based around isolated sub-projects not comprehensive provincial based investment programmes (iv) implemented nation state wide under insecure conditions, not in high priority CN target provinces (v) and is implemented through national budget and procurement procedures is almost doomed to failure; particularly when being implemented by an extremely weak administration structure already operating well beyond its absorption capacity. Furthermore, given the undue expectations thrust upon the trust fund from the start combined with extreme underperformance on the expenditure side, it is not surprising that a series of corrective measures are urgently required to draw the various elements back together in a more cohesive, sequenced and prioritised fashion.

49. *What is proposed below is a Ten Point Action Plan of suggested corrective measures for the consideration of the CN Sub-cabinet committee and Steering Committee to allow the CNTF to emerge as a model of best practise in the war against drugs in Afghanistan.* These proposals are based on a pragmatic review of what is feasible in the current CN capability context with a particular focus on enhancing leadership as well as the linkage between policy compliance, planning and budgeting in particular as the cornerstones of investment success. In all cases the action plan builds on existing strategy guidelines and procedures, so as not to duplicate efforts or to create parallel structures. Furthermore, what is proposed is wholly in-line with the constitution, national budget and procurement laws. In summary what is proposed is a move towards a comprehensive provincial and district based planning approach whereby consolidated investment plans including literally hundreds of sub-projects (national budget and CNTF) are presented as thematically balanced programmes, agreed by the central government but funded through tranches. In this regard table 6.1 provides a more comprehensive matrix of measures identifying the various reform components, objectives, specific indicators and reform targets, implementation and timing, accountability at the agency and individual level and expected results.

50. *The review team strongly believes that the CNTF must not become a permanent feature but should rather look to phase itself out perhaps through a 2010 sunset clause in line with the Afghan Compact benchmarks, whereby an investment approach allows the NDCS to be fully mainstreamed across the entire national budget framework creating the precondition for eventually liquidation of the fund.* Achieving this objective alone would require that all existing CN functions and institutions are therefore mainstreamed into existing line ministries, without creating parallel structures for delivery that are unsustainable and undermine accountability and coordination. Furthermore, and building on the work which has been conducted over the course of the past five years it is believed that the CNTF could give birth to enduring provincial based investment models that would pave the way to eventual full mainstreaming. To this end, as the Counter Narcotics Directorate (CND) was evolved into a Ministry, the review team believes that the current Ministry of Counter Narcotics could eventually be evolved into a Presidential Commission over the longer term allowing a more vertical leadership and accountability structure to emerge. Whilst these recommendations may appear at first far reaching, they are wholly consistent with the thrust of the current NDCS and with the move towards mainstreaming of provincial and community based programmes.

51. *The framework presented below is provided to stimulate discussion at the Presidential, Sub-cabinet and Steering Committee levels in particular wherein a fully nationally owned but internationally supported matrix of corrective measures is multi-laterally agreed by all key*

**stakeholders.** Subsequently, a set of reform directives would need to be provided to the members of the Management Board and CNTF administration to undergo implementation. In this regard it is proposed that no further funds be utilised until actions 1-6 have been agreed upon and enacted, thereafter allowing a far more cohesive and effective investment framework to emerge in line with the very particular challenges to be addressed through the NDCS. Furthermore, it is suggested that the Ten Point Action Plan be considered in three phases as follows: (i) immediate actions (ii) secondary actions and (iii) phase out full fund mainstreaming actions.

## **PHASE I: IMMEDIATE ACTIONS:**

52. ***Strengthening National Leadership for CNTF:*** Political ownership must remain essential for success with the Presidential and Executive bodies of state, the national assembly, Provincial Governors and Provincial Councils therefore taking full unequivocal responsibility for the war on drugs, backed up with the staunch support of the international community. The review team believes that the current administrative set-up weakens not strengthens national political ownership and therefore accountability, but also places too great a responsibility on the adjunct and poorly aligned Ministry of Counter Narcotics and international donors to deliver on the NDCS where the political establishment does not. Furthermore, the placement of the Ministry of Counter Narcotics as the implementing agency for the Good Performance Initiative now further obscures the path towards mainstreaming, undermining the potential role of existing line ministries, with the Ministry now taking on an implementing function too. Furthermore, the government and international community can no longer afford to neglect the potentially catalytic role that Provincial Governors, Provincial Councils, Village Development Committees and Shuras have in mainstreaming the NDCS into regular government and community business. The review team believes that in the absence of an effective leadership structure the NDCS and the CNTF will remain voluntary and not mandatory obligations of state. Proposed Measure: The Government should seek to strengthen and re-invigorate the national leadership structure at central and provincial levels.

53. ***Strengthening International Support for the NDCS:*** There is concern that the leadership of the international community with regard to the war on drugs has been heavily obscured by the multi-donor framework, leading to an ‘everybody’s business is nobody’s business’ approach to the implementation of the NDCS. Worse still, the co-existence of competing bilateral CN preferences within and outside of the CNTF and in the total absence of viable and thematically balanced provincial programmes continues to undermine the effectiveness of the international community as a force for change. In this regard, the review team proposes that the G8 lead on CN plays a more active role at the Presidential and Sub-cabinet level along side UNAMA to elaborate a six month road map to place the CN strategy and implementation plan back on track, in line with the measures outlined above and below. Furthermore, the review team believes that the establishment of comprehensive provincial based programmes coordinated closely with the Provincial Governors office would negate bilateral thematic preferences, grounding the national strategy in the process. The US, European Union and other donors would work closely to develop one cohesive voice supportive of Government policy. Proposed Measure: Develop a single approach for all multi-lateral support to strengthen not undermine the NDCS.

54. ***Recasting and Re-phasing NDCS/CNTF Aims and Objectives:*** The CNTF currently aligns itself to attainment of NDCS objectives, UNDAF outcomes and indicators all of which are unlikely to be attained given the poor performance of the trust fund and the lack of international commitments to support the NDCS. The war on narcotics is likely to be a long road and the aims and objectives of the NDCS and CNTF therefore need to be unpackaged into immediate and short term, medium and long term objectives. Furthermore, and given that the majority of CN funds continue to flow outside of the CNTF, and given the vital contribution of all other national budget funding to foster licit economic growth, it is suggested that the overall aims and objectives of the fund be revised down to reflect a more realistic set of

outcomes, within the given time frame and resources available.<sup>27</sup> In this regard it is suggested that the aim of the CNTF would be *‘to develop viable CN investment models that can be mainstreamed across the national budget beyond the lifetime of the CNTF itself’*. The objective of the CNTF would therefore be to *‘show direct impact on poppy production in selective provinces through the successful piloting of consolidated provincial based CN investment support programmes’*. Proposed Measure: Recast and phase the NDCS/CNTF aims and objectives and also clearly define verifiable indicators for success that can be monitored through the regular budget framework, in support of mainstreaming objectives.

55. ***Strengthening Trust Fund Administration and Management Board Arrangements:*** The CNTF currently does little more than supply drive a small number of sub-projects into an un-integrated and poorly designed CN investment framework of little known impact. Unlike ARTF, where programmes such as the National Solidarity Programme contain literally thousands of provincial and community based sub-projects under a clearly defined Task Team Leadership arrangement, the CNTF has so far failed to support such an approach. Lack of clear leadership at the Sub-cabinet, Steering Committee and Management Board levels, along side poor performance by UNDP as the trust fund administrator has led the CNTF to adopt a planning approach that simply will not stand up to the rigours demanded by the NDCS.<sup>28</sup> Moreover, the sub-cabinet committee rarely meets and the Management Board has become little more than a small sub-project approval committee.

56. It could be considered for the Sub-cabinet Committee and Steering Committee to be merged as functions, to eliminate what some observers see as an unclear distinction; meeting quarterly in line with the national budget framework and providing investment prioritisation and strategy directives to the members of the Management Board. While there is a concern that these two bodies have different functions, in reality they should not, and such a forum would be perhaps the most significant gain in making sure that Government and the international community develop a strong partnership *vis a vis* the NDCS. The failure of the cabinet Sub-cabinet committee to meet on a regular basis needs to be urgently overcome, as this appears to indicate low priority afforded by government of this most vital body. Against the backdrop of current production figures now is the time for a strong partnership to be established. The current chairing arrangement of the Management Board and the absence of a Minister designate also undermine the effectiveness of this body as does the complete absence of a consolidated provincial CN investment approach whereby tranches and not individual sub-projects are agreed. Furthermore, as the CNTF is not located in the MCN due to lack of space, and given that UNDP staff find it difficult to travel outside of the Green Zone, the current administrative setup is hugely inconvenient for effective coordination and needs urgent resolution.

57. At the administrative level, the current project formulation and approval procedures, along side those of the national procurement laws are both cumbersome and time consuming, and undermine the ability of the fund to deliver on projects in a timely fashion. Furthermore, review team is concerned that corruption and profit seeking at the project level could become a major fiduciary concern given the relatively weak monitoring capacities of the fund, as neither UNDP administrative provisions nor government audit controls can adequately assess the cost efficiency of investments, as evidenced through review team site visits. The review team has developed a series of public finance management measures

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<sup>27</sup> Even though the CN strategy remains un-costed, the original Programme Document for CNTF indicatively outlined a fund requirement of US\$900 million over the course of the life of the fund within which CN related funding could be utilised to compliment existing national budget resources to support strategy attainment. As to date a total of US\$82 million has been provided, and far less expended, the re-prioritisation of this funding to priority provinces including balanced thematic investments is wholly justified.

<sup>28</sup> Given that the primary responsibility for fund efficiency and effectiveness is the trust fund administrator, when viewed against the severe underspend within the fund even though substantial donor commitments have been in place for nearly two years, lack of forward planning to establish a comprehensive plan to utilise these resources in a timely and efficient manner for the purposes intended clearly must constitute under performance. To date a total of just US\$3.4 million (4.1% of the total fund) has been expended with over US\$82 million available.

that need to be addressed, including the effective ear marking of projects through thematic preference, including a number of institutional re-alignment options. Proposed Measure: Adopt a series of recommendations to strengthen the Management Board (See Box 5.1 below), streamline decision making, enhance CNTF leadership and coordination, improve investment safeguards and fiduciary standards, expedite procurement and improve financial reporting.

#### **BOX 5.1: MANAGEMENT BOARD MEMBERSHIP AND TOR**

With regard to the membership of the Management Board the review team believes that the current evolved structure is increasingly ambiguous and unbalanced; with multiple voices being represented for a single institution.

With regard to membership, it is vital that Government which is tasked with leadership under the NDCS continues to be represented by MCN and MoF, at the rank of Minister; supported by the CNTF Secretariat Head as the secretariat function. To support Ministerial engagement particularly of MoF the review team believes that the meetings should be held at a Non-UN office as this may inhibit Ministerial engagement for reasons of protocol. Other representatives should be on the basis of one-representative from one-institution only to ensure a democratic and transparent decision making process. In this regard, the review team believes that the international community should be represented through (i) UK as G8 CN-lead (ii) a further donor to be selected by all other non-represented donors (iii) UNAMA SRSG and the (iv) UN Country Director as Trust Fund Administrator. Multiple representatives from these institutions should be disallowed and the both World Bank and ADB<sup>29</sup> should have observer status only given that they are non funding non-administration partners. Additional observers can be invited but do not sit at the main table and can not partake in discussions. The MB should meet quarterly along side the Sub-cabinet/Steering Committee meeting, inline with the national budget sequence. If agreed, the TOR should be amended accordingly.

## **PHASE II: CN INVESTMENT ACTIONS:**

58. ***Strengthening Provincial Prioritisation:*** Given lack of resources (capital and human capacity) it is suggested that the Presidency and Sub-cabinet committee identify between 4-6 priority provinces as CNTF focal areas within which comprehensive provincial based CN investment programmes can be developed and funded, rather than a rather disparate pin-prick approach covering all 34 provinces. Such geographic prioritisation will allow the remaining funds to be used to support and foster provincial champions (good performance initiators) and in so doing to complement existing core and external budget resources through an integrated provincial approach. Currently lack of geographic prioritisation undermines the emergence of a consolidated approach and selection of poppy producing and poppy-free provinces within which models investments could be championed would allow greater CN impact to be demonstrated. Furthermore, as there are currently 14 provincial directorates under the MCN Tashkeel along side six completely different provinces named through as Good Performance Initiative (GPI), selecting a number of core provinces for CNTF would allow a more coordinated support strategy to be developed. Once provincial based programmes are developed, as models for mainstreaming, increased outreach into other provinces will become for the first time a tenable option. Proposed Measure: The President, Sub-cabinet Committee/Steering Committee develop a set of criteria for the selection of priority CNTF provinces within which to use existing fund resources to leverage a mainstreaming approach.<sup>30</sup> A proposed set of draft criteria are presented in Box 5.2 below:

<sup>29</sup> However, the fact that the ADB and World Bank are less frequent in Management Board meetings demonstrates a perception that the decisions being taken at the Management Board relate to small sub-projects only not warranting high level representation. Clearly, the adoption of a provincial based comprehensive package approach would increase the strategic importance of investments, therefore encouraging more pro-active participation from such institutions.

<sup>30</sup> While it is acknowledged that the mere adoption of a provincial approach is insufficient to overcome capacity and programming weaknesses, the development of provincial programmes simply can not take place in the absence of an integrated provincial investment plan. In this regard, it would be up to the plan to detail the phasing of activities, including support for capacity strengthening, and project roll out. Given that the balance available within the fund is close to US\$52 million, it is suggested that these funds be pre-positioned to be indicatively mapped to a select number of provinces, against which hard

### **BOX 5.2: SAMPLE CRITERIA FOR SELECTING CNTF PRIORITY PROVINCES**

Establishing criteria for the selection of priority provinces to receive CNTF support need to be developed by MCN, supported by donors, as MCN remains the vanguard of NDCS policy. In this regard it is vital that a consensual approach be adopted not only to agreement of criteria but also to the final selection of provinces itself, given the risks that excessive bilateral preference would have in such a determination. While it is not the responsibility of the review team to develop a set of criteria, it is suggested that between 4-6 provinces be selected to receive CNTF funding based very broadly around the following criteria:

- i. Size of the provincial opium economy and its overall trajectory vis a vis future poppy cultivation (See table 3.3)
- ii. Demonstrated leadership capacity of the Provincial Governor's office with regard to NDCS execution;
- iii. Presence of MCN Provincial Offices and approved PRR investments for provincial offices;
- iv. Provincial Council support for the preparation of a comprehensive plan, to be developed in coordination with central line ministries and relevant donors; and,
- v. Existing experience in successful CN project execution or existence of pilot CN activities for at least 2-3 of the 8 NDCS pillars; either within or outside funding provided through CNTF;
- vi. Security and access by development partners.

59. ***Strengthening CN Thematic Prioritisation:*** Currently, the Implementation Plans developed in October 2006 to guide thematic investments across different provinces have not been implemented. When combined with lack of provincial targeting, and strong donor preference for alternative livelihoods and institutional building to the detriment of other core CN areas such as Criminal Justice, Interdiction and Eradication etc., there is an urgent need to develop provincial based programmes tailored to reflect the specific needs of that particular province (i.e. balancing the 8 pillars, including a particular focus on law enforcement, criminal justice, drug demand reduction, interdiction etc.) as a compliment to existing investment measures (PRTs, PEPs, NSP, Area Based Programme etc.). The various design matrices have already been developed but need to be formally adopted, in line with provincial prioritisation to allow grassroots programmes to be developed, sequenced and funded through the CNTF in the interim; and through the national budget in the long term. Proposed Measure: Once provincial prioritisation has been conducted, CN strategy and advisory bodies (MCN, MoI and international actors UK BEDT, UNODC<sup>31</sup>, UN and the EC) can provide support to develop criteria to guide levels of investment, targeting, prioritisation and sequencing of different thematic actions within the target province.

60. ***Developing Comprehensive Provincial Strategy/Implementation Plans:*** The NDCS will only ever be as strong as the weakest link with the total absence of tailored provincial strategy and implementation plans perhaps remaining the defining Achilles Heal of the current CNTF investment framework. The linkage between CN strategy implementation, planning and budgeting is non-existent, due to various factors including the tendency towards an over centralised, supply driven and poorly integrated sub-project approach. In moving the mainstreaming agenda forward, and given that budget formulation is permissible within the current budget law, it is proposed that similar exercises be conducted to that undertaken by the Provincial Governor of Nangarhar and Herat, but fully supported by CN policy advisory services and central and provincial line departments. This process would seek to link CN investments with the Provincial Development Planning and Sub-national governance process, through a combined strategy that includes the strengthening of provincial administration and governance with the development budget. In other words the PDP would be inclusive of both CN and non CN related spending, yet it would be planned within a combined and comprehensive planning framework. What would emerge

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budget constraints would force both prioritisation of NDCS thematic spending and also investment sequencing during the planning process.

<sup>31</sup> UNODC is the lead agency on CN within the UN system and is planning to strengthen its analytical and advisory capacity. That said UNODC currently assists in the analysis of drug problems across all 34 provinces as well as country-wide, as a basis for a strategic discussion about such a programmatic approach. UNODC also assists MCN provincial directorates with comprehensive training and advice so as to make them ready to support the provincial governors in this endeavor. UNODC also offers a stronger contribution in the development of a road map to place the CN strategy and implementation plan back on track.



would be costed provincial programmes with corresponding sub-projects, including ring-fenced CNTF and non CNTF investments (including the NSP, Area Based Program, PRTs, PEPs etc.), as the foundation of an implementation plan. Moreover, such an approach would allow roles and responsibilities to be clearly defined as well as outcome indicators (which the review team consider require further upgrading) to be agreed with local leaders. Proposed Measure: Develop a single source CN planning guidelines to guide provinces in strategy development, planning and budgeting, based on existing documents, translated into Dari and Pashtu, as models for funding through CNTF.

61. ***Strengthening the Economic Incentive Framework:*** Whilst CN funding cannot be seen as a carrot and stick approach there is international agreement that the development of alternative income sources for farmers must be evolved as part of the economic growth enhancement process and in this regard investments, targeted as an incentive not reward, need to be mobilised to support interest groups in a timely manner, in line with the agricultural planting cycle, to allow income streams to be derived as a viable alternative to poppy. The current set of CNTF investment projects arguably fall far short of the challenge of fostering economic transformation. Displacing the opium economy through generating income substitution for both farmers and opium traders will be a huge challenge that can only be met through creating an enabling environment by removing the various binding constraints to growth facing both farmers and traffickers, in the long term. Moreover, as alternative high value exports are unlikely to emerge a quick winner on regional and world markets, largely because the entire value chain and market certification for possible products does not exist, the roll of the entire national budget must be to support the emergence of productive infrastructure, including integrated cold storage systems, warehouses, packaging and processing plans etc. within which higher value addition can be caught by national markets.

#### **BOX 5.3: CONSIDERATION TOWARDS A COMPREHENSIVE PLANNING APPROACH**

Adopting a comprehensive planning approach, as advocated by Government, is thankfully not a new concept, but rather one that serves as the basis for development in all but the least developed countries. From a budget point of view, all resources used for education, health, road development, agriculture, law and order etc. all contribute towards national development objectives, and as such the integration and prioritisation of activities within and between sectors and geographical areas (provinces) is essential for the effective and efficient utilisation of national resources. At present, central line ministries plan their annual budgets on the basis of indicative budget ceilings provided by MoF, yet these are planned almost in isolation from other sub-sectors. With the budget now seen as the central tool of government policy, and given the need to increase the mainstreaming of CN funding across the entire fiscal framework of government (core and external), the development of comprehensive provincial based plans to guide the budget formulation priorities not only of the various sector ministries but also CNTF prioritisation is critical to the success of the NDCS. In this regard, the establishment of comprehensive provincial based plans, similar to other countries constitutionally bound by unitary conditions, would entail the following generic activities, at a minimum:

- i. Document the major development constraints and needs of a particular province, at the cross-sectoral level, including NDCS pillar constraints and needs;
- ii. Document all existing on-budget (core and external) and off-budget investments currently being implemented or planned by sector, sub-sector, finance and Ministry, NGO, Private Sector etc, tagged by NDCS pillar into an integrated planning and prioritisation costing matrix;
- iii. Based on an assessment of CN related needs by pillar, identify gaps in the current financing plan that need to be addressed either through CNTF/CN funding sources or additional resources;
- iv. Based on the likely availability of resources, MCN to work with Provincial Coordination bodies to prioritise CN needs as part of a comprehensive approach, clearly identifying sub-projects to be funded through CNTF as well as those financed through other line department resources such as from MRRD, MoE, MoPH, MoAAH etc. and through NGOs and the private sector;
- v. Look to harmonise coordination between CNTF, ARTF and LOTFA;
- vi. Establish a costed work plan, with a three year time frame that could be mapped into the MTFF and MTBF;
- vii. Outline institutional responsibilities for coordination and execution, sequencing, procurement and monitoring arrangements as the basis for an integrated policy, planning and budgeting document that can be agreed by all parties.

Of importance, funding can be provided for activities outside of this framework, but the overall plan should form the basis for consolidated packages of funding provided through CNTF to support the NDCS.

62. ***From an economic growth point of view, the private sector must remain the engine of growth with the role of the public sector to make investments to enhance market integration and market access, particularly within the sub-region and further abroad.*** There are a number of Preferential Trade Agreements that could be usefully strengthened to encourage an export orientation, particularly to Europe and the US. In this regard, the relatively limited funds circulating within the CNTF would be best utilised to guide the identification and prioritisation of high value addition investments in provinces, a job that line departments are not currently well equipped to deliver on. Increasing the role of the private sector in provincial based programmes will therefore be vital, as will adopting an investment approach that allows public-private-partnership arrangements to emerge in areas such as horticultural development, dairy, livestock, processing, packing and cold storage chains etc. Proposed Measure: Move beyond outlining general CN criteria to developing sample model investments projects in areas where growth and market expansion for given products is most certain.<sup>32</sup> Furthermore, develop a list of essential market based infrastructure at the provincial level to guide mainstreaming efforts and to inform the provincial planning process.

63. ***Strengthening Community Ownership:*** There is an urgent need to put provincial governors, as the primary political representative within the provinces, as well as Village Development Committees, CDCs, community groups and farmers at the top not bottom of the CN agenda. The transaction costs of heavily centralised projects inevitably means that few benefits accrue directly to the farmers and their incomes. In this regard the community and local private sector need to benefit more directly from support channelled either through the national budget or through CNTF funding mechanism for that matter. The current programming approach through parent Ministries, their sub-national departments and private sector contractors means that the majority of financial resources are not mobilised to farmers, but rather too intermediaries unlikely to influence farmer incomes in the near term. Proposed Measure: Identify a modality within which sub-projects are both efficiently and effectively targeted to support farmers and community groups directly, perhaps through consolidating the NSP CDC framework, and its coordination with other initiatives such as MISFA, NARP, NABP etc.

## **Phase II: A Sun-set Clause for CNTF:**

64. ***Integrate CNTF into Regular Government Business through a Sun-set Clause:*** It is proposed that the CNTF be phased out once a number of priority provincial based model approaches have been developed and mainstreamed into the national budget framework, after which time full mainstreaming occurs as a function of strengthened budget formulation. Given that additional financial resources are unlikely to be attracted to the CNTF in the short term, and given that mainstreaming is the most sustainable way forward for the NDCS, it is proposed that a three-year sun-set clause be built into the current fund after which time a fully mainstreamed provincial based CN approach is operational within selective provinces, capable of expansion based on availability of national and international resources.

65. ***There would however appear to be alternative ‘sun-set’ clause options that could be considered, depending on how sweeping the reforms are following this review.*** The review team believes that if (i) 4-6 priority provinces are selected based on open and transparent criteria (see Box 5.2 for suggestions) and (ii) a consolidated provincial based planning process is adopted (See Box 5.3), leading to the submission of consolidated funding tranches to be released from the CNTF then the fund should be continued until such a time that the models created have become standard and can be mainstreamed into the national budget framework. However, if both of the above conditions are not met, and a un-integrated sub-project approach is continued, the review team is in favour of closing down the trust fund as soon as possible and utilising the remaining resources through a direct budget support

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<sup>32</sup> In this regard the term Alternative Livelihoods is poorly understood and conventional economic language such a growth, rate of return, employment etc. should be used to improve understanding.

arrangement with government to work towards opium reduction in the next opium seasons. Under such a scenario, any direct budget-support would need to be benchmarked around a set of opium reduction indicators, for select provinces, as a proxy indicator of wider NDCS success.

66. ***To this end it is suggested that the CNTF be phased out by end of 2010, in line with the benchmarks of the Afghanistan compact for CN, thereby leaving behind a sustainable approach (through creation of viable long term models) for provincial programmes, as outlined above.*** If such a timeframe were too tight, a set of outcome indicators could be developed against which performance could be monitored; the attainment of which would then pave the way for fund liquidation. The review team believes that the funds remaining in the CNTF are insufficient to have much of any impact at the project level but they are sufficient to foster a provincial based mainstreaming approach that can be sustained to support the NDCS long after the CNTF has been liquidated. If the above measures can be achieved, even partially, the outcome of the CNTF will have been positive and a worthwhile investment for Government and the international community. Proposed Measure: Agree a set of outcome performance criteria for the CNTF after which the satisfactory attainment of aims and objectives (revised as in point 3 above) will have been met. Hereafter, the functions of the CNTF will be fully absorbed into day to day government budget formulation and execution activities.

67. ***Moving this complex reform agenda will require a strong influencing framework to be adopted.*** Given the potential risks in this regard it is strongly recommended that the UK as G8-CN lead and UNAMA (SRSG only) represent the international community, working in partnership with MCN and MoF to adopt a fully consensual road map, based on the proposals outlined above.

**Table 5.1 Comprehensive Ten Step Sequence and Phasing Matrix of Measures for CNTF**

Reform Component	Objective	Specific Indicator and Target	Timing	Accountable Agency / Individual	Expected Impact
<b>Phase I: Immediate Actions</b>					
1. Strengthening the Influencing Framework	To provide a clear and unambiguous leadership and accountability framework for the NDCS.	Sub-cabinet committee presents coherent CN strategy directives to the MB. <u>Target:</u> Committee approves (i) provincial focus (ii) thematic prioritisation (iii) revised CNTF aims and objectives (iv) long term entity of MCN.	1-2 months	Presidents Office, Sub-cabinet committee and Steering Committee.	Improved relevance of CNTF in the attainment of NDCS objectives.
2. Strengthening International Support for the NDCS	To encourage a single cohesive international support strategy.	UK as G8 lead with SRSG UNAMA to represent international community: <u>Target:</u> These bodies represent the international community in the Sub-cabinet committee.	1-2 months	UK and UNAMA	A clearly defined international support strategy for the NDCS.
3. Recasting and Re-phasing CNTF's Aims and Objectives	To refocus the CNTF towards provincial based CN strategy planning.	Revised objectives to reflect new focus <u>Target:</u> By November 2007 Sub-cabinet approves new CNTF aims and objectives and LFM.	1-2 months	UK, UNAMA, UNDP	Clearly defined, sequenced and verifiable CNTF outcomes.
4. Strengthening Trust Fund Administration and MB Arrangements	To enhance CNTF effectiveness and efficiency.	Sub-committee and Steering Committee merge. MB agrees new quarterly meeting schedule, and implements recommendations provided herein. <u>Target:</u> Implements Sub-cabinet committee directives outlined under 1 above	1-2 months	Sub-cabinet committee, G8 and UNAMA	More effective and efficient management and fund programming framework
<b>Phase II: Secondary Actions</b>					
5. Strengthening Provincial Prioritisation	To enhance CNTF impact in selective provinces.	Sub-cabinet committee with SC approved priority province list: <u>Target:</u> 4-6 provinces selected for CNTF.	3 months	Sub-cabinet committee, G8 and UNAMA	Model provincial CN programmes.
6. Strengthening CN Thematic Prioritisation	To increase contribution of CNTF towards attainment of NDCS aims and objectives	Sub-cabinet approval of indicative thematic balance for selected provinces: <u>Target:</u> Directives to CNTF/	3 months	Sub-cabinet committee, G8 and UNAMA	CNTF makes strategic investments to support NDCS
7. Develop Comprehensive Provincial Implementation Plans	To enhance the implementation of the NDCS at the provincial and community level through CNTF.	Provincial development plans developed including CN component: <u>Target:</u> 4-6.	4-5 months	Sub-cabinet committee, G8 and UNAMA, LMs, PCs	Clear prioritised, sequenced needs based programmes
8. Strengthening the Economic Incentive Framework	To increase licit economic impact through model projects.	Model CN projects developed: <u>Target:</u> 1-2 per CN pillar	4-5 months	CNTF Directorate / Line Ministries / UNODC/UK/US	Models to influence future CN investments.
9. Strengthening Community Ownership	To increase CNTF impact and ownership at the community level.	Communities put at centre of CN projects: <u>Target:</u> Community plans incorporated into PDs.	6 months	Line departments, PDCs	Needs based planning and local ownership
<b>Phase III: CNTF Mainstreaming and Phase Out (Sun-set Clause)</b>					
10. Integrate CN into Regular Government Business Plans	To dissolve CNTF functions into regular government business and mainstream CN in national budget.	CN mainstreamed into national budget. <u>Target:</u> By 2010 or soon thereafter CN liquidated with handover to regular line functions.	2010>	President, G8 Lead and UNAMA	Full CN mainstreaming.

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## ANNEX 1      KEY INFORMANT LIST

Name	Organization
1. Deputy Ministry H.E. General Khodaidad	MCN
2. Deputy Minister Waheedullah Shahrani	MoF
3. Deputy Minister Asif Rahimi	MRRD
4. Abdul Haleem Wahidi	CNTF-D
5. Ahmad Roman	CNTF-D
6. Waheed Haider	CNTF-D
7. Abbie Aryan	MCN
8. Baqi Omari	MCN
9. Deputy Minister Eng.Sami	MCN
10. Dr . Mohammad Azeem azimi	MCN
11. Dr.Zafar	MCN
12. Khalid Momand	MCN
13. Shiran	Counter Narcotics Police (CNPA)
14. Governor Gul Agha Sherzai	Governor Sherzai Nangarhar
15. Masood Ahmed Azizi	Governor Sherzai Nangarhar
16. Ahmadullah Alizai	MCN Nangahar
17. Deputy Director	MoAI, Jalalabad
18. Mazar Kahn	MoAI, Jalalabad
19. Hashimi	MoAI
20. Saboor Shirzad	MoAI
21. Wassay Arian	MoE
22. Mohammad Aqa	MoF
23. Saleem Kundozi	MoF
24. Dr.Esmat	MoPH
25. M.O. Anwarzay	MRRD
26. Engineer Satar	MRRD, Jalalabad
27. Taj Mohammad Mojahed	National Assembly
28. Grant Curtis	ADB
29. Joji Tokeshi	ADB
30. Joanne Trotter	Afga Khan
31. Nancy Dupree	Afghan expert
32. Del Singh	ASI
33. Michael Gruber	ASI
34. Mr. Richard Will	ASI
35. Roger Calhoun	ASI
36. Rahzeb Chowdhury	Atos Consulting
37. Dr. Nadir Habib	Embassy
38. Chris Brett	CN Expert
39. David Mansfield	CN Expert
40. Alice Mann	DFID
41. Chris Pycroft	DFID
42. Lucia Wilde	DFID
43. Miguel Laric	DFID
44. Dr. Abdullah	Drug Treatment Centre Jalalabad
45. MarkZellnrath	Dutch Embassy
46. Elisabeth Rousset	EC

47.	Michael Alexander	EC
48.	Victor Madeira dos Santos	EC
49.	Ville Varjola	EC
50.	Dr. Peter H. Foerster	GTZ PAL
51.	David Belgrove	Head of CN, UK Embassy
52.	Shuhei Ogawa	Japanese Embassy
53.	Mamon Khawar	JICA
54.	Laiq Shah Kamawi	PEP
55.	Chidi Ugonna	PEP Nangarhar
56.	Lt-Col Gordon Phillips	PRT Commander
57.	Kevin Gardner	PRT Kandahar/Helmand
58.	Abdul Bari	SDC
59.	Andreas Huber	SDC
60.	Damon Bristow	UK FCO
61.	Ms Katrina Aitken	UK FCO
62.	Chris Alexander	UNAMA
63.	Anita Nirody	UNDP
64.	Guadalupe Sanchez	UNDP
65.	Hanifa Kurt	UNDP
66.	Raz Mohammad Sadiq	UNDP
67.	Sk Murthy	UNDP
68.	Zubaida Helali	UNDP
69.	Elisabeth Bayer	UNODC
70.	Patrick Halewood	UNODC
71.	Zalmay Sherzay	UNODC
72.	James Jones	UNODC review team
73.	John Ginkle	US Embassy
74.	MJ Jackson	US Embassy
75.	Loren Stoddard	USAID
76.	Bill Byrd	World Bank
77.	Marian Sherman	World Bank

## ANNEX II CNTF FINANCIAL STATEMENTS

CNTF Financial Statements as of July 31, 2007 (US\$)												
Donor	Commitment	2005 Receipts	2006 Receipts	2007 Receipts	Total Receipts	2006 Advances	2007 Advances	Total Advances	2005 Expend	2006 Expend	2007 Expend	Total Expend
Australia	1,526,718	1,526,718	0	0	1,526,718	1,482,250	0	1,482,250	0	-	324,743	324,743
New Zealand	352,609	352,609	0	0	352,609	342,339	0	342,339	0			0
EC	17,647,059	14,117,647	0	0	14,117,647	2,087,604	5,245,499	7,333,103	0	823,424	558,749	1,382,173
Esonia	50,000	0	50,000	0	50,000	48,544	0	0	0	-	48,544	48,544
UK	44,347,826	0	15,652,173	0	15,652,173	0	0	0	0	-	507,547	507,547
Japan	5,000,000	0	5,000,000	0	5,000,000	0	0	0	0			0
Cyprus	10,000	0	10,000	0	10,000	0	0	0	0			0
Canada	1,052,632	0	1,052,632	0	1,052,632	0	0	0	0			0
Italy	1,317,523	0	1,317,523	0	1,317,523	0	0	0	0			0
Poland	100,000	0	100,000	0	100,000	0	0	0	0			0
Spain	336,022	0	0	336,022	336,022	0	0	0	0			0
Sweden	2,000,000	0	0	2,000,000	2,000,000	0	0	0	0			0
USA	8,000,000	0	0	0	0	0	0	0	0			0
<b>Total</b>	<b>81,740,389</b>	<b>15,996,974</b>	<b>23,182,328</b>	<b>2,336,022</b>	<b>41,515,324</b>	<b>3,960,737</b>	<b>5,245,499</b>	<b>9,157,692</b>	<b>0</b>	<b>823,424</b>	<b>1,439,583</b>	<b>2,263,007</b>
UNDP	1,112,721	300,000	312,721	500,000	1,112,721	0	0	0	8,225	604,496	230,332	843,053
<b>Consolidated Total (UNDP)</b>	<b>82,853,110</b>	<b>16,296,974</b>	<b>23,495,049</b>	<b>2,836,022</b>	<b>42,628,045</b>	<b>3,960,737</b>	<b>5,245,499</b>	<b>9,157,692</b>	<b>8,225</b>	<b>1,427,920</b>	<b>1,669,915</b>	<b>3,106,060</b>
<b>Consolid. Total (MoF) *</b>						<b>3,960,737</b>	<b>5,245,499</b>	<b>9,157,692</b>	<b>8,225</b>	<b>1,427,920</b>	<b>1,983,475</b>	<b>3,419,620</b>
<b>Difference</b>						<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(313,560)</b>	<b>(313,560)</b>

Source: UNDP Financial Statements

\* Source for Consolidated Total (MoF): : MoF June 30, 2007 Expenditure Report (CN Expenditures) adjusted as follows:

2006: CN Project Expenditures (MoF) plus CNTF-D and GMS reported by UNDP;

2007: CN Project Expenditures (MoF) plus CNTF-D expenditures as reported by UNDP and 3% GMS fee calculated as a percentage of 2007 expenditures YTD.

The differences between the expenditure figures reported by UNDP and MoF appear to be the result of unconsolidated financial reporting systems and human error.



CNTF Consolidated Expenditure Analysis From Inception to June 30, 2007 (US\$)								
	Line Ministry	Pillar	Budget	2005 Expenditures	2006 Expenditures	YTD 2007 Expenditures	Total Expenditures	Unspent Balance
Mushroom Project	MAI	AL	130,824	-	130,824	-	130,824	-
Greenhouse Project	MAI	AL	1,477,193	-	-	48,784	48,784	1,428,409
Orchard	MAI	AL	1,207,962	-	-	121,127	121,127	1,086,835
Silkworm	MAI	AL	507,401	-	-	-	-	507,401
Honeybees	MAI	AL	655,004	-	-	-	-	655,004
Reconstruction DBST road, bridge	MRRD	AL	5,293,238	-	-	-	-	5,293,238
7 Drought related projects MRRD	MRRD	AL	1,506,826	-	-	203,616	203,616	1,303,210
Qalaigaz Irrigation Canal (Helmand)	MRRD	AL	614,632	-	-	-	-	614,632
Darqat Suspension Bridge (Takhar)	MRRD	AL	364,236	-	-	-	-	364,236
Rehab of Road 22km (Balkhab)	MPW	AL	648,513	-	-	-	-	648,513
Construction of DBST Road 42km (Kunduz)	MPW	AL	2,043,231	-	-	-	-	2,043,231
Drug Awareness Campaign Women	MOWA	PA	40,368	-	-	17,678	17,678	22,690
Carpet Weaving	MoL	AL	1,577,100	-	-	-	-	1,577,100
Vocational Training	MoL	AL	374,891	-	-	-	-	374,891
Micro Hydro	MoEW	AL	2,535,700	-	633,925	590,744	1,224,669	1,311,031
Nangahar Flood Protection / Irrigation	MoEW	AL	296,919	-	-	152,226	152,226	144,693
3 Drug Treatment Centres	MoPH	DR	358,848	-	34,691	190,723	225,414	133,434
Community Drug Treatment Outreach	MoPH	AL	935,364	-	-	374,664	374,664	560,700
Harm Reduction-HIV/AIDS Control	MoPH	DR	132,182	-	-	-	-	132,182
Need Assessment Project	MCN	IB	393,445	-	-	-	-	393,445
Line Ministries Capacity Building	MCN	IB	984,900	-	-	-	-	984,900
Drug Abuse Prevention (Mosques)	MoHA	DR	689,182	-	-	-	-	689,182
Survey & Design Pol-i-Charlki prison	MoJ	AL	350,000	-	-	-	-	350,000
Healthy Education Environment	MoE	PA	5,915,200	-	-	-	-	5,915,200
<b>Total CN Projects (excluding UNDP)</b>			<b>29,033,159</b>	<b>-</b>	<b>799,440</b>	<b>1,699,562</b>	<b>2,499,002</b>	<b>26,534,157</b>
UNDP GMS (3% of expenditures)			74,970	-	23,983	50,987	74,970	-
CNTF Staff Salaries & Operations		IB	1,100,000	8,225	604,496	232,926	845,648	254,352
<b>Total UNDP</b>			<b>1,174,970</b>	<b>8,225</b>	<b>628,480</b>	<b>232,926</b>	<b>920,618</b>	<b>254,352</b>
<b>Total</b>			<b>30,208,129</b>	<b>8,225</b>	<b>1,427,920</b>	<b>1,932,488</b>	<b>3,419,620</b>	<b>26,788,509</b>

Excludes CNTF projects approved but not started as of June 30, 2007

\*Source: MoF Expenditure Analysis as of June 30, 2007 and Quarterly Financial Reports

\*\*Source: UNDP Project Budget Balances (2006 and 2007). 2007 GMS fee calculated based upon 3% of expenditures.

AL Alternative Livelihood IB Institution Building PA Public Awareness DR Drug Reduction

CNTF Projects Analysis As of June 30, 2007								
Project	Line Ministry	Pillar	Project Approval Date	Imp Timeframe	% Progress	Budget	Total Expenditures	Exp as % of Bdgt
Mushroom Project	MAI	AL	Apr-06	6 months <sup>33</sup>	30% <sup>34</sup>	\$ 130,824	\$ 130,824	100%
Greenhouse Project	MAI	AL	Jul-06	2 years	10% (tendering)	\$ 1,477,193	\$ 48,784	3%
Orchard *	MAI	AL	Aug-06	20 months	Mobilisation	\$ 1,207,962	\$ 121,127	10%
Silkworm	MAI	AL	Aug-06	10 months	70% (payments pending)	\$ 507,401	\$ -	0%
Honeybees	MAI	AL	Aug-06	1 year	30% (payments pending)	\$ 655,004	\$ -	0%
Recontribution 61 DBST road, bridge	MRRD	AL	Jul-06	1 year	15% (contracted)	\$ 5,293,238	\$ -	0%
Protection Wall (Drought) Farah *	MRRD	AL	Aug-06	7 months	10%	\$ 237,372	\$ -	0%
Irrigation Project (Drought) Gurziwan, Faryab	MRRD	AL	Aug-06	3 months	95%	\$ 169,476	\$ -	0%
Protection Wall (Drought) Nangahar	MRRD	AL	Aug-06	5 months	80%	\$ 353,015	\$ 101,768	29%
Water Irrigation System Balkh (Drought)	MRRD	AL	Aug-06	8 months	being re-surveyed	\$ 201,434	\$ -	0%
Protection Wall (Drought) Ghor	MRRD	AL	Aug-06	6 months	10%	\$ 147,019	\$ -	0%
Protection Wall (Drought) Badghis	MRRD	AL	Aug-06	3 months	30%	\$ 77,670	\$ -	0%
Retaining Wall (Drought) Samangan *	MRRD	AL	Aug-06	6 months	40%	\$ 320,840	\$ 101,848	32%
Qalaigaz Irrigation Canal (Helmand)	MRRD	AL	Mar-07	8 months	Pre-tender evaluation	\$ 614,632	\$ -	0%
Darqat Suspension Bridge (Takhar)	MRRD	AL	Mar-07	12 months	under tendering	\$ 364,236	\$ -	0%
Rehab of Road 22km (Balkhab)	MPW	AL	Aug-06	5 months	0%	\$ 648,513	\$ -	0%
Construction of DBST Road 42km (Kunduz)	MPW	AL	Mar-07	6 months	Pre-tender evaluation	\$ 2,043,231	\$ -	0%
Drug Awareness Campaign Women	MOWA	PA	Dec-06	6 months	30%	\$ 40,368	\$ 17,678	44%
Carpet Weaving <sup>35</sup>	MoLSAMD	AL	Dec-06	12 months	under re-tendering	\$ 1,577,100	\$ -	0%
Vocational Training	MoLSAMD	AL	May-07	12 months	0%	\$ 374,891	\$ -	0%
Micro Hydro	MoEW	AL	Apr-06	3 year	55% (construction)	\$ 2,535,700	\$ 1,224,669	48%
Nangahar Flood Protection / Irrigation	MoEW	AL	Aug-06	5 months	80%	\$ 296,919	\$ 152,226	51%
3 Drug Treatment Centres <sup>36</sup>	MoPH	DR	Jun-06	3 years	55%	\$ 358,848	\$ 225,414	63%
Community Drug Treatment Outreach	MoPH	DR	Jun-06	3 years	42%	\$ 935,364	\$ 374,664	40%
Harm Reduction-HIV/AIDS Control	MoPH	DR	Feb-07	12 months	0%	\$ 132,182	\$ -	0%
Rural Project Needs Initiatives	MCN	IB	Jul-06	5 months	Tending for pilot	\$ 393,445	\$ -	0%
Line Ministries Capacity Building	MCN	IB	Feb-07	2 years	commenced July	\$ 984,900	\$ -	0%
Mosque-Drug Abuse Prevention & Care	MoHA	DR	Feb-07	12 months	recruiting staff	\$ 689,182	\$ -	0%
Survey & Design Pol-i-Charlki Prison	MoJ	LE	May-07	-	0%	\$ 350,000	\$ -	0%
Healthy Education Environment (6)	MoE	PA	Jun-07			\$ 5,915,200	\$ -	0%
<b>Total CN Projects (excluding UNDP)</b>						<b>\$29,033,159</b>	<b>\$ 2,499,002</b>	<b>100%</b>

<sup>33</sup> In Feb 2007, the project was extended for an additional 6 months.

<sup>34</sup> While the total budget of \$130,824 has been advanced to MoAI, and therefore reported by MoF as expenditure, only \$40,000 has been disbursed.

<sup>35</sup> Conditionally approved Dec 2006, subject to details required on revenue management and general project.

<sup>36</sup> NCTF funding of the Drug Treatment centres includes payment of the operational costs for year 1. There is a verbal commitment to continue funding of salaries for 2 more years, but there is no formal agreement. CNTF is a development expenditure and should not be used to fund any recurrent costs.

Source: MoF Expenditure Analysis as of June 30, 2007 and UNDP Quarterly Financial Reports, CNTF Progress Report May 2007

\* The narrative reporting on CNTF Projects from CNTF Progress Reports is inconsistent with financial reporting from MoF. Where there are inconsistencies, the MoF project information is included.

<b>CNTF Project Expenditures by Ministry, Inception to June 30, 2007, US\$</b>						
<b>Ministry</b>	<b># of Approved Projects</b>	<b>Budget</b>	<b>2006 Expenditures</b>	<b>YTD 2007 Expenditures</b>	<b>Total Expenditures</b>	<b>% of Total Expenditures</b>
MAI	5	3,978,384	130,824	169,911	300,735	12.0
MCN	2	1,378,345	-	-	-	0.0
MoE	1	5,915,200	-	-	-	0.0
MoEW	2	2,832,619	633,925	742,970	1,376,895	55.1
MoHA	1	689,182	-	-	-	0.0
MoJ	1	350,000	-	-	-	0.0
MoLSAMD	2	1,951,991	-	-	-	0.0
MoPH	3	1,426,394	34,691	565,387	600,078	24.0
MOWA	1	40,368	-	17,678	17,678	0.7
MPW	2	2,691,744	-	-	-	0.0
MRRD	10	7,778,932	-	203,616	203,616	8.1
	<b>30</b>	<b>29,033,159</b>	<b>799,440</b>	<b>1,699,562</b>	<b>2,499,002</b>	<b>100.0</b>

Source: MoF Expenditure Analysis as of June 30, 2007

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