

**Spending the Development Dollar Twice Report
July 2009**

Frequently Asked Questions (FAQs)

1. What is the context and purpose of this report?

This report is the second study of the local economic impact of official development assistance (ODA) spending on Afghanistan. The purpose of this project was to provide an update to the initial analysis¹ carried out in 2006/7 on Afghan fiscal year 1384² so that the international community can measure their progress to meet commitments in the Afghanistan Compact related to enhancing aid effectiveness through an increased use of Afghan goods and services.

2. What does “Spending the Development Dollar Twice” mean?

Using Afghan goods and services to carry out development work offers the opportunity to “Spend a Development Dollar Twice”. While funding the provision of essential services for the Afghan people, the international community can simultaneously create jobs, generate revenue and build the Afghan marketplace – all of which can contribute to long-term peace and stability.

3. Who was asked to participate in this study?

The first study, which was carried out in 2006/7, assessed the local economic impact of the development assistance spending of eight of Afghanistan’s key development partners in 1384 (2005/6). This study applied the same core methodology to consider the local economic impact in 1385 (2006/7); however, the coverage was expanded to eleven development partners. This included the United States, United Kingdom, World Bank, European Commission, Canada, Germany, Netherlands, Sweden, Italy, Norway and the Asian Development Bank.

4. What data was used to carry out the analysis?

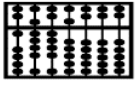
The study assessed how money channelled through donor agencies was actually spent in Afghanistan. To do this, interviews were carried out with all donors where data was requested on agency’s ODA disbursements³ in Afghan fiscal year 1385.⁴ This included details on how much money was disbursed through different channels (e.g. trust funds, UN agencies, international non-governmental organisations (I-NGOs), or directly to the Government of Afghanistan) and was broken down by international contracts and local contracts. In addition, PDT conducted interviews with local and international companies and organisations to determine the local content of those contracts.

¹ Carnahan, Michael and Jennifer Holt. “The Afghanistan Compact and Procurement Monitoring Project.” April 2007. <http://www.peacedividendtrust.org/en/?sv=&category=What We Do~Research~Afghan Local Economic imp~2007&title=Local Procurement 2007 Report>.

² Afghan fiscal year 1384 runs from March 2005 to March 2006.

³ In order to estimate local impact of donor spending for fiscal year 1384 this project did not factor in committed funds, but looked at disbursements only.

⁴ Afghan fiscal year 1385 runs from March 2006 to March 2007.



5. What were the major findings of the research?

Of the approximately \$2.1b spent in Afghanistan by the major donors from whom data was obtained to carry out this project, there was an approximate 37.6% (\$788m) impact on the Afghan economy – meaning that it was used to buy locally produced Afghan goods and services. The seven donors who provided data in both 1384 (2005) and 1385 (2006) increased their local economic impact from 31.2% to 36.3% - a significant improvement. Five of the seven donors covered in both studies increased their local economic impact.

6. Results from this study show that there was an increase in the local economic impact of donor spending since the last report – what can this be attributed to?

This increase can be attributed to the inclusion of additional donors in the 1385 (2006/7) survey as well as an increase in local spending by some donors – both of which raised the average impact.

7. Is the international community making progress to fulfill their commitments made under the 2006 Afghanistan Compact to enhance aid effectiveness through increased local procurement?

A key finding of this report was that significant progress has been made since the last study was carried out – the local economic impact of ODA for Afghan fiscal year 1385 (2006/7) was 37.6%, compared to 31.2% the year prior.

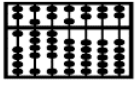
8. Why does the report cite trust funds as having a higher local impact than those funds provided to international companies and organizations?

As in the first study, data from this research showed that ODA funding to Afghanistan has a significantly higher direct impact on the local economy when provided through trust fund arrangements (between 70% and 80%) than either international contracts (10% to 15%). This is because funds channelled through trust fund mechanisms are used to pay local wages, purchase goods from local businesses, encourage growth in microfinance development, and fund initiatives such as the National Solidarity Program (NSP) – all of which put money directly into the hands of Afghans.

9. Were there any major caveats to this research?

Yes. The quality of the estimates presented in this report are intimately linked to the quality of the data that was presented by donor agencies to the Ministry of Finance and the PDT project team and therefore should be viewed as estimates. For example, in some places where it was not possible to approximate the local impact based on limited or unavailable data, empirical research was drawn upon to make those calculations. That said, this research, along with the previous study, provide the only quantitative assessments to date of the local economic impact of ODA spending on the Afghan economy.

Importantly, this report focuses on the local economic impact of development spending in Afghanistan – that is, the economic impact of funds spent to carry out project work on the Afghan



economy. It does not focus on the specific question of the direct effectiveness of that aid – that is, whether or not the aid spent delivered the outcomes it was designed to deliver. Assessing aid effectiveness remains a critical complementary body of analysis that suffers from the same data challenges as this work.

10. Does this report claim that I-NGOs are not good conduits for donor funding?

No. International and local NGOs are key actors that often deliver the most essential services during the relief and recovery periods. Because NGOs are known for taking advantage of local resources, PDT made an effort in this study to assess NGO impact, but unfortunately the level of participation was too low to carry out an analysis.

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

No. It does not speak to the quality of a project or the need for the service being carried out. Instead, it aims to measure the direct local impact of how international donors are currently spending ODA funds. As a result, some projects will inevitably have a greater impact than others on the local economy (e.g. building a road or a hospital versus a public information project).

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

The terms of reference for this project identified the ability of donors to provide accurate and timely information on disbursements from their ODA programs as a critical factor in monitoring progress to achieve commitments made under the Afghanistan Compact. However, in many cases, data was not available, or was not compiled in a way that made it accessible or amenable to analysis. Until this is resolved, accurately measuring and understanding the local economic impact of ODA spending will remain a major challenge for international donors to Afghanistan.

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

Recommendations in the report were categorized into three principle areas:

1. Altering funding channels to increase the local impact of donor spending;
2. Increasing local procurement; and,
3. Improving data collection and reporting on ODA disbursements.

14. Who funded this project?

This project was funded by the United Kingdom's Department for International Development (DFID). For more information on this project, please contact Jennifer Holt, Deputy Director of PDT, at holt@pdtglobal.org.