In 2001, following the Al Qaeda attacks on New York and Washington, the US in alliance with Afghan anti-Taliban resistance forces deposed the Taliban regime in Afghanistan, which hosted the Al Qaeda leader, Osama Bin Laden. Subsequently, the “war on terror” dominated the nature of the donors’ engagement and state building remained significantly dependent on external military and financial support—more so than during any other period since 1747.

Between 2002 and 2009, aid became the main source of state revenue. Annual foreign aid, on average, comprised 71 per cent of gross domestic product (GDP) financing above 90 per cent of public expenditure through on- and off-budget mechanisms. However, four-fifths of aid bypassed the Afghan state through off-budget mechanism. This situation largely determined the behaviour of policy makers and the development of state institutions to an extent that the government became preoccupied in dealing with donors to accessing aid. Aid and its delivery mode to Afghanistan concerning state building suffered from inefficiency and contradictions. They reinforced the building of a rentier state and largely resulted in the accountability of the government to donors rather than to the Afghan public, exacerbating the weakness and fragmentation of state institutions. This paper explores how foreign aid and its delivery mode affected on institution building between 2001 and 2009.