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in the Security Sector

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ABBREVIATIONS AND ACRONYMS

ANA	Afghan National Army	MoI	Ministry of Interior
ACD	Afghan Customs Department	MoJ	Ministry of Justice
ADB	Asian Development Bank	MoBTA	Ministry of Border and Tribal Affairs
AFMIS	Afghan Financial Management Information System	MRRD	Ministry of Rural Rehabilitation and Development
AIHRC	Afghan Independent Human Rights Commission	MTFF	Medium Term Fiscal Framework
AMF	Afghan Military Force	NATO	North Atlantic Treaty Organisation
ANBP	Afghan New Beginnings Program	NDB	National Development Budget
ANDS	Afghanistan's National Development Strategy	NDCS	National Drugs Control Strategy
ARTF	Afghan Reconstruction Trust Fund	NEEP	National Emergency Employment Program
ASP	Afghanistan Stabilisation Program	NSC	National Security Council
CAO	Control and Audit Office	NSP	National Solidarity Program
CND	Counter-narcotics Department	ONS	Office of National Security
DAB	Da Afghanistan Bank	ONSA	Office of the National Security Advisor
DDR	Disarmament, Demobilization and Reintegration	OMC	Office of Military Cooperation
EC	European Commission	O&M	Operation and Maintenance
EU	European Union	PAREM	Public Administration and Economic Management
GDP	Gross Domestic Product	PIP	Public Investment Program
HIPC	Highly Indebted Poor Countries	PMU	Program Management Unit
IARCSC	Independent Administrative Reform and Civil Service Commission	PPP	Purchasing Power Parity
IDA	International Development Assistance	PRR	Priority Reform and Restructuring
IDP	Internally Displaced Person	PRT	Provincial Reconstruction Teams
IMF	International Monetary Fund	PSP	Provincial Stabilization Plan
ISAF	International Security Assistance Force	TISA	Transitional Islamic State of Afghanistan
LOTFA	Law and Order Trust Fund	UNAMA	United Nations Assistance Mission to Afghanistan
MAPA	Mine Action Plan for Afghanistan	UNDP	United Nations Development Program
MDG	Millennium Development Goals	UNICEF	United Nations Children's Fund
MoD	Ministry of Defence	UNODC	United Nations Office on Drugs and Crime

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EXECUTIVE SUMMARY

INTRODUCTION

i. Security, an essential public good, is a central issue for Afghanistan's reconstruction, development, and public finances. It impacts on the full gamut of development issues faced by Afghanistan, ranging from state building and capacity development to revenue collection, service delivery, and encouraging private sector-led growth. For the purpose of its National Development Strategy (ANDS, currently under preparation), the Government of Afghanistan innovatively has added an MDG on enhancing security to the internationally agreed list of MDGs. Afghanistan's external partners (including the World Bank) have consistently highlighted the importance of security as a key enabling factor for Afghanistan's reconstruction and development. And most important, the Afghan people themselves emphasize the importance of security in their daily lives and for building their livelihoods and communities. In addition to its importance from a development perspective, the security sector accounts for a very high proportion of the country's total budgetary expenditures (around 40%) as well as external assistance, and raises major public finance management issues. In view of these considerations, the Government of Afghanistan requested that the security sector be included in the World Bank's Public Finance Management (PFM) Review, and this volume is the result.

ii. The main objectives of this review of security sector expenditures, in the overall context of the PFM Review and from a PFM and development perspective, are as follows:

- To gain as complete an understanding as possible of the current level and structure of security expenditures, recent trends, and likely future expenditure requirements based on current plans.
- To assess the extent to which coherent strategies, for the security sector and the major parts of the security sector, guide public expenditure allocations.
- To review processes for determining funding levels, expenditure allocations, budget execution, and post-execution functions, and assess the extent to which they follow sound PFM principles.
- To describe the institutional framework for the security sector and ascertain the extent to which it embeds or is conducive to sound public financial management.
- To assess the strategic coherence and consistency and the fiscal sustainability of security sector expenditures.

CONCEPTUAL FRAMEWORK

iii. **Definition of the security sector.** This volume uses a broad definition of the security sector but focuses on those components which are of major importance from a PFM perspective. The budget categories and programs reviewed include: defense, police and other internal security services, intelligence, counter-narcotics, the judiciary and penal system, mine clearance, and the DDR program. The main security institutions in Afghanistan include: (i) **security management and oversight bodies:** National Security Council and National Security Advisor, Ministry of Defense, Ministry of Interior, Ministry of Counter Narcotics, Ministry of Border and Tribal Affairs, Ministry of Justice, Ministry of Finance, and the Auditor General's Office; (ii) **security services:** Afghan National Army (ANA), Afghan National Police (ANP), National Border Guards, Counter-Narcotics forces, National Directorate of Security (NDS – responsible for intelligence), Customs General Directorate under MoF, remnants of earlier military and police forces (the former subjected to DDR); and (iii) **justice and legal institutions:** Supreme Court, Judiciary, Attorney General's Office and prosecutorial offices (*saranwal*). Excluded from detailed analysis in this volume are the foreign and international armed forces operating in Afghanistan, and also non-statutory security bodies including remaining unofficial militias and armed factional groups, private body-guards, and security companies.

iv. **Security and development.** As discussed in Chapter 1, the close linkages between security and development have become increasingly recognized in recent years. It is unfortunately where security is absent – most notably in countries in conflict – that the role of security as a crucial enabling condition for development becomes glaringly obvious. The breakdown of security and law and order that occurs during protracted conflict carries enormous human, social, physical, financial, and resource costs. Also of particular importance are the damaging consequences for the state and the adverse and distortionary effects on private sector development. Another important aspect is the development costs of criminality, which is fostered by conflict but can be a major problem even in the absence of conflict, and in post-conflict situations where social norms and law enforcement have eroded. More specifically, crime can weaken social and human capital, worsen the business climate and discourage investment, and undermine the state and its ability to promote development.

v. **Application of PFM principles to the security sector.** It has become widely accepted, including by international organizations like the OECD, that sound principles of public finance management should be applied to the security sector. This is in the interest of the security sector itself, and also very important for the PFM system as a whole in terms of achieving desirable PFM outcomes with respect to (i) budgetary aggregates and overall fiscal discipline; (ii) strategic allocation of resources across sectors and programs; and (iii) efficiently managing the use of budgetary resources. These in turn contribute to positive development outcomes. Appropriate modifications in PFM practices can be made to take into account confidentiality considerations where necessary, but not in a blanket manner throughout the security sector or in a way that undermines the fundamental principles of accountability to elected civil authorities. Key implications of application of PFM principles to the security sector (outlined in Chapter 1 and discussed further in Chapter 3) include the following:

- First, **the security budget and the budgets of its main components (defense, interior, justice, etc.) should be prepared against clear strategies** at overall national security and sectoral levels. Specifically in the case of defense, the strategy needs to be based on a transparent “threat assessment” fully owned by the government.
- Second, **security sector policies and expenditures must be affordable**, both in the short run (annual budget) and in terms of implications for spending in future years. This requires full incorporation of the security sector in the annual budget formulation process, subject to aggregate fiscal constraints and sector ceilings like any other sector, and it also means that the security sector must be fully incorporated in medium-term fiscal projections and planning.
- Third, once an overall resource envelope is agreed, **resources should be allocated in line with strategic priorities**, both within the security sector and across all sectors (including security). This means that, in addition to the need for sound strategies as emphasized above, key PFM principles like comprehensiveness and transparency should be applied to the security sector.
- Fourth, **resources appropriated for the security sector need to be used efficiently and effectively**, which implies full application of PFM instruments and processes in the budget execution sphere (discussed in detail in Volume I, Chapter 7 and in Volume II). Of particular importance are the control framework, good information flows, procurement, and monitoring and evaluation.

vi. **Service delivery perspective.** Since security is an essential public service, using a service delivery framework (see Volume I, Chapter 8) makes good sense and provides guidance for improving PFM in the security sector. The distinctive features of security as a public service – e.g. the inherent threat/use of force, difficulties in measuring and monitoring performance, etc. – need to be taken into account. Some key implications of a service delivery approach to the security sector (focused on institutions, incentives, and accountability relationships) include the following:

- Effective oversight by legitimate civil authorities is essential; for national security forces this is the primary mode of accountability, and for both national and local security forces such accountability is essential to prevent abuse of power by security forces.

- Where local public security is involved, there is scope to enhance the accountability of service providers (i.e. police) directly to the local population that they serve.
- In this context it makes sense to consider some form of de-concentration of government oversight even in an overall unitary state structure, as long as the state is functional at the local level and not “captured” by regional and local powerbrokers, who would misuse access to security forces and associated power.
- Donors need to reinforce and not inadvertently distort or undermine the domestic accountability relationships in the security sector.

AFGHANISTAN’S SECURITY SECTOR AND RECENT PROGRESS

vii. Nearly a quarter-century of protracted conflict in Afghanistan, starting in the late 1970s, led to pervasive insecurity throughout the country and destroyed or profoundly damaged the institutions that had been responsible for providing security in the pre-war period – both formal governmental institutions and traditional mechanisms (Chapter 2). Government security forces were misused in ways that reduced rather than enhanced security, e.g. during the Soviet occupation of the 1980s, and they became increasingly “captured” by factions in Afghanistan’s civil war during the 1990s. The emergence of numerous well-armed militia groups, in shifting loose alliances, meant that the ability to use large-scale violence in pursuit of objectives was no longer the monopoly of the government but rather was widely contested, greatly undermining security. The judicial system was similarly undermined, and traditional mechanisms for providing justice often captured and used for their own ends by commanders and warlords. Women suffered greatly from the conflict as a result of violence against them, and also due to limited mobility and lack of access to education and health services, culminating in the Taliban’s severe social restrictions. Neighboring countries and other powers repeatedly and competitively intervened militarily – either directly or indirectly by providing arms and other support to different factions – contributing in a major way to insecurity in Afghanistan. In sum, the long period of conflict and associated insecurity had profoundly damaging economic, social, and political consequences for the country and its people.

viii. The critical importance of enhancing security and reforming the security sector in Afghanistan has been widely recognized. While this was signaled in general terms in the Bonn Agreement, which provided for the establishment of an International Security Assistance Force (ISAF), two subsequent donor meetings on security set targets and assigned donor responsibilities. Considerable progress has been achieved in strengthening and in some respects reforming the security sector, particularly in the last two years. Major successes include the avoidance of large-scale fighting since late 2001, the steady shift away from a pattern of endemic conflict toward a situation where the people and society become progressively more accustomed to peace, and the gradual extension of the writ of the national government beyond Kabul. However, great gaps remain both in terms of areas that the Bonn Agreement did not cover and in achieving agreed security-related targets. Moreover, although very substantial, international security forces’ presence in Afghanistan has been limited as compared to other post-conflict situations.

ix. Salient features of Afghanistan’s security sector at present include the following:

- ***The historical legacy of conflict was fragmentation into regional and local militias, capture of policing and military functions by non-legitimate actors, and erosion of both formal and traditional justice systems***, also with capture by non-legitimate authorities. Building the state since late 2001 hence has entailed reconstituting and reforming the security forces under legitimate oversight by the civil authorities.
- ***Immediate security threats faced by Afghanistan are variegated and disputed*** by different stakeholders. Some observers see the continuing insurgency in the south and east and conflict with Taliban/Al Qaeda forces as the most important security problem. Others are most concerned

about criminality and lack of rule of law at the local level. Still others are concerned about the limited management capacity of civil authorities and inadequate oversight/accountability of security forces. The drug industry is widely seen as a major cause and consequence of insecurity. The development of an agreed national security strategy, currently under preparation, will facilitate reaching consensus on the different security threats and their relative priority.

- ***The overall size of the security sector, even with recent and planned expansion, does not seem unreasonably large by international standards.*** These include a planned size of the ANA of 70,000 (not all of them combat troops) and a planned size of the Afghan National Police (ANP) of 62,000. However, the appropriateness of the size and balance between different security forces can be questioned in the context of Afghanistan's particular situation and security needs.
- ***Afghanistan's security sector nevertheless is costly and may be unaffordable.*** Over the medium term, it is extremely doubtful whether the sustaining costs of Afghanistan's security sector at planned force levels can be absorbed by Afghanistan's national budget. This implies that difficult trade-offs will need to be made in prioritizing expenditures, means of achieving efficiencies in security-related expenditure will have to be identified, and the possibility of multi-year donor financing commitments for the security sector will need to be explored.
- ***Progress in developing different parts of the security sector has been uneven.*** After a slow start initially, the formation and expansion of the ANA have moved forward rapidly. Progress in forming the new ANP has been much slower, and reform and capacity building in the justice sector have lagged far behind, with adverse implications for legal reforms and a pro-private sector business climate.
- ***Security and fiscal issues are closely interlinked.*** For example, low domestic revenue is both a consequence and a cause of insecurity. Reconstruction costs tend to be higher due to insecurity, while on the other hand the security sector is a source of considerable fiscal pressure. Pay and grading decisions with respect to the security services, made outside national budget processes, can have important fiscal implications.

KEY CHALLENGES

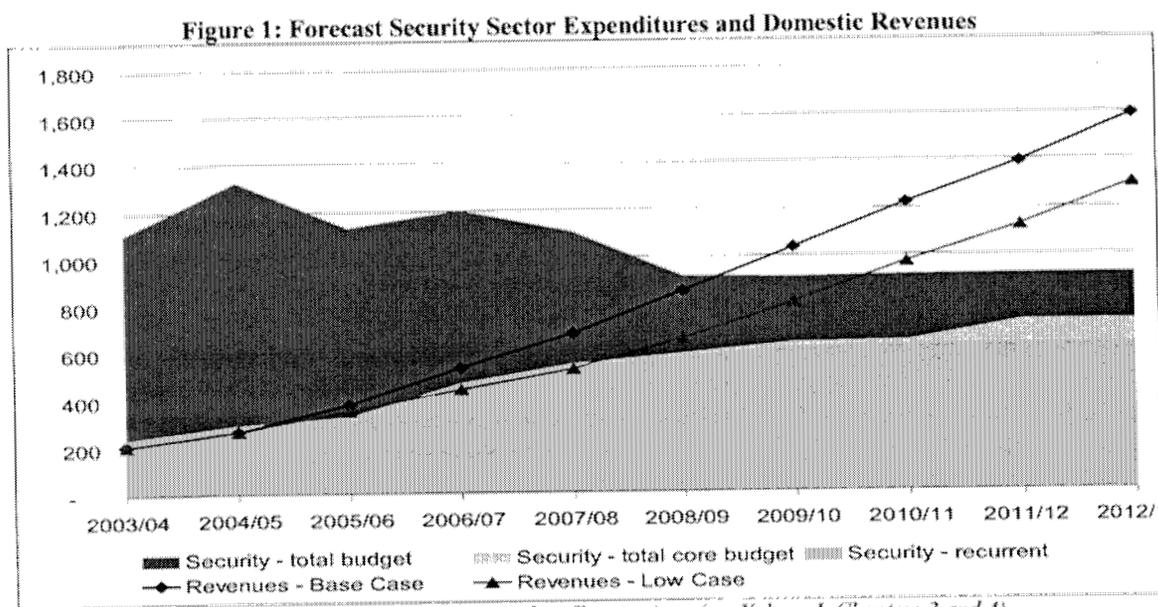
- x. From a PFM perspective, key challenges facing the security sector include:
- ***The need for an integrated security sector strategy and policy framework,*** without which sound programmatic – e.g. on force sizes, equipment – and public expenditure decisions cannot be made. Preparation of the National Security Strategy is at an advanced stage.
 - ***Very high donor-executed spending through the external budget,*** which renders achieving coherence of spending across and within subsectors much more difficult, and also raises questions about the fiscal sustainability of the security sector in the medium term when donor funding may decline.
 - ***Difficulties in coordinating and prioritizing security sector expenditures and actions,*** reflecting the above problems and fragmentation of decisionmaking across donors. These factors make it more difficult for the National Security Council (NSC) to fully carry out its mandated strategic, leadership, and coordination functions, although the situation in this regard has improved in 2004 and 2005.
 - ***Concerns about the growing security sector wage bill and pressures for fiscally unaffordable salary increases, as well as the fiscal sustainability of security sector staffing levels.*** The ANA salary structure, determined apparently without reference to fiscal constraints or pay elsewhere in the civil service, has set a precedent which the police and other sectors aspire to and which will be fiscally costly. There are also doubts about whether recruitment practices are being regulated by staffing establishment size limits.
 - ***Slow implementation of priority public administration reforms and capacity building in security sector management and oversight institutions,*** which have lagged behind the

development of security forces like the ANA. This imbalance, and also the lack of progress in some security subsectors (e.g. justice), carry risks for the future.

- **The need to develop good governance and sound and sustainable financial management practices in the security sector**, fully in line with and integrated with national budget processes and fiduciary provisions.

TOWARD A FISCALLY SUSTAINABLE SECURITY SECTOR

xi. As argued in Chapter 4, decisions on and investments in force levels, salaries, non-salary staff-related costs, standards of equipment, base construction, etc. in the security level are leading to a fiscally unsustainable situation, for the security sector itself and for Afghanistan's budget as a whole. Figure 1 below illustrates the dilemma that for some years to come, planned/forecast levels of security sector expenditures will exceed likely domestic revenues, under a somewhat ambitious yet reasonable "base case" of revenue mobilization and even more under a "low case". Moreover, the expenditure forecasts do not include any provision for further rises in wages or increases in other costs. And domestic revenues will also need to progressively take on the burden of covering various civilian expenditures currently being paid through the External Budget, so allocating the bulk of domestic revenues to the security sector is not viable or desirable over the medium term.



xii. This situation, which stems from the large availability of External Budget resources to meet urgent security requirements, fragmented decision-making and lack of cost-consciousness, difficulties faced by the Government in exercising strategic coordination of security sector spending, and limited engagement by key oversight entities like the Ministry of Finance, urgently needs to be addressed. A recommended set of near-term actions includes the following:

- **Quickly enhance the information base on security sector expenditures**, especially with respect to the cost implications of planned expansion of security forces, and also of associated wage structures and non-wage recurrent expenditure requirements.
- **Review the fiscal implications of ongoing security sector expansion and reforms.** The Government should conduct an integrated security sector-wide fiscal review to forecast the fiscal implications of currently programmed security sector expansion and reforms over the next few years and medium term. The review would logically be done under the overall umbrella of the

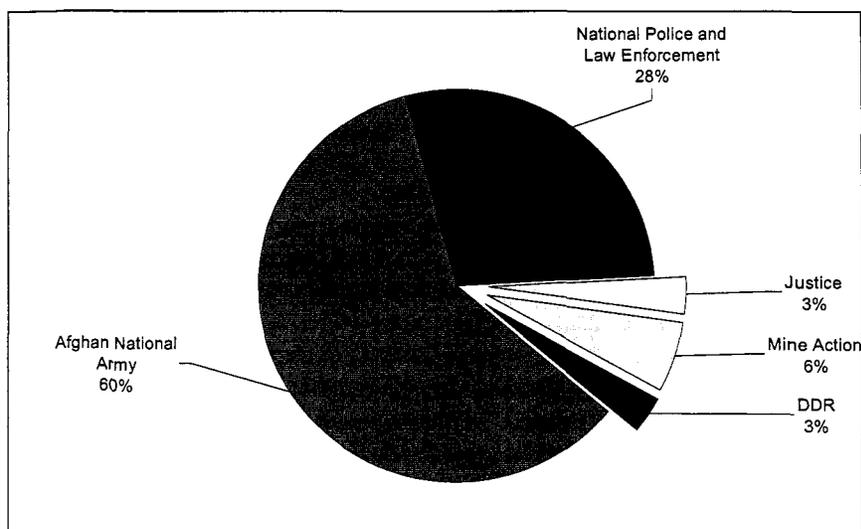
Medium-Term Fiscal Framework (MTFF) into which it would feed. The sustainability of planned expenditures needs to be assessed within the context of the overall rolling fiscal plan, growth of domestic revenues, and possible medium-term commitments from donors to fund recurrent costs.

- **Revisit strategic objectives and trade-offs in the light of fiscal constraints.** This would ideally be done as part of the exercise to finalize the national security strategy, which itself should be consistent with and supportive to the national development strategy (ANDS).
- **Take actions to improve the situation.** The Government may consider (i) avoiding any further wage increases in the security sector; (ii) reconsidering programmed force sizes, especially for the ANA, in the light of fiscal constraints; (iii) exploring possibilities for containing non-salary recurrent costs in a manner that does not adversely affect readiness and operational capabilities; and (iv) similarly reviewing construction plans and equipment costs.
- **Explore with donors prospects for predictable medium-term external funding for the security sector,** in line with agreed security sector objectives and a clear road-map for phasing out such funding over a number of years as Afghanistan progresses toward a sustainable fiscal position.
- **Ensure that the fiscal sustainability “lens” is applied to future decisions,** with a view to preventing decisions or actions from worsening of the fiscal situation of the security sector.

STRATEGIC PRIORITIZATION AND SEQUENCING

xiii. As can be seen from Figure 2 below (discussed in Chapter 5), security sector expenditures have been dominated by Defense (primarily ANA) and Interior (mainly police), which together account for close to 90% of the total. Counter-narcotics expenditures are variable and in part may be double-counted with other spending inside and outside the security sector, but they also have become quite large in the last two years.

Figure 2: Composition of Security Expenditures, 2003/04-2004/05



Source: MoF budget documents and fiscal reports, staff estimates.

xiv. The low spending on the justice sector is striking and is reflective of the lack of progress on improvements and reforms in the justice system. The national police also until recently appears to have been underfunded, although this is being corrected. Thus the overall allocation of security sector expenditures seems somewhat disconnected from the concerns voiced by large numbers of Afghans about security and crime.

xv. As in the case of the national budget as a whole, there are no easy answers or technical fixes for allocating public spending, either between security and other sectors or within the security sector. Clearly, the very large share of security spending in the External Budget (nearly 80% in 2004/05), and fragmented donor decisionmaking on expenditures, make the task of the Office of the National Security Council (ONSC), the Ministry of Finance (MoF), and other oversight bodies especially difficult in this regard. From a more positive perspective, some points with respect to intersectoral and intrasectoral prioritization are outlined below (see Volume I, Chapter 5 for further discussion of prioritization).

xvi. ***Prioritization across sectors:*** Sophisticated technical approaches may require a great deal of resources and even so are highly imperfect and can result in misleading conclusions. Simpler rules of thumb may work better, and judgment is called for.

- Intersectoral allocation decisions need to be anchored in the overall national security strategy.
- Identifying and mitigating gross anomalies in intersectoral allocations is very important (e.g. the serious underfunding of the justice sector, discussed earlier).
- International patterns of spending and outcomes (for example for police) may provide some guidance on where funds should be allocated.
- Identifying bottlenecks and directing expenditures to alleviate them may be a useful short-run approach.
- Some linkage between sectoral allocations and performance may make sense but needs to be watched carefully and corrective actions taken to ensure that large imbalances between sectors do not emerge over time.
- Finally, it is essential that intersectoral prioritization be comprehensive – no sector (e.g. Defense) should be considered sacrosanct or immune from scrutiny.

xvii. ***Prioritization within sectors:*** Technically, prioritization within sectors is more manageable than intersectoral prioritization because the alternatives tend to be more comparable.

- Intrasectoral allocation decisions need to be anchored in a sound sector strategy.
- Technical analysis (e.g. cost-effectiveness analysis) can be used to evaluate individual project proposals and also to make more generic prioritization decisions (socio-economic cost-benefit analysis of landmine clearance is a good example).
- Ruthless culling of projects with lower benefits and/or which do not have good prospects for rapid completion will improve timeliness, efficiency, and effectiveness of sector programs.
- Complementarities need to be factored into prioritization decisions (e.g. there is no point in having a police force that is not adequately armed, clothed, equipped, and with vehicles and fuel).
- Correcting geographical and other disparities (for example in terms of police coverage) may help guide prioritization.

BUDGET EXECUTION FOR EFFECTIVE AND EFFICIENT UTILIZATION OF FUNDS

xviii. The effective and efficient utilization of funds to achieve stipulated purposes is a key element of the PFM system, including in the security sector (Chapter 6). A widely accepted general principle is that all the elements of a sound budget execution process should be applied to the security sector, in the same way as to the rest of the budget. Security expenditures within the Core Budget are essentially subject to similar control mechanisms, accounting and reporting requirements, and procurement arrangements as in the rest of the Core Budget. The main difference is the absence of a strong internal audit function – a role that in the case of the civilian budget is to a large extent played by the Monitoring Agent of the ARTF (see Box 6.2, Volume I). The absence of such a mechanism – albeit extraordinary (and temporary) – in the security sector means a weaker control framework despite the application of other elements of the budget execution process for the Core Budget.

xix. Security spending in the External Budget occurs completely outside these Government processes. Although this spending is subject to financial controls exercised by donors, the associated disadvantages are potentially very important with respect to the quality and consistency of information flows, and procurement. Another major problem is the wide variety of salary levels, payment channels, and top-up arrangements in the security sector, which risk fragmenting the accountability and loyalties of security sector staff.

xx. With respect to procurement, it is possible to follow sound procurement procedures despite the actual or perceived obstacles in defense or other security sectors, and good procurement practices will reduce vulnerability to corruption. In particular, competitive procurement with adequate transparency and oversight is critical. With the recent passage of a new Procurement Law that meets international standards, donors funding security through the External Budget should move toward using sound internationally acceptable procurement procedures, either those provided for in Afghanistan's Procurement Law or similar procedures. This is also important in the case of procurement of supplies, security services, etc. by international military forces in Afghanistan.

xxi. Developing and monitoring performance indicators tends to be even more difficult in the security sector than in other sectors, partly because the outcomes are not easy to measure precisely, and also due to the difficulties faced in identifying indicators that provide the right incentives. Options will vary across sectors and programs.

- In the case of *defense*, indicators of preparedness (although they are more akin to output indicators rather than to outcomes) are the most appropriate performance indicator in peacetime.
- For the *police*, and for the *internal security system more generally*, the ultimate outcome of local security and rule of law is difficult to measure. Official crime statistics are hard to use in monitoring performance over time and especially across countries. Information from household surveys on the numbers and types of crime encountered by households can provide a useful check on the validity of official statistics. The effectiveness of the police and prosecutorial services can be measured by the percentage of different categories of cases resulting in convictions, based on which type of evidence (confessions, physical evidence, etc.). The availability of female police officers and separate detention facilities for women are indicative of mitigating the risks women face during detention.
- The performance of the *justice system* can be measured by various indicators like numbers of cases handled, timeliness of processing court cases, and households' perceptions of the justice system and their indications of willingness (or otherwise) to use formal justice channels when seeking redress. The existence of Family Courts and Juvenile Courts and their functioning is also indicative of how sensitively and even-handedly the justice system deals with women and children.
- In the case of *mine action*, outcomes of mine clearance activities (land and areas free of landmines – with clear linkage to ultimate development benefits) can be specified and measured reasonably well, and compared with the costs of mine clearance.
- For *counter-narcotics*, the appropriate outcome indicator at the national level is progressive reduction over time and eventual elimination of the opium economy. However, measuring the performance of counter-narcotics activities is difficult, and linking such performance to progress toward achieving the strategic objective of reducing opium production and trade is even more difficult. Given the variety of activities encompassed under the counter-narcotics rubric, performance indicators for the different components will need to be appropriate to their varying characteristics.
- More generally, in all parts of the security sector *some basic indicators of inputs* can be useful in measuring performance, for example number and ratio of staff on the job (confirmed by spot-inspections), percentage of staff in security services properly equipped, proportion of staff who

have received training, percentage of budget resources spent (both Core and External Budget to the extent possible), etc. *Expenditure tracking surveys* can be a useful tool in this regard.

- *Unit costs*, although not an outcome indicator, nevertheless can be useful performance indicators of the efficiency with which inputs for service delivery are being provided.

xxii. All this leads to a rather formidable agenda for generating and effectively utilizing monitoring information. This can start with small steps and make progress incrementally over time. One promising option is to generate and regularly monitor basic financial information on security sector expenditures in the Core Budget, and encourage donor partners to provide similar information on as consistent a basis as possible for External Budget expenditures in the security sector. Staffing data, which have suffered from inconsistencies, need to be improved and monitored. These can be augmented as proposed above with indicators of numbers or proportions of staff on duty and available to carry out duties. Subsequently, simple indicators of output/performance can be compiled and used in monitoring. It is more important to collect and effectively utilize simple information than to devise highly sophisticated data and monitoring systems which are difficult to implement and become a burden on scarce Government capacity. Finally, the institutions concerned need to take on the role of monitoring and evaluation and treat it as a serious part of their work, and make meaningful use of performance indicators in decision making. As indicated above, an important gap in this regard is the internal audit function.

SUMMARY OF RECOMMENDATIONS

xxiii. Chapter 7 concludes that the most important message emerging from this analysis of security sector expenditures is that *the security sector needs to be appropriately integrated into all aspects of Afghanistan's PFM system*: medium-term fiscal programming (MTFF), annual budget formulation, staffing and payroll management, financial management and controls, and external scrutiny, among others. There is no justification for treating the security sector as separate or sacrosanct, and not subjecting it to budgetary and fiduciary processes. Specific recommendations include the following.

xxiv. *Review the Fiscal Implications of Ongoing Security Sector Reforms*: Quickly enhance the information base on security sector expenditures, and conduct an integrated security sector-wide fiscal review to forecast fiscal implications of security sector development and reforms over the medium- and longer-term. This would serve as a basis for revisiting security sector force levels, notably for the ANA, and for discussions with donors on longer-term financing. It would also facilitate policy- and program-based budgeting of security sector expenditures with a medium-term perspective.

xxv. *Further Develop Policy Making Capacity in the NSC and Finalize the National Security Strategy*: The National Security Advisor and the NSC are tasked with coordinating policy development and overseeing integrated strategic planning across all security institutions. Adequate capacity is required for these purposes. An integrated security sector strategy and policy is needed to determine acceptable longer-term costs of security institutions and appropriately prioritize and sequence spending across and within subsectors (e.g. justice and police versus ANA). As in the case of the ANDS as a whole (discussed below), the National Security Strategy is being developed by Afghan stakeholders, with full Government ownership (across the ministries and agencies involved), and will need to gain wide buy-in within and outside Government. This will require a meaningful and substantive consultation process.

xxvi. *Treat Security as an Integral Part of the National Development Strategy Currently under Preparation*: The ANDS can be used as an opportunity to ensure that the security sector both is accorded its due importance as a development issue for Afghanistan and that the broader developmental and fiscal perspective is injected into the security sector strategy.

xxvii. ***Implement Priority Administrative Reforms and Develop Security Sector Management and Oversight Capacity:*** Support reforms enhancing human resource capabilities in the Ministries of Defense, Interior, Justice, Counter Narcotics, and in the National Security Directorate. A particular priority is developing solid financial management capacity and practices in these line ministries. Strengthening the control framework, notably with the development of an internal audit function, is a priority. Following the example of the civilian budget, an option would be to buy the services of a reputed firm. But, as this might prove to be sensitive, an alternative option is to focus the newly developing Internal Audit Department of the Ministry of Finance initially on the security sector. The vocation of this department, as per the new Public Finance and Expenditure Management Law, is to cover the whole of Government. Given that a mechanism (the ARTF Monitoring Agent) is temporarily in place for most of the civilian recurrent budget, this department could initially prioritize its work program toward the security sector.

xxviii. ***Rigorously Enforce Staffing Size, and Set Salary Increases Based on Fiscal Absorption Capacity:*** It is vital that the agreed formal staffing establishment sizes be enforced. Moreover salaries, like non salary costs, must be subject to the normal rigors of public expenditure management and fiscal discipline – the security sector wage bill must remain affordable.

xxix. ***Role of donors.*** Donors play an even greater role in Afghanistan’s security sector than they do in other sectors. Consequently they also play a very important role in public finance management in the security sector. Whereas donor practices inadvertently can hinder the Government’s efforts to make the national budget the central instrument of policy, reform, and resource allocation for the security sector, donors can also make a major contribution to improvements in this regard. Specifically, donors can contribute to improving public finance management in the security sector by: (i) supporting development of an agreed national security strategy and corresponding strategies and policies for the individual sectors (defense, police, justice, etc.); (ii) reassessing their views about force size and cost requirements in the light of fiscal constraints; (iii) helping enhance the capacity of oversight actors (such as the Auditor General, legislature) and economic managers (Ministry of Finance Budget Office) to address issues relating to financial management in the security sector; (iv) channeling more of their assistance to the security sector through the Core Budget; (v) for resources not channeled through the Core Budget, ensuring that timely and accurate information is made available to the budget authorities, and maximizing use of internationally acceptable procedures e.g. for procurement; (v) helping key security ministries strengthen their budget formulation and budget execution processes; and (vi) discussing medium- and longer-term availability of external resources for the security sector.

xxx. Implementing these recommendations and other initiatives to improve security in Afghanistan, which is a necessary condition for the country’s development, undoubtedly will take time. However, the need to get a handle on the fiscal sustainability issues in the security sector is urgent, as there is a risk that decisions on force levels, pay, non-salary spending, equipment, construction, etc. that are being made or implemented today will be unaffordable for Afghanistan in the future. Dialogue with donors, including on possible medium-term financial support to Afghanistan’s security sector, also is urgently needed.

CHAPTER 1. SECURITY, DEVELOPMENT, AND PFM PERSPECTIVE

A. Introduction

BACKGROUND AND RATIONALE

1.1 Security, an essential public good, is widely seen as a central issue for Afghanistan's reconstruction and development.¹ Security impacts on the whole range of development issues faced by Afghanistan, ranging from state building and capacity development to revenue collection, service delivery, and encouraging private sector-led growth. For the purpose of Afghanistan's National Development Strategy (ANDS), currently under preparation, the Government has added a Millennium Development Goal (MDG) on enhancing security to the internationally agreed list of MDGs (see Afghanistan Government, 2005b). This demonstrates the importance assigned by the Government to security and rule of law as a critical development issue. Afghanistan's external partners (including the World Bank) have consistently highlighted the importance of security as a key enabling factor for Afghanistan's reconstruction and development. And most important, the Afghan people themselves emphasize the importance of security and the protection of property rights in their daily lives and for building their livelihoods and communities. More specifically:

- Security and rule of law as public goods have been grossly underprovided in Afghanistan during the past quarter-century, with state functions in this regard usurped by factions, regional and local powerbrokers, and external actors. Remediating this situation is an urgent, high-priority task.
- Improving security is also a core component of the state-building agenda, seen by most Afghans as an essential function of an effective, accountable government.
- Moreover, an adequate level of security is a critical prerequisite for effective delivery of other public services.
- Politically, security improvements have been and will continue to be essential for the success of Afghanistan's transition toward political normalcy.
- Economically, security and law and order, along with the protection of property rights, are required for robust private sector development (including emergence of a productive, competitive formal sector – see World Bank, 2005), which will be the only way to achieve sustained rapid economic growth over the medium term.
- Insecurity and narcotics are closely linked – insecurity is the environment in which Afghanistan's opium economy thrives, and the drug industry is a major source of instability and insecurity.
- And finally, from the individual, household, and community standpoints, security and rule of law are extremely important components and enabling factors in the quality of life, as is almost universally recognized by Afghans.

1.2 In addition to its importance as a central development issue for Afghanistan, the security sector accounts for a very high proportion of the country's total public expenditures as well as external assistance and raises major public expenditure management issues including risks to fiscal sustainability and possible crowding out of spending on other basic services. Therefore the security sector is also very important from a public finance management perspective. In view of these considerations, the Government of Afghanistan requested that the security sector be included in the World Bank's Public Finance Management (PFM) Review, and this volume is the result.

¹ This is emphasized in past Government strategic documents like the *National Development Framework* and *Securing Afghanistan's Future*. Security also forms a core pillar of the Afghanistan National Development Strategy currently under preparation by the Government.

1.3 There are in addition a number of specific rationales for the World Bank's engagement in analytical work on Afghanistan's security sector as part of the PFM Review and from a development perspective. First, as indicated above, security is of central importance for Afghanistan's development prospects, including in particular the state-building agenda. This means it has to be incorporated in the country's development strategy and planning (which the Government is doing), and that development partners need to be engaged in areas of their competence.

1.4 Second, given the great importance of security spending in the national budget (accounting for around 40% of total Core and External Budget expenditures), the security sector must be incorporated in the analysis of expenditure composition, budget prioritization and trade-offs, downstream expenditure implications of decisions and investments, fiscal sustainability, etc. These issues lie at the heart of the PFM Review.

1.5 Third, a weak PFM system in the security sector (and particularly if the security sector gets left behind while improvements in the PFM system are occurring elsewhere) would adversely affect the overall progress of PFM reform and institutional strengthening, distort choices made by the Government, reduce the effectiveness and efficiency of public spending, and increase vulnerability to corruption. All of these areas are of concern to the Bank.

1.6 And fourth, security sector expenditures are largely donor-financed, raising important issues of aid management, aid harmonization, and aid effectiveness, as well as capacity development and effectiveness of technical assistance. These issues comprise an important part of the overall PFM agenda and hence need in the context of the security sector to be included in the PFM Review.

OBJECTIVES AND CHAPTER CONTENT

1.7 The main objectives of this review of security sector expenditures in the context of the PFM Review and taking a development perspective are as follows:

- To gain as complete an understanding as possible of the current level and structure of security related expenditures, recent trends, and likely future expenditure requirements based on current plans.
- To assess the extent to which coherent strategies, for the security sector and the major parts of the security sector, guide public expenditure allocations.
- To review the processes for determining funding levels, expenditure allocations, budget execution, and post-execution functions, with a view to assessing the extent to which they follow sound PFM principles.
- To describe the institutional framework for the security sector and ascertain the extent to which it embeds or is conducive to sound public financial management.
- To assess the strategic coherence and consistency and the fiscal sustainability of security sector expenditures.

1.8 This chapter sets forth the conceptual framework for analysis of security sector expenditures from a development and public finance management perspective. It first provides a working definition of the security sector. The chapter goes on to outline key linkages between security and development (based on recent international thinking on this subject). It then discusses key public finance management principles and their application to the security sector. The final section briefly summarizes the service delivery perspective (developed in Volume I, Chapter 8) and its application to the security sector.

1.9 Chapter 2 first provides some background on the historical legacy from the long period of conflict in Afghanistan, and summarizes the progress made in building the security sector since 2001. It then

overviews Afghanistan’s security sector at present – its legal basis, size, institutions, salient characteristics, and coordination – and at the end outlines the key security issues faced by Afghanistan from a development perspective. Chapter 3 discusses key PFM principles and their application to the security sector, the implications for Afghanistan including gaps and constraints, and the Afghan budget process for the security sector. Chapter 4 discusses the crucial issue of the fiscal sustainability of security sector decisions and investments, which is an important driver of the fiscal sustainability of Afghanistan’s public finances as a whole (see Volume I, Chapter 3). Building on the analysis of fiscal sustainability, Chapter 5 looks at strategic prioritization and sequencing issues in the security sector and how these can be managed in particular through the national budget process. Chapter 6 focuses on budget execution for effective and efficient use of funds provided to the security sector. Chapter 7 concludes this volume by outlining the key challenges and priorities for action from a PFM perspective.

DEFINITION OF THE SECURITY SECTOR

1.10 The security “system” is defined broadly in OECD (2005b) as including the following main components: core security actors, security management and oversight bodies, justice and law enforcement institutions, and non-statutory security bodies (see Box 1.1 for details).

Box 1. 1: Definition of the Security Sector

The OECD’s Development Advisory Committee (DAC) defines security as a development objective as follows: “Security is increasingly viewed as an all-encompassing condition in which people and communities live in freedom, peace and safety, participate fully in the governance of their countries, enjoy the protection of fundamental rights, have access to resources and the basic necessities of life, and inhabit an environment which is not detrimental to their health and well-being. The security of people and the security of states are mutually reinforcing. A wide range of state institutions and other entities may be responsible for ensuring some aspect of security.” This definition is consistent with broad concept of “human security” used by the UN.

The security system includes the following actors:

Core security actors: armed forces, police, gendarmeries, paramilitary forces, presidential guards, intelligence and security services (both military and civilian), coast guards, border guards, customs authorities, reserve or local security units (civil defense forces, national guards, statutory militias).

Security management and oversight bodies: the Executive, national security advisory bodies, legislature and legislative select committees, ministry of defense, ministry of internal affairs, ministry of foreign affairs, finance ministry (as well as budget offices, financial audit and planning units), and civil society organizations (civilian review boards and public complaints commissions).

Justice and law enforcement institutions: judiciary, justice ministry, prisons, criminal investigation and prosecution services, human rights commissions and ombudsmen, and customary and traditional justice systems.

Non-statutory security bodies: liberation armies, guerrilla armies, private body-guard units, private security companies, political party militias.

These actors, their roles, responsibilities, and actions, crucially affect security outcomes as defined above.

Source: Adapted from OECD (2005b, pp. 20-21).

1.11 A broad definition of the security sector along these lines makes the most sense from a development and PFM perspective, as all different parts of the security sector have significant development implications as well as varying budgetary implications (for both expenditures and revenues).² However, some components clearly do not apply to Afghanistan (e.g. coast guards), while other institutions like Parliaments have not been functioning and hence are not relevant for analysis of recent developments and the current situation (although the role of the legislature will be important starting in the very near future). Moreover, non-statutory security bodies, although they have been major actors in Afghanistan (and mirror the breakdown of the formal security system during the protracted conflict), for the most part do not have direct budgetary implications and would require a very different mode of analysis. Therefore they are not looked at closely in this volume except in terms of their

² World Bank (2003a) takes a similarly broad approach in looking at conflict and development policy.

immediate budgetary implications – notably the Disarmament, Demobilization, and Reintegration (DDR) program – although their development implications and impact on the formal security sector will be kept in mind.

1.12 In sum, consistent with the overall objectives and approach of the PFM Review and in line with the increasingly recognized development implications of the security sector, this volume uses a broad definition of the security sector but focuses on those components which are of major importance from a PFM perspective. In terms of budget categories and programs, those that form part of the security sector and which are analyzed in the PFM Review include: defense, police and other internal security services, intelligence, counter-narcotics, the judiciary and penal system, mine clearance, and the DDR program.

1.13 The main security institutions in Afghanistan which will be looked at in the PFM Review include the following: (i) **government security management and oversight bodies:** National Security Council and National Security Advisor, Ministry of Defense, Ministry of Interior, Ministry of Counter Narcotics, Ministry of Border and Tribal Affairs, Ministry of Justice, Ministry of Finance, and the Auditor General's Office; (ii) **security services:** Afghan National Army (ANA), Afghan National Police (ANP), National Border Guards, Counter-Narcotics forces, National Directorate of Security (NDS – responsible for intelligence), Customs General Directorate under MoF, remnants of earlier military and police forces (the former subjected to DDR); and (iii) **justice and legal institutions:** Supreme Court, Judiciary, Attorney General's Office and prosecutorial offices (*saranwal*).

1.14 Excluded from detailed analysis in this volume are the non-statutory security bodies, including remaining unofficial militias and armed factional groups, private body-guards, and security companies. Foreign and international armed forces operating in Afghanistan also will not be analyzed in detail, except to some extent the Provincial Reconstruction Team (PRTs) which are intended to help strengthen governance and carry out reconstruction activities. However, the overall size and cost of these forces will be considered and their impact on the fiscal and PFM aspects of the formal security system will be taken into account. The absence of a Parliament means that its oversight role with respect to security can be incorporated in terms of future options and recommendations, but not in relation to the analysis of recent developments and the current situation. Independent and civil society institutions which play a monitoring and advocacy role with respect to security, such as the Afghanistan Independent Human Rights Commission (AIHRC) are extremely important but are not analyzed in detail in this volume.

B. Security and Development

1.15 **Costs of insecurity and conflict.** The close linkages between security, an essential public good, and development have become increasingly recognized and closely studied in recent years (see, for example, UK DFID, 1999 and 2005), although knowledge gaps remain. The crucial enabling role of security in virtually all dimensions of development tends to be invisible in countries where there is a reasonable level of security. As noted more broadly in Chalmers (2005, p. 7), “The relationships between socio-economic governance, conflict, and growth are multi-directional, with poor governance and conflict reinforcing each other, and both phenomena undermining the possibilities for economic development.”

1.16 In particular, it is where security is absent – most notably in countries in conflict – that its role in development becomes glaringly obvious. Insecurity, and in particular conflict, carry major costs from an economic and social development perspective as outlined below (see World Bank, 2003a, Chapter 1):

- **Cost of resources devoted to conflict and/or combating insecurity,** which otherwise could have been used for other, more developmentally productive purposes. Moreover, these resources impose a double loss, since they inflict damage during conflict as enumerated below.

- **Human costs**, including deaths, wounds, displacement, and flight, as well as loss of private property and psychological damage. In addition, disruption of public services like education and health due to conflict or insecurity results in lower levels of human capital (due to disruption of education) and higher rates of mortality and morbidity (aggravated by the direct adverse impact of conflict-related phenomena like displacement on health). Moreover, it should be emphasized that modern warfare, and especially internal conflicts like civil wars and insurgencies, tend to generate high casualties and other costs among the civilian population.
- **Social costs**, including weakening of national, community, and family links, shorter time horizons, and weaker constraints on criminal and opportunistic behavior.
- **Loss of physical assets**, directly by destruction during conflict, and indirectly due to lack of maintenance, falling into disuse, etc.
- **Loss of financial assets**, through capital flight, can be a major cost of conflict or generalized insecurity.
- **Costs to government**, including government revenues lost/foregone due to conflict, and destruction or erosion of the state and state assets as it becomes weakened and contested by different factions during conflict.
- **Costs to the private sector**, including disruption of trade and markets, theft of business property by armed groups, “protection costs” frequently imposed, shifting incentives away from formal-sector activity in favor of the informal sector (see World Bank, 2005, Chapter 1), and the like.

1.17 Unfortunately, the adverse implications of conflict/insecurity for development continue, and in some respects may increase, after the end of outright conflict. So-called “legacy” costs of conflict, based on cross-country analysis reported in World Bank (2003a, pp. 19-31), include in particular (i) higher residual military expenditure; (ii) capital flight (which tends to continue or even increase after conflict); (iii) loss of social capital – which can take a long time to rebuild after conflict; (iv) government policies, which on average are negatively affected after conflict; (v) deterioration of political institutions which takes time to reverse; and (vi) destruction of the revenue apparatus and loss of revenue culture, which tends to persist after conflict.

1.18 Insecurity in a conflict or post-conflict situation also can be part of a set of mutually reinforcing tendencies that promote perpetuation of insecurity and associated development costs, including in particular state weakness. For example in the case of Afghanistan, World Bank (2005) emphasizes that lack of rule of law and continuing existence of non-state powers (warlords and commanders and their forces) can lead to a vicious circle whereby insecurity, low revenues, and a weak, ineffective state are perpetuated (see Figure 1.1).

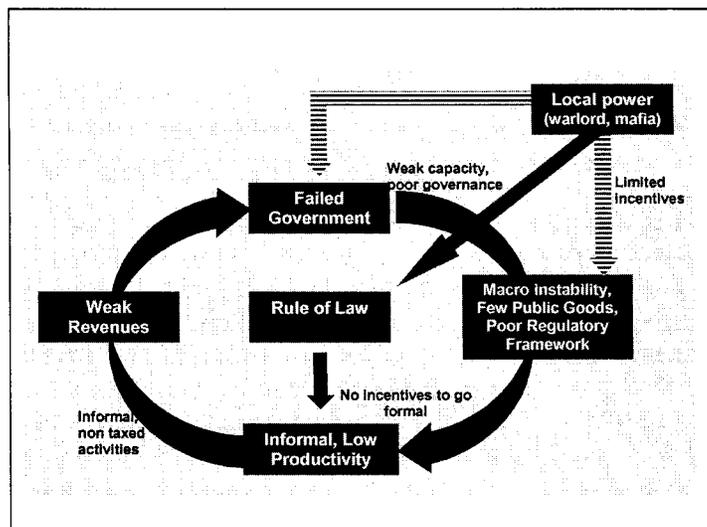
1.19 Another important aspect is the costs to national development of criminality,³ which as noted above is fostered by conflict but can be a major problem even in the absence of conflict and in a post-conflict situation where social norms and law enforcement have been eroded. When pervasive, crime may also fuel wider conflict. Although the direct damage caused by crime is far less than that of major conflict, it can have major adverse effects on development, especially if a high level of criminality becomes the norm. More specifically:

- **Crime erodes social and human capital:** Loss of trust in communities and countries due to widespread criminality can weaken the social fabric. Human capital can be weakened by the direct effects of crime on victims, and by the associated atmosphere of fear that may encourage others (particularly better-off and skilled people) to leave. By limiting movements of people, crime may impede access to employment and educational opportunities (particularly in the case of females).

³ This paragraph draws from UNODC (2005, Executive Summary) which discusses these issues in the context of crime and development in Africa. Also see Frank (2005) for a discussion of the crime issue in a post-conflict context.

- **Crime worsens the business climate and discourages investment:** Criminal activities are often directed against businesses and hence directly inflict losses on them, but more damaging is the harm crime and perceptions of it do to business investments. Foreign investors may be discouraged, domestic investors may not start activities, and more generally financial capital may flee from high-crime areas and countries. Corruption (see below) also can adversely affect the business climate in a major way.
- **Crime undermines the state and its ability to promote development:** Finally, crime can become closely linked to corruption (itself a form of criminal activity), with very harmful consequences for development and public finance management (see Volume I, Chapter 7). Trust between people and the state is destroyed and/or is prevented from being built. Corruption and other forms of crime can erode the revenue base of the state and thereby its effective functioning.

Figure 1. 1: Security, Rule of Law, and the Informal Equilibrium



Source: World Bank (2005, p.10).

1.20 Criminology, and corruption in particular, can drive business activity into the informal sector, and keep most businesses small (so as to avoid visibility vis-à-vis criminals and/or corrupt officials). This has adverse consequences for investment, technology, productivity growth, and more generally the competitiveness of the economy, reducing prospects for sustained rapid economic growth which is the only way countries can develop and reduce poverty.

1.21 The adverse effects of conflict and insecurity, and often of crime as well, tend to be disproportionately felt by the poor, minorities, and other vulnerable groups. This is partly because as in the case of many other public goods, the better-off can use their own resources to insulate themselves at least to some extent from insecurity (private security, physical protection through fences etc., mobility), while minorities and vulnerable groups are at higher risk of being targeted in situations of conflict or breakdown of law and order when the state no longer is able to protect its citizens. However, where insecurity is generalized and long-lasting, as was the case in Afghanistan in the 1980s and 1990s, the effects reach all levels of society, and many assets of the rich may get lost or devalued. Nevertheless, the poor are invariably more vulnerable to conflict and insecurity as they have fewer assets and weaker coping mechanisms to start with. Even if they lose many of their assets, better-off people have a greater chance to escape conflict and tend to be in a better position in terms of livelihoods where they flee to.

1.22 Conflict and insecurity can have an especially damaging effect from a gender perspective, notably in the form of escalated violence against women. Rape and sexual assault against women of opposing groups in community-based conflicts are frequently used as an ultimate means of dishonoring entire communities and reducing people's capacities to resist military advances, causing serious social and psychological disruptions. Any children resulting from such encounters will often be rejected by society and lead a pariah existence. In addition to violence directly against women, the environment of insecurity associated with conflict or a post-conflict situation can have a disproportionate adverse effect on women, as women's higher vulnerability in conflict may lead to imposition of stricter social norms resulting in limited or no access to education and basic health care due to their reduced mobility. Prolonged periods of conflict, high levels of social violence, and lack of security can also be reflected in increased levels of domestic violence, in which women and children are the primary victims. Conflict and insecurity have profoundly damaging effects on children. The loss of one or both parents, homelessness, the need to shoulder economic responsibilities in childhood, exposure to violence and abuse, disruption of elementary education, and lack of access to health services and immunization are examples of conflict-induced consequences which have profound and life-long impacts on children.

1.23 ***Positive synergies between security and development.*** From a more positive perspective, "The security of persons, property and assets, and the protection of human rights are fundamental to sustainable development and a pre-condition for people to improve their lives, particularly the poor." (OECD 2001, p. 37). Assets should be broadly interpreted to include public goods such as roads, common water points, and public infrastructure as well as social infrastructure and private assets such as property. With the holistic definition of the security sector (Box 1.1), the positive linkages between security and development are many and closely interlinked, mirroring the negative linkages outlined above.⁴

C. Key PFM Principles and Application to the Security Sector

1.24 As seen in Volume I (Chapter 2), the outcomes of a country's PFM system and national budget process can be divided into three main categories, namely (i) budgetary aggregates and overall fiscal discipline; (ii) strategic allocation of resources across sectors and programs; and (iii) efficiently managing the use of budgetary resources. The six core dimensions of PFM performance (credibility of the budget; comprehensiveness and transparency; policy-based budgeting; predictability and control in budget execution; accounting, recording, and reporting; and external scrutiny and audit) all affect these budgetary outcomes.

1.25 The World Bank's *Public Expenditure Management Handbook* lists 10 generally accepted principles of sound budgeting and financial management, shown in Box 1.2. The overall PFM performance framework and principles of sound budgeting and financial management are widely considered to be fully applicable to the security budget and its main components including defense, with a view to ensuring that security sector expenditures like those in other sectors promote the three categories of good budgetary outcomes. Consolidating and summarizing these points around the three main budgetary outcomes, the applicability of PFM practices and principles to the security sector becomes clear, as outlined below.

⁴ Most characterizations of security from a development perspective define it as the absence (or more realistically low levels) of insecurity, rather than giving it a specific positive definition. See for example Stewart (2004, p. 3).

Box 1. 2: Principles of Sound Budgeting and Financial Management

The World Bank Public Expenditure Management Handbook identifies ten widely accepted principles of sound budgeting and financial management.

- **Comprehensiveness:** The budget must encompass all fiscal operations of government.
- **Discipline:** Decision making must be restrained by resource realities over the medium term; the budget should absorb only those resources necessary to implement government policies; and budget allocations should be adhered to.
- **Legitimacy:** Policy makers who can change policies during implementation must take part in and agree to the original policy.
- **Flexibility:** Decisions should be pushed to the point where all relevant information is available.
- **Predictability:** There must be stability in macro and strategic policy and in funding of existing policy.
- **Contestability:** All sectors must compete on an equal footing for funding during budget planning and formulation.
- **Honesty:** The budget must be derived from unbiased projections of revenue and expenditure.
- **Information:** A medium-term aggregate expenditure baseline against which the budgetary impact of policy changes can be measured and accurate information on costs, outputs and outcomes should be available.
- **Transparency:** Decision makers should have all relevant issues and information before them when they make decisions and these decisions and their basis should be communicated to the public.
- **Accountability:** Decision makers are responsible for the exercise of the authority provided to them.

These principles are argued by Ball and Holmes (2002) to be fully applicable to the defense sector, and by extension to other parts of the security sector. While considerations of confidentiality may dictate some departures in terms of budget practices, there is no grounds for departing from these basic principles.

Source: World Bank (1998), cited in Ball and Holmes (2002, p. 6).

AGGREGATE BUDGETARY OUTCOMES

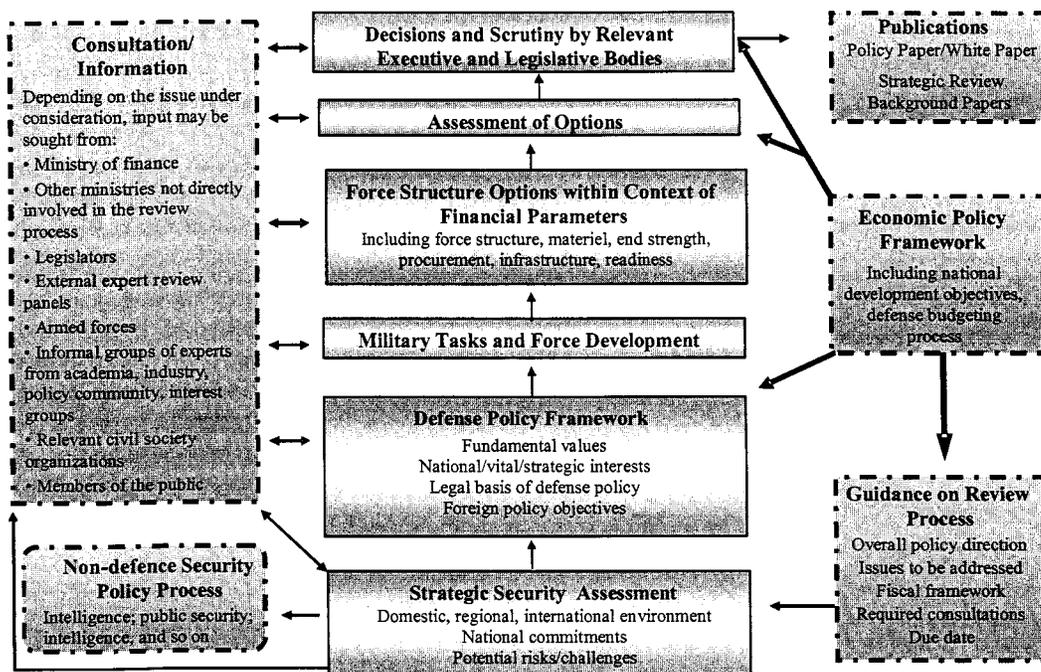
1.26 First and foremost, and applicable to prioritization of spending in the security sector (see below) as well as aggregate security sector expenditures, the security budget and the budgets of its main components (defense, interior, justice, etc.) should be prepared against clear strategies – at overall, sector, and subsector levels – and corresponding policies. The security strategy in turn needs to be an integral part of the broader national fiscal and development strategy. These principles are applicable to all parts of the public sector, and security should be no exception. Specifically in the case of defense, the strategy needs to be based on a transparent “threat assessment” fully owned by the government.

1.27 Figure 1.2 presents a generic process for defense policy and organizational reviews, which is broadly applicable to other parts of a country’s security sector as well. While the full complexity shown need not be followed in every case, the main elements need to be present. It is important that these policy development and organizational review processes are guided from the beginning by an indicative fiscal framework to promote sustainability. These review processes should ideally be as transparent and inclusive as possible. Insofar as they are based on broad consultations among the relevant stakeholders, and if the final product is made public, for example through the publication of a policy paper, their legitimacy will be strengthened. Of key importance here is the economic framework, and its linkage with setting the defence policy framework, assessing different fiscal options, and ensuring oversight by relevant executive and legislative bodies.

1.28 Second, as for the budget as a whole and as with any other sector, security sector policies and expenditures must be affordable, both in the short run (annual budget) and in terms of the implications for spending in future years (e.g. decisions on staff levels, associated non-salary costs, procurement of equipment, and other sustaining costs). This implies that the security sector needs to be fully incorporated in the annual budget formulation process, subject to aggregate fiscal constraints and sector ceilings like any other sector. It also means that the security sector must be fully incorporated in any medium-term

fiscal projections and planning, for example the Medium-Term Fiscal Framework (MTFF) that has been developed by the Ministry of Finance to underpin the ANDS (see Volume I, Chapter 3).

Figure 1. 2: Process of Conducting Defense Reviews/Developing Defense Policy Frameworks



Source: Ball and Holmes (2002, p. 55).

1.29 Thus the principles of comprehensiveness and discipline (Box 1.2) clearly need to be applied to the security sector. This means that all government transactions in the security sector should be on-budget, including revenues earned directly by security sector entities. Equally important is the need for transparency and information, without which decision makers cannot make informed choices with respect to the budget. Legitimate issues of confidentiality may constrain public dissemination of some information, but this should not prevent sufficient relevant information being made available to decision makers, through devices like closed budget hearings and the like. The principle of flexibility requires such availability of information. Inclusion of the security sector in the PFM system is essential to achieve the principles of honesty and predictability, i.e. basing the budget on unbiased projections of revenue and expenditure, and stability in policies and funding. All in all, application of these principles and inclusion of the security sector in the PFM framework will lead to a predictable budget.

STRATEGIC ALLOCATION OF RESOURCES ACROSS SECTORS AND PROGRAMS

1.30 Within the agreed overall resource envelope, good public finance management principles imply that resources are allocated according to strategic priorities both within the security sector and across all sectors (including security). Sector strategies are critical in this regard, as are the broad priorities indicated in the overall national strategy for development.

1.31 It is extremely important for strategic prioritization that the principles of comprehensiveness (see above) and contestability are applied. The former principle means that the security sector is fully incorporated in the budget and in the budget process, the latter that all sectors (including security) must compete on a level playing field for funding during budget planning and formulation. This does not

imply a mechanical or “equity” based allocation of resources, but rather that different sectors contest for resources during the budget formulation process on an equal footing based on their role in the national strategy and (for sub-sectors within the corresponding sector strategy). Even where security requirements change unexpectedly, the resource implications should be managed through the budget process.

1.32 Another key aspect of prioritization is allocation of resources over time. A classic misallocation of funds found in many countries is building physical assets like infrastructure or service delivery networks like education and health systems, without planning for or even taking into account the associated recurrent expenditure requirements. The same can occur in the security sector, where lethal and non-lethal equipment is procured, facilities are constructed, or security forces are expanded, without consideration of their full life-cycle costs. While in annual budgets this will be manifested as an imbalance between capital and recurrent expenditures, particularly non-wage recurrent spending, from a medium-term perspective the problem is one of prioritizing present and future expenditures between the two categories. Thus a medium-term fiscal perspective is an essential tool for prioritization as well as for assessing overall fiscal affordability.

EFFECTIVE AND EFFICIENT UTILIZATION OF BUDGETARY RESOURCES

1.33 Finally, the resources appropriated, both for the security sector and for other sectors, must be used efficiently and effectively. This requires application of a whole range of instruments and processes in the budget execution sphere (see Volume I, Chapter 7, as well as Volume II). The principle of comprehensiveness applies here as well, in the sense that the budget execution process for the security sector should include the same instruments, mechanisms, controls, and monitoring that are used for execution of the rest of the national budget.

1.34 Of particular importance in promoting effective and efficient resource utilization are predictability, flexibility, information, transparency, and accountability. In this context monitoring and evaluation, with an effective feedback loop to decisionmaking, will help ensure improving utilization of budgetary resources in the security sector over time. The need for external scrutiny and audit (with appropriate provisions in line with confidentiality concerns as needed) is just as great in the security sector as in other sectors.

1.35 The control framework, and also the accounting categories and reporting process, are very important for effective and efficient utilization of budgetary resources. Hence good practice calls for standardizing these important components of the PFM system in all sectors, including the security sector.

1.36 More specifically, perhaps the two most important supporting systems for good budget execution and therefore for effective and efficient utilization of budgetary resources are sound government financial information and reporting systems and procurement. In line with the principles of comprehensiveness and consistency of treatment of different sectors, the security sector should be covered by the government-wide treasury system – otherwise financial information for the security sector will not be available on a comparable basis with other sectors throughout the budget cycle. Related to this, classification systems used for security (including defense) need to be fully consistent with those used in the rest of the budget.

1.37 One area where different procedures are followed in many countries in the security sector, especially for defense, is procurement. The overriding objective of a national public procurement system is to deliver efficiency and value for money in the use of public funds, while adhering to fundamental principles of non-discrimination, equal treatment, and transparency. Procurement is therefore at the core of the PFM system and contributes greatly to several of its objectives, including efficiency, transparency, and accountability.

1.38 Defense, security, and budgeting specialists generally take the position that security sector procurement and acquisition practices should adhere to the same principles that guide procurement in non-security areas of the public sector: fairness, impartiality, transparency, cost-effectiveness/efficiency, and openness to competition. Additionally, it is essential that there be systematic evaluation of all major procurement transactions for all forms of public sector procurement.

1.39 Defense budgeting specialists have also noted that – with the exception of procurement of works and commodities (such as construction, clothing, food, fuel, office equipment, general vehicles, and consultancy services) – defense acquisition in particular (and also to a lesser extent other security acquisitions) does exhibit some distinctive characteristics. These relate to: (i) the relative importance of cost in determining which bid is accepted; (ii) confidentiality related to national security considerations; (iii) time frame for major weapons procurement; (iv) complexity of defense procurement; and (v) the existence of international arms control treaty regimes and national legislation governing arms procurement. However, these distinctive characteristics are deviations in scale rather than principle. Adequate levels of confidentiality can be maintained without violating basic public expenditure management principles. There certainly should be skepticism about any claims that procurement of relatively standard works, services, and commodities for defense or any other part of the security sector should be subject to different rules.

1.40 More specifically, while there are valid considerations of confidentiality that are relevant for some procurement transactions particularly in the case of defense, this should not prevent the key principles of good procurement practice from being fully applied throughout the security sector. Not doing so runs the risk of limiting competition, raising costs, and exacerbating vulnerability to corruption (which can be a significant risk particularly in the case of larger defense procurements). While as noted, confidentiality is a consideration for certain types of procurement in the security sector (e.g. advanced defense equipment), much of the procurement for the security forces (food, uniforms, transport vehicles, small arms and ammunition, etc.) does not entail overriding confidentiality considerations for the most part. In any case, it is important that sound public procurement principles and procedures be applied to the security sector, with appropriate provisions to ensure confidentiality where necessary.

1.41 To summarize the points made above with respect to aggregate budgetary outcomes, prioritization, and effective and efficient utilization of budgetary resources, it is clear that principles of good public finance management can and should be applied to the security sector, with appropriate modifications to take into account confidentiality considerations where necessary (but not in a blanket manner or in a way that undermines the fundamental principles of accountability to elected civil authorities). PFM in the security sector in fact can be subject to the same performance assessment and ratings as developed for the PFM system as a whole (Volume I, Chapter 2 and Volume II, Part 1). Thus it should be incorporated in the overall PFM performance assessment framework.

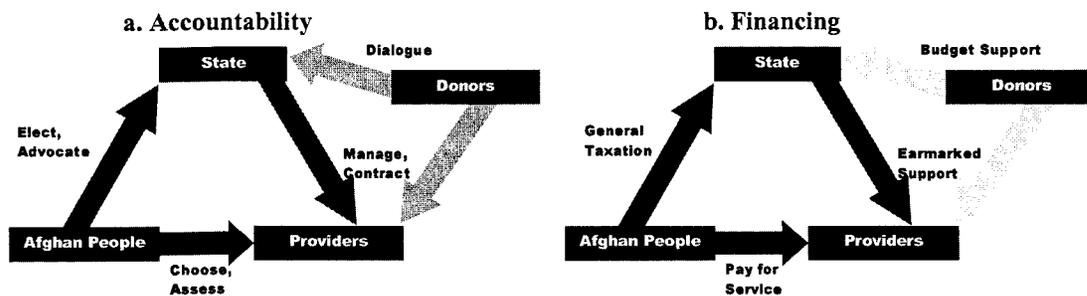
D. Service Delivery Perspective

1.42 As noted earlier, security is an essential public service. Thus taking a service delivery approach makes good sense, and provides some guidance for improving public finance management in the security sector, particularly with respect to institutions, incentives, and accountability. The distinctive features of security as a public service need to be taken into account, however.

1.43 **Conceptual framework.** A simple model illustrates the institutions, accountability relationships, and financial flows associated with service delivery and their implications (see Volume I, Chapter 8, and World Bank, 2003b). There are three main actors: *the people* (as citizens and consumers/clients of

services), *the state* (as political body and policymaker), and *the service providers*. The interactions by which these three actors influence and are accountable to each other form an “accountability triangle” (see Figure 1.3a), and there are correspondingly financial flows among them (Figure 1.3b). The people can affect service delivery by influencing policy makers (e.g. by voting or through the advocacy role of civil society), who in turn exert influence on the service provider (this is the so-called “long route” of accountability). Citizens can also directly influence service providers (the “short route” of accountability) by selecting the provider (when there is competition), using their voice (e.g. complaints), or making financial contributions (when there is cost recovery). Another important set of actors is *the donor community*, which exerts influence through its dialogue with policymakers, its financing, and its direct contracts with service providers.

Figure 1. 3: Service Delivery Framework



Source: Adapted from World Bank (2003b).

1.44 One of the main messages emerging from this conceptual framework is that it is often possible to improve service delivery by strengthening the short route of accountability, i.e. through relationships and accountability mechanisms directly between the service providers and the beneficiaries of the service (and their communities). Another key message is the need for donors to reinforce accountability of service providers rather than inadvertently undermining accountability by making direct payments to them (in cash, salary top-ups, in-kind contributions, etc.). The conceptual framework can also shed light on financing issues related to service delivery, specifically that there is scope for cost recovery (a financial flow from beneficiary to service provider) to be an instrument of accountability as well as for covering the cost of services.

1.45 **Distinctive features of security.** In applying this framework to the security sector, it needs to be kept in mind that security as a public service has some distinctive characteristics that affect the way it is delivered and the options for accountability and financing arrangements.

1.46 First, a state of security of the public from violence of all kinds comes close to being a pure public good, meaning that everyone in the locality (in the case of internal security) or in the country (in the case of external security i.e. defense) benefits from a situation with a general level of security. This implies that the set of actual or potential beneficiaries is no different from the population of the locality or the country, and that cost recovery from beneficiaries is not possible. However, access to public security services (ranging from the police to courts) may be far from equitable for all, and moreover individuals may be able to augment their own personal security through expending resources on private security guards, stronger physical protection of their property, locks and alarm systems, etc.

1.47 Second, security in a fundamental sense involves the threat and/or use of force against internal or external threats to security. This capacity to use force can be misused, as seen in Afghanistan’s recent history as well as in many other countries affected by civil conflict. Security forces easily can become a source of insecurity rather than security for the populace. Moreover, monitoring the performance of

security service providers can be difficult, as security forces (such as police) are armed and potentially can threaten civilian monitors. (See World Bank, 2003b, Box 3.3, p. 54, for a discussion on creating conditions of accountability for the police.)

1.48 Third, and related to the other two characteristics, effective provision of public security involves a monopoly in the provision of the service, i.e. the legitimate exercise of force, which is a fundamental attribute of a functioning state (see World Bank, 2005, Box 4.1, p. 45). Competition in the realm of security results in insecurity rather than improved security. However, competitive tendering can and should be used in contracting for certain security-related services like landmine clearance (as discussed in Box 6.1).

1.49 Fourth, measurement of outcomes and performance in terms of security is not easy, as the presence of security is essentially the absence of insecurity and associated adverse outcomes. Hence analyses of security, for example of defense as a public good, often use the level of funding of defense (an input indicator) as a measure of the amount of defense services provided, which can be misleading and may have little or no relation to actual external security (i.e. being at peace) as an outcome.

1.50 These features apply in varying degrees to different components of the security sector. Defense against external security threats is essentially a pure public good at the national level, to which all these characteristics apply in full. Internal public security, supported by the police and justice system, comes close to being a pure local public good for the locality concerned (although access may well be inequitable). Justice is also a public good in that its existence benefits everyone. However, any particular justice transaction benefits (or harms) individuals, and moreover, in many countries like Afghanistan people in need of recourse may have a considerable degree of choice as to whether to go through the formal justice system or instead rely on traditional informal mechanisms for this purpose. Landmine clearance has elements of both a public and a private service; clearly the private benefits are high if the land de-mined is under private ownership, whereas the public benefits are high if it is publicly owned/used land (e.g. roads or irrigation canals).

1.51 ***Implications of applying the service delivery framework.*** One extremely important implication is that ***effective oversight by the civil authorities is essential.*** Particularly in the case of the army and other national security forces, the long route of accountability is the only viable one, and this requires that service providers (security forces) are accountable to the state (which is in turn accountable to the population for ensuring the provision of security). Legitimate oversight by the civil authorities is also important, and equally with respect to local police, because of the risk that otherwise power would be abused.

1.52 Second, in the case of local security forces providing a localized public good, ***there is scope to enhance the accountability of the service providers directly to the local population they are serving.*** Police is a good example. The importance of good police-community relations has been widely recognized and reflects the importance of strengthening the short route of accountability in the case of local security services.⁵ In this context, effective complaints channels and other short-route accountability mechanisms are very important, and women and other vulnerable groups in particular need to have access to them.

⁵ See, for example, the *Police Accountability Newsletter* (<http://www.policeaccountability.co.za/Newsletter/backIssues.asp>), which focuses on Africa.

1.53 Third, as far as local security services are concerned (police, and much of the judiciary), *it makes sense to consider some form of de-concentration of government oversight* even in an overall unitary state structure, as long as the state is functional at the local level and not “captured” by regional or local powerbrokers.

1.54 Fourth, the importance of *donors reinforcing and not inadvertently distorting or undermining the accountability relationships* is at least as great in the security sector as in other sectors. This implies that donors should as much as possible work through budget channels and not build up parallel structures, avoid undermining the service providers’ accountability relationship with the state (which can happen for example if they provide resources, e.g. in kind or salary top-ups, directly to the providers), resist “flagging” projects they support to the detriment of the Government’s visibility, and encourage cost containment for example by supporting competitive procurement.

1.55 And finally, as discussed in Chapter 6, despite major difficulties *it is critically important to develop monitoring frameworks and performance indicators* so that oversight bodies, and ultimately the people, can assess performance with regard to security.

CHAPTER 2. AFGHANISTAN'S SECURITY SECTOR AND KEY DEVELOPMENT ISSUES

2.1 Afghanistan's security sector, reflecting its historical legacy, recent improvements, and remaining problems and gaps, consists of several different security forces and institutions. This chapter first briefly summarizes the historical background and outlines the progress made by the security sector since 2001. It then provides an overview of the present, rapidly evolving security sector in Afghanistan, including the legal framework, its main components, overall size, and salient features. The chapter then discusses the institutional structure, institutional issues, and coordination arrangements in the security sector. The final section summarizes the key security issues faced by Afghanistan from a development perspective.

A. Historical Background and Recent Progress

HISTORICAL BACKGROUND

2.2 Afghanistan's history over the past several centuries has been marked by frequent conflicts (external and internal) and political instability, with considerable adverse impacts on people's security at various times. The four decades prior to the 1970s, however, were an exception, during which Afghanistan remained at peace (with external policies of neutrality and non-alignment, respectively, during World War II and the Cold War), major internal conflicts were avoided, and some progress was made in building basic Government security institutions. While the reach of the national government and its security forces was not great, they were not themselves a source of conflict until the army coup of 1978 (despite a tradition of ethnic bias in recruitment and promotions), and they operated alongside functioning traditional mechanisms for providing security and justice.

2.3 Nearly a quarter-century of protracted conflict in Afghanistan, starting in the late 1970s, led to pervasive insecurity throughout the country and destroyed or profoundly damaged the institutions that had been responsible for providing security in the pre-war period – both formal governmental institutions and traditional mechanisms. Government security forces were misused in ways that reduced rather than enhanced security, e.g. during the Soviet occupation of the 1980s, and they became increasingly “captured” by factions in Afghanistan's civil war during the 1990s. The emergence of numerous well-armed militia groups, in shifting loose alliances, meant that the ability to use large-scale violence in pursuit of objectives was no longer the monopoly of the government but rather was widely contested, greatly undermining security. The judicial system was similarly undermined, and the imbalance of relations between political/military powers and the judiciary particularly in rural districts adversely affected and continues to threaten the population's access to justice (see Nojumi, Mazurana, and Stites, 2004). Traditional mechanisms for providing justice were often captured and used for their own ends by commanders and warlords. And neighboring countries and other powers repeatedly and competitively intervened militarily – either directly or indirectly by providing arms and other support to different factions – contributing in a major way to insecurity in Afghanistan.

2.4 Pervasive insecurity, beyond the damaging effects of the conflict itself, has been profoundly harmful to Afghanistan's development. Consistent with the discussion on security and development in Chapter 1, key adverse impacts of the conflict on Afghanistan can be summarized as follows:

- Erosion of the authority and capacity of the state, and in particular the loss of its monopoly on organized/legitimate use of force, meant that internal conflict and insecurity became the norm.
- Related, the state no longer provided public goods, notably security, and traditional mechanisms for this purpose were also undermined by exercise of force by regional and local powerbrokers.
- The breakdown of the judicial system resulted in a pervasive culture of impunity.

- Other public services (even though not widely provided in the pre-war period) were severely affected – virtually stopped in most cases. For example, Kabul University stopped turning out high-quality graduates to work in the public or private sector; combined with the flight of talent from conflict, this left Afghanistan with very limited in-country human capital resources. In the meantime several generations of Afghan children got little or no basic education.
- With respect to infrastructure, much was destroyed by conflict. Assets such as bridges, dams, and power lines were frequently targeted and sabotaged by opposing groups. But even more significant damage was caused by facilities not being maintained and falling into disuse.
- Conflict also resulted in economic distortions, incentives to shift into the informal economy and illicit activities, use of the latter to finance conflict, and the progressively emerging synergistic relationship between drugs, arms, and conflict.
- As in other conflict-affected countries, women and girls became victims of sexual assault, as rape and sexual violence were resorted to by armed groups. Forced marriages to combatants were common. Boys likewise fell prey to abduction and sexual assault. The general atmosphere of fear and intimidation disproportionately affected women’s mobility, ability to participate in economic life, and access to basic services.
- Moreover, during the conflict gender issues became politicized to an unprecedented extent, undoing the limited progress on gender equity achieved over the previous decades, and culminating in the Taliban policies of excluding women from any public role in society, with dramatic adverse consequences for their legal protection and ability to access services.
- The effects of conflict, insecurity, and economic disruption spread beyond Afghanistan’s borders. While competition among regional and other powers was a source of insecurity for Afghanistan, smuggling and narcotics trafficking emanating from the country had major regional implications, as did the wholesale displacement of Afghans as refugees in neighboring countries.
- Finally, the laying of millions of landmines during the conflict and the existence of enormous amounts of unexploded ordnance resulted in heavy human and economic costs (see Box 5.3).

2.5 While the conflict resulted in enormous social and economic costs in terms of displacement of people, disruption of normal life, loss of livelihoods, etc., Afghanistan’s social indicators before the war had been among the worst in the world, and they did not deteriorate in absolute terms. However, the country did not participate in the major improvements in social indicators that occurred worldwide during the latter part of the 20th century, including in low-income countries. Moreover, although the conflict distorted and “transformed” social capital in Afghanistan (see Colletta and Cullen, 2000, for a discussion of changes in social capital during conflicts, with case studies of several countries), traditional forms of social capital remained and helped the population cope. Family, village, and tribal ties continued to be strong, even when group members became separated due to displacement or migration. Traditional social capital and coping mechanisms continue to be very important for most Afghans today.

2.6 In addition, some of the “legacy costs” of conflict (see Chapter 1) are evident in Afghanistan, for example the difficulties faced in resurrecting a functional revenue apparatus, which has had to be built up from an extremely low level. Another legacy of conflict has been tremendous shortages of professional, managerial, and technical human resources, which will persist for a while due to the time required for such skills to be built up through education. Landmines, which can cause injury or death and render land unusable for many years, can be considered yet another legacy cost of conflict, especially severe in the case of Afghanistan which is one of the most mine-affected countries in the world (see Box 5.3).

2.7 In conclusion, at the time when major conflict ceased in late 2001, Afghanistan faced a precarious security situation with great uncertainties. State security forces had ceased to function or had been captured by factions. The formal justice system was moribund. Numerous armed groups exercised control in different parts of the country. The downfall of the Taliban left a vacuum which in the absence

of an effective state was quickly filled by regional and local powerbrokers. Opium production was poised to rebound, and criminal behavior, often engaged in or abetted by armed groups, was common.

PROGRESS IN SECURITY SECTOR STRENGTHENING AND REFORM

2.8 Enhancing security and reforming the security sector have all along been seen as critically important for Afghanistan’s reconstruction agenda, although these topics were dealt with only in general terms in the Bonn Agreement of December 2001. At two subsequent donor meetings, key targets were set for the security sector, as shown in Table 2.1, but these were fixed without reference to fiscal affordability or a threat analysis and instead reflected complex political judgments. Nevertheless, progress has been achieved in strengthening and in some respects reforming the security sector, particularly in the last two years. Major successes include the avoidance of large-scale fighting since late 2001, the steady shift away from a pattern of endemic conflict toward a situation where the people and society become progressively more accustomed to peace, and the gradual extension of the writ of the national government beyond Kabul. However, great gaps remain both in terms of areas that the Bonn Agreement did not cover and in achieving agreed security-related targets. Moreover, although very substantial, international security forces’ presence in Afghanistan has been limited as compared to other post-conflict situations.

Table 2. 1: Security Sector Parameters

Sector	Size	Lead Donor
Army	70,000	USA
Air Force	8,000	USA
Border Control Security Force	12,000	USA
Police Force	70,000	Germany
Justice System	n/a	Italy
Counter-Narcotics	n/a	UK
Demobilization of militias	100,000	Japan

2.9 Over the past year or so, important gains have been made in terms of operationalizing both the national army and the national police forces. Moreover, some progress has been recorded in terms of policy and strategy development, as of mid-2005. More specifically:

- The Afghan National Army (ANA) now stands reportedly at around 26,000 fully trained and equipped troops, although the projected expansion to 45,000 by the end of 2005/06 is unlikely to be achieved.⁶ ANA interventions in several instances have already made positive impacts in improving internal security and in helping to extend the reach of the national government into areas previously controlled or disputed by major warlords.
- There have been gains in police training, with more than 40,000 police trained. A new salary scale for the police is currently under consideration, but it has yet to be formally adopted pending discussion with the Ministry of Finance.
- The Afghanistan New Beginnings Programme (ANBP, the DDR program) has successfully completed disarmament of more than 63,000 Afghan Militia Forces, with nearly all of them demobilized and most provided some form of re-integration support – although re-integration, essentially for the sustainability of DDR, will take time. (The number of militia forces to be disarmed turned out to be considerably lower than the original estimate of 100,000.) In total, 36,571 weapons have been collected with 11,004 heavy weapons, as of early October 2005.
- The focus is now shifting to other (illegal) militias, and a program for Disbandment of Illegally Armed Groups (DIAG) has been initiated, although it is at an early stage (and requires a different approach as unlike DDR it is not necessarily on a voluntary basis).

⁶ Reportedly slower than expected expansion of the ANA is due in part to departures of soldiers, but also to a slowdown in training due to logistical bottlenecks in ensuring that troops trained are properly equipped on a timely basis.

- Twenty-two Provincial Reconstruction Teams (PRTs) are now operational across much of Afghanistan, intended to support efforts to improve provincial security arrangements, create an environment supportive of relief and development work, and even become directly involved in such work (e.g. building schools, clinics, and irrigation structures).
- Over 500 judges have been trained through an International Development Law Organization program, although there are concerns that the amount and quality of training are insufficient.
- A national threat assessment was prepared in March 2004, and a revised, updated version was completed in September 2005. Interestingly, the threat assessment introduces concern for the fiscal sustainability of security sector institutions, given the state's limited revenue base and increasing operating costs of defense and other security sectors. Preparation of a national security strategy is at an advanced stage, and a national military strategy has been prepared. Security has been included in Afghanistan's Millennium Development Goals (MDGs) as an additional MDG (see Box 2.1) and is forming a central component of the Interim Afghanistan National Development Strategy (I-ANDS).

Box 2. 1: MDG Goal 9 Enhancing Security

The Government's MDG report (Afghanistan Government, 2005b) summarizes the situation, issues, and constraints with respect to Afghanistan's MDG Goal 9, enhancing security.

- Security is critical for Afghanistan's reconstruction. Without an adequate level of security, not only will the country fail to achieve the Millennium Development Goals, but also progress achieved during the last four years will be reversed, increasing the likelihood of resumption of large-scale conflict.
- Considerable progress has been made by the Ministry of Defense, supported by the United States, to recruit, train, equip and field the Afghan National Army (ANA). The ANA has established nationwide presence since 2003 and fielded a Brigade into each Regional Command. This has greatly facilitated the expansion of central Government authority and the rule of law, supported DDR and will support revenue collection and counter-narcotics efforts.
- Establishing effective control over the use of armed forces is the foundation for all other progress in Afghanistan. Challenges to the creation of the new ANA include the training, equipping, fielding and paying of the Army. An estimated 17% of the GDP was allocated in the 2004/05 national budget for the ANA. Over the next 15 years this is targeted to come down to 3-5%, comparable to other developing countries.
- ANBP has been quite successful in the disarmament and demobilization components of the DDR process. But in a fragile security environment, it will be impractical to aim for complete disarmament. Forcible disarmament of commanders and other powerful individuals may lead to increased insecurity.
- With the passing of a new gun law, a license is now required to possess a firearm. The licensing process offers an opportunity to reduce the incidence of firearms misuse and gun crime.
- The human resource requirements for the ANP are substantial. In 2002, less than 10% of police officers were properly equipped and more than 80% of the infrastructure had been destroyed during the years of conflict. At the current rate, the training programs are expected to meet the target of 62,000 trained personnel by late 2006.
- There are serious concerns about the fiscal sustainability of the proposed reforms, especially given the shortfall for LOTFA during its recent second phase, when only 40% of requested funds were received. The major donors are beginning to signal a shift away from completely underwriting the full recurrent budgetary expenses of the ANP. Furthermore, the pace of proposed reforms in the justice sector has to be aligned with attempts to reform and restructure the police.
- Landmines and unexploded ordnance (UXO) currently affect some four million Afghans. Only two provinces are wholly free of the problem. The unit cost of clearing the remaining identified and surveyed minefields in Afghanistan has been estimated at \$1 per sq. m. In a situation where there is a large movement of population, and development and reconstruction projects impeded by mines/UXO, it is necessary to expand the de-mining program and make faster progress toward eliminating the problem of landmines.
- Opium dominates the national economy. It accounts for one-third of estimated total GDP and 50% of legal GDP. The total area under poppy cultivation increased by nearly two-thirds during 2003/04. Even as the Government attempts to reduce and eventually eliminate poppy cultivation, there is a risk that targeting poor farmers and landless laborers involved in poppy cultivation with eradication and law enforcement measures may increase poverty in the short-term, until genuine and sustainable alternative livelihoods can be developed.

The cost of securing Afghanistan from terrorism, insurgency and tribal conflicts, organized crime, narcotics production and trafficking is high. The Government needs to follow a two-pronged approach of sustaining high levels of economic growth while increasing domestic revenue to ensure long-term fiscal sustainability of the security-sector reforms.

2.10 In summary, there has been significant progress in building up Afghanistan's security sector, broadly in line with the directions set in the Bonn Agreement and at subsequent security meetings.

However, there is still a very long way to go, and as will be seen later in this chapter, numerous issues remain related to the security sector and the important security problems affecting the lives of Afghans.

B. Overview of Afghanistan's Security Sector

LEGAL FOUNDATION

2.11 The 1382 (2004) Constitution provides the legal foundation for Afghanistan's security sector. As noted in Box 2.2, the Constitution does not provide much in the way of specifics and hence there is a need for legislation for this purpose. More generally with respect to the legal and justice system, although there has been considerable progress in finalizing and promulgating legislation on various subjects in recent months, a large backlog remains of 100-plus laws and regulations at various stages of preparation and approval. Capacity in the Ministry of Justice to review and process draft laws and regulations is an important constraint, and the recent election of Parliament means that all new legislation will require Parliamentary approval, which may result in further slowing down the passage of new legislation.

Box 2. 2: Legal Foundation of Afghanistan's Security Sector

The 1382 Constitution, promulgated in January 2004, provides general guidance on the nature and objectives of the security sector institutions. Article 5 states (according to unofficial translation) that: "implementation of the provisions of this constitution and other laws, defending independence, national sovereignty, territorial integrity, and ensuring the security and defense capability of the country, are the basic duties of the state."

Article 64 vests substantial power in the hands of the President, who is the Commander-in-Chief of the Afghan National Army. The President is also responsible for:

- Declaring war and ceasefire with the confirmation of the National Assembly;
- Taking the required decisions to defend the territorial integrity and protect the independence of Afghanistan;
- Sending contingents of the armed forces to foreign countries with the confirmation of the National Assembly;
- Appointing Ministers, the Attorney General and Head of the National Security Directorate;
- Appointing the head and members of the Supreme Court with the confirmation of the Wolesi Jirga; and
- Appointing, retiring, and accepting the resignation of and dismissing judges, officers of the armed forces, police, national security, and high-ranking officials in accordance with the law.

Other sections of the Constitution deal with the judiciary, the rights and responsibilities of citizens, and the role of the Government in providing security, the role of the National Assembly, the declaration of states of emergency, and the protection of human rights.

Internationally, constitutions increasingly specify (a) lines of authority between major security sector actors (civil authorities and security services); (b) the basic responsibilities of each of these actors; and (c) broad democratic principles to which the security-sector institutions should adhere. Afghanistan's Constitution has very little detail of this nature. While the President is named as commander-in-chief of the national army and the Constitution contains an entire section on the judiciary, it is essentially silent on other parts of the security sector. This means that considerable subsidiary legislation will be required.

Although the 1382 Constitution does not specifically direct the President or the Government to develop laws governing the security sector, the need for legislation for at least some portions of the security sector has been recognized. The National Security Law, which regulates the National Directorate of Security, was approved by the President in March 2004. MoI is drafting a police law and is working with the Ministry of Justice to redraft the existing counter-narcotics law. The UN Office on Drugs and Crime is drafting a Penitentiary Law for the Ministry of Justice, while the latter indicates that it is reviewing a law on armed forces officers and a prisons and detention centers law. In view of the emphasis that has been given to rebuilding the country's security services, the approval of laws governing these bodies should be accorded similar priority.

MAIN COMPONENTS AND SIZE

2.12 In line with the definition of the security sector put forward in Chapter 1, the main components of Afghanistan's security sector are briefly described below.

2.13 **Security forces.** These include the ANA (now around 26,000 fully trained and equipped troops); the ANP (roughly 70,000 police, only some of whom are trained); elements of the National Directorate of Security (doing intelligence work); several specialized counter-narcotics forces; border guards; and penal staff. As mentioned earlier, decisions about the numbers of personnel in the various national security

forces in Afghanistan were determined early on, in the absence of an agreed threat assessment, a national security strategy, sectoral policies, or consideration of how much it would cost to maintain a security establishment of a particular size. Targeted staffing levels instead represented political compromises related at least in part to plans at the time to accommodate existing armed groups (after DDR) in the new security services.

2.14 **Management and oversight bodies.** The main management and oversight bodies in Afghanistan's security sector include the National Security Council, National Security Advisor, Ministry of Defense, Ministry of Interior, Ministry of Justice, Ministry of Border and Tribal Affairs, the recently established Ministry of Counter Narcotics, the Anti-Corruption Office, and (with respect to enforcement actions by customs agents) the Ministry of Finance. Many of these entities have corresponding provincial departments. There are no obvious anomalies in the constellation of security sector oversight bodies, although most of them suffer from limited capacity. The oversight and coordination of counter narcotics activities has been limited and fragmented in the past, and the creation of the Ministry of Counter Narcotics is intended to remedy that. Once Parliament is established (in December 2005), there will be civilian legislative oversight of the security sector and national budget.

2.15 **Justice and law enforcement agencies.** These include the Supreme Court, lower-level courts, the Attorney General's Office and sub-national prosecutorial staff, and prisons, as well as customary and traditional justice bodies. Another significant body has been the Judicial Reform Commission, although its role has been diminishing and it did not evolve, as intended by the Bonn Agreement, into the main driver of the judicial reform process.

2.16 **Non-statutory security actors.** Although this part of the security sector is not discussed in detail in the PFM Review, the substantial size and rapid growth of non-statutory providers of security services has potentially important implications and deserves to be emphasized. In addition to the "official" Afghan Militia Forces (AMF), which have now been eliminated through DDR, and unofficial armed groups still in existence, various private and non-Government security entities have grown rapidly in response to demand. These include international contractors, domestic security firms, de-mining agencies (organized as NGOs), armed groups providing security under contract, and individual guards. Private security services are contracted for a variety of purposes, including among others (i) security for foreign and international agencies' premises (including Coalition/ISAF in some cases); (ii) security for reconstruction projects, including security services for international contractors carrying out such projects; (iii) security for road missions of aid agencies; and (iv) bodyguard and close protection services. Furthermore, during and after the war to dislodge the Taliban, non-statutory armed groups such as local militias in many cases were provided funding through payments from external forces.

2.17 In addition, government security forces are often contracted and paid for similar types of security services by the international community (guarding of premises and provision of security for road missions are two common examples). Thus there is a grey area and a blurring of distinctions between public and private provision of security, with potential for confusion of roles, distorted incentives (e.g. for government security forces to in relative terms neglect their public responsibilities while pursuing work for which they are paid), and possible irregularities.

2.18 While no estimates are available of the number of private and unofficial security personnel and companies, and the volume of security services they provide, given the size of the foreign presence and ongoing reconstruction efforts, it is clear that a great deal of private security provision is occurring.

2.19 **International security forces.** International security forces have a substantial presence in Afghanistan, and their cost exceeds that of all Afghan security forces combined by 10-fold or more. They can be divided into three broad categories:

- The *US-led Coalition forces*, now numbering approximately 20,000, of which US military forces account for the vast bulk. Estimated annual cost is in the range of \$12 billion per year.
- The *International Security Assistance Force (ISAF)*, now under NATO command, numbering some 5,000 military personnel from numerous countries. Estimated cost is roughly \$3 billion per year. Leadership of ISAF, which is concentrated in Kabul, has been rotating among several of the main providers of troops for ISAF.
- The *22 PRTs that have been established in provincial capitals*, with a mandate to help improve governance and support reconstruction as well as to facilitate improved security in the localities concerned (see Box 2.3). Some PRTs are part of and report to the Coalition, others are under ISAF. The current PRT structure currently allows the 22 units to cover all 34 provinces.

Box 2.3: Provincial Reconstruction Teams (PRTs)

The explicit objective of the Provincial Reconstruction Teams (PRTs) is to assist the Government in extending its authority to provinces, in order to facilitate the development of a stable and secure environment and enable security sector reform (SSR) and reconstruction efforts to move forward. The PRT concept evolved out of an originally larger, more strategic proposal for military intervention, designed to support international military engagement outside Kabul in support of DDR and local-level reconstruction efforts. As of September 2005 there were 22 PRTs in operation, of which 12 are under US command, two each are run by the UK and Germany, and Canada, Italy, Lithuania, Netherlands, New Zealand, and Spain each have one PRT. PRTs have shown great flexibility on the ground, varying the intensity of security and assistance activities relative to the local security setting. Some issues related to PRTs are summarized below (see Hendrickson and others, 2005, and also Perito, 2005).

A key issue related to PRTs is that they fall under different management arrangements, thereby hindering a more cohesive approach to extending the writ of Afghanistan's national government outside of Kabul. The complexities of developing a common PRT framework reflect the number of countries directly involved in PRTs, the presence of two separate international military operations and commands in Afghanistan, and varying approaches to civil-military activities. Both NATO and US approaches stress that the fundamental purpose of civil-military activities is to support the accomplishment of the military mission, although in practice PRTs have expanded their work beyond this mandate. In principle, PRTs are coordinated centrally through the PRT unit in MoI; in practice, however, little coordination actually takes place. Furthermore, field discussions with PRTs yielded little information regarding actual numbers of staff, expenditures, or activities.

Key criticisms of the PRT approach, based on interviews held in December 2004, included (i) lack of central command within the Government; (ii) differing bilateral approaches whereby PRTs provided by different countries are under separate management structures; (iii) undisclosed finances and staffing numbers; (iv) blurring of military activities with those of NGOs as PRTs regularly use plain-clothed military personnel; (v) weak integration with other provincial-level activities; (vi) funding not integrated within the national budget framework; and (viii) apparently high unit costs for certain activities. Importantly, lack of sub-national capacity in the Government often left highly-qualified PRT units without a clear development counterpart at the provincial level, undermining coordination of efforts and integration with other ongoing reconstruction activities.

Currently efforts are underway to consolidate PRTs and provide greater clarity for their missions and management structure.

2.20 *Size and staffing.* Available information on the number of staff in different parts of the security sector is provided in Table 2.2. Staffing information is subject to inaccuracies and fluctuations, and regular payroll data has not been easily available for some parts of the security sector (e.g. MoD, MoJ, and NDS). Nevertheless, the data do provide a clear indication that Afghanistan's security forces are staffing up toward targeted levels. Also, inflation in numbers of civilian staff in oversight bodies does not appear to be occurring. The sharp decline in authorized total for MoD reflects the disbandment of the existing AMF which has now been completed, and its progressive replacement by the ANA currently under expansion.

SALIENT FEATURES

2.21 Based on the legacy of conflict and recent developments, Afghanistan's security sector has some important characteristics with significant fiscal and development implications.

2.22 First, as discussed earlier, the historical legacy of conflict was fragmentation into regional and local militias, capture of policing and military functions by non-legitimate actors, and erosion of both formal and traditional justice systems, also with capture by non-legitimate authorities. Building the state since 2001 hence has entailed reconstituting and reforming the security forces under legitimate oversight

by the civil authorities. While significant progress has been made in this regard, rule of law is still lacking in many respects and in many parts of the country, and insecurity remains a major constraint to state building, public service delivery, and private sector development.

Table 2. 2: Approved Staffing Establishment in the Security Sector

	2003/04	Average payroll (oversight bodies)	2005/06 (proposed)	Average payroll (first 6 months)
Ministry of Defense	56,700	n/a	21,550	5,011
ANA	17,000		45,000	
Ministry of Interior	70,244	8,456	81,614	9,571
Ministry of Justice	10,100	4,701	10,289	2,064
Ministry of Border and Tribal Affairs	1,626	1,626	1,626	1,137
Ministry of Counter Narcotics			692	26
Supreme Court	4,730	3,340	4,768	3,288
Attorney General	4,923	4,159	4,087	3,333
National Directorate of Security	10,000	n/a	10,000	n/a
Total	175,323	22,282	179,626	24,430

*Note: Average numbers on payroll refer to civilian employees only, i.e. the civilian employees of oversight bodies. Data in other columns refer to authorized levels of staffing
Source: ARTF Monitoring Agent (2005).*

2.23 Second, the immediate security threats faced by Afghanistan are variegated and disputed by different stakeholders. Some observers see the continuing insurgency in the south and east and conflict with Taliban/Al Qaeda forces as the most important security problem. Others are most concerned about criminality and lack of rule of law at the local level, with associated capture of policing and justice functions by warlords and commanders. Still others are concerned about the lack of civil authorities' management capacity and inadequate oversight/accountability of the Government's security forces. The drug industry is widely seen as a major cause and consequence of insecurity. The development of an agreed national security strategy, currently under preparation, will facilitate reaching consensus on the different security threats and their relative priority.

2.24 Third, the overall size of the security sector, even with recent and planned expansion, does not seem unreasonably large by international standards. These include a planned size of the ANA of 70,000 (not all of them combat troops) and a planned size of the Afghan National Police (ANP) of 62,000. However, the appropriateness of the size and balance between different security forces can be questioned in the context of Afghanistan's particular situation and security needs. For example, the role of the ANA in meeting different external and internal threats would need to be clarified in order to assess the appropriateness of its targeted size.

2.25 Fourth, Afghanistan's security sector nevertheless is costly and could well be unaffordable. The lack of short-run budget discipline (and lack of policies and programs to form the basis for sound budgeting), and the involvement of different "lead donors" and line ministries in decision-making on force levels and expenditures, have resulted in limited efforts to control costs. Over the medium term, it is extremely doubtful whether the sustaining costs of Afghanistan's security sector at planned force levels can be absorbed by Afghanistan's national budget (as will be discussed in detail in Chapter 4). This implies that difficult trade-offs will have to be made in prioritizing expenditures, means of achieving efficiencies in security-related expenditures will need to be identified, and the possibility of multi-year donor financing commitments for the security sector should be explored.

2.26 Fifth, the progress in developing different parts of the security sector has been uneven. After a slow start initially, the formation and expansion of the ANA have moved forward rapidly over the past two years. Progress in forming the new ANP has been much slower, and reform and capacity building in the justice sector have lagged far behind, with adverse implications for legal reforms and a pro-private sector business climate. Moreover, within sectors there has been a disproportionate focus on building up security forces and less attention to strengthening the key management and oversight institutions, most notably the Ministry of Defense and especially the Ministry of Interior.

2.27 Sixth, security and fiscal issues are closely interlinked. For example, low domestic revenue is both a consequence and cause of insecurity. Reconstruction costs tend to be higher due to insecurity, while on the other hand the security sector is a source of considerable fiscal pressure. And pay and grading decisions with respect to the security services can have important fiscal implications.

C. Institutional Structure and Coordination

2.28 Security sector institutions, and coordination among them, are critical for achieving national security objectives. Table 2.3 summarizes institutional roles in the security sector, and points out gaps and areas of duplication. A striking feature is the many different entities responsible for various aspects of counter-narcotics activities, and the bifurcation of oversight between the newly-formed Ministry of Counter-Narcotics (MCN) and the wing of MoI responsible for counter-narcotics law enforcement. Moreover, some counter-narcotics forces and activities are closely supervised (and directly funded) by donors, which further fragments management and administration of these functions arrangements. The MCN is intended to provide overall coordination but as a new ministry requires time to build up capacity for this purpose. The capacity and effectiveness of institutions in the justice sector remain a serious concern. And although as discussed later in this section there has been major progress in developing security sector coordination mechanisms under the leadership of the NSC and NSA, there is room to further enhance their effectiveness, particularly in the context of the national security strategy.

INSTITUTIONAL AND ADMINISTRATIVE REFORMS

2.29 The pace of institutional and administrative reforms in the security sector has been slow, although the Ministry of Defense and National Directorate for Security have been exceptions. With the focus on restructuring, training, and equipping the ANA, the ANP, and the various counter-narcotics forces, reforms of the parent ministries have received less attention. In most cases, insufficient emphasis has been placed on developing sustainable institutions. Lack of reform in MoI in particular, under which all provincial and district administration offices are accountable, has been a major disappointment.

2.30 Restructuring and capacity building support have not been well-coordinated, have been driven by project financing and, by and large, have neglected the need for performance-based recruitment, upgrading of administrative and financial management, and unifying duplicate functions. Gains in the performance of some security institutions have been made outside the Government's agreed administrative and civil service reform framework, but many of the Core Budgetary and other institutional functions have yet to be strengthened.

Table 2. 3: Main National Entities Involved in Security, their Roles, Gaps and Duplications

Entity	Roles	Gaps/Duplications
Defense		
Ministry of Defense (MOD)	Provide overall strategic direction, develop policies	
Afghan National Army (ANA)	Defense of state and Islam against external aggression, support political process, disarm illegal groups, counter-terrorism activities.	Overlap in internal security with ANP
Afghan Militia Forces (AMF), Illegal Armed Groups (IAG)	DDR of AMF completed but reintegration continuing; Disbandment of Illegal Armed Groups (DIAG) underway	
Law Enforcement		
Ministry of Interior (MOI)	Overall responsibility for law enforcement	
Afghan National Police (ANP)	Handles policing functions nationwide	Uncertain role on counter-narcotics.
MoI Border Guards	Protect borders against cross border crime and insurgency	Uncertain role in counter-narcotics.
Ministry of Borders and Tribal Affairs (MoBTA)	Mobilizes semi-formal tribal defense forces in border areas	Unclear roles, payments, and relationship with MoI guards
Deputy Minister for Counter-narcotics	Oversees coordination of CNPA, ASNF, CEPC, CPEF	With the creation of the new Ministry of Counter-narcotics, roles and responsibilities of these various agencies need further clarification.
Counter-narcotics Police (CNP)		
Central Planning Cell	Coordinates poppy eradication	
Central Poppy Eradication Force (CPEF)	Carries out poppy eradication activities	
Afghan Special Narcotics Force (ASNF)	Carries out drug interdiction activities	
Ministry of Counter-Narcotics (MCN)	Develop and coordinate implementation of counter-narcotics strategy; provide TA and advice to other ministries	Need to ensure effective coordination with MoI
Justice		
Ministry of Justice (MoJ)	A society that respects the law, seeks resolution of disputes and cases through an orderly process, provides justice in the best way while protecting human rights, also enhancing the legal knowledge of citizens of the country.	Unclear interface of applicable law and legal authority between formal and customary judicial practices. Significant overlap of certain laws.
Supreme Court	On request of Government or courts reviews laws, legislative decrees, international treaties, international covenants for compliance with constitution; interprets same in accordance with the law.	
Attorney General	Provides legal support to the executive on application of national and international laws. Handles state prosecutions.	
Directorate of Prisons	State mandate for correction system	Relation to judiciary reform.
Intelligence		
National Directorate of Security (NDS)	Investigates organized crime, terrorism, espionage.	Has ceded operational activities to MOI, eliminating an overlap.
National Security Development and Coordination		
National Security Council (NSC)	Policy coordination at inter-ministerial level; Office of National Security Council (ONSC) coordinates institutional activities in security sector and policy implementation, provides advice to President & NSA	National security strategy and policy framework currently being developed.
National Security Advisor (NSA)	Policy coordination at inter-ministerial level, in collaboration with the NSC and supported by ONSC, advises President on security issues	

2.31 The Priority Reform and Restructuring (PRR) tool has not been used to support the restructuring of key security-related institutions. The only exception is the PRR application of MoJ, which has recently been approved by IARCSC (see Table 2.4). In 2004/05, the IARCSC commenced reforms of Provincial Governor's Offices, which have security, modest service delivery, and development coordination

functions. A new institutional structure is being piloted in Balkh, and the recruitment of 21 qualified staff there is a major step forward. This pilot reform is also being implemented in Samangan and Jawzjan.

Table 2. 4: Current Status of Security Sector PRR Applications

	PRR Stage 1	PRR Stage 2
Security Body	A. Under Consideration	A. Under Consideration
Ministry of Interior	Office of Governor in the following provinces: Nangahar, Kandahar, Kunduz, Herat, Paktia, Faryab, and Badakhshan.	Office of the Governor and Provincial Government of Samangan
	B. Approved: Samangan Province Jawzjan Province	B. Approved Office of the Governor & Provincial Administration of Balkh Office of the Governor & Provincial Administration of Kabul Province
	MoI (Proper)	Office of the Minister Local Governments Department (Province, Municipality/Districts) Population Registration Department Finance and Administration Department
Justice	B. Approved	B. Approved Justice Ministry except Directorate of Prisons and Directorate of Juvenile Prisons. The departments and numbers of personnel involved are: 1. Office of the Minister – 10 (from 42) 2. Office of Secretary General – 9 (new) PRR Task Force - 5 3. Legislative Department – 59 (from 93) 4. Coordination, Evaluation & Registration of Political Parties and Social Organizations – 15 (from 33) 5. Auditing and Internal Inspection – 24 (new) 6. Huquq Directorate – 22 at central: 264 in 33 provinces and 748 in 374 District Huquqs 7. Directorate of Publications – 17 (from 27) 8. Government Cases – 26 (from 44) Note: No recruitment is happening
	A. Under Consideration	A. Under Consideration
Attorney General's Office	Attorney General's Office Penalties Department	PRR Stage 2 under consideration but cooperation/work is slow
	A. Under Consideration	A. Under Consideration
Ministry of Counter Narcotics	PRR Proposal Stages 1 and 2 for entire Ministry is under technical evaluation.	This is a new ministry with the following proposed offices/departments: 1. Office of the Minister 2. Internal Audit Office 3. Office of Secretary General including Task Force 4. Department of Eradication 5. Department of Law Enforcement and Interdiction 6. Department of Counter Narcotics Policies and Operation Planning 7. Provincial Counter Narcotics Operations Offices 8. Directorate of Finance, HR and Administration.

2.32 As of February 2005, of the 34 Government agencies that had attained PRR status, not a single one had a direct mandate for managing provision of security or promoting law and order. Moreover, providing security, justice, and rule of law country-wide requires both provincial and district level reforms, and progress at the sub-national levels has also been slow. To take one example, unless the Department for Local Government in MoI is strengthened through the PRR process, it will be difficult, if not impossible, to implement effective reforms in the Provincial Governors' offices and in the District

Administrations. Progress in reforming this department has been limited, and given that elected Provincial Councils will soon be established, weak Provincial Governor's offices are likely to be a significant constraint impeding the Provincial Councils' effectiveness in monitoring and enhancing governance.

2.33 Currently, a number of security-related agencies have attained both PRR Stage 1 and Stage 2 applications (see Table 2.4), but the sequence of reforms does not reflect the logic of the process, starting at the center, moving to the provinces, and then reaching to the district level. While there may be some exceptions to this principle, reforming Provincial Governors' offices prior to reforming the Administrative Affairs Department in MoI to which they report could lead to unnecessary complications and may not achieve the desired results. Furthermore, in line with the requirement for greater inter-ministerial coordination of the security sector reform program, it is vital that the NSC and the ONSC be directly involved in oversight of the reform process, both in central Ministries and outside Kabul.

2.34 There has been a tendency in the security sector to develop and implement administrative reform plans outside the PRR process. Such plans have been put in place for the ANA and ANP without having been agreed by IARCSC, undermining the transparency of the reform process. There has also been lack of progress in reorganizing MoI and MoJ. It would be useful if the structuring of security sector management ministries conforms to the formal PRR process, which has been revised and offers a reasonable framework for driving reforms in the security sector in a coherent manner.

2.35 The lack of external pressure for institutional reforms probably reflects two factors: (i) the actors most heavily involved in the security sector give relatively limited attention to institutional reform of ministries (with some exceptions) and very little attention to reform of management and oversight bodies, and (ii) the development donors, which do focus more on institutional reform of ministries and oversight bodies, have had a limited role in the security sector in the past. However, it is interesting to note that the OECD Development Assistance Committee recently clarified the definition of Official Development Assistance (ODA), and technical assistance for the "management of security expenditure through improved civilian oversight and democratic control of budgeting, management, accountability and auditing of security expenditure" is now eligible to be counted as ODA (OECD, 2005a).

2.36 Currently, MoD is being restructured without recourse to the PRR framework. The Counter Narcotics Ministry on the other hand is aligning its reforms to the PRR process. It has sufficient international technical assistance to make some progress on this and may become the first example of systematic and comprehensive reforms in a security sector body.

COORDINATION IN THE SECURITY SECTOR

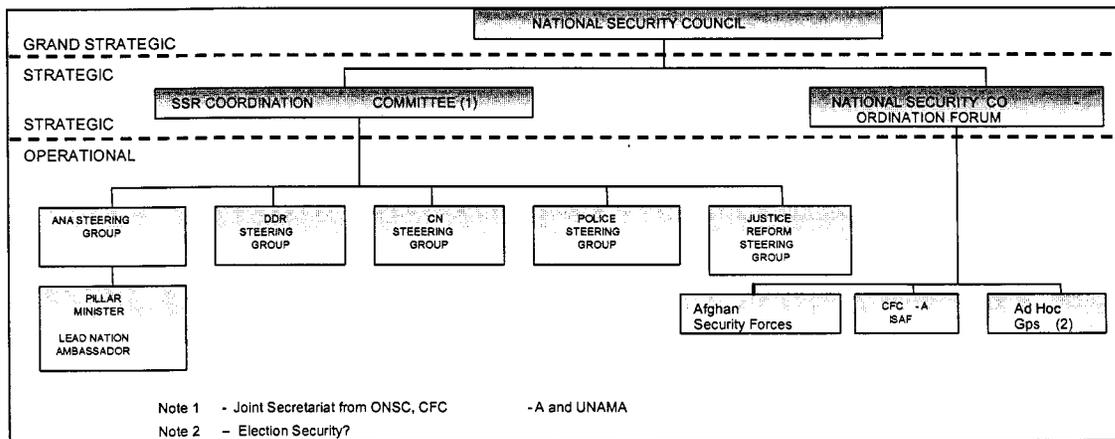
2.37 The process of developing and implementing a national security strategy and sectoral security policies, in the context of strengthening public finance management, will be greatly facilitated to the extent that the different parts of the security sector work together. In a country such as Afghanistan, where international actors are directly engaged in security-related activities and provide the bulk of the resources for restructuring and reforming the security sector, effective coordination between national actors and international partners, as well as within the international community, also is very important.

2.38 **National coordination.** The responsibility for coordinating security policy in the Government of Afghanistan is located in the National Security Council, an inter-ministerial body, and the National Security Advisor (NSA) who reports to the President, supported by the Office of the National Security Council (ONSC) which advises the President on national security issues. The ONSC has prepared the national threat assessment and a draft National Security Strategy. However, although the NSC is mandated to handle inter-ministerial coordination, at the outset this was often difficult, since some of the factionalized security ministries were powerful and tended to act independently. Furthermore, in many

areas (particularly defense), Afghan ownership of policy making was limited due to the heavy presence of external military institutions and advisors. There have been major improvements in the situation over time, as line ministries have become somewhat less factionalized and as the role of the NSC and ONSC has developed. Since early 2004, the NSC, NSA, and ONSC have increasingly taken on their mandated roles of strategic leadership and coordination, as is now fully recognized by ministries and external actors.

2.39 The Government’s paper submitted to the 2005 Afghan Development Forum noted that “in order to ensure that SSR activities are coherent at the national level, two strong strategic-level coordinating committees have been established that have direct responsibilities for the management of the SSR Strategy and National Security Strategy; respectively called the SSR Coordination Committee (SSRCC) and the National Security Coordination Forum (NSCF). They also have the responsibility, on behalf of the NSC, of ensuring de-confliction and that their two strategies are mutually reinforcing to the maximum extent possible.” A Deputies Committee is also being established to develop inputs for the NSCF and SSRC and to ensure communication and implementation of the decisions made by these bodies. A diagrammatic representation of the National Security Policy Coordination mechanisms is provided in Figure 2.1. Box 2.4 provides further detail on the three levels of coordination now in place. Of particular note in this regard is the creation of an SSR Coordinator in the ONSC. This coordination structure has allowed greater coherence to emerge while strengthening Government ownership.

Figure 2. 1: Security Sector Policy Coordination



Source: Afghanistan Government (2005a, Theme 8: “Security, Justice and Law and Order”).

2.40 **International coordination.** Formally established in April 2002 at a security donors conference in Geneva, Switzerland, Afghanistan’s security sector reform agenda consists of five pillars, each supported by a different lead donor:

- Military reform (ANA, Border Guards, Air Force) – US lead;
- Police reform – Germany lead;
- Disarmament, Demobilization, and Reintegration (DDR) – UN lead funded by Japan;
- Judicial reform – Italy lead;
- Counter-narcotics – UK lead.

2.41 Although intelligence, in the form of the National Directorate of Security (NDS), does not have a formal pillar to support it, the NDS receives financial and other support from Germany, the United Kingdom, and the United States.

Box 2. 4: Security Policy Coordination at Different Levels

The introduction of a management level between the NSC and the various subordinate steering groups and working groups is designed to enhance both horizontal and vertical coherence of all SSR and security related issues. There are three levels of management as indicated in Figure 2.1: level 1 = political or grand strategic; level 2 = strategic; and level 3 = operational (policy).

In addition to chairing the NSC at level 1, the President chairs the SSR Coordinating Committee (SSRCC), at level 2. This ensures that the President remains accessible and closely engaged with the steering groups at level 3. The presence of the NSA as chair of the National Security Co-ordination Forum (NSCF) and as Deputy Chair of the SSRCC will promote coherence between the activities of the SSRCC and the NSCF.

SSR Coordination Committee: The purpose of the SSRCC is to coordinate all SSR related activities and to develop strategies and issue directives to ensure effective vertical and horizontal coherence. The President as chair of the SSRCC is assisted by the appointment of two subordinate co-directors: the NSA and the SRSG. The commanders of Combined Forces Command – Afghanistan (CFC-A) and ISAF also attend as principals. The role of the Commander of ISAF may increase as ISAF assumes more security responsibilities from CFC-A. Membership of the SSRCC will include the co-directors (co-chairs), of the five SSR Steering groups. As per the NSCF, the secretariat of the SSRCC is jointly provided by the Office of the National Security Council (ONSC) and CFC-A and will perform similar functions to the joint secretariat of the NSCF.

Deputies Committee: Chaired by the Deputy National Security Advisor and including the deputy ministers of the ministries represented on the NSCF and SSRCC, the DC identifies policy gaps and develops inputs for the NSCF and SSRCC, and also ensures communication and implementation of the decisions made by these bodies.

SSR Steering Groups: SSR Pillar Groups have established their own coordination mechanisms and working groups. The purpose of the SSR Steering Groups is to coordinate all activities within their SSR areas of responsibility, to develop strategies, and to issue directives to ensure effective vertical and horizontal coherence and the achievement of strategic goals as directed by the SSRCC. SSR Steering Groups decide upon their own composition and whether it is necessary to create their own architecture of supporting sub-groups. They also provide their own secretariats and decide on the frequency of their meetings, but meetings should be at least one per month in order to prepare for the monthly meetings of the SSRCC.

SSR Working Group: An SSR Working Group has been established below the Principals' level of the SSRCC involved in the five SSR pillars from the International Community. The purpose of the SSR Working Group (SSRWG) is twofold: first to discuss and propose the agenda to the National Security Advisor (NSA) for the main SSRCC and second to ensure that Afghanistan's international partners are fully informed, engaged, and able to brief their principals.

SSR Coordinator: In November 2004 the post of SSR Coordinator was established in the ONSC. On behalf of the Afghan Government and the NSA, the role of the SSR Coordinator is to effect strategic coordination between the SSR activities of the International Community and the responsible Afghan line ministries.

Source: Government of Afghanistan (2005a, Theme 8: "Security, Justice and Law and Order").

2.42 This structure places a premium on the ability of international actors to coordinate both among themselves and with the Government if resources are to be used as effectively and efficiently as possible in the security sector, and if the security bodies created are to be sustainable over the long term. To date, coordination among the lead donors has often been inadequate, with donors to a considerable extent acting bilaterally. For example, the US has played an increasingly central role in police training, first through the Department of State and more recently through the Department of Defense, due to US concerns about the slow pace of police training efforts.

2.43 It is difficult for the Government to impose coherence and to harmonize the priorities of individual donors with the national strategy and priorities. This is well illustrated in the case of counter-narcotics. Despite the existence of a cross-cutting agency for counter narcotics (MCN, previously CND), an agreed national strategy (the NDCS), and a designated strong lead donor (the UK), there are multiple national agencies and a number of different donors involved. One donor has commented that "legislation...policy development...money...they are all going in different ways". Another donor observed that "up to now there has been no coordinated implementation plan for NDCS, so it is not surprising that there is little connection between strategy and programs."

2.44 In the face of these challenges, a significant effort has been made to set up coordination structures for counter narcotics, as discussed earlier. In 2004 counter narcotics was treated for the first time as a "cross cutting theme". A Counter Narcotics Advisory Group in the consultative group structure was

proposed by the Ministry of Finance, but this was not implemented. Instead a Counter Narcotics Steering Group (CNSG) was established in the spring of 2004 and met regularly for information sharing, overall coordination, and progress monitoring with respect to the full range of counter-narcotics policies and actions. It was chaired jointly by the Government (National Security Council) and the UK as lead donor. The group has been useful for sharing information but did not play a role in coordinating strategic decisions or resource allocation. More recently, the coordination structure has been changed again. A Counter-Narcotics Subcommittee of the Cabinet has been formed, including the Ministries of Counter-Narcotics, Interior, Finance, and Foreign Affairs, and also with, most unusually, key international actors (UK, US, UNODC, etc.) joining the meetings of this Cabinet Subcommittee. A larger group including other donors and international agencies is convened fairly infrequently, mainly for briefings and information sharing.

2.45 Without effective Government-led coordination, the various investment projects in the security sector risk being little more than the sum of individual projects. Furthermore, projectization does not facilitate a more rationale debate on key policy issues such as fiscal sustainability (which requires serious thought on strategic prioritization within the sector as a whole, as well as on pay and grading reforms) or institutional reform within the security ministries.

2.46 The Government's efforts to strengthen Afghan ownership of the security sector reform process, working through a restructured SSR Coordinating Committee where the Government is in the lead and Afghan stakeholders are well represented, offers an opportunity for constructive dialogue in the Government on security priorities that can be linked to the budgeting process. In particular, this could help shift expenditure decisions in the security sector from a supply-driven to a demand-driven approach. Additionally, financing Government security priorities in a sustainable manner will be facilitated by increasing the amount of donor resources for the security sector that flow through the Core Budget.

D. Key Security Issues from a Development Perspective

2.47 Security is widely considered the Number One issue for Afghanistan's reconstruction and development agenda (Afghanistan Government, 2004, p. 78). Dealing with the legacy of nearly a quarter-century of protracted conflict, and with the difficult security issues currently facing the country, has been and will continue to be a major challenge. The main security issues in Afghanistan from a development perspective (not necessarily in order of importance) are outlined briefly below. Needless to say, many of them are closely interrelated with each other.

2.48 *Continuing conflict/insurgency/terrorism and associated insecurity.* Although outright insurgency and significant military conflict are concentrated in areas in the south and east of the country (where much terrorist activity is occurs as well), this conflict has been continuing on a significant scale albeit with seasonal and other fluctuations, and is adversely affecting security in these areas with important development implications (along the lines of those described in Chapter 1, Section B). Elsewhere, sporadic acts of terrorism have occurred from time to time, but not on a widespread scale or in a sustained manner. These have a disproportionate impact on perceptions of the security situation particularly from outside the country, and hence deter foreign investment.

2.49 Another adverse implication is movement restrictions on aid agencies and higher security costs for development activities, as well as for private business. For example, highway reconstruction projects reported that their direct spending on security added 3-15% to project costs (see Volume IV, Chapter 5), and a recent survey of private business firms found that their reported spending on security infrastructure accounted for close to 15% of sales revenue, and that an additional 3% of sales was reportedly spent on protection payments to commanders, government officials, or organized criminals (World Bank, 2006).

2.50 ***Lack of rule of law and poorly functioning judicial system.*** This is a fundamental problem, seriously affecting Afghans in their daily lives, which is both a manifestation of underlying insecurity and itself contributes to continuing insecurity. Rule of law and the judiciary were weak during most of the past quarter-century, and restoring let alone enhancing these critical components of the security system will be a major challenge.

2.51 More specifically the police, weakened and largely captured by factional forces during the conflict (see below), has often been more a source of insecurity than of security for most Afghans. Anecdotal evidence indicates that District officials are unable to reliably resolve local disputes in their official capacity, unless they have personal prestige through their traditional connections to do so. Few police officers in rural areas have professional training, and many are former mujahedin or militia members who became police officers when their commanders joined the Government after 2001. Police forces continue to operate largely independently from a centralized command structure under the Ministry of Interior, and many remain loyal to their former commanders. The police force is overwhelmingly male, and many districts lack detention facilities for women. The lack of women police officers to handle the arrest, detention, or transport of female detainees places any woman arrested at heightened risk of abuse (Nojumi, Mazurana, and Stites, 2004).

2.52 The formal judicial system was devastated during the conflict, and its rebuilding since 2001 has been slow. In addition to the lack of recourse for Afghans and inability to effectively punish serious crimes (including those committed during the conflict), the weakness of the formal judicial system is a deterrent to business activity in the formal sector and to foreign investment. Although historically Afghanistan has relied much more on customary and traditional practices and adjudication mechanisms, these also were significantly eroded in many respects during the conflict, and/or “captured” by warlords and commanders, with adverse effects on local security as well as on business activities and livelihoods.

2.53 An important manifestation of these problems is the widespread uncertainties and disputes over land, leading to ambiguities and insecurity related to land tenure as well as theft and illegal appropriation of land (see Wily, 2003). Confirming other information, recent fieldwork in Nangarhar and Laghman provinces found that conflict over agricultural land (and related water supplies) was the most common source of violence (Koehler and Zurcher, 2005). Access to land is the second most widely cited constraint on business activity in a recent survey of firms (World Bank, 2006).

2.54 Finally, there is a long tradition of the Judiciary being an exclusively male domain, and only around 3% of judges currently are women. With the exception of the heads of the juvenile and family courts in Kabul, women are not found in key positions within the judiciary. Where women do serve as judges, reports indicate that they do not perform the same functions as their male counterparts. Female judges tend to act in the capacity of judicial clerks and are rarely involved in the adjudication of cases, which severely limits the ability of Afghan women to approach the courts.

2.55 ***Dominant drug industry.*** The opium economy, which is estimated to comprise more than a third of total economic activity in Afghanistan, is a direct source of insecurity (drug-related conflict and violence, financing of armed groups and warlords and commanders who provide protection). But even more important, the drug industry is a major force working against state-building and good governance, and thereby has a major adverse effect on security indirectly as well.⁷ The drug industry can thrive in a situation where there is a weak, corruptible state and security forces, no or ineffective rule of law, and inadequate sanctions or negative incentives to discourage the whole range of actors – from farmers to drug traders to their sponsors inside and outside of government as well as regional drug industry actors.

⁷ The opium economy is analyzed from a development perspective in Ward and Byrd (2004) and World Bank (2005a, Chapter 7).

Therefore the drug industry comprises a powerful interest group diametrically opposed to the heart of Afghanistan's reconstruction agenda and thereby promoting insecurity.

2.56 **Remaining factional forces.** Although as noted earlier the DDR process has been completed, there are numerous "illegal armed combatants" not included in DDR. The new program for Disbandment of Illegal Armed Groups (DIAG) is intended to address this problem; however, this is expected to take several years. Moreover, Afghanistan by tradition and even more during the conflict has had an armed population, and this is not expected to change very quickly. Widespread ownership of small arms can be a source of insecurity as long as there is not basic rule of law and a minimum adequate level of government functionality in the security sector. Popular revulsion against warlords and commanders and their armed groups potentially can be a very powerful force, but it has not yet been harnessed. The Government's MDG report makes strong reference to the urgent need for licensing of arms.⁸

2.57 **Violent and other crime, including corruption.** Although it is difficult with available data to ascertain whether violent crime and other forms of ordinary crime are more pervasive than in other low-income countries, anecdotal evidence and surveys suggest that crime is an important issue for Afghans. As noted in Chapter 1, criminality can thrive in a conflict or post-conflict situation where legal, law enforcement, and social checks are weakened. The same is true of corruption; rough indicators compiled by the World Bank (Figure 2.2), which have substantial margins of error, suggest that Afghanistan is perceived to be among the countries most severely affected by corruption (see Volume I, Chapter 7 for a discussion of corruption issues in the PFM context). The recent Transparency International index of perceptions of corruption similarly indicates that Afghanistan has a serious corruption problem.

2.58 It should be noted that while corruption in government contracting, the tax regime, licenses and permits, etc. may be significant problems in Afghanistan, the enormous role of the drug industry in promoting corruption, as well as to a lesser extent the role of other parts of the informal/illicit economy, must be emphasized. The huge sums of money involved – in 2004 gross value of opiate production in Afghanistan was roughly estimated at \$2.8 billion, of which \$2.2 billion went to traders and processors and only \$600 million to farmers – virtually guarantee massive levels of corruption. Moreover, narcotics-related corruption most likely to a considerable extent takes the form of "grand corruption" and capture of parts of the state apparatus, which is profoundly damaging to the state-building agenda as compared with smaller "petty corruption". Corruption contributes to personal and business insecurity, as the "rules of the game" are not clear and can change depending on who is in particular government positions, and also can take coercive forms like extortion of payments.

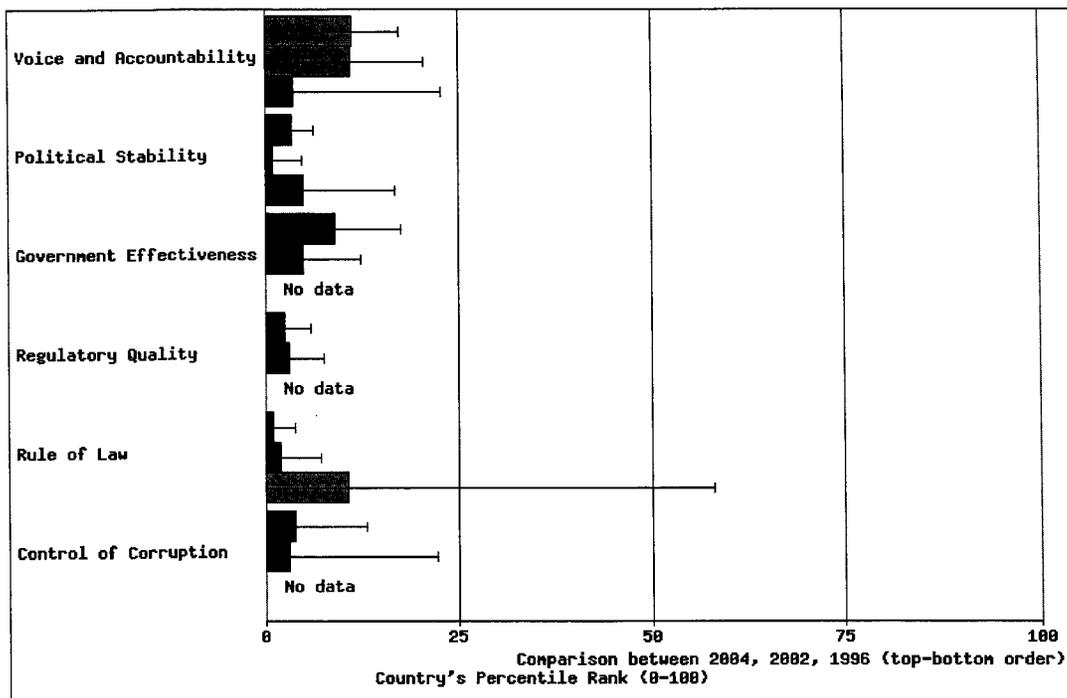
2.59 **Landmines.** Afghanistan inherited from its long period of conflict one of the worst landmine problems in the world, as well as enormous amounts of unexploded ordnance. While progress has been made in clearing mines in urban areas and some other parts of the country, enormous numbers remain and continue to kill and maim people, harm livestock, and render many areas unusable.

2.60 Finally, from a developmental perspective the impact of insecurity on vulnerable groups like women continues to be very serious. In the absence of effective mechanisms to investigate gender related violence, the vast majority of such violations are not reported to the criminal justice system and almost

⁸ Encouraging those who currently own weapons to apply for licenses, and identifying and punishing those who fail to comply with the new law, will not be easy. An effective licensing process will be facilitated by the electoral registration – more Afghans have a nationally recognized form of identification than ever before. A community-level survey of weapons ownership is also under consideration. However, additional support may be required to build the capacity of MoI to process applications, document the licensing process, and maintain records. The licensing process offers an opportunity to collect data on legal civilian-held weapons. It is also proposed that licensing of weapons and statistics on gun crime be monitored as indicators of a reduction in the misuse of weapons. There are no accurate estimates on the number of civilian-held weapons in circulation, but by all accounts they are very numerous (Afghanistan Government, 2005b)

none are subject to investigation or prosecution. The practice of detention and prosecution of women for *zina* crimes (adultery and consensual sex outside marriage) is common in major cities, while in more conservative rural areas the family might deal with such a case by killing the girl or woman involved. The predominance of customary law in traditional jirga/shura decisions by and large works to the disadvantage of women, as customary law tends to grant fewer rights to them than Islamic law or civil law in matters relating to inheritance, property, and marriage, as well as in relation to crimes like so-called “honor killings” for which the perpetrators are generally not punished. Customary law’s bias against women is also illustrated when for example murder cases are resolved by the jirga ordering that the alleged perpetrator provide the family of the alleged victim with a young girl or girls, usually below the legal marriage age, to compensate for the alleged crime. The girl is then forcibly married to a male member of the victim’s family. Such arrangements are also sometimes used to settle large opium-related debts. A sign of the impact of conflict, violence, and lack of access to justice on women is the reported dramatic upsurge of female suicides, often to escape unwanted arranged or forced marriages.

Figure 2. 2: Afghanistan’s Perceived Performance in Six Dimensions of Governance



Note: the three bars represent, for each dimension of governance, Afghanistan’s percentile rank for 2004, 2002, and 1996 (top-bottom order). The line represents the standard deviation of this measure (in other words the level of uncertainty of this ranking).

Source: Kaufmann, Kraay, and Mastruzzi (2005).

CHAPTER 3. PUBLIC FINANCE MANAGEMENT AND AFGHANISTAN'S SECURITY SECTOR

3.1 As seen in Chapter 2, recent thinking on both public finance management and security increasingly points to the full applicability of the objectives, practices, institutions, and performance indicators of the PFM system to the security sector. This chapter first discusses some implications for Afghanistan of the PFM framework and its application to the security sector, and gaps and issues that arise in this regard. The chapter then analyzes the budget process as it applies to the security sector in Afghanistan along with associated issues.

A. Implications for PFM Principles for Afghanistan

3.2 **Budget comprehensiveness.** With respect to the comprehensiveness of the budget, the main issue in Afghanistan is not one of large amounts of government security sector expenditures occurring off-budget as found in many countries. Although there are some exceptions, the bulk of security sector spending appears in the Budget. Nor does the security sector appear to be engaged in large-scale revenue-generating economic activities on an official basis.⁹ However, the security sector, like most other parts of Afghanistan's public sector, faces the issue that the bulk of foreign-financed public expenditure (which accounted for some 92% of total public expenditure in Afghanistan in 2004/05) is executed directly by donors and by entities contracted by them, so it is not going through the Government's Treasury channels and is not following uniform accounting and reporting practices. More specifically, whereas 74% of total budgetary expenditure in 2004/05 was in the "External Budget", the proportion of External Budget spending is even higher in the security sector – 78% (Volume I, Table 5.1). This means that nearly four-fifths of total budgetary expenditures in the security sector do not go through Government Treasury and Core Budget channels.

3.3 The Government has made a laudable effort to incorporate externally-executed spending in its overall budget formulation process through the Consultative Group mechanism, and information about donor-executed programs has been compiled and included in budget documents as part of the External Budget. Donors are supposed to provide information on their plans, commitments, and disbursements, which can then be used particularly in the budget formulation process. This innovation has been very important in encouraging a holistic approach and enabling assessments and comparisons to be made on the basis of a more-or-less complete picture of what is being spent on the public sector in Afghanistan.

3.4 Notwithstanding the significance and usefulness of this innovative approach, it works only imperfectly in general and especially so in the security sector. There are numerous problems that arise from the domination of the External Budget. While a serious effort is being made to achieve comprehensiveness in terms of information and budget documents, this is not possible for budget execution functions, where in the External Budget each donor uses its own procedures. Moreover, the information provided by donors on the External Budget understandably tends not to be fully consistent, either across donors or with the Core Budget. Frequently data on commitments and disbursements is confused, and information on actual expenditures (i.e. by the executing agency) is usually not available. Reporting appears to vary among donors in terms of quality, classifications, and the frequency and regularity with which reporting is done. These problems are aggravated in the case of the security sector

⁹ As noted in Chapter 2, Government security entities are sometimes paid extra to provide security, for example for foreign-financed projects. Such revenues should be shown as income to the agencies concerned (e.g. MoI/police) but most probably are not. (They would be recorded as expenditures by the donors concerned in the External Budget, or by the Government in the case of externally-financed projects in the Core Budget that make such payments.)

because funding from the donor countries often is fragmented among various sources within donor country budgets, frequently outside their development budgets.

3.5 The lack of comprehensiveness in systems and controls for budget execution, as well as problems with information flows, means that application of sound PFM principles in these areas across all expenditures becomes nearly impossible. For example, the crucial principle of contestability cannot be applied. While these issues are common to the budget as a whole, they are even more serious in the security sector.

3.6 ***The “lead donor” system.*** Another feature which appears to have been in some respects problematic in the security sector has been the “lead donor” system (see Chapter 2, Section C, and Table 2.1). This system, instituted in the immediate post-conflict period and intended to harness the initiative of different donors, may have been useful in promoting a division of labor among donors and clarifying responsibilities for making progress in different parts of the security sector, with some accountability on the part of individual donors to take the initiative, mobilize funding, and move forward. Subsequent performance has varied, but clearly many of the lead donors have taken their responsibilities seriously and have made strong efforts to push forward a reform agenda in “their” sector.

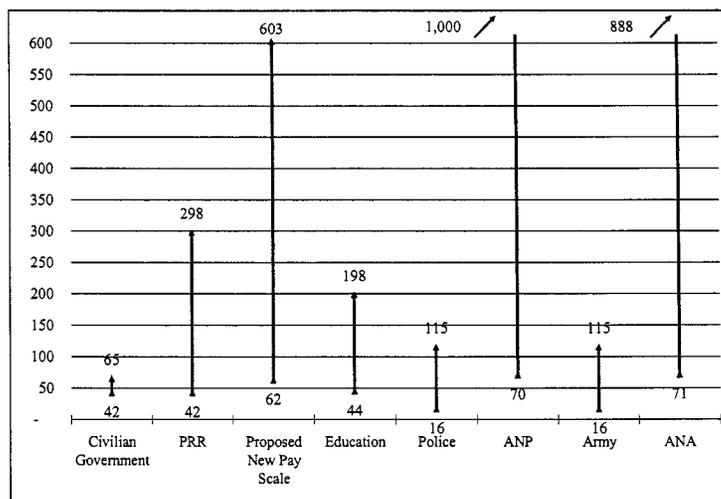
3.7 However, the lead donor system may have made the difficult task of bringing Government leadership and coherence to security sector planning, decisionmaking, funding, and implementation even more difficult. As it has worked in practice, the lead donor approach seems to have reinforced, or at least not curbed, tendencies for different sectors to go their own way, pre-empting broader inter-ministerial coordination by the National Security Council and Cabinet, and impeding efforts through an overarching national security strategy to ensure coherence and consistency across sectors. A related point is that the relative speed and success of progress in different sectors may have been at least to some extent influenced by the relative level of financial and other resources, pro-activity, and quality technical support and advice brought to bear by different lead donors. This could introduce distortions, as the constellation of donor resources and energy may not coincide with national priorities. And finally, this approach may entrench different practices and standards in the different security forces and oversight bodies, including in the PFM system, making harmonization around Government systems more difficult to achieve.

3.8 ***Budget predictability.*** To a very large extent, security sector policies and spending patterns in Afghanistan have not been determined by the capacity of national resource to finance them. Targets for military, police, and judiciary reform were set outside of a medium-term fiscal framework, and targets for counter-narcotics efforts have not been linked to the budgeting process. That said, with each successive budget, salary and non salary recurrent costs are increasingly being drawn into the Core Budget. As a consequence, in future years overall funding levels and allotments will fall more squarely in the Core Budget controlled by the Afghan government. However, the decisions on force sizes and other aspects for virtually all security expenditure have been made outside of the Core Budget framework and national budget formulation process. The Ministry of Finance has played a very limited role to date, and the longer-term fiscal implications of major spending decisions have not been informed by the overall fiscal framework. Furthermore, such decisions have often been made on the basis of annual rather than medium-term external funding commitments, especially for the ANA. In other cases, such as the creation of the Ministry of Counter-Narcotics, the Government has solicited a commitment from the UK Government to provide external assistance for a period of three years. However, predictability of most security sector funding over the medium term is unknown.

3.9 ***Salary structure and payment mechanisms.*** Yet another issue which makes the application of good PFM practices in the security sector more difficult is the variety of pay scales, not closely related to each other (see Figure 3.1) and the payment of salaries (not just top-ups, which occurs in other sectors as well) directly by donors to some of the security forces. While uniformed services having somewhat

different salary scales from civil servants is a common practice internationally, the setting of pay scales between the security sector and civil service has not been coordinated, and pay scales within the security sector have tended to be set independently across the different security services, resulting in anomalies. Moreover, the ANA salary scale, apparently set without reference to pay levels elsewhere in the Government and seemingly high in relation to labor market conditions, de facto became the leader and the target to which other parts of the security sector aspired. As a result, the proposed new ANP salary scale has been set at a level similar to that of the ANA, with minor differences at the higher levels. Moreover, certain other security forces (not shown in Figure 3.1) are paid directly by donors and may have different salary scales. Setting pay scales without conducting a disciplined analysis and involving key stakeholders (including MoF) not only sends the wrong signal in terms of process, it also risks seriously undermining the fiscal sustainability of security sector reforms, even if external bilateral support is provided in the short run (see Chapter 4).

Figure 3. 1: Pay Scales (\$/month) in Security and other Sectors



Lower and upper bounds of the scales. This includes the base salary and an estimate of cash allowances.

3.10 Staffing establishment controls. A very important aspect of the PFM system is maintaining effective control over staffing levels. By all indications staffing establishment controls in Afghanistan have been working reasonably well as they apply to non-security sector government employees (see Volume I, Chapter 7), supported by external monitoring of the ARTF. However, in the security sector the wide variety of salary, employment, and payment arrangements makes effective exercise of control over staffing levels more difficult. The old army (Afghan Militia Forces, AMF – now defunct) appears to have been riddled with nonexistent or “ghost” soldiers. Differing data on actual numbers of employees in various parts of the security sector give grounds for concern. There appears to be little correspondence between the agreed staffing establishment and the actual numbers of regular (*karmand*) and temporary (*agir*) staff in the Ministry of Interior and the Ministry of Justice in particular. Moreover, there is often no agreement on the actual numbers of staff. For instance, based on different staffing numbers provided by MoF, MoI, and LOTFA, MoI shows a wide range of possible staffing structures. The Justice Ministry would appear to be claiming nearly 70% more staff than currently agreed by the Office of Administrative Affairs. A notable example of head-count volatility is the (now-defunct) AMF, where estimates of the total numbers of militia to be demobilized varied widely and turned out to be much lower than originally estimated. On the other hand, the National Directorate of Security several years ago undertook a serious examination of its staffing level and removed several tens of thousands of ghost employees.

3.11 **Capacity.** The lack of capacity in security sector management and oversight institutions remains a serious problem. As seen in Chapter 2, implementation of priority administrative reforms in security sector institutions has been slow and continues to undermine capacity for civil authorities' management and oversight of the security sector, whose crucial importance was emphasized in Chapter 1, Section D. In the Ministry of Interior, for example, bilateral funding to build policing capacity has not been matched by investments to undertake administrative reforms in the Ministry itself. Recent efforts to bring MoI under the Priority Reform and Restructuring (PRR) program have yet to be concretized. Although there have been important changes in the Ministry of Defense in support of reform, primarily in terms of personnel, efforts appear not to have been made so far to bring MoD under the PRR program. The Afghanistan Stabilization Program (ASP) has so far failed to bring MoI structures formally under the PRR process and has instead focused largely on physical infrastructure development at the district level.

3.12 In many cases investment priorities have been poorly sequenced due to limited capacity in line ministries and for overall security sector coordination. In most cases, the Public Investment Programs (PIPs) that have been prepared by security sector ministries are of poor quality, and in some cases PIPs have not been prepared. Furthermore, only MoD, MoI, MoJ, and the Supreme Court are actually coordinated within the PIP framework. Other institutions, such as the Attorney General's Office and MoBTA, remain disconnected from the main External Budget framework.

B. The Security Sector and the Budget Process

BUDGET FORMULATION

3.13 Ideally, budget formulation is framed by the following process: (i) setting wider security policy goals, (ii) setting annual policy priorities, (iii) conducting integrated planning both within and between different security institutions, (iv) translating annual planning into public investment programs (which should integrate operating and capital spending), and (v) formally setting expenditure levels and allotments based on top-down budget constraints and aggregate discipline.

3.14 **Setting broad national security goals:** As discussed earlier, during the early stages from late 2001 onward, there was an absence of agreement among key Afghan stakeholders on the country's broad national security goals. Moreover, Afghanistan's international security partners tended to play a driving role in determining the direction of Afghanistan's security investments. While the Government has strengthened its capacity to develop and coordinate security policy through national instruments and institutions, this takes time and requires not only understanding but pro-active support on the part of donors, who will need to be ready to progressively open up space for the Government to take national leadership with respect to the security sector.

3.15 **Medium-term budget planning and costing:** Whereas the Government does have a three-year rolling budget including large parts of the security sector, this appears to be to a large extent mechanical and not linked to resource availability. While these issues also arise in the civilian budget, the size and momentum of expansion targets in the security sector (see Chapter 4) make these weaknesses more problematic.

3.16 In many cases, spending forecasts for the development budget do not appear to be linked to long-term planning. For example, under the 2004/05 development budget MoI's development budget spending was forecast at zero for 2007/08 (the third year of the rolling three-year PIP horizon). This was not because there was expected to be no development expenditures on MoI in 2007/08, but rather due to the lack of medium-term budget planning.

3.17 In this regard, a major area of concern relates to the longer-term sustaining costs of the ANA, ANP, and the counter-narcotics police forces, which have yet to be fully costed. Informal consultations with concerned donors suggest that at full strength, the sustaining costs for the ANA alone may be in the range of US \$300 million-plus per year, which clearly cannot be covered by Government for some time to come given current fiscal conditions. The lack of long-term planning and related costing thus runs the risk of undermining the fiscal sustainability of the current security structure and effective allocation of budgetary resources, on the one hand, and the ability of the security services to maximize the security they will be able to provide, on the other hand.

3.18 **Setting annual policy priorities:** In the absence of clear strategies and policies, it is very difficult to develop a formal process for setting annual budget allocations for the security sector as a whole or its key parts. Budget formulation tends to be conducted at the end of the fiscal year in reaction to the budget circular from the MoF, rather than beginning mid-year or soon thereafter and reflecting the policy priorities approved by the NSC. Budget formulation is not addressed as an integrated part of the whole policy making – planning – execution process. Instead, each ministry, and often the lead external agency, sets targets based on assumed levels of external assistance. Verifiable performance indicators against which performance and cost efficiency can be measured are generally not developed (see Chapter 6 for some suggestions).

3.19 For the most part, however, the annual budget formulation process for Core Budget operating expenditures works reasonably well, albeit without much strategic content. Proposals are developed in line with the MoF budget circular, and staffing establishments and organizational charts are formally agreed by the Office of Administrative Affairs (OAA).

3.20 Prior to 2005/06, annual priorities laid out in the sectoral PIPs for the development budget were poorly documented. For example, in 2004/05 the PIP for MoD was two pages long and incomplete despite the existence of an agreed budget. In 2005/06, budget targets for ANA and ANP set by MoD/OMC-A and MoI/Germany respectively were well thought through, demonstrating that a learning process is taking place. For DDR, annual performance targets were coherently set within the Performance Measurement Framework by the Afghanistan New Beginnings Program (ANBP – now completed), although the nature of the process required flexibility in execution.

3.21 The Ministry of Martyrs and Disabled, which has direct relations with tribal militia and border security, does not formally set policy targets. Furthermore, its budget is determined through the Livelihoods and Social Protection (LSP) program. This is a policy ambiguity created because the Ministry also works with the nomadic population.

3.22 In 2004/05, counter narcotics was treated as a cross-cutting theme (along with gender), and a separate memorandum listing was produced for the External Budget, based on the boxes checked for counter narcotics in Project Summary Sheets. The resulting list had a mix of alternative livelihoods and law enforcement projects. However, some projects which are directly for counter narcotics purposes are left out, and the connection of some projects listed as counter narcotics to this agenda is not clear (e.g. National ID cards, Support to Paralympics). Most counter narcotics resources flow through the External Budget. MCN is supposed to play a coordinating role in the budget preparation and mid-term review process. However, MCN's predecessor (the Counter-Narcotics Department, CND) was obliged to refuse to participate in the 2004/05 mid-term review process as they lacked the necessary capacity. It seems desirable for the Government and donors to work together to develop a comprehensive list of resources and activities for counter-narcotics. It will be important for MCN to develop the capacity to play a significant role in budget formulation and follow-up.

3.23 **Budget planning:** Currently, annual planning for the development budget tends to focus around the funding cycles of the lead donor agencies and not around the Government's fiscal year. That said, planning is conducted as a three-year rolling process for defense, law and order, and judicial reform, and not as a one-off planning exercise. The quality of planning is directly related to the level of resources allocated, and as a result planning capacities around the MoD/ANA are probably the most advanced, thanks largely to remarkable efforts by OMC-A and the US Government. Planning for the ANP/Law and Order program has not fed coherently into the budget process. For counter narcotics programs, performance targets in terms of area to be eradicated and legal reforms have been clearly set in agreement with the relevant national authorities. However, as resources for counter-narcotics have not been consolidated, setting planning targets with an unknown resourcing framework has been difficult. The Counter-Narcotics Trust Fund is intended to enhance the cohesion and consistency of counter-narcotics activities by providing an element of coordinated financing (which has worked well in the case of the civilian sector through ARTF, but not so well in the case of police through LOTFA – see below).

3.24 There have also been considerable improvements in planning support for the Ministry of Justice, the Supreme Court, and the Attorney General's Office. However, planning capacities in the Supreme Court and Attorney General's Office remain very weak.

3.25 **Preparation of Public Investment Programs:** In all cases PIPs do little more than reflect the sum total of development budget funding currently committed by donors. While PIPs allow MoF to compile an aggregate of national budget spending, they tend to be highly projectized and frequently represent little more than the sum of the individual projects. The ANA and DDR appear to be the only exceptions to this rule, as funding is consolidated. In areas like MoI reform or counter narcotics activities such as alternative livelihoods, support is so highly projectized that even documenting the existing projects is a complicated task. Furthermore, once completed by the relevant budget entity, PIPs tend to be shelved and not used as a reference document for monitoring progress.

3.26 **Setting budget expenditure levels and allotments:** A major constraint to effective budget formulation is the lack of guidance from MoF on the fiscal envelope within which prioritization and fiscal discipline are delivered. Without information on how much expenditure is allowed and without a formal appropriation process for the External Budget, sectoral investments remain supply-driven and not demand-driven. This has direct relevance to reform of the ANA and ANP in particular, as pay and grading structures are being developed without prior reference to the Government's medium-term fiscal envelope, thus making them potentially unsustainable. As with other sectors, MoF does not communicate a budget ceiling to sector Ministries prior to setting the investment program, against which prioritization could take place. Combined with projectized funding, this often means that some programs are over-funded, whereas others of equal if not higher importance remain unfunded year after year. For the operating budget, a new object code classification was introduced for the 2005/06 operating budget, against which the Government can clearly apportion planned expenditures by (i) wages and salaries, (ii) goods and services, and (iii) acquisition of assets. Each classification has detailed budget line items allowing basic expenditure tracking to take place.

3.27 In summary, the main weaknesses with regard to budget formulation in the security sector include (i) the dominant share of resources flowing through the External Budget and hence not subject to the full rigor of the national budget formulation process; (ii) the lack hitherto of a clear and agreed national security strategy and sector strategies for defense, law and order or judicial reform; (iii) absence of a medium-term framework for the operating and development budgets; (iv) lack of annual budget ceilings providing top-down constraints in support of prioritization; (v) limited scrutiny by the budget committee; and (vi) absence of National Assembly consideration or scrutiny (which is hoped to be rectified for the 2006/07 budget with the formation of Parliament).

BUDGET FUNDING ARRANGEMENTS

3.28 Funding sources and mechanisms for the security sector are briefly summarized in Table 3.1. Finance for the Government's operating budget for the security sector is primarily drawn from domestic revenues and the Law and Order Trust Fund for Afghanistan (LOTFA). In contrast, operating costs for the ANA are covered directly by the US through the External Budget, and the Government's development budget is largely drawn from assistance provided directly by bilateral agencies. As a result, the national budget is merely capturing donor commitments rather than setting funding levels and allotments and determining the sources of finance. It is difficult to ascertain the precise shares of funding for the security sector from different sources, but it is clear that the USA accounts for the lion's share, perhaps about two-thirds, with domestic revenues, LOTFA, the UK, and Germany being other sizable contributors.

Table 3. 1: Security Sector Funding Arrangements

Security Body	Role in Setting Goals
ANA	Substantial ANA operating costs are now met by the Government from domestic revenue. However, it is not clear how much ANA wage costs are paid by the Government. At least some wage costs, most non-wage recurrent costs other than food, and all capital investment costs are funded directly by the US from both regular and supplemental appropriations.
ANP	The Government incurs expenses for police salaries and capital inputs (payroll systems, police buildings etc.), all of which are reimbursed through LOTFA, based on verification. The main donors of LOTFA are the EC, US, Norway, Switzerland, and Finland. Other costs for MoI, including the costs of civilian staffing and other operations and maintenance costs, are covered by domestic revenues. The large MoI/ANP development budget is covered by many donors, among which the EC, Germany, UK and the US are the main ones. Once the CNTF is established, multilateral donor support for counter-narcotics activities will be channelled through this route (although the CNTF is expected to account for a relatively small share of total counter-narcotics spending).
Justice	Operating costs (salaries and modest non-salary recurrent costs) are financed directly by the Government, with some costs reimbursed via ARTF. Development budget funding, largely from the Italian Government, is channelled as discrete projects through various UN agency agencies (UNIFEM, UNDP, UNODC), and there is also EC funding.
DDR/DIAG	DDR has been funded by Japan, Canada, United Kingdom, and the United States, with Japan as lead donor. The Afghanistan New Beginnings Program (ANBP) has been implemented through UNAMA/UNDP. Funding requirements and arrangements for DIAG are not yet clear.
Counter Narcotics	Operating costs for the new Ministry of Counter Narcotics are largely covered by Government. The lead donor (UK) covers additional costs related to salary top ups and field operations. The bulk of funding, however, is provided by the US with more focused CN strategic funding provided by the UK. Alternative livelihoods projects are funded by a number of donors, including the EC.

3.29 LOTFA has played an important role in reimbursing police salaries and other inputs in a situation when MoI's PFM capacities were very weak (see Box 3.1). The trust fund is managed by UNDP, channeling financial resources from the EC, US, Norway, Switzerland, and Finland in a consolidated manner. The key strength of LOTFA is that payments for the ANP were made possible prior to the establishment of appropriate internal MoI fiduciary mechanisms, due to the involvement of UNDP in payment verification centrally and at the provincial level. The funds are channeled to the Ministry of Interior through the Ministry of Finance. LOTFA issues advances and is reimbursed against certified financial reports received from the MoF. All ANP expenditures are incurred directly by MoI but reimbursed through LOTFA. The fund now covers reimbursements in both Kabul and all the provinces. Provincial payments are made through joint verification missions conducted by MoI/MoF/UNDP. Switzerland and the EC are currently supporting the computerization of the payroll system. However,

despite considerable efforts, a visit to Laghman Province described in the 2004/05 LOTFA Annual Report identified a number of key constraints to enhancing public expenditure management (Box 3.2).

Box 3. 1: Overview of the Law and Order Trust Fund for Afghanistan (LOTFA)

During Phase I: From November 2002 through March 2004, LOTFA reimbursed MoF for salary payments to police in the amount of US\$ 44.4 million. By the last quarter of 2003, LOTFA was covering police remuneration in each of the 32 provinces. LOTFA has placed two public finance management officers in MoI to support the preparation of timely financial reports, regularization of the payroll system, and training of the Ministry's financial staff. Activities were also initiated with EC and Swiss Development Cooperation (SDC) support for computerization of the payroll system at MoI. Through contributions to the National Development Budget and other funding windows, LOTFA also procured and made available to the police 1,100 vehicles with communications equipment and spare parts valued at US\$11.45 million. During Phase I, funding limitations prevented LOTFA from moving substantially beyond its first and second priorities: police salaries and equipment. During Phase II: From April 2004 through March 2005 (covering Afghan Fiscal Year 1383), LOTFA was expected to: ensure payment of police salaries in all provinces and improve the payroll system at MoI; provide substantially more police equipment; rehabilitate and rebuild priority police facilities; and support MoI in undertaking institutional reforms (including activities to build financial and project management capacity). In response to donor concerns, and to ensure proper accountability and transparency, special emphasis was to be placed on monitoring of expenditures and the effectiveness of payments to the police force.

3.30 LOTFA successfully provided salaries and other allowances to police forces in all 34 provinces for the whole of 2004/05. During that year a total of 53,400 police – including 17,705 officers, 4,843 sergeants and 30,852 patrolmen – received a total of US\$54 million (US\$70 on average per police officer per month). Payments took place through the regular Governmental payroll system, and funds were channeled through the Treasury department of MoF. As no nominal roll of police officers existed, the payment process has been complicated. A computerized payroll system is being developed to (i) interface to capture data, (ii) collect personal records, (iii) include budget, revenue, and salary expenditure details, and (iv) record information on attendances, salaries and allowances. On the investment side, procurement of vehicles, rehabilitation of police and checkpoint facilities and gender sensitization of the police force are funded through the Treasury.

Box 3. 2: Findings of a LOTFA Monitoring Mission

A monitoring mission to Laghman, conducted by a small MoI-UNDP team, identified the following factors that affect PFM practices:

- Payments were on time according to the formats; US\$70 was disbursed per person for national police patrolmen.
- A civilian has been appointed as head of police in Qarghaie district.
- Staff files and records were well managed.
- Based on staff reports, the head of police attends the office irregularly.
- Organizational and functional charts were not available.
- Vehicle registration booklets were not properly maintained.
- Facilities for operational activities in some police units and sections are insufficient.
- Office space was visibly insufficient.
- Employment for the head of police and district commissioner are on a quota basis.
- There is a lack of coordination between MoI and the local PRT on provision of equipment, vehicles, and other supplies.
- Communication with MoI central office is not maintained.
- A very small amount of funds is allocated for fuel, making it difficult to maintain security.

Source: LOTFA 1383 Annual Report

3.31 However, despite significant gains, LOTFA suffered from serious start-up problems initially (see Box 3.3 related to CNPA) and faces a number of constraints that need to be addressed:

- LOTFA is under-funded, and there are continuing uncertainties regarding future commitments from major donors, which have yet to materialize.
- Donors complain that there is little transparency with regard to the political decision making process on pay and grading reform, compared with progress made on other technical issues.

- There appears to be little awareness regarding the fiscal constraints facing the ANP.
- There is a general feeling within Government that the international community is somehow obliged to continue meeting security sector budget requirements (including ANP financing) without conditionality.
- There are some continuing concerns about payroll integrity.
- Although UNDP management has improved, lack of technical assistance is undermining the costing and planning of investments.
- External scrutiny in the form of audited accounts has been subject to long delays.
- And finally, there is no exit strategy for the trust fund, and the current fiscal situation will not allow the Government to absorb police operating costs within the core recurrent budget for many years to come, not least because increases in ANA funding are progressively being drawn into the Core Budget.

3.32 A Counter Narcotics Trust Fund has been established, also under the management of UNDP, to provide a coordinated funding source for counter-narcotics activities. Its likely modest size means that the CNTF will probably be used for gap-filling and meeting urgent Government priorities in the counter-narcotics field that are not being covered by donors through the External Budget.

Box 3. 3: Funding for Counter Narcotics Law Enforcement

Since the Counter-Narcotics Police of Afghanistan (CNPA) was founded, its salary and operating costs have been financed through LOTFA. In 2003/04, slow payments from LOTFA were a major handicap to the CNPA. Despite generous donations of equipment from the donors, there was virtually no operating budget in late 2003. There was a brand new headquarters in Kabul, but computers initially could not be used as there was no electricity. In the field there were vehicles but no fuel. As there were delays in funds coming from LOTFA for salaries, the Ministry of the Interior paid the staff some of their wages from MoI's own resources. But even when salaries arrived, they were low under the existing Government salary scales. The payroll of the entire 700-strong CID Kabul branch of in October 2003 was \$16,000, or \$23 a month per person. The situation is expected to change as a new salary scale has been proposed for the ANP, which presumably also would apply to CNPA.

In addition to LOTFA funding of CNPA, the counter narcotics sector has a number of special financing arrangements. First, the previous CND's entire operating costs were financed on a "project basis" by the UK through a project included in the External Budget. (The new Ministry of Counter Narcotics is supposed to be part of the Core Budget; however it can be expected that integration will take time.) In 2005, these expenses will be financed from the UK-financed Institutional Development Program. Second, the UK has created an ad hoc arrangement for financing of CNPA top-ups for up to six months, pending the effectiveness of the Institutional Development Contract. Third, donor financing is supporting all operations of the various specialized counter-narcotics forces.

CHAPTER 4. TOWARD A FISCALLY SUSTAINABLE SECURITY SECTOR

4.1 The fiscal sustainability of the security sector is a central issue for public finance management in Afghanistan (see Volume I, Chapter 3). This chapter first reviews recent trends in security sector expenditures and highlights the key factors behind their rapid growth. It then discusses drivers of future security spending including programmed expansion of the sector. These drivers are expected to result in an unmanageable level of expenditures over the medium term, and some very rough projections of the likely order of magnitude of overall security sector expenditures are put forward. A process for assessing the fiscal sustainability of the security sector and making any necessary adjustments (including possible medium-term external financing for parts of the security sector) is outlined at the end of the chapter.

A. Recent Trends in Security Sector Expenditures

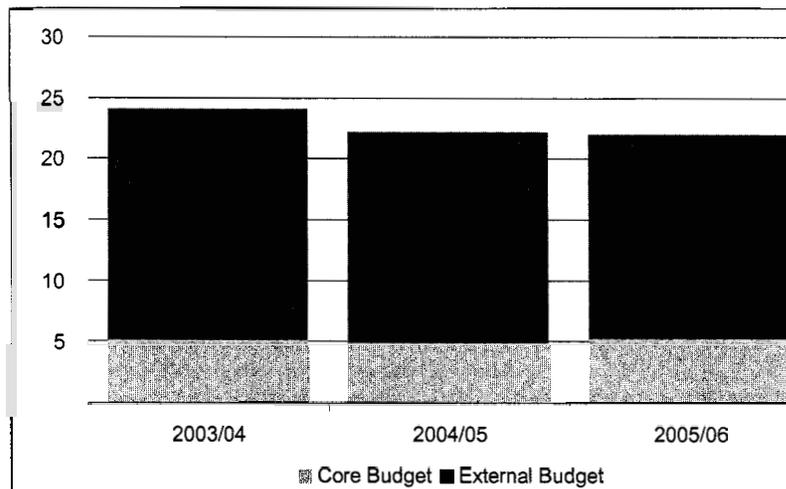
4.2 Security sector expenditures have been growing very rapidly during the past three years, and growth is projected to continue in the current financial year (see Table 4.1). Whether in absolute terms (an estimated \$1.3 billion in 2004/05 not including most counter-narcotics expenditures) or as a share of GDP (23%), the size of the security sector is daunting. As can be seen in Figure 4.1, security sector spending reached a very high share of GDP by 2003/04 and has remained high, albeit with External Budget expenditures on security declining modestly as a share of GDP (while continuing to grow robustly in absolute terms). If maintained, and particularly with an expected shift from the External Budget to the Core Budget, such a high level of security sector expenditures would carry serious fiscal risks and would threaten the sustainability of the security sector.

Table 4. 1: Summary of Total Security Sector Expenditures 2003/04 – 2005/06 (US\$ million)

	2003/04 Estimate	2004/05 Estimate	2005/06 Budget
Total Core and External Security Expenditures	1,105	1,328	1,615
Core Security Expenditures	235	292	384
- Operating	233	275	303
- Development	2	17	81
External Security Expenditures	870	1,036	1,231
Total Core and External Budget Expenditures	3,847	4,213	4,862
% of Security in Total Expenditures	29%	32%	33%
Total Domestic Revenues	208	269	333
% of Security to Domestic Revenues	533%	494%	485%

Source: MoF budget documents and fiscal reports, staff estimates.

Figure 4. 1: Security Spending as a Share of GDP



Source: MoF budget documents and fiscal reports, staff estimates.

4.3 The main driver of security sector expenditures has been the Afghan National Army (ANA), which after a start-up phase in 2002/03 has been absorbing large amounts of funds on the order of \$800 million per year during 2003/04 – 2005/06 (see Table 4.2). Equally striking more recently has been the growth of police expenditures, which are targeted to quintuple in two years to nearly \$600 million (budgeted) in 2005/06. Other components, while much smaller in terms of their impact on aggregate security sector spending, have also seen very large increases, notably mine action and (starting from a tiny base) and justice. Not surprisingly in Afghanistan’s difficult post-conflict circumstances, the overall pattern has been one of considerable fluctuations and at times large, order-of-magnitude increases in expenditures on different components, amid continuing rapid growth of overall security spending.

Table 4. 2: Security Sector Expenditures by Program (US \$ million)

	2003/04 Estimate	2004/05 Estimate	2005/06 Budget
Total	1,105	1,328	1,615
Afghan National Army	797	788	830
National Police and Law Enforcement	209	340	597
Justice	16	45	63
Mine Action	63	96	77
DDR	21	59	48

B. Future Expenditure Drivers and Programmed Expansion

4.4 The rapid growth of security sector expenditures seen in recent years has not yet reached a plateau, and there are a number of drivers which can be expected to generate further increases in coming years. The investment component of security sector spending (construction and equipment) may decline after another couple of years, but other drivers can be expected to further increase recurrent expenditures.

4.5 ***Continuing investments and equipment purchases:*** The large one-time investments in setting up ANA base facilities and in equipping the ANA are expected to taper off over the next several years. However, substantial investments in the ANP have been programmed for 2005/06 and can be expected to continue for a time. It has been reported that the US is expected to commit some \$700-800 million for the ANP in the coming two years, much of which would be used for infrastructure development and equipment purchases. Moreover, the costs associated with maintaining the ANA and ANP “capital stock”, as well as similar investments in the counter-narcotics field, are not precisely known but can be expected to be substantial. This underlines the importance of instituting a multi-year planning and budgeting cycle and of fully costing equipment acquisitions and other capital investments. It also should be kept in mind that forecasts made by security-related ministries of investment expenditures over several years are likely to understate the requirements in outer years, as plans and investment programs have not yet been formulated. Moreover, since virtually all security investment costs are currently borne by the External Budget and external financing for the security sector can be expected to decline by at least as much as these investments fall (if not more), there is no net benefit to the Afghan budget from this expected future trend.

4.6 ***Continuing programmed expansion of security forces:*** As seen in Chapter 1, target force levels were set based on various considerations (including the expected need to accommodate existing combatants in the new order), without the benefit of a carefully thought out or agreed threat assessment. Continuing expansion of employment in the security sector will be required to reach these target force levels, most notably in the case of the ANA (targeted level 70,000, as compared with around 26,000 combat troops at present), but there will also be additional recruitment into the police. The annual fiscal impact of increasing the ANA by another 40,000 or so to reach the 70,000 target would be more than \$100 million for salaries alone. The total salary bill for the ANA at full strength can be estimated at just under \$200 million annually. All in all, if expansion continues, ANA salaries will be a major driver of security sector expenditures (and indeed of total budgetary expenditures) in coming years.

4.7 Although not as dramatic as in the case of the ANA, other security forces also are programmed to expand, including the ANP. Moreover, there has been a proposal to double the number of border guards from the targeted level of 12,000 to 24,000.

4.8 ***High salary scales, being applied to an increasing proportion of security sector staff:*** Salary and wage levels in the recent past have varied considerably among the different security institutions (see also Figure 3.1). In the ANA they range from a low of US\$70 to a maximum of US\$850 per month. In contrast, MoI staff (including police) have received between US\$30 and US\$122 per month. A new pay and grading structure has been proposed for the ANP that will bring their pay structure on par with (and in some grades above) that of the ANA. The new Counter-narcotics Ministry also appears to be getting higher salaries and/or top-ups. The NDS similarly hopes to at least reach parity with ANA. What is more, setting new pay scales has implications for longer-term pension liabilities, although this issue was not addressed when the new ANA and ANP salary structures were set.¹⁰ Clearly, security sector personnel require a living wage. At the same time, a wage rate that is driven by individual Ministry requests and funded by donors through the External Budget, without a Government-wide agreement on an overall wage structure that reflects Afghanistan’s fiscal realities, runs a serious risk of not being sustainable should donor support be reduced before adequate local revenue comes on stream.

¹⁰ A recent Supreme Court ruling provided for defense retirees’ pensions to be adjusted retroactively in line with the current salary structure, which would have an estimated one-time extra cost of \$45 million, plus higher military pension costs of \$15 million annually. While the status of implementation of this ruling is not yet clear, it illustrates the major fiscal liabilities that can be created by decisions on salary structure and pensions in the security sector.

4.9 It is not clear whether and to what extent there will be further wage increases in the security sector, although civil servants in the Government management bodies (i.e. parent ministries) will be included in any general civil service salary increases. Even if further increases in salary scales, particularly for the ANA and ANP, are avoided, these have been set at relatively high total compensation levels in relation to local conditions and the rest of government employees. In addition to the expansion of the ANA referred to above, the progressive shift of most of the police force from its previous relatively low salary structure to the new ANP pay levels (see Table 2.1) will generate substantial increased salary costs. Even if there are no further salary increases during the coming several years, rising wage costs are already built in due to the shift from a low pay structure to a much higher one. A progressively larger proportion of total security sector employees will be earning higher salaries – along the lines of ANA and ANP – and this is likely to exert upward pressure on civil service salaries more generally.

4.10 **Corresponding growth of non-salary expenditures in the security sector:** Security forces need a range of complementary non-salary inputs in order to function effectively and remain at full readiness. Examples include fuel for mobility, uniforms, food, ammunition, etc. And there are also very substantial maintenance costs for military and other security forces' equipment. In the case of the ANA, the non-salary recurrent costs of an ANA of 70,000 have been very roughly and conservatively estimated at around \$120 million per year. Combined with salary costs this would be a major fiscal burden in view of Afghanistan's low domestic revenues (only \$269 million in 2004/05 and originally budgeted at \$333 million in 2005/06).

4.11 **Counter-narcotics expenditures:** While uncertain in magnitude and possibly fluctuating widely, spending on counter-narcotics programs, including both law enforcement and alternative livelihoods, can be expected to be high. Information is incomplete, and there is a risk of double-counting of alternative livelihoods spending with rural development programs. Moreover, the longer-term fiscal and expenditure management implications of the new institutional arrangements for counter-narcotics (oversight and coordination by MCN) are not yet clear. Pay structures are not yet fully clear but appear to be high at least in some parts of the counter-narcotics apparatus, with direct payments of salaries/top-ups by donors playing a prominent role. Spending on counter-narcotics (both ordinary and development budgets) may increase considerably, and there is a concern that the costs of counter-narcotics may spiral out of control, or at least overtake spending on the ANA and ANP. It is very difficult to capture all information regarding counter narcotics funding because (i) many expenditures are not budgeted (and much is provided "in kind") and (ii) little information is available more than one year ahead (largely because the program is evolving fast, and is supported by donors who make only annual commitments). Nevertheless, it seems likely that spending on counter-narcotics activities in coming years will be in the \$500-1,000 million range annually.

4.12 These various drivers of security sector expenditures and very rough estimates of their likely future impact (on an annual basis) are outlined in Table 4.3. Taking into account the substantial double-counting that most likely exists between counter-narcotics spending and other categories inside and outside the security budget, it nevertheless seems likely that the overall costs of Afghanistan's security sector will be in the range of US\$ 900-1,000 million per year over the medium term, if not more.

4.13 In conclusion, it is frequently the case in international experience that when, often as part of a security sector reform initiative, salaries and wages increase in the security sector and modern equipment is procured, staffing levels in the security services decline. Afghanistan is in quite a different position. Due to its problematic historical legacy and the urgent need to build up security forces, the country faces the prospect for at least some years to come of simultaneously rising average salaries, staffing levels, non-salary expenditures, and equipment/maintenance costs. This, combined with the fragmented character of decisions on key security parameters, will place enormous fiscal pressures on Afghanistan's budget.

Counter-narcotics spending is highly uncertain but is likely to further augment total security expenditures, with associated issues for fiscal sustainability.

Table 4. 3: Likely Drivers of Security Sector Expenditures

Component	Driver	Rough Estimate of Annual Cost
ANA salary costs	Force expansion to 70,000	\$196 million total /a
ANP salary costs	Shift of police to new ANP salary scale	\$177 million total
ANA non-salary costs	Recurrent costs of full-sized ANA of 70,000	\$120 million/b
ANP non-salary costs	Making ANP operationally effective	\$90 million/c
Investment costs	Steady-state investment requirements for the security sector	\$200 million/d
Counter-narcotics	Major law enforcement and alternative livelihoods efforts	\$500-1,000 million?/e

/a Incremental costs over current levels are roughly estimated at over \$100 million.

/b Very rough estimate. Total sustaining costs of the ANA, including both wage and non-wage expenditures, have been roughly estimated at the range of \$300-400 million per year.

/c Rough estimate including training costs.

/d Very rough estimate based on assets created by current very high investments.

/e Very rough estimate; this is likely to involve double-counting with both other security sector categories and civilian development expenditures (e.g. on rural development).

Source: *Afghanistan Pay and Employment Model*; staff estimates.

4.14 Moreover, within total security sector spending, important shifts between the External and Core budgets can be expected, with major fiscal implications which could be unsustainable if not well-managed. Currently very large amounts of recurrent expenditures in the security sector – on wages and purchases of good and services – are paid directly by donors through the External Budget. Available data do not allow much precision, but it would appear that very roughly on the order of 60% of security sector spending in the External Budget consists of recurrent expenditures (see Volume I, Figure 6.2).

4.15 In this regard, there are already pressures from key donors for the Core Budget to pay progressively more of the security sector wage bill over time. If this shift occurs rapidly, it will put enormous pressure on the Government’s domestic revenues. Similar pressures are likely for non-wage recurrent expenditures, and already the cost of food for ANA troops has been shifted from the External to the Core Budget. Just adding up the recurrent drivers listed above and excluding counter-narcotics, the total well exceeds current and forecast domestic revenues.

C. Projected Costs, Fiscal Burden, and Lack of Sustainability

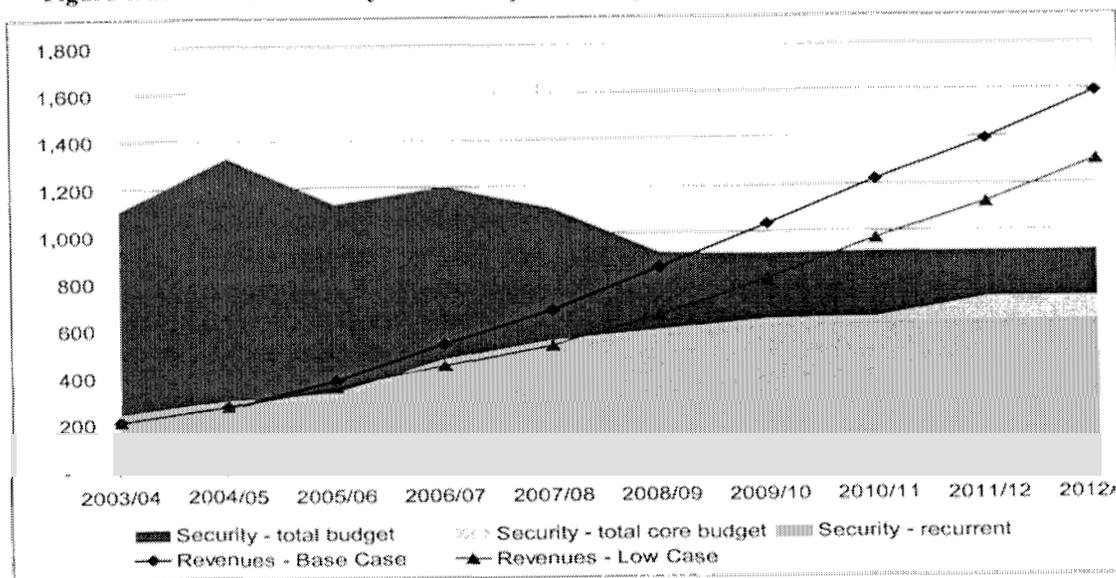
4.16 Projecting security sector expenditures forward over time is a challenge given data limitations and poor data quality. However, targeted force sizes for important components of the security sector (e.g. the ANA and ANP) can be used to generate an idea of some of the key future cost components (building on the analysis of expenditure drivers in the previous section). Given the very large magnitudes and past and continuing expenditure growth in the security sector, even very rough projections can be useful in providing an overall picture and highlighting the sustainability issue.

4.17 Based on the current structure of security spending and national budget rolling forecasts, it can be roughly estimated that total security spending including counter-narcotics will absorb 45-50% of total public expenditures, an even higher ratio than in the recent past. There is thus a major risk that security spending will crowd out other spending aimed at supporting economic growth and poverty reduction. The expected further increase in the security budget largely results from the projected growth in spending on counter-narcotics and from increases in operating expenditures, both wage and non wage recurrent costs, primarily for ANA and ANP.

4.18 Making use of available information in the budget, the wage structure, and taking into account security sector expansion targets, Figure 4.2 forecasts likely security sector spending until 20012/13 against revenue projections developed by the PFM Review (Volume I, Chapter 4 and Volume III, Chapter 1). The forecast development expenditure in the security sector may be too low, since current estimates appear to be rather short-term in nature, in at least some cases declining sharply not due to reductions in requirements but only because projects and programs have not yet been developed. Nevertheless, the “mountain” pattern of forecast total security sector expenditures, driven by investment spending in the External Budget, probably portrays the future reasonably well, as start-up investments (e.g. in military bases, major equipment) are completed.

4.19 Figure 4.2 also indicates that even without taking into consideration additional costs due to further wage inflation, additional staffing, or enhanced O&M requirements, total security sector expenditures will exceed forecast domestic revenues for some years to come, which is unaffordable and fiscally unsustainable. This outcome is forecast under a somewhat ambitious yet reasonable “base case” scenario for revenue mobilization, and is demonstrated even more starkly under a “low case” revenue scenario. Moreover, domestic revenues will need to progressively take on the burden of covering various civilian expenditures currently being paid through the External Budget, so allocating the bulk of domestic revenues to the security sector is not viable or desirable over the medium term.

Figure 4. 2: Forecast Ordinary and Development Budget Spending Against Forecast Revenues



Source: MoF data, staff estimates, and staff projections (see Volume I, Chapters 3 and 4)

D. Progressing Toward a Sustainable Security Budget

4.20 The analysis presented in this Chapter clearly demonstrates, even with imperfect information, that the fiscal sustainability of the security sector is a major issue affecting Afghanistan’s budget and overall fiscal prospects, and hence the state-building and reconstruction agenda as a whole. The trends and future expenditure drivers outlined earlier highlight the urgency and priority of taking measures to achieve sustained rapid growth of revenues over the medium term, in a non-distortionary manner that facilitates private sector development (see Volume I, Chapter 4 and Volume III, Chapter 1). But on the other hand it is clearly impossible for security sector costs to be absorbed very quickly into the Core Budget. Thus a gradual process to achieve such a shift, supported by predictable “bridge financing” from the international community, will be essential.

4.21 This issue is of great urgency, since decisions already made or currently being made, and expenditures now being incurred or planned, could have potentially profound implications for the fiscal sustainability of the security sector. Thus actions are needed, sooner rather than later, to: (i) obtain full information and assess more reliably the magnitude of the fiscal sustainability problem in Afghanistan's security sector; (ii) bring together all the key stakeholders – across the Government and outside of Government, including key donors – to discuss and reach greater consensus on this issue; and (iii) take actions to ameliorate the fiscal sustainability problem, ensure that it does not get worse, and put in place arrangements to ensure that it is properly managed and does not prevent Afghanistan from progressing toward overall fiscal sustainability (Volume I, Chapter 3). A possible approach along these lines is put forward for consideration.

4.22 ***Quickly enhance the information base on security sector expenditures***, especially with respect to the cost implications of mandated/planned expansion of security forces, and also of associated wage structures and non-wage recurrent expenditure requirements. This will require a short but concentrated effort on the part of the Government with support from donors and other stakeholders. The information gathering work can build on a similar exercise conducted in late 2004 and early 2005 as part of the PFM Review, during which very good cooperation was provided to the PFM Review team by Government agencies and donors. The information gathered earlier needs to be updated and corrected where necessary, to be made more comprehensive, and to reflect recent decisions on basic features of the security sector (e.g. on the size of the border police force, size of ANP, counter-narcotics forces, etc.).

4.23 ***Review the fiscal implications of ongoing security sector expansion and reforms***: Conduct an integrated security sector-wide fiscal review to forecast the fiscal implications of currently programmed security sector expansion and reforms over the next few years as well as over the medium-term. This exercise should be led by the Government (the NSC and MoF presumably would play very important coordination and oversight roles), with technical inputs and information provided by external partners. The security sector fiscal review would logically be done under the overall umbrella of the MTFE into which it would feed. The sustainability of the planned expenditure increases needs to be examined within the context of the overall rolling fiscal plan, the growth in domestic revenues, and long-term commitments from the donors to fund recurrent costs. A number of key issues need to be addressed in this regard: (i) salary levels and structure; (ii) staffing levels; (iii) non-salary recurrent costs (including unit costs); (iv) integration of recurrent and capital costs; and (v) development spending forecasts.

4.24 ***Revisit strategic objectives and trade-offs in the light of fiscal constraints***. This would ideally be done as part of the overall exercise to prepare/finalize the national security strategy, which itself should be consistent with and supportive to the national development strategy (ANDS).

4.25 ***Take actions to improve the situation***. Options that the Government could consider include (i) avoiding any further wage increases in the security sector (it would be difficult to roll back increases that have already been implemented); (ii) reconsidering programmed force sizes, notably for the ANA, in the light of the current situation and fiscal constraints; (iii) exploring possibilities for containing non-salary recurrent costs, but in a manner that does not adversely affect readiness and operational capabilities; and (iv) similarly reviewing construction plans and equipment costs. None of these options would be easy, but as seen above, the option of doing nothing carries grave fiscal risks and would most likely generate significant threats to Afghanistan's development.

4.26 ***Explore with donors prospects for predictable external funding for the security sector over the medium-term***, in line with agreed objectives for the security sector and with a clear road-map for gradually phasing out such funding over a number of years as Afghanistan progresses toward a sustainable fiscal position.

4.27 ***Ensure that the fiscal sustainability “lens” is applied to future decisions,*** with a view to preventing decisions or actions from inadvertently worsening of the fiscal sustainability of the security sector in the short- or medium-term. A notable example would be to avoid further wage increases or loss of control over staffing establishment size. Of particular importance will be instituting program- and policy-based budgeting of security sector expenditures

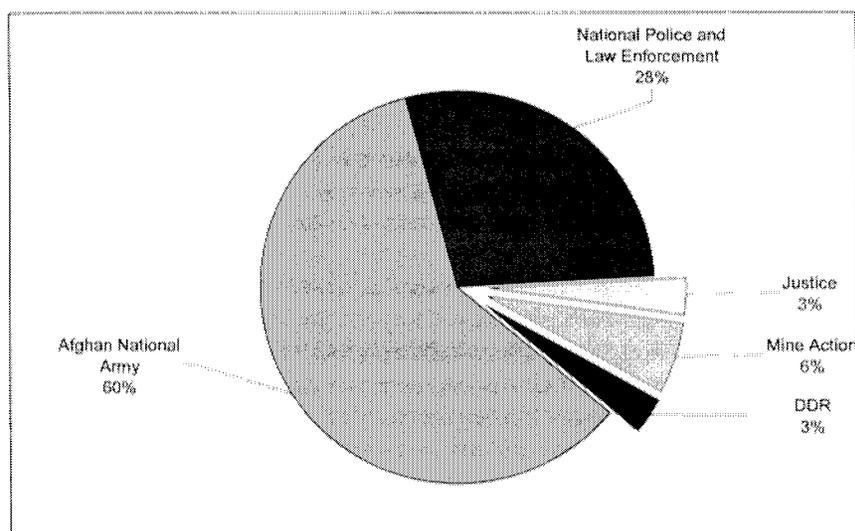
CHAPTER 5. STRATEGIC PRIORITIZATION AND SEQUENCING

5.1 Within an overall resource envelope for the security sector that is fiscally sustainable – or at least has reasonable prospects for progressing toward fiscal sustainability (and preferably medium-term donor commitments to provide “bridge financing”) – the effective allocation of public sector resources to different sectors, programs, and activities is crucial. This is as true of the security sector (or “pillar” as termed in national strategy and budget documents) as in other sectors. This chapter first reviews the structure of security sector expenditures from several angles, particularly the functional classification (i.e. as between different parts of the security sector); as information on the economic classification is limited, analysis will be based on rough estimates. The chapter then looks at issues related to the structure of security sector expenditures – in particular what appear to be anomalies and major imbalances – and the factors behind them. The final section of the chapter discusses prioritization in the context of the budget process and puts forward some ideas and options.

A. The Structure of Security Sector Expenditures

5.2 As can be seen from Figure 5.1, security sector expenditure have been dominated by Defense (primarily ANA) and Interior (mainly police), which together account for close to 90% of the total (not including additional counter-narcotics spending). Data on counter-narcotics expenditures are variable and not very reliable, and in part may be double-counted with other security and non-security spending. Nevertheless, it is clear that counter-narcotics spending also has become quite large in the last two years. All other security sector expenditures take up only one-eighth of the security sector budget. Although the shares of different components have fluctuated from year to year, with for example Defense/ANA sharply higher during the past two years and recently a surge in both police and counter-narcotics expenditures, these three components are expected to continue account for the bulk of total security sector spending.

Figure 5. 1: Composition of Security Expenditures, 2003/04-2004/05



Source: MoF budget documents and fiscal reports, staff estimates.

5.3 The detailed data on the functional classification of security sector expenditures, shown in Table 5.1, confirm this overall picture of three dominant parts of the security sector, with fluctuations in spending and in the shares of various components. While as seen in Chapter 4, the start-up investment

costs for the ANA are expected to decline in coming years, its sustaining costs if it reaches the targeted size will be very substantial. Start-up investments for the ANP mean that expenditures by the Ministry of Interior are likely to surge for the next several years, and counter-narcotics expenditures although subject to uncertainties and fluctuations will remain very large.

Table 5. 1: Functional Breakdown of Expenditures for the Security Sector (2002/03 to 2004/05)
US\$ million

	Estimated		Forecast	Aggregate	%
	2002/03	2003/04	2004/05	2002/05	
National Defense	86.5	828.1	877.0	1,791.6	50.14
Internal Security	65.1	203.4	498.2	766.8	21.46
Justice	0.7	9.3	53.7	63.7	1.78
Supreme Court	1.7	2.8	4.1	8.6	0.24
Attorney General's Office	2.4	3.8	4.0	10.2	0.29
National Directorate of Security	14.8	12.1	12.9	39.8	1.12
Borders and Tribal Affairs	0.7	3.7	4.4	8.8	0.25
Counter-narcotics / Alternative Livelihoods	0.2	101.0	638.4	739.5	20.70
Mine Clearance	0.0	63.1	81.2	144.3	4.04
Grand Total	172.1	1,227.4	2,173.9	3,573.4	100%

Note: The data in the above table are not strictly comparable with the budget data used in the other tables and figures in Chapter 4 and Chapter 5, due to different categories and data uncertainties.

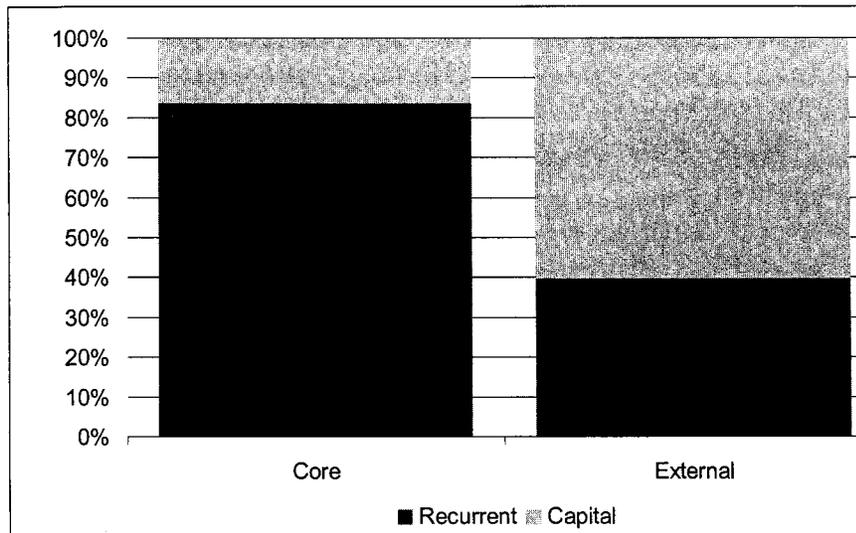
Source: MoF data, information from other sources, and staff estimates.

5.4 Turning to the economic classification of security sector expenditures (i.e. as between wages and salaries, purchases of goods and services, transfers, and capital investments), data on External Budget expenditures are not available, but rough estimates were made and are presented along with available data on the Core Budget in Figure 5.2. While Core Budget expenditures on the security sector not surprisingly have high salary and non-wage recurrent components (estimated at 84% in 2004/05 and budgeted at 70% in 2005/06), it is striking that around half of the External Budget for the security sector is spent on recurrent costs (an estimated 40% in 2004/05 and 53% in 2005/06), with a high component of wages and salaries in both Core and External Budgets. This reflects massive donor funding of and direct payments for salaries of the ANA, counter-narcotics forces, the National Directorate of Security, and now expected for the police (via US support). As discussed in Chapter 4, this poses a major threat to fiscal sustainability, as these costs could not be absorbed by the Core Budget if financing through the External Budget declines. There are also issues related to maintaining sound PFM controls in a situation where salaries are being made by different donors in various ways, bypassing the Government payroll.

B. Imbalances and Anomalies, Sequencing Issues, and Contributing Factors

5.5 A detailed analysis of the structure of security expenditures is beyond the scope of this volume, as it gets into technical requirements etc. which are highly sector-specific. Moreover, it is difficult to comment extensively even on the broader structure of security sector expenditures until there is in place a national security strategy and sector strategies for the main components within the security pillar. And the information base is weak, especially with respect to the economic classification of security sector expenditures in the External Budget. Nevertheless, some general comments are offered below.

Figure 5. 2: Economic Classification of Security Sector Spending, 2004/05



Source: MoF budget documents and fiscal reports, staff estimates.

APPARENT IMBALANCES AND ANOMALIES

5.6 The low spending on the justice system is striking (see Figure 5.1) and is reflective of the fact that reforms in the justice sector have made much less progress than improvements elsewhere in the security system. This seems very much disconnected with the concerns voiced by most Afghanistan about justice and crime (see, for example, CSIS, 2005). There has been a sharp increase in spending on the justice sector in the past year, which if it continues may remedy this imbalance. However, it should be recognized that low funding is not the only factor behind lagging progress in the justice sector, and that more funding without resolving other problems is unlikely to achieve sustained improvements.

5.7 The national police until recently appears to have been underfunded (Table 5.1), although with the large amounts programmed for spending on the ANP in 2005/06 and plans for the coming years, it would seem that this imbalance is in the process of being corrected. However, similar issues arise with respect to the sustaining costs of the ANP as in the case of the ANA (see Chapter 4).

5.8 It is difficult to assess the adequacy of counter-narcotics expenditures due to imperfect data and major fluctuations in spending. Moreover, it is questionable whether the National Drug Control Strategy (NDCS) promulgated in 2003 is effectively guiding resource allocation in this sector. It seems much more likely that spending on counter-narcotics is occurring in an ad-hoc manner and in response to various short-run pressures. Some donors, however, most notably the USA, have given indications of medium-term commitments of funds for counter-narcotics purposes.

5.9 Although information is scanty, it also seems based on the available budgetary data that the Ministry of Border and Tribal Affairs (MoBTA) is being grossly underfunded in relation to its heavy responsibilities related to border controls. However, there appear to be large amounts of off-budget spending, and in particular salaries of border militia may be paid through off-budget channels. A major initiative is underway to strengthen border control forces and a conference with regional countries is to be held on this subject in early 2006.

5.10 Spending on mine action has increased from the \$20-30 million per year range in the late 1990s to a peak of nearly \$100 million annually in the most recent year for which information is available

(virtually all in the External Budget). This has been driven both by the enormous increase in funding available for Afghanistan's reconstruction and by the requirements for de-mining associated with reconstruction projects, e.g. roads and other infrastructure. Substantial funding will need to continue in order to enable Afghanistan to achieve the ambitious target put forward in its MDG report to rid the country of anti-personnel mines by 2013 and of other explosive contaminants by 2015 (Afghanistan Government, 2005b, pp. 109-110).

5.11 A more general issue is the relative prioritization as between actions to establish, expand, and strengthen security forces and measures to build capacity and effectiveness in security sector management and oversight bodies. While developing security forces in a timely manner is essential to achieve good results in terms of security on the ground, the role of effective management and oversight of security forces by the civil authorities also is crucial (which was entirely lost during the long period of conflict). In this regard, the slow progress in administrative reforms in key management and oversight bodies, including notably MoI, is a matter of concern (see Chapter 2). In addition, the administrative strengthening and restructuring of MoD has occurred outside the Government's interim public administration reform arrangements.

5.12 With regard to counter-narcotics, the current institutional arrangements include the recently-formed Ministry of Counter-Narcotics, which is mandated to play a policy oversight and coordinating role. The longer-term fiscal and expenditure management implications are not yet clear. Pay structures are not fully clear but appear to be high and variegated at least in some parts of the counter-narcotics apparatus, with direct payments of salaries/top-ups by donors playing a prominent role. There is a significant fear that the costs of counter-narcotics activities will spiral upward. The question of how best to focus investments (alternative livelihoods, interdiction, eradication, etc.) needs to be continuously pursued. It is difficult to capture all information regarding counter narcotics funding. With regard to the size and composition of counter-narcotics expenditures, the following points emerge:

- The allocation of resources for 2004/05 appears to provide about two-thirds of expenditure allocations for alternative livelihoods and governance and one third for law enforcement, reflecting the priorities of the NDCS.
- Resources could increase considerably from 2004/05 to 2005/06, to roughly \$1.6 billion, a considerable share of total public spending in Afghanistan. This reflects the judgment of major participants that levels of programming and funding in 2004/05 (even if well balanced and in line with strategy) were well below levels needed to have an impact on the problem;
- Allocations to law enforcement have nearly trebled from 2004/05 to 2005/06, reflecting the greater emphasis on interdiction and eradication by key donors.
- Allocations to alternative livelihoods and governance programs are also set to rise in 2005/06 (but not by so great a multiple, so that the 2005/06 program allocates a higher share of resources to law enforcement, and a lower share to alternative livelihoods and governance, than in 2004/05).
- The numbers for alternative livelihoods are complicated by methodological problems as to what "counts" – but it is clear that in 2005/06 the balance has shifted from alternative livelihoods toward law enforcement.
- Finally, there is very little funding allocated for demand reduction within total counter-narcotics spending.

SEQUENCING ISSUES

5.13 In terms of sequencing – the prioritization of activities and expenditures over time – there also appear to be some serious issues, although it must be recognized that careful consideration of sequencing aspects may have been difficult or impossible in the initial, "emergency" phase following 2001. Thus the discussion below reflects the ex-post "de-facto" sequencing which emerges from the data on expenditures rather than explicit decisions on sequencing made at the time.

5.14 Based on the overall structure of expenditures, and keeping in mind the very large spending on international security forces (Coalition and ISAF), the sequencing of security sector expenditures over the past four years has been broadly as follows:

- The initial focus was on following up the anti-Taliban war with a large international security presence, including the Coalition with primarily anti-terrorism/counter-insurgency objectives and ISAF which was mainly intended to provide security for the Afghan government and in Kabul (albeit with a mandate to expand beyond Kabul that was taken up only very slowly).
- After an interval of about a year, probably reflecting decisionmaking, start-up requirements, and breaking through political constraints, the focus was on establishing and progressively staffing up the ANA (the latter process continues, and subsequently strengthening of MoD also has been occurring, albeit outside of the Government's public administration reform mechanisms).
- Shortly thereafter, and with increasing momentum over time, the emphasis with respect to international security forces was placed on setting up Provincial Reconstruction Teams (PRTs) in a growing number of provinces – now reaching 22, in all regions of the country. Although not envisioned in the Bonn Agreement, this turned out to be the mechanism for ISAF expansion outside of Kabul (albeit slow and limited). The mandate of the PRTs goes well beyond security narrowly construed to encompass local governance and development objectives.
- There has been a growing emphasis on counter-narcotics spending, culminating with the strong national campaign against opium poppy planting in 2004, accompanied by much more aggressive interdiction activities based on small but high-quality forces built up over the past several years.
- De-facto, the reform and strengthening of the police appears to have been given relatively low priority in the initial years. Reforms in MoI also have lagged. More recently, the focus has belatedly shifted to the ANP which is now being provided with higher levels of funding through the External Budget.
- With the continuing insurgency in certain parts of the country, apparently in large part funded and organized from across the border in Pakistan, the counter-insurgency role of the Coalition forces has again been receiving greater emphasis, including aggressive operations against insurgents' sanctuaries in remote mountainous areas.
- All along, the justice sector and border control forces have made considerably less progress than other parts of the security sector.

5.15 Much of this de-facto sequencing, which emerged from the exigencies of the situation faced in 2001 and immediately thereafter, would appear to make good sense. However, the delay until recently in moving ahead with MoI and police reforms, relative to the heavy focus on the ANA, may not have been appropriate given the complementarities between internal security and counter-insurgency efforts. While reform and strengthening of the justice system undoubtedly involves complex and difficult issues and takes time, the slowness in moving forward in this area has been problematic.

CONTRIBUTING FACTORS

5.16 The issues related to prioritization and sequencing outlined above would appear to stem in large part from shortcomings in the PFM system in the security sector. But first, the lack of an agreed national security strategy, while not surprising in the initial period following the end of major combat in late 2001, clearly has been a constraint hindering effective prioritization of expenditures. Preparation (currently well advanced), debate, approval, and promulgation of the national security strategy will greatly facilitate effective prioritization. The same applies, to varying degrees, to prioritization of expenditures within sectors, although some of them have a better strategic anchor for expenditure decisions than others.

5.17 Second, the overwhelming dominance of the External Budget in total security funding has made it very difficult for the Government to prioritize across different sectors and major programs. This is true

of many other sectors as well, but as noted in Chapter 3 the situation appears to be worse in the security sector. Difficulties in prioritizing are accentuated by the massive spending by international security forces and their direct engagement in security operations.

5.18 Third, the above problems and fragmentation of decisionmaking across donors make it more difficult for the National Security Council (NSC) to fully carry out its mandated strategic, leadership, and coordination functions, although the situation in this regard has improved in 2004 and 2005. Nevertheless, effective prioritization remains difficult in this context.

5.19 Fourth, fragmentation in decisionmaking and funding across sectors and programs may have been exacerbated by the “lead donor” approach. This may have encouraged line ministries to go their own ways (in partnership with the concerned lead donor), rather than following the lead set by the NSC and security sector coordination mechanisms.

5.20 Fifth, under the lead donor approach progress in different sectors and programs has been at least to some extent dependent on the lead donor – its resources available for funding the sector, the degree of pro-activity exhibited, and the effectiveness of the advisory and other support it brought to bear.

5.21 Sixth, the lag in reforms and capacity building in the key security sector management and oversight bodies undoubtedly has hindered effective prioritization. Line ministries, for example, for the most part lack the capacity for sound program design and budgeting.

C. Using the Budget as a Prioritization Tool

5.22 Afghanistan’s national budget, like the budget of any country, is the appropriate tool for deciding among competing claims and for allocating resources according to national priorities – best set out in a widely-owned national development strategy. As has been seen earlier in this volume, the budget in Afghanistan has not been able to play this role effectively in the security sector, despite significant efforts at coordination. Box 5.1 goes into some degree of specificity in describing the limited role of the national budget process in different sectors of the security pillar.

5.23 The dominance of the External Budget is an impediment to making the national budget an effective tool of prioritization that is not likely to substantially change in the near future. Nevertheless, it should be possible to achieve greater cohesion and prioritization around the national budget, with expenditure decisions anchored in a national security strategy and individual sector strategies. What is needed is to get away from the fragmented, in the past indeed almost isolated patterns of decisionmaking and resource allocation. This will require further enhancing the capacity of the National Security Council to effectively carry out its coordination role vis-à-vis the security sector ministries and various donors. And MoF will need in particular to exercise an adequate degree of oversight with respect to the budget process.

5.24 The lead donor system may need to be revisited, although under effective national coordination its disadvantages may be mitigated and its advantages (clear division of responsibilities and at least some degree of individual donor responsibility and accountability for achieving progress, as well as helping avoid confusion among donors) may come to the fore. However, if it is retained, the lead donor approach should not mean that each donor goes its own way, even in partnership with the concerned line agency. Lead donors need to operate in the context of national oversight and Government-led coordination.

Box 5. 1: The Role of the Budget in Determining Priorities in Different Sectors

Military: The planned force size of the ANA was determined with reference to political considerations and the intention at that time to absorb substantial numbers of armed combatants in the new army. The ANA's pay and grading structure was determined by the Office of Military Coordination (OMC) and the US Government, which also has roughly estimated the medium-term "sustaining costs" of the ANA. Although the Ministry of Defense (MoD) and National Security Council (NSC) have been increasingly brought into the decision making process, allocation decisions have been made largely outside of the national budget framework. Given the impact of defense spending on the national budget, the previous lack of engagement with MoF on the overall impact of defense spending decisions and fiscal sustainability issues has been a major weakness. Moreover, the estimated longer-term sustaining costs of the ANA have appeared not to have been fully discussed or agreed with the Government.

Police: The recurrent costs of the national police so far have by and large been determined and disciplined by the national budget, despite the fact that the ANP force size also was set in the absence of a national threat assessment. Base salaries, food allowances, and operations and maintenance costs, as well as a number of top-ups and incentives have been paid through the budget, reimbursed through the Law and Order Trust Fund for Afghanistan (LOTFA). However the development budget, unlike the operating budget, has been entirely determined by the main funding partners for the law and order program (the EC, Germany, UK, UNDP, and the US) in collaboration with MoI. Certain priorities, such as the ID card system, have not been funded despite the fact that they have remained the highest priority for the MoI. Recently, a new pay and grading structure for the ANP has been proposed, based on discussions in a joint Government/donor working group, although MoF was not directly involved. Consequently the new structure, which brings ANP salaries to parity with those of the ANA, has not been assessed from the point of view of fiscal sustainability or budget composition.

Judiciary: A substantial proportion of the day-to-day operating costs (salaries and non salary recurrent expenditures) for the Ministry of Justice, the Supreme Court, the Attorney General's office and the prison service are covered by the Core Budget. However, development spending, equivalent to almost 200% of the operating budget, is almost exclusively channeled through the External Budget. Moreover, significant recurrent costs (e.g. furniture, office renovation, staff training, etc.) are embedded within project finance in the External Budget. There are concerns regarding staffing numbers, for the courts in particular, with wide differences reported between the Office of Administrative Affairs and the Ministry of Justice, particularly with regard to sub-national judicial staffing. The payment of top-ups from the External Budget remains a major area of concern and will result in substantially higher salary costs once the majority of salaries migrate to the PRR scale.

Disarmament, Demobilization, and Reintegration of ex-combatants (DDR): DDR has been funded through the External Budget, with expenditure levels and allotments determined by the National Budget Committee, based on proposals by ANBP. Adjustments have been made at mid-year through the Mid Year Review exercise. As this program carries with it no long-term fiscal obligations for the Government, and given the political sensitivities and uncertainties involved, the fact that this was not funded through the Core Budget is probably not an issue of concern. The annual budget process and mid-year review exercise have allowed the Government to exercise some control over both levels and allotments, to the extent rationally required.

Counter Narcotics: The Core Budget, which provides salaries and operating costs of permanent institutions, captures very little counter narcotics-related expenditure. In 2004/05 the basic salary and operating costs of the CNPA were paid from LOTFA, which meant they were in the Core Budget. At present, the UK is funding much of the CNPA budget directly, with the objective of transferring this to the national budget as the PRR process proceeds. With these exceptions, all other counter narcotics-related institutions and activities are paid for through External Budget programs. The programs in the 2004/05 budget are largely congruent with the NDCS and its priorities. However, the memorandum listing activities for counter-narcotics as a cross-cutting theme is a mixed bag that provides little insight into how resource allocation relates to strategic priorities. Some mismatches between investment and operating budgets have occurred, e.g. an investment budget was provided for CNPA without the associated operating budget. In 2005/06, the US will be providing substantial resources for CN, largely on a task force basis; so most of the programmed US resources (totaling close to \$800 million) are likely to be outside the budget. Other donor resources are expected to be within the budget, and the UK is actively pursuing a strategy of "budgetization" for all of its aid.

5.25 As more recurrent expenditures in the security sector are shifted from the External Budget to the Core Budget, prioritization will be facilitated. However, as noted in Chapter 4, fiscal constraints dictate that this shift will need to be a carefully managed, fairly gradual process. Moreover, failure to prioritize effectively now is likely to lead to increasingly serious problems in the future, related to both sequencing and fiscal sustainability.

5.26 In addition there are some more general lessons and pointers with respect to the technical aspects of prioritization, which are summarized in Box 5.2. These are far from a panacea especially in the case of

inter-sectoral prioritization, but if the more fundamental elements described above are in place, such tools can be useful if applied as part of a sound budget process.

Box 5. 2: How to Prioritize?

Prioritizing expenditures – determining what requires the most funds, what should be done first, what should be done later, and what not at all – is not an easy task in any sector, and security is no exception. Sound PFM principles (Box 3.1) can provide some guidance. A few additional pointers are listed below, separately for intersectoral and intrasectoral prioritization.

Prioritization across sectors: Sophisticated technical approaches may require a great deal of resources and even so are highly imperfect and can result in misleading conclusions. Simpler rules of thumb may work better, and judgment is called for.

- Intersectoral allocation decisions need to be anchored in an overall strategy (in this case the national security strategy).
- Identifying and mitigating gross anomalies in intersectoral allocations can be a powerful tool (e.g. the serious underfunding of the justice sector, discussed earlier).
- International patterns of spending and outcomes across sectors may provide some guidance on where funds should be allocated.
- Identifying bottlenecks and directing expenditures to alleviate them may be a useful short-run tool approach.
- Some linkage between sectoral allocations and performance may make sense, but this needs to be watched carefully and corrective actions taken to ensure that large imbalances between sectors (in relation to the overall strategy) do not emerge over time.
- Finally, as a very important matter of sound public finance management, it is essential that intersectoral prioritization be comprehensive – no sector should be considered sacrosanct or immune from scrutiny.

Prioritization within sectors: Technically, prioritization within sectors is more manageable than intersectoral prioritization because the alternative tend to be more comparable.

- Intrasectoral allocation decisions need to be anchored in a sound sector strategy.
- Technical analysis (e.g. cost-effectiveness analysis) can be used to evaluate individual project proposals and also to make more generic prioritization decisions.
- Ruthless culling of projects with lower benefits and/or which do not have good prospects for rapid completion will improve the overall timeliness, efficiency, and effectiveness of sector programs.
- Complementarities need to be factored into prioritization decisions (e.g. there is no point in having a police force that is not adequately equipped – see Box 5.4).
- Correcting geographical and other disparities may help guide prioritization.

Source: Volume I, Chapter 5

5.27 With respect to inter-sectoral allocations of budget resources, simple “rules of thumb” may be helpful whereas sophisticated technical approaches are difficult to apply, require significant resources, and could give problematic results. Having a strategic anchor (i.e. national security strategy and sector strategies) which sets clear objectives will facilitate use of simple prioritization tools. Correcting gross imbalances should be the first priority. Relevant international comparisons may provide some guidance, for instance the size and cost of police forces (in relation to population, and taking into account geographical conditions) in nearby countries and other poor countries broadly comparable to Afghanistan. However, such comparisons need to be used carefully and avoid use of less relevant comparators, for example those with inappropriately high cost structures as in countries with higher average per-capita income. Addressing bottlenecks may be a useful focus in the short run.

5.28 With respect to the External Budget, having comprehensive budget information will itself be useful in guiding the prioritization process and making all stakeholders, including donors, aware of imbalances and anomalies that need to be corrected. Donors also can make use of some of the tools outlined in Box 5.2, and can respond to Government leadership when the Government applies such tools.

5.29 With respect to intra-sectoral prioritization, some of the technical tools available are more reliable and can be applied, even in the security sector. A notable example is economic (or socio-economic) cost-benefit analysis. As discussed in Box 5.3, a cost-benefit analysis of landmine clearance in Afghanistan yields some useful guidance on prioritization, both in terms of which types of land contaminated by landmines carry the highest net socio-economic benefits if cleared (and therefore should be cleared first

with limited resources) and with respect to the choice of mine clearance techniques (manual, mechanical, use of mine detection dogs). In the present context of reconstruction, de-mining is in many cases an essential component to enable projects to be constructed and benefits to be achieved, and should be an integral part of such projects.¹¹ A good example is rehabilitation or construction of roads. De-mining is also important for irrigation projects, and for many agricultural projects.

Box 5. 3: Socio-Economic Cost-Benefit Analysis of Landmine Clearance

Afghanistan faces one of the worst landmine problems in the world, a legacy of more than two decades of conflict starting with the occupation by the Soviet Union in the 1980s. A mine action program has been underway in Afghanistan for well over a decade and has achieved considerable progress in de-mining, although very large areas of mine-contaminated land remain. During 2000-2001 a study was carried out, which aimed to assess the socio-economic costs of landmines and the corresponding (net) benefits of mine clearance, with a view to assessing the returns to the mine action program and providing guidance with respect to choice of de-mining techniques and prioritization of different types of land for mine clearance.

Along with their tragic consequences for individual victims, their families, and communities, the socio-economic costs of landmines can be divided into three broad categories: (i) loss of life, health, human production potential, and human welfare resulting from mine accidents; (ii) denial of access to mine-infested land and loss of associated production or consumption benefits from such land; and (iii) distortion of behavior due to the existence of mines with consequent costs, including longer travel distances, journeys not undertaken due to threat of landmines, etc. In the case of Afghanistan loss of livestock that accidentally detonate mines is another significant socio-economic cost.

Correspondingly, the socio-economic benefits of mine clearance can be summarized as follows:

- Gains in economic productivity due to reduced human losses from mine accidents.
- The corresponding savings in medical costs.
- The improvement in human welfare attributable to reduced losses from mine accidents.
- The net economic benefits attributable to returning land cleared of landmines to productive use.
- Reduced losses of livestock from mine accidents.

The study estimated these benefits (per unit of land area) based on data compiled by the UN Mine Action Centre for Afghanistan (MACA) and compared them with the unit costs of mine clearance using different techniques (manual, mechanical, use of mine detection dogs, and community-based de-mining). On this basis, the study derived socio-economic benefit-cost ratios for de-mining various types of land (roads, irrigation systems and canals, agricultural land, residential land, and grazing land) using different techniques.

The socio-economic benefits associated with any particular piece of land vary, and the cost of de-mining is not predictable in advance but varies with the number of mines planted and other conditions (e.g. amount of rubble covering up mines). Nevertheless, the broad averages on both benefit and cost sides provide useful guidance for prioritization:

On the benefit side, clearance of irrigation systems and canals carries the highest socio-economic returns (as measured by benefit-cost ratios), followed by roads, agricultural land, and then, with much lower returns, grazing land. In essence, the economic value of the land not surprisingly is the main determinant of the socio-economic returns to mine clearance.

On the cost side, use of mine-detection dogs was found to be the most cost-efficient method of mine clearance for all types of land on which use of this technique is feasible (although there is continuing debate about the conditions under which use of dogs is appropriate); mechanical mine clearance is the most expensive technique and may be called for only in situations where use of other techniques is too dangerous; and manual clearance falls in between.

These findings provide some basic guidance ("rules of thumb") on choice of mine clearance techniques and prioritization of different types of land to de-mine. The study also estimated the internal rate of return of Afghanistan's mine action program as a whole, which at 28% (19% based on a sensitivity analysis with more highly conservative assumptions) was considered sufficiently high to justify the public resources devoted to mine clearance at the time.

Source: Byrd and Gildestad (2002).

5.30 Such formal technical analysis is not as easy to apply in other parts of the security sector, as socio-economic benefits may be difficult to specify precisely, and the relation between expenditures on security sector programs and outcomes is less clear and direct. However, the alternative livelihoods component of the counter-narcotics effort, where projects have clear development-related objectives, should be amenable to cost-benefit analysis. Moreover, where benefits are hard to specify or measure, some form of cost-effectiveness analysis may be a useful tool for selecting among alternatives for achieving basically similar objectives. And finally, even without conducting formal analysis, availability of information on results and outcomes, and regular monitoring of such information while also making

¹¹ See Box 6.1 for a discussion of implementation issues with respect to de-mining.

use of data on costs (which should be available from budget and other documents), would provide useful guidance for prioritization.

5.31 Complementarities are very important and can provide useful guidance on prioritization within sectors. For example, expanding the size of the police force requires a range of complementary inputs for the police officers, as outlined in Box 5.4. Failure to take into account such requirements drastically reduces the benefits of any staffing increases (and associated training). Factoring in complementary expenditure requirements can be very helpful in several respects. First, it allows prioritization decisions to be made on the basis of the full costs of the different programs, so that on the cost side the choices are comparable. Second, complementarities may provide guidance on short-run expenditure prioritization, i.e. to prioritize items that are essential for the effective functioning of the security service concerned and therefore complement other spending (e.g. on salaries). And finally, including complementary expenditures is the only way to assess whether force sizes and programs are affordable; there would be no point, for example, in training a sizable police force or army that cannot be properly equipped and maintained over the medium term.

Box 5. 4: Equipping the Police Force

The near-term staffing target for the ANP is 50,000 by the end of 2005, with an eventual size targeted at around 62,000. Along with recruiting and training the police officers, they need to be properly equipped in order to carry out their functions effectively.

With respect to small arms for the police, as of early 2005 the Ministry of Interior had approximately 22,000 serviceable weapons, mainly AK-47s. The Government considers that there is a need for at least 30,000 sidearms and another 20,000 AK-47s. Funding is also required for ammunition.

A second issue is vehicles. MoI recently procured about 1,500 Russian jeeps to augment its small fleet of existing vehicles. UNOPS has been operating approximately 1,100 of the same types of jeeps for election work, to be turned over to MoI after the elections. In addition, different types of vehicles, including pickup trucks and buses, have been donated directly by Germany and Japan. This brings the total MoI fleet of serviceable vehicles to about 3,000. However, the ratio of police officers to vehicles is still too high, with an identified shortfall of around 5,500 vehicles.

A third issue is fuel, which if inadequate means that vehicles cannot be used effectively for operational purposes. Thus adequate allocations for fuel are essential.

A fourth issue is utilities. Police stations cannot function well without reliable power supplies for example. This requires money to pay electricity bills, and/or special arrangements where grid power supply is unreliable.

A fifth issue is communications, which remains a problem for MoI. Last year, Motorola entered into negotiations with the Ministry of Interior to build a comprehensive nationwide communications system (not including border police communications, currently being funded by the US Department of Defense). However, shortfalls in donor funding have placed this project on hold.

With respect to uniforms, a distinctive new uniform for the Afghan police was introduced last year. Approximately 7,000 police officers had been outfitted as of early 2005. The Government requires more funds to equip the rest of the police force with new uniforms complete with personal gear, rain gear, and cold weather gear.

Source: Adapted and expanded from Afghanistan Government (2005a, Theme 8 – Security, Justice and Law and Order, Box 1.1, p. 8).

5.32 In conclusion, technical tools may be useful in providing guidance for decision making on inter-sectoral and especially intra-sectoral expenditure allocations. However, such tools need to be used selectively and flexibly. Moreover, they cannot substitute for improvements in more fundamental aspects like the need for a national security strategy and sector strategies, capacity development in security sector management and oversight bodies, bringing in the Ministry of Finance on broader fiscal aspects of security sector expenditures, and enhancing donor alignment on prioritization of the External Budget under Government leadership.

CHAPTER 6. BUDGET EXECUTION FOR EFFECTIVE AND EFFICIENT USE OF FUNDS

6.1 The third key outcome of a PFM system, no less in the security sector than in other sectors, is the effective and efficient utilization funds to achieve stipulated purposes. This chapter first reviews key PFM principles related to budget execution, arguing that different or exceptional arrangements for the security sector are not justified and detract from public finance management as well as security sector objectives, and in particular hinder effective and efficient utilization of resources. The chapter then discusses areas for strengthening budget execution in Afghanistan's security sector. The final section looks at the implications of taking a service delivery approach to the security sector, with some discussion of performance indicators and monitoring.

A. Key PFM Principles for Budget Execution

6.2 Once a budget has been approved and monies appropriated, the goal is to ensure that resources are used efficiently and effectively in pursuit of strategic sectoral priorities. This requires careful monitoring and evaluation of operational performance, both within the security services themselves and by civil servants in the relevant management and oversight bodies. As a general rule, funds appropriated should be spent for the purposes and in the amounts intended. This is necessary for sound fiscal planning and management as well as for the operational effectiveness of the security forces. Stability in policy and funding, particularly during the budget year, is important for operational performance. It is difficult to assess stability in policy if there is no strategy for the different components of the security sector and funding is not predictable. At the same time, without transparent and comprehensive security budgets, it is difficult to achieve predictability of funding.

6.3 Well-functioning financial management information systems are critical if decision makers and public sector managers are to obtain the financial data they require for controlling aggregate expenditure, prioritizing expenditure among and within sectors, and generally operating in a cost-effective manner. It is also extremely important that irregularities identified in the course of monitoring performance be addressed. Failure to do so may create or reinforce a climate in which non-compliance can flourish.

6.4 Transparent and competitive procurement practices are a critical element in achieving value for money and cost-effectiveness. Procurement should be open to public scrutiny with expenditure fully accounted for. Purchases should also reflect agreed threat analysis, and equipment should be relevant to agreed tasking.

6.5 The security sector should meet the same standards of accounting as non-security bodies. Security ministries should maintain an internal audit unit and consider the establishment of an inspector-general function. The auditor-general should audit security ministry / agency accounts regularly, along with those of the security services. The results of these latter audits should be reported to the legislature and irregularities addressed in a timely manner. Additionally, cash flow and expenditures should be monitored closely. Methods of verifying the number of personnel in the security services and employed by the security ministries and agencies and of linking salary and wage payments to actual employees facilitate these tasks. Tracking studies, carried out by or for the security ministries / agencies, can be an important tool for ascertaining whether resources are reaching their intended targets. Finally, as in any sector, feedback from monitoring and evaluation into strategic planning is critical.

6.6 Collecting and using information on security sector performance, as in the case of other sectors, should be an objective. One indicator is security service preparedness, which is akin to an output. Clear objectives, specification of preparedness, and measures of performance supported by monitoring and

evaluation should all be encouraged. Value for money audits by the external auditor also help focus attention on efficiency and effectiveness issues, and the defense and other security sectors should not be excluded from the mandates of the external auditor and other oversight bodies. Where a more performance-oriented budgeting system is being implemented, the security sector should be included.

6.7 These principles are only partly followed in Afghanistan's security sector. Lack of information regarding public expenditures on security, sector strategies (in process of being completed), and the weakness or absence of key institutional monitoring and oversight mechanisms (such as the Afghanistan Financial Management Information System, AFMIS, and hitherto the National Assembly) make it difficult to assess the effectiveness and efficiency of resource utilization in Afghanistan's security sector.

B. Strengthening Budget Execution

6.8 The budget can be a useful policy tool only if it is properly executed. The Government has made significant progress in developing institutions and systems to raise fiduciary standards, including implementation of the AFMIS in the Treasury, establishment of the Central Procurement Facility, and promulgation of procurement, public finance and expenditure management, and audit laws. However, because most of the expenditures in the security sector are in the External Budget, these systems are bypassed. Ongoing reforms to strengthen accountability mechanisms will develop institutions and systems that give civil servants the incentives and tools to use public resources effectively, but this will take some time. Many of these reforms will also reduce corruption, which may be considerable in certain parts of the security sector.

6.9 Currently, execution of the ordinary budget proceeds largely in accordance with the usual process of meeting day-to-day recurrent costs for both the security services and associated civilian staff. Based on the approved annual budget, quarterly advances are provided to security sector entities, against which recurrent costs (O&M) and food allowances are paid. In nearly all cases, execution of the development budget is via donor funded projects in the External Budget. The only notable exception is DDR.

6.10 The ANA payment system has been a parallel budget execution system, although OMC-A is strengthening the budget department of MoD, and future salaries are expected to be paid through the new payroll system. The US Army/OMC-A maintain full expenditure authority over US Government funding. Salaries for AMF were provided through the national budget, but the AMF has now been phased out through DDR. Food allowances for the ANA had been provided in-kind directly by the US Army but are now paid through the Core Budget. Investment expenditures are procured directly by the US Army.

6.11 Core Budget funding is accounted for through the Government / Treasury accounting system. In the case of reimbursement through ARTF, expenditures are verified through AFMIS by the ARTF Monitoring Agent. The Auditor General's Office currently conducts an audit of Government accounts, although the audit methodology (sampling frame and extrapolation technique) needs to be upgraded. In reporting all operating expenditures, the standard economic object classification is used, allowing comparative analysis between sectors.

6.12 Execution of the External Development Budget differs substantially from the recurrent or operating budget in that, with the exception of some Core Budget funding for law enforcement (US\$16.8 million in 2004/05), mine action (US\$3.9 million), and Justice (US\$3.1 million), all other development budget spending is drawn from the External Budget. The External Budget is fully projectized, under funding from bilateral donors. As a consequence, donors procure works, supplies, and services directly through their own procurement services. For the External Budget, accounting and auditing procedures are determined by the policies of each bilateral donor. As financial information is internal to bilateral

agencies, actual recurrent spending in the External Budget remains unknown. However, given the requirement to move toward an integrated security budget, greater disclosure will be required to enable the longer-term fiscal implications of External Budget spending to be calculated.

6.13 **Procurement.** An external Procurement Advisor (Agent) has been retained by the Government, reporting to the Afghanistan Reconstruction and Development Services (ARDS) and supervised by the Ministers of Planning and Reconstruction. However, in spite of being the procurement agent for over 17 national Ministries, it has not so far handled procurement for any part of the security sector.

6.14 A new Procurement Law has recently been passed. Hitherto, procurement of supplies, services, and works in the security ministries has not been unified around a single procurement system due to the different sources of finance and the multiplicity of actors. Instead, all core operating budget expenditures appear to follow the various procurement laws established by the budget entities directly. What is more, none of the 110-150 procurement staff from line ministries who have received training in basic and specific procurement rules have come from security-related ministries. With the approval of the new Procurement Law, this situation will need to change. Indeed, OMC-A has embarked on adapting procurement processes for MoD to the new law. Currently, Government security sector funding is limited to payroll and non payroll recurrent costs, so no large procurements have taken place to date.

6.15 LOTFA has its own set of procurement procedures and policies, covering both payroll and purchase of supplies such as vehicles and radio sets as well as works contracts for construction of police offices. Procurement is based on open international competitive bidding overseen by the management support unit, which is formally responsible for “procurement of goods, services and works on a transparent and competitive basis.”

6.16 Procurement of defense items by bilateral agencies is determined by the bilateral procurement policies of the different contracting authorities (US DoD, UK Government, and so on). Clearly, if procurement policies are to be unified within the framework of the national budget, bilateral commitments in support of national security will need to be progressively drawn within the national budget framework. In essence, this would require that defense and non-defense procurement be harmonized to enhance (i) transparency, (ii) cost-efficiency, (iii) and cost-effectiveness. However, given bilateral donors’ procedures and interests, this is unlikely to be possible any time soon. In the case of counter-narcotics, large contracts are being tendered, with few market operators able to deliver in such a complicated political and security environment, and contract costs probably reflecting this situation.

6.17 In the case of mine clearance, discussed in Chapter 5, there are some issues related to procurement (i.e. contracting) for this activity, summarized in Box 6.1. While very specific to de-mining, these issues and the options for addressing them do provide an illustration of how constraints elsewhere in the security sector might be addressed. The general message is that while the specific features may vary, it is extremely important to ensure that sound procurement principles are followed.

6.18 Another area of procurement related to the security sector – very important in the current situation in Afghanistan – is procurement by international security forces for various goods and services that they require, ranging from certain security services to water, fuel, other goods, construction, construction materials, etc. Although difficult to ascertain with any precision, these activities are sizable and comprise a significant source of demand in the Afghan economy. As noted in Volume I, Chapter 7, such contracts in many cases comprise an opportunity for development of the Afghan private sector which should be exploited. As argued with respect to other security-related procurement, these also should follow good-practice principles for procurement, particularly with respect to transparency and competition. However, it appears that such principles often are not followed in contracting for services by international military forces.

Box 6. 1: Contracting for Landmine Clearance

De-mining work has some specific characteristics that affect the contractual arrangements for carrying it out. First, it is demanding work technically and safety-wise (around 0.5% of de-miners were killed or injured on the job from mine accidents in 1999, and training demands are high including for mine-detection dogs). Second, it is difficult to predict costs with great precision ex ante (even through survey), as minefields vary and ex-post mine clearance costs will depend to a considerable extent on the specific characteristics of a particular minefield. Third, the quality requirements for de-mining are very high – a minefield that is certified as having been cleared should not have any live mines remaining. Fourth, monitoring is quite difficult, with respect to both outcomes (for the most part low quality of work unfortunately becomes evident only if a mine explodes on previously de-mined land) and costs (since the actual degree of difficulty of de-mining any particular minefield becomes evident only ex post, and is known far better to the de-mining team than to any outside entity). And finally, it should be noted that the “de-mining industry” in many mine-affected countries is not very competitive in terms of the numbers and qualifications of organizations prepared to carry out mine clearance activities. For all of these reasons, non-competitive contractual arrangements are common, and the de-mining industry is widely considered to be vulnerable to fraud and corruption. Despite the obstacles, good procurement practices are applicable to mine clearance contracting. Draft guidelines for mine action contracts (UNMAS, 2003) recommend competitive tendering of such contracts. Particular attention needs to be focused, however, on the prequalification of suitable candidate contractors (based on specified criteria); systematic assessment of tenders (with a clear scoring system not based on price alone); contract pricing (there is an ongoing debate about whether fixed-price contracts or cost-plus contracts are more appropriate); contract enforcement (contractors sometimes deliberately bid low in the expectation that contract enhancements will come later); and monitoring and evaluation (in particular post-contract monitoring including inspection for quality and that the benefits from land cleared of mines are being reaped). Afghanistan built up significant de-mining capacity in the 1990s, consisting of a number of non-government entities undertaking de-mining activities under contract with capacity building support from the UN Mine Action Centre for Afghanistan (UN MACA). Currently there are nine “implementing partners” working on mine clearance and disposal of explosive ordnance as part of the Mine Action Program for Afghanistan (MAPA). By all indications the de-mining sector in Afghanistan is reasonably proficient and very cost-efficient by international standards. Thus the prerequisites for competitive tendering of mine clearance contracts would appear to be in place, as long as the important good-practice provisions outlined above and in more detail in UNMAS (2003) are followed.

6.19 **Accounting and reporting.** As indicated earlier, accounting standards and reporting requirements should be uniform as between the security sector and non-security sectors. Within the Core Budget this condition is basically met, although there is room for further improvement in the case of security as well as other sectors. Major improvements in terms of timeliness, quality, and harmonized information standards for expenditures in the External Budget are needed. It is also very important that information on staffing and payrolls be improved in both Core and External Budgets.

6.20 **External scrutiny and audit.** It is essential that security expenditures be properly audited by a suitable external auditor, and that findings of audit reviews are made available to the Government and public. Core Budget expenditures (including those on security) are audited through regular Government procedures, whose quality needs to be improved. But it is very important that External Budget expenditures have proper external scrutiny and audit, and that findings are shared with the Government. LOTFA’s accounts also need to be regularly audited by an external auditor on a timely basis. With the formation of Parliament, review of audit reports by the legislature should become a regular practice.

6.21 In sum, security expenditures within the Core Budget are essentially subject to similar control mechanisms, accounting and reporting requirements, and procurement arrangements as in the rest of the Core Budget. The main difference is the absence of a strong internal audit function – a role that in the case of the civilian budget is to a large extent played by the Monitoring Agent of the ARTF (see Box 6.2, Volume I). The absence of such a mechanism – albeit extraordinary (and temporary) – in the security sector means a weaker control framework despite the beneficial application of other elements of the budget execution process for the Core Budget.

6.22 Security spending in the External Budget occurs outside these Government processes. Although this spending is subject to financial controls exercised by donors, associated disadvantages are potentially very important with respect to the quality and consistency of information flows, and procurement. Another major problem is the wide variety of salary levels, payment channels, and top-up arrangements in the security sector, which risk fragmenting the accountability and loyalties of security sector staff.

C. Toward Performance Measurement in the Security Sector

6.23 It is difficult if not impossible to measure outcomes in much of the security sector, although as noted in Chapter 1 the importance of security as an enabling factor in development becomes very clear in its absence. Moreover, it is also difficult to identify performance indicators that do not inadvertently generate inappropriate incentives for security agencies. Nevertheless, and notwithstanding data limitations, as in the case of other public services it is necessary to monitor performance as best possible and in the process generate useful information for feedback and decision making. Appropriate performance indicators inevitably will vary across sectors, and as important as the information itself is ensuring that it feeds into subsequent decisions including through the budget process. While detailed consideration of performance indicators and monitoring in the security sector would get into technical aspects beyond the scope of this volume, some initial ideas for different sectors are put forward below, for illustrative purposes and further consideration. The Government, in defining its MDGs, has established targets, indicators, and baselines for the security sector (mainly for Defense), and moving toward a performance-based budgeting system for the security sector will keep efforts focused on outcomes.

6.24 In the case of *defense*, PFM specialists generally consider that indicators of preparedness (although they are more akin to output indicators than to outcome indicators) are the most appropriate performance indicator in peacetime. Another set of indicators which may be useful are the number, types, and results of training exercises conducted. It should be noted in this context that the Government has put forward the level of defense expenditures as a ratio to GDP as a (negative) performance indicator for its MDG target of enhancing security. While other things equal, a lower level of defense expenditure allows a greater proportion of Government budgetary resources to be spent on other development priorities, the relationship between the level of defense expenditure and actual security is complex and unlikely to be linear in either the positive or the negative direction.

6.25 For the *police*, and for the *internal security* system more generally, the ultimate outcome of local security and rule of law is very difficult to measure but can be roughly proxied by some indicators. Official crime statistics are a partial and not very accurate (negative) indicator of security and rule of law, since they are affected by various factors such as the extent to which crimes are reported and recorded. Hence these are hard to use in monitoring performance over time or especially across countries. Household surveys generating information on the number and types of crime encountered by households can provide a useful check on the validity of official statistics (see UNODC, 2005), and they can also shed light on people's perceptions of the local security situation and their degree of trust in police.¹² The effectiveness of the police and prosecutorial services can be measured by the percentage of different categories of cases resulting in convictions, based on which type of evidence (confessions, physical evidence etc.). The availability of female police officers and separate detention facilities for women are also indicative of mitigating the risks women face during detention.

6.26 In addition, the performance of the *justice system* can be measured by various indicators like numbers of cases handled, timeliness of processing court cases, and households' perceptions of the justice

¹² See Bruce and Neild (2005) for a detailed discussion on this topic. It contains a chapter on police oversight and the use of indicators and another chapter on strengthening the use of indicators, including indicators for delivery of safety, security, and access to justice.

system and their indications of willingness (or otherwise) to use formal justice channels when seeking redress. The existence of Family Courts and Juvenile Courts and their functioning is also indicative of how sensitively and even-handedly the justice system deals with women and children. Furthermore, Afghanistan has signed a number of international conventions related to gender, including the Convention on the Political Rights of Women and on Elimination of all forms of Discrimination Against Women, which like the other international conventions ratified will require legislative and administrative measures to give legal backing to the nation's commitment to fair treatment and advancement of its women.

6.27 In the case of *mine action*, outcomes of mine clearance activities (land and areas free of landmines – with clear linkage to ultimate development benefits) can be specified and measured reasonably well, and compared with the costs of mine clearance (see Box 5.3). On the other hand, the performance and effectiveness of mine awareness-raising activities are difficult to measure.

6.28 For *counter-narcotics*, the outcome indicator at the national level can be specified relatively clearly: progressive and sustained reduction over time and eventual elimination of the opium economy on a sustainable basis (i.e. pressures to resume cultivation are manageable), accompanied by a corresponding reduction in trade in opiates (the latter may occur with a lag due to remaining inventories). However, measuring the performance of various actors and activities involved in counter-narcotics activities is not easy, and linking such performance to progress toward achieving this strategic objective is even more difficult. Given the variety of activities encompassed under the counter-narcotics rubric – ranging from eradication and interdiction to judiciary and penal development, demand reduction, and rural development programs – performance indicators for the different components will need to be appropriate to their varying characteristics.

6.29 More generally, in all parts of the security sector *basic indicators of inputs* can be useful in measuring performance. Examples include number and ratio of staff on the job (confirmed by spot-inspections), percentage of staff in security services properly equipped, proportion of staff who have received designated training, percentage of budget resources spent (covering both Core and External Budget to the extent possible), etc. A related option is *expenditure tracking surveys*, which are rarely used in the security sector as compared with social sectors, but which are feasible and provide information on actual flows of funds to, for example, police stations.

6.30 *Unit costs*, although not an outcome indicator, nevertheless can be useful performance indicators of the efficiency with which inputs for service delivery are being provided.

6.31 All this leads to a rather formidable agenda for generating and effectively utilizing monitoring information. While there will be a need to focus attention and resources on this aspect, developing performance indicators and monitoring progress can start with small steps and make progress incrementally over time.

6.32 One promising option is to generate and regularly monitor basic financial information on security sector expenditures in the Core Budget, and encourage donor partners to provide similar information on as consistent a basis as possible for External Budget expenditures in the security sector. This will provide useful information on expenditure of funds (a critical input) that can be monitored.

6.33 To illustrate how straightforward monitoring of basic financial data can provide meaningful insights and feedback for resource allocation and other budgetary decision-making, Table 6.1 compares estimated actual expenditures with budget targets for various categories of security sector expenditures in 2003/04 and 2004/05. Key points that emerge from these simple comparisons include the following:

- There are sizable deviations between budgeted and estimated actual spending for most categories of security expenditures and also major fluctuations over time, suggesting that there is still a way to go before the budget targets become reasonably good predictors of actual expenditures.¹³
- Within the security sector, External Budget expenditures are substantially higher in relation to budget targets than are Core Budget expenditures.
- Defense expenditures tended to perform better in relation to budget targets than other parts of the security sector, especially in 2004/05.
- Finally, comparing the security sector with the budget as a whole (see Volume II, Part 1, Table 1.1), it is clear that the security sector achieves considerably higher expenditures in relation to budget targets than does the overall budget.
- These observations suggest that the security sector as a whole (in relation to the rest of the budget), and within the security sector the External Budget and Defense, are better “protected” in terms of expenditures in relation to budget targets.

Table 6. 1: Deviation Analysis of Security Sector Budget

	2003/04			2004/05		
	(US \$ million)		(Percent)	(US \$ million)		(Percent)
	Budget target	Estimated actual	Estimate / Budget	Budget target	Estimated Actual	Estimate / Budget
Total	812	1,105	136	1,510	1,328	88
Core	193	235	122	355	292	82
Operating	193	233	121	255	275	108
Development	-	2	-	99	17	17
External	619	870	140	1,155	1,036	90
Defense	563	797	141	790	788	100
Interior	143	209	146	498	340	68
Justice	13	16	125	61	45	74
Other	93	84	91	161	155	96

Source: MoF budget documents and fiscal reports, staff estimates.

6.34 Another important area for basic input monitoring is employment levels. Staffing data, which have suffered from inconsistencies, need to be improved and regularly monitored throughout the security sector, including staff in security services paid through the External Budget. Such data can be augmented with indicators of numbers or proportions of staff on duty and available to carry out their duties.

6.35 Building on monitoring of basic data on inputs, simple indicators of output/performance could be compiled and used in monitoring. It is more important to collect and effectively utilize simple information than to devise highly sophisticated data and monitoring systems which are difficult to implement and become a burden on scarce Government capacity.

6.36 Finally, the institutions concerned need to take on the role of monitoring and evaluation and treat it as a serious part of their work. Most important they need to make meaningful use of performance indicators in decision making.

¹³ However, the difficult circumstances and “start-up” aspects of budgeting particularly in 2003/04 need to be kept in mind.

CHAPTER 7. CHALLENGES, PRIORITIES, AND RECOMMENDATIONS

7.1 This volume has analyzed from the PFM perspective security as an essential public service with major ramifications for Afghanistan's reconstruction and development. In this concluding chapter, first the key challenges facing the security sector from a PFM perspective are outlined, based on the analysis in earlier chapters. Then the main recommendations for further improving public finance management in the security sector are summarized, and possible contributions by donors to this effort are put forward.

A. Summary of Key Challenges

7.2 This analysis of security sector expenditures conducted as part of the PFM Review has identified the following key issues from a PFM and development perspective:

7.3 ***The need for an integrated security sector strategy and policy framework***, without which sound programmatic – e.g. on force sizes, equipment – and public expenditure decisions cannot be made. Preparation of the National Security Strategy is at an advanced stage.

7.4 ***Very high donor-executed spending through the External Budget***, which renders achieving coherence of spending across and within subsectors much more difficult, and also raises questions about the fiscal sustainability of the security sector in the medium term when donor funding may decline.

7.5 ***Difficulties in coordinating and prioritizing security sector expenditures and actions***, reflecting the above factors and fragmentation of decision-making across donors. These factors make it more difficult for the NSC to fully carry out its mandated strategic, leadership, and coordination functions, although the situation in this regard has improved in 2004 and 2005.

7.6 ***Concerns about the growing security sector wage bill and pressures for fiscally unaffordable salary increases, as well as the fiscal sustainability of security sector staffing levels***. The ANA salary structure, determined apparently without reference to fiscal constraints or pay elsewhere in the civil service, has set a precedent which the police and other sectors aspire to and which will be fiscally costly. There are also doubts about whether recruitment practices are being regulated by staffing establishment size limits.

7.7 ***Slow implementation of priority public administration reforms and capacity building in security sector management and oversight institutions***, which have lagged behind the development of security forces like the ANA. This imbalance, and also the lack of progress in some security subsectors (e.g. justice) carry a variety of risks for the future.

7.8 ***The need to develop good governance and sound and sustainable financial management practices*** in the security sector, fully in line with and integrated with national budget processes and fiduciary provisions.

B. Main Recommendations

7.9 The most important message emerging from this analysis of security sector expenditures is that ***the security sector needs to be appropriately integrated into all aspects of Afghanistan's PFM system: medium-term fiscal programming (MTFF), annual budget formulation, staffing and payroll management, financial management and controls, and external scrutiny, among others***. There is no justification for

treating the security sector as separate or sacrosanct, and not subjecting it budgetary and fiduciary processes. Specific recommendations include the following.

7.10 *Review the Fiscal Implications of Ongoing Security Sector Reforms:* Quickly enhance the information base on security sector expenditures, and conduct an integrated security sector-wide fiscal review to forecast fiscal implications of security sector development and reforms over the medium- and longer-term. This would serve as a basis for revisiting security sector force levels, notably for the ANA, and for discussions with donors on longer-term financing. It would also facilitate policy- and program-based budgeting of security sector expenditures with a medium-term perspective.

7.11 *Further Develop Policy Making Capacity in the NSC and Finalize the National Security Strategy:* The National Security Advisor and the NSC are tasked with coordinating policy development and overseeing integrated strategic planning across all security institutions. Adequate capacity is required for these purposes. An integrated security sector strategy and policy is needed to determine acceptable longer-term costs of security institutions and appropriately prioritize and sequence spending across and within subsectors (e.g. justice and police versus ANA). As in the case of the ANDS as a whole (discussed below), the National Security Strategy is being developed by Afghan stakeholders, with full Government ownership (across the ministries and agencies involved), and will need to gain wide buy-in within and outside Government. This will require a meaningful and substantive consultation process.

7.12 *Treat Security as an Integral Part of the National Development Strategy Currently under Preparation:* The ANDS can be used as an opportunity to ensure that the security sector both is accorded its due importance as a development issue for Afghanistan and that the broader developmental and fiscal perspective is injected into the security sector strategy.

7.13 *Implement Priority Administrative Reforms and Develop Security Sector Management and Oversight Capacity:* Support reforms enhancing human resource capabilities in the Ministries of Defense, Interior, Justice, Counter Narcotics, and in the National Security Directorate. A particular priority is developing solid financial management capacity and practices in these line ministries. Strengthening the control framework, notably with the development of an internal audit function, is a priority. One option would be to focus the newly developing Internal Audit Department of the Ministry of Finance initially on the security sector. The vocation of this department, as per the new Public Finance and Expenditure Management Law, is to cover the whole of Government. Given that a mechanism (the ARTF Monitoring Agent) is temporarily in place for most of the civilian recurrent budget, this department could initially prioritize its work program toward the security sector.

7.14 *Rigorously Enforce Staffing Size, and Set Salary Increases Based on Fiscal Absorption Capacity:* It is vital that the agreed formal staffing establishment sizes be enforced. Moreover salaries, like non salary costs, must be subject to the normal rigors of public expenditure management and fiscal discipline – the security sector wage bill must remain affordable.

7.15 Implementing these recommendations and other initiatives to improve security in Afghanistan, which is a necessary condition for the country's development, undoubtedly will take time. However, the need to get a handle on the fiscal sustainability issues in the security sector is urgent, as there is a risk that decisions on force levels, pay, non-salary spending, equipment, construction, etc. that are being made or implemented today will be unaffordable for Afghanistan in the future. Dialogue with donors, including on possible medium-term financial support to Afghanistan's security sector, also is urgently needed.

C. Role of Donors

7.16 As emphasized throughout this volume, donors play an even greater role in Afghanistan's security sector than they do in other sectors. Consequently they also play a very important role in public finance management in the security sector. Whereas donor practices inadvertently can hinder the Government's efforts to make the national budget the central instrument of policy, reform, and resource allocation for the security sector, they can also make a major contribution to improvements in this regard.

7.17 More specifically, donors can contribute to improving public finance management in the security sector in the following ways:

- Support the development of an agreed national security strategy and corresponding strategies and policies for the individual sectors (defense, police, justice, etc.).
- In this context, reassess their views about force size and cost requirements in the light of near-term and medium-term fiscal constraints.
- Help enhance the capacity of oversight actors (such as the Auditor General, legislature) and economic managers (Ministry of Finance Budget Office) to address issues relating to financial management in the security sector.
- Channel more of their assistance to the security sector through the Core Budget.
- For resources not channeled through the Core Budget, ensure that timely and accurate information is made available to the budget authorities, and maximize use of internationally acceptable procedures e.g. for procurement.
- Help key security ministries strengthen their budget formulation and budget execution processes.
- Discuss medium- and longer-term availability of external resources for the security sector.

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