POLITICAL ECONOMY RESEARCH INSTITUTE
PERI
University of Massachusetts Amherst

Right-Financing Security Sector Reform

Peter Middlebrook & Gordon Peake

Febuary 2008

WORKINGPAPER SERIES

Number 161

POLITICAL ECONOMY RESEARCH INSTITUTE

Gordon Hall
418 North Pleasant Street
Amherst, MA 01002

Phone: 413.545.6355
Fax: 413.577.0261
peri@econs.umass.edu
www.peri.umass.edu

UMASS

CENTER ON
INTERNATIONAL
COOPERATION

POLITICAL ECONOMY
RESEARCH INSTITUTE

RIGHT-FINANCING SECURITY SECTOR REFORM

Peter Middlebrook
Gordon Peake

Public Finance in Post-Conflict Environments
A Policy Paper Series
January 2008

THE CENTER ON INTERNATIONAL COOPERATION (CIC) at New York University works to enhance international responses to humanitarian crises and global security threats through applied research and direct engagement with multilateral institutions and the wider policy community. It has an international reputation for agenda-setting work on post-conflict peacebuilding, global peace operations, and UN reform.

For more information, please go to http://www.cic.nyu.edu

THE POLITICAL ECONOMY RESEARCH INSTITUTE (PERI) at the University of Massachusetts, Amherst, engages in research, policy advising, graduate education, and outreach. Established in 1998, PERI seeks to assist efforts to improve living standards and create a more just, democratic, and ecologically sustainable world.

For more information, please go to http://www.peri.umass.edu

OTHER POLICY PAPERS IN THIS SERIES:

Frances Stewart, Graham Brown, And Alex Cobham,
"Promoting Group Justice: Fiscal Policies In Post-Conflict Countries," *October 2007*

Michael Carnahan,
"Options For Revenue Generation In Post Conflict Environments," *May 2007*

PREFACE

PUBLIC FINANCE IN POST-CONFLICT ENVIRONMENTS: A POLICY PAPER SERIES

In the wake of violent conflict, a key element of building a durable peace is building a state with the ability to collect and manage public resources. To implement peace accords and to provide public services, the government must be able to collect revenue, allocate resources, and manage expenditure in a manner that is regarded by its citizens as effective and equitable.

The tasks of revenue mobilization, budget allocation, and expenditure management are bound together by political imperatives as well as economic logic. To collect revenues, the state must be seen as legitimate in the eyes of its citizens. And to secure legitimacy, the state must allocate resources and manage expenditure effectively and equitably.

The need to build legitimate and capable states in war-torn societies is now widely recognized. *The Principles for Good International Engagement in Fragile States*, adopted by the development ministers of major donor countries in March 2005, declares that statebuilding is 'the central objective.' This represents a striking break from the prevailing wisdom in the closing decades of the 20th century, when the state was widely regarded as the problem. The state has been rediscovered: it is now invoked as the solution. The policy rhetoric has changed from downsizing states to building state capacity.

Yet little systematic work has been done on what the international community can and should do to strengthen the capacities of post-war states to mobilize, allocate, and spend public resources.

This policy paper series, jointly published by the Center on International Cooperation (CIC) at New York University and the Political Economy Research Institute (PERI) at the University of Massachusetts, Amherst, seeks to redress this gap by presenting innovative policy proposals targeting critical issues in postwar public finance.

Building state capacities in public finance is crucial to the success of peacebuilding efforts for three reasons:

» First, governments must be able to ensure *sustainable funding* for new democratic institutions, for social programs that ease tensions and redress grievances, and for public investments to promote economic growth and development. In the early post-war years, countries often receive a large influx of external assistance that temporarily can meet some of these needs. But aid typically diminishes over time, so domestic resources are necessary to sustain these institutions and programs. A key challenge is to ensure that aid does not 'crowd out' domestic fiscal capacities, but instead stimulates their growth.

» Second, fiscal capacities are needed to build a *legitimate state*. Democratic elections do not, in and of themselves, ensure state legitimacy. Neither do 'quick impact projects' in which international aid agencies seek to fill urgent needs. Legitimacy comes in large part from government delivery of services that people need and want. Elections provide an avenue for the citizenry to voice demands; responding to those demands requires the capacity to mobilize, allocate, and spend public resources effectively.

» Third, in some cases there is a need to curtail extra-legal taxation by 'warlords' and armed groups so as to *enhance security.* In Afghanistan, for example, control of border customs outposts is not only a fiscal issue but also a security issue. Similarly, control over revenues from natural-resource extraction, such as logging in Cambodia or diamonds in West Africa, is often crucial for establishing the state's monopoly not only in legitimate taxation but also in legitimate force. At the same time, domestic fiscal capacity is the only sustainable source of financing for public security after external peacekeepers have withdrawn.

The papers in this series offer policy proposals designed to strengthen the fiscal dimension of statebuilding. The authors draw on extensive personal experience in public finance matters in war-torn societies, and on lessons from comparative studies, including *Peace and the Public Purse: Economic Policies for Postwar Statebuilding* (Boulder: Lynne Rienner, 2007), the outcome of the first stage of the CIC's statebuilding project. After a concise recapitulation of the problems to be addressed, the authors concentrate on proposing solutions that can be practically implemented.

We hope these policy papers will find a wide audience amongst those who are grappling with the difficult challenges of post-war reconstruction, and that the proposals they put forward will assist in the twin tasks of building legitimate and effective states and building a durable peace.

JAMES K. BOYCE
Lead economist, Peacebuilding as Statebuilding Program

RIGHT-FINANCING SECURITY SECTOR REFORM

EXECUTIVE SUMMARY

Security sector reform (SSR) in weak and fragile state environments encompasses a broad range of efforts to improve the capacity, governance, performance, and sustainability of the security system. Financial dimensions of SSR include the allocation of resources according to well-defined priorities, both across sectors and within the security system, and ensuring that expenditure is transparent, efficient and effective. Issues of financial management were central to the origins of SSR in the 1990s, and they are no less central to security sector reform today. Yet current SSR strategies and programming all too often pay insufficient attention to public finance issues. As a result, the medium and long-term fiscal implications of short-run policy decisions are not factored into early post-conflict engagement processes. The negative consequences include unsustainable reforms, the squeezing out of other vital sectors, and, conversely, the under-provision of security.

This paper argues for the "right-financing" approach to be adopted for the security sector – striking an appropriate balance between current security needs and the goal of building a fiscally sustainable security sector based on realistic resource projections. This paper makes four policy proposals:

1. BUILD FISCAL DIMENSIONS OF SECURITY INTO PEACE AGREEMENTS, POST-CONFLICT NEEDS ASSESSMENTS, DEVELOPMENT STRATEGIES, AND EXPENDITURE PLANNING

Long-term fiscal sustainability is strongly influenced by early decisions. Bringing right-financing considerations to the negotiating table can minimize the problems caused by fiscally blind security policies. Peace agreements should acknowledge that size targets for the security sector are subject to fiscal constraints, and therefore tentative. Including the security sector in initial post-conflict needs assessments – the main tool used by donors for assessing reconstruction costs and needs – would promote mainstreaming of SSR into wider development strategies, rather than treating the sector as "stand-alone." In the immediate aftermath of violent conflict, provisional macro-fiscal forecasts, developed with the help of the international financial institutions (IFIs), would assist security sector planners in prioritizing and making sustainable force size and composition decisions, while also informing donor decisions related to the establishment and phasing out of trust funds.

2. ALIGN SHORT-RUN SECURITY POLICY PRIORITIES AND SPENDING DECISIONS WITH LONG TERM NATIONAL BUDGETARY AND POLITICAL REALITIES.

The budget ought to be the primary tool of policy, and security sector reform should be funded in a balanced and fiscally sensitive manner. At present, such decisions are often instead made on the basis of short-term national and international priorities. SSR assessment should consider the short, medium, and long-term security and fiscal impacts of different force sizes, functions, and pay and grading options. Trust funds established by donors to support payment of police or military staff where state revenues remain insufficient should include clear "exit strategies" for an orderly transition to a normal budgetary process. In assessing security needs, the orientation of the security sector has direct implications for how priorities, targets, and financing mechanisms are determined. A key question guiding policy must be, "security for whom?" The size, structure, and function of the security, law and order and justice system ought to be transformed based on public demand, rather than simply supply. Non-state systems – including traditional and customary security and justice providers – are often more effective, accessible, legitimate, and cheaper than the formal security sector. At a particular moment and in a given context, these institutions might serve as viable alternatives to state forces.

3. MOVE TO A SERVICE DELIVERY MODEL FOR THE SECURITY SECTOR

Service delivery benchmarks are commonly set for sectors such as health, education and transport, but not for the security sector. There is a paucity of reliable, valid metrics to discern whether progress is being made towards building capable and efficient security apparatuses, and to assess the performance outcomes of budgetary resources towards security ends. Benchmarks should reflect the transition of the security sector from an emphasis on combating "enemies of the state," towards providing law and order and justice services to citizens. Policy innovations that are needed to address this fundamental weakness include: (i) collaboration among multilateral and bilateral actors to establish model security sector delivery benchmarks that can be used in the SSR review process; (ii) developing standard unit costs for services delivered in given contexts; and (iii) integrating these benchmarks into annual budget exercises and medium-term expenditure frameworks. To support movement towards a service delivery model for the security sector, the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC), in collaboration with the UN and IFIs, should establish a standard set of objectively verifiable indicators and means of verification.

4. STRENGTHEN INTERNATIONAL CAPACITIES TO SUPPORT RIGHT-FINANCING

To strengthen the assessment of security systems, policy makers should consider establishing a pool of expertise across international organizations and bilateral agencies. This pool should include fiscal, public finance, public sector restructuring, aid management, SSR, and revenue experts. To strengthen SSR implementation, policy makers should: (i) actively promote the migration of public sector reform and financial management experts to the civilian components of the ministries of defense, interior, policing, and justice entities; (ii) conduct a multi-agency assessment of the comparative advantages of different UN, IFIs, and bilateral agencies to support SSR; (iii) develop support operations to strengthen the role of ministries of finance in security sector budgetary processes; and (iv) mainstream procurement arrangements for the sector to maximize accountability and minimize corruption.

The proposals advanced here are intended to improve the quantity, quality, and sustainability of security services, benefiting the international community and their taxpayers, as well as recipient governments and most importantly their citizens. As post-conflict states struggle to gain traction towards creating a virtuous cycle, in which security promotes economic growth and political stability, and vice versa, issues of scale, prioritization, effectiveness and efficiency become fundamental to the delivery of security services. The aim is to build responsive security capacities without forcing governments into a fiscal abyss thereby mortgaging the government's future. If sustainable solutions are to be found for the problems of statebuilding, right-financing the security sector is a necessity.

RIGHT-FINANCING SECURITY SECTOR REFORM

PETER MIDDLEBROOK AND GORDON PEAKE[1]

Insecurity costs. Without security, many states risk remaining weak and fragile states. Insecurity hinders economic growth, exacerbates poverty, cultivates fear among citizens, and presents significant challenges for democratic governance. Attempts to arrest insecurity strain government resources and redirect them from more economically productive ends.[2]

As a result, improving security – for the state and for its citizens - is emerging as a top priority of the international state-building agenda in countries as diverse and demanding as Afghanistan, Sierra Leone, and Timor-Leste.[3] Perhaps nowhere is this more necessary than in post-conflict environments, where reestablishing sustainable, legitimate security is essential to wider social and economic recovery efforts.

The concept of right-financing for the security sector "involves the determination of sustainable policies and strategies, institutions and service delivery capacities that balance security, governance, service quality and fiscal sustainability concerns in weak and fragile states."[4] Right-financing is therefore essentially about determining an acceptable trade-off between "right-sizing" security forces and higher-quality and more equitable security services over time.[5]

"Security sector reform" (SSR) is the term used to describe programs adopted by governments with the support of international partners to achieve professional security institutions that meet the needs of citizens, society, and the state and which operate within the rule of law and under effective democratic control.[6] Addressing the wide range of state institutions with a formal mandate to ensure the safety and security of the state and its citizens, SSR's goals are both immediate and long-term. In the short-term, it is intended to improve the ability of a country's military, police, justice and intelligence organizations to provide basic and equitable security. Its long-term aims, however, are much more ambitious: to ensure that security institutions serve the interests of society as a whole, rather than those of a political elite or grouping. This involves radical changes to the management, purpose, structure, financing and values of security organizations.

> SSR's goals are both immediate and long-term.

Providing security has its costs as well as benefits. In post-conflict settings, these costs are often unavoidably high. For this reason, issues of financial management are central to security sector reform. Yet in the majority of cases, the medium and long-term fiscal implications of short-run policy decisions have not been factored sufficiently into early post-conflict engagement processes. On one hand, national fiscal capacities are frequently overlooked by donors when making security sector assistance decisions. All too often, donors burden states with security sectors they cannot afford, and

1 Peter Middlebrook, formerly an economist with the World Bank, is co-founder and director of Middlebrook & Miller, a firm specializing in international finance, economic development and post-conflict reconstruction. Middlebrook is the originator of the term and developed the concept of "right-financing." Gordon Peake is a Senior Associate with Libra Advisory Group, a security and justice reform consultancy based in London. The authors would like to thank Louise Andersen, Nicole Ball, James K. Boyce, Rahul Chandran, Mark Downes, and Jake Sherman for their comments and suggestions.

2 Violence in Latin America – the region in which its costs have been most frequently quantified – imposes an estimated annual cost of US$15 billion in lost wealth and income, representing anywhere between 5 and 25 percent or more of counties' gross domestic product (GDP) in particular years. See Erik Alda, Mayra Buvinic, and Jorge Lamas, "Neighbourhood Peacekeeping: The Inter-American Development Bank's Violence Reduction Programs in Colombia and Uruguay," *Civil Wars*, Vol. 8, No. 2, (2006), p. 200.

3 Increased attention to security as a governance issue has been accompanied by a parallel focus, following September 11, 2001, on "hard" security issues related to counter-terrorism. These goals are often conflictual.

4 Middlebrook P, J, "*Right-financing the Future: Lessons for Asian and European Peace Processes*", *Asia Europe Journal,* Vol. 6. No. 1, Springer Verlag (2008).

5 OECD/DAC, *Handbook on Security System Reform: Supporting Security and Justice*, (Paris: OECD, 2007), p. 75. Available at www.oecd.org/dac/conflict/if-ssr

6 M. Caparini, "Security Sector Reform and NATO and EU Enlargement," *SIPRI Yearbook 2003*, cited in Gordon Peake and Eric Scheye, "To Arrest Insecurity: Time for a Revised Security Sector Reform Agenda," *Conflict, Security, and Development*, Vol. 5, No. 3, (2005), p. 299.

at the same time effectively mortgage their own aid budgets to supporting them in the medium to long term. Weak government revenues coupled with significant external support to state security institutions breeds aid dependency. What revenue the state is able to generate is disproportionately allocated to security institutions at the expense of other, vital needs. This "live now, pay later" approach to SSR risks, over the medium to long-term, undermining the very statebuilding process it is meant to support. On the other hand, too great a focus on existing revenue constraints could lead to the under-provision of security, as fixed non-service delivery costs are often funded first. Without financing immediate defence, policing, correctional, and justice needs, the "buy only what you can afford" approach risks the statebuilding process in the short term.

Fiscal sustainability and the provision of adequate security cannot both be achieved at the same time in countries such as Afghanistan, Kosovo or Sierra Leone. Existing revenue constraints would lead to the under-provision of security, since fixed non-service delivery costs are often funded first. Rather, a middle approach that moves towards a fiscally sustainable path sequentially, trading off fiscal capacities with actual needs is required.

To address cost efficiency and sustainability issues, the "right-financing" approach should be adopted by both security and development institutions.[7] Right-financing is about finding an acceptable balance between the size (and composition) of the security sector required by current circumstances – "right-sizing" – and achieving fiscally sustainable security sector expenditure over time based on honest appraisal of resource projections. Determining sustainable levels minimizes risks associated with future under-funding of security due to financial constraints, including the risk of overly stringent application of fiscal policy conditionalities by IFIs.[8] At the same time, it decreases the likelihood of expansionary security policies that crowd out other public spending and push back opportunities for early exit by the international community.

This paper outlines what a right-financing approach looks like, why it is beneficial, and how it can be achieved through existing institutions with enhanced collaboration, established tools, and new measures. The paper begins with a brief overview of the public finance origins of SSR. We then offer four sets of recommendations based on the right-financing approach. The first is that security should become a normalized element of the state-building agenda, integrated into peace agreements, post-conflict needs assessments, development strategies, and expenditure planning. The second set resolves around aligning the security sector with budgetary and political realities. The third set focuses on adopting a "service delivery" model for security. The fourth relates to capacity building and good management in both national governments and the international organizations that assist them.

THE DEVELOPMENT OF THE SSR CONCEPT

It is now accepted wisdom that security and development are inter-linked and mutually reinforcing. The policy justification for SSR is that a security sector that is effective, efficient, equitable, accountable and sustainable is an essential precondition for creating an enabling environment for wider economic, social and political development. The expanding roster of actors engaged in SSR attests to the importance attached to it as a tool for development and conflict management.

The Organization for Economic Cooperation and Development's Development Assistance Committee (OECD/DAC) has been the institutional locus for much SSR policy development. Its definition of the "security system"[9] indicates both the breadth of vision in SSR and the scale of the task that confronts would-be reformers:

» **Core security actors:** armed forces; police service; gendarmeries; paramilitary forces; presidential guards; intelligence and security services (both military and civilian); coast guards; border guards; customs authorities; and

7 Middlebrook (2008).

8 OECD/DAC, *Handbook on Security System Reform*, p. 75.

9 The OECD/DAC uses the phrase "security system" instead of "security sector."

reserve or local security units (civil defense forces, national guards, militias).

» **Management and oversight bodies:** the executive, national security advisory bodies, legislative and legislative select committees; ministries of defense, internal affairs, foreign affairs; customary and traditional authorities; financial management bodies (finance ministries, budget officers, financial audit and planning units); and civil society organizations (civilian review boards and public complaints commissions).

» **Justice and the rule of law:** judiciary and justice ministries; prisons; criminal investigation and prosecution services; human rights commissions and ombudsmen; and customary and traditional justice systems.

» **Non-statutory security forces:** liberation armies, guerrilla armies, private security companies, and political party militias.[10]

SSR encompasses a broad range of methods to improve the capacity, governance, performance, and sustainability of the sector. These include retraining police, reforming penal systems, restructuring military and intelligence organizations, creating or strengthening internal and external oversight and accountability mechanisms, and building organizational capacity. In post-conflict situations, SSR is also linked closely with demobilization, disarmament, and reintegration (DDR).

Financial aspects of the security sector are acknowledged in the OECD/DAC definition, under the rubric of management and oversight structures. Financial dimensions of SSR include allocating resources according to priorities, both across sectors and within the security sector, and ensuring that expenditure is transparent. But an examination of both SSR literature and SSR programs reveals that, in practice, this has been a curiously neglected topic.

10 OECD/DAC, *Handbook on Security System Reform: Supporting Security and Justice*, (Paris: OECD, 2007), p. 22. Available at www.oecd.org/dac/conflict/if-ssr

This lacuna is odd in two respects. Firstly, it ignores the doctrine's own intellectual lineage: the roots of SSR lie in discussions and debates in the mid-1990s as to how best to "down-size," or "right-size," state military structures in Eastern Europe. Much of the early writing on SSR had a clear financial focus, dealing with expenditure reviews, off-budget expenditure and accounting best practice.[11] Secondly, current SSR policy and programming remains largely oblivious to the real-world relevance of public finance issues and the consequences that ensue when these are insufficiently considered.

> Financial dimensions of SSR have been a curiously neglected topic.

The negative consequences of this neglect – unsustainable reforms, under-provision of security, and the squeezing out of other vital sectors – are belatedly beginning to drive greater attention to the public finance aspects of security. There seems to be growing willingness by donors to adopt whole-of-government approaches and to cooperate among themselves. But moving from stove-piped decision-making to integrated policy requires attention to more than the "3Ds" of development, defence, and diplomacy: it must also include finance ministries and funding instruments. In the words of a recent study on reform in post-conflict states, "money matters." [12]

The four proposals that follow lay out the foundations for a right-financing approach to the fiscal dimensions of security that is designed to contribute to sustainable, long-term stability and development.

11 Nicole Ball, "Addressing Military Expenditures and Military Roles in Developing Countries: A Review Of Members' Approaches," paper prepared for the Information DAC Task Force on Conflict, Peace and Development Cooperation, 1998; Dylan Hendrickson and Nicole Ball, "Good Practice and Working Principles in Security System Reform," report produced for the OECD DAC Network on Conflict, Peace and Development Cooperation, 2003; Andrew Cottey and Anthony Forster, *Reshaping Defence: New Roles for Military Cooperation and Assistance,* Adelphi Paper No. 365, (London, IISS, 2004).

12 Stewart Patrick and Kaysie Brown, *Greater than the Sum of its Parts: Accessing "Whole of Government" Approaches to Fragile States,* (New York: International Peace Academy, 2007), p. 8.

PROPOSAL 1: BUILD SECURITY INTO PEACE AGREEMENTS, POST-CONFLICT NEEDS ASSESSMENTS, DEVELOPMENT STRATEGIES, AND EXPENDITURE PLANNING

For the security sector to reach a sustainable form, size, and function, best practice suggests that reform must be based on an overall national vision, a national threat assessment, a security environment analysis, a SSR review, and the provisional fiscal framework. In post-conflict countries, the foundation for these processes is determined in large measure by the political settlement and subsequent transitional arrangements. The interests of informal networks within security institutions often run counter to the trajectory of reforms proposed by outsiders. All too often, force establishment decisions gain political buy-in prior to any assessment of the implications of their recurrent or capital costs. As a result, agreed political commitments can be financially unattainable, necessitating ad hoc, mid-course, downward revisions. Since the 1999 Lomé Accord, for example, the size of the army in Sierra Leone has been decreased due to financial realities from 17,000 to 10,500 troops – and may be further cut to 8,500 in the medium term. The ad hoc approach to planning that yields such unrealistic force sizes is inefficient and wasteful, diverting limited financial resources from other development priorities.

> All too often, force establishment decisions gain political buy-in prior to any assessment of the implications of their costs.

Fiscal sustainability for security forces is a long-term issue, but its prospects for success are influenced by early decisions. For this reason, a right-financing approach should start with peace agreements. These provide the road map for political normalization, the establishment of transitional authority and the strengthening of public administration, as well as for the demobilization, disarmament, and reintegration of former combatants, and the transformation of security institutions. Bringing right-financing considerations to the negotiating table can minimize the problems caused by fiscally blind security policies. Peace agreements should indicate that size targets for the security sector are subject to fiscal constraints, and therefore tentative.

A right-financing approach also means including security in multilateral planning processes. A post-conflict needs assessment (PCNA) is the main tool used by donors for assessing the reconstruction costs and needs. However, security is often not addressed in these "comprehensive" assessments, remaining the purview of police and military "experts" outside the process. This has resulted in oversized security sectors that the state can ill afford. The 2001 Afghanistan Reconstruction Needs Assessment, for example, underestimated the level of security expenditure required, while at the same time factoring in security improvements that did not materialize.[13] As a result, the 2002 donors' conference in Tokyo did not raise adequate funds for security, a problem that has been addressed only as Afghanistan's security has deteriorated.

Joint assessments that incorporate the security sector are advocated by both the new OECD Implementation Framework for SSR and the proposed UN/World Bank draft guidelines for PCNA/Transitional Results Frameworks (TRF). The PCNA/TRF guidelines note that political and security issues should be "treated as an integral part of the national planning and budgetary process, rather than through separate fora which may lead to a lack of transparency or the taking of decisions which are unfunded, fiscally unsustainable or undermine other reconstruction elements."[14] Whether led by government, the UN, or IFIs, these assessments seek to bring government and external actors together to agree on a common set of principles and priorities. Ideally, the needs assessment includes an inception

13 Asian Development Bank, UNAMA, UNDP, World Bank, *Securing Afghanistan's Future,* March 2004, p. 79.

14 United Nations Development Group/World Bank, "Joint Guidance Note on Integrated Recovery Planning using Post Conflict Needs Assessments and Transitional Results Frameworks," Working Draft for Circulation, September 2007, p. 14

phase of dialogue with the whole-of-government,[15] followed by a specific SSR assessment. As many of these issues are extremely political, fostering a supportive environment is vital to managing the process of change. The inception phase should support contextual understanding of key problems and needs, with the SSR assessment then identifying strategic interventions to reform the form, function, and financing arrangements across the sector. Including the security sector in initial needs assessments is a powerful statement of intent on the part of donors: it acknowledges the need to mainstream SSR into wider development strategies, and not treat the sector as "stand-alone." A well-timed SSR assessment would be a useful tool to recalibrate force sizes to fiscal issues. This process could also help identify where and how trust funds might be established and aligned to the national budgetary process.

In the early post-conflict period, IFIs are well placed to conduct quick fiscal analysis to determine the likely size and trajectory of the domestic revenue base. While IFIs traditionally have not engaged with the security sector, the World Bank's decision to conduct an expenditure review of the security sector in Afghanistan demonstrated their potential to play a valuable role. The argument the Articles of Agreement of the World Bank restrict support in this area was usefully re-interpreted in this instance, providing a precedent for future engagement on the financial dimensions of SSR. IFIs should help to develop provisional post-conflict macro-fiscal forecasts based on available information or pre-conflict analysis. While conflict often leads to contraction of the formal taxable economy, informed estimates of both the overall fiscal envelope and the likely envelope for the security sector would assist planners in making decisions early on in the reform process, while also informing decisions related to the establishment of trust funds. This information would permit more realistic decisions about pay, grading and force size. Implicit in right-financing, therefore, is removing the shroud of secrecy that often cloaks security spending.

15 A number of whole-of-government exercises have been established to enhance the alignment of civilian and military forms to international assistance (UK PCU, US State/CRS, Germany, etc.).

PROPOSAL 2: ALIGN SHORT-RUN SECURITY POLICY PRIORITIES AND SPENDING DECISIONS WITH LONG-TERM NATIONAL BUDGETARY AND POLITICAL REALITIES

SSR assessment must consider the short, medium, and long-term security and fiscal impacts of different force sizes, functions, and pay and grading options. Above all, international actors and their counterparts in national government need to pay more attention to the medium- to long-term fiscal consequences of short-term restructuring decisions.

Political realities in fragile states pose a considerable challenge for doing so. At present, such decisions are often made on the basis of national governments concerned about protecting their authority, rather than their people, or by international donors concerned about international security. In transitional governments, powerful political figures often control defense and law and order institutions, enabling them to obstruct reform efforts based on fiscal priorities and a realistic security threat assessment that might undermine their personal authority.

Right-financing argues that the budget ought to be the primary tool of policy – and that security threat assessment should be funded in a balanced and fiscally sensitive manner. The costs of running the Afghan National Army, for instance, remain far beyond the capacities of state, with on-budget security expenditures totaling 485 percent of domestic revenue collection in 2005/2006.[16] In Sierra Leone, UK-led reform of the military and law enforcement sectors likewise created an army and a police that the state cannot easily afford.[17] In the short to medium term, special trust funds established by donors can support payment of police or military staff where state revenues remain wholly insufficient. But such arrangements

16 World Bank, *Afghanistan: Managing Public Finances for Development. Volume V: Improving Public Finance Management* in the Security Sector. Washington, D.C.: World Bank, Report No. 34582-AF, December 22, 2005.

17 Adrian Horn, Funmi Olonisakin and Gordon Peake 'UK-led SSR in Sierra Leone' in Gordon Peake, Eric Scheye and Alice Hills, eds., *Managing Insecurity: Field Experiences of Security Sector Reform* (London: Taylor and Francis 2007).

should include clear "exit strategies" for an orderly transition to a normal budgetary process.

In assessing security needs, a key question guiding national policy must be, "security for whom?" Whether the security sector is oriented towards ensuring the safety of citizens, protecting the power of ruling elites, or shielding the international community from terrorism has direct implications for how priorities, targets, and financing mechanisms are determined. Based on a realistic fiscal estimate for the entire security sector, attention should be given to: (i) conducting a pay and grading review to determine market comparative wage scales; and (ii) right-sizing the army, police, justice and penal systems as one unified process rather than four distinct ones.

Strengthening civilian oversight should not take a back seat to building up the operational capacity of security forces.

The sustainability of SSR also hinges on that oft-repeated mantra, local ownership. It is clear that the SSR process needs to involve a strong civilian element and should focus not just on the quantity of security services, but their quality as well. Where civilian perceptions of security have taken a greater role in defining priorities for reform – as, for example, in Sierra Leone – national security is often not identified as the biggest threat. This suggests that strengthening civilian oversight should not take a back seat to building up the operational capacity of security forces. The size, structure, and function of the security and justice sectors ought to be transformed based on demand, rather than simply supply.

In a world in which inter-state wars are diminishing in number, and where, as in Africa, national armies have been notoriously detrimental for peace and development, there may be good reasons for nations not to have a standing army. A corollary question is whether a well-trained and well-managed national police service – with the appropriate border and custom units – might serve as a viable substitute. In Central America, Costa Rica abolished its military in 1948, demonstrating since that time that sovereignty and statehood need not require armed forces. Taking this one argument one step further, we can consider the implications of the fact that non-state systems are the main providers of security and justice for some 80-90 percent of the population of post-conflict and other fragile states.[18] In many cases, such non-state systems are more effective, accessible, legitimate, and cheaper than the formal security sector. In certain contexts, such institutions might serve as viable alternatives to the state, or at least as interim providers pending the build-up of formal institutions.

PROPOSAL 3: MOVE TO A SERVICE DELIVERY MODEL FOR THE SECURITY SECTOR

A critical step in developing an appropriate, affordable security sector is to cost and prioritize investments for the army, police, justice and penal institutions. Service delivery benchmarks are commonly set for sectors such as health and transport, but all too often not for the security sector. Here, measurement is poor, if not altogether absent. One result is a lack of certainty as to what reform activities are actually being conducted, how they are implemented, what is being achieved, and whether the reforms are effective or not. In most cases there are no reliable, valid metrics to discern whether progress is being made towards building capable, efficient, and institutionally robust police apparatuses, nor to assess the performance of those trying to achieve this. The metrics that are relied upon instead are less than meaningful because they measure outputs rather than outcomes. "Numbers trained" is the most frequently used indicator of progress, but this is at best a poor guide to either quality or capability. In Afghanistan, for example, we know the numbers of national police and soldiers trained; less is known about the impact of this hastily trained (and frequently unvetted) assemblage in providing security.[19]

18 OECD, "Enhancing the Delivery of Justice and Security: Governance, Peace, and Security," (Paris: OECD, 2007). "Non-state systems" refer to all traditional, customary, religious, and informal mechanisms that operate alongside formal state institutions and exercise some form of authority for provision of security and justice. They include traditional courts, tribal militias, community watch groups, village elder councils, political party security, and private security companies.

19 Seth G. Jones, Andrew Rathmell Jeremy M. Wilson & K. Jack Riley, *Establishing Law and Order After Conflict*, (Washington, DC: RAND, 2005.)

> "Numbers trained" is at best a poor guide to either quality or capability.

Policy innovations that are needed to address this fundamental weakness include (i) collaboration among multilateral and bilateral actors to establish model service delivery benchmarks for defense, police, justice and penal systems that can be used in the SSR review process; (ii) developing standard unit costs for services delivered in a given context; and (iii) integrating these benchmarks into annual budget formulation exercises and medium-term expenditure frameworks. The benchmarks should reflect the transition of security sector from an emphasis on combating "enemies of the state," towards providing law and order and justice services to citizens. Once service delivery benchmarks have been set, and based on the provisional unit costs, external donor support may be required while meeting fundamental public finance principles of affordability, discipline, and predictability.

PROPOSAL 4: STRENGTHEN INTERNATIONAL CAPACITIES TO SUPPORT RIGHT-FINANCING

The ability of international actors to support SSR generally, and right-financing specifically, faces two challenges, coherence and capacity:

- *Coherence:* When the external institutions involved behave in an un-strategic, uncoordinated manner, the already complex process of reform becomes virtually intractable. In Afghanistan, for example, five lead nations were charged with developing security policy in each of five SSR "pillars": DDR (Japan), building the Afghan National Army (USA), training the police (Germany), legal reform (Italy), and counter-narcotics (the United Kingdom). The five were embarrassingly uncoordinated: each lead nation pursued its own vision of reform with little concern for how the government would bear the associated recurrent financial costs, or for how reforms within sub-sectors linked up across the sector as a whole. Key dimensions, like intelligence reform, were left out of SSR altogether. The result was the antithesis of the unified strategy advocated above. Right-financing cannot be adopted by individual agencies acting alone; it requires cooperation among multilateral and bilateral donors. We are not naïve as to the challenges of finding concordance between institutions. But neither are we naïve as to the price of failing to address these challenges.

- *Capacity:* Reform is fundamentally about building institutions. For this reason, the personnel recruited to execute programs need to possess the requisite expertise in capacity building, management, and institutional development. The needs involve not only professional police-work and soldiery, but also staff versed in financial management – accountants, auditors, bookkeepers, and office managers.[20] But just because one is (or was) a member of an institution in one country does not necessarily make one capable of reforming the same institution in another. Building the capacity of security institutions requires qualified personnel and capacities within the donors and implementing organizations themselves. In other words, good capacity building needs to begin at home.

The first phase of external assistance for SSR is assessment. In spite of the fact that the international community regularly supports "reconstruction needs assessments" in post-conflict countries, there is no universally prescribed methodology for doing so, nor is there a specialized institution with a pool of expertise to undertake such assessments. The needs assessments often are followed by poorly sequenced external assistance, provided before the capacities of budgetary institutions have been established. This leads to the "projectization" of the national budget, the emergence of parallel delivery systems, and a second civil service – the aid community.

20 Eric Scheye, "Transitions to local authority" in Renata Dwan, ed., *Executive Policing: Enforcing the Law in Peace Operations* (Oxford: Oxford University Press, 2003).

To strengthen needs assessments in general, and the assessment of security systems in particular, policy makers should consider establishing a pool of expertise across international organizations (e.g., the UN, IFIs, the European Union, NATO, and the African Union) and bilaterals. This pool should include fiscal, public finance, public sector restructuring, aid management, and revenue experts. Policy makers should also assess how international support can prime the pump for revenue mobilization.[21] The needs assessment methodology could consider the potential role of the security sector in addressing revenue issues, including the need for measures to limit the risks of non-state capture of state revenues.

Once needs assessments are completed, security sector assistance programs need to be planned and implemented. The manner in which such programs are designed and managed frequently militate against the achievement of intended goals every bit as much as the difficult, contested, environs in which they take place. For example, during the UN transitional administration for East Timor, of an approved complement of 1,250 CIVPOL (international civilian police) personnel, only two posts were allocated to institutional and organizational police service development. [22]

To strengthen SSR implementation, policy makers should: (i) actively promote the migration of public sector restructuring experts, including those focused on administrative and civil service reform, as well as public finance management (PFM) experts, to build the capabilities of the civilian parts of the ministries of defense, interior and policing entities; (ii) conduct a multi-agency assessment of the comparative advantages of different UN, IFI and bilateral agencies to support SSR; (iii) develop support operations to strengthen the role of ministries of finance in budgetary process towards the security sector, including its involvement in national security council and coordination fora; and (iv) mainstream procurement arrangements for the sector to maximize efficiency and accountability and to minimize corruption.

> The aim is to build responsive security capacities without forcing governments into a fiscal abyss and mortgaging their future.

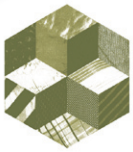
Finally, the international community needs to establish a performance-based, outcome-oriented monitoring and evaluation framework for SSR programming. Assessing the impact of public spending on security has been almost impossible in post-conflict states. Moreover, in the absence of performance-based indicators of enhanced equity and quality in service delivery, key issues related to horizontal equity – ensuring that security coverage is not biased towards certain groups, and that employment opportunities within the security services are equitably distributed - have been routinely neglected. To support movement towards a service delivery model for the security sector, we recommend that (i) the OECD/DAC, in collaboration with the UN and IFIs, work to establish a standard set of objectively verifiable indicators and means of verification; and (ii) multilateral and bilateral donors support the development of information management and public expenditure tracking systems within national defense and policing institutions.

21 See the paper in this series by Michael Carnahan, "Options for Revenue Generation in Post-Conflict Environments," (November 2007).

22 Ludovic Hood 'Missed Opportunities: The United Nations, Police Service and Defence Force Development in Timor-Leste, 1999–2004' in Gordon Peake, Eric Scheye and Alice Hills, eds., *Managing Insecurity: Field Experiences of Security Sector Reform,* (London: Taylor and Francis 2007), p.152

CONCLUSION

The proposals advanced here are intended to improve the quantity, quality, and sustainability of security services, benefiting the international community and their taxpayers, as well as recipient governments and most importantly their citizens. As post-conflict states struggle to gain traction towards creating a virtuous cycle, in which security promotes economic growth and political stability, and vice versa, issues of scale, prioritization, effectiveness and efficiency become fundamental to the delivery of security services. The challenge is not to choose between fiscal and macro-economic insecurity on one side or the underprovision of physical security on the other, but to strike an acceptable balance. The aim is to build responsive security capacities without forcing the governments into a fiscal abyss and mortgaging their future. If sustainable solutions are to be found for the problems of statebuilding, right-financing the security sector is a necessity.



CENTER ON
INTERNATIONAL
COOPERATION

POLITICAL ECONOMY RESEARCH INSTITUTE

PERI

University of Massachusetts Amherst