



WILLIAM BYRD

E-mail: wbyrd@usip.org

Paying for Afghanistan's Security Forces During Transition: Issues for Chicago and Beyond

Summary

- Clear commitments and arrangements to pay for Afghanistan's national security forces (ANSF) during transition and post-2014 are essential.
- International funding must be adequate to cover the bulk of the total cost of the ANSF at agreed size and cost levels for a long time to come, and funding needs to be committed at least indicatively for the next five to 10 years and longer as needed.
- A holistic approach by donors will be required, and best achieved through coordinated funding arrangements that build on existing trust fund and other mechanisms, working through Afghanistan's government budget.
- Security sector support must not crowd out civilian assistance to Afghanistan.
- Sensible and practical conditionality can be associated with the provision of international support for the security sector, just as in the case of civilian aid.
- Flexibility and responsiveness in support for ANSF will be needed as Afghanistan's situation evolves.
- Non-financial issues concerning Afghanistan's security sector, and its roles and effectiveness during transition, need to be kept front-and-center in decision-making.

“International support to ANSF must fit within an overall level of aid that does not crowd out civilian assistance; adequately funding the security sector but not funding high-priority civilian spending would be disastrous for Afghanistan's transition prospects and longer-term development.”

Affordability of ANSF: Donor Support will be Crucial

Afghanistan is receiving massive international support to build up large security forces—the Afghan National Army (ANA) and Afghan National Police (ANP)—in order to progressively replace declining international troops in the counterinsurgency effort against the Taliban. Funding will be a major topic at the upcoming Chicago NATO Summit in May 2012 as a key issue associated with this ongoing security transition. Ahead of the summit, this paper focuses on the financial dimension—how to pay for Afghanistan's national security forces.

Fiscal analysis conducted by the World Bank¹ indicates that Afghanistan will be unable to pay for the ANSF at anywhere near existing or targeted size and cost levels from domestic resources for the foreseeable future. This would hold true even, for example, at half the previous size and cost targets (total of 352,000 people and annual sustaining cost of around \$5 billion). The medium-term cost currently being discussed (\$4.1 billion per year, with total staffing of around 230,000)²—and which is likely to be presented in Chicago for donor funding—does not change this outlook. It is

equivalent to about a quarter of Afghanistan's gross domestic product (GDP) and two-and-a-half times total government revenue. Even with continuing rapid revenue growth over time, it will not catch up with projected security sector costs for a number of years, and there are very large demands on government revenues for civilian expenditures as well.

Afghanistan is currently allocating from its domestic revenues around half a billion dollars, equivalent to 3 percent of its GDP, annually to security. This is already not grossly out of line with what many other low-income countries spend on defense and security. The extraordinarily high total expenditures on ANSF (currently and projected) reflect the difficult and challenging security situation and the responsibility for counterinsurgency the ANSF are expected to take over. The Afghan security contribution can increase over time, for example in line with GDP growth. But a very rapid shift of the burden onto Afghan domestic resources would wreak havoc with the national budget, squeeze out civilian spending and precipitate a fiscal crisis.

The affordability of ANSF thus depends entirely on the willingness of the international community to continue covering most of its cost over the medium-term. The Chicago NATO Summit will need to gauge the level of sustainable long-term international commitment in this regard. It would be better to come out of Chicago with a lower but credible figure, committed at least indicatively for the next five to 10 years and beyond as needed, rather than maintaining very high ANSF targets which cannot be paid for.

Need for Holistic, Coordinated Deployment of Funding

How international support is provided to Afghanistan's security sector will also be very important. Holistic rather than fragmented deployment of funding is needed. At a time of declining aid to Afghanistan (both overall and for the security sector), fragmentation of programs and financing with associated waste and extra costs will no longer be affordable or acceptable. What individual donors do must add up to a coherent whole, and the numbers in particular have to add up. Coordinated financing through a single or very limited number of multi-donor trust funds would facilitate and buttress a holistic funding approach, and also leverage further improvements in Afghanistan's public financial management (PFM) as it relates to the security sector.³

Currently, U.S. support for ANA salaries is provided directly to Afghanistan's national budget, while ANP salaries are paid on-budget, financed by the Law and Order Trust Fund of Afghanistan (LOTFA). Some security sector non-wage operational costs (for example meals for soldiers) are paid by the Afghan government through the budget, but the bulk of equipment and supplies are directly provided by the U.S., outside the national budget and often in-kind.

The experience with LOTFA and with paying for ANA salaries through the Afghan budget provides a basis to build on for the future. Nevertheless, improvements are needed in strengthening financial controls, monitoring and accountability of LOTFA. PFM for the Afghan budget more generally is relatively good, but further enhancing it will also serve to strengthen the accountability of ANA salaries and other on-budget military spending. Creating a multiplicity of different funding mechanisms to cater to individual donors risks fragmentation and defeating the purpose of coordinated financing.

While more non-wage operating costs of the ANSF should be progressively transferred on-budget (and paid for through coordinated financing arrangements), government capacity will be a constraint, especially for more sophisticated equipment and supplies and their maintenance. Thus the U.S. will need to continue to provide these kinds of support directly for some time to come.

Finally, the need for a holistic approach and for the numbers to add up also applies to the balance between security and civilian aid. International support to ANSF must fit within an overall

level of aid that does not crowd out civilian assistance; adequately funding the security sector but not funding high-priority civilian spending would be disastrous for Afghanistan's transition prospects and longer-term development. The major donors, and those involved in organizing the Chicago and Tokyo meetings, will need to keep the balancing of security and civilian assistance at the forefront in the deliberations.

Benchmarking Security Sector Progress

The "how" of paying for ANSF also includes the question of what benchmarks the Afghan government should be expected to achieve given the very large amounts of financial support being considered (likely to exceed \$3 billion annually for a number of years at currently targeted ANSF size and cost levels). While specifics would need to be worked out, some general principles can be put forward.

First, the idea that support to ANSF should be unconditional whereas conditions and benchmarks can be loaded onto civilian aid is wrong. Conditions and benchmarks can play an appropriate role in both.

Second, lessons from experience with conditionality for civilian aid can usefully be applied. Well-crafted benchmarks can provide stretch targets for reforms but will not work if overly ambitious, and must be broadly in line with the Afghan government's own interests and policy agenda. A creative combination of a medium-term perspective and flexibility will be needed, and an understanding of the different roles of input, output and outcome benchmarks.

Third, conditionality is not appropriate for support which, if cut, would cause far too much damage in relation to any positive impact of the benchmarks. Support to ANSF salary payments is an example. But other kinds of support, e.g. for new or additional equipment, new recruitment and some training, can be incentivized.

Turning to different types of benchmarks, the following distinctions can be made:

- Narrow financial conditions, relating to whether money has been properly spent for intended purposes and without financial irregularities, can and should be applied to all international security sector support (including for ANSF salaries). Coordinated financing mechanisms, such as a multi-donor trust fund, are particularly conducive to application of financial conditionality, for example by not reimbursing for expenditures deemed ineligible, leveraging improvements in PFM, etc. (the Afghanistan Reconstruction Trust Fund provides examples of good practices).
- Substantive security sector-related benchmarks can be associated with support whose reduction would not cause excessive damage. Possible examples include conditions around force readiness, training completed, demonstrated operational capabilities, merit-based and ethnically-balanced appointments and promotions in the officer corps, observance of rule of law by security forces, etc. Such benchmarks would need to be independently monitored.
- Economic conditionality may not be suitable for direct application to the security sector, but it may become relevant indirectly; for example, some donors may be reluctant to meet aid commitments for the security sector if Afghanistan goes seriously off-track on its IMF program or does not raise sufficient revenue to pay its share of security sector costs, just as in the case of civilian aid.
- Broader conditionality, including political benchmarks, should be limited to key actions considered essential; if it is decided to include such benchmarks there is no reason why they should not be applied to security sector support.

ABOUT THIS BRIEF

William Byrd is a development economist with long experience at the World Bank and has worked extensively on Afghanistan in various capacities over the past decade. During 2002-2006 he was stationed in Kabul, Afghanistan, where he served as the World Bank's country manager for Afghanistan and then as economic adviser. He recently joined USIP as a senior expert in residence. This report reflects his research interests and several publications on security sector reform from a financial and development perspective. It is intended to lay out key issues and trade-offs in this area, and brings in concepts and tools of public financial management which are applicable to the security sector. The views expressed in this brief do not necessarily represent the views of the U.S. Institute of Peace, which does not take policy positions.



UNITED STATES
INSTITUTE OF PEACE

2301 Constitution Ave., NW
Washington, D.C. 20037

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Strategy, Size, Quality, Effectiveness

This paper has focused on the cost and funding of the ANSF, but this cannot be seen in isolation from the roles and activities of the ANSF, and their quality and effectiveness (including cost-effectiveness). What are the strategic national security objectives for Afghanistan, and how do they link to the strategy for developing ANSF? What is being bought with the large resources devoted to ANSF? Will ANSF be able to carry out leadership and execution responsibilities for counterinsurgency as the combat role of international forces is phased out (assuming COIN remains the primary focus)? Will the internal cohesion and command and control of the ANSF hold together as the international military presence declines? Will the civil authorities maintain effective oversight of ANSF, a key ingredient in successful transitions in other countries? What continuing logistical support from international forces will the ANSF require to function effectively?

The model for the ANA has evolved from that of a small garrison force mainly for regime protection, to one centered on counterinsurgency—at least implicitly assuming that the insurgency will continue, even if at somewhat lower levels than in recent years. On the other hand, protection against external conventional national security threats, which would necessitate an even more outsized ANA than currently envisaged, would not make sense as Afghanistan has never depended on its official military forces for defense against the armies of neighboring countries.

Issues around the roles and effectiveness of the ANP are even more serious. There is heavy emphasis on counterinsurgency (where the ANP have taken many casualties), but also issues about law enforcement, criminal investigation, community policing, etc.—roles normally played by police in other countries. There are questions about the ANP's cohesion, its responsiveness to local powerholders, accusations of corruption and perceived involvement with the drug industry.⁴

While it is beyond the scope of this paper to weigh in on the non-financial issues, they will be crucial for the ANSF's success, and to the justification for continuing large investments in the ANSF.

Endnotes

1. World Bank, *Transition in Afghanistan: Looking Beyond 2014*, Executive Summary and Powerpoint Presentation, at <http://www.worldbank.org/af>.
2. These lower numbers are referred to in articles in the *Wall Street Journal* (February 18, 2012), *The Atlantic* (April 2012), and *The New York Times* (April 10 2012), among others.
3. The importance of PFM for the security sector, and the need to apply good-practice in PFM just as in the case of civilian public expenditures, is emphasized in Byrd, William, "The Financial Dimension of Security Sector Reform", in *The Future of Security Sector Reform* (CIGI, 2010).
4. See Wilder, Andrew, *Cops or Robbers? The Struggle to Reform the Afghan National Police* (AREU, 2007). For a discussion on police involvement with the drug industry, see Shaw, Mark, "Drug Trafficking and the Development of Organized Crime in Post-Taliban Afghanistan", in *Afghanistan's Drug Industry: Structure, Functioning, Dynamics, and Implications for Counter-Narcotics Policy*, UNODC and the World Bank, 2006.