

## **'Right-Financing' Policies for Weak and Fragile States**

In the absence of state revenues, aid dependency is a major curse for countries such as Afghanistan as it essentially prevents them from attaining full sovereignty. While political structures are easily re-established and service delivery frameworks radically overhauled, many weak and fragile states would simply collapse without major external financial assistance. However, poorly financed external assistance often creates overly inflated structures, particularly in the security sector that undermine the ability of an incumbent government to set itself on a stable fiscal footing. Adoption of a 'right-financing' framework allows strategic decisions to take into consideration the impact of external spending on the functioning and affordability of future Governments.

Foreign assistance remains both uncoordinated and ad-hoc. Poorly targeted financial assistance can easily undermine the overall reconstruction effort, particularly when it pushes the costs of Government business beyond its actual fiscal capacity, regardless of how much money or resources is being pumped into the country. Vast foreign security assistance in countries such as Afghanistan has resulted in the creation of parallel structures, many of which are entirely outside the sphere of the Afghan State. Moreover, total military spending, to support the emerging Afghan National Army and National Police force, now remains far beyond the financial capabilities of the State and the security sector cannot be incorporated into the core budget perhaps for a further 5-10 years. While foreign assistance provides a degree of security and stability over the short term, providing breathing space for state-(re)building and development, it is simply un-sustainable in the long run.

In Afghanistan, the absence of 'Right-financing' policies to guide investment decisions has led to some resounding failures. Of note include the failure to scale down the Law and Order Trust Fund (LOTFA) which pays police salaries, lack of funding of for justice system reforms, increases in number of Afghan National Army beyond that agreed by the Afghanistan Compact, no formal adoption of a Security Sector Reform (SSR) programme, a five pillar approach to security that lacked coordination, Provincial Reconstruction Teams fielded prior to a sub-national reform programme being put in place. Moreover, there appears to be no direct correlation between stability, economic growth or poverty success and the volume of finance being committed to particular provinces. Helmand, for example, is one of the largest recipients of external aid and yet also one of the most insecure. Clearly, the reasons for failure need to feed back into the planning cycle to avoid mistakes that either lead to misspent public funds, unsustainable interventions or finance that creates undue inflationary pressure on the national budget.

Lack of Government fiscal resources results in continued reliance of the

Afghan State on the international community for many years to come. High troop numbers and poorly balanced pay and grading structures means that, in spite of security gains, the costs of security to the national budget are way above the Government's capacity to spend. There is an urgent need to strike a balance between security provision on one side and fiscal sustainability on the other by expanding delivery capability based on actual resource availability.

Adopting "Right-Financing" policies for the security sector is key to sustainable state-building. From the period of the peace agreement, through peace support operations where a semblance of national security and law and order are restored, poor decisions taken by the UN, NATO and international security advisory services can force the government into mortgaging the future. Right-financing calls for (i) external assistance to be coordinated and consolidated within the national budget (ii) a formal security sector reform programme to be adopted (iii) a common needs assessment and prioritisation involving both the incumbent state and external actors to be pursued (iv) clear decisions of force sizes and pay and grading structures within the fiscal envelope of government (v) the financing of security policies should be aligned with long-term budget realities (vi) security forces should support revenue generation (vii) clear security benchmarks and targets should be incorporated into the annual budget process (viii) the fundamental principles of public financial management are equally applicable to the private sector.

The right-financing approach also calls for sound public administration reforms to be adopted alongside enhancement of civilian structures of the defence sector, to improve transparency and accountability. Right Financing calls for responsible financing decisions to be taken, in terms of fiscal sustainability, but also in terms of the prioritisation and sequencing of external support. The aim is to strengthen the state building process to improve security service and to enhance private sector growth.

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