

2012

# Round Table: Security Sector Expenditure Reviews

Nairobi, Kenya  
1 October 2012



The roundtable on Security Sector Expenditure Reviews, hosted by the World Bank Global Centre on Conflict, Security and Development and organised in partnership with DCAF's International Security Sector Advisory Team, brought together economists and Security Sector Reform (SSR) practitioners and experts to discuss the challenges and opportunities for supporting the conduct of expenditure reviews and enhancing financial management in the security sector. Participants in the event included DCAF and World Bank staff, but also representatives from the African Development Bank, African Security Sector Network, Government of Liberia, Kenyatta University, and United Nations.

The roundtable was held as a response to the noticeable gap in knowledge and consideration of expenditure management in SSR processes in post-conflict states. The roundtable considered past and ongoing security sector expenditure reviews, in particular in Afghanistan and Liberia, as well as current work of the World Bank to develop a Security Sector Expenditure Review Sourcebook as a guidance tool for public finance practitioners. The roundtable sought to examine the challenges and prospects of including similar reviews in other post-conflict countries. It also provided a platform for economists and SSR practitioners to discuss how they can better collaborate to promote and enhance security sector expenditure review processes and to ensure that the reviews undertaken are able to achieve the optimal impact. In addition, the roundtable included discussions on how such expenditure reviews can enhance ongoing SSR efforts and how to ensure that financial management becomes more integrated prominently in SSR processes.

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## PUBLIC EXPENDITURE REVIEWS

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PERs are tools used to review public finance management (PFM), fiscal governance, and expenditure management of the different public sectors. Their use in public financial management is often supported by the International Financial Institutions (IFIs), such as the World Bank; some national Governments have also developed their own expenditure reviews, which are usually much smaller in scope.

PERs can address analytical needs of the national Government, and serve several purposes, including:

- addressing a desire to understand how much is being spent and how resources are being allocated against priorities
- factoring in impact of a reduction in international assistance
- providing an assessment of financial management capacity
- providing a costing of reforms
- supporting a needs assessment

They provide an overview and understanding of the state of finances in the sector, especially in regards to how expenditure is managed, allocated, governed and accounted for. In addition, a PER can provide a critical overview of the total expenditure in the sector, which includes spending by Government as well as donors. Such financial data helps the key stakeholders understand how to allocate resources among priorities, whether the spending is sustainable or if gaps in financing exist or should be expected.

However, a PER should be considered as an analytical tool with application beyond simply providing data and analysis. When appropriately used, it can facilitate or promote dialogue on necessary reforms or advance work on PFM. It can also provide an overview of which institutions have capacity, which require capacity strengthening and which are not being given the necessary capacity to do their work. The review process can also uncover policy vacuums,

deficiencies in strategic frameworks, help decision makers with prioritization of security challenges, or serve as a guide to better channel available funds to key priority areas.

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## SECURITY SECTOR EXPENDITURE REVIEWS

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There is a high level of complementarity between the objectives of PER and SSR processes. Accountability, transparency, oversight and sustainability are part of the fiscal governance agenda. These are also key components, or even pre-requisites, to ensuring effective governance of the security sector. Fiduciary management must not be overlooked from the governance dimension of SSR if long term sustainability after donor draw-down, effectiveness and efficiency of SSR processes are to be achieved. Moreover, an expenditure review can provide the basis for deciding how much to allocate to the sector, for increasing resources it receives from the national budget if necessary, as was the case in Liberia, and ensure that SSR is prioritised.

Whilst a number of tools exist to support public expenditure analysis in general<sup>1</sup>, there is no standard process for security sector expenditure reviews. Such reviews need to be tailored to fit the local context and take into account key priorities, as has been seen across recent security expenditure review, such as Liberia and Afghanistan. However, there are some basic elements that should be included: the review of policy framework that guides the budgeting process, the review of existing and planned expenditure, and an assessment of public finance management systems, including budgeting and systems of oversight and transparency.

To ensure that the review achieves the desired impact, putting in place an effective follow up process is essential. Such follow-up processes should include sustained engagement not only of the actors that were involved in the review but also of the actors that manage SSR programmes and of those that influence the policies, programming and budgeting in the sector. These actors should then play an important role in promoting the recommendations and findings of the review.

In addition, a proactive approach should be taken to ensure that the conclusions of the review inform the decisions of Government and policy makers; and that these conclusions are considered and promoted in diverse forums. This could include introducing the review findings and recommendations in parliamentary budget debates. Such reviews can have a real impact when their findings are taken into account systematically in the design of new SSR programmes, in the identification of sector priorities or as a tool to inform the annual budgeting cycle. When appropriate, it may also be worthwhile to consider sharing the review document with civil society actors who may also be effective in advocating for actionable results in implementing its recommendations.

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<sup>1</sup> Existing tools supporting public expenditure analysis include: PERs, PEIRs (public expenditure and institutional reviews) and PFMs (public finance management reviews), CPARs (Country Procurement Assessment Reports) and CFAA (Country Financial Accountability Assessment).

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### AFGHANISTAN

*Purpose: to assess the sustainability of donor and Government spending across the security sector*

*Key Actors: World Bank, DFID, US Embassy*

*Impact: Platform to discuss security sector issues was created. Improved fiscal capacity of Ministry of Finance.*

*Challenges: lack of previous experience in PER, working with Ministry of Defence/Ministry of Interior, follow-up on findings and recommendations*

*Lessons learned: need to institutionalise the PER process, need to more carefully consider an inclusive team composition in PERs.*

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## CHALLENGES TO UNDERTAKING EXPENDITURE REVIEWS IN THE SECURITY SECTOR

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Security sector reform is a highly sensitive, long-term, political endeavour. PFM and the reform of expenditure management processes in the security sector in fragile and conflict affected countries can pose even deeper challenges due to the lack of routine work in this area, lack of strong precedent for oversight and lack of strong champions of change. Engagement requires strong political commitment by national political leaders, supported by key technical staff to drive the process forward. Motivation for undergoing such reforms in the security sector, especially when weighed against the political difficulties of such engagement, is often lacking, or is outweighed by other political considerations. Furthermore, post-conflict states have typically displayed a high tolerance for inefficient spending in the security sector, which may have become culturally entrenched. For instance, it can be difficult to create incentives to open up areas such as defence expenditure to external review, whether by internationals or national actors such as the Parliament. Equally important is ensuring they are open to internal review. This needs to go further than the existence of audit departments or accountability mechanisms to ensuring that the systems put in place are fully functioning and that key financial managers like ministers of finance and Auditors General have access to the information. Improvements in expenditure management in the security sector have thus far mostly been limited to enhancement of budget execution rather than budget management.

A locally led process that incorporates all the relevant stakeholders is paramount and without the necessary political support, security sector expenditure reviews will most likely fail to have the desired impact. For a review process to be feasible, such buy-in must include all relevant Government decision makers, including the likes of Ministry of Finance, Ministry of Defence, the Ministry of Interior, the Ministry of Justice, President, Prime Minister and Legislature.

The development community acknowledged the importance of fiscal accountability and transparency in SSR processes as early as 2000. Nonetheless, the stark difference in frequency of PERs in the security sector when compared to sectors such as health or education suggests that both Governments and the international donor community have struggled to engage in dialogue on security sector expenditure. Several challenges associated with engaging in such work in the security sector may in part explain this limited engagement.

IFI's have generally viewed their role as limited to analytical work on expenditure levels and public finance management, and not as partaking in political dialogue or advising on policies and strategies. Within these constraints, the level of engagement and approach taken varies heavily across country offices. This has constituted a challenge for IFIs to develop relations with security sector institutions that would enable expenditure reviews and collaboration that foster the buy-in necessary for the process. In several instances, expenditure reviews have been stymied by a lack of access to Ministries of Defence or Interior by the review teams.

On the other hand, SSR practitioners have rarely prioritised PFM in SSR programmes. Practitioners often lack the necessary skillsets to provide technical assistance or advisory support on such PFM discussions. This means that SSR actors do not systematically engage with the Ministries of Finance or with the IFIs to ensure that SSR processes routinely include PFM or expenditure management. Most importantly, this has meant that SSR processes have neglected to sufficiently consider fiscal management, financial sustainability and effective budgeting as part of SSR strategies and policies.

### **LIBERIA: Public Expenditure and Needs Assessment Review of the Security Sector**

*Purpose: to conduct a forward-looking needs assessment and prepare a PER assessing the financial needs in security sector associated with the United Nation's draw down.*

*Key Actors: Government of Liberia, World Bank, United Nations*

*Impact: Increased budgetary allocation for SSR by Government, creation of SSR Unit in MoF, and recognition of need to capacitate budget controllers within security institutions*

*Challenges: need to ensure that key stakeholders continue to take the recommendations contained in the document into consideration, need to keep the document updated, difficulties in overcoming institutional mandate limitations related to the exercise*

*Lessons learned: securing financing for PER is important, need to ensure that the document is seen as a working document that can further develop rather than as a final outcome document, keeping a diversity of actors involved in the process – including donors - provides further legitimacy to the document.*

The Liberia *Public Expenditure and Needs Assessment Review of the Security Sector* offers an example of a process, fully endorsed by Government, which has addressed simultaneously issues related to the PFM and SSR agenda. It may be important to bear in mind for other processes that IFIs through the expenditure reviews provide analytical material that guides a dialogue on resource prioritisation within the fields of security and justice.

### **ENTRY POINTS FOR SECURITY SECTOR EXPENDITURE REVIEWS**

In view of the aforementioned challenges and the difficulties encountered by Government Ministries, such as Finance, to effectively engage in dialogue with security sector institutions, suitable entry points are needed to ensure that either the Government or donors are able to promote the conduct of an expenditure review in the security sector. This also

requires that certain preconditions are met, in particular, a Government commitment to public finance management reform or to progress in security sector reform. Correct sequencing is also necessary to ensure that such an exercise does not become counterproductive. In this respect, it is important that any expenditure review is sufficiently integrated into an overall reform process, which could include either SSR or PFM reforms but also processes aiming at improving service delivery, rather than carried out as a standalone exercise or as a donor exercise.

Finding the appropriate entry point in a process is contingent on a number of factors including the maturity of PFM systems, the level of democratisation and the existence and state of on-going SSR processes. Moreover, the review should only take place once the Government has demonstrated a certain commitment to reforming the management system of the security sector or introducing PFM reforms across Government. The review exercise should therefore ideally be used to help support or to steer such reform efforts and should be developed gradually. Suitable triggers or entry-points can facilitate donor engagement, or the conduct of a public expenditure review by Government.

#### **POTENTIAL TRIGGERS FOR A SECURITY SECTOR EXPENDITURE REVIEW:**

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| ➤ Parliamentary debate on security sector expenditure                             | ➤ Donor disengagement                       |
| ➤ Changes in political/security environment                                       | ➤ Defence Review                            |
| ➤ Introduction by Government of a Medium Term Expenditure Framework for budgeting | ➤ Changes in Government revenue             |
|   | ➤ PFM reforms such as introduction of FMIS  |
|   | ➤ Policy development in the security sector |

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## SKILLS REQUIRED FOR SECURITY SECTOR EXPENDITURE REVIEWS

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Conducting a security sector expenditure review is in itself a technically demanding exercise that requires several skill sets, which can only be found by engaging a diverse set of actors. The necessary skill sets may vary depending on the scope and context of each review. Generally, however, the review teams should include skills or expertise in public sector management, security sector budgeting or costing, sector expertise and knowledge on oversight and accountability mechanisms. Experiences from Afghanistan and Liberia show that local engagement in the process must include experts and policy makers from the Ministries of Defence, Interior and Finance to help facilitate the process and to ensure that all necessary data is collected. Similarly, the review team should engage a wide range of both economists and SSR practitioners from relevant regional/multilateral organisations and/or donors. This balance of engagement from the two fields is important to ensure that the PER takes into account factors specific to the sector, whilst considering them under the lens of sound financial management.

Moreover, in regards to donor facilitated expenditure reviews, both economists and PER practitioners will most likely have strong relations with different Government counterparts and can therefore leverage far more actors into the process. In this respect, a collaborative approach would help address the challenges/difficulties encountered by the IFIs in engaging with MoD and defense forces, as this could be carried out by their partners.

### **Possible roles for SSR experts/practitioners:**

- identify entry points for a PER which stem from SSR processes or programmes
- provide security sector expertise to PER review teams
- promote follow up and measuring of the impact of PER
- facilitate/bridge contact and work relations between economists and MoD/MoI

### **Possible roles for IFIs:**

- generate entry points from PFM reforms across Government
- provide expertise in PFM and expenditure management/budgeting
- facilitate building of relations between security sector institutions and SSR programmes with the Ministry of Finance
- support the development of the fiscal capacity of security sector institutions

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## EMERGING PRACTICES AND THE WAY FORWARD

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The lack of cross-disciplinary collaboration has prevented the PFM agenda from being routinely considered in SSR, and has in turn hindered expenditure reviews in the security sector from achieving the desired impact. It is therefore important to improve the partnerships of security and justice ministries and key economic managers. It is also important to improve the working relations between SSR practitioners and IFIs' personnel, as well as other development donors. Such collaboration can only be achieved by explicitly developing the requisite communication channels by:

- Including the MoF in security sector coordination and policy bodies such as National Security Councils, Defence and Security Parliamentary Committees, programme steering committees or by establishing dedicated capacity within a MoF which can review and engage in security sector reform agenda.
- Ensuring that SSR practitioners approach IFIs to request support to conduct expenditure reviews in the sector when they identify potential triggers or entry-points for a review.



- Including in the review teams SSR experts and practitioners that are involved in the SSR process in-country to facilitate the work and cooperation of the team with the MoD, as well as providing insight into SSR process.
- Basing the systems of cooperation between IFIs and SSR practitioners on institutional cooperation frameworks rather than on relations between individual experts. A failure to do so means that frequent personnel rotations, as was the case in Afghanistan, can undermine the ability of the PER process to be sustained or to achieve the desired impact.

To enhance impact, a security sector expenditure review should not be a one off event, but rather a system of regular, albeit smaller, reviews should be devised. Continuing to update and enhance the review means that the document remains relevant and can address emerging trends or contemporary needs and priorities. A comprehensive review can take several years and is technically demanding and cost prohibitive to undertake on an annual basis, therefore a series of more modest reviews should be considered. This would help ensure that the expenditure management agenda remains current in the security sector and key stakeholders remain both engaged and knowledgeable in the subject.

The review process should also be better integrated in SSR and expenditure management considered from the outset of all SSR programmes. This includes improving the fiscal management capacity of MoD/MoI and ensuring that donor programmes fit into the medium term expenditure frameworks if they are in place. With maturity of the budgeting process, the budget itself can also be used as a tool for policy making.

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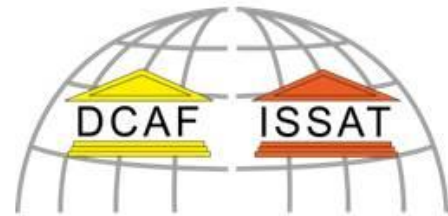
## CONCLUSION

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The roundtable discussion identified various challenges and opportunities for security sector expenditure reviews in post-conflict or fragile states to form integral parts of SSR processes and SSR donor programmes. The key conclusion of the workshop was that knowledge, approaches and tools for undertaking security sector expenditure reviews still need to be further developed. To this end, IFI and SSR practitioners need to enhance their cooperation, allowing complementarity of their respective work when engaging in the security sector, and ensuring that each would be able to solicit the support of the other when needed. This workshop should be seen as a stepping-stone to building such cooperation and partnerships between influential IFIs, such as the Africa Development Bank and the World Bank, and SSR practitioners' communities, such as ASSN and DCAF



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The following institutions also participated in the roundtable discussion:

