

Helpdesk Research Report: Trust Funds to Pay Security Forces Salaries

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Query: What are lessons learnt from using trust funds to pay security force salaries? In particular: what research has been done on LOTFA (the Law and Order Trust Fund for Afghanistan)? What other lessons are known about using trust funds in other countries to pay police salaries?

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Contents

1. Overview
2. Multi-donor trust funds
3. Afghanistan – security sector and LOTFA
4. Other settings
5. Additional information

1. Overview

Multi-donor trust funds (MDTFs) are instruments for improving resource efficiency and effectiveness by reducing transaction costs and managing the high risk levels inherent in post-crisis environments. MDTFs direct most funds to the public sector, in particular to operating costs including civil services salaries, capacity development and public goods infrastructure (Scanteam/Norway, 2007). Trust funds that help to fund government expenditures for salaries and other non-investments demonstrate how aid can be re-routed through the government – in effect, helping to internalise external resources. The government allocates external resources through its internal budgetary process, reinforcing the budget as the central instrument of policy (Boyce, 2010). Technically, however, the payment of salaries is managed as a project. Trust funds do not circumvent the complex and often time-consuming task of designing programmes (K.K. comments).

While there is much literature on aid modalities, including MDTFs; and on police reform – there is little that discusses the use of trust funds to pay security forces salaries. This helpdesk research report focuses primarily on the Law and Order Trust Fund for Afghanistan (LOTFA), which is profiled most frequently in the literature that does address this area.

LOTFA was set up in 2002 as a multi-donor mechanism to facilitate police salary payments and support law enforcement authorities. The UNDP was asked to administer the trust fund and took on the payment verification role, which incorporated an oversight function in a very risky fiduciary situation. Pooled LOTFA funds were paid to the Ministry of Finance Treasury department on a reimbursement basis, which allowed for police salaries to be kept on budget from early on and for the Afghan government to include such recurrent costs in fiscal frameworks and planning. The Fund has five priority activities:

1. Payment of police salaries nationwide (identified as the top priority);
2. Procurement of non-lethal equipment, and covering other recurrent expenditure such as fuel and maintenance costs;
3. Rehabilitation of facilities;
4. Training; and
5. Institutional development

Component 1, paying police salaries, has largely been delivered. Pay packages are being delivered more punctually; and the rollout of the electronic payment system is a key reform within the Ministry of Interior that is being driven largely by the LOTFA funding and technical support. While numerous donors contribute to the fund, it is highly dependent on donations from the European Community (EC) and the United States.

Some key challenges and lessons of the LOTFA – and of trust funds to pay public servant salaries (including security forces), more generally – include:

Short time frames and unpredictable funding: From the beginning there was no multi-year strategy for the LOTFA, which is necessary for a sector in which the needs and nature of reform stretch over the long term. Instead, project documents were generally based on a one or two year time horizon. In addition, unpredictability of funds across and within years has made it difficult to forecast available resources. In the past, contributions have fallen short. This volatility and shortfall means that the attention of UNDP managers is focused on ensuring that police salaries are covered rather than on broader strategic issues. As a result, the LOTFA's voice is not as strong as it could be in the wider debates on security sector reform (Manthri, 2008). A longer time frame (at least 5 year cycles) would allow for stronger focus on content and less energy to keeping the project running (Chilton et al., 2009).

Fiscal sustainability: This is one of the key challenges facing the entire security sector, including the police, in many contexts. In Afghanistan, it is clear that the government will be unable to provide anywhere near the amount needed to finance the police and its forces from its own revenues for many years. As such, external aid will be required in the medium-to long-term (Cordesman and Mausner, 2009; RUSI and FPRI, 2009; UNDP, 2009). The unpredictability of external aid, however, runs the risk that costs may have to be paid from Afghan budget revenues, squeezing other priority expenditures such as health, education and other social services (RUSI and FPRI, 2009). There are also concerns that decisions about increasing the size and salaries of the police force have been made between the Ministry of Interior and donor community without the involvement of the Ministry of Finance and without paying attention to the national budget (Chilton et al., 2009; Manthri, 2008). There is an urgent need to achieve a better balance between creating institutions that can address immediate security needs and creating institutions that Afghanistan can afford (Wilder, 2007). Failing to set security forces on a foundation toward fiscal sustainability means that if donors stop funding, under-financing of the police force could contribute towards poor sector governance and corruption (P.M. comments).

Accountability and monitoring: Trust Funds like the LOTFA can play a crucial role in contexts with high levels of corruption and poor capacity, but they require intensive monitoring mechanisms. The problem with LOTFA in its initial stages was that it lacked monitoring mechanisms particularly at the local level to ensure that disbursed salary funds were being used appropriately and reaching their intended recipients (M.S. comments). There have been accounts of 'ghost police', who are on the payroll but not actually present for duty, which has raised serious concerns that significant amounts of LOTFA funds allocated to the Ministry of Interior for police salaries were being misappropriated (Cordesman et al, 2010; Wilder, 2007). Efforts have been made to address these issues through computerized records, individual payments, electronic payment schemes and physical monitoring systems. While progress has been made, these processes have tended to be ad hoc and at times ineffective (Wilder 2007; M.S. comments). There are also criticisms that monitoring systems are too focused on monitoring financial flows rather than outcome indicators (Manthri, 2008; Evaluation mission, 2005).

Institutional reform: While a rise in police salaries and efforts to ensure they are delivered have helped to address some of the incentives for corruption in Afghanistan, they are insufficient to solve the problem. Buying positions and promotions, for example, remains an issue in addition to extortion or taxing of pay and allowances by superior officers. There is a need to address corruption explicitly and to engage in institutional and leadership reform at the level of the Afghan National Police (ANP) and the Ministry of Interior (Cordesman et al., 2010; RUSI and FPRI, 2009; Azami, 2009; Wilder, 2007). In the case of the Palestinian Authority, external funds provided to pay public servants have been used in the past to buy the loyalty of police and other security personnel (De Groof, 2008). The Public Financial Management Reform Trust Fund in the West Bank and Gaza made concrete public sector reform measures a condition for tranche releases (Scanteam/Norway, 2007). Some

recommend that donors commit external funds to an interim period and then make any future salary support dependent upon a government plan for the reform of the security sector (K.K. comments).

Capacity development: Trust funds have often failed to have a clear capacity development policy. Capacity development should, however, be a central concern in all MDTF programs and some agreed-upon principles should be in place from the beginning. There should be particular attention to identifying the possible role the MDTF can play in financing the (re)building of core state functions and capacities (Scanteam/Norway, 2007). This includes attention to developing the capacity for internal revenue-generation, such that the government will be able to fund salaries out of its own budget.

Cross-cutting and context analysis: There is often little systematic analysis of cross-cutting issues within trust funds, including gender, which can lead to a lack of clear operational targets and goals. There is also little conflict and risk analysis, which is particularly problematic given that most funds operate in environments where conflict is ongoing or where the potential for violence is high (Scanteam/Norway, 2007). There was no effort in Afghanistan, for example, to assess the impact of low pay in an environment of power brokers and narcotrafficking; or to assess the impact of a rising insurgency in any detail (Cordesman, Mausner, and Lemieux, 2010).

Sector integration: Sufficiently high salaries for security sector personnel are only a small component in the bigger effort of increasing security. Great imbalances between different parts of the justice and security sector are to be avoided, or between the security sector and civil servants more generally. Large disparities can result in distributional issues and problems with morale (K.K. comments; RUSI and FPRI, 2009). While a coherent security sector strategy is essential, there has been no effort to tie police development to effective Afghan governance or an effective judiciary in the field (Cordesman et al. 2010). Manthri (2008) recommends that bringing the Afghan National Army within the LOTFA's remit, such that police and soldier salaries are paid through a single instrument would be a start toward the development of a more comprehensive security sector wide approach. This would transform the trust fund aid modality beyond being a clearing house for aid that supports recurrent expenditure to a strategic investment vehicle.

Harmonisation: The LOTFA does not have the mandate or the coverage to coordinate all donors working in the police sector. Nor it is well integrated with other major police reform programmes and initiatives. The US, Germany and United Nations Mission for Afghanistan, for example, run their own initiatives which address the same themes as LOTFA (e.g. salary top-ups; and provision of training and equipment), while operating independently of the project. There is no mechanism for regular communication and consultation between LOTFA and these parallel initiatives to ensure coherence, which makes it difficult to strategically plan against MoI priorities (M.S. comments; Manthri, 2008; Chilton, Schiewek, and Bremmers, 2009; Evaluation Mission, 2005).

2. Multi-donor trust funds

Scanteam/Norway, 2007, 'Review of Post-Crisis Multi-Donor Trust Funds', Final Report, Commissioned by the World Bank, Norwegian Ministry of Foreign Affairs and Norwegian Agency for Development Cooperation (Norad)

http://www.norad.no/en/_attachment/107612/binary/6065?download=true

This study reviews 18 multi-donor trust funds (MDTFs) established adopted in post-conflict and post-disaster environments. MDTFs are instruments for improving resource efficiency and effectiveness by reducing transaction costs and managing the high risk levels inherent in post-crisis environments. For national authorities, MDTFs can increase and untie funding and provide political visibility. For donors, MDTFs can reduce information, coordination, administrative and various access costs. They also reduce fiduciary and political risk exposure when interaction involves possibly corrupt and/or abusive parties to a post-conflict process.

Where MDTFs have been set up to carry out an administrative task, the trust fund is organised as a management unit within the responsible agency. Examples include the Afghan Interim Authority Fund and the Law and Order Trust Fund of Afghanistan; the Capacity Building Trust Fund in Sudan; and the Consolidated Fund for East Timor. These were set up as budget support to pay for start up costs

of new or interim governments, primarily civil service salaries, and some costs of office space and equipment. Payments had to be made directly by an agency that had administrative capacity and presence on the ground.

In some MDTFs, the Administrator has taken on many of the dialogue functions with the recipient government. This includes discussions on national budget issues that are also of concern to donors (e.g. respect for fiscal restraint, the structure of the budget, and internal revenue-generation). In the case of the Public Financial Management Reform Trust Fund in the West Bank and Gaza, concrete public sector reform measures were foreseen as conditions for tranche releases. While funding decisions are ultimately the responsibility of MDTF donors and national authorities, discussions on policy should be more inclusive involving all stakeholders.

The study's findings include:

- MDTFs direct most funds to the public sector, in particular to operating costs including civil services salaries, capacity development and public goods infrastructure.
- While MDTFs provide for coordination, harmonization and alignment, there are limited spill-over effects on donor resources outside the MDTF. As such, since MDTFs usually are a small share of total aid, the impact on total transaction costs may be limited.
- MDTFs do not have a clear capacity development policy. This is in part because of the time-limited nature of the funds. This lack of a medium-term vision for capacity building may reduce effectiveness, however. Capacity development should be a central concern in all MDTF programs and some agreed-upon principles should be in place from the beginning. There should be particular attention to identifying the possible role the MDTF can play in financing the (re)building of core state functions and capacities.
- There is little systematic analysis of cross-cutting issues within trust funds, including gender, which can lead to a lack of clear operational targets and goals. MDTFs should see themselves within the framework of overall international development support and take cross-cutting issues seriously.
- The most important factor in determining the success of an MDTF is the security situation. Most funds operate in environments where conflict is ongoing (Iraq, Afghanistan, Sudan, Democratic Republic of the Congo, Palestinian Territories), or where countries still experience instability and the potential for violence (Timor Leste). The lack of conflict and risk analysis as an integral part of MDTF risk management is thus of particular concern. They should be incorporated at the strategic and project levels. In addition, greater consideration of the conflict prevention, peace promotion and economic development nexus is necessary in order to improve the MDTF's overall effectiveness as a post-crisis instrument.
- Monitoring and evaluation activities for tracking performance are improving, and other quality assurance steps are being taken by some MDTFs. There is, however, no evidence of planning for the hand-over of M&E to national authorities.

See also:

Scanteam/Norway, 2007, 'Review of Post-Crisis Multi-Donor Trust Funds', Country Study Annexes, Commissioned by the World Bank, Norwegian Ministry of Foreign Affairs and Norwegian Agency for Development Cooperation (Norad)

http://www.norad.no/en/_attachment/107611/binary/6064?download=true

3. Afghanistan – security sector and trust funds

Overview of the Police Sector

Cordesman, A. H., and Mausner, A., 2009, 'Afghan National Security Forces: Shaping Host Country Forces as Part of Armed Nation Building, Centre for Strategic and International Studies, Washington, DC

http://csis.org/files/publication/091030_ANSFDraft.pdf

This report provides an overview of the Afghan national security forces, in particular the Afghan National Army (ANA) and Afghan National Police (ANP). While the ANA is well respected in the Afghan government, there is widespread consensus that many elements of the ANP are too corrupt

and politicised to either be effective or to win and retain popular support. The report highlights that there is no meaningful public reporting on the shortfalls in funding the national security forces and the cost estimates of force expansion and improvements in force quality. It is certain, however, that the Afghan government does not have near to mid-term capability to pay these costs. As such, external aid will be required for some five to ten years. Since March 2009, NATO approved the expansion of the Afghan National Army trust fund to cover ANA sustainment costs; however contributions have been limited. Since then, the ANP has been paid at parity with the ANA and a system for Electronic Funds Transfer has been adopted to pay the police. This form of payment is designed to eliminate the hand to hand method of payment that provides opportunities for corruption. Nonetheless, it is still possible for ANP commanders to demand a portion of their officers' salaries after disbursement from the electronic system. In order to limit corruption and improve perceptions of the police, the report recommends:

- Vetting: the US and NATO/ISAF need to ensure that failed and corrupt officials and officers are removed and deprived of all NATO and US funds;
- An integrated approach: the development of the ANP must be linked to improvements in the Afghan formal and informal legal processes in order to ensure prompt and effective justice. Further, the ANP's problems with corruption cannot be corrected unless the criminal justice system is also seen as less corrupt and subject of political influence.

Cordesman, A. H., Mausner, A. and Lemieux, J., 2010, 'Afghan National Security Forces: What it Will Take to Implement the ISAF Strategy', Centre for Strategic and International Studies, Washington, DC

http://csis.org/files/publication/100719_ANSF.pdf

This report provides an update on the state of the Afghan national security forces, in particular the Afghan National Army (ANA) and Afghan National Police (ANP). It finds that NATO/ISAF and the US were slow to identify salary amount as a key problem in recruitment and retention; the security forces were found to be sharply underpaid relative to the Taliban and other insurgents. The report argues that the poor and erratic pay of the ANP for a number of years resulted in an increase in corruption out of sheer necessity. A rise in ANP salaries and efforts to introduce pay systems that help to ensure that those serving are actually paid and to reduce abuses (payment for soldiers not actually present) has improved the situation. Electronic Funds Transfer has been possible with the extension of the banking system throughout the country. The Ministry of the Interior is also testing a programme to electronically pay police officers using cellular telephone technology.

Regarding LOTFA, the report notes that insufficient contributions in the first phase meant that the Afghan government could not support the deployment of national police outside the capital. Even in Kabul, Afghan police went unpaid for months, a situation that resulted in petty corruption that undermined public confidence.

The report highlights several other challenges and problems with funding of salaries and police development:

- Weak accountability: there have been accounts of police in various districts, outside of sanctioned posts, doing police work while not being paid through LOFTA; and accounts of 'ghost police', who are on the payroll but not actually present for duty.
- Poor integration and context analysis: no effort has been made to tie police development to the effective Afghan governance or an effective judiciary in the field; to assess the impact of low pay in an environment of power brokers and narco-trafficking; or to assess the impact of a rising insurgency in any detail.
- Inadequate pay increases: despite increasing pay to the standard of the Taliban, it still may not meet minimal requirements such as giving police enough income to marry, or being able to compete with the influence (and bribes) of power brokers and narco-traffickers.
- Corruption: buying positions and promotion remains a critical problem in addition to extortion or taxing of pay and allowances by superior officers. Further, the ANP are more vulnerable to bribes and corruption at every level of operation than the ANA because they come into greater direct contact with criminals and power brokers and have far more opportunity to

extort money from the civil population. There are efforts underway by the donors and the Ministry of the Interior to address leadership issues and identify ways to counter corruption.

- Poorly managed paid leave: this is a significant problem when soldiers and police frequently have to travel far through Afghanistan's poor transport systems to reach their families and deliver the money they have earned. Many ANP go on leave and are forced to stay on leave until their family gets enough cash together to buy the service member a ticket back to their duty station. Others simply leave the service.

RUSI and FPRI, 2009, 'Reforming the Afghan National Police' Royal United Services Institute for Defence and Security Studies, London, and the Foreign Policy Research Institute, Philadelphia

<http://www.fpri.org/research/nationalsecurity/afghanpolice/ReformingAfghanNationalPolice.pdf>

A well resourced reform effort is necessary to properly develop the Afghan National Police and its security forces. Afghanistan will be unable, however, to provide anywhere near the amount needed to finance the police and its forces from its own revenues for many years, with some estimates predicting two decades. Predictable and long-term donor funding is a must and cannot be subject to annual budget changes in donor countries. Without this provision and certainty, there is a danger that costs will have to be paid from Afghan budget revenues, squeezing other priority expenditures, such as health, education and other social services. This paper stresses that LOTFA has persistently suffered from inadequate financial resources. Calls for further increases in ANP numbers ignore this struggle and risk creating severe problems of fiscal sustainability for the government. Other issues and recommendations highlighted in the report include:

- Acknowledge that reforms are political: restructuring the Ministry of Interior and the strengthening the police force cannot be seen as merely technical exercises. Rather, transforming the institution in charge of the police is tremendously political and must be considered in social and political context.
- Recognise the comparative aspects of salaries: while sufficient salaries are necessary for the police in order to provide a livable wage and to stem corruption; it is important to view salaries in a societal context. Large disparities between police and other civil servant or security sector personnel wages can result in distributional issues and problems in force morale and ranks.
- The need to address corruption explicitly: while higher wages are considered to help with countering the incentive to take bribes, their impact is muted if money is skimmed from the wage packet at each stage of its descent down the distribution chain.
- The need for oversight: resource provision must include adequate oversight. In 2009, the Special Inspector General for Afghanistan Reconstruction released a damning audit of reconstruction and reform of the Afghan security forces.

Azami, S., 2009, 'The Need for Security Sector Reform in Afghanistan to Curb Corruption', Peace and Conflict Monitor, 9 November

http://www.monitor.upeace.org/innerpg.cfm?id_article=666

This article on security sector reform in Afghanistan has a section on the police sector and problems with payroll and financing. These include:

- The government budgets for the salaries of the policemen based on the allotments, and not the actual number of police, due to the lack of a comprehensive administrative system. This allows for over-representation of the actual numbers of police by commanders in order to get higher payments.
- Corruption is more of an institutional and leadership problem. Until the right kind of incentive mechanisms are established, institutional reforms are applied and effective leadership is in place, the success of anti-corruption initiatives would be infeasible.

LOTFA

Manthri, M., 2008, 'Security Sector Financing and Fiscal Sustainability in Afghanistan', Overseas Development Institute, London

http://se2.isn.ch/serviceengine/Files/RESSpecNet/48757/ipublicationdocument_singledocument/71B08F86-2462-4E0D-9E48-2839195BE475/en/esau_wp20.pdf

This paper on aid effectiveness and the financing of the security sector in Afghanistan includes a section on LOTFA. It argues that LOTFA currently falls short of good aid effectiveness practice. The paper discusses the pros and cons of differing aid modality choices. Of particular interest here is the discussion on multi donor trust funds (MDTFs) and other pooled mechanisms (see table on pp. 54-55).

Advantages of MDTFs include:

- Donor harmonisation
- Additional fiduciary safeguards that improve accountability, strengthen government systems and encourage donors to increasingly use government systems
- Useful stepping stone towards budget support in fragile states
- Beginnings of sector and general policy dialogue
- Could easily link to and align behind a sector strategy, reinforcing a SWAp
- Brings aid on-budget and effectively helps donors apply a 'fiscal lens' by incorporating their spending into Government planning frameworks
- Being on-budget improves domestic accountability over aid spending

Disadvantages of MDTFs include:

- Parallel systems can develop and become entrenched if no exit strategy is used, meaning programme aid does not materialise as the next step for donors
- Benefits for Government capacity and institution building are foregone
- Focus on modality and how it works rather than on policy or outcomes
- Predictability of funds across and within years is not guaranteed, depends on donors' institutional incentives and constraints
- Can behave like 'big projects' rather than strategic funding vehicles, and do not always deliver benefits for harmonisation and alignment

Afghanistan has three MDTFs working alongside the Government and each other: the Afghanistan Reconstruction Fund (ARTF), the LOTFA, and the Counter-Narcotics Trust Fund (CNTF). This demonstrates donor willingness to pool funds in Afghanistan, partly as a means to reduce their own transaction costs; and partly to reduce the burden on the government. While the ARTF has served as an important forum for donor dialogue and contributed to marked improvements in public financial management, the LOTFA and CNTF exhibit many of the disadvantages listed above. This suggests that the success of MDTFs is as much about management and national government leadership as it is about the modality design.

The paper highlights the following weaknesses of the LOTFA:

- Short time horizon: From the beginning there was no multi-year strategy for the LOTFA, which is necessary for a sector in which the needs and nature of reform stretch over the long-term. Instead, project documents were generally based on a one or two year time horizon. There was also an inability to lock in multi-year funding commitments from donors.
- Uncertainty in funding: The large number of donors with small payments underscores the need for a multi-donor instrument to coordinate contributions and reduce transaction costs. These smaller donations are volatile, however, and such unpredictability makes it difficult to forecast available resources. In the past, LOFTA contributions have fallen short. Such shortages may be due to the desire on the part of donors to retain control over their resources or to develop a stronger bilateral relationship with the Afghan government. It may also be due to lack of trust in the UNDP or perceptions that transaction costs through the fund are actually higher. Volatility and shortfalls in funding means that the attention of UNDP managers is focused on ensuring that police salaries are covered rather than on broader strategic issues.

As a result, the LOTFA's voice is not as strong as it could be in the wider debates on security sector reform.

- Sustainability issues: there are concerns that decisions to increase the wage bill and size of the police sector will result in unaffordable salary increases and staffing levels. Security sector policies and spending must be affordable in the short run and medium-term, fully incorporated in to the medium-term fiscal framework and the annual budget. Very high donor spending through the external budget presents a challenge to this.
- Little impact on donor harmonisation: the LOFTA has not added value as a mechanism for coordination or harmonisation beyond police salaries. Coherence across the range of donor actors is low, and fragmentation high. Donors such as the US, Germany and United Nations Mission for Afghanistan (UNAMA) run their own initiatives outside of the LOTFA, and even deliver the LOTFA priorities through parallel projects (e.g. police training delivered by the Germans, and salary top-ups delivered by the US).
- Monitoring and evaluation focuses on resources rather than outcomes: there is a strong emphasis on monitoring financial flows rather than outcome indicators such as the integrity of police, the number of retrained police, the impact of the electronic payment system on reducing corruption etc. The narrow interpretation of the monitoring remit reinforces the LOTFA's image as a joint account for donors whose main purpose is to clear funds rather than to act as a strategic financing instrument that catalyses reform and delivers more than the sum of its parts.
- Poor management and work planning: absent or insufficient work plans made it difficult to measure progress against agreed benchmarks and identify problems in time. They also made it difficult to secure additional donor funding. If donors are required to provide hands-on input on top of their resources and administrative fee to the UNDP, the attractiveness of the LOTFA as an aid delivery mechanism is undermined. A key factor underlying the poor work planning and strategy development by the UNDP relates to its own staffing constraints. Management of the LOTFA has been adversely affected by rapid staff turnover and delayed recruitment processes.

The paper makes several recommendations to improve the LOTFA. These include:

- Management and day-to-day administration of the fund should be outsourced to a private firm. This would free up UNDP resources to engage more strategically in policy dialogue rather than fundraising and administration duties. The UNDP could then engage in pushing for institutional reforms in the Afghan government; monitoring issues such as corruption; and challenging donors on their aid delivery practice.
- The LOTFA's priorities should be stripped down to the fund's comparative advantages of providing salaries in a predictable and timely way to police. Component 1, paying police salaries, has been largely delivered. Pay packages are being delivered more punctually; and the rollout of the electronic payment system is a key reform within the Ministry of Interior (MoI) that is being driven largely by the LOTFA funding and technical support. As such, the LOTFA's comparative advantage is in delivering punctual police salaries, but within this function there could be improvements to the oversight of payment systems and an increased push for higher fiduciary standards in the MoI.
- An external monitoring agent should take on the role of verifying payments and undertaking monitoring visits to the provinces (separate to the private management firm). The monitoring agent should reports to the administrator of the fund. This will allow for improved benchmarking of the direction and rate of progress in Government fiduciary standards. The MoI and the Ministry of Defence could also benefit from targeted technical assistance for budget units and local level payment units, either through the LOTFA or other pooled funds available for this purpose.
- If the LOTFA's performance improves, then donors should consider bringing the ANA within the LOTFA's remit, which would ensure that police and soldier salaries are paid through a single instrument. This would allow for movement toward a more comprehensive security sector wide approach, whereby the aid modality would grow beyond being a clearing house for aid that supports recurrent expenditure, to a strategic investment vehicle with a long-term horizon; and a clear plan of action, that builds capacity and leadership within government.
- An exit strategy should be prepared over an approximate ten-year horizon, benchmarked against delivery of outcomes, ANP reforms, and a gradual transition to government financing.

A reformed LOTFA could deliver improved donor harmonisation and stronger alignment of aid with government systems. A number of practical arrangements and challenges would, however, need to be worked out. These include, for example: 'what kind of firm would manage the new LOTFA, who would contract them, and how would this affect reporting relationships and ownership amongst the international community and Government. There is also a question mark over whether donors and Government would permit the ANA costs to fall under the LOTFA's remit. And finally, the largest factor determining the success of a reformed LOTFA, is whether the lead donor to the ANA – the US – would be prepared to put more money through a multilateral channel' (p. 57).

Chilton, S., Schiewek, E. and Bremmers, T., 2009, 'Evaluation of the Appropriate Size of the Afghan National Police Force Manning List (Tashkil)', Final Report
http://blog.foreignpolicy.com/files/ANP_Tashkil_Final_Study.pdf

This evaluation includes a brief discussion on LOTFA. Through consultations, it highlights the following areas requiring attention:

- **Monitoring and accountability:** while monitoring and assessment mechanisms are in place, the security situation on the ground makes it difficult to conduct checks in police stations or government premises across the country.
- **Coordination:** LOTFA does not have the mandate or the coverage to coordinate all donors working in the police sector. This makes it difficult to strategically plan against MoI priorities. It also allows for a 'donor shopping' approach on the part of the MoI. A more wide reaching financial coordination mechanism is required.
- **Inclusive decision-making:** the process of managing LOTFA donations between MoI, MoF and the international community has not been as comprehensive as necessary. Decisions by the MoI and international community to increase the size of the ANP, for example, were made without involving the MoF. Greater coordination and involvement of the MoF is essential for future budget related decisions.
- **Short life cycle:** two year cycles are greatly inadequate to develop the security sector and government capacity to take over management. A longer time frame (at least 5 year cycles) would allow for stronger focus on content and less energy to keeping the project running.

The evaluation cites the Manthri (2008) study above and states that the concerns expressed there regarding LOTFA's working environment have still not been addressed. In particular, issues of sustainability; insufficient government ownership; unpredictable resource flows that are unaligned with national budget and accountability frameworks; and lack of harmonisation and common donor strategy remain primary concerns. It is argued that the current operation of the fund is not setting strong incentives for institutional reform; and instead is promoting aid dependence and fiscal risks for the state.

Garrison, R., 2004, 'Rebuilding Justice: The Challenges of Accountability in Policing in Post-Conflict Afghanistan', Paper presented at the Conference of the International Society for the Reform of Criminal Law, 8-12 August, Montreal
<http://www.isrcl.org/Papers/2004/Garrison.pdf>

This paper discusses the task of establishing accountability in policing as one of the essential elements in rebuilding justice in Afghanistan. When considering the LOTFA, it identifies several advantages for Afghanistan in establishing such a fund:

- Requests for funds would all go to a single fund using a single application process, rather than having to approach multiple international donors individually.
- Better coordination of activities than if individual donor nations independently approved funding for projects based on their own criteria.
- Ability of Afghan authorities to retain a major say in establishing priorities for funding of policing projects as the fund was to be jointly managed by the Afghan Transitional Authority, the UNDP, and Germany as the representative of donor nations.

The LOTFA faced various obstacles, however, in trying to rebuild policing in Afghanistan:

- International donors have been reluctant to contribute to LOTFA as the funding of policing and prisons has been difficult to sell at home politically, particularly when there have been many other projects in Afghanistan requiring urgent funding.
- Donations to multinational funds like LOTFA are less attractive to international donors as donor nations lose the ability to brand projects funded by a multinational fund with their own national flag.
- The administrative problems with paying salaries ranged from there being no rosters of employees to there being no banks operating in Afghanistan.
- Enormous opportunities for corruption were feared in a system that depended on the word of commanders on the number and ranks of police to be paid, combined with the necessity of making payments in cash.

The underfunding of the rebuilding of policing in Afghanistan has multiple negative impacts on accountability:

- The irregular payment of salaries combined with salaries already set too low to support an average family at subsistence levels has created a powerful incentive to bribery and other forms of corruption.
- Inadequate funding for training means that establishing standards for professionalism in policing remains an unfinished task.
- Lack of resources not only prevents internal accountability, it will also impede any attempt to establish effective external oversight mechanisms for policing.

Wilder, A., 2007, 'Cops or Robbers? The Struggle to Reform the Afghan National Police' Issues Paper Series, Afghanistan Research and Evaluation Unit, Kabul
<http://www.comw.org/warreport/fulltext/0707wilder.pdf>

This paper on the Afghan National Police includes a section on the LOTFA. Police salaries are paid through the government's regular payroll system and LOTFA then reimburses the Ministry of Finance following the submission of expenditure reports. The absence of reliable figures on police numbers and a strong suspicion that there are a large number of 'ghost police' who exist only on payroll lists, however, has raised serious concerns that significant amounts of LOTFA funds allocated to the Ministry of Interior for police salaries were being misappropriated. It is thus insufficient to rely on salary increases to address the corruption problem. There is a need to engage in additional substantive and symbolic measures to address Ministry of Interior and ANP corruption. During the past few years, some progress has been made in strengthening the systems used to pay police salaries, such as computerising police personnel records, developing Individual Salary Payment (ISP) and Electronic Funds Transfer (EFT) schemes to pay salaries, and sending regular monitoring missions to the provinces to observe the use of LOTFA funds and the payment of police salaries.

The paper argues that one of the key challenges to reform efforts in the security sector is fiscal sustainability. There has been a strong tendency in the security sector to create institutions to address immediate security needs with little regard for Afghanistan's ability to sustain them in the long-term. While strengthening security sector institutions is a high priority, ignoring long-term financial sustainability issues could result in these institutions themselves becoming a source of insecurity. The ANA and ANP, for example, could become major security problems when external assistance begins to decline and there are insufficient government funds to pay the salaries of armed and trained soldiers and policemen. However, few concrete measures are being taken to bring security sector costs more in line with what Afghanistan can afford. There is an urgent need to achieve a better balance between creating institutions that can address immediate security needs and creating institutions that Afghanistan can afford.

The failure to prioritise the fiscal sustainability of the security sector also threatens other components of Afghanistan's public and private sectors. The decisions to increase the salaries and force numbers of the ANP and the ANA, for example, were largely made by the US, in consultation with the Ministry of the Interior and the Ministry of Defence but with little or no involvement of the Ministry of Finance, and without reference to any overall government pay and grading framework or strategy. Higher

salaries in the security sector, in turn, are putting pressure on other public sector salary scales, threatening to create an unsustainably high wage bill for the government. The sharp increases in salary scales are also resulting in significant increases in pension liabilities for the government. Donors must ensure that decisions are not based solely on narrow sectoral perspectives that are negotiated with self-interested ministries, but involve the Ministry of Finance and are based on a national perspective that balances the often competing priorities and demands of different sectors.

UNDP, 2009, 'Law and Order Trust Fund for Afghanistan – Phase V: Annual Progress Report 2009', United Nations Development Programme
http://www.undp.org.af/Projects/2009AnnualReports/LOTFAV_APR09.pdf

This progress report states that the release of funds to the Ministry of Finance (MoF) through LOTFA has ensured relatively timely payment of police remuneration nationwide. Payments were facilitated with the completion of an electronic payroll system, aimed to achieve relatively timely and accurate police salary payments to the legitimate staff, and through an expansion of bank accounts for the police force and payment of salaries through these accounts (Electronic Fund Transfer). New technologies are also being explored as an alternative to fund transfer mechanisms, such as salary payments through mobile phones. Pilot initiatives in remote areas have been encouraging: the police received 100% of their salaries on time, did not have to travel unsecured distances to banking facilities, and all transactions were logged and fully traceable. Efforts have also been made to provide better oversight on expenditure and to strengthen capacity development in financial management systems, fiduciary reviews and accounting systems.

The report highlights some key implementation challenges:

- Uncertain cash flow of LOTFA funds, including from some larger donors, hampered the scheduling of the police reimbursement to MoF.
- LOTFA has remained significantly engaged with the Ministry of Interior (MoI), in accordance with principles of government lead and ownership of all LOTFA processes and outputs. Ownership by MoI has remained a challenge, however, resulting in insufficient sustainability of LOTFA implementation and management processes. Consequently, LOTFA continued to perform certain functions (i.e. verification and adjustment of transactions; financial data correspondence between MoI/MoF/commercial banks, etc) which should be routinely performed by MoI staff. Capacity building in the MoI must continue otherwise the gains offered by LOTFA so far will rapidly erode. In addition, there is a need to coordinate the various capacity development programmes supporting ANP/ MoI in order to achieve synergies.
- Further expansion of Electronic Fund Transfer remained linked to further expansion of commercial banks.
- The issue of fiscal sustainability of LOTFA payments remains challenging. Given the security situation and limited government revenue collection, donor contributions may be needed in the medium-longer time framework, beyond the time-lines anticipated at the point of setting up of LOTFA. Moreover, the information base on security sector expenditures and projections remains weak, posing limitations for more coherent analysis.

See also:

UNDP, 2009, 'Law and Order Trust Fund for Afghanistan – Phase V: 2nd Quarter Project Progress Report', United Nations Development Programme
<http://www.undp.org.af/Projects/Q2.PR.2010/LOTFA.Q2.2010.PR.pdf>

Evaluation Mission of UNDP LOTFA Project, May – June 2005, Final Report
<http://erc.undp.org/evaluationadmin/downloadaddocument.html?docid=1068>

The LOTFA evaluation mission, from 22 May through 05 June 2005, involved interviews with key stakeholders, field visits and documentation review. It finds that the provision of monthly pay packages was timely, as compared to the past when police frequently experienced months of delays in receiving their pay. This has likely brought moderate improvement in police integrity and reliability.

Beyond the provision of salaries, however, there has been considerable frustration with the progress of LOTFA. The evaluation highlights various lessons and challenges:

- Unbalanced implementation: The failure so far to implement four of the five components of LOTFA threatens sustainability of the strategy. Salaries alone are insufficient to create a viable force to achieve the intended LOTFA outcomes.
- Poor coordination of sector reforms: A number of agencies are engaged in reform and strengthening of the police force in Afghanistan. Most of these initiatives are addressing the same themes as LOTFA (e.g. provision of training and equipment), while operating independently of the project. It is unclear why such initiatives have not been channelled through LOTFA and UNDP, which would have provided the basis for a more coordinated and consistent effort. There is currently no mechanism for regular communication and consultation between LOTFA and these parallel initiatives to ensure coherence.
- Lack of linkages to external reforms: External to the security sector, other national programmes are dealing with issues related to local governance and administration, such as the National Solidarity Programme and the Afghanistan Stabilisation Programme. Given that the intended project outcome relates to the positioning of the police force within the broader social reconstruction of the country, it would be highly relevant for the project to build formal linkages with these external processes.
- Insufficient monitoring systems: At the level of outputs, monitoring mechanisms put in place are relatively sound. This includes systems for payroll management, regularization of staffing lists, procurement and maintenance. There is insufficient monitoring, however, of overall funds transfers, and of project outcomes. Although police and MoI personnel claim that outcomes are being achieved, the project is not gathering objective evidence of this. There is also little evidence of any attempts to engage local community stakeholders in security planning and monitoring.

4. Other settings

Boyce, J. K., 2010, 'Chapter Five: Aid and Fiscal Capacity Building in Post-Conflict Countries', Adelphi Papers, 50: 412, 101-120

<http://www.informaworld.com/smp/content~db=all~content=a926407527>

This paper advocates for the use of trust funds in order to contribute to building fiscal capacity in conflict-affected countries. Donor strategies to avoid corruption often results in bypassing the government; however, this can undermine the development of the state's ability to raise revenue, allocate resources and manage expenditure to meet the needs and expectations of the population. It can also undermine public trust in government. Trust funds that help to fund government expenditures for salaries and other non-investments demonstrate how aid can be re-routed through the government – in effect, helping to internalise external resources. The government allocates external resources through its internal budgetary process, reinforcing the budget as the central instrument of policy. When the ministries spend the money – for example, in paying civil servants – an external monitoring agent appointed by the fund administrator verifies that the accounting standards have been met and then releases the funds. Channeling aid through the government in this way does not imply that the donors abdicate control or responsibility for how their resources are used. Instead a dual-control system is adopted: two signatures are required to release funds - one from the government and one from the external monitoring agent. Channeling aid in this way is also meant to avoid aid 'crowding out' domestic revenue mobilisation.

De Groof, K. ed., 2008, 'The EU's Aid to the Occupied Palestinian Territory: How to Improve Coherence and Effectiveness In Line with International Law?', Seminar Report, 7 November, Brussels, CIDSE Working Group on Palestine/Israel

http://www.cidse.org/uploadedFiles/Regions/Israel_-_Palestine/CIDSE%20seminar%20report-09.11.08.pdf

This paper discusses the provision of aid by the international community to the Occupied Palestinian Authorities. In the mid-1990s, donors began providing the Palestinian Authority with budget support to cover the salaries of its staff, including security service salaries. This was initially done through a

multi-donor Trust Fund administered by the World Bank, instead of a Single Budgetary Account as is the case today. The lack of emphasis on transparency and accountability, however, contributed at the time to Arafat's patronage system through public sector hiring and the provision of 'walking money', in particular to buy the loyalty of the police and other security personnel. Since 2003, there has been much progress in terms of the financial and fiscal management of the Palestinian Authority. Payment of security service salaries through bank deposits rather than cash and the establishment of the Palestinian Investment Fund to manage PA financial assets have been beneficial.

In addition to humanitarian aid, the great bulk of donor funding is the provision of direct budgetary support for salaries; they are considered the main driver of economic activity in the West Bank and Gaza. This, however, does not contribute to economic growth; while it promotes consumption, it does not result in investment. As such, despite an unprecedented amount of aid over a sustained period, the socio-economic and humanitarian conditions in the West Bank and Gaza have consistently deteriorated. It makes issues of coherence and aid effectiveness particularly relevant. Further, the PA continued to pay salaries to people for not going to work after Hamas took over. Countering the current fiscal crisis and its potentially dangerous consequences requires the restoration of an adequate flow of budget funds. This would permit regular public sector salary payments, thereby dampening the demand for additional humanitarian assistance, ensuring that public services were maintained and helping preserve the functionality of the security services.

Williams, E., 2010, 'The Changing Security Situation in Somalia: Implications for Humanitarian Action', Seminar hosted by the Brookings Institution – University of Bern, Project on Internal Displacement

[http://www.reliefweb.int/rw/RWFiles2010.nsf/FilesByRWDocUnidFilename/DKAN-823Q9Y-full_report.pdf/\\$File/full_report.pdf](http://www.reliefweb.int/rw/RWFiles2010.nsf/FilesByRWDocUnidFilename/DKAN-823Q9Y-full_report.pdf/$File/full_report.pdf)

This brief seminar report has a section that discusses issues concerning external support for local security forces. It stresses that security sector reform needs to ensure that arms are not flowing from government troops to militia groups, which can happen in situations where the government forces are not paid their salaries. One option for preventing transfers of weapons between government forces and militias is for a donor government to directly pay the salaries of soldiers – ensuring that funds are reaching the forces, without supplying them with arms. This can also be a way to attempt to decrease the amount of arms in circulation. This is one lesson learned from the US military's experiences in Iraq and Afghanistan that might be applicable in Somalia.

5. Additional information

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Selected websites visited

Centre for International Governance Innovation, CSIS, DCAF, Eldis, GFN-SSR, Google, Google Scholar, GSDRC, Human Security Gateway, Ingenta journals, Reliefweb, UNDP, USIP, World Bank

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