

## Key points

- Publishing better information on aid requires compatibility with recipients' budgeting and planning systems
- Recipient budgets bear many similarities, but this is not reflected in current formats for reporting aid
- The poorest countries will lose out if donors do not publish aid information that is easy to link with recipient government budget systems

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## Greater aid transparency: crucial for aid effectiveness

Sam Moon and Tim Williamson

**T**his paper sets out and explores the link between donor aid and recipient country budgets, and the role that greater transparency about aid can play in improving budget transparency, the quality of budgetary decisions, and accountability systems. The paper goes on to explore how current initiatives to improve aid transparency can best support better budgets and accountability in aid dependent countries. These efforts provide an important opportunity to enhance the effectiveness of both the recipient governments' own spending and the aid they receive from donors. Research related to this paper has been funded by the International Budget Partnership and Publish What You Fund, with the aim of informing and influencing the International Aid Transparency Initiative (IATI) – an ongoing process to build an international standard for aid information as a follow on from the resolutions in the Paris Declaration and the Accra Agenda for Action.

### Why are budgets important in the delivery of aid?

A large proportion of aid to developing countries is provided to, and spent by, the governments of those countries – whether in the form of budget support, projects or other modalities of aid. The importance of delivering aid through government systems has been emphasised and formalised through the Paris Declaration and Accra Agenda for Action.

Budgets are the link between policies and their implementation, between political visions or programmes and their delivery, allocating resources both in terms of money and time to plans. A typical government implements policies through its departments, agencies and local governments. These institutions, and their managers, are accountable to the political leadership. Politicians, in turn, are account-

able to the citizenry for the implementation of national policies for health care and education, for example. If this cycle of accountability is not carefully observed and supported in the delivery of aid, it is likely to be undermined (Brautigam and Knack 2004, and Barder, 2009). One way in which this can happen is that aid is often delivered with accountability structures that are parallel to, or divorced from, those of the government. Furthermore, in countries that are aid dependent, a high proportion of total government revenue is derived from aid rather than taxes and this may reduce the interest or attention that a government pays to its citizens in favour of donors (see Box 1 overleaf). In both of these scenarios the citizenry's ability to hold its government to account for the services delivered may be weaker as a result of the provision of aid.

It is unlikely, and also may not be optimal, for all aid to be delivered using government systems in full. However, it is important that aid is planned for and delivered in ways that do not undermine government accountability. In particular, for efficient deployment of both aid and overall government resources, aid projects that are delivered independently need to be clearly and appropriately identified in national plans, budgets and accounts.

### Aid dependence and budget transparency

Before examining the effects aid transparency may have for recipients, it is important to build an understanding of the link between aid and budget transparency. Does aid, and particularly aid dependency, have an effect on the level of budget transparency in a recipient country?

It has only been in the past decade that a number of international standards for assessing budget transparency have been developed, including assessments using the IMF's Code

## Box 1: Common Terminology

**Aid Dependency** – A situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise (Brautigam, 2000).

**Aid Transparency** – Comprehensive availability and accessibility of aid flow information in a timely, systematic and comparable manner that allows public participation in government accountability.

**Budget Transparency** – Full disclosure of all relevant government fiscal information in a timely and systematic manner that allows public participation in government accountability.

of Good practices on Fiscal Transparency, which was first developed in 1998 and has led to over 140 country assessment in 92 countries. Others include the Public Expenditure and Financial Accountability (PEFA) assessment framework first piloted in 2005, with a number of indicators on budget transparency; and the biennial Open Budget Survey initiated by the International Budget Partnership, which has conducted surveys in 2006 and 2008.

Both the PEFA reports and the Open Budget Survey use a similar methodology, examining total Official Development Assistance (ODA) as a percentage of GNI. High aid dependency is defined when this indicator is higher than 10%, medium when it is between 5% and 10%, and low when it is lower than 5%. Findings from analysis of both the PEFA reports (de Renzio 2009) and the Open Budget Survey (Ramkumar and de Renzio 2009) suggest a negative correlation between aid dependency and budget transparency. There are two potential explanations:

1. Poorer countries, which receive a higher proportion of aid than other countries, tend to have weaker budgetary institutions in general.
2. Aid dependency may undermine domestic accountability in recipient governments, slowing the development of transparent budget practices.

In practice, it is likely to be a mixture of the two, and that mix will vary from country to country. Low income countries with more limited institutional capacity for delivering transparent budgets do tend to attract greater volumes of aid, but the aid does not provide the right incentives for improving transparency effectively.

Ramkumar and De Renzio (2009) provide a number of specific recommendations to donors for encouraging better incentives for transparency through aid. Their suggestions include: further analysis for a better understanding of the effects of aid on transparency; more support to the capacity and commitment of governments' institutions and external oversight agencies; and identifying and eliminating donor practices that undermine budget transparency. On this last point, the various documented donor practices that have been identified include: proliferation of donor agencies; prolifera-

tion of aid interventions; the associated multiplicity of different donor procedures; poor coordination between donors and with government; demand for short-term results; and competing interests and priorities between donors and the recipient government.

Poor aid dependant countries, with their weak institutions and systems, are not well placed to deal with the negative consequences of these practices. Donors need to change their practices in specific ways, if they are to support greater budget transparency.

## How does poor transparency affect the budget cycle of recipient governments?

Among the various efforts to reform and improve donor practices, aid transparency is an area receiving increasing interest and attention, with the Paris Declaration, Accra Agenda for Action and the International Aid Transparency Initiative (IATI). We now examine what aid transparency could mean for budget transparency and why it is so important that the relationship between aid transparency and recipient budgets is addressed carefully in the various efforts to improve aid transparency.

The information a recipient country has on aid is often poor. A study in Uganda in 2007 discovered that double the project aid previously accounted for was actually being spent in the country (ODI 2007). Similar stories exist in Sierra Leone (EURODAD 2008) and Afghanistan (Waldman 2008). Poor information on aid means that recipient governments must make budgetary decisions based on partial, inaccurate, or unreliable information. This undermines the entire budget cycle, from budget formulation to delivery of services and later accounting, audit and assessment of the results of spending (see Figure 1).

Complete information on all aid flows (whether provided to the government or not) is critical for macroeconomic planning that contributes to the stability of exchange rates, monetary supply, fiscal policy and the resources available for the medium term budget – the very areas some donors, particularly the IMF, target in their strategies.

Donors often promote budget planning over the medium term in aid dependent countries. To be effective, this requires predictability of medium term aid revenues as well as taxes. Yet donors typically do not present rolling, three year indicative budgets for their aid to recipient countries. There are practical challenges to this. The accuracy of predictions for future aid commitments is expected to be lower, as projects have not, as yet, been formulated. Government plans, both of the donor and of the recipient, can also change from year to year due to various economic shocks, changes of policy or change of government. Transparency of intentions for aid flows in the medium term, even if they

must be revised, is important for allowing recipient governments to formulate credible medium term plans of their own. This is particularly critical for aid dependent countries, and those countries with large volumes of budget support. It must also be remembered that, to a large extent, the provision of aid is voluntary. Tax-payers in donor countries, as well as economic shocks or political changes in the donor country, can dictate the resources available for aid. For this reason, transparency and explicit communication of the factors that might influence future aid flows are vital to allow the recipient governments all the necessary information to better predict aid flows over the medium term.

Whilst medium term projections present practical challenges, the accuracy of annual aid projections are often poor. Yet the completeness and predictability of annual aid disbursements is even more important for the implementation of plans, which is done via the execution of the annual budget. The delivery of results in the short term is compromised significantly by poor information on annual funding and activities, late release of funds and poorly coordinated results frameworks or conditions.

With incomplete or inaccessible information on aid flows, neither legislatures, nor civil society are able to hold aid dependent governments to account for the delivery of the planned outputs and services – whether funded by aid or their own taxes. Furthermore, structures are rarely in place to hold donors to account for their actions in these countries. Without transparency, discrepancies between aid received and aid spent is hard to measure and corruption or simply waste is harder to track and eliminate.

Finally, conducting evaluation and developing clear messages about effectiveness are extremely difficult when a significant share of the resources and outputs, and even strategies in a sector or region, are unknown to government.

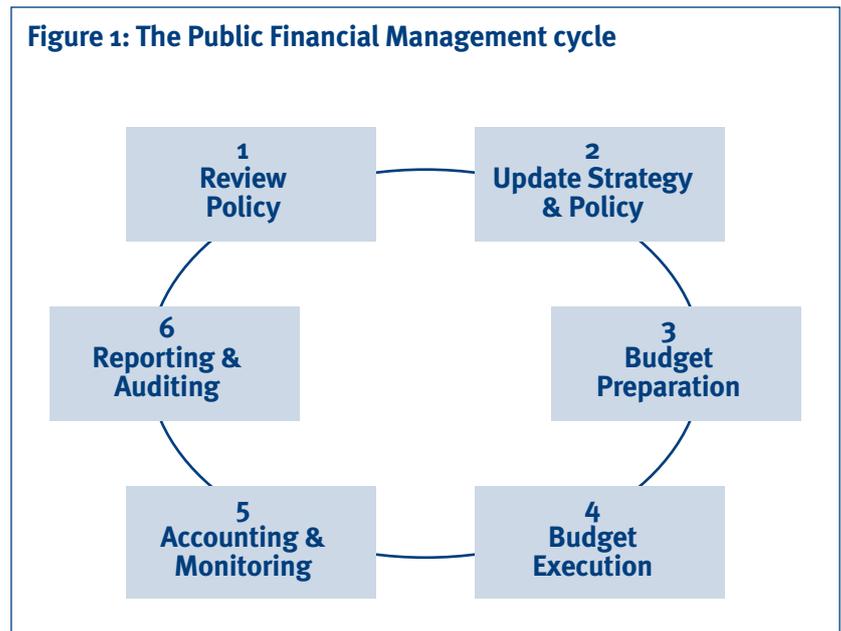
### Practical problems in making aid support budget transparency

There is progress on aid transparency. Various types of aid information management systems have been introduced in numerous countries with a view to collect and collate of aid information. IATI is working towards an international standard for the dissemination of information on aid flows. Aid transparency is necessary, but not sufficient on its own to generate better budget transparency, accountability and effectiveness.

If it is to support greater budget transparency, aid information needs to be provided in a way that is compatible with recipients planning, budgeting and accounting processes as well. However, to date, no aid information system has been successful in bringing aid information together in a way that interfaces effectively with the national budget.

Why not? There are several practical hurdles to

**Figure 1: The Public Financial Management cycle**



this. Donor and government planning horizons and financial years may be different. Donors may only be willing to provide information to recipients on commitments, not intentions. Donor classification of aid expenditures may be different from the budget classification used by the recipient governments. Reporting periods may differ. The number of donors multiplies these problems. Similarly, every recipient country has a different budget classification system.

Mechanisms for adjusting to financial years and currencies have already been thought through by many donors – AIMS, OCHA and the DAC/CRS among others, although not all systems yet deliver this. However, a core issue that has yet to be addressed is for the information regarding the administrative structure and purpose of the aid to be useable by, and valuable for, recipient's budgets. All too often, generic donor 'sector' structures are used at country level which are not useful in terms of either the countries' own sectoral or administrative structures. There are further problems related to the economic classification of expenditures – what is aid actually spent on? Of particular importance is the mix between investment and consumption expenditure funded by aid.

These problems must be overcome if aid is to support stronger budget transparency, and subsequent government ownership and accountability in future.

### Conclusion: what can be done to make aid support budget transparency?

This paper has argued the importance of aid transparency for budget transparency. The provision of complete, reliable and timely information on aid

projections and actual flows delivered through the budget, or described in a way that is compatible with the budget, is crucial for the implementation of policies and strategies in aid dependent countries. However this paper has also demonstrated that there are significant practical problems in delivering such aid transparency in a way that supports greater budget transparency. There are two levels at which the problem needs to be tackled:

1. At a country level, recipient government and donors work closely together to align the timing of information flows, and map donor aid information on to the budget classification of the recipient. Country aid management systems need to be developed that can deliver such functionality. This does demand the aforementioned trust between recipient and donors. Whilst this demands that the recipient government takes the lead, it also demands that donors actively support such initiatives and demonstrate a willingness to be led.
2. At the donor headquarters level, donor aid systems need to be able to provide information to accommodate different planning horizons, financial years and varying technical requirements of the systems of the countries to which they provide aid. Whilst there is no substitute for working at the country level, working to design donor systems globally that are able to interface with country budget systems will facilitate this work.

Bridging the two levels of the problem can be made easier through a generic backbone of government activities at a global level, which takes advantage of the significant common ground that

does exist between administrative and functional structures across recipient governments. This will facilitate both donor aid systems and country level aid management systems to develop common approaches to aligning aid information to recipient budgets. It will also help to automate much of the translation between donor and recipient systems. The IATI Standard represents a key opportunity for working towards this, including the development of such a common backbone. If implemented, this would increase the chances of alignment between aid information and budgets in the weakest and most aid dependant countries.

At a country level, aid information classified using this common backbone will still need to be mapped to country specific administrative bodies, but this will be made far easier, and largely be a one-off cost. A final challenge is for donors to apply the standard classification correctly and uniformly. The integrity of data supplied by donors cannot be assumed, and some process of checking and peer review of data will need to be built into the application of the IATI standard.

Ongoing studies by ODI, Publish What You Fund, Development Gateway and International Budget Partnership, in collaboration with the IATI, are attempting to expose some common ground between existing coding systems and recipient budget structures and propose some options for achieving meaningful information on the purpose of aid flows for recipient countries



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### Project Information:

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